

SiteOne Landscape Supply, Inc.

Form S-3ASR

July 20, 2017

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As filed with the U.S. Securities and Exchange Commission on July 20, 2017

Registration No. 333-

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

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SiteOne Landscape Supply, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

5040
(Primary Standard Industrial
Classification Code Number)

46-4056061
(I.R.S. Employer
Identification Number)

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300 Colonial Center Parkway, Suite 600

Roswell, Georgia 30076

(470) 277-7000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Briley Brisendine

Executive Vice President, General Counsel and Secretary

SiteOne Landscape Supply, Inc.

300 Colonial Center Parkway, Suite 600

Roswell, Georgia 30076

(470) 277-7000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

with copies to:

Peter J. Loughran, Esq.

Debevoise & Plimpton LLP

919 Third Avenue

New York, New York 10022

(212) 909-6000

Approximate date of commencement of proposed sale of the securities to the public:

From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box:

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box:

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or 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 7(a)(2)(B) of the Securities Act.

CALCULATION OF REGISTRATION FEE

Title of Each Class of	Amount	Proposed	Proposed	Amount of
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Securities to be Registered	to be Registered (1)	Maximum Offering Price Per Share (1)	Maximum Aggregate Offering Price (1)	Registration Fee (2)
Common stock, \$0.01 par value per share	5,437,502	\$52.04	\$282,967,605	\$32,796

(1) Pursuant to Rule 416(a) under the Securities Act of 1933, as amended (the Securities Act), the shares being registered hereunder also include such indeterminate number of shares of common stock as may be issuable as a result of stock splits, stock dividends, recapitalizations or similar transactions.

(2) Estimated solely for the purpose of determining the registration fee pursuant to Rule 457(c) of the Securities Act, based on the average of the reported high and low prices of the ordinary shares on the New York Stock Exchange on July 18, 2017.

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PROSPECTUS

Up to 5,437,502 Shares

SiteOne Landscape Supply, Inc.

Common Stock

This prospectus relates to the resale, from time to time, of up to 5,437,502 of our common stock, par value \$0.01 per share, by CD&R Landscapes Holding, L.P., or the CD&R Investor, and Deere & Company, or Deere (together with the CD&R Investor, the selling stockholders). Any selling stockholder may offer and sell shares of our common stock held by them directly or through underwriters, agents or broker-dealers, in amounts, at prices and on terms that will be determined at the time of the offer and sale. For more information, see Plan of Distribution. We will not receive any proceeds from sales of the shares offered by the selling stockholders pursuant to this prospectus, but we have agreed to pay certain registration expenses, other than underwriting discounts and commissions.

The common stock of SiteOne Landscape Supply, Inc. is listed on the New York Stock Exchange under the symbol SITE. The last reported sale price of our common stock on July 19, 2017 was \$51.21 per share.

Investing in our common stock involves risks. See the section entitled Risk Factors on page 7 of this prospectus and any risk factors described in any applicable prospectus supplement and in the documents we incorporate by reference.

Neither the U.S. Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 20, 2017.

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ABOUT THIS PROSPECTUS

Unless the context otherwise indicates or requires, as used in this prospectus, the terms Company, SiteOne, we, us, our mean SiteOne Landscape Supply, Inc. and its consolidated subsidiaries. The term Holdings refers to SiteOne Landscape Supply, Inc. individually without its subsidiaries.

This prospectus is part of an automatic shelf registration statement on Form S-3 that we filed with the SEC as a well-known seasoned issuer as defined in Rule 405 under the Securities Act of 1933, as amended (the Securities Act), utilizing a shelf registration process. Under this shelf registration process, the selling stockholders over time may offer and sell shares of our common stock in one or more offerings or resales. This prospectus provides you with a general description of the shares of common stock the selling stockholders may offer. Under the shelf process, in certain circumstances, we may provide a prospectus supplement that will contain specific information about the terms of a particular offering by the selling stockholders. Any prospectus supplement and any free writing prospectus may also add to, update, supplement or clarify information contained or incorporated by reference in this prospectus. Any statement that we make in this prospectus will be modified or superseded by any inconsistent statement made by us in a prospectus supplement.

The rules of the SEC allow us to incorporate information by reference into this prospectus. This information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. See Incorporation of Certain Information by Reference. You should read both this prospectus and any prospectus supplement together with additional information described under the heading Where You Can Find More Information.

Neither we, the selling stockholders nor any underwriters have authorized anyone to provide you with different information or to make any representations other than those contained or incorporated by reference into this prospectus, any accompanying prospectus supplement or in any free writing prospectuses we have prepared. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus and any accompanying prospectus supplement do not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this prospectus and any accompanying prospectus supplement in any jurisdiction in which it is unlawful to make such offer or solicitation.

You should not assume that the information incorporated by reference or provided in this prospectus or any accompanying prospectus supplement or any free writing prospectus prepared by us is accurate as of any date other than the date on the front cover of those documents. Our business, financial condition, results of operations and prospectus may have changed since that date.

