

BEACON ROOFING SUPPLY INC

Form 10-Q

August 03, 2017

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the Quarterly Period Ended June 30, 2017**

**OR**

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

**For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 000-50924**

**BEACON ROOFING SUPPLY, INC.**

**(Exact name of registrant as specified in its charter)**

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

|                         |                                               |                           |
|-------------------------|-----------------------------------------------|---------------------------|
| Large accelerated filer |                                               | Accelerated filer         |
| Non-accelerated filer   | (do not check if a smaller reporting company) | Smaller reporting company |
| Emerging growth company |                                               |                           |

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

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

|     |    |
|-----|----|
| Yes | No |
|-----|----|

As of August 1, 2017, 60,371,579 shares of common stock, par value \$0.01 per share, of the registrant were outstanding.



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**BEACON ROOFING SUPPLY, INC.**

**FORM 10-Q**

**For the Quarter Ended June 30, 2017**

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**Table of Contents****BEACON ROOFING SUPPLY, INC.****Consolidated Balance Sheets**

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

|                                                                                                                                                                                                                                              | <b>June 30,<br/>2017</b> | <b>September 30,<br/>2016</b> | <b>June 30,<br/>2016</b> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-------------------------------|--------------------------|
| <b>Assets</b>                                                                                                                                                                                                                                |                          |                               |                          |
| Current assets:                                                                                                                                                                                                                              |                          |                               |                          |
| Cash and cash equivalents                                                                                                                                                                                                                    | \$ 33,055                | \$ 31,386                     | \$ 36,536                |
| Accounts receivable, less allowance of \$13,253, \$14,812 and \$12,022 as of June 30, 2017, September 30, 2016 and June 30, 2016, respectively                                                                                               | 670,977                  | 626,965                       | 640,101                  |
| Inventories, net                                                                                                                                                                                                                             | 641,425                  | 480,736                       | 620,908                  |
| Prepaid expenses and other current assets                                                                                                                                                                                                    | 221,477                  | 163,103                       | 205,073                  |
| Total current assets                                                                                                                                                                                                                         | 1,566,934                | 1,302,190                     | 1,502,618                |
| Property and equipment, net                                                                                                                                                                                                                  | 156,951                  | 148,569                       | 153,389                  |
| Goodwill                                                                                                                                                                                                                                     | 1,256,014                | 1,197,565                     | 1,200,206                |
| Intangibles, net                                                                                                                                                                                                                             | 442,962                  | 464,024                       | 477,250                  |
| Other assets, net                                                                                                                                                                                                                            | 1,511                    | 1,511                         | 1,430                    |
| <b>Total Assets</b>                                                                                                                                                                                                                          | <b>\$ 3,424,372</b>      | <b>\$ 3,113,859</b>           | <b>\$ 3,334,893</b>      |
| <b>Liabilities and Stockholders Equity</b>                                                                                                                                                                                                   |                          |                               |                          |
| Current liabilities:                                                                                                                                                                                                                         |                          |                               |                          |
| Accounts payable                                                                                                                                                                                                                             | \$ 387,579               | \$ 360,915                    | \$ 563,332               |
| Accrued expenses                                                                                                                                                                                                                             | 280,315                  | 161,113                       | 205,412                  |
| Current portions of long-term debt                                                                                                                                                                                                           | 13,762                   | 14,811                        | 12,605                   |
| Total current liabilities                                                                                                                                                                                                                    | 681,656                  | 536,839                       | 781,349                  |
| Borrowings under revolving lines of credit, net                                                                                                                                                                                              | 449,615                  | 359,661                       | 416,207                  |
| Long-term debt, net                                                                                                                                                                                                                          | 721,685                  | 722,929                       | 721,630                  |
| Deferred income taxes, net                                                                                                                                                                                                                   | 142,116                  | 135,482                       | 106,337                  |
| Long-term obligations under equipment financing and other, net                                                                                                                                                                               | 28,412                   | 35,121                        | 39,720                   |
| Total liabilities                                                                                                                                                                                                                            | 2,023,484                | 1,790,032                     | 2,065,243                |
| Commitments and contingencies                                                                                                                                                                                                                |                          |                               |                          |
| Stockholders equity:                                                                                                                                                                                                                         |                          |                               |                          |
| Common stock (voting); \$.01 par value; 100,000,000 shares authorized; 60,361,035 issued and outstanding as of June 30, 2017; 59,890,885 issued and outstanding as of September 30, 2016; 59,707,996 issued and outstanding at June 30, 2016 | 603                      | 598                           | 597                      |

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|                                                                                       |                     |                     |                     |
|---------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Undesignated preferred stock; 5,000,000 shares authorized, none issued or outstanding |                     |                     |                     |
| Additional paid-in capital                                                            | 714,608             | 694,564             | 686,943             |
| Retained earnings                                                                     | 703,055             | 647,322             | 599,930             |
| Accumulated other comprehensive loss                                                  | (17,378)            | (18,657)            | (17,820)            |
| Total stockholders' equity                                                            | 1,400,888           | 1,323,827           | 1,269,650           |
| <b>Total Liabilities and Stockholders' Equity</b>                                     | <b>\$ 3,424,372</b> | <b>\$ 3,113,859</b> | <b>\$ 3,334,893</b> |

*See accompanying Notes to Condensed Consolidated Financial Statements*

**Table of Contents****BEACON ROOFING SUPPLY, INC.****Consolidated Statements of Operations**

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

|                                              | <b>Three Months Ended<br/>June 30,</b> |              | <b>Nine Months Ended<br/>June 30,</b> |              |
|----------------------------------------------|----------------------------------------|--------------|---------------------------------------|--------------|
|                                              | <b>2017</b>                            | <b>2016</b>  | <b>2017</b>                           | <b>2016</b>  |
| Net sales                                    | \$ 1,213,894                           | \$ 1,152,726 | \$ 3,086,802                          | \$ 2,952,743 |
| Cost of products sold                        | 916,140                                | 870,651      | 2,333,504                             | 2,241,716    |
| Gross profit                                 | 297,754                                | 282,075      | 753,298                               | 711,027      |
| Operating expense                            | 212,883                                | 203,696      | 624,526                               | 601,921      |
| Income from operations                       | 84,871                                 | 78,379       | 128,772                               | 109,106      |
| Interest expense, financing costs, and other | 13,397                                 | 12,226       | 39,239                                | 41,508       |
| Income before provision for income taxes     | 71,474                                 | 66,153       | 89,533                                | 67,598       |
| Provision for income taxes                   | 26,815                                 | 25,027       | 33,800                                | 25,073       |
| Net income                                   | \$ 44,659                              | \$ 41,126    | \$ 55,733                             | \$ 42,525    |
| Weighted-average common stock outstanding:   |                                        |              |                                       |              |
| Basic                                        | 60,311,923                             | 59,615,121   | 60,131,546                            | 59,293,500   |
| Diluted                                      | 61,350,843                             | 60,619,809   | 61,163,591                            | 60,276,695   |
| Net income per share:                        |                                        |              |                                       |              |
| Basic                                        | \$ 0.74                                | \$ 0.69      | \$ 0.93                               | \$ 0.72      |
| Diluted                                      | \$ 0.73                                | \$ 0.68      | \$ 0.91                               | \$ 0.71      |

*See accompanying Notes to Condensed Consolidated Financial Statements*

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**BEACON ROOFING SUPPLY, INC.**

**Consolidated Statements of Comprehensive Income**

(Unaudited; In thousands)

|                                         | <b>Three Months<br/>Ended<br/>June 30,</b> |             | <b>Nine Months<br/>Ended<br/>June 30,</b> |             |
|-----------------------------------------|--------------------------------------------|-------------|-------------------------------------------|-------------|
|                                         | <b>2017</b>                                | <b>2016</b> | <b>2017</b>                               | <b>2016</b> |
| Net income                              | \$ 44,659                                  | \$ 41,126   | \$ 55,733                                 | \$ 42,525   |
| Other comprehensive income:             |                                            |             |                                           |             |
| Foreign currency translation adjustment | 1,730                                      | 365         | 891                                       | 2,122       |
| Total other comprehensive income        | 1,730                                      | 365         | 891                                       | 2,122       |
| Comprehensive income                    | \$ 46,389                                  | \$ 41,491   | \$ 56,624                                 | \$ 44,647   |

*See accompanying Notes to Condensed Consolidated Financial Statements*



**Table of Contents****BEACON ROOFING SUPPLY, INC.****Consolidated Statements of Cash Flows**

(Unaudited; In thousands)

|                                                                                         | <b>Nine Months Ended<br/>June 30,</b> |             |
|-----------------------------------------------------------------------------------------|---------------------------------------|-------------|
|                                                                                         | <b>2017</b>                           | <b>2016</b> |
| <b>Operating Activities</b>                                                             |                                       |             |
| Net income                                                                              | \$ 55,733                             | \$ 42,525   |
| Adjustments to reconcile net income to net cash provided by operating activities:       |                                       |             |
| Depreciation and amortization                                                           | 86,238                                | 73,027      |
| Stock-based compensation                                                                | 11,227                                | 14,070      |
| Certain interest expense and other financing costs                                      | 3,989                                 | 5,113       |
| Gain on sale of fixed assets                                                            | (726)                                 | (838)       |
| Deferred income taxes                                                                   | 6,625                                 | 1,460       |
| Other, net                                                                              |                                       | (359)       |
| Changes in operating assets and liabilities, net of the effects of businesses acquired: |                                       |             |
| Accounts receivable                                                                     | (28,309)                              | (43,060)    |
| Inventories                                                                             | (141,942)                             | (96,363)    |
| Prepaid expenses and other assets                                                       | (55,973)                              | (56,764)    |
| Accounts payable and accrued expenses                                                   | 137,290                               | 135,548     |
| Net cash provided by operating activities                                               | 74,152                                | 74,359      |
| <b>Investing Activities</b>                                                             |                                       |             |
| Purchases of property and equipment                                                     | (31,882)                              | (21,553)    |
| Acquisition of businesses, net                                                          | (128,533)                             | (1,018,658) |
| Proceeds from the sale of assets                                                        | 1,839                                 | 969         |
| Net cash used in investing activities                                                   | (158,576)                             | (1,039,242) |
| <b>Financing Activities</b>                                                             |                                       |             |
| Borrowings under revolving lines of credit                                              | 1,721,927                             | 1,409,128   |
| Repayments under revolving lines of credit                                              | (1,633,570)                           | (1,006,076) |
| Borrowings under term loan                                                              |                                       | 450,000     |
| Repayments under term loan                                                              | (3,375)                               | (189,000)   |
| Borrowings under Senior Notes                                                           |                                       | 300,000     |
| Borrowings under equipment financing facilities and other                               | 2,111                                 |             |
| Repayments under equipment financing facilities and other                               | (9,870)                               | (3,847)     |
| Payment of deferred financing costs                                                     |                                       | (27,813)    |
| Proceeds from issuance of common stock                                                  | 9,994                                 | 20,213      |
| Taxes paid related to net share settlement of equity awards                             | (1,172)                               |             |

|                                                              |           |           |
|--------------------------------------------------------------|-----------|-----------|
| Excess tax benefit from stock-based compensation             |           | 4,024     |
| Net cash provided by financing activities                    | 86,045    | 956,629   |
| Effect of exchange rate changes on cash and cash equivalents | 48        | (871)     |
| Net increase (decrease) in cash and cash equivalents         | 1,669     | (9,125)   |
| Cash and cash equivalents, beginning of period               | 31,386    | 45,661    |
| Cash and cash equivalents, end of period                     | \$ 33,055 | \$ 36,536 |

**Supplemental cash flow information**

## Cash paid during the period for:

|                                  |           |           |
|----------------------------------|-----------|-----------|
| Interest                         | \$ 49,656 | \$ 40,812 |
| Income taxes, net of tax refunds | 37,814    | 867       |

During the nine month period ended June 30, 2016, the Company issued Common Stock with a value of \$302 million and replacement awards with a value of \$5 million in connection with the acquisition of Roofing Supply Group, LLC, which are accounted for as a non-cash investing activity.

*See accompanying Notes to Condensed Consolidated Financial Statements*

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**BEACON ROOFING SUPPLY, INC.**

**Notes to Condensed Consolidated Financial Statements**

(Unaudited; In thousands, except share and per share data or otherwise indicated)

**1. Company Overview**

Beacon Roofing Supply, Inc. (the Company) was incorporated in the state of Delaware on August 22, 1997 and is the largest publicly traded distributor of residential and non-residential roofing materials and complementary building products in the United States and Canada. The Company operates its business under regional and local trade names and as of June 30, 2017 the Company serviced customers in 48 states within the United States and 6 provinces in Canada. The Company's current material subsidiaries are Beacon Sales Acquisition, Inc., Beacon Canada, Inc. and Beacon Roofing Supply Canada Company.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

Beacon Roofing Supply, Inc. (the Company) prepared the condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the requirements of the Securities and Exchange Commission (SEC). As permitted under those rules, certain footnotes or other financial information have been condensed or omitted. The balance sheet as of June 30, 2016 has been presented for a better understanding of the impact of seasonal fluctuations on the Company's financial condition.

In management's opinion, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of the Company's financial position and operating results. The results for the three and nine-month periods ended June 30, 2017 are not necessarily indicative of the results to be expected for the twelve months ending September 30, 2017 (fiscal year 2017 or 2017).

The three-month periods ended June 30, 2017 and 2016 each had 64 business days and the nine-month periods ended June 30, 2017 and June 30, 2016 had 189 and 190 business days, respectively.

These interim Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto contained in the Company's fiscal year 2016 (2016) Annual Report on Form 10-K for the year ended September 30, 2016.

***Use of Estimates***

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

***Recent Accounting Pronouncements Adopted***

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs* to simplify the presentation of debt issuance costs. This

guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt liability, consistent with the required presentation for debt discounts. This new standard is effective for financial statements issued for annual and interim reporting periods beginning after December 15, 2015 and early adoption is permitted. The Company elected to early adopt this new guidance effective October 1, 2015 and applied the new guidance retrospectively to all prior periods presented in the financial statements. The adoption of this standard changed the Company's previous practice of presenting debt issuance costs as an asset and resulted in the reduction of total assets and total liabilities in an amount equal to the balance of unamortized debt issuance costs at each balance sheet date presented. Debt issuance costs that are now presented as a direct reduction from the carrying amount of the associated debt liability amounted to \$21.7 million as of June 30, 2017, \$25.2 million as of September 30, 2016, and \$28.1 million as of June 30, 2016.

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In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. This guidance eliminates the requirement to restate prior period financial statements for measurement period adjustments related to business combinations. It requires that the cumulative impact of a measurement period adjustment, including the impact on prior periods, be recognized in the reporting period in which the adjustment is identified. In addition, the portion of the adjustment recorded in the current period that would have been recognized in prior periods had the adjustment been identified at that time must be presented, by line item, either on the face of the income statement or in the accompanying notes. This new standard is effective for annual and interim reporting periods beginning after December 15, 2015 and early adoption is permitted. The Company elected to early adopt this new guidance effective January 1, 2016 and the impact on the financial statements and related disclosures through the quarter ended June 30, 2017 was immaterial.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. This guidance requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. This new standard is effective for annual and interim reporting periods beginning after December 15, 2016 and early adoption is permitted. Entities are permitted to apply this guidance either prospectively or retrospectively. The Company adopted the guidance as of March 31, 2016 and applied it retrospectively to all prior periods. As a result, the Company reclassified its current deferred tax balances of \$31.9 million to non-current deferred taxes as of September 30, 2015.

