

BEACON ROOFING SUPPLY INC  
Form 10-K  
November 21, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended September 30, 2017

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

(Exact name of registrant as specified in its charter)

Delaware

36-4173371

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

Address of principal executive offices: 505 Huntmar Park Drive, Suite 300, Herndon, VA 20170

Registrant's telephone number, including area code: (571) 323-3939

Edgar Filing: BEACON ROOFING SUPPLY INC - Form 10-K

Securities registered pursuant to section 12(b) of the Act:

|                                |                                             |
|--------------------------------|---------------------------------------------|
| Common Stock, \$0.01 par value | The NASDAQ Global Select Market             |
| (Title of each class)          | (Name of each exchange on which registered) |

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one):

|                         |                                                                         |
|-------------------------|-------------------------------------------------------------------------|
| 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

The aggregate market value of the voting stock (common stock) held by non-affiliates of the registrant, computed by reference to the closing price at which the common stock was sold as of the end of the second quarter ended March 31, 2017, was \$2.96 billion.

The number of shares of common stock outstanding as of October 31, 2017 was 67,734,465.

---

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III (Items 10, 11, 12, 13 and 14) will be incorporated by reference from the Registrant's definitive proxy statement, which will be filed pursuant to Regulation 14A with the United States Securities and Exchange Commission ("SEC") within 120 days after the end of the fiscal year to which this report relates.

BEACON ROOFING SUPPLY, INC.

Index to Annual Report on Form 10-K

Year Ended September 30, 2017

|                                                                                                                             | Page      |
|-----------------------------------------------------------------------------------------------------------------------------|-----------|
| <b><u>PART I</u></b>                                                                                                        | <b>5</b>  |
| Item 1. <u>Business</u>                                                                                                     | 5         |
| Item 1A. <u>Risk Factors</u>                                                                                                | 15        |
| Item 1B. <u>Unresolved Staff Comments</u>                                                                                   | 22        |
| Item 2. <u>Properties</u>                                                                                                   | 22        |
| Item 3. <u>Legal Proceedings</u>                                                                                            | 24        |
| Item 4. <u>Mine Safety Disclosures</u>                                                                                      | 24        |
| <b><u>PART II</u></b>                                                                                                       | <b>25</b> |
| Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 25        |
| Item 6. <u>Selected Financial Data</u>                                                                                      | 27        |
| Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                        | 30        |
| Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                                                  | 47        |
| Item 8. <u>Financial Statements and Supplementary Data</u>                                                                  | 48        |
| Item 9. <u>Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>                         | 50        |
| Item 9A. <u>Controls and Procedures</u>                                                                                     | 50        |
| Item 9B. <u>Other Information</u>                                                                                           | 53        |
| <b><u>PART III</u></b>                                                                                                      | <b>54</b> |
| <b><u>PART IV</u></b>                                                                                                       | <b>54</b> |
| Item 15. <u>Exhibits and Financial Statement Schedules</u>                                                                  | 54        |
| Item 16. <u>10-K Summary</u>                                                                                                | 57        |

## FORWARD-LOOKING STATEMENTS

The matters discussed in this Form 10-K that are forward-looking statements are based on current management expectations that involve substantial risks and uncertainties, which could cause actual results to differ materially from the results expressed in, or implied by, these forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as “aim,” “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “should,” “will be,” “will continue,” “will likely result,” “would” and terms of similar meaning in conjunction with a discussion of future operating or financial performance. You should read statements that contain these words carefully, because they discuss our future expectations, contain projections of our future results of operations or of our financial position or state other “forward-looking” information.

We believe that it is important to communicate our future expectations to our investors. However, there are events in the future that we are not able to accurately predict or control. The factors listed under Item 1A, Risk Factors, as well as any cautionary language in this Form 10-K, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Although we believe that our expectations are based on reasonable assumptions, actual results may differ materially from those in the forward looking statements as a result of various factors, including, but not limited to, those described under Item 1A, Risk Factors and elsewhere in this Form 10-K.

Forward-looking statements speak only as of the date of this Form 10-K. Except as required under federal securities laws and the rules and regulations of the SEC, we do not have any intention, and do not undertake, to update any forward-looking statements to reflect events or circumstances arising after the date of this Form 10-K, whether as a result of new information, future events or otherwise. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on the forward-looking statements included in this Form 10-K or that may be made elsewhere from time to time by or on behalf of us. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

## PART I

### ITEM 1. BUSINESS

Unless the context suggests otherwise, the terms “Beacon,” the “Company,” “we,” “our” or “us” are referring to Beacon Roofing Supply, Inc.

#### Overview

Beacon is 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 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, home builders, retailers, and building materials suppliers.

As of September 30, 2017, we operated 383 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 50,000 SKUs available across our branch network, enabling us to deliver products to serve over 70,000 customers on a timely basis.

On October 1, 2015, we acquired Roofing Supply Group, LLC (“RSG”), a leading roofing products distributor headquartered in Dallas, Texas, for approximately \$1.17 billion. RSG operated 85 locations across 25 states, including the key markets of California, Florida, Texas, as well as the Pacific Northwest.

On August 24, 2017 the Company entered into a definitive purchase agreement to acquire, for approximately \$2.625 billion, all of the issued and outstanding shares of capital stock of Allied Building Products Corp. and an affiliated entity (together with its and their respective subsidiaries, “Allied”) on the terms and subject to the conditions set forth in the Stock Purchase Agreement (the “Allied Acquisition”). Allied is one of the country’s largest exterior and interior building products distributors and is headquartered in East Rutherford, New Jersey. Allied distributes products across 208 locations in 31 states and has a strong presence in New York, New Jersey, Florida, California, Hawaii and the upper Midwest. The Allied Acquisition is expected to close on January 2, 2018, subject to the satisfaction of customary closing conditions.

For the fiscal year ended September 30, 2017 (“fiscal year 2017” or “2017”), residential roofing products comprised 54.4% of our sales, non-residential roofing products accounted for 29.1% of our sales, and complementary products provided the remaining 16.5% of our sales. Approximately 96% of our net sales were to customers located in the United States.

We provide our customers with a comprehensive array of value-added benefits. These services and tools are focused on supporting the entire lifecycle of our contractor’s business, with particular focus on enhancing their ability to meet and exceed the needs of their customers (see “Our Products and Services” for a full listing). We believe the additional services we provide strengthen our relationships with our customers and distinguish us from our competition, as the vast majority of orders require at least some of these services. Our ability to provide these services efficiently and reliably can save contractors time and money while also enabling us to achieve attractive gross profit margins on our product sales. We have earned a reputation for providing a high level of product availability and high-quality service from our experienced employees who provide timely, accurate and safe delivery of products.

Our customer base includes a diverse population of residential and non-residential roofing contractors from the markets in which we operate. Along with new construction projects, these local roofing contractors are typically

involved in the replacement, or re-roofing, component of the roofing industry. We utilize a branch-based operating model that allows branches to maintain local customer relationships and benefit from our centralized infrastructure. This operating model allows us to benefit from the resources and scale efficiencies of being a national distributor while still providing customers with specialized products and personalized local services tailored to their specific geographic region.

We have achieved our growth through a combination of 43 strategic and complementary acquisitions since our initial public offering (“IPO”) in 2004, opening new branch locations and broadening our product offerings. In fiscal year 2017, we acquired 23 branches and opened 4 new branches. We have grown from \$652.9 million in net sales in fiscal year 2004 to \$4.38 billion in net sales in fiscal year 2017, which represents a thirteen-year compound annual growth rate (“CAGR”) of 15.8% . Our organic growth, which includes growth from existing and newly opened branches but excludes growth from acquired branches, averaged a CAGR of 5.1% per annum over the same period. Acquired branches are excluded from organic growth measures until they have been under our ownership for at least four full fiscal quarters at the start of the reporting period. Since our IPO, we have opened 78 new branch locations, and during this same period existing market sales excluding greenfields increased at an average of 2.3% per annum. Existing market sales excluding greenfields are defined as the aggregate sales from branches open for the entire comparable annual periods. Income from operations has increased from \$34.7 million in fiscal year 2004 to \$216.1 million in fiscal year 2017, which represents a thirteen-year CAGR of 15.1%. We believe that our proven business model can continue to deliver industry-leading growth and operating profit margins.

## Our Industry

Based on management’s estimates, we believe that the roofing distribution market in the United States and Canada represents approximately \$26 billion in revenue with roughly 60-65% of the market in residential roofing and 35-40% in commercial. We also participate in several other areas of the building products market within our complementary product line, including siding, windows, insulation and waterproofing, among others.

We believe the majority of roofing demand is driven by re-roofing activity (estimated at 80-90%), with the remaining balance being tied to new construction. Re-roofing projects are considered to be necessary maintenance and repair expenditures, and are therefore less likely to be postponed during periods of recession or slower economic growth. As a result, demand for roofing products historically has been less volatile than overall demand for construction products.

Net sales from re-roofing are also expected to increase as the median age of owner occupied housing has increased from 31 years to 37 years over the last decade, according to U.S. Census data. As homes age, re-roofing demand increases, and home-owners are forced to replace or repair old, deteriorating roofs. During the past decade, re-roofing demand also has been influenced in part by existing home sales trends. Lower housing turnover during the 2007-2015 years, in particular, has resulted in many homeowners’ deferral of necessary re-roofing decisions. This combination of aging U.S. housing inventory, more favorable trends in existing home sales, and deferred re-roofing amid the housing downturn supports a favorable supply/demand dynamic in the residential repair and remodel market in the coming years.

Regional variations in economic activity influence the level of demand for roofing products across the United States. Of particular importance are regional differences in the level of new home construction and renovation. Demographic trends, including population growth and migration, contribute to the regional variations through their influence on regional housing starts and existing home sales.

In addition to our domestic operations, we also operate in 6 provinces across Canada. These international locations represented approximately 4% of our total net sales for the fiscal year ended September 30, 2017. We expect overall demand for operations in Canada to grow at rate similar to our United States operations.

## Roofing Distributors

Wholesale distribution is the primary distribution channel for both residential and commercial roofing products. Wholesale roofing product distributors serve the important role of facilitating the purchasing relationships between roofing materials manufacturers and thousands of contractors. Wholesale distributors can maintain localized

inventories, extend trade credit, give product advice and provide delivery and logistics services.

Despite some recent consolidation, the roofing materials distribution industry remains highly fragmented. The industry is characterized by several “national” distributors and a large number of local and regional participants. The vast majority of our competition continues to come from these smaller, localized roofing supply distributors, and, to a much lesser extent, other building supply distributors and “big box” retailers.

## Residential Roofing

Re-roofing is largely a non-discretionary decision for homeowners. However, prevailing housing market conditions and severe storm activity can influence the precise timing involved. Specifically, we believe housing turnover can impact certain homeowners' re-roofing decisions. Increases in single-family existing home sales during fiscal 2015-2017, coupled with more active storm related roofing demand in 2016 and 2017, have boosted industry re-roofing activity during recent years. This contrasts with the period of stagnant re-roofing demand that was experienced from 2007-2014 during the housing downturn and early into its recovery.

Within the new construction portion of the residential roofing market, growth historically has been driven by housing starts, and in particular, by single-family home construction. According to the U.S. Census Bureau, single-family starts peaked at 1.7 million homes in 2005 and troughed at 0.4 million homes in 2011. Housing starts have recovered steadily since 2011 and have reached 0.8 million in 2016. The Mortgage Bankers Association (MBA) economic forecast projects single-family starts will finish 2017 with a 7% gain compared to 2016 and see 8%-9% increases in both 2018 and 2019.

## Non-residential Roofing

As with residential re-roofing, non-residential re-roofing activity tends to be less cyclical than new construction and depends, in part, upon the types of materials on existing roofs, their expected lifespan and intervening factors such as wind or water damage. In contrast to residential roofing, we do not believe economic driven re-roofing project deferrals have been as common for the non-residential product line. The non-residential roofing market primarily consists of office, retail, industrial and institutional buildings.

According to the 2018 Dodge Construction Outlook, U.S. construction starts will increase 3% in 2018 following expected gains of 4% in 2017 and 5% in 2016. Commercial buildings are expected to see a 2% increase, while institutional buildings should see a 3% increase in construction during 2018.

## Complementary Building Products

Demand for complementary building products such as siding, windows and doors, and insulation for both the residential and non-residential markets has been at historically low levels in recent years, consistent with the downturns in the new construction markets and in the overall economy. Unlike the roofing industry, demand for these products is more discretionary and significantly influenced by new construction markets and the pace of overall residential remodeling activity.

According to the Joint Center for Housing Studies at Harvard University, its Leading Indicator of Remodeling Activity (LIRA) is calling for accelerating growth rates in U.S. remodeling activity throughout calendar year 2018 with anticipated growth rate of 7.7% by the third quarter. As mentioned above, the outlook for new home construction is also projected to see solid growth in the coming years.

## Our Strengths

We believe the sales and earnings growth we have achieved over time has been, and will continue to be, driven by our primary competitive strengths, which include the following:

- **Leading roofing distribution platform with a national scope combined with regional expertise.** We are the largest publicly traded distributor of residential and non-residential roofing materials in the United States, and we maintain leading positions in key metropolitan markets across the United States and Canada. Our geographic footprint is

designed to provide advantages in the regional markets we serve. We utilize a branch-based operating model whereby branches cultivate and maintain local customer relationships while benefiting from centralized functions such as information technology, marketing, accounting, financial reporting, credit, purchasing, human resources, legal and tax services. We provide our customers with specialized products and personalized local services tailored to their specific geographic region, with the resources and scale efficiencies of a national distributor.

7

---

• **Diversified business model in a stable environment.** Our business historically has been protected in times of economic downturn because of the non-discretionary nature of most re-roofing demand, the mix of our sales between residential and non-residential products, our geographic and customer diversity, and the financial and operational ability to expand our business and obtain market share. We have a long history of organic sales growth and healthy gross margins through a variety of economic cycles. Over the last thirteen fiscal years, our total and existing market net sales have increased by a CAGR of 15.8% and 5.1%, respectively, (including growth through acquisitions) and our gross margins in existing markets (i.e., excluding acquisitions) have averaged approximately 24%.

• **Well-positioned in attractive roofing demand markets.** We believe that our national distribution platform is strategically positioned to continue benefitting from the North American market recovery, and we expect that improving economic conditions and continued recovery in residential and non-residential construction activity will drive the demand for additional roofing materials and complementary building products.

• **Superior customer service to our well established, long-term customer base.** Our diverse customer base consists of contractors, home builders, building owners, and other resellers. A significant number of our customers have relied on us as their vendor of choice for decades, and we believe that these strong customer relationships cannot be easily replicated. For the fiscal year ended September 30, 2017, no single customer accounted for more than 2% of our net sales.

We believe that the services provided by our employees improve our customers' efficiency and profitability, which, in turn, strengthens our customer relationships. We consider customer relations and our employees' knowledge of roofing and exterior building materials as being vital to our ability to increase customer loyalty and maintain customer satisfaction. We invest significant resources in professional development, management skills, product knowledge and operational proficiency. The in-depth knowledge of the materials we sell and their applications allows our sales personnel to provide technical advice and value-added service to our customers throughout the construction process.

We provide a number of value-added services to our customers. In particular, we support our customers with: advice and assistance on product identification, specification and technical support; timely job site delivery, rooftop loading and logistical services; tapered insulation design and related layout services; metal fabrication and related metal roofing design and layout services; trade credit; and marketing support, including project leads for contractors.

• **Strong platform for growth and acquisition.** From the time of our IPO in 2004, we increased net sales at rates well above the overall growth in the roofing materials distribution industry. We have expanded our business through strategic acquisitions, new branch openings, and the diversification of our product offering. We generally have improved the financial and operating performance of our acquired companies and helped them to grow their businesses following acquisition.

• **Strong cash flow generation driven by a stable business model.** We have increased net sales in eight of the last ten fiscal years, including increases in each of the last seven consecutively. Our track record of growth, combined with limited capital expenditure requirements, has resulted in strong free cash flow across all economic cycles. We have a strong history of managing our debt leverage effectively and we have successfully reduced leverage subsequent to the RSG transaction.

• **Centralized IT platform.** We have made a significant investment in our information systems, including the ongoing development of a platform for online sales. All of our locations, except for one fabrication facility, operate on the same management information systems, providing us with a consistent platform to deliver excellent customer service and achieve operating efficiencies in purchasing, pricing and inventory management. Our systems have substantial capacity to handle our future growth plans without requiring significant additional investment.

• **Industry-leading management team with a track record of integration.** We believe that our key employees, including branch managers, regional vice presidents and executive officers, are among the

most experienced members of the roofing industry and have a track record of achieving strong revenue growth and delivering profitability. Since Beacon became a publicly traded company in 2004, the Beacon management team has successfully completed and integrated 43 acquisitions and opened 78 new greenfield locations.

#### Our Growth Strategies

Our objective is to be the preferred supplier of roofing and other complementary building product materials across markets in the United States and Canada while continuing to increase net sales and maximize our profitability. We plan to attain these goals by executing the following strategies:

Expand product offering and increase cross-selling activities. Due to the unique characteristics of each geographic region, our local customers typically require market specific product offerings. We believe we have one of the most extensive offerings of high-quality branded products in the industry, with over 50,000 SKUs available across our branch network, however there remain opportunities for branches to expand their current product rosters. This will create additional opportunities for our branches to cross-sell more products throughout our existing network. In particular, we seek to expand non-residential roofing sales into markets where we currently sell mostly residential roofing. In addition, we work closely with customers and suppliers to identify new products and services, and continue to expand our product offering to include complementary building materials such as windows, siding, doors, waterproofing systems, insulation and metal fabrication.

Continue to provide exceptional customer service and roofing expertise. We provide a comprehensive array of high-quality products and offer value-added services. In fiscal year 2017, we were able to support our customers by fulfilling approximately 97% of warehouse orders through our in-stock inventory as a result of the breadth and depth of the inventory maintained at our local branches. We believe that our focus on providing both value-added services and accurate and rapid order fulfillment enables us to attract and retain customers.

Selectively pursue opportunities for organic growth and strategic acquisitions. Acquisitions and greenfield expansion is an important component of our growth strategy. We believe that there will be meaningful opportunities to further expand or intensify our geographic focus in contiguous or existing regions. We intend to continue to pursue our growth strategy while focusing on maintaining a strong balance sheet.

Since 2004, Beacon has opened 78 new branches through greenfield expansion. Beacon has a disciplined approach to new branch openings and its typical strategy is to open branches: (1) within its existing markets; (2) where existing customers have expanded into new markets; or (3) in areas that have limited or no acquisition candidates and are a good fit with its business model and culture.

Since 2004, Beacon has completed 43 acquisitions. We believe that the roofing distribution sector remains fragmented and that there are significant opportunities to further grow our business through disciplined, strategic acquisitions. With only a few large, well-capitalized competitors in the industry, we believe we can continue to build on our distribution platform by successfully acquiring additional roofing materials distributors. Our main acquisition strategy is to target market leaders in geographic areas that we do not service or that complement our existing operations in an area.

Enhance margins and free cash flow generation through continued execution of our growth strategy. We believe that as recent greenfield locations continue to ramp up, and if expected synergies and cost savings from acquisitions are realized, our margins will continue to improve. We also believe that we have an operating model that requires minimal capital, which, when combined with stable re-roofing demand, will position us for strong free cash flow generation. We intend to continue to use cash flows to support deleveraging and our continued platform growth. We have, and will continue to, invest heavily in our branch expansion. Although management estimates that our branch expansion strategy over the past several years has resulted in above average upfront operating costs and capital expenditures, we believe these new branches will increase their contribution to our profitability and cash flow as they mature.



## Our Products and Services

### Products

The ability to provide a broad range of products is essential to success in roofing materials distribution. We carry one of the most extensive arrays of high-quality branded products in the industry, enabling us to deliver a wide variety of products to our customers on a timely basis. We are able to fulfill the vast majority of our warehouse orders with inventory on hand because of the breadth and depth of the inventories at our branches.

Our product portfolio includes residential and non-residential roofing products as well as complementary building products, including:

| Product Portfolio           |                                     |                              |
|-----------------------------|-------------------------------------|------------------------------|
| Residential                 | Non-Residential                     | Complementary                |
| Roofing Products            | Roofing Products                    | Building Products            |
| Asphalt shingles            | Single-ply roofing                  | Vinyl siding                 |
| Synthetic slate and tile    | Asphalt                             | Fiber cement siding          |
| Clay tile                   | Metal                               | Stone veneer                 |
| Concrete tile               | Modified bitumen                    | Windows                      |
| Slate                       | Build-up roofing                    | Doors                        |
| Nail base insulation        | Cements and coatings                | Skylights                    |
| Metal roofing               | Insulation – flat stock & tapered   | Waterproofing                |
| Felts                       | Commercial fasteners                | Building insulation          |
| Synthetic underlayment      | Metal edges and flashings           | Gutters and downspouts       |
| Wood shingles and shakes    | Smoke/roof hatches                  | Decking and railing          |
| Nails and fasteners         | Sheet metal (copper/aluminum/steel) | Air barrier                  |
| Metal edgings and flashings | Roofing tools                       | Concrete restoration systems |
| Prefabricated flashings     | PVC membrane                        | Sealants                     |
| Ridge and soffit vents      | TPO membrane                        |                              |
|                             | EPDM membrane                       |                              |

Our product lines are designed to meet the requirements of residential and non-residential roofing contractors as well as siding & insulation contractors. The products that we distribute are supplied by the industry's leading manufacturers of high-quality roofing materials, siding materials, insulation, windows, doors, decking and related products (See "Purchasing and Suppliers").

In the residential market, asphalt shingles comprise the largest share of the products we sell. We distribute products such as high-end shingles, gutters and metal roofing products, and tile roofing. Additionally, we distribute downspouts, tools, nails, vinyl and fiber cement siding, windows, decking and related exterior shelter products to meet the expansive needs of our customers.

In the non-residential market, single-ply roofing systems and the associated insulation products comprise the largest share of our product offering. Our single-ply roofing systems consist primarily of Ethylene Propylene Diene Monomer (synthetic rubber) or “EPDM” and Thermoplastic Olefin or “TPO”, along with other roofing materials and related components. In addition to the broad range of single-ply roofing components, we sell asphaltic membranes and the insulation required in most non-residential roofing applications, such as tapered insulation. Our remaining non-residential products include metal roofing and flashings, fasteners, fabrics, coatings, roof drains, modified bitumen, built-up roofing and asphalt.

Of all the complementary building products in our portfolio, vinyl and cement siding comprise the largest share of the products we sell.

### Services

We emphasize superior value-added services to our customers. We employ a knowledgeable sales force that possesses in-depth knowledge of roofing materials and applications and is capable of providing technical advice and assistance to contractors and other customers throughout the re-roofing and construction process. In particular, we support our customers with the following value-added services:

- advice and assistance on product identification, specification and technical support, and training services;
- a large, service ready fleet with a broad footprint supporting timely job site delivery, rooftop loading and logistical services;
- tapered insulation engineered with enhanced computer-aided design and related layout services;
- metal fabrication and related metal roofing design and layout services;
- access to Beacon Pro+, our e-commerce platform that provides customers with 24/7 online access;
- trade credit and online bill pay; and
- marketing support, including project leads for contractors.

### Our Customers

We serve over 70,000 customers, comprised of contractors, home builders, building owners, and other resellers across the continental United States and Canada. Our typical customer base varies by end market, with relatively small contractors in the residential market and small to large-sized contractors in the non-residential market. To a lesser extent, our customer base in a market can include general contractors, retailers and building materials suppliers. A significant number of our customers have relied on us or our predecessors as their vendor of choice for decades, therefore we believe that we have strong customer relationships that our competitors cannot easily displace or replicate. No single customer accounts for more than 2% of our net sales.

### Our Culture and Employees

We believe that our values based culture is a key differentiator, which is critical to our success. We pride ourselves on attracting and retaining highly dedicated and customer focused employees at all levels of the organization. We maintain a safety-first environment and strong relations with our employees.

As of September 30, 2017 we had 5,406 employees consisting of 1,334 in sales and marketing, 682 branch and assistant branch managers, 2,666 drivers, delivery helpers and warehouse workers, 680 general and administrative employees and 44 executives. We have 33 employees that are represented by labor unions and there are no outstanding labor disputes.

### Sales and Marketing

#### Sales strategy

Our sales strategy is to provide a comprehensive array of high-quality products and superior value-added services to residential and non-residential roofing contractors reliably, accurately and on time. In fiscal year 2017, we were able to support our customers by fulfilling approximately 97% of warehouse orders at the time of invoice. This is a result of the breadth and depth of the inventory maintained at our local branches. We believe that our focus on providing superior value-added services and accurate and rapid order fulfillment enables us to attract and retain customers.



## Sales organization

We have attracted and retained an experienced sales force that consisted of approximately 1,181 employees as of September 30, 2017 who are responsible for generating sales at the local branch level. The expertise of our salespeople helps us to increase sales to existing customers and add new customers.

Each of our branches is led by a branch manager, who also functions as the branch's sales manager. In addition, each branch generally employs one to four outside salespeople and one to five inside salespeople who report to their branch manager. Branches that focus primarily on the residential market typically staff a larger number of outside salespeople.