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OUR COMPANY

We are the largest and only national wholesale distributor of landscape supplies in the United States and have a growing presence in Canada. Our customers are primarily residential and commercial landscape professionals who specialize in the design, installation and maintenance of lawns, gardens, golf courses and other outdoor spaces. As of July 2, 2017, we had 479 branch locations in 45 states and five provinces. Through our expansive North American network, we offer a comprehensive selection of more than 100,000 stock keeping units, or SKUs, including irrigation supplies, fertilizer and control products (*e.g.*, herbicides), landscape accessories, nursery goods, hardscapes (including pavers, natural stones and blocks), outdoor lighting and ice melt products. We also provide value-added consultative services to complement our product offering and to help our customers operate and grow their businesses. Based on our net sales for the fiscal year ended January 1, 2017 (2016 Fiscal Year), we estimate that we are more than four times the size of our largest competitor and larger than the next two through ten competitors combined. We believe, based on management's estimates, that we have either the number one or number two local market position in nearly 80% of metropolitan statistical areas, or MSAs, where we have one or more branches. Our market leadership, coast-to-coast presence, broad product selection and extensive technical expertise provide us with significant competitive advantages and create a compelling value proposition for both our customers and suppliers.

Our principal executive offices are located at 300 Colonial Center Parkway, Suite 600, Roswell, Georgia 30076, and our telephone number at that address is (470) 277-7000.

Recent Developments

Expected Second Fiscal Quarter 2017 Results

For the three months ended July 2, 2017, we expect net sales to be \$605.0 million to \$610.0 million, an increase of \$91.6 million to \$96.6 million, or 18% to 19%, as compared to net sales of \$513.4 million for the three months ended July 3, 2016; net income to be \$43.9 million to \$44.4 million, an increase of \$17.0 million to \$17.5 million, as compared to net income of \$26.9 million for the three months ended July 3, 2016; and Adjusted EBITDA to be \$92.0 million to \$92.5 million, an increase of \$17.1 million to \$17.6 million, as compared to Adjusted EBITDA of \$74.9 million for the three months ended July 3, 2016. For the six months ended July 2, 2017, we expect net sales to be \$940.0 million to \$945.0 million, an increase of \$98.1 million to \$103.1 million, or 12%, as compared to net sales of \$841.9 million for the six months ended July 3, 2016; net income to be \$33.4 million to \$33.9 million, an increase of \$12.1 million to \$12.6 million, as compared to net income of \$21.3 million for the six months ended July 3, 2016; and Adjusted EBITDA to be \$93.2 million to \$93.7 million, an increase of \$13.8 million to \$14.3 million, as compared to Adjusted EBITDA of \$79.4 million for the six months ended July 3, 2016. Our results in both the quarter and the first six months benefited from the strong sales growth and gross margin improvements achieved through our operational initiatives. Our net sales growth in both the quarter and first six months reflected the impact of acquisitions and positive organic sales growth. In addition, net sales growth for the three months ended July 2, 2017 reflected a return to normal spring weather patterns as compared to the early spring in 2016 when we experienced unusually strong organic daily sales growth in the first quarter and correspondingly weaker organic daily sales growth in the second quarter.

Our ongoing liquidity needs are expected to be funded by cash on hand, net cash provided by operating activities and, as required, borrowings under our asset-based loan facility. Our borrowing base capacity under our asset-based loan facility was approximately \$127.5 million as of July 2, 2017 after giving effect to approximately \$193.1 million of revolving credit loans under our asset-based loan facility, a \$102.1 million increase from \$91.0 million of revolving credit loans outstanding as of January 1, 2017, reflecting a seasonal increase in working capital and the completion of five acquisitions in the first half of the year.

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The estimated results for the three and six months ended July 2, 2017 are preliminary, unaudited and subject to completion, reflect management's current views and may change as a result of management's review of results

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and other factors, including a wide variety of significant business, economic and competitive risks and uncertainties. Such preliminary results are subject to the closing of the second fiscal quarter of 2017 and finalization of financial and accounting procedures (which have yet to be performed) and should not be viewed as a substitute for full quarterly financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP). We caution you that the estimates of net sales, net income (loss) and Adjusted EBITDA are forward-looking statements and are not guarantees of future performance or outcomes and that actual results may differ materially from those described above. You should read this information together with the financial statements and the related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations for prior periods included in our most recent Annual Report on Form 10-K for the fiscal year ended January 1, 2017 and our most recent Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2017, which are incorporated by reference in this prospectus.

Neither our independent registered public accounting firm nor any other independent registered public accounting firm has audited, reviewed or compiled, examined or performed any procedures with respect to the estimated results, nor have they expressed any opinion or any other form of assurance on the estimated results.

Adjusted EBITDA Description and Reconciliation

We present Adjusted EBITDA to evaluate the operating performance and efficiency of our business. Adjusted EBITDA represents EBITDA as further adjusted for items permitted under the covenants of our Credit Facilities (as defined below). EBITDA represents our net income (loss) plus the sum of income tax (benefit), depreciation and amortization and interest expense, net of interest income. Adjusted EBITDA is further adjusted for stock-based compensation expense, related party advisory fees, loss (gain) on sale of assets, other non-cash items, other non-recurring (income) and loss. We believe that Adjusted EBITDA is an important supplemental measure of operating performance because:

Adjusted EBITDA is used to test compliance with certain covenants under our credit facilities;

we believe Adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in their evaluation of companies, many of which present an Adjusted EBITDA measure when reporting their results;

we believe Adjusted EBITDA is helpful in highlighting operating trends, because it excludes the results of decisions that are outside the control of operating management and that can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, age and book depreciation of facilities and capital investments;

we consider (gains) losses on the acquisition, disposal and impairment of assets as resulting from investing decisions rather than ongoing operations; and

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

results.

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

does not reflect changes in, or cash requirements for, our working capital needs;

does not reflect our interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;

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does not reflect our income tax (benefit) expense or the cash requirements to pay our income taxes;

does not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments; and

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and does not reflect any cash requirements for such replacements.

