



# SHAPING SUCCESS

Through Customer Focus  
and Operational Excellence



2019 ANNUAL REPORT



**Veritiv Corporation** is a Fortune 500® company and a leading North American business-to-business distributor of packaging, facility solutions, print and publishing products and services, and also a provider of logistics and supply chain management solutions. With approximately 8,000 employees, we are driven by our Values: Integrity, One Team, People Commitment, Customer Focus, Operational Excellence, and Passion for Results.

We put decades of industry knowledge, expertise, and proven supply chain ingenuity to work for our customers in a wide range of industries and a variety of businesses – including more than half of Fortune 500® companies. With approximately 150 distribution centers across the U.S., Canada, and Mexico, our focus is on the success of our customers' businesses and their brands. Driven by our innovative people, our values, and providing exceptional service, helping to shape our customers' business success is at the heart of everything we do.

## OUR VISION

One team shaping success through exceptional service, innovative people, and consistent values.









# FINANCIAL HIGHLIGHTS

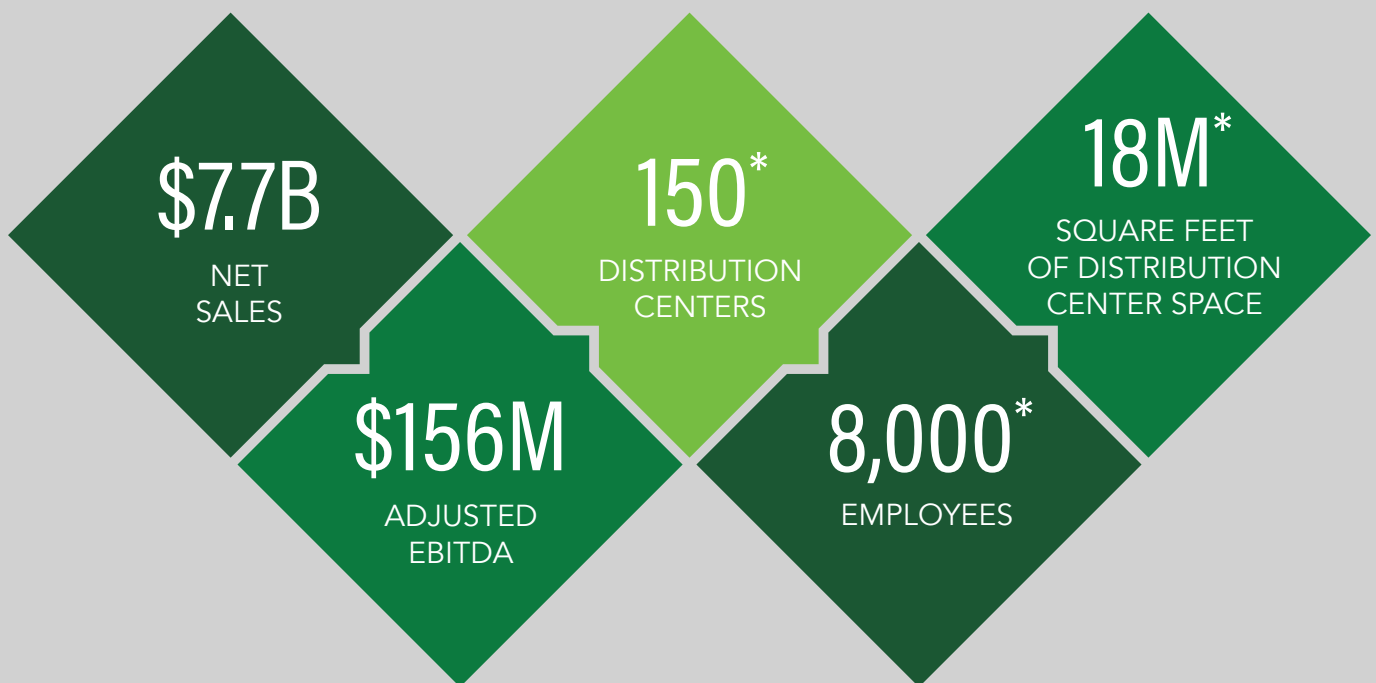
*In millions, except per share amounts, at December 31*

	2019	2018
Net Sales	<b>\$ 7,659.4</b>	\$ 8,696.2
Cost of Products Sold	<b>6,206.2</b>	7,155.7
Net Sales Less Cost of Products Sold	<b>1,453.2</b>	1,540.5
Net Loss	<b>(29.5)</b>	(15.7)
Basic and Diluted Loss Per Share	<b>(1.84)</b>	(0.99)
Weighted Average Shares Outstanding Basic and Diluted	<b>16.06</b>	15.82
Adjusted EBITDA <sup>1</sup>	<b>155.9</b>	185.4

<sup>1</sup> See Note 18 of the Notes to Consolidated Financial Statements for information regarding our Non-GAAP measurement.



## VERITIV BY THE NUMBERS



\* Approximate as of December 31, 2019



# TO OUR SHAREHOLDERS

This year represented a significant milestone for Veritiv as it marked our fifth anniversary as a company. With our integration substantially behind us, the Veritiv team was able to focus on optimizing our business processes across our commercial, supply chain, and back office operations, and improving our customer and supplier experience. These efforts have had a significant positive impact on cash flow, which is reflected in our 2019 free cash flow of \$247 million. Our process improvements have also resulted in improved margins and cost reductions.

Despite several operational successes, and improved margins in Packaging and Facility Solutions, challenging market conditions and ongoing significant structural decline in our Print and Publishing segments continued to negatively impact our overall performance. We ended the year with \$7.7 billion in revenue, a 12% decrease from 2018, and \$156 million in Adjusted EBITDA, down 16% from the previous year.



We remain focused on our strategy to transition our company into higher growth, higher margin businesses by investing in Packaging and providing value added services. We will continue to protect our leading market position in Facility Solutions by offering core products essential to our key end-use segments and optimizing our supply chain. We will also continue to focus on effective management of the structural decline of Print and Publishing, and efforts to maintain profitability and positive cash flow in these businesses.

Although 2019 was a challenging year, we are successfully implementing our optimization plans and have seen positive results from these efforts, which will continue into 2020. As we further execute on our strategy, we will continue to take the right actions and make the right choices for the long-term sustainability and success of our company.

Our team of dedicated and talented employees has navigated many challenges



in our first five years, and we remain committed to shaping success with our customers, suppliers, shareholders, and employees. Our values will continue to guide our Customer Focus and Operational Excellence efforts in the optimization phase of our journey to establish Veritiv as the leading distribution solutions and services provider.

Thank you for your continued support of Veritiv.

Mary Laschinger  
Chairman and Chief Executive Officer









# OUR VALUES

## **INTEGRITY**

We do the right things, act with honesty and consistency, and truthfully represent our capabilities.

## **ONE TEAM**

We collaborate as one team based on what is best for Veritiv as a whole, and treat each other with mutual respect.

## **PEOPLE COMMITMENT**

We engage our employees in the organization's success and are committed to performance management and talent development.

## **CUSTOMER FOCUS**

We are committed to understanding our customers' needs and providing solutions that add value.

## **OPERATIONAL EXCELLENCE**

We consistently execute, measure, and improve the safety, efficiency, and quality of the work we do every single day.

## **PASSION FOR RESULTS**

We are passionate about winning and our desire to meet financial, operational, and people commitments in the right way.





## PACKAGING

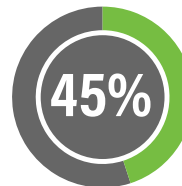
Veritiv works directly with customers to identify and implement packaging solutions that deliver in both form and function. Our packaging specialists are experts at discovering untapped efficiencies in designing, sourcing, and delivering standard and custom packaging processes for customers across a range of industries – including consumer packaged goods, fulfillment, food processing, retail, and manufacturing.

Veritiv's packaging solutions are not restricted to one particular substrate – we evaluate every project with a material-neutral approach. We have longstanding relationships with box plants, sheet plants, and other international material sources, providing us with access to a wide range of material inputs.

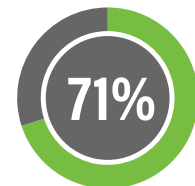
Our packaging solutions span food-grade packaging, industrial packaging, point-of-sale displays, and shipping supplies. Our exclusive TUFFlex® line of packaging essentials delivers enduring performance,

maximum efficiency, and unmatched value. We also sell and distribute single-function and fully automated packaging equipment. In addition, we offer assembly and fulfillment services, such as kitting – which help customers manage seasonal spikes, new market testing, and promotions.

Our packaging business connects form and function for our customers through our experienced team of designers, engineers, and marketers providing expertise for custom improvements in cost and waste reduction, logistics, structural and graphical integrity, and testing processes.



\$3.4B • 45%  
**REVENUE<sup>1</sup>**



\$244M • 71%  
**ADJ. EBITDA<sup>1</sup>**

<sup>1</sup> Other revenue is excluded from the calculation of Revenue by Segment. Corporate and Other expenses are excluded from the calculation for percentage of Adjusted EBITDA by Segment.





# FACILITY SOLUTIONS

Veritiv understands that clean, healthy, and well-maintained environments significantly impact both internal operations and external perceptions. Veritiv's Lean-certified Facility Advisors are well versed in how our cleaning and food service products, management programs, and analysis tools maintain high levels of facility excellence for our customers, helping to propel their businesses forward.

We have the hands-on expertise and sourcing capabilities to serve customers across a wide range of industries, including:

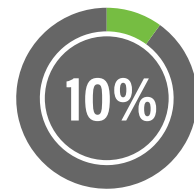
- Office buildings
- Manufacturing
- Higher education
- Healthcare
- Government
- Other high-traffic venues

Our private brands include Reliable Brand® commercial cleaning solutions, Spring Grove® food service disposable products, and our basic line of janitorial supplies, PUR Value™. Together, this portfolio of products offers a simplified approach to help customers reduce waste, increase value, and redirect surplus dollars.

FORDIS®, our Canadian redistribution business, provides solutions to distributors in local markets.



\$1.2B • 15%  
**REVENUE<sup>1</sup>**



\$33M • 10%  
**ADJ. EBITDA<sup>1</sup>**

<sup>1</sup> Other revenue is excluded from the calculation of Revenue by Segment. Corporate and Other expenses are excluded from the calculation for percentage of Adjusted EBITDA by Segment.





## PRINT

Veritiv is the North American leader in print and paper solutions. In this quickly changing market we leverage a global network of world-class suppliers and deliver locally across our national footprint. Our distribution centers are stocked with a comprehensive print solutions inventory to serve the commercial, digital, and graphic communications markets. We offer versatility and dependability through our proven private brand portfolio, along with a commitment to leading domestic and international mill brands.

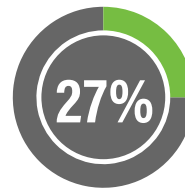
We serve our smaller customers in the U.S. through our Veritiv Express branches, which supply business imaging paper, printing paper, and packaging products available for immediate pickup or quick delivery.

Our experience and unique offerings in logistics and supply chain efficiency, new revenue generation, service excellence, chain of custody and sustainable sourcing, and customized reporting are all aimed to help our customers reach their goals.

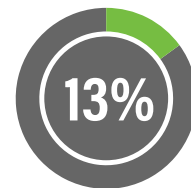
### Veritiv's paper and print private brands include:

- Endurance<sup>®</sup>
- Starbrite<sup>®</sup>
- Opaque Select
- nordic+<sup>®</sup> Select
- Comet<sup>®</sup> Multipurpose
- Econosource<sup>®</sup>
- Seville<sup>®</sup>
- Showcase<sup>™</sup>
- Galaxy<sup>®</sup>
- ViV<sup>®</sup>
- PoliPrint<sup>™</sup>

Together with our experienced industry team members and our deep understanding of the commercial printer landscape, we can most effectively service our customers across a multitude of platforms.



\$2.1B • 27%  
**REVENUE<sup>1</sup>**



\$43M • 13%  
**ADJ. EBITDA<sup>1</sup>**

<sup>1</sup> Other revenue is excluded from the calculation of Revenue by Segment. Corporate and Other expenses are excluded from the calculation for percentage of Adjusted EBITDA by Segment.





# PUBLISHING AND PRINT MANAGEMENT

Through Veritiv's two complementary publishing and print management businesses, Bulkley Dunton and Graphic Communications, our specialists provide customized solutions that offer retailers, publishers, catalogers, direct mail companies, grocers, corporate enterprise businesses, and printers the greatest return on their media and print programs.

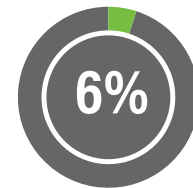
By differentiating paper purchasing from printing, Veritiv Publishing & Print Management (VPPM) is able to leverage our sophisticated and expansive supply chain to ensure consistent and predictable costs, quality, and paper availability for customers of all sizes. VPPM is able to analyze our clients' complete media requirements to complement their print and paper programs. With a client base ranging from Fortune 500® companies to small local businesses, our industry consultants are

experts at scaling solutions to shield clients from market volatility while maintaining their brand requirements and appropriate certifications.

Our paper and print consultants match customers' unique needs with cutting-edge marketing solutions, leading paper mills, and printers that best meet their standards for price, paper quality, production, and environmental sustainability, including Chain of Custody certification and recycled papers.



\$0.8B • 10%  
**REVENUE<sup>1</sup>**



\$21M • 6%  
**ADJ. EBITDA<sup>1</sup>**

<sup>1</sup> Other revenue is excluded from the calculation of Revenue by Segment. Corporate and Other expenses are excluded from the calculation for percentage of Adjusted EBITDA by Segment.

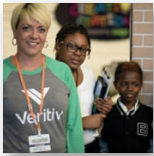




# Junior Achievement







# CORPORATE RESPONSIBILITY

As a leading business-to-business distribution solutions company, Veritiv operates in more than 250 communities across North America. Driven by our core values and Veritiv Connects, our community engagement and philanthropy program, we focus our efforts on corporate giving and employee volunteer efforts to help shape the success of these communities.

## PRIMARY FOCUS AREAS

**Learning:** We value workforce readiness and programs that support talent development and prepare individuals for careers in distribution solutions and beyond. An educated and skilled workforce is essential for our success.

**Healthy Living:** Prosperous, healthy, and sustainable communities are important to Veritiv, to our customers, and to society. We deliver support where we can make the biggest difference.

In support of these primary focus areas, Veritiv is proud to continue our partnerships with Junior Achievement and the American Red Cross, providing in-kind donations, monetary support, and Veritiv volunteer teams.

**American Red Cross** – Veritiv donated a Humanitarian Services Vehicle in 2019 to aid those in need immediately following a home fire or natural disaster. This vehicle is used to transport materials and provide much-needed support to families. In 2019, the vehicle travelled more than 19,000 miles supporting families across the state of Georgia.

Veritiv volunteers also created American Red Cross comfort kits to aid those in need after natural disasters and home fires. During times of disaster, the American Red Cross provides comfort kits to impacted community members to help them begin their recovery journey with basic necessities. Small things like toothbrushes, toothpaste, shampoo, razors, combs, and soap can have a big impact and provide comfort during a



**Shaping Success with the Community**

disaster. Veritiv and our employees also made monetary contributions to support their home fire campaign, “Sound the Alarm”, where the American Red Cross installs free smoke alarms and helps families create escape plans in at-risk communities.

In addition, Veritiv offices participated in the American Red Cross Holidays







for Heroes program that enables individuals to thank and recognize members of the military, veterans, and their families by writing holiday cards and letters.

“Volunteering to help others really shows the best in people, and the Veritiv team goes above and beyond to help further the mission of the American Red Cross to prepare for, prevent, respond, and recover from disasters,” said Jennifer Pipa, Chief Executive Officer at American Red Cross of Georgia.

**Junior Achievement** – Veritiv partners with Junior Achievement in support of our Learning focus area to provide middle and high school students with the knowledge and skills they need to plan for their futures. Teams of Veritiv employees regularly volunteer at the Junior Achievement Discovery Centers where students are able to experience work life beyond the classroom. Students apply business and personal finance concepts they discover in the classroom to real-world scenarios through a hands-on, learning experience. In addition, Veritiv supported 3DE by Junior Achievement this year, an initiative dedicated to re-engineering high school education. Students were challenged with a Veritiv Facility Solutions case study to learn through business integration and present their findings to Veritiv executives.

## Supporting Local Communities

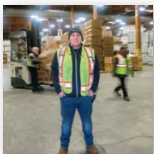
**Volunteering:** Veritiv employees across North America work closely together and enjoy giving back time and talents whenever possible to local community organizations. In 2019, our teams have cleaned up waterways, fed the food insecure, donated food and supplies to animal shelters, and built homes experiencing homelessness. They also collected toys for children, wrote letters to our service men and women, and one team certified 60 employees in CPR, AED, and first aid with the help of a local fire department.

Some of the many organizations that Veritiv supported through community engagement include Cincinnati Pets In Need, Clara White Mission, Community Assistance Center Food Pantry, Fairfield Food Bank, Habitat for Humanity, No More Homeless Pets, Salvation Army, Sisters By Choice, and U.S. Marine Toys for Tots Program.

## Employees Helping Employees

**One Veritiv Fund:** Funded by employee contributions, the One Veritiv Fund provides short-term financial relief to eligible Veritiv employees who have suffered significant hardship as a result of unforeseen events such as natural disaster, medical emergency, or military deployment.





# SAFETY AND ENVIRONMENT

## SAFETY

At Veritiv, we are committed to providing all team members with a safe and productive workplace and continuing to refine our culture of proactive safety. Our Target Zero approach symbolizes our goal of zero unrecognized and unresolved hazards that can lead to injuries. We strive to achieve that goal every day. Through Target Zero, we empower and engage all Veritiv employees in proactive identification of workplace hazards and the development of practical solutions integrated with business operations. In 2019, Veritiv reduced the number of recordable injuries by 10 percent year over year, and the team achieved Veritiv's lowest number of injuries in the company's history.

In 2019, our Total Incident Rate (TIR)<sup>1</sup> for our operations in the U.S., Canada, and Mexico was 0.97.

Our SCORE (Stop, Consider, Observe, React, and Execute) safety initiative continued to improve safety results in 2019, helping to reduce injuries. The program facilitates simple communication to workers about how to approach daily tasks safely, regardless of how routine the task may be.

In addition, our material handling equipment (MHE) initiative, MHE SAFE (Share, Address, Facilitate, Engage) continues to keep employees focused on safety fundamentals while operating MHEs.

## ENVIRONMENT

As a leading North American distribution solutions company, we recognize that our businesses have an impact on the environment. We focus our environmental sustainability efforts in three areas: our fleet, our facilities, and our products.

**Fleet** – As a distribution company, the majority of our business involves moving products by road and, with a fleet and delivery network, there are significant opportunities to reduce our environmental impact. In 2019, Veritiv is proud to have saved 12 percent in total fuel consumption, which totals more than 600,000 gallons of fuel conservation. This is due in part to Veritiv's focus on delivery optimization and our more fuel-efficient vehicles. In addition, miles per gallon improved by three percent across our fleet in 2019.

Veritiv is a member of the U.S. Environmental Protection Agency's SmartWay Transport Partnership, which helps

<sup>1</sup> TIR is calculated using the OSHA criteria for recordability and OSHA calculation methodologies. TIR – Total Recordable Injuries X 200,000/Total Hours Worked. The 200,000 hours in the formula represent the equivalent of 100 employees working 40 hours per week, 50 weeks per year and provides the standard basis for the incident rate.





businesses reduce transportation-related emissions through advanced fuel-efficient technologies and operational practices. Route and delivery optimization software helps Veritiv drivers make deliveries using the most efficient routes, minimizing fuel use and emissions.

**Facilities** – Veritiv takes a strategic approach to reducing our buildings’ impact on the environment. We aim to improve energy efficiency across our operations through retrofit projects and the use of efficient equipment and technologies. Veritiv also partners with ENGIE Impact to assess and optimize our energy and water usage in all North American facilities. ENGIE Impact has assisted with initiatives to help minimize waste and maximize recycling, reuse, and composting. Driven by local Veritiv facilities, recycling programs divert waste from landfills, including paper and corrugated materials as well as wooden pallets.

**Products** – Veritiv is committed to sourcing environmentally sustainable products, in both our private brands and name-brand product lines. We offer a range of products that meet widely acknowledged environmental standards and certifications, including:

- Chain of Custody (CoC) certifications strengthen supply chain assurance and the connections between traceability and responsible forestry and sourcing of wood-fiber products. Veritiv maintains three CoC certifications that are widely recognized standards: Forest Stewardship Council®, Sustainable Forestry Initiative®, and Programme for the Endorsement of Forest Certification®. In 2019, Veritiv sold more than 1.2 million tons of Chain of Custody-certified products through the Packaging, Facility Solutions, Print and Publishing businesses.
- The Green Seal® mark on Veritiv distributed products is an indicator that the products have met or exceeded leadership-level, life-cycle based criteria for sustainability.

- Green-e® is a global leader in clean energy and carbon offset certification; Veritiv offers products with this distinction. It enables businesses and individuals to purchase verified clean energy products and services with confidence.
- ECOLOGO® Certified products, are certified for reduced environmental impact. Veritiv distributes products that have undergone ECOLOGO® certifications, with scientific testing, auditing, or both, to prove their compliance with stringent third party, environmental performance standards.

**Veritiv Private Label Brands** – Our proprietary brands adhere to the highest standards. Several of Veritiv’s private label paper brands hold Chain of Custody certification, including Endurance® Printing Paper, nordic+® Select, and Starbrite® Opaque Select. Our Reliable Brand® towel and tissue line is made from recycled content and meets Environmental Protection Agency (EPA) and Leadership in Energy and Environmental Design (LEED®) standards.

**Packaging** – Through our network of Packaging Design Centers, Veritiv researches, designs, and develops cost-effective packaging solutions that minimize environmental impacts. By sourcing materials from leading manufacturers, Veritiv can identify new sustainable products and facilitate a first-to-market advantage.

**Facility Solutions** – Veritiv’s Green Gauge™ analysis tool enables customers to quickly quantify product usage and sustainable cleaning purchases against LEED® standards for their entire facility network, and seamlessly report on it for certifications and communications.

**Print** – We source a wide range of environmentally responsible papers from certified, recycled and alternative fiber content. Our relationships with the world’s top paper manufacturers and suppliers ensure access to sustainable products.







# MANAGEMENT TEAM



**MARY A. LASCHINGER**  
Chairman of the Board  
and Chief  
Executive Officer



**SALVATORE A. ABBATE**  
Chief  
Operating Officer



**STEPHEN J. SMITH**  
Senior Vice President  
and Chief  
Financial Officer



**DEAN A. ADELMAN**  
Senior Vice President,  
Chief Human  
Resources Officer



**JOHN G. BISCANTI**  
Group Vice President,  
Publishing and Print  
Management



**MARK W. HIANIK**  
Senior Vice President,  
General Counsel and  
Corporate Secretary



**ADAM W. NOBLE**  
Senior Vice President and  
Chief Information Officer



**TRACY L. PEARSON**  
Senior Vice President,  
Supply Chain Operations



**DANIEL J. WATKOSKE**  
Senior Vice President,  
Print

# BOARD OF DIRECTORS



**MARY A. LASCHINGER**  
Chairman of the Board  
and Chief  
Executive Officer



**SHANTELLA E. COOPER**<sup>2,3</sup>  
Executive Director -  
Atlanta Committee  
for Progress



**DAVID E. FLITMAN**<sup>1,2</sup>  
President and Chief  
Executive Officer of  
BMC Stock Holdings, Inc.



**DANIEL T. HENRY**<sup>1,2</sup>  
Retired Chief Financial  
Officer and Executive Vice  
President of American  
Express Company



**TRACY A. LEINBACH**<sup>2\*,3</sup>  
Retired Executive Vice  
President and Chief  
Financial Officer of Ryder  
System, Inc.



**STEPHEN E. MACADAM**<sup>1,2</sup>  
Retired Vice Chairman of  
EnPro Industries, Inc.



**WILLIAM E. MITCHELL**<sup>2,3</sup>  
Managing Partner  
of Sequel Capital  
Management, LLC



**MICHAEL P. MULDOWNEY**<sup>1\*,3</sup>  
Chief Executive Officer of  
Foxford Capital, LLC



**CHARLES G. WARD, III**<sup>1,3\*</sup>  
Retired Partner of Perella  
Weinberg Partners



**JOHN J. ZILLMER**  
Presiding Director  
Retired Executive  
Chairman of Univar Inc.

**Board Committees:** 1– Audit and Finance 2– Compensation and Leadership Development 3– Nominating and Governance \*– Denotes Committee Chair



**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 EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2019

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-36479



**VERITIV CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**46-3234977**

(I.R.S. Employer Identification  
Number)

**1000 Abernathy Road NE**

**Building 400, Suite 1700**

**Atlanta, Georgia**

(Address of principal executive offices)

**30328**

(Zip Code)

Registrant's telephone number, including area code: **(770) 391-8200**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.01 par value	VRTV	New York Stock Exchange

**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 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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 Act). Yes  No

As of June 28, 2019, the aggregate market value of the voting common stock of the registrant held by non-affiliates of the registrant, based on the closing sale price of those shares on the New York Stock Exchange reported on June 28, 2019, was \$252,985,175. For the purposes of this disclosure only, the registrant has assumed that its directors and executive officers (as defined in Rule 3b-7 under the Exchange Act) and UWW Holdings, LLC are the affiliates of the registrant.

The number of shares outstanding of the registrant's common stock as of February 21, 2020 was 16,149,748.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

**Portions of the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.**

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## CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

*Certain statements contained in this report regarding the Company's future operating results, performance, business plans, prospects, guidance and any other statements not constituting historical fact are "forward-looking statements" subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Where possible, the words "believe," "expect," "anticipate," "continue," "intend," "should," "will," "would," "planned," "estimated," "potential," "goal," "outlook," "may," "predicts," "could," or the negative of such terms, or other comparable expressions, as they relate to the Company or its business, have been used to identify such forward-looking statements. All forward-looking statements reflect only the Company's current beliefs and assumptions with respect to future operating results, performance, business plans, prospects, guidance and other matters, and are based on information currently available to the Company. Accordingly, the statements are subject to significant risks, uncertainties and contingencies, which could cause the Company's actual operating results, performance, business plans, prospects or guidance to differ materially from those expressed in, or implied by, these statements.*

*Factors that could cause actual results to differ materially from current expectations include risks and other factors described under "Risk Factors" in this report and elsewhere in the Company's publicly available reports filed with the Securities and Exchange Commission ("SEC"), which contain a discussion of various factors that may affect the Company's business or financial results. Such risks and other factors, which in some instances are beyond the Company's control, include: the industry-wide decline in demand for paper and related products; increased competition from existing and non-traditional sources; adverse developments in general business and economic conditions as well as conditions in the global capital and credit markets impacting our Company and our customers; foreign currency fluctuations; our ability to attract, train and retain highly qualified employees; the effects of work stoppages, union negotiations and labor disputes; the loss of any of our significant customers; changes in business conditions in our international operations; procurement and other risks in obtaining packaging, facility products and paper from our suppliers for resale to our customers; changes in prices for raw materials; increases in the cost of fuel and third-party freight and the availability of third-party freight providers; changes in trade policies and regulations; inclement weather, widespread outbreak of an illness or responses thereto, anti-terrorism measures and other disruptions to our supply chain, distribution system and operations; our dependence on a variety of information technology and telecommunications systems and the Internet; our reliance on third-party vendors for various services; cyber-security risks; costs to comply with laws, rules and regulations, including environmental, health and safety laws, and to satisfy any liability or obligation imposed under such laws; regulatory changes and judicial rulings impacting our business; adverse results from litigation, governmental investigations or audits, or tax-related proceedings or audits; our ability to adequately protect our material intellectual property and other proprietary rights, or to defend successfully against intellectual property infringement claims by third parties; our pension and health care costs and participation in multi-employer pension, health and welfare plans; increasing interest rates; our ability to generate sufficient cash to service our debt; our ability to comply with the covenants contained in our debt agreements; our ability to refinance or restructure our debt on reasonable terms and conditions as might be necessary from time to time; changes in accounting standards and methodologies, and other events of which we are presently unaware or that we currently deem immaterial that may result in unexpected adverse operating results.*

*For a more detailed discussion of these factors, see the information under the heading "Risk Factors" in this report and in other filings we make with the SEC. Forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, historical information should not be considered as an indicator of future performance.*

## PART I

### ITEM 1. BUSINESS

#### Our Company

Veritiv Corporation ("Veritiv" or the "Company" and sometimes referred to in this Annual Report on Form 10-K as "we", "our" or "us") is a leading North American business-to-business distributor of packaging, facility solutions, print and publishing products and services. Additionally, Veritiv provides logistics and supply chain management solutions to its customers. Veritiv's focus on segment-tailored market leadership in distribution and a commitment to operational excellence allows it to partner with world class suppliers, add value through multiple capabilities and deliver solutions to a wide range of customer segments.

We operate from approximately 150 distribution centers primarily throughout the United States ("U.S."), Canada and Mexico, serving customers across a broad range of industries. These customers include courier delivery service companies, manufacturers, higher education institutions, healthcare facilities, sporting and performance arenas, government agencies, property managers and building service contractors, data centers, printers and publishers.

Veritiv's business is organized under four reportable segments: Packaging, Facility Solutions, Print, and Publishing and Print Management ("Publishing"). This segment structure is consistent with the way the Chief Operating Decision Maker, who is Veritiv's Chief Executive Officer, makes operating decisions and manages the growth and profitability of the Company's business. The Company also has a Corporate & Other category which includes certain assets and costs not primarily attributable to any of the reportable segments, as well as our Veritiv logistics solutions business which provides transportation and warehousing solutions. The following summary describes the products and services offered in each of the reportable segments:

- **Packaging** – The Packaging segment provides standard as well as custom and comprehensive packaging solutions for customers based in North America and in key global markets. The business is strategically focused on higher growth industries including light industrial/general manufacturing, food processing, fulfillment and internet retail, as well as niche verticals based on geographical and functional expertise. Veritiv's packaging professionals create customer value through supply chain solutions, structural and graphic packaging design and engineering, automation, workflow and equipment services and kitting and fulfillment.
- **Facility Solutions** – The Facility Solutions segment sources and sells cleaning, break-room and other supplies such as towels, tissues, wipers and dispensers, can liners, commercial cleaning chemicals, soaps and sanitizers, sanitary maintenance supplies and equipment, safety and hazard supplies, and shampoos and amenities primarily in North America. Veritiv is a leading distributor in the Facility Solutions segment. Through this segment we manage a world class network of leading suppliers in most facilities solutions categories. Additionally, we offer total cost of ownership solutions with re-merchandising, budgeting and compliance reporting, inventory management, and a sales-force trained to bring leading vertical expertise to the major North American geographies.
- **Print** – The Print segment sells and distributes commercial printing, writing, copying, digital, specialty products, graphics consumables and graphics equipment primarily in North America. This segment also includes customized paper conversion services of commercial printing paper for distribution to document centers and form printers. Our broad geographic platform of operations coupled with the breadth of paper and graphics products, including our exclusive private brand offerings, provides a foundation to service national, regional and local customers across North America.
- **Publishing** – The Publishing segment sells and distributes coated and uncoated commercial printing papers to publishers, retailers, converters, printers and specialty businesses for use in magazines, catalogs, books, directories, gaming, couponing, retail inserts and direct mail primarily in the U.S. This segment also provides print management, procurement and supply chain management solutions to simplify paper and print procurement processes for our customers.



The table below summarizes net sales for each of the above reportable segments, as well as the Corporate & Other category, as a percentage of consolidated net sales:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Packaging	45%	41%	38%
Facility Solutions	15%	15%	16%
Print	28%	31%	33%
Publishing	10%	12%	11%
Corporate & Other	2%	1%	2%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Additional financial information regarding our reportable business segments and certain geographic information is included in Item 7 of this report and in Note 17 of the Notes to Consolidated Financial Statements in Item 8 of this report.

## **Our History**

Veritiv was established in 2014, following the spin-off of International Paper Company's ("International Paper") xpedx distribution solutions business ("xpedx") and the merger (the "Merger") of xpedx with UWW Holdings, Inc. ("UWWH"), the parent company of Unisource Worldwide, Inc. ("Unisource"). Following the Merger, Veritiv's common stock began regular-way trading on the New York Stock Exchange on July 2, 2014 under the ticker symbol "VRTV".

International Paper's distribution business was consolidated into a division operating under the xpedx name in 1998 to serve the U.S. and Mexico markets. International Paper grew its distribution business both organically and through the acquisition of over 30 distribution businesses located across the U.S. and Mexico. Unisource was a wholly-owned subsidiary of Alco Standard Corporation until its spin-off of Unisource in December 1996 whereby Unisource became a separate public company. Unisource was acquired by Georgia-Pacific, now owned by Koch Industries, in July 1999. In November 2002, Bain Capital acquired approximately a 60% ownership interest in Unisource, while Georgia-Pacific retained approximately a 40% ownership interest.

On August 31, 2017, Veritiv completed its acquisition of 100% of the equity interests in various All American Containers entities (collectively, "AAC"), a family owned and operated distributor of rigid packaging products, including plastic, glass and metal containers, caps, closures and plastic pouches. The acquisition of AAC aligns with the Company's strategy of investing in higher growth and higher margin segments of the business. Through the acquisition, Veritiv gained expertise in rigid plastic, glass and metal packaging that complements its portfolio of packaging products and services. This acquisition also provided Veritiv with additional marketing, selling and distribution channels into the growing U.S. rigid packaging market. The rigid packaging market's primary product categories include paperboard, plastics, metals and glass.

## **Products and Services**

Veritiv distributes well-known national and regional brand products as well as products marketed under its own private label brands. Products under the Company's private label brands are manufactured by third-party suppliers in accordance with specifications established by the Company. Our portfolio of private label products includes:

- Packaging products under the TUFFlex brand, which include stretch film, mailers, shrink film, carton sealing tape, and other specialty tapes;
- Foodservice disposable products, cleaning chemicals, towels and tissues, can liners, sanitary maintenance supplies and a wide range of facility supplies products under the Reliable and Spring Grove brands; and
- Coated and uncoated papers, coated board and cut size under the Endurance, nordic+, Econosource, Starbrite Opaque Select and other brands.

The table below summarizes sales of products sold under private label brands as a percentage of the respective reportable segment's or total Company's net sales for the periods shown:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Packaging	6%	6%	6%
Facility Solutions	9%	9%	8%
Print	19%	19%	20%
Total Company	9%	10%	10%

## **Customers**

We serve customers across a broad range of industries, through a variety of means ranging from multi-year sales agreements to transactional sales. The Company has valuable, multi-year, sales agreements with many of its largest customers that set forth the terms and conditions of sale including product pricing. We enter into incentive agreements with certain of our largest customers, which are generally based on sales to these customers. The Company's customers are generally not required to purchase any minimum amount of products under these agreements and can place orders on an individual purchase order basis. For the years ended December 31, 2019, 2018 and 2017, no single customer accounted for more than 5% of the Company's consolidated net sales.

## **Suppliers**

We purchase our products from thousands of suppliers, both domestic and international, across different business segments. Although varying by segment, the Company's suppliers consist generally of large corporations selling brand name and private label products and, to a more limited extent, independent regional and private label suppliers. Suppliers are selected based on customer demand for the product and a supplier's total service, cost and product quality offering.

Our sourcing organization supports the purchasing of well-known national and regional brand products as well as products marketed under our own private label brands from key national suppliers in the packaging, facility solutions and print industries. The Publishing segment primarily operates as a direct ship business aligned with the Company's core supplier strategy. In addition, under the guidance and oversight of the sourcing team, our merchandising personnel located within individual distribution centers source products not available within our core offering in order to meet specialized customer needs.

The product sourcing program is designed to ensure that the Company is able to offer consistent product selections and market competitive pricing across the enterprise while maintaining the ability to service localized market requirements. Our procurement program is also focused on replenishment which includes purchase order placement and controlling the total cost of inventory by proactively managing the number of days inventory on hand, negotiating favorable payment terms and maintaining vendor-owned and vendor-managed programs. As one of the largest purchasers of packaging, facility supplies, and paper and graphics products, we can qualify for volume allowances with some suppliers and can realize significant economies of scale. During the year ended December 31, 2019, approximately 35% of our purchases were made from ten suppliers.

## **Competition**

The packaging, facility solutions, paper and publishing distribution industry is highly competitive, with numerous regional and local competitors, and is a mature industry characterized by slowing growth or, in the case of paper, declining demand. The Company's principal competitors include national, regional and local distributors, national and regional manufacturers, independent brokers and both catalog-based and online business-to-business suppliers. Most of these competitors generally offer a wide range of products at prices comparable to those Veritiv offers, though at varying service levels. Additionally, new competition could arise from non-traditional sources, group purchasing organizations, e-commerce, discount wholesalers or consolidation among competitors. Veritiv believes it offers the full range of services required to effectively compete, but if new competitive sources appear, it may result in margin erosion or make it more difficult to attract and retain customers.



The following summary briefly describes the key competitive landscape for each of Veritiv's reportable segments:

- **Packaging** – The packaging market is fragmented and consists of competition from national and regional packaging distributors, national and regional manufacturers of packaging materials, independent brokers and both catalog-based and online business-to-business suppliers. Veritiv believes there are few national packaging distributors with substrate neutral design capabilities similar to the Company's capabilities.
- **Facility Solutions** – There are few national, but numerous regional and local distributors of facility supply solutions. Several groups of distributors have created strategic alliances among multiple distributors to provide broader geographic coverage for larger customers. Other key competitors include the business-to-business divisions of big box stores, purchasing group affiliates and both catalog-based and online business-to-business suppliers.
- **Print** – Industry sources estimate that there are hundreds of regional and local companies engaged in the marketing and distribution of paper and graphics products. While the Company believes there are few national distributors of paper and graphics products similar to Veritiv, several regional and local distributors have cooperated together to serve customers nationally. The Company's customers also have the opportunity to purchase products directly from paper and graphics manufacturers. In addition, competitors include regional and local specialty distributors, office supply and big box stores, online business-to-business suppliers, independent brokers and large commercial printers that broker the sale of paper in connection with the sale of their printing services.
- **Publishing** – The publishing market is serviced by printers, paper brokers and distributors. The Company's customers also have the opportunity to purchase paper directly from paper manufacturers. The market consists primarily of magazine and book publishers, cataloguers, direct mailers and retail customers using catalog, insert and direct mail as a method of advertising.

We believe that our competitive advantages include approximately 1,500 sales and marketing professionals and the breadth of our selection of quality products, including high-quality private brands. The breadth of products distributed and services offered, the diversity of the types of customers served, and our broad geographic footprint in the U.S., Canada and Mexico buffer the impact of regional economic declines while also providing a network to readily serve national accounts.

## **Distribution and Logistics**

Timely and accurate delivery of a customer's order, on a consistent basis, are important criteria in a customer's decision to purchase products and services from Veritiv. Delivery of products is provided through two primary channels, either from the Company's warehouses or directly from the manufacturer. Our distribution centers offer a range of delivery options depending on the customer's needs and preferences, and the strategic placement of the distribution centers also allows for delivery of special or "rush" orders to many customers.