### ***Recent Accounting Pronouncements Not Yet Adopted***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers, and will replace most existing revenue recognition guidance when it becomes effective. This new standard is effective for public business entities for annual and interim reporting periods beginning after December 15, 2017, and early adoption is permitted for annual reporting periods beginning after December 15, 2006. The standard permits the use of either the full retrospective or modified retrospective adoption methods. The Company is continuing to perform a detailed evaluation, using a five-step model specified in the guidance, to assess the impacts of the new standard and expects to apply the guidance using the modified retrospective method. Based on the Company's knowledge of its revenue transactions, the Company does not expect the adoption of this new guidance to have a material impact on its financial statements, but does expect that it will result in additional revenue recognition disclosures.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The guidance updates management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures. For each reporting period, management is required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from when the financial statements are issued. This new standard is effective for the annual reporting period ending after December 15, 2016 as well as all annual and interim reporting periods thereafter, and early adoption is permitted. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, *Inventory: Simplifying the Measurement of Inventory*. This guidance applies to inventory valued at first-in, first-out (FIFO) or average cost and requires inventory to be measured at the lower of cost and net realizable value, rather than at the lower of cost or market. This new standard is effective on a prospective basis for annual and interim reporting periods beginning after December 15, 2016. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

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

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In March 2016, the FASB issued ASU 2016-09, *Compensation Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. This guidance is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The provisions of this standard are effective for reporting periods beginning after December 15, 2016 and early adoption is permitted in any interim or annual period, but the Company is not early adopting this guidance. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

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

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

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Accounting for Goodwill Impairment*. This guidance is intended to introduce a simplified approach to measurement of goodwill impairment, eliminating the need for a hypothetical purchase price allocation and instead measuring impairment by the amount a reporting unit's carrying value exceeds its fair value. This new standard is effective for annual and interim reporting periods beginning after December 15, 2019 and early adoption is permitted. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

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

## **3. Acquisitions**

### ***Roofing Supply Group***

On October 1, 2015, the Company acquired 100% of the equity of Roofing Supply Group, LLC ( RSG ), a leading roofing products distributor owned by investment firm Clayton, Dubilier & Rice ( CD&R ). RSG's results of operations have been included with Company's consolidated results beginning October 1, 2015. RSG distributed roofing supplies and related materials from 85 locations across 25 states as of October 1, 2015.

Total consideration paid for RSG was approximately \$1.17 billion, out of which \$288.2 million was in cash, \$306.8 million of Company's common stock and option replacement awards, and \$574.4 million in refinancing of RSG's debt. The RSG long-term debt was repaid simultaneously with the proceeds of a new ABL Revolver, Term Loan and Senior Notes (see Note 8).

In connection with the RSG acquisition, the Company was required to issue equity awards to certain RSG employees in replacement of RSG equity awards that were cancelled at closing. The replacement awards consisted of options to purchase 661,349 shares of the Company's common stock. The terms and fair value of these awards approximated the cancelled RSG awards on the issuance date. The fair value of the replacement awards associated with services rendered through the date of the RSG acquisition was recognized as a component of the total acquisition consideration, and the remaining fair value of the replaced awards associated with post RSG acquisition services will be recognized as an expense on a straight-line basis over the remaining service period.



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The RSG acquisition has been accounted for as a business combination in accordance with the requirements of ASC 805 *Business Combinations*. The acquisition price has been allocated among assets acquired and liabilities assumed at fair value based on information currently available, with the excess recorded as goodwill. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of RSG. These come from the synergies that are obtained in operating the branches as part of a larger network, and from an experienced employee base skilled at managing a distribution business. As of September 30, 2016, the Company had finalized the acquisition accounting entries for the RSG acquisition, detailed as follows (in thousands):

|                                |              |
|--------------------------------|--------------|
| Cash                           | \$ 16,451    |
| Accounts receivable            | 177,251      |
| Inventory                      | 179,651      |
| Other current assets           | 50,000       |
| Property, plant, and equipment | 55,159       |
| Other intangible assets        | 382,600      |
| Goodwill                       | 617,477      |
| Current liabilities            | (252,190)    |
| Non-current liabilities        | (56,949)     |
| Total purchase price           | \$ 1,169,450 |

RSG's future growth attributable to new customers, geographic market presence and assembled workforce are additional assets that are not separable and which contributed to recorded goodwill, of which \$86.1 million was tax deductible as of the October 1, 2015 RSG acquisition date. All of the Company's goodwill plus the indefinite-lived trade name are tested for impairment annually, and all acquired goodwill and intangible assets are subject to review for impairment should future indicators of impairment develop. The fair value of acquired RSG accounts receivables was \$177.3 million, with the gross contractual amount being \$185.9 million.

***Additional Acquisitions Fiscal Year 2017***

During the nine months ended June 30, 2017, the Company acquired 23 branches from the following five acquisitions:

On December 16, 2016, the Company purchased certain assets of BJ Supply Company, a distributor of roofing and related building products with 1 branch serving Pennsylvania and New Jersey and annual sales of approximately \$4 million.

On January 3, 2017, the Company acquired American Building & Roofing, Inc., a distributor of mainly residential roofing and related building products with 7 branches around Washington State and annual sales of approximately \$36 million.

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

On March 1, 2017, the Company acquired Acme Building Materials, Inc., a distributor of residential roofing and related building products with 3 branches in Eastern Michigan and annual sales of approximately \$13 million.

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

The Company recorded the acquired assets and liabilities related to these transactions at their estimated fair values as of the respective acquisition dates, with resulting goodwill of \$58.2 million (all of which is deductible for tax purposes) and \$40.0 million in intangible assets associated with these other acquisitions as of June 30, 2017.

***Additional Acquisitions Fiscal Year 2016***

During fiscal year 2016, the Company acquired 42 branches from the following seven additional acquisitions:

On December 1, 2015, the Company purchased certain assets of RCI Roofing Supply, a distributor of residential and commercial roofing and related products with 5 branches operating in Nebraska, Iowa and Colorado and annual sales of approximately \$23 million. The Company has finalized the acquisition accounting entries for this acquisition.

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On December 18, 2015, the Company acquired 100% of the equity interests of Roofing and Insulation Supply, a distributor primarily of residential and commercial insulation along with roofing and related products with 20 branches spanning 13 states operating across New England, the Mid-Atlantic, the Southeast, the Upper Midwest, Texas and Colorado and annual sales of approximately \$70 million. The Company has finalized the acquisition accounting entries for this acquisition.

On December 29, 2015, the Company purchased certain assets of Statewide Wholesale, a distributor of residential and commercial roofing and related products with 1 branch located in Denver, Colorado and annual sales of approximately \$15 million. The Company has finalized the acquisition accounting entries for this acquisition.

On April 1, 2016, the Company purchased certain assets of Atlantic Building Products, a distributor of decking, windows, siding, and related products with 2 branches operating in eastern Pennsylvania and annual sales of approximately \$5 million. The Company has finalized the acquisition accounting entries for this acquisition.

On April 1, 2016, the Company purchased certain assets of Lyf-Tym Building Products, a distributor of siding, windows, gutters, vinyl railings, and related products with 6 branches operating in North Carolina and Virginia and annual sales of approximately \$20 million. The Company has finalized the acquisition accounting entries for this acquisition.

On May 2, 2016, the Company purchased certain assets of Fox Brothers Company, a distributor of roofing, siding, windows, doors, and related products with 4 branches operating in Michigan and annual sales of approximately \$35 million. The Company has finalized the acquisition accounting entries for this acquisition.

On June 1, 2016, the Company acquired 100% of the equity interests of Woodfeathers, Inc., a distributor of primarily residential roofing and related products with 4 branches operating in Oregon and Washington and annual sales of approximately \$30 million. The Company has finalized the acquisition accounting entries for this acquisition.

The Company recorded the acquired assets and liabilities related to these transactions at their estimated fair values as of the respective acquisition dates, with resulting goodwill of \$84.8 million (\$59.8 million of which is deductible for tax purposes) and \$60.8 million in intangible assets associated with these other acquisitions.

## ***Acquisitions Additional Information***

For those acquisitions where the acquisition accounting entries have yet to be finalized, the Company's allocation of the purchase price is subject to change on receipt of additional information, including, but not limited to, the finalization of asset valuations (intangible and fixed) and income tax accounting.

## **4. Net Income per Share**

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted-average number of common shares and dilutive common share equivalents then outstanding using the treasury stock method. Common share equivalents consist of the incremental common shares issuable upon the exercise of stock options and vesting of restricted stock awards.

The following table presents the basic and diluted weighted-average shares outstanding for each period presented:

|                                                        | <b>Three Months Ended<br/>June 30,</b> |             | <b>Nine Months Ended<br/>June 30,</b> |             |
|--------------------------------------------------------|----------------------------------------|-------------|---------------------------------------|-------------|
|                                                        | <b>2017</b>                            | <b>2016</b> | <b>2017</b>                           | <b>2016</b> |
| Weighted-average common shares outstanding,<br>basic   | 60,311,923                             | 59,615,121  | 60,131,546                            | 59,293,500  |
| Effect of dilutive securities:                         |                                        |             |                                       |             |
| Stock options                                          | 627,243                                | 696,059     | 631,086                               | 714,125     |
| Restricted stock units                                 | 411,677                                | 308,629     | 400,959                               | 269,070     |
| Weighted-average common shares outstanding,<br>diluted | 61,350,843                             | 60,619,809  | 61,163,591                            | 60,276,695  |

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

|                        | <b>Three Months<br/>Ended<br/>June 30,</b> |             | <b>Nine Months<br/>Ended<br/>June 30,</b> |             |
|------------------------|--------------------------------------------|-------------|-------------------------------------------|-------------|
|                        | <b>2017</b>                                | <b>2016</b> | <b>2017</b>                               | <b>2016</b> |
| Stock options          | 247,102                                    | 338,769     | 359,757                                   | 561,348     |
| Restricted stock units |                                            | 4,066       | 82,520                                    | 60,293      |

**5. Stockholders' Equity**

The following table presents the activity included in stockholders' equity during the nine months ended June 30, 2017 (in thousands, except share amounts):

|                                                            | <b>Common Stock</b> |               | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</b> | <b>Total<br/>Stockholders'<br/>Equity</b> |
|------------------------------------------------------------|---------------------|---------------|-------------------------------------------|------------------------------|---------------------------------------------------------|-------------------------------------------|
|                                                            | <b>Shares</b>       | <b>Amount</b> |                                           |                              |                                                         |                                           |
| Balance at September 30, 2016                              | 59,890,885          | \$ 598        | \$ 694,564                                | \$ 647,322                   | \$ (18,657)                                             | \$ 1,323,827                              |
| Issuance of common stock, net of shares withheld for taxes | 470,150             | 5             | 8,817                                     |                              |                                                         | 8,822                                     |
| Stock-based compensation                                   |                     |               | 11,227                                    |                              |                                                         | 11,227                                    |
| Other comprehensive income                                 |                     |               |                                           |                              | 1,279                                                   | 1,279                                     |
| Net income                                                 |                     |               |                                           | 55,733                       |                                                         | 55,733                                    |
| Balance at June 30, 2017                                   | 60,361,035          | \$ 603        | \$ 714,608                                | \$ 703,055                   | \$ (17,378)                                             | \$ 1,400,888                              |

***Common and Preferred Stock***

The Company is authorized to issue 100 million shares of common stock and 5 million shares of preferred stock. As of June 30, 2017, September 30, 2016, and June 30, 2016 there were 60,361,035, 59,890,885 and 59,707,996 shares of common stock issued and outstanding, respectively, and no preferred stock outstanding as of any period end.

***Accumulated Other Comprehensive Loss***

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

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

|                                                     | <b>Foreign<br/>Currency<br/>Translation</b> | <b>Derivative<br/>Financial<br/>Instruments</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</b> |
|-----------------------------------------------------|---------------------------------------------|-------------------------------------------------|---------------------------------------------------------|
| Balance as of September 30, 2016                    | \$ (18,269)                                 | \$ (388)                                        | \$ (18,657)                                             |
| Other comprehensive income before reclassifications | 891                                         |                                                 | 891                                                     |
| Reclassifications out of other comprehensive loss   |                                             | 388                                             | 388                                                     |
| Balance as of June 30, 2017                         | \$ (17,378)                                 | \$                                              | \$ (17,378)                                             |

## 6. Stock-based Compensation

On February 9, 2016, the shareholders of the Company approved the Amended and Restated Beacon Roofing Supply, Inc. 2014 Stock Plan (the "2014 Plan"). The 2014 Plan provides for discretionary awards of stock options, stock awards, restricted stock units, and stock appreciation rights ("SARs") for up to 5,000,000 shares of common stock to selected employees and non-employee directors. The 2014 Plan mandates that all forfeited, expired, and withheld shares, including those from the predecessor plans, be returned to the 2014 Plan and made available for issuance. As of June 30, 2017, there were 4,087,948 shares of common stock available for issuance.

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

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

**Stock Options**

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

The fair values of the options granted during the nine months ended June 30, 2017 were estimated on the dates of grants using the Black-Scholes option-pricing model with the following weighted-average assumptions:

|                          |        |
|--------------------------|--------|
| Risk-free interest rate  | 1.97%  |
| Expected volatility      | 28.83% |
| Expected life (in years) | 5.30   |
| Dividend yield           |        |

The following table summarizes all stock option activity for the period presented (in thousands, except share, per share, and time period amounts):

|                                                    | <b>Options<br/>Outstanding</b> | <b>Weighted-<br/>Average<br/>Exercise<br/>Price</b> | <b>Weighted-Average<br/>Remaining<br/>Contractual Term<br/>(Years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value<sup>1</sup></b> |
|----------------------------------------------------|--------------------------------|-----------------------------------------------------|------------------------------------------------------------------------|------------------------------------------------------|
| Balance as of September 30, 2016                   | 2,312,789                      | \$ 25.55                                            | 6.3                                                                    | \$ 38,225                                            |
| Granted                                            | 245,818                        | 47.40                                               |                                                                        |                                                      |
| Exercised                                          | (387,645)                      | 21.93                                               |                                                                        |                                                      |
| Canceled                                           | (29,743)                       | 26.81                                               |                                                                        |                                                      |
| Balance as of June 30, 2017                        | 2,141,219                      | \$ 28.69                                            | 6.3                                                                    | \$ 43,480                                            |
| Vested and expected to vest after<br>June 30, 2017 | 2,095,729                      | \$ 28.57                                            | 6.2                                                                    | \$ 42,826                                            |
| Exercisable as of June 30, 2017                    | 1,467,224                      | \$ 24.99                                            | 5.2                                                                    | \$ 35,227                                            |

<sup>1</sup> Aggregate intrinsic value as represents the difference between the closing fair value of the underlying common stock and the exercise price of outstanding, in-the-money options on the date of measurement. During the three months ended June 30, 2017 and 2016, the Company recorded stock-based compensation expense related to stock options of \$1.1 million and \$1.9 million, respectively. During the nine months ended June 30, 2017 and 2016, the Company recorded stock-based compensation expense related to stock options of \$3.7 million and \$9.6 million, respectively. As of June 30, 2017, there was \$5.6 million of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of 1.9 years.