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

The following table reconciles Adjusted EBITDA to net income for the periods presented:

	Three months ended		Six months ended	
	July 2, 2017 (preliminary)	July 3, 2016 (actual)	July 2, 2017 (preliminary)	July 3, 2016 (actual)
	(in millions)			
	(unaudited)			
Net income	\$43.9	\$44.4	\$ 26.9	\$ 21.3
Income tax expense	26.3		18.1	14.7
Interest expense, net	6.6		6.5	9.1
Depreciation and amortization	10.8		9.1	17.7
EBITDA	\$87.6	\$88.1	\$ 60.6	\$ 62.8
Stock-based compensation (a)	1.6		2.2	2.9
(Gain) loss on sale of assets (b)	0.1			(0.1)
Advisory fees (c)			8.0	8.5
Financing fees (d)	1.1		3.1	3.1
Rebranding, acquisitions and other adjustments (e)	1.6		1.0	2.2
Adjusted EBITDA (f)	\$92.0	\$92.5	\$ 74.9	\$ 79.4

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

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

(c) Represents fees paid to Clayton, Dubilier & Rice, LLC (CD&R) and Deere & Company (Deere) for consulting services. In connection with our initial public offering, we entered into termination agreements with CD&R and Deere pursuant to which the parties agreed to terminate the related consulting agreements. See Certain Relationships and Related Party Transactions Consulting

Agreements included in our Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on March 31, 2017, which is incorporated by reference in this prospectus.

- (d) Represents fees associated with our debt refinancing and debt amendments, as well as fees incurred in connection with our initial public offering and secondary offering.
- (e) Represents (i) expenses related to our rebranding to the name SiteOne and (ii) professional fees, retention and severance payments, and performance bonuses related to historical acquisitions. Although we have incurred professional fees, retention and severance payments, and performance bonuses related to acquisitions in several historical periods and expect to incur such fees and payments for any future acquisitions, we cannot predict the timing or amount of any such fees or payments.
- (f) Adjusted EBITDA excludes any earnings or loss of acquisitions prior to their respective acquisition dates for all periods presented.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. Our reputation, business, financial position, results of operations and cash flows are subject to various risks. You should consider and read carefully all of the risks and uncertainties described below, as well as other information included or incorporated by reference in this prospectus, including our financial statements and related notes included in our Annual Report on Form 10-K for the year ended January 1, 2017, which is incorporated by reference in this prospectus, before making an investment decision. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us could materially and adversely affect our reputation, business, financial position, results of operations or cash flows. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment. This prospectus also contains forward-looking statements and estimates that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of specific factors, including the risks and uncertainties described below.

Risks Related to Our Business and Our Industry

Cyclical in our business could result in lower net sales and reduced cash flows and profitability. We have been, and in the future may be, adversely impacted by declines in the new residential and commercial construction sectors, as well as in spending on repair and upgrade activities.

We sell a significant portion of our products for landscaping activities associated with new residential and commercial construction sectors, which have experienced cyclical downturns, some of which have been severe. The strength of these markets depends on, among other things, housing starts, consumer spending, non-residential construction spending activity and business investment, which are a function of many factors beyond our control, including interest rates, employment levels, availability of credit, consumer confidence and capital spending. Weakness or downturns in residential and commercial construction markets could have a material adverse effect on our business, operating results or financial condition.

Sales of landscape supplies to contractors serving the residential construction sector represent a significant portion of our business, and demand for our products is highly correlated with new residential construction. Housing starts are dependent upon a number of factors, including housing demand, housing inventory levels, housing affordability, foreclosure rates, demographic changes, the availability of land, local zoning and permitting processes, the availability of construction financing and the health of the economy and mortgage markets. Unfavorable changes in any of these factors could adversely affect consumer spending, result in decreased demand for homes and adversely affect our business. Beginning in mid-2006 and continuing through late-2011, the homebuilding industry experienced a significant downturn. The decrease in homebuilding activity had a significant adverse effect on our business during such time. According to the U.S. Census Bureau, 1.2 million housing units were started in 2016, representing an increase of approximately 5% from 2015. Nevertheless, housing starts in 2016 remained significantly below their historical long-term average. In addition, some analysts project that the demand for residential construction may be negatively impacted as the number of renting households has increased in recent years and as a shortage in the supply of affordable housing is expected to result in lower home ownership rates. The timing and extent of any recovery in homebuilding activity and the resulting impact on demand for landscape supplies are uncertain.

Our net sales also depend, in significant part, on commercial construction, which similarly recently experienced a severe downturn. Previously, downturns in the commercial construction market have typically lasted about two to three years, resulting in market declines of approximately 20% to 40%, while the most recent downturn in the commercial construction market lasted over four years, resulting in a market decline of approximately 60%. According to U.S. Census Bureau, total private commercial construction put in place began to recover in 2013 and

increased approximately 20% in 2014, 6% in 2015 and 11% in 2016. However, 2016 new commercial construction spending was still well below pre-recession levels. We cannot predict the duration of the current market conditions or the timing or strength of any future recovery of commercial construction activity in our markets.

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We also rely, in part, on repair and upgrade of existing landscapes. High unemployment levels, high mortgage delinquency and foreclosure rates, lower home prices, limited availability of mortgage and home improvement financing, and significantly lower housing turnover, may restrict consumer spending, particularly on discretionary items such as landscape projects, and adversely affect consumer confidence levels and result in reduced spending on repair and upgrade activities.