## **Working Capital**

Veritiv's working capital needs generally reflect the need to carry significant amounts of inventory in our distribution centers to meet delivery requirements of our customers, as well as significant accounts receivable balances. As is typical in our industry, our customers often do not pay upon receipt, but are offered terms which are dependent on the specific circumstances of the sale.

## **Employees**

As of December 31, 2019, Veritiv had approximately 8,000 employees worldwide, of which approximately 9% were in collective bargaining units. Labor contract negotiations are handled on an individual basis by a team of Veritiv Human Resources and operations personnel with legal support. Approximately 33% of the Company's unionized employees have collective bargaining agreements that expire during 2020. We currently expect that we will be able to renegotiate such agreements on satisfactory terms. We consider labor relations to be good.

## Government Relations

As a distributor, our transportation operations are subject to the U.S. Department of Transportation Federal Motor Carrier Safety Regulations. We are also subject to federal, state and local regulations regarding licensing and inspection of facilities, including compliance with the U.S. Occupational Safety and Health Act. These regulations require us to comply with health and safety standards to protect our employees from accidents and establish communication programs to transmit information on the hazards of certain chemicals present in specific products that we distribute.

We are also subject to regulation by numerous U.S., Canadian and Mexican federal, state and local regulatory agencies, including, but not limited to, the U.S. Department of Labor, which sets employment practice standards for workers. Although we are subject to other U.S., Canadian and Mexican federal, state and local provisions relating to the protection of the environment and the discharge or destruction of materials, these provisions do not materially impact the use or operation of the Company's facilities. Compliance with these laws has not had, and is not anticipated to have, a material effect on Veritiv's capital expenditures, earnings or competitive position.

## Intellectual Property

We have numerous well-recognized trademarks, represented primarily by our private label brands. Most of our trademark registrations are effective for an initial period of ten years, and we generally renew our trademark registrations before their expiration dates for trademarks that are in use or have reasonable potential for future use. Although our Packaging, Facility Solutions and Print segments rely on a number of trademarks that, in the aggregate, provide important protections to the Company, no single trademark is material to any one of these segments. See the Products and Services section above for additional information regarding our private label brand sales. Additionally, Veritiv does not have any material patents or licenses.

## Seasonality

The Company's operating results are subject to seasonal influences. Historically, our higher consolidated net sales have occurred during the third and fourth quarters while our lowest consolidated net sales occurred during the first quarter. The Packaging segment net sales have traditionally increased each quarter throughout the year and net sales for the first quarter have typically been less than net sales for the fourth quarter of the preceding year. Production schedules for non-durable goods that build up to the holidays and peak in the fourth quarter drive this seasonal net sales pattern. Net sales for the Facility Solutions segment have traditionally peaked in the third quarter due to increased summer demand in the away-from-home resort, cruise and hospitality markets and from back-to-school activities. Within the Print and Publishing segments, seasonality is driven by increased magazine advertising page counts, retail inserts, catalogs and direct mail primarily due to back-to-school, political election and holiday-related advertising and promotions in the second half of the year.

## Information About Our Executive Officers

The following table sets forth certain information concerning the individuals who serve as executive officers of the Company as of February 27, 2020.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mary A. Laschinger	59	Chairman and Chief Executive Officer
Stephen J. Smith	56	Senior Vice President and Chief Financial Officer
Salvatore A. Abbate	51	Chief Operating Officer
Dean A. Adelman	54	Senior Vice President and Chief Human Resources Officer
Mark W. Hianik	59	Senior Vice President, General Counsel and Corporate Secretary
Adam W. Noble	54	Senior Vice President and Chief Information Officer
Tracy L. Pearson	49	Senior Vice President Supply Chain Operations
Daniel J. Watkoske	51	Senior Vice President Print



The following descriptions of the business experience of our executive officers include the principal positions held by them since February 2015.

**Mary A. Laschinger** has served as Chairman and Chief Executive Officer of the Company since July 2014. Previously, Ms. Laschinger served as Senior Vice President of International Paper Company, a global packaging and paper manufacturing company, from 2007 to July 2014 and as President of its xpedx distribution business from January 2010 to July 2014. Ms. Laschinger previously served as President of International Paper's Europe, Middle East, Africa and Russia business, Vice President and General Manager of International Paper's Wood Products and Pulp businesses and in other senior management roles at International Paper in sales, marketing, manufacturing and supply chain. Ms. Laschinger joined International Paper in 1992. Prior to joining International Paper, Ms. Laschinger held various positions in sales, marketing and supply chain at James River Corporation and Kimberly-Clark Corporation. Ms. Laschinger has significant knowledge and executive management experience running domestic and international manufacturing and distribution businesses as well as a deep understanding of Veritiv and the industry in which it operates. Ms. Laschinger also serves as a director of Kellogg Company and the Federal Reserve Bank of Atlanta.

**Stephen J. Smith** has served as Senior Vice President and Chief Financial Officer of the Company since March 2014. Previously, Mr. Smith served as Senior Vice President and Chief Financial Officer of American Greetings Corporation, a global greeting card company, from November 2006 to March 2014. Previously, Mr. Smith served as Vice President of Investor Relations and Treasurer of American Greetings from April 2003 to November 2006. Prior to American Greetings, Mr. Smith served as Vice President and Treasurer of General Cable Corporation, a global wire and cable manufacturer and distributor, and Vice President, Treasurer and Assistant Secretary of Insilco Holding Company, a telecommunications and electrical component products manufacturer. During Mr. Smith's tenure as a public company chief financial officer, he helped lead several strategic acquisitions and was responsible for the design and execution of the capital structure for a management buyout.

**Salvatore A. Abbate** has served as Chief Operating Officer of the Company since January 1, 2020. Previously, Mr. Abbate served as Senior Vice President and Chief Commercial Officer of the Company from April 2018 to December 2019. Prior to that, Mr. Abbate served as Senior Vice President, Chief Sales & Marketing Officer for Andersen Windows & Doors, Inc., a leading North American window and door manufacturer, from July 2013 to March 2018. From September 2011 to June 2013, Mr. Abbate served as Senior Vice President, Sales and Marketing for Andersen. Prior to that, Mr. Abbate served as Vice-President, Global Sales and Marketing for the performance films division of Solutia, Inc., a performance materials and specialty chemical provider. Prior to Solutia, Mr. Abbate held various sales, marketing and operations roles for several divisions of Armstrong. Mr. Abbate has significant experience in sales, marketing, field operations, manufacturing and process improvement.

**Dean A. Adelman** has served as Senior Vice President and Chief Human Resources Officer of the Company since March 2019. Previously, Mr. Adelman served as Chief Human Resources Officer for Caraustar Industries, Inc., a manufacturer of recycled materials, from August 2017 to March 2019. From February 2013 to August 2016, Mr. Adelman served as Chief Human Resources Officer and Senior Vice President – Human Resources for Axiall Corporation, a chemical and building products manufacturer. Mr. Adelman also held Human Resources leadership positions at BlueLinx Corporation, a North American building products distributor, Corrections Corporation of America and Arby's Restaurant Group. Mr. Adelman began his career as an employment lawyer for Georgia-Pacific Corporation. Mr. Adelman has significant human resources management and leadership experience in both publicly traded and private equity backed manufacturing and distribution businesses.

**Mark W. Hianik** has served as Senior Vice President, General Counsel and Corporate Secretary of the Company since January 2014. Previously, Mr. Hianik served as Senior Vice President, General Counsel and Chief Administrative Officer for Dex One Corporation, an advertising and marketing services company, from March 2012 to May 2013. Prior to that Mr. Hianik served as Senior Vice President, General Counsel and Corporate Secretary for Dex One (and its predecessor, R.H. Donnelley Corporation) from April 2008 to March 2012. R.H. Donnelley filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code in May 2009 emerging with a confirmed plan as Dex One in January 2010 and Dex One filed a pre-packaged bankruptcy petition under Chapter 11 in March 2013 to effect a merger consummated in April 2013. Mr. Hianik previously served as Vice President and Assistant General Counsel for Tribune Company, a diversified media company, and as a corporate and securities partner in private practice. Mr. Hianik has significant experience as a public company general counsel and leader of other corporate functions as well as significant mergers and acquisitions, securities, capital markets and corporate governance experience.

**Adam W. Noble** has served as Senior Vice President and Chief Information Officer of the Company since June 2019. Previously, Mr. Noble served as Senior Vice President and Global Chief Information Officer for GAF Materials Corporation, a global manufacturing company, from May 2010 to March 2019 and as Vice President and Chief Information Officer of GAF from May 2006 to April 2010. Prior to GAF, Mr. Noble was Vice President, Shared Technology Application and Services for JPMorgan Chase & Co. He has also held various IT leadership positions with Mars Incorporated, AlliedSignal Corporation, and United Parcel Service. Mr. Noble has significant information technology and leadership experience.

**Tracy L. Pearson** has served as Senior Vice President of Supply Chain Operations of the Company since January 2019. Previously, Ms. Pearson served as Senior Vice President Packaging of the Company from October 2016 to January 2019. Prior to that, Ms. Pearson served as Vice President and General Manager, South Area, for the Container the Americas business of International Paper Company, a global packaging and paper manufacturing company, from May 2016 to October 2016. Prior to that, Ms. Pearson served as Vice President and General Manager for the Foodservice packaging business of International Paper from August 2011 to May 2016. Ms. Pearson joined International Paper in 1994 and served in a variety of sales, supply chain, marketing, process engineering, product development, and sales and general management roles within International Paper's packaging and print businesses. Ms. Pearson has significant experience in general management, sales and sales management, and supply chain in the packaging and paper manufacturing and distribution industries.

**Daniel J. Watkoske** has served as Senior Vice President Print of the Company since July 2014 and, from October 2016 to January 2019, also served as Senior Vice President of Veritiv Services. Previously, Mr. Watkoske served as Executive Vice President Sales for xpedx from January 2011 to July 2014 and was a member of the xpedx Senior Lead Team. Prior to that, Mr. Watkoske served as Group Vice President for the xpedx Metro New York Group from January 2008 to January 2011. Previously, Mr. Watkoske served as Vice President National Accounts for xpedx. Mr. Watkoske joined International Paper in 1989 as a sales trainee for Nationwide Papers, which later became part of xpedx. Mr. Watkoske has significant sales, sales management and operations experience in the paper and packaging distribution industries.

We have been advised that there are no family relationships among any of our executive officers or directors and that there is no arrangement or understanding between any of our executive officers and any other persons pursuant to which they were appointed, respectively, as an executive officer.

## **Company Information**

Veritiv was incorporated in Delaware on July 10, 2013. Our principal executive offices are located at 1000 Abernathy Road NE, Building 400, Suite 1700, Atlanta, Georgia 30328.

Our corporate website is <https://www.veritivcorp.com>. Information contained on our website is not part of this Annual Report on Form 10-K. Through the "Investor Relations" portion of this website, we make available, free of charge, our proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other relevant filings with the SEC and any amendments to those reports as soon as reasonably practicable after such material has been filed with, or furnished to, the SEC. These filings are also accessible on the SEC's website at <https://www.sec.gov>.

## **ITEM 1A. RISK FACTORS**

*You should carefully consider the following risk factors, together with the other information contained in this report, in evaluating us and an investment in our common stock. The risks described below are the material risks, although not the only risks, relating to us and our common stock. If any of the following risks and uncertainties develop into actual events, these events could have a material adverse effect on our business, financial condition, results of operations or cash flows.*

### **Risks Relating to Our Business**

***The industry-wide decline in demand for paper and related products could have a material adverse effect on our financial condition and results of operations.***

Our Print and Publishing businesses rely heavily on the sale of paper and related products. The industry-wide decrease in demand for paper and related products in key markets we serve places continued pressure on our revenues and profit margins and makes it more difficult to maintain or grow earnings. This trend is expected to continue. The failure to effectively differentiate us from our competitors in the face of increased use of email, increased and permanent product substitution, including less print advertising, more electronic billing, more e-commerce, fewer catalogs and a reduced volume



of mail, could have a material adverse effect on market share, sales and profitability through increased expenditures or decreased prices. Our failure to grow the Packaging and Facility Solutions businesses at rates adequate to offset the expected decline in Print and Publishing could also have a material adverse effect on our financial results.

***Competition in our industry may adversely impact our margins and our ability to retain customers and make it difficult to maintain our market share and profitability.***

The business-to-business distribution industry is highly competitive, with numerous regional and local competitors, and is a mature industry characterized by slowing revenue growth. Our principal competitors include national distributors, national and regional manufacturers and independent brokers in the Packaging segment; national, regional and local distributors in the Facility Solutions segment; regional and local distributors in the Print segment; and regional, national and international paper manufacturers and other merchants and brokers in the Publishing segment. Most of these competitors generally offer a wide range of products at prices comparable to those we offer. Additionally, new competition could arise from non-traditional sources, group purchasing organizations, e-commerce, discount wholesalers or consolidation among competitors. New competitive sources may result in increased focus on pricing and on limiting price increases, or may require increased discounting. Such competition may result in margin erosion or make it difficult to attract and retain customers.

Increased competition within the industry, reduced demand for paper, increased and permanent product substitution through less print advertising, more electronic billing, more e-commerce, fewer catalogs, a reduced volume of mail and general economic conditions has served to further increase pressure on the industry's profit margins, and continued margin pressure within the industry may have a material adverse impact on our operating results and profitability.

***Adverse developments in general business and economic conditions as well as conditions in the global capital and credit markets could have a material adverse effect on the demand for our products, the business, and the financial condition and results of operations of our Company and our customers.***

The persistently slow rate of increase in the U.S. gross domestic product ("GDP") in recent years has adversely affected our results of operations. If GDP continues to increase at a slow rate or if economic growth declines, demand for the products we sell will be adversely affected. In addition, volatility in the global capital and credit markets, which impacts interest rates, currency exchange rates and the availability of credit, could have a material adverse effect on the business, financial condition and results of operations of our Company and our customers. Financial difficulties of customers, whether as a result of a downturn in general economic or industry conditions or otherwise, may result in failures of customers to timely pay amounts due or adversely affect the collectability of our accounts receivable, which could have a material adverse effect on our business, financial condition and results of operations. We also have exposure to counterparties with which we routinely execute transactions. A bankruptcy or liquidity event by one or more of our customers or counterparties, such as financial institutions, could have a material adverse effect on our business, financial condition and results of operations.

***In order to compete, we must attract, train and retain highly qualified employees, and the failure to do so could have a material adverse effect on our results of operations.***

To successfully compete, we must attract, train and retain a large number of highly qualified employees while controlling related labor costs. Specifically, we must recruit and retain qualified sales professionals. If we were to lose a significant amount of our sales professionals, we could lose a material amount of sales, which would have a material adverse effect on our financial condition and results of operations. Many of our sales professionals are subject to confidentiality and non-competition agreements. If our sales professionals were to violate these agreements, we could seek to legally enforce these agreements, but we may incur substantial costs in connection with such enforcement and may not be successful in such enforcement. We compete with other businesses for employees and invest significant resources in training and motivating them. There is no assurance that we will be able to attract or retain highly qualified employees. The inability to retain or hire qualified personnel at economically reasonable compensation levels would restrict our ability to improve our business and result in lower operating results and profitability.

***Our business may be adversely affected by work stoppages, union negotiations and labor disputes.***

Approximately 9% of our employees were in collective bargaining units as of December 31, 2019. Historically, the effects of collective bargaining and other similar labor agreements have not been significant. However, if a larger number of our employees were to unionize, including in the wake of any future legislation or administrative regulation that makes it easier for employees to unionize, the effect may be negative.

Approximately 33% of the Company's unionized employees have collective bargaining agreements that expire during 2020. Any inability to negotiate acceptable new contracts under these collective bargaining arrangements could cause strikes or other work stoppages, and new contracts could result in increased operating costs. If any such strikes or other work stoppages occur, or if additional employees become represented by a union, a disruption of our operations and higher labor costs could result. Labor relations matters affecting our suppliers of products and services could also adversely affect our business from time to time.

***The loss of any of our significant customers could adversely affect our financial condition.***

Our ten largest customers generated approximately 10% of our consolidated net sales for the year ended December 31, 2019, and our largest customer accounted for approximately 3% of our consolidated net sales in that same period. We cannot guarantee that we will maintain or improve our relationships with these customers or that we will continue to supply these customers at historic levels.

Generally, our customers are not contractually required to purchase any minimum amount of products. Should such customers purchase products sold by us in significantly lower quantities than they have in the past, such decreased purchases could have a material adverse effect on our financial condition, operating results and cash flows.

In addition, consolidation among customers could also result in changes to the purchasing habits and volumes among some of our present customers. The loss of one or more of these significant customers, a significant customer's decision to purchase our products in substantially lower quantities than they have in the past, or a deterioration in the relationship with any of these customers could adversely affect our financial condition, operating results and cash flows.

***Changes in business conditions in our international operations could adversely affect our business and results of operations.***

Our operating results and business prospects could be substantially affected by risks related to Canada, Mexico and other non-U.S. countries where we sell and distribute or purchase our products. Some of our operations are in or near locations that have suffered from political, social and economic issues; civil unrest; and a high level of criminal activity. In those locations where we have employees or operations, we may incur substantial costs to maintain the safety of our personnel and the security of our operations. Downturns in economic activity, adverse tax consequences or any change in social, political or labor conditions in any of the countries in which we operate could negatively affect our financial results. In addition, our international operations are subject to regulation under U.S. law and other laws related to operations in foreign jurisdictions. For example, the Foreign Corrupt Practices Act of 1977 (the "FCPA") prohibits U.S. companies and their representatives from offering, promising, authorizing or making payments to foreign officials for the purpose of obtaining or retaining business abroad. Failure to comply with domestic or foreign laws could result in various adverse consequences, including the imposition of civil or criminal sanctions and the prosecution of executives overseeing our international operations.

***We purchase all of the products we sell to our customers from other parties, and conditions beyond our control can interrupt our supplies and increase our product costs.***

As a distributor, we obtain our packaging, facility products and paper from third-party suppliers. Our business and financial results are dependent on our ability to purchase products from suppliers not controlled by us that we, in turn, sell to our customers. We may not be able to obtain the products we need on open credit, with market or other favorable terms, or at all. During the year ended December 31, 2019, approximately 35% of our purchases were made from ten suppliers. A sustained disruption in our ability to source products from one or more of the largest of these vendors might have a material impact on our ability to fulfill customer orders resulting in lost sales and, in rare cases, damages for late or non-delivery.

For the most part, we do not have a significant number of long-term contracts with our suppliers committing them to provide products to us. Suppliers may not provide the products and supplies needed in the quantities and at the prices and times requested. We are also subject to delays caused by interruption in production and increases in product costs based on conditions outside of our control. These conditions include raw material shortages, environmental restrictions on operations, work slowdowns, work interruptions, strikes or other job actions by employees of suppliers, product recalls, transportation interruptions, unavailability of fuel or increases in fuel costs, competitive demands and natural disasters or other catastrophic events. Our inability to obtain adequate supplies of packaging, facility products and paper as a result of any of the foregoing factors or otherwise could mean that we could not fulfill our obligations to customers, and customers may turn to other distributors.

In addition, increases in product costs may reduce our margins if we are unable to pass all or a portion of these costs along to our customers, which we have historically had difficulty doing. Any such inability may have a negative impact on our business and our profitability.

***Changes in prices for raw materials, including pulp, paper and resin, could negatively impact our results of operations and cash flows.***

Changes in prices for raw materials, such as pulp, paper and resin, could significantly impact our results of operations in the print market. Although we do not produce paper products and are not directly exposed to risk associated with production, declines in pulp and paper prices, driven by falling secular demand, periods of industry overcapacity and overproduction by paper suppliers, may adversely affect our revenues and net income to the extent such factors produce lower paper prices. Declining pulp and paper prices generally produce lower revenues and profits, even when volume and trading margin percentages remain constant. During periods of declining pulp and paper prices, customers may alter purchasing patterns and defer paper purchases or deplete inventory levels until long-term price stability occurs. Alternatively, if prices for raw materials rise and we are unable to pass these increases on to our customers, our results of operations and profits may also be negatively impacted.

***Increases in the cost of fuel and third-party freight as well as the availability of third-party freight providers could have an adverse effect on our business and results of operations.***

Volatile fuel prices have a direct impact on our business. We also depend upon third-party freight providers in order to conduct our business. The cost of fuel and third-party freight affects the price paid by us for products as well as the expense incurred to deliver products to our customers. Increased fuel costs, increased government regulation and limitations on driver availability impacting the freight transportation industry may adversely impact the cost and availability of third-party freight services. Although we have been able to pass along a portion of increased fuel and third-party freight costs to our customers in the past, there is no guarantee that we can continue to do so. Increases in fuel and third-party freight costs or the unavailability of third-party freight providers may adversely affect our business and results of operations.

***Changes in U.S. and international trade policies and regulations could adversely affect our business and operating results.***

Although we primarily serve markets in the U.S., Canada and Mexico, we purchase our products from a wide variety of domestic and international suppliers. Changes to U.S. trade policies, including the adoption or expansion of trade restrictions, sanctions and other related governmental actions or policies, can disrupt geographic and industry demand trends and prompt other countries to change their own trade policies, including through the adoption of retaliatory tariffs or expansion of other trade restrictions. These changes may cause us to make changes in our supply chain strategies or adversely impact our own costs. Increasing the costs of our products as a result of tariffs or other adverse trade restrictions, or minimizing the number of our products subject to tariffs or other adverse trade restrictions, could cause customers to turn to other distributors and we may be unable to locate alternative suppliers at acceptable costs. Such actions may result in margin erosion or make it difficult to attract and retain customers.



***Inclement weather, widespread outbreak of an illness or responses thereto, anti-terrorism measures and other disruptions could negatively affect various aspects of our business including our supply chain, distribution system and operations, and could result in reduced demand from our customers.***

Our ability to provide efficient distribution of products to our customers is an integral component of our overall business strategy. Disruptions at distribution centers or shipping ports or the closure of roads or imposition of other driving bans due to natural events such as flooding, tornadoes and blizzards may affect our ability to both maintain key products in inventory and deliver products to our customers on a timely basis, which may in turn adversely affect our results of operations.

Additionally, widespread outbreaks of an illness such as a pandemic and actions taken to contain or prevent further spread of such diseases could substantially interfere with general commercial activity related to our supply chain and customer base, which could have an adverse effect on our business, financial condition and results of operations. If our operations are curtailed, we may need to seek alternate sources of supply which may be more expensive, unavailable or may result in delays in shipments to us from our supply chain and subsequently to our customers. Further, if our customers' businesses are similarly affected, they might delay or reduce purchases from us, which could adversely affect our results of operations.

Furthermore, in the aftermath of terrorist attacks in the U.S., federal, state and local authorities have implemented and continue to implement various security measures that affect many parts of the transportation network in the U.S. and abroad. Our customers typically require delivery of products in short time frames and rely on our on-time delivery capabilities. If security measures disrupt or impede the timing of our deliveries, we may fail to meet the needs of our customers, or may incur increased expenses to do so. Any of these disruptions to our operations may reduce our sales and have an adverse effect on our business, financial condition and results of operations.

***We are dependent on a variety of information technology ("IT") and telecommunications systems and the Internet, and any failure of these systems could adversely impact our business and operating results.***

We depend on IT and telecommunications systems and the Internet for our operations. These systems support a variety of functions including inventory management, order placement and processing with vendors and from customers, shipping, shipment tracking and billing. Our information systems are vulnerable to natural disasters, wide-area telecommunications or power utility outages, terrorist or cyber-attacks and other major disruptions, and our redundant information systems may not operate effectively.

Failures or significant downtime of our IT or telecommunications systems for any reason could prevent us from taking customer orders, printing product pick-lists, shipping products, billing customers and handling call volume. Sales also may be adversely impacted if our reseller and retail customers are unable to access pricing and product availability information. We also rely on the Internet, electronic data interchange and other electronic integrations for a large portion of our orders and information exchanges with our suppliers and customers. The Internet and individual websites have experienced a number of disruptions and slowdowns, some of which were caused by organized attacks. In addition, some websites have experienced security breakdowns. If we were to experience a security breakdown, disruption or breach that compromised sensitive information, it could harm our relationships with our suppliers and customers. Disruption of our website or the Internet in general could impair our order processing or more generally prevent our suppliers and resellers from accessing information. Failures of our systems could also lead to delivery delays and may expose us to litigation and penalties under some of our contracts. Any significant increase in our IT and telecommunications costs or temporary or permanent loss of our IT or telecommunications systems could harm our relationships with our customers and suppliers and result in lost sales, business delays and bad publicity. The occurrence of any of these events, as well as the costs we may incur in preventing or responding to such events, could have a material adverse effect on our business, financial condition and results of operations.

***We are subject to cyber-security risks related to breaches of security pertaining to sensitive company, customer, employee and vendor information as well as breaches in the technology that manages operations and other business processes.***

Our operations rely upon secure IT systems for data capture, processing, storage and reporting. Our IT systems, and those of our third-party providers, could become subject to cyber-attacks. Network, system, application and data breaches could result in operational disruptions or information misappropriation including, but not limited to, interruption of systems

availability, or denial of access to and misuse of applications required by our customers to conduct business with us. Access to internal applications required to plan our operations, source materials, ship finished goods and account for orders could be denied or misused. Theft of intellectual property or trade secrets, and inappropriate disclosure of confidential information, could stem from such incidents. Any operational disruptions or misappropriation of information could harm our relationship with our customers and suppliers, result in lost sales, business delays and negative publicity and could have a material adverse effect on our business, financial condition and results of operations.

***Costs to comply with environmental, health and safety laws, and to satisfy any liability or obligation imposed under such laws, could negatively impact our business, financial condition and results of operations.***

Our operations are subject to U.S. and international environmental, health and safety laws, including laws regulating the emission or discharge of materials into the environment, the use, storage, treatment, disposal and management of hazardous substances and waste, the investigation and remediation of contamination and the health and safety of our employees and the public. We could incur substantial fines or sanctions, enforcement actions (including orders limiting our operations or requiring corrective measures), investigation, remediation and closure costs and third-party claims for property damage and personal injury as a result of violations of, or liabilities or obligations under, environmental, health and safety laws. We could be held liable for the costs to address contamination at any real property we have ever owned, operated or used as a disposal site.

In addition, changes in, or new interpretations of, existing laws, the discovery of previously unknown contamination, or the imposition of other environmental liabilities or obligations in the future, may lead to additional compliance or other costs that could impact our business and results of operations. Moreover, as environmental issues, such as climate change, have become more prevalent, U.S. and foreign governments have responded, and may continue to respond, with increased legislation and regulation, which could negatively impact our business, financial condition and results of operations.

***Expenditures related to the cost of compliance with laws, rules and regulations could adversely impact our business and results of operations.***

Our operations are subject to U.S. and international laws and regulations, including regulations of the U.S. Department of Transportation Federal Motor Carrier Safety Administration, the import and export of goods, customs regulations, Office of Foreign Asset Control and the FCPA. Expenditures related to the cost of compliance with laws, rules and regulations, tariffs and duties could adversely impact our business and results of operations. In addition, we could incur substantial fines or sanctions, enforcement actions (including orders limiting our operations or requiring corrective measures), and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, laws, regulations, codes and common law.

***Tax assessments and unclaimed property audits by governmental authorities could adversely impact our operating results.***

We remit a variety of taxes and fees to various governmental authorities, including federal and state income taxes, excise taxes, property taxes, sales and use taxes and payroll taxes. The taxes and fees remitted by us are subject to review and audit by the applicable governmental authorities which could result in liability for additional assessments. In addition, we are subject to unclaimed property (escheat) laws which require us to turn over to certain government authorities the property of others held by us that has been unclaimed for a specified period of time. We are subject to audit by individual U.S. states with regard to our escheatment practices. The legislation and regulations related to tax and unclaimed property matters tend to be complex and subject to varying interpretations by both government authorities and taxpayers. Although management believes that the positions we have taken are reasonable, various taxing authorities may challenge certain of the positions we have taken, which may also potentially result in additional liabilities for taxes, unclaimed property, interest and penalties in excess of accrued liabilities. Our positions are reviewed as events occur such as the availability of new information, the lapsing of applicable statutes of limitations, the conclusion of tax audits, the measurement of additional estimated liabilities based on current calculations, the identification of new tax contingencies or the rendering of relevant court decisions. An unfavorable resolution of assessments by a governmental authority could have a material adverse effect on our financial condition, results of operations and cash flows in future periods.

***Adverse developments in general business and economic conditions, including the industry-wide decline in demand for paper and related products, could have a material adverse effect on our financial condition and results of operations impairing our ability to use Net Operating Loss ("NOL") carryforwards and other deferred tax assets.***

The realization of our NOLs and other deferred tax assets depends on the timing and amount of taxable income earned by our Company in the future and a lack of future taxable income would adversely affect our ability to realize these tax assets. Tax attributes are generally subject to expiration at various times in the future to the extent that they have not previously been applied to offset the taxable income of our Company, and there is a risk that our existing NOL carryforwards could expire unused and be unavailable to offset future income tax liabilities.

The Merger resulted in an ownership change for Unisource under Section 382 of the Internal Revenue Code (the "Code"), limiting the use of Unisource's NOLs to offset future taxable income for both U.S. federal and state income tax purposes. Moreover, future trading of our stock may result in additional ownership changes as defined under Section 382 of the Code, further limiting the use of Unisource's NOLs. These limitations may affect the availability and the timing of when these NOLs may be used which could impair our deferred tax assets which, in turn, may adversely impact the timing and amount of cash taxes payable by our Company.

Significant judgment is required in evaluating the need for and magnitude of appropriate valuation allowances against deferred tax assets. The realization of these assets is dependent on generating future taxable income, as well as successful implementation of various tax planning strategies. Although we believe that the judgments and estimates with respect to the valuation allowances are appropriate and reasonable under the circumstances, actual results could differ from projected results, which could give rise to additions to valuation allowances or reductions in valuation allowances. It is possible that such changes could have a material adverse effect on the amount of income tax expense (benefit) recorded in our Consolidated Statements of Operations.

***Results of legal proceedings could have a material adverse effect on our consolidated financial statements.***

We rely on manufacturers and other suppliers to provide us with the products and equipment we sell, distribute and service. As we do not have direct control over the quality of the products manufactured or supplied by such third-party suppliers, we are exposed to risks relating to the quality of the products and equipment we sell, distribute and service. It is possible that inventory from a manufacturer or supplier could be sold to our customers and later be alleged to have quality problems or to have caused personal injury, subjecting us to potential claims from customers or third parties. Our ability to hold such manufacturer or supplier liable will depend on a variety of factors, including its financial viability. Moreover, increasing the number of private label products that we distribute could increase our exposure to potential liability for product liability claims. Finally, even if we are successful in defending any claim relating to the products or equipment we distribute, claims of this nature could negatively impact our reputation and customer confidence in our products, equipment and company. We have been subject to such claims in the past, which have been resolved without material financial impact. We also operate a significant number of facilities and a large fleet of trucks and other vehicles and therefore face the risk of premises-related liabilities and vehicle-related liabilities including traffic accidents.

From time to time, we may also be involved in government inquiries and investigations, as well as class action, employment and other litigation. We cannot predict with certainty the outcomes of these legal proceedings and other contingencies, including environmental remediation and other proceedings commenced by government authorities. The costs and other effects of pending litigation against us cannot be determined with certainty. There can be no assurance that the outcome of any lawsuit or claim or its effect on our business or financial condition will be as expected. The defense of these lawsuits and claims may divert our management's attention, and significant expenses may be incurred as a result. In addition, we may be required to pay damage awards or settlements, or become subject to injunctions or other equitable remedies, that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Although we currently maintain insurance coverage to address some of these types of liabilities, we cannot make assurances that we will be able to obtain such insurance on acceptable terms in the future, if at all, or that any such insurance will provide adequate coverage against potential claims. In addition, we may choose not to seek to obtain such insurance in the future. Moreover, indemnification rights that we have may be insufficient or unavailable to protect us against potential loss exposures.

***We may not be able to adequately protect our material intellectual property and other proprietary rights, or to defend successfully against intellectual property infringement claims by third parties.***

Our ability to compete effectively depends in part upon our intellectual property rights, including but not limited to trademarks, copyrights and proprietary technology. The use of contractual provisions, confidentiality procedures and



agreements, and trademark, copyright, unfair competition, trade secret and other laws to protect intellectual property rights and proprietary technology may not be adequate. Litigation may be necessary to enforce our intellectual property rights and protect proprietary technology, or to defend against claims by third parties that our conduct or our use of intellectual property infringes upon such third party's intellectual property rights. Any intellectual property litigation or claims brought against us, whether or not meritorious, could result in substantial costs and diversion of our resources, and there can be no assurances that favorable final outcomes will be obtained. The terms of any settlement or judgment may require us to pay substantial amounts to the other party or cease exercising our rights in such intellectual property, including ceasing the use of certain trademarks used by us to distinguish our services from those of others or ceasing the exercise of our rights in copyrightable works. In addition, we may be required to seek a license to continue practices found to be in violation of a third party's rights, which may not be available on reasonable terms, or at all. Our business, financial condition or results of operations could be adversely affected as a result.

***Our pension and health care costs are subject to numerous factors which could cause these costs to change.***

Our pension and health care costs are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience, including, for pension costs, actuarial assumptions regarding life expectancies. Pension plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity market returns, changes in general interest rates and changes in the number of retirees may result in increased pension costs in future periods. Significant changes in any of these factors may adversely impact our cash flows, financial condition and results of operations.

***We participate in multi-employer pension plans and multi-employer health and welfare plans, which could create additional obligations and payment liabilities.***

We contribute to multi-employer defined benefit pension plans as well as multi-employer health and welfare plans under the terms of collective bargaining agreements that cover certain unionized employee groups in the U.S. The risks of participating in multi-employer pension plans differ from single employer-sponsored plans and such plans are subject to regulation under the Pension Protection Act (the "PPA"). Additionally, changes in regulations covering these plans could increase our costs and/or potential withdrawal liability.

Multi-employer pension plans are cost-sharing plans subject to collective-bargaining agreements. Contributions to a multi-employer plan by one employer are not specifically earmarked for its employees and may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan are borne by the remaining participating employers. In addition, if a multi-employer plan is determined to be underfunded based on the criteria established by the PPA, the plan may be required to implement a financial improvement plan or rehabilitation plan that may require additional contributions or surcharges by participating employers.

In addition to the contributions discussed above, we could be obligated to pay additional amounts, known as withdrawal liabilities, upon decrease or cessation of participation in a multi-employer pension plan. Although an employer may obtain an estimate of such liability, the final calculation of the withdrawal liability may not be able to be determined for an extended period of time. Generally, the cash obligation of such withdrawal liability is payable over a 20-year period.

***Our substantial indebtedness could adversely affect our financial condition and impair our ability to operate our business.***

As of December 31, 2019, we had approximately \$755.0 million in total indebtedness, reflecting borrowings of \$673.2 million under the asset-based lending facility (the "ABL Facility"), \$1.1 million under short term debt and \$80.7 million of finance leases. This level of indebtedness could have important consequences to our financial condition, operating results and business, including the following:

- limiting our ability to obtain additional debt or equity financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;
- increasing our cost of borrowing;
- requiring that a substantial portion of our cash flows from operations be dedicated to payments on our indebtedness instead of other purposes, including operations, capital expenditures and future business opportunities;
- making it more difficult for us to make payments on our indebtedness or satisfy other obligations;

- exposing us to risk of increased interest rates on our borrowings due to the variable rate exposure associated with the ABL Facility, which can be worsened by (i) increased interest rates up to the level covered by our interest rate cap and (ii) increased interest rates on borrowings in excess of the notional amount of our interest rate cap;
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors that have less debt; and
- increasing our vulnerability to a downturn in general economic conditions or in our business, and making us unable to carry out capital spending that is important to our growth.

***Despite our substantial indebtedness, we may still be able to incur substantially more indebtedness in the future. This could further exacerbate the risks to our financial condition described above.***

We may be able to incur significant additional indebtedness in the future, including secured indebtedness. Although the agreements governing the ABL Facility contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. If new indebtedness is added to our current indebtedness levels, the related risks we will face could intensify.

***The agreements governing our indebtedness contain restrictive covenants, which could restrict our operational flexibility.***

The agreements governing the ABL Facility contain restrictions and limitations on our ability to engage in activities that may be in our long-term best interests, including financial and other restrictive covenants that could limit our ability to:

- incur additional indebtedness or guaranties, or issue certain preferred shares;
- pay dividends, redeem stock or make other distributions;
- repurchase, prepay or redeem subordinated indebtedness;
- make investments or acquisitions;
- create liens;
- make negative pledges;
- consolidate or merge with another company;
- sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with affiliates; and
- change the nature of our business.

The agreements governing the ABL Facility also contain other restrictions customary for asset-based facilities of this nature.

Our ability to borrow additional amounts under the ABL Facility will depend upon satisfaction of these covenants. Events beyond our control could affect our ability to meet these covenants. Our failure to comply with obligations under the agreements governing the ABL Facility may result in an event of default under those agreements. A default, if not cured or waived, may permit acceleration of our indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. This could have serious consequences to our business, financial condition and operating results and could cause us to become bankrupt or insolvent.

## **Risks Relating to Our Common Stock**

***Our stock price may fluctuate significantly.***

The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in the operating results of our Company due to factors related to our business;
- success or failure of the strategy of our Company;
- the quarterly or annual earnings of our Company, or those of other companies in our industry;
- continued industry-wide decrease in demand for paper and related products;
- our ability to obtain third-party financing as needed;



- announcements by us or our competitors of significant acquisitions or dispositions;
- restrictions on our ability to pay dividends under our ABL Facility;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the operating and stock price performance of other comparable companies;
- investor perception of our Company;
- natural or environmental disasters that investors believe may affect our Company;
- overall market fluctuations;
- a large sale of our stock by a significant shareholder;
- results from any material litigation or government investigation;
- changes in laws and regulations affecting our Company or any of the principal products sold by our Company; and
- general economic and political conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our common stock.

***If securities or industry analysts do not continue to publish research, or publish unfavorable research, about our Company, our stock price and trading volume could decline.***

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us and our business. If the current coverage of our Company by securities or industry analysts ceases, the trading price for our stock would be negatively impacted. In addition, if one or more of these analysts downgrades our stock or publishes misleading or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our Company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price or trading volume to decline.

***A significant percentage of our outstanding common stock is held by our three largest shareholders, and certain of those shareholders exercise significant influence over matters requiring shareholder approval. So long as a significant percentage of our common stock continues to be held by a small number of shareholders, the liquidity of our common stock may be impacted, and future sales by those shareholders may result in a reduction in the market price of our common stock.***

Our three largest shareholders collectively owned approximately 52% of our outstanding common stock as of December 31, 2019. As a result, certain of these shareholders may exercise significant influence over all matters requiring shareholder approval, including approval of significant corporate transactions, which may reduce the market price of our common stock. Additionally, the interests of these shareholders may conflict with the interests of our other shareholders.

This concentrated ownership could also result in a limited amount of shares being available to be traded in the market, resulting in reduced liquidity. Further, all of the shares of our common stock owned by UWW Holdings, LLC (the "UWWH Stockholder") are registered for resale under the Securities Act of 1933 and, subject to certain limitations, all or a portion of such shares may be offered and sold to the public in the future. When some or all of the shares held by the UWWH Stockholder are sold, or if it is perceived that they will be sold, the market price of our common stock could decline.

