



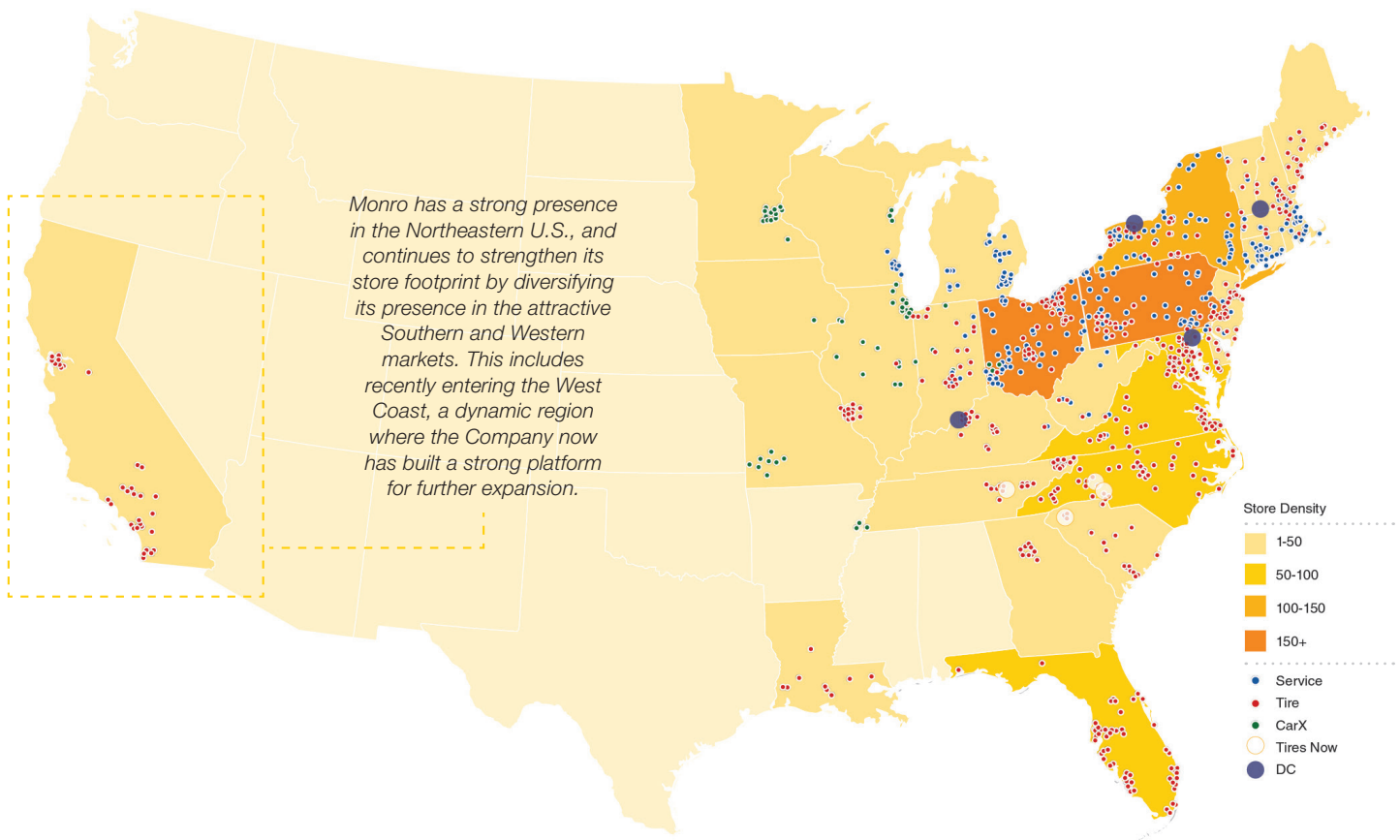
ACCELERATING GROWTH
DRIVING OPERATIONAL EXCELLENCE

OUR COMPANY

Headquartered in Rochester, New York, Monro is a chain of 1,249 Company-operated stores, 98 franchised locations, eight wholesale locations and three retreat facilities providing automotive undercar repair and tire sales and services.

The Company operates in 30 states, serving the Mid Atlantic and New England regions and portions of the Great Lakes, Midwest, Southeast and West Coast.

The predecessor to the Company was founded by Charles J. August in 1957 as a Midas Muffler franchise. In 1966, Monro began to diversify into a full line of undercar repair services. The Company has experienced significant growth in recent years through acquisitions and, to a lesser extent, the opening of newly constructed stores. The Company went public in 1991 and trades on The Nasdaq Stock Market under the symbol MNRO.



OUR BRAND PORTFOLIO

MONRO
AUTO SERVICE *Auto* TIRE CENTERS

MR. TIRE
AUTO SERVICE CENTERS

TIRE CHOICE
AUTO SERVICE CENTERS

TIRE WAREHOUSE
TIRES FOR LESS

AUTO TIRE
CAR CARE CENTERS

TREAD TC
QUARTERS
DISCOUNT TIRE
AUTO SERVICE CENTERS

carX
TIRE & AUTO

KEN TIRE & Auto Care
TOWERYS

TIRE BARN
WAREHOUSE

TIRE SNOW
RIGHT TIRES, RIGHT NOW!

BY THE NUMBERS*



1,249

Company-operated stores



30

States



98

Franchised locations



8

Wholesale locations



3

Retread facilities

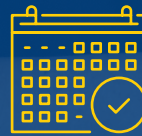
WHAT WE OFFER



Monro stands behind a lowest price guarantee for all scheduled maintenance, repairs and tires.



Core product and service offerings include tires, oil changes, brakes, shocks and struts, exhaust and wheel alignments.



Monro also provides superior convenience to customers through store density as well as operating days and hours.



Tire sales are an increasingly important share of Monro's business and most of the Company's stores now carry an extensive inventory of tires to meet customer demand.

*As of June 4, 2019

OUR MISSION

To be America's leading auto and tire service centers, trusted by consumers as the best place in their neighborhoods for quality automotive service and tires. We do this by exceeding our guests' expectations with consistent value provided by a committed, knowledgeable organization of friendly and professional teammates.

OUR GUESTS

We respect consumers as guests in our stores, mindful of their time and the importance of their vehicles. We work hard to earn their trust and appreciation, one visit at a time. We measure success by repeat business and referrals.

OUR TEAMMATES

As teammates, we treat each other with dignity and respect and hold ourselves accountable to high standards. As an employer, we emphasize coaching. We recognize that teammate engagement and job satisfaction are essential to creating an exceptional guest experience.

OUR QUALITY

We believe quality service results from a partnership between teammates and guests. We listen to gain a precise understanding of our guests' needs, present clear solutions, and provide timely, expert service for a noteworthy experience.

OUR STORES

We expect our stores to make positive, lasting impressions on guests and the neighborhoods we serve. We provide clean, comfortable facilities, organized to convey a welcoming environment. As teammates, we maintain an orderly and safe work environment of which we are proud.

OUR NEIGHBORS

Our stores are part of the local communities we serve and our teammates are neighbors to the guests they serve. As teammates, and as a company, we strive to be good neighbors and give back where we can.

OUR INVESTORS

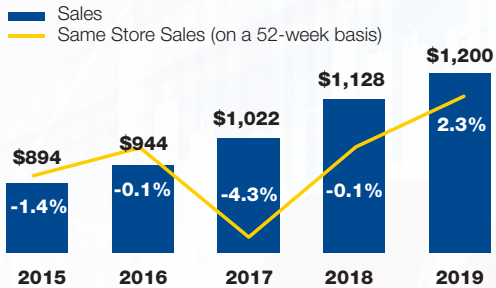
We maintain an unwavering commitment to integrity, transparency, operational results and careful stewardship of capital assets for long-term investor returns.

OUR PERFORMANCE

Monro is the largest chain of Company-operated undercar care facilities in the United States, and has a scalable business model with multiple avenues for growth.

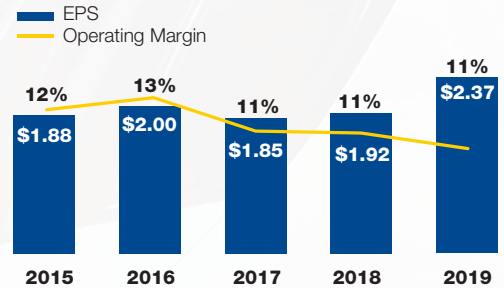
Annual Sales

\$ millions



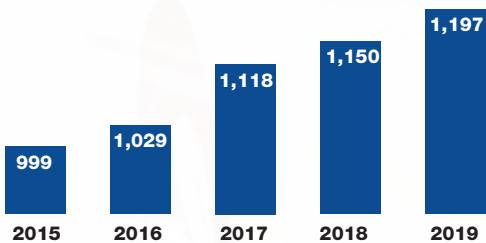
Earnings Per Diluted Share and Operating Margin

\$



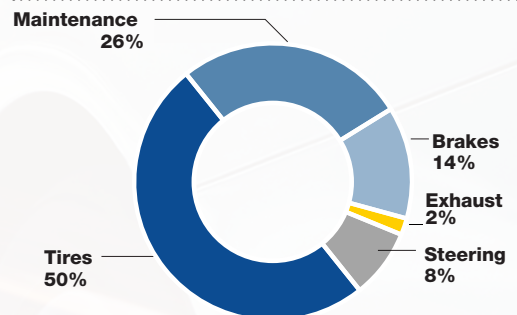
Number of Stores

Stores open and operating at end of fiscal year



Sales by Category*

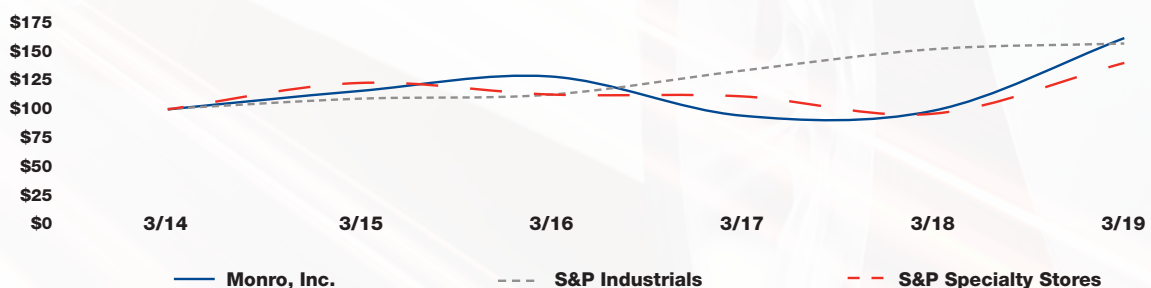
%



*Fiscal 2019

Comparison of 5 Year Cumulative Total Return**

Among Monro, Inc., the S&P Industrials Index and the S&P Specialty Stores Index



**\$100 invested on 3/31/14 in stock or index, including reinvestment of dividends. Fiscal year ending March 30. Copyright© 2019 Standard & Poor's, a division of S&P Global. All rights reserved.

OUR PROVEN M&A TRACK RECORD

Monro's acquisition strategy has delivered significant growth over the years

Since Fiscal Year 2013



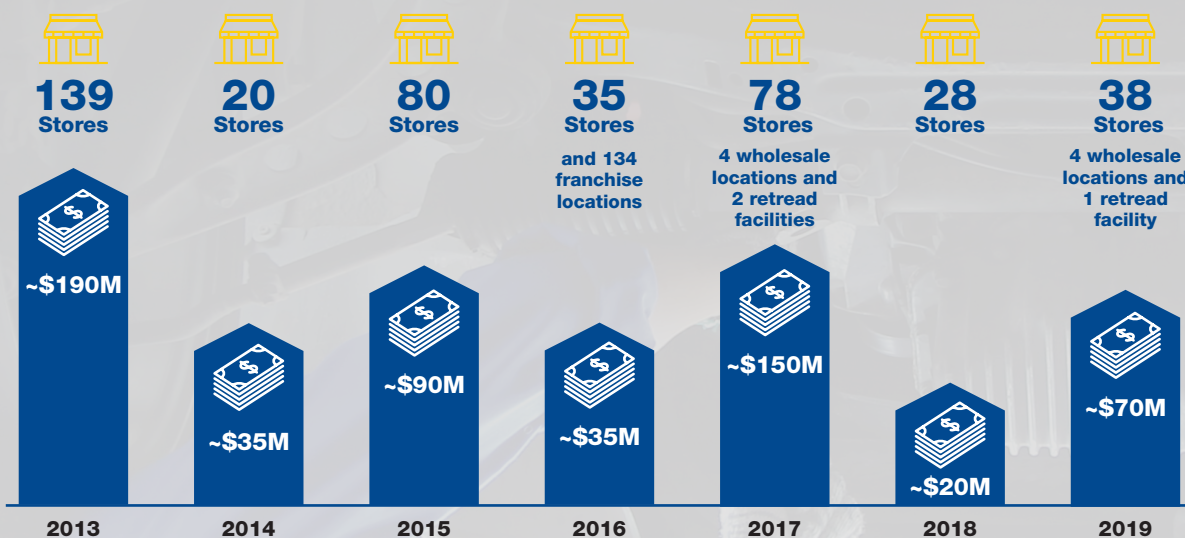
33 acquisitions in the past 7 fiscal years, adding 429 locations and \$630 million in revenue



Entered **11** new states, expanding our presence in the Southern and Western markets

Historical Acquisition Activity

Number of Locations



Average Acquisition Size: 15 Stores / ~\$20 million

Annualized Sales Growth

Cash Returned to Shareholders

Dividends

\$ millions



DEAR FELLOW SHAREHOLDERS,

Fiscal 2019 was an exciting year of transformative changes for our Company. We are very pleased with the tremendous progress we have made towards our Monro.Forward strategy that we unveiled one year ago. We successfully implemented a number of critical initiatives during the year, focusing on driving operational excellence and delivering a consistent, best-in-class customer experience to build a scalable platform for growth. We are also encouraged by the continued momentum we are experiencing across our business and believe our strong financial performance this year underscores the effectiveness of our strategy.



Importantly, I would like to thank our teammates across our organization who have shown outstanding commitment, hard work, and dedication to our customers as we continue to execute Monro.Forward.

EXECUTING OUR MONRO.FORWARD STRATEGY

Our Monro.Forward strategy centers around four pillars, supported by a number of investments in technology and data analytics to increase the overall lifetime value of our customers.

Improving Customer Experience

Our primary objective is to deliver a 5-star experience for all our customers by driving increased consistency and operational improvement across our store base. Throughout the year, we made strong progress to enhance our customer satisfaction and manage our online reputation, which has led to a material improvement in our Company star rating across online review sites in a short period of time, as evidenced by our average 4.7 star rating in fiscal 2019. Importantly, the feedback we collected from our customer survey and online reputation management program provided us with valuable insights to drive consistent execution as we launched our largest initiative to improve our customer experience, our store refresh program. This effort is two-fold and starts with the implementation of standardized operating procedures, which we call our Monro Playbook, followed by the reimaging of our stores to be more modernized and inviting. During the third quarter of fiscal 2019, we successfully completed a pilot program at 31 stores in Rochester, NY. The completion of our refresh drove a sequential increase in traffic and comparable store sales at these locations, as well as meaningful improvement across every guest experience metric. We are very pleased with these initial results and will roll out this initiative across our store base over the next three to five years. Additionally, we have identified opportunities to consolidate our retail brand portfolio into five regional power brands. As part of our broader store refresh initiative, we will leverage customer data analytics to optimize local brand awareness and banner concentration in targeted markets, shifting selected stores to a tire-oriented banner where we see strong upside opportunity. Overall, we believe that these changes position us well to improve conversion and drive increased traffic to our stores.

Enhancing Customer-Centric Engagement

Our second key pillar is to engage with our customers more effectively by investing in higher ROI marketing channels to drive increased customer retention and new customer acquisition, while developing our online presence. To further these efforts, we launched a collaboration with Amazon.com to provide tire installation services at Monro's retail tire and automotive service centers to customers who purchase tires from Amazon.com and select the Ship-to-Store option. Since the initial roll out during the first quarter of fiscal 2019, we have expanded this collaboration to over 800 stores across the Eastern, Western and Central United States. We are encouraged by the positive customer feedback we have received and are on track to offer this option for tire installation across our entire store base. Additionally, we achieved a critical milestone in the development of our omni-channel strategy by launching our new corporate and retail websites. These modernized websites allow us to better address our customers' needs, driving

A LOOK BACK AT FISCAL 2019



Fiscal 2019 sales increased 6% to a record **\$1.2 billion**



Delivered **4** consecutive quarters of comparable store sales growth in fiscal 2019



Acquisitions completed and announced in fiscal 2019 represent a total of **\$132 million** in annualized sales and entry into two new markets



Ending fiscal 2019 with **4.7 stars** average company star rating across online review sites



We returned **\$27 million** to shareholders through 14 dividend increases in 14 years

an increase in web traffic and mobile appointment conversion. As part of our initiatives to optimize our marketing spend, we implemented our data-driven Customer Relationship Marketing (CRM) platform and new customer acquisition campaigns. By leveraging predictive analytics, we are able to deliver tailored messages and service recommendations to our customers, as well as identify prospective customers with a high propensity to purchase our offerings, driving a notable increase in conversion.

Optimizing Product & Service Offering

Our third strategic priority is to optimize our products and services, allowing us to provide our customers with clearly defined options at all price points. During the first quarter of fiscal 2019, we launched our Good-Better-Best product and service packages, which coupled with our consistent in-store selling approach drove strong conversion and gross margin expansion during fiscal 2019, with particular strength in our brake category. Offering clearly-defined options keeps the customer education and selling process simple and gives our teammates trade-up and attachment sale opportunities. We also made progress towards our goal of becoming the number one destination for tires at any price point by further optimizing our tire assortment in the fourth quarter. Specifically, we introduced new branded tires to round out our assortment mix, while optimizing branded tire margins.

Accelerating Productivity & Team Engagement

Our fourth objective is to accelerate the productivity and engagement of our teammates, who are the driving force behind our success. As a first step, we rightsized our store staffing model to ensure we are staffing our stores with the appropriate level of support, allowing us to achieve greater efficiency and gross margin expansion during fiscal 2019. To advance our efforts to train and retain our talent, in the third quarter of fiscal 2019 we launched our Monro University pilot. This robust cloud-based curriculum is designed to arm our technicians with both the technical skill set needed to effectively serve our customers today, as well as ongoing training to handle future technician requirements in the face of increasing vehicle complexity. Leveraging this platform, we are enhancing our employer value proposition to create a clear path for career growth at Monro. We have received positive feedback from our technicians who have engaged with Monro University so far, and we look forward to making it available for our over 8,600 teammates across the organization. Importantly, the changes we are making to improve professional development and teammate satisfaction have led to steady decline in our quarterly turnover during the year to the lowest levels since the fourth quarter of fiscal 2015.

Overall, the initiatives we have accomplished this year have shown strong traction and position us well to capitalize on the opportunities that lie ahead.

Lastly, we continue to capitalize on highly accretive acquisition opportunities in our fragmented industry, with acquisitions announced and completed in fiscal 2019 representing an expected \$132 million in annualized sales. Importantly, we have made significant strides in diversifying and strengthening our store footprint with the recent acquisitions of 12 stores in Louisiana, as well as 40 stores and one distribution center in California, entering two new states. The expansion of our geographic footprint to the West Coast provides us with a strong platform for further expansion into a dynamic and attractive region.

DELIVERING ON OUR GROWTH TARGETS

Our solid financial performance in fiscal 2019 demonstrates the strength of our growth strategy. We achieved our first full year of comparable store sales growth since fiscal 2012 on a 52-week basis, as well as record sales of \$1.2 billion and record diluted earnings per share of \$2.37, in line with our guidance. Importantly, the strategic initiatives we have implemented across our business have led to enhanced in-store execution and a remarkable improvement in customer satisfaction. Building off this strong foundation, we are confident in our ability to drive further growth in fiscal 2020 and beyond to deliver sustainable, long-term value for our shareholders.

ENHANCING SHAREHOLDER VALUE

Returning cash to our shareholders is a top commitment for our Company and a key component of our disciplined capital allocation strategy. We paid approximately \$27 million in dividends in fiscal 2019 and recently announced a 10% increase in our quarterly dividend, marking the 14th consecutive annual dividend increase since we first initiated a cash dividend 14 years ago.

PROMOTING CORPORATE RESPONSIBILITY

Monro maintains an environmentally and socially conscious corporate culture, as demonstrated by our recycling policies at our offices, warehouses and stores, as well as our support of charitable organizations dedicated to caring for the communities and neighborhoods we serve.

In fiscal 2019, as part of our commitment to protecting the environment, Monro recycled 3.1 million gallons of oil and 3.2 million tires, as well as approximately 288,000 vehicle batteries and 120 tons of cardboard.

Monro strives to proactively engage with the communities who have enabled our success over the past 62 years, giving back our time, talent and financial resources however possible. During fiscal 2019, Monro and its teammates donated to a number of charities, including donating approximately \$165,000 to the United Way.

DRIVING FUTURE GROWTH

In summary, fiscal 2019 marked a strong year for Monro as we achieved a number of key milestones in our effort to build a scalable platform for sustainable growth while continuing to execute on our disciplined acquisition strategy. As we enter fiscal 2020, we are well positioned to carry our momentum forward and deliver another year of solid growth. I am confident our unique business model, coupled with the execution of our Monro.Forward strategy, will allow us to capitalize on favorable industry tailwinds and drive long-term shareholder value.

On behalf of the Board of Directors and the Monro Leadership Team, I would like to thank you for your continued support and confidence.

Sincerely,



President and Chief Executive Officer

OUR MONRO.FORWARD STRATEGY

In fiscal 2019, we made tremendous progress towards the execution of our Monro.Forward strategy and achieved several critical milestones in our effort to build a scalable platform for sustainable growth and long-term shareholder value creation.



Improve Customer Experience

- Online reputation management
- Consistent in-store experience
- Consistent store appearance



Optimize Product & Service Offering

- Redefined selling approach
- Optimized tire assortment



Scalable platform to drive sustainable growth



Enhancing Customer-Centric Engagement

- Customer retention
- Customer acquisition
- Omnichannel



Accelerate Productivity & Team Engagement

- Optimized store staffing model
- Clearly defined career path and enhanced training program
- Aligned compensation

Investments in Technology and Data-Driven Analytics to Support Strategic Initiatives

FORM 10-K

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

FORM 10-K

(Mark One)

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

For the fiscal year ended March 30, 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 0-19357

Monro, Inc.

(Exact name of Registrant as specified in its Charter)

New York
(State or other jurisdiction of
incorporation or organization)

16-0838627
(I.R.S. Employer
Identification No.)

200 Hollender Parkway
Rochester, New York
(Address of principal executive offices)

14615
(Zip Code)

Registrant's telephone number, including area code: (585) 647-6400

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, par value \$.01 per share	MNRO	The Nasdaq Stock Market

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 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, 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
Non-accelerated filer
Emerging growth company

Accelerated filer
Smaller reporting company

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The Nasdaq Stock Market on September 29, 2018, was \$2,231,200,000.

The number of shares of Registrant's Common Stock outstanding as of May 17, 2019 was 33,178,154.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement (to be filed pursuant to Regulation 14A) for the 2019 Annual Meeting of Shareholders to be held August 13, 2019 (the "Proxy Statement") are incorporated by reference in Part III of this report.