Our business is affected by general business, financial market and economic conditions, which could adversely affect our financial position, results of operations and cash flows.

Our business and results of operations are significantly affected by general business, financial market and economic conditions. General business, financial market and economic conditions that could impact the level of activity in the wholesale landscape supply industry include the level of new home sales and construction activity, interest rate fluctuations, inflation, unemployment levels, tax rates, capital spending, bankruptcies, volatility in both the debt and equity capital markets, liquidity of the global financial markets, the availability and cost of credit, investor and consumer confidence, global economic growth, local, state and federal government regulation, and the strength of regional and local economies in which we operate. With respect to the residential construction sector in particular, spending on landscape projects is largely discretionary and lower levels of consumer spending or the decision by home-owners to perform landscape upgrades or maintenance themselves rather than outsource to contractors may adversely affect our business. There was a significant decline in economic growth in the United States, which began in the second half of 2007 and continued through the last quarter of 2009. There can be no guarantee that the improvements since that time in the general economy and our markets will be sustained or continue.

Seasonality affects the demand for our products and services and our results of operations and cash flows.

The demand for our products and services and our results of operations are affected by the seasonal nature of our irrigation, outdoor lighting, nursery, landscape accessories, fertilizers, turf protection products, grass seed, turf care equipment and golf course maintenance supplies. Such seasonality causes our results of operations to vary considerably from quarter to quarter. Typically, our net sales and net income have been higher in the second and third quarters of each fiscal year due to favorable weather and longer daylight conditions during these quarters. Our net sales and net income, however, are significantly lower in the first and fourth quarters due to lower landscaping, irrigation and turf maintenance activities in these quarters. Accordingly, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

Our operations are substantially dependent on weather conditions.

We supply landscape, irrigation and turf maintenance products, the demand for each of which is affected by weather conditions, including, without limitation, potential impacts, if any, from climate change. In particular, droughts could cause shortage in the water supply, which may have an adverse effect on our business. For instance, our supply of plants could decrease, or prices could rise, due to such water shortages, and customer demand for certain types of plants may change in ways in which we are unable to predict. Such water shortages may also make irrigation or the maintenance of turf uneconomical. Governments may implement limitations on water usage that make effective irrigation or turf maintenance unsustainable, which could negatively impact the demand for our products. In California, for instance, mandatory water restrictions went into effect across the state in 2015. We have also recently seen an increased demand in California for products related to drought-tolerant landscaping, including hardscapes and plants that require low amounts of water. There is a risk that demand for landscaping products will decrease overall due to persistent drought conditions in some of the geographic markets we serve, or that demand will change in ways that we are unable to predict.

Furthermore, adverse weather conditions, such as droughts, severe storms and significant rain or snowfall, can adversely impact the demand for our products, timing of product delivery, or our ability to deliver products at all. For example, severe winter storms can cause hazardous road conditions, which may prevent personnel from

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traveling or delivering to service locations. In addition, unexpectedly severe weather conditions, such as excessive heat or cold, may result in certain applications in the maintenance product cycle being omitted for a season or damage to or loss of nursery goods, sod and other green products in our inventory, which could result in losses requiring writedowns.

Laws and government regulations applicable to our business could increase our legal and regulatory expenses, and impact our business, financial position, results of operations and cash flows.

Our business is subject to significant federal, state, provincial and local laws and regulations. These laws and regulations include laws relating to consumer protection, wage and hour requirements, the employment of immigrants, labor relations, permitting and licensing, building code requirements, workers' safety, the environment, employee benefits, marketing and advertising and the application and use of herbicides, pesticides and other chemicals. In particular, we anticipate that various federal, state, provincial and local governing bodies may propose additional legislation and regulation that may be detrimental to our business, may decrease demand for the products we supply or may substantially increase our operating costs, including proposed legislation, such as environmental regulations related to chemical or nutrient use, water use, climate change, equipment efficiency standards and other environmental matters; other consumer protection laws or regulations; or health care coverage. It is difficult to predict the future impact of the broad and expanding legislative and regulatory requirements affecting our businesses and changes to such requirements may adversely affect our business, financial position, results of operations and cash flows. In addition, if we were to fail to comply with any applicable law or regulation, we could be subject to substantial fines or damages, be involved in litigation, suffer losses to our reputation or suffer the loss of licenses or incur penalties that may affect how our business is operated, which, in turn, could have a material adverse impact on our business, financial position, results of operations and cash flows.

Public perceptions that the products we use and the services we deliver are not environmentally friendly or safe may adversely impact the demand for our products or services.

We sell, among other things, fertilizers, herbicides, fungicides, pesticides, rodenticides and other chemicals. Public perception that the products we use and the services we deliver are not environmentally friendly or safe or are harmful to humans or animals, whether justified or not, or the improper application of these chemicals, could reduce demand for our products and services, increase regulation or government restrictions or actions, result in fines or penalties, impair our reputation, involve us in litigation, damage our brand names and otherwise have a material adverse impact on our business, financial position, results of operations and cash flows.

Our industry and the markets in which we operate are highly competitive and fragmented, and increased competitive pressures could reduce our share of the markets we serve and adversely affect our business, financial position, results of operations and cash flows.