The primary objectives of our outside salespeople are to increase sales to existing customers and prospect for new customers. These activities are supported by utilizing our CRM (Customer Relationship Management) system throughout our selling organization. We continue to use our proprietary LogicTrack software system to extract information on construction projects in our local markets. Once a construction project is identified, members of our design and estimating team create job quotes, which, along with pertinent bid and job information, are readily available to our salespeople through LogicTrack. Our outside salespeople then contact potential customers in an effort to solicit their interest in participating with us in the identified project. Throughout this process, LogicTrack maintains a record of quoting activity, due dates, and other data to allow tracking of the projects and efficient follow-up. By seeking a contractor to "partner with" on a bid, we increase the likelihood that such contractor will purchase their roofing materials and related products from us in the event that the contractor is selected for the project.

To complement our outside sales force, we have built an experienced and technically proficient inside sales staff that provides vital product expertise to our customers. Our inside sales force is responsible for fielding incoming orders, providing pricing quotations and responding to customer inquiries.

In addition to our outside and inside sales forces, we employ representatives who act as liaisons for certain roofing materials manufacturers to assist with the promotion of specific products to professional contractors, architects and building owners. These relationships include exclusive geographic territories and we currently have a developed relationship with Carlisle on this basis.

## Marketing

In order to capitalize on established customer relationships and locally developed brands, we have maintained the trade names of most of the businesses that we have acquired. These trade names—such as Acme Building Materials, Alabama Roofing Supply, American Building & Roofing, Atlantic Building Products, Applicators Sales, Beacon Roofing Supply Canada Company, Beacon Sales, Best Distributing, BJ Supply, Cassady Pierce, Coastal Metal Service, Dealers Choice, Eco Insulation Supply, Enercon Products, Entrepot de la Toiture, Ford Wholesale, Fox Brothers Company, Groupe Bédard, Intermountain Supply, JGA, JGA Beacon, Lowry's, Lyf-Tym Building Products, Lafayette Wood Works, McClure Johnston, Mississippi Roofing Supply, North Coast Roofing Systems, Pacific Supply, Posi-Pentes, Posi-Slope, ProCoat Systems, Quality Roofing Supply, RCI Roofing Supply, RIS Insulation Supply, RIS Roofing Supply, RIS Roofing and Insulation Supply, Roof Depot, Roofing Supply Group, Southern Roof Center, Statewide Wholesale, Structural Materials, The Roof Center, West End Roofing, Siding & Windows, Wholesale Roofing Supply, and Woodfeathers — are well-known in the local markets in which the respective branches compete and are associated with high-quality products and customer service.

As a supplement to the efforts of our sales force, each of our branches communicates with residential and non-residential contractors in their local markets through newsletters, direct mail, social media and the Internet. In order to build and strengthen relationships with customers and vendors, we offer exclusive promotions and sponsor

our own regional trade shows, which feature general business and roofing seminars for our customers and product demonstrations by our vendors. In addition, we attend numerous industry trade shows throughout the regions in which we compete, and we are an active member of the National Roofing Contractors Association, as well as certain regional contractors' associations.

In fiscal year 2017, we introduced Beacon Pro+, our innovative e-commerce portal that enables customers to order online from our catalog of over 50,000 products and have 24/7 access to view real time pricing, review the status of orders, request and approve quotes, and pay their bills online.

## Purchasing and Suppliers

Our status as a leader in our core geographic markets, as well as our reputation in the industry, has allowed us to forge strong relationships with numerous manufacturers of roofing materials and related products, including Atlas Roofing, Berger Building Products, Building Products of Canada, Carlisle Syntec, CertainTeed Roofing, CertainTeed Siding, Firestone Building Products, GAF, IKO Manufacturing, James Hardie Building Products, Johns Manville Roofing, Malarkey, Owens Corning Roofing, Ply Gem, Soprema, and TAMKO Building Products.

We are viewed by our suppliers as a key distributor due to our industry expertise, past growth and profitability, significant market share, financial strength, and the substantial volume of products that we distribute.

We manage the procurement of products through our national headquarters and regional offices, allowing us to take advantage of both our scale and local market conditions. We believe this enables us to purchase products more economically than most of our competitors. Product is shipped directly by the manufacturers to our branches or customers.

## Operations and Infrastructure

### Operations

Our branch-based model provides each location with a significant amount of autonomy to operate within the parameters of our overall business model. Operations at each branch are tailored to meet local customer needs. Branch managers are responsible for sales, pricing and staffing activities, and have full operational control of customer service and deliveries. We provide our branch managers with significant incentives that allow them to share in the profitability of their respective branches as well as in the company as a whole. Employees at our regional and corporate operations assist the branches with, among other things, procurement, credit and safety services, fleet management, information systems support, contract management, accounting, treasury and legal services, human resources, benefits administration and sales and use tax services.

Our distribution fulfillment process is initiated upon receiving a request for a contract job order or direct product order from a contractor. Under a contract job order, a contractor typically requests roofing or other construction materials and technical support services. The contractor discusses the project's requirements with a salesperson and the salesperson provides a price quotation for the package of products and services. Subsequently, the salesperson processes the order and we deliver the products to the customer's job site. In fiscal year 2017, we were able to support our customers by fulfilling approximately 97% of warehouse orders through our in-stock inventory as a result of the breadth and depth of the inventory maintained at our local branches.

### Facilities

As of September 30, 2017, our network of 383 branches was serving metropolitan areas in 48 states and 6 Canadian provinces. This network has enabled us to effectively and efficiently serve a broad customer base and to achieve a leading market position in each of our core geographic markets.

### Fleet

For the year ended September 30, 2017, our distribution infrastructure supported over one million deliveries. To service our customer base, we maintained a dedicated owned fleet of 590 straight trucks, 566 tractors and 978 trailers as of September 30, 2017. Nearly all of our delivery vehicles are equipped with specialized equipment, including 1,779 truck-mounted forklifts, cranes, hydraulic booms and conveyors, which are necessary to deliver products to

rooftop job sites in an efficient and safe manner and in accordance with our customers' requirements.

Our branches typically focus on providing materials to customers who are located within a two-hour radius of their respective facilities. Our branches generally make deliveries each business day.

#### Management Information Systems

We have fully integrated management information systems across our locations. Acquired businesses are moved to our IT platform as soon as feasible following acquisition. Our systems support every major internal

operational function, except payroll, providing complete integration of purchasing, receiving, order processing, shipping, inventory management, sales analysis and accounting. The same databases are shared within the systems, allowing our branches to easily acquire products from other branches or schedule deliveries by other branches, greatly enhancing our customer service. Our systems also include a pricing matrix which allows us to refine pricing by region, branch, customer and customer type, or even a specific customer project. In addition, our systems allow us to centrally monitor all branch and regional performance as often as daily. We have centralized many functions to leverage our growing size, including accounts payable, insurance, payroll, employee benefits, vendor relations, and banking.

All of our branches are connected to a common computer network via secure Internet connections or private data lines. We maintain redundant systems with transactional data getting replicated throughout each business day. We have the capability of electronically switching our operations to the disaster recovery system.

We place purchase orders electronically with some of our major vendors. The vendors then transmit their invoices electronically to us. Our system matches these invoices with the related purchase orders and then schedules the associated payment. We retain many financial, credit and other documents for purposes of internal approvals, online viewing and auditing.

#### Government Regulations

We are subject to regulation by various federal, state, provincial and local agencies. These agencies include the Environmental Protection Agency, Department of Transportation, Occupational Safety and Health Administration and Department of Labor and Equal Employment Opportunity Commission. We believe we are in compliance in all material respects with existing applicable statutes and regulations affecting environmental issues and our employment, workplace health and workplace safety practices.

In 2012, the United States Supreme Court upheld the majority of the provisions in the Patient Protection and Affordable Care Act (the “Act”). The Act places requirements on employers to provide a minimum level of benefits to employees and assesses penalties on employers if the benefits do not meet the required minimum level or if the cost of coverage to employees exceeds affordability thresholds specified in the Act. The minimum benefits and affordability requirements took effect in 2014. The Act also imposes an excise tax beginning in 2018 on plans whose average cost exceeds specified amounts. We have analyzed the effects on us from the provisions of the Act and we do not currently anticipate a significant financial impact.

#### Competition

Although we are one of the two largest roofing materials distributors in the United States and Canada, the United States roofing supply industry is highly competitive. The vast majority of our competition comes from local and regional roofing supply distributors, and, to a lesser extent, other building supply distributors and “big box” retailers. Among distributors, we compete against a small number of large distributors and many small and local privately-owned distributors. The principal competitive factors in our business include, but are not limited to, the availability of materials and supplies; technical product knowledge and expertise; advisory or other service capabilities; pricing of products; and availability of credit and capital. We generally compete on the basis of the quality of our services, product quality and, to a lesser extent, price.

#### Order Backlog

Order backlog is not a material aspect of our business and no material portion of our business is subject to government contracts.

### Seasonality

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 regions of the United States and in Canada. Our sales are substantially lower during the second quarter, when we usually incur net losses. These quarterly fluctuations have diminished as we have diversified further into the southern and western regions of the United States.

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. Our principal source of liquidity is our cash and cash equivalents and borrowings under our revolving credit facility, so our borrowings tend to be highest in the third quarter of our fiscal year.

#### History and Additional Information

Our predecessor, Beacon Sales Company, Inc., was founded in Charlestown, Massachusetts (part of Boston) in 1928. Beacon Roofing Supply, Inc. was incorporated in Delaware in 1997. Our principal executive offices are located at 505 Huntmar Park Drive, Suite 300, Herndon, Virginia 20170 and our telephone number is (571) 323-3939. Our Internet website address is [www.becn.com](http://www.becn.com).

We are subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934, as amended (“Exchange Act”), and, in accordance with such requirements, furnish or file periodic reports, proxy statements, and other information with the Securities and Exchange Commission (“SEC”). These periodic reports, proxy statements, and other information are available for inspection and copying at the regional offices, public reference facilities, and SEC website, [www.sec.gov](http://www.sec.gov). We also maintain an investor relations page on our website where our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other required SEC filings may be accessed free of charge as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

#### ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below and other information included in this Form 10-K in evaluating us and our business. If any of the events described below occur, our business and financial results could be adversely affected in a material way. This could cause the trading price of our common stock to decline, perhaps significantly.

##### Risks Related to Our Business

We may not be able to effectively integrate newly acquired businesses into our operations or achieve expected cost savings or profitability from our acquisitions.

Our growth strategy includes acquiring other distributors of roofing materials and complementary products. Acquisitions involve numerous risks, including:

- unforeseen difficulties in integrating operations, technologies, services, accounting and employees, including difficulties in operating and integrating Allied’s interior products business line, a business line which we have not previously operated;

- diversion of financial and management resources from existing operations;

- unforeseen difficulties related to entering geographic regions where we do not have prior experience;

- potential loss of key employees;

- unforeseen liabilities associated with businesses acquired; and

- inability to generate sufficient revenue or realize sufficient cost savings to offset acquisition or investment costs.

As a result, if we fail to evaluate and execute acquisitions properly, we might not achieve the anticipated benefits of such acquisitions and we may incur costs in excess of what we anticipate. These risks would likely be greater in the case of larger acquisitions, including the Allied Acquisition. See “—Risks Related to the Allied Acquisition” below.



We may not be able to successfully complete acquisitions on acceptable terms, which would slow our growth rate.

The acquisition of other distributors of roofing materials and complementary products is an important part of our growth strategy. We continually seek additional acquisition candidates in selected markets and from time to time engage in exploratory discussions with potential candidates. We are unable to predict whether or when we will be able to identify any suitable additional acquisition candidates, or the likelihood that any potential acquisition will be completed. If we cannot complete acquisitions that we identify on acceptable terms, it is unlikely that we will sustain the historical growth rates of our business.

An inability to obtain the products that we distribute could result in lost revenues and reduced margins and damage relationships with customers.

We distribute roofing and other exterior building materials that are manufactured by a number of major suppliers. Disruptions in our sources of supply may occur as a result of unanticipated demand or production or delivery difficulties. When shortages occur, roofing material suppliers often allocate products among distributors. Although we believe that our relationships with our suppliers are strong and that we would have access to similar products from competing suppliers should products be unavailable from current sources, any supply shortage, particularly of the most commonly sold items, could result in a loss of revenues and reduced margins and damage relationships with customers.

Loss of key talent or our inability to attract and retain new qualified talent could hurt our ability to operate and grow successfully.

Our success will continue to depend to a significant extent on our executive officers and key management personnel, including our divisional executive vice presidents and regional vice presidents. We do not have key man life insurance covering any of our executive officers. We may not be able to retain our executive officers and key personnel or attract additional qualified management. The loss of any of our executive officers or other key management employees, or our inability to recruit and retain qualified employees, could hurt our ability to operate and make it difficult to execute our acquisition and internal growth strategies. Further, the Allied Acquisition may negatively impact our ability to retain key personnel.

A change in vendor pricing and demand could adversely affect our income and gross margins.

Many of the products that we distribute are subject to price changes based upon manufacturers' raw material costs and other manufacturer pricing decisions. For example, as a distributor of residential roofing supplies, our business is sensitive to asphalt prices, which are highly volatile and often linked to oil prices, as oil is a significant input in asphalt production. Shingle prices have been volatile in recent years, partly due to volatility in asphalt prices. Historically, we have generally been able to pass increases in the prices of shingles on to our customers. Although we often are able to pass on manufacturers' price increases, our ability to pass on increases in costs depends on market conditions. The inability to pass along cost increases could result in lower operating margins. In addition, higher prices could impact demand for these products, resulting in lower sales volumes.

A change in vendor rebates could adversely affect our income and gross margins.

The terms on which we purchase products from many of our vendors entitle us to receive a rebate based on the volume of our purchases. These rebates effectively reduce our costs for products. If market conditions change, vendors may adversely change the terms of some or all of these programs. Although these changes would not affect the net recorded costs of product already purchased, it may lower our gross margins on products we sell and therefore the income we realize on such sales in future periods.

Cyclicalities in our business and general economic conditions could result in lower revenues and reduced profitability.

A portion of the products we sell are for residential and non-residential construction. The strength of these markets depends on new housing starts and business investment, which are a function of many factors beyond our control, including credit and capital availability, interest rates, foreclosure rates, housing inventory levels and occupancy, employment levels, consumer confidence and the health of the United States economy and mortgage

markets. Economic downturns in the regions and markets we serve could result in lower revenues and, since many of our expenses are fixed, lower profitability. The challenging economic conditions in recent years, including tighter credit markets, have adversely affected demand for new residential and non-residential projects and, to a lesser extent, re-roofing projects, and may continue to negatively affect expenditures for roofing in the near term. Unfavorable changes in demographics, credit markets, consumer confidence, housing affordability, or housing inventory levels and occupancy, or a weakening of the United States economy or of any regional or local economy in which we operate could adversely affect consumer spending, result in decreased demand for our products, and adversely affect our business. In addition, instability in the economy and financial markets, including as a result of terrorism or civil or political unrest, may result in a decrease in housing starts, which would adversely affect our business.

Seasonality in the construction and re-roofing industry generally results in second quarter losses.

Our second quarter is typically affected adversely by winter construction cycles and cold weather patterns as the levels of activity in the new construction and re-roofing markets decrease. Because many of our expenses remain relatively fixed throughout the year, we generally record a loss during our second quarter. We expect that these seasonal variations will continue in the near future.

If we encounter difficulties with our management information systems, we could experience problems with inventory, collections, customer service, cost control and business plan execution.

We believe our management information systems are a competitive advantage in maintaining our leadership position in the roofing distribution industry. However, if we experience problems with our management information systems, we could experience, among other things, product shortages and/or an increase in accounts receivable aging. Any failure by us to properly maintain and protect our management information systems could adversely impact our ability to attract and serve customers and could cause us to incur higher operating costs and experience delays in the execution of our business plan.

Since we rely heavily on information technology both in serving our customers and in our enterprise infrastructure in order to achieve our objectives, we may be vulnerable to damage or intrusion from a variety of cyber-attacks including computer viruses, worms or other malicious software programs that may access our systems. Despite the precautions we take to mitigate the risks of such events, an attack on our enterprise information technology system could result in theft or disclosure of our proprietary or confidential information or a breach of confidential customer or employee information. Such events could have an adverse impact on revenue, harm our reputation, and cause us to incur significant legal liability and costs to address and remediate such events and related security concerns.

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. At September 30, 2017, goodwill represented approximately 36% of our total assets. We expect to record significant additional goodwill and other intangible assets upon consummation of the Allied Acquisition. 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 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 a qualitative 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.

We might need to raise additional capital, which may not be available, thus limiting our growth prospects.

In the future we may require equity or additional debt financing in order to consummate an acquisition, for additional working capital for expansion, or if we suffer more than seasonally expected losses. In the event such additional financing is unavailable to us on commercially attractive terms or at all, we may be unable to expand or make acquisitions or pursue other growth opportunities.

Major disruptions in the capital and credit markets may impact both the availability of credit and business conditions.

If the financial institutions that have extended credit commitments to us are adversely affected by major disruptions in the capital and credit markets, they may become unable to fund borrowings under those credit commitments. This could have an adverse impact on our financial condition since we need to borrow funds at times for working capital, acquisitions, capital expenditures and other corporate purposes.

Major disruptions in the capital and credit markets could also lead to broader economic downturns, which could result in lower demand for our products and increased incidence of customers' inability to pay their accounts. The majority of our net sales volume is facilitated through the extension of trade credit to our customers. Additional customer bankruptcies or similar events caused by such broader downturns may result in a higher level of bad debt expense than we have historically experienced. Also, our suppliers may be impacted, causing potential disruptions or delays of product availability. These events would adversely impact our results of operations, cash flows and financial position.

Our level and terms of indebtedness could adversely affect our ability to raise additional capital to fund our operations, take advantage of new business opportunities, and prevent us from meeting our obligations under our debt instruments.

As of September 30, 2017, we had \$300.0 million in aggregate principal amount of our 6.375% senior notes due 2023, \$441.0 million outstanding under our existing seven-year senior secured term loan "B" facility, \$3.2 million drawn under our existing senior secured asset-based revolving credit facility (the "ABL Facility" and, together with the term loan B facility, our "Existing Senior Secured Credit Facilities"), and \$35.4 million of total other indebtedness. In connection with the Allied Acquisition, on October 25, 2017 we issued \$1.3 billion in aggregate principal amount of our 4.875% senior notes due 2025 (our "outstanding senior notes"), and we also expect to borrow up to an aggregate principal amount of \$970.0 million under a seven-year senior secured term loan "B" facility (the "New Term Loan") and enter into an amended and restated senior secured asset-based revolving credit facility with commitments of up to \$1.3 billion (the "New ABL Facility" and, collectively with the New Term Loan, the "New Senior Secured Credit Facilities"). Our substantial debt could have important consequences to us, including:

- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of our cash flow used in operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our liquidity and our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;
- exposing us to the risk of increased interest rates, and corresponding increased interest expense, because future borrowings under our Existing Senior Secured Credit Facilities or New Senior Secured Credit Facilities would be at variable rates of interest;
- reducing funds available for working capital, capital expenditures, acquisitions and other general corporate purposes, due to the costs and expenses associated with such debt;
- make it more difficult to satisfy our obligations under the terms of our indebtedness;
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions, and general corporate or other purposes; and
- limiting our ability to adjust to changing marketplace conditions and placing us at a competitive disadvantage compared to our competitors who may have less debt.

In addition, the debt agreements that currently govern our Existing Senior Secured Credit Facilities and the indentures governing our outstanding senior notes impose significant operating and financial restrictions on us, including limitations on our ability to, among other things, pay dividends and make other distributions on, or redeem or repurchase, capital stock; make certain investments; incur certain liens; enter into transactions with affiliates; merge or consolidate; enter into agreements that restrict the ability of our subsidiaries to make dividends or other payments to



Beacon Roofing Supply, Inc.; and transfer or sell assets. We expect that the debt agreements and other debt instruments that will govern the New Senior Secured Credit Facilities will have similar restrictions. In addition, the terms of our preferred stock contain restrictions on our ability to pay dividends on our common stock, and the holders of such shares would participate in any declared common stock dividends, reducing the cash available to holders of common stock. As a result of these restrictions, we will be limited as to how we conduct our business and we may be unable to raise additional debt or equity financing to compete effectively or to capitalize on available business opportunities.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital, or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations, which could cause us to default on our debt obligations and impair our liquidity. In the event of a default under any of our indebtedness, the holders of the defaulted debt could elect to declare all the funds borrowed to be due and payable, together with accrued and unpaid interest, which in turn could result in cross-defaults under our other indebtedness. The lenders under our Existing Senior Secured Credit Facilities could also elect to terminate their commitments thereunder and cease making further loans, and such lenders could institute foreclosure proceedings against their collateral, and we could be forced into bankruptcy or liquidation.

Despite our current level of indebtedness, we may be able to incur substantially more debt and enter into other transactions which could further exacerbate the risks to our financial condition described above.

We may be able to incur significant additional indebtedness in the future. Although the debt agreements that currently govern our Existing Senior Secured Credit Facilities, outstanding senior notes and other debt instruments contain, and the debt agreements and other debt instruments that we anticipate will govern the New Senior Secured Credit Facilities will contain, restrictions on the incurrence of additional indebtedness and entering into certain types of other transactions, these restrictions are subject to a number of qualifications and exceptions. Additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also do not prevent us from incurring obligations, such as trade payables, that do not constitute indebtedness as defined under our debt instruments. To the extent we incur additional indebtedness or other obligations, the risks described in the immediately preceding risk factor and others described herein may increase.

#### Risks Related to the Allied Acquisition

The Allied Acquisition is subject to closing conditions. Failure to complete the Allied Acquisition could have material and adverse effects on Beacon.

On August 24, 2017, Beacon entered into the Stock Purchase Agreement in connection with the Allied Acquisition. Although we currently expect the Allied Acquisition to close on January 2, 2018, subject to customary closing conditions, there can be no assurance that the Allied Acquisition will be completed in accordance with the anticipated timing or at all. In addition, if the Allied Acquisition has not been completed by February 28, 2018, either Allied or the Company may terminate the Stock Purchase Agreement unless the failure of the Allied Acquisition to be completed has resulted from the failure of the party seeking to terminate the Stock Purchase Agreement to perform its obligations thereunder.

If the Allied Acquisition is not completed on a timely basis, or at all, Beacon's ongoing business may be adversely affected. Additionally, in the event the Allied Acquisition is not completed, Beacon will be subject to a number of risks without realizing any of the benefits of having completed the Allied Acquisition, including the following:

-

the Company will be required to pay its costs relating to the Allied Acquisition, such as legal, accounting, financing and financial advisory fees, whether or not the Allied Acquisition is completed, and could be required to pay Allied a termination fee of \$85 million in cash if the Stock Purchase Agreement is terminated under specified circumstances; time and resources committed by the Company's management to matters relating to the Allied Acquisition could otherwise have been devoted to pursuing other beneficial opportunities; and

the market price of the Company's securities could decline to the extent that the current market price reflects a market assumption that the Allied Acquisition will be completed, or to the extent that the Allied Acquisition is fundamental to the Company's business strategy.

The issuance of preferred shares in the Convertible Preferred Stock Purchase, which will rank senior to our shares of common stock, and the issuance of additional preferred shares as "in-kind" dividend payments will reduce the relative voting power of our common stockholders, will dilute the ownership of such stockholders, and may adversely affect the market price of our common stock. The preferred stock to be issued in the Convertible Preferred Stock Purchase will have rights, preferences and privileges that are not held by, and are preferential to the rights of, our common stockholders. We may be required under certain circumstances to repurchase the preferred stock for cash; such obligations could adversely affect our liquidity and financial condition.

On August 24, 2017, in connection with the execution of the Stock Purchase Agreement, Beacon entered into an investment agreement (the "Investment Agreement") with CD&R Boulder Holdings, L.P. (the "CD&R Stockholder") and Clayton, Dubilier & Rice Fund IX, L.P. (solely for the purpose of limited provisions therein) for the purchase of shares of Series A Cumulative Convertible Participating Preferred Stock, par value \$0.01 per share (the "preferred stock") in order to partially finance the Allied Acquisition. The preferred stock will be convertible perpetual participating preferred stock of Beacon, with an initial conversion price of \$41.26 per share, and accrue dividends at a rate of 6.0% per annum (payable in cash or in-kind, subject to specified limitations). The preferred stock may be converted to shares of our common stock at any time following issuance thereof at the option of the holder, and any such conversion will dilute the ownership interest of our common stockholders. Pursuant to the Investment Agreement, upon closing of the Allied Acquisition, the CD&R Stockholder will purchase 400,000 shares of our preferred stock with an aggregate liquidation preference of \$400 million, at a purchase price of \$1,000 per share (such purchase, the "Convertible Preferred Stock Purchase"). Such shares of preferred stock may be converted at any time at the option of the holder into 9,694,619 shares of our common stock representing approximately 14.3% of our outstanding shares of common stock (as of September 30, 2017 and assuming no adjustment to the initial conversion price of \$41.26 per share). In addition, under the terms of the preferred stock, we may, at our option, force the conversion of all (but not less than all) of the outstanding shares of preferred stock to common stock if any time the market price of our common stock exceeds 200% of the then-effective conversion price per share for at least 75 days out of any trailing 90-trading day period. Any such conversion would significantly dilute our common stockholders and may adversely affect our earnings per share and the market price of our common stock.