PART I

FORWARD-LOOKING STATEMENTS

The statements contained in this Annual Report on Form 10-K that are not historical facts, including (without limitation) statements made in this Item and in “Item 1. Business”, may contain statements of future expectations and other forward-looking statements made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. When used in this Annual Report on Form 10-K, the words “anticipates,” “believes,” “contemplates,” “expects,” “see,” “could,” “may,” “estimate,” “appear,” “intend,” “plans,” “potential,” “strategy” and variations thereof and similar expressions, are intended to identify forward-looking statements. Forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed. These factors include, but are not necessarily limited to, product demand, dependence on and competition within the primary markets in which Monro, Inc.’s (“Monro,” the “Company,” “we,” “us,” or “our”) stores are located, the need for and costs associated with store renovations and other capital expenditures, the effect of economic conditions, seasonality, the impact of weather conditions and natural disasters, the impact of competitive services and pricing, parts supply restraints or difficulties, our dependence on vendors, including foreign vendors, changes in U.S. or foreign trade policies, including the impacts of tariffs or proposed tariffs, industry regulation, risks relating to leverage and debt service (including sensitivity to fluctuations in interest rates), continued availability of capital resources and financing, advances in automotive technologies, disruption or unauthorized access to our computer systems, risks relating to protection of customer and employee personal data, business interruptions, risks relating to litigation, risks relating to integration of acquired businesses, including goodwill impairment and the risks set forth in “Item 1A. Risk Factors”. Except as required by law, we do not undertake and specifically disclaim any obligation to update any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Item 1. Business

□ GENERAL

Monro is a chain of 1,197 Company-operated stores (as of March 30, 2019), 98 franchised locations, eight wholesale locations, three retread facilities and two dealer-operated stores providing automotive undercar repair and tire sales and services in the United States. At March 30, 2019, Monro operated Company stores in 28 states, including Arkansas, Connecticut, Delaware, Florida, Georgia, Iowa, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia and Wisconsin, primarily under the names “Monro Auto Service and Tire Centers,” “Tread Quarters Discount Tire Auto Service Centers,” “Mr. Tire Auto Service Centers,” “Autotire Car Care Centers,” “Tire Warehouse Tires for Less,” “Tire Barn Warehouse,” “Ken Towery’s Tire & Auto Care,” “Tire Choice Auto Service Centers,” “FreeService Tire” and “Car-X Tire & Auto”. Company-operated stores typically are situated in high-visibility locations in suburban areas and small towns, as well as in major metropolitan areas. Company-operated stores serviced approximately 6.2 million vehicles in fiscal 2019. (References herein to fiscal years are to the Company’s year ended fiscal March, e.g., references to “fiscal 2019” are to the Company’s fiscal year ended March 30, 2019.)

The predecessor to the Company was founded by Charles J. August in 1957 as a Midas Muffler franchise in Rochester, New York, specializing in mufflers and exhaust systems. The Company was incorporated in the State of New York in 1959. In 1966, we discontinued our affiliation with Midas Muffler, and began to diversify into a full line of undercar repair services. An investor group led by Peter J. Solomon and Donald Glickman purchased a controlling interest in the Company in July 1984. At that time, Monro operated 59 stores, located primarily in upstate New York, with approximately \$21 million in sales in fiscal 1984. Since 1984, we have continued our growth and have expanded our marketing area to include 27 additional states.

The Company’s principal executive offices are located at 200 Hollleder Parkway, Rochester, New York 14615, and our telephone number is (585) 647-6400.



Monro provides a broad range of services on passenger cars, light trucks and vans for brakes; mufflers and exhaust systems; and steering, drive train, suspension and wheel alignment. Monro also provides other products and services, including tires and routine maintenance services, including state inspections. Monro specializes in the repair and replacement of parts which must be periodically replaced as they wear out. Normal wear on these parts generally is not covered by new car warranties. Monro typically does not perform under-the-hood repair services except for oil change services, various “flush and fill” services and some minor tune-up services.

All of the Company-operated stores, except Tire Warehouse Tires for Less (“Tire Warehouse”) and Tire Barn Warehouse stores, provide the services described above. Tire Warehouse and Tire Barn Warehouse stores only sell tires and tire related services and alignments. However, a growing number of our Company-operated stores are more specialized in tire replacement and service and, accordingly, have a higher mix of sales in the tire category. These Company-operated stores are described below as tire stores, whereas the remaining stores are described as service stores. (See additional discussion under “Operations”.) The acquisition of tire stores allows us to fill in our existing markets with a second store more specialized in tire replacement and service. We believe this provides us with a competitive advantage, and we utilize this fill-in strategy to maximize density in the markets we operate in.

Included in the number of Company-operated stores described as tire stores are certain locations that also service commercial customers. Our locations that serve commercial customers conduct tire and automotive repair activities that are similar to our retail locations, other than with respect to the sales mix resulting from the sale of commercial tires. At March 30, 2019, there were 560 stores designated as service stores and 637 as tire stores.

In recent years, we have acquired multiple wholesale locations as well as retread facilities located in numerous states that operate under various names. The wholesale locations, in most cases, sell tires to customers for resale, although these tire sales do not include installation or other tire related services. The retread facilities re-manufacture tires through the replacement of tread on worn tires that are later sold to customers.

As of March 30, 2019, Monro had eight wholesale locations and three retread facilities.

Our sales mix for fiscal 2019, 2018 and 2017 was as follows:

	Service Stores			Tire Stores			Total Company		
	FY19	FY18	FY17	FY19	FY18	FY17	FY19	FY18	FY17
Brakes	25%	23%	23%	9%	9%	9%	14%	13%	13%
Exhaust	7	7	8	1	1	1	2	2	2
Steering	10	11	11	7	8	8	8	8	9
Tires	22	23	22	61	60	59	50	50	49
Maintenance	36	36	36	22	22	23	26	27	27
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Company has two wholly-owned operating subsidiaries, Monro Service Corporation and Car-X, LLC.

Monro Service Corporation, a Delaware corporation, holds all assets, rights, responsibilities and liabilities associated with our warehousing, purchasing, advertising, accounting, office services, payroll, cash management and certain other operations. We believe that this structure has enhanced operational efficiency and provides cost savings.

On April 25, 2015, we acquired the Car-X brand, as well as the franchise rights for 146 auto service centers from Car-X Associates Corp. Car-X, LLC, a Delaware limited liability company, operates as the franchisor through a standard royalty agreement, while Car-X remains a separate and independent brand and business with franchise operations based in Illinois.

As of March 30, 2019, Monro had 97 Car-X franchised locations.



Monro's operations are organized and managed in one operating segment. The internal management financial reporting that is the basis for evaluation in order to assess performance and allocate resources by our chief operating decision maker consists of consolidated data that includes the results of our retail, commercial and wholesale locations. As such, our one operating segment reflects how our operations are managed, how resources are allocated, how operating performance is evaluated by senior management and the structure of our internal financial reporting.

□ INDUSTRY OVERVIEW

There are a number of industry trends driving a favorable shift in the automotive aftermarket. New car sales have been robust over the past five years,¹ resulting in consistent growth in the number of vehicles on the road,² which on average are being driven more miles per year.³ Over the past few years, the industry has been growing significantly in vehicles zero to five years old, driven by the growth in new car sales after the Great Recession.⁴ Conversely, six to 12 year old vehicles, which we consider our targeted segment or our "sweet spot", has declined over the past several years.⁵ However, these structural headwinds have been transitory, and are expected to turn into tailwinds over the next few years.

Additionally, vehicles generally need more service and repairs as they advance in age. However, as consumers' vehicles age, the consumers' willingness to pay higher prices decreases. We intend to be able to offer better value than the new car dealers to these more price-sensitive consumers. Monro's service menu is also focused on our sweet spot, focusing on items that provide good purchase frequency, like oil changes and other scheduled services, along with higher value services like tires, brakes and other undercar services. These dynamics, combined with a declining number of service outlets and bays are important traffic drivers for us as consumers go to outlets they trust to provide tires, maintenance, and repair services for their vehicles.

The continued shift from Do-It-Yourself to Do-It-For-Me is another favorable trend in our industry. The automotive aftermarket is estimated at approximately \$287 billion in the U.S. and is primarily concentrated on the Do-It-For-Me channel, which represents about 80% of the market.⁶ There has been acceleration in the shift from Do-It-Yourself to Do-It-For-Me, and we expect that trend to continue with the increasing adoption of technology in new vehicles.

In addition, any meaningful shift to fully electric vehicles will create opportunities for expanded services to complement the tires, ride control and brake service that will still be required on those vehicles. Monro provides our technicians with the necessary training to remain on the cutting edge of these changes. However, these changes create challenges for smaller competitors, who will struggle to make the investments needed to keep up with the evolving marketplace.

We also believe that ride-sharing companies may provide increased opportunities for the automotive aftermarket. Individuals who provide ride-sharing services are likely to drive their vehicles more, therefore potentially needing their vehicles serviced more often by providers such as Monro. Additionally, while there is potential for fewer cars on the road due to these ride-sharing programs, this is not expected to have a near-term impact on our industry.

We believe Monro is well-positioned to capitalize on these evolving industry dynamics and favorable macro trends, which we expect will help position Monro to deliver consistent and sustainable organic growth.

¹ Vehicle Sales: Autos and Light Trucks, retrieved from U.S. Bureau of Economic Analysis: FRED, Federal Reserve Bank of St. Louis ("FRED Economic Data"), May 2019

² IHS Markit, report on U.S. Light Vehicles in Operation, accessed May 2018 ("IHS Markit Data")

³ FRED Economic Data, Moving 12-Month Total Vehicle Miles Traveled, May 2019

⁴ IHS Markit Data, May 2018

⁵ *ibid.*

⁶ Auto Care Association, Auto Care Factbook, accessed May 2018

□ MONRO.FORWARD STRATEGY

In October 2017, the Company completed a rigorous and comprehensive business assessment to identify areas of opportunity to improve in-store execution and the customer experience across our store base to drive higher traffic with a focus on overall customer lifetime value.

Based on these observations, we developed our strategic plan, called Monro.Forward, which is focused on four key pillars:

- **Improving the guest experience.** The key focus areas of this initiative are improving our online reputation, delivering a consistent five-star experience to our customers in store, and refreshing our store appearance.
- **Enhancing our customer centric engagement.** Supported by data-driven market strategies we are improving our customer retention and acquisition efforts, as well as building a true omni-channel presence.
- **Optimizing our product and service offering.** Through this initiative, we are redefining our selling approach and optimizing our tire assortment both in-store and online.
- **Accelerating productivity and team engagement.** By optimizing our store staffing model, creating a clearly defined career path, enhancing our training program and aligning our compensation we are driving to attain and retain quality talent.

We believe that these four key pillars, supported by investments in technology and data analytics, will create a scalable platform for sustainable growth over time.

Executing on accretive acquisition opportunities also remains a key element of our growth strategy. Moving forward, we will continue to effectively as well as efficiently acquire our targets using a data-driven, analytical approach. We have a robust pipeline and believe the fragmentation of our industry allows for many opportunities for consolidation. Using consumer demographic analytics, we are able to better identify targets that operate in the markets with favorable demographics and customer trends, allowing us to enter regions we are poised to benefit most. Additionally, to ensure we are capitalizing on these opportunities, we have added talent and structure to our mergers and acquisitions teams, who will work with our management team to ensure we capitalize on the momentum in the market. Finally, we believe the implementation of our Monro.Forward initiatives will allow us to more effectively integrate acquisitions and drive higher return on investment (“ROI”) going forward as we will have a more structured, consistent and effective business model.

In that regard, we have completed many acquisitions, including:

Date of Acquisition	Seller	Number of Stores Acquired ^{(a)(b)}	Location of Stores	Current Brand ^(c) (Abbreviated)
June 2014	Kan Rock Tire Company, Inc.	9 ^(d)	MI	Monro
June 2014	Lentz U.S.A. Service Centers, Inc.	10 ^(d)	MI	Monro
August 2014	Hennelly Tire & Auto, Inc.	35	FL	Tire Choice
September 2014	Wood & Fullerton Stores, LLC	9	GA	Mr. Tire
December 2014	Gold Coast Tire & Auto Centers	9	FL	Tire Choice
March 2015	Martino Tire Stores	8	FL	Tire Choice
August 2015	Kost Tire Distributors, Inc.	27	NY, PA	Mr. Tire
May 2016	McGee Tire Stores, Inc.	29 ^(e)	FL	Tire Choice
September 2016	Clark Tire & Auto, Inc.	26 ^(f)	NC	Mr. Tire
February 2017	Nona, Inc.	16	IL, IA	Car-X
July 2017	UVR, Inc.	13 ^(d)	MI	Monro
August 2017	Auto MD, LLC	8	IL, IN	Car-X
March 2018	Appalachian Tire Products, Inc.	7	KY, OH, VA, WV	Mr. Tire
May 2018	Free Service Tire Company, Incorporated	12 ^(g)	TN	FreeService
July 2018	Sawyer Tire, Inc.	8	MO	Car-X
November 2018	Jeff Pohlman Tire & Auto Service, Inc.	5	OH	Car-X/Mr. Tire
January 2019	R. A. Johnson, Inc.	13	FL	Tire Choice

- (a) Table includes only acquisitions of five or more Company-operated stores for the five-year fiscal period ended March 30, 2019.
- (b) Fifteen stores were subsequently closed due to redundancies or failure to achieve an acceptable level of profitability. See additional discussion under “Store Additions and Closings”.
- (c) In this table, “Monro” refers to the brand, not the corporation.
- (d) One acquired store was never opened.
- (e) One retread facility was also acquired and is operating under the McGee Tire name.
- (f) Four wholesale locations were also acquired and are operating under the Tires Now name and one retread facility was also acquired and is operating under the Tire Choice name.
- (g) Four wholesale locations and one retread facility were also acquired and are operating under the FreeService Tire name. (One wholesale location has since closed.)

As of March 30, 2019, Monro had 1,197 Company-operated stores, 98 franchised locations, eight wholesale locations, three retread facilities and two dealer locations located in 28 states.

□ STORE ADDITIONS AND CLOSINGS^(a)

The following table shows the growth in the number of Company-operated stores over the last five fiscal years:

	Year Ended Fiscal March				
	2019	2018	2017	2016	2015
Stores open at beginning of year . . .	1,150	1,118	1,029	999	953
Stores added during year	60 ^(c)	49 ^(d)	105 ^(e)	52 ^(f)	92 ^(g)
Stores closed during year ^(b)	(13)	(17)	(16)	(22)	(46)
Stores open at end of year	<u>1,197</u>	<u>1,150</u>	<u>1,118</u>	<u>1,029</u>	<u>999</u>
Service stores	<u>560</u>	<u>542</u>	<u>534</u>	<u>515</u>	<u>509</u>
Tire stores	<u>637</u>	<u>608</u>	<u>584</u>	<u>514</u>	<u>490</u>



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- (a) Table includes only Company-operated stores. No franchised, wholesale, retread or dealer locations are included.
 - (b) Generally, stores were closed because they failed to achieve or maintain an acceptable level of profitability or because a new company store was opened in the same market at a more favorable location. Additionally, in fiscal 2015, we closed the 34 remaining stores that operated in BJ's Wholesale Clubs.
 - (c) Includes 51 stores acquired in the fiscal 2019 Acquisitions.
 - (d) Includes 45 stores acquired in the fiscal 2018 Acquisitions. (Excludes the UVR, Inc. store that was never opened.)
 - (e) Includes 90 stores acquired in the fiscal 2017 Acquisitions.
 - (f) Includes 40 stores acquired in the fiscal 2016 Acquisitions.
 - (g) Includes 85 stores acquired in the fiscal 2015 Acquisitions. (Excludes the Kan Rock (1) and Lentz (1) stores that were never opened.)

In the first quarter of fiscal 2020, Monro completed acquisitions in two new states: California and Louisiana. The California acquisition includes 40 retail tire and automotive repair stores located in San Francisco, San Diego and Los Angeles and one distribution center located in Riverside, California while the Louisiana acquisition includes 12 retail tire and automotive repair stores.

We plan to add approximately 20 to 30 new greenfield stores in fiscal 2020 and to pursue appropriate acquisition candidates. Greenfield stores include new construction as well as the acquisition of one to four store operations.

Key factors in market and site selection for selecting new greenfield store locations include population, demographic characteristics, vehicle population and the intensity of competition. Monro partners with a customer analytics firm to provide market segmentation and demographic data specific to a geographic area in close proximity to a Monro location to identify high value lookalike customers and market directly to them. Monro attempts to cluster stores in market areas in order to achieve economies of scale in advertising, supervision and distribution costs. All new greenfield sites presently under consideration are within Monro's established market areas.

As a result of extensive analysis of our historical and projected store opening strategy, we have established major market profiles, as defined by market awareness: mature, existing and new markets. Over the next several years, we expect to build or acquire stores in mature and existing markets in order to capitalize on our market presence and consumer awareness as well as grow in new markets through building and acquisitions. During fiscal 2019, 39 of the stores added (including acquired stores) were located in existing markets and 21 stores were added (including acquired stores) in new markets.

Monro has a chain-wide computerized inventory control and point-of-sale ("POS") management information system, which has increased management's ability to monitor operations as the number of stores has grown. We have customized the POS system to specific service and tire store requirements and deploy the appropriate version in each type of store. The system includes the following:

- Entry of a license plate and state automatically fills in vehicle identification number ("VIN"), year, make, and model. This provides accurate VIN, year, make, and model information while simplifying the estimate process at the store;
- Online catalogs and online parts ordering directly with vendors;
- Electronic mail and electronic cataloging, which allows store managers to electronically research the specific parts needed for the make and model of the car being serviced;
- Electronic repair manuals that allow for instant access to a single source of accurate, up-to-date, original equipment manufacturer-direct diagnosis, repair and maintenance information;

- Software which contains data that mirrors the scheduled maintenance requirements in vehicle owner's manuals, specifically by make, model, year and mileage for every major automobile brand. Management believes that this software facilitates the presentation and sale of scheduled maintenance services to customers;
- Streamlining of estimating and other processes;
- Graphic catalogs;
- A feature which facilitates tire searches by size;
- Direct mail support;
- Appointment scheduling;
- Customer service history;
- A thermometer graphic which guides store managers on the profitability of each job;
- The ability to view inventory of up to the closest 14 stores or warehouse; and
- Expanded monitoring of price changes. This requires more specificity on the reason for a discount, which management believes helps to control discounting.

Enhancements will continue to be made to the POS system in an effort to increase efficiency, improve the quality and timeliness of store reporting and enable us to better serve our customers.

The financing to build a new greenfield service store location may be accomplished in one of three ways: (i) a store lease for the land and building (in which case, land and building costs will be financed primarily by the lessor), (ii) a land lease with the building constructed by Monro (with building costs paid by Monro), or (iii) a land purchase with the building constructed by Monro. In all three cases, for service stores, each new store also will require approximately \$225,000 for equipment (including a POS system and a truck) and approximately \$55,000 in inventory. Because we generally do not extend credit to most customers, stores generate almost no receivables and a new store's actual net working capital investment is nominal. Total capital required to build a new greenfield service store ranges, on average, from \$360,000 to \$990,000 depending on the location and which of the three financing methods is used. In general, tire stores are larger and have more service bays than Monro's traditional service stores and, as a result, construction costs are at the high end of the range of new store construction costs. Total capital required to build a new greenfield tire (land and building leased) location costs, on average, approximately \$600,000, including \$250,000 for equipment and \$150,000 for inventory. In instances where Monro acquires an existing business, it may pay additional amounts for intangible assets such as customer lists, covenants not-to-compete, trade names and goodwill, but generally will pay less per bay for equipment and real property.

At March 30, 2019, we leased the land and/or the building at approximately 72% of our store locations and owned the land and building at the remaining locations. Monro's policy is to situate new stores in the best locations, without regard to the form of ownership required to develop the locations.

New service and tire stores, (excluding acquired stores), have average sales of approximately \$400,000 and \$1,050,000, respectively, in their first 12 months of operation, or \$67,000 and \$150,000, respectively, per bay.

□ STORE OPERATIONS

Store Format

As part of Monro Forward, one of our largest initiatives is to improve our customers' in-store experience. This initiative is twofold and includes the implementation of standardized in-store operating procedures, followed by reimaging stores to create a more consistent appearance. Through these efforts, we have taken major steps to improve our customers' in-store experience and help ensure that we deliver a 5-star experience at each of our store locations.

We have taken an education-centered approach to the in-store customer selling process and trained our teams to execute our standardized procedures, which we call our *Monro Playbook*, to drive consistency across all locations. Our *Monro Playbook* includes clearly defined roles and responsibilities for our employees with a focus on service quality. We expect that this clear and consistent selling approach, coupled with our stronger merchandise strategy, will be instrumental in driving higher in-store conversion. To complement our *Monro Playbook*, we also established clear brand standards to align the appearance of our stores and further drive consistency across our store base that currently includes a wide range of stores and formats. We are determining the appropriate scope of refresh needed for each of our stores by examining their age, size and market demographics to ensure we are investing the appropriate amount of capital to achieve the highest possible returns.

During the third quarter of fiscal 2019 we reached a significant milestone in this initiative by substantially completing our pilot initiative of 31 stores in Rochester, NY. Following the successful completion of our pilot program, we are planning to roll out our brand operational standards across our store base and modernize our store portfolio over the next three to five years.

To drive improved consistency across our store base, we also implemented tablet-based dashboards and a cloud-based standardized store review process. Our tablets and dashboards allow our store operation leaders to more effectively evaluate and manage each store’s performance across numerous key performance indicators, including customer satisfaction and online reviews, traffic and sales trends by category, margin performance and staffing and labor metrics. Managers have the ability to track these metrics versus historical trends and their peers, with the information flowing to them in near real time.

Our store review process now is standardized across all districts in the Company and will drive increased visibility into the field. This standardized store review process allows us to take both a quantitative and qualitative approach to assessing our store performance, evaluating each store regularly on 135 points across five areas ranging from store appearance to operational performance. Overall, we believe our data-driven approach and related investments in technology will drive efficiency in our stores and our field management organization, reducing the time that they spend identifying underlying causes of performance issues and allowing them to prioritize their time and attention to coach our store teams on improving their results. The cloud-based systems will also increase the transparency and accountability throughout our organization and drive consistent improvement in execution across all of our stores.

The typical format for a *Monro* store is a free-standing building consisting of a sales area, fully-equipped service bays and a parts/tires storage area. Most service bays are equipped with above-ground electric vehicle lifts. Generally, each store is located within 25 miles of a “key” store which carries approximately double the inventory of a typical store and serves as a mini-distribution point for slower moving inventory for other stores in its area. Individual store sizes, number of bays and stocking levels vary greatly, even within the service and tire store groups, and are dependent primarily on the availability of suitable store locations, population, demographics and intensity of competition among other factors. (See additional discussion under “Store Additions and Closings”.) A summary of average store data for service and tire stores is presented below:

	Average Number of Bays	Average Square Feet	Average Inventory	Average Number of Stock Keeping Units (SKUs)
Service stores	6	4,700	\$ 94,000	2,000
Tire stores (excluding Tire Warehouse and Tire Barn Warehouse stores)	8	6,700	\$135,000	1,300

Data for the Tire Warehouse and Tire Barn Warehouse stores has been excluded because these locations primarily install new tires and wheels and many perform alignments. Additionally, most Tire Warehouse stores have one indoor service bay to perform alignments. The store building houses a waiting room, storage area and an area to mount and balance tires on the car’s wheels once the wheels and tires have been removed from the car. Removal of old tires and wheels from, and installation of new tires and wheels on,



customers' cars are performed outdoors under a carport. The average inventory carried by the Tire Warehouse and Tire Barn Warehouse stores is \$224,000 per store.