We operate in markets with relatively few large competitors, but barriers to entry in the landscape supply industry are generally low, and we may have several competitors within a local market area. Competition varies depending on product line, type of customer and geographic area. Some local competitors may be able to offer higher levels of service or a broader selection of inventory than we can in particular local markets. As a result, we may not be able to continue to compete effectively with our competitors. Any of our competitors may foresee the course of market development more accurately than we do, provide superior service, sell or distribute superior products, have the ability to supply or deliver similar products and services at a lower cost, or on more favorable credit terms, develop stronger relationships with our customers and other consumers in the landscape supply industry, adapt more quickly to evolving customer requirements than we do, develop a superior network of distribution centers in our markets or access financing on more favorable terms than we can obtain. As a result, we may not be able to compete successfully

with our competitors.

Competition can also reduce demand for our products and services, negatively affect our product sales and services or cause us to lower prices. Consolidation of professional landscape service firms may result in

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increased competition for their business. Certain product manufacturers that sell and distribute their products directly to landscapers may increase the volume of such direct sales. Our suppliers may also elect to enter into exclusive supplier arrangements with other distributors.

Former associates may start landscape supply businesses similar to ours, in competition with us. Our industry faces low barriers to entry, making the possibility of former associates starting similar businesses more likely. Increased competition from businesses started by former associates may reduce our market share and adversely affect our business, financial position, results of operations and cash flows.

Our customers consider the performance of the products we distribute, our customer service and price when deciding whether to use our services or purchase the products we distribute. Excess industry capacity for certain products in several geographic markets could lead to increased price competition. We may be unable to maintain our operating costs or product prices at a level that is sufficiently low for us to compete effectively. If we are unable to compete effectively with our existing competitors or new competitors enter the markets in which we operate, our financial condition, operating results and cash flows may be adversely affected.

Product shortages, loss of key suppliers, failure to develop relationships with qualified suppliers or dependence on third-party suppliers and manufacturers could affect our financial health.

Our ability to offer a wide variety of products to our customers is dependent upon our ability to obtain adequate product supply from manufacturers and other suppliers. Any disruption in our sources of supply, particularly of the most commonly sold items, could result in a loss of revenues, reduced margins and damage to our relationships with customers. Supply shortages may occur as a result of unanticipated increases in demand or difficulties in production or delivery. When shortages occur, our suppliers often allocate products among distributors. The loss of, or a substantial decrease in the availability of, products from our suppliers or the loss of key supplier arrangements could adversely impact our financial condition, operating results and cash flows.

Our ability to continue to identify and develop relationships with qualified suppliers who can satisfy our high standards for quality and our need to be supplied with products in a timely and efficient manner is a significant challenge. Our suppliers' ability to provide us with products can also be adversely affected in the event they become financially unstable, particularly in light of continuing economic difficulties in various regions of the United States and the world, fail to comply with applicable laws, encounter supply disruptions, shipping interruptions or increased costs, or face other factors beyond our control.

Our agreements with suppliers are generally terminable by either party on limited notice, and in some cases we do not have written agreements with our suppliers. If market conditions change, suppliers may stop offering us favorable terms. Our suppliers may increase prices or reduce discounts on the products we distribute and we may be unable to pass on any cost increase to our customers, thereby resulting in reduced margins and profits. Failure by our suppliers to continue to supply us with products on favorable terms, commercially reasonable terms, or at all, could put pressure on our operating margins or have a material adverse effect on our financial condition, results of operations and cash flows.

The prices and costs of the products we purchase may be subject to large and significant price fluctuations. We might not be able to pass cost increases through to our customers, and we may experience losses in a rising price environment. In addition, we might have to lower our prices in a declining price environment, which could also lead to losses.

We purchase and sell a wide variety of products, the price and availability of which may fluctuate, and may be subject to large and significant price increases. Many of our contracts with suppliers include prices for commodities such as grass seed and chemicals used in fertilizer that are not fixed or are tied to an index, which allows our suppliers to change the prices of their products as the input prices fluctuate. Our business is exposed to these fluctuations, as well as to fluctuations in our costs for transportation and distribution. Changes in prices

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for the products that we purchase affect our net sales and cost of goods sold, as well as our working capital requirements, levels of debt and financing costs. We might not always be able to reflect increases in our costs in our own pricing. Any inability to pass cost increases on to customers may adversely affect our business, financial condition and results of operations. In addition, if market prices for the products that we sell decline, we may realize reduced profitability levels from selling such products and lower revenues from sales of existing inventory of such products.

We are subject to inventory management risks; insufficient inventory may result in lost sales opportunities or delayed revenue, while excess inventory may harm our gross margins.

We balance the need to maintain inventory levels that are sufficient to ensure competitive lead times against the risk of inventory obsolescence because of changing customer requirements, fluctuating commodity prices, or the life-cycle of nursery goods, sod and other green products. In order to successfully manage our inventories, including grass seed, chemicals used in fertilizers, and nursery goods, sod and other green products, we must estimate demand from our customers and purchase products that substantially correspond to that demand. If we overestimate demand and purchase too much of a particular product, we face a risk that the price of that product will fall, leaving us with inventory that we cannot sell profitably. In addition, we may have to write down such inventory if we are unable to sell it for its recorded value. Contracts with certain suppliers require us to take on additional inventory or pay a penalty, even in circumstances where we have excess inventory. By contrast, if we underestimate demand and purchase insufficient quantities of a product and the price of that product were to rise, we could be forced to purchase that product at a higher price and forego profitability in order to meet customer demand. Insufficient inventory levels may lead to shortages that result in delayed revenue or loss of sales opportunities altogether as potential end-customers turn to competitors' products that are readily available. Our business, financial condition and results of operations could suffer a material adverse effect if either or both of these situations occur frequently or in large volumes.