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

|                                                      | <b>Nine Months<br/>Ended<br/>June 30,</b> |             |
|------------------------------------------------------|-------------------------------------------|-------------|
|                                                      | <b>2017</b>                               | <b>2016</b> |
| Weighted-average fair value of stock options granted | \$ 14.21                                  | \$ 12.89    |
| Total fair value of stock options vested             | 5,529                                     | 11,943      |
| Total intrinsic value of stock options exercised     | 9,617                                     | 18,388      |



**Table of Contents*****Restricted Stock Units***

Restricted stock unit ( RSU ) awards granted to employees are subject to continued employment and generally vest after three years. The Company also grants certain RSU awards to management that contain an additional vesting condition tied directly to a defined performance metric for the Company. The actual number of RSUs that will vest can range from 0% to 150% of the grant, depending upon actual Company performance below or above the target level. The Company estimates performance in relation to the established target when determining the projected number of RSUs that will vest and calculating the compensation cost related to these awards.

RSUs granted to non-employee directors are subject to continued service and vest after one year (except under certain conditions). Generally, the common shares underlying the RSUs are not eligible for distribution until the director's service on the Board has terminated. For non-employee director RSU grants made prior to fiscal year 2014, the share distribution date is six months after the director's termination of service on the board. RSU grants made in fiscal year 2014 and thereafter have no such holding period requirement. Additionally, beginning in fiscal year 2016 non-employee directors holding common stock and outstanding vested unexercised/unsettled equity awards with a fair value that is greater than or equal to five times the annual cash retainer may elect to have future grants settle simultaneously with vesting.

The following table summarizes all restricted stock unit activity for the period presented:

|                                                 | <b>RSUs<br/>Outstanding</b> | <b>Weighted-Average<br/>Grant Date<br/>Fair<br/>Value</b> |
|-------------------------------------------------|-----------------------------|-----------------------------------------------------------|
| Balance at September 30, 2016                   | 705,434                     | \$ 34.55                                                  |
| Granted                                         | 273,065                     | 47.31                                                     |
| Released                                        | (117,689)                   | 34.19                                                     |
| Forfeited                                       | (77,576)                    | 31.15                                                     |
| Balance at June 30, 2017                        | 783,234                     | \$ 38.78                                                  |
| Vested and expected to vest after June 30, 2017 | 796,109                     | \$ 38.77                                                  |

During the three months ended June 30, 2017 and 2016, the Company recorded stock-based compensation expense related to restricted stock units of \$2.6 million and \$1.5 million, respectively. During the nine months ended June 30, 2017 and 2016, the Company recorded stock-based compensation expense related to restricted stock units of \$7.7 million and \$4.5 million, respectively. As of June 30, 2017, there was \$15.4 million of total unrecognized compensation cost related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 2.0 years.

The following table summarizes additional information on RSUs for the period presented (in thousands):

**Nine Months Ended  
June 30,**

|                                        | 2017     | 2016   |
|----------------------------------------|----------|--------|
| Total fair value of RSUs released      | \$ 4,552 | \$ 743 |
| Total intrinsic value of RSUs released | 5,620    | 403    |

## 7. Goodwill and Intangible Assets

### *Goodwill*

The following table sets forth the change in the carrying amount of goodwill for the Company during the nine months ended June 30, 2017 and 2016, respectively (in thousands):

|                                   |              |
|-----------------------------------|--------------|
| Balance at September 30, 2015     | \$ 496,415   |
| Acquisition of RSG                | 618,630      |
| Other acquisitions                | 85,881       |
| Translation and other adjustments | (720)        |
| Balance at June 30, 2016          | \$ 1,200,206 |
| Balance at September 30, 2016     | \$ 1,197,565 |
| Acquisitions                      | 58,234       |
| Translation and other adjustments | 215          |
| Balance at June 30, 2017          | \$ 1,256,014 |

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The change in the carrying amount of goodwill for the nine months ended June 30, 2017 and 2016 is primarily attributable to the Company's acquisitions finalized during the respective periods presented (see Note 3).

***Intangible Assets***

In connection with transactions finalized during the nine months ended June 30, 2017 and fiscal year 2016, the Company recorded intangible assets of \$40.0 million (\$38.3 of customer relationships and \$1.7 million of amortizable trademarks) and \$442.6 million (\$375.0 million of customer relationships, \$4.3 million of amortizable trademarks, and \$63.3 million of indefinite-lived trademarks), respectively. Intangible assets consisted of the following (in thousands, except time period amounts):

|                                          | June 30,<br>2017 | September 30,<br>2016 | June 30,<br>2016 | Weighted-Average<br>Remaining<br>Life <sup>1</sup><br>(Years) |
|------------------------------------------|------------------|-----------------------|------------------|---------------------------------------------------------------|
| Amortizable intangible assets:           |                  |                       |                  |                                                               |
| Non-compete agreements                   | \$ 2,824         | \$ 3,324              | \$ 2,824         | 3.53                                                          |
| Customer relationships                   | 605,326          | 566,964               | 562,888          | 17.80                                                         |
| Trademarks                               | 7,650            | 5,400                 | 5,000            | 7.53                                                          |
| Beneficial lease arrangements            | 960              | 960                   | 610              | 10.25                                                         |
| Total amortizable intangible assets      | 616,760          | 576,648               | 571,322          |                                                               |
| Less: Accumulated amortization           | (246,848)        | (185,674)             | (167,122)        |                                                               |
| Total amortizable intangible assets, net | \$ 369,912       | \$ 390,974            | \$ 404,200       |                                                               |
| Indefinite lived trademarks              | 73,050           | 73,050                | 73,050           |                                                               |
| Total intangibles, net                   | \$ 442,962       | \$ 464,024            | \$ 477,250       |                                                               |

<sup>1</sup> As of June 30, 2017

For the three month periods ended June 30, 2017 and 2016, we recorded \$20.7 million and \$17.4 million of amortization expense relating to the above-listed intangible assets, respectively. For the nine month periods ended June 30, 2017 and 2016, we recorded \$61.1 million and \$49.7 million of amortization expense relating to the above-listed intangible assets, respectively. The intangible asset lives range from 1 to 20 years and have a weighted-average remaining life of 17.6 years as of June 30, 2017.

The following table presents the estimated annual amortization expense for these intangible assets (in thousands):

|                                                       |                  |
|-------------------------------------------------------|------------------|
| <b>Year Ending September 30,</b><br>2017 (Jul - Sept) | <b>\$ 23,235</b> |
|-------------------------------------------------------|------------------|

|            |            |
|------------|------------|
| 2018       | 71,731     |
| 2019       | 58,516     |
| 2020       | 47,313     |
| 2021       | 37,662     |
| Thereafter | 131,455    |
|            | \$ 369,912 |

## 8. Financing Arrangements

In connection with the RSG Acquisition on October 1, 2015, the Company entered into various financing arrangements totaling \$1.45 billion. A Senior Secured Credit Facility was entered into that is comprised of an asset-based revolving line of credit ( ABL ) of \$700.0 million (\$350.0 million of which was drawn at closing) and a new \$450.0 million term loan ( Term Loan ). The Company also raised an additional \$300.0 million through the issuance of senior notes (the Senior Notes ).

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

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The following table summarizes all financing arrangements the Company has entered into (in thousands):

|                                                                                        | June 30,<br>2017 | September 30,<br>2016 | June 30,<br>2016 |
|----------------------------------------------------------------------------------------|------------------|-----------------------|------------------|
| <b>Senior Secured Credit Facility</b>                                                  |                  |                       |                  |
| Revolving Lines of Credit:                                                             |                  |                       |                  |
| U.S. Revolver, expires October 1, 2020 <sup>1</sup>                                    | \$ 437,285       | \$ 355,087            | \$ 406,917       |
| Canadian Revolver, expires October 1, 2020 <sup>2</sup>                                | 12,330           | 4,574                 | 9,290            |
| Term Loan, matures October 1, 2022 <sup>3</sup>                                        | 434,177          | 436,380               | 435,507          |
| Total borrowings under Senior Secured Credit Facility                                  | 883,792          | 796,041               | 851,714          |
| Less: current portion                                                                  | (4,500)          | (4,500)               | (4,500)          |
| Total long-term borrowings under Senior Secured Credit Facility                        | \$ 879,292       | \$ 791,541            | \$ 847,214       |
| <b>Senior Notes</b>                                                                    |                  |                       |                  |
| Senior Notes, matures October 2023 <sup>4</sup>                                        | 292,008          | 291,049               | 290,623          |
| Less: current portion                                                                  |                  |                       |                  |
| Total long-term borrowings under Senior Notes                                          | \$ 292,008       | \$ 291,049            | \$ 290,623       |
| <b>Equipment Financing Facilities and Other</b>                                        |                  |                       |                  |
| Equipment financing facilities, various maturities through September 2021 <sup>5</sup> | \$ 16,701        | \$ 20,419             | \$ 21,641        |
| Capital lease obligations, various maturities through November 2021 <sup>6</sup>       | 20,973           | 25,013                | 26,184           |
| Total obligations under equipment financing facilities and other                       | 37,674           | 45,432                | 47,825           |
| Less: current portion                                                                  | (9,262)          | (10,311)              | (8,105)          |
| Total long-term obligations under equipment financing facilities and other             | \$ 28,412        | \$ 35,121             | \$ 39,720        |

1 - Effective rates on borrowings are 3.28% as of June 30, 2017; 2.90% as of September 30, 2016; and 2.77% as of June 30, 2016

2 - Effective rates on borrowings are 3.20% as of June 30, 2017, September 30, 2016 and June 30, 2016

3 - Interest rate of 3.50% as of June 30, 2017; 3.50% as of September 30, 2016; 4.00% as of June 30, 2016

4 - Interest rate of 6.38% as of June 30, 2017, September 30, 2016 and June 30, 2016

5 - Fixed interest rates ranging from 2.33% to 3.25% as of June 30, 2017 and September 30, 2016; 2.33% to 4.49% as of June 30, 2016

6 - Fixed interest rates ranging from 2.72% to 10.39% as of June 30, 2017, September 30, 2016, and June 30, 2016

***Asset-based Line of Credit ( ABL )***

On October 1, 2015, the Company entered into a \$700 million ABL with Wells Fargo Bank, N.A. and a syndicate of other lenders. This ABL consists of revolving loans in both the United States ( U.S. Revolver ) in the amount of \$670.0 million and Canada ( Canada Revolver ) in the amount of \$30.0 million.

The ABL has a maturity date of October 1, 2020. The U.S. Revolver has various tranches of borrowings, bearing interest at rates ranging from 2.59% to 4.75%. The effective rate of these borrowings is 3.28% and is paid monthly. As of June 30, 2017, the outstanding balance on the U.S. Revolver and Canada Revolvers, net of debt issuance fees, was \$449.6 million. The U.S. Revolver also has outstanding standby letters of credit in the amount of \$10.9 million as of June 30, 2017. Current unused commitment fees on the revolving credit facilities are 0.25% per annum.

There is one financial covenant under the ABL, which is a Consolidated Fixed Charge Ratio. The Consolidated Fixed Charge Ratio is calculated by dividing consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) by Consolidated Fixed Charges (as defined in the agreement). Per the covenant, the Company's Consolidated Fixed Charge Ratio must be a minimum of 1.00 at the end of each fiscal quarter, calculated on a trailing four quarter basis. The covenant is only applicable when the borrowing availability is less than 10% of the maximum loan cap or \$60.0 million. The ABL is guaranteed jointly and severally and fully and unconditionally by the Company's active United States subsidiary.

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### ***Term Loan***

On October 1, 2015, the Company entered into a \$450.0 million Term Loan with Citibank N.A., and a syndicate of other lenders. The Term Loan requires quarterly principal payments in the amount of \$1.1 million, with the remaining outstanding principal to be paid on its maturity date of October 1, 2022. The interest rate paid is based on a LIBOR rate (with a floor) plus a fixed spread. The Company has the option of selecting a LIBOR period that determines the rate at which interest can accrue on the Term Loan as well as the period in which interest payments are made.

On September 16, 2016, the Company refinanced its Term Loan, lowering the LIBOR floor by 25 basis points and lowering the spread by 25 basis points. As a result of the refinancing, the Company wrote off \$1.6 million of debt issuance costs in interest expense. As of June 30, 2017, the outstanding balance on the Term Loan, net of debt issuance fees, was \$434.2 million. The Term Loan is guaranteed jointly and severally and fully and unconditionally by the Company's active United States subsidiary.

### ***Senior Notes***

On October 1, 2015, the Company raised \$300.0 million by issuing senior notes due 2023 (the "Senior Notes"). The Senior Notes have a coupon rate of 6.38% per annum and are payable semi-annually in arrears beginning April 1, 2016. There are early payment provisions in the Senior Note indenture in which the Company would be subject to make whole provisions. Management anticipates repaying the notes at the maturity date of October 1, 2023. As of June 30, 2017 the outstanding balance on the Senior Notes, net of debt issuance fees, was \$292.0 million. The Senior Notes are guaranteed jointly and severally and fully and unconditionally by the Company's active United States subsidiary.

### ***Other Information***

The Senior Secured Credit Facility and the previous credit facility it replaced had certain lenders who participated in both arrangements, therefore management accounted for a portion of this transaction as a debt modification and a portion as a debt extinguishment. In accordance with the accounting for debt modification, the Company expensed \$2.2 million of direct issuance costs incurred and will amortize the previously capitalized issuance costs over the term of the Senior Secured Credit Facility. The remainder of the settlement of the Company's previous financing arrangements was accounted for as debt extinguishment, for which the Company recognized a loss of \$0.8 million in the first quarter of fiscal year 2016.

### ***Equipment Financing Facilities and Other***

As of June 30, 2017, the Company had a \$16.7 million outstanding under equipment financing facilities, with fixed interest rates ranging from 2.33% to 3.25% and payments due through September 2021.

As of June 30, 2017 the Company had \$21.0 million of capital lease obligations outstanding. These leases have interest rates ranging from 2.72% to 10.39% with payments due through November 2021.

## **9. Commitments and Contingencies**

### ***Operating Leases***

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

For the three months ended June 30, 2017 and 2016, rent expense was \$15.8 million and \$14.5 million, respectively. For the nine months ended June 30, 2017 and 2016, rent expense was \$44.7 million and \$45.1 million, respectively. Sublet income was immaterial for each of these periods.