***Anti-takeover provisions in our charter and amended and restated by-laws (our "by-laws") could discourage, delay or prevent a change of control of our Company and may affect the trading price of our common stock.***

Our charter and by-laws include a number of provisions that may discourage, delay or prevent a change in our management or control over us that shareholders may consider favorable. For example, our charter and by-laws collectively:

- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- limit the ability of shareholders to remove directors;
- provide that vacancies on our board of directors, including vacancies resulting from an enlargement of our board of directors, may be filled only by a majority vote of directors then in office;
- prohibit shareholders from calling special meetings of shareholders unless called by the holders of not less than 20% of our outstanding shares of common stock;
- prohibit shareholder action by written consent, unless initiated by the holders of not less than 20% of the outstanding shares of common stock;

- establish advance notice requirements for nominations of candidates for election as directors or to bring other business before an annual meeting of our shareholders; and
- require the approval of holders of at least a majority of the outstanding shares of our common stock to amend our by-laws and certain provisions of our charter.

These provisions may prevent our shareholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if the provisions are viewed as discouraging takeover attempts in the future.

Our charter and by-laws may also make it difficult for shareholders to replace or remove our management. These provisions may facilitate management entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our shareholders.

***We have not historically declared or paid dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.***

We have not historically declared or paid dividends on our common stock. We currently intend to invest our future earnings, if any, to fund our growth, to develop our business, for working capital needs, to reduce debt and for general corporate purposes. Therefore, the success of an investment in shares of our common stock will depend upon any future appreciation in their value. There is no guarantee that shares of our common stock will appreciate in value or even maintain their current value.

Any decision to pay dividends in the future will be at the discretion of Veritiv's Board of Directors and will depend upon various factors then existing, including earnings, financial condition, results of operations, capital requirements, level of indebtedness, restrictions imposed by applicable law, general business conditions and other factors that Veritiv's Board of Directors may deem relevant. In addition, our operations are conducted almost entirely through our subsidiaries. As such, to the extent that we determine in the future to pay dividends on our common stock, none of our subsidiaries will be obligated to make funds available to us for the payment of dividends. Further, the agreements governing our ABL Facility can, and agreements governing future indebtedness may, in certain circumstances, restrict the ability of our subsidiaries to pay dividends or otherwise transfer assets to us.

***Our charter designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our shareholders, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us.***

Our charter provides that the Court of Chancery of the State of Delaware is the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us or our shareholders by any of our directors, officers or employees, (iii) any action asserting a claim against us or any director, officer, employee or agent arising under the Delaware General Corporation Law, our charter or by-laws or (iv) any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision in our charter may limit our shareholders' ability to obtain a favorable judicial forum for disputes with us.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

As of December 31, 2019, we had a distribution network operating from approximately 150 distribution centers.

	Leased	Owned	Total
Properties	140	10	150
Square feet (in millions)	17.4	1.0	18.4



These facilities are strategically located throughout the U.S., Canada and Mexico in order to efficiently serve our customer base in the surrounding areas while also facilitating expedited delivery services for special orders. We continually evaluate location, size and attributes to maximize efficiency, deliver top quality customer service and achieve economies of scale. The Company also leases various office spaces for corporate and sales functions.

### **ITEM 3. LEGAL PROCEEDINGS**

From time to time, the Company is involved in various lawsuits, claims, and regulatory and administrative proceedings arising out of its business relating to general commercial and contractual matters, governmental regulations, intellectual property rights, labor and employment matters, tax and other actions.

Although the ultimate outcome of any legal proceeding or investigation cannot be predicted with certainty, based on present information, including the Company's assessment of the merits of the particular claim, the Company does not expect that any asserted or unasserted legal claims or proceedings, individually or in the aggregate, will have a material adverse effect on its cash flow, results of operations 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

Veritiv's common stock is publicly traded on the New York Stock Exchange ("NYSE") under the ticker symbol "VRTV". As of February 21, 2020, there were 5,136 shareholders of record. The number of record holders does not include shareholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees.

Veritiv has not historically declared or paid dividends on its common stock. The Company currently intends to invest its future earnings, if any, to fund its growth, to develop its business, for working capital needs, to reduce debt and for general corporate purposes. Any payment of dividends will be at the discretion of Veritiv's Board of Directors and will depend upon various factors then existing, including earnings, financial condition, results of operations, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends, restrictions imposed by applicable law, general business conditions and other factors that Veritiv's Board of Directors may deem relevant.

On November 23, 2016, the UWWH Stockholder, one of Veritiv's existing stockholders and the former parent company of Unisource Worldwide, Inc., sold 1.76 million shares of Veritiv common stock in an underwritten public offering. Concurrently with the closing of the offering, Veritiv repurchased 0.31 million of these offered shares from the underwriters at a price of \$42.8625 per share, which is the price at which the underwriters purchased such shares from the selling stockholder, for an aggregate purchase price of approximately \$13.4 million. The Company may repurchase additional shares in the future, however, there is currently no share repurchase authorization plan approved by the Company's Board of Directors.

On March 22, 2017 and September 25, 2018, the UWWH Stockholder sold 1.80 million shares and 1.50 million shares of Veritiv common stock, respectively, in block trades. The Company did not sell or repurchase any shares and did not receive any of the proceeds in these transactions.

The UWWH Stockholder beneficially owned 2,783,840 shares of Veritiv's outstanding common stock as of December 31, 2019.

#### Performance Graph

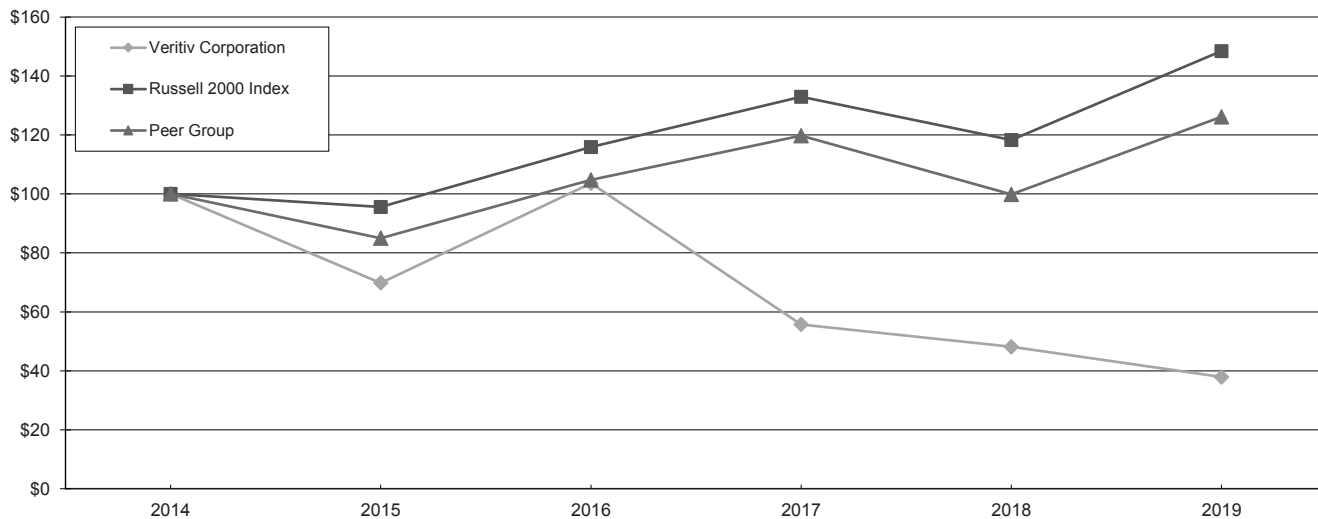
The following graph provides a comparison of the cumulative shareholder return on the Company's common stock to the returns of the Russell 2000 Index and the average performance of a group consisting of the Company's peer companies (the "Peer Group") based on total shareholder return from June 18, 2014 (the first day Veritiv's common stock began "when-issued" trading on the NYSE) through December 31, 2019. Companies included in the Peer Group are as follows:

- Anixter International, Inc.
- Applied Industrial Technologies, Inc.
- Arrow Electronics, Inc.
- Avery Dennison Corporation
- Avnet, Inc.
- Brady Corporation
- Deluxe Corporation
- Domtar Corporation
- Ennis, Inc.
- Fastenal Company
- Genuine Parts Company
- Graphic Packaging Holding Company
- InnerWorkings, Inc.
- International Paper Company
- Kaman Corporation
- MSC Industrial Direct Co., Inc.
- Neenah Inc.
- Office Depot, Inc.
- P.H. Glatfelter Company
- Packaging Corporation of America
- R.R. Donnelley & Sons Company
- Resolute Forest Products, Inc.
- ScanSource, Inc.
- Sealed Air Corporation
- Sonoco Products Company
- W.W. Grainger, Inc.
- WESCO International, Inc.
- WestRock Company

Bemis Company, Inc. and Essendant, Inc. were removed from the Peer Group due to the acquisition by Amcor and Staples, respectively.

The graph is not, and is not intended to be, indicative of future performance of our common stock. The graph assumes \$100 invested on June 18, 2014 in the Company, the Russell 2000 Index and the Peer Group. Total return indices reflect reinvestment of dividends and are weighted on the basis of market capitalization at the time of each reported data point.

**Comparison of 5 Year Cumulative Total Return  
Among Veritiv Corporation, the Russell 2000 Index and Peer Group**





## ITEM 6. SELECTED FINANCIAL DATA

The following table presents the selected historical consolidated financial data for Veritiv and should be read in conjunction with Item 7 of this report and the audited Consolidated Financial Statements and notes thereto contained in Item 8 of this report. The Consolidated Statements of Operations data for the years ended December 31, 2019, 2018 and 2017 and the Consolidated Balance Sheets data as of December 31, 2019 and 2018 set forth below are derived from the audited Consolidated Financial Statements included in Item 8 of this report. The Consolidated Statements of Operations data for the years ended December 31, 2016 and 2015 and the Consolidated Balance Sheets data as of December 31, 2017, 2016 and 2015 set forth below are derived from the audited Consolidated Financial Statements for 2017 and 2016, which are not included in this report. The selected historical consolidated financial information presented below may not be indicative of Veritiv's future performance.

(in millions, except per share data)

Statements of Operations Data	As of and for the Year Ended December 31,				
	2019	2018	2017	2016	2015
Net sales	\$ 7,659.4	\$ 8,696.2	\$ 8,364.7	\$ 8,326.6	\$ 8,717.7
Cost of products sold	6,206.2	7,155.7	6,846.6	6,826.4	7,160.3
Distribution expenses	509.2	550.5	516.9	505.1	521.8
Selling and administrative expenses <sup>(1)</sup>	823.3	867.6	875.7	827.9	856.0
Depreciation and amortization	53.5	53.5	54.2	54.7	56.9
Integration, acquisition and merger expenses	17.5	31.8	36.5	25.9	34.9
Restructuring charges, net	28.8	21.3	16.7	12.4	11.3
Operating income (loss) <sup>(1)</sup>	20.9	15.8	18.1	74.2	76.5
Income tax expense (benefit)	0.7	5.5	11.4	19.8	18.2
Net income (loss)	(29.5)	(15.7)	(13.3)	21.0	26.7
Earnings (loss) per share <sup>(2)</sup> :					
Basic earnings (loss) per share	\$ (1.84)	\$ (0.99)	\$ (0.85)	\$ 1.31	\$ 1.67
Diluted earnings (loss) per share	\$ (1.84)	\$ (0.99)	\$ (0.85)	\$ 1.30	\$ 1.67
<b>Balance Sheets Data (at period end)</b>					
Accounts receivable, net	\$ 910.8	\$ 1,181.4	\$ 1,174.3	\$ 1,048.3	\$ 1,037.5
Inventories	552.9	688.2	722.7	707.9	720.6
Total assets <sup>(3,5)</sup>	2,511.1	2,529.7	2,708.4	2,483.7	2,476.9
Long-term debt, net of current portion <sup>(4) (5)</sup>	742.4	963.6	908.3	749.2	800.5
Financing obligations, net of current portion <sup>(3,5)</sup>	—	23.6	181.6	176.1	197.8
Defined benefit pension obligations	15.7	21.1	24.4	27.6	28.7
Other non-current liabilities <sup>(5)</sup>	485.3	128.6	137.0	121.2	105.6

<sup>(1)</sup> Amounts shown prior to 2018 have been revised to reflect the impact of the Company's adoption of Accounting Standards Update ("ASU") 2017-07 on January 1, 2018.

<sup>(2)</sup> See Note 13 of the Notes to Consolidated Financial Statements for information regarding the shares of common stock utilized in the computation of basic and diluted earnings (loss) per share for the years ended December 31, 2019, 2018 and 2017.

<sup>(3)</sup> See Note 3 of the Notes to Consolidated Financial Statements for information regarding the impacts to property and equipment and financing obligations due to the termination or expiration of the related party financing obligations, the majority of which occurred in 2018.

<sup>(4)</sup> See Note 4 of the Notes to Consolidated Financial Statements for information regarding the acquisition of All American Containers in 2017, which was funded through the Company's ABL Facility.

<sup>(5)</sup> See Note 3 of the Notes to Consolidated Financial Statements for information regarding the Company's adoption of ASU 2016-02 on January 1, 2019, which included a cumulative effect increase to retained earnings of approximately \$2.7 million. Amounts shown prior to 2019 have not been revised and are not comparable to the current year's results.

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

*The following discussion of the Company's results of operations and financial condition should be read in conjunction with the Consolidated Financial Statements and Notes thereto, included elsewhere in this report.*

### Executive Overview

#### ***Business Overview***

Veritiv is a leading North American business-to-business distributor of packaging, facility solutions, print and publishing products and services. Additionally, Veritiv provides logistics and supply chain management solutions to its customers. The Company operates from approximately 150 distribution centers primarily throughout the United States ("U.S."), Canada and Mexico.

Veritiv's business is organized under four reportable segments: Packaging, Facility Solutions, Print, and Publishing and Print Management ("Publishing"). This segment structure is consistent with the way the Chief Operating Decision Maker, who is Veritiv's Chief Executive Officer, makes operating decisions and manages the growth and profitability of the Company's business. The following summary describes the products and services offered in each of the segments:

- ***Packaging*** – The Packaging segment provides standard as well as custom and comprehensive packaging solutions for customers based in North America and in key global markets. The business is strategically focused on higher growth industries including light industrial/general manufacturing, food processing, fulfillment and internet retail, as well as niche verticals based on geographical and functional expertise. Veritiv's packaging professionals create customer value through supply chain solutions, structural and graphic packaging design and engineering, automation, workflow and equipment services and kitting and fulfillment.
- ***Facility Solutions*** – The Facility Solutions segment sources and sells cleaning, break-room and other supplies such as towels, tissues, wipers and dispensers, can liners, commercial cleaning chemicals, soaps and sanitizers, sanitary maintenance supplies and equipment, safety and hazard supplies, and shampoos and amenities primarily in North America. Veritiv is a leading distributor in the Facility Solutions segment. Through this segment Veritiv manages a world class network of leading suppliers in most facilities solutions categories. Additionally, the Company offers total cost of ownership solutions with re-merchandising, budgeting and compliance reporting, inventory management, and a sales-force trained to bring leading vertical expertise to the major North American geographies.
- ***Print*** – The Print segment sells and distributes commercial printing, writing, copying, digital, specialty products, graphics consumables and graphics equipment primarily in North America. This segment also includes customized paper conversion services of commercial printing paper for distribution to document centers and form printers. The Company's broad geographic platform of operations coupled with the breadth of paper and graphics products, including its exclusive private brand offerings, provides a foundation to service national, regional and local customers across North America.
- ***Publishing*** – The Publishing segment sells and distributes coated and uncoated commercial printing papers to publishers, retailers, converters, printers and specialty businesses for use in magazines, catalogs, books, directories, gaming, couponing, retail inserts and direct mail primarily in the U.S. This segment also provides print management, procurement and supply chain management solutions to simplify paper and print procurement processes for Veritiv's customers.

The Company also has a Corporate & Other category which includes certain assets and costs not primarily attributable to any of the reportable segments, as well as its Veritiv logistics solutions business which provides transportation and warehousing solutions.

On August 31, 2017, Veritiv acquired 100% of the equity interests in various All American Containers entities (collectively, "AAC"), a distributor of rigid packaging, including plastic, glass and metal containers, caps, closures and plastic pouches. Through this acquisition, the Company gained expertise in rigid packaging and was provided with additional marketing, selling and distribution channels into the growing U.S. rigid packaging market.

## Results of Operations, Including Business Segments

The following discussion compares the consolidated operating results of Veritiv for the years ended December 31, 2019, 2018 and 2017.

<i>(in millions)</i>	Year Ended December 31,			2019 vs. 2018		2018 vs. 2017	
	2019	2018	2017	Increase (Decrease)		Increase (Decrease)	
				\$	%	\$	%
Net sales	\$ 7,659.4	\$ 8,696.2	\$ 8,364.7	\$ (1,036.8)	(11.9)%	\$ 331.5	4.0 %
Cost of products sold (exclusive of depreciation and amortization shown separately below)	6,206.2	7,155.7	6,846.6	(949.5)	(13.3)%	309.1	4.5 %
Distribution expenses	509.2	550.5	516.9	(41.3)	(7.5)%	33.6	6.5 %
Selling and administrative expenses <sup>(1)</sup>	823.3	867.6	875.7	(44.3)	(5.1)%	(8.1)	(0.9)%
Depreciation and amortization	53.5	53.5	54.2	0.0	0.0 %	(0.7)	(1.3)%
Integration and acquisition expenses	17.5	31.8	36.5	(14.3)	(45.0)%	(4.7)	(12.9)%
Restructuring charges, net	28.8	21.3	16.7	7.5	35.2 %	4.6	27.5 %
Operating income (loss) <sup>(1)</sup>	20.9	15.8	18.1	5.1	32.3 %	(2.3)	(12.7)%
Interest expense, net	38.1	42.3	31.2	(4.2)	(9.9)%	11.1	35.6 %
Other (income) expense, net <sup>(1)</sup>	11.6	(16.3)	(11.2)	27.9	171.2 %	(5.1)	(45.5)%
Income (loss) before income taxes	(28.8)	(10.2)	(1.9)	(18.6)	(182.4)%	(8.3)	*
Income tax expense (benefit)	0.7	5.5	11.4	(4.8)	(87.3)%	(5.9)	(51.8)%
Net income (loss)	\$ (29.5)	\$ (15.7)	\$ (13.3)	\$ (13.8)	(87.9)%	\$ (2.4)	(18.0)%

\* - not meaningful

<sup>(1)</sup> For the year ended December 31, 2017, amounts have been revised to reflect the impact of the adoption of ASU 2017-07 in 2018.

### Net Sales

- **2019 compared to 2018:** Net sales decreased by \$1,036.8 million, or 11.9%, primarily due to the Print and Publishing segments' decline in net sales as those segments were responsible for over 75% of the total decline in net sales. See the "Segment Results" section for additional discussion.
- **2018 compared to 2017:** Net sales increased by \$331.5 million, or 4.0%, primarily due to a \$172.5 million increase in net sales for the eight months with no comparable sales related to the AAC acquisition on August 31, 2017. Increases in net sales in the Packaging and Publishing segments were partially offset by a decline in the Print segment. See the "Segment Results" section for additional discussion.

### Cost of Products Sold (exclusive of depreciation and amortization shown separately below)

- **2019 compared to 2018:** Cost of products sold decreased by \$949.5 million, or 13.3%, primarily due to the decline in net sales as previously discussed. See the "Segment Results" section for additional discussion.
- **2018 compared to 2017:** Cost of products sold increased by \$309.1 million, or 4.5%, primarily due to the growth in net sales as previously discussed. See the "Segment Results" section for additional discussion.

### Distribution Expenses

- **2019 compared to 2018:** Distribution expenses decreased by \$41.3 million, or 7.5%. The decrease was primarily attributable to (i) a \$25.7 million decrease in freight and logistics expenses, primarily driven by a decrease in third-party freight and fuel expenses, (ii) an \$18.7 million decrease in personnel expenses driven by lower wages, temporary



employee expenses and multi-employer pension plan ("MEPP") withdrawal charges and (iii) a \$3.5 million decrease related to replacing certain equipment leases, previously treated as operating leases (expenses included in distribution expense), with finance leases (expenses included in depreciation and amortization and interest expense, net), partially offset by a \$7.4 million increase in storage expenses mostly during the first half of 2019, primarily due to replacing certain property leases, previously treated as financing arrangements (expenses included in depreciation and amortization and interest expense, net) with operating leases. Charges associated with withdrawals from MEPPs were \$6.6 million in 2019 and \$11.2 million in 2018.

- **2018 compared to 2017:** Distribution expenses increased by \$33.6 million, or 6.5%. The increase was primarily due to (i) a \$10.9 million increase in personnel expenses primarily due to the withdrawal from a MEPP in the year ended December 31, 2018, (ii) a \$10.3 million increase for the eight months with no comparable expenses related to the acquisition of AAC on August 31, 2017, (iii) a \$6.9 million increase in facilities rent primarily due to replacing certain property leases, that were previously treated as financing arrangements (expenses included in depreciation and amortization and interest expense, net) with operating leases (expenses included in distribution expenses) and (iv) a \$2.6 million increase in freight and logistics expenses driven mostly by increased third-party freight and fuel expenses.

#### *Selling and Administrative Expenses*

- **2019 compared to 2018:** Selling and administrative expenses decreased by \$44.3 million, or 5.1%. The decrease was primarily due to (i) a \$30.6 million decrease in personnel expense, mainly driven by a decrease in commission and compensation expenses primarily related to the Print segment, (ii) a \$12.2 million decrease in bad debt expense primarily related to the Print segment and (iii) an \$8.7 million decrease in professional fees expense, partially offset by a \$2.7 million decrease related to a warehouse sale net gain in 2018, a \$1.4 million increase in insurance expense and a \$1.2 million increase related to the escheat audit. See Note 16 of the Notes to Consolidated Financial Statements under the subheading "Escheat Audit" for more information.
- **2018 compared to 2017:** Selling and administrative expenses decreased by \$8.1 million, or 0.9%. The decrease was primarily due to a (i) \$17.8 million decrease in compensation expense mainly driven by a decrease in personnel and commission expenses primarily related to the Print segment as well as a decrease in incentive compensation expense, (ii) a \$7.7 million decrease from asset impairments related to goodwill and customer relationships in the Veritiv logistics solutions business in the year ended December 31, 2017, (iii) a \$3.8 million decrease in legal expense, (iv) a \$2.8 million decrease in travel and entertainment expenses, (v) a net gain of \$2.7 million related to a warehouse sale and (vi) a \$2.1 million decrease in marketing and communications expense. The decrease was partially offset by a \$17.6 million increase for the eight months with no comparable expenses related to the acquisition of AAC on August 31, 2017 and an \$11.1 million increase in bad debt expense primarily driven by the Print segment. The increase in bad debt expense was primarily due to additional reserves related to certain customers with declining financial conditions during 2018. See Note 5 of the Notes to Consolidated Financial Statements for information related to the Print segment restructuring plan.

#### *Depreciation and Amortization*

- **2019 compared to 2018:** Depreciation and amortization expense was flat as compared to 2018.
- **2018 compared to 2017:** Depreciation and amortization expense decreased \$0.7 million, or 1.3%.

#### *Integration and Acquisition Expenses*

During the years ended December 31, 2019, 2018 and 2017, Veritiv incurred costs and charges to integrate its combined businesses. Integration expenses include internally dedicated integration management resources, retention compensation, information technology conversion costs, rebranding, professional services and other costs to integrate its businesses. Additionally, Veritiv incurred integration and acquisition expenses of \$0.8 million, \$2.1 million and \$8.0 million in 2019, 2018 and 2017, respectively, related to the acquisition of AAC on August 31, 2017. The Company completed its integration efforts as of December 31, 2019. See Note 5 of the Notes to Consolidated Financial Statements for information related to integration and acquisition expenses.

### *Restructuring Charges, Net*

Restructuring charges, net relates primarily to Veritiv's restructuring of its North American operations intended to integrate the legacy xpedx and Unisource operations, generate cost savings and capture synergies across the combined company. Restructuring charges, net includes net (losses) or gains related to the sale or exit of certain facilities totaling (\$0.4) million, \$15.0 million and \$24.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. The Company completed its Merger related restructuring efforts as of December 31, 2019. See Note 5 of the Notes to Consolidated Financial Statements for information related to restructuring charges.

### *Interest Expense, Net*

Interest expense, net in 2019 consisted of (i) \$32.8 million of interest expense on the Company's asset-based lending facility (the "ABL Facility"), (ii) \$2.6 million for amortization of deferred financing costs related to the ABL Facility and (iii) \$2.7 million in miscellaneous interest expense. Interest expense, net in 2019 decreased by \$4.2 million compared to 2018 primarily due to a lower average balance on the Company's ABL Facility. The decreased average balance is due to an increase in operating cash flow used to reduce the ABL balance. See Note 7 of the Notes to Consolidated Financial Statements for information related to the ABL Facility.

Interest expense, net in 2018 consisted of (i) \$36.9 million of interest expense on the Company's ABL Facility, (ii) \$2.6 million for amortization of deferred financing costs related to the ABL Facility and (iii) \$2.8 million in miscellaneous interest expense. Interest expense, net in 2018 increased by \$11.1 million compared to 2017 due to (i) increased interest rates due primarily to an increase in LIBOR and (ii) an increased average balance on the Company's ABL Facility. The increased average balance on the ABL Facility was primarily due to borrowings to fund the acquisition of AAC. See Note 7 of the Notes to Consolidated Financial Statements for information related to the ABL Facility. See Note 4 of the Notes to Consolidated Financial Statements for information related to the acquisition of AAC.

### *Other (Income) Expense, Net*

- **2019 compared to 2018:** Other (income) expense, net, was expense of \$11.6 million. This was a net other expense increase of \$27.9 million, compared to the same period in 2018. In 2019 there was a \$13.1 million increase in the fair value of the AAC contingent consideration as compared to a reduction of \$12.3 million in 2018. See Note 11 of the Notes to Consolidated Financial Statements for information related to the AAC contingent consideration. The remaining expense was primarily driven by changes associated with the Tax Receivable Agreement. See Note 9 and Note 11 of the Notes to Consolidated Financial Statements for information related to the Tax Receivable Agreement.
- **2018 compared to 2017:** Other (income) expense, net, was income of \$16.3 million. This was a net other income increase of \$5.1 million, compared to the same period in 2017. In 2018 there was a \$12.3 million reduction in the estimated fair value of the AAC contingent consideration compared to an increase of \$2.0 million in 2017. See Note 11 of the Notes to Consolidated Financial Statements for information related to the AAC contingent consideration. The remaining income was primarily driven by changes associated with the Tax Receivable Agreement. See Note 9 and Note 11 of the Notes to Consolidated Financial Statements for information related to the Tax Receivable Agreement.

### *Effective Tax Rate*

Veritiv's effective tax rates were (2.4)%, (53.9)% and (600.0)% for the years ended December 31, 2019, 2018 and 2017 respectively. The difference between the Company's effective tax rates for the years ended December 31, 2019, 2018 and 2017 and the U.S. statutory tax rates of 21.0% for 2019 and 2018 and 35.0% for 2017, includes the impact of non-deductible expenses, state income taxes (net of federal income tax benefit), the Company's income (loss) by jurisdiction, the tax effect of Tax Receivable Agreement changes, tax credits, and changes in the valuation allowance against deferred tax assets. Beginning with the year ended December 31, 2018 the Company's effective tax rates includes the impact of stock compensation vesting and Global Intangible Low Taxed Income.

The Company's effective tax rate for the year ended December 31, 2018 was impacted by the following discrete item:

- A \$1.3 million expense recorded in 2018 for the accounting completed under the measurement period related to the Tax Act under Staff Accounting Bulletin 118, totaling \$31.5 million of cumulative effect of which \$24.0 million is remeasurement of our deferred taxes and \$7.5 million for the one-time transition tax. See Note 8 of the Notes to the Consolidated Financial Statements for additional details regarding the Tax Act.

The Company's effective tax rate for the year ended December 31, 2017 was impacted by a near break-even pre-tax book loss in combination with the impact of the following discrete items:

- A \$30.2 million expense in connection with the Company's provisional estimate of the impact of the Tax Act, including \$23.0 million for the remeasurement of its deferred taxes and \$7.2 million for the one-time transition tax.
- A \$13.4 million benefit for the reversal of the valuation allowance on the deferred tax assets of the Company's Canadian subsidiary. The reversal reflects the Company's cumulative recent income and improved expectation of future taxable income.
- A \$3.8 million tax rate benefit for the reduction in the fair value of the Tax Receivable Agreement, including the federal rate reduction.
- A \$3.1 million benefit in conjunction with the third quarter 2017 filing of Veritiv's 2016 U.S. federal tax return and amended 2015 and 2014 U.S. federal tax returns for credits related to foreign taxes and research and experimentation activities.
- A tax rate effect of \$2.1 million for the impact of impairing non-deductible goodwill.

The volatility of the Company's effective tax rate has been primarily due to both the level of pre-tax book income (loss) as well as variations in the Company's income (loss) by jurisdiction. For the year ended December 31, 2019, the Company's provision for income taxes continued to be highly sensitive for these reasons. The Company continues to expect a volatile effective tax rate for the full year 2020. The effective tax rate may continue to vary significantly due to potential fluctuations in the amount and source, including both foreign and domestic, of pre-tax book income (loss) by jurisdiction, potential deferred tax valuation allowance increases in certain jurisdictions, changes in amounts of non-deductible expenses, and other items that could impact the effective tax rate. See Note 8 of the Notes to Consolidated Financial Statements for additional information related to the Company's income taxes.

### ***Segment Results***

Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, restructuring charges, net, integration and acquisition expenses and other similar charges including any severance costs, costs associated with warehouse and office openings or closings, consolidation, and relocation and other business optimization expenses, stock-based compensation expense, changes in the LIFO reserve, non-restructuring asset impairment charges, non-restructuring severance charges, non-restructuring pension charges, net, fair value adjustments related to contingent liabilities assumed in mergers and acquisitions and certain other adjustments) is the primary financial performance measure Veritiv uses to manage its businesses, to monitor its results of operations, to measure its performance against the ABL Facility and to incentivize its management. Veritiv believes investors commonly use Adjusted EBITDA as a key financial metric for valuing companies. In addition, the credit agreement governing the ABL Facility permits the Company to exclude these and other charges in calculating Consolidated EBITDA, as defined in the ABL Facility. This common metric is intended to align shareholders, debt holders and management. Adjusted EBITDA is a non-GAAP financial measure and is not an alternative to net income, operating income or any other measure prescribed by U.S. generally accepted accounting principles ("U.S. GAAP").

Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of Veritiv's results as reported under U.S. GAAP. For example, Adjusted EBITDA:

- does not reflect the Company's income tax expenses or the cash requirements to pay its taxes; and
- although depreciation and amortization charges are non-cash charges, it does not reflect that the assets being depreciated and amortized will often have to be replaced in the future, and the foregoing metric does not reflect any cash requirements for such replacements.

Other companies in the industry may calculate Adjusted EBITDA differently than Veritiv does, limiting its usefulness as a comparative measure. Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to Veritiv to invest in the growth of its business. Veritiv compensates for these limitations by relying both on the Company's U.S. GAAP results and by using Adjusted EBITDA for supplemental purposes. Additionally, Adjusted EBITDA is not an alternative measure of financial performance under U.S. GAAP and therefore should be considered in conjunction with net income and other performance measures such as operating income or net cash provided by operating activities and not as an alternative to such U.S. GAAP measures.



Due to the shared nature of the distribution network to support the Packaging, Facility Solutions and Print segments, distribution expenses are not a specific charge to each segment but are instead allocated to each segment based primarily on operational metrics that correlate with changes in volume. Accordingly, distribution expenses allocated to each segment are highly interdependent on the results of other segments. Lower volume in any segment that is not offset by a reduction in distribution expenses can result in the other segments absorbing a larger share of distribution expenses. Conversely, higher volume in any segment can result in the other segments absorbing a smaller share of distribution expenses. The impact of this at the segment level is that the changes in distribution expense trends may not correspond with volume trends within a particular segment.

The Company sells thousands of products. In the Packaging and Facility Solutions segments, Veritiv is unable to compute the impact of changes in sales volume based on changes in sales of each individual product. Rather, the Company assumes that the margin stays constant and estimates the volume impact based on changes in cost of products sold as a proxy for the change in sales volume. After any other significant sales variances are identified, the remaining sales variance is attributed to price/mix.

The Company approximates foreign currency effects by applying the foreign currency exchange rate for the prior period to the local currency results for the current period. We believe the elimination of the foreign currency translation impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.

The Company believes that the decline in the demand for paper and related products is due to the widespread use of electronic media and permanent product substitution, more e-commerce, less print advertising, fewer catalogs and a reduced volume of direct mail, among other factors. This trend is expected to continue and will place continued pressure on the Company's revenues and profit margins and make it more difficult to maintain or grow Adjusted EBITDA within the Print and Publishing segments.

Included in the following table are net sales and Adjusted EBITDA for each of the reportable segments and Corporate & Other:

<i>(in millions)</i>	<u>Packaging</u>	<u>Facility Solutions</u>	<u>Print</u>	<u>Publishing</u>	<u>Corporate &amp; Other</u>
<b>Year Ended December 31, 2019</b>					
Net sales	\$ 3,446.3	\$ 1,181.8	\$ 2,104.6	\$ 798.0	\$ 128.7
Adjusted EBITDA	243.5	33.1	43.1	21.4	(185.2)
Adjusted EBITDA as a % of net sales	7.1 %	2.8 %	2.0 %	2.7 %	*
<b>Year Ended December 31, 2018</b>					
Net sales	\$ 3,547.1	\$ 1,311.7	\$ 2,676.7	\$ 1,019.2	\$ 141.5
Adjusted EBITDA	246.7	29.0	64.0	24.6	(178.9)
Adjusted EBITDA as a % of net sales	7.0 %	2.2 %	2.4 %	2.4 %	*
<b>Year Ended December 31, 2017</b>					
Net sales	\$ 3,157.8	\$ 1,309.7	\$ 2,793.7	\$ 958.0	\$ 145.5
Adjusted EBITDA	238.0	35.5	60.8	26.4	(184.3)
Adjusted EBITDA as a % of net sales	7.5 %	2.7 %	2.2 %	2.8 %	*

\* - not meaningful

See Note 17 of the Notes to Consolidated Financial Statements for a reconciliation of income (loss) before income taxes as reflected in the Consolidated Statements of Operations to Adjusted EBITDA for the reportable segments.

## Packaging

The table below presents selected data with respect to the Packaging segment:

<i>(in millions)</i>	<b>Year Ended December 31,</b>			<b>2019 vs. 2018</b>		<b>2018 vs. 2017</b>	
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Increase (Decrease)</b>		<b>Increase (Decrease)</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Net sales	\$ 3,446.3	\$ 3,547.1	\$ 3,157.8	\$ (100.8)	(2.8)%	\$ 389.3	12.3 %
Adjusted EBITDA	243.5	246.7	238.0	(3.2)	(1.3)%	8.7	3.7 %
Adjusted EBITDA as a % of net sales	7.1 %	7.0 %	7.5 %				

The table below presents the components of the net sales change compared to the prior year:

<i>(in millions)</i>	<b>Increase (Decrease)</b>	
	<b>2019 vs. 2018</b>	<b>2018 vs. 2017</b>
Volume	\$ (140.1)	\$ 410.4
Foreign currency	(8.4)	0.9
Price/Mix	47.7	(22.0)
	<u>\$ (100.8)</u>	<u>\$ 389.3</u>

### ***Comparison of the Years Ended December 31, 2019 and 2018***

Net sales decreased \$100.8 million, or 2.8%, compared to 2018. The net sales decrease was primarily attributable to decreased sales of films, corrugated products and food packaging.

Adjusted EBITDA decreased \$3.2 million, or 1.3%, compared to 2018. The decrease in Adjusted EBITDA was primarily attributable to (i) a \$12.2 million increase in selling and administrative expenses, (ii) a \$4.8 million increase in distribution expenses and (iii) a decline in net sales, partially offset by cost of products sold decreasing at a faster rate than net sales. The increase in selling and administrative expenses was primarily driven by (i) an \$8.3 million increase in personnel expenses associated with a reallocation of resources to support the Company's Packaging growth strategy and (ii) a \$2.0 million increase in bad debt expense. The increase in distribution expenses was primarily due to an increase in facility rent mostly during the first half of 2019 related to replacing certain property leases, previously treated as financing arrangements (expenses included in depreciation and amortization and interest expense, net) with operating leases (expenses included in distribution expense).

### ***Comparison of the Years Ended December 31, 2018 and 2017***

Net sales increased \$389.3 million, or 12.3%, compared to 2017. The net sales increase was primarily attributable to an increase in sales of corrugated products, equipment and parts and films due to increases in volume. In addition, \$172.5 million of rigid packaging products were sold for the eight months with no comparable sales related to the acquisition of AAC on August 31, 2017.

Adjusted EBITDA increased \$8.7 million, or 3.7%, compared to 2017 primarily due to the increase in net sales. The increase in net sales was partially offset by (i) a \$35.1 million increase in distribution expenses, (ii) a \$31.1 million increase in selling and administrative expenses and (iii) cost of products sold increasing at a faster rate than net sales. The increase in distribution expenses was primarily driven by increased utilization of the distribution network, which was evidenced by (i) an \$11.9 million increase in facilities rent and other related expenses primarily due to replacing certain property leases, which were previously treated as financing arrangements (expenses included in depreciation and amortization and interest expense, net) with operating leases (expenses included in distribution expenses), (ii) a \$6.5 million increase in personnel expenses and (iii) a \$4.2 million increase in freight and logistics expenses driven primarily by increased third-party freight costs and diesel fuel prices. Additionally, there was a \$10.3 million increase in distribution expenses for the eight months with no comparable expenses related to the acquisition of AAC on August 31, 2017. The increase in selling and administrative expenses was driven by (i) a \$17.6 million increase for the eight months with no comparable expenses related to the acquisition of AAC, (ii) an

\$11.1 million increase in personnel expenses associated with increased headcount to support the Company's Packaging growth strategy and (iii) a \$2.6 million increase in bad debt expense.