Stores generally are situated in high-visibility locations in suburban areas, major metropolitan areas or small towns and offer easy customer access. The typical store is open from 7:30 a.m. to 7:00 p.m. on Monday through Friday and from 7:30 a.m. to 6:00 p.m. on Saturday. A majority of store locations are also open Sundays from 9:00 a.m. to 5:00 p.m.

Inventory Control and Management Information System

All Company stores communicate daily with the corporate headquarters and warehouse by computerized inventory control and electronic POS management information systems, which enable us to collect sales and operational data on a daily basis, to adjust store pricing to reflect local conditions and to control inventory on a near "real-time" basis. Additionally, each store has access, through the POS system, to the inventory carried by up to the 14 stores or warehouse nearest to it. Management believes that this feature improves customer satisfaction and store productivity by reducing the time required to locate out-of-stock parts and tires. It also improves profitability because it reduces the amount of inventory which must be purchased outside Monro from local vendors.

Quality Control and Warranties

To maintain quality control, we conduct audits to rate our employees' telephone sales manner and the accuracy of pricing information given.

We have a customer review and survey program to monitor customer attitudes toward service quality, friendliness, speed of service, and overall customer experience for each store. Customer concerns are addressed by customer service and field management personnel.

Monro uses a "Double Check for Accuracy Program" as part of our routine store procedures. This quality assurance program requires that a technician and supervisory-level employee independently inspect a customer's vehicle, diagnose and document the necessary repairs, and agree on an estimate before presenting it to a customer. This process is formally documented on the written estimate by store personnel.

We are an active member of the Automotive Maintenance & Repair Association ("AMRA"). AMRA is an organization of automotive retailers, wholesalers and manufacturers which was established as part of an industry-wide effort to address the ethics and business practices of companies in the automotive repair industry through the Motorist Assurance Program ("MAP"). Participating companies commit to improving consumer confidence and trust in the automotive repair industry by adopting "Uniform Inspection Communication Standards" ("UICS") established by MAP. These UICS are available in our stores and serve to provide consistent recommendations to customers in the diagnosis and repair of a vehicle.

We offer limited warranties on substantially all of the products and services that we provide. We believe that these warranties are competitive with industry practices and serve as a marketing tool to increase repeat business at our stores.

Store Personnel and Training

Monro supervises store operations primarily through our Divisional Vice Presidents who oversee Zone Managers who, in turn, oversee District Managers. The typical service store is staffed by a Store Manager and four to six technicians, one of whom serves as the Assistant Manager. The typical tire store, except Tire Warehouse and Tire Barn stores, is staffed by a Store Manager, an Assistant Manager and/or Service Manager, and four to eight technicians. Larger volume service and tire stores may also have one or two sales people. The higher staffing level at many tire stores is necessary to support their higher sales volume. Tire Warehouse and Tire Barn stores are generally staffed by a Store Manager and two to four technicians, one of whom serves as the Assistant Manager. All Store Managers receive a base salary and Assistant Managers receive either hourly or salaried compensation.



We believe that the ability to recruit and retain qualified technicians is an important competitive factor in the automotive repair industry, which has historically experienced a high turnover rate. As part of our Monro.Forward strategy, we are creating a clearly defined career path and enhanced training program to attract, develop and retain our talent.

During fiscal 2019, we also optimized our store staffing model by rightsizing our overstaffed and understaffed stores. As a next step, we will implement a cloud-based data-driven store staffing and scheduling system to drive further staffing efficiency by more accurately re-balancing the level of technical skills in each store, ensuring our stores are staffed with technicians who have the right skill levels based on sales and volume mix as well as that store's growth potential.

To attract the right talent and build the best team in the aftermarket auto industry, we are focused on providing our people with the right training to optimize their performance. To accomplish this, we have created a cloud-based curriculum called Monro University, with the pilot phase launched during the third quarter of fiscal 2019. This will provide our employees with the technical training needed to effectively serve our customers today and prepare them to handle future technician requirements as vehicles become more complex with the increased adoption of technology.

In addition to Monro University, our training department develops and coordinates technical training courses on critical areas of automotive repair to Monro technicians (e.g. Antilock braking systems ("ABS") brake repair, drivability, tire pressure monitoring system ("TPMS"), etc.) and also conducts required technical training to maintain compliance with state inspection licenses, where applicable, and AMRA/MAP accreditation. Additionally, our training department holds periodic field technical clinics for store personnel and coordinates technician attendance at technical clinics offered by our vendors. We have electronic repair manuals installed in all of our stores for daily reference. We also issue technical bulletins to all stores on innovative or complex repair processes, and maintain a centralized database for technical repair problems. In addition, Monro has established a telephone technical help line to provide assistance to store personnel in resolving problems encountered while diagnosing and repairing vehicles. The help line is available during all hours of store operation. A comprehensive set of on-line courses in automotive repair and tire service is made available for our technicians to participate in at no cost.

Many of our new technicians join the Company in their early twenties as trainees or apprentices. As they progress, many are promoted to technician and eventually master technician, the latter requiring Automotive Service Excellence ("ASE") certification in eight different categories. We will reimburse technicians for the cost of ASE certification registration fees and test fees and encourage all technicians to become certified by providing a higher hourly wage rate following their certification. We also offer free online ASE certification preparation courses, as well as a tool purchase program through which trainee technicians can acquire their own set of tools.

Our training program provides multiple training sessions to both Store Managers and technicians in each store, each year.

Management training courses are developed and delivered by our dedicated training department and operations management, and are supplemented with live and on-line vendor training courses. Management training covers safety, customer service, sales, human resources (counseling, recruiting, interviewing, etc.), leadership, scheduling, financial and operational areas, and is delivered on a regular basis. We believe that involving operations management in the development and delivery of these sessions results in more relevant and actionable training for Store Managers, and helps to improve overall performance and staff retention.

Monro also maintains an employee website that contains many resources for both managers and technicians to reference including Human Resource information and forms. Additionally, there is a Facilities section containing important environmental and equipment information, as well as a Training section that contains training programs, including on-line training videos, and documents for both managers and technicians.

We also expect to drive higher retention by providing more transparency into career opportunities and to aid our employees in charting their own course towards advancement. This is further supported by annual reviews with employees to align their own developmental objectives with our desired business objectives.



Further, we ensure our incentives are tightly connected to desired performance. While our previous compensation model was based solely on profitability, our new compensation model is based on a balanced scorecard that rewards same-store sales growth, profitability and the customer experience. The incentives are designed to increase as the employees' performance improves with maximum payouts for outstanding performance. This new compensation plan also streamlines all previous bonus programs, creating consistency and providing us the ability to use labor more productively across our stores and markets.

□ OPERATIONS

Monro provides our customers with a wide range of dependable, high-quality tire and automotive services at a competitive price by emphasizing the following key elements.

Products and Services

The typical store provides a full range of undercar repair services for brakes, steering, mufflers and exhaust systems, drive train, suspension and wheel alignment, as well as tire replacement and service. These services apply to all makes and models of domestic and foreign cars, light trucks and vans. During fiscal 2018, we conducted a comprehensive analysis of our product and service offerings to develop a clearly defined merchandise strategy. As a result of this analysis, we launched Good, Better, Best service packages during the first quarter of fiscal 2019 to provide customers with clear options to choose the right services for their vehicle. Offering several options keeps the customer education and in-store selling process simple and gives our employees the opportunity to trade customers up to higher-value packages and increase attachment sales. Additionally, we are optimizing our tire assortment by leveraging the breadth of our tire brand portfolio to offer the right tires at the right price points. Going forward, we also see potential in leveraging data analytics to align our tire inventory assortment with consumer demographics, so that we can provide the right-size tire inventory for the vehicle population surrounding our stores.

As a percentage of sales, the service stores provide significantly more brake and maintenance services than tire stores, and tire stores provide substantially more tire replacement and related services than service stores.

Stores generally provide many of the routine maintenance services (except engine diagnostic), which automobile manufacturers suggest or require in the vehicle owner's manuals, and which fulfill manufacturers' requirements for new car warranty compliance. We offer "Scheduled Maintenance" services in our stores whereby the aforementioned services are packaged and offered to consumers based upon the year, make, model and mileage of each specific vehicle. Management believes that we offer this service in a more convenient and cost competitive fashion than auto dealers can provide.

Included in maintenance services are oil change services, heating and cooling system "flush and fill" service, belt installation, fuel system service and a transmission "flush and fill" service. Additionally, most stores replace and service batteries, starters and alternators. Stores in certain states also perform annual state inspections. Additionally, approximately 71% of our stores offer air conditioning services.

The format of the Tire Warehouse and Tire Barn Warehouse stores are slightly different from Monro's typical service or tire stores (as described above) in that, generally, over 93% of the stores' sales involve tire services, including the mounting and balancing of tires, and the sale of road hazard warranties. Most of these stores also provide the installation of wiper blades. Currently, 79% of Tire Warehouse and 93% of Tire Barn Warehouse stores perform alignments.

Customer Satisfaction

As part of our Monro.Forward strategy, we have fundamentally changed our culture from a transaction-focused business to one that is built on long-term customer relationships. To achieve this goal, we launched a new technology-supported customer satisfaction and online review management system during the fourth quarter of fiscal 2018. We are using this technology to help us solicit feedback from our customers across all major areas of their brand experience. Additionally, we leverage our online reviews to learn more about what our customers want and need, and how we can always deliver a 5-star experience to them. Utilizing the insights from these investments, we are making improvements to our store operations,

which in turn are leading to a material improvement in Monro's overall star rating across online review sites. As of March 30, 2019, we have an all-time high average Company rating of 4.5 stars across our 1,197 locations. Equally important, we believe improved customer experience is a virtuous cycle, as it leads to improved online ratings that drive better visibility online, which in turn leads to increased conversion and ultimately higher potential traffic to our stores.

Competitive Pricing, Advertising and Co-branding Initiatives

Monro seeks to set competitive prices for quality services and products. We support our pricing strategy with special offers and coupons distributed through a variety of channels including: direct mail, e-mail, digital advertising, newspaper advertising, home-delivered newsprint inserts and coupon booklets, promotional store signage and in-store displays. In addition, to increase consumer awareness of the services we offer, Monro has a presence in traditional and online radio platforms, cable television, billboards and relevant directories. We are concentrating our marketing efforts in high ROI channels, with an emphasis on the digital environment. Our digital marketing efforts include paid and organic search on all major search engines, search remarketing and banner and mobile advertising. We also manage social media profiles on a variety of platforms. We leverage customer relationship marketing and data analytics to reach our customers where they are and deliver tailored messages based on our customer specific vehicle needs.

We are committed to building an omni-channel presence to create a seamless buying experience for our customers. During the second quarter of fiscal 2019, we launched modernized retail and corporate websites, the first phase of this initiative and a major milestone in the development of our online presence. Our websites include www.monro.com, www.mrtire.com, www.tqtire.com, www.autotire.com, www.tirewarehouse.net, www.kentowery.com, www.tirebarn.com, www.thetirechoice.com, www.freeservicetire.com and www.tiresnowonline.com. With responsive optimized design for mobile users, a streamlined tire search and improved content and functionality, our new retail websites better position us to address our customers' needs. These websites help customers search for store locations, print coupons, make service appointments, shop for tires and access information on our services and products, as well as car care tips. Importantly, they better showcase the solutions we provide to our customers, including our Good, Better, Best product and service packages.

Our corporate website is www.corporate.monro.com, which provides detailed information regarding Monro's vision, values, leadership and financial performance.

Centralized Control

While we both operate and franchise stores, we believe that direct operation of stores enhances our ability to compete by providing centralized control of such areas of operations as service quality, store appearance, promotional activity and pricing. We also believe our experience in operating stores makes us a more valuable partner to our franchisees. A high level of competence is maintained throughout the Company, as we require as a condition of employment, that employees participate in periodic training programs, including sales, management, customer service and changes in automotive technology. Additionally, purchasing, distribution, merchandising, advertising, accounting and other store support functions are centralized primarily in Monro's corporate headquarters in Rochester, New York and are provided through our subsidiary, Monro Service Corporation. The centralization of these functions results in efficiencies and gives management the ability to closely monitor and control costs.

❑ PURCHASING AND DISTRIBUTION

Through our wholly-owned subsidiary, Monro Service Corporation, we select and purchase tires, parts and supplies for all Company-operated stores on a centralized basis through an automatic replenishment system. Although purchases outside the centralized system are made when needed at the store level, these purchases are low by industry standards and accounted for approximately 19% of all parts and tires used in fiscal 2019.

Our ten largest vendors accounted for approximately 80% of our total stocking purchases, with the largest vendor accounting for approximately 26% of total stocking purchases in fiscal 2019. In fiscal 2019, Monro imported approximately 16% of our parts and tire purchases. We purchase parts, oil and tires from



approximately 130 vendors. Management believes that our relationships with vendors are excellent and that alternative sources of supply exist, at comparable cost, for substantially all parts used in our business. We routinely obtain bids from vendors to ensure we are receiving competitive pricing and terms.

Amid global tariffs, market uncertainty and other material cost pressures, our vertically-integrated and diversified supply chain continues to drive our cost leadership position and remains a key differentiator in our industry.

Most parts are shipped by vendors to our warehouse facilities and are distributed to stores by the Monro-operated tractor/trailer fleet. The majority of tires are shipped to our stores directly by vendors pursuant to orders placed by our headquarters staff. Stores are replenished at least bi-weekly and such replenishment fills, on average, 96% of all items ordered by the stores' automatic POS-driven replenishment system. Monro operates warehouses in New York, Maryland, Virginia, New Hampshire, Kentucky, North Carolina, South Carolina, and Tennessee. These warehouses each carry, on average, approximately 2,600 SKU's.

We enter into contracts with certain parts and tire suppliers, some of which require us to buy (at market competitive prices) up to 100% of our annual purchases of specific products. These agreements expire at various dates. We believe these agreements provide us with high quality, branded merchandise at preferred pricing, along with strong marketing and training support.

□ COMPETITION

Monro competes in the automotive service and tire industry. This industry is generally highly competitive and fragmented, and the number, size and strength of competitors vary widely from region to region. We believe that competition in this industry is based on customer service and reputation, store location, name awareness and price. Monro's primary competitors include national and regional undercar, tire specialty and general automotive service chains, both franchised and company-operated; car dealerships, mass merchandisers' operating service centers; and, to a lesser extent, gas stations, independent garages and Internet tire sellers. Monro considers TBC Corporation (operating under the NTB, Merchant's Tire, Midas and Tire Kingdom brands), Firestone Complete Auto Care service stores, The Pep Boys — Manny, Moe and Jack service stores, Meineke Discount Mufflers Inc., and Mavis Discount Tire to be direct competitors. In most of the new markets that we have entered, at least one competitor was already present. In identifying new markets, we analyze, among other factors, the intensity of competition. (See "Monro.Forward Strategy" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".)

□ EMPLOYEES

As of March 30, 2019, Monro had 8,183 employees, of whom 7,622 were employed in the field organization, 260 were employed at the warehouses, 244 were employed at our corporate headquarters and 57 were employed in other offices. Monro's employees are not members of any union.

Our strong commitment to support our teammates' professional development and the cultural changes we have made across the organization have had a tremendous impact on our ability to retain talent, as evidenced by our quarterly turnover reaching its lowest level in the fourth quarter of fiscal 2019 since the fourth quarter of fiscal 2015. We have received strong positive feedback from our employees supporting our Monro.Forward initiatives and the actions the Company is taking to better serve our customers.

□ REGULATION

We are subject to various federal, state and local laws and governmental regulations relating to the operation of our business, including, among other things, those regarding employment and labor practices, workplace safety, zoning and the handling, storage and disposal of hazardous substances contained in the products that we sell and use in our service bays, the recycling of batteries, tires and used lubricants, and the ownership and operation of real property. We maintain programs to facilitate compliance with these laws and regulations. We believe that we are in compliance with all applicable environmental and other laws and regulations, and our related compliance costs are not material.



Monro stores new oil and recycled antifreeze and generates and/or handles used tires and automotive oils, antifreeze and certain solvents, which are disposed of by licensed third-party contractors. In certain states, as required, we also recycle oil filters. Accordingly, we are subject to numerous federal, state and local environmental laws including the Comprehensive Environmental Response Compensation and Liability Act (“CERCLA”). In addition, the United States Environmental Protection Agency (the “EPA”), under the Resource Conservation and Recovery Act (“RCRA”), as well as various state and local environmental protection agencies, regulate our handling and disposal of certain waste products and other materials. The EPA, under the Clean Air Act, also regulates the installation of catalytic converters by periodically spot checking repair jobs, and may impose sanctions, including but not limited to civil penalties up to \$37,500 per violation (or up to \$37,500 per day for certain willful violations or failures to cooperate with authorities), for violations of RCRA and the Clean Air Act.

Monro strives to maintain an environmentally and socially conscious corporate culture, giving back our time, talent and financial resources however we can. This is demonstrated by our recycling policies at our offices, warehouses and stores and our support of charitable organizations dedicated to caring for the communities and neighborhoods we serve. In fiscal 2019, Monro recycled approximately 3.3 million gallons of oil and 3.0 million tires, as well as approximately 81,000 vehicle batteries and 30 tons of cardboard, all as part of the Company’s commitment to the environment. Further, Monro and its employees donated to a number of charities during fiscal 2019, including over \$260,000 to the United Way. The United Way, which directly improves lives by mobilizing people and resources to advance the common good, has always been our primary charitable focus. The Company and employees participate in the annual United Way campaign in Rochester, NY, our corporate headquarters, as well as in many other communities where we do business.

□ SEASONALITY

Although our business is not highly seasonal, customers do purchase more undercar service during the period of March through October than the period of November through February, when miles driven tend to be lower. In the tire stores, the better sales months are typically May through August, and October through December. The slowest months are typically January through April and September. As a result, profitability is typically lower during slower sales months, or months where mix is more heavily weighted toward tires, which is a lower margin category. Additionally, since our stores are primarily located in the northeastern and midwestern United States, profitability tends to be lower in the winter months when certain costs, such as utilities and snow plowing, are typically higher.

□ COMPANY INFORMATION AND SEC FILINGS

Monro maintains a website at www.corporate.monro.com and makes its annual, quarterly and periodic Securities and Exchange Commission (“SEC”) filings available through the Investors section of that website. Monro’s SEC filings are available through this website free of charge, via a direct link to the SEC website at www.sec.gov.

Item 1A. Risk Factors

In addition to the risks discussed elsewhere in this annual report, the following are the important factors that could cause Monro's actual results to differ materially from those projected in any forward looking statements:

We operate in the highly competitive automotive repair industry.

The automotive repair industry in which we operate is generally highly competitive and fragmented, and the number, size and strength of our competitors vary widely from region to region. We believe that competition in the industry is based primarily on customer service, reputation, store location, name awareness and price. Our primary competitors include national and regional undercar, tire specialty and general automotive service chains, both franchised and company-operated, car dealerships, mass merchandisers operating service centers and, to a lesser extent, gas stations, independent garages and Internet tire sellers. Some of our competitors have greater financial resources, are more geographically diverse and have better name recognition than we do, which might place us at a competitive disadvantage to those competitors. Because we seek to offer competitive prices, if our competitors reduce prices, we may be forced to reduce our prices, which could have a material adverse effect on our business, financial condition and results of operations. Further, our success within this industry also depends upon our ability to respond in a timely manner to changes in customer demands for both products and services. We cannot assure that we, or any of our stores, will be able to compete effectively. If we are unable to compete successfully in new and existing markets, we may not achieve our projected revenue and profitability targets.

We are subject to seasonality and cycles in the general economy and customers' use of vehicles, which may impact demand for our products and services.

Although our business is not highly seasonal, our customers typically purchase more undercar services during the period of March through October than the period of November through February, when miles driven tend to be lower. Further, customers may defer or forego vehicle maintenance at any time during periods of inclement weather. In the tire stores, the better sales months are typically May through August, and October through December. The slowest months are typically January through April and September. As a result, profitability is typically lower during slower sales months or months where mix is more heavily weighted toward tires, which is a lower margin category.

Additionally, for our stores located in the northeastern and midwestern United States, profitability tends to be lower in the winter months when certain costs, such as utilities and snow plowing, are typically higher. Sales can also be volatile in these areas in reaction to warm weather in winter months or severe weather, which can result in store closures.

We purchase products such as oil and tires, which are subject to cost variations related to commodity costs. If we cannot pass along cost increases, our profitability would be negatively impacted.

Further, our industry is influenced by the number of miles driven by automobile owners. Factors that may cause the number of miles driven by automobile owners to decrease include the weather, travel patterns, gas prices and fluctuations in the general economy. Should a significant reduction in the number of miles driven by automobile owners occur, it would likely have an adverse effect on the demand for our products and services. For example, when the retail cost of gasoline increases, the number of miles driven by automobile owners may decrease, which could result in less frequent service intervals and fewer repairs. Accordingly, a significant reduction in the number of miles driven by automobile owners could have a material adverse effect on our business and results of operations.

Changes in economic conditions that impact consumer spending could harm our business.

The automotive repair industry and our financial performance are sensitive to changes in overall economic conditions that impact consumer spending. Future economic conditions affecting consumer income such as employment levels, business conditions, interest rates, and tax rates could reduce consumer spending or cause consumers to shift their spending to other products. During periods of good economic conditions, consumers may decide to purchase new vehicles rather than servicing their older vehicles. A general

reduction in the level of consumer spending or shifts in consumer spending to other services could have a material adverse effect on our growth, sales and profitability.

Changes in the U.S. trade environment, including the imposition of import tariffs, could adversely affect our consolidated results of operations and cash flows.

The U.S. government has imposed new or higher tariffs on specified imported products originating from China in response to what it characterizes as unfair trade practices, and China has responded by imposing new or higher tariffs on specified products imported from the United States. Additionally, in 2018, the U.S. government imposed imported steel and aluminum tariffs in response to national security concerns and several countries retaliated by proposing or imposing new tariffs on specified products imported from the United States. In the spring of 2019, trade tensions with China increased as the U.S. government proposed additional tariffs and the Chinese government proposed retaliatory tariffs.

Although we have no foreign operations and do not manufacture any products, tariffs imposed on products that we sell, such as tires, may cause our expenses to increase, which could adversely affect our profitability unless we are able to raise our prices for these products. If we increase the price of products impacted by tariffs, our service offerings may become less attractive relative to services offered by our competitors or cause our customers to delay needed maintenance. Given the uncertainty regarding the scope and duration of these trade actions by the U.S. or other countries, the impact of these trade actions on our operations or results remains uncertain. However, the tariffs, along with any additional tariffs or retaliatory trade restrictions implemented by other countries, could adversely affect the operating profits of our business, which could have an adverse effect on our consolidated results of operations and cash flows.

We depend on our relationships with our vendors, including foreign sources, for certain inventory. Our business may be negatively affected by the risks associated with such relationships and international trade.