**Table of Contents*****Contingencies***

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

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

**10. Geographic Data**

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

|                 | <b>Three Months Ended<br/>June 30,</b> |              | <b>Nine Months Ended<br/>June 30,</b> |              |
|-----------------|----------------------------------------|--------------|---------------------------------------|--------------|
|                 | <b>2017</b>                            | <b>2016</b>  | <b>2017</b>                           | <b>2016</b>  |
| Net sales       |                                        |              |                                       |              |
| U.S.            | \$ 1,167,647                           | \$ 1,097,555 | \$ 2,977,108                          | \$ 2,832,573 |
| Canada          | 46,247                                 | 55,171       | 109,694                               | 120,170      |
| Total net sales | \$ 1,213,894                           | \$ 1,152,726 | \$ 3,086,802                          | \$ 2,952,743 |

|                         | <b>June 30,<br/>2017</b> | <b>September 30,<br/>2016</b> | <b>June 30,<br/>2016</b> |
|-------------------------|--------------------------|-------------------------------|--------------------------|
| Long-lived assets       |                          |                               |                          |
| U.S.                    | \$ 515,170               | \$ 527,680                    | \$ 545,070               |
| Canada                  | 13,204                   | 13,374                        | 13,949                   |
| Total long-lived assets | \$ 528,374               | \$ 541,054                    | \$ 559,019               |

**11. Fair Value Measurement**

As of June 30, 2017, the carrying amount of cash and cash equivalents, accounts receivable, prepaid and other current assets, accounts payable and accrued expenses approximated fair value because of the short-term nature of these instruments. The Company measures its cash equivalents at amortized cost, which approximates fair value based upon quoted market prices (Level 1). Based upon recent trading prices (Level 2 – market approach) as of June 30, 2017, the fair value of the Company's \$300.0 million Senior Notes was \$323.6 million. As of June 30, 2017, the fair value of the

Company's Senior Secured Credit Facility approximated the amount outstanding. The Company estimates the fair value of its Senior Secured Credit Facility by discounting the future cash flows of each instrument using estimated market rates of debt instruments with similar maturities and credit profiles (Level 3).

## **12. Supplemental Guarantor Information**

All of the Senior Notes issued on October 1, 2015 are guaranteed jointly and severally by all of the United States subsidiaries of the Company (collectively, the "Guarantors"), and not by the Canadian subsidiaries of the Company. Such guarantees are full and unconditional. Supplemental condensed consolidating financial information of the Company, including such information for the Guarantors, is presented below. The information is presented in accordance with the requirements of Rule 3-10 under the SEC's Regulation S-X. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the non-guarantor subsidiaries operated as independent entities. Investments in subsidiaries are presented using the equity method of accounting. The principal elimination entries eliminate investments in subsidiaries and intercompany balances and transactions. Separate financial statements of the Guarantors are not provided as the consolidating financial information contained herein provides a more meaningful disclosure to allow investors to determine the nature of the assets held by, and the operations of, the combined groups.

**Table of Contents****BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Balance Sheets**

(Unaudited; In thousands)

|                                                                | <b>June 30, 2017</b> |                               |                               |                               |                     |
|----------------------------------------------------------------|----------------------|-------------------------------|-------------------------------|-------------------------------|---------------------|
|                                                                | <b>Parent</b>        | <b>Guarantor Subsidiaries</b> | <b>Guarantor Subsidiaries</b> | <b>Eliminations and Other</b> | <b>Consolidated</b> |
| <b>Assets</b>                                                  |                      |                               |                               |                               |                     |
| Current assets:                                                |                      |                               |                               |                               |                     |
| Cash and cash equivalents                                      | \$                   | \$ 34,583                     | \$ 7,314                      | \$ (8,842)                    | \$ 33,055           |
| Accounts receivable, net                                       | 1,327                | 640,796                       | 29,994                        | (1,140)                       | 670,977             |
| Inventories, net                                               |                      | 608,367                       | 33,058                        |                               | 641,425             |
| Prepaid expenses and other current assets                      | 30,158               | 185,633                       | 5,686                         |                               | 221,477             |
| Total current assets                                           | 31,485               | 1,469,379                     | 76,052                        | (9,982)                       | 1,566,934           |
| Intercompany receivable, net                                   |                      | 1,037,846                     |                               | (1,037,846)                   |                     |
| Investments in consolidated subsidiaries                       | 3,070,328            |                               |                               | (3,070,328)                   |                     |
| Deferred income taxes, net                                     | 58,230               |                               |                               | (58,230)                      |                     |
| Property and equipment, net                                    | 6,541                | 140,126                       | 10,284                        |                               | 156,951             |
| Goodwill                                                       |                      | 1,226,034                     | 29,980                        |                               | 1,256,014           |
| Intangibles, net                                               |                      | 440,042                       | 2,920                         |                               | 442,962             |
| Other assets, net                                              | 1,242                | 269                           |                               |                               | 1,511               |
| <b>Total Assets</b>                                            | <b>\$ 3,167,826</b>  | <b>\$ 4,313,696</b>           | <b>\$ 119,236</b>             | <b>\$ (4,176,386)</b>         | <b>\$ 3,424,372</b> |
| <b>Liabilities and Stockholders Equity</b>                     |                      |                               |                               |                               |                     |
| Current liabilities:                                           |                      |                               |                               |                               |                     |
| Accounts payable                                               | \$ 23,839            | \$ 354,696                    | \$ 19,026                     | \$ (9,982)                    | \$ 387,579          |
| Accrued expenses                                               | 18,174               | 257,387                       | 4,754                         |                               | 280,315             |
| Current portions of long-term debt                             | 4,500                | 9,262                         |                               |                               | 13,762              |
| Total current liabilities                                      | 46,513               | 621,345                       | 23,780                        | (9,982)                       | 681,656             |
| Intercompany payable, net                                      | 998,740              |                               | 39,106                        | (1,037,846)                   |                     |
| Borrowings under revolving lines of credit, net                |                      | 437,285                       | 12,330                        |                               | 449,615             |
| Long-term debt, net                                            | 721,685              |                               |                               |                               | 721,685             |
| Deferred income taxes, net                                     |                      | 199,746                       | 600                           | (58,230)                      | 142,116             |
| Long-term obligations under equipment financing and other, net |                      | 28,365                        | 47                            |                               | 28,412              |
| <b>Total liabilities</b>                                       | <b>1,766,938</b>     | <b>1,286,741</b>              | <b>75,863</b>                 | <b>(1,106,058)</b>            | <b>2,023,484</b>    |

|                           |           |           |        |             |           |
|---------------------------|-----------|-----------|--------|-------------|-----------|
| Total stockholders equity | 1,400,888 | 3,026,955 | 43,373 | (3,070,328) | 1,400,888 |
|---------------------------|-----------|-----------|--------|-------------|-----------|

|                                                  |                     |                     |                   |                       |                     |
|--------------------------------------------------|---------------------|---------------------|-------------------|-----------------------|---------------------|
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 3,167,826</b> | <b>\$ 4,313,696</b> | <b>\$ 119,236</b> | <b>\$ (4,176,386)</b> | <b>\$ 3,424,372</b> |
|--------------------------------------------------|---------------------|---------------------|-------------------|-----------------------|---------------------|

**Table of Contents****BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Balance Sheets**

(Unaudited; In thousands)

|                                                                | <b>September 30, 2016</b> |                               |                                   |                               |                     |
|----------------------------------------------------------------|---------------------------|-------------------------------|-----------------------------------|-------------------------------|---------------------|
|                                                                | <b>Parent</b>             | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations and Other</b> | <b>Consolidated</b> |
| <b>Assets</b>                                                  |                           |                               |                                   |                               |                     |
| Current assets:                                                |                           |                               |                                   |                               |                     |
| Cash and cash equivalents                                      | \$                        | \$ 37,447                     | \$ 2,876                          | \$ (8,937)                    | \$ 31,386           |
| Accounts receivable, net                                       |                           | 593,395                       | 34,710                            | (1,140)                       | 626,965             |
| Inventories, net                                               |                           | 460,516                       | 20,220                            |                               | 480,736             |
| Prepaid expenses and other current assets                      | 3,527                     | 153,681                       | 5,895                             |                               | 163,103             |
| Total current assets                                           | 3,527                     | 1,245,039                     | 63,701                            | (10,077)                      | 1,302,190           |
| Intercompany receivable, net                                   |                           | 878,931                       |                                   | (878,931)                     |                     |
| Investments in consolidated subsidiaries                       | 2,891,677                 |                               |                                   | (2,891,677)                   |                     |
| Deferred income taxes, net                                     | 59,567                    |                               |                                   | (59,567)                      |                     |
| Property and equipment, net                                    | 4,626                     | 133,897                       | 10,046                            |                               | 148,569             |
| Goodwill                                                       |                           | 1,167,905                     | 29,660                            |                               | 1,197,565           |
| Intangibles, net                                               |                           | 460,696                       | 3,328                             |                               | 464,024             |
| Other assets, net                                              | 1,242                     | 269                           |                                   |                               | 1,511               |
| <b>Total Assets</b>                                            | <b>\$ 2,960,639</b>       | <b>\$ 3,886,737</b>           | <b>\$ 106,735</b>                 | <b>\$ (3,840,252)</b>         | <b>\$ 3,113,859</b> |
| <b>Liabilities and Stockholders Equity</b>                     |                           |                               |                                   |                               |                     |
| Current liabilities:                                           |                           |                               |                                   |                               |                     |
| Accounts payable                                               | \$ 26,630                 | \$ 329,895                    | \$ 14,467                         | \$ (10,077)                   | \$ 360,915          |
| Accrued expenses                                               | 42,594                    | 114,016                       | 4,503                             |                               | 161,113             |
| Current portions of long-term obligations                      | 4,500                     | 10,311                        |                                   |                               | 14,811              |
| Total current liabilities                                      | 73,724                    | 454,222                       | 18,970                            | (10,077)                      | 536,839             |
| Intercompany payable, net                                      | 840,159                   |                               | 38,772                            | (878,931)                     |                     |
| Borrowings under revolving lines of credit, net                |                           | 355,087                       | 4,574                             |                               | 359,661             |
| Long-term debt, net                                            | 722,929                   |                               |                                   |                               | 722,929             |
| Deferred income taxes, net                                     |                           | 194,556                       | 493                               | (59,567)                      | 135,482             |
| Long-term obligations under equipment financing and other, net |                           | 35,074                        | 47                                |                               | 35,121              |
| <b>Total liabilities</b>                                       | <b>1,636,812</b>          | <b>1,038,939</b>              | <b>62,856</b>                     | <b>(948,575)</b>              | <b>1,790,032</b>    |

|                                                  |                     |                     |                   |                       |                     |
|--------------------------------------------------|---------------------|---------------------|-------------------|-----------------------|---------------------|
| Total stockholders' equity                       | 1,323,827           | 2,847,798           | 43,879            | (2,891,677)           | 1,323,827           |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 2,960,639</b> | <b>\$ 3,886,737</b> | <b>\$ 106,735</b> | <b>\$ (3,840,252)</b> | <b>\$ 3,113,859</b> |

**Table of Contents****BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Balance Sheets**

(Unaudited; In thousands)

|                                                                | <b>June 30, 2016</b> |                               |                                   |                               |                     |
|----------------------------------------------------------------|----------------------|-------------------------------|-----------------------------------|-------------------------------|---------------------|
|                                                                | <b>Parent</b>        | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations and Other</b> | <b>Consolidated</b> |
| <b>Assets</b>                                                  |                      |                               |                                   |                               |                     |
| Current assets:                                                |                      |                               |                                   |                               |                     |
| Cash and cash equivalents                                      | \$                   | \$ 39,168                     | \$ 3,461                          | \$ (6,093)                    | \$ 36,536           |
| Accounts receivable, net                                       |                      | 608,880                       | 32,361                            | (1,140)                       | 640,101             |
| Inventories, net                                               |                      | 589,976                       | 30,932                            |                               | 620,908             |
| Prepaid expenses and other current assets                      | 11,697               | 196,123                       | 5,562                             | (8,309)                       | 205,073             |
| Total current assets                                           | 11,697               | 1,434,147                     | 72,316                            | (15,542)                      | 1,502,618           |
| Intercompany receivable, net                                   |                      | 950,364                       |                                   | (950,364)                     |                     |
| Investments in consolidated subsidiaries                       | 2,838,385            |                               |                                   | (2,838,385)                   |                     |
| Deferred income taxes, net                                     | 67,484               |                               |                                   | (67,484)                      |                     |
| Property and equipment, net                                    | 4,266                | 138,725                       | 10,398                            |                               | 153,389             |
| Goodwill                                                       |                      | 1,170,087                     | 30,119                            |                               | 1,200,206           |
| Intangibles, net                                               |                      | 473,699                       | 3,551                             |                               | 477,250             |
| Other assets, net                                              | 1,233                | 197                           |                                   |                               | 1,430               |
| <b>Total Assets</b>                                            | <b>\$ 2,923,065</b>  | <b>\$ 4,167,219</b>           | <b>\$ 116,384</b>                 | <b>\$ (3,871,775)</b>         | <b>\$ 3,334,893</b> |
| <b>Liabilities and Stockholders Equity</b>                     |                      |                               |                                   |                               |                     |
| Current liabilities:                                           |                      |                               |                                   |                               |                     |
| Accounts payable                                               | \$ 15,964            | \$ 544,311                    | \$ 10,290                         | \$ (7,233)                    | \$ 563,332          |
| Accrued expenses                                               |                      | 200,014                       | 13,707                            | (8,309)                       | 205,412             |
| Current portions of long-term obligations                      | 4,500                | 8,105                         |                                   |                               | 12,605              |
| Total current liabilities                                      | 20,464               | 752,430                       | 23,997                            | (15,542)                      | 781,349             |
| Intercompany payable, net                                      | 911,321              |                               | 39,043                            | (950,364)                     |                     |
| Borrowings under revolving lines of credit                     |                      | 406,916                       | 9,291                             |                               | 416,207             |
| Long-term debt, net                                            | 721,630              |                               |                                   |                               | 721,630             |
| Deferred income taxes, net                                     |                      | 173,344                       | 477                               | (67,484)                      | 106,337             |
| Long-term obligations under equipment financing and other, net |                      | 39,672                        | 48                                |                               | 39,720              |
| <b>Total liabilities</b>                                       | <b>1,653,415</b>     | <b>1,372,362</b>              | <b>72,856</b>                     | <b>(1,033,390)</b>            | <b>2,065,243</b>    |

|                                                  |                     |                     |                   |                       |                     |
|--------------------------------------------------|---------------------|---------------------|-------------------|-----------------------|---------------------|
| Total stockholders' equity                       | 1,269,650           | 2,794,857           | 43,528            | (2,838,385)           | 1,269,650           |
| <b>Total Liabilities and Stockholders Equity</b> | <b>\$ 2,923,065</b> | <b>\$ 4,167,219</b> | <b>\$ 116,384</b> | <b>\$ (3,871,775)</b> | <b>\$ 3,334,893</b> |