## Facility Solutions

The table below presents selected data with respect to the Facility Solutions segment:

<i>(in millions)</i>	<b>Year Ended December 31,</b>			<b>2019 vs. 2018</b>		<b>2018 vs. 2017</b>	
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Increase (Decrease)</b>		<b>Increase (Decrease)</b>	
				<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Net sales	\$ 1,181.8	\$ 1,311.7	\$ 1,309.7	\$ (129.9)	(9.9)%	\$ 2.0	0.2 %
Adjusted EBITDA	33.1	29.0	35.5	4.1	14.1 %	(6.5)	(18.3)%
Adjusted EBITDA as a % of net sales	2.8 %	2.2 %	2.7 %				

The table below presents the components of the net sales change compared to the prior year:

<i>(in millions)</i>	<b>Increase (Decrease)</b>	
	<b>2019 vs. 2018</b>	<b>2018 vs. 2017</b>
Volume	\$ (129.0)	\$ 11.3
Foreign currency	(6.5)	—
Price/Mix	5.6	(9.3)
	<u>\$ (129.9)</u>	<u>\$ 2.0</u>

### **Comparison of the Years Ended December 31, 2019 and 2018**

Net sales decreased \$129.9 million, or 9.9%, compared to 2018. The net sales decrease was primarily attributable to decreased sales of food service products, towels and tissues and chemicals. The decrease in net sales was also due to strategic decisions to exit certain customer relationships that were not aligned with the Company's product and service capabilities. During the 2019 third quarter the Company began exiting a branded re-distribution business which was substantially completed by year-end 2019. Net sales associated with this business decreased \$53.7 million from 2018 and have historically been approximately 12% of the Facility Solutions segment.

Adjusted EBITDA increased \$4.1 million, or 14.1%, compared to 2018. The increase in Adjusted EBITDA was primarily attributable to (i) a \$17.9 million decrease in distribution expenses, (ii) a \$10.2 million decrease in selling and administrative expenses and (iii) cost of products sold decreasing at a faster rate than net sales, partially offset by a decline in net sales. The decrease in distribution expenses was primarily driven by (i) an \$8.0 million decrease in freight and logistics expenses, primarily driven by a decrease in third-party freight and fuel expenses, (ii) a \$6.2 million decrease in personnel expenses and (iii) a \$3.1 million decrease in facilities rent and other related expenses. The decrease in selling and administrative expenses was primarily driven by a \$8.8 million decrease in personnel expenses.

### **Comparison of the Years Ended December 31, 2018 and 2017**

Net sales increased \$2.0 million, or 0.2%, compared to 2017. The net sales increase was primarily attributable to increased net sales of towels and tissues, food service products and can liners.

Adjusted EBITDA decreased \$6.5 million, or 18.3%, compared to 2017. The decrease in Adjusted EBITDA was primarily driven by (i) cost of products sold increasing at a faster rate than net sales and (ii) a \$3.1 million increase in distribution expenses, partially offset by a \$3.3 million decrease in selling and administrative expenses. The increase in distribution expenses was primarily driven by increased utilization of the distribution network and was evidenced by (i) a \$2.0 million increase in freight and logistics expenses driven primarily by increased third-party freight costs and diesel fuel prices and (ii) a \$1.1 million increase in personnel expenses. The decrease in selling and administrative expenses was primarily driven by a \$1.9 million decrease in personnel expenses.



## Print

The table below presents selected data with respect to the Print segment:

<i>(in millions)</i>	<b>Year Ended December 31,</b>			<b>2019 vs. 2018</b>		<b>2018 vs. 2017</b>	
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Increase (Decrease)</b>		<b>Increase (Decrease)</b>	
				<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Net sales	\$ 2,104.6	\$ 2,676.7	\$ 2,793.7	\$ (572.1)	(21.4)%	\$ (117.0)	(4.2)%
Adjusted EBITDA	43.1	64.0	60.8	(20.9)	(32.7)%	3.2	5.3 %
Adjusted EBITDA as a % of net sales	2.0 %	2.4 %	2.2 %				

The table below presents the components of the net sales change compared to the prior year:

<i>(in millions)</i>	<b>Increase (Decrease)</b>	
	<b>2019 vs. 2018</b>	<b>2018 vs. 2017</b>
Volume	\$ (678.7)	\$ (219.2)
Foreign currency	(4.7)	0.2
Price/Mix	111.3	102.0
	<u>\$ (572.1)</u>	<u>\$ (117.0)</u>

### ***Comparison of the Years Ended December 31, 2019 and 2018***

Net sales decreased \$572.1 million, or 21.4%, compared to 2018. The net sales decrease was primarily attributable to the continued secular decline in the paper industry as well as managing risk in the Print segment through strategic adjustments to the Company's customer base and product offerings, partially offset by higher market prices.

Adjusted EBITDA decreased \$20.9 million, or 32.7%, compared to 2018. The Adjusted EBITDA decrease was primarily driven by the decline in net sales and cost of products sold decreasing at a slower rate than net sales, partially offset by (i) a \$41.0 million decrease in selling and administrative expenses and (ii) a \$24.2 million decrease in distribution expenses. The decrease in selling and administrative expenses was primarily due to (i) a \$26.0 million decrease in personnel expenses due to a decrease in commission expense driven by lower net sales and a decrease in headcount and commission expense related to the Print segment restructuring plan and (ii) a \$13.1 million decrease in bad debt expense. The decrease in distribution expenses was driven by (i) a \$12.4 million decrease in freight and logistics expenses, primarily driven by a decrease in third-party freight and fuel expenses and (ii) a \$9.7 million decrease in personnel expenses.

### ***Comparison of the Years Ended December 31, 2018 and 2017***

Net sales decreased \$117.0 million, or 4.2%, compared to 2017. The net sales decrease was primarily attributable to the continued secular decline in the paper industry, partially offset by higher market prices.

Adjusted EBITDA increased \$3.2 million, or 5.3%, compared to 2017. The Adjusted EBITDA increase was primarily driven by (i) a \$20.0 million decrease in selling and administrative expenses and (ii) an \$8.8 million decrease in distribution expenses, which more than offset the decline in net sales and the impact of cost of products sold increasing at a faster rate than net sales. The decrease in selling and administrative expenses was driven by a \$26.9 million decrease in personnel expenses due to a decrease in headcount and commission expenses primarily related to the Print segment restructuring plan and a decrease in net sales, partially offset by a \$9.0 million increase in bad debt expense. See Note 5 of the Notes to Consolidated Financial Statements for information related to the Print segment restructuring plan. The increase in bad debt expense was primarily due to additional reserves related to certain customers with declining financial conditions. The decrease in distribution expenses was primarily due to decreased utilization of the distribution network and was evidenced by (i) a \$4.6 million decrease in personnel expenses and (ii) a \$3.6 million decrease in facilities rent and other related expenses.

## Publishing

The table below presents selected data with respect to the Publishing segment:

<i>(in millions)</i>	<b>Year Ended December 31,</b>			<b>2019 vs. 2018</b>		<b>2018 vs. 2017</b>	
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Increase (Decrease)</b>		<b>Increase (Decrease)</b>	
				<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Net sales	\$ 798.0	\$ 1,019.2	\$ 958.0	\$ (221.2)	(21.7)%	\$ 61.2	6.4 %
Adjusted EBITDA	21.4	24.6	26.4	(3.2)	(13.0)%	(1.8)	(6.8)%
Adjusted EBITDA as a % of net sales	2.7 %	2.4 %	2.8 %				

The table below presents the components of the net sales change compared to the prior year:

<i>(in millions)</i>	<b>Increase (Decrease)</b>	
	<b>2019 vs. 2018</b>	<b>2018 vs. 2017</b>
Volume	\$ (267.3)	\$ (5.1)
Foreign currency	—	0.9
Price/Mix	46.1	65.4
	<u>\$ (221.2)</u>	<u>\$ 61.2</u>

### ***Comparison of the Years Ended December 31, 2019 and 2018***

Net sales decreased \$221.2 million, or 21.7%, compared to 2018. The net sales decrease was primarily attributable to the continued secular decline in the paper industry as well as managing risk in the Publishing segment through strategic adjustments to the Company's customer base, partially offset by higher market prices.

Adjusted EBITDA decreased \$3.2 million, or 13.0%, compared to 2018. The Adjusted EBITDA decrease was primarily attributable to the decline in net sales, partially offset by cost of products sold decreasing at a faster rate than net sales, and a \$5.0 million decrease in selling and administrative expenses which was primarily driven by a decrease in personnel expenses.

### ***Comparison of the Years Ended December 31, 2018 and 2017***

Net sales increased \$61.2 million, or 6.4%, compared to 2017. The net sales increase was primarily attributable to higher market prices.

Adjusted EBITDA decreased \$1.8 million, or 6.8%, compared to 2017. The Adjusted EBITDA decrease was primarily attributable to cost of products sold increasing at a faster rate than net sales, partially offset by the increase in net sales and a \$3.2 million decrease in selling and administrative expenses, which was primarily driven by a decrease in personnel expenses.

## Corporate & Other

<i>(in millions)</i>	<b>Year Ended December 31,</b>			<b>2019 vs. 2018</b>		<b>2018 vs. 2017</b>	
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Increase (Decrease)</b>		<b>Increase (Decrease)</b>	
				<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Net sales	\$ 128.7	\$ 141.5	\$ 145.5	\$ (12.8)	(9.0)%	\$ (4.0)	(2.7)%
Adjusted EBITDA	(185.2)	(178.9)	(184.3)	(6.3)	(3.5)%	5.4	2.9 %

### ***Comparison of the Years Ended December 31, 2019 and 2018***

Net sales decreased \$12.8 million, or 9.0%, compared to 2018, driven by a decrease in volume of freight brokerage services.

Adjusted EBITDA decreased \$6.3 million, or 3.5%, compared to 2018, primarily driven by (i) a \$2.9 million increase in incentive compensation driven by strong cash flow results, (ii) a \$1.4 million increase in casualty insurance losses and (iii) the decline in net sales.

### ***Comparison of the Years Ended December 31, 2018 and 2017***

Net sales decreased \$4.0 million, or 2.7%, compared to 2017. The net sales decrease was primarily attributable to the strategic decision to substantially exit the third-party logistics warehousing business.

Adjusted EBITDA increased \$5.4 million, or 2.9%, compared to 2017. The Adjusted EBITDA increase was primarily driven by (i) a \$5.5 million decrease in distribution expenses and (ii) a \$1.4 million decrease in selling and administrative expenses. The decrease in distribution expenses was primarily driven by a decrease in freight and logistics expenses. The decrease in selling and administrative expenses was primarily due to lower incentive compensation expense.

### **Liquidity and Capital Resources**

The cash requirements of the Company are provided by cash flows from operations and borrowings under the ABL Facility. The following table sets forth a summary of cash flows:

<i>(in millions)</i>	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net cash provided by (used for):			
Operating activities	\$ 281.0	\$ 15.0	\$ 36.6
Investing activities	(33.6)	(21.7)	(126.2)
Financing activities	(273.9)	(8.7)	99.2

### ***Analysis of Cash Flows***

The Company ended 2019 with \$38.0 million in cash, a decrease of \$26.3 million over the prior year-end balance. Cash flow from operations was \$281.0 million in 2019 compared with \$15.0 million in 2018. The improvement in cash flow from operations was primarily due to a decrease in working capital, driven by the decline in net sales and management's focus on working capital improvement. The factors driving cash flow from operating activities in 2019 were: (i) a \$252.3 million decrease in accounts receivable and related party receivable, (ii) a \$139.7 million decrease in inventories and (iii) a \$37.1 million decrease in other current assets. The increase in cash from operating activities was partially offset by: (i) a net loss, (ii) a \$199.7 million decrease in accounts payable and related party payable and (iii) a \$22.4 million decrease in other accrued liabilities. The primary uses of cash during 2019 were: (i) \$260.5 million from a net decrease in revolving loan borrowings under the ABL Facility, (ii) \$34.1 million for property and equipment additions, of which \$22.7 million were ordinary capital expenditures and \$11.4 million were integration-related capital expenditures and (iii) \$20.0 million for payments under other contingent consideration.

The Company ended 2018 with \$64.3 million in cash, a decrease of \$16.0 million over the prior year-end balance. Cash flow from operations was \$15.0 million in 2018 compared with \$36.6 million in 2017. The factors driving cash flow from operating activities in 2018 were: (i) a \$26.4 million decrease in inventories, (ii) a \$17.2 million increase in other accrued liabilities and (iii) a \$9.8 million increase from other operating activities. The increase in cash from operating activities was partially offset by: (i) a net loss, (ii) a \$43.9 million increase in accounts receivable and related party receivable, (iii) a \$23.2 million increase in other current assets, (iv) a \$16.6 million decrease in accrued payroll and benefits and (v) a \$15.9 million decrease in accounts payable and related party payable. The Company also generated \$38.0 million in cash flow from a net increase in revolving loan borrowings under the ABL Facility and \$23.7 million related to proceeds from asset sales. The primary uses of cash during 2018 were: (i) \$45.4 million for property and equipment additions, of which \$23.9 million were



integration-related capital expenditures and \$21.5 million were ordinary capital expenditures, (ii) a \$16.2 million decline in book overdrafts, (iii) \$9.9 million for the Tax Receivable Agreement payment, (iv) \$9.3 million for payments under financing obligations including obligations to related party and (v) \$6.7 million for payments under capital lease obligations.

For information regarding the Company's cash flows for 2017, refer to the "Liquidity and Capital Resources" section of Item 7 of the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2018.

## **Funding and Liquidity Strategy**

Veritiv has a \$1.4 billion ABL Facility, which is comprised of U.S. and Canadian sub-facilities of \$1,250.0 million and \$150.0 million, respectively. The ABL Facility is available to be drawn in U.S. dollars, in the case of the U.S. sub-facilities, and in U.S. dollars or Canadian dollars, in the case of the Canadian sub-facilities, or in other currencies that are mutually agreeable. The Company's accounts receivable and inventories in the U.S. and Canada are collateral under the ABL Facility.

The ABL Facility matures on August 11, 2021. The ABL Facility provides for the right of the individual lenders to extend the maturity date of their respective commitments and loans upon the request of Veritiv and without the consent of any other lenders. The ABL Facility may be prepaid at Veritiv's option at any time without premium or penalty and is subject to mandatory prepayment if the amount outstanding under the ABL Facility exceeds either the aggregate commitments with respect thereto or the current borrowing base, in an amount equal to such excess. In conjunction with the ABL Facility, the Company incurred and deferred financing fees, which are reflected in other non-current assets in the Consolidated Balance Sheets, and will be amortized to interest expense on a straight-line basis over the term of the ABL Facility.

The ABL Facility has a springing minimum fixed charge coverage ratio of at least 1.00 to 1.00 on a trailing four-quarter basis, which will be tested only when specified availability is less than limits outlined under the ABL Facility. At December 31, 2019 the above test was not applicable and is not expected to be applicable in the next 12 months.

Availability under the ABL Facility is determined based upon a monthly borrowing base calculation which includes eligible customer receivables and inventory, less outstanding borrowings, letters of credit and certain designated reserves. As of December 31, 2019, the available additional borrowing capacity under the ABL Facility was approximately \$282.1 million. As of December 31, 2019, the Company held \$12.1 million in outstanding letters of credit.

Under the terms of the ABL Facility, interest rates are based upon LIBOR or the prime rate plus a margin rate, or in the case of Canada, a banker's acceptance rate or base rate plus a margin rate. For the years ended December 31, 2019 and 2018, the weighted-average borrowing interest rates were 3.4% and 4.6%, respectively.

International Paper had a potential earn-out payment of up to \$100.0 million that would have become due in 2020 if Veritiv's aggregate EBITDA for fiscal years 2017, 2018 and 2019 had exceeded an agreed-upon target of \$759.0 million, subject to certain adjustments. Based on actual results for 2017, 2018 and 2019, Veritiv did not meet the agreed-upon target value and thus will not be required to make the earn-out payment in 2020.

Veritiv's ability to fund its capital needs will depend on its ongoing ability to generate cash from operations, borrowings under the ABL Facility and funds received from capital market offerings. If Veritiv's cash flows from operating activities are lower than expected, the Company will need to borrow under the ABL Facility and may need to incur additional debt or issue additional equity. Although management believes that the arrangements currently in place will permit Veritiv to finance its operations on acceptable terms and conditions, the Company's access to, and the availability of, financing on acceptable terms and conditions in the future will be impacted by many factors, including the liquidity of the overall capital markets and the current state of the economy.

Veritiv's management expects that the Company's primary future cash needs will be for working capital, capital expenditures, contractual commitments and strategic investments. Additionally, management expects that cash provided by operating activities and available capacity under the ABL Facility will provide sufficient funds to operate the business and meet other liquidity needs.

All of the cash held by Veritiv's non-U.S. subsidiaries is available for general corporate purposes. Veritiv considers the earnings of certain non-U.S. subsidiaries to be permanently invested outside the U.S. on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and management's specific plans for

reinvestment of those subsidiary earnings. The table below summarizes the Company's cash positions as of December 31, 2019 and 2018:

<i>(in millions)</i>	<b>As of December 31,</b>	
	<b>2019</b>	<b>2018</b>
Cash held in the U.S.	\$ 23.3	\$ 50.5
Cash held in foreign subsidiaries	14.7	13.8
Total Cash	<u>\$ 38.0</u>	<u>\$ 64.3</u>

### Off-Balance Sheet Arrangements

Veritiv does not have any off-balance sheet arrangements as of December 31, 2019, other than leases that have not yet commenced and the letters of credit under the ABL Facility (see Note 3 and Note 7 of the Notes to Consolidated Financial Statements, respectively, for additional information on these items). The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

The table below summarizes the Company's contractual and certain other long-term obligations as of December 31, 2019:

<i>(in millions)</i>	<b>Payment Due by Period</b>				
	<b>2020</b>	<b>2021 – 2022</b>	<b>2023 – 2024</b>	<b>After 2024</b>	<b>Total</b>
Finance lease obligations <sup>(1)</sup>	\$ 14.3	\$ 27.3	\$ 20.2	\$ 31.3	\$ 93.1
Operating lease obligations <sup>(2)</sup>	110.1	175.0	107.9	154.6	547.6
ABL Facility <sup>(3)</sup>	22.6	687.1	—	—	709.7
Deferred compensation <sup>(4)</sup>	3.7	6.6	5.0	5.4	20.7
Tax Receivable Agreement contingent liability <sup>(5)</sup>	0.3	6.9	10.2	19.5	36.9
MEPP withdrawal obligations <sup>(6)</sup>	1.9	3.5	3.5	23.8	32.7
Federal income tax liability <sup>(7)</sup>	0.5	0.8	2.1	1.6	5.0
Total	<u>\$ 153.4</u>	<u>\$ 907.2</u>	<u>\$ 148.9</u>	<u>\$ 236.2</u>	<u>\$ 1,445.7</u>

<sup>(1)</sup> Finance lease obligations include amounts classified as interest.

<sup>(2)</sup> Amounts shown are not presented net of contractual sublease rental income as it is immaterial.

<sup>(3)</sup> The ABL Facility will mature and the commitments thereunder will terminate after August 11, 2021. Interest payments included here were estimated using a simple interest method based on the year-end December 31, 2019 ABL Facility outstanding balance of \$673.2 million and its corresponding year-end weighted-average interest rate of 3.4%. The 2021 payment amount shown above includes an estimated \$673.2 million of principal balance.

<sup>(4)</sup> The deferred compensation obligation reflects gross cash payment amounts due for scheduled payments under the legacy Unisource plan and the Veritiv Deferred Compensation Savings Plan.

<sup>(5)</sup> The Tax Receivable Agreement contingent liability reflects gross contingent obligation amounts excluding interest due to related party.

<sup>(6)</sup> The MEPP withdrawal obligations include final gross unpaid charges for four withdrawals where determinations have been issued.

<sup>(7)</sup> The federal income tax liability reflects amounts payable over the remaining six years resulting from the transition tax implemented in the Tax Act.

The table above does not include future expected Company contributions to its pension plans nor does it include future expected payments related to the partial withdrawal from the Western Pennsylvania Teamsters and Employers Pension Fund MEPP, as a final determination has not been made. Information related to the amounts of these future payments is described in Note 10 of the Notes to Consolidated Financial Statements. The table above also excludes the liability for uncertain tax positions and for unscheduled portions of the Veritiv Deferred Compensation Savings Plan, as the Company cannot predict with reasonable certainty the timing of future cash outflows associated with these liabilities.

See Note 1, Note 3, Note 7, Note 8, Note 9, Note 10 and Note 11 of the Notes to Consolidated Financial Statements for additional information related to these obligations.

The Company has recorded undiscounted charges related to the complete or partial withdrawal from various MEPPs. Charges not related to the Company's restructuring efforts are recorded as distribution expenses. Initial amounts are recorded as

other non-current liabilities in the Consolidated Balance Sheets. See the table below for a summary of the net charges and the year-end balance sheet liability positions for the respective years ended December 31:

		<b>Year Ended December 31,</b>		
<i>(in millions)</i>	<b>Restructuring charges, net</b>	<b>Distribution expenses</b>	<b>Total Net Charges</b>	
2019	\$ 1.5	\$ 6.6	\$	8.1
2018	(2.8)	11.2		8.4
2017	17.4	2.1		19.5

		<b>As of December 31,</b>		
<i>(in millions)</i>	<b>Other accrued liabilities</b>	<b>Other non-current liabilities</b>		
2019	\$ 1.9	\$ 37.4		
2018	0.7	32.5		

Final charges for MEPP withdrawals are not known until the plans issue their respective determinations. As a result, these estimates may increase or decrease depending upon the final determination. As of December 31, 2019, the Company has received determination letters resulting from six complete or partial withdrawals. Of those, the liabilities for two withdrawals were settled with lump sum payments, one withdrawal was settled with payments over a nine month period, and three withdrawals are expected to occur over an approximate 20-year period. The Company has not yet received the determination letter for the partial withdrawal from the Western Pennsylvania Teamsters and Employers Pension Fund. See Note 10, for additional information regarding these transactions.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires the Company to establish accounting policies and utilize estimates that affect both the amounts and timing of the recording of assets, liabilities, net sales and expenses. Some of these estimates require judgment about matters that are inherently uncertain. Different amounts would be reported under different operating conditions or under alternative assumptions.

The Company has evaluated the accounting policies used in the preparation of the accompanying Consolidated Financial Statements and related Notes and believes those policies to be reasonable and appropriate. Management believes that the accounting estimates discussed below are the most critical accounting policies whose application may have a significant effect on the reported results of operations and financial position of the Company and can require judgments by management that affect their application.

### **Revenue Recognition**

The Company adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("Topic 606"), on January 1, 2018, using the modified retrospective approach for all contracts not completed as of the date of adoption, with no impact to the opening retained earnings. Results for periods beginning after January 1, 2018 are presented following the guidance of Topic 606, while prior period amounts are not adjusted and continue to be reported following the Company's historical accounting under the accounting standards in effect for those periods.

Under Topic 606, Veritiv applies the five step model to assess its contracts with customers. The Company's revenue is reported as net sales and is measured as the determinable transaction price, net of any variable consideration (e.g., sales incentives and rights to return product) and any taxes collected from customers and remitted to governmental authorities. When the Company enters into a sales arrangement with a customer, it believes it is probable that it will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. When management cannot conclude collectability is probable for shipments to a particular customer, revenue associated with that customer is not recognized until cash is collected or management is otherwise able to establish that collectability is probable.



As a normal business practice, Veritiv does not enter into contracts that require more than one year to complete or that contain significant financing components.

Revenue generally consists of a single performance obligation to transfer a promised good or service and is short-term in nature. Revenues are recognized when control of the promised goods or services is transferred to Veritiv's customers and in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods and services. Sales transactions with customers are designated free on board destination and revenue is recorded at the point in time when the product is delivered to the customer's designated location or when the customer has otherwise obtained the benefit of the goods, when title and risk of loss are transferred. Revenues from Veritiv's transportation services are recognized upon completion of the related delivery services and revenues from warehousing services are recognized over time as the storage services are provided. The Company considers handling and delivery as activities to fulfill its performance obligations. Billings for third-party freight are accounted for as net sales and handling and delivery costs are accounted for as distribution expenses.

Certain revenues are derived from shipments which are made directly from a manufacturer to a Veritiv customer. The Company is considered to be a principal to these transactions because, among other factors, it maintains control of the goods after they leave the supplier and before they are received at the customer's location, in most cases it selects the supplier and sets the price to the customer, and it bears the risk of the customer defaulting on payment or rejecting the goods. Revenues from these sales are reported on a gross basis in the Consolidated Statements of Operations and have historically represented approximately one-third of Veritiv's total net sales.

Additionally, Veritiv enters into incentive programs with certain of its customers, which are generally based on sales to those same customers. Veritiv follows the expected value method when estimating its retrospective incentives and records the estimated amount as a reduction to gross sales when revenue is recognized. Estimates of the variable consideration are based primarily on contract terms, current customer forecasts as well as historical experience.

Customer product returns are estimated based on historical experience and the identification of specific events necessitating an adjustment. The estimated return value is recognized as a reduction of gross sales and related cost of products sold. The estimated inventory returns value is recognized as part of inventories, while the estimated customer refund liability is recognized as part of other accrued liabilities on the Consolidated Balance Sheets.

A customer contract liability will arise when Veritiv has received payment for goods and services, but has not yet transferred the items to a customer and satisfied its performance obligations. Veritiv records a customer contract liability for performance obligations outstanding related to payments received in advance for customer deposits on equipment sales and its bill-and-hold arrangements. Veritiv expects to satisfy these remaining performance obligations and recognize the related revenues upon delivery of the goods and services to the customer's designated location within 12 months following receipt of the payment.

### ***Integration and Acquisition Expenses***

The Company's Consolidated Statements of Operations include a line item titled, "Integration and acquisition expenses". Integration and acquisition expenses is not a defined term in U.S. GAAP, thus management must use judgment in determining whether a particular expense should be classified as an integration and acquisition expense. Management believes its accounting policy for integration and acquisition expenses is critical because these costs have been significant, generally involve cash expenditures, are not defined in U.S. GAAP, are excluded in determining compliance with the ABL Facility and are excluded in determining management compensation.

Integration and acquisition expenses include internally dedicated integration management resources, retention compensation, information technology conversion costs, rebranding, professional services and other costs to integrate its businesses. See Note 5 of the Notes to Consolidated Financial Statements for a breakdown of these expenses. Integration and acquisition expenses are differentiated from restructuring charges as restructuring charges primarily relate to contract termination costs, involuntary termination benefits and other direct costs associated with consolidating facilities and reorganizing functions.

## *Allowance for Doubtful Accounts*

The allowance for doubtful accounts reflects the best estimate of losses inherent in the Company's accounts receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other available evidence. The allowances contain uncertainties because the calculation requires management to make assumptions and apply judgment regarding the customer's credit worthiness. Veritiv performs ongoing evaluations of its customers' financial condition and adjusts credit limits based upon payment history and the customer's current credit worthiness as determined by its review of their current financial information. The Company continuously monitors collections from its customers and maintains a provision for estimated credit losses based upon the customers' financial condition, collection experience and any other relevant customer specific information. Veritiv's assessment of this and other information forms the basis of its allowances.

If the financial condition of Veritiv's customers deteriorates, resulting in an inability to make required payments to the Company, or if economic conditions deteriorate, additional allowances may be deemed appropriate or required. If the allowance for doubtful accounts changed by 0.1% of gross billed receivables, reflecting either an increase or decrease in expected future write-offs, the impact to consolidated pre-tax income would have been approximately \$1.0 million.

## *Employee Benefit Plans*

Veritiv sponsors defined benefit plans and Supplemental Executive Retirement Plans in the U.S. and Canada. These plans were frozen prior to the Merger with the exception of employees covered by certain collective bargaining agreements. See Note 10 of the Notes to Consolidated Financial Statements for more information about these plans.

Management is required to make certain critical estimates related to actuarial assumptions used to determine the Company's pension expense and related obligation. The Company believes the most critical assumptions are related to (i) the discount rate used to determine the present value of the liabilities and (ii) the expected long-term rate of return on plan assets. All of the actuarial assumptions are reviewed annually. Changes in these assumptions could have a material impact on the measurement of pension expense and the related obligation.

At each measurement date, management determines the discount rate by reference to rates of high-quality, long-term corporate bonds that mature in a pattern similar to the future payments anticipated to be made under the plans. As of December 31, 2019, the weighted-average discount rates used to compute the benefit obligations were 2.98% and 3.10% for the U.S. and Canadian plans, respectively.

The expected long-term rate of return on plan assets is based upon the long-term outlook of the investment strategy as well as historical returns and volatilities for each asset class. Veritiv also reviews current levels of interest rates and inflation to assess the reasonableness of the long-term rates. The Company's pension plan investment objective is to ensure all of its plans have sufficient funds to meet their benefit obligations when they become due. As a result, the Company periodically revises asset allocations, where appropriate, to improve returns and manage risk. The weighted-average expected long-term rates of return used to calculate the pension expense for the year ended 2019 were 7.15% and 5.50% for the U.S. and Canadian plans, respectively.

The following illustrates the effects of a 1% change in the discount rate or return on plan assets on the 2019 net periodic pension cost and projected benefit obligation (in millions):

<b>Assumption</b>	<b>Change</b>	<b>Net Periodic Benefit Cost</b>	<b>Projected Benefit Obligation</b>
Discount rate	1% increase	\$ 0.2	\$ (18.3)
	1% decrease	0.7	22.8
Return on plan assets	1% increase	(1.2)	N/A
	1% decrease	1.2	N/A

See Note 10 of the Notes to Consolidated Financial Statements for a comprehensive discussion of Veritiv's pension and postretirement benefit expense, including a discussion of the actuarial assumptions, the policy for recognizing the associated gains and losses and the method used to estimate service and interest cost components.

## ***Leases***

The Company adopted ASU 2016-02, *Leases (Topic 842)* and its related interpretations ("Topic 842") on January 1, 2019, applying the additional transition approach available under ASU 2018-11, *Leases*, whereby the new lease standard is applied at the adoption date recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Upon adoption, the Company recorded (i) operating lease obligations and related right-of-use ("ROU") assets of approximately \$428 million and (ii) an increase to retained earnings of approximately \$2.7 million, primarily driven by the derecognition of the unamortized deferred gain from the 2017 sale of the Austin, Texas property.

Under Topic 842, the Company determines if an arrangement is a lease at lease inception and reviews lease arrangements for finance or operating lease classification at their commencement date. Operating leases are reported as part of other non-current assets, other accrued liabilities and other non-current liabilities on the Consolidated Balance Sheets. Finance leases are reported as part of property and equipment, net and debt obligations on the Consolidated Balance Sheets. The Company does not include leases with a term of twelve months or less on the Consolidated Balance Sheets. In order to value the ROU assets and related liabilities, the Company makes certain estimates and assumptions related to establishing the lease term, discount rates and variable lease payments (e.g., rent escalations tied to changes in the Consumer Price Index). The exercise of any lease renewal or asset purchase option is at the Company's sole discretion. The lease term for all of the Company's leases includes the noncancelable period of the lease and any periods covered by renewal options that the Company is reasonably certain to exercise. Certain leases include rent escalations pre-set in the agreements, which are factored into the lease payment stream. Similar to a variable lease payment, certain delivery equipment leases include a provision for an amount the Company may be required to pay at the end of the lease for any residual value deficiency incurred by the lessor upon resale of the underlying asset. The Company uses the implicit rate of interest when it is available; however, as most of the Company's leases do not provide an implicit rate of interest, the Company uses its incremental borrowing rate based on information available at the lease commencement date in determining the discounted value of the lease payments. Lease expense and depreciation expense are recognized on a straight-line basis over the lease term, or for a finance lease, over the shorter of the life of the underlying asset or the lease term.

## ***Impairment or Disposal of Long-Lived Assets and Goodwill***

A long-lived asset is potentially impaired when the asset's carrying amount exceeds its expected future undiscounted cash flows. When this situation occurs, the Company must estimate the fair value of the long-lived asset and reduce the carrying amount to the fair value if it is less than the carrying amount. A goodwill impairment exists when the carrying amount of goodwill exceeds its fair value. Assessments of possible impairments of long-lived assets and goodwill are made annually in the fourth quarter, and when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable through future operations. The amount and timing of any impairment charges based on these assessments require the estimation of future cash flows and the fair market value of the related assets based on management's best estimates of certain key factors. These key factors include future selling prices and volumes, operating, inventory, energy and freight costs and various other projected operating economic factors. As these key factors change in future periods, the Company will update its impairment analyses to reflect the latest estimates and projections.

Goodwill is reviewed for impairment on a reporting unit basis. The testing of goodwill for possible impairment is performed by completing a Step 0 test or electing to by-pass the Step 0 test and comparing the fair value of a reporting unit with its carrying value, including goodwill. The Step 0 test utilizes qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. Qualitative factors include: macroeconomic conditions; industry and market considerations; overall financial performance and cost factors to determine whether a reporting unit is at risk for goodwill impairment. In the event a reporting unit fails the Step 0 goodwill impairment test, it is necessary to move forward with a comparison of the fair value of the reporting unit with its carrying value, including goodwill. If the fair value exceeds the carrying value, goodwill is not considered to be impaired. If the fair value of a reporting unit is below the carrying value, a goodwill impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, any loss recognized will not exceed the total amount of goodwill allocated to the reporting unit. In calculating the estimated fair value of its reporting units, Veritiv uses the projected future cash flows to be generated by each unit over the estimated remaining useful operating lives of the unit's assets, discounted using the estimated cost-of-capital discount rate for each reporting unit. These calculations require many estimates, including discount rates, future growth rates and cost and pricing trends for each reporting unit. Subsequent changes in economic and operating conditions can affect these assumptions and could result in additional interim testing and goodwill impairment charges in future periods. Upon completion, the resulting estimated fair values are then analyzed for reasonableness by comparing them to earnings multiples



for historic industry business transactions and by comparing the sum of the reporting unit fair values to the fair value of the Company as a whole.

Intangible assets acquired in a business combination are recorded at fair value. The Company's intangible assets may include customer relationships, trademarks and trade names and non-compete agreements. Intangible assets with finite useful lives are subsequently amortized using the straight-line method over the estimated useful lives of the assets.

### **Recently Issued Accounting Standards**

See Note 1 of the Notes to Consolidated Financial Statements for information regarding recently issued accounting standards.

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

Veritiv is exposed to the impact of interest rate changes, foreign currency fluctuations, primarily related to the Canadian dollar, and fuel price changes. The Company's objective is to identify and understand these risks and implement strategies to manage them. When evaluating potential strategies, Veritiv evaluates the fundamentals of each market and the underlying accounting and business implications. To implement these strategies, the Company may enter into various hedging or similar transactions. The sensitivity analyses presented below do not consider the effect of possible adverse changes in the general economy, nor do they consider additional actions the Company may take from time to time in the future to mitigate the exposure to these or other market risks. There can be no assurance that Veritiv will manage or continue to manage any risks in the future or that any of its efforts will be successful.

### ***Derivative Instrument***

Borrowings under the ABL Facility bear interest at a variable rate, based on LIBOR or the prime rate, in either case plus an applicable margin. From time to time, Veritiv may use interest rate cap agreements to manage the variable interest rate characteristics on a portion of the outstanding debt. The Company evaluates its outstanding indebtedness, market conditions, and the covenants contained in the ABL Facility in order to determine its tolerance for potential increases in interest expense that could result from changes in variable interest rates. In July 2015, the Company entered into an interest rate cap agreement which expired on July 1, 2019.

Effective September 13, 2019, the Company entered into a new interest rate cap agreement with an expiration date of September 13, 2022. The interest rate cap effectively limits the floating LIBOR-based portion of the interest rate. The interest rate cap covers \$350.0 million of the Company's floating-rate debt at 2.75% plus the applicable credit spread. The Company paid \$0.6 million for the interest rate cap. As of December 31, 2019, the interest rate cap had a fair value that was not significant. The fair value was estimated using observable market-based inputs including interest rate curves and implied volatilities (Level 2). The amount expected to be reclassified from accumulated other comprehensive loss ("AOCL") into earnings within the following 12 months is not significant. For the year ended December 31, 2019, the amount reclassified from AOCL into earnings was not significant. The Company designated the new interest rate cap as a cash flow hedge of exposure to changes in cash flows due to changes in the LIBOR-based portion of the interest rate above 2.75%.

The Company is exposed to counterparty credit risk for nonperformance and, in the event of nonperformance, to market risk for changes in the interest rate. The Company attempts to manage exposure to counterparty credit risk primarily by selecting only counterparties that meet certain credit and other financial standards. The Company believes there has been no material change in the creditworthiness of its counterparty and believes the risk of nonperformance by such party is minimal. For additional information regarding Veritiv's debt arrangements, see Note 7 of the Notes to Consolidated Financial Statements.

### ***Interest Rate Risk***

Veritiv's exposure to fluctuations in interest rates results primarily from its borrowings under the ABL Facility. Under the terms of the ABL Facility, interest rates are based upon LIBOR or the prime rate plus a margin rate, or in the case of Canada, a banker's acceptance rate or base rate plus a margin rate. LIBOR based loans can be set for durations of one week, or for periods of one to nine months. The margin rate amount can be adjusted upward or downward based upon usage under the line in two increments of 25 basis points. Veritiv's interest rate exposure under the ABL Facility results from changes in LIBOR, bankers' acceptance rates, the prime/base interest rates and actual borrowings. The weighted-average borrowing

interest rate at December 31, 2019 was 3.4%. Based on the average borrowings under the ABL Facility during the year ended December 31, 2019, a hypothetical 100 basis point increase in the interest rate would result in approximately \$7.6 million of additional interest expense.

### ***Foreign Currency Exchange Rate Risk***

Veritiv conducts business in various foreign currencies and is exposed to earnings and cash flow volatility associated with changes in foreign currency exchange rates. This exposure is primarily related to international assets and liabilities, whose value could change materially in reference to the U.S. dollar reporting currency.

Veritiv's most significant foreign currency exposure primarily relates to fluctuations in the foreign exchange rate between the U.S. dollar and the Canadian dollar. Net sales from Veritiv's Canadian operations for the year ended December 31, 2019 represented approximately 9% of Veritiv's total net sales. Veritiv has not used foreign exchange currency options or futures agreements to hedge its exposure to changes in foreign exchange rates.

### ***Fuel Price Risk***

Due to the nature of Veritiv's distribution business, the Company is exposed to potential volatility in fuel prices. The cost of fuel affects the price paid for products as well as the costs incurred to deliver products to the Company's customers. The price and availability of diesel fuel fluctuates due to changes in production, seasonality and other market factors generally outside of the Company's control. Increased fuel costs may have a negative impact on the Company's results of operations and financial condition. In times of higher fuel prices, Veritiv may have the ability to pass a portion of the increased costs on to customers; however, there can be no assurance that the Company will be able to do so. Based on Veritiv's 2019 fuel consumption, a 10% increase in the average annual price per gallon of diesel fuel would result in a potential increase of approximately \$2.7 million in annual transportation fuel costs (excluding any amounts recovered from customers). Veritiv does not use derivatives to manage its exposure to fuel prices.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and Board of Directors of Veritiv Corporation

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Veritiv Corporation and subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

### Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2019, the Company adopted Accounting Standards Update 2016-02, "Leases (Topic 842)", using the modified retrospective approach.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Atlanta, Georgia  
February 27, 2020

We have served as the Company's auditor since 2013.