If we issue additional shares of preferred stock as "in-kind" dividend payments that, together with the 400,000 shares of preferred stock issued to the CD&R Stockholder at closing of the Allied Acquisition, represent in excess of 12,071,937 shares of our common stock on an as-converted basis, and in certain other circumstances as provided in the preferred stock certificate of designations, a "Triggering Event" would occur. Upon the occurrence of a "Triggering Event," the dividend rate will increase to 9.0% per annum for so long as the Triggering Event remains in effect, which will further dilute our common stockholders if we issue additional shares of preferred stock to satisfy our dividend payment obligations. Moreover, if we declare or pay a cash dividend on our common stock, we will be required to declare and pay a dividend on the outstanding preferred stock on a pro rata basis with the common shares determined on an as-converted basis. The maximum number of shares of common stock into which the preferred stock may be converted (taking into account any shares of preferred stock issued as in-kind dividend payments) will be limited to 12,071,937 shares of our common stock, which represents 19.99% of the total number of shares of common stock issued and outstanding immediately prior to the execution of the Investment Agreement, unless and until we were to obtain stockholder approval of such issuance under the NASDAQ listing rules. The terms of the Investment Agreement and preferred stock do not require us to obtain stockholder approval in these circumstances.

Holders of the preferred stock generally will be entitled to vote with the holders of the shares of Common Stock on all matters submitted for a vote of holders of shares of Common Stock (voting together with the holders of shares of Common Stock as one class) (subject to the limitation that any one preferred stock holder, together with its affiliates, cannot vote any shares in excess of 19.99% of the aggregate voting power of the common stock outstanding immediately prior to the execution of the Investment Agreement). The prior written consent of the holders of a majority of the preferred stock will also be required to, among other things, (i) amend or modify the Company's charter, by-laws or the certificate of designations governing the preferred stock that would adversely affect the preferred stock or (ii) amend the Company's debt agreements to, among other things, adversely affect the Company's ability to pay dividends on the preferred stock, subject to certain exceptions.

The conversion price of the preferred stock is subject to customary anti-dilution adjustments, including in the event of any stock split, stock dividend, recapitalization or similar event. Adjustments to the conversion price will dilute the ownership interest of our common stockholders. In addition, holders of preferred stock will have the right to receive a liquidation preference entitling them to be paid out of our assets available for distribution to shareholders, before any payment may be made to holders of shares of common stock, an amount equal to the greater of (a) 100% of the liquidation preference thereof plus all accrued and unpaid dividends or (b) the amount that such holder would have been entitled to receive upon our liquidation, dissolution and winding up if all outstanding shares of preferred stock had been converted into common stock immediately prior to such liquidation, dissolution or winding up, without regard to any of the limitations on conversion or convertibility.

Furthermore, the holders of the preferred stock will have certain redemption rights, including upon certain change of control events involving us, which, if exercised, could require us to repurchase all of the outstanding preferred stock for cash at the original purchase price of the preferred stock plus all accrued and unpaid dividends thereon. Our obligations to pay regular dividends to the holders of the preferred stock or any required repurchase of the outstanding preferred stock could impact our liquidity and reduce the amount of cash flows available for working capital, capital expenditures, growth opportunities, acquisitions, and other general corporate purposes. Our obligations to the holders of preferred stock could also limit our ability to obtain additional financing or increase our borrowing costs, which could have an adverse effect on our financial condition. The preferential rights could also result in divergent interests between the holders of the preferred stock and holders of our common stock.

Following the completion of the Allied Acquisition and an 18-month lock-up period, the CD&R Stockholder may sell shares of our common stock issued upon conversion of preferred stock in the public market, which may cause the market price of our common stock to decrease and therefore make it more difficult to raise equity financing or issue equity as consideration in an acquisition.

We will enter into a registration rights agreement with the CD&R Stockholder, which will give this holder (together with its permitted transferees) the right to require us to register all or a portion of its shares under the Securities Act following the expiration of an 18-month lock-up period. The registration rights for the CD&R Stockholder will allow it to sell its shares without compliance with the volume and manner of sale limitations under Rule 144 promulgated under the Securities Act and will facilitate the resale of such securities into the public market. The market value of our common stock could decline as a result of sales by the CD&R Stockholder from time to time. In particular, the sale of a substantial number of our shares by the CD&R Stockholder within a short period of time, or the perception that such sale might occur, could cause our stock price to decrease, make it more difficult for us to raise funds through future offerings of Beacon common stock or acquire other businesses using Beacon common stock as consideration.

Following the consummation of the Allied Acquisition, the CD&R Stockholder will hold a significant equity interest in us and may exercise significant influence over us, including through its ability to designate up to two directors to our board of directors, and its interests as a preferred equity holder may diverge from or even conflict with your interests.

After giving effect to the Allied Acquisition, the CD&R Stockholder will beneficially own preferred stock convertible into approximately 14.3% of our outstanding common stock (as of September 30, 2017 and assuming no adjustment to the initial conversion price of \$41.26 per share) and will become our largest stockholder. As a result, the CD&R Stockholder may have the indirect ability to influence our policy and operations. In addition, in connection with the Allied Acquisition, we have entered into the Investment Agreement with the CD&R Stockholder, pursuant to which the CD&R Stockholder will be initially entitled to appoint up to two directors to our board of directors. Notwithstanding that all directors will be subject to fiduciary duties to us and to applicable law, the interests

of the directors designated by the CD&R Stockholder may differ from the interests of our security holders as a whole or of our other directors. With such representation on our board of directors, the CD&R Stockholder will have influence over the appointment of management and any action requiring the vote of our board of directors, including significant corporate action such as mergers and sales of substantially all of our assets. The directors controlled by the CD&R Stockholder will also be able to make decisions affecting our capital structure, including decisions to issue additional capital stock and incur additional debt. Additionally, for so long as the CD&R Stockholder owns preferred stock, certain matters will require the approval of the CD&R Stockholder, including (1) amendments or modifications to the Company's charter, by-laws or the certificate of designations governing the

preferred stock that would adversely affect the preferred stock, (2) authorization, creation, increase in the authorized amount of, or issuance of any class or series of senior or parity equity securities or any security convertible into, shares of senior or parity equity securities, (3) any increase or decrease in the authorized number of preferred shares or the issuance of additional shares of preferred stock, (4) amendments to the Company's debt agreements that would, among other things, adversely affect the Company's ability to pay dividends on the preferred stock, subject to certain exceptions, and (5) the liquidation, dissolution or filing of a voluntary petition for bankruptcy or receivership. The interests of the CD&R Stockholder as stockholder may not in all cases be aligned with your interests and may even conflict with your interests. The CD&R Stockholder and its affiliates are in the business of making or advising on investments in companies, including businesses that may directly or indirectly compete with certain portions of our business. In addition, the CD&R Stockholder may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, even though such a transaction might involve risks to you. Furthermore, the CD&R Stockholder may in the future own businesses that directly or indirectly compete with us. The CD&R Stockholder may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2. PROPERTIES

As of October 31, 2017, we leased 382 facilities including our headquarters and other support facilities, throughout the United States and Canada. These leased facilities range in size from approximately 2,000 to 137,000 square feet. In addition, we own 13 sales/warehouse facilities located in Manchester, New Hampshire; Reading, Pennsylvania; Montreal, Quebec (2); Sainte-Foy, Quebec; Delson, Quebec; Trois Rivieres, Quebec; Salisbury, Maryland; Hartford, Connecticut; Cranston, Rhode Island; Lancaster, Pennsylvania; Easton, Maryland; and Manassas, Virginia. These owned facilities range in size from 11,500 square feet to 68,000 square feet. All of the owned properties are mortgaged to our senior lenders. We believe that our properties are in good operating condition and adequately serve our current business operations.

As of October 31, 2017, we operated 383 branches, a few with multiple leased facilities or combined facilities, as well as 12 other facilities. The following table summarizes the locations of these branches and facilities:

| Location       | Branches | Non-Branch<br>Facilities |
|----------------|----------|--------------------------|
| U.S. State     |          |                          |
| Alabama        | 6        |                          |
| Arizona        | 4        |                          |
| Arkansas       | 4        |                          |
| California     | 31       |                          |
| Colorado       | 14       |                          |
| Connecticut    | 4        | 1                        |
| Delaware       | 3        |                          |
| Florida        | 18       |                          |
| Georgia        | 12       | 1                        |
| Hawaii         | 2        |                          |
| Idaho          | 1        |                          |
| Illinois       | 8        |                          |
| Indiana        | 6        |                          |
| Iowa           | 2        |                          |
| Kansas         | 4        |                          |
| Kentucky       | 6        |                          |
| Louisiana      | 9        |                          |
| Maine          | 4        |                          |
| Maryland       | 15       | 2                        |
| Massachusetts  | 13       |                          |
| Michigan       | 9        |                          |
| Minnesota      | 3        |                          |
| Mississippi    | 3        |                          |
| Missouri       | 10       |                          |
| Montana        | 1        |                          |
| Nebraska       | 7        |                          |
| Nevada         | 1        |                          |
| New Hampshire  | 2        |                          |
| New Jersey     | 2        |                          |
| New Mexico     | 1        |                          |
| New York       | 2        |                          |
| North Carolina | 22       | 2                        |
| Ohio           | 8        | 1                        |
| Oklahoma       | 3        |                          |
| Oregon         | 3        |                          |
| Pennsylvania   | 28       |                          |
| Rhode Island   | 1        |                          |
| South Carolina | 8        |                          |
| South Dakota   | 2        |                          |
| Tennessee      | 9        |                          |

|               |    |   |
|---------------|----|---|
| Texas         | 34 | 2 |
| Utah          | 5  |   |
| Vermont       | 1  |   |
| Virginia      | 12 | 2 |
| Washington    | 11 |   |
| West Virginia | 4  |   |

| Location             | Branches | Non-Branch<br>Facilities |
|----------------------|----------|--------------------------|
| Wisconsin            | 1        |                          |
| Wyoming              | 2        |                          |
| Total— United States | 361      | 11                       |
| Canadian Province    |          |                          |
| Alberta              | 3        |                          |
| British Columbia     | 4        |                          |
| Nova Scotia          | 1        |                          |
| Ontario              | 6        | 1                        |
| Quebec               | 6        |                          |
| Saskatchewan         | 2        |                          |
| Total— Canada        | 22       | 1                        |
| Total - All          | 383      | 12                       |

### ITEM 3. LEGAL PROCEEDINGS

From time to time, we are involved in lawsuits that are brought against us in the normal course of business. We are not currently a party to any legal proceedings that would be expected, either individually or in the aggregate, to have a material adverse effect on our business or financial condition.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the NASDAQ Global Select Market (the "NASDAQ") under the symbol "BECN". The following table lists quarterly information on the price range of our common stock based on the high and low reported sale prices for our common stock as reported by NASDAQ for the periods indicated below:

|                                | High    | Low     |
|--------------------------------|---------|---------|
| Year Ended September 30, 2016: |         |         |
| First Quarter                  | \$44.01 | \$32.02 |
| Second Quarter                 | \$43.25 | \$32.24 |
| Third Quarter                  | \$45.72 | \$40.42 |
| Fourth Quarter                 | \$48.96 | \$39.50 |
| Year Ended September 30, 2017: |         |         |
| First Quarter                  | \$49.32 | \$40.68 |
| Second Quarter                 | \$50.61 | \$43.51 |
| Third Quarter                  | \$52.12 | \$47.02 |
| Fourth Quarter                 | \$51.96 | \$39.57 |

There were 94 registered holders of record of our common stock as of October 31, 2017.

## Purchases of Equity Securities by the Issuer and Affiliated Purchasers

No purchases of our equity securities were made by us or any affiliated entity during the fourth quarter of the fiscal year ended September 30, 2017.

## Recent Sales of Unregistered Securities

None.

## Dividends

We have not paid cash dividends on our common stock and do not anticipate paying dividends in the foreseeable future. Our board of directors currently intends to retain any future earnings for reinvestment in our growing business. Our revolving credit facilities currently prohibit the payment of dividends without the prior written consent of our lenders. Any future determination to pay dividends will also be at the discretion of our board of directors and will be dependent upon our results of operations and cash flows, our financial position and capital requirements, general business conditions, legal, tax, regulatory and any contractual restrictions on the payment of dividends, and any other factors our board of directors deems relevant.

## Stock Performance Graph

This stock performance graph shall not be deemed “soliciting material” or to be “filed” with the SEC for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Beacon Roofing Supply, Inc. under the Securities Act of 1933, as amended, or the Exchange Act. The performance of Beacon Roofing Supply, Inc.’s common stock depicted in the stock performance graph represents historical results only, and is not necessarily indicative of future performance.

The following graph compares the cumulative total shareholder return on Beacon Roofing Supply, Inc.’s common stock (based on market prices) for the last five fiscal years with the cumulative total return on (i) the Nasdaq Index, (ii) the S&P 1500 Trading Companies & Distributors Index and (iii) the S&P 1500 Building Products Index,

assuming a hypothetical \$100 investment in each on September 30, 2012 and the re-investment of all dividends. The closing price of our common stock on September 30, 2017 was \$51.25 .

Historically, we have utilized the S&P 1500 Buildings Products Index in our comparison of cumulative total return. We believe the S&P 1500 Trading Companies & Distributors Index includes a more representative sample of peer companies to Beacon and provides a better benchmark of industry performance for the following reasons:

•The S&P 1500 Building Products Index includes many manufacturing companies that have different financial and operating characteristics and are not directly comparable to our business.

•The S&P 1500 Trading Companies & Distributors Index is comprised of companies that bear more similarities to our business, regardless of the types of products distributed.

We expect to utilize the S&P 1500 Trading Companies & Distributors Index in future filings, but for this year we have included the results of both indexes in the stock performance graph below.

## ITEM 6. SELECTED FINANCIAL DATA

You should read the following selected financial information together with our financial statements and related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” also included in this Form 10-K. We have derived the statement of operations data for the years ended September 30, 2017, September 30, 2016 and September 30, 2015, and the balance sheet data as of September 30, 2017 and September 30, 2016, from our audited financial statements included in this Form 10-K. We have derived the statements of operations data for the years ended September 30, 2014 and September 30, 2013, and the balance sheet data as of September 30, 2015, September 30, 2014 and September 30, 2013, from our audited financial statements not included in this Form 10-K.

## Consolidated Statement of Operations Data:

|                                              | Year Ended September 30,                           |             |             |             |             |
|----------------------------------------------|----------------------------------------------------|-------------|-------------|-------------|-------------|
|                                              | 2017                                               | 2016        | 2015        | 2014        | 2013        |
|                                              | (In thousands, except share and per share amounts) |             |             |             |             |
| Net sales                                    | \$4,376,670                                        | \$4,127,109 | \$2,515,169 | \$2,326,905 | \$2,240,723 |
| Cost of products sold                        | 3,300,731                                          | 3,114,040   | 1,919,804   | 1,799,065   | 1,709,326   |
| Gross profit                                 | 1,075,939                                          | 1,013,069   | 595,365     | 527,840     | 531,397     |
| Operating expense                            | 859,843                                            | 808,085     | 478,284     | 428,977     | 401,676     |
| Income from operations                       | 216,096                                            | 204,984     | 117,081     | 98,863      | 129,721     |
| Interest expense, financing costs, and other | 52,751                                             | 58,452      | 11,037      | 10,095      | 8,247       |
| Income before provision for income taxes     | 163,345                                            | 146,532     | 106,044     | 88,768      | 121,474     |
| Provision for income taxes                   | 62,481                                             | 56,615      | 43,767      | 34,922      | 48,867      |
| Net income                                   | \$100,864                                          | \$89,917    | \$62,277    | \$53,846    | \$72,607    |

## Weighted-average common stock outstanding:

|         |            |            |            |            |            |
|---------|------------|------------|------------|------------|------------|
| Basic   | 60,315,648 | 59,424,372 | 49,578,130 | 49,227,466 | 48,472,240 |
| Diluted | 61,344,263 | 60,418,067 | 50,173,478 | 49,947,699 | 49,385,335 |

## Net income per share:

|         |        |        |        |        |        |
|---------|--------|--------|--------|--------|--------|
| Basic   | \$1.67 | \$1.51 | \$1.26 | \$1.09 | \$1.50 |
| Diluted | \$1.64 | \$1.49 | \$1.24 | \$1.08 | \$1.47 |

## Balance Sheet Data:

|                                           | September 30,  |           |           |           |           |
|-------------------------------------------|----------------|-----------|-----------|-----------|-----------|
|                                           | 2017           | 2016      | 2015      | 2014      | 2013      |
|                                           | (In thousands) |           |           |           |           |
| Cash and cash equivalents                 | \$138,250      | \$ 31,386 | \$ 45,661 | \$ 54,472 | \$ 47,027 |
| Total assets                              | 3,449,557      | 3,113,859 | 1,539,428 | 1,433,896 | 1,338,696 |
| Total long-term indebtedness <sup>1</sup> | 750,233        | 1,117,711 | 192,567   | 216,460   | 209,601   |
| Total stockholders’ equity                | 1,781,806      | 1,323,827 | 883,116   | 817,101   | 754,356   |

<sup>1</sup> Net of debt issuance costs, except for \$5.3 million of debt issuance costs related to the Company's revolving lines of credit that are classified as other assets in the consolidated balance sheet as of September 30, 2017

#### 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

27

---

# Adjusted EBITDA

We define Adjusted Net Income (Loss) as net income that excludes non-recurring costs related to acquisitions and certain incremental amortization of intangibles related to the RSG acquisition. 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 non-recurring acquisition costs from acquisitions. 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 Adjusted EBITDA using the same consistent method from quarter to quarter and year to year.

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

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

The following 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):

## Adjusted Net Income (Loss)/Adjusted EPS

|                                  | Year Ended September 30, |        |           |        |          |        |
|----------------------------------|--------------------------|--------|-----------|--------|----------|--------|
|                                  | 2017                     | Per    | 2016      | Per    | 2015     | Per    |
|                                  | Amount                   | Share  | Amount    | Share  | Amount   | Share  |
| Net income                       | \$100,864                | \$1.64 | \$89,917  | \$1.49 | \$62,277 | \$1.24 |
| Company adjustments, net of tax: |                          |        |           |        |          |        |
| Acquisition costs <sup>1</sup>   | 32,700                   | 0.54   | 36,608    | 0.61   | 6,978    | 0.14   |
| Adjusted Net Income (Loss)       | \$133,564                | \$2.18 | \$126,525 | \$2.10 | \$69,255 | \$1.38 |

<sup>1</sup> Acquisition costs reflect non-recurring charges related to acquisitions and certain incremental amortization of intangibles related to the RSG acquisition, net of \$20.5 million, \$22.9 million, and \$0.3 million in tax for 2017, 2016 and 2015, respectively.



## Adjusted EBITDA

|                                     | Year Ended September 30, |           |           |
|-------------------------------------|--------------------------|-----------|-----------|
|                                     | 2017                     | 2016      | 2015      |
| Net income                          | \$100,864                | \$89,917  | \$62,277  |
| Acquisition costs <sup>1</sup>      | 15,745                   | 24,749    | 6,978     |
| Interest expense, net               | 53,802                   | 58,145    | 10,561    |
| Income taxes                        | 62,481                   | 56,615    | 44,046    |
| Depreciation and amortization       | 116,467                  | 100,191   | 34,862    |
| Stock-based compensation            | 15,074                   | 17,749    | 9,936     |
| Adjusted EBITDA                     | \$364,433                | \$347,366 | \$168,660 |
| Adjusted EBITDA as a % of net sales | 8.3                      | % 8.4     | % 6.7     |

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

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this Annual Report on Form 10-K. All references to "2017," "2016" and "2015" are referring to the twelve month period ended September 30 for each of those respective fiscal years. The following discussion may contain forward-looking statements that reflect our plans and expectation. Our actual results could differ materially from those anticipated by these forward-looking statements due to the factors discussed elsewhere in this Annual Report on Form 10-K, particularly in the "Risk Factors" section. 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 September 30, 2017 we operated in 383 locations throughout 48 states, as well as 6 provinces in Canada. We stock one of the most extensive assortments of high quality branded products in the industry with over 50,000 SKUs available across our branch network, enabling us to deliver a wide range of products to our customers on a timely basis. For 2017, 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 their 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 (opening branches, growing sales with existing customers, adding new customers and introducing new products). Our main acquisition strategy is to target market leaders that do business in geographic areas we currently do not service or that complement our existing regional operations. Our recent success in delivering on our growth strategy is highlighted by the following:

Acquisition Growth - 2017:

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.

30

---

- 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.

#### 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 with 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 with 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 with 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 with 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 with annual sales of approximately \$20 million.
- 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 with 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 with annual sales of approximately \$30 million.

#### Organic Growth:

We have continued to promote organic greenfield growth with the opening of 4 new branches in 2017, 1 new branch in 2016, and 6 new branches in 2015. These 11 new branch locations have allowed us to penetrate deeper into many of our existing markets and establish a greater presence in new markets. In addition, RSG opened 9 new branches in 2015 and 9 new branches in 2014. Although these new greenfield locations impact our operating cost structure slightly in the near-term, we believe that our greenfields are strategically located within markets with strong dynamics and opportunity to quickly establish our presence and gain local market share.

#### General

We sell all materials necessary to install, replace and repair residential and non-residential roofs, including:

- Shingles, standard and specialty;
- Single-ply roofing;
- Metal roofing and accessories;
- Modified bitumen;
- Built-up roofing;
- Insulation;
- Slate and tile roofing;
- Fasteners, coatings and cements; and
- Other roofing accessories.

We also sell complementary building products such as:

- Vinyl, wood and fiber cement siding;
- Doors, windows and millwork;
- Decking and railing;
- Building insulation; and
- Waterproofing systems.

We serve over 70,000 customers, none of which individually represents more than 2% of our total net sales. Many of our customers are small to mid-size contractors with relatively limited capital resources. We maintain strict credit review and approval policies, which has helped to keep losses from uncollectible customer receivables within our expectations.

Our expenses consist primarily of the cost of products purchased for resale, labor, fleet, occupancy, and selling and administrative expenses. We compete for business and may respond to competitive pressures at times by lowering prices in order to maintain our market share.

## Results of Operations

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

|                                              | Year Ended September 30, |             |             |
|----------------------------------------------|--------------------------|-------------|-------------|
|                                              | 2017                     | 2016        | 2015        |
|                                              | (In thousands)           |             |             |
| Net sales                                    | \$4,376,670              | \$4,127,109 | \$2,515,169 |
| Cost of products sold                        | 3,300,731                | 3,114,040   | 1,919,804   |
| Gross profit                                 | 1,075,939                | 1,013,069   | 595,365     |
| Operating expense                            | 859,843                  | 808,085     | 478,284     |
| Income from operations                       | 216,096                  | 204,984     | 117,081     |
| Interest expense, financing costs, and other | 52,751                   | 58,452      | 11,037      |
| Income before provision for income taxes     | 163,345                  | 146,532     | 106,044     |
| Provision for income taxes                   | 62,481                   | 56,615      | 43,767      |
| Net income                                   | \$100,864                | \$89,917    | \$62,277    |

|                                              | Year Ended     |        |        |
|----------------------------------------------|----------------|--------|--------|
|                                              | September 30,  |        |        |
|                                              | 2017           | 2016   | 2015   |
|                                              | % of Net sales |        |        |
| Net sales                                    | 100.0%         | 100.0% | 100.0% |
| Cost of products sold                        | 75.4 %         | 75.5 % | 76.3 % |
| Gross profit                                 | 24.6 %         | 24.5 % | 23.7 % |
| Operating expense                            | 19.6 %         | 19.6 % | 19.0 % |
| Income from operations                       | 5.0 %          | 4.9 %  | 4.7 %  |
| Interest expense, financing costs, and other | 1.2 %          | 1.4 %  | 0.4 %  |
| Income before provision for income taxes     | 3.8 %          | 3.5 %  | 4.3 %  |
| Provision for income taxes                   | 1.5 %          | 1.3 %  | 1.8 %  |
| Net income                                   | 2.3 %          | 2.2 %  | 2.5 %  |

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 September 30, 2017, we had a total of 383 branches in operation. Our existing market calculations include 322 branches and exclude 61 branches because they were acquired after the start of fiscal year 2016. Acquired markets for 2017 include activity from branches acquired under BJ Supply Company, American Building & Roofing, Inc., Eco Insulation Supply, Acme Building Materials, Inc., and Lowry's Inc. acquisitions (See Note 3 to the Condensed Consolidated Financial Statements). 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).



## 2017 vs. 2016

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

|                                | Existing Markets<br>Year Ended September 30,<br>2017      2016 |             |           |           | Acquired Markets<br>2017      2016 |             | Consolidated<br>2017      2016 |   |
|--------------------------------|----------------------------------------------------------------|-------------|-----------|-----------|------------------------------------|-------------|--------------------------------|---|
|                                | (Dollars in thousands)                                         |             |           |           |                                    |             |                                |   |
| Net sales                      | \$4,063,328                                                    | \$3,960,322 | \$313,342 | \$166,787 | \$4,376,670                        | \$4,127,109 |                                |   |
| Gross profit                   | \$986,691                                                      | \$969,705   | \$89,248  | \$43,364  | \$1,075,939                        | \$1,013,069 |                                |   |
| Gross margin                   | 24.3                                                           | % 24.5      | % 28.5    | % 26.0    | % 24.6                             | % 24.5      | %                              | % |
| Operating expense <sup>1</sup> | \$782,294                                                      | \$767,879   | \$77,549  | \$40,206  | \$859,843                          | \$808,085   |                                |   |
| % of net sales                 | 19.3                                                           | % 19.4      | % 24.7    | % 24.1    | % 19.6                             | % 19.6      | %                              | % |
| Operating income               | \$204,398                                                      | \$201,826   | \$11,698  | \$3,158   | \$216,096                          | \$204,984   |                                |   |
| Operating margin               | 5.0                                                            | % 5.1       | % 3.7     | % 1.9     | % 5.0                              | % 4.9       | %                              | % |

<sup>1</sup>During 2017 and 2016, we recorded amortization expense related to intangible assets recorded under purchase accounting of \$82.5 million (\$14.3 million from acquired markets) and \$68.3 million (\$6.5 million from acquired markets), respectively. In addition, existing market operating expense for 2017 and 2016 included non-recurring charges of \$47.8 million (\$29.4 million, net of taxes) and \$51.9 million (\$31.9 million, net of taxes), respectively, for the recognition of certain costs related to acquisitions.