**Table of Contents****BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Statements of Operations**

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

| <b>Three Months Ended June 30, 2017</b>            |               |                               |                                   |                               |                     |
|----------------------------------------------------|---------------|-------------------------------|-----------------------------------|-------------------------------|---------------------|
|                                                    | <b>Parent</b> | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations and Other</b> | <b>Consolidated</b> |
| Net sales                                          | \$            | \$ 1,167,647                  | \$ 46,247                         | \$                            | \$ 1,213,894        |
| Cost of products sold                              |               | 880,325                       | 35,815                            |                               | 916,140             |
| Gross profit                                       |               | 287,322                       | 10,432                            |                               | 297,754             |
| Operating expense                                  | 407           | 204,478                       | 7,998                             |                               | 212,883             |
| Intercompany charges (income)                      | (12,549)      | 11,987                        | 562                               |                               |                     |
| Income from operations                             | 12,142        | 70,857                        | 1,872                             |                               | 84,871              |
| Interest expense, financing costs, and other       | 9,610         | 3,586                         | 201                               |                               | 13,397              |
| Intercompany interest expense (income)             | (6,724)       | 6,724                         |                                   |                               |                     |
| Income before provision for income taxes           | 9,256         | 60,547                        | 1,671                             |                               | 71,474              |
| Provision for income taxes                         | 3,473         | 22,883                        | 459                               |                               | 26,815              |
| Income before equity in net income of subsidiaries | 5,783         | 37,664                        | 1,212                             |                               | 44,659              |
| Equity in net income of subsidiaries               | 38,876        |                               |                                   | (38,876)                      |                     |
| Net income                                         | \$ 44,659     | \$ 37,664                     | \$ 1,212                          | \$ (38,876)                   | \$ 44,659           |
| Weighted-average common stock outstanding:         |               |                               |                                   |                               |                     |
| Basic                                              |               |                               |                                   |                               | 60,311,923          |
| Diluted                                            |               |                               |                                   |                               | 61,350,843          |
| Net income per share:                              |               |                               |                                   |                               |                     |
| Basic                                              |               |                               |                                   |                               | \$ 0.74             |
| Diluted                                            |               |                               |                                   |                               | \$ 0.73             |

| <b>Three Months Ended June 30, 2016</b> |               |                               |                                   |                               |                     |
|-----------------------------------------|---------------|-------------------------------|-----------------------------------|-------------------------------|---------------------|
|                                         | <b>Parent</b> | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations and Other</b> | <b>Consolidated</b> |
| Net sales                               | \$            | \$ 1,097,554                  | \$ 55,172                         | \$                            | \$ 1,152,726        |
| Cost of products sold                   |               | 828,448                       | 42,203                            |                               | 870,651             |

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|                                                           |           |           |          |                       |
|-----------------------------------------------------------|-----------|-----------|----------|-----------------------|
| Gross profit                                              |           | 269,106   | 12,969   | 282,075               |
| Operating expenses                                        | 5,933     | 189,343   | 8,420    | 203,696               |
| Intercompany charges (income)                             | (10,598)  | 9,938     | 660      |                       |
| Income from operations                                    | 4,665     | 69,825    | 3,889    | 78,379                |
| Interest income, financing costs, and other               | 9,926     | 2,511     | (211)    | 12,226                |
| Intercompany interest expense (income)                    | (6,325)   | 5,909     | 416      |                       |
| Income before provision for income taxes                  | 1,064     | 61,405    | 3,684    | 66,153                |
| Provision for income taxes                                | 3,667     | 20,384    | 976      | 25,027                |
| Income (loss) before equity in net income of subsidiaries | (2,603)   | 41,021    | 2,708    | 41,126                |
| Equity in net income of subsidiaries                      | 43,729    |           | (43,729) |                       |
| Net income                                                | \$ 41,126 | \$ 41,021 | \$ 2,708 | \$ (43,729) \$ 41,126 |
| Weighted-average common stock outstanding:                |           |           |          |                       |
| Basic                                                     |           |           |          | 59,615,121            |
| Diluted                                                   |           |           |          | 60,619,809            |
| Net income per share:                                     |           |           |          |                       |
| Basic                                                     |           |           |          | \$ 0.69               |
| Diluted                                                   |           |           |          | \$ 0.68               |

**Table of Contents****BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Statements of Operations**

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

|                                                           | <b>Nine Months Ended June 30, 2017</b> |                               |                                   |                               |                     |
|-----------------------------------------------------------|----------------------------------------|-------------------------------|-----------------------------------|-------------------------------|---------------------|
|                                                           | <b>Parent</b>                          | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations and Other</b> | <b>Consolidated</b> |
| Net sales                                                 | \$                                     | \$ 2,977,108                  | \$ 109,694                        | \$                            | \$ 3,086,802        |
| Cost of products sold                                     |                                        | 2,248,454                     | 85,050                            |                               | 2,333,504           |
| Gross profit                                              |                                        | 728,654                       | 24,644                            |                               | 753,298             |
| Operating expense                                         | 16,063                                 | 584,999                       | 23,464                            |                               | 624,526             |
| Intercompany charges (income)                             | (37,057)                               | 35,379                        | 1,678                             |                               |                     |
| Income (loss) from operations                             | 20,994                                 | 108,276                       | (498)                             |                               | 128,772             |
| Interest expense, financing costs, and other              | 28,947                                 | 9,044                         | 1,248                             |                               | 39,239              |
| Intercompany interest expense (income)                    | (17,406)                               | 17,406                        |                                   |                               |                     |
| Income (loss) before provision for income taxes           | 9,453                                  | 81,826                        | (1,746)                           |                               | 89,533              |
| Provision for (benefit from) income taxes                 | 3,063                                  | 31,217                        | (480)                             |                               | 33,800              |
| Income (loss) before equity in net income of subsidiaries | 6,390                                  | 50,609                        | (1,266)                           |                               | 55,733              |
| Equity in net income of subsidiaries                      | 49,343                                 |                               |                                   | (49,343)                      |                     |
| Net income (loss)                                         | \$ 55,733                              | \$ 50,609                     | \$ (1,266)                        | \$ (49,343)                   | \$ 55,733           |
| Weighted-average common stock outstanding:                |                                        |                               |                                   |                               |                     |
| Basic                                                     |                                        |                               |                                   |                               | 60,131,546          |
| Diluted                                                   |                                        |                               |                                   |                               | 61,163,591          |
| Net income per share:                                     |                                        |                               |                                   |                               |                     |
| Basic                                                     |                                        |                               |                                   |                               | \$ 0.93             |
| Diluted                                                   |                                        |                               |                                   |                               | \$ 0.91             |

|                       | <b>Nine Months Ended June 30, 2016</b> |                               |                                   |                               |                     |
|-----------------------|----------------------------------------|-------------------------------|-----------------------------------|-------------------------------|---------------------|
|                       | <b>Parent</b>                          | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations and Other</b> | <b>Consolidated</b> |
| Net sales             | \$                                     | \$ 2,832,819                  | \$ 120,171                        | \$ (247)                      | \$ 2,952,743        |
| Cost of products sold |                                        | 2,149,477                     | 92,486                            | (247)                         | 2,241,716           |

|                                                           |           |           |        |             |            |
|-----------------------------------------------------------|-----------|-----------|--------|-------------|------------|
| Gross profit                                              |           | 683,342   | 27,685 |             | 711,027    |
| Operating expenses                                        | 65,092    | 513,755   | 23,074 |             | 601,921    |
| Intercompany charges (income)                             | (36,038)  | 33,394    | 2,644  |             |            |
| Income (loss) from operations                             | (29,054)  | 136,193   | 1,967  |             | 109,106    |
| Interest expense, financing costs, and other              | 24,563    | 17,016    | (71)   |             | 41,508     |
| Intercompany interest expense (income)                    | (15,046)  | 13,858    | 1,188  |             |            |
| Income (loss) before provision for income taxes           | (38,571)  | 105,319   | 850    |             | 67,598     |
| Provision for (benefit from) income taxes                 | (17,206)  | 42,054    | 225    |             | 25,073     |
| Income (loss) before equity in net income of subsidiaries | (21,365)  | 63,265    | 625    |             | 42,525     |
| Equity in net income of subsidiaries                      | 63,890    |           |        | (63,890)    |            |
| Net income                                                | \$ 42,525 | \$ 63,265 | \$ 625 | \$ (63,890) | \$ 42,525  |
| Weighted-average common stock outstanding:                |           |           |        |             |            |
| Basic                                                     |           |           |        |             | 59,293,500 |
| Diluted                                                   |           |           |        |             | 60,276,695 |
| Net income per share:                                     |           |           |        |             |            |
| Basic                                                     |           |           |        | \$          | 0.72       |
| Diluted                                                   |           |           |        | \$          | 0.71       |

Table of Contents**BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Statements of Comprehensive Income**

(Unaudited; In thousands)

|                                         | <b>Three Months Ended June 30, 2017</b> |                               |                                   |                               |                     |
|-----------------------------------------|-----------------------------------------|-------------------------------|-----------------------------------|-------------------------------|---------------------|
|                                         | <b>Parent</b>                           | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations and Other</b> | <b>Consolidated</b> |
| Net income                              | \$ 44,659                               | \$ 37,664                     | \$ 1,212                          | \$ (38,876)                   | \$ 44,659           |
| Other comprehensive income:             |                                         |                               |                                   |                               |                     |
| Foreign currency translation adjustment | 1,730                                   |                               | 1,730                             | (1,730)                       | 1,730               |
| Total other comprehensive income        | 1,730                                   |                               | 1,730                             | (1,730)                       | 1,730               |
| Comprehensive income                    | \$ 46,389                               | \$ 37,664                     | \$ 2,942                          | \$ (40,606)                   | \$ 46,389           |

|                                         | <b>Three Months Ended June 30, 2016</b> |                               |                                   |                               |                     |
|-----------------------------------------|-----------------------------------------|-------------------------------|-----------------------------------|-------------------------------|---------------------|
|                                         | <b>Parent</b>                           | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations and Other</b> | <b>Consolidated</b> |
| Net income                              | \$ 41,126                               | \$ 41,021                     | \$ 2,708                          | \$ (43,729)                   | \$ 41,126           |
| Other comprehensive income:             |                                         |                               |                                   |                               |                     |
| Foreign currency translation adjustment | 365                                     |                               | 365                               | (365)                         | 365                 |
| Total other comprehensive income        | 365                                     |                               | 365                               | (365)                         | 365                 |
| Comprehensive income                    | \$ 41,491                               | \$ 41,021                     | \$ 3,073                          | \$ (44,094)                   | \$ 41,491           |

|                                         | <b>Nine Months Ended June 30, 2017</b> |                               |                                   |                               |                     |
|-----------------------------------------|----------------------------------------|-------------------------------|-----------------------------------|-------------------------------|---------------------|
|                                         | <b>Parent</b>                          | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations and Other</b> | <b>Consolidated</b> |
| Net income (loss)                       | \$ 55,733                              | \$ 50,609                     | \$ (1,266)                        | \$ (49,343)                   | \$ 55,733           |
| Other comprehensive income:             |                                        |                               |                                   |                               |                     |
| Foreign currency translation adjustment | 891                                    |                               | 891                               | (891)                         | 891                 |
| Total other comprehensive income        | 891                                    |                               | 891                               | (891)                         | 891                 |
| Comprehensive income (loss)             | \$ 56,624                              | \$ 50,609                     | \$ (375)                          | \$ (50,234)                   | \$ 56,624           |

**Nine Months Ended June 30, 2016**

|                                         | <b>Parent</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations<br/>and Other</b> | <b>Consolidated</b> |
|-----------------------------------------|---------------|-----------------------------------|---------------------------------------|-----------------------------------|---------------------|
| Net income                              | \$ 42,525     | \$ 63,265                         | \$ 625                                | \$ (63,890)                       | \$ 42,525           |
| Other comprehensive income:             |               |                                   |                                       |                                   |                     |
| Foreign currency translation adjustment | 2,122         |                                   | 2,122                                 | (2,122)                           | 2,122               |
| Total other comprehensive income        | 2,122         |                                   | 2,122                                 | (2,122)                           | 2,122               |
| Comprehensive income                    | \$ 44,647     | \$ 63,265                         | \$ 2,747                              | \$ (66,012)                       | \$ 44,647           |

Table of Contents**BEACON ROOFING SUPPLY, INC.****Condensed Consolidating Statements of Cash Flows**

(Unaudited; In thousands)

| <b>Nine Months Ended June 30, 2017</b>                       |               |                               |                                   |                               |                     |
|--------------------------------------------------------------|---------------|-------------------------------|-----------------------------------|-------------------------------|---------------------|
|                                                              | <b>Parent</b> | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations and Other</b> | <b>Consolidated</b> |
| <b>Net cash provided by (used in) operating activities</b>   | \$ (33,267)   | \$ 108,628                    | \$ (2,064)                        | \$ 855                        | \$ 74,152           |
| <b>Investing Activities</b>                                  |               |                               |                                   |                               |                     |
| Purchases of property and equipment                          | (2,972)       | (27,522)                      | (1,388)                           |                               | (31,882)            |
| Acquisition of businesses                                    | (128,533)     |                               |                                   |                               | (128,533)           |
| Proceeds from the sale of assets                             |               | 1,828                         | 11                                |                               | 1,839               |
| Intercompany activity                                        | 159,325       |                               |                                   | (159,325)                     |                     |
| <b>Net cash provided by (used in) investing activities</b>   | 27,820        | (25,694)                      | (1,377)                           | (159,325)                     | (158,576)           |
| <b>Financing Activities</b>                                  |               |                               |                                   |                               |                     |
| Borrowings under revolving lines of credit                   |               | 1,705,434                     | 16,493                            |                               | 1,721,927           |
| Repayments under revolving lines of credit                   |               | (1,624,574)                   | (8,996)                           |                               | (1,633,570)         |
| Repayments under term loan                                   | (3,375)       |                               |                                   |                               | (3,375)             |
| Borrowings under equipment financing facilities and other    |               | 2,111                         |                                   |                               | 2,111               |
| Repayments under equipment financing facilities and other    |               | (9,870)                       |                                   |                               | (9,870)             |
| Proceeds from issuance of common stock                       | 9,994         |                               |                                   |                               | 9,994               |
| Taxes paid related to net share settlement of equity awards  | (1,172)       |                               |                                   |                               | (1,172)             |
| Intercompany activity                                        |               | (158,899)                     | 334                               | 158,565                       |                     |
| <b>Net cash provided by (used in) financing activities</b>   | 5,447         | (85,798)                      | 7,831                             | 158,565                       | 86,045              |
| Effect of exchange rate changes on cash and cash equivalents |               |                               | 48                                |                               | 48                  |
| <b>Net increase (decrease) in cash and cash equivalents</b>  |               | (2,864)                       | 4,438                             | 95                            | 1,669               |
| Cash and cash equivalents, beginning of period               |               | 37,447                        | 2,876                             | (8,937)                       | 31,386              |
|                                                              | \$            | \$ 34,583                     | \$ 7,314                          | \$ (8,842)                    | \$ 33,055           |