**VERITIV CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in millions, except per share data)

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net sales (including sales to related party of \$23.4, \$28.0 and \$32.2, respectively)	\$ 7,659.4	\$ 8,696.2	\$ 8,364.7
Cost of products sold (including purchases from related party of \$85.2, \$146.5 and \$181.6, respectively) (exclusive of depreciation and amortization shown separately below)	6,206.2	7,155.7	6,846.6
Distribution expenses	509.2	550.5	516.9
Selling and administrative expenses	823.3	867.6	875.7
Depreciation and amortization	53.5	53.5	54.2
Integration and acquisition expenses	17.5	31.8	36.5
Restructuring charges, net	28.8	21.3	16.7
<b>Operating income (loss)</b>	<b>20.9</b>	<b>15.8</b>	<b>18.1</b>
Interest expense, net	38.1	42.3	31.2
Other (income) expense, net	11.6	(16.3)	(11.2)
<b>Income (loss) before income taxes</b>	<b>(28.8)</b>	<b>(10.2)</b>	<b>(1.9)</b>
Income tax expense (benefit)	0.7	5.5	11.4
<b>Net income (loss)</b>	<b>\$ (29.5)</b>	<b>\$ (15.7)</b>	<b>\$ (13.3)</b>
Earnings (loss) per share:			
Basic and diluted earnings (loss) per share	\$ (1.84)	\$ (0.99)	\$ (0.85)
Weighted-average shares outstanding:			
Basic and diluted	16.06	15.82	15.70

See accompanying Notes to Consolidated Financial Statements.

**VERITIV CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(in millions)

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Net income (loss)	\$ (29.5)	\$ (15.7)	\$ (13.3)
Other comprehensive income (loss):			
Foreign currency translation adjustments	3.7	(6.8)	5.7
Change in fair value of cash flow hedge, net of \$0.0, \$0.2 and \$0.0 tax, respectively	0.0	0.5	0.0
Pension liability adjustments, net of \$1.3, \$0.0 and \$(0.6) tax, respectively	3.9	(0.1)	(0.2)
Other comprehensive income (loss)	7.6	(6.4)	5.5
Total comprehensive income (loss)	\$ (21.9)	\$ (22.1)	\$ (7.8)

See accompanying Notes to Consolidated Financial Statements.

**VERITIV CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(dollars in millions, except par value)

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 38.0	\$ 64.3
Accounts receivable, less allowances of \$43.8 and \$62.0, respectively	910.8	1,181.4
Related party receivable	2.8	3.2
Inventories	552.9	688.2
Other current assets	126.1	147.2
<b>Total current assets</b>	<u>1,630.6</u>	<u>2,084.3</u>
Property and equipment (net of accumulated depreciation and amortization of \$342.6 and \$320.7, respectively)	216.9	206.7
Goodwill	99.6	99.6
Other intangibles, net	52.2	57.2
Deferred income tax assets	57.0	56.5
Other non-current assets	454.8	25.4
<b>Total assets</b>	<u>\$ 2,511.1</u>	<u>\$ 2,529.7</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 476.9	\$ 641.9
Related party payable	4.3	9.3
Accrued payroll and benefits	53.9	56.5
Other accrued liabilities	183.8	134.7
Current portion of debt	12.6	6.7
Financing obligations, current portion	—	0.6
<b>Total current liabilities</b>	<u>731.5</u>	<u>849.7</u>
Long-term debt, net of current portion	742.4	963.6
Financing obligations, net of current portion	—	23.6
Defined benefit pension obligations	15.7	21.1
Other non-current liabilities	485.3	128.6
<b>Total liabilities</b>	<u>1,974.9</u>	<u>1,986.6</u>
Commitments and contingencies (Note 16)		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 10.0 million shares authorized, none issued	—	—
Common stock, \$0.01 par value, 100.0 million shares authorized; shares issued - 16.4 million and 16.2 million, respectively; shares outstanding - 16.1 million and 15.9 million, respectively	0.2	0.2
Additional paid-in capital	618.0	605.7
Accumulated (deficit) earnings	(35.3)	(8.5)
Accumulated other comprehensive loss	(33.1)	(40.7)
Treasury stock at cost - 0.3 million shares in 2019 and 2018	(13.6)	(13.6)
<b>Total shareholders' equity</b>	<u>536.2</u>	<u>543.1</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 2,511.1</u>	<u>\$ 2,529.7</u>

See accompanying Notes to Consolidated Financial Statements.

**VERITIV CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>			
Net income (loss)	\$ (29.5)	\$ (15.7)	\$ (13.3)
Depreciation and amortization	53.5	53.5	54.2
Amortization of deferred financing fees	2.6	2.6	2.6
Net losses (gains) on dispositions of property and equipment	0.6	(18.5)	(25.7)
Goodwill and long-lived asset impairment charges	—	0.4	8.4
Provision for allowance for doubtful accounts	14.9	27.1	15.9
Deferred income tax (benefit) provision	(2.7)	2.0	1.9
Stock-based compensation	14.6	18.1	15.7
Other non-cash items, net	11.9	(8.3)	(8.8)
Changes in operating assets and liabilities			
Accounts receivable and related party receivable	252.3	(43.9)	(101.9)
Inventories	139.7	26.4	30.1
Other current assets	37.1	(23.2)	(8.4)
Accounts payable and related party payable	(199.7)	(15.9)	48.3
Accrued payroll and benefits	(2.9)	(16.6)	(11.3)
Other accrued liabilities	(22.4)	17.2	13.6
Other	11.0	9.8	15.3
Net cash provided by (used for) operating activities	<u>281.0</u>	<u>15.0</u>	<u>36.6</u>
<b>Investing activities</b>			
Property and equipment additions	(34.1)	(45.4)	(32.5)
Proceeds from asset sales	0.5	23.7	51.1
Cash paid for purchase of business, net of cash acquired	—	—	(144.8)
Net cash provided by (used for) investing activities	<u>(33.6)</u>	<u>(21.7)</u>	<u>(126.2)</u>
<b>Financing activities</b>			
Change in book overdrafts	26.2	(16.2)	(40.5)
Borrowings of long-term debt	6,746.5	5,805.3	4,898.8
Repayments of long-term debt	(7,007.0)	(5,767.3)	(4,731.5)
Payments under right-of-use finance leases and capital leases, respectively	(9.1)	(6.7)	(2.7)
Payments under financing obligations (including obligations to related party of \$0.0, \$8.6 and \$15.0, respectively)	—	(9.3)	(16.4)
Payments under Tax Receivable Agreement	(7.8)	(9.9)	(8.5)
Payments under other contingent consideration	(20.0)	(2.5)	—
Other	(2.7)	(2.1)	—
Net cash provided by (used for) financing activities	<u>(273.9)</u>	<u>(8.7)</u>	<u>99.2</u>
Effect of exchange rate changes on cash	0.2	(0.6)	1.1
Net change in cash	<u>(26.3)</u>	<u>(16.0)</u>	<u>10.7</u>
Cash at beginning of period	64.3	80.3	69.6
Cash at end of period	<u>\$ 38.0</u>	<u>\$ 64.3</u>	<u>\$ 80.3</u>
<b>Supplemental cash flow information</b>			
Cash paid for income taxes, net of refunds	\$ 4.8	\$ 2.4	\$ 3.7
Cash paid for interest	34.7	38.9	27.6
<b>Non-cash investing and financing activities</b>			
Non-cash additions to property and equipment for right-of-use finance leases and capital leases, respectively	\$ 22.3	\$ 31.5	\$ 17.8
Non-cash additions to other non-current assets for right-of-use operating leases	129.3	—	—
Contingent consideration for purchase of business: Earn-out	—	—	22.2

See accompanying Notes to Consolidated Financial Statements.



**VERITIV CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(in millions)

	<u>Common Stock Issued</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated (Deficit) Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Treasury Stock</u>		
	<u>Shares</u>	<u>Amount</u>				<u>Shares</u>	<u>Amount</u>	<u>Total</u>
Balance at December 31, 2016	16.0	\$ 0.2	\$ 574.5	\$ 19.7	\$ (39.0)	(0.3)	\$ (13.6)	\$ 541.8
Net income (loss)				(13.3)				(13.3)
Other comprehensive income (loss)					5.5			5.5
Stock-based compensation			15.7					15.7
Balance at December 31, 2017	16.0	\$ 0.2	\$ 590.2	\$ 6.4	\$ (33.5)	(0.3)	\$ (13.6)	\$ 549.7
Net income (loss)				(15.7)				(15.7)
Other comprehensive income (loss)					(6.4)			(6.4)
Tax impact of adoption of ASU 2018-02				0.8	(0.8)			0.0
Stock-based compensation			18.1					18.1
Issuance of common stock, net of stock received for minimum tax withholdings	0.2	0.0	(2.6)					(2.6)
Balance at December 31, 2018	16.2	\$ 0.2	\$ 605.7	\$ (8.5)	\$ (40.7)	(0.3)	\$ (13.6)	\$ 543.1
Net income (loss)				(29.5)				(29.5)
Other comprehensive income (loss)					7.6			7.6
Adoption impact - Accounting Standards Update 2016-02				2.7				2.7
Stock-based compensation			14.6					14.6
Issuance of common stock, net of stock received for minimum tax withholdings	0.2	0.0	(2.3)					(2.3)
Balance at December 31, 2019	16.4	\$ 0.2	\$ 618.0	\$ (35.3)	\$ (33.1)	(0.3)	\$ (13.6)	\$ 536.2

See accompanying Notes to Consolidated Financial Statements.

**VERITIV CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

Veritiv Corporation ("Veritiv" or the "Company") is a North American business-to-business distributor of packaging, facility solutions, print and publishing products and services. Additionally, Veritiv provides logistics and supply chain management solutions to its customers. Veritiv was established on July 1, 2014 (the "Distribution Date"), following the merger (the "Merger") of International Paper Company's ("International Paper") xpedx distribution solutions business ("xpedx") and UWW Holdings, Inc. ("UWWH"), the parent company of Unisource Worldwide, Inc. ("Unisource"). On July 2, 2014, Veritiv's common stock began regular-way trading on the New York Stock Exchange under the ticker symbol "VRTV". Veritiv operates from approximately 150 distribution centers primarily throughout the United States ("U.S."), Canada and Mexico.

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include all of the Company's subsidiaries. All significant intercompany transactions between Veritiv's businesses have been eliminated. As a result of adopting Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)* on January 1, 2019, applying the additional transition approach, which is a prospective approach, the accounting for operating leases for periods prior to 2019 has not been revised and results are reported in accordance with prior U.S. GAAP. See the adoption impact in the Recently Issued Accounting Standards section of this note. As a result of adopting ASU 2017-07, *Compensation-Retirement Benefits (Topic 715)* on January 1, 2018, certain amounts for the year ended December 31, 2017 were reclassified to conform to the new presentation. See the adoption impact in the Notes contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2018.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses and certain financial statement disclosures. Estimates and assumptions are used for, but not limited to, revenue recognition, right-of-use ("ROU") asset and liability valuations, accounts and notes receivable valuations, inventory valuation, employee benefit plans, income tax contingency accruals and valuation allowances, recognition of the Tax Cuts and Jobs Act (the "Tax Act"), multi-employer pension plan ("MEPP") withdrawal liabilities, contingency accruals and goodwill and other intangible asset valuations. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, actual results may ultimately differ from these estimates and assumptions. Estimates are revised as additional information becomes available.

**Summary of Significant Accounting Policies**

***Revenue Recognition***

The Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("Topic 606") on January 1, 2018, using the modified retrospective approach for all contracts not completed as of the date of adoption, with no impact to the opening retained earnings.

**Under Topic 606 -**

Veritiv applies the five step model to assess its contracts with customers. The Company's revenue is reported as net sales and is measured as the determinable transaction price, net of any variable consideration (e.g., sales incentives and rights to return product) and any taxes collected from customers and remitted to governmental authorities. When the Company enters into a sales arrangement with a customer, it believes it is probable that it will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. When management cannot conclude collectability is probable for shipments to a particular customer, revenue associated with that

customer is not recognized until cash is collected or management is otherwise able to establish that collectability is probable. As a normal business practice, Veritiv does not enter into contracts that require more than one year to complete or that contain significant financing components. See Note 2, Revenue Recognition, for additional information regarding revenue recognition.

Under prior revenue recognition guidance -

Revenue was recognized when persuasive evidence of an arrangement existed, the price was fixed or determinable, collectability was reasonably assured and delivery had occurred. Revenue was recognized when the customer took title and assumed the risks and rewards of ownership. When management could not conclude collectability was reasonably assured for shipments to a particular customer, revenue associated with that customer was not recognized until cash was collected or management was otherwise able to establish that collectability was reasonably assured. Sales transactions with customers were designated free on board ("f.o.b.") destination and revenue was recorded when the product was delivered to the customer's delivery site, when title and risk of loss were transferred. Certain revenues were derived from shipments arranged by the Company made directly from a manufacturer to a customer. The Company was considered to be a principal to these transactions because, among other factors, it controlled pricing to the customer, bore the credit risk of the customer defaulting on payment and was the primary obligor. Revenues from these sales were reported on a gross basis in the Consolidated Statements of Operations and amounted to \$3.0 billion for the year ended December 31, 2017. Taxes collected from customers relating to product sales and remitted to governmental authorities were accounted for on a net basis. Accordingly, such taxes were excluded from both net sales and expenses.

***Purchase Incentives***

Veritiv enters into agreements with suppliers that entitle Veritiv to receive rebates, allowances and other discounts based on the attainment of specified purchasing levels or sales to certain customers. Purchase incentives are recorded as a reduction to inventory and recognized in cost of products sold when the sale occurs. During the year ended December 31, 2019, approximately 35% of the Company's purchases were made from ten suppliers.

***Distribution Expenses***

Distribution expenses consist of storage, handling and delivery costs including freight to the Company's customers' destinations. Handling and delivery costs were \$346.9 million, \$398.0 million and \$380.7 million for the years ended December 31, 2019, 2018 and 2017, respectively.

***Integration and Acquisition Expenses***

Integration and acquisition expenses are expensed as incurred. Integration and acquisition expenses include internally dedicated integration management resources, retention compensation, information technology conversion costs, rebranding, professional services and other costs to integrate its businesses.

***Accounts Receivable and Allowances***

Accounts receivable are recognized net of allowances. The allowance for doubtful accounts reflects the best estimate of losses inherent in the Company's accounts receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other available evidence. The other allowances balance is inclusive of returns, discounts and any other items affecting the realization of these assets. Accounts receivable are written-off when management determines they are uncollectible.

The components of the accounts receivable allowances were as follows:

	<b>As of December 31,</b>	
	<b>2019</b>	<b>2018</b>
<i>(in millions)</i>		
Allowance for doubtful accounts	\$ 30.4	\$ 49.1
Other allowances	13.4	12.9
Total accounts receivable allowances	<u>\$ 43.8</u>	<u>\$ 62.0</u>

Below is a rollforward of the Company's accounts receivable allowances for the years ended December 31, 2019, 2018 and 2017:

<i>(in millions)</i>	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Balance at January 1,	\$ 62.0	\$ 44.0	\$ 34.5
Add / (Deduct):			
Provision for bad debt expense	13.8	26.5	15.9
Net write-offs and recoveries	(29.5)	(6.3)	(7.7)
Other adjustments <sup>(1)</sup>	(2.5)	(2.2)	1.3
Balance at December 31,	\$ 43.8	\$ 62.0	\$ 44.0

<sup>(1)</sup> Other adjustments represent amounts reserved for returns and discounts, foreign currency translation adjustments and reserves for certain customer accounts where revenue is not recognized because collectability is not probable, and may include accounts receivable allowances recorded in connection with acquisitions.

### ***Inventories***

The Company's inventories are primarily comprised of finished goods and predominantly valued at cost as determined by the last-in first-out ("LIFO") method. Such valuations are not in excess of market. Elements of cost in inventories include the purchase price invoiced by a supplier, plus inbound freight and related costs and reduced by estimated volume-based discounts and early pay discounts available from certain suppliers. Approximately 81% and 85% of inventories were valued using the LIFO method as of December 31, 2019 and 2018, respectively. If the first-in, first-out method had been used, total inventory balances would be increased by approximately \$93.8 million and \$98.7 million at December 31, 2019 and 2018, respectively.

The Company reduces the value of obsolete inventory based on the difference between the LIFO cost of the inventory and the estimated market value using assumptions of future demand and market conditions. To estimate the net realizable value, the Company considers factors such as the age of the inventory, the nature of the products, the quantity of items on-hand relative to sales trends, current market prices and trends in pricing, its ability to use excess supply in another channel, historical write-offs and expected residual values or other recoveries.

Veritiv maintains some of its inventory on a consignment basis in which the inventory is physically located at the customer's premises or a third-party warehouse. Veritiv had \$30.7 million and \$56.8 million of consigned inventory as of December 31, 2019 and 2018, respectively, valued on a LIFO basis, net of reserves.

### ***Property and Equipment, Net***

Property and equipment are stated at cost, less accumulated depreciation and software amortization. Expenditures for replacements and major improvements are capitalized, whereas repair and maintenance costs that do not improve service potential or extend economic life are expensed as incurred. The Company capitalizes certain computer software and development costs incurred in connection with developing or obtaining software for internal use. Costs related to the development of internal use software, other than those incurred during the application development stage, are expensed as incurred.



The components of property and equipment, net were as follows:

<i>(in millions)</i>	<b>As of December 31,</b>	
	<b>2019</b>	<b>2018</b>
Land, buildings and improvements	\$ 96.4	\$ 107.4
Machinery and equipment	167.9	159.7
Finance and capital leases, including assets related to financing obligations in the prior year, respectively	99.5	75.3
Internal use software	178.5	166.6
Construction-in-progress	17.2	18.4
Less: Accumulated depreciation and software amortization	(342.6)	(320.7)
Property and equipment, net	<u>\$ 216.9</u>	<u>\$ 206.7</u>

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Land is not depreciated, and construction-in-progress ("CIP") is not depreciated until ready for service. Leased property and leasehold improvements are amortized on a straight-line basis over the lease term or useful life of the asset, whichever is less.

Depreciation and amortization for property and equipment, other than land, finance leases and CIP, is based upon the following estimated useful lives:

Buildings	40 years
Leasehold improvements	1 to 20 years
Machinery and equipment	3 to 15 years
Internal use software	3 to 5 years

Additional property and equipment information is as follows:

<i>(in millions)</i>	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Depreciation expense <sup>(1)</sup>	\$ 33.5	\$ 33.2	\$ 33.5
Amortization expense - internal use software	15.0	13.4	16.5
Depreciation and amortization expense related to property and equipment	<u>\$ 48.5</u>	<u>\$ 46.6</u>	<u>\$ 50.0</u>

<sup>(1)</sup> Includes depreciation expense for finance leases, capital leases and assets related to financing obligations (including financing obligations with related party).

<i>(in millions)</i>	<b>As of December 31,</b>	
	<b>2019</b>	<b>2018</b>
Accumulated depreciation on finance and capital leases, including assets related to financing obligations in the prior year, respectively	\$ 22.9	\$ 16.3
Unamortized internal use software costs, including amounts recorded in CIP	\$ 32.6	\$ 32.9

Upon retirement or other disposal of property and equipment, the cost and related amount of accumulated depreciation or accumulated amortization are eliminated from the asset and accumulated depreciation or accumulated amortization accounts, respectively. The difference, if any, between the net asset value and the proceeds is included in net income.

### **Leases**

The Company adopted ASU 2016-02, *Leases (Topic 842)* and its related interpretations ("Topic 842") on January 1, 2019, applying the additional transition approach available under ASU 2018-11, *Leases*, whereby the new lease standard is

applied at the adoption date recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Upon adoption, the Company recorded (i) operating lease obligations and related ROU assets of approximately \$428 million and (ii) an increase to retained earnings of approximately \$2.7 million, primarily driven by the derecognition of the unamortized deferred gain from the 2017 sale of the Austin, Texas property.

#### Under Topic 842 -

The Company determines if an arrangement is a lease at lease inception and reviews lease arrangements for finance or operating lease classification at their commencement date. Operating leases are reported as part of other non-current assets, other accrued liabilities and other non-current liabilities on the Consolidated Balance Sheets. Finance leases are reported as part of property and equipment, net and debt obligations on the Consolidated Balance Sheets. The Company does not include leases with a term of twelve months or less on the Consolidated Balance Sheets. In order to value the ROU assets and related liabilities, the Company makes certain estimates and assumptions related to establishing the lease term, discount rates and variable lease payments (e.g., rent escalations tied to changes in the Consumer Price Index ("CPI")). The exercise of any lease renewal or asset purchase option is at the Company's sole discretion. The lease term for all of the Company's leases includes the noncancelable period of the lease and any periods covered by renewal options that the Company is reasonably certain to exercise. Certain leases include rent escalations pre-set in the agreements, which are factored into the lease payment stream. Similar to a variable lease payment, certain delivery equipment leases include a provision for an amount the Company may be required to pay at the end of the lease for any residual value deficiency incurred by the lessor upon resale of the underlying asset. The Company uses the implicit rate of interest when it is available; however, as most of the Company's leases do not provide an implicit rate of interest, the Company uses its incremental borrowing rate based on information available at the lease commencement date in determining the discounted value of the lease payments. Lease expense and depreciation expense are recognized on a straight-line basis over the lease term, or for a finance lease, over the shorter of the life of the underlying asset or the lease term.

#### Under prior lease accounting guidance -

The Company reviewed lease arrangements for capital or operating classification at lease inception. The term for all types of leases began on the date the Company became legally obligated for the rent payments or took possession of the asset, whichever was earlier. Assets subject to an operating lease and the related lease obligation were not recorded on the Company's balance sheet. The carrying value of the related equipment associated with capital leases was included within property and equipment, net and debt obligations on the Consolidated Balance Sheets. Certain capital leases included annual rate increases based on the CPI, which was included in the calculation of the initial lease obligation. The Company used the lower of the implicit rate of interest (if available) and its incremental borrowing rate in determining the discounted value of the lease payments for capital leases. Lease expense and depreciation expense were recognized on a straight-line basis over the lease term, or for a capital lease, over the shorter of the life of the underlying asset or the lease term.

See Note 3, Leases, for additional information related to the Company's leases.

#### ***Goodwill and Other Intangible Assets, Net***

Goodwill relating to a single business reporting unit is included as an asset of the applicable segment. Goodwill arising from major acquisitions that involve multiple reportable segments is allocated to the reporting units based on the relative fair value of the reporting unit. Goodwill is reviewed by Veritiv for impairment on a reporting unit basis annually on October 1<sup>st</sup> or more frequently if indicators are present or changes in circumstances suggest that impairment may exist. The testing of goodwill for possible impairment is performed by completing a Step 0 test or electing to by-pass the Step 0 test and comparing the fair value of a reporting unit with its carrying value, including goodwill. The Step 0 test utilizes qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. Qualitative factors include: macroeconomic conditions; industry and market considerations; overall financial performance and cost factors to determine whether a reporting unit is at risk for goodwill impairment. In the event a reporting unit fails the Step 0 goodwill impairment test, it is necessary to move forward with a comparison of the fair value of the reporting unit with its carrying value, including goodwill. If the fair value exceeds the carrying value, goodwill is not considered to be impaired. If the fair value of a reporting unit is below the carrying value, a goodwill impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, any loss recognized will not exceed the total amount of goodwill allocated to the reporting unit.

Intangible assets acquired in a business combination are recorded at fair value. The Company's intangible assets may include customer relationships, trademarks and trade names and non-compete agreements. Intangible assets with finite useful lives are subsequently amortized using the straight-line method over the estimated useful lives of the assets. See the *Impairment of Long-Lived Assets* section below for the accounting policy related to the periodic review of long-lived intangible assets for impairment.

See Note 6, Goodwill and Other Intangible Assets, for additional information related to the Company's goodwill and other intangible assets.

### ***Impairment of Long-Lived Assets***

Long-lived assets, including finite lived intangible assets, are tested for impairment whenever events or changes in circumstances indicate their carrying value may not be recoverable. The Company assesses the recoverability of long-lived assets based on the undiscounted future cash flow the assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When an impairment is identified, the Company reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values.

### ***Employee Benefit Plans***

The Company sponsors and/or contributes to defined contribution plans, defined benefit pension plans and MEPPs in the U.S. Except for certain union employees who continue to accrue benefits under the U.S. defined benefit pension plan in accordance with their collective bargaining agreements, as discussed below, the defined benefit pension plans are frozen. In addition, the Company and its subsidiaries have various pension plans and other forms of retirement arrangements outside the U.S. See Note 10, Employee Benefit Plans, for additional information related to these plans and arrangements.

The determination of defined benefit pension and postretirement plan obligations and their associated costs requires the use of actuarial computations to estimate participant plan benefits to which the employees will be entitled. The Company's significant assumptions in this regard include discount rates, rate of future compensation increases, expected long-term rates of return on plan assets, mortality rates, and other factors. Each assumption is developed using relevant company experience in conjunction with market-related data in the U.S. and Canada. All actuarial assumptions are reviewed annually with third-party consultants and adjusted, as necessary.

For the recognition of net periodic postretirement cost, the calculation of the expected long-term rate of return on plan assets is derived using the fair value of plan assets at the measurement date. Actual results that differ from the Company's assumptions are accumulated and amortized on a straight-line basis only to the extent they exceed 10% of the higher of the fair value of plan assets or the projected benefit obligation, over the estimated remaining service period of active participants. The fair value of plan assets is determined based on market prices or estimated fair value at the measurement date.

The Company also makes contributions to MEPPs for its union employees covered by such plans. For these plans, the Company recognizes a liability only for any required contributions to the plans or surcharges imposed by the plans that are accrued and unpaid at the balance sheet date. The Company does not record an asset or liability to recognize the funded status of the plans. The Company records an estimated undiscounted charge when it becomes probable that it has incurred a withdrawal liability, as the final amount and timing is not assured. When a final determination of the withdrawal liability is received from the plan, the estimated charge is adjusted to the final amount determined by the plan.

### ***Stock-Based Compensation***

The Company measures and records compensation expense for all stock-based awards based on the grant date fair values over the vesting period of the awards. Forfeitures are recognized when they occur. See Note 15, Equity-Based Incentive Plans, for additional information.

## ***Income Taxes***

Veritiv's income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. Veritiv records its global tax provision based on the respective tax rules and regulations for the jurisdictions in which it operates. Where treatment of a position is uncertain, liabilities are recorded based upon an evaluation of the more likely than not outcome considering technical merits of the position. Changes to recorded liabilities are made only when an identifiable event occurs that alters the likely outcome, such as settlement with the relevant tax authority or the expiration of statutes of limitation for the subject tax year. Significant judgments and estimates are required in determining the consolidated income tax expense.

The Tax Act was signed into law on December 22, 2017 and makes broad and complex changes to the U.S. tax code. Veritiv recognized provisional estimates of the impact of the Tax Act in the year ended December 31, 2017 and as of the year ended December 31, 2018, the Company recorded additional tax expense. Although the Company considers these items complete, the determination of the Tax Act's income tax effects may change following future legislation or further interpretation of the Tax Act based on the publication of U.S. Treasury regulations and guidance from the Internal Revenue Service ("IRS") and state tax authorities. Additionally, the Company has concluded the applicable accounting policy election associated with Global Intangible Low Tax Income ("GILTI") will be treated as a period cost. See Note 8, Income Taxes, for additional details regarding the Tax Act.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Significant judgment is required in evaluating the need for and amount of valuation allowances against deferred tax assets. The realization of these assets is dependent on generating sufficient future taxable income.

While Veritiv believes that these judgments and estimates are appropriate and reasonable under the circumstances, actual resolution of these matters may differ from recorded estimated amounts.

## ***Fair Value Measurements***

Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable.

- Level 1 – Quoted market prices in active markets for identical assets or liabilities.
- Level 2 – Observable market-based inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability reflecting the reporting entity's own assumptions or external inputs from inactive markets.

See Note 11, Fair Value Measurements, for further detail.

## ***Foreign Currency***

The assets and liabilities of the foreign subsidiaries are translated from their respective local currencies to the U.S. dollars at the appropriate spot rates as of the balance sheet date. Changes in the carrying values of these assets and liabilities attributable to fluctuations in spot rates are recognized in foreign currency translation adjustment, a component of accumulated other comprehensive loss ("AOCL"). See Note 14, Shareholders' Equity, for the impacts of foreign currency translation adjustments on AOCL. The revenues and expenses of the foreign subsidiaries are translated using the monthly average exchange rates during the year. The gains or losses from foreign currency transactions are included in other (income) expense, net in the Consolidated Statements of Operations.

## ***Treasury Stock***

Common stock purchased for treasury is recorded at cost. Costs incurred by the Company that are associated with the acquisition of treasury stock are treated in a manner similar to stock issue costs and are added to the cost of the treasury stock.



## ***Accounting for Derivative Instruments***

The Company holds one interest rate cap agreement which is subject to ASC 815, *Derivatives and Hedging*. For those instruments that are designated and qualify as hedging instruments, a company must designate the instrument, based upon the exposure being hedged, as a cash flow hedge, a fair value hedge or a hedge of a net investment in a foreign operation. A cash flow hedge refers to hedging the exposure to variability in expected future cash flows attributable to a particular risk. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of AOCL until reclassified into earnings in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion, if any, is immediately recognized in earnings. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

### **Recently Issued Accounting Standards**

Effective January 1, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)* and its related interpretations. The standard requires lessees to recognize ROU assets and liabilities for leases with a lease term greater than twelve months on their balance sheet. The pattern and classification of expense recognition in a lessee's statement of operations will remain similar to prior accounting guidance. The new standard also eliminates the prior guidance related to real estate specific provisions. The guidance allows an entity to elect to adopt the standard using either a modified retrospective approach, applying the standard to leases that existed at the beginning of the earliest period presented and those entered into thereafter with restated comparative period financial statements, or an additional transition approach (under ASU 2018-11), which allows an entity to initially apply the new lease standard at the adoption date (January 1, 2019, for the Company) and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new lease standard, will not be restated and will continue to be in accordance with prior U.S. GAAP (Topic 840, *Leases*). The Company adopted this ASU applying the additional transition approach. The standard permits entities to elect a package of practical expedients which must be applied consistently to all leases that commenced prior to the effective date. If the package of practical expedients is elected, entities do not need to reassess: (i) whether expired or existing contracts contain leases; (ii) lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. The Company elected to apply the package of practical expedients to all leases that commenced prior to the date of adoption. The guidance also allows entities to make certain policy elections under the new standard, including: (i) the use of hindsight to determine lease term and when assessing existing right of use assets for impairment; (ii) a policy to not record short-term leases on the balance sheet; and (iii) a policy to not separate lease and non-lease components. The Company made a policy election to exclude short-term leases from the Consolidated Balance Sheet and to separate lease and non-lease components for most lease categories. The Company made a policy election to not use hindsight to determine lease term and when assessing existing ROU assets for impairment. Upon adoption, the Company recorded (i) operating lease obligations and related ROU assets of approximately \$428 million and (ii) an increase to retained earnings of approximately \$2.7 million, primarily driven by the derecognition of the unamortized deferred gain from the 2017 sale of the Austin, Texas property. The Company's debt covenants and bank capital requirements were not impacted by the adoption of this ASU. See Note 3, *Leases*, for additional information regarding the Company's leases.

### **Other Recently Adopted Accounting Standards**

ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326)* - The standard replaces the previously required incurred loss impairment methodology with guidance that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to be considered in making credit loss estimates. The guidance requires application on a modified retrospective basis. Other application requirements exist for specific assets impacted by a more-than-insignificant credit deterioration since origination. The ASU is effective January 1, 2020. The Company adopted this ASU on January 1, 2020. The adoption did not materially impact the Consolidated Financial Statements.

ASU 2018-13, *Fair Value Measurement (Topic 820)* - The standard modifies the disclosure requirements on fair value measurements by removing certain disclosure requirements related to the fair value hierarchy, modifying existing disclosure requirements related to measurement uncertainty and adding new disclosure requirements. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted-average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All

other amendments should be applied retrospectively to all periods presented upon their effective date. The ASU is effective January 1, 2020. The Company adopted this ASU on January 1, 2020. The adoption did not materially impact its financial statement disclosures.

ASU 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)* - The standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments in this update also require companies to expense capitalized implementation costs over the term of the hosting arrangement, including periods covered by renewal options that are reasonably certain to be exercised. The amendments also stipulate presentation requirements for the Statement of Operations, Balance Sheet and Statement of Cash Flows. The amendments in this update are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The ASU is effective January 1, 2020. The Company adopted this ASU on January 1, 2020 on a prospective basis. The Company does not expect the adoption of this standard to have a material impact on its Consolidated Financial Statements and related disclosures.

ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20)* - The standard modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans. The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures and adds disclosure requirements identified as relevant. The guidance requires application on a retrospective basis to all periods presented. The standard is effective December 31, 2020; early adoption is permitted. The Company adopted this ASU on December 31, 2019. The adoption did not materially impact its financial statement disclosures.

### **Recently Issued Accounting Standards Not Yet Adopted**

ASU 2019-12, *Income Taxes (Topic 740)* - The standard removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. The update also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for goodwill and allocating taxes to members of a consolidated group. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The amendments in this update related to separate financial statements of legal entities that are not subject to tax should be applied on a retrospective basis for all periods presented. The amendments related to changes in ownership of foreign equity method investments or foreign subsidiaries should be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The amendments related to franchise taxes that are partially based on income should be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. All other amendments should be applied on a prospective basis. The ASU is effective January 1, 2021; early adoption is permitted. The Company is currently evaluating the impact this ASU will have on its Consolidated Financial Statements and related disclosures.

## **2. REVENUE RECOGNITION**

The Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("Topic 606") on January 1, 2018, using the modified retrospective approach for all contracts not completed as of the date of adoption, with no impact to the opening retained earnings. Results for periods beginning after January 1, 2018 are presented following the guidance of Topic 606, while prior period amounts are not adjusted and continue to be reported following the Company's historical accounting under the accounting standards in effect for those periods. The Company elected to adopt certain practical expedients outlined in Topic 606. As such, Veritiv does not include sales tax in the transaction price and does not recognize revenue in the amount to which it has a right to invoice the customer as it believes that amount corresponds directly with the value provided to the customer. Additionally, Veritiv utilized certain exceptions allowed under Topic 606, including: (i) not assessing whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer and (ii) not disclosing the value of unsatisfied performance obligations for contracts with an original estimated length of time to convert of one year or less.

## Revenue Recognition

Veritiv applies the five step model to assess its contracts with customers. The Company's revenue is reported as net sales and is measured as the determinable transaction price, net of any variable consideration (e.g., sales incentives and rights to return product) and any taxes collected from customers and remitted to governmental authorities.

When the Company enters into a sales arrangement with a customer, it believes it is probable that it will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. When management cannot conclude collectability is probable for shipments to a particular customer, revenue associated with that customer is not recognized until cash is collected or management is otherwise able to establish that collectability is probable. The Company has established credit and collection processes whereby collection assessments are performed and allowances for bad debt are recognized. As a normal business practice, Veritiv does not enter into contracts that require more than one year to complete or that contain significant financing components.

Additionally, Veritiv enters into incentive programs with certain of its customers, which are generally based on sales to those same customers. Veritiv follows the expected value method when estimating its retrospective incentives and records the estimated amount as a reduction to gross sales when revenue is recognized. Estimates of the variable consideration are based primarily on contract terms, current customer forecasts as well as historical experience.

Customer product returns are estimated based on historical experience and the identification of specific events necessitating an adjustment. The estimated return value is recognized as a reduction of gross sales and related cost of products sold. The estimated inventory returns value is recognized as part of inventories, while the estimated customer refund liability is recognized as part of other accrued liabilities on the Consolidated Balance Sheets.

A customer contract liability will arise when Veritiv has received payment for goods and services, but has not yet transferred the items to a customer and satisfied its performance obligations. Veritiv records a customer contract liability for performance obligations outstanding related to payments received in advance for customer deposits on equipment sales and its bill-and-hold arrangements. Veritiv expects to satisfy these remaining performance obligations and recognize the related revenues upon delivery of the goods and services to the customer's designated location within 12 months following receipt of the payment. Most equipment sales deposits are held for approximately 90 days and most bill-and-hold arrangements initially cover a 90-day period, but can be renewed by the customer.

As of December 31, 2019 and 2018, the Company recognized estimated inventory returns of approximately \$2.0 million and \$2.5 million, respectively, which are included in inventories on the Consolidated Balance Sheets. Additionally, the Company recognized customer contract liabilities related to its customer deposits for equipment sales and payments received for bill-and-hold arrangements, which are included in accounts payable on the Consolidated Balance Sheets. See the table below for a summary of the changes to the customer contract liabilities for the years ended December 31, 2019 and 2018:

<i>(in millions)</i>	<b>Customer Contract Liabilities</b>	
	<b>2019</b>	<b>2018</b>
Balance at January 1,	\$ 17.7	\$ 20.5
Payments received	46.1	55.0
Revenue recognized from beginning balance	(17.7)	(20.5)
Revenue recognized from current year receipts	(34.4)	(37.3)
Balance at December 31,	<u>\$ 11.7</u>	<u>\$ 17.7</u>

## Revenue Composition

Veritiv's revenues are primarily derived from purchase orders and rate agreements associated with (i) the delivery of standard listed products with observable standalone sale prices or (ii) transportation and warehousing services. Revenue generally consists of a single performance obligation to transfer a promised good or service and is short-term in nature. Revenues are recognized when control of the promised goods or services is transferred to Veritiv's customers and in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods and services. Sales transactions with customers are designated f.o.b. destination and revenue is recorded at the point in time when the product is delivered to the customer's designated location or when the customer has otherwise obtained the benefit of the goods, when title and risk of loss are transferred. Revenues from Veritiv's transportation services are recognized upon completion of the related delivery services and revenues from warehousing services are recognized over time as the storage services are provided. The Company considers handling and delivery as activities to fulfill its performance obligations. Billings for third-party freight are accounted for as net sales and handling and delivery costs are accounted for as distribution expenses.

Certain revenues are derived from shipments which are made directly from a manufacturer to a Veritiv customer. The Company is considered to be a principal to these transactions because, among other factors, it maintains control of the goods after they leave the supplier and before they are received at the customer's location, in most cases it selects the supplier and sets the price to the customer, and it bears the risk of the customer defaulting on payment or rejecting the goods. Revenues from these sales are reported on a gross basis in the Consolidated Statements of Operations. Revenues from these sales amounted to \$2.6 billion and \$3.1 billion for the years ended December 31, 2019 and 2018, respectively. Comparably, under the previous revenue recognition standards, revenue from these sales amounted to \$3.0 billion for the year ended December 31, 2017.

The Company has determined that certain services provided to customers represent activities necessary to obtain or fulfill the contract and deliver the end product to the customer's designated location. These costs have been evaluated and do not meet the criteria for recognition as capitalizable costs. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from both net sales and expenses.

Veritiv evaluated the nature of the products and services provided to its customers as well as the nature of the customer and the geographical distribution of its customer base and determined that the best representative level of disaggregated revenue is the product category basis as shown in the segment results. The Company is able to serve a wide variety of customers, from large national companies to small local customers through its distribution network. Historically, the Company's ten largest customers have generated approximately 10% of its consolidated annual net sales. Veritiv's principal markets are concentrated primarily across North America with net sales in the U.S., Canada and Mexico of approximately 89%, 9% and 1%, respectively.