We depend on close relationships with our vendors for parts, tires and supplies and for our ability to purchase products at competitive prices and terms. Our ability to purchase at competitive prices and terms results from the volume of our purchases from these vendors. We have entered into various contracts with parts suppliers that require us to buy from them (at market competitive prices) up to 100% of our annual purchases of specific products. These agreements expire at various dates.

We believe that alternative sources exist for most of the products we sell or use at our stores, and we would not expect the loss of any one supplier to have a material adverse effect on our business, financial condition or results of operations. Our dependence on a small number of suppliers, however, subjects us to the risks of shortages and interruptions. If any of our suppliers do not perform adequately or otherwise fail to distribute parts or other supplies to our stores, our inability to replace the suppliers in a timely manner and on acceptable terms could increase our costs and could cause shortages or interruptions that could have a material adverse effect on our business, financial condition and results of operations.

In addition, we depend on a number of products (e.g. brake parts, tires, oil filters) produced in foreign markets. The U.S. government has made proposals and taken actions intended to address trade imbalances, which include encouraging increased production in the United States. These proposals could result in increased customs duties and the renegotiation of certain U.S. trade agreements, which in turn could cause an increase in the prices we pay for certain of the products we sell. Any changes in U.S. trade policies, or uncertainty with respect to the future of U.S. trade policies, resulting in increased costs which we are not able to offset with pricing increases of our own could adversely affect our financial performance.

We also face other risks associated with the delivery of inventory originating outside the United States, including:

- potential economic and political instability in countries where our suppliers are located;
- increases in shipping costs;
- transportation delays and interruptions;
- compliance with the United States Foreign Corrupt Practices Act, which generally prohibits U.S. companies from engaging in bribery or making other prohibited payments to foreign officials; and

- significant fluctuations in exchange rates between the U.S. dollar and foreign currencies.

Our industry is subject to environmental, consumer protection and other regulation.

We are subject to various federal, state and local environmental laws, building and zoning requirements, employment and labor laws and other governmental regulations regarding the operation of our business. For example, we are subject to rules governing the handling, storage and disposal of hazardous substances contained in some of the products such as motor oil that we sell and use at our stores, the recycling of batteries, tires and used lubricants, and the ownership and operation of real property. These laws and regulations can impose fines and criminal sanctions for violations as well as require the installation of pollution control equipment or operational changes to decrease the likelihood of accidental hazardous substance releases. Accordingly, we could become subject to material liabilities relating to the investigation and cleanup of contaminated properties, and to claims alleging personal injury or property damage as a result of exposure to, or release of, hazardous substances. In addition, stricter interpretation of existing laws and regulations, new laws and regulations, the discovery of previously unknown contamination or the imposition of new or increased requirements could require us to incur costs or become the basis of new or increased liabilities that could have a material adverse effect on our business, financial condition and results of operations.

National automotive repair chains have also been the subject of investigations and reports by consumer protection agencies and the Attorneys General of various states. Publicity in connection with these kinds of investigations could have an adverse effect on our sales and, consequently, our business, financial condition and results of operations. State and local governments have also enacted numerous consumer protection laws with which we must comply.

The costs of operating our stores may increase if there are changes in laws governing minimum hourly wages, working conditions, overtime, workers' compensation and health insurance rates, unemployment tax rates or other laws and regulations. A material increase in these costs that we were unable to offset by increasing our prices or by other means could have a material adverse effect on our business, financial condition and results of operations.

We are involved in litigation from time to time arising from the operation of our business and, as such, we could incur substantial judgments, fines, legal fees or other costs.

We are sometimes the subject of complaints or litigation from customers, employees or other third parties for various actions. From time to time, we are involved in litigation involving claims related to, among other things, breach of contract, negligence, tortious conduct and employment and labor law matters, including payment of wages. The damages sought against us in some of these litigation proceedings could be substantial. Although we maintain liability insurance for some litigation claims, if one or more of the claims were to greatly exceed our insurance coverage limits or if our insurance policies do not cover a claim, this could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Business interruptions may negatively impact our store operations, availability of products and/or the operability of our computer systems, which may have a material negative effect on our business and results of operations. A breach of our computer systems could damage our reputation and have a material adverse effect on our business and results of operations.

If any of our locations in a particular region are unexpectedly closed permanently or for a period of time, it could have a negative impact on our business. Such closures could occur as a result of circumstances out of our control, including war, acts of terrorism, extreme weather conditions and other natural disasters. Further, if our ability to obtain products and merchandise for use in our stores is impeded, it could have a negative impact on our business. Factors that could negatively affect our ability to obtain products and merchandise include the sudden inability to import goods into the United States for any reason and the curtailment or delay of commercial transportation. While we do maintain business interruption insurance, there is no guarantee that we will be able to use such insurance for any particular location closure or other interruption in operations.

Additionally, given the number of individual transactions we process each year, it is critical that we maintain uninterrupted operation of our computer and communications hardware and software systems. Our systems could be subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, including breaches of our transaction processing or other systems that result in the compromise of confidential customer data, catastrophic events such as fires, tornadoes and hurricanes, and usage errors by our employees. If our systems are breached, damaged or cease to function properly, we may have to make a significant investment to fix or replace them, we may suffer interruptions in our operations in the interim, we may face costly litigation, and our reputation with our customers may be harmed. The risk of disruption is increased in periods where complex and significant systems changes are undertaken. Any material interruption in our computer operations may have a material adverse effect on our business or results of operations.

If we experience a data security breach and confidential customer or employee information is disclosed, we may be subject to penalties and experience negative publicity, which could affect our customer relationships and have a material adverse effect on our business. We may incur increasing costs in an effort to minimize these cyber security risks.

The nature of our business involves the receipt and storage of personally identifiable data of our customers and employees. This type of data is subject to legislation and regulation in various jurisdictions. We have been subject to cyber-attacks in the past and we may suffer data security breaches arising from future attacks. Data security breaches suffered by well-known companies and institutions have attracted a substantial amount of media attention, prompting state and federal legislative proposals addressing data privacy and security. We may become exposed to potential liabilities with respect to the data that we collect, manage and process, and may incur legal costs if our information security policies and procedures are not effective or if we are required to defend our methods of collection, processing and storage of personal data. Future investigations, lawsuits or adverse publicity relating to our methods of handling personal data could adversely affect our business, results of operations, financial condition and cash flows due to the costs and negative market reaction relating to such developments.

We may not have the resources or technical expertise to anticipate or prevent rapidly evolving types of cyber-attacks. Attacks have been targeted at us, our customers, or others who have entrusted us with information. Actual or anticipated attacks will cause us to incur increased costs, including costs to hire additional personnel, purchase additional protection technologies, train employees, and engage third-party experts and consultants. In addition, data and security breaches can also occur as a result of non-technical issues, including breach by us or by persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach of our security could result in violation of applicable privacy and other laws, significant legal and financial exposure, and a loss of confidence in our security measures, which could have a material adverse effect on our results of operations and our reputation.

Our business is affected by advances in automotive technology.

The demand for our products and services could be adversely affected by continuing developments in automotive technology. Automotive manufacturers are producing cars that last longer and require service and maintenance at less frequent intervals in certain cases. Quality improvement of manufacturers' original equipment parts has in the past reduced, and may in the future reduce, demand for our products and services, adversely affecting our sales. For example, manufacturers' use of stainless steel exhaust components has significantly increased the life of those parts, thereby decreasing the demand for exhaust repairs and replacements. Longer and more comprehensive warranty or service programs offered by automobile manufacturers and other third parties also could adversely affect the demand for our products and services. We believe that a majority of new automobile owners have their cars serviced by a dealer during the period that the car is under warranty. In addition, advances in automotive technology continue to require us to incur additional costs to update our diagnostic capabilities and technical training programs. Changes in vehicle and powertrain technology and advances in autonomous vehicles and mobility could have a negative effect on our business, results of operations or investors' perception of our business, any of which could have an adverse effect upon the price of our common stock.

We may not be successful in integrating new and acquired stores.

Management believes that our continued growth in sales and profit is dependent, in large part, upon our ability to operate new stores that we open or acquire on a profitable basis. In order to do so, we must find reasonably priced new store locations and acquisition candidates that meet our criteria and we must integrate any new stores (opened or acquired) into our system. Our growth and profitability could be adversely affected if we are unable to open or acquire new stores or if new or existing stores do not operate at a sufficient level of profitability. In addition, our profitability could be adversely affected if we fail to retain key personnel from acquired stores or assume unanticipated liabilities of acquired businesses. To the extent we acquire stores or expand into new geographic regions, we must anticipate the needs of customers and the vehicle population in those regions, which may differ from our existing customers and the vehicle populations we serve, while integrating the stores in the new geographic region into our existing network of stores. If new stores do not achieve expected levels of profitability or we are unable to integrate stores in new geographic regions into our business, our ability to remain in compliance with our debt covenants or to make required payments under our credit facility may be adversely impacted.

If our capital investments in remodeling existing or acquired stores, building new stores, and improving technology do not achieve appropriate returns, our competitive position, financial condition and results of operations could be adversely affected.

Our business depends, in part, on our ability to remodel existing or acquired stores and build new stores in a manner that achieves appropriate returns on our capital investment. Pursuing the wrong remodel or new store opportunities and any delays, cost increases, disruptions or other uncertainties related to those opportunities could adversely affect our results of operations.

We are currently making, and expect to continue to make, significant investments in technology to improve certain management systems. The effectiveness of these investments can be less predictable than remodeling stores, and might not provide the anticipated benefits or desired rates of return.

Pursuing the wrong investment opportunities, making an investment commitment significantly above or below our needs, or failing to effectively incorporate acquired businesses into our business could result in the loss of our competitive position and adversely affect our financial condition or results of operations.

Any impairment of goodwill, other intangible assets or long-lived assets could negatively impact our results of operations.

Our goodwill, other intangible assets and long-lived assets are subject to an impairment test on an annual basis and are also tested whenever events and circumstances indicate that goodwill, intangible assets and/or long-lived assets may be impaired. Any excess goodwill resulting from the impairment test must be written off in the period of determination. Intangible assets (other than goodwill and indefinite-lived intangible assets) and other long-lived assets are generally amortized or depreciated over the useful life of such assets. In addition, from time to time, we may acquire or make an investment in a business that will require us to record goodwill based on the purchase price and the value of the acquired tangible and intangible assets. We have significantly increased our goodwill as a result of our acquisitions. We may subsequently experience unforeseen issues with the businesses we acquire, which may adversely affect the anticipated returns of the business or value of the intangible assets and trigger an evaluation of recoverability of the recorded goodwill and intangible assets. Future determinations of significant write-offs of goodwill, intangible assets or other long-lived assets, as a result of an impairment test or any accelerated amortization or depreciation of other intangible assets or other long-lived assets could have a material negative impact on our results of operations and financial condition. We have completed our annual impairment test for goodwill, and have concluded that we do not have any impairment of goodwill for the year ended March 30, 2019.

Store closings result in acceleration of costs.

From time to time, in the ordinary course of our business, we close certain stores, generally based on considerations of store profitability, competition, strategic factors and other considerations. Closing a store could subject us to costs including the write-down of leasehold improvements, equipment, furniture and fixtures. In addition, we could remain liable for future lease obligations.

We rely on an adequate supply of skilled field personnel.

In order to continue to provide high quality services, we require an adequate supply of skilled field managers and technicians. Trained and experienced automotive field personnel are in high demand, and may be in short supply in some areas. We cannot assure that we will be able to attract, motivate and maintain an adequate skilled workforce necessary to operate our existing and future stores efficiently, or that labor expenses will not increase as a result of a shortage in the supply of skilled field personnel, thereby adversely impacting our financial performance. While the automotive repair industry generally operates with high field employee turnover, any material increases in employee turnover rates in our stores or any widespread employee dissatisfaction could also have a material adverse effect on our business, financial condition and results of operations.

If we are unable to generate sufficient cash flows from our operations, our liquidity will suffer and we may be unable to satisfy our obligations.

We currently rely on cash flow from operations and our \$600 million revolving credit facility with eight banks (the “Revolving Credit Facility”) to fund our business. Amounts outstanding on the Revolving Credit Facility are reported as debt on our balance sheet. While we believe that we have the ability to sufficiently fund our planned operations and capital expenditures for the foreseeable future, various risks to our business could result in circumstances that would materially affect our liquidity. For example, cash flows from our operations could be affected by changes in consumer spending habits, the failure to maintain favorable vendor payment terms or our inability to successfully implement sales growth initiatives, among other factors. We may be unsuccessful in securing alternative financing when needed on terms that we consider acceptable.

In addition, a significant increase in our leverage could have the following risks:

- our ability to obtain additional financing for working capital, capital expenditures, store renovations, acquisitions or general corporate purposes may be impaired in the future;
- our failure to comply with the financial and other restrictive covenants governing our debt, which, among other things, require us to comply with certain financial ratios and limit our ability to incur additional debt and sell assets, could result in an event of default that, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations; and
- our exposure to certain financial market risks, including fluctuations in interest rates associated with bank borrowings could become more significant.

Although we believe that we will remain in compliance with our debt covenants, if we are not able to do so our lenders may restrict our ability to draw on our Revolving Credit Facility, which could have a negative impact on our operations and growth potential.

We depend on the services of our key executives.

Our senior executives are important to our success because they have been instrumental in setting our strategic direction, operating our business, identifying, recruiting and training key personnel, identifying expansion opportunities and arranging necessary financing. Losing the services of any of these individuals could adversely affect our business until a suitable replacement is found. It may be difficult to replace them quickly with executives of comparable experience and capabilities. Although we have employment agreements with certain of our executives, we cannot prevent them from terminating their employment with us. To the extent we have turnover within our management team, we may have to spend more time and resources training new members of management and integrating them in our company. The loss of service of any one of our key executives would likely cause a disruption in our business plans and may adversely impact our results of operations.

The market price of our common stock may be volatile and could expose us to shareholder action including securities class action litigation.

The stock market and the price of our common stock may be subject to wide fluctuations based upon general economic and market conditions. Downturns in the stock market may cause the price of our common stock to decline. The market price of our stock may also be affected by our ability to meet analysts' expectations. Failure to meet such expectations, even slightly, could have an adverse effect on the price of our common stock. In the past, following periods of volatility in the market price of a company's securities, shareholder action including securities class action litigation has often been instituted against such a company. If similar litigation were instituted against us, it could result in substantial costs and a diversion of our management's attention and resources, which could have an adverse effect on our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company, through Monro Service Corporation, owns its office/warehouse facility of approximately 165,000 square feet, which is located on 12.7 acres of land in Holleder Technology Park, in Rochester, New York. Monro Service Corporation also owns a second office/warehouse facility of approximately 28,000 square feet, which is located on 11.8 acres of land in Swanzey, New Hampshire. The Company also owns one retread facility in North Carolina.

Of Monro's 1,197 Company-operated stores at March 30, 2019, 338 were owned, 792 were leased and for 67 stores, only the land was leased. We lease additional warehouse space in Maryland, Virginia, Kentucky, North Carolina, South Carolina, and Tennessee, and office space in Illinois and Florida for our Car-X franchise and McGee operations, respectively. In addition to the Company-operated stores, eight wholesale locations and two retread facilities were leased at March 30, 2019. In general, we lease store sites for a ten-year period with several five-year renewal options. Giving effect to all renewal options, approximately 64% of the leases (548 stores) expire after 2029. Certain leases provide for contingent rental payments if a percentage of annual gross sales exceed the base fixed rental amount. The highest contingent percentage rent of any lease is 7.5%, and no such lease has adversely affected profitability of the store subject thereto.

Item 3. Legal Proceedings

We are not a party or subject to any legal proceedings other than certain claims and lawsuits that arise in the normal course of our business. We do not believe that such claims or lawsuits, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

□ MARKET INFORMATION

Monro's common stock, par value \$.01 per share, (the "Common Stock") is traded on the Nasdaq Stock Market under the symbol "MNRO".

□ HOLDERS

At May 17, 2019, Monro's Common Stock was held by approximately 45 shareholders of record. This figure does not include an estimate of the indeterminate number of beneficial holders whose shares may be held of record by brokerage firms and clearing agencies.

□ DIVIDENDS

The declaration of and determination as to the payment of future dividends will be at the discretion of the Board of Directors and will depend on our financial condition, results of operations, capital requirements, compliance with charter and contractual restrictions, and such other factors as the Board of Directors deems relevant. Under our Amended Revolving Credit Facility, there are no restrictions on our ability to pay cash dividends (with certain limitations). For additional information regarding our Amended Revolving Credit Facility, see Note 6 to the Company's Consolidated Financial Statements.

Item 6. Selected Financial Data

The following table sets forth selected financial and operating data of Monro for each fiscal year in the five-year period ended March 30, 2019. The financial data and certain operating data have been derived from Monro's audited financial statements. This data should be read in conjunction with the financial statements and related notes included under Item 8 of this report and in conjunction with other financial information included elsewhere in this Form 10-K.

	Year Ended Fiscal March				
	2019	2018	2017	2016	2015
	(Amounts in thousands, except per share data)				
Income Statement Data:					
Sales	\$1,200,230	\$1,127,815	\$1,021,511	\$943,651	\$894,492
Cost of sales, including distribution and occupancy costs	735,002	692,241	624,622	557,948	541,142
Gross profit	465,228	435,574	396,889	385,703	353,350
Operating, selling, general and administrative expenses	338,485	308,278	280,505	265,114	243,561
Operating income	126,743	127,296	116,384	120,589	109,789
Interest expense, net	27,013	24,296	19,768	15,542	11,342
Other income, net	(630)	(454)	(628)	(374)	(908)
Income before provision for income taxes	100,360	103,454	97,244	105,421	99,355
Provision for income taxes	20,608	39,519	35,718	38,616	37,556
Net income	\$ 79,752	\$ 63,935	\$ 61,526	\$ 66,805	\$ 61,799
Earnings per share					
Basic ^(a)	\$ 2.41	\$ 1.94	\$ 1.88	\$ 2.07	\$ 1.94
Diluted ^(a)	\$ 2.37	\$ 1.92	\$ 1.85	\$ 2.00	\$ 1.88
Weighted average number of Common Shares and equivalents					
Basic	32,980	32,767	32,413	32,026	31,605
Diluted	33,675	33,341	33,301	33,353	32,944
Cash dividends per share or share equivalent	\$ 0.80	\$ 0.72	\$ 0.68	\$ 0.60	\$ 0.52
Selected Operating Data:					
Sales growth:					
Total	6.4%	10.4%	8.3%	5.5%	7.6%
Comparable store ^(b)	0.4%	1.8%	(4.3)%	(0.1)%	(1.4)%
Company-operated stores open at beginning of year ^(c)	1,150	1,118	1,029	999	953
Company-operated stores open at end of year ^(c)	1,197	1,150	1,118	1,029	999
Capital expenditures ^(d)	\$ 44,468	\$ 39,122	\$ 34,640	\$ 36,834	\$ 34,750
Balance Sheet Data (at period end):					
Net working capital ^(e)	\$ 21,460	\$ 13,251	\$ 13,337	\$ 2,504	\$ 5,549
Total assets ^(e)	1,312,288	1,218,432	1,185,264	999,438	907,794
Long-term obligations	375,771	375,288	395,503	269,045	255,688
Shareholders' equity	699,510	628,476	581,254	536,195	473,611

Fiscal year 2018 reflects results based on a 53 week fiscal year. Results from all other fiscal years are based on a 52 week fiscal year.

- (a) See Note 11 to the Company's Consolidated Financial Statements for calculation of basic and diluted earnings per share for fiscal years 2019, 2018 and 2017.
- (b) Comparable store sales data (not adjusted for days) is calculated based on the change in sales of only those stores open as of the beginning of the preceding fiscal year.
- (c) Includes only Company-operated stores. No franchised, wholesale, retread or dealer locations are included.
- (d) Amount does not include the funding of the purchase price of acquisitions.
- (e) Fiscal year 2015 reflects a reclassification of deferred taxes.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table sets forth income statement data of Monro expressed as a percentage of sales for the fiscal years indicated:

	Year Ended Fiscal March		
	2019	2018	2017
Sales	100.0%	100.0%	100.0%
Cost of sales, including distribution and occupancy costs	61.2	61.4	61.1
Gross profit	38.8	38.6	38.9
Operating, selling, general and administrative expenses	28.2	27.3	27.5
Operating income	10.6	11.3	11.4
Interest expense, net	2.3	2.2	1.9
Other income, net	(0.1)	—	(0.1)
Income before provision for income taxes	8.4	9.2	9.5
Provision for income taxes	1.7	3.5	3.5
Net income	6.6%	5.7%	6.0%

❑ CRITICAL ACCOUNTING POLICIES

We believe that the accounting policies listed below are those that are most critical to the portrayal of our financial condition and results of operations, and that required management's most difficult, subjective and complex judgments in estimating the effect of inherent uncertainties. This section should be read in conjunction with Note 1 to the Company's Consolidated Financial Statements which includes other significant accounting policies.

Inventory

We evaluate whether inventory is stated at the lower of cost and net realizable value based on historical experience with the carrying value and life of inventory. The assumptions used in this evaluation are based on current market conditions and we believe inventory is stated at the lower of cost and net realizable value in the consolidated financial statements. In addition, historically we have been able to return excess items to vendors for credit or sell such inventory to other wholesalers. Future changes by vendors in their policies or willingness to accept returns of excess inventory could require a revision in the estimates.

Business Combinations

We use the acquisition method in accounting for acquired businesses. Under the acquisition method, our financial statements reflect the operations of an acquired business starting from the completion of the acquisition. The assets acquired and liabilities assumed are recorded at their respective estimated fair values



at the date of the acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. Significant judgment is often required in estimating the fair value of assets acquired, particularly real estate, including land and buildings, and intangible assets, including trade names and customer relationships. As a result, in the case of significant acquisitions, we normally obtain the assistance of a third-party valuation specialist in estimating fair values of real estate and intangible assets. The fair value measurements are based on available historical information and on expectations and assumptions about the future, considering the perspective of marketplace participants. Fair value of real estate is estimated using the cost or market approach to value the land and buildings. Fair values of acquired trade names are estimated using an income approach, specifically the relief-from-royalty method. Customer relationships are valued using the cost approach or an income approach such as the excess earnings method. Assumptions utilized in the determination of fair value include forecasted sales, discount rates, royalty rates (trade names) and customer attrition rates (customer relationships). While we believe the expectations and assumptions about the future are reasonable, they are inherently uncertain. Unanticipated market or macroeconomic events and circumstances may occur, which could affect the accuracy or validity of the estimates and assumptions.

Carrying Values of Goodwill and Long-Lived Assets

We have a history of growth through acquisitions. Assets and liabilities of acquired businesses are recorded at their estimated fair values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. The carrying value of goodwill is subject to an annual impairment test, which we perform in the third quarter of the fiscal year. Impairment tests may also be triggered by any significant events or changes in circumstances affecting our business.

We have one reporting unit which encompasses all operations including new acquisitions. In performing our annual goodwill impairment test, we perform a qualitative assessment to determine if it is more likely than not that the fair value is less than the carrying value of goodwill. The qualitative assessment includes a review of business changes, economic outlook, financial trends and forecasts, growth rates, industry data, market capitalization and other relevant qualitative factors. If the qualitative factors indicate a potential impairment, we compare the fair value of our reporting unit to the carrying value of our reporting unit. If the fair value is less than its carrying value, an impairment charge is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill. We believe there is little risk of impairment.

Intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses and are amortized over their estimated useful lives. All intangibles and other long-lived assets are reviewed when events or changes in circumstances indicate that the asset's carrying value may not be recoverable. If such indicators are present, it is determined whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying values.

A deterioration of macroeconomic conditions may not only negatively impact the estimated operating cash flows used in our cash flow models, but may also negatively impact other assumptions used in our analyses, including, but not limited to, the estimated cost of capital and/or discount rates. Additionally, we are required to ensure that assumptions used to determine fair value in our analyses are consistent with the assumptions a hypothetical marketplace participant would use. As a result, the cost of capital and/or discount rates used in our analyses may increase or decrease based on market conditions and trends, regardless of whether our actual cost of capital has changed. Therefore, we may recognize an impairment of an intangible asset or assets even though realized actual cash flows are approximately equal to or greater than our previously forecasted amounts.

Self-Insurance Reserves

We are largely self-insured with respect to workers' compensation, general liability and employee medical claims. In order to reduce our risk and better manage our overall loss exposure, we purchase stop-loss insurance that covers individual claims in excess of the deductible amounts, and caps total losses in a fiscal year. We maintain an accrual for the estimated cost to settle open claims as well as an estimate of the cost of claims that have been incurred but not reported. These estimates take into consideration the historical

average claim volume, the average cost for settled claims, current trends in claim costs, changes in our business and workforce, and general economic factors. These accruals are reviewed on a quarterly basis or more frequently if factors dictate that a more frequent review is warranted. For more complex reserve calculations, such as workers' compensation, we use the services of an actuary on an annual basis to assist in determining the required reserve for open claims.

Income Taxes

We estimate our provision for income taxes, deferred tax assets and liabilities, income taxes payable and unrecognized tax benefit liabilities based on a number of factors including, but not limited to, historical pre-tax operating income, future estimates of pre-tax operating income, tax planning strategies, differences between tax laws and accounting rules of various items of income and expense, statutory tax rates and credits, uncertain tax positions and valuation allowances. We use significant judgment and estimates in evaluating our tax positions.

We record deferred tax assets and liabilities based upon the expected future tax outcome of differences between tax laws and accounting rules of various items of income and expense recognized in our results of operations using enacted tax rates in effect for the year in which the future tax outcome is expected. We evaluate our ability to realize the tax benefits associated with deferred tax assets and establish valuation allowances when we believe it is more-likely-than-not that some portion of our deferred tax assets will not be realized.

We file U.S. federal income tax returns and income tax returns in various state jurisdictions. Monro's fiscal 2018 U.S. federal tax year and various state tax years remain subject to income tax examinations by tax authorities. We establish tax liabilities in accordance with the accounting guidance on income taxes. Under the accounting guidance, we measure and recognize the tax benefit from an uncertain tax position taken or expected to be taken on an income tax return based on the largest benefit that is more-likely-than-not of being realized upon settlement. An uncertain income tax position will not be recognized in the financial statements unless it is more-likely-than-not to be sustained. We adjust these tax liabilities for unrecognized tax benefits, as well as the related interest and penalties, based on the latest facts and circumstances, including recently published rulings, court cases and outcomes of tax audits. Due to the complexity of some of these uncertainties, the ultimate resolution may result in an actual tax liability that differs from our estimated tax liabilities for unrecognized tax benefits and our effective tax rate may be materially impacted. While it is often difficult to predict the final outcome of, the timing of, or the tax treatment of any particular uncertain tax position, we believe that our tax balances reflect the more-likely-than-not outcome of known tax contingencies.

□ RESULTS OF OPERATIONS

Fiscal 2019 as Compared to Fiscal 2018

Sales for fiscal 2019 increased \$72.4 million or 6.4% to \$1.200 billion as compared to \$1.128 billion in fiscal 2018. The increase was largely due to an increase of \$71.7 million related to new stores, of which \$53.6 million came from the fiscal 2018 and fiscal 2019 acquisitions. Additionally, there was an increase in comparable store sales of .4%. Partially offsetting this was a decrease in sales from closed stores amounting to \$5.7 million. Fiscal 2019 was a 52-week year, and therefore, there were 361 selling days as compared to 368 selling days in fiscal 2018, a 53-week year. Adjusting for days, comparable store sales increased by 2.3%. We define comparable store sales as sales for stores that have been open or acquired at least one fiscal year prior to April 1, 2018.

Barter sales of slower moving inventory totaled approximately \$5.4 million and \$2.9 million for fiscal 2019 and fiscal 2018, respectively.

During the year ended March 30, 2019, 60 Company-operated stores were added and 13 were closed. At March 30, 2019, we had 1,197 Company-operated stores in operation compared to 1,150 Company-operated stores in operation at March 31, 2018.

During fiscal 2019, we purchased five franchised locations from existing franchisees. Also during fiscal 2019, we opened two and closed one franchised locations. At March 30, 2019, we had 98 franchised locations compared to 102 franchised locations at March 31, 2018.

Comparable store brakes and tire category sales for fiscal 2019 increased by approximately 10% and 2%, respectively, from the prior year when adjusted for days. However, front end/shocks category sales decreased by approximately 1% on a comparable store sales basis when adjusted for days as compared to the prior year. Comparable store alignment and maintenance services category sales remained relatively flat for fiscal 2019 when adjusted for days as compared to the prior year. Comparable store sales when adjusted for days were impacted by higher average ticket, offset by lower traffic.

Gross profit for fiscal 2019 was \$465.2 million or 38.8% of sales as compared with \$435.6 million or 38.6% of sales for fiscal 2018. The increase in gross profit for fiscal 2019, as a percentage of sales, was due primarily to a decrease in labor costs as a percentage of sales as compared to the prior year due to a continued focus on our store staffing optimization initiative. Partially offsetting this decrease was an increase in material costs which increased slightly as a percentage of sales as compared to the prior year due primarily to a shift in sales mix related to recent acquisitions that have included commercial and wholesale tire locations.

At our retail tire and automotive repair locations, we provide a broad range of services on passenger cars, light trucks and vans for brakes; mufflers and exhaust systems; and steering, drive train, suspension and wheel alignment. We also provide other products and services, including tires and routine maintenance services, such as state inspections. In recent years, including fiscal 2019, we acquired certain tire and automotive repair locations that also serve commercial customers and sell tires to customers for resale. These locations conduct tire and automotive repair activities that are similar to our retail locations, other than with respect to the lower gross margin sales mix resulting from the sale of commercial tires and the lower gross margin of the wholesale locations. The lower gross margin at our wholesale locations is due primarily to the higher mix of tires sold and the fact that those tire sales do not include installation or other tire related services that are more common at other locations. During fiscal 2019, there was an increase in consolidated revenue from the prior year of approximately \$28.5 million due to increased sales from commercial and wholesale locations acquired in fiscal 2019. Additionally, due to the sales mix from our commercial and wholesale locations acquired in fiscal 2019, our consolidated gross margin for fiscal 2019 was reduced by approximately 70 basis points from the prior year.

Distribution and occupancy costs were relatively flat as a percentage of sales as compared to the prior year.

On a comparable store basis, gross profit for fiscal 2019 increased by approximately 100 basis points as compared to the prior year.

Operating expenses for fiscal 2019 were \$338.5 million or 28.2% of sales as compared with \$308.3 million or 27.3% of sales for fiscal 2018. During fiscal 2018, operating expenses included approximately \$5.2 million in one-time costs consisting of \$2.0 million in litigation settlement costs and \$3.2 million in management transition costs. The increase of \$30.2 million in operating expenses from the prior year is primarily due to \$6.4 million in costs related to Monro Forward initiatives and investments, including \$2.2 million in one-time costs, in order to enhance operational excellence and customer experience, \$.6 million of corporate and field management realignment costs and \$.3 million in incremental costs related to increased acquisition activity. The remaining increase includes increased expenses for 47 net new stores, three net new wholesale locations and increased incentive compensation expense related to our improved performance.

Operating income in fiscal 2019 of approximately \$126.7 million decreased by .4% as compared to operating income of approximately \$127.3 million in fiscal 2018, and decreased as a percentage of sales from 11.3% to 10.6% for the reasons described above.



Net interest expense for fiscal 2019 increased by approximately \$2.7 million as compared to the prior year, and increased as a percentage of sales from 2.2% to 2.3%. The weighted average debt outstanding for the year ended March 30, 2019 increased by approximately \$9.7 million from the year ended March 31, 2018. This increase is primarily related to an increase in capital lease debt recorded in connection with the fiscal 2018 and fiscal 2019 acquisitions and greenfield expansion, as well as an increase in the weighted average interest rate for the year ended March 30, 2019 of approximately 60 basis points as compared to the prior year. This was partially offset by a decrease in debt outstanding under our Revolving Credit Facility. The increase in the weighted average interest rate for the year ended March 30, 2019 was primarily due to an increase in the London Interbank Offered Rate (“LIBOR”) and prime rates from the prior year.

The effective income tax rate was 20.5% and 38.2% of pre-tax income in fiscal 2019 and fiscal 2018, respectively. The effective income tax rate for each respective period was significantly impacted by the Tax Cuts and Jobs Act of 2017 (“Tax Act”). Our effective income tax rate for the year ended March 30, 2019 reflects the full-year benefit of a 21% federal statutory rate in fiscal 2019 compared with a 31.6% blended federal statutory rate in fiscal 2018. The effective income tax rate for the year ended March 30, 2019 also reflects an income tax benefit of \$2.0 million arising from the Internal Revenue Service’s examination of our fiscal 2016 and 2017 tax years. An income tax benefit was recorded primarily due to the difference in the federal statutory income tax rate of 35% that applies to refund amounts resulting from an application for a retroactive accounting method change that was accepted by the Internal Revenue Service, as compared to the federal statutory income tax rate of 21% for which deferred tax accounting applies. In addition, as it relates to the Tax Act, we recorded a provisional tax expense of \$4.7 million during fiscal 2018 for the revaluation of our net deferred tax assets. Additional discrete tax items recognized during each respective fiscal year are insignificant.

Net income for fiscal 2019 increased by \$15.8 million, or 24.7%, from \$63.9 million in fiscal 2018, to \$79.8 million. Earnings per common share on a diluted basis for fiscal 2019 of \$2.37, including \$.05 per common share of non-recurring costs related to Monro. Forward initiatives and investments, \$.01 per common share of corporate and field management realignment costs and \$.01 per common share in incremental costs related to increased acquisition activity, partially offset by \$.06 per common share of income tax benefit, increased by 23.4% as compared to diluted earnings per common share of \$1.92 for fiscal 2018, which included \$.16 per common share in one-time costs, including \$.06 per common share related to the net expense impact of the Tax Act, \$.04 per common share in litigation settlement costs and \$.06 per share in management transition costs, partially offset by \$.10 per common share in contribution from the extra selling week.

Fiscal 2018 as Compared to Fiscal 2017

Sales for fiscal 2018 increased \$106.3 million or 10.4% to \$1.128 billion as compared to \$1.022 billion in fiscal 2017. The increase was largely due to an increase of \$96.2 million related to new stores, of which \$73.5 million came from the fiscal 2017 and fiscal 2018 acquisitions. Additionally, there was an increase in comparable store sales of 1.8%. Partially offsetting this was a decrease in sales from closed stores amounting to \$5.8 million. Fiscal 2018 was a 53-week year, and therefore, there were 368 selling days as compared to 361 selling days in fiscal year 2017. Adjusting for days, comparable store sales were relatively flat. We define comparable store sales as sales for stores that have been open or acquired at least one fiscal year prior to March 26, 2017.

Barter sales of slower moving inventory totaled approximately \$2.9 million and \$2.5 million for fiscal 2018 and fiscal 2017, respectively.

During the year ended March 31, 2018, 49 Company-operated stores were added and 17 were closed. At March 31, 2018, we had 1,150 Company-operated stores in operation compared to 1,118 Company-operated stores in operation at March 25, 2017.

With regard to franchised locations, during fiscal 2018, we purchased 11 from existing franchisees. Also during fiscal 2018, we opened two and closed three franchised locations. At March 31, 2018, we had 102 franchised locations compared to 114 franchised locations at March 25, 2017.

Comparable store brakes, front end/shocks, and exhaust category sales for fiscal 2018 increased by approximately 3%, 2% and 1%, respectively, from the prior year when adjusted for days. However, both the alignment and maintenance services categories decreased by approximately 2% on a comparable store sales basis when adjusted for days as compared to the prior year. Comparable store tire category sales decreased by approximately 1% for fiscal 2018 when adjusted for days as compared to the prior year. Comparable store sales when adjusted for days were impacted by higher average ticket, offset by lower traffic.

Gross profit for fiscal 2018 was \$435.6 million or 38.6% of sales as compared with \$396.9 million or 38.9% of sales for fiscal 2017. The decrease in gross profit for fiscal 2018, as a percentage of sales, was due primarily to a shift in sales mix related to recent acquisitions, including the recently acquired commercial and wholesale locations, partially offset by lower material costs as a percentage of sales.

At our retail tire and automotive repair locations, we provide a broad range of services on passenger cars, light trucks and vans for brakes; mufflers and exhaust systems; and steering, drive train, suspension and wheel alignment. We also provide other products and services, including tires and routine maintenance services, such as state inspections. During fiscal 2017, we acquired certain tire and automotive repair locations that also serve commercial customers and sell tires to customers for resale. These locations conduct tire and automotive repair activities that are similar to our retail locations, other than with respect to the sales mix resulting from the sale of commercial tires and the lower gross margin of the wholesale locations. The lower gross margin is due primarily to the higher mix of tires sold and the fact that those tire sales do not include installation or other tire related services that are more common at other locations. In the aggregate, the commercial and wholesale locations had consolidated revenue of approximately \$91.3 million and \$49.0 million for the years ended March 31, 2018 and March 25, 2017, respectively. Additionally, due to the sales mix from our commercial and wholesale locations, our consolidated gross margin for the year ended March 31, 2018 was reduced by approximately 230 basis points, as compared to a reduction in consolidated gross margin of approximately 140 basis points for the prior year.

On a consolidated basis, labor costs in fiscal 2018 decreased approximately 40 basis points, as a percentage of sales, from the prior year due to the sales mix shift from recent acquisitions. Distribution and occupancy costs were relatively flat as a percentage of sales as compared to the prior year.

Operating expenses for fiscal 2018 were \$308.3 million or 27.3% of sales as compared with \$280.5 million or 27.5% of sales for fiscal 2017. The increase of \$27.8 million is partially attributable to \$2.0 million in litigation settlement costs and \$3.2 million in management transition costs. The remaining year-over-year dollar increase relates primarily to increased expenses from 32 net new stores.

Operating income in fiscal 2018 of approximately \$127.3 million increased by 9.4% as compared to operating income of approximately \$116.4 million in fiscal 2017, and decreased as a percentage of sales from 11.4% to 11.3% for the reasons described above.

Net interest expense for fiscal 2018 increased by approximately \$4.5 million as compared to the prior year, and increased as a percentage of sales from 1.9% to 2.2%. The weighted average debt outstanding for the year ended March 31, 2018 increased by approximately \$17 million from the year ended March 25, 2017. This increase is primarily related to an increase in capital lease debt recorded in connection with the fiscal 2017 and fiscal 2018 acquisitions and greenfield expansion, as well as an increase in the weighted average interest rate for the year ended March 31, 2018 of approximately 90 basis points as compared to the prior year. This was partially offset by a decrease in debt outstanding under our Revolving Credit Facility. The increase in the weighted average interest rate for the year ended March 31, 2018 was largely due to an increase in capital lease debt, as well as an increase in the LIBOR and prime rate from the prior year.

The effective income tax rate was 38.2% and 36.7%, respectively, of pre-tax income in fiscal 2018 and fiscal 2017. On December 22, 2017, the Tax Act was signed into law. The Tax Act enacted a number of provisions, including a reduction of the U.S. federal corporate income tax rate from 35% to 21% (effective January 1, 2018). For fiscal 2018, we recorded a net discrete adjustment to income tax expense of approximately \$4.7 million primarily from revaluing our net deferred tax assets to reflect the new U.S. federal corporate income tax rate. The deferred tax charge was partially offset by reduced income tax expense reflected by a blended U.S. federal corporate income tax rate of approximately 31.6%. For further information, refer to Note 8 to the Company's Consolidated Financial Statements.

For fiscal 2018, the tax effects of the Tax Act recognized in income tax expense decreased diluted earnings per share by approximately \$.06. We expect future earnings to be positively impacted largely due to the reduction of the U.S. federal corporate income tax rate from 35% to 21% (effective January 1, 2018).

Net income for fiscal 2018 increased by \$2.4 million, or 3.9%, from \$61.5 million in fiscal 2017, to \$63.9 million. Earnings per common share on a diluted basis for fiscal 2018 of \$1.92 increased 3.8% as compared to \$1.85 for fiscal 2017 due to the factors discussed above. Fiscal 2018 diluted earnings per common share included \$.06 per share related to the net expense impact of newly enacted tax legislation, \$.04 per share in litigation settlement costs and \$.06 per share in management transition costs, partially offset by \$.10 contribution per share from the extra selling week.

□ CAPITAL RESOURCES, CONTRACTUAL OBLIGATIONS AND LIQUIDITY

Capital Resources

Our primary capital requirements for fiscal 2019 were divided among the funding of acquisitions for \$62.4 million, as well as the upgrading of facilities and systems and the funding of our store expansion program totaling \$44.5 million. In fiscal 2018, our primary capital requirements were divided among the funding of acquisitions for \$23.4 million, as well as the upgrading of facilities and systems and the funding of our store expansion program totaling \$39.1 million. In both fiscal years 2019 and 2018, capital requirements were primarily met by cash flow from operations and from our Revolving Credit Facility.

In fiscal 2020, we intend to open approximately 20 to 30 new greenfield stores. Greenfield stores include new construction as well as the acquisition of one to four store operations. Total capital required to build a new greenfield service store ranges, on average, from \$360,000 to \$990,000 depending on whether the store is leased, owned or land leased. Total capital required to build a new greenfield tire (land and building leased) location costs, on average, approximately \$600,000, including \$250,000 for equipment and \$150,000 for inventory.

Monro paid dividends of \$26.8 million in fiscal 2019. In May 2019, Monro's Board of Directors declared its intention to pay a regular quarterly cash dividend of \$.22 per share or share equivalent beginning in the first quarter of fiscal 2020.

The acquisitions subsequent to March 30, 2019 were financed through our existing credit facility. See "Acquisitions" in Note 2 to our Consolidated Financial Statements.

We also plan to continue to seek suitable acquisition candidates. Management believes that we have sufficient resources available (including cash flow from operations and bank financing) to expand our business as currently planned for the next several years.

Contractual Obligations

Payments due by period under long-term debt, other financing instruments and commitments are as follows:

	Total	Within 1 Year	2 to 3 Years	4 to 5 Years	After 5 Years
	(Dollars in thousands)				
Principal payments on long-term debt	\$137,722	\$ 40			\$137,682
Capital lease commitments/financing obligations . .	260,278	22,189	\$ 50,701	\$52,953	134,435
Operating lease commitments	148,159	33,129	52,176	29,294	33,560
Other liabilities	2,733	800	1,600	333	
Total	<u>\$548,892</u>	<u>\$56,158</u>	<u>\$104,477</u>	<u>\$82,580</u>	<u>\$305,677</u>

We believe that we can fulfill our contractual commitments utilizing our cash flow from operations and, if necessary, bank financing.



Liquidity

In January 2016, we entered into a five-year \$600 million revolving credit facility agreement with eight banks (the “Credit Facility”). The Credit Facility replaced our previous revolving credit facility. Interest only is payable monthly throughout the Credit Facility’s term. The borrowing capacity for the Credit Facility is up to \$600 million, and includes an accordion feature permitting us to request an increase in availability of up to an additional \$100 million. The Credit Facility bears interest at 75 to 175 basis points over LIBOR. The Credit Facility requires fees payable quarterly throughout the term between .15% and .35% of the amount of the average net availability under the Credit Facility during the preceding quarter. There was \$137.7 million outstanding under the Credit Facility at March 30, 2019.

At March 30, 2019 and March 31, 2018, the interest rate spread paid by the Company was 125 basis points over LIBOR.

Within the Credit Facility, we have a sub-facility of \$80 million for the purpose of issuing standby letters of credit. The line requires fees aggregating 87.5 to 187.5 basis points annually of the face amount of each standby letter of credit, payable quarterly in arrears. There was \$31.4 million in an outstanding letter of credit at March 30, 2019.

The net availability under the Credit Facility at March 30, 2019 was \$430.9 million.

On April 25, 2019, we amended and restated the Credit Facility (the “Amended Credit Facility”) to extend the term for another five years such that the Amended Credit Facility now expires on April 25, 2024. The Amended Credit Facility remains a \$600 million revolving credit facility agreement with eight banks. The Amended Credit Facility increases our accordion feature permitting us to request an increase in availability of up to an additional \$250 million, an increase of \$150 million from the Credit Facility, and bears interest at 75 to 200 basis points over LIBOR.

Within the Amended Credit Facility, our sub-facility for the purposes of issuing standby letters of credit remains at \$80 million. The line requires fees aggregating 87.5 to 212.5 basis points annually of the face amount of each standby letter of credit, payable quarterly in arrears.

Specific terms of the Amended Credit Facility permit the payment of cash dividends (with certain limitations), and permit mortgages and specific lease financing arrangements with other parties with certain limitations. Other specific terms and the maintenance of specified ratios are generally consistent with the Credit Facility. Additionally, the Amended Credit Facility is not secured by our real property, although we have agreed not to encumber our real property, with certain permissible exceptions.

We were in compliance with all debt covenants as of March 30, 2019.

In addition, we have financed certain store properties with capital leases/financing obligations, which amount to \$260.3 million at March 30, 2019 and are due in installments through May 2049.

Off Balance Sheet Arrangements

Other than the unrecorded contractual commitments noted above, we do not have any off-balance sheet arrangements at March 30, 2019.

□ INFLATION

We do not believe our operations have been materially affected by inflation. Monro has been successful, in many cases, in mitigating the effects of merchandise cost increases principally through the use of volume discounts and alternative vendors, as well as selling price increases.

□ FINANCIAL ACCOUNTING STANDARDS

See “Recent Accounting Pronouncements” in Note 1 to the Company’s Consolidated Financial Statements for a discussion of the impact of recently issued accounting standards on our Consolidated Financial Statements as of March 30, 2019 and for the year then ended, as well as the expected impact on the Consolidated Financial Statements for future periods.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Monro is exposed to market risk from potential changes in interest rates. As of March 30, 2019, approximately .03% of our debt financing, excluding capital leases and financing obligations, was at fixed interest rates and, therefore, the fair value of such debt financing is affected by changes in market interest rates. Given a 1% change in LIBOR, our cash flow exposure on floating rate debt interest expense would result in interest expense fluctuating approximately \$1.4 million based upon our debt position as of March 30, 2019.

Debt financing had a carrying amount and a fair value of \$137.7 million as of March 30, 2019, as compared to a carrying amount and a fair value of \$148.1 million as of March 31, 2018.