## Net Sales

Consolidated net sales increased \$249.6 million, or 6.0% , to \$4.38 billion in 2017 from \$4.13 billion in 2016. Existing market sales increased \$103.0 million, or 2.6% over the same comparative periods. We believe our 2017 existing market sales were influenced primarily by the following factors:

- increased volume in our residential roofing and complementary products lines;
- increased levels of re-roofing activity; and
- continued strong storm activity across the Midwest and the impact of Hurricane Matthew;

partially offset by:

- decreased volume in our non-residential product line; and
- lower residential and non-residential roofing average selling prices.

Net sales within our acquired markets were \$313.3 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 declines in residential and non-residential selling prices which were both down approximately 1% year-over-year. The average selling prices of complementary products increased more than 1% year-over-year. During the same period, net product costs for complementary products increased over

2%, while residential and non-residential net product costs decreased less than 1% year-over-year.

34

---

Existing markets net sales by geographical region increased (decreased) from 2016 to 2017 as follows: Northeast (3.0%) ; Mid-Atlantic 4.8% ; Southeast 6.6% ; Southwest (2.3%) ; Midwest 10.8% ; West (4.7%) ; and Canada (0.2%) . These variations were primarily caused by short-term factors such as local market conditions, weather conditions, storm activity and foreign currency exchange rates.

Product group sales for our existing markets were as follows:

|                                  | Year Ended September 30, |         | 2016        |         | Change    |         |
|----------------------------------|--------------------------|---------|-------------|---------|-----------|---------|
|                                  | Net Sales                | %       | Net Sales   | %       | \$        | %       |
|                                  | (Dollars in thousands)   |         |             |         |           |         |
| Residential roofing products     | \$2,269,105              | 55.9 %  | \$2,140,405 | 54.1 %  | \$128,700 | 6.0 %   |
| Non-residential roofing products | 1,249,001                | 30.7 %  | 1,307,731   | 33.0 %  | (58,730 ) | (4.5 %) |
| Complementary building products  | 545,222                  | 13.4 %  | 512,186     | 12.9 %  | 33,036    | 6.5 %   |
| Total existing market sales      | \$4,063,328              | 100.0 % | \$3,960,322 | 100.0 % | \$103,006 | 2.6 %   |

For 2017, our acquired markets recognized sales of \$111.3 million, \$24.2 million and \$177.9 million in residential roofing products, non-residential roofing products and complementary building products, respectively. The combination of our 2017 existing market sales of \$4.06 billion plus the sales from acquired markets of \$313.4 million equals our total 2017 sales of \$4.38 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 consolidated and existing markets were as follows:

|                                 | Year Ended September 30, |             | Change <sup>1</sup> |         |
|---------------------------------|--------------------------|-------------|---------------------|---------|
|                                 | 2017                     | 2016        | \$                  | %       |
|                                 | (Dollars in thousands)   |             |                     |         |
| Gross profit - consolidated     | \$1,075,939              | \$1,013,069 | \$62,870            | 6.2 %   |
| Gross profit - existing markets | 986,691                  | 969,705     | 16,986              | 1.8 %   |
| Gross margin - consolidated     | 24.6 %                   | 24.5 %      | N/A                 | 0.1 %   |
| 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.

Existing market gross profit increased \$17.0 million, or 1.8% , to \$986.7 million in 2017, and gross profit within our acquired markets was \$89.2 million for the same period. Overall gross margin increased slightly to 24.6% in 2017 , while existing market gross margin slightly 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 15.0% and 15.8% 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:

|                                      | Year Ended<br>September 30, |           | Change <sup>1</sup> |         |
|--------------------------------------|-----------------------------|-----------|---------------------|---------|
|                                      | 2017                        | 2016      | \$                  | %       |
| (Dollars in thousands)               |                             |           |                     |         |
| Operating expense - consolidated     | \$859,843                   | \$808,085 | \$51,758            | 6.4 %   |
| Operating expense - existing markets | 782,294                     | 767,879   | 14,415              | 1.9 %   |
| % of net sales - consolidated        | 19.6 %                      | 19.6 %    | N/A                 | 0.0 %   |
| % of net sales - existing markets    | 19.3 %                      | 19.4 %    | 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.

Operating expense in our existing markets increased by \$14.4 million, or 1.9% in 2017, to \$782.3 million, as compared to \$767.9 million in 2016, while operating expense within our acquired markets was \$77.5 million in 2017. The following factors were the leading causes of the increased operating expense in our existing markets:

- an increase in amortization expense of \$6.3 million due to the increased amortization of intangibles related to the RSG acquisition;
- an increase in general and administrative expense of \$5.3 million mainly due to acquisition and due diligence costs incurred in connection with our 2017 acquisitions and the pending Allied acquisition; and
- an increase in selling expense of \$3.1 million due to higher sales volume and related costs.

During 2017 and 2016, we recorded amortization expense related to the intangible assets recorded under purchase accounting within our existing markets of \$68.2 million and \$61.8 million, respectively. Our existing markets operating expense as a percentage of the related net sales in 2017 was 19.3% , compared to 19.4% in 2016.

## Interest Expense, Financing Costs and Other

Interest expense, financing costs and other expense was \$52.8 million in 2017, as compared to \$58.5 million in 2016. The primary driver of the decrease is a \$4.3 million reduction in interest expense in 2017 related to the \$368.1 million decrease in total net debt outstanding and the September 2016 refinancing of the Company's Term Loan.

## Income Taxes

Income tax expense was \$62.5 million in 2017, compared to \$56.6 million in 2016. The increase in expense was primarily due to a \$16.8 million increase in pre-tax income. The effective tax rate decreased to 38.3% in 2017 from 38.6% in 2016, a change that was primarily driven by the reduction in professional fees related to the RSG acquisition that were non-deductible and increased the 2016 effective tax rate.

## 2016 vs. 2015

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

|                                | Existing Markets         |             | Acquired Markets |           | Consolidated |             |
|--------------------------------|--------------------------|-------------|------------------|-----------|--------------|-------------|
|                                | Year Ended September 30, |             |                  |           |              |             |
|                                | 2016                     | 2015        | 2016             | 2015      | 2016         | 2015        |
|                                | (Dollars in thousands)   |             |                  |           |              |             |
| Net sales                      | \$2,515,647              | \$2,289,080 | \$1,611,462      | \$226,089 | \$4,127,109  | \$2,515,169 |
| Gross profit                   | \$619,692                | \$543,476   | \$393,377        | \$51,889  | \$1,013,069  | \$595,365   |
| Gross margin                   | 24.6                     | % 23.7      | % 24.4           | % 23.0    | % 24.5       | % 23.7      |
| Operating expense <sup>1</sup> | \$455,666                | \$426,431   | \$352,419        | \$51,853  | \$808,085    | \$478,284   |
| % of net sales                 | 18.1                     | % 18.6      | % 21.9           | % 22.9    | % 19.6       | % 19.0      |
| Operating income (loss)        | \$164,026                | \$117,045   | \$40,958         | \$36      | \$204,984    | \$117,081   |
| Operating margin               | 6.5                      | % 5.1       | % 2.5            | % 0.0     | % 5.0        | % 4.7       |

<sup>1</sup>During 2016 and 2015 we recorded amortization expense related to intangible assets recorded under purchase accounting of \$68.3 million (\$57.5 million from acquired markets) and \$16.2 million (\$4.0 from acquired markets), respectively. In addition, existing market operating expense for 2016 and 2015 included non-recurring charges of \$51.9 million (\$31.9 million, net of taxes) and \$7.3 million (\$7.0 million, net of taxes), respectively, for the recognition of certain costs related to acquisitions.

## Net Sales

Consolidated net sales increased \$1.61 billion, or 64.1%, to \$4.13 billion in 2016 from \$2.52 billion in 2015. Existing market sales increased \$226.6 million, or 9.9% over the same comparative periods. We believe our 2016 existing market sales were influenced primarily by the following factors:

- increased demand in our residential, non-residential, and complementary products groups;
- strong storm activity across the Southwest region during 2016; and
- 42 new Beacon greenfield branches that opened in fiscal years 2013, 2014 and 2015;

partially offset by:

- lower residential and non-residential roofing average selling prices.

Net sales within our acquired markets were \$1.61 billion in 2016, a significant increase from 2015 due to the impact of the acquisitions completed during 2016. In 2016, we acquired a total of 127 branches and closed 34 branches. Closures were primarily a result of facility consolidations due to the 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 2-3% in 2016 compared to 2015, driven primarily by declines in residential and non-residential selling prices which were both down approximately 2-3% year-over-year. The average selling prices of complementary products remained flat year-over-year. During the same period, net product costs for complementary products remained relatively flat, while

residential and non-residential net product costs decreased approximately 2-3% and 3-4%, year-over-year, respectively.

Existing markets net sales by geographical region increased (decreased) from 2015 to 2016 as follows: Northeast 5.1%; Mid-Atlantic 9.8%; Southeast 23.6%; Southwest 26.1%; Midwest 3.9%; West 10.0%; and Canada (3.1%). These variations were primarily caused by short-term factors such as local market conditions, weather conditions, storm activity, and foreign currency exchange rates.

Product group sales for our existing markets were as follows:

|                                  | Year Ended September 30,<br>2016 |         | 2015        |         | Change    |        |
|----------------------------------|----------------------------------|---------|-------------|---------|-----------|--------|
|                                  | Net Sales                        | %       | Net Sales   | %       | \$        | %      |
|                                  | (Dollars in thousands)           |         |             |         |           |        |
| Residential roofing products     | \$1,275,208                      | 50.7 %  | \$1,117,689 | 48.8 %  | \$157,519 | 14.1 % |
| Non-residential roofing products | 843,197                          | 33.5 %  | 803,716     | 35.1 %  | 39,481    | 4.9 %  |
| Complementary building products  | 397,242                          | 15.8 %  | 367,675     | 16.1 %  | 29,567    | 8.0 %  |
| Total existing market sales      | \$2,515,647                      | 100.0 % | \$2,289,080 | 100.0 % | \$226,567 | 9.9 %  |

For 2016, our acquired markets recognized sales of \$912.2 million, \$492.4 million and \$206.8 million in residential roofing products, non-residential roofing products and complementary building products, respectively. The combination of our 2016 existing market sales of \$2.51 billion plus the sales from acquired markets of \$1.61 billion equals our total 2016 sales of \$4.13 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 consolidated and existing markets were as follows:

|                                 | Year Ended September<br>30,<br>2016 |   | 2015      |   | Change <sup>1</sup> |        |
|---------------------------------|-------------------------------------|---|-----------|---|---------------------|--------|
|                                 |                                     |   |           |   | \$                  | %      |
|                                 | (Dollars in thousands)              |   |           |   |                     |        |
| Gross profit - consolidated     | \$1,013,069                         |   | \$595,365 |   | \$417,704           | 70.2 % |
| Gross profit - existing markets | 619,692                             |   | 543,476   |   | 76,216              | 14.0 % |
| Gross margin - consolidated     | 24.5                                | % | 23.7      | % | N/A                 | 0.8 %  |
| Gross margin - existing markets | 24.6                                | % | 23.7      | % | N/A                 | 0.9 %  |

<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 \$76.2 million, or 14.0%, to \$619.7 million in 2016, and gross profit within our acquired markets was \$393.4 million for the same period. Our overall gross margins improved to 24.5% in 2016, due to a favorable shift in sales mix to residential products. Gross margins within our existing markets for 2016 increased to 24.6%.

During 2016, we experienced an increase in the gross margins within our residential and non-residential product group due to reduction in our net product costs which was greater than the decline in our average selling prices. In addition during 2016, we experienced an overall increase in the gross margins over the prior year due to a shift in sales mix to higher-margin residential products.

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 15.8% and 16.3% of our net sales in 2016 and 2015, 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:

|                                      | Year Ended September 30 |           | Change <sup>1</sup> |         |
|--------------------------------------|-------------------------|-----------|---------------------|---------|
|                                      | 2016                    | 2015      | \$                  | %       |
|                                      | (Dollars in thousands)  |           |                     |         |
| Operating expense - consolidated     | \$808,085               | \$478,284 | \$329,801           | 69.0%   |
| Operating expense - existing markets | 455,666                 | 426,431   | 29,235              | 6.9 %   |
| % of net sales - consolidated        | 19.6                    | % 19.0    | % N/A               | 0.6 %   |
| % of net sales - existing markets    | 18.1                    | % 18.6    | % N/A               | (0.5 %) |

<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 increased by \$29.2 million, or 6.9% in 2016, to \$455.7 million, as compared to \$426.4 million in 2015, while operating expense within our acquired markets was \$352.4 million in 2016. The following factors were the leading causes of the increased operating expense in our existing markets:

- an increase in payroll and employee benefits costs of \$28.3 million due to an increase in variable incentive and volume-related compensation; and
- an increase in stock-based compensation of \$4.3 million;

partially offset by:

- a decrease in general and administrative, selling, warehouse and other expenses of \$4.1 million.

During 2016 and 2015, we recorded amortization expense related to the intangible assets recorded under purchase accounting within our existing markets of \$10.8 million and \$12.2 million, respectively. Our existing markets operating expense as a percentage of the related net sales in 2016 was 18.1%, compared to 18.6% in 2015.

## Interest Expense, Financing Costs and Other

Interest expense, financing costs and other expense was \$58.5 million in 2016, as compared to \$11.0 million in 2015. The primary driver of the increase is the additional interest expense incurred related to acquisitions completed during 2016.

## Income Taxes

Income tax expense was \$56.6 million in 2016, compared to \$43.8 million in 2015. The increase in expense was primarily due to an increase in pre-tax income. The effective tax rate decreased from 41.3% in 2015 to 38.6% in 2016, a change was primarily driven by non-deductible professional fees incurred in 2015 related to the RSG acquisition and favorable tax adjustment items in 2016.

## Seasonality

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.

#### Quarterly Financial Data

The following table sets forth unaudited quarterly data for 2017 and 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.

|                                     | 2017                   |            |             |             | 2016      |            |             |             |
|-------------------------------------|------------------------|------------|-------------|-------------|-----------|------------|-------------|-------------|
|                                     | Qtr 1                  | Qtr 2      | Qtr 3       | Qtr 4       | Qtr 1     | Qtr 2      | Qtr 3       | Qtr 4       |
|                                     | (Dollars in thousands) |            |             |             |           |            |             |             |
| Net sales                           | \$1,002,184            | \$870,724  | \$1,213,894 | \$1,289,868 | \$976,480 | \$823,537  | \$1,152,726 | \$1,174,366 |
| % of year's sales                   | 22.9                   | % 19.9     | % 27.7      | % 29.5      | % 23.7    | % 20.0     | % 27.9      | % 28.4      |
| Gross profit                        | \$251,067              | \$204,477  | \$297,754   | \$322,641   | \$233,188 | \$195,764  | \$282,075   | \$302,042   |
| % of year's gross profit            | 23.3                   | % 19.0     | % 27.7      | % 30.0      | % 23.0    | % 19.3     | % 27.8      | % 29.9      |
| Income (loss) from operations       | \$46,957               | \$(3,056 ) | \$84,871    | \$87,324    | \$26,844  | \$3,883    | \$78,379    | \$95,878    |
| % of year's income from operations  | 21.7                   | % (1.4 )   | % 39.3      | % 40.4      | % 13.1    | % 1.9      | % 38.2      | % 46.8      |
| Net income (loss)                   | \$20,430               | \$(9,356 ) | \$44,659    | \$45,131    | \$7,118   | \$(5,719 ) | \$41,126    | \$47,392    |
| Net income (loss) per share - basic | \$0.34                 | \$(0.16 )  | \$0.74      | \$0.74      | \$0.12    | \$(0.10 )  | \$0.69      | \$0.79      |
| Net income                          | \$0.33                 | \$(0.16 )  | \$0.73      | \$0.73      | \$0.12    | \$(0.10 )  | \$0.68      | \$0.78      |

(loss) per  
share -  
diluted

### Impact of Inflation

We believe that our results of operations are not materially impacted by moderate changes in the economic inflation rate. In general, we have historically been successful in passing on price increases from our vendors to our customers in a timely manner. In both 2017 and 2016, we were able to offset selling price declines with lower product costs and favorable product mix, largely from greenfields implemented since 2013 and acquisitions made during both fiscal years. As result, we have recognized an increase in gross margin in each of the last two fiscal years.

### 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 September 30, 2017 were our cash and cash equivalents of \$138.3 million and our available borrowings of \$680.5 million under our asset based lending revolving credit facility.

Significant factors which could affect future liquidity include the following:

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

capital expenditures.

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

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

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

|                                                         | Year Ended September 30, |             |            |
|---------------------------------------------------------|--------------------------|-------------|------------|
|                                                         | 2017                     | 2016        | 2015       |
| Net cash provided by operating activities               | \$315,200                | \$120,648   | \$109,340  |
| Net cash used in investing activities                   | (166,985)                | (1,042,621) | (104,714)  |
| Net cash provided by (used in) financing activities     | (40,600 )                | 906,867     | (12,707 )  |
| Effect of exchange rate changes on cash and equivalents | (751 )                   | 831         | (730 )     |
|                                                         | \$106,864                | \$(14,275 ) | \$(8,811 ) |

### Operating Activities

Net cash provided by operating activities was \$315.2 million in 2017, compared to \$120.6 million provided by operating activities in 2016. Cash from operations increased \$194.6 million due to an increase in net income after adjustments for non-cash items of \$2.9 million and an incremental cash inflow of \$191.6 million stemming from changes to our net working capital.

Net cash provided by operating activities was \$120.6 million in 2016, compared to \$109.3 million provided by operating activities in 2015. Cash from operations increased \$11.3 million due to an increase in net income after adjustments for non-cash items of \$122.0 million, offset by a greater usage of working capital of \$110.7 million.

### Investing Activities

Net cash used in investing activities was \$167.0 million in 2017, compared to \$1.04 billion used in investing activities in 2016. During 2017, we spent \$129.4 million on acquisitions, compared to \$1.02 billion in 2016. Capital expenditures were \$39.8 million in 2017, compared to \$26.3 million in 2016.

Net cash used in investing activities was \$1.04 billion in 2016, compared to \$104.7 million used in investing activities in 2015. During 2016, we spent \$1.02 billion on acquisitions. Capital expenditures were \$26.3 million in 2016, compared to \$20.8 million in 2015.

## Financing Activities

Net cash used in financing activities was \$40.6 million in 2017, compared to \$906.9 million provided by financing activities in 2016. The net decrease of \$947.5 million was primarily due to a \$1.07 billion increase in overall debt repayments and a \$219.1 million decrease in overall debt borrowings, partially offset by a net \$330.8 million increase in proceeds from the issuance of common stock, mainly driven by our secondary offering of common stock completed on September 25, 2017.

Net cash provided by financing activities was \$906.9 million in 2016, compared to \$12.7 million used in financing activities in 2015. The net increase of \$919.6 million was primarily due to the new financing agreements that we entered into as a result of the RSG acquisition offset by repayments and payment of debt issuance costs. In addition, proceeds from the issuance of common stock increased by \$16.6 million to \$24.2 million in 2016, as compared to \$7.9 million in 2015.

#### Monitoring and Assessing Collectability of Accounts Receivable

We perform periodic credit evaluations of our customers and typically do not require collateral, although we typically obtain payment and performance bonds for any type of public work and have the ability to lien projects under certain circumstances. Consistent with industry practices, we require payment from most customers within 30 days, except for sales to our non-residential roofing contractors, which we typically require to pay in 60 days.

As our business is seasonal in certain geographic regions, our customers' businesses are also seasonal. Sales are lowest in the winter months and our past due accounts receivable balance as a percentage of total receivables generally increases during this time. Throughout the year, we closely monitor our receivables and record estimated reserves based upon our judgment of specific customer situations, aging of accounts and our historical write-offs of uncollectible accounts.

Our regional credit offices are staffed to manage and monitor our receivable aging balances and our systems allow us to enforce pre-determined credit approval levels and properly leverage new business. The credit pre-approval process denotes the maximum requested credit amount that each level of management can approve, with the highest credit amount requiring approval by our CEO and CFO. There are daily communications with branch and field staff. Our regional offices conduct periodic reviews with their branch managers, various regional management staff and the VP-Credit. Depending on the state of the respective region's receivables, these reviews can be weekly, bi-weekly or monthly. Additionally, the regions are required to submit a monthly receivable forecast to the VP-Credit. On a monthly basis, the VP-Credit will review and discuss these forecasts, as well as a prior month recap, with the CEO and CFO.

Periodically, we perform a specific analysis of all accounts past due and write off account balances when we have exhausted reasonable collection efforts and determined that the likelihood of collection is remote based upon the following factors:

- aging statistics and trends;
- customer payment history;
- review of the customer's financial statements when available;
- independent credit reports; and
- discussions with customers.

We still pursue collection of amounts written off in certain circumstances and credit the allowance for any subsequent recoveries. Over the past three fiscal years, bad debt expense has been, on average, 0.06% of net sales. The continued limitation of bad debt expense is primarily attributed to the continued strengthening of the economy and credit environment.

## Commitments

At September 30, 2017, contractual obligations were as follows (in thousands):

|                                | Payments Due by Period |           |           |           |           |
|--------------------------------|------------------------|-----------|-----------|-----------|-----------|
|                                | Total                  | < 1 year  | 1-3 Years | 3-5 Years | > 5 Years |
| Senior Secured Credit Facility | \$444,205              | \$4,500   | \$12,205  | \$9,000   | \$418,500 |
| Senior Notes                   | 300,000                | -         | -         | -         | 300,000   |
| Equipment financing            | 32,855                 | 9,584     | 18,591    | 4,539     | 141       |
| Operating leases               | 223,554                | 57,075    | 83,376    | 53,846    | 29,257    |
| Interest <sup>1</sup>          | 208,407                | 39,601    | 77,485    | 72,181    | 19,140    |
| Total                          | \$1,209,021            | \$110,760 | \$191,657 | \$139,566 | \$767,038 |

<sup>1</sup>Interest payments reflect all currently scheduled amounts along with projected amounts to be paid under the Senior Secured Credit Facility as calculated using the current LIBOR rate at September 30, 2017 for all future periods.

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.

The ABL has various borrowing tranches with an interest rate of LIBOR plus a margin of 125 basis points, 150 basis points or 175 basis points, based on the total outstanding balance of each tranche. The LIBOR rates can be fixed at one, three, six, or twelve month intervals and any non-fixed LIBOR amounts revert to a 4.75% base rate. As of September 30, 2017, the total balance outstanding on the ABL was \$3.2 million, and the weighted-average interest rate was 2.00%. Unamortized debt issuance costs of \$5.3 million related to the ABL were classified in “other assets, net” on our consolidated balance sheet as of September 30, 2017. We also have outstanding standby letters of credit related

to the U.S. Revolver in the amount of \$10.8 million as of September 30, 2017. The current unused commitment fees on the ABL 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 September 30, 2017 the outstanding balance on the Term Loan, net of debt issuance fees, was \$433.4 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 September 30, 2017 the outstanding balance on the Senior Notes, net of debt issuance fees, was \$292.3 million.

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

#### Equipment Financing Facilities and Other

As of September 30, 2017, we had \$15.4 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 September 30, 2017, we had \$20.0 million of capital lease obligations outstanding. These leases have interest rates ranging from 2.72% to 10.39% with payments due through November 2021.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

## Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with GAAP. Accounting policies, methods and estimates are an integral part of the preparation of consolidated financial statements in accordance with U.S. GAAP and, in part, are based upon management's current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. While there are a number of accounting policies, methods and estimates affecting our consolidated financial statements, areas that are particularly significant include:

- Inventories
- Business Combinations
- Goodwill and Intangible Assets
- Evaluation of Long-Lived Assets
- Income Taxes

### Inventories

Inventories, consisting substantially of finished goods, are valued at the lower of cost or market (net realizable value). Cost is determined using the moving weighted-average cost method.

Our arrangements with vendors typically provide for rebates after we make a special purchase and/or monthly, quarterly and/or annual rebates of a specified amount of consideration payable when a number of measures have been achieved. Annual rebates are generally related to a specified cumulative level of purchases on a calendar-year basis. We account for such rebates as a reduction of the inventory value until the product is sold, at which time such rebates reduce cost of sales in the consolidated statements of operations. Throughout the year, we estimate the amount of the periodic rebates based upon the expected level of purchases. We continually revise these estimates to reflect actual rebates earned based on actual purchase levels. Amounts due from vendors under these arrangements are included in "Prepaid expenses and other current assets" in the accompanying consolidated balance sheets.

### Business Combinations

We record acquisitions resulting in the consolidation of a business using the acquisition method of accounting. Under this method, we record the assets acquired, including intangible assets that can be identified and named, and liabilities assumed based on their estimated fair values at the date of acquisition. The purchase price in excess of the fair value of the assets acquired and liabilities assumed is recorded as goodwill. Various assumptions are used in the determination of these estimated fair values, including items such sales growth rates, cost synergies, customer attrition rates, discount rates, and other prospective financial information. We believe these estimates are based on reasonable assumptions, however they are inherently uncertain and unpredictable, therefore actual results may differ. Estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed. Transaction costs associated with acquisitions are expensed as incurred.