The following is a brief description of the Company's four reportable segments, organized by major product category:

- **Packaging** – The Packaging segment provides standard as well as custom and comprehensive packaging solutions for customers based in North America and in key global markets. The business is strategically focused on higher growth industries including light industrial/general manufacturing, food processing, fulfillment and internet retail, as well as niche verticals based on geographical and functional expertise. This segment also provides supply chain solutions, structural and graphic packaging design and engineering, automation, workflow and equipment services and kitting and fulfillment.
- **Facility Solutions** – The Facility Solutions segment sources and sells cleaning, break-room and other supplies such as towels, tissues, wipers and dispensers, can liners, commercial cleaning chemicals, soaps and sanitizers, sanitary maintenance supplies and equipment, safety and hazard supplies, and shampoos and amenities primarily in North America. Additionally, the Company offers total cost of ownership solutions with re-merchandising, budgeting and compliance reporting, and inventory management.
- **Print** – The Print segment sells and distributes commercial printing, writing, copying, digital, specialty products, graphics consumables and graphics equipment primarily in North America. This segment also includes customized paper conversion services of commercial printing paper for distribution to document centers and form printers. Veritiv's broad geographic platform of operations coupled with the breadth of paper and graphics products, including exclusive private brand offerings, provides a foundation to service national, regional and local customers across North America.



- **Publishing** – The Publishing segment sells and distributes coated and uncoated commercial printing papers to publishers, retailers, converters, printers and specialty businesses for use in magazines, catalogs, books, directories, gaming, couponing, retail inserts and direct mail primarily in the U.S. This segment also provides print management, procurement and supply chain management solutions to simplify paper and print procurement processes for its customers.

The Company's consolidated financial results also include a "Corporate & Other" category which includes certain assets and costs not primarily attributable to any of the reportable segments. Corporate & Other also includes the Veritiv logistics solutions business which provides transportation and warehousing solutions.

See Note 17, Segment Information, for the disaggregation of revenue and other information related to the Company's reportable segments and Corporate & Other.

### 3. LEASES

The Company adopted Topic 842 and its related interpretations on January 1, 2019, applying the additional transition approach, available under ASU 2018-11, *Leases*, whereby the new lease standard is applied at the adoption date recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, the reporting for the comparative periods presented in the financial statements in which the new lease standard is adopted will continue to be reported in accordance with Topic 840, *Leases*. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed for the carry-forward of historical lease classification. The Company did not elect the hindsight practical expedient in determining lease terms for existing leases and when assessing existing ROU assets for impairment. The Company does not expect the new accounting standard to have a material effect on future financial results as the adoption did not change the lease classifications of its historical operating leases. The Company's accounting for finance leases, previously reported as capital leases and financing obligations, remained unchanged except for the Company's one non-related party failed sale-leaseback. The Company determined that upon transition to Topic 842, the previously reported failed sale-leaseback financing obligation would be reported as a finance lease, and its land operating lease would now be combined with its building finance lease and reported together as one finance lease. Finance leases are reported as part of property and equipment, net and debt obligations on the Consolidated Balance Sheets. The Company elected the practical expedients permitted under Topic 842 and made accounting policy elections to (i) not include short-term leases on the balance sheets and (ii) not separate lease and non-lease components for its delivery equipment leases. The Company determines if an arrangement is a lease at lease inception and reviews lease arrangements for finance or operating lease classification at their commencement date. The Company leases certain property and equipment used for operations to limit exposure to risks related to ownership. The major leased asset categories include: real estate, delivery equipment, material handling equipment and computer and office equipment.

As of December 31, 2019, the Company operated from approximately 150 distribution centers of which approximately 140 were leased. These facilities are strategically located throughout the U.S., Canada and Mexico in order to efficiently serve the customer base in the surrounding areas while also facilitating expedited delivery services for special orders. The Company also leases various office spaces for corporate and sales functions. Real estate leases generally carry lease terms of three to seven years. Delivery equipment leases generally carry lease terms of three to eight years and other non-real estate leases generally carry lease terms of three to five years. In order to value the ROU assets and related liabilities, the Company makes certain estimates and assumptions related to establishing the lease term, discount rates and variable lease payments (e.g., rent escalations tied to changes in the CPI). The exercise of any lease renewal or asset purchase option is at the Company's sole discretion. The lease term for all of the Company's leases includes the noncancelable period of the lease and any periods covered by renewal options that the Company is reasonably certain to exercise. Certain leases include rent escalations pre-set in the agreements, which are factored into the lease payment stream. Similar to a variable lease payment, certain delivery equipment leases include a provision for an amount the Company may be required to pay at the end of the lease for any residual value deficiency incurred by the lessor upon resale of the underlying asset. The Company uses the implicit rate of interest when it is available; however, as most of the Company's leases do not provide an implicit rate of interest, the Company uses its incremental borrowing rate based on information available at the lease commencement date in determining the discounted value of the lease payments. Lease expense and depreciation expense are recognized on a straight-line basis over the lease term, or for a finance lease, over the shorter of the life of the underlying asset or the lease term.

The components of lease expense were as follows:

(in millions)

<b>Lease Classification</b>	<b>Financial Statement Classification</b>	<b>Year Ended December 31, 2019</b>
<b>Short-term lease expense<sup>(1)</sup></b>	Operating expenses	\$ 7.1
<b>Operating lease expense<sup>(2)</sup></b>	Operating expenses	\$ 113.9
<b>Finance lease expense:</b>		
Amortization of right-of-use assets	Depreciation and amortization	\$ 10.8
Interest expense	Interest expense, net	2.3
Total finance lease expense		\$ 13.1
<b>Total Lease Cost</b>		<b>\$ 134.1</b>

<sup>(1)</sup> Short-term lease expense is comprised of expenses related to leases with a term of twelve months or less, which includes expenses related to month-to-month leases.

<sup>(2)</sup> Sublease income and variable lease expense are not included in the above table as the amounts were immaterial for the year ended December 31, 2019.

Supplemental balance sheet and other information were as follows:

(in millions, except weighted-average data)

<b>Lease Classification</b>	<b>Financial Statement Classification</b>	<b>December 31, 2019</b>
<b>Operating Leases:</b>		
Operating lease right-of-use assets	Other non-current assets	\$ 429.2
Operating lease obligations - current	Other accrued liabilities	\$ 90.5
Operating lease obligations - non-current	Other non-current liabilities	376.6
Total operating lease obligations		\$ 467.1
Weighted-average remaining lease term in years		6.6
Weighted-average discount rate		4.6 %
<b>Finance Leases:</b>		
Finance lease right-of-use assets	Property and equipment	\$ 76.6
Finance lease obligations - current	Current portion of debt	\$ 11.5
Finance lease obligations - non-current	Long-term debt, net of current portion	69.2
Total finance lease obligations		\$ 80.7
Weighted-average remaining lease term in years		7.8
Weighted-average discount rate		3.4 %

Cash paid for amounts included in the measurement of lease liabilities was as follows:

<i>(in millions)</i>			<b>Year Ended December 31, 2019</b>
<b>Lease Classification</b>	<b>Financial Statement Classification</b>		
<b>Operating Leases:</b>			
Operating cash flows from operating leases	Operating activities	\$	109.5
<b>Finance Leases:</b>			
Operating cash flows from finance leases	Operating activities	\$	2.3
Financing cash flows from finance leases	Financing activities		9.1

### Lease Commitments

Future minimum lease payments at December 31, 2019 were as follows:

<i>(in millions)</i>	<b>Finance Leases</b>	<b>Operating Leases<sup>(1)</sup></b>
2020	\$ 14.3	\$ 110.1
2021	13.9	95.2
2022	13.4	79.8
2023	11.0	58.8
2024	9.2	49.1
Thereafter	31.3	154.6
Total future minimum lease payments	93.1	547.6
Amount representing interest	(12.4)	(80.5)
Total future minimum lease payments, net of interest	<u>\$ 80.7</u>	<u>\$ 467.1</u>

<sup>(1)</sup> Future sublease income is not included in the above table as the amount is immaterial.

Total future minimum lease payments at December 31, 2019 for finance and operating leases, including the amount representing interest, are comprised of \$553.4 million for real estate leases and \$87.3 million for non-real estate leases.

At December 31, 2019, the Company had committed to additional future obligations of approximately \$0.8 million for one operating lease of real estate that has not yet commenced and therefore is not included in the table above. This lease is expected to commence in February 2020 and has a lease term of five years.

Future minimum lease payments at December 31, 2018 were as follows:

<i>(in millions)</i>	<b>Financing Obligation and Equipment Capital Leases</b>	<b>Operating Leases</b>		
		<b>Lease Obligations</b>	<b>Sublease Income</b>	<b>Total</b>
2019	\$ 9.3	\$ 108.3	\$ (0.3)	\$ 108.0
2020	9.0	98.3	(0.1)	98.2
2021	8.3	82.2	—	82.2
2022	7.9	69.3	—	69.3
2023	6.8	49.4	—	49.4
Thereafter	23.0	173.4	—	173.4
Total future minimum lease payments	64.3	580.9	(0.4)	580.5
Amount representing interest	(11.6)	—	—	—
Total future minimum lease payments, net of interest	<u>\$ 52.7</u>	<u>\$ 580.9</u>	<u>\$ (0.4)</u>	<u>\$ 580.5</u>

## Operating Leases - prior to the adoption of Topic 842

Certain properties and equipment are leased under cancelable and non-cancelable agreements. The Company recorded rent expense of \$118.1 million and \$106.3 million for the years ended December 31, 2018 and 2017, respectively.

## Other Lease Transactions

In connection with Bain Capital Fund VII, L.P.'s acquisition of its 60% interest in UWWH on November 27, 2002, Unisource transferred 40 of its U.S. warehouse and distribution facilities (the "Properties") to Georgia-Pacific who then sold 38 of the Properties to an unrelated third party (the "Purchaser/Landlord"). Contemporaneously with the sale, Georgia-Pacific entered into lease agreements with the Purchaser/Landlord with respect to the individual 38 Properties and concurrently entered into sublease agreements with Unisource, which expired in June 2018. As a result of certain forms of continuing involvement, these transactions did not qualify for sale-leaseback accounting. Accordingly, the leases were classified as financing transactions. As of June 30, 2018, the financing obligations for all of the related party financed Properties were either terminated early or had expired in accordance with their terms. Through formal termination or natural expiration of these agreements, the involvement of Georgia-Pacific (the related party) ceased and the leases no longer qualified as failed sale-leaseback financing obligations. Of the original 38 financing obligations to related party Properties, 27 were settled by the return of the Properties to the landlord. The Company currently leases one property that is directly owned by Georgia-Pacific and has classified it as an operating lease in accordance with the accounting guidance. See Note 5, Integration, Acquisition and Restructuring Charges, for additional information regarding the related party failed-sale leaseback agreements.

In May 2017, the Company entered into a purchase and sale agreement under which Veritiv agreed to sell its Austin, Texas facility to an unrelated third party. Upon the closing of the sale, Veritiv entered into a lease of the facility for an initial period of ten years with two optional five-year renewal terms. The sale-leaseback transaction did not provide for any continuing involvement by the Company other than a normal lease for use of the property during the lease term. The transaction resulted in net cash proceeds of \$9.1 million and a related deferred gain of \$5.4 million. Prior to 2019, the Company recognized a portion of the gain on a straight-line basis over the initial ten-year lease period as a reduction to selling and administrative expenses in the Consolidated Statements of Operations. Upon the Company's adoption of ASU 2016-02 on January 1, 2019, it recognized an increase to retained earnings of \$2.7 million, primarily driven by the derecognition of the unamortized gain from the sale of this property.

## 4. 2017 ACQUISITION

On August 31, 2017 (the "Acquisition Date"), Veritiv completed its acquisition of 100% of the equity interests in various All American Containers entities (collectively, "AAC"), a family owned and operated distributor of rigid packaging products, including plastic, glass and metal containers, caps, closures and plastic pouches. The acquisition of AAC aligns with the Company's strategy of investing in higher growth and higher margin segments of the business. Through the acquisition, Veritiv gains expertise in rigid plastic, glass and metal packaging that complements its portfolio of packaging products and services. This acquisition also provides Veritiv with additional marketing, selling and distribution channels into the growing U.S. rigid packaging market. The rigid packaging market's primary product categories include paperboard, plastics, metals and glass.

Acquisition-related costs of approximately \$0.6 million and \$7.3 million were expensed as incurred and were recognized in integration and acquisition expenses on the Consolidated Statements of Operations for the years ended December 31, 2018 and 2017, respectively. These charges are included in the table in Note 5, Integration, Acquisition and Restructuring Charges, and related primarily to legal, consulting and other professional fees, retention and other costs to integrate the business. All costs associated with the acquisition of AAC, including capitalized goodwill, will be deductible for tax purposes.

The acquisition of AAC was accounted for in the Company's financial statements using the acquisition method of accounting. The total consideration to complete the acquisition was approximately \$169.8 million. The purchase price was allocated to tangible and intangible assets and liabilities based upon their respective estimated fair values. The following table summarizes the components of the purchase price for AAC:



**Purchase price:**

	<i>(in millions)</i>
Cash consideration	\$ 112.0
Loan pay-off	34.3
Contingent consideration	22.2
Other	1.3
Total purchase price	<u>\$ 169.8</u>

The following table summarizes the allocation of the purchase price to assets acquired and liabilities assumed as of the Acquisition Date based on valuation information, estimates and assumptions available as of August 30, 2018. See Note 11, Fair Value Measurements, for additional information related to the fair value of the contingent consideration related to the earn-out.

**Purchase price allocation:**

	<i>(in millions)</i>
Cash	\$ 1.5
Accounts receivable	30.4
Inventories	38.5
Other current assets	5.7
Property and equipment	3.5
Goodwill	55.5
Other intangible assets	49.0
Other non-current assets	1.4
Accounts payable	(12.4)
Other current liabilities	(2.7)
Other non-current liabilities	(0.6)
Total purchase price	<u>\$ 169.8</u>

The purchase price allocated to the identifiable intangible assets acquired is as follows:

	<u>Gross Value (in millions)</u>	<u>Estimated Useful Life (in years)</u>
Customer relationships	\$ 46.4	14.0
Trademarks/Trade names	1.1	1.0
Non-compete agreements	1.5	1.0
Total identifiable intangible assets acquired	<u>\$ 49.0</u>	

Goodwill arising from the acquisition of AAC consists largely of the expected synergies and other benefits from combining operations. The goodwill was allocated 100% to the Company's Packaging reportable segment.

**Pro Forma Impact (unaudited)**

The operating results of AAC are included in the Company's financial statements from September 1, 2017 through December 31, 2019 and are reported as part of the Packaging reportable segment.

The following unaudited pro forma financial information presents results as if the acquisition of AAC occurred on January 1, 2016. The historical consolidated financial information of the Company and AAC has been adjusted in the pro forma information to give effect to pro forma events that are directly attributable to the transaction and are factually supportable. The unaudited pro forma results do not reflect events that have occurred or may occur after the transaction, including the impact of any synergies expected to result from the acquisition. Accordingly, the unaudited pro forma financial

information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed date, nor is it necessarily an indication of future operating results.

**(Unaudited)**

*(in millions, except share and per share data)*

	<b>Year Ended December 31, 2017</b>	
Net sales	\$	8,527.6
Net loss		(7.2)
Basic loss per share	\$	(0.46)
Weighted-average shares outstanding - Basic		15.70

The unaudited pro forma information reflects primarily the following pre-tax adjustments:

- Acquisition and integration expenses of \$8.9 million have been eliminated.
- Pro forma net loss includes incremental amortization expense of \$2.5 million.
- Pro forma net loss includes incremental interest expense of \$2.0 million.

A combined U.S. federal statutory and state rate of 39.0% was used to determine the after-tax impact on net loss of the pro forma adjustments.

## **5. INTEGRATION, ACQUISITION AND RESTRUCTURING CHARGES**

### **Merger of xpedx and Unisource**

The Company incurred net costs and charges associated with achieving cost savings and other synergies from the Merger (excluding charges relating to the complete or partial withdrawal from MEPPs and including cash proceeds from sales of assets related to consolidation) of \$337.0 million from the Distribution Date through December 31, 2019. Included in the costs were \$117.4 million for capital expenditures, primarily consisting of information technology infrastructure, systems integration and planning. As of December 31, 2019, the integration and restructuring plans related to the Merger are complete and no further costs or charges are expected.

### **Integration and Acquisition Expenses**

During the years ended December 31, 2019, 2018 and 2017, Veritiv incurred costs and charges related primarily to: internally dedicated integration management resources, retention compensation, information technology conversion costs, rebranding, professional services and other costs to integrate its businesses. The following table summarizes the components of integration and acquisition expenses:

<i>(in millions)</i>	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Integration management	\$ 10.4	\$ 17.3	\$ 14.5
Retention compensation	1.0	0.5	0.2
Information technology conversion costs	3.4	8.1	8.8
Rebranding	—	0.0	0.5
Legal, consulting and other professional fees	—	0.3	1.5
Other	1.9	3.5	3.0
AAC integration and acquisition	0.8	2.1	8.0
Total integration and acquisition expenses	<u>\$ 17.5</u>	<u>\$ 31.8</u>	<u>\$ 36.5</u>

## Veritiv Restructuring Plan: Merger Related

As part of the Merger, the Company executed a multi-year restructuring program of its North American operations intended to integrate the legacy xpedx and Unisource operations, generate cost savings and capture synergies across the combined company. The restructuring plan included initiatives to: (i) consolidate warehouse facilities in overlapping markets, (ii) improve efficiency of the delivery network, (iii) consolidate customer service centers, (iv) reorganize the field sales and operations functions and (v) restructure the corporate general and administrative functions. As part of its restructuring efforts, the Company evaluated its operations outside of North America to identify additional cost saving opportunities. As of December 31, 2019, the restructuring plan related to the Merger is complete. See Note 17, Segment Information, for the impact these charges had on the Company's reportable segments.

Costs related to exiting a branded re-distribution business were included in restructuring charges, net, on the Consolidated Statements of Operations and totaled \$10.8 million for the year ended December 31, 2019, of which \$5.4 million was recognized during the fourth quarter of 2019.

For the years ended December 31, 2019, 2018 and 2017, the Company recognized a net loss of \$0.4 million, and net gains of \$15.0 million and \$24.4 million, respectively, related to the sale or exit of certain facilities. During the fourth quarter of 2018, three properties were sold as part of the Company's restructuring efforts. The Company recognized a gain on the sale of these assets of approximately \$12.9 million. As of December 31, 2019, the Company held for sale \$10.1 million in assets related to these activities, which are included in other current assets on the Consolidated Balance Sheets.

On June 30, 2018, the related party failed sale-leaseback agreements, originally entered into with Georgia-Pacific, expired in accordance with their terms. The agreements contained provisions that required Veritiv to incur costs during the lease term related to general repairs and maintenance. Certain termination and repair costs were incurred at or near the end of the agreements' expirations. Costs related to the properties that were exited as part of the restructuring plan were classified within restructuring charges, net, on the Consolidated Statements of Operations, and totaled \$11.2 million for the year ended December 31, 2018. See Note 3, Leases, for additional information related to the related party failed-sale leaseback agreements.

Other direct costs reported in the tables below include facility closing costs, actual and estimated MEPP withdrawal charges and other incidental costs associated with the development, communication, administration and implementation of these initiatives.

The following table presents a summary of restructuring charges, net, related to restructuring initiatives that were incurred during the last three fiscal years and the cumulative recorded amounts since the initiative began:

<i>(in millions)</i>	<b>Severance and Related Costs</b>	<b>Other Direct Costs</b>	<b>(Gain) Loss on Sale of Assets and Other (non- cash portion)</b>	<b>Total</b>
2019	\$ 9.1	\$ 20.3	\$ (0.6)	\$ 28.8
2018	3.3	22.3	(15.0)	10.6
2017	7.5	33.6	(24.4)	16.7
Cumulative	32.4	90.5	(38.0)	84.9

The following is a summary of the Company's restructuring liability activity for the periods presented (costs incurred exclude any non-cash portion of restructuring gains or losses on asset disposals):

<i>(in millions)</i>	<b>Severance and Related Costs</b>	<b>Other Direct Costs</b>	<b>Total</b>
Balance at December 31, 2017	\$ 4.4	\$ 25.2	\$ 29.6
Costs incurred	3.3	22.3	25.6
Payments	(3.0)	(22.4)	(25.4)
Balance at December 31, 2018	4.7	25.1	29.8
Costs incurred	9.1	20.3	29.4
Payments	(7.6)	(14.8)	(22.4)
Balance at December 31, 2019	<u>\$ 6.2</u>	<u>\$ 30.6</u>	<u>\$ 36.8</u>

The Company has recorded undiscounted charges related to the complete or partial withdrawal from various MEPPs. Charges not related to the Company's restructuring efforts are recorded as distribution expenses. Initial amounts are recorded as other non-current liabilities in the Consolidated Balance Sheets. See the table below for a summary of the net withdrawal charges for the respective years ended December 31:

<i>(in millions)</i>	<b>Year Ended December 31,</b>		
	<b>Restructuring charges, net</b>	<b>Distribution expenses</b>	<b>Total Net Charges</b>
2019	\$ 1.5	\$ 6.6	\$ 8.1
2018	(2.8)	11.2	8.4
2017	17.4	2.1	19.5

Final charges for MEPP withdrawals are not known until the plans issue their respective determinations. As a result, these estimates may increase or decrease depending upon the final determination. As of December 31, 2019, the Company has received determination letters resulting from six complete or partial withdrawals. Of those, the liabilities for two withdrawals were settled with lump sum payments, one withdrawal was settled with payments over a nine month period, and three withdrawals are expected to occur over an approximate 20-year period. The Company has not yet received the determination letter for the partial withdrawal from the Western Pennsylvania Teamsters and Employers Pension Fund. See Note 10, Employee Benefit Plans, for additional information regarding these transactions.

### **Veritiv Restructuring Plan: Print Segment**

To ensure that Veritiv will be appropriately positioned to respond to the secular decline in the paper industry, the Company restructured its Print segment in 2018. The restructuring plan included initiatives within the Company's Print segment to improve the sustainability of the print business, better serve its customers' needs and work more effectively with suppliers by incorporating a more customer focused, collaborative, team-selling approach as well as better aligning its support functions. The Company completed its efforts as of December 31, 2018. As of December 31, 2019, the Company had \$0.1 million of restructuring liabilities related to this plan.



The following is a summary of the Company's Print restructuring liability activity for the years ended December 31, 2019 and 2018:

<i>(in millions)</i>	<b>Severance and Related Costs</b>	<b>Other Direct Costs</b>	<b>Total</b>
Balance at December 31, 2017	\$ —	\$ —	\$ —
Costs incurred	10.0	0.7	10.7
Payments	(8.0)	(0.7)	(8.7)
Balance at December 31, 2018	2.0	0.0	2.0
Payments	(1.9)	0.0	(1.9)
Balance at December 31, 2019	<u>\$ 0.1</u>	<u>\$ 0.0</u>	<u>\$ 0.1</u>

## 6. GOODWILL AND OTHER INTANGIBLE ASSETS

### Goodwill

At December 31, 2019, the net goodwill balance was \$99.6 million. The following table sets forth the changes in the carrying amount of goodwill during 2019 and 2018:

<i>(in millions)</i>	<b>Packaging</b>	<b>Facility Solutions</b>	<b>Print</b>	<b>Publishing</b>	<b>Corporate &amp; Other</b>	<b>Total</b>
Balance at December 31, 2017:						
Goodwill	\$ 99.6	\$ 59.0	\$ 265.4	\$ 50.5	\$ 6.1	\$ 480.6
Accumulated impairment losses	—	(59.0)	(265.4)	(50.5)	(6.1)	(381.0)
Net goodwill 2017	99.6	—	—	—	—	99.6
2018 Activity:						
Goodwill acquired	—	—	—	—	—	—
Impairment of goodwill	—	—	—	—	—	—
Balance at December 31, 2018:						
Goodwill	99.6	59.0	265.4	50.5	6.1	480.6
Accumulated impairment losses	—	(59.0)	(265.4)	(50.5)	(6.1)	(381.0)
Net goodwill 2018	99.6	—	—	—	—	99.6
2019 Activity:						
Goodwill acquired	—	—	—	—	—	—
Impairment of goodwill	—	—	—	—	—	—
Balance at December 31, 2019:						
Goodwill	99.6	59.0	265.4	50.5	6.1	480.6
Accumulated impairment losses	—	(59.0)	(265.4)	(50.5)	(6.1)	(381.0)
Net goodwill 2019	<u>\$ 99.6</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 99.6</u>

During the third quarter of 2017, as part of the Company's review for possible goodwill impairment indicators, management determined that the goodwill allocated to the logistics solutions business was fully impaired. The impairment was recorded as selling and administrative expense in the Consolidated Statements of Operations. See Note 11, Fair Value Measurements, for additional information related to the impairment. There were no other goodwill impairment charges recorded during the year ended December 31, 2017. There were no goodwill impairment charges recorded during the years ended December 31, 2019 and 2018.

## Other Intangible Assets

The components of the Company's other intangible assets were as follows:

<i>(in millions)</i>	December 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Customer relationships	\$ 67.7	\$ 15.5	\$ 52.2	\$ 67.7	\$ 10.8	\$ 56.9
Trademarks/Trade names	3.8	3.8	—	3.8	3.5	0.3
Non-compete agreements	1.5	1.5	—	1.5	1.5	—
Total	<u>\$ 73.0</u>	<u>\$ 20.8</u>	<u>\$ 52.2</u>	<u>\$ 73.0</u>	<u>\$ 15.8</u>	<u>\$ 57.2</u>

During the third quarter of 2017, the Company recognized a \$1.6 million non-restructuring asset impairment charge related to its logistics solutions business's customer relationship intangible asset, which was recorded in selling and administrative expenses. There were no intangible impairment charges recorded during the years ended December 31, 2019 and 2018. See Note 11, Fair Value Measurements, for additional information related to this impairment.

Upon retirement or full impairment of the intangible asset, the cost and related amount of accumulated amortization are eliminated from the asset and accumulated amortization accounts, respectively.

The Company recorded amortization expense of \$5.0 million, \$6.9 million and \$4.2 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The estimated aggregate amortization expense for each of the five succeeding years is as follows (in millions):

Year	Total
2020	\$ 4.8
2021	4.8
2022	4.8
2023	4.8
2024	4.8

## 7. DEBT AND OTHER OBLIGATIONS

The Company's debt obligations were as follows:

<i>(in millions)</i>	As of December 31,	
	2019	2018
Asset-Based Lending Facility (the "ABL Facility")	\$ 673.2	\$ 932.1
Commercial card program	1.1	—
Finance and capital leases, respectively	80.7	38.2
Total debt	<u>755.0</u>	<u>970.3</u>
Less: current portion of debt	(12.6)	(6.7)
Long-term debt, net of current portion	<u>\$ 742.4</u>	<u>\$ 963.6</u>

The Company determined that, upon transition to Topic 842, the previously reported failed sale-leaseback financing obligation would be reported as a finance lease, and its land operating lease would now be combined with its building finance lease and reported together as one finance lease, which is reported as part of the debt obligations in the table above. As the Company adopted Topic 842 using an approach whereby the prior reporting periods have not been restated to reflect the new guidance, the financing obligation value of that one previously reported failed sale-leaseback is shown below as of December 31, 2018:

<i>(in millions)</i>	<b>December 31, 2018</b>
Obligations - other financing	\$ 24.2
Less: current portion of financing obligations	(0.6)
Financing obligations, net of current portion	<u>\$ 23.6</u>

## **ABL Facility**

Veritiv has a \$1.4 billion asset-based lending facility. The ABL Facility is comprised of U.S. and Canadian sub-facilities of \$1,250 million and \$150 million, respectively. The ABL Facility is available to be drawn in U.S. dollars, in the case of the U.S. sub-facilities, and in U.S. dollars or Canadian dollars, in the case of the Canadian sub-facilities, or in other currencies that are mutually agreeable. The Company's accounts receivable and inventories in the U.S. and Canada are collateral under the ABL Facility.

The ABL Facility matures on August 11, 2021. The ABL Facility provides for the right of the individual lenders to extend the maturity date of their respective commitments and loans upon the request of Veritiv and without the consent of any other lenders. The ABL Facility may be prepaid at Veritiv's option at any time without premium or penalty and is subject to mandatory prepayment if the amount outstanding under the ABL Facility exceeds either the aggregate commitments with respect thereto or the current borrowing base, in an amount equal to such excess.

The ABL Facility has a springing minimum fixed charge coverage ratio of at least 1.00 to 1.00 on a trailing four-quarter basis, which will be tested only when specified availability is less than limits outlined under the ABL Facility. At December 31, 2019 the above test was not applicable and is not expected to be applicable in the next 12 months.

Availability under the ABL Facility is determined based upon a monthly borrowing base calculation which includes eligible customer receivables and inventory, less outstanding borrowings, letters of credit and certain designated reserves. As of December 31, 2019, the available additional borrowing capacity under the ABL Facility was approximately \$282.1 million. As of December 31, 2019, the Company held \$12.1 million in outstanding letters of credit.

Under the terms of the ABL Facility, interest rates are based upon LIBOR or the prime rate plus a margin rate, or in the case of Canada, a banker's acceptance rate or base rate plus a margin rate. The weighted-average borrowing interest rate was 3.4% and 4.6% at December 31, 2019 and December 31, 2018, respectively.

In conjunction with the ABL Facility, the Company incurred and deferred financing fees, which are reflected in other non-current assets in the Consolidated Balance Sheets, and will be amortized to interest expense on a straight-line basis over the term of the ABL Facility. Interest expense, net in the Consolidated Statements of Operations included \$2.6 million of amortization of deferred financing fees for each of the years ended December 31, 2019, 2018 and 2017.

## **Finance and Capital Lease Obligations**

See Note 3, Leases, for additional information regarding the Company's finance and capital lease obligations.

## **Interest Rate Caps**

The Company's indebtedness under the ABL Facility creates interest rate risk. The Company actively monitors this risk with the objective to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in the interest rate. In July 2015, the Company entered into an interest rate cap agreement which expired on July 1, 2019; all related impacts to the Company's consolidated financial statements for the years ended December 31, 2019, 2018 and 2017 were not significant.

Effective September 13, 2019, the Company entered into a new interest rate cap agreement with an expiration date of September 13, 2022. The interest rate cap effectively limits the floating LIBOR-based portion of the interest rate. The interest rate cap covers \$350.0 million of the Company's floating-rate debt at 2.75% plus the applicable credit spread. The Company paid \$0.6 million for the interest rate cap. For the year ended December 31, 2019, the amount reclassified from AOCL into earnings was not significant. As of December 31, 2019, the interest rate cap had a fair value that was not significant. The interest rate cap is classified within other non-current assets on the Consolidated Balance Sheet as of December 31, 2019 and the amount expected to be reclassified from AOCL into earnings within the following 12 months is not significant. The fair value was estimated using observable market-based inputs including interest rate curves and implied volatilities (Level 2). The Company designated the new interest rate cap as a cash flow hedge of exposure to changes in cash flows due to changes in the LIBOR-based portion of the interest rate above 2.75%. The Company has determined that the 2019 interest rate cap hedging relationship is effective.

The Company is exposed to counterparty credit risk for nonperformance and, in the event of nonperformance, to market risk for changes in the interest rate. The Company attempts to manage exposure to counterparty credit risk primarily by selecting only those counterparties that meet certain credit and other financial standards. The Company believes there has been no material change in the creditworthiness of its counterparty and believes the risk of nonperformance by such party is minimal.

### Commercial Card Program

In May 2019, the Company entered into a commercial purchasing card agreement with a financial institution. The commercial card is used for business purpose purchasing and must be paid in-full monthly. The card currently carries a maximum credit limit of \$37.5 million. At December 31, 2019, \$1.1 million was outstanding on the commercial card and was classified as financing activity in the Consolidated Statements of Cash Flows.

## 8. INCOME TAXES

The Company is subject to federal, state and local income taxes in the U.S., as well as income taxes in Canada, Mexico and other foreign jurisdictions. The domestic (U.S.) and foreign components of the Company's income (loss) before income taxes were as follows:

<i>(in millions)</i>	Year Ended December 31,		
	2019	2018	2017
Domestic (U.S.)	\$ (50.5)	\$ (16.7)	\$ (18.0)
Foreign	21.7	6.5	16.1
Income (loss) before income taxes	<u>\$ (28.8)</u>	<u>\$ (10.2)</u>	<u>\$ (1.9)</u>

Income tax expense (benefit) in the Consolidated Statements of Operations consisted of the following:

<i>(in millions)</i>	Year Ended December 31,		
	2019	2018	2017
Current Provision:			
U.S. Federal	\$ 0.7	\$ 0.8	\$ 4.8
U.S. State	0.5	1.2	1.5
Foreign	2.2	1.5	3.2
Total current income tax expense	<u>\$ 3.4</u>	<u>\$ 3.5</u>	<u>\$ 9.5</u>
Deferred, net:			
U.S. Federal	\$ (4.8)	\$ 0.4	\$ 16.3
U.S. State	0.0	0.6	(2.7)
Foreign	2.1	1.0	(11.7)
Total deferred, net	<u>\$ (2.7)</u>	<u>\$ 2.0</u>	<u>\$ 1.9</u>
Provision for income tax expense	<u>\$ 0.7</u>	<u>\$ 5.5</u>	<u>\$ 11.4</u>



Reconciliation between the federal statutory rate and the effective tax rate is as follows (see Note 9, Related Party Transactions, for additional information related to the Tax Receivable Agreement ("TRA")):

<i>(in millions)</i>	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Income (loss) before income taxes	\$ (28.8)	\$ (10.2)	\$ (1.9)
Statutory U.S. income tax rate	21.0 %	21.0 %	35.0 %
Tax expense (benefit) using statutory U.S. income tax rate	\$ (6.0)	\$ (2.1)	\$ (0.7)
Foreign income tax rate differential	0.6	0.7	(1.4)
State tax (net of federal benefit)	0.3	1.4	(0.5)
Non-deductible expenses	2.4	2.7	2.2
Global Intangible Low Taxed Income	2.8	1.4	—
TRA <sup>(1)</sup>	(0.1)	(0.3)	(3.8)
Tax credits <sup>(2)</sup>	(1.1)	(1.0)	(4.0)
Impact of U.S. Tax Act (Federal and State)	—	1.3	30.2
Stock compensation vesting	1.3	1.7	—
Change in valuation allowance - U.S. Federal <sup>(3)</sup>	—	(0.1)	—
Change in valuation allowance - Foreign	0.3	(0.4)	(13.7)
Goodwill impairment	—	—	2.1
Foreign taxes	0.9	0.6	0.7
Bad debt	(0.9)	—	—
Other	0.2	(0.4)	0.3
Income tax provision	\$ 0.7	\$ 5.5	\$ 11.4
Effective income tax rate	<u>(2.4)%</u>	<u>(53.9)%</u>	<u>(600.0)%</u>

<sup>(1)</sup> Includes a \$4.7 million tax rate benefit for the federal tax rate change as part of the Tax Act and a \$0.9 million tax rate increase for other fair value changes in 2017.

<sup>(2)</sup> Includes a \$3.1 million benefit for credits related to foreign taxes and research and experimentation activities recognized in conjunction with the third quarter of 2017 filing of Veritiv's 2016 U.S. federal tax return and amended 2015 and 2014 U.S. federal tax returns.

<sup>(3)</sup> Increase in Section 382 limitation resulting from recognition of 2018 built-in gains.

The Tax Act was signed into law on December 22, 2017. The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to reducing the U.S. federal corporate tax rate from 35.0% to 21.0%, implementation of a territorial tax system and a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries that is payable over eight years. Veritiv recognized the tax effects of the Tax Act in the year ended December 31, 2017 and completed the accounting for certain income tax effects of the Tax Act during the fourth quarter of 2018 in accordance with Staff Accounting Bulletin 118. The total amount recorded related to the Tax Act includes \$31.5 million in tax expense, of which \$24.0 million related primarily to the remeasurement of the Company's deferred taxes to the 21.0% tax rate and \$7.5 million related to the one-time transition tax. Additionally, the Company has concluded the applicable accounting policy election associated with GILTI will be treated as a period cost. The Company has accounted for the tax impacts related to provisions of the Tax Act effective in fiscal year 2018.

Effective January 1, 2018, Veritiv elected to early adopt ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from accumulated other comprehensive income (AOCI)* which gives companies the option to reclassify to retained earnings tax effects resulting from the Tax Act related to items in AOCI that the FASB refers to as having been stranded in AOCI. As a result of adopting this standard, the Company reclassified \$0.8 million from Veritiv's AOCL to retained earnings.

Deferred income tax assets and liabilities as of December 31, 2019 and 2018 were as follows:

<i>(in millions)</i>	<b>As of December 31,</b>			
	<b>2019</b>		<b>2018</b>	
	<b>U.S.</b>	<b>Non-U.S.</b>	<b>U.S.</b>	<b>Non-U.S.</b>
Deferred income tax assets:				
Accrued compensation	\$ 32.9	\$ 2.7	\$ 33.1	\$ 2.6
Capital leases and financing obligations	10.2	9.0	13.0	0.6
Lease obligations	108.4	12.5	—	—
Net operating losses and credit carryforwards	35.4	7.7	40.8	10.0
Allowance for doubtful accounts	11.4	0.1	14.8	0.1
Other	13.7	0.6	10.8	1.4
Gross deferred income tax assets	212.0	32.6	112.5	14.7
Less valuation allowance	(2.4)	(2.4)	(5.1)	(3.3)
Total deferred tax asset	209.6	30.2	107.4	11.4
Deferred income tax liabilities:				
Property and equipment, net	(25.6)	(8.1)	(22.9)	—
Lease assets	(101.4)	(12.2)	—	—
Inventory reserve	(28.7)	—	(34.9)	—
Other	(6.8)	—	(4.5)	—
Total deferred tax liability	(162.5)	(20.3)	(62.3)	—
Net deferred income tax asset	\$ 47.1	\$ 9.9	\$ 45.1	\$ 11.4

Deferred income tax asset valuation allowance is as follows:

<i>(in millions)</i>	<b>U.S.</b>	<b>Non-U.S.</b>	<b>Total</b>
Balance at December 31, 2017	\$ 4.7	\$ 3.6	\$ 8.3
Additions	0.5	0.7	1.2
Subtractions	(0.1)	(0.8)	(0.9)
Currency translation adjustments	—	(0.2)	(0.2)
Balance at December 31, 2018	5.1	3.3	8.4
Additions	1.1	0.4	1.5
Subtractions	(3.8)	(1.2)	(5.0)
Currency translation adjustments	—	(0.1)	(0.1)
Balance at December 31, 2019	\$ 2.4	\$ 2.4	\$ 4.8

The Merger resulted in a significant change in the ownership of the Company, which, pursuant to the Internal Revenue Code Section 382, imposes annual limits on the Company's ability to utilize its U.S. federal and state net operating loss ("NOL" or "NOLs") carryforwards. The Company's NOLs will continue to be available to offset taxable income (until such NOLs are either utilized or expire) subject to the Section 382 annual limitation. If the annual limitation amount is not fully utilized in a particular tax year, then the unused portion from that particular tax year will be added to the annual limitation in subsequent years. In accordance with Notice 2003-65, the Company was in a net unrealized built-in gain position at the time of the Merger. During the year ended December 31, 2019, the Company's five-year recognition period to recognize built-in gain ended. As such, the deferred tax asset and valuation allowance representing the book basis in excess of tax basis of various assets was written-off.