**Cash and cash equivalents, end of period**

|                                                              | Nine Months Ended June 30, 2016 |                        |                            |                        |              |
|--------------------------------------------------------------|---------------------------------|------------------------|----------------------------|------------------------|--------------|
|                                                              | Parent                          | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations and Other | Consolidated |
| <b>Net cash provided by (used in) operating activities</b>   | \$ (106,764)                    | \$ 173,900             | \$ 9,109                   | \$ (1,886)             | \$ 74,359    |
| <b>Investing Activities</b>                                  |                                 |                        |                            |                        |              |
| Purchases of property and equipment                          | (2,338)                         | (16,791)               | (2,424)                    |                        | (21,553)     |
| Acquisition of businesses                                    | (1,018,658)                     |                        |                            |                        | (1,018,658)  |
| Proceeds from the sale of assets                             |                                 | 969                    |                            |                        | 969          |
| Intercompany activity                                        | 561,413                         |                        |                            | (561,413)              |              |
| <b>Net cash used in investing activities</b>                 | (459,583)                       | (15,822)               | (2,424)                    | (561,413)              | (1,039,242)  |
| <b>Financing Activities</b>                                  |                                 |                        |                            |                        |              |
| Borrowings under revolving lines of credit                   |                                 | 1,409,128              |                            |                        | 1,409,128    |
| Repayments under revolving lines of credit                   |                                 | (994,627)              | (11,449)                   |                        | (1,006,076)  |
| Borrowings under term loan                                   | 450,000                         |                        |                            |                        | 450,000      |
| Repayments under term loan                                   | (189,000)                       |                        |                            |                        | (189,000)    |
| Borrowings under Senior Notes                                | 300,000                         |                        |                            |                        | 300,000      |
| Repayments under equipment financing facilities and other    |                                 | (3,847)                |                            |                        | (3,847)      |
| Payment of deferred financing costs                          | (18,890)                        | (8,923)                |                            |                        | (27,813)     |
| Proceeds from issuance of common stock                       | 20,213                          |                        |                            |                        | 20,213       |
| Excess tax benefit from stock-based compensation             | 4,024                           |                        |                            |                        | 4,024        |
| Intercompany activity                                        |                                 | (563,457)              | 2,045                      | 561,412                |              |
| <b>Net cash provided by (used in) financing activities</b>   | 566,347                         | (161,726)              | (9,404)                    | 561,412                | 956,629      |
| Effect of exchange rate changes on cash and cash equivalents |                                 |                        | (871)                      |                        | (871)        |
| <b>Net decrease in cash and cash equivalents</b>             |                                 | (3,648)                | (3,590)                    | (1,887)                | (9,125)      |
| Cash and cash equivalents, beginning of period               |                                 | 42,816                 | 7,051                      | (4,206)                | 45,661       |
| <b>Cash and cash equivalents, end of period</b>              | \$                              | \$ 39,168              | \$ 3,461                   | \$ (6,093)             | \$ 36,536    |



## **Table of Contents**

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

*The following discussion and analysis should be read in conjunction with Management's Discussion and Analysis included in our 2016 Annual Report on Form 10-K and our condensed consolidated financial statements and the notes thereto included elsewhere in this document. Unless otherwise indicated, references to 2017 refer to the three and nine month periods ended June 30, 2017 being discussed and references to 2016 refer to the three and nine month periods ended June 30, 2016 being discussed. We do not undertake, and specifically disclaim, any obligation to update any forward-looking statements to reflect the occurrence of events or circumstances after the date of such statements except as required by law.*

#### **Overview**

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

As of June 30, 2017, we operated 384 branches in 48 states throughout the United States and 6 provinces in Canada. We stock one of the most extensive assortments of high quality branded products in the industry, with over 46,000 SKUs available across our branch network, enabling us to deliver products to serve nearly 67,000 customers on a timely basis. For 2016, approximately 96% of our net sales came from customers located in the United States.

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

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

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

#### ***Acquisition Growth 2017:***

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On December 16, 2016, the Company purchased certain assets of BJ Supply Company, a distributor of roofing and related building products with 1 branch serving Pennsylvania and New Jersey and annual sales of \$4 million.

On January 3, 2017, the Company acquired American Building & Roofing, Inc., a distributor of mainly residential roofing and related building products with 7 branches around Washington State and annual sales of \$36 million.

On January 9, 2017, the Company acquired Eco Insulation Supply, a distributor of insulation and related accessories with 1 branch serving Connecticut, Southern New England and the New York City metropolitan area and annual sales of \$8 million.

On March 1, 2017, the Company acquired Acme Building Materials, Inc., a distributor of residential roofing and related building products with 3 branches in Eastern Michigan and annual sales of \$13 million.

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

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***Acquisition Growth 2016:***

On October 1, 2015, we completed our acquisition of Roofing Supply Group ( RSG ), a leading roofing products distributor, in a cash and stock transaction valued at approximately \$1.17 billion. Completion of the RSG acquisition strengthened our position as the largest publicly traded roofing materials and related products distributor in the U.S., with approximately \$3.71 billion in combined pro forma net sales at the time of the acquisition. The RSG Acquisition has provided us the opportunity to create a stronger roofing distribution company built upon the foundation of two strong, growing distribution platforms with an extensive national footprint and continued growth potential. On the date of the acquisition, RSG operated 85 branches across 25 states, with 300 to 2,200 SKUs per branch. This acquisition has allowed us to expand our product offerings and increase our cross selling opportunities while maintaining our standards for exceptional customer service and roofing expertise.

We finalized seven additional strategic acquisitions in fiscal year 2016, acquiring 42 branches that significantly enhanced our geographic footprint, particularly in the Southern, Western, and Pacific Northwest regions of the United States:

On December 1, 2015, we purchased certain assets of RCI Roofing Supply, a distributor of residential and commercial roofing and related products with 5 branches operating in Nebraska, Iowa and Colorado and annual sales of approximately \$23 million.

On December 18, 2015, we acquired 100% of the equity interests of Roofing and Insulation Supply, a distributor primarily of residential and commercial insulation along with roofing and related products with 20 branches spanning 13 states operating across New England, the Mid-Atlantic, the Southeast, the Upper Midwest, Texas and Colorado and annual sales of approximately \$70 million.

On December 29, 2015, we purchased certain assets of Statewide Wholesale, a distributor of residential and commercial roofing and related products with 1 branch located in Denver, Colorado and annual sales of approximately \$15 million.

On April 1, 2016, we purchased certain assets of Atlantic Building Products, a distributor of decking, windows, siding, and related products with 2 branches operating in eastern Pennsylvania and annual sales of approximately \$5 million.

On April 1, 2016, we purchased certain assets of Lyf-Tym Building Products, a distributor of siding, windows, gutters, vinyl railings, and related products with 6 branches operating in North Carolina and Virginia and annual sales of approximately \$20 million.

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On May 2, 2016, we purchased certain assets of Fox Brothers Company, a distributor of roofing, siding, windows, doors, and related products with 4 branches operating in Michigan and annual sales of approximately \$35 million.

On June 1, 2016, we acquired 100% of the equity interests of Woodfeathers, Inc., a distributor of primarily residential roofing and related products with 4 branches operating in Oregon and Washington and annual sales of approximately \$30 million.

**Table of Contents****Results of Operations*****Comparison of the Three Months Ended June 30, 2017 and 2016***

The following tables set forth selected consolidated statement of operations data and such data as a percentage of total revenue for each of the periods indicated:

|                                              | <b>Three Months Ended June 30,</b> |              |
|----------------------------------------------|------------------------------------|--------------|
|                                              | <b>2017</b>                        | <b>2016</b>  |
|                                              | <b>(In thousands)</b>              |              |
| Net sales                                    | \$ 1,213,894                       | \$ 1,152,726 |
| Cost of products sold                        | 916,140                            | 870,651      |
| Gross profit                                 | 297,754                            | 282,075      |
| Operating expense                            | 212,883                            | 203,696      |
| Income from operations                       | 84,871                             | 78,379       |
| Interest expense, financing costs, and other | 13,397                             | 12,226       |
| Income before provision for income taxes     | 71,474                             | 66,153       |
| Provision for income taxes                   | 26,815                             | 25,027       |
| Net income                                   | 44,659                             | 41,126       |

|                                              | <b>Three Months Ended June 30,</b> |             |
|----------------------------------------------|------------------------------------|-------------|
|                                              | <b>2017</b>                        | <b>2016</b> |
|                                              | <b>% of Net Sales</b>              |             |
| Net sales                                    | 100.0%                             | 100.0%      |
| Cost of products sold                        | 75.5%                              | 75.5%       |
| Gross profit                                 | 24.5%                              | 24.5%       |
| Operating expense                            | 17.5%                              | 17.7%       |
| Income from operations                       | 7.0%                               | 6.8%        |
| Interest expense, financing costs, and other | 1.1%                               | 1.1%        |
| Income before provision for income taxes     | 5.9%                               | 5.7%        |
| Provision for income taxes                   | 2.2%                               | 2.2%        |
| Net income                                   | 3.7%                               | 3.5%        |

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

are referring to our geographic regions.

As of June 30, 2017, we had a total of 384 branches in operation. Our existing market calculations include 353 branches and exclude 31 branches because they were acquired after the start of the third quarter of fiscal year 2016. When we refer to our net product costs, we are referring to our invoice cost less the impact of short-term buying programs (also referred to as special buys given the manner in which they are offered).

The following table presents a summary of our results of operations for the periods presented, broken down by existing markets and acquired markets:

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|                                       | <b>Existing Markets</b> |              | <b>Acquired Markets</b>            |             | <b>Consolidated</b> |              |
|---------------------------------------|-------------------------|--------------|------------------------------------|-------------|---------------------|--------------|
|                                       | <b>2017</b>             | <b>2016</b>  | <b>Three Months Ended June 30,</b> |             | <b>2017</b>         | <b>2016</b>  |
|                                       |                         |              | <b>2017</b>                        | <b>2016</b> |                     |              |
|                                       |                         |              | <b>(Dollars in thousands)</b>      |             |                     |              |
| Net sales                             | \$ 1,163,963            | \$ 1,139,140 | \$ 49,931                          | \$ 13,586   | \$ 1,213,894        | \$ 1,152,726 |
| Gross profit                          | \$ 283,089              | \$ 278,551   | \$ 14,665                          | \$ 3,524    | \$ 297,754          | \$ 282,075   |
| Gross margin                          | 24.3%                   | 24.5%        | 29.4%                              | 25.9%       | 24.5%               | 24.5%        |
| Operating expense <sup>(1)</sup>      | \$ 200,931              | \$ 201,032   | \$ 11,952                          | \$ 2,664    | \$ 212,883          | \$ 203,696   |
| Operating expense as a % of net sales | 17.3%                   | 17.6%        | 23.9%                              | 19.6%       | 17.5%               | 17.7%        |
| Operating income                      | \$ 82,159               | \$ 77,519    | \$ 2,712                           | \$ 860      | \$ 84,871           | \$ 78,379    |
| Operating margin                      | 7.1%                    | 6.8%         | 5.4%                               | 6.3%        | 7.0%                | 6.8%         |

<sup>1</sup> During 2017 and 2016, we recorded amortization expense related to intangible assets recorded under purchase accounting of \$20.7 million (\$2.7 million from acquired markets) and \$17.4 million (\$0.4 from acquired markets), respectively. In addition, existing market operating expense for 2017 and 2016 included non-recurring charges of \$9.9 million (\$6.1 million, net of taxes) and \$7.9 million (\$5.1 million, net of taxes), respectively, for the recognition of certain costs related to acquisitions completed in fiscal years 2016 and 2017.

**Net Sales**

Consolidated net sales increased \$61.2 million, or 5.3%, to \$1.21 billion in 2017 from \$1.15 billion in 2016. Existing market sales increased \$24.8 million, or 2.2%, over the same comparative period. We believe the increase in our 2017 existing market sales was influenced primarily by the following factors:

increased demand in our residential and complementary product groups;

higher core residential re-roofing demand; and

increased storm demand in the Midwest region;  
partially offset by:

lower commercial product sales; and

weather-induced demand decreases in the Mid-Atlantic, Northeast and Southwest regions.

Net sales within our acquired markets were \$49.9 million in 2017, an increase from 2016 due to the sales impact from recent acquisitions.

We estimate the impact of inflation or deflation on our sales and gross profit by looking at changes in our average selling prices and gross margins (discussed below). Average overall selling prices in existing markets were flat in 2017 compared to 2016, driven primarily by small decreases in residential and non-residential selling prices which were both down less than 1% year-over-year. The average selling prices of complementary products increased approximately 2% year-over-year. During the same period, net product costs were flat year-over-year.

Existing markets net sales by geographical region increased (decreased) from 2016 to 2017 as follows: Northeast 1.4%; Mid-Atlantic 1.8%; Southeast 2.8%; Southwest (7.9)%; Midwest 14.5%; West 8.0%; and Canada (16.2)%. These variations were primarily caused by short-term factors such as local market conditions, weather conditions and storm activity.

Product group sales for our existing markets were as follows:

|                                  | Three Months Ended June 30, |        |              |        |           |       |
|----------------------------------|-----------------------------|--------|--------------|--------|-----------|-------|
|                                  | 2017                        |        | 2016         |        | Change    |       |
|                                  | Net Sales                   | %      | Net Sales    | %      | \$        | %     |
| (Dollars in thousands)           |                             |        |              |        |           |       |
| Residential roofing products     | \$ 651,648                  | 56.0%  | \$ 617,873   | 54.2%  | \$ 33,775 | 5.5%  |
| Non-residential roofing products | 340,245                     | 29.2%  | 359,440      | 31.6%  | (19,195)  | -5.3% |
| Complementary building products  | 172,070                     | 14.8%  | 161,827      | 14.2%  | 10,243    | 6.3%  |
| Total existing market sales      | \$ 1,163,963                | 100.0% | \$ 1,139,140 | 100.0% | \$ 24,823 | 2.2%  |



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For 2017, our acquired markets recognized sales of \$17.8 million, \$4.5 million and \$27.6 million in residential roofing products, non-residential roofing products and complementary building products, respectively. The combination of our 2017 existing market sales of \$1.16 billion plus the sales from acquired markets of \$49.9 million equals our total 2017 sales of \$1.21 billion. We believe the existing market information is useful to investors because it helps explain organic growth or decline.

***Gross Profit***

Gross profit and gross margin for our consolidated and existing markets were as follows:

|                               | Three Months Ended<br>June 30, |            | Change <sup>1</sup> |       |
|-------------------------------|--------------------------------|------------|---------------------|-------|
|                               | 2017                           | 2016       | \$                  | %     |
|                               | (Dollars in thousands)         |            |                     |       |
| Gross profit consolidated     | \$ 297,754                     | \$ 282,075 | \$ 15,679           | 5.6%  |
| Gross profit existing markets | 283,089                        | 278,551    | 4,538               | 1.6%  |
| Gross margin consolidated     | 24.5%                          | 24.5%      | N/A                 | 0.0%  |
| Gross margin existing markets | 24.3%                          | 24.5%      | N/A                 | -0.2% |

<sup>1</sup> Percentage changes for dollar amounts represent the ratable increase or decrease from period-to-period.

Percentage changes for percentages represent the net period-to-period change in basis points.

Our existing market gross profit increased \$4.5 million, or 1.6%, to \$283.1 million in 2017, and gross profit within our acquired markets was \$14.7 million for the same period. Our overall gross margins stayed the same at 24.5%. Gross margins within our existing markets for 2017 decreased to 24.3%.