Item 8. Financial Statements and Supplementary Data

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ACCOUNTANTS' REPORT

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Monro, Inc.:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Monro, Inc. and its subsidiaries (the "Company") as of March 30, 2019 and March 31, 2018, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended March 30, 2019, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of March 30, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of March 30, 2019 and March 31, 2018, and the results of their operations and their cash flows for each of the three years in the period ended March 30, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 30, 2019, based on criteria established in *Internal Control — Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the

company; (ii) 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 (iii) 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/ PricewaterhouseCoopers LLP

Rochester, New York

May 29, 2019

We have served as the Company's auditor since at least 1984. We have not been able to determine the specific year we began serving as auditor of the Company.

BALANCE SHEET

MONRO, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 30, 2019	March 31, 2018
	(Dollars in thousands)	
Assets		
Current assets:		
Cash and equivalents	\$ 6,214	\$ 1,909
Trade receivables	14,617	11,582
Federal and state income taxes receivable	5,586	4,185
Inventories	171,038	152,367
Other current assets	42,452	37,213
Total current assets	<u>239,907</u>	<u>207,256</u>
Property, plant and equipment	826,778	767,864
Less – Accumulated depreciation and amortization	<u>(386,197)</u>	<u>(351,195)</u>
Net property, plant and equipment	440,581	416,669
Goodwill	565,503	522,892
Intangible assets	51,107	49,143
Other non-current assets	13,024	10,997
Long-term deferred income tax assets	2,166	11,475
Total assets	<u>\$1,312,288</u>	<u>\$1,218,432</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt, capital leases and financing obligations	\$ 22,229	\$ 18,989
Trade payables	103,602	84,568
Accrued payroll, payroll taxes and other payroll benefits	20,231	20,197
Accrued insurance	38,742	36,739
Deferred revenue	12,059	11,941
Other current liabilities	21,584	21,571
Total current liabilities	<u>218,447</u>	<u>194,005</u>
Long-term debt	137,682	148,068
Long-term capital leases and financing obligations	238,089	227,220
Accrued rent expense	4,053	4,530
Other long-term liabilities	12,724	14,141
Long-term income taxes payable	1,783	1,992
Total liabilities	<u>612,778</u>	<u>589,956</u>
Commitments and contingencies – Note 16		
Shareholders' equity:		
Class C Convertible Preferred Stock, \$1.50 par value, \$.064 conversion value; 150,000 shares authorized; 21,802 shares issued and outstanding	33	33
Common Stock, \$.01 par value, 65,000,000 shares authorized; 39,510,932 and 39,166,392 shares issued at March 30, 2019 and March 31, 2018, respectively	395	392
Treasury Stock, 6,359,871 and 6,330,008 shares at March 30, 2019 and March 31, 2018, respectively, at cost	(108,729)	(106,563)
Additional paid-in capital	220,173	199,576
Accumulated other comprehensive loss	(4,536)	(4,248)
Retained earnings	592,174	539,286
Total shareholders' equity	<u>699,510</u>	<u>628,476</u>
Total liabilities and shareholders' equity	<u>\$1,312,288</u>	<u>\$1,218,432</u>

The accompanying notes are an integral part of these financial statements.



INCOME STATEMENT

MONRO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended Fiscal March		
	2019	2018	2017
	(Amounts in thousands, except per share data)		
Sales	\$1,200,230	\$1,127,815	\$1,021,511
Cost of sales, including distribution and occupancy costs	735,002	692,241	624,622
Gross profit	465,228	435,574	396,889
Operating, selling, general and administrative expenses	338,485	308,278	280,505
Operating income	126,743	127,296	116,384
Interest expense, net of interest income	27,013	24,296	19,768
Other income, net	(630)	(454)	(628)
Income before provision for income taxes	100,360	103,454	97,244
Provision for income taxes	20,608	39,519	35,718
Net income	<u>\$ 79,752</u>	<u>\$ 63,935</u>	<u>\$ 61,526</u>
Other comprehensive (loss) income:			
Changes in pension, net of tax (benefit) provision of (\$94), (\$168) and \$788, respectively	(288)	(390)	1,415
Other comprehensive (loss) income	(288)	(390)	1,415
Comprehensive income	<u>\$ 79,464</u>	<u>\$ 63,545</u>	<u>\$ 62,941</u>
Earnings per share:			
Basic	<u>\$ 2.41</u>	<u>\$ 1.94</u>	<u>\$ 1.88</u>
Diluted	<u>\$ 2.37</u>	<u>\$ 1.92</u>	<u>\$ 1.85</u>
Weighted average number of common shares outstanding used in computing earnings per share:			
Basic	<u>32,980</u>	<u>32,767</u>	<u>32,413</u>
Diluted	<u>33,675</u>	<u>33,341</u>	<u>33,301</u>

The accompanying notes are an integral part of these financial statements.



CHANGES IN SHAREHOLDERS' EQUITY

MONRO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Class C Convertible Preferred Stock		Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
(Dollars and shares in thousands)										
Balance at March 26, 2016	33	\$ 49	38,557	\$386	6,317	\$(105,856)	\$186,550	\$(4,576)	\$459,642	\$536,195
Net income									61,526	61,526
Other comprehensive income:										
Pension liability adjustment (\$2,203 pre-tax)								1,415		1,415
Dividends ⁽¹⁾ :										
Preferred									(447)	(447)
Common									(22,070)	(22,070)
Conversion of Class C Preferred Stock	(11)	(16)	250	2			14			—
Tax benefit from exercise of stock options							3,510			3,510
Activity related to equity-based plans ⁽²⁾			205	2	5	(356)	(1,004)			(1,358)
Stock-based compensation							2,483			2,483
Balance at March 25, 2017	22	33	39,012	390	6,322	(106,212)	191,553	(3,161)	498,651	581,254
Net income									63,935	63,935
Other comprehensive income:										
Pension liability adjustment [(\$558) pre-tax]								(390)		(390)
Dividends ⁽¹⁾ :										
Preferred									(368)	(368)
Common									(23,601)	(23,601)
Reclassification of tax effects to retained earnings								(697)	697	—
Dividend payable									(28)	(28)
Activity related to equity-based plans ⁽²⁾			154	2	8	(351)	5,165			4,816
Stock-based compensation							2,858			2,858
Balance at March 31, 2018	22	33	39,166	392	6,330	(106,563)	199,576	(4,248)	539,286	628,476
Net income									79,752	79,752
Other comprehensive loss:										
Pension liability adjustment [(\$382) pre-tax]								(288)		(288)
Dividends ⁽¹⁾ :										
Preferred									(408)	(408)
Common									(26,406)	(26,406)
Dividend payable									(50)	(50)
Activity related to equity-based plans ⁽²⁾			345	3	30	(2,166)	16,575			14,412
Stock-based compensation							4,022			4,022
Balance at March 30, 2019	22	\$ 33	39,511	\$395	6,360	\$(108,729)	\$220,173	\$(4,536)	\$592,174	\$699,510

(1) Dividends paid per share or share equivalent were \$.80, \$.72 and \$.68, respectively, for the years ended March 30, 2019, March 31, 2018 and March 25, 2017.

(2) Includes the receipt of treasury stock in connection with the exercise of stock options and to partially satisfy tax withholding obligations.

The accompanying notes are an integral part of these financial statements.



CASH FLOWS

MONRO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended Fiscal March		
	2019	2018	2017
	(Dollars in thousands)		
	Increase (Decrease) in Cash		
Cash flows from operating activities:			
Net income	\$ 79,752	\$ 63,935	\$ 61,526
Adjustments to reconcile net income to net cash provided by operating activities –			
Depreciation and amortization	55,531	49,335	44,629
Stock-based compensation expense	4,022	2,858	2,483
Net change in deferred income taxes	12,517	15,485	11,256
Gain on bargain purchase	—	(13)	—
Loss (gain) on disposal of assets	56	(1,198)	85
Change in operating assets and liabilities (excluding acquisitions)			
Trade receivables	(1,361)	(88)	(74)
Inventories	(9,126)	(8,399)	5,044
Other current assets	(514)	(4,076)	(2,879)
Other non-current assets	(427)	1,863	5,680
Trade payables	19,037	5,151	9,605
Accrued expenses	(3,019)	(1,582)	(3,224)
Federal and state income taxes receivable	(1,401)	(658)	63
Other long-term liabilities	(1,967)	(930)	(3,580)
Long-term income taxes payable	(209)	(448)	(679)
Total adjustments	<u>73,139</u>	<u>57,300</u>	<u>68,409</u>
Net cash provided by operating activities	<u>152,891</u>	<u>121,235</u>	<u>129,935</u>
Cash flows from investing activities:			
Capital expenditures	(44,468)	(39,122)	(34,640)
Acquisitions, net of cash acquired	(62,427)	(23,439)	(142,567)
Proceeds from the disposal of assets	723	4,071	1,583
Other	289	—	—
Net cash used for investing activities	<u>(105,883)</u>	<u>(58,490)</u>	<u>(175,624)</u>
Cash flows from financing activities:			
Proceeds from borrowings	433,460	344,843	470,027
Principal payments on long-term debt, capital leases and financing obligations	(463,989)	(395,521)	(404,303)
Exercise of stock options	14,640	4,816	3,492
Dividends paid	(26,814)	(23,969)	(22,517)
Net cash (used for) provided by financing activities	<u>(42,703)</u>	<u>(69,831)</u>	<u>46,699</u>
Increase (decrease) in cash	4,305	(7,086)	1,010
Cash at beginning of year	1,909	8,995	7,985
Cash at end of year	<u>\$ 6,214</u>	<u>\$ 1,909</u>	<u>\$ 8,995</u>

The accompanying notes are an integral part of these financial statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

□ NOTE 1 —SIGNIFICANT ACCOUNTING POLICIES

Background

Monro, Inc. and its wholly owned operating subsidiaries, Monro Service Corporation and Car-X, LLC (together, “Monro”, the “Company”, “we”, “us”, or “our”), are engaged principally in providing automotive undercar repair and tire sales and services in the United States. Monro had 1,197 Company-operated stores, 98 franchised locations, eight wholesale locations, three retread facilities and two dealer-operated automotive repair centers located in 28 states as of March 30, 2019.

Monro’s operations are organized and managed in one operating segment. The internal management financial reporting that is the basis for evaluation in order to assess performance and allocate resources by our chief operating decision maker consists of consolidated data that includes the results of our retail, commercial and wholesale locations. As such, our one operating segment reflects how our operations are managed, how resources are allocated, how operating performance is evaluated by senior management and the structure of our internal financial reporting.

Accounting estimates

The accompanying Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles. The preparation of financial statements in conformity with such principles requires the use of estimates by management during the reporting period. Actual results could differ from those estimates.

Fiscal year

Monro reports its results on a 52/53 week fiscal year ending on the last Saturday of March of each year. The following are the dates represented by each fiscal period:

“Year ended Fiscal March 2019”: April 1, 2018 – March 30, 2019 (52 weeks)

“Year ended Fiscal March 2018”: March 26, 2017 – March 31, 2018 (53 weeks)

“Year ended Fiscal March 2017”: March 27, 2016 – March 25, 2017 (52 weeks)

Consolidation

The Consolidated Financial Statements include Monro, Inc. and its wholly owned operating subsidiaries, Monro Service Corporation and Car-X, LLC, after the elimination of intercompany transactions and balances.

Reclassifications

Certain amounts in these financial statements have been reclassified to maintain comparability among the periods presented.

Cash equivalents

We consider all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Inventories

Our inventories consist of automotive parts (including oil) and tires. Inventories are valued at the lower of cost and net realizable value using the first-in, first-out (FIFO) method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Barter credits

We value barter credits at the fair market value of the inventory surrendered, as determined by reference to price lists for buying groups and jobber pricing. We use these credits primarily to pay vendors for purchases (mainly inventory vendors for the purchase of parts, oil and tires) or to purchase other goods or services from the barter company such as advertising.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is provided on a straight-line basis. Buildings and improvements related to owned locations are depreciated over lives varying from 10 to 39 years; machinery, fixtures and equipment over lives varying from 3 to 15 years; and vehicles over lives varying from 5 to 10 years. Computer hardware and software is depreciated over lives varying from 3 to 7 years. Buildings and improvements related to leased locations are depreciated over the shorter of the asset's useful life or the reasonably assured lease term, as defined in the accounting guidance on leases. When property is sold or retired, the cost and accumulated depreciation are eliminated from the accounts and a gain or loss is recorded in the Consolidated Statements of Comprehensive Income. Expenditures for maintenance and repairs are expensed as incurred.

Long-lived assets

We evaluate the ability to recover long-lived assets whenever events or circumstances indicate that the carrying value of the asset may not be recoverable. In the event assets are impaired, losses are recognized to the extent the carrying value exceeds the fair value. In addition, we report assets to be disposed at the lower of the carrying amount and the fair market value less costs to sell.

Store opening and closing costs

New store opening costs are charged to expense in the fiscal year when incurred. When we close a store, the estimated unrecoverable costs, including the remaining lease obligation net of sublease income, if any, are charged to expense.

Leases

Financing Obligations —

We are involved in the construction of leased stores. In some cases, we are responsible for construction cost overruns or non-standard tenant improvements. As a result of this involvement, we are deemed the "owner" for accounting purposes during the construction period, requiring us to capitalize the construction costs on our Consolidated Balance Sheet. Upon completion of the project, we perform a sale-leaseback analysis pursuant to guidance on accounting for leases to determine if we can remove the assets from our Consolidated Balance Sheet. For some of these leases, we are considered to have "continuing involvement", which precludes us from derecognizing the assets from our Consolidated Balance Sheet when construction is complete. In conjunction with these leases, we capitalize the construction costs on our Consolidated Balance Sheet and also record financing obligations representing payments owed to the landlord. We do not report rent expense for the properties which are owned for accounting purposes. Rather, rental payments under the lease are recognized as a reduction of the financing obligation and as interest expense.

Since we often assume leases in acquisition transactions, the prior accounting by the seller who was involved in the construction of leased stores passes to us.

Additionally, we may incur other financing obligations in connection with the accounting for acquisitions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Capital Leases —

Some of our property is held under capital leases. These assets are included in property, plant and equipment and depreciated over the term of the lease. We do not report rent expense for capital leases. Rather, rental payments under the lease are recognized as a reduction of the capital lease obligation and interest expense.

Operating Leases —

All other leases are considered operating leases. Rent expense, including rent escalations, is recognized on a straight-line basis over the reasonably assured lease term, as defined in the accounting guidance on leases. Generally, the lease term is the base lease term plus certain renewal option periods for which renewal is reasonably assured.

Goodwill and intangible assets

We have a history of growth through acquisitions. Assets and liabilities of acquired businesses are recorded at their estimated fair values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. The carrying value of goodwill is subject to an annual impairment test, which we perform in the third quarter of the fiscal year. Impairment tests may also be triggered by any significant events or changes in circumstances affecting our business.

We have one reporting unit which encompasses all operations including new acquisitions. In performing our annual goodwill impairment test, we perform a qualitative assessment to determine if it is more likely than not that the fair value is less than the carrying value of goodwill. The qualitative assessment includes a review of business changes, economic outlook, financial trends and forecasts, growth rates, industry data, market capitalization and other relevant qualitative factors. If the qualitative factors indicate a potential impairment, we compare the fair value of our reporting unit to the carrying value of our reporting unit. If the fair value is less than its carrying value, an impairment charge is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill.

Intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses and are amortized over their estimated useful lives. All intangibles and other long-lived assets are reviewed when events or changes in circumstances indicate that the asset's carrying value may not be recoverable. If such indicators are present, it is determined whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying values. No such indicators were present in fiscal 2019, 2018 or 2017.

A deterioration of macroeconomic conditions may not only negatively impact the estimated operating cash flows used in our cash flow models, but may also negatively impact other assumptions used in our analyses, including, but not limited to, the estimated cost of capital and/or discount rates. Additionally, we are required to ensure that assumptions used to determine fair value in our analyses are consistent with the assumptions a hypothetical marketplace participant would use. As a result, the cost of capital and/or discount rates used in our analyses may increase or decrease based on market conditions and trends, regardless of whether our actual cost of capital has changed. Therefore, we may recognize an impairment of an intangible asset or assets even though realized actual cash flows are approximately equal to or greater than our previously forecasted amounts.

As a result of our annual qualitative assessment performed in the third quarter of fiscal 2019, there were no impairments. There have been no triggering events during the fourth quarter of fiscal 2019.

Self-insurance reserves

We are largely self-insured with respect to workers' compensation, general liability and employee medical claims. In order to reduce our risk and better manage our overall loss exposure, we purchase stop-loss

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

insurance that covers individual claims in excess of the deductible amounts, and caps total losses in a fiscal year. We maintain an accrual for the estimated cost to settle open claims as well as an estimate of the cost of claims that have been incurred but not reported. These estimates take into consideration the historical average claim volume, the average cost for settled claims, current trends in claim costs, changes in our business and workforce, and general economic factors. These accruals are reviewed on a quarterly basis, or more frequently if factors dictate a more frequent review is warranted. For more complex reserve calculations, such as workers' compensation, we use the services of an actuary on an annual basis to assist in determining the required reserve for open claims.

Warranty

We provide an accrual for estimated future warranty costs for parts that we install based upon the historical relationship of warranty costs to sales. Warranty expense related to all product warranties at and for the fiscal years ended March 2019, 2018 and 2017 was not material to our financial position or results of operations. See additional discussion of tire road hazard warranty agreements under Note 7.

Comprehensive income

As it relates to Monro, comprehensive income is defined as net earnings as adjusted for pension liability adjustments and is reported net of related taxes in the Consolidated Statements of Comprehensive Income and in the Consolidated Statements of Changes in Shareholders' Equity.

Income taxes

Deferred tax assets and liabilities are determined based upon the expected future tax outcome of differences between the tax laws and accounting rules of various items of income and expense recognized in our results of operations using enacted tax rates in effect for the year in which the future tax outcome is expected. The accounting guidance for uncertainties in income tax prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Monro recognizes a tax benefit from an uncertain tax position in the financial statements only when it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits and a consideration of the relevant taxing authority's administrative practices and precedents.

Treasury stock

Treasury stock is accounted for using the par value method.

Stock-based compensation

We provide stock-based compensation through non-qualified stock options, restricted stock awards and restricted stock units. We measure compensation cost arising from the grant of share-based payments to an employee at fair value, and recognize such cost in income over the period during which the employee is required to provide service in exchange for the award, usually the vesting period. The fair value of each option award is estimated on the date of grant primarily using the Black-Scholes option valuation model. The assumptions used to estimate fair value require significant judgment and are subject to change in the future due to factors such as employee exercise behavior, stock price trends, and changes to type or provisions of stock-based awards. Any material change in one or more of these assumptions could have an impact on the estimated fair value of a future award.

The fair value of restricted stock awards and restricted stock units (collectively "restricted stock") is determined based on the stock price at the date of grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The Company is required to estimate forfeitures and only record compensation costs for those awards that are expected to vest. The assumptions for forfeitures were determined based on type of award and historical experience. Forfeiture assumptions are adjusted at the point in time a significant change is identified, with any adjustment recorded in the period of change, and the final adjustment at the end of the requisite service period to equal actual forfeitures.

We recognize compensation expense related to stock options and restricted stock using the straight-line approach. Option awards and restricted stock generally vest equally over the service period established in the award, typically three or four years. In fiscal 2019, the Company issued a limited number of restricted stock units to members of senior management which may vest upon the achievement of a three-year average return on invested capital target.

Earnings per common share

Basic earnings per common share amounts are calculated by dividing income available to common shareholders, after deducting preferred stock dividends, by the weighted average number of shares of common stock outstanding. Diluted earnings per common share amounts are calculated by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding. Common stock equivalents represent shares issuable upon the assumed exercise of common stock options outstanding.

Advertising

We expense the production costs of advertising the first time the advertising takes place, except for direct response advertising which is capitalized and amortized over its expected period of future benefits.

Direct response advertising consists primarily of coupons for Monro's services. The capitalized costs of this advertising are amortized over the period of the coupon's validity, which is typically two months.

Prepaid advertising at March 30, 2019 and March 31, 2018, and advertising expense for the fiscal years ended March 2019, 2018 and 2017, were not material to these financial statements.

Vendor rebates

We account for vendor rebates as a reduction of the cost of products purchased.

Guarantees

At the time we issue a guarantee, we recognize an initial liability for the fair value, or market value, of the obligation we assume under that guarantee. Monro has guaranteed certain lease payments, primarily related to franchisees, amounting to \$1.8 million. This amount represents the maximum potential amount of future payments under the guarantees as of March 30, 2019. The leases are guaranteed through April 2020. In the event of default by the franchise owner, Monro generally retains the right to assume the lease of the related store, enabling Monro to re-franchise the location or to operate that location as a Company-operated store. As of March 30, 2019, an immaterial liability related to anticipated defaults under the foregoing leases is recorded. We recorded a liability related to anticipated defaults under the foregoing leases of \$.2 million as of March 31, 2018.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance for the reporting of revenue from contracts with customers. This guidance provides guidelines a company will apply to determine the measurement of revenue and timing of when it is recognized. Additional guidance has subsequently been issued to amend or clarify the reporting of revenue from contracts with customers. The guidance is effective for fiscal years and interim periods within those years beginning after

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

December 15, 2017. Early adoption was permitted. We adopted this guidance and all related amendments during the first quarter of fiscal 2019 using the modified retrospective approach. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements. See Note 7 for additional information.

In February 2016, the FASB issued new accounting guidance related to leases. This guidance establishes a right of use (“ROU”) model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Additional guidance has subsequently been issued in order to provide an additional transition method as well as an additional practical expedient to be available upon adoption. We are required to adopt the new lease guidance utilizing one of two methods: retrospective restatement for each reporting period presented at time of adoption, or a modified retrospective approach with the cumulative effect of initially applying this guidance recognized at the date of initial application. Under the modified retrospective approach, prior periods would not be restated. We expect to adopt using the modified retrospective approach and elect the package of practical expedients not to reassess prior conclusions related to contracts containing leases, lease classification and the lessee practical expedient to combine lease and non-lease components for certain asset classes. Under this transition method, we will apply the new standard at the adoption date and recognize a cumulative-effect adjustment to retained earnings. We currently believe the most significant changes relate to the recognition of new ROU assets and lease liabilities on the Consolidated Balance Sheet for operating leases as approximately 40% of our store leases, all of our land leases and all of our non-real estate leases are currently not recorded on our balance sheet. We expect that substantially all of our operating lease commitments will be subject to the new guidance and will be recognized as operating lease liabilities and ROU assets upon adoption. We estimate the adoption of this update will result in an increase to assets and related liabilities of approximately \$165 million to \$190 million. We do not anticipate that the new standard will have a material impact on our Consolidated Statements of Income and Comprehensive Income.

In June 2016, the FASB issued new accounting guidance which modifies the measurement of expected credit losses of certain financial instruments. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the potential impact of the adoption of this guidance on our Consolidated Financial Statements.