In general, it is the practice and intention of Veritiv to reinvest the earnings of its non-U.S. subsidiaries in those operations. As of December 31, 2019, Veritiv's tax basis exceeded its financial reporting basis in certain investments in non-U.S. subsidiaries. The Company does not believe these temporary differences will reverse in the foreseeable future and, therefore, no deferred tax asset has been recognized with respect to these basis differences. Additionally, no deferred tax liability has been recognized for income and withholding tax liabilities associated with investments in non-U.S. subsidiaries.

where book basis exceeds tax basis. The amount of such temporary differences totaled approximately \$31.8 million as of December 31, 2019. The income and withholding tax liability associated with these temporary differences is immaterial.

Veritiv applies a "more likely than not" threshold to the recognition and de-recognition of uncertain tax positions. A change in judgment related to prior years' uncertain tax positions is recognized in the period of such change.

The Company accrues interest on unrecognized tax benefits as a component of interest expense. Penalties, if incurred, are recognized as a component of income tax expense. Total gross unrecognized tax benefits as of December 31, 2019, 2018 and 2017, as well as activity within each of the years, was not material.

In the U.S., Veritiv is generally subject to examination by the IRS for fiscal years 2016 and later and certain states for fiscal years 2015 and later; however, it may be subject to IRS and state tax authority adjustments for years prior to 2016 to the extent of losses or other tax attributes carrying forward from the earlier years. Veritiv Canada remains subject to examination by the Canadian Revenue Agency and certain provinces for fiscal years 2012 and later.

As of December 31, 2019, Veritiv has federal, state and foreign income tax NOLs available to offset future taxable income of \$137.3 million, \$142.2 million and \$29.6 million, respectively. Federal NOLs begin expiring in 2023. State and foreign NOLs will expire at various dates from 2020 through 2039, with the exception of certain foreign NOLs that do not expire, but have a full valuation allowance.

## 9. RELATED PARTY TRANSACTIONS

### Agreements with the UWWH Stockholder

On the Distribution Date UWW Holdings, LLC (the "UWWH Stockholder"), the sole shareholder of UWWH, received 7.84 million shares of Veritiv common stock for all outstanding shares of UWWH common stock that it held in a private placement transaction. Additionally, Veritiv and the UWWH Stockholder executed the following agreements:

- **Registration Rights Agreement:** The Registration Rights Agreement provides the UWWH Stockholder with certain demand and piggyback registration rights. Under this Agreement, the UWWH Stockholder is also entitled to transfer its Veritiv common stock to one or more of its affiliates or equity-holders and may exercise registration rights on behalf of such transferees if such transferees become a party to the Registration Rights Agreement. The UWWH Stockholder, on behalf of the holders of shares of Veritiv's common stock that are party to the Registration Rights Agreement, under certain circumstances and provided certain thresholds described in the Registration Rights Agreement are met, may make a written request to the Company for the registration of the offer and sale of all or part of the shares subject to such registration rights. If the Company registers the offer and sale of its common stock (other than pursuant to a demand registration or in connection with registration on Form S-4 and Form S-8 or any successor or similar forms, or relating solely to the sale of debt or convertible debt instruments) either on its behalf or on the behalf of other security holders, the holders of the registration rights under the Registration Rights Agreement are entitled to include their shares in such registration. The demand rights described commenced 180 days after the Distribution Date. Veritiv is not required to effect more than one demand registration in any 150-day period or more than two demand registrations in any 365-day period. If Veritiv believes that a registration or an offering would materially affect a significant transaction or would require it to disclose confidential information which it in good faith believes would be adverse to its interest, then Veritiv may delay a registration or filing for no more than 120 days in a 360-day period.
- **Tax Receivable Agreement:** The Tax Receivable Agreement sets forth the terms by which Veritiv generally will be obligated to pay the UWWH Stockholder an amount equal to 85% of the U.S. federal, state and Canadian income tax savings that Veritiv actually realizes as a result of the utilization of Unisource's NOLs attributable to taxable periods prior to the date of the Merger. For purposes of the TRA, Veritiv's income tax savings will generally be computed by comparing Veritiv's actual aggregate U.S. federal, state and Canadian income tax liability for taxable periods (or portions thereof) beginning after the date of the Merger to the amount of Veritiv's aggregate U.S. federal, state and Canadian income tax liability for the same periods had Veritiv not been able to utilize Unisource's NOLs attributable to taxable periods prior to the date of the Merger. Veritiv will pay to the UWWH Stockholder an amount equal to 85% of such tax savings, plus interest at a rate of LIBOR plus 1.00%, computed from the earlier of the date that Veritiv files its U.S. federal income tax return for the applicable taxable year and the date that such tax return is due (without extensions) until payments are made. Under the TRA, the UWWH Stockholder will not be required to reimburse Veritiv for any payments previously made if such tax benefits are subsequently disallowed or adjusted (although future payments under

the TRA would be adjusted to the extent possible to reflect the result of such disallowance or adjustment). The TRA will be binding on and adapt to the benefit of any permitted assignees of the UWWH Stockholder and to any successors to any of the parties of the TRA to the same extent as if such permitted assignee or successor had been an original party to the TRA. In January 2020, 2019 and 2018, Veritiv paid \$0.3 million, \$8.1 million and \$10.1 million, respectively, in principal and interest, to the UWWH Stockholder for the utilization of pre-merger NOLs in its 2018, 2017 and 2016 federal and state tax returns, respectively. As of December 31, 2017, the TRA was revalued for the Tax Act change, lowering the U.S. federal corporate tax rate from 35.0% to 21.0%. This change reduced the value of the TRA liability by \$13.5 million.

On March 22, 2017, the UWWH Stockholder sold 1.80 million shares of Veritiv common stock in a block trade. The Company did not sell or repurchase any shares and did not receive any of the proceeds in this transaction. In conjunction with this transaction, Veritiv incurred approximately \$0.2 million in transaction-related fees, which were included in selling and administrative expenses on the Consolidated Statements of Operations.

On September 25, 2018, the UWWH Stockholder sold 1.50 million shares of Veritiv common stock in a block trade. The Company did not sell or repurchase any shares and did not receive any of the proceeds in this transaction. In conjunction with this transaction, Veritiv incurred approximately \$0.2 million in transaction-related fees, which were included in selling and administrative expenses on the Consolidated Statements of Operations.

The UWWH Stockholder beneficially owned 2,783,840 shares of Veritiv's outstanding common stock as of December 31, 2019.

### Transactions with Georgia-Pacific

Veritiv purchases certain inventory items from, and sells certain inventory items to, Georgia-Pacific in the normal course of business. As a result of the Merger and related private placement, Georgia-Pacific, as joint owner of the UWWH Stockholder, is a related party. The following table summarizes the financial impact of these related party transactions with Georgia-Pacific:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<i>(in millions)</i>			
Sales to Georgia-Pacific, reflected in net sales	\$ 23.4	\$ 28.0	\$ 32.2
Purchases of inventory from Georgia-Pacific, recognized in cost of products sold	85.2	146.5	181.6
	<b>As of December 31,</b>		
	<b>2019</b>	<b>2018</b>	
<i>(in millions)</i>			
Inventories purchased from Georgia-Pacific that remained on Veritiv's balance sheet	\$ 11.4	\$ 17.3	
Related party payable to Georgia-Pacific	4.3	9.3	
Related party receivable from Georgia-Pacific	2.8	3.2	

See Note 3, Leases, for information on the Company's financing obligations to Georgia-Pacific.

## 10. EMPLOYEE BENEFIT PLANS

### Defined Contribution Plans

Veritiv sponsors qualified defined contribution plans covering its employees in the U.S. and Canada. The defined contribution plans allow eligible employees to contribute a portion of their eligible compensation (including salary and annual incentive plan bonus) to the plans and Veritiv makes matching contributions to participant accounts on a specified percentage of employee deferrals as determined by the provisions of each plan. During the years ended December 31, 2019, 2018 and 2017 Veritiv's contributions to these plans totaled \$19.9 million, \$20.6 million and \$19.4 million, respectively.



## Deferred Compensation Savings Plans

In conjunction with the Merger, Veritiv assumed responsibility for Unisource's legacy deferred compensation plans. In general, the payout terms varied for each employee agreement and are paid in monthly or annual installments ranging up to 15 years from the date of eligibility.

Effective January 1, 2015, the Company adopted the Veritiv Deferred Compensation Savings Plan which provides for the deferral of salaries, commissions or bonuses of eligible non-union employees and the deferral of cash and equity retainers for non-employee members of the Company's Board of Directors. Under this plan, eligible employees may elect to defer up to 85% of their base salary, commissions and annual incentive bonus. The amounts deferred are credited to notional investment accounts selected by participants. At the time a deferral election is made, participants elect to receive payout of the deferred amounts upon termination of employment or termination of Board service in the form of a lump sum or equal annual installments ranging from two to ten years. Currently, Veritiv does not make matching contributions to this plan.

The liabilities associated with these plans are summarized in the table below.

<i>(in millions)</i>	<b>As of December 31,</b>	
	<b>2019</b>	<b>2018</b>
Other accrued liabilities	\$ 3.7	\$ 3.4
Other non-current liabilities	21.1	21.6
Total liabilities	<u>\$ 24.8</u>	<u>\$ 25.0</u>

## Defined Benefit Plans

At December 31, 2019 and 2018, Veritiv did not maintain any active defined benefit plans for its non-union employees. Veritiv maintains a defined benefit pension plan in the U.S. for employees covered by certain collectively bargained agreements. Veritiv also assumed responsibility for Unisource's defined benefit plans, which include frozen cash balance accounts for certain former Unisource employees.

During October 2018, the Company settled its pension obligation related to participants currently in receipt of benefits (i.e., retirees) in the U.S. by purchasing a group annuity insurance contract. By purchasing an insurance contract, the Company eliminated its obligation related to paying and managing these participants and passed the full obligation to the selected insurer, which reduced Veritiv's projected benefit obligation and plan assets by approximately \$21.6 million for the year ended December 31, 2018. The Company recorded a settlement loss of approximately \$0.9 million related to this transaction.

*Benefit Obligations and Funded Status*

The following table provides information about Veritiv's U.S. and Canadian defined benefit pension plans and Supplemental Executive Retirement Plans ("SERP"):

<i>(in millions)</i>	<b>Year Ended December 31,</b>			
	<b>2019</b>		<b>2018</b>	
	<b>U.S.</b>	<b>Canada</b>	<b>U.S.</b>	<b>Canada</b>
Accumulated benefit obligation, end of year	\$ 65.4	\$ 81.9	\$ 64.1	\$ 70.2
Change in projected benefit obligation:				
Benefit obligation, beginning of year	\$ 64.1	\$ 75.3	\$ 91.0	\$ 90.0
Service cost	1.1	0.3	1.2	0.3
Interest cost	2.1	2.9	2.5	2.7
Actuarial (gain) loss	1.3	8.8	(3.7)	(6.0)
Benefits paid	(3.2)	(3.7)	(1.7)	(4.9)
Settlements	—	—	(25.2)	—
Foreign exchange adjustments	—	4.0	—	(6.8)
Projected benefit obligation, end of year	<u>\$ 65.4</u>	<u>\$ 87.6</u>	<u>\$ 64.1</u>	<u>\$ 75.3</u>
Change in plan assets:				
Plan assets, beginning of year	\$ 52.1	\$ 65.9	\$ 81.4	\$ 74.9
Employer contributions	—	1.0	0.1	2.2
Investment returns	11.1	11.2	(1.5)	(0.4)
Benefits paid	(3.2)	(3.7)	(1.7)	(4.9)
Administrative expenses paid	(0.8)	—	(1.0)	—
Settlements	—	—	(25.2)	—
Foreign exchange adjustments	—	3.4	—	(5.9)
Plan assets, end of year	<u>\$ 59.2</u>	<u>\$ 77.8</u>	<u>\$ 52.1</u>	<u>\$ 65.9</u>
Underfunded status, end of year	<u>\$ (6.2)</u>	<u>\$ (9.8)</u>	<u>\$ (12.0)</u>	<u>\$ (9.4)</u>

*Balance Sheet Positions*

<i>(in millions)</i>	<b>As of December 31,</b>			
	<b>2019</b>		<b>2018</b>	
	<b>U.S.</b>	<b>Canada</b>	<b>U.S.</b>	<b>Canada</b>
Amounts recognized in the Consolidated Balance Sheets consist of:				
Other accrued liabilities	\$ 0.1	\$ 0.2	\$ 0.1	\$ 0.2
Defined benefit pension obligations	6.1	9.6	11.9	9.2
Net liability recognized	<u>\$ 6.2</u>	<u>\$ 9.8</u>	<u>\$ 12.0</u>	<u>\$ 9.4</u>

<i>(in millions)</i>	<b>Year Ended December 31,</b>			
	<b>2019</b>		<b>2018</b>	
	<b>U.S.</b>	<b>Canada</b>	<b>U.S.</b>	<b>Canada</b>
Amounts not yet reflected in net periodic benefit cost and included in AOCL consist of:				
Net loss, net of tax	<u>\$ 0.7</u>	<u>\$ 5.5</u>	<u>\$ 5.4</u>	<u>\$ 4.7</u>

## Net Periodic Cost

Total net periodic benefit cost (credit) associated with the defined benefit pension and SERP plans is summarized below:

<i>(in millions)</i>	<b>Year Ended December 31,</b>					
	<b>2019</b>		<b>2018</b>		<b>2017</b>	
	<b>U.S.</b>	<b>Canada</b>	<b>U.S.</b>	<b>Canada</b>	<b>U.S.</b>	<b>Canada</b>
Components of net periodic benefit cost (credit):						
Service cost	\$ 1.9	\$ 0.3	\$ 2.0	\$ 0.3	\$ 2.0	\$ 0.3
Interest cost	\$ 2.1	\$ 2.9	\$ 2.5	\$ 2.7	\$ 2.7	\$ 2.7
Expected return on plan assets	(3.4)	(3.7)	(5.2)	(3.9)	(5.1)	(3.7)
Settlement loss	—	—	1.1	0.1	—	—
Amortization of net loss	—	0.2	—	0.3	0.1	0.2
Total other components	\$ (1.3)	\$ (0.6)	\$ (1.6)	\$ (0.8)	\$ (2.3)	\$ (0.8)
Net periodic benefit cost (credit)	\$ 0.6	\$ (0.3)	\$ 0.4	\$ (0.5)	\$ (0.3)	\$ (0.5)
Changes to funded status recognized in other comprehensive (income) loss:						
Net loss (gain) during year, net of tax	\$ (4.7)	\$ 0.8	\$ 2.2	\$ (1.4)	\$ (2.5)	\$ 2.7

The components of net periodic benefit cost (credit) other than the service cost component are included in other (income) expense, net in the Company's Consolidated Statements of Operations. Amounts are generally amortized from AOCL over the expected future working lifetime of active plan participants.

## Fair Value of Plan Assets

U.S. and Canada pension plan assets are primarily invested in broad-based mutual funds and pooled funds comprised of U.S. and non-U.S. equities, U.S. and non-U.S. high-quality and high-yield fixed income securities, and short-term interest bearing securities or deposits.

The underlying investments of the U.S. plan assets are valued using quoted prices in active markets (Level 1). The underlying investments of the Canada plan assets in equity and fixed income securities are measured at fair value using the Net Asset Value ("NAV") provided by the administrator of the fund and the Company has the ability to redeem such assets at the measurement date or within the near term without redemption restrictions. In accordance with ASU 2015-07, "Fair Value Measurement (Topic 820)", investments that are measured at fair value using the NAV per share practical expedient have not been classified in the fair value hierarchy. The following tables present Veritiv's plan assets using the fair value hierarchy which is reconciled to the amounts presented for the total pension benefit plan assets as of December 31:

### As of December 31, 2019

<i>(in millions)</i>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Investments – U.S.:</b>				
Equity securities	\$ 36.0	\$ 36.0	\$ —	\$ —
Fixed income securities	23.1	23.1	—	—
Cash and short-term securities	0.1	0.1	—	—
Total	\$ 59.2	\$ 59.2	\$ —	\$ —

**As of December 31, 2019***(in millions)*

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Investments – Canada:</b>				
Cash and short-term securities	\$ 0.6	\$ 0.6	\$ —	\$ —
Investments measured at NAV:				
Equity securities	52.1			
Fixed income securities	25.1			
<b>Total</b>	<b>\$ 77.8</b>	<b>\$ 0.6</b>	<b>\$ —</b>	<b>\$ —</b>

**As of December 31, 2018***(in millions)*

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Investments – U.S.:</b>				
Equity securities	\$ 33.1	\$ 33.1	\$ —	\$ —
Fixed income securities	18.7	18.7	—	—
Cash and short-term securities	0.3	0.3	—	—
<b>Total</b>	<b>\$ 52.1</b>	<b>\$ 52.1</b>	<b>\$ —</b>	<b>\$ —</b>

**As of December 31, 2018***(in millions)*

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Investments – Canada:</b>				
Cash and short-term securities	\$ 0.3	\$ 0.3	\$ —	\$ —
Investments measured at NAV:				
Equity securities	42.2			
Fixed income securities	23.4			
<b>Total</b>	<b>\$ 65.9</b>	<b>\$ 0.3</b>	<b>\$ —</b>	<b>\$ —</b>

The classification of fair value measurements within the hierarchy is based upon the lowest level of input that is significant to the measurement. Valuation methodologies used for assets and liabilities measured at fair value are as follows:

\* *Equity Securities:* Commingled funds are valued at the net asset value of units held at year end, as determined by a pricing vendor or the fund family. Mutual funds are valued at the net asset value of shares held at year end, as determined by the closing price reported on the active market on which the individual securities are traded, or a pricing vendor or the fund family if an active market is not available.

\* *Fixed Income Securities:* Mutual funds are valued at the net asset value of shares held at year end, as determined by the closing price reported on the active market on which the individual securities are traded, or a pricing vendor or the fund family if an active market is not available.

\* *Cash and Short-term Securities:* Cash and cash equivalents consist of U.S. and foreign currencies. Foreign currencies are reported in U.S. dollars based on currency exchange rates readily available in active markets. Short-term securities are valued at the net asset value of units held at year end.



The weighted-average asset allocations of invested assets within Veritiv's defined benefit pension plans were as follows:

**As of December 31, 2019**

<i>(in millions)</i>			<b>Asset Allocation Range</b>	
	<b>U.S.</b>	<b>Canada</b>	<b>U.S.</b>	<b>Canada</b>
Equity securities	\$ 36.0	\$ 52.1	55 - 75%	50 - 70%
Fixed income securities	23.1	25.1	20 - 40%	30 - 50%
Cash and short-term securities	0.1	0.6	0 - 10%	0 - 5%
<b>Total</b>	<b>\$ 59.2</b>	<b>\$ 77.8</b>		

**As of December 31, 2018**

<i>(in millions)</i>			<b>Asset Allocation Range</b>	
	<b>U.S.</b>	<b>Canada</b>	<b>U.S.</b>	<b>Canada</b>
Equity securities	\$ 33.1	\$ 42.2	55 - 75%	50 - 70%
Fixed income securities	18.7	23.4	20 - 40%	30 - 50%
Cash and short-term securities	0.3	0.3	0 - 10%	0 - 5%
<b>Total</b>	<b>\$ 52.1</b>	<b>\$ 65.9</b>		

Veritiv's investment objectives include maximizing long-term returns at acceptable risk levels, diversifying among asset classes, as applicable, and among investment managers as well as establishing certain risk parameters within asset classes. Investment performance is evaluated at least quarterly. Total returns are compared to the weighted-average return of a benchmark mix of investments. Individual fund investments are compared to historical three-, five- and ten-year returns achieved by funds with similar investment objectives.

*Assumptions*

The determination of Veritiv's defined benefit obligations and pension expense is based on various assumptions, such as discount rates, expected long-term rates of return, rate of compensation increases, employee retirement patterns and payment selections, inflation, and mortality rates.

Veritiv's weighted-average discount rates for its U.S. plans were determined by using cash flow matching techniques whereby the rates of yield curves, developed from U.S. corporate yield curves, were applied to the benefit obligations to determine the appropriate discount rate. Veritiv's weighted-average discount rates for its Canadian plans were determined by using spot rates from yield curves, developed from high-quality bonds (rated AA or higher) by established rating agencies, matching the duration of the future expected benefit obligations.

Veritiv's weighted-average expected rate of return was developed based on several factors, including projected and historical rates of returns, investment allocations of pension plan assets and inflation expectations. Veritiv evaluates the expected rate of return assumptions on an annual basis.

The following table presents significant weighted-average assumptions used in computing the benefit obligations:

	<b>As of December 31,</b>					
	<b>2019</b>		<b>2018</b>		<b>2017</b>	
	<b>U.S.</b>	<b>Canada</b>	<b>U.S.</b>	<b>Canada</b>	<b>U.S.</b>	<b>Canada</b>
Discount rate	2.98 %	3.10 %	4.01 %	3.90 %	3.33 %	3.40 %
Rate of compensation increases	N/A	3.00 %	N/A	3.00 %	N/A	3.00 %

The following table presents significant weighted-average assumptions used in computing net periodic benefit cost:

	Year Ended December 31,					
	2019		2018		2017	
	U.S.	Canada	U.S.	Canada	U.S.	Canada
Discount rate	4.01 %	3.90 %	3.47 %	3.40 %	3.76 %	3.85 %
Rate of compensation increases	N/A	3.00 %	N/A	3.00 %	N/A	3.00 %
Expected long-term rate of return on assets	7.15 %	5.50 %	7.15 %	5.50 %	7.15 %	5.50 %
Interest crediting rate	5.00 %	N/A	5.00 %	N/A	5.00 %	N/A

#### Cash Flows

Veritiv expects to contribute \$0.1 million and \$0.5 million to its U.S. and Canadian defined benefit pension and SERP plans, respectively, during 2020. Future benefit payments under the defined benefit pension and SERP plans are estimated as follows:

(in millions)	U.S.	Canada
2020	\$ 8.6	\$ 2.9
2021	3.5	2.9
2022	3.5	3.2
2023	3.4	3.3
2024	3.6	3.5
2025 – 2029	18.9	20.1

#### MEPPs

Veritiv's contributions to MEPPs, excluding the payment of any withdrawal liabilities, were \$2.4 million, \$3.0 million and \$3.5 million for the years ended December 31, 2019, 2018 and 2017, respectively. It is reasonably possible that changes to Veritiv employees covered under these plans might result in additional contribution obligations. Any such obligations would be governed by the specific agreement between Veritiv and any such plan. Veritiv's contributions did not represent more than 5% of total contributions to any MEPPs for the plan years in which Forms 5500 were available. At the date these Consolidated Financial Statements were issued, Forms 5500 were not available for the plan year ended in 2019.

The risks of participating in these MEPPs are different from a single employer plan in the following aspects:

- Assets contributed to the MEPPs by one employer may be used to provide benefits to employees of other participating employers,
- If a participating employer ceases contributing to the plan, the unfunded obligations of the plan may be inherited by the remaining participating employers, and
- If the Company stops participating in any of the MEPPs, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company has recorded undiscounted charges related to the complete or partial withdrawal from various MEPPs. Charges not related to the Company's restructuring efforts are recorded as distribution expenses. Initial amounts are recorded as other non-current liabilities in the Consolidated Balance Sheets. See the table below for a summary of the net withdrawal charges and the year-end balance sheet liability positions for the respective years ended December 31:

<b>Year Ended December 31,</b>					
<i>(in millions)</i>	<b>Restructuring charges, net</b>		<b>Distribution expenses</b>		<b>Total Net Charges</b>
2019	\$	1.5	\$	6.6	\$ 8.1
2018		(2.8)		11.2	8.4
2017		17.4		2.1	19.5

<b>As of December 31,</b>					
<i>(in millions)</i>	<b>Other accrued liabilities</b>		<b>Other non-current liabilities</b>		
2019	\$	1.9	\$	37.4	
2018		0.7		32.5	

During the second quarter of 2019, Veritiv negotiated a partial withdrawal from the Western Pennsylvania Teamsters and Employers Pension Fund (the "Western Pennsylvania Fund") related to its Warrendale, Pennsylvania location and recognized an estimated partial withdrawal liability of \$6.5 million in distribution expenses, as it was not related to a restructuring activity. Also during the second quarter of 2019, Veritiv recognized an estimated complete withdrawal liability of \$1.8 million in restructuring charges related to the closing of its Philadelphia, Pennsylvania location for those employees who participated in the Warehouse Employees Local Union 169 and Employer's Joint Pension Trust MEPP ("Local 169 MEPP"). In the fourth quarter of 2019, Veritiv received the estimated determination letter from the Local 169 MEPP assessing a complete withdrawal liability of \$1.8 million, which was equal to the amount recognized during the second quarter of 2019, and is payable in 80 quarterly installments beginning in December 2019.

Included in the restructuring charges, net amounts above for 2018 and 2017, is a MEPP withdrawal reduction of \$2.7 million and a charge of \$3.4 million, respectively, related to the Central States MEPP. During the third quarter of 2018, based on an estimate provided by the MEPP and an actuarial review change, Veritiv recognized a reduction of \$2.7 million in the estimated partial withdrawal liability for the three locations which exited from the Central States MEPP in 2017 and 2016. During the fourth quarter of 2018, Veritiv negotiated a withdrawal from the Central States MEPP for its Rogers, Minnesota location and recognized an estimated complete withdrawal liability of an additional \$12.0 million in distribution expenses, as it was not related to a restructuring activity. In the second quarter of 2019, Veritiv received the final determination letters for the partial and the complete withdrawals. The determinations were in the amount of \$7.7 million for the partial and \$12.0 million for the complete, both payable in 240 equal monthly installments beginning in April 2019. This was a reduction of \$0.4 million from what had previously been recorded.

Included in the restructuring charges, net amount above for 2017, are MEPP withdrawal charges of \$13.6 million related to the New England Teamsters and Trucking Industry Pension Fund (the "NE Fund"), a MEPP. During the second quarter of 2017, the Company was presented with a Demand for Payment of Withdrawal Liability from the NE Fund attributable to the closure of the Company's Wilmington, Massachusetts facility in the amount of \$10.9 million, payable in 240 equal monthly installments beginning in August 2017. Also as part of this same consolidation, the Company's Windsor and Middletown, Connecticut facilities were closed and relocated to Enfield, Connecticut. Employees at both the Windsor and Middletown locations were covered by separate collective bargaining agreements. Employees at the Middletown location subject to that agreement also participate in the NE Fund. The Company entered into a new collective bargaining agreement for the Enfield, Connecticut facility to replace the legacy Windsor and Middletown, Connecticut agreements. The new agreement ended participation in the NE Fund. As a result, in December 2017, the Company received another Demand for Payment of Withdrawal Liability from the NE Fund attributable to that negotiated exit in the amount of \$2.7 million, payable in 240 equal monthly installments beginning in February 2018.

See Note 5, Integration, Acquisition and Restructuring Charges, for additional information regarding these transactions. The Company records an estimated undiscounted charge when it becomes probable that it has incurred a withdrawal liability. Final charges for MEPP withdrawals are not known until the plans issue their respective determinations. As a result, these estimates may increase or decrease depending upon the final determination. As of December 31, 2019, the Company has received determination letters resulting from six complete or partial withdrawals. Of those, the liabilities for

two withdrawals were settled with lump sum payments, one withdrawal was settled with payments over a nine month period, and three withdrawals are expected to occur over an approximate 20-year period. The Company has not yet received the determination letter for the partial withdrawal from the Western Pennsylvania Fund.

Veritiv's participation in the MEPPs for the year ended December 31, 2019, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number and the three-digit plan number, if applicable. The Pension Protection Act zone listed below is based on the latest information Veritiv received from the plan and is certified by the plan's actuary. Plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded and plans in the green zone are at least 80% funded. There were no changes in the status of any zones based on the information provided to Veritiv during 2019. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan or a rehabilitation plan is either pending or has been implemented. The last column lists the expiration date(s) of the collective-bargaining agreement(s). Contributions in the table below, for the year ended December 31, 2019 exclude \$2.0 million related to payments made for accrued withdrawal liabilities.

Pension Fund	EIN/Pension Plan No.	Pension Protection Act Zone Status	FIP/RP Status Pending/Implemented	Veritiv's Contributions			Surcharge Imposed	Expiration Date(s) of Collective Bargaining Agreement(s)
				2019	2018	2017		
Western Conference of Teamsters Pension Trust Fund <sup>(1)</sup>	916145047/001	Green	No	\$ 1.3	\$ 1.6	\$ 1.6	No	10/31/2019 - 5/31/2022
Central States, Southeast & Southwest Areas Pension Fund	366044243/001	Red	Implemented	—	0.2	0.2	Yes	Exited during 2018
Teamsters Pension Plan of Philadelphia & Vicinity	231511735/001	Yellow	Implemented	0.4	0.4	0.4	Yes	7/31/2021
New England Teamsters & Trucking Industry Pension	046372430/001	Red	Implemented	—	—	0.4	Yes	Exited during 2017
Western Pennsylvania Teamsters and Employers Pension Plan	256029946/001	Red	Implemented	0.2	0.3	0.3	Yes	Partial exit during 2019; 3/31/2020
Contributions for individually significant plans				1.9	2.5	2.9		
Contributions to other multi-employer plans				0.5	0.5	0.6		
Total contributions				<u>\$ 2.4</u>	<u>\$ 3.0</u>	<u>\$ 3.5</u>		

<sup>(1)</sup> As of December 31, 2019, there were ten collective bargaining units participating in the Western Conference of Teamsters Pension Trust. As of December 31, 2019, two were then in negotiations.

## 11. FAIR VALUE MEASUREMENTS

At December 31, 2019 and 2018, the carrying amounts of cash, receivables, payables, other components of other current assets and other accrued liabilities, and the short-term debt associated with the commercial card program approximate their fair values due to the short maturity of these items.

### *Debt and Other Obligations*

Borrowings under the ABL Facility are at variable market interest rates, and accordingly, the carrying amount approximates fair value. The fair value of the debt-related interest rate cap was derived from a discounted cash flow analysis based on the terms of the agreement and Level 2 data for the forward interest rate curve adjusted for the Company's credit risk. See Note 7, Debt and Other Obligations, for additional information regarding the Company's ABL Facility and other obligations.



## ***Goodwill and Other Intangibles***

The fair value analysis for the goodwill and intangible asset impairments described in Note 6, Goodwill and Other Intangible Assets and Note 1, Business and Summary of Significant Accounting Policies relied upon both Level 2 data (publicly observable data such as market interest rates, the Company's stock price, the stock prices of peer companies and the capital structures of peer companies) and Level 3 data (internal data such as the Company's operating and cash flow projections).

During the third quarter of 2017, the Company reviewed its intangible assets for possible impairment indicators, and management determined that the carrying values of the goodwill and customer relationship intangible assets allocated to the logistics solutions business were fully impaired. The impairments were determined after a review of the business's forecasted revenues and estimated cash flows (Level 3 data). The impairment charges were primarily a result of lower forecasted sales growth due to changes in the Company's growth strategy and margin compression due to increased competition. The fair value of these assets was derived using discounted cash flow analyses based on Level 3 inputs. As a result, the Company recorded \$7.7 million in non-restructuring impairment charges related to its logistics solutions business's goodwill and customer relationship intangible assets, included in selling and administrative expenses, on the Consolidated Statements of Operations.

The Company has on occasion recognized other minor impairments when warranted as part of its normal review of long-lived assets and these impairments are included in selling and administrative expenses on the Consolidated Statements of Operations. Total goodwill and long-lived asset impairments for the years ended December 31, 2019, 2018 and 2017 were none, \$0.4 million and \$8.4 million, respectively.

## ***Pension Plan Assets***

At December 31, 2019 and 2018, the pension plan assets were primarily comprised of mutual funds and pooled funds. The underlying investments of these funds were valued using either quoted prices in active markets or valued as of the most recent trade date. See Note 10, Employee Benefits Plans, for further detail.

## ***TRA Contingent Liability***

At the time of the Merger, the Company recorded a \$59.4 million contingent liability associated with the TRA at fair value using a discounted cash flow model that reflected management's expectations about probability of payment. The fair value of the TRA is a Level 3 measurement which relied upon both Level 2 data (publicly observable data such as market interest rates) and Level 3 data (internal data such as the Company's projected revenues, taxable income and assumptions about the utilization of Unisource's NOLs, attributable to taxable periods prior to the Merger, by the Company). The amount payable under the TRA is contingent on the Company generating a certain level of taxable income prior to the expiration of the NOL carryforwards. Moreover, future trading of Company stock may result in additional ownership changes as defined under Section 382 of the Internal Revenue Code, further limiting the use of Unisource's NOLs and the amount ultimately payable under the TRA. The contingent liability is remeasured at fair value at each reporting period-end with the change in fair value recognized in other (income) expense, net on the Consolidated Statements of Operations. At December 31, 2019, the Company remeasured the contingent liability using a discount rate of 3.9% (Moody's daily long-term corporate BAA bond yield). There have been no transfers between the fair value measurement levels for the years ended December 31, 2019 and 2018. The Company recognizes transfers between the fair value measurement levels at the end of the reporting period. See Note 9, Related Party Transactions, for further discussion of the TRA.

The following table provides a reconciliation of the beginning and ending balance of the TRA contingent liability for the years ended December 31, 2019 and 2018:

<i>(in millions)</i>	<u>TRA Contingent Liability</u>	
Balance at December 31, 2017	\$	50.0
Change in fair value adjustment recorded in other (income) expense, net		(1.2)
Principal payment		(9.9)
Balance at December 31, 2018		38.9
Change in fair value adjustment recorded in other (income) expense, net		0.3
Principal payment		(7.8)
Balance at December 31, 2019	<u>\$</u>	<u>31.4</u>

### ***AAC Contingent Consideration***

The purchase price allocation for the acquisition of AAC, described in Note 4, 2017 Acquisition, included \$22.2 million for the estimated fair value of contingent consideration. The maximum amount payable for the contingent consideration was \$50.0 million, with up to \$25.0 million payable at each of the first and second anniversaries of the Acquisition Date. The Company paid \$2.5 million on December 26, 2018 and \$20.0 million on December 11, 2019 for contingent consideration earned as of the first and second anniversaries of the Acquisition Date, respectively. The Company and the sellers of AAC have tentatively agreed to an additional \$3.0 million payable with respect to the contingent consideration earned at the second anniversary of the Acquisition Date; however, the Company and the sellers are continuing discussions regarding certain additional amounts payable in connection with taxes related to the contingent consideration. Resolution of these discussions may result in future adjustments to the AAC contingent liability.

The following table provides a reconciliation of the beginning and ending balance of the AAC contingent liability for the year ended December 31, 2019:

<i>(in millions)</i>	<u>AAC Contingent Liability</u>	
Balance at December 31, 2017	\$	24.2
Change in fair value adjustment recorded in other (income) expense, net		(12.3)
Contingent liability payment		(2.5)
Balance at December 31, 2018		9.4
Change in fair value adjustment recorded in other (income) expense, net		13.1
Contingent liability payment		(20.0)
Balance at December 31, 2019	<u>\$</u>	<u>2.5</u>

## **12. SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION**

### **Other Current Assets**

The components of other current assets as of December 31 were as follows:

<i>(in millions)</i>	<u>2019</u>		<u>2018</u>	
Rebates receivable	\$	51.1	\$	78.0
Prepaid expenses		32.9		32.0
Value Added Tax receivable		13.7		18.1
Vendor Deposits		5.7		10.9
Other		22.7		8.2
Other current assets	<u>\$</u>	<u>126.1</u>	<u>\$</u>	<u>147.2</u>

## Other Non-Current Assets

The components of other non-current assets as of December 31 were as follows:

<i>(in millions)</i>	<b>2019</b>	<b>2018</b>
Operating lease right-of-use assets	\$ 429.2	\$ —
Deferred financing costs	4.1	6.7
Investments in real estate joint ventures	7.1	6.7
Other	14.4	12.0
Other non-current assets	<u>\$ 454.8</u>	<u>\$ 25.4</u>

## Accrued Payroll and Benefits

The components of accrued payroll and benefits as of December 31 were as follows:

<i>(in millions)</i>	<b>2019</b>	<b>2018</b>
Accrued incentive plans	\$ 24.7	\$ 23.6
Accrued commissions	17.0	20.6
Accrued payroll and related taxes	8.8	9.2
Other	3.4	3.1
Accrued payroll and benefits	<u>\$ 53.9</u>	<u>\$ 56.5</u>

## Other Accrued Liabilities

The components of other accrued liabilities as of December 31 were as follows:

<i>(in millions)</i>	<b>2019</b>	<b>2018</b>
Operating lease obligations - current	\$ 90.5	\$ —
Accrued customer incentives	21.1	25.1
Accrued freight	9.0	16.4
Accrued taxes	9.0	9.9
AAC contingent liability	2.5	9.4
TRA contingent liability	0.3	7.9
Escheat audit accrual	0.4	10.0
Accrued professional fees	3.4	6.6
Other	47.6	49.4
Other accrued liabilities	<u>\$ 183.8</u>	<u>\$ 134.7</u>

## Other Non-Current Liabilities

The components of other non-current liabilities as of December 31 were as follows:

<i>(in millions)</i>	<u>2019</u>	<u>2018</u>
Operating lease obligations - non-current	\$ 376.6	\$ —
MEPP withdrawals	37.4	32.5
TRA contingent liability	31.1	31.0
Deferred compensation	21.1	21.6
Straight-line rent	—	19.5
Other	19.1	24.0
Other non-current liabilities	<u>\$ 485.3</u>	<u>\$ 128.6</u>

## 13. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share for Veritiv common stock is calculated by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the respective periods. Diluted earnings per share is similarly calculated, except that the denominator is increased to include the number of additional common shares that would have been outstanding during those periods if the dilutive potential common shares had been issued, using the treasury stock method, except where the inclusion of such common shares would have an antidilutive impact. See Note 15, Equity-Based Incentive Plans, for additional information.

A summary of the numerators and denominators used in the basic and diluted earnings (loss) per share calculations is as follows:

<i>(in millions, except per share data)</i>	<u>Year Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Numerator:</b>			
Net income (loss)	\$ (29.5)	\$ (15.7)	\$ (13.3)
<b>Denominator:</b>			
Weighted-average number of shares outstanding – basic and diluted	16.06	15.82	15.70
Earnings (loss) per share:			
Basic and diluted earnings (loss) per share	\$ (1.84)	\$ (0.99)	\$ (0.85)
Antidilutive stock-based awards excluded from computation of diluted earnings per share	1.17	1.32	0.80
Performance stock-based awards excluded from computation of diluted earnings per share because performance conditions had not been met	0.33	0.26	0.30

In accordance with the Company's 2014 Omnibus Incentive Plan, as amended and restated as of March 8, 2017, shares of the Company's common stock were issued to plan participants whose Restricted Stock Units ("RSUs") and/or Performance Condition Share Units ("PSUs") vested during those periods, see the table below for information related to these transactions:

<i>(in millions)</i>	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Shares issued	0.3	0.3
Shares recovered for minimum tax withholding	(0.1)	(0.1)
Net shares issued	<u>0.2</u>	<u>0.2</u>

The net share issuance is included on the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2019 and 2018.