Direct sales (products shipped by our vendors directly to our customers), which typically have substantially lower gross margins (and operating expense) compared to our warehouse sales, represented 14.9% and 16.3% of our net sales in 2017 and 2016, respectively. We believe variations in direct sales activity to be primarily caused by short-term factors such as local market conditions, weather conditions and storm activity. None of these variations were driven by material regional impacts from changes in the direct sales mix of our geographical regions.

***Operating Expense***

Operating expense for consolidated and existing markets was as follows:

|                                | Three Months Ended<br>June 30, |            | Change <sup>1</sup> |      |
|--------------------------------|--------------------------------|------------|---------------------|------|
|                                | 2017                           | 2016       | \$                  | %    |
|                                | (Dollars in thousands)         |            |                     |      |
| Operating expense consolidated | \$ 212,883                     | \$ 203,696 | \$ 9,187            | 4.5% |

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|                                                        |         |         |       |       |
|--------------------------------------------------------|---------|---------|-------|-------|
| Operating expense existing markets                     | 200,931 | 201,032 | (101) | -0.1% |
| Operating expense as a % of net sales consolidated     | 17.5%   | 17.7%   | N/A   | -0.2% |
| Operating expense as a % of net sales existing markets | 17.3%   | 17.6%   | N/A   | -0.3% |

<sup>1</sup> Percentage changes for dollar amounts represent the ratable increase or decrease from period-to-period.

Percentage changes for percentages represent the net period-to-period change in basis points.

Operating expense in our existing markets decreased by \$0.1 million, or 0.1% in 2017, to \$200.9 million, as compared to \$201.0 million in 2016, while operating expense within our acquired markets was \$12.0 million in 2017. The following factors were the leading causes of the decrease in operating expense in our existing markets:

a decrease in bad debt expense of \$4.0 million due to improved collections results;  
partially offset by:

an increase in amortization expense of \$1.3 million due to the incremental amortization of intangibles related to the RSG acquisition;

an increase in selling and warehouse expenses of \$2.3 million due to higher sales volume and the impact of recent acquisitions; and

a decrease of \$0.3 million in losses recognized on the disposal of certain assets.

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During 2017 and 2016, we recorded amortization expense related to the intangible assets recorded under purchase accounting within our existing markets of \$18.0 million and \$17.1 million, respectively. Our existing markets operating expense as a percentage of the related net sales in 2017 was 17.3%, compared to 17.6% in 2016.

***Interest Expense, Financing Costs and Other***

Interest expense, financing costs and other expense was \$13.4 million in 2017, as compared to \$12.2 million in 2016. The primary driver of the slight increase is a higher outstanding debt balance over the comparative periods.

***Income Taxes***

Provision for income tax was \$26.8 million in 2017, as compared to \$25.0 million in 2016. The increase was primarily due to the \$5.3 million difference in pre-tax net income for the comparative periods. The effective tax rate before discrete items was relatively flat for the comparative periods. We expect our fiscal year 2017 effective annual income tax rate to average approximately 39%, excluding any discrete items.

***Comparison of the Nine Months Ended June 30, 2017 and 2016***

The following tables set forth selected consolidated statement of operations data and such data as a percentage of total revenue for each of the periods indicated:

|                                              | <b>Nine Months Ended June 30,</b> |              |
|----------------------------------------------|-----------------------------------|--------------|
|                                              | <b>2017</b>                       | <b>2016</b>  |
|                                              | <b>(In thousands)</b>             |              |
| Net sales                                    | \$ 3,086,802                      | \$ 2,952,743 |
| Cost of products sold                        | 2,333,504                         | 2,241,716    |
| Gross profit                                 | 753,298                           | 711,027      |
| Operating expense                            | 624,526                           | 601,921      |
| Income from operations                       | 128,772                           | 109,106      |
| Interest expense, financing costs, and other | 39,239                            | 41,508       |
| Income before provision for income taxes     | 89,533                            | 67,598       |
| Provision for income taxes                   | 33,800                            | 25,073       |
| Net income                                   | 55,733                            | 42,525       |

|                       | <b>Nine Months Ended June 30,</b> |             |
|-----------------------|-----------------------------------|-------------|
|                       | <b>2017</b>                       | <b>2016</b> |
|                       | <b>% of Net Sales</b>             |             |
| Net sales             | 100.0%                            | 100.0%      |
| Cost of products sold | 75.6%                             | 75.9%       |

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|                                              |       |       |
|----------------------------------------------|-------|-------|
| Gross profit                                 | 24.4% | 24.1% |
| Operating expense                            | 20.2% | 20.4% |
| Income from operations                       | 4.2%  | 3.7%  |
| Interest expense, financing costs, and other | 1.3%  | 1.4%  |
| Income before provision for income taxes     | 2.9%  | 2.3%  |
| Provision for income taxes                   | 1.1%  | 0.8%  |
| Net income                                   | 1.8%  | 1.5%  |

In managing our business, we consider all growth, including the opening of new branches, to be organic growth unless it results from an acquisition. When we refer to growth in existing markets or organic growth, we include growth from existing and newly opened branches but exclude growth from acquired branches until they have been under our ownership for at least four full fiscal quarters at the start of the fiscal reporting period. When we refer to regions, we are referring to our geographic regions.

As of June 30, 2017, we had a total of 384 branches in operation. Our existing market calculations include 322 branches and exclude 62 branches because they were acquired after the start of fiscal year 2016. When we refer to our net product costs, we are referring to our invoice cost less the impact of short-term buying programs (also referred to as special buys given the manner in which they are offered).

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The following table presents a summary of our results of operations for the periods presented, broken down by existing markets and acquired markets:

|                                       | <b>Existing Markets</b>       |              | <b>Acquired Markets</b>           |             | <b>Consolidated</b> |              |
|---------------------------------------|-------------------------------|--------------|-----------------------------------|-------------|---------------------|--------------|
|                                       | <b>2017</b>                   | <b>2016</b>  | <b>Nine Months Ended June 30,</b> |             | <b>2017</b>         | <b>2016</b>  |
|                                       |                               |              | <b>2017</b>                       | <b>2016</b> |                     |              |
|                                       | <b>(Dollars in thousands)</b> |              |                                   |             |                     |              |
| Net sales                             | \$ 2,899,742                  | \$ 2,878,003 | \$ 187,060                        | \$ 74,740   | \$ 3,086,802        | \$ 2,952,743 |
| Gross profit                          | \$ 699,798                    | \$ 691,732   | \$ 53,500                         | \$ 19,295   | \$ 753,298          | \$ 711,027   |
| Gross margin                          | 24.1%                         | 24.0%        | 28.6%                             | 25.8%       | 24.4%               | 24.1%        |
| Operating expense <sup>(1)</sup>      | \$ 575,167                    | \$ 582,261   | \$ 49,359                         | \$ 19,660   | \$ 624,526          | \$ 601,921   |
| Operating expense as a % of net sales | 19.8%                         | 20.2%        | 26.4%                             | 26.3%       | 20.2%               | 20.4%        |
| Operating income (loss)               | \$ 124,631                    | \$ 109,471   | \$ 4,141                          | \$ (365)    | \$ 128,772          | \$ 109,106   |
| Operating margin                      | 4.3%                          | 3.8%         | 2.2%                              | -0.5%       | 4.2%                | 3.7%         |

<sup>1</sup> During 2017 and 2016, we recorded amortization expense related to intangible assets recorded under purchase accounting of \$61.1 million (\$8.9 million from acquired markets) and \$49.7 million (\$3.0 million from acquired markets), respectively. In addition, existing market operating expense for 2017 and 2016 included non-recurring charges of \$28.5 million (\$17.5 million, net of taxes) and \$44.7 million (\$27.1 million, net of taxes), respectively, for the recognition of certain costs related to acquisitions completed in fiscal years 2016 and 2017.

**Net Sales**

Consolidated net sales increased \$134.1 million, or 4.5%, to \$3.09 billion in 2017 from \$2.95 billion in 2016. Existing market sales increased \$21.7 million, or 0.8%, over the same comparative period. We believe the slight increase in our 2017 existing market sales were influenced primarily by the following factors:

increased demand in our residential and complementary product groups;  
partially offset by:

lower average selling prices; and

lower commercial product demand.

Net sales within our acquired markets were \$187.1 million in 2017, an increase from 2016 due to the sales impact from recent acquisitions.

We estimate the impact of inflation or deflation on our sales and gross profit by looking at changes in our average selling prices and gross margins (discussed below). Average overall selling prices in existing markets declined less than 1% in 2017 compared to 2016, driven primarily by decreases in residential and non-residential selling prices which were both down approximately 1% year-over-year. The average selling prices of complementary products increased over 1% year-over-year. During the same period, net product costs decreased less than 1% year-over-year.

Existing markets net sales by geographical region increased (decreased) from 2016 to 2017 as follows: Northeast (5.6%); Mid-Atlantic 3.5%; Southeast 4.2%; Southwest 2.0%; Midwest 8.1%; West (12.9%); and Canada (8.7)%. These variations were primarily caused by short-term factors such as local market conditions, weather conditions and storm activity.

Product group sales for our existing markets were as follows:

|                                  | Nine Months Ended June 30, |        |              |        |           |       |
|----------------------------------|----------------------------|--------|--------------|--------|-----------|-------|
|                                  | 2017                       |        | 2016         |        | Change    |       |
|                                  | Net Sales                  | %      | Net Sales    | %      | \$        | %     |
| (Dollars in thousands)           |                            |        |              |        |           |       |
| Residential roofing products     | \$ 1,621,546               | 55.9%  | \$ 1,533,170 | 53.2%  | \$ 88,376 | 5.8%  |
| Non-residential roofing products | 889,264                    | 30.7%  | 971,938      | 33.8%  | (82,674)  | -8.5% |
| Complementary building products  | 388,932                    | 13.4%  | 372,895      | 13.0%  | 16,037    | 4.3%  |
| Total existing market sales      | \$ 2,899,742               | 100.0% | \$ 2,878,003 | 100.0% | \$ 21,739 | 0.8%  |

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For 2017, our acquired markets recognized sales of \$60.9 million, \$11.4 million and \$114.8 million in residential roofing products, non-residential roofing products and complementary building products, respectively. The combination of our 2017 existing market sales of \$2.90 billion plus the sales from acquired markets of \$187.1 million equals our total 2017 sales of \$3.09 billion. We believe the existing market information is useful to investors because it helps explain organic growth or decline.

***Gross Profit***

Gross profit and gross margin for our consolidated and existing markets were as follows:

|                               | Nine Months Ended<br>June 30, |            | Change <sup>1</sup> |      |
|-------------------------------|-------------------------------|------------|---------------------|------|
|                               | 2017                          | 2016       | \$                  | %    |
|                               | (Dollars in thousands)        |            |                     |      |
| Gross profit consolidated     | \$ 753,298                    | \$ 711,027 | \$ 42,271           | 5.9% |
| Gross profit existing markets | 699,798                       | 691,732    | 8,066               | 1.2% |
| Gross margin consolidated     | 24.4%                         | 24.1%      | N/A                 | 0.3% |
| Gross margin existing markets | 24.1%                         | 24.0%      | N/A                 | 0.1% |

<sup>1</sup> Percentage changes for dollar amounts represent the ratable increase or decrease from period-to-period.

Percentage changes for percentages represent the net period-to-period change in basis points.

Our existing market gross profit increased \$8.1 million, or 1.2%, to \$699.8 million in 2017, and gross profit within our acquired markets was \$53.5 million for the same period. Our overall gross margins improved to 24.4% in 2017, mainly due to a favorable shift in sales mix to residential products. Gross margins within our existing markets for 2017 increased to 24.1%.

Direct sales (products shipped by our vendors directly to our customers), which typically have substantially lower gross margins (and operating expense) compared to our warehouse sales, represented 15.5% and 16.4% of our net sales in 2017 and 2016, respectively. We believe variations in direct sales activity to be primarily caused by short-term factors such as local market conditions, weather conditions and storm activity. None of these variations were driven by material regional impacts from changes in the direct sales mix of our geographical regions.

***Operating Expense***

Operating expense for consolidated and existing markets was as follows:

|                                    | Nine Months Ended<br>June 30, |            | Change <sup>1</sup> |       |
|------------------------------------|-------------------------------|------------|---------------------|-------|
|                                    | 2017                          | 2016       | \$                  | %     |
|                                    | (Dollars in thousands)        |            |                     |       |
| Operating expense consolidated     | \$ 624,526                    | \$ 601,921 | \$ 22,605           | 3.8%  |
| Operating expense existing markets | 575,167                       | 582,261    | (7,094)             | -1.2% |

|                                                        |       |       |     |       |
|--------------------------------------------------------|-------|-------|-----|-------|
| Operating expense as a % of net sales consolidated     | 20.2% | 20.4% | N/A | -0.2% |
| Operating expense as a % of net sales existing markets | 19.8% | 20.2% | N/A | -0.4% |

<sup>1</sup> Percentage changes for dollar amounts represent the ratable increase or decrease from period-to-period.

Percentage changes for percentages represent the net period-to-period change in basis points.

Operating expense in our existing markets decreased by \$7.1 million, or 1.2% in 2017, to \$575.2 million, as compared to \$582.3 million in 2016, while operating expense within our acquired markets was \$49.4 million in 2017. The following factors were the leading causes of the decrease in operating expense in our existing markets:

a decrease in payroll, employee benefits costs, and stock compensation expense of \$9.0 million due to additional compensation costs recognized in 2016 as a result of the RSG transaction;

a decrease in general and administrative of \$5.6 million due to the continued realization of cost synergies and consolidation of certain branches related to recent acquisitions; and

a decrease in bad debt expense of \$3.0 million due to improved collections results;



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partially offset by:

an increase in depreciation and amortization expense of \$6.3 million due to the incremental amortization of intangibles related to the RSG transaction; and

an increase in selling expense of \$4.4 million due to higher sales volume and related employee costs. During 2017 and 2016, we recorded amortization expense related to the intangible assets recorded under purchase accounting within our existing markets of \$52.3 million and \$46.7 million, respectively. Our existing markets operating expense as a percentage of the related net sales in 2017 was 19.8%, compared to 20.2% in 2016.

***Interest Expense, Financing Costs and Other***

Interest expense, financing costs and other expense was \$39.2 million in 2017, as compared to \$41.5 million in 2016. The primary driver of the decrease is a lower interest rate from the September 2016 refinancing of our Term Loan and the gradual decrease in outstanding debt as a result of recent principal payments.

***Income Taxes***

Provision for income taxes was \$33.8 million in 2017, as compared to \$25.1 million in 2016. The increase was primarily due to a \$21.9 million increase in pre-tax net income for the comparative periods. The effective tax rate before discrete items was relatively flat for the comparative periods. We expect our fiscal year 2017 effective annual income tax rate to average approximately 39%, excluding any discrete items.

**Non-GAAP Financial Measures**

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

Adjusted Net Income (Loss)/Adjusted EPS

Adjusted EBITDA

We define Adjusted Net Income (Loss) as net income that excludes certain non-recurring costs and the incremental amortization of intangibles related to acquisitions completed in fiscal years 2016 and 2017. Adjusted net income per share ( Adjusted EPS ) is calculated by dividing the Adjusted Net Income (Loss) for the period by the weighted-average diluted shares outstanding for the period.