In August 2016, the FASB issued new accounting guidance related to cash flow classification. This guidance clarifies and provides specific guidance on eight cash flow classification issues that are not addressed by current generally accepted accounting principles and thereby reduce the current diversity in practice. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption was permitted. We adopted this guidance during the first quarter of fiscal 2019. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In January 2017, the FASB issued new accounting guidance which clarifies the definition of a business, particularly when evaluating whether transactions should be accounted for as acquisitions or dispositions of assets or businesses. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption was permitted for certain transactions. We adopted this guidance during the first quarter of fiscal 2019. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In January 2017, the FASB issued new accounting guidance simplifying the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which required the determination of an implied fair value of goodwill. Under this guidance, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

fair value. This guidance is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We adopted this guidance during the third quarter of fiscal 2019. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In March 2017, the FASB issued accounting guidance that amends how employers present the net benefit cost in the income statement. The new guidance requires employers to disaggregate and present separately the current service cost component from the other components of the net benefit cost within the Consolidated Statement of Comprehensive Income. This guidance is effective for fiscal years and interim periods beginning after December 15, 2017, and should be applied retrospectively. Early adoption was permitted. We adopted this guidance during the first quarter of fiscal 2019. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In May 2017, the FASB issued new accounting guidance which clarifies when to account for a change to the terms or conditions of a share based payment award as a modification. Under this guidance, modification is required only if the fair value, the vesting conditions, or the classification of an award as equity or liability changes as a result of the change in terms or conditions. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption was permitted. We adopted this guidance during the first quarter of fiscal 2019. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In June 2018, the FASB issued new accounting guidance that amends the accounting for nonemployee share-based awards. Under the new guidance, the existing guidance related to the accounting for employee share-based awards will apply to nonemployee share-based transactions, with certain exceptions. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the potential impact of the adoption of this guidance on our Consolidated Financial Statements.

In August 2018, the FASB issued new accounting guidance which eliminates, adds and modifies certain disclosure requirements for fair value measurements. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the potential impact of the adoption of this guidance on our Consolidated Financial Statements.

In August 2018, the FASB issued new accounting guidance that 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 (and hosting arrangements that include an internal-use software license). This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2019. Early adoption was permitted. We adopted this guidance during the third quarter of fiscal 2019. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

Other recent authoritative guidance issued by the FASB (including technical corrections to the Accounting Standards Codification) and the Securities and Exchange Commission did not, or are not expected to have a material effect on Monro's Consolidated Financial Statements.

□ NOTE 2 — ACQUISITIONS

Monro's acquisitions are strategic moves in our plan to fill in and expand our presence in our existing and new markets, and leverage fixed operating costs such as distribution, advertising and administration. Acquisitions in this footnote include acquisitions of five or more locations as well as acquisitions of one to four locations that are part of the Company's greenfield store growth strategy.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Subsequent Events

On May 19, 2019, we acquired 40 retail tire and automotive repair stores and one distribution center located in California from Certified Tire & Service Centers, Inc. These stores will operate under the Tire Choice name. The acquisition was financed through our existing credit facility.

On March 31, 2019, we acquired 12 retail tire and automotive repair stores in Louisiana from Allied Discount Tire & Brake, Inc. These locations will operate under the Tire Choice name. The acquisition was financed through our existing credit facility.

Fiscal 2019

During fiscal 2019, we acquired the following businesses for an aggregate purchase price of \$61.6 million. The acquisitions were financed through our existing credit facility. The results of operations for these acquisitions are included in our financial results from the respective acquisition dates.

- On January 13, 2019, we acquired 13 retail tire and automotive repair stores located in Florida from R.A. Johnson, Inc. (One retail tire and automotive repair store has yet to open.) These stores operate under the Tire Choice name.
- On December 9, 2018, we acquired two retail tire and automotive repair stores located in Virginia from Colony Tire Corporation. These stores operate under the Mr. Tire name.
- On November 4, 2018, we acquired five retail tire and automotive repair stores located in Ohio from Jeff Pohlman Tire & Auto Service, Inc. These stores operate under the Car-X and Mr. Tire names.
- On October 14, 2018, we acquired one retail tire and automotive repair store located in Illinois from Quality Tire and Auto, Inc. This store operates under the Car-X name.
- On September 23, 2018, we acquired one retail tire and automotive repair store located in South Carolina from Walton's Automotive, LLC. This store operates under the Treadquarters name.
- On September 16, 2018, we acquired one retail tire and automotive repair store located in Illinois from C&R Auto Service, Inc. This store operates under the Car-X name.
- On September 9, 2018, we acquired four retail tire and automotive repair stores in Arkansas and Tennessee from Steele-Guiltner, Inc. These stores operate under the Car-X name.
- On July 15, 2018, we acquired one retail tire and automotive repair store located in Pennsylvania from Mayfair Tire & Service Center, Inc. This store operates under the Mr. Tire name.
- On July 8, 2018, we acquired eight retail tire and automotive repair stores in Missouri from Sawyer Tire, Inc. These stores operate under the Car-X name.
- On May 13, 2018, we acquired 12 retail/commercial tire and automotive repair stores and one retread facility located in Tennessee, as well as four wholesale locations in North Carolina, Tennessee and Virginia, from Free Service Tire Company, Incorporated. These locations operate under the FreeService Tire name.
- On April 1, 2018, we acquired four retail tire and automotive repair stores located in Minnesota from Liberty Auto Group, Inc. These stores operate under the Car-X name.

These acquisitions resulted in goodwill related to, among other things, growth opportunities, synergies and economies of scale expected from combining these businesses with ours, as well as unidentifiable intangible assets. All of the goodwill is expected to be deductible for tax purposes. We have recorded finite-lived intangible assets at their estimated fair value related to customer lists, favorable leases and a trade name.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

We expensed all costs related to acquisitions during fiscal 2019. The total costs related to completed acquisitions were \$.6 million for the year ended March 30, 2019. These costs are included in the Consolidated Statements of Comprehensive Income primarily under operating, selling, general and administrative expenses.

Sales and net loss for the fiscal 2019 acquired locations totaled \$49.1 million and (\$.5) million, respectively, for the period from acquisition date through March 30, 2019. The net loss of (\$.5) million includes an allocation of certain traditional corporate related items, including vendor rebates, interest expense and the provision for income taxes.

Supplemental pro forma information for the current or prior reporting periods has not been presented due to the impracticability of obtaining detailed, accurate or reliable data for the periods the acquired entities were not owned by Monro.

The preliminary fair values of identifiable assets acquired and liabilities assumed were based on preliminary valuation data and estimates. The excess of the net purchase price over the net tangible and intangible assets acquired was recorded as goodwill. The preliminary allocation of the aggregate purchase price as of March 30, 2019 was as follows:

	As of Acquisition Date (Dollars in thousands)
Trade receivables	\$ 1,674
Inventories	9,271
Other current assets	308
Property, plant and equipment	16,779
Intangible assets	9,928
Other non-current assets	21
Long-term deferred income tax assets	3,067
Total assets acquired	<u>41,048</u>
Other current liabilities	2,466
Long-term capital leases and financing obligations	18,473
Other long-term liabilities	616
Total liabilities assumed	<u>21,555</u>
Total net identifiable assets acquired	<u>\$19,493</u>
Total consideration transferred	\$61,617
Less: total net identifiable assets acquired	<u>19,493</u>
Goodwill	<u>\$42,124</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The following are the intangible assets acquired and their respective fair values and weighted average useful lives:

	As of Acquisition Date	
	Dollars in thousands	Weighted Average Useful Life
Customer lists	\$6,042	13 years
Favorable leases	3,486	12 years
Trade name	400	2 years
Total	<u>\$9,928</u>	12 years

We continue to refine the valuation data and estimates related to inventory, warranty reserves, intangible assets, real estate, real property leases and certain liabilities for the fiscal 2019 acquisitions and expect to complete the valuations no later than the first anniversary date of the respective acquisition. We anticipate that adjustments will be made to the fair values of identifiable assets acquired and liabilities assumed during the measurement period and those adjustments may or may not be material.

Fiscal 2018

During fiscal 2018, we acquired the following businesses for an aggregate purchase price of \$22.6 million. The acquisitions were financed through our existing credit facility. The results of operations for these acquisitions are included in our financial results from the respective acquisition dates.

- On March 4, 2018, we acquired seven retail tire and automotive repair stores located in Kentucky, Ohio, Virginia and West Virginia from Appalachian Tire Products, Inc. These stores operate under the Mr. Tire name.
- On March 4, 2018, we acquired two retail tire and automotive repair stores located in Illinois from Mattoon Muffler, Inc. and Charleston Muffler, Inc. These stores operate under the Car-X name.
- On March 4, 2018, we acquired one retail tire and automotive repair store located in Vermont from City Tire Co., Inc. This store operates under the Tire Warehouse name.
- On March 1, 2018, we acquired one retail tire and automotive repair store located in Illinois from Devenir Enterprises, Inc. This store operates under the Car-X name.
- On January 14, 2018, we acquired three retail tire and automotive repair stores located in Pennsylvania from Valley Tire Co., Inc. These stores operate under the Mr. Tire name.
- On December 17, 2017, we acquired one retail tire and automotive repair store located in Indiana from MLR, Incorporated. This store operates under the Car-X name.
- On December 10, 2017, we acquired two retail tire and automotive repair stores located in Pennsylvania from TriGar Tire & Auto Service Center, LLC. One store operates under the Monro name and one store operates under the Mr. Tire name.
- On August 13, 2017, we acquired eight retail tire and automotive repair stores located in Indiana and Illinois from Auto MD, LLC. These stores operate under the Car-X name.
- On July 30, 2017, we acquired 13 retail tire and automotive repair stores in Michigan, 12 of which were operating as Speedy Auto Service and Tire dealer locations, from UVR, Inc. One of the acquired stores was not opened by Monro. These stores operate under the Monro name.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

- On July 9, 2017, we acquired one retail tire and automotive repair store located in North Carolina from Norman Young Tires, Inc. This store operates under the Treadquarters name.
- On June 25, 2017, we acquired one retail tire and automotive repair store located in Illinois from D&S Pulaski, LLC. This store operates under the Car-X name.
- On June 11, 2017, we acquired two retail tire and automotive repair stores located in Minnesota and Wisconsin from J & R Diversified, Inc. These stores operate under the Car-X name.
- On June 11, 2017, we acquired one retail tire and automotive repair store located in Ohio from Michael N. McGroarty, Inc. This store operates under the Mr. Tire name.
- On June 2, 2017, we acquired one retail tire and automotive repair store located in Connecticut from Tires Plus LLC. This store operates under the Monroe name.
- On May 21, 2017, we acquired one retail tire and automotive repair store located in Ohio from Bob Sumerel Tire Co., Inc. This store operates under the Mr. Tire name.
- On April 23, 2017, we acquired one retail tire and automotive repair store located in Florida from Collier Automotive Group, Inc. This store operates under the Tire Choice name.

These acquisitions resulted in goodwill related to, among other things, growth opportunities, synergies and economies of scale expected from combining these businesses with ours, as well as unidentifiable intangible assets. All of the goodwill is expected to be deductible for tax purposes. We have recorded finite-lived intangible assets at their estimated fair value related to favorable leases and customer lists.

We expensed all costs related to acquisitions during fiscal 2018. The total costs related to completed acquisitions were \$.5 million for the year ended March 31, 2018. These costs are included in the Consolidated Statements of Comprehensive Income primarily under operating, selling, general and administrative expenses.

Sales and net income for the fiscal 2018 acquired locations totaled \$14.8 million and \$.1 million, respectively, for the period from acquisition date through March 31, 2018. The net income of \$.1 million includes an allocation of certain traditional corporate related items, including vendor rebates, interest expense and the provision for income taxes.

Supplemental pro forma information for the current or prior reporting periods has not been presented due to the impracticability of obtaining detailed, accurate or reliable data for the periods the acquired entities were not owned by Monroe.

We finalized the purchase accounting relative to the fiscal 2018 acquisitions during fiscal 2019. As a result of the final purchase price allocations, certain of the fair value amounts previously estimated were adjusted during the measurement period. These measurement period adjustments related to updated valuation reports and appraisals received from our external valuation specialists, as well as revisions to internal estimates. The changes in estimates recorded in fiscal 2019 include a decrease in inventory of \$.1 million; a decrease in property, plant and equipment of \$.2 million; and a decrease in intangible assets of \$.2 million. The measurement period adjustments resulted in an increase to goodwill of \$.5 million.

These adjustments were not material to the Consolidated Statement of Comprehensive Income for the fiscal years ended March 30, 2019 and March 31, 2018.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

We have recorded the identifiable assets acquired and liabilities assumed at their values as of their respective acquisition dates (including any measurement period adjustments), with the remainder recorded as goodwill as follows:

	As of Acquisition Date (Dollars in thousands)
Inventories	\$ 1,053
Other current assets	240
Property, plant and equipment	9,396
Intangible assets	4,162
Other non-current assets	7
Long-term deferred income tax assets	3,076
Total assets acquired	17,934
Other current liabilities	1,654
Long-term capital leases and financing obligations	13,707
Other long-term liabilities	261
Total liabilities assumed	15,622
Total net identifiable assets acquired	<u>\$ 2,312</u>
Total consideration transferred	\$22,624
Less: total net identifiable assets acquired	2,312
Goodwill	<u>\$20,312</u>

The following are the intangible assets acquired and their respective fair values and weighted average useful lives:

	As of Acquisition Date	
	Dollars in thousands	Weighted Average Useful Life
Favorable leases	\$2,901	10 years
Customer lists	1,261	7 years
Total	<u>\$4,162</u>	9 years

□ NOTE 3 — OTHER CURRENT ASSETS

The composition of other current assets is as follows:

	Year Ended Fiscal March	
	2019	2018
	(Dollars in thousands)	
Vendor rebates receivable	\$14,169	\$16,107
Other	28,283	21,106
	<u>\$42,452</u>	<u>\$37,213</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

□ NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

The major classifications of property, plant and equipment are as follows:

	March 30, 2019			March 31, 2018		
	Assets Owned	Assets Under Capital Lease/ Financing Obligations	Total	Assets Owned	Assets Under Capital Lease/ Financing Obligations	Total
	(Dollars in thousands)					
Land	\$ 85,623		\$ 85,623	\$ 85,843		\$ 85,843
Buildings and improvements	243,651	\$194,137	437,788	232,109	\$171,288	403,397
Equipment, signage and fixtures . .	256,411		256,411	242,510		242,510
Vehicles	36,393		36,393	32,380		32,380
Construction-in-progress	10,563		10,563	3,734		3,734
	<u>632,641</u>	<u>194,137</u>	<u>826,778</u>	<u>596,576</u>	<u>171,288</u>	<u>767,864</u>
Less – Accumulated depreciation and amortization	<u>326,602</u>	<u>59,595</u>	<u>386,197</u>	<u>304,762</u>	<u>46,433</u>	<u>351,195</u>
	<u>\$306,039</u>	<u>\$134,542</u>	<u>\$440,581</u>	<u>\$291,814</u>	<u>\$124,855</u>	<u>\$416,669</u>

Depreciation expense totaled \$50.2 million, \$44.3 million and \$39.5 million for the fiscal years ended March 2019, 2018 and 2017, respectively.

Amortization expense recorded under capital leases and financing obligations and included in depreciation expense above totaled \$15.0 million, \$12.3 million and \$9.5 million for the fiscal years ended March 2019, 2018 and 2017, respectively.

□ NOTE 5 – GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill during fiscal 2019 and 2018 were as follows:

	Dollars in thousands
Balance at March 25, 2017	\$501,736
Fiscal 2018 acquisitions	19,825
Adjustments to fiscal 2017 purchase accounting	1,331
Balance at March 31, 2018	<u>522,892</u>
Fiscal 2019 acquisitions	42,124
Adjustments to fiscal 2018 purchase accounting	487
Balance at March 30, 2019	<u>\$565,503</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The composition of other intangible assets is as follows:

	Year Ended Fiscal March			
	2019		2018	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(Dollars in thousands)			
Customer lists	\$39,710	\$23,258	\$33,832	\$19,637
Favorable leases	30,315	11,049	27,656	9,470
Trade names	21,252	10,851	20,852	9,644
Franchise agreements	7,220	2,259	7,220	1,713
Other intangible assets	590	563	590	543
Total intangible assets	<u>\$99,087</u>	<u>\$47,980</u>	<u>\$90,150</u>	<u>\$41,007</u>

Monro's intangible assets are being amortized over their estimated useful lives. The weighted average useful lives of Monro's intangible assets are approximately 10 years for customer lists, 13 years for favorable leases, 14 years for trade names, 13 years for franchise agreements and five years for other intangible assets.

Amortization of intangible assets, excluding amortization of favorable leases included in rent expense, during fiscal 2019, 2018 and 2017 totaled \$5.3 million, \$5.0 million and \$5.1 million, respectively.

Estimated future amortization of intangible assets is as follows:

Year Ending Fiscal March	Customer lists/Trade names/Franchise agreements/Other	Favorable Leases
	(Dollars in thousands)	
2020	\$4,606	\$2,464
2021	3,701	2,430
2022	3,378	2,281
2023	3,123	2,156
2024	2,759	1,946

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

□ NOTE 6 — LONG-TERM DEBT, CAPITAL LEASES AND FINANCING OBLIGATIONS

Long-term debt, capital leases and financing obligations consist of the following:

	March 30, 2019	March 31, 2018
	(Dollars in thousands)	
Revolving Credit Facility, LIBOR-based ^(a)	\$137,682	\$148,028
Note payable, non-interest bearing, due in equal installments through September 2019	40	80
Less – Current portion of long-term debt	(40)	(40)
Long-term debt	<u>\$137,682</u>	<u>\$148,068</u>
Obligations under capital leases and financing obligations at various interest rates, due in installments through May 2049	\$260,278	\$246,169
Less – Current portion of capital leases and financing obligations	(22,189)	(18,949)
Long-term capital leases and financing obligations	<u>\$238,089</u>	<u>\$227,220</u>

(a) The London Interbank Offered Rate (“LIBOR”) at March 30, 2019 was 2.5%.

In January 2016, we entered into a five-year \$600 million revolving credit facility agreement with eight banks (the “Credit Facility”). The Credit Facility replaced a previous revolving credit facility. Interest only is payable monthly throughout the Credit Facility’s term. The borrowing capacity for the Credit Facility is up to \$600 million, and includes an accordion feature permitting us to request an increase in availability of up to an additional \$100 million. The Credit Facility bears interest at 75 to 175 basis points over LIBOR. The Credit Facility requires fees payable quarterly throughout the term between .15% and .35% of the amount of the average net availability under the Credit Facility during the preceding quarter. There was \$137.7 million outstanding under the Credit Facility at March 30, 2019.

At March 30, 2019 and March 31, 2018, the interest rate spread paid by the Company was 125 basis points over LIBOR.

Within the Credit Facility, we have a sub-facility of \$80 million for the purpose of issuing standby letters of credit. The line requires fees aggregating 87.5 to 187.5 basis points annually of the face amount of each standby letter of credit, payable quarterly in arrears. There was \$31.4 million in an outstanding letter of credit at March 30, 2019.

The net availability under the Credit Facility at March 30, 2019 was \$430.9 million.

On April 25, 2019, we amended and restated the Credit Facility (the “Amended Credit Facility”) to extend the term for another five years such that the Amended Credit Facility now expires on April 25, 2024. The Amended Credit Facility remains a \$600 million revolving credit facility agreement with eight banks. The Amended Credit Facility increases our accordion feature permitting us to request an increase in availability of up to an additional \$250 million, an increase of \$150 million from the Credit Facility, and bears interest at 75 to 200 basis points over LIBOR.

Within the Amended Credit Facility, our sub-facility for the purposes of issuing standby letters of credit remains at \$80 million. The line requires fees aggregating 87.5 to 212.5 basis points annually of the face amount of each standby letter of credit, payable quarterly in arrears.

Specific terms of the Amended Credit Facility permit the payment of cash dividends (with certain limitations), and permit mortgages and specific lease financing arrangements with other parties with certain limitations. Other specific terms and the maintenance of specified ratios are generally consistent with the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Credit Facility. Additionally, the Amended Credit Facility is not secured by our real property, although we have agreed not to encumber our real property, with certain permissible exceptions.

We were in compliance with all debt covenants as of March 30, 2019.

Long-term debt had a carrying amount and a fair value of \$137.7 million as of March 30, 2019, as compared to a carrying amount and a fair value of \$148.1 million as of March 31, 2018. The fair value of long-term debt was estimated based on discounted cash flow analysis using either quoted market prices for the same or similar issues, or the current interest rates offered to Monro for debt with similar maturities.

In addition, we have financed certain store properties with capital leases/financing obligations, which amount to \$260.3 million at March 30, 2019 and are due in installments through May 2049.

Aggregate debt maturities over the next five years are as follows:

Year Ending Fiscal March	Capital Leases/ Financing Obligations		All Other Debt	Total
	Aggregate Amount	Imputed Interest		
	(Dollars in thousands)			
2020	\$43,034	\$(20,845)	\$40	\$22,229
2021	43,791	(19,216)		24,575
2022	43,459	(17,333)		26,126
2023	42,981	(15,100)		27,881
2024	37,733	(12,661)		25,072

□ NOTE 7 — REVENUE

Automotive undercar repair, tire sales and tire services represent the vast majority of our revenues. We also earn revenue from the sale of tire road hazard warranty agreements as well as commissions earned from the delivery of tires on behalf of certain tire vendors.

Revenue from automotive undercar repair, tire sales and tire services is recognized at the time the customers take possession of their vehicle or merchandise. For sales to certain customers that are financed through the offering of credit on account, payment terms are established for customers based on our pre-established credit requirements. Payment terms vary depending on the customer and generally range from 15 to 45 days. Based on the nature of receivables, no significant financing components exist. Sales are recorded net of discounts, sales incentives and rebates, sales taxes and estimated returns and allowances. We estimate the reduction to sales and cost of sales for returns based on current sales levels and our historical return experience. Such amounts are immaterial to our Consolidated Financial Statements.

Revenue from the sale of tire road hazard warranty agreements (included in the Tires product group in the table below) is initially deferred and is recognized over the contract period as costs are expected to be incurred in performing such services, typically 21 to 36 months. The amounts recorded for deferred revenue balances at March 30, 2019 and March 31, 2018 were \$17.2 million, of which \$12.1 million and \$11.9 million, respectively, are reported in Deferred revenue and \$5.1 million and \$5.3 million, respectively, are reported in Other long-term liabilities in our Consolidated Balance Sheets.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The following table summarizes deferred revenue related to road hazard warranty agreements from March 31, 2018 to March 30, 2019:

	Dollars in thousands
Balance at March 31, 2018	\$ 17,182
Deferral of revenue	16,702
Deferral of revenue from acquisitions	753
Recognition of revenue	<u>(17,487)</u>
Balance at March 30, 2019	<u>\$ 17,150</u>

We expect to recognize \$12.1 million of deferred revenue related to road hazard warranty agreements during our fiscal year ending March 28, 2020, and \$5.1 million of such deferred revenue thereafter.

Under various arrangements, we receive from certain tire vendors a delivery commission and reimbursement for the cost of the tire that we may deliver to customers on behalf of the tire vendor. The commission we earn from these transactions is as an agent and the net amount retained is recorded as sales. (Included in the Tires product group in the following table.)