### Goodwill and Indefinite-Lived Intangibles

On an annual basis and at interim periods when circumstances require, we test the recoverability of its goodwill and indefinite-lived intangible assets. Examples of such indicators include a significant change in the business climate, unexpected competition, loss of key personnel or a decline in our market capitalization below net book value.



We perform impairment assessments at the reporting unit level, which is defined as an operating segment or one level below an operating segment, also known as a component. We currently have five components which we evaluate for aggregation by examining the distribution methods, sales mix, and operating results of each component to determine if these characteristics will be sustained over a long-term basis. For purposes of this evaluation, we expect components to exhibit similar economic characteristics 3-5 years after events such as an acquisition within our core roofing business or management/business restructuring. Components that exhibit similar economic characteristics are subsequently aggregated into a single reporting unit. Based on our most recent impairment assessment performed as of August 31, 2017, it was determined that all components exhibited similar economic characteristics, and therefore should be aggregated into a single reporting unit (collectively the “Reporting Unit”).

To test for the recoverability of goodwill and indefinite-lived intangible assets, we first perform a qualitative assessment based on economic, industry and company-specific factors for all or selected reporting units to determine whether the existence of events and circumstances indicates that it is more likely than not that the goodwill or indefinite-lived intangible asset is impaired. Based on the results of the qualitative assessment, two additional steps in the impairment assessment may be required. The first step would require a comparison of each reporting unit’s fair value to the respective carrying value. If the carrying value exceeds the fair value, a second step is performed to measure the amount of impairment loss on a relative fair value basis, if any.

Based on our most recent impairment assessment performed as of August 31, 2017, we concluded that there were no indicators of impairment, and that it was more likely than not that the fair value of the goodwill and indefinite-lived intangible assets exceeded their net carrying amount, therefore the quantitative two-step impairment test was not required. This conclusion is consistent with the fact that sales increased from the prior year by 5%. In addition, gross profit increased by 5% compared to the prior year. The increase in gross profit reflects a favorable shift in sales mix towards residential products. Additionally, the Company is also reviewing product profitability and focusing the sales teams to more aggressively promote and substitute higher-margin product mix going forward and has identified a number of opportunities within the divisions to gain efficiencies, cut operating costs, and increase overall profitability. Our total market capitalization exceeded carrying value by approximately 51% as of August 31, 2017. This compares to 48% and 206% for that same measure as of August 31, 2016 and 2015, respectively. We did not identify any macroeconomic, industry conditions or cost-related factors that would indicate it is more likely than not that the fair value of the reporting unit was less than its carrying value.

We amortize certain identifiable intangible assets that have finite lives, currently consisting of non-compete agreements, customer relationships and trade names. Non-compete agreements are amortized on a straight-line basis over the terms of the associated contractual agreements; customer relationship assets are amortized on an accelerated basis based on the expected cash flows generated by the existing customers; and trade names are amortized on an accelerated basis over a five or ten year period. Amortizable intangible assets are tested for impairment, when deemed necessary, based on undiscounted cash flows and, if impaired, are written down to fair value based on either discounted cash flows or appraised values. In connection with certain financing arrangements, we have debt issuance costs that are amortized over the lives of the associated financings using the effective interest method.

#### Evaluation of Long-Lived Assets

We evaluate the recoverability of its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is measured by comparing the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.

#### Income Taxes

We account for income taxes using the liability method, which requires us to recognize a current tax liability or asset for current taxes payable or refundable and a deferred tax liability or asset for the estimated future tax effects of temporary differences between the financial statement and tax reporting bases of assets and liabilities to the extent that they are realizable. Deferred tax expense (benefit) results from the net change in deferred tax assets and liabilities during the year.

FASB ASC Topic 740, Income Taxes (“ASC 740”) prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Based on this guidance, we analyze our filing positions in all of the federal and state jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. Tax benefits from uncertain tax positions are recognized if it is more likely than not that the position is sustainable based solely on its technical merits.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks as part of our on-going business operations. Our primary exposure includes changes in interest rates and foreign exchange rates.

### Interest Rate Risk

Our interest rate risk relates primarily to the variable-rate borrowings under our Senior Secured Credit Facility. The following discussion of our interest rate is based on a 10% change in interest rates. These changes are hypothetical scenarios used to calibrate potential risk and do not represent our view of future market changes. As the hypothetical figures discussed below indicate, changes in fair value based on the assumed change in rates generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. The effect of a variation in a particular assumption is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

As of September 30, 2017, net of debt issuance fees, we had \$3.2 million and \$433.4 million of revolver borrowings and outstanding term loans, respectively, under our Secured Senior Credit Facility, \$292.3 million outstanding under our Senior Notes and \$35.4 million outstanding under our equipment financing facilities. Borrowings under our Senior Secured Credit facility incur interest on a floating rate basis while borrowings under our Senior Notes and equipment lease facilities incur interest on a fixed rate basis.

As of September 30, 2017, our weighted-average effective interest rate was 4.6% on our Senior Secured Credit Facility and Senior Notes, compared to 2.3% as of September 30, 2016. As of September 30, 2017, the financial impact of a hypothetical 10% interest rate fluctuation in effect at that date would be immaterial.

### Foreign Currency Exchange Rate Risk

We have exposure to foreign currency exchange rate fluctuations for net sales generated by our operations outside the United States, which can adversely impact our net income and cash flows. Approximately 4% of our net sales in 2017 were derived from sales to customers in Canada. This business is primarily conducted in the local currency. This exposes us to risks associated with changes in foreign currency that can adversely affect net sales, net income and cash flows. A 10% fluctuation of foreign currency exchange rates would not have a material impact on our results of operations or cash flows, therefore we currently do not enter into financial instruments to manage this minimal foreign currency exchange risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

BEACON ROOFING SUPPLY, INC.

Index to Consolidated Financial Statements

|                                                                                                               | Page |
|---------------------------------------------------------------------------------------------------------------|------|
| <u>Report of Ernst &amp; Young LLP, Independent Registered Public Accounting Firm</u>                         | F-1  |
| <u>Consolidated Balance Sheets as of September 30, 2017 and 2016</u>                                          | F-2  |
| <u>Consolidated Statements of Operations for the Years Ended September 30, 2017, 2016, and 2015</u>           | F-3  |
| <u>Consolidated Statements of Comprehensive Income for the Years Ended September 30, 2017, 2016, and 2015</u> | F-4  |
| <u>Consolidated Statements of Stockholders' Equity for the Years Ended September 30, 2017, 2016, and 2015</u> | F-5  |
| <u>Consolidated Statements of Cash Flows for the Years Ended September 30, 2017, 2016, and 2015</u>           | F-6  |
| <u>Notes to Consolidated Financial Statements</u>                                                             | F-7  |

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of

Beacon Roofing Supply, Inc.

We have audited the accompanying consolidated balance sheets of Beacon Roofing Supply, Inc. (the Company) as of September 30, 2017 and 2016 and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2017. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Beacon Roofing Supply, Inc. at September 30, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Beacon Roofing Supply, Inc.'s internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated November 21, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Tysons, Virginia

November 21, 2017

F-1

---

## BEACON ROOFING SUPPLY, INC.

## Consolidated Balance Sheets

(In thousands, except share and per share amounts)

|                                                                        | September 30, |              |
|------------------------------------------------------------------------|---------------|--------------|
|                                                                        | 2017          | 2016         |
| <b>Assets</b>                                                          |               |              |
| Current assets:                                                        |               |              |
| Cash and cash equivalents                                              | \$ 138,250    | \$ 31,386    |
| Accounts receivable, less allowance of \$11,829 and \$14,182 as of     |               |              |
| September 30, 2017 and 2016, respectively                              | 704,527       | 626,965      |
| Inventories, net                                                       | 551,924       | 480,736      |
| Prepaid expenses and other current assets                              | 209,138       | 163,103      |
| Total current assets                                                   | 1,603,839     | 1,302,190    |
| Property and equipment, net                                            | 156,129       | 148,569      |
| Goodwill                                                               | 1,251,986     | 1,197,565    |
| Intangibles, net                                                       | 429,069       | 464,024      |
| Other assets, net                                                      | 8,534         | 1,511        |
| Total Assets                                                           | \$ 3,449,557  | \$ 3,113,859 |
| <b>Liabilities and Stockholders' Equity</b>                            |               |              |
| Current liabilities:                                                   |               |              |
| Accounts payable                                                       | \$ 503,697    | \$ 360,915   |
| Accrued expenses                                                       | 261,297       | 161,113      |
| Current portions of long-term debt                                     | 14,141        | 14,811       |
| Total current liabilities                                              | 779,135       | 536,839      |
| Borrowings under revolving lines of credit, net                        | 3,205         | 359,661      |
| Long-term debt, net                                                    | 721,268       | 722,929      |
| Deferred income taxes, net                                             | 138,383       | 135,482      |
| Long-term obligations under equipment financing and other, net         | 25,760        | 35,121       |
| Total liabilities                                                      | 1,667,751     | 1,790,032    |
| Commitments and contingencies                                          |               |              |
| Stockholders' equity:                                                  |               |              |
| Common stock (voting); \$.01 par value; 100,000,000 shares authorized; |               |              |
| 67,700,858 issued and outstanding as of September 30, 2017 and         |               |              |
| 59,890,885 issued and outstanding as of September 30, 2016             | 677           | 598          |
| Undesignated preferred stock; 5,000,000 shares authorized, none issued | -             | -            |

|                                                |                 |                 |
|------------------------------------------------|-----------------|-----------------|
| or outstanding                                 |                 |                 |
| Additional paid-in capital                     | 1,047,506       | 694,564         |
| Retained earnings                              | 748,186         | 647,322         |
| Accumulated other comprehensive loss           | (14,563 )       | (18,657 )       |
| Total stockholders' equity                     | 1,781,806       | 1,323,827       |
| <br>Total Liabilities and Stockholders' Equity | <br>\$3,449,557 | <br>\$3,113,859 |

See accompanying Notes to Consolidated Financial Statements

F-2

---

## BEACON ROOFING SUPPLY, INC.

## Consolidated Statements of Operations

(In thousands, except share and per share amounts)

|                                              | Year Ended September 30, |             |             |
|----------------------------------------------|--------------------------|-------------|-------------|
|                                              | 2017                     | 2016        | 2015        |
| Net sales                                    | \$4,376,670              | \$4,127,109 | \$2,515,169 |
| Cost of products sold                        | 3,300,731                | 3,114,040   | 1,919,804   |
| Gross profit                                 | 1,075,939                | 1,013,069   | 595,365     |
| Operating expense                            | 859,843                  | 808,085     | 478,284     |
| Income from operations                       | 216,096                  | 204,984     | 117,081     |
| Interest expense, financing costs, and other | 52,751                   | 58,452      | 11,037      |
| Income before provision for income taxes     | 163,345                  | 146,532     | 106,044     |
| Provision for income taxes                   | 62,481                   | 56,615      | 43,767      |
| Net income                                   | \$100,864                | \$89,917    | \$62,277    |
| Weighted-average common stock outstanding:   |                          |             |             |
| Basic                                        | 60,315,648               | 59,424,372  | 49,578,130  |
| Diluted                                      | 61,344,263               | 60,418,067  | 50,173,478  |
| Net income per share:                        |                          |             |             |
| Basic                                        | \$1.67                   | \$1.51      | \$1.26      |
| Diluted                                      | \$1.64                   | \$1.49      | \$1.24      |

See accompanying Notes to Consolidated Financial Statements

BEACON ROOFING SUPPLY, INC.

Consolidated Statements of Comprehensive Income

(In thousands)

|                                                                        | Year Ended September 30, |          |          |
|------------------------------------------------------------------------|--------------------------|----------|----------|
|                                                                        | 2017                     | 2016     | 2015     |
| Net income                                                             | \$100,864                | \$89,917 | \$62,277 |
| Other comprehensive income (loss):                                     |                          |          |          |
| Foreign currency translation adjustment                                | 3,706                    | 1,024    | (14,003) |
| Unrealized loss due to change in fair value of derivatives, net of tax | -                        | -        | (138 )   |
| Total other comprehensive income (loss)                                | 3,706                    | 1,024    | (14,141) |
| Comprehensive income                                                   | \$104,570                | \$90,941 | \$48,136 |

See accompanying Notes to Consolidated Financial Statements

F-4

---

## BEACON ROOFING SUPPLY, INC.

## Consolidated Statements of Stockholders' Equity

(In thousands, except share amounts)

|                                     | Common Stock |        | Additional         | Retained  | Accumulated<br>Other<br>Comprehensive | Total                   |
|-------------------------------------|--------------|--------|--------------------|-----------|---------------------------------------|-------------------------|
|                                     | Shares       | Amount | Paid-in<br>Capital | Earnings  | Loss                                  | Stockholders'<br>Equity |
| Balance at September 30, 2014       | 49,392,774   | \$ 493 | \$328,059          | \$495,128 | \$ (6,579)                            | ) \$ 817,101            |
| Issuance of common stock, net of    |              |        |                    |           |                                       |                         |
| shares withheld for taxes           | 397,969      | 4      | 7,939              | -         | -                                     | 7,943                   |
| Stock-based compensation            | -            | -      | 9,936              | -         | -                                     | 9,936                   |
| Other comprehensive loss            | -            | -      | -                  | -         | (14,141)                              | (14,141)                |
| Net income                          | -            | -      | -                  | 62,277    | -                                     | 62,277                  |
| Balance at September 30, 2015       | 49,790,743   | \$ 497 | \$345,934          | \$557,405 | \$ (20,720)                           | ) \$ 883,116            |
| Issuance of common stock, net of    |              |        |                    |           |                                       |                         |
| shares withheld for taxes           | 1,061,134    | 11     | 24,147             | -         | -                                     | 24,158                  |
| Issuance of common stock in         |              |        |                    |           |                                       |                         |
| connection with RSG acquisition     | 9,039,008    | 90     | 306,734            | -         | -                                     | 306,824                 |
| Stock-based compensation            | -            | -      | 17,749             | -         | -                                     | 17,749                  |
| Other comprehensive income          | -            | -      | -                  | -         | 2,063                                 | 2,063                   |
| Net income                          | -            | -      | -                  | 89,917    | -                                     | 89,917                  |
| 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           | 536,223      | 6      | 8,621              | -         | -                                     | 8,627                   |
| Issuance of common stock from       |              |        |                    |           |                                       |                         |
| secondary offering, net of issuance |              |        |                    |           |                                       |                         |
| costs                               | 7,273,750    | 73     | 329,250            | -         | -                                     | 329,323                 |
| Stock-based compensation            | -            | -      | 15,071             | -         | -                                     | 15,071                  |
| Other comprehensive income          | -            | -      | -                  | -         | 4,094                                 | 4,094                   |
| Net income                          | -            | -      | -                  | 100,864   | -                                     | 100,864                 |
| Balance at September 30, 2017       | 67,700,858   | \$ 677 | \$1,047,506        | \$748,186 | \$ (14,563)                           | ) \$ 1,781,806          |

See accompanying Notes to Consolidated Financial Statements

## BEACON ROOFING SUPPLY, INC.

## Consolidated Statements of Cash Flows

(In thousands)

|                                                                                         | Year Ended September 30, |             |           |
|-----------------------------------------------------------------------------------------|--------------------------|-------------|-----------|
|                                                                                         | 2017                     | 2016        | 2015      |
| <b>Operating Activities</b>                                                             |                          |             |           |
| Net income                                                                              | \$ 100,864               | \$ 89,917   | \$ 62,277 |
| Adjustments to reconcile net income to net cash provided by operating activities:       |                          |             |           |
| Depreciation and amortization                                                           | 116,467                  | 100,191     | 34,862    |
| Stock-based compensation                                                                | 15,071                   | 17,749      | 9,936     |
| Certain interest expense and other financing costs                                      | 10,497                   | 8,329       | (1,450 )  |
| Gain on sale of fixed assets                                                            | (839 )                   | (1,882 )    | (1,107 )  |
| Deferred income taxes                                                                   | 393                      | 25,200      | 17,634    |
| Other, net                                                                              | -                        | -           | 263       |
| Changes in operating assets and liabilities, net of the effects of businesses acquired: |                          |             |           |
| Accounts receivable                                                                     | (60,185 )                | (30,408 )   | (33,251 ) |
| Inventories                                                                             | (51,768 )                | 43,489      | (9,203 )  |
| Prepaid expenses and other assets                                                       | (44,208 )                | (12,841 )   | (17,119 ) |
| Accounts payable and accrued expenses                                                   | 228,908                  | (119,096 )  | 46,498    |
| Net cash provided by operating activities                                               | 315,200                  | 120,648     | 109,340   |
| <b>Investing Activities</b>                                                             |                          |             |           |
| Purchases of property and equipment                                                     | (39,828 )                | (26,315 )   | (20,802 ) |
| Acquisition of businesses, net                                                          | (129,390 )               | (1,018,188) | (85,301 ) |
| Proceeds from the sale of assets                                                        | 2,233                    | 1,882       | 1,389     |
| Net cash used in investing activities                                                   | (166,985 )               | (1,042,621) | (104,714) |
| <b>Financing Activities</b>                                                             |                          |             |           |
| Borrowings under revolving lines of credit                                              | 2,464,128                | 1,892,459   | 560,634   |
| Repayments under revolving lines of credit                                              | (2,833,230)              | (1,541,532) | (566,007) |
| Borrowings under term loan                                                              | -                        | 490,793     | -         |
| Repayments under term loan                                                              | (4,500 )                 | (230,918 )  | (11,250 ) |
| Borrowings under Senior Notes                                                           | -                        | 300,000     | -         |
| Repayments under equipment financing facilities and other                               | (10,034 )                | (4,724 )    | (5,553 )  |
| Payment of debt issuance costs                                                          | (1,669 )                 | (28,325 )   | -         |
| Proceeds from secondary offering of common stock                                        | 345,503                  | -           | -         |
| Payment of issuance costs from secondary offering of common stock                       | (14,684 )                | -           | -         |
| Proceeds from issuance of common stock related to equity awards                         | 11,341                   | 24,160      | 7,943     |
| Taxes paid related to net share settlement of equity awards                             | (392 )                   | (2 )        | -         |

Edgar Filing: BEACON ROOFING SUPPLY INC - Form 10-K

|                                                              |           |           |           |
|--------------------------------------------------------------|-----------|-----------|-----------|
| Excess tax benefit from stock-based compensation             | 2,937     | 4,956     | 1,526     |
| Net cash provided by (used in) financing activities          | (40,600 ) | 906,867   | (12,707 ) |
| Effect of exchange rate changes on cash and cash equivalents | (751 )    | 831       | (730 )    |
| Net increase (decrease) in cash and cash equivalents         | 106,864   | (14,275 ) | (8,811 )  |
| Cash and cash equivalents, beginning of period               | 31,386    | 45,661    | 54,472    |
| Cash and cash equivalents, end of period                     | \$138,250 | \$31,386  | \$45,661  |
| Supplemental cash flow information                           |           |           |           |
| Cash paid during the period for:                             |           |           |           |
| Interest                                                     | \$49,067  | \$57,934  | \$8,276   |
| Income taxes, net of tax refunds                             | 56,158    | 14,425    | 23,198    |

During the 2016 period, 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 Consolidated Financial Statements

F-6

---

## BEACON ROOFING SUPPLY, INC.

### Notes to Consolidated Financial Statements

(In thousands, except share and per share amounts 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 a leading distributor of residential and non-residential roofing materials and other complementary building materials. The Company operates its business under regional and local trade names and services 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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company transactions have been eliminated. Certain prior period amounts have been reclassified to conform to current period presentation.

##### Use of Estimates

The preparation of consolidated financial statements in conformity with United States generally accepted accounting principles (“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.

##### Fiscal Year

The fiscal years presented are the years ended September 30, 2017 (“2017”), September 30, 2016 (“2016”), and September 30, 2015 (“2015”). Each of the Company’s first three quarters ends on the last day of the calendar month.

##### Segment Information

Operating segments are defined as components of a business that can earn revenue and incur expenses for which discrete financial information is evaluated on a regular basis by the chief operating decision maker (“CODM”) in order to decide how to allocate resources and assess performance. The Company’s CODM, the Chief Executive Officer, reviews consolidated results of operations to make decisions, therefore the Company views its operations and manages its business as one operating segment.

##### Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents also include unsettled credit card transactions. Cash equivalents are comprised of money market funds which invest primarily in commercial paper or bonds with a rating of A-1 or better, and bank certificates of deposit.

## Accounts Receivable

Accounts receivables are derived from unpaid invoiced amounts and are recorded at their net realizable value. Each month the Company reviews its receivables on a customer-by-customer basis and evaluates whether an allowance for doubtful accounts is necessary based on any known or perceived collection issues. The allowance for doubtful accounts represents the Company's estimate of credit exposure for each customer. Any balances that are eventually deemed uncollectible are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company's accounts receivable are primarily from customers in the building industry located in the United States and Canada, and no single customer represented at least

F-7

---

10% of the Company's revenue during the year ended September 30, 2017, or accounts receivable as of September 30, 2017.

#### Concentrations of Risk

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash, cash equivalents and accounts receivable. The Company maintains the majority of its cash and cash equivalents with one financial institution, which management believes to be financially sound and with minimal credit risk. The Company's deposits periodically exceed amounts guaranteed by the Federal Deposit Insurance Corporation.

#### Inventories

Inventories, consisting substantially of finished goods, are valued at the lower of cost or market (net realizable value). Cost is determined using the moving weighted-average cost method.

The Company's arrangements with vendors typically provide for rebates after it makes a special purchase and/or monthly, quarterly and/or annual rebates of a specified amount of consideration payable when a number of measures have been achieved. Annual rebates are generally related to a specified cumulative level of purchases on a calendar-year basis. The Company accounts for such rebates as a reduction of the inventory value until the product is sold, at which time such rebates reduce cost of sales in the consolidated statements of operations. Throughout the year, the Company estimates the amount of the periodic rebates based upon the expected level of purchases. The Company continually revises these estimates to reflect actual rebates earned based on actual purchase levels. Amounts due from vendors under these arrangements are included in "Prepaid expenses and other current assets" in the accompanying consolidated balance sheets.

#### Property and Equipment

Property and equipment acquired in connection with acquisitions are recorded at fair value as of the date of the acquisition and depreciated utilizing the straight-line method over the estimated remaining lives. All other additions are recorded at cost, and depreciation is computed using the straight-line method. The Company reviews the estimated useful lives of its fixed assets on an ongoing basis and the following table summarizes the estimates currently used:

| Asset Class                | Estimated Useful Life                                                                                                |
|----------------------------|----------------------------------------------------------------------------------------------------------------------|
| Buildings and improvements | 40 years                                                                                                             |
| Equipment                  | 3 to 7 years                                                                                                         |
| Furniture and fixtures     | 7 years                                                                                                              |
| Leasehold improvements     | Shorter of the estimated useful life or the term of the lease, considering renewal options expected to be exercised. |

#### Business Combinations

The Company records acquisitions resulting in the consolidation of a business using the acquisition method of accounting. Under this method, the acquiring Company records the assets acquired, including intangible assets that can be identified and named, and liabilities assumed based on their estimated fair values at the date of acquisition. The purchase price in excess of the fair value of the assets acquired and liabilities assumed is recorded as goodwill.

Various assumptions are used in the determination of these estimated fair values, including items such sales growth rates, cost synergies, customer attrition rates, discount rates, and other prospective financial information. Estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed. Transaction costs associated with acquisitions are expensed as incurred.

F-8

---

## Goodwill and Intangibles

On an annual basis and at interim periods when circumstances require, the Company tests the recoverability of its goodwill and indefinite-lived intangible assets. Examples of such indicators include a significant change in the business climate, unexpected competition, loss of key personnel or a decline in the Company's market capitalization below the Company's net book value.

The Company performs impairment assessments at the reporting unit level, which is defined as an operating segment or one level below an operating segment, also known as a component. The Company currently has five components which it evaluates for aggregation by examining the distribution methods, sales mix, and operating results of each component to determine if these characteristics will be sustained over a long-term basis. For purposes of this evaluation, the Company expects its components to exhibit similar economic characteristics 3-5 years after events such as an acquisition within the Company's core roofing business or management/business restructuring. Components that exhibit similar economic characteristics are subsequently aggregated into a single reporting unit. Based on the Company's most recent impairment assessment performed as of August 31, 2017, it was determined that all of the Company's components exhibited similar economic characteristics, and therefore should be aggregated into a single reporting unit (collectively the "Reporting Unit").

To test for the recoverability of goodwill and indefinite-lived intangible assets, the Company first performs a qualitative assessment based on economic, industry and company-specific factors for all or selected reporting units to determine whether the existence of events and circumstances indicates that it is more likely than not that the goodwill or indefinite-lived intangible asset is impaired. Based on the results of the qualitative assessment, two additional steps in the impairment assessment may be required. The first step would require a comparison of each reporting unit's fair value to the respective carrying value. If the carrying value exceeds the fair value, a second step is performed to measure the amount of impairment loss on a relative fair value basis, if any.

Based on the Company's most recent qualitative impairment assessment performed as of August 31, 2017, the Company concluded that there were no indicators of impairment, and that therefore it was more likely than not that the fair value of the goodwill and indefinite-lived intangible assets exceeded their net carrying amount, therefore the quantitative two-step impairment test was not required.