## **14. SHAREHOLDERS' EQUITY**

### **Common Stock**

**Shares Outstanding:** On November 23, 2016, the UWWH Stockholder sold 1.76 million shares of Veritiv common stock in an underwritten public offering. The Company did not sell any shares and did not receive any of the proceeds in this transaction. See the "Treasury Stock" section of this footnote for additional information on this transaction. On March 22, 2017, and September 25, 2018, the UWWH Stockholder sold 1.80 million and 1.50 million shares of Veritiv common stock in a block trade, respectively. The Company did not sell or repurchase any shares and did not receive any of the proceeds in the 2017 and 2018 transactions.

**Dividends:** Each holder of common stock shall be entitled to participate equally in all dividends payable with respect to the common stock.

**Voting Rights:** The holders of the Company's common stock are entitled to vote only in the circumstances set forth in Veritiv's Amended and Restated Certificate of Incorporation. Each holder of common stock shall be entitled to one vote for each share of common stock held of record by such holder upon all matters to be voted on by the holders of the common stock.

**Other Rights:** Each holder of common stock shall be entitled to share equally, subject to any rights and preferences of the preferred stock (as fixed by resolutions, if any, of the Board of Directors), in the assets of the Company available for distribution, in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of Veritiv, or upon any distribution of the assets of the Company.

### **Preferred Stock**

Subject to the provisions of the Amended and Restated Certificate of Incorporation, the Board of Directors of Veritiv is authorized to provide for the issuance of up to 10.0 million shares of preferred stock in one or more series. The Board of Directors may fix the number of shares constituting any series and determine the designation of the series, the dividend rates, rights of priority of dividend payment, the voting powers (if any) of the shares of the series, and the preferences and relative participating, optional and other rights, if any, and any qualifications, limitations or restrictions, applicable to the shares of such series. No preferred stock was issued and outstanding as of December 31, 2019.

### **Treasury Stock**

In conjunction with the November 2016 UWWH Stockholder offering, Veritiv repurchased 0.31 million of the offered shares. The Company may repurchase shares in the future, however, there is currently no share repurchase authorization plan approved by the Company's Board of Directors.

### **Accumulated Other Comprehensive Loss (AOCL)**

Comprehensive income (loss) is reported in the Consolidated Statements of Comprehensive Income (Loss) and consists of net income (loss) and other gains and losses affecting shareholders' equity that, under U.S. GAAP, are excluded from net income (loss).



AOCL consisted of the following:

<i>(in millions)</i>	<b>Foreign currency translation adjustments</b>	<b>Retirement liabilities</b>	<b>Interest rate cap</b>	<b>AOCL</b>
Balance at December 31, 2017	\$ (23.5)	\$ (9.3)	\$ (0.7)	\$ (33.5)
Unrealized net gains (losses) arising during the period	(6.8)	(0.2)	0.0	(7.0)
Amounts reclassified from AOCL	—	0.1	0.5	0.6
Net current period other comprehensive income (loss)	(6.8)	(0.1)	0.5	(6.4)
Adjustment for adoption of ASU 2018-02	—	(0.7)	(0.1)	(0.8)
Balance at December 31, 2018	(30.3)	(10.1)	(0.3)	(40.7)
Unrealized net gains (losses) arising during the period	4.7	5.2	(0.4)	9.5
Amounts reclassified from AOCL	(1.0)	(1.3)	0.4	(1.9)
Net current period other comprehensive income (loss)	3.7	3.9	0.0	7.6
Balance at December 31, 2019	<u>\$ (26.6)</u>	<u>\$ (6.2)</u>	<u>\$ (0.3)</u>	<u>\$ (33.1)</u>

## 15. EQUITY-BASED INCENTIVE PLANS

### Veritiv Omnibus Incentive Plan

The 2014 Plan provides for the grant of stock, Deferred Share Units ("DSUs"), RSUs, PSUs, and Market Condition Performance Share Units ("MCPSUs"), among other awards. A total of 3.08 million shares of Veritiv common stock may be issued under the 2014 Plan subject to certain adjustment provisions. As of December 31, 2019, there were approximately 1.00 million shares available to be granted to any employee, director or consultant of Veritiv or a subsidiary of Veritiv. Grants are made at the discretion of the Compensation and Leadership Development Committee of the Company's Board of Directors.

### Stock

The Company made grants of common stock in 2019, 2018 and 2017 to its non-employee directors. The stock grants were fully vested and non-forfeitable as of the grant dates. The non-employee directors were eligible to defer receipt of the awards under the Veritiv Deferred Compensation Savings Plan, a nonqualified plan. The Company recognized \$1.0 million, \$1.1 million and \$1.1 million in expense related to these grants for the years ended December 31, 2019, 2018 and 2017, respectively.

### Deferred Share Units

The Company granted DSUs in 2014, 2015 and 2016 to its non-employee directors. Each DSU is the economical equivalent of one share of Veritiv's common stock. The DSUs were fully vested and non-forfeitable as of the grant date and are payable following the individual's separation of service as a Veritiv director. The DSUs granted in 2014 and 2015 are payable in cash and the DSUs granted in 2016 are settled in stock. The cash-settled DSUs are classified as a non-current liability and are remeasured at each reporting date, with a corresponding adjustment to compensation expense. At December 31, 2019 there were approximately 51,900 DSUs outstanding with a fair value of \$1.4 million. At December 31, 2018, there were approximately 51,900 DSUs outstanding with a fair value of \$1.6 million. The Company recognized impacts of \$(0.2) million, \$(0.1) million and \$(0.8) million in selling and administrative expenses related to these grants for the years ended December 31, 2019, 2018 and 2017, respectively.

### Restricted Stock Units

RSUs are awarded to key employees and typically cliff vest at the end of three years, subject to continued service. The fair value of the RSU awards is based typically on either the closing price of Veritiv common stock on the date of grant or the closing price on the trading date immediately prior to the date of grant if the grant date is not a trading date. Compensation expense for the RSUs is recognized ratably from the grant date to the vesting date. The total fair value of

RSUs that vested during 2019 and 2018 was \$3.8 million and \$3.2 million, respectively. There were no vested RSUs in 2017.

A summary of activity related to non-vested RSUs is presented below:

<i>(units in thousands)</i>	<b>Number of RSUs</b>	<b>Weighted- Average Grant Date Fair Value Per Share</b>
Non-vested at December 31, 2016	146	\$ 42.05
Granted	111	\$ 49.86
Vested	—	\$ —
Forfeited	(8)	\$ 44.21
Non-vested at December 31, 2017	249	\$ 45.43
Granted	228	\$ 29.69
Vested	(65)	\$ 50.03
Forfeited	(14)	\$ 39.01
Non-vested at December 31, 2018	398	\$ 35.88
Granted	160	\$ 24.70
Vested	(102)	\$ 37.53
Forfeited	(87)	\$ 29.96
Non-vested at December 31, 2019	<u>369</u>	<u>\$ 32.00</u>

#### ***Performance Share Units***

PSUs are awarded to key employees annually and cliff vest at the end of three years, subject to continued service and the attainment of performance conditions. The PSU award represents the contingent right to receive a number of shares equal to a portion, all or a multiple (not to exceed 200%) of the target number of PSUs. The PSUs are divided into three tranches, and each tranche is earned based on the achievement of an annual Adjusted EBITDA target which is set at the beginning of each of the three years in the vesting period. The Company defines Adjusted EBITDA as earnings before interest, income taxes, depreciation and amortization, restructuring charges, net, integration and acquisition expenses and other similar charges including any severance costs, costs associated with warehouse and office openings or closings, consolidation, and relocation and other business optimization expenses, stock-based compensation expense, changes in the LIFO reserve, non-restructuring asset impairment charges, non-restructuring severance charges, non-restructuring pension charges, net, fair value adjustments related to contingent liabilities assumed in mergers and acquisitions and certain other adjustments. Compensation expense for each tranche is recognized ratably from the date the fair value is measured to the vesting date for the number of awards expected to vest. The total fair value of PSUs that vested during 2019 and 2018 was \$6.7 million and \$5.8 million, respectively. There were no vested PSUs in 2017.

A summary of activity related to non-vested PSUs is presented below:

<i>(units in thousands)</i>	<b>Number of PSUs</b>	<b>Weighted- Average Grant Date Fair Value Per Share</b>
Non-vested at December 31, 2016	355	\$ 42.14
Granted	166	\$ 35.81 <sup>(1)</sup>
Shares lost based on actual performance	(45)	\$ 35.81
Vested	—	\$ —
Forfeited	(22)	\$ 40.78
Non-vested at December 31, 2017	454	\$ 40.87
Granted	323	\$ 26.39 <sup>(2)</sup>
Shares gained based on actual performance	7	\$ 26.39
Vested	(122)	\$ 47.37
Forfeited	(35)	\$ 34.57
Non-vested at December 31, 2018	627	\$ 32.59
Granted	392	\$ 24.82 <sup>(3)</sup>
Shares lost based on actual performance	(112)	\$ 24.82
Vested	(174)	\$ 38.36
Forfeited	(88)	\$ 25.30
Non-vested at December 31, 2019	645	\$ 25.10

<sup>(1)</sup> Represents weighted-average grant date fair value for the 2017, 2018 and 2019 tranches.

<sup>(2)</sup> Represents weighted-average grant date fair value for the 2018 and 2019 tranches.

<sup>(3)</sup> Represents weighted-average grant date fair value for the 2019 tranche.

### ***Market Condition Performance Share Units***

MCPSUs are awarded to key employees annually and cliff vest at the end of three years, subject to continued service and the attainment of performance conditions. The MCPSU award represents the contingent right to receive a number of shares equal to a portion, all or a multiple (not to exceed 200%) of the target number of MCPSUs. The MCPSUs are divided into three tranches and each tranche is earned based on the achievement of a total shareholder return ("TSR") target relative to the TSR of an applicable peer group over the one-, two- and three-year cumulative periods in the vesting period. The weighted-average grant date fair value of the MCPSUs is determined using a Monte Carlo simulation model. Assumptions used in the 2019, 2018 and 2017 models included an expected volatility rate of 53.6%, 45.5% and 25.0%, respectively, and a risk-free interest rate of 2.5%, 2.0% and 1.1%, respectively. The expected volatility rate is based on the historical volatility over the most recent period equal to the vesting period. The risk-free interest rate is based on the yield on U.S. Treasury securities matching the vesting period. Compensation expense is recognized ratably from the grant date to the vesting date. The total fair value of MCPSUs that vested during 2019 and 2018 was \$2.7 million and \$1.4 million, respectively. There were no vested MCPSUs in 2017.

A summary of activity related to non-vested MCPSUs is presented below:

<i>(units in thousands)</i>	<b>Number of MCPSUs</b>	<b>Weighted- Average Grant Date Fair Value Per Share</b>
Non-vested at December 31, 2016	208	\$ 48.23
Granted	100	\$ 71.63
Shares lost based on actual performance	(103)	\$ 71.63
Vested	—	\$ —
Forfeited/cancelled	(12)	\$ 55.65
Non-vested at December 31, 2017	193	\$ 56.23
Granted	194	\$ 37.76
Shares lost based on actual performance	(35)	\$ 37.76
Vested	(23)	\$ 62.53
Forfeited/cancelled	(21)	\$ 49.66
Non-vested at December 31, 2018	308	\$ 46.74
Granted	235	\$ 31.41
Shares lost based on actual performance	(153)	\$ 31.41
Vested	(64)	\$ 42.12
Forfeited/cancelled	(52)	\$ 40.93
Non-vested at December 31, 2019	<u>274</u>	\$ 40.81

For the years ended December 31, 2019, 2018 and 2017, the Company recognized \$14.6 million, \$18.1 million and \$15.7 million, respectively, in expense related to the aforementioned equity-based awards. The income tax benefit recognized in 2019, 2018 and 2017 related to stock-based compensation expense was \$3.8 million, \$4.7 million and \$5.7 million, respectively. As of December 31, 2019, total unrecognized stock-based compensation expense was \$21.4 million and is expected to be recognized over a weighted-average period of approximately 2.0 years. Unrecognized compensation expense for the 2020 and 2021 tranches of the PSU awards is estimated based on the Company's closing stock price at December 31, 2019. Dividends are not paid or accrued on unvested stock units. The grant date fair values are not reduced for dividends as none are expected to be paid during the vesting period.

## 16. COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

From time to time, the Company is involved in various lawsuits, claims and regulatory and administrative proceedings arising out of its business relating to general commercial and contractual matters, governmental regulations, intellectual property rights, labor and employment matters, tax and other actions.

Although the ultimate outcome of any legal proceeding or investigation cannot be predicted with certainty, based on present information, including the Company's assessment of the merits of the particular claim, the Company does not expect that any asserted or unasserted legal claims or proceedings, individually or in the aggregate, will have a material adverse effect on its cash flow, results of operations or financial condition.

## **Escheat Audit**

In 2013, Unisource was notified by the State of Delaware that it intended to examine the books and records of Unisource to determine compliance with Delaware escheat laws. Since that date, seven other states joined with Delaware in the audit process, which is conducted by an outside firm on behalf of the states. During the fourth quarter of 2017, the Company filed an election to convert the Delaware portion of the audit into a review under the State of Delaware's Voluntary Disclosure Agreement Program.

In December 2019, the Company and the State of Delaware signed a Voluntary Disclosure Agreement, pursuant to which the Company paid approximately \$12.7 million to the State of Delaware in full satisfaction of the Delaware portion of the audit. Additionally during the fourth quarter of 2019, the Company paid approximately \$0.6 million to other participating states and claimants as settlement of certain of their claims.

As of December 31, 2019 and 2018, the Company recognized an estimated liability of approximately \$0.4 million and \$10.0 million, respectively, based upon the information available at that time related to the remaining unsettled claims. The Company currently expects to resolve the remaining claims in the first half of 2020. The Company believes that it has established sufficient reserves with respect to the remaining claims, and that the resolution of those claims will not have a material adverse impact on its cash flow, results of operations or financial condition.

## **International Paper Potential Earn-Out**

International Paper had a potential earn-out payment of up to \$100.0 million that would have become due in 2020 if Veritiv's aggregate EBITDA for fiscal years 2017, 2018 and 2019 had exceeded an agreed-upon target of \$759.0 million, subject to certain adjustments and would have been reflected by Veritiv as a reduction to equity at the time of payment. Based on actual results for 2017, 2018 and 2019, Veritiv did not meet the agreed-upon target value and thus will not be required to make the earn-out payment in 2020.



## 17. SEGMENT INFORMATION

The following tables present net sales, Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, restructuring charges, net, integration and acquisition expenses and other similar charges including any severance costs, costs associated with warehouse and office openings or closings, consolidation, and relocation and other business optimization expenses, stock-based compensation expense, changes in the LIFO reserve, non-restructuring asset impairment charges, non-restructuring severance charges, non-restructuring pension charges, net, fair value adjustments related to contingent liabilities assumed in mergers and acquisitions and certain other adjustments), which is the metric management uses to assess operating performance of the segments, and certain other measures for each of the reportable segments and Corporate & Other for the periods presented:

<i>(in millions)</i>	<b>Packaging</b>	<b>Facility Solutions</b>	<b>Print</b>	<b>Publishing</b>	<b>Total Reportable Segments</b>	<b>Corporate &amp; Other</b>	<b>Total</b>
<b>Year Ended December 31, 2019</b>							
Net sales	\$ 3,446.3	\$ 1,181.8	\$ 2,104.6	\$ 798.0	\$ 7,530.7	\$ 128.7	\$ 7,659.4
Adjusted EBITDA	243.5	33.1	43.1	21.4	341.1	(185.2)	
Depreciation and amortization	18.9	7.0	8.4	0.5	34.8	18.7	53.5
Restructuring charges, net	10.3	14.7	7.2	(9.1)	23.1	5.7	28.8
<b>Year Ended December 31, 2018</b>							
Net sales	3,547.1	1,311.7	2,676.7	1,019.2	8,554.7	141.5	8,696.2
Adjusted EBITDA	246.7	29.0	64.0	24.6	364.3	(178.9)	
Depreciation and amortization	19.2	6.8	8.8	0.8	35.6	17.9	53.5
Restructuring charges, net	4.7	3.4	12.1	0.7	20.9	0.4	21.3
<b>Year Ended December 31, 2017</b>							
Net sales	3,157.8	1,309.7	2,793.7	958.0	8,219.2	145.5	8,364.7
Adjusted EBITDA	238.0	35.5	60.8	26.4	360.7	(184.3)	
Depreciation and amortization	15.9	6.0	10.4	1.5	33.8	20.4	54.2
Restructuring charges, net	6.1	2.3	8.0	0.0	16.4	0.3	16.7

The table below presents a reconciliation of income (loss) before income taxes as reflected in the Consolidated Statements of Operations to Adjusted EBITDA for the reportable segments:

<i>(in millions)</i>	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Income (loss) before income taxes	\$ (28.8)	\$ (10.2)	\$ (1.9)
Interest expense, net	38.1	42.3	31.2
Depreciation and amortization	53.5	53.5	54.2
Restructuring charges, net	28.8	21.3	16.7
Stock-based compensation	14.6	18.1	15.7
LIFO reserve (decrease) increase	(3.7)	19.9	7.1
Non-restructuring asset impairment charges	—	0.4	8.4
Non-restructuring severance charges	8.4	4.9	3.5
Non-restructuring pension charges, net	6.6	11.3	2.2
Integration and acquisition expenses	17.5	31.8	36.5
Fair value adjustment on TRA contingent liability	0.3	(1.2)	(9.4)
Fair value adjustment on contingent consideration liability	13.1	(12.3)	2.0
Escheat audit contingent liability	3.7	2.5	7.5
Other	3.8	3.1	2.7
Adjustment for Corporate & Other	185.2	178.9	184.3
Adjusted EBITDA for reportable segments	<u>\$ 341.1</u>	<u>\$ 364.3</u>	<u>\$ 360.7</u>

The table below summarizes total assets as of December 31, 2019 and 2018:

<i>(in millions)</i>	<b>2019</b>	<b>2018</b>
Packaging	\$ 1,290.2	\$ 1,183.1
Facility Solutions	324.4	345.5
Print	610.3	684.5
Publishing	123.9	196.3
Corporate & Other	162.3	120.3
Total assets	<u>\$ 2,511.1</u>	<u>\$ 2,529.7</u>

The following table presents net sales, property and equipment, net and operating lease ROU assets by geographic area:

<i>(in millions)</i>	<b>Net Sales</b>			<b>Property and Equipment, Net</b>		<b>Operating Lease ROU Assets</b>	
	<b>Year Ended December 31,</b>			<b>As of December 31,</b>		<b>As of December 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
U.S.	\$ 6,779.6	\$ 7,800.9	\$ 7,510.9	\$ 174.3	\$ 171.6	\$ 383.4	\$ —
Canada	699.4	712.7	682.0	39.1	32.1	34.9	—
Rest of world	180.4	182.6	171.8	3.5	3.0	10.9	—
Total	<u>\$ 7,659.4</u>	<u>\$ 8,696.2</u>	<u>\$ 8,364.7</u>	<u>\$ 216.9</u>	<u>\$ 206.7</u>	<u>\$ 429.2</u>	<u>\$ —</u>

No single customer accounted for more than 5% of net sales for the years ended December 31, 2019, 2018 and 2017. During the year ended December 31, 2019, approximately 35% of our purchases were made from ten suppliers.

## 18. QUARTERLY DATA (UNAUDITED)

The unaudited quarterly results of operations for 2019 and 2018 are summarized below:

<i>(in millions, except per share data)</i>	<b>2019</b>			
	<b>Three Months Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Net sales	\$ 1,941.5	\$ 1,958.2	\$ 1,924.5	\$ 1,835.2
Cost of products sold	1,591.4	1,584.3	1,550.8	1,479.7
Net income (loss)	(26.7)	(11.3)	5.1	3.4
Weighted-average number of shares outstanding – basic	15.94	16.09	16.10	16.10
Weighted-average number of shares outstanding – diluted	15.94	16.09	16.24	16.40
Earnings (loss) per share <sup>(1)</sup> :				
Basic earnings (loss) per share	\$ (1.68)	\$ (0.70)	\$ 0.32	\$ 0.21
Diluted earnings (loss) per share	\$ (1.68)	\$ (0.70)	\$ 0.31	\$ 0.21

<sup>(1)</sup> See Note 13, Earning (Loss) Per Share, for discussion about the shares of common stock utilized in the computation of basic and diluted earnings per share for the year ended December 31, 2019.

<i>(in millions, except per share data)</i>	<b>2018</b>			
	<b>Three Months Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Net sales	\$ 2,101.0	\$ 2,171.9	\$ 2,192.5	\$ 2,230.8
Cost of products sold	1,729.5	1,788.5	1,805.8	1,831.9
Net income (loss)	(15.8)	(10.6)	1.4	9.3
Weighted-average number of shares outstanding – basic	15.76	15.84	15.85	15.85
Weighted-average number of shares outstanding – diluted	15.76	15.84	16.47	16.46
Earnings (loss) per share <sup>(1)</sup> :				
Basic earnings (loss) per share	\$ (1.00)	\$ (0.67)	\$ 0.09	\$ 0.59
Diluted earnings (loss) per share	\$ (1.00)	\$ (0.67)	\$ 0.09	\$ 0.57

<sup>(1)</sup> See Note 13, Earnings (Loss) Per Share, for discussion about the shares of common stock utilized in the computation of basic and diluted earnings per share for the year ended December 31, 2018.

See the table below for the quarterly breakdown of integration and acquisition expenses and restructuring charges, net:

<i>(in millions)</i>	<b>2019</b>			
	<b>Three Months Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Integration and acquisition expenses	\$ 4.3	\$ 4.5	\$ 4.5	\$ 4.2
Restructuring charges, net	2.4	6.9	7.6	11.9

<i>(in millions)</i>	<b>2018</b>			
	<b>Three Months Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Integration and acquisition expenses	\$ 8.3	\$ 8.4	\$ 7.9	\$ 7.2
Restructuring charges, net	11.9	11.4	5.4	(7.4)

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

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

The Company maintains a set of disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act, of 1934, as amended (the "Exchange Act"), designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. The Company's management, with the participation of the Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2019. Based on that evaluation, the Company's Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2019.

Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives. The Company's management, including the Chief Executive Officer and the Principal Financial Officer, does not expect that our disclosure controls and procedures can prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. Judgments in decision-making can be faulty and breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of one or more persons. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to possible errors or fraud may occur and not be detected.

#### **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal control over financial reporting during the fourth quarter of 2019 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

#### **Management's Annual Report On Internal Control Over Financial Reporting**

##### ***Management's Responsibility for the Financial Statements***

The management of Veritiv Corporation is responsible for the preparation and integrity of the Consolidated Financial Statements appearing in our Annual Report on Form 10-K. The financial statements were prepared in conformity with U.S. GAAP appropriate in the circumstances and, accordingly, include certain amounts based on our best judgments and estimates. Financial information in this Annual Report on Form 10-K is consistent with that in the financial statements.

##### ***Internal Control Over Financial Reporting***

Management of our Company is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Consolidated Financial Statements. Our internal control over financial reporting is supported by a program of internal audits and appropriate reviews by management, written policies and guidelines, careful selection and training of qualified personnel and a written code of conduct adopted by our Board of Directors that is applicable to all officers and employees of our Company and subsidiaries, as well as a code of conduct that is applicable to all of our directors.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, can only provide reasonable assurance with respect to financial statement



preparation and presentation. 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.

Management, including the Chief Executive Officer and the Principal Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. The scope of management's assessment of the effectiveness of internal control over financial reporting includes all of the Company's businesses. In making this assessment on the effectiveness of our internal control over financial reporting as of December 31, 2019, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework* (2013 Framework). Based on our assessment, management has concluded that internal controls over financial reporting were effective as of December 31, 2019.

Our independent auditors, Deloitte & Touche LLP, an independent registered public accounting firm, are appointed by the Audit and Finance Committee of our Board of Directors. Deloitte & Touche LLP has audited and reported on the Consolidated Financial Statements of Veritiv Corporation, and has issued an attestation report on the effectiveness of our internal control over financial reporting. The report of the independent registered public accounting firm is contained in this Annual Report.

### ***Audit and Finance Committee Responsibility***

The Audit and Finance Committee of our Board of Directors, composed solely of directors who are independent in accordance with the requirements of the New York Stock Exchange listing standards, the Exchange Act and our Corporate Governance Guidelines, meets with the independent auditors, management and internal auditors periodically to discuss internal control over financial reporting and auditing and financial reporting matters. The Audit and Finance Committee reviews with the independent auditors the scope and results of the audit effort. The Audit and Finance Committee also meets periodically with the independent auditors and the chief internal auditor without management present to ensure that the independent auditors and the chief internal auditor have free access to the Audit and Finance Committee. Our Audit and Finance Committee's Report can be found in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 29, 2020, which will be filed on or about March 12, 2020.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and Board of Directors of Veritiv Corporation

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Veritiv Corporation and subsidiaries (the "Company") as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company and our report dated February 27, 2020 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of a new accounting standard.

### Basis for Opinion

The Company'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

### Definition and Limitations of Internal Control over Financial Reporting

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.

/s/ Deloitte & Touche LLP

Atlanta, Georgia

February 27, 2020

**ITEM 9B. OTHER INFORMATION**

Not applicable.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

(a) Directors of the Company.

This information is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be filed subsequent to the filing of this report under the heading "Proposal 1 – Election of Directors."

(b) Executive Officers of the Company.

This information can be found under "Information About Our Executive Officers" in Part I, Item 1 of this report.

(c) Audit Committee Financial Experts.

This information is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be filed subsequent to the filing of this report under the heading "Corporate Governance—Board Committees."

(d) Identification and Composition of the Audit and Finance Committee.

This information is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be filed subsequent to the filing of this report under the heading "Corporate Governance—Board Committees."

(e) Delinquent Section 16(a) Reports.

Not applicable.

(f) Code of Ethics.

This information is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be filed subsequent to the filing of this report under the heading "Corporate Governance—Corporate Governance Principles."

### ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be filed subsequent to the filing of this report under the headings "Executive Compensation" and "Corporate Governance—Director Compensation."

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

This information is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be filed subsequent to the filing of this report under the headings "Security Ownership of Certain Beneficial Owners and Management" and "Executive Compensation—Equity Compensation Plans."

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

This information is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be filed subsequent to the filing of this report under the headings "Corporate Governance—Related Person Transaction Policy" and "Corporate Governance—Director Independence."

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

This information is incorporated by reference to the Company's Proxy Statement for the 2020 Annual Meeting of Shareholders to be filed subsequent to the filing of this report under the heading "Principal Accountant Fees and Services."

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed or incorporated by reference as part of this Form 10-K:

1. Financial Statements:

See Item 8. Financial Statements and Supplementary Data.

2. Financial Statement Schedules:

All schedules have been omitted as the required information is included in the footnotes or not applicable.

**Exhibit  
No.**

**Description**

- |      |   |
|------|---|
| 2.1+ | Agreement and Plan of Merger, dated as of January 28, 2014, by and among International Paper Company, Veritiv Corporation (f/k/a/ xpedx Holding Company), xpedx Intermediate, LLC, xpedx, LLC, UWW Holdings, LLC, UWW Holdings, Inc. and Unisource Worldwide, Inc., incorporated by reference from Exhibit 2.1 to the Registrant's Registration Statement on Form S-1 (File No. 333-193950) filed on April 4, 2014.   |
| 2.2  | Amendment No. 1 to the Agreement and Plan of Merger, dated as of May 28, 2014, by and among International Paper Company, Veritiv Corporation (f/k/a xpedx Holding Company), xpedx Intermediate, LLC, xpedx, LLC, UWW Holdings, LLC, UWW Holdings, Inc. and Unisource Worldwide, Inc., incorporated by reference from Exhibit 2.2 to the Registrant's Registration Statement on Form S-1 (File No. 333-193950) filed on June 5, 2014.  |
| 2.3  | Amendment No. 2 to the Agreement and Plan of Merger, dated as of June 4, 2014, by and among International Paper Company, Veritiv Corporation (f/k/a) xpedx Holding Company), xpedx Intermediate, LLC, xpedx, LLC, UWW Holdings, LLC, UWW Holdings, Inc. and Unisource Worldwide, Inc., incorporated by reference from Exhibit 2.3 to the Registrant's Registration Statement on Form S-1 (File No. 333-193950) filed on June 5, 2014.   |
| 2.4+ | Contribution and Distribution Agreement, dated as of January 28, 2014, by and among International Paper Company, Veritiv Corporation (f/k/a/ xpedx Holding Company), UWW Holdings, Inc. and UWW Holdings, LLC, incorporated by reference from Exhibit 2.4 to the Registrant's Registration Statement on Form S-1 (File No. 333-193950) filed on April 4, 2014.  |
| 2.5  | Amendment No. 1 to the Contribution and Distribution Agreement, dated May 28, 2014, by and among International Paper Company, Veritiv Corporation (f/k/a xpedx Holding Company), UWW Holdings, Inc. and UWW Holdings, LLC, incorporated by reference from Exhibit 2.5 to the Registrant's Registration Statement on Form S-1 (File No. 333-193950) filed on June 5, 2014.   |
| 3.1  | Amended and Restated Certificate of Incorporation of Veritiv Corporation, incorporated by reference from Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on July 3, 2014.  |
| 3.2  | Certificate of Amendment of Amended and Restated Certificate of Incorporation of Veritiv Corporation, incorporate by reference from Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 13, 2016.   |
| 3.3  | Amended and Restated Bylaws of Veritiv Corporation, incorporated by reference from Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 21, 2018  |
| 4.1* | Description of the Registrant's Securities  |
| 10.1 | Credit Agreement, dated as of July 1, 2014, among Veritiv Corporation, xpedx Intermediate, LLC and xpedx, LLC, as borrowers, the several lenders and financial institutions from time to time parties thereto, Bank of America, N.A., as administrative agent and collateral agent for the lenders party thereto, and the other parties thereto, together with the ABL Joinder Agreement, dated as of July 1, 2014, made by Unisource Worldwide, Inc. and Unisource Canada, Inc. for the benefit of the Lenders under the Credit Agreement, incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 3, 2014. |



<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
10.2	First Amendment to ABL Credit Agreement, dated as of August 11, 2016, among Veritiv Operating Company (f/k/a Unisource Worldwide, Inc.) and Unisource Canada, Inc., as borrowers, Veritiv Corporation and certain subsidiaries of Veritiv Operating Company, as loan parties, the several lenders and financial institutions from time to time parties thereto, Bank of America, N.A., as administrative agent and collateral agent for the lenders party thereto, and the other parties thereto, incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 15, 2016.
10.3	U.S. Guarantee and Collateral Agreement, dated as of July 1, 2014, made by xpedx Intermediate, LLC, xpedx, LLC, the Subsidiary Borrowers and the U.S. Guarantors parties thereto and Veritiv Corporation, in favor of Bank of America, N.A., as administrative agent and collateral agent for the Secured Parties (as defined therein), together with the Assumption and Supplemental Agreement, dated as of July 1, 2014, made by Veritiv Corporation, Alco Realty, Inc., Graph Comm Holdings International, Inc., Graphic Communications Holdings, Inc., Paper Corporation of North America, Unisource International Holdings, Inc., Unisource International Holdings Poland, Inc., and Unisource Worldwide, Inc., in favor of Bank of America, N.A., as collateral agent and as administrative agent, incorporated by reference from Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on July 3, 2014.
10.4	Canadian Guarantee and Collateral Agreement, dated as of July 1, 2014, made by Unisource Canada, Inc. and the Canadian Guarantors parties thereto, in favour of Bank of America, N.A., as administrative agent and collateral agent for the Secured Parties (as defined therein), incorporated by reference from Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on July 3, 2014.
10.5	Registration Rights Agreement, dated as of July 1, 2014, between UWW Holdings, LLC and Veritiv Corporation, incorporated by reference from Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on July 3, 2014.
10.6	Tax Receivable Agreement, dated as of July 1, 2014, by and among Veritiv Corporation and UWW Holdings, LLC, incorporated by reference from Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on July 3, 2014.
10.7	Tax Matters Agreement, dated as of January 28, 2014, by and among International Paper Company, Veritiv Corporation (f/k/a/ xpedx Holding Company) and UWW Holdings, Inc., incorporated by reference from Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (File No. 333-193950) filed on February 14, 2014.
10.8†	Employment Agreement, dated as of December 29, 2017, between Veritiv Corporation and Mary A. Laschinger, incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 5, 2018.
10.9†	Offer Letter, dated as of February 13, 2014, between Veritiv Corporation (f/k/a xpedx Holding Company) and Stephen J. Smith, incorporated by reference from Exhibit 10.12 to the Registrant's Form 10-Q filed on August 14, 2014.
10.10†	Offer Letter, dated as of September 16, 2016, between Veritiv Operating Company and Tracy L. Pearson incorporated by reference from Exhibit 10.10 to the Registrant's Form 10-K filed on March 1, 2018.
10.11†	Addendum to Offer Letter, dated November 15, 2016, between Veritiv Operating Company and Tracy L. Pearson incorporated by reference from Exhibit 10.11 to the Registrant's Form 10-K filed on March 1, 2018.
10.12†	Offer Letter, dated as of February 15, 2018, between Veritiv Operating Company and Salvatore Abbate, incorporated by reference from Exhibit 10.12 to the Registrant's Form 10-K filed on February 28, 2019.
10.13†	Form of Indemnification Agreement between Veritiv Corporation (f/k/a xpedx Holding Company) and each of its directors, incorporated by reference from Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (File No. 333-193950) filed on June 11, 2014.
10.14†	Veritiv Corporation 2014 Omnibus Incentive Plan, as amended and restated, effective March 8, 2017, incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 13, 2017.
10.15†	Veritiv Corporation Deferred Compensation Savings Plan, incorporated by reference from Exhibit 10.20 to the Registrant's Form 10-Q filed on November 14, 2014.
10.16†	Form of Director Deferred Share Unit Award Agreement, incorporated by reference from Exhibit 10.21 to the Registrant's Form 10-K filed on March 24, 2015.

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
10.17†	Form of Director Deferred Share Unit Award Agreement (Stock-Settled Award), incorporated by reference from Exhibit 10.1 to the Registrant's Form 10-Q filed on August 9, 2016.
10.18†	Form of Restricted Stock Unit Award Agreement, incorporated by reference from Exhibit 10.22 to the Registrant's Form 10-K filed on March 24, 2015.
10.19†	Form of Performance Share Award Agreement (Adjusted EBITDA Performance Shares), incorporated by reference from Exhibit 10.23 to the Registrant's Form 10-K filed on March 24, 2015.
10.20†	Form of Performance Share Award Agreement (Relative TSR Performance Shares), incorporated by reference from Exhibit 10.24 to the Registrant's Form 10-K filed on March 24, 2015.
10.21†	2015 Veritiv Corporation Annual Incentive Plan, as amended and restated, effective March 8, 2017 incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 13, 2017.
10.22†	Veritiv Corporation Executive Severance Plan adopted effective as of March 4, 2015, incorporated by reference from Exhibit 10.26 to the Registrant's Form 10-K filed on March 24, 2015.
10.23†	Separation Agreement, dated as of December 6, 2019, by and between Veritiv Corporation and Thomas S. Lazzaro, incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 9, 2019.
10.24†*	Form of Restricted Stock Unit Award Agreement (2020 revision)
10.25†*	Form of Performance-Based Unit Award Agreement (ROIC, Packaging Gross Profit Dollar Growth & Relative TSR Modifier)
21.1*	List of Subsidiaries.
23.1*	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm.
31.1*	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2*	Rule 13a-14(a) Certification of the Chief Financial Officer.
32.1*	Section 1350 Certification of the Chief Executive Officer.
32.2*	Section 1350 Certification of the Chief Financial Officer.
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

+ Omitted schedules will be furnished supplementally to the SEC upon request

† Management contract or compensatory plans or arrangements

\* Filed herewith

**ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on February 27, 2020.

### VERITIV CORPORATION

(Registrant)

By: /s/ Mary A. Laschinger

Name: Mary A. Laschinger

Title: Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on February 27, 2020.

(i) Principal executive officer:

/s/ Mary A. Laschinger Chairman of the Board of Directors and Chief Executive Officer  
Mary A. Laschinger

(ii) Principal financial officer:

/s/ Guilherme Nebel de Mello Interim Principal Financial Officer and Treasurer  
Guilherme Nebel de Mello

(iii) Principal accounting officer:

/s/ Andrew E. Magley Chief Accounting Officer  
Andrew E. Magley

(iv) Directors:

/s/ Shantella E. Cooper Director  
Shantella E. Cooper

/s/ David E. Flitman Director  
David E. Flitman

/s/ Daniel T. Henry Director  
Daniel T. Henry

/s/ Tracy A. Leinbach Director  
Tracy A. Leinbach

/s/ Stephen E. Macadam Director  
Stephen E. Macadam

/s/ William E. Mitchell Director  
William E. Mitchell

/s/ Michael P. Muldowney Director  
Michael P. Muldowney

/s/ Charles G. Ward, III Director  
Charles G. Ward, III

/s/ John J. Zillmer Director  
John J. Zillmer

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# SHAREHOLDER INFORMATION

## TRANSFER AGENT & REGISTRAR

### **Computershare**

P.O. Box 505000  
Louisville, KY 40233-5000  
[computershare.com/investor](http://computershare.com/investor)  
866.276.9370

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2019

### **Deloitte & Touche LLP**

Atlanta, GA

## ANNUAL MEETING

The Veritiv Corporation  
Annual Meeting of  
Shareholders will be held  
on Wednesday, April 29, 2020  
in Atlanta, Georgia.

## INVESTOR CONTACT

### **Thomas C. Morabito**

Director, Investor Relations

[investor@veritivcorp.com](mailto:investor@veritivcorp.com)  
844.845.2136

## ANNUAL REPORT & FORM 10-K COPIES

Copies of the Annual Report  
and Form 10-K are available  
and may be obtained by  
contacting:

### **Veritiv Corporation**

c/o Investor Relations  
1000 Abernathy Rd. NE  
Building 400, Suite 1700  
Atlanta, GA 30328

844.845.2136  
[ir.veritivcorp.com](http://ir.veritivcorp.com)

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this report regarding the Company's future operating results, performance, business plans, prospects, guidance and any other statements not constituting historical fact are "forward-looking statements" subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. All forward-looking statements reflect only the Company's current beliefs and assumptions with respect to future operating results, performance, business plans, prospects, guidance and other matters, and are based on information currently available to the Company. Accordingly, the statements are subject to significant risks, uncertainties and contingencies, which could cause the Company's actual operating results, performance or business plans or prospects to differ materially from those expressed in, or implied by, these statements. For a detailed discussion of specific risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see the information under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, which is included in this report, and in other filings we make with the SEC. The Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, historical information should not be considered as an indicator of future performance.



-  [LinkedIn.com/company/Veritiv](https://www.linkedin.com/company/Veritiv)
-  [Facebook.com/VeritivCorp](https://www.facebook.com/VeritivCorp)
-  [Twitter.com/Veritiv](https://twitter.com/Veritiv)

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