The following table summarizes disaggregated revenue by product group:

	Year Ended Fiscal March	
	2019	2018
	(Dollars in thousands)	
Revenues:		
Brakes	\$ 162,709	\$ 146,082
Exhaust	28,713	26,969
Steering	95,711	94,391
Tires	601,295	560,398
Maintenance	308,668	296,658
Other	3,134	3,317
Total	<u>\$1,200,230</u>	<u>\$1,127,815</u>

□ NOTE 8 – INCOME TAXES

The components of the provision for income taxes are as follows:

	Year Ended Fiscal March		
	2019	2018	2017
	(Dollars in thousands)		
Current –			
Federal	\$ 5,682	\$20,854	\$22,040
State	<u>2,409</u>	<u>3,180</u>	<u>2,422</u>
	8,091	24,034	24,462
Deferred –			
Federal	11,563	15,153	10,120
State	954	332	1,136
	<u>12,517</u>	<u>15,485^(a)</u>	<u>11,256</u>
Total	<u>\$20,608</u>	<u>\$39,519</u>	<u>\$35,718</u>

(a) For fiscal 2018, includes \$4.7 million related to the Tax Cuts and Jobs Act of 2017 (“Tax Act”).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

On December 22, 2017, the Tax Act was signed into law. The Tax Act made broad and complex changes to U.S. federal corporate income taxation. Additionally, in December 2017, the Securities and Exchange Commission (“SEC”) issued guidance under Staff Accounting Bulletin No. 118, “Income Tax Accounting Implications of the Tax Cuts and Jobs Act,” allowing taxpayers to record provisional amounts for reasonable estimates when they did not have the necessary information available, prepared or analyzed in reasonable detail to complete their accounting for certain income tax effects of the Tax Act. In accordance with this guidance, we recorded a provisional net income tax expense of approximately \$4.7 million for the year ended March 31, 2018. This amount is primarily from the remeasurement of our net deferred tax assets to reflect the new, lower U.S. federal corporate income tax rate.

For the third quarter of fiscal 2019, we completed our accounting for the impact of the Tax Act. We did not record any material adjustments to provisional amounts previously recorded.

Deferred tax (liabilities) assets consist of the following:

	March 30, 2019	March 31, 2018
	(Dollars in thousands)	
Goodwill	\$(39,020)	\$(32,290)
Other	(429)	(645)
Total deferred tax liabilities	<u>(39,449)</u>	<u>(32,935)</u>
Property and equipment	19,723	25,056
Insurance reserves	9,071	6,769
Warranty and other reserves	3,360	2,978
Loss carryforwards	2,507	1,963
Other	6,954	7,644
Total deferred tax assets	<u>41,615</u>	<u>44,410</u>
Net deferred tax assets	<u>\$ 2,166</u>	<u>\$ 11,475</u>

We have \$6.3 million of state net operating loss carryforwards available as of March 30, 2019. The state net operating loss carryforwards expire in varying amounts through 2039. Based on all available evidence, we have determined that it is more likely than not that sufficient taxable income of the appropriate character within the carryforward period will exist for the realization of the tax benefits on existing state net operating loss carryforwards.

We believe it is more likely than not that all other future tax benefits will be realized as a result of current and future income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

A reconciliation between the U.S. federal statutory tax rate and the effective tax rate reflected in the accompanying financial statements is as follows:

	Year Ended Fiscal March					
	2019		2018		2017	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Federal income tax based on statutory tax rate applied to income before taxes ^(a)	\$21,076	21.0	\$32,692	31.6	\$34,035	35.0
State income tax, net of federal income tax benefit	2,767	2.8	2,218	2.1	2,700	2.8
Tax Act ^(b)	—	—	4,707	4.5	—	—
Tax settlements and adjustments	(1,864)	(1.9)	—	—	—	—
Other	(1,371)	(1.4)	(98)	—	(1,017)	(1.1)
	<u>\$20,608</u>	<u>20.5</u>	<u>\$39,519</u>	<u>38.2</u>	<u>\$35,718</u>	<u>36.7</u>

(a) For fiscal 2018, represents the blended rate of 35% for 9/12 of the year and 21% for 3/12 of the year.

(b) Represents the net discrete adjustment to income tax expense primarily from the remeasurement of our net deferred tax assets at the lower U.S. corporate income tax rate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The following is a rollforward of Monro's liability for income taxes associated with unrecognized tax benefits:

	<u>Dollars in thousands</u>
Balance at March 26, 2016	\$ 6,929
Tax positions related to current year:	
Additions	981
Reductions	—
Tax positions related to prior years:	
Additions	66
Reductions	(352)
Settlements	—
Lapses in statutes of limitations	(732)
Balance at March 25, 2017	<u>6,892</u>
Tax positions related to current year:	
Additions	447
Reductions	—
Tax positions related to prior years:	
Additions	—
Reductions	(342)
Settlements	—
Lapses in statutes of limitations	(788)
Balance at March 31, 2018	<u>6,209</u>
Tax positions related to current year:	
Additions	1,178
Reductions	—
Tax positions related to prior years:	
Additions	166
Reductions	(6)
Settlements	—
Lapses in statutes of limitations	(1,123)
Balance at March 30, 2019	<u>\$ 6,424</u>

The total amount of unrecognized tax benefits was \$6.4 million and \$6.2 million at March 30, 2019 and March 31, 2018, respectively, the majority of which, if recognized, would affect the effective tax rate.

In the normal course of business, Monro provides for uncertain tax positions and the related interest and penalties, and adjusts its unrecognized tax benefits and accrued interest and penalties and, accordingly, we had approximately \$.4 million of interest and penalties associated with uncertain tax benefits accrued as of March 30, 2019 and March 31, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

We file U.S. federal income tax returns and income tax returns in various state jurisdictions. Monro's fiscal 2018 U.S. federal tax year and various state tax years remain subject to income tax examinations by tax authorities.

□ NOTE 9 — STOCK OWNERSHIP

Holders of at least 60% of the Class C preferred stock must approve any action authorized by the holders of Common Stock. In addition, there are certain restrictions on the transferability of shares of Class C preferred stock. In the event of a liquidation, dissolution or winding-up of Monro, the holders of the Class C preferred stock would be entitled to receive \$1.50 per share out of the assets of Monro before any amount would be paid to holders of Common Stock. The conversion value of the Class C convertible preferred stock was \$.064 per share at March 30, 2019 and March 31, 2018.

□ NOTE 10 — SHARE BASED COMPENSATION

We have a long-term incentive plan whereby eligible employees and non-employee directors may be granted non-qualified service condition stock options, non-qualified market condition stock options, restricted stock awards and restricted stock units. We grant stock-based awards to continue to attract and retain employees and to better align employees' interests with those of our shareholders. Monro issues new shares of Common Stock upon the exercise of stock options. Total stock-based compensation expense included in cost of sales and selling, general and administrative expenses in Monro's Consolidated Statements of Comprehensive Income for the fiscal years ended March 30, 2019, March 31, 2018 and March 25, 2017 was \$4.0 million, \$2.9 million and \$2.5 million, respectively, and the related income tax benefit for each fiscal year was \$1.0 million. As of March 30, 2019, the total unrecognized compensation expense related to all unvested stock-based awards was \$5.9 million and is expected to be recognized over a weighted average period of approximately two years.

Monro currently grants stock option awards and restricted stock under the 2007 Incentive Stock Option Plan (the "2007 Plan"). The 2007 Plan was authorized by the Board of Directors in June 2007, initially reserving 873,000 shares (as retroactively adjusted for stock splits) of Common Stock for issuance to eligible employees and all non-employee directors. The 2007 Plan was approved by shareholders in August 2007 and was later amended and restated in August 2017. At March 30, 2019, there were a total of 5,001,620 shares authorized for grant under the 2007 Plan (as retroactively adjusted for stock splits), including the shares transferred from previous plans. There were 990,930 shares available for grant at March 30, 2019.

Non-Qualified Stock Options

Generally, employee options vest over a four year period, and have a duration of six to ten years. Outstanding options are exercisable for various periods through March 2025. Assumptions used to estimate compensation expense are determined as follows:

- Expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees;
- Expected volatility is measured using historical changes in the market price of Monro's Common Stock;
- Risk-free interest rate is equivalent to the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards;
- Forfeitures are based substantially on the history of cancellations of similar awards granted by Monro in prior years; and
- Dividend yield is based on historical experience and expected future changes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The fair values of the service condition options granted were estimated on the date of their grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended Fiscal March		
	2019	2018	2017
Risk-free interest rate	2.81%	1.78%	1.20%
Expected life, in years	4	4	4
Expected volatility	28.3%	26.1%	25.9%
Expected dividend yield	1.24%	1.49%	1.10%

In fiscal 2018, Monro granted 100,000 options with a market condition vesting and such market condition options granted were estimated on the date of their grant using the Monte Carlo option-pricing model with the following weighted-average assumptions:

	Year Ended Fiscal March
	2018
Risk-free interest rate	1.65%
Expected life, in years	4
Expected volatility	29.4%
Expected dividend yield	1.53%

Monro did not grant any options with a market condition vesting in fiscal 2019.

The weighted average fair value of options granted during fiscal 2019, 2018 and 2017 was \$15.44, \$8.84 and \$12.17, respectively. A summary of changes in outstanding stock options is as follows:

	Weighted Average Exercise Price	Options Outstanding
At March 26, 2016	\$41.75	1,188,791
Granted	\$62.01	232,560
Exercised	\$31.61	(485,660)
Canceled	\$61.20	(39,347)
At March 25, 2017	\$51.67	896,344
Granted	\$48.12	546,080
Exercised	\$35.00	(170,354)
Canceled	\$60.87	(64,092)
At March 31, 2018	\$51.95	1,207,978
Granted	\$65.32	123,627
Exercised	\$50.75	(331,182)
Canceled	\$58.12	(125,518)
At March 30, 2019	\$55.45	874,905

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The total shares exercisable at March 30, 2019, March 31, 2018 and March 25, 2017 were 405,245, 495,573 and 563,109, respectively. The weighted average exercise price of all shares exercisable at March 30, 2019 was \$56.50.

The weighted average contractual term of all options outstanding at March 30, 2019 and March 31, 2018 was 3.9 years and 3.8 years, respectively. The aggregate intrinsic value of all options (the amount by which the market price of the stock on the date of exercise exceeded the exercise price of the option) outstanding at March 30, 2019 and March 31, 2018 was \$26.6 million and \$5.2 million, respectively.

The weighted average contractual term of all options exercisable at March 30, 2019 and March 31, 2018 was 3.2 years and 2.0 years, respectively. The aggregate intrinsic value of all options exercisable at March 30, 2019 and March 31, 2018 was \$12.2 million and \$2.2 million, respectively.

A summary of the status of and changes in non-vested stock options granted is as follows:

	Options	Weighted Average Grant-Date Fair Value (per Option)
Non-vested at March 26, 2016	399,369	\$11.26
Granted	232,560	\$12.17
Vested	(266,112)	\$10.48
Canceled	(32,582)	\$12.79
Non-vested at March 25, 2017	333,235	\$12.37
Granted	546,080	\$ 8.84
Vested	(119,445)	\$12.04
Canceled	(47,465)	\$12.53
Non-vested at March 31, 2018	712,405	\$ 9.72
Granted	123,627	\$15.44
Vested	(314,054)	\$ 8.94
Canceled	(52,318)	\$12.30
Non-vested at March 30, 2019	469,660	\$11.46

The following table summarizes information about stock options outstanding at March 30, 2019:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares Under Option	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
\$18.05 – \$46.99	16,832	1.77	\$43.41	11,582	\$42.74
\$47.00 – \$48.28	333,437	4.37	\$47.26	106,556	\$47.22
\$48.29 – \$60.97	230,118	3.18	\$54.69	118,432	\$54.67
\$60.98 – \$85.16	294,518	3.96	\$66.01	168,675	\$64.60

During the fiscal years ended March 30, 2019, March 31, 2018 and March 25, 2017, the fair value of awards vested under Monro's stock plans was \$2.8 million, \$1.4 million and \$2.8 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The aggregate intrinsic value is based on Monro's closing stock price of \$86.52, \$53.60 and \$52.15 as of the last trading day of the periods ended March 30, 2019, March 31, 2018 and March 25, 2017, respectively. The aggregate intrinsic value of options exercised during the fiscal years ended March 30, 2019, March 31, 2018 and March 25, 2017 was \$7.4 million, \$2.8 million and \$13.3 million, respectively.

Cash received from option exercises under all stock option plans was \$14.6 million, \$4.8 million and \$3.5 million for the fiscal years ended March 30, 2019, March 31, 2018 and March 25, 2017, respectively. The actual tax benefit realized for the tax deductions from option exercises was \$1.0 million, \$.5 million and \$3.5 million for the fiscal years ended March 30, 2019, March 31, 2018 and March 25, 2017, respectively.

Restricted Stock

Monro issues restricted stock to certain members of senior management as well as non-employee directors of the Company. Restricted stock units represent shares issued upon vesting in the future whereas restricted stock awards represent shares issued upon grant that are restricted. The fair value for restricted stock units and restricted stock awards is calculated based on the stock price on the date of grant. Restricted stock units do not have voting rights but earn dividends during the vesting period. The recipients of the restricted stock awards have voting rights and earn dividends during the vesting period. The dividends are paid to the recipient at the time the restricted stock becomes vested. If the recipient leaves Monro prior to the vesting date for any reason, the shares of restricted stock and the dividends accrued on those shares will be forfeited and returned to Monro. The restricted stock units and awards vest equally over three or four years. In fiscal 2019, the Company issued a limited number of restricted stock units to members of senior management which may vest upon the achievement of a three-year average return on invested capital target.

The following table summarizes restricted stock activity for the year ended March 30, 2019:

	Shares	Weighted-Average Grant-Date Fair Value per Share	Weighted Average Remaining Vesting Period (in years)
Non-vested as of March 31, 2018	61,875	\$47.59	
Granted	17,572	\$67.80	
Vested	(20,386)	\$47.53	
Forfeited	(835)	\$57.45	
Non-vested as of March 30, 2019	<u>58,226</u>	<u>\$53.57</u>	<u>1.69</u>

The aggregate intrinsic value is based on Monro's closing stock price of \$86.52 and \$53.60 as of the last trading day of the periods ended March 30, 2019 and March 31, 2018, respectively. The aggregate intrinsic value of non-vested restricted stock as of March 30, 2019 and March 31, 2018 was \$5.0 million and \$3.3 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

□ NOTE 11 — EARNINGS PER COMMON SHARE

The following is a reconciliation of basic and diluted earnings per common share for the respective years:

	Year Ended Fiscal March		
	2019	2018	2017
	(Amounts in thousands, except per share data)		
Numerator for earnings per common share calculation:			
Net Income	\$79,752	\$63,935	\$61,526
Less: Preferred stock dividends	(408)	(368)	(447)
Income available to common stockholders	<u>\$79,344</u>	<u>\$63,567</u>	<u>\$61,079</u>
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	32,980	32,767	32,413
Effect of dilutive securities:			
Preferred stock	510	510	675
Stock options	154	56	213
Restricted stock	31	8	—
Weighted average common shares, diluted	<u>33,675</u>	<u>33,341</u>	<u>33,301</u>
Basic earnings per common share:	<u>\$ 2.41</u>	<u>\$ 1.94</u>	<u>\$ 1.88</u>
Diluted earnings per common share:	<u>\$ 2.37</u>	<u>\$ 1.92</u>	<u>\$ 1.85</u>

The computation of diluted earnings per common share for fiscal 2019, 2018 and 2017 excludes the effect of assumed exercise of approximately 146,000, 1,091,000 and 304,000 of stock options, respectively, as the exercise price of these options was greater than the average market value of our common stock for those periods, resulting in an anti-dilutive effect on diluted earnings per common share.

□ NOTE 12 — OPERATING LEASES

We lease various facilities under non-cancellable lease agreements which expire at various dates through fiscal 2041. In addition to stated minimum payments, certain real estate leases have provisions for contingent rentals when retail sales exceed specified levels. Generally, the leases provide for renewal for various periods at stipulated rates. Most of the facilities' leases require payment of property taxes, insurance and maintenance costs in addition to rental payments, and several provide an option to purchase the property at the end of the lease term.

In recent years, we have entered into agreements for the sale-leaseback of certain stores. Realized gains are deferred and are credited to income as rent expense adjustments over the lease terms. We have lease renewal options under the real estate agreements at projected future fair market values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Future minimum payments required under non-cancellable leases (including closed stores) are as follows:

Year Ending Fiscal March	Leases	Less – Sublease Income	Net
(Dollars in thousands)			
2020	\$ 33,225	\$ (96)	\$ 33,129
2021	28,819	(102)	28,717
2022	23,552	(93)	23,459
2023	17,949	(81)	17,868
2024	11,488	(62)	11,426
Thereafter	33,614	(54)	33,560
Total	\$148,647	\$(488)	\$148,159

Rent expense under operating leases, net of sublease income, totaled \$38.0 million, \$38.9 million and \$38.6 million in fiscal 2019, 2018 and 2017, respectively, including contingent rentals. Sublease income totaled \$.1 million in each of fiscal 2019, 2018 and 2017.

□ NOTE 13 — EMPLOYEE RETIREMENT AND PROFIT SHARING PLANS

We sponsor a noncontributory defined benefit pension plan for Monro employees and the former Kimmel Automotive, Inc. employees. In fiscal 2005, the previously separate Monro and Kimmel pension plans were merged. The merged plan provides benefits to certain full-time employees who were employed with Monro and with Kimmel prior to April 2, 1998 and May 15, 2001, respectively.

Effective as of those dates, each company's Board of Directors approved plan amendments whereby the benefits of each of the defined benefit plans would be frozen and the plans would be closed to new participants. Prior to these amendments, coverage under the plans began after employees completed one year of service and attained age 21. Benefits under both plans, and now the merged plan, are based primarily on years of service and employees' pay near retirement. The funding policy for Monro's merged plan is consistent with the funding requirements of U.S. federal law and regulations. The measurement date used to determine the pension plan measurements disclosed herein is March 31 for both 2019 and 2018.

The (underfunded)/funded status of Monro's defined benefit plan is recognized as an other long-term liability/other non-current asset in the Consolidated Balance Sheets as of March 30, 2019 and March 31, 2018, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The (underfunded)/funded status of the plan is set forth below:

	Fiscal March	
	2019	2018
	(Dollars in thousands)	
Change in Plan Assets:		
Fair value of plan assets at beginning of year	\$20,629	\$20,702
Actual return on plan assets	929	631
Benefits paid	(720)	(704)
Fair value of plan assets at end of year	<u>20,838</u>	<u>20,629</u>
Change in Projected Benefit Obligation:		
Benefit obligation at beginning of year	20,606	20,405
Interest cost	781	796
Actuarial loss	305	109
Benefits paid	(720)	(704)
Benefit obligation at end of year	<u>20,972</u>	<u>20,606</u>
(Underfunded)/funded status of plan	<u>\$ (134)</u>	<u>\$ 23</u>

The projected and accumulated benefit obligations were equivalent at March 31 for both 2019 and 2018.

Amounts recognized in accumulated other comprehensive loss consist of:

	Year Ended Fiscal March	
	2019	2018
	(Dollars in thousands)	
Unamortized transition obligation	\$ 0	\$ 0
Unamortized prior service cost	0	0
Unamortized net loss	<u>6,057</u>	<u>5,675</u>
Total	<u>\$6,057</u>	<u>\$5,675</u>

Changes in plan assets and benefit obligations recognized in other comprehensive (loss) income consist of:

	Year Ended Fiscal March	
	2019	2018
	(Dollars in thousands)	
Net transition obligation	\$ 0	\$ 0
Prior service cost	0	0
Net actuarial loss	<u>(382)</u>	<u>(558)</u>
Total	<u>\$(382)</u>	<u>\$(558)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Pension income included the following components:

	Year Ended Fiscal March		
	2019	2018	2017
	(Dollars in thousands)		
Interest cost on projected benefit obligation	\$ 781	\$ 796	\$ 806
Expected return on plan assets	(1,409)	(1,416)	(1,332)
Amortization of unrecognized actuarial loss	403	336	524
Net pension income	<u>\$ (225)</u>	<u>\$ (284)</u>	<u>\$ (2)</u>

The weighted-average assumptions used to determine benefit obligations are as follows:

	Year Ended Fiscal March	
	2019	2018
Discount rate	3.72%	3.89%

The weighted-average assumptions used to determine net periodic pension costs are as follows:

	Year Ended Fiscal March		
	2019	2018	2017
Discount rate	3.89%	3.98%	3.83%
Expected long-term return on assets	7.00%	7.00%	7.00%

The expected long-term rate of return on plan assets is established based upon assumptions related to historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The investment strategy of the plan is to conservatively manage the assets in order to meet the plan's long-term obligations while maintaining sufficient liquidity to pay current benefits. This is achieved by holding equity investments while investing a portion of assets in long duration bonds to match the long-term nature of the liabilities. Monro's general target allocation for the plan is approximately 40% fixed income and 60% equity securities.

Monro's asset allocations, by asset category, are as follows at the end of each year:

	March 30, 2019	March 31, 2018
Cash and cash equivalents	1.8%	1.3%
Fixed income	38.5%	39.3%
Equity securities	59.7%	59.4%
Total	<u>100.0%</u>	<u>100.0%</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following tables provide fair value measurement information for Monro's major categories of defined benefit plan assets at March 30, 2019 and March 31, 2018, respectively:

	Fair Value Measurements at March 30, 2019 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Equity securities:				
U.S. companies	\$ 9,179	\$ 8,825	\$ 354	
International companies	3,256	3,256		
Fixed income:				
U.S. corporate bonds	7,888		7,888	
International bonds	138		138	
Cash equivalents	377		377	
Total	<u>\$20,838</u>	<u>\$12,081</u>	<u>\$8,757</u>	
	Fair Value Measurements at March 31, 2018 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Equity securities:				
U.S. companies	\$ 8,062	\$ 7,785	\$ 277	
International companies	4,186	4,186		
Fixed income:				
U.S. corporate bonds	7,505		7,505	
International bonds	614		614	
Cash equivalents	262		262	
Total	<u>\$20,629</u>	<u>\$11,971</u>	<u>\$8,658</u>	

There are no required or expected contributions in fiscal 2020 to the plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The following pension benefit payments are expected to be paid:

	Year Ended Fiscal March
	(Dollars in thousands)
2020	\$1,033
2021	1,083
2022	1,138
2023	1,170
2024	1,171
2025 – 2029	6,254

We have a 401(k)/Profit Sharing Plan that covers full-time employees who meet the age and service requirements of the plan. We make matching contributions consistent with the provisions of the plan. Charges to expense for our matching contributions for fiscal 2019, 2018 and 2017 amounted to approximately \$1.4 million, \$1.0 million and \$.8 million, respectively. We may also make annual profit sharing contributions to the plan at the discretion of Monro's Compensation Committee.

We have a deferred compensation plan (the "Deferred Compensation Plan") to provide an opportunity for additional tax-deferred savings to a select group of management or highly compensated employees. The Deferred Compensation Plan permits participants to defer all or any portion of the compensation that would otherwise be payable to them for the calendar year. In addition, Monro will credit to the participants' accounts such amounts as would have been contributed to Monro's 401(k)/Profit Sharing Plan but for the limitations that are imposed under the Internal Revenue Code based upon the participants' status as highly compensated employees. We may also make such additional discretionary allocations as are determined by the Compensation Committee. The Deferred Compensation Plan is an unfunded arrangement and the participants or their beneficiaries have an unsecured claim against the general assets of Monro to the extent of their Deferred Compensation Plan benefits. We maintain accounts to reflect the amounts owed to each participant. At least annually, the accounts are credited with earnings or losses calculated on the basis of an interest rate or other formula as determined by Monro's Compensation Committee. The total liability recorded in our financial statements at March 30, 2019 and March 31, 2018 related to the Deferred Compensation Plan was approximately \$2.0 million and \$2.1 million, respectively.

☐ NOTE 14 