The Company amortizes certain identifiable intangible assets that have finite lives, currently consisting of non-compete agreements, customer relationships and trade names. Non-compete agreements are amortized on a straight-line basis over the terms of the associated contractual agreements; customer relationship assets are amortized on an accelerated basis based on the expected cash flows generated by the existing customers; and trade names are amortized on an accelerated basis over a five or ten year period. Amortizable intangible assets are tested for impairment, when deemed necessary, based on undiscounted cash flows and, if impaired, are written down to fair value based on either discounted cash flows or appraised values. In connection with certain financing arrangements, the Company has debt issuance costs that are amortized over the lives of the associated financings using the effective interest method.

## Evaluation of Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability is measured by comparing the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset.



## Fair Value Measurement

The Company applies fair value accounting for all financial assets and liabilities that are reported at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting guidance establishes a defined three-tier hierarchy to classify and disclose the fair value of assets and liabilities on both the date of their initial measurement as well as all subsequent periods. The hierarchy prioritizes the inputs used to measure fair value by the lowest level of input that is available and significant to the fair value measurement. The three levels are described as follows:

Level 1: Observable inputs. Quoted prices in active markets for identical assets and liabilities;

Level 2: Observable inputs other than the quoted price. Includes quoted prices for similar instruments, quoted prices for identical or similar instruments in inactive markets and amounts derived from valuation models where all significant inputs are observable in active markets; and

Level 3: Unobservable inputs. Includes amounts derived from valuation models where one or more significant inputs are unobservable and require the Company to develop relevant assumptions.

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level of classification as of each reporting period.

## Financial Derivatives

The Company has entered into interest rate swaps to minimize the risks and costs associated with financing activities, as well as to maintain an appropriate mix of fixed-rate and floating-rate debt. The swap agreements are contracts to exchange variable-rate for fixed-interest rate payments over the life of the agreements. The Company's derivative instruments are designated as cash flow hedges, for which the Company records the effective portions of changes in their fair value, net of tax, in other comprehensive income. The Company recognizes any ineffective portion of the hedges in the consolidated statement of operations through interest expense, financing costs and other.

## Net Sales

The Company recognizes revenue (net sales on the consolidated statement of operations) when the following four basic criteria are met:

- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered;
- the price to the buyer is fixed and determinable; and
- collectability is reasonably assured.

Based on these criteria, the Company generally recognizes revenue at the point of sale or upon delivery to the customer site. For goods shipped by third party carriers, the Company recognizes revenue upon shipment since the terms are generally FOB shipping point. The Company also arranges for certain products to be shipped directly from the manufacturer to the customer. The Company recognizes the gross revenue for these sales upon shipment as the terms are FOB shipping point.

## Leases

The Company leases the majority of its facilities and enters into various other operating lease agreements in conducting its business. At the inception of each lease, the Company evaluates the lease agreement to determine whether the lease is an operating or capital lease. Operating lease expenses are recognized in the statements of operations on a straight-line basis over the term of the related lease. Some of the Company's lease agreements may contain renewal options, tenant improvement allowances, rent holidays or rent escalation clauses. When such items are included in a lease agreement, the Company records a deferred rent asset or liability on the consolidated balance sheets equal to the difference between the rent expense and cash rent payments.

The cost of property and equipment acquired under capital lease arrangements represents the lesser of the present value of the minimum lease payments or the fair value of the leased asset as of the inception of the lease.

## Stock-Based Compensation

The Company applies the fair value method to recognize compensation expense for stock-based awards. Using this method, the estimated grant-date fair value of the award is recognized on a straight-line basis over the requisite service period based on the portion of the award that is expected to vest. The Company estimates forfeitures at the time of grant and revises the estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates. For awards with a performance-based vesting condition, the Company accrues stock-based compensation expense if it is probable that the performance condition will be achieved.

Stock-based compensation expense for restricted stock units is measured based on the fair value of the Company's common stock on the grant date. The Company utilizes the Black-Scholes option pricing model to estimate the grant-date fair value of option awards. The exercise price of option awards is set to equal the estimated fair value of the common stock at the date of the grant. The following weighted-average assumptions are also used to calculate the estimated fair value of option awards:

Expected volatility: The expected volatility of the Company's shares is estimated using the historical stock price volatility over the most recent period commensurate with the estimated expected term of the awards.

Expected term: For employee stock option awards, the Company determines the weighted average expected term equal to the weighted period between the vesting period and the contract life of all outstanding options.

Dividend yield: The Company has not paid dividends and does not anticipate paying a cash dividend in the foreseeable future and, accordingly, uses an expected dividend yield of zero.

Risk-free interest rate: The Company bases the risk-free interest rate on the implied yield available on a U.S. Treasury note with a term equal to the estimated expected term of the awards.

## Foreign Currency Translation

The Company's operations located outside of the United States where the local currency is the functional currency are translated into U.S. dollars using the current rate method. Results of operations are translated at the average rate of exchange for the period. Assets and liabilities are translated at the closing rates on the period end date. Gains and losses on translation of these accounts are accumulated and reported as a separate component of equity and other comprehensive income (loss). Gains and losses on foreign currency transactions are recognized in the consolidated statements of operations as a component of interest expense, financing costs, and other.

## Income Taxes

The Company accounts for income taxes using the liability method, which requires it to recognize a current tax liability or asset for current taxes payable or refundable and a deferred tax liability or asset for the estimated future tax effects of temporary differences between the financial statement and tax reporting bases of assets and liabilities to the extent that they are realizable. Deferred tax expense (benefit) results from the net change in deferred tax assets and liabilities during the year.

FASB ASC Topic 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Based on this guidance, the Company analyzes its filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. Tax benefits from uncertain tax positions are recognized if it is more likely than not that the position is sustainable based solely on its technical merits.

## Net Income per Share

The Company's basic net income per share attributable to common stockholders is calculated by dividing the net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period.

The Company's diluted net income per share is calculated by giving effect to all potentially dilutive common stock equivalents when determining the weighted-average number of common shares outstanding. For purposes of the diluted net income per share calculation, common shares issuable upon the exercise of stock options or release of restricted stock units are considered to be common stock equivalents.

## Recent Accounting Pronouncements - Adopted

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 for 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 adopted this guidance for the fiscal year ended September 30, 2017 and there was no impact on its financial statements and related disclosures.

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. Upon adoption, an entity must apply the new guidance retrospectively to all prior periods presented in the financial statements. The Company elected to early adopt this new guidance effective October 1, 2015 and applied the new guidance retrospectively to all 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 \$20.6 million and

\$25.2 million as of September 30, 2017 and 2016, respectively.

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

F-12

---

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 through the year ended September 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 \$2.3 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, 2016. The standard permits the use of either the full retrospective or modified retrospective adoption methods. The Company is continuing to perform a detailed evaluation, using a five-step model specified in the guidance, to assess the impacts of the new standard 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 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.

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.

F-13

---

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 will be recognized as an expense on a straight-line basis over the remaining service period.

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. The Company has 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 is 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 accounts receivables acquired is \$177.3 million, with the gross contractual amount being \$185.9 million.

Net sales and net loss from the RSG Acquisition included in the Company's statements of operations for the year ended September 30, 2016 was \$1.4 billion and \$10.3 million, respectively. The following table represents the unaudited pro forma consolidated revenue and net income (loss) for the Company for the prior periods indicated (in thousands, except per share amount):

|                      |                                                       |
|----------------------|-------------------------------------------------------|
|                      | Year<br>Ended<br>September<br>30, 2015<br>(unaudited) |
| Net sales            | \$3,707,629                                           |
| Net income           | 13,051                                                |
| Net income per share | 0.22                                                  |

The above pro forma results have been calculated by combining the historical results of the Company and RSG as if it had occurred on October 1, 2014, and adjusting the income tax provision as if it had been calculated on the combined results. The pro forma results include an estimate for all periods for intangible asset amortization (subject to change

when the final asset values have been determined), stock compensation expense, interest expense, and also reflect \$58.2 million of direct acquisition costs in fiscal 2015 instead of in 2016, however they do not include the impact of any cost synergies realized as a result of the acquisition. No other material pro forma adjustments to the 2015 acquisitions were deemed necessary to conform with the Company's accounting policies. The pro forma information is not necessarily indicative of the results that would have been achieved had the transactions occurred on October 1, 2014 or that may be achieved in the future.

F-15

---

#### Additional Acquisitions – Fiscal Year 2017

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

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

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 \$53.0 million (all of which is deductible for tax purposes) and \$47.4 million in intangible assets associated with these other acquisitions.

#### 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 with annual sales of approximately \$23 million. The Company has finalized the acquisition accounting entries for this transaction.

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 with annual sales of approximately \$70 million. The Company has finalized the acquisition accounting entries for this transaction.

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 with annual sales of approximately \$15 million. The Company has finalized the acquisition accounting entries for this transaction.

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 with annual sales of approximately \$5 million. The Company has finalized the acquisition accounting entries for this transaction.

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 with annual sales of approximately \$20 million. The Company has finalized the acquisition accounting entries for this transaction.

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 with annual sales of approximately \$35 million. The Company has finalized the acquisition accounting entries for this transaction.

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 with annual sales of approximately \$30 million. The Company has finalized the acquisition accounting entries for this transaction.

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. The Company has not provided pro forma results of operations for any of these transactions, as they were not material to the Company on either an individual or an aggregate basis. The results of operations for each of these acquisitions are included in the Company's respective consolidated statements of income from the date of each acquisition.

#### 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

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

|                                                     | Year Ended September 30, |            |            |
|-----------------------------------------------------|--------------------------|------------|------------|
|                                                     | 2017                     | 2016       | 2015       |
| Weighted-average common shares outstanding, basic   | 60,315,648               | 59,424,372 | 49,578,130 |
| Effect of dilutive securities:                      |                          |            |            |
| Stock options                                       | 619,732                  | 706,780    | 481,039    |
| Restricted stock units                              | 408,883                  | 286,915    | 114,309    |
| Weighted-average common shares outstanding, diluted | 61,344,263               | 60,418,067 | 50,173,478 |

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:

|                        | Year Ended September 30, |         |           |
|------------------------|--------------------------|---------|-----------|
|                        | 2017                     | 2016    | 2015      |
| Stock options          | 331,681                  | 502,294 | 1,313,689 |
| Restricted stock units | 61,890                   | 45,220  | -         |



## 5. Prepaid Expenses and Other Current Assets

The following table summarizes the significant components of prepaid expenses and other current assets (in thousands):

|                | September 30, |            |
|----------------|---------------|------------|
|                | 2017          | 2016       |
| Vendor rebates | \$ 193,071    | \$ 149,052 |
| Other          | 16,067        | 14,051     |
|                | \$ 209,138    | \$ 163,103 |

## 6. Property and Equipment

The following table provides a detailed breakout of property and equipment, by type (in thousands):

|                                                 | September 30, |            |
|-------------------------------------------------|---------------|------------|
|                                                 | 2017          | 2016       |
| Land                                            | \$2,796       | \$2,925    |
| Buildings and leasehold improvements            | 38,995        | 35,754     |
| Equipment                                       | 293,489       | 263,947    |
| Furniture and fixtures                          | 23,140        | 20,155     |
| Total property and equipment                    | 358,420       | 322,781    |
| Less: accumulated depreciation and amortization | (202,291)     | (174,212)  |
| Total property and equipment, net               | \$ 156,129    | \$ 148,569 |

Depreciation expense for the years ending September 30, 2017, 2016, and 2015 was \$34.0 million, \$31.9 million, and \$18.7 million, respectively.

## 7. Goodwill and Intangibles

## Goodwill

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

|                                   |              |
|-----------------------------------|--------------|
| Balance at September 30, 2015     | \$496,415    |
| Acquisition of RSG                | 617,477      |
| Other acquisitions                | 84,853       |
| Translation and other adjustments | (1,180)      |
| Balance at September 30, 2016     | \$ 1,197,565 |
| Acquisitions                      | 53,012       |

|                                   |              |
|-----------------------------------|--------------|
| Translation and other adjustments | 1,409        |
| Balance at September 30, 2017     | \$ 1,251,986 |

The change in the carrying amount of goodwill for the year ended September 30, 2017 and 2016 is primarily attributable to the Company's acquisitions finalized during the respective periods presented (see Note 3). The Company has recognized no goodwill impairments for any of the periods presented.

F-18

---

## Intangible Assets

In connection with transactions finalized for the year ended September 30, 2017, the Company recorded intangible assets of \$47.4 million (\$42.7 million of customer relationships, \$4.6 million of amortizable trademarks and \$0.1 million of beneficial lease arrangements). Intangible assets consisted of the following (in thousands, except time period amounts):

|                                          | September 30, |           | Weighted-<br>Average<br>Remaining<br>Life <sup>1</sup><br>(Years) |
|------------------------------------------|---------------|-----------|-------------------------------------------------------------------|
|                                          | 2017          | 2016      |                                                                   |
| Amortizable intangible assets:           |               |           |                                                                   |
| Non-compete agreements                   | \$2,824       | \$3,324   | 3.31                                                              |
| Customer relationships                   | 610,026       | 566,964   | 17.61                                                             |
| Trademarks                               | 10,500        | 5,400     | 8.37                                                              |
| Beneficial lease arrangements            | 1,060         | 960       | 8.79                                                              |
| Total amortizable intangible assets      | 624,410       | 576,648   |                                                                   |
| Less: Accumulated amortization           | (268,391)     | (185,674) |                                                                   |
| Total amortizable intangible assets, net | \$356,019     | \$390,974 |                                                                   |
| Indefinite lived trademarks              | 73,050        | 73,050    |                                                                   |
| Total intangibles, net                   | \$429,069     | \$464,024 |                                                                   |

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

For the years ended September 30, 2017, 2016, and 2015, the Company recorded \$82.5 million, \$68.3 million, and \$16.2 million of amortization expense relating to the above-listed intangible assets, respectively. The intangible asset lives range from 5 to 20 years and the weighted-average remaining life was 17.4 years as of September 30, 2017.

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

| Year Ending September 30, |           |
|---------------------------|-----------|
| 2018                      | \$71,577  |
| 2019                      | 58,771    |
| 2020                      | 47,751    |
| 2021                      | 38,248    |
| 2022                      | 30,239    |
| Thereafter                | 109,433   |
|                           | \$356,019 |

## 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

F-19

---

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.

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

|                                                                  | September 30,<br>2017 | September 30,<br>2016 |
|------------------------------------------------------------------|-----------------------|-----------------------|
| <b>Senior Secured Credit Facility</b>                            |                       |                       |
| Revolving Lines of Credit:                                       |                       |                       |
| U.S. Revolver, expires October 1, 2020 <sup>1</sup>              | \$ -                  | \$ 355,087            |
| Canadian Revolver, expires October 1, 2020 <sup>2</sup>          | 3,205                 | 4,574                 |
| Term Loan, matures October 1, 2022 <sup>3</sup>                  | 433,440               | 436,380               |
| Total borrowings under Senior Secured Credit Facility            | 436,645               | 796,041               |
| Less: current portion                                            | (4,500 )              | (4,500 )              |
| Total long-term borrowings under Senior Secured Credit Facility  | \$ 432,145            | \$ 791,541            |
| <b>Senior Notes</b>                                              |                       |                       |
| Senior Notes, matures October 2023 <sup>4</sup>                  | 292,328               | 291,049               |
| Less: current portion                                            | -                     | -                     |
| Total long-term borrowings under Senior Notes                    | \$ 292,328            | \$ 291,049            |
| <b>Equipment Financing Facilities and Other</b>                  |                       |                       |
| Equipment financing facilities, various maturities               |                       |                       |
| through September 2021 <sup>5</sup>                              | \$ 15,445             | \$ 20,419             |
| Capital lease obligations, various maturities                    |                       |                       |
| through November 2021 <sup>6</sup>                               | 19,956                | 25,013                |
| Total obligations under equipment financing facilities and other | 35,401                | 45,432                |
| Less: current portion                                            | (9,641 )              | (10,311 )             |
| Total long-term obligations under equipment                      |                       |                       |
| financing facilities and other                                   | \$ 25,760             | \$ 35,121             |

<sup>1</sup> - Effective rates on borrowings are 2.00% as of September 30, 2017; 2.90% as of September 30, 2016

<sup>2</sup> - Effective rates on borrowings are 3.70% as of September 30, 2017; 3.20% as of September 30, 2016

<sup>3</sup> - Interest rate of 3.50% as of September 30, 2017 and September 30, 2016

<sup>4</sup> - Interest rate of 6.38% as of September 30, 2017 and September 30, 2016

<sup>5</sup> - Fixed interest rates ranging from 2.33% to 3.25% as of September 30, 2017 and September 30, 2016

<sup>6</sup> - Fixed interest rates ranging from 2.72% to 10.39% as of September 30, 2017 and September 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 million and Canada (“Canada Revolver”) in the amount of \$30 million. The ABL has a maturity date of October 1, 2020.

The ABL has various borrowing tranches with an interest rate of LIBOR plus a margin of 125 basis points, 150 basis points or 175 basis points, based on the total outstanding balance of each tranche. The LIBOR rates can be fixed at one, three, six, or twelve month intervals and any non-fixed LIBOR amounts revert to a 4.75% base rate. As of September 30, 2017, the total balance outstanding balance on the ABL was \$3.2 million, and the weighted-average interest rate was 2.00%. Unamortized debt issuance costs of \$5.3 million related to the ABL are classified in “other assets, net” on the Company’s consolidated balance sheet as of September 30, 2017. The Company also has

F-20

---

outstanding standby letters of credit related to the U.S. Revolver in the amount of \$10.8 million as of September 30, 2017. The current unused commitment fees on the ABL 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.

#### 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 September 30, 2017, the outstanding balance on the Term Loan, net of debt issuance fees, was \$433.4 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 September 30, 2017 the outstanding balance on the Senior Notes, net of debt issuance fees, was \$292.3 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.

Annual principal payments for all outstanding financing arrangements for each of the next five years and thereafter are as follows (in thousands):

|                                                    |         |           |           | Equipment  |           |
|----------------------------------------------------|---------|-----------|-----------|------------|-----------|
|                                                    |         | Term      | Senior    | Financing  |           |
| Year Ending September 30,                          | ABL     | Loan      | Notes     | Facilities | Total     |
| 2018                                               | \$-     | \$4,500   | \$-       | \$ 9,584   | \$14,084  |
| 2019                                               | -       | 4,500     | -         | 9,631      | 14,131    |
| 2020                                               | 3,205   | 4,500     | -         | 8,960      | 16,665    |
| 2021                                               | -       | 4,500     | -         | 4,367      | 8,867     |
| 2022                                               | -       | 4,500     | -         | 172        | 4,672     |
| Thereafter                                         | -       | 418,500   | 300,000   | 141        | 718,641   |
| Total debt                                         | 3,205   | 441,000   | 300,000   | 32,855     | 777,060   |
| Less: Unamortized debt issuance costs <sup>1</sup> | -       | (7,560 )  | (7,672 )  | -          | (15,232 ) |
| Total long-term debt                               | \$3,205 | \$433,440 | \$292,328 | \$ 32,855  | \$761,828 |

<sup>1</sup> Does not include \$5.3 million of unamortized debt issuance costs related to the ABL classified as “other assets, net” on the consolidated balance sheet as of September 30, 2017

#### Equipment Financing Facilities and Other

As of September 30, 2017, the Company had a \$15.4 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 September 30, 2017, the Company had \$20.0 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.

At September 30, 2017, the minimum rental commitments under all non-cancelable operating leases with initial or remaining terms of more than one year were as follows:

| Year Ending September 30, | Operating |
|---------------------------|-----------|
|---------------------------|-----------|

## Leases

|                              |            |
|------------------------------|------------|
| 2018                         | \$ 57,075  |
| 2019                         | 46,177     |
| 2020                         | 37,199     |
| 2021                         | 30,350     |
| 2022                         | 23,496     |
| Thereafter                   | 29,257     |
| Total minimum lease payments | \$ 223,554 |

Rent expense was \$60.1 million, \$59.3 million, and \$39.2 million for the years ending September 30, 2017, 2016, and 2015, respectively. Sublet income was immaterial for each of these periods.

F-22

---

## 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. Stockholders' Equity

### 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 September 30, 2017 and 2016 there were 67,700,858 and 59,890,885 shares of common stock issued and outstanding, respectively, and no preferred stock outstanding as of either period end.

On September 25, 2017, in connection with the Allied Acquisition (see "Subsequent Events" footnote), the Company issued 7,273,750 shares of its common stock in a secondary offering at a price of \$47.50 per share. Total net proceeds from this secondary offering were \$330.8 million.

### Accumulated Other Comprehensive Income (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 accumulated other comprehensive loss (in thousands):

|                                                   | Accumulated  |             |               |
|---------------------------------------------------|--------------|-------------|---------------|
|                                                   | Foreign      | Derivative  | Other         |
|                                                   | Currency     | Financial   | Comprehensive |
|                                                   | Translation  | Instruments | Loss          |
| Balance as of September 30, 2014                  | \$ (2,040 )  | \$ (4,539 ) | \$ (6,579 )   |
| Other comprehensive loss before reclassifications | (14,003 )    | (138 )      | (14,141 )     |
| Reclassifications out of other comprehensive loss | -            | -           | -             |
| Balance as of September 30, 2015                  | \$ (19,293 ) | \$ (1,427 ) | \$ (20,720 )  |

Edgar Filing: BEACON ROOFING SUPPLY INC - Form 10-K

|                                                     |              |           |              |
|-----------------------------------------------------|--------------|-----------|--------------|
| Other comprehensive income before reclassifications | 1,024        | -         | 1,024        |
| Reclassifications out of other comprehensive loss   | -            | 1,039     | 1,039        |
| Balance as of September 30, 2016                    | \$ (18,269 ) | \$ (388 ) | \$ (18,657 ) |
| Other comprehensive income before reclassifications | 3,706        | -         | 3,706        |
| Reclassifications out of other comprehensive loss   | -            | 388       | 388          |
| Balance as of September 30, 2017                    | \$ (14,563 ) | \$ -      | \$ (14,563 ) |

F-23

---

Gains (losses) on derivative instruments are recognized in the consolidated statements of operations in interest expense, financing costs, and other.

## 11. 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 September 30, 2017, there were 4,096,732 shares of common stock available for issuance.

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

For all equity awards granted prior to October 1, 2014, in the event of a change in control of the Company, all awards are immediately vested. Beginning in fiscal 2015, equity awards 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 for the year ended September 30, 2017 were estimated on the dates of grants using the Black-Scholes option-pricing model with the following weighted-average assumptions:

|                          | Year Ended<br>September 30, |         |         |
|--------------------------|-----------------------------|---------|---------|
|                          | 2017                        | 2016    | 2015    |
| Risk-free interest rate  | 1.97 %                      | 1.87 %  | 1.83 %  |
| Expected volatility      | 28.83 %                     | 30.96 % | 31.69 % |
| Expected life (in years) | 5.30                        | 5.6     | 5.6     |
| Dividend yield           | —                           | —       | —       |

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

|                                                      | Options Outstanding | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value <sup>1</sup> |
|------------------------------------------------------|---------------------|---------------------------------|-----------------------------------------------------|----------------------------------------|
| Balance as of September 30, 2016                     | 2,312,789           | \$ 25.55                        | 6.3                                                 | \$ 38,225                              |
| Granted                                              | 245,818             | 47.40                           |                                                     |                                        |
| Exercised                                            | (442,909 )          | 22.09                           |                                                     |                                        |
| Canceled/Forfeited                                   | (16,992 )           | 33.72                           |                                                     |                                        |
| Expired                                              | (14,478 )           | 19.50                           |                                                     |                                        |
| Balance as of September 30, 2017                     | 2,084,228           | \$ 28.84                        | 6.1                                                 | \$ 46,714                              |
| Vested and expected to vest after September 30, 2017 | 2,050,134           | \$ 28.74                        | 6.0                                                 | \$ 46,150                              |
| Exercisable as of September 30, 2017                 | 1,414,141           | \$ 25.06                        | 5.0                                                 | \$ 37,033                              |

<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 years ended September 30, 2017 and 2016, the Company recorded stock-based compensation expense related to stock options of \$4.8 million and \$11.2 million, respectively. As of September 30, 2017, there was \$4.7 million of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of 1.8 years.

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

|                                                      | Year Ended September 30, |          |         |
|------------------------------------------------------|--------------------------|----------|---------|
|                                                      | 2017                     | 2016     | 2015    |
| Weighted-average fair value of stock options granted | \$ 14.21                 | \$ 12.89 | \$ 9.40 |
| Total fair value of stock options vested             | 5,566                    | 12,347   | 6,399   |
| Total intrinsic value of stock options exercised     | 10,941                   | 22,693   | 4,615   |

#### 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.

F-25

---

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

|                                                      | RSUs        | Weighted-Average<br>Grant Date Fair<br>Value |
|------------------------------------------------------|-------------|----------------------------------------------|
|                                                      | Outstanding |                                              |
| Balance at September 30, 2016                        | 705,434     | \$ 34.55                                     |
| Granted                                              | 273,065     | 47.31                                        |
| Released                                             | (128,578 )  | 33.47                                        |
| Canceled/Forfeited                                   | (78,948 )   | 29.04                                        |
| Balance at September 30, 2017                        | 770,973     | \$ 38.95                                     |
| Vested and expected to vest after September 30, 2017 | 793,350     | \$ 38.88                                     |

During the years ended September 30, 2017 and 2016, the Company recorded stock-based compensation expense related to restricted stock units of \$10.3 million and \$6.5 million, respectively. As of September 30, 2017, there was \$12.9 million of total unrecognized compensation cost related to unvested restricted stock units, which is expected to be recognized over a weighted-average period of 1.8 years.