Many factors, such as weather conditions, agricultural limitations and restrictions relating to the management of pests and disease, affect the supply of nursery goods, grass seed, sod and other green products. If the supply of these products available is limited, prices could rise, which could cause customer demand to be reduced and our revenues and gross margins to decline. For example, nursery goods, sod and grass seed are perishable and have a limited shelf life. Should we be unable to sell our inventory of nursery goods, grass seed, sod and other green products within a certain timeframe, we may face losses requiring write-downs. In contrast, we may not be able to obtain high-quality nursery goods and other green products in an amount sufficient to meet customer demand. Even if available, nursery goods from alternate sources may be of lesser quality or may be more expensive than those currently grown or purchased by us. If we are unable to effectively manage our inventory and that of our distribution partners, our results of operations could be adversely affected.

We may not successfully implement our business strategies, including achieving our growth objectives.

We may not be able to fully implement our business strategies or realize, in whole or in part within the expected time frames, the anticipated benefits of our various growth or other initiatives. Our various business strategies and initiatives, including our growth, operational and management initiatives, are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. The execution of our business strategy and our financial performance will continue to depend in significant part on our executive management team and other key management personnel, the smooth transition of new senior leadership and our executive management team's ability to execute the new operational initiatives that they are undertaking. In addition, we may incur certain costs as we pursue our growth, operational and management initiatives, and we may not meet anticipated implementation timetables or stay within budgeted costs. As these initiatives are undertaken, we may not

fully achieve our expected efficiency improvements or growth rates, or these initiatives could adversely impact our customer retention, supplier relationships or operations. Also, our business strategies may change from time to time in light of our ability to implement our business initiatives, competitive pressures, economic uncertainties or developments, or other factors.

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We may be unable to successfully acquire and integrate other businesses.

Our historical growth has been driven in part by acquisitions, and future acquisitions are an important element of our business strategy. We may be unable to continue to grow our business through acquisitions. We may not be able to continue to identify suitable acquisition targets and may face increased competition for these acquisition targets. In addition, acquired businesses may not perform in accordance with expectations, and our business judgments concerning the value, strengths and weaknesses of acquired businesses may not prove to be correct. We may also be unable to achieve expected improvements or achievements in businesses that we acquire. At any given time, we may be evaluating or in discussions with one or more acquisition targets, including entering into non-binding letters of intent. Future acquisitions may result in the incurrence of debt and contingent liabilities, legal liabilities, goodwill impairments, increased interest expense and amortization expense and significant integration costs.

Acquisitions involve a number of special risks, including:

our inability to manage acquired businesses or control integration costs and other costs relating to acquisitions;

potential adverse short-term effects on operating results from increased costs or otherwise;

diversion of management's attention;

failure to retain existing customers or key personnel of the acquired business and recruit qualified new associates at the location;

failure to successfully implement infrastructure, logistics and systems integration;

potential impairment of goodwill;

risks associated with the internal controls of acquired companies;

exposure to legal claims for activities of the acquired business prior to acquisition and inability to realize on any indemnification claims, including with respect to environmental and immigration claims;

the risks inherent in the systems of the acquired business and risks associated with unanticipated events or liabilities; and

our inability to obtain financing necessary to complete acquisitions on attractive terms or at all.

Our strategy could be impeded if we do not identify, or face increased competition for, suitable acquisition targets, and such increased competition could result in higher purchase price multiples we have to pay for acquisition targets or reduce the number of suitable targets. Our business, financial condition, results of operations and cash flows could be adversely affected if any of the foregoing factors were to occur.

Increases in operating costs could adversely impact our business, financial position, results of operations and cash flows.

Our financial performance is affected by the level of our operating expenses, such as occupancy costs associated with the leases for our branch locations and costs of fuel, vehicle maintenance, equipment, parts, wages and salaries, employee benefits, health care, self-insurance costs and other insurance premiums as well as various regulatory compliance costs, all of which may be subject to inflationary pressures. In particular, our financial performance is adversely affected by increases in these operating costs.

Most of our facilities are located in leased premises. Many of our current leases are non-cancelable and typically have terms ranging from three to five years, with options to renew for specified periods of time. We believe that leases we enter into in the future will likely be long-term and non-cancelable and have similar

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renewal options. However, we may be unable to renew our current or future leases on favorable terms or at all which could have an adverse effect on our operations and costs. In addition, if we close a location, we generally remain committed to perform our obligations under the applicable lease, which include, among other things, payment of the base rent for the balance of the lease term.

We deliver a substantial volume of products to our customers by truck. Petroleum prices have fluctuated significantly in recent years. Prices and availability of petroleum products are subject to political, economic and market factors that are outside our control. Political events in petroleum-producing regions as well as hurricanes and other weather-related events may cause the price of fuel to increase. Our operating profit will be adversely affected if we are unable to obtain the fuel we require or to fully offset the anticipated impact of higher fuel prices through increased prices or fuel surcharges to our customers. Besides passing fuel costs on to customers, we have not entered into any hedging arrangements that protect against fuel price increases and we do not have any long-term fuel purchase contracts. If shortages occur in the supply of necessary petroleum products and we are not able to pass along the full impact of increased petroleum prices to our customers, our results of operations would be adversely affected.

We cannot predict the extent to which we may experience future increases in costs of occupancy, fuel, vehicle maintenance, equipment, parts, wages and salaries, employee benefits, health care, self-insurance costs and other insurance premiums as well as various regulatory compliance costs and other operating costs. To the extent such costs increase, we may be prevented, in whole or in part, from passing these cost increases through to our existing and prospective customers, and the rates we pay to our suppliers may increase, any of which could have a material adverse impact on our business, financial position, results of operations and cash flows.

Risks associated with our large labor force could have a significant adverse effect on our business.

We have an employee base of approximately 3,300 associates. Various federal and state labor laws govern our relationships with our associates and affect our operating costs. These laws include employee classifications as exempt or non-exempt, minimum wage requirements, unemployment tax rates, workers' compensation rates, overtime, family leave, anti-discrimination laws, safety standards, payroll taxes, citizenship requirements and other wage and benefit requirements for employees classified as non-exempt. As our associates may be paid at rates that relate to the applicable minimum wage, further increases in the minimum wage could increase our labor costs. Associates may make claims against us under federal or state laws, which could result in significant costs. Significant additional government regulations, including the Employee Free Choice Act, the Paycheck Fairness Act and the Arbitration Fairness Act, could materially affect our business, financial condition and results of operations. In addition, we compete with other companies for many of our associates in hourly positions, and we invest significant resources to train and motivate our associates to maintain a high level of job satisfaction. Our hourly employment positions have historically had high turnover rates, which can lead to increased spending on training and retention and, as a result, increased labor costs. If we are unable to effectively retain highly qualified associates in the future, it could adversely impact our business, financial position, results of operations and cash flows.

None of our associates are currently covered by collective bargaining or other similar labor agreements. However, if a large number of our associates were to unionize, including in the wake of any future legislation that makes it easier for associates to unionize, our business could be negatively affected. Any inability by us to negotiate collective bargaining arrangements could cause strikes or other work stoppages, and new contracts could result in increased operating costs. If any such strikes or other work stoppages occur, or if other associates become represented by a union, we could experience a disruption of our operations and higher labor costs.

In addition, certain of our suppliers have unionized work forces and certain of our products are transported by unionized truckers. Strikes, work stoppages or slowdowns could result in slowdowns or closures of facilities where

the products that we sell are manufactured or could affect the ability of our suppliers to deliver such products to us. Any interruption in the production or delivery of these products could delay or reduce availability of these products and increase our costs.

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We depend on a limited number of key personnel. We may not be able to attract or retain key executives, which could adversely impact our business and inhibit our ability to operate and grow successfully.

We depend upon the ability and experience of a number of our executive management and other key personnel who have substantial experience with our operations and within our industry, including Doug Black, our Chief Executive Officer. The loss of the services of one or a combination of our senior executives or key employees could have a material adverse effect on our results of operations. Our business may also be negatively impacted if one of our senior executives or key employees is hired by a competitor. Our success also depends on our ability to continue to attract, manage and retain other qualified management personnel as we grow. We may not be able to continue to attract or retain such personnel in the future.

An impairment of goodwill and/or other intangible assets could reduce net income.

Acquisitions frequently result in the recording of goodwill and other intangible assets. As of April 2, 2017, goodwill represented approximately 12% of our total assets. Goodwill is not amortized for financial reporting purposes and is subject to impairment testing at least annually using a fair-value based approach. The identification and measurement of goodwill impairment involves the estimation of the fair value of our reporting units. Our accounting for impairment contains uncertainty because management must use its judgment in determining appropriate assumptions to be used in the measurement of fair value. We determine the fair values of our reporting units by using both a market and income approach.

We evaluate the recoverability of goodwill for impairment in between our annual tests when events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. Any impairment of goodwill will reduce net income in the period in which the impairment is recognized.

Adverse credit and financial market events and conditions could, among other things, impede access to, or increase the cost of, financing or cause our customers to incur liquidity issues that could lead to some of our products not being purchased or being cancelled, or result in reduced operating revenue and net income, any of which could have an adverse impact on our business, financial position, results of operations and cash flows.

Disruptions in credit or financial markets could, among other things, lead to impairment charges, make it more difficult for us to obtain, or increase our cost of obtaining, financing for our operations or investments or to refinance our indebtedness, cause our lenders to depart from prior credit industry practice and not give technical or other waivers under the Credit Facilities (as defined under Risks Related to Our Substantial Indebtedness below), to the extent we may seek them in the future, thereby causing us to be in default under one or more of the Credit Facilities. These disruptions could also cause our customers to encounter liquidity issues that could lead to a reduction in the amount of our products purchased or services used, could result in an increase in the time it takes our customers to pay us, or could lead to a decrease in pricing for our products, any of which could adversely affect our accounts receivable, among other things, and, in turn, increase our working capital needs. In addition, adverse developments at federal, state and local levels associated with budget deficits resulting from economic conditions could result in federal, state and local governments increasing taxes or other fees on businesses, including us, to generate more tax revenues, which could negatively impact spending by customers on our products.

The majority of our net sales are derived from credit sales, which are made primarily to customers whose ability to pay is dependent, in part, upon the economic strength of the geographic areas in which they operate, and the failure to collect monies owed from customers could adversely affect our working capital and financial condition.

The majority of our net sales in our 2016 Fiscal Year were derived from the extension of credit to our customers whose ability to pay is dependent, in part, upon the economic strength of the areas where they operate.

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We offer credit to customers, generally on a short-term basis, either through unsecured credit that is based solely upon the creditworthiness of the customer, or secured credit for materials sold for a specific project where we establish a security interest in the material used in the project. The type of credit we offer depends on the customer's financial strength. If any of our customers are unable to repay credit that we have extended in a timely manner, or at all, our working capital, financial condition, operating results and cash flows would be adversely affected. Further, our collections efforts with respect to non-paying or slow-paying customers could negatively impact our customer relations going forward.

Because we depend on certain of our customers to repay extensions of credit, if the financial condition of our customers declines, our credit risk could increase as a result. Significant contraction in the residential and non-residential construction markets, coupled with limited credit availability and stricter financial institution underwriting standards, could adversely affect the operations and financial stability of certain of our customers. Should one or more of our larger customers declare bankruptcy, it could adversely affect the collectability of our accounts receivable, bad debt reserves and net income.

Because we operate our business through highly dispersed locations across the United States, our operations may be materially adversely affected by inconsistent practices and the operating results of individual branches may vary.

We operate our business through a network of highly dispersed locations throughout the United States, supported by corporate executives and services in our headquarters, with local branch management retaining responsibility for day-to-day operations and adherence to applicable local laws. Our operating structure could make it difficult for us to coordinate procedures across our operations in a timely manner or at all. We may have difficulty attracting and retaining local personnel. In addition, our branches may require significant oversight and coordination from headquarters to support their growth. Inconsistent implementation of corporate strategy and policies at the local level could materially and adversely affect our overall profitability, prospects, business, results of operations, financial condition and cash flows. In addition, the operating results of an individual branch may differ from that of another branch for a variety of reasons, including market size, management practices, competitive landscape, regulatory requirements and local economic conditions. As a result, certain of our branches may experience higher or lower levels of growth than other branches.

Compliance with, or liabilities under, environmental, health and safety laws and regulations, including laws and regulations pertaining to the use and application of fertilizers, herbicides, insecticides and fungicides, could result in significant costs that adversely impact our reputation, business, financial position, results of operations and cash flows.

We are subject to federal, state, provincial and local environmental, health and safety laws and regulations, including laws that regulate the emission or discharge of materials into the environment, govern the use, packaging, labeling, transportation, handling, treatment, storage, disposal and management of chemicals and hazardous substances and waste, and protect the health and safety of our associates and users of our products. Such laws also impose liability for investigating and remediating, and damages resulting from, present and past releases of hazardous substances, including releases at sites we have ever owned, leased or operated or used as a disposal site. We could be subject to fines, penalties, civil or criminal sanctions, personal injury, property damage or other third-party claims as a result of violations of, or liabilities under, these laws and regulations. We could also incur significant investigation and cleanup costs for contamination at any currently or formerly owned or operated facilities, including LESCO's manufacturing and blending facilities. In addition, changes in, or new interpretations of, existing laws, regulations or enforcement policies, the discovery of previously unknown contamination, or the imposition of other environmental liabilities or obligations in the future, including obligations with respect to any potential health hazards of our products, may lead

to additional compliance or other costs that could have a material adverse effect on our business, financial position, results of operations and cash flows.

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In addition, in the United States, products containing herbicides and pesticides generally must be registered with the U.S. Environmental Protection Agency, or the EPA, and similar state agencies before they can be sold or applied. The failure to obtain or the cancellation of any such registration, or the withdrawal from the marketplace of such products, could have an adverse effect on our business, the severity of which would depend in part on the products involved, whether other products could be substituted and whether our competitors were similarly affected. The herbicides and pesticides we use are manufactured by independent third parties and are evaluated by the EPA as part of its ongoing exposure risk assessment. The EPA may decide that a herbicide or pesticide we use will be limited or will not be re-registered for use in the United States. We cannot predict the outcome or the severity of the effect of the EPA's continuing evaluations.

In addition, the use of certain herbicide and pesticide products is regulated by various federal, state, provincial and local environmental and public health agencies. We may be unable to prevent violations of these or other regulations from occurring. Even if we are able to comply with all such regulations and obtain all necessary registrations and licenses, the herbicides and pesticides or other products we supply could be alleged to cause injury to the environment, to people or to animals, or such products could be banned in certain circumstances. The regulations may also apply to customers who may fail to comply with environmental, health and safety laws and subject us to liabilities. Costs to comply with environmental, health and safety laws, or to address liabilities or obligations thereunder, could have a material adverse impact on our reputation, business, financial position, results of operations and cash flows.

Our business exposes us to risks associated with hazardous materials and related activities, not all of which are covered by insurance.

Because our business includes the managing, handling, storing, selling and transporting and disposing of certain hazardous materials, such as fertilizers, herbicides, pesticides, fungicides and rodenticides, we are exposed to environmental, health, safety and other risks. We carry insurance to protect us against many accident-related risks involved in the conduct of our business and we maintain insurance coverage in accordance with our assessment of the risks involved, the ability to bear those risks and the cost and availability of insurance. Each of these insurance policies is subject to exclusions, deductibles and coverage limits. We do not insure against all risks and may not be able to insure adequately against certain risks and may not have insurance coverage that will pay any particular claim. We also may be unable to obtain at commercially reasonable rates in the future adequate insurance coverage for the risks we currently insure against, and certain risks are or could become completely uninsurable or eligible for coverage only to a reduced extent. Our business, financial condition and results of operations could be materially impaired by environmental, health, safety and other risks that reduce our revenues, increase our costs or subject us to other liabilities in excess of available insurance.

The nature of our business exposes us to construction defect and product liability claims as well as other legal proceedings.

We rely on manufacturers and other suppliers t