We define Adjusted EBITDA as net income plus interest expense (net of interest income), income taxes, depreciation and amortization, adjustments to contingent consideration, stock-based compensation and certain non-recurring costs from acquisitions completed in fiscal years 2016 and 2017. EBITDA is a measure commonly used in the distribution industry.

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

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

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

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

**Table of Contents****Adjusted Net Income (Loss)/Adjusted EPS**

|                                           | Three Months Ended June 30, |           |           |           | Nine Months Ended June 30, |           |           |           |
|-------------------------------------------|-----------------------------|-----------|-----------|-----------|----------------------------|-----------|-----------|-----------|
|                                           | 2017                        |           | 2016      |           | 2017                       |           | 2016      |           |
|                                           | Amount                      | Per Share | Amount    | Per Share | Amount                     | Per Share | Amount    | Per Share |
| Net income                                | \$ 44,659                   | \$ 0.73   | \$ 41,126 | \$ 0.68   | \$ 55,733                  | \$ 0.91   | \$ 42,525 | \$ 0.71   |
| Company adjustments, net of income taxes: |                             |           |           |           |                            |           |           |           |
| Acquisition costs <sup>1</sup>            | 6,761                       | 0.11      | 5,444     | 0.09      | 20,075                     | 0.33      | 30,405    | 0.50      |
| Adjusted Net Income (Loss)                | \$ 51,420                   | \$ 0.84   | \$ 46,570 | \$ 0.77   | \$ 75,808                  | \$ 1.24   | \$ 72,930 | \$ 1.21   |

<sup>1</sup> Acquisition costs reflect certain non-recurring charges and the incremental amortization of intangibles related to acquisitions completed in fiscal years 2016 and 2017, net of \$4.2 million and \$2.9 million in tax for the three months ended June 30, 2017 and 2016, respectively and \$12.6 million and \$19.8 million in tax for the nine months ended June 30, 2017 and 2016, respectively.

**Adjusted EBITDA**

|                                     | Three Months Ended June 30, |            | Nine Months Ended June 30, |            |
|-------------------------------------|-----------------------------|------------|----------------------------|------------|
|                                     | 2017                        | 2016       | 2017                       | 2016       |
| Net income                          | \$ 44,659                   | \$ 41,126  | \$ 55,733                  | \$ 42,525  |
| Acquisition costs <sup>1</sup>      | 1,971                       | 2,157      | 4,715                      | 23,310     |
| Interest expense, net               | 13,614                      | 12,508     | 40,098                     | 41,836     |
| Income taxes                        | 26,815                      | 25,027     | 33,800                     | 25,073     |
| Depreciation and amortization       | 29,283                      | 25,375     | 86,238                     | 73,019     |
| Stock-based compensation            | 3,653                       | 3,374      | 11,227                     | 14,070     |
| Adjusted EBITDA                     | \$ 119,995                  | \$ 109,567 | \$ 231,811                 | \$ 219,833 |
| Adjusted EBITDA as a % of net sales | 9.9%                        | 9.5%       | 7.5%                       | 7.4%       |

<sup>1</sup> Acquisition costs reflect certain non-recurring charges related to acquisitions completed in fiscal years 2016 and 2017 (excluding the impact of tax) that are not embedded in other balances of the table. Certain portions of the total acquisition costs incurred are included in interest expense, income taxes, depreciation

and amortization, and stock-based compensation.

### **Seasonality and Quarterly Fluctuations**

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

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

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

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

### **Certain Quarterly Financial Data**

The following table sets forth certain unaudited quarterly data for fiscal year 2017 (ending September 30, 2017) and fiscal year 2016 which, in the opinion of management, reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of this data. Results of any one or more quarters are not necessarily indicative of results for an entire fiscal year or of continuing trends.

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|                                     | 2017                   |            |              | 2016       |            |              |              |
|-------------------------------------|------------------------|------------|--------------|------------|------------|--------------|--------------|
|                                     | Qtr 1                  | Qtr 2      | Qtr 3        | Qtr 1      | Qtr 2      | Qtr 3        | Qtr 4        |
|                                     | (Dollars in thousands) |            |              |            |            |              |              |
| Net sales                           | \$ 1,002,184           | \$ 870,724 | \$ 1,213,894 | \$ 976,480 | \$ 823,537 | \$ 1,152,726 | \$ 1,174,366 |
| % of year's sales                   | 32.5%                  | 28.2%      | 39.3%        | 23.7%      | 20.0%      | 27.9%        | 28.4%        |
| Gross profit                        | \$ 251,067             | \$ 204,477 | \$ 297,754   | \$ 233,188 | \$ 195,764 | \$ 282,075   | \$ 302,042   |
| % of year's gross profit            | 33.3%                  | 27.1%      | 39.5%        | 23.0%      | 19.3%      | 27.8%        | 29.9%        |
| Income (loss) from operations       | \$ 46,957              | \$ (3,056) | \$ 84,871    | \$ 26,844  | \$ 3,883   | \$ 78,379    | \$ 95,878    |
| % of year's income from operations  | 36.5%                  | -2.4%      | 65.9%        | 13.1%      | 1.9%       | 38.2%        | 46.8%        |
| Net income (loss)                   | \$ 20,430              | \$ (9,356) | \$ 44,659    | \$ 7,118   | \$ (5,719) | \$ 41,126    | \$ 47,392    |
| Net income (loss) per share basic   | \$ 0.34                | \$ (0.16)  | \$ 0.74      | \$ 0.12    | \$ (0.10)  | \$ 0.69      | \$ 0.79      |
| Net income (loss) per share diluted | \$ 0.33                | \$ (0.16)  | \$ 0.73      | \$ 0.12    | \$ (0.10)  | \$ 0.68      | \$ 0.78      |

**Liquidity**

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

Our principal sources of liquidity as of June 30, 2017 were our cash and cash equivalents of \$33.1 million and our available borrowings of \$229.1 million under our asset based lending revolving credit facility.

Significant factors which could affect future liquidity include the following:

the adequacy of available bank lines of credit;

the ability to attract long-term capital with satisfactory terms;

cash flows generated from operating activities;

acquisitions; and

capital expenditures.

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

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

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

|                                                         | <b>Nine Months Ended<br/>June 30,</b> |             |
|---------------------------------------------------------|---------------------------------------|-------------|
|                                                         | <b>2017</b>                           | <b>2016</b> |
| Net cash provided by operating activities               | \$ 74,152                             | \$ 74,359   |
| Net cash used in investing activities                   | (158,576)                             | (1,039,242) |
| Net cash provided by financing activities               | 86,045                                | 956,629     |
| Effect of exchange rate changes on cash and equivalents | 48                                    | (871)       |
| Net increase (decrease) in cash and cash equivalents    | \$ 1,669                              | \$ (9,125)  |

***Operating Activities***

Our net cash provided by operating activities was \$74.2 million in 2017, compared to \$74.4 million provided by operating activities in 2016. Cash from operations decreased \$0.2 million due to an increase in net income after adjustments for non-cash items of \$28.1 million and a increase in working capital that provided an incremental cash usage of \$28.3 million.

***Investing Activities***

Net cash used in investing activities was \$158.6 million in 2017, compared to \$1.04 billion in 2016. During 2017, we spent \$128.5 million on acquisitions compared to \$1.02 billion in 2016. This decrease was partially offset by a \$10.3 million increase in capital expenditures, which were \$31.9 million in 2017 as compared to \$21.6 million in 2016.

***Financing Activities***

Net cash provided by financing activities was \$86.0 million in 2017, compared to \$956.6 million in 2016. The net decrease of \$870.6 million was primarily due to the new financing agreements that we entered into as a result of the RSG acquisition in 2016, offset by repayments and payment of deferred financing costs. In addition, proceeds from the issuance of common stock decreased by \$10.2 million to \$10.0 million in 2017, as compared to \$20.2 million in 2016. This decrease is due to the additional stock option exercise activity that occurred in 2016 in relation to the RSG acquisition.

**Capital Resources**

We currently have access to the following financing arrangements:

an asset-based revolving line of credit in the United States;

an asset-based revolving line of credit in Canada;

a term loan; and

senior notes

In connection with the RSG acquisition on October 1, 2015, we entered into various financing arrangements totaling \$1.45 billion. These arrangements allowed us to refinance our existing debt and substantially pay off all the RSG debt at closing. Prior to the RSG acquisition, we had a credit facility with a syndicate of commercial banks that included a revolver and a long term note. As of the date of the RSG acquisition, approximately \$185.6 million was outstanding on the long-term note payable and approximately \$11.2 million was outstanding under the revolver.

We entered into a Senior Secured Credit Facility, comprised of an asset-based revolving line of credit ( ABL ) of \$700.0 million (\$350.0 million of which was drawn at closing) and a new \$450.0 million term loan ( Term Loan ). We also raised an additional \$300.0 million through the issuance of senior notes (the Senior Notes ).

***Asset-based Line of Credit ( ABL )***

On October 1, 2015, we entered into a \$700.0 million ABL with Wells Fargo Bank, N.A. and a syndicate of other lenders. This ABL consists of revolving loans in both the United States ( U.S. Revolver ) in the amount of \$670.0 million and Canada ( Canada Revolver ) in the amount of \$30.0 million. The ABL has a maturity date of October 1, 2020.



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The U.S. Revolver has various tranches of borrowings, bearing interest at rates ranging from 2.59% to 4.75%. The effective rate of these borrowings is 3.28% and is paid monthly. As of June 30, 2017, the outstanding balance on the U.S. Revolver and Canada Revolvers, net of debt issuance fees, was \$449.6 million. The U.S. Revolver also has outstanding standby letters of credit in the amount of \$10.9 million as of June 30, 2017. Current unused commitment fees on the revolving credit facilities are 0.25% per annum.

There is one financial covenant under the ABL, which is a Consolidated Fixed Charge Ratio. The Consolidated Fixed Charge Ratio is calculated by dividing consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) by Consolidated Fixed Charges (as defined in the agreement). Per the covenant, the Consolidated Fixed Charge Ratio must be a minimum of 1.00 at the end of each fiscal quarter, calculated on a trailing four quarter basis. The covenant is only applicable when the borrowing availability is less than 10% of the maximum loan cap or \$60.0 million.

The ABL is guaranteed jointly and severally and fully and unconditionally by our active United States subsidiary.

### ***Term Loan***

On October 1, 2015, we entered into a \$450.0 million Term Loan with Citibank N.A., and a syndicate of other lenders. The Term Loan requires quarterly principal payments in the amount of \$1.1 million, with the remaining outstanding principal to be paid on its maturity date of October 1, 2022. The interest rate paid is based on a LIBOR rate (with a floor) plus a fixed spread. We have the option of selecting a LIBOR period that determines the rate at which interest can accrue on the Term Loan as well as the period in which interest payments are made.

On September 16, 2016, we refinanced our Term Loan and lowered the LIBOR floor by 25 basis points and lowered the spread by 25 basis points. As a result of the refinancing we wrote off \$1.6 million of debt issuance costs in interest expense. As of June 30, 2017 the outstanding balance on the Term Loan, net of debt issuance fees, was \$434.2 million.

The Term Loan is guaranteed jointly and severally and fully and unconditionally by our active United States subsidiary.

### ***Senior Notes***

We also raised \$300.0 million in Senior Notes, which mature on October 1, 2023. These notes bear interest at the rate of 6.38% per year, payable semi-annually in arrears on April 1 and October 1 of each year, beginning April 1, 2016. There are early payment provisions in the Senior Note indenture in which we would be subject to make whole provisions. Management anticipates repaying the notes at the maturity date of October 1, 2023. As of June 30, 2017 the outstanding balance on the Senior Notes, net of debt issuance fees, was \$292.0 million.

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

### ***Equipment Financing Facilities and Other***

As of June 30, 2017, we had \$16.7 million outstanding under equipment financing facilities, with fixed interest rates ranging from 2.33% to 3.25% and payments due through September 2021.

As of June 30, 2017, we had \$21.0 million of capital lease obligations outstanding. These leases have interest rates ranging from 2.72% to 10.39% with payments due through November 2021.

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

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

Certain factors that may affect our business and could cause actual results to differ materially from those expressed in any forward-looking statements include those set forth under the heading Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company's market risk disclosures set forth in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of its 2016 Annual Report on Form 10-K have not changed materially during the nine month period ended June 30, 2017.

**Item 4. Controls and Procedures**

As of June 30, 2017, management, including the CEO and CFO, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Act")). Based on that evaluation, management, including the CEO and CFO, concluded that as of June 30, 2017, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and to ensure that information required to be disclosed by us in the reports that we file or submit under the Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Based on the most recent evaluation, we have concluded that no significant change in our internal control over financial reporting occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****Part II. OTHER INFORMATION****Item 6. Exhibits**

| <b>Exhibit</b> |                                                                     | <b>Incorporated by Reference</b> |                 |                |                    |
|----------------|---------------------------------------------------------------------|----------------------------------|-----------------|----------------|--------------------|
|                |                                                                     | <b>Form</b>                      | <b>File No.</b> | <b>Exhibit</b> | <b>Filing Date</b> |
| <b>Number</b>  | <b>Description</b>                                                  |                                  |                 |                |                    |
| 31.1*          | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) |                                  |                 |                |                    |
| 31.2*          | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) |                                  |                 |                |                    |
| 32.1*          | Certification pursuant to 18 U.S.C. Section 1350                    |                                  |                 |                |                    |
| 101*           | 101.INS XBRL Instance                                               |                                  |                 |                |                    |
|                | 101.SCH XBRL Taxonomy Extension Schema                              |                                  |                 |                |                    |
|                | 101.CAL XBRL Taxonomy Extension Calculation                         |                                  |                 |                |                    |
|                | 101.LAB XBRL Taxonomy Extension Labels                              |                                  |                 |                |                    |
|                | 101.PRE XBRL Taxonomy Extension Presentation                        |                                  |                 |                |                    |
|                | 101.DEF XBRL Taxonomy Extension Definition                          |                                  |                 |                |                    |

+ Management contract or compensatory plan/arrangement

\* Filed herewith

Pursuant to Rule 405 of Regulation S-T, the following interactive data files formatted in Extensible Business Reporting Language (XBRL) are attached as Exhibit 101 to this Quarterly Report on Form 10-Q: (i) the Consolidated Balance Sheets as of June 30, 2017; September 30, 2016; and June 30, 2016, (ii) the Consolidated Statements of Operations for the three and nine months ended June 30, 2017 and June 30, 2016, (iii) the Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2017 and June 30, 2016, (iv) the Consolidated Statements of Cash Flows for the nine months ended June 30, 2017 and June 30, 2016, and (v) the Notes to Condensed Consolidated Financial Statements.

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**SIGNATURE**

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

**BEACON ROOFING SUPPLY, INC.**

Date: August 3, 2017

BY: /s/ JOSEPH M. NOWICKI

Joseph M. Nowicki

*Executive Vice President & Chief Financial Officer*