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

|                                             | Year Ended<br>September 30, |         |         |
|---------------------------------------------|-----------------------------|---------|---------|
|                                             | 2017                        | 2016    | 2015    |
| Weighted-average fair value of RSUs granted | \$47.31                     | \$38.92 | \$28.74 |
| Total fair value of RSUs vested             | 4,562                       | 743     | 1,943   |
| Total intrinsic value of RSUs released      | 6,079                       | 1,375   | 1,784   |

## 12. Income Taxes

The following table summarizes the components of the income tax provision (in thousands):

|          | Year Ended September 30, |          |          |
|----------|--------------------------|----------|----------|
|          | 2017                     | 2016     | 2015     |
| Current: |                          |          |          |
| Federal  | \$52,718                 | \$23,403 | \$17,414 |
| Foreign  | 1,366                    | 1,183    | 1,765    |
| State    | 8,975                    | 2,426    | 7,579    |

|                            |          |          |          |
|----------------------------|----------|----------|----------|
| Total current taxes        | \$63,059 | \$27,012 | \$26,758 |
| Deferred:                  |          |          |          |
| Federal                    | \$(656 ) | \$25,935 | \$14,798 |
| Foreign                    | -        | 321      | (657 )   |
| State                      | 78       | 3,347    | 2,868    |
| Total deferred taxes       | \$(578 ) | \$29,603 | \$17,009 |
| Provision for income taxes | \$62,481 | \$56,615 | \$43,767 |

The following table is a reconciliation of the statutory federal income tax rate to the Company's effective income tax rate for the periods presented:

|                                                             | Year Ended<br>September 30, |         |         |
|-------------------------------------------------------------|-----------------------------|---------|---------|
|                                                             | 2017                        | 2016    | 2015    |
| U.S. federal income taxes at statutory rate                 | 35.0%                       | 35.0%   | 35.0%   |
| State income taxes, net of federal benefit                  | 3.9 %                       | 4.2 %   | 4.6 %   |
| Non-deductible professional fees related to RSG acquisition | 0.0 %                       | 0.4 %   | 2.2 %   |
| Other                                                       | (0.6 %)                     | (1.0 %) | (0.5 %) |
| Effective tax rate                                          | 38.3%                       | 38.6%   | 41.3%   |

Deferred income taxes reflect the tax consequences of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax law. These temporary differences are determined according to ASC 740 Income Taxes. Temporary differences that give rise to deferred tax assets and liabilities are as follows (in thousands):

|                                                    | September 30, |             |
|----------------------------------------------------|---------------|-------------|
|                                                    | 2017          | 2016        |
| Deferred tax assets:                               |               |             |
| Deferred compensation                              | \$ 14,237     | \$ 15,166   |
| Allowance for doubtful accounts                    | 1,318         | 2,060       |
| Accrued vacation and other                         | 6,602         | 6,616       |
| Unrealized loss on financial derivatives           | -             | 279         |
| Inventory valuation                                | 10,564        | 6,193       |
| Tax loss carryforwards                             | 20,575        | 34,505      |
| Other                                              | 958           | 913         |
| Total deferred tax assets                          | \$ 54,254     | \$ 65,732   |
| Deferred tax liabilities:                          |               |             |
| Excess tax over book depreciation and amortization | \$(192,637)   | \$(201,214) |
| Total deferred tax liabilities                     | (192,637)     | (201,214)   |
| Net deferred income tax liabilities                | \$(138,383)   | \$(135,482) |

Due to the RSG acquisition on October 1, 2015, the Company acquired \$135.3 million of federal and state net operating loss ("NOL") carryforwards related to its domestic operations. The federal losses are subject to an annual Section 382 limit of \$37.3 million. The Company utilized \$37.3 million of federal NOLs and \$2.3 million of state NOLs for the year ended September 30, 2017. These NOLs are scheduled to expire at various dates through 2035. The deferred tax asset of \$20.6 million remaining as of September 30, 2017 is related to the federal and state NOL carryforward and AMT credit carryforward.

The Company's Canadian subsidiary, Beacon Roofing Supply Canada Company ("BRSCC"), is treated as a Controlled Foreign Corporation ("CFC"). BRSCC's taxable income, which reflects all of the Company's Canadian operations, is being taxed only in Canada and would generally be taxed in the United States only upon an actual or deemed distribution. The Company expects that BRSCC's earnings will be indefinitely reinvested for the foreseeable future and therefore no United States deferred tax asset or liability for the differences between the book basis and the tax basis of BRSCC has been recorded at September 30, 2017. Unremitted earnings of \$44.5 million were considered permanently reinvested at September 30, 2017. Of this amount, \$22.4 million of the unremitted earnings were previously taxed in the United States and the remittance on these earnings would not generate additional United States tax.

As of September 30, 2017, goodwill was \$1.25 billion, of which there remains an amortizable basis of \$297.4 million for income tax purposes. The Company had \$34.5 million of excess tax benefits available for potential

F-27

---

deferred tax write-offs as of September 30, 2017, primarily related to previously recognized stock-based compensation.

As of September 30, 2017, there were no uncertain tax positions which, if recognized, would affect the Company's effective tax rate. The Company's accounting policy is to recognize any interest and penalties related to income tax matters in income tax expense in the consolidated statements of operations. A reconciliation of the beginning and ending amounts of the gross unrecognized income tax benefits is as follows:

|                                      | Year Ended<br>September 30, |       |
|--------------------------------------|-----------------------------|-------|
|                                      | 2017                        | 2016  |
| Balance, beginning of year           | \$ -                        | \$ 82 |
| Current year uncertain tax positions | -                           | -     |
| Settlements                          | -                           | (82 ) |
| Balance, end of year                 | \$ -                        | \$ -  |

The Company has operations in 48 U.S. states and 6 provinces in Canada. The Company is currently under audit in certain state and local jurisdictions for various years. These audits may involve complex issues, which may require an extended period of time to resolve. The Company has provided for its estimate of taxes payable in the accompanying financial statements. Additional taxes are reasonably possible; however the amounts cannot be estimated at this time. The Company is no longer subject to U.S. federal income tax examinations for any fiscal years ended on or before September 30, 2013. For the majority of states, the Company is also no longer subject to tax examinations for any fiscal years ended on or before September 30, 2013. In Canada, the Company is no longer subject to tax examinations for any fiscal years ended on or before September 30, 2013. For the Canadian provinces, the Company is no longer subject to tax examinations for any fiscal years ended on or before September 30, 2014.

### 13. Geographic and Product Data

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

|                 | Year Ended September 30, |             |             |
|-----------------|--------------------------|-------------|-------------|
|                 | 2017                     | 2016        | 2015        |
| Net sales       |                          |             |             |
| U.S.            | \$4,198,935              | \$3,949,067 | \$2,331,360 |
| Canada          | 177,735                  | 178,042     | 183,809     |
| Total net sales | \$4,376,670              | \$4,127,109 | \$2,515,169 |

|                         | September 30, |           |
|-------------------------|---------------|-----------|
|                         | 2017          | 2016      |
| Long-lived assets       |               |           |
| U.S.                    | \$507,236     | \$527,680 |
| Canada                  | 13,446        | 13,374    |
| Total long-lived assets | \$520,682     | \$541,054 |

The following table summarizes net sales from external customers by product group (in thousands):

|                                  | Year Ended September 30, |             |             |
|----------------------------------|--------------------------|-------------|-------------|
|                                  | 2017                     | 2016        | 2015        |
| Residential roofing products     | \$2,380,435              | \$2,190,762 | \$1,236,397 |
| Non-residential roofing products | 1,273,153                | 1,331,319   | 882,970     |
| Complementary building products  | 723,082                  | 605,028     | 395,802     |
| Total net sales                  | \$4,376,670              | \$4,127,109 | \$2,515,169 |

F-28

---

#### 14. 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 “Guarantor”), 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 Guarantor, 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 Guarantor 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.

F-29

---

## BEACON ROOFING SUPPLY, INC.

## Condensed Consolidating Balance Sheets

(Unaudited; In thousands)

|                                                                | September 30, 2017 |              |               |                |              |
|----------------------------------------------------------------|--------------------|--------------|---------------|----------------|--------------|
|                                                                | Guarantor          |              | Non-Guarantor |                | Eliminations |
|                                                                | Parent             | Subsidiaries | Subsidiaries  | and Other      | Consolidated |
| <b>Assets</b>                                                  |                    |              |               |                |              |
| Current assets:                                                |                    |              |               |                |              |
| Cash and cash equivalents                                      | \$-                | \$ 149,799   | \$ 1,582      | \$(13,131 )    | \$ 138,250   |
| Accounts receivable, net                                       | -                  | 663,034      | 42,633        | (1,140 )       | 704,527      |
| Inventories, net                                               | -                  | 527,226      | 24,698        | -              | 551,924      |
| Prepaid expenses and other current assets                      | 4,195              | 198,817      | 6,126         | -              | 209,138      |
| Total current assets                                           | 4,195              | 1,538,876    | 75,039        | (14,271 )      | 1,603,839    |
| Intercompany receivable, net                                   | -                  | 655,372      | -             | (655,372 )     | -            |
| Investments in consolidated subsidiaries                       | 3,160,273          | -            | -             | (3,160,273 )   | -            |
| Deferred income taxes, net                                     | 30,822             | -            | -             | (30,822 )      | -            |
| Property and equipment, net                                    | 6,610              | 138,955      | 10,564        | -              | 156,129      |
| Goodwill                                                       | -                  | 1,220,812    | 31,174        | -              | 1,251,986    |
| Intangibles, net                                               | -                  | 426,187      | 2,882         | -              | 429,069      |
| Other assets, net                                              | 2,912              | 5,622        | -             | -              | 8,534        |
| Total Assets                                                   | \$3,204,812        | \$3,985,824  | \$ 119,659    | \$(3,860,738 ) | \$3,449,557  |
| <b>Liabilities and Stockholders' Equity</b>                    |                    |              |               |                |              |
| Current liabilities:                                           |                    |              |               |                |              |
| Accounts payable                                               | \$27,174           | \$468,891    | \$ 21,903     | \$(14,271 )    | \$ 503,697   |
| Accrued expenses                                               | 51,183             | 204,173      | 5,941         | -              | 261,297      |
| Current portions of long-term debt                             | 4,500              | 9,641        | -             | -              | 14,141       |
| Total current liabilities                                      | 82,857             | 682,705      | 27,844        | (14,271 )      | 779,135      |
| Intercompany payable, net                                      | 618,881            | -            | 36,491        | (655,372 )     | -            |
| Borrowings under revolving lines of credit, net                | -                  | -            | 3,205         | -              | 3,205        |
| Long-term debt, net                                            | 721,268            | -            | -             | -              | 721,268      |
| Deferred income taxes, net                                     | -                  | 168,209      | 996           | (30,822 )      | 138,383      |
| Long-term obligations under equipment financing and other, net | -                  | 25,694       | 66            | -              | 25,760       |
| Total liabilities                                              | 1,423,006          | 876,608      | 68,602        | (700,465 )     | 1,667,751    |
| Total stockholders' equity                                     | 1,781,806          | 3,109,216    | 51,057        | (3,160,273 )   | 1,781,806    |
| Total Liabilities and Stockholders' Equity                     | \$3,204,812        | \$3,985,824  | \$ 119,659    | \$(3,860,738 ) | \$3,449,557  |

F-30

---

## BEACON ROOFING SUPPLY, INC.

## Condensed Consolidating Balance Sheets

(Unaudited; In thousands)

|                                                                | September 30, 2016 |              |               |                |              |
|----------------------------------------------------------------|--------------------|--------------|---------------|----------------|--------------|
|                                                                |                    | Guarantor    | Non-Guarantor | Eliminations   |              |
|                                                                | Parent             | Subsidiaries | Subsidiaries  | and Other      | Consolidated |
| <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        |
| Total Assets                                                   | \$ 2,960,639       | \$ 3,886,737 | \$ 106,735    | \$(3,840,252 ) | \$ 3,113,859 |
| <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       |
| Total liabilities                                              | 1,636,812          | 1,038,939    | 62,856        | (948,575 )     | 1,790,032    |
| Total stockholders' equity                                     | 1,323,827          | 2,847,798    | 43,879        | (2,891,677 )   | 1,323,827    |

|                                            |             |             |            |                |             |
|--------------------------------------------|-------------|-------------|------------|----------------|-------------|
| Total Liabilities and Stockholders' Equity | \$2,960,639 | \$3,886,737 | \$ 106,735 | \$(3,840,252 ) | \$3,113,859 |
|--------------------------------------------|-------------|-------------|------------|----------------|-------------|

F-31

---

## BEACON ROOFING SUPPLY, INC.

## Condensed Consolidating Statements of Operations

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

|                                                           | Year Ended September 30, 2017 |              |                            |               |              |
|-----------------------------------------------------------|-------------------------------|--------------|----------------------------|---------------|--------------|
|                                                           | Guarantor                     |              | Non-Guarantor Eliminations |               |              |
|                                                           | Parent                        | Subsidiaries | Subsidiaries               | and Other     | Consolidated |
| Net sales                                                 | \$-                           | \$4,198,935  | \$ 177,735                 | \$ -          | \$4,376,670  |
| Cost of products sold                                     | -                             | 3,162,896    | 137,835                    | -             | 3,300,731    |
| Gross profit                                              | -                             | 1,036,039    | 39,900                     | -             | 1,075,939    |
| Operating expense                                         | 28,496                        | 798,328      | 33,019                     | -             | 859,843      |
| Intercompany charges (income)                             | (4,664 )                      | 4,342        | 322                        | -             | -            |
| Income (loss) from operations                             | (23,832 )                     | 233,369      | 6,559                      | -             | 216,096      |
| Interest expense, financing costs, and other              | 38,660                        | 14,033       | 58                         | -             | 52,751       |
| Intercompany interest expense (income)                    | (24,458 )                     | 22,927       | 1,531                      | -             | -            |
| Income (loss) before provision for income taxes           | (38,034 )                     | 196,409      | 4,970                      | -             | 163,345      |
| Provision for (benefit from) income taxes                 | (3,284 )                      | 64,399       | 1,366                      | -             | 62,481       |
| Income (loss) before equity in net income of subsidiaries | (34,750 )                     | 132,010      | 3,604                      | -             | 100,864      |
| Equity in net income of subsidiaries                      | 135,614                       | -            | -                          | (135,614 )    | -            |
| Net income                                                | \$100,864                     | \$132,010    | \$ 3,604                   | \$ (135,614 ) | \$100,864    |
| Weighted-average common stock outstanding:                |                               |              |                            |               |              |
| Basic                                                     |                               |              |                            |               | 60,315,648   |
| Diluted                                                   |                               |              |                            |               | 61,344,263   |
| Net income per share:                                     |                               |              |                            |               |              |
| Basic                                                     |                               |              |                            |               | \$1.67       |
| Diluted                                                   |                               |              |                            |               | \$1.64       |

## BEACON ROOFING SUPPLY, INC.

## Condensed Consolidating Statements of Operations

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

|                                                           | Year Ended September 30, 2016 |              |                            |               |              |
|-----------------------------------------------------------|-------------------------------|--------------|----------------------------|---------------|--------------|
|                                                           | Guarantor                     |              | Non-Guarantor Eliminations |               |              |
|                                                           | Parent                        | Subsidiaries | Subsidiaries               | and Other     | Consolidated |
| Net sales                                                 | \$-                           | \$3,949,313  | \$ 178,042                 | \$ (246 )     | \$4,127,109  |
| Cost of products sold                                     | -                             | 2,977,174    | 137,112                    | (246 )        | 3,114,040    |
| Gross profit                                              | -                             | 972,139      | 40,930                     | -             | 1,013,069    |
| Operating expenses                                        | 59,949                        | 715,669      | 32,467                     | -             | 808,085      |
| Intercompany charges (income)                             | (51,942 )                     | 49,285       | 2,657                      | -             | -            |
| Income (loss) from operations                             | (8,007 )                      | 207,185      | 5,806                      | -             | 204,984      |
| Interest expense, financing costs, and other              | 42,835                        | 14,965       | 652                        | -             | 58,452       |
| Intercompany interest expense (income)                    | (21,536 )                     | 19,928       | 1,608                      | -             | -            |
| Income (loss) before provision for income taxes           | (29,306 )                     | 172,292      | 3,546                      | -             | 146,532      |
| Provision for (benefit from) income taxes                 | (472 )                        | 55,613       | 1,474                      | -             | 56,615       |
| Income (loss) before equity in net income of subsidiaries | (28,834 )                     | 116,679      | 2,072                      | -             | 89,917       |
| Equity in net income of subsidiaries                      | 118,751                       | -            | -                          | (118,751 )    | -            |
| Net income                                                | \$89,917                      | \$ 116,679   | \$ 2,072                   | \$ (118,751 ) | \$89,917     |
| Weighted-average common stock outstanding:                |                               |              |                            |               |              |
| Basic                                                     |                               |              |                            |               | 59,424,372   |
| Diluted                                                   |                               |              |                            |               | 60,418,067   |
| Net income per share:                                     |                               |              |                            |               |              |
| Basic                                                     |                               |              |                            |               | \$1.51       |
| Diluted                                                   |                               |              |                            |               | \$1.49       |

## BEACON ROOFING SUPPLY, INC.

## Condensed Consolidating Statements of Operations

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

|                                                    | Year Ended September 30, 2015 |              |               |              |              |
|----------------------------------------------------|-------------------------------|--------------|---------------|--------------|--------------|
|                                                    | Guarantor                     |              | Non-Guarantor | Eliminations |              |
|                                                    | Parent                        | Subsidiaries | Subsidiaries  | and Other    | Consolidated |
| Net sales                                          | \$-                           | \$2,331,829  | \$ 183,809    | \$ (469 )    | \$2,515,169  |
| Cost of products sold                              | -                             | 1,778,196    | 142,077       | (469 )       | 1,919,804    |
| Gross profit                                       | -                             | 553,633      | 41,732        | -            | 595,365      |
| Operating expenses                                 | 44,937                        | 399,901      | 33,446        | -            | 478,284      |
| Intercompany charges (income)                      | (36,085 )                     | 34,264       | 1,821         | -            | -            |
| Income (loss) from operations                      | (8,852 )                      | 119,468      | 6,465         | -            | 117,081      |
| Interest expense, financing costs, and other       | 9,508                         | 740          | 789           | -            | 11,037       |
| Intercompany interest expense (income)             | (15,762 )                     | 14,174       | 1,588         | -            | -            |
| Income before provision for income taxes           | (2,598 )                      | 104,554      | 4,088         | -            | 106,044      |
| Provision for income taxes                         | (1,087 )                      | 43,765       | 1,089         | -            | 43,767       |
| Income before equity in net income of subsidiaries | (1,511 )                      | 60,789       | 2,999         | -            | 62,277       |
| Equity in net income of subsidiaries               | 63,788                        | -            | -             | (63,788 )    | -            |
| Net income                                         | \$62,277                      | \$60,789     | \$ 2,999      | \$ (63,788 ) | \$62,277     |
| Weighted-average common stock outstanding:         |                               |              |               |              |              |
| Basic                                              |                               |              |               |              | 49,578,130   |
| Diluted                                            |                               |              |               |              | 50,173,478   |
| Net income per share:                              |                               |              |               |              |              |
| Basic                                              |                               |              |               |              | \$1.26       |
| Diluted                                            |                               |              |               |              | \$1.24       |

## BEACON ROOFING SUPPLY, INC.

## Condensed Consolidating Statements of Comprehensive Income

(Unaudited; In thousands)

|                                         | Year Ended September 30, 2017 |               |              |               |              |
|-----------------------------------------|-------------------------------|---------------|--------------|---------------|--------------|
|                                         | Guarantor                     | Non-Guarantor | Eliminations |               |              |
|                                         | Parent                        | Subsidiaries  | Subsidiaries | and Other     | Consolidated |
| Net income (loss)                       | \$ 100,864                    | \$ 132,010    | \$ 3,604     | \$ (135,614 ) | \$ 100,864   |
| Other comprehensive income:             |                               |               |              |               |              |
| Foreign currency translation adjustment | 3,706                         | -             | 3,706        | (3,706 )      | 3,706        |
| Total other comprehensive income        | 3,706                         | -             | 3,706        | (3,706 )      | 3,706        |
| Comprehensive income (loss)             | \$ 104,570                    | \$ 132,010    | \$ 7,310     | \$ (139,320 ) | \$ 104,570   |

|                                         | Year Ended September 30, 2016 |              |               |               |              |
|-----------------------------------------|-------------------------------|--------------|---------------|---------------|--------------|
|                                         | Guarantor                     |              | Non-Guarantor | Eliminations  |              |
|                                         | Parent                        | Subsidiaries | Subsidiaries  | and Other     | Consolidated |
| Net income                              | \$89,917                      | \$ 116,679   | \$ 2,072      | \$ (118,751 ) | \$ 89,917    |
| Other comprehensive income:             |                               |              |               |               |              |
| Foreign currency translation adjustment | 1,024                         | -            | 1,024         | (1,024 )      | 1,024        |
| Total other comprehensive income        | 1,024                         | -            | 1,024         | (1,024 )      | 1,024        |
| Comprehensive income                    | \$90,941                      | \$ 116,679   | \$ 3,096      | \$ (119,775 ) | \$ 90,941    |

|                                         | Year Ended September 30, 2015 |               |              |              |              |
|-----------------------------------------|-------------------------------|---------------|--------------|--------------|--------------|
|                                         | Guarantor                     | Non-Guarantor | Eliminations |              |              |
|                                         | Parent                        | Subsidiaries  | Subsidiaries | and Other    | Consolidated |
| Net income                              | \$62,277                      | \$ 60,789     | \$ 2,999     | \$ (63,788 ) | \$ 62,277    |
| Other comprehensive income (loss):      |                               |               |              |              |              |
| Foreign currency translation adjustment | (14,003)                      | -             | (14,003 )    | 14,003       | (14,003 )    |
| Unrealized loss due to change in fair   |                               |               |              |              |              |
| value of derivatives, net of tax        | (138 )                        | -             | -            | -            | (138 )       |
| Total other comprehensive income (loss) | (14,141)                      | -             | (14,003 )    | 14,003       | (14,141 )    |
| Comprehensive income (loss)             | \$48,136                      | \$ 60,789     | \$ (11,004 ) | \$ (49,785 ) | \$ 48,136    |

## BEACON ROOFING SUPPLY, INC.

## Condensed Consolidating Statements of Cash Flows

(Unaudited; In thousands)

|                                                                   | Year Ended September 30, 2017 |              |               |            |              |
|-------------------------------------------------------------------|-------------------------------|--------------|---------------|------------|--------------|
|                                                                   | Guarantor                     |              | Non-Guarantor |            | Eliminations |
|                                                                   | Parent                        | Subsidiaries | Subsidiaries  | and Other  | Consolidated |
| Net cash provided by (used in) operating activities               | \$ (2,466 )                   | \$ 313,396   | \$ 4,888      | \$ (618 )  | \$ 315,200   |
| <b>Investing Activities</b>                                       |                               |              |               |            |              |
| Purchases of property and equipment                               | (3,517 )                      | (34,584 )    | (1,727 )      | -          | (39,828 )    |
| Acquisition of businesses                                         | (129,390)                     | -            | -             | -          | (129,390 )   |
| Proceeds from the sale of assets                                  | -                             | 2,150        | 83            | -          | 2,233        |
| Intercompany activity                                             | (203,163)                     | -            | -             | 203,163    | -            |
| Net cash used in investing activities                             | (336,070)                     | (32,434 )    | (1,644 )      | 203,163    | (166,985 )   |
| <b>Financing Activities</b>                                       |                               |              |               |            |              |
| Borrowings under revolving lines of credit                        | -                             | 2,445,084    | 19,044        | -          | 2,464,128    |
| Repayments under revolving lines of credit                        | -                             | (2,812,663)  | (20,567 )     | -          | (2,833,230 ) |
| Repayments under term loan                                        | (4,500 )                      | -            | -             | -          | (4,500 )     |
| Repayments under equipment financing facilities and other         | -                             | (10,049 )    | 15            | -          | (10,034 )    |
| Payment of debt issuance costs                                    | (1,669 )                      | -            | -             | -          | (1,669 )     |
| Proceeds from secondary offering of common stock                  | 345,503                       | -            | -             | -          | 345,503      |
| Payment of issuance costs from secondary offering of common stock | (14,684 )                     | -            | -             | -          | (14,684 )    |
| Proceeds from issuance of common stock related to equity awards   | 11,341                        | -            | -             | -          | 11,341       |
| Taxes paid related to net share settlement of equity awards       | (392 )                        | -            | -             | -          | (392 )       |
| Excess tax benefit from stock-based compensation                  | 2,937                         | -            | -             | -          | 2,937        |
| Intercompany activity                                             | -                             | 209,018      | (2,279 )      | (206,739 ) | -            |
| Net cash provided by (used in) financing activities               | 338,536                       | (168,610 )   | (3,787 )      | (206,739 ) | (40,600 )    |
| Effect of exchange rate changes on cash and cash equivalents      | -                             | -            | (751 )        | -          | (751 )       |
| Net increase (decrease) in cash and cash equivalents              | -                             | 112,352      | (1,294 )      | (4,194 )   | 106,864      |

|                                                |     |           |          |              |           |
|------------------------------------------------|-----|-----------|----------|--------------|-----------|
| Cash and cash equivalents, beginning of period | -   | 37,447    | 2,876    | (8,937 )     | 31,386    |
| Cash and cash equivalents, end of period       | \$- | \$149,799 | \$ 1,582 | \$ (13,131 ) | \$138,250 |

---

F-36

## BEACON ROOFING SUPPLY, INC.

## Condensed Consolidating Statements of Cash Flows

(Unaudited; In thousands)

|                                                              | Year Ended September 30, 2016 |              |               |             |              |
|--------------------------------------------------------------|-------------------------------|--------------|---------------|-------------|--------------|
|                                                              | Guarantor                     |              | Non-Guarantor |             | Eliminations |
|                                                              | Parent                        | Subsidiaries | Subsidiaries  | and Other   | Consolidated |
| Net cash provided by (used in) operating activities          | \$(22,799 )                   | \$ 143,427   | \$ 4,751      | \$ (4,731 ) | \$ 120,648   |
| <b>Investing Activities</b>                                  |                               |              |               |             |              |
| Purchases of property and equipment                          | (3,654 )                      | (20,008 )    | (2,653 )      | -           | (26,315 )    |
| Acquisition of businesses                                    | (1,018,188 )                  | -            | -             | -           | (1,018,188 ) |
| Proceeds from the sale of assets                             | -                             | 1,882        | -             | -           | 1,882        |
| Intercompany activity                                        | 475,099                       | -            | -             | (475,099 )  | -            |
| Net cash used in investing activities                        | (546,743 )                    | (18,126 )    | (2,653 )      | (475,099 )  | (1,042,621 ) |
| <b>Financing Activities</b>                                  |                               |              |               |             |              |
| Borrowings under revolving lines of credit                   | -                             | 1,877,729    | 14,730        | -           | 1,892,459    |
| Repayments under revolving lines of credit                   | -                             | (1,520,003 ) | (21,529 )     | -           | (1,541,532 ) |
| Borrowings under term loan                                   | 490,793                       | -            | -             | -           | 490,793      |
| Repayments under term loan                                   | (230,918 )                    | -            | -             | -           | (230,918 )   |
| Repayments under equipment financing facilities and other    | (45 )                         | (4,659 )     | (20 )         | -           | (4,724 )     |
| Borrowings under Senior Notes                                | 300,000                       | -            | -             | -           | 300,000      |
| Payment of debt issuance costs                               | (19,402 )                     | (8,923 )     | -             | -           | (28,325 )    |
| Proceeds from issuance of common stock                       | 24,160                        | -            | -             | -           | 24,160       |
| Taxes paid related to net share settlement of equity awards  | (2 )                          | -            | -             | -           | (2 )         |
| Excess tax benefit from stock-based compensation             | 4,956                         | -            | -             | -           | 4,956        |
| Intercompany activity                                        | -                             | (474,814 )   | (285 )        | 475,099     | -            |
| Net cash provided by (used in) financing activities          | 569,542                       | (130,670 )   | (7,104 )      | 475,099     | 906,867      |
| Effect of exchange rate changes on cash and cash equivalents | -                             | -            | 831           | -           | 831          |
| Net decrease in cash and cash equivalents                    | -                             | (5,369 )     | (4,175 )      | (4,731 )    | (14,275 )    |
| Cash and cash equivalents, beginning of period               | -                             | 42,816       | 7,051         | (4,206 )    | 45,661       |
| Cash and cash equivalents, end of period                     | \$-                           | \$ 37,447    | \$ 2,876      | \$ (8,937 ) | \$ 31,386    |



## BEACON ROOFING SUPPLY, INC.

## Condensed Consolidating Statements of Cash Flows

(Unaudited; In thousands)

|                                                              | Year Ended September 30, 2015 |              |               |             |              |
|--------------------------------------------------------------|-------------------------------|--------------|---------------|-------------|--------------|
|                                                              | Guarantor                     |              | Non-Guarantor |             | Eliminations |
|                                                              | Parent                        | Subsidiaries | Subsidiaries  | and Other   |              |
| Net cash provided by operating activities                    | \$ 1,776                      | \$ 100,760   | \$ 4,188      | \$ 2,616    | \$ 109,340   |
| Investing Activities                                         |                               |              |               |             |              |
| Purchases of property and equipment                          | (397 )                        | (18,649 )    | (1,756 )      | -           | (20,802 )    |
| Acquisition of businesses                                    | (85,301 )                     | -            | -             | -           | (85,301 )    |
| Proceeds from the sale of assets                             | -                             | 1,389        | -             | -           | 1,389        |
| Intercompany activity                                        | 93,503                        | -            | -             | (93,503 )   | -            |
| Net cash provided by (used in) investing activities          | 7,805                         | (17,260 )    | (1,756 )      | (93,503 )   | (104,714 )   |
| Financing Activities                                         |                               |              |               |             |              |
| Borrowings under revolving lines of credit                   | 552,545                       | -            | 8,089         | -           | 560,634      |
| Repayments under revolving lines of credit                   | (560,345 )                    | -            | (5,662 )      | -           | (566,007 )   |
| Repayments under term loan                                   | (11,250 )                     | -            | -             | -           | (11,250 )    |
| Repayments under equipment financing facilities and other    | -                             | (5,553 )     | -             | -           | (5,553 )     |
| Proceeds from issuance of common stock                       | 7,943                         | -            | -             | -           | 7,943        |
| Excess tax benefit from stock-based compensation             | 1,526                         | -            | -             | -           | 1,526        |
| Intercompany activity                                        | -                             | (93,184 )    | (319 )        | 93,503      | -            |
| Net cash provided by (used in) financing activities          | (9,581 )                      | (98,737 )    | 2,108         | 93,503      | (12,707 )    |
| Effect of exchange rate changes on cash and cash equivalents | -                             | -            | (730 )        | -           | (730 )       |
| Net increase (decrease) in cash and cash equivalents         | -                             | (15,237 )    | 3,810         | 2,616       | (8,811 )     |
| Cash and cash equivalents, beginning of period               | -                             | 58,053       | 3,241         | (6,822 )    | 54,472       |
| Cash and cash equivalents, end of period                     | \$-                           | \$ 42,816    | \$ 7,051      | \$ (4,206 ) | \$ 45,661    |

## 15. Allowance for Doubtful Accounts

The following table summarizes changes in the valuation of the allowance for doubtful accounts (in thousands):

|                          | Beginning | Charged to |             | Ending    |
|--------------------------|-----------|------------|-------------|-----------|
| Year Ended September 30, | Balance   | Operations | Write-offs  | Balance   |
| 2017                     | \$ 14,812 | \$ 2,914   | \$ (5,897 ) | \$ 11,829 |
| 2016                     | 6,298     | 13,681     | (5,167 )    | 14,812    |
| 2015                     | 8,510     | 1,619      | (3,831 )    | 6,298     |

## 16. Fair Value Measurement

As of September 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 September 30, 2017 the fair value of the Company's \$300.0 million Senior Notes was \$320 million. As of September 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).

## 17. Employee Benefit Plans

The Company maintains defined contribution plans covering all full-time employees of the Company who have 90 days of service and are at least 21 years old. An eligible employee may elect to make a before-tax contribution of between 1% and 100% of his or her compensation through payroll deductions, not to exceed the annual limit set by law. The Company currently matches the first 50% of participant contributions limited to 6% of a participant's gross compensation (maximum Company match is 3%).

The combined total expense for this plan and a similar plan for Canadian employees was \$8.2 million, \$7.3 million, and \$4.6 million for the years ended September 30, 2017, 2016, and 2015, respectively. The Company also contributes to an external pension fund for certain of its employees who belong to a local union. Annual contributions were \$0.1 million for each the years ended September 30, 2017, 2016, and 2015, respectively.

## 18. Financial Derivatives

The Company has historically used interest rate derivative instruments to manage the risk related to fluctuating cash flows from interest rate changes by converting a portion of its variable-rate borrowings into fixed-rate borrowings. On March 28, 2013, the Company entered into an interest rate swap agreement with a notional amount of \$213.8 million which expired on March 31, 2017. This agreement swapped the thirty-day LIBOR to a fixed-rate of 1.38% and had scheduled reductions of the notional amount equal to \$2.8 million per quarter, effectively matching the repayment schedule under the Term Loan outstanding at that time. The Company determined this swap agreement qualified for cash flow hedge accounting under ASC 815, therefore changes in the fair value of the swap were recognized through

other comprehensive income each period. As of September 30, 2015, the interest rate swap had a notional amount of \$185.6 million and a fair value of \$2.4 million.

On October 1, 2015, in connection with the financing terms surrounding the RSG Acquisition (see Note 3), the Company terminated the swap agreement and settled the \$2.4 million unrealized loss with the counterparty. This \$2.4 million unrealized loss was recognized on a straight-line basis as interest expense from the termination date through March 31, 2017, the original expiration date of the swap agreement.

#### 19. Subsequent Events

On August 24, 2017, the Company entered into a definitive stock purchase agreement (“the Stock Purchase Agreement”) to acquire, for approximately \$2.625 billion in cash (subject to working capital and certain other adjustments as set forth in the Stock Purchase Agreement) (the “Purchase Price”), all of the issued and outstanding

F-39

---

shares of capital stock of Allied Building Products Corp. and an affiliated entity (together with its and their respective subsidiaries, “Allied”) on the terms and subject to the conditions set forth in the Stock Purchase Agreement (the “Allied Acquisition”). Allied is one of the country’s largest exterior and interior building products distributors and is headquartered in East Rutherford, New Jersey. The Allied Acquisition is expected to close on January 2, 2018, subject to the satisfaction of customary closing conditions.

On October 25, 2017, in connection with the Allied Acquisition, the Company, through a wholly owned finance subsidiary, issued \$1.3 billion in aggregate principal amount of 4.875% senior notes due 2025. The funds received in connection with these notes are being held in escrow and will be used to finance the Allied Acquisition, subject to the projected January 2, 2018 closing.

In addition, in connection with the Allied Acquisition, the Company secured commitments for the following debt financing facilities:

- \$970.0 million seven-year secured term loan “B” facility due 2025 at LIBOR + 2.25%
- \$1.3 billion senior-secured asset-based revolving line of credit due 2023 at LIBOR + 1.50% (drawn) and 0.25% (undrawn)

Finally, to further finance the Allied Acquisition, on August 24, 2017, in connection with the execution of the Stock Purchase Agreement, the Company entered into an investment agreement (the “Investment Agreement”) with CD&R Boulder Holdings, L.P. (the “CD&R Stockholder”) for the purchase of shares of the Company’s Series A Cumulative Convertible Participating Preferred Stock, par value \$0.01 per share (the “Preferred Stock”) in order to partially finance the aggregate Purchase Price. The Preferred Stock will be convertible perpetual participating preferred stock of the Company, with an initial conversion price of \$41.26 per share, and accrue dividends at a rate of 6.0% per annum (payable in cash or in-kind, subject to certain conditions). Pursuant to the Investment Agreement, the Company anticipates that it will issue 400,000 shares of Preferred Stock to the CD&R Stockholder with an aggregate liquidation preference of \$400 million at a purchase price of \$1,000 per share, subject to the projected January 2, 2018 closing.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 9A. CONTROLS AND PROCEDURES

#### 1. Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2017. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2017, our disclosure controls and procedures were (1) designed to ensure that material information relating to Beacon Roofing Supply, Inc., including its consolidated subsidiaries, is made known to our chief executive officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) designed to be effective, and were effective, in that they provide reasonable assurance of achieving their objectives, including that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures.

#### 2. Internal Control over Financial Reporting

##### (a) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the company's principal executive and principal financial officers, and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations which may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal controls over financial reporting as of September 30, 2017. In making this assessment, we used the criteria set forth in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Based on our assessment, we believe that, as of September 30, 2017, our internal control over financial reporting is effective at the reasonable assurance level based on those criteria.

Our Independent Registered Public Accounting Firm has issued a report on the Company's internal control over financial reporting. This report appears below.

(b) Attestation Report of the Independent Registered Public Accounting Firm

51

---

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of

Beacon Roofing Supply, Inc.

We have audited Beacon Roofing Supply, Inc.'s internal control over financial reporting as of September 30, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Beacon Roofing Supply, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Beacon Roofing Supply, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Beacon Roofing Supply, Inc. as of September 30, 2017 and 2016 and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended September 30, 2017 and our report dated November 21, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Tysons, Virginia

November 21, 2017

52

---

(c) Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) occurred during the fiscal quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

53

---

### PART III

#### Executive Officers of the Registrant

This part of our Form 10-K, which includes Items 10 through 14, is omitted because we will file definitive proxy material pursuant to Regulation 14A not more than 120 days after the close of our year-end, which proxy material will include the information required by Items 10 through 14 and is incorporated herein by reference.

### PART IV

#### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

##### (a)(1) Financial Statements

The following financial statements of our Company and Report of the Independent Registered Public Accounting Firm are included in Part II, Item 8 of this Report:

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets as September 30, 2017 and 2016

Consolidated Statements of Operations for the years ended September 30, 2017, 2016, and 2015

Consolidated Statements of Comprehensive Income for the years ended September 30, 2017, 2016, and 2015

Consolidated Statements of Stockholders' Equity for the years ended September 30, 2017, 2016, and 2015

Consolidated Statements of Cash Flows for the years ended September 30, 2017, 2016, and 2015

Notes to Consolidated Financial Statements

##### (2) Financial Statement Schedules

Financial statement schedules have been omitted because they are either not applicable or the required information has been disclosed in the financial statements or notes thereto.

##### (3) Exhibits

54

---

## INDEX TO EXHIBITS

| Exhibit |                                                                                                                                                                                                                                                           | Incorporated by Reference |            |         |                    |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------|---------|--------------------|
| Number  | Description                                                                                                                                                                                                                                               | Form                      | File No.   | Exhibit | Filing Date        |
| 2.1     | <u>Stock Purchase Agreement, dated as of August 24, 2017, by and among Beacon Roofing Supply, Inc., as Buyer, Oldcastle, Inc., as Parent, and Oldcastle Distribution, Inc., as Seller.</u>                                                                | 8-K                       | 000-50924  | 2.1     | August 24, 2017    |
| 3.1     | <u>Second Amended and Restated Certificate of Incorporation of Beacon Roofing Supply, Inc.</u>                                                                                                                                                            | 10-K                      | 000-50924  | 3.1     | December 23, 2004  |
| 3.2     | <u>Amended and Restated By-Laws of Beacon Roofing Supply, Inc.</u>                                                                                                                                                                                        | 8-K                       | 000-50924  | 3.1     | September 24, 2014 |
| 4.1     | <u>Form of Specimen Common Stock Certificate of Beacon Roofing Supply, Inc.</u>                                                                                                                                                                           | S-1/A                     | 333-116027 | 4.1     | August 19, 2004    |
| 4.2     | <u>Indenture, dated as of October 1, 2015, by and among Beacon Roofing Supply, Inc., the subsidiary guarantors party thereto, and U.S. Bank National Association, as trustee.</u>                                                                         | 8-K                       | 000-50924  | 4.1     | October 1, 2015    |
| 4.3     | <u>Supplemental Indenture, dated as of October 1, 2015, by and among Beacon Roofing Supply, Inc. ("Beacon"), certain direct and indirect subsidiaries of Beacon, as additional subsidiary guarantors, and U.S. Bank National Association, as trustee.</u> | 8-K                       | 000-50924  | 4.2     | October 1, 2015    |
| 4.4     | <u>Form of 6.375% Senior Notes due 2023 (included as Exhibit A to the Indenture incorporated by reference as Exhibit 4.2).</u>                                                                                                                            | 8-K                       | 000-50924  | 4.3     | October 1, 2015    |
| 4.5     | <u>Indenture, dated as of October 25, 2017, between Beacon Escrow Corporation and U.S. Bank National Association, as trustee.</u>                                                                                                                         | 8-K                       | 000-50924  | 4.1     | October 26, 2017   |
| 4.6     | <u>Form of 4.875% Senior Notes due 2025 (included as Exhibit A to the Indenture incorporated by reference as Exhibit 4.5).</u>                                                                                                                            | 8-K                       | 000-50924  | 4.2     | October 26, 2017   |
| 10.1    | <u>Term Loan Credit Agreement, dated as of October 1, 2015, by and among Beacon Roofing Supply, Inc., Citibank N.A., as administrative agent, and the lenders and financial institutions party thereto.</u>                                               | 8-K                       | 000-50924  | 10.1    | October 1, 2015    |

10.2 First Amendment, dated as of September 16, 2016, to Term  
Loan Credit Agreement, dated as of October 1, 2015, by  
and among Beacon Roofing Supply, Inc., Citibank N.A., as 10-K 000-50924 10.2 November 22,  
administrative agent, and the lenders and financial 2016  
institutions party thereto.

55

---

Edgar Filing: BEACON ROOFING SUPPLY INC - Form 10-K

| Exhibit |                                                                                                                                                                                                                                                                                                                                                                                                                 | Incorporated by Reference |            |            |                   |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|------------|------------|-------------------|
| Number  | Description                                                                                                                                                                                                                                                                                                                                                                                                     | Form                      | File No.   | Exhibit    | Filing Date       |
| 10.3    | <u>Credit Agreement, dated as of October 1, 2015, by and among Beacon Roofing Supply, Inc., Wells Fargo Bank, National Association, as administrative agent, and the US borrowers, Canadian borrower, lenders and financial institutions party thereto.</u>                                                                                                                                                     | 8-K                       | 000-50924  | 10.2       | October 1, 2015   |
| 10.4    | <u>Investment Agreement, dated as of August 24, 2017, by and among Beacon Roofing Supply, Inc., CD&amp;R Boulder Holdings, L.P. and Clayton, Dubilier &amp; Rice Fund IX, L.P. (solely for purposes of Sections 4.13 and 4.14 thereof), including the form of Certificate of Designations and Registration Rights Agreement attached as Exhibits A and B thereto, respectively.</u>                             | 8-K                       | 000-50924  | 10.1       | August 24, 2017   |
| 10.5*   | <u>Amended and Restated Commitment Letter, dated September 6, 2017, by and among Wells Fargo Bank, National Association, WF Investment Holdings, LLC, Wells Fargo Securities, LLC, Citigroup Global Markets Inc., Bank of America, N.A., Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated, JPMorgan Chase Bank, N.A., SunTrust Bank, SunTrust Robinson Humphrey, Inc. and Beacon Roofing Supply, Inc.</u> |                           |            |            |                   |
| 10.6    | <u>Executive Securities Agreement dated as of October 20, 2003 by and between Beacon Roofing Supply, Inc., Robert Buck and Code, Hennessy &amp; Simmons III, L.P.</u>                                                                                                                                                                                                                                           | S-1                       | 333-116027 | 10.5       | May 28, 2004      |
| 10.7+   | <u>Description of Executive Annual Incentive Plan</u>                                                                                                                                                                                                                                                                                                                                                           | 10-Q                      | 000-50924  | 10.1       | February 6, 2017  |
| 10.8+   | <u>Senior Executive Annual Incentive Plan</u>                                                                                                                                                                                                                                                                                                                                                                   | DEF 14A                   | 000-50924  | Appendix A | January 6, 2017   |
| 10.9+   | <u>Beacon Roofing Supply, Inc. Amended and Restated 2004 Stock Plan</u>                                                                                                                                                                                                                                                                                                                                         | DEF 14A                   | 000-50924  | Appendix A | January 7, 2011   |
| 10.10+  | <u>First Amendment dated as of October 31, 2011 to the Beacon Roofing Supply, Inc. 2004 Stock Plan</u>                                                                                                                                                                                                                                                                                                          | 10-K                      | 000-50924  | 10.1       | November 29, 2011 |
| 10.11+  | <u>Beacon Roofing Supply, Inc. Amended and Restated 2014 Stock Plan</u>                                                                                                                                                                                                                                                                                                                                         | DEF 14A                   | 000-50924  | Appendix A | January 6, 2016   |
| 10.12+  | <u>Form of Beacon Roofing Supply, Inc. Amended and Restated 2014 Stock Plan Restricted Stock Unit Award Agreement for Non-Employee Directors (Settle at Retirement)</u>                                                                                                                                                                                                                                         | 10-Q                      | 000-50924  | 10.1       | May 5, 2017       |

|        |                                                                                                                                                                                       |      |           |      |                |
|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-----------|------|----------------|
| 10.13+ | <u>Form of Beacon Roofing Supply, Inc. Amended and Restated</u><br><u>2014 Stock Plan Restricted Stock Unit Award Agreement for</u><br><u>Non-Employee Directors (Settle at Vest)</u> | 10-Q | 000-50924 | 10.2 | May 5,<br>2017 |
| 10.14+ | <u>Form of Beacon Roofing Supply, Inc. Amended and Restated</u><br><u>2014 Stock Plan Performance-Based Restricted Stock Unit</u><br><u>Award Agreement for Employees</u>             | 10-Q | 000-50924 | 10.3 | May 5,<br>2017 |

Edgar Filing: BEACON ROOFING SUPPLY INC - Form 10-K

|         |                                                                                                                                                                                                                                                        | Incorporated by Reference |           |         |                  |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------|---------|------------------|
| Exhibit |                                                                                                                                                                                                                                                        |                           |           |         |                  |
| Number  | Description                                                                                                                                                                                                                                            | Form                      | File No.  | Exhibit | Filing Date      |
| 10.15+  | <u>Form of Beacon Roofing Supply, Inc. Amended and Restated 2014 Stock Plan Time-Based Restricted Stock Unit Award Agreement for Employees</u>                                                                                                         | 10-Q                      | 000-50924 | 10.4    | May 5, 2017      |
| 10.16+  | <u>Form of Beacon Roofing Supply, Inc. Amended and Restated 2014 Stock Plan Stock Option Agreement</u>                                                                                                                                                 | 10-Q                      | 000-50924 | 10.5    | May 5, 2017      |
| 10.17+  | <u>Form of Restrictive Covenant Agreement between Beacon Roofing Supply, Inc. and certain executive officers and schedule of parties to such Agreements</u>                                                                                            | 10-Q                      | 000-50924 | 10.6    | February 6, 2016 |
| 10.18   | <u>Escrow Agreement, dated as of October 25, 2017, among Beacon Escrow Corporation, U.S. Bank National Association, as secured party, and U.S. Bank National Association, as escrow agent.</u>                                                         | 8-K                       | 000-50924 | 10.1    | October 26, 2017 |
| 21*     | <u>Subsidiaries of Beacon Roofing Supply, Inc.</u>                                                                                                                                                                                                     |                           |           |         |                  |
| 23.1*   | <u>Consent of Ernst &amp; Young LLP, Independent Registered Public Accounting Firm</u>                                                                                                                                                                 |                           |           |         |                  |
| 31.1*   | <u>CEO certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                                     |                           |           |         |                  |
| 31.2*   | <u>CFO certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                                     |                           |           |         |                  |
| 32.1*   | <u>CEO certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                                     |                           |           |         |                  |
| 32.2*   | <u>CFO certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                                     |                           |           |         |                  |
| 101*    | 101.INS XBRL Instance<br>101.SCH XBRL Taxonomy Extension Schema<br>101.CAL XBRL Taxonomy Extension Calculation<br>101.LAB XBRL Taxonomy Extension Labels<br>101.PRE XBRL Taxonomy Extension Presentation<br>101.DEF XBRL Taxonomy Extension Definition |                           |           |         |                  |

+Management contract or compensatory plan/arrangement

\*Filed herewith

We will furnish any of our shareowners a copy of any of the above Exhibits not included herein upon the written request of such shareowner and the payment to Beacon Roofing Supply, Inc. of the reasonable expenses incurred in furnishing such copy or copies.

ITEM 16. 10-K SUMMARY

Not applicable.

57

---

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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. (REGISTRANT)

By: /s/ JOSEPH M. NOWICKI

Joseph M. Nowicki

Executive Vice President and Chief Financial Officer

Date: November 21, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE                                        | TITLE                                                | DATE                 |
|--------------------------------------------------|------------------------------------------------------|----------------------|
| /s/ ROBERT R. BUCK<br>Robert R. Buck             | Chairman                                             | November<br>21, 2017 |
| /s/ PAUL M. ISABELLA<br>Paul M. Isabella         | President and Chief Executive Officer                | November<br>21, 2017 |
| /s/ JOSEPH M. NOWICKI<br>Joseph M. Nowicki       | Executive Vice President and Chief Financial Officer | November<br>21, 2017 |
| /s/ GREGORY T. JORGENSEN<br>Gregory T. Jorgensen | Vice President and Chief Accounting Officer          | November<br>21, 2017 |
| /s/ CARL T. BERQUIST<br>Carl T. Berquist         | Director                                             | November<br>21, 2017 |
| /s/ RICHARD W. FROST<br>Richard W. Frost         | Director                                             | November<br>21, 2017 |
| /s/ ALAN GERSHENHORN<br>Alan Gershenhorn         | Director                                             | November<br>21, 2017 |

|                                                  |          |                      |
|--------------------------------------------------|----------|----------------------|
| /s/ PHILIP W. KNISELY<br>Philip W. Knisely       | Director | November<br>21, 2017 |
| /s/ ROBERT M. MCLAUGHLIN<br>Robert M. McLaughlin | Director | November<br>21, 2017 |
| /s/ NEIL S. NOVICH<br>Neil S. Novich             | Director | November<br>21, 2017 |
| /s/ STUART A. RANDLE<br>Stuart A. Randle         | Director | November<br>21, 2017 |
| /s/ DOUGLAS L. YOUNG<br>Douglas L. Young         | Director | November<br>21, 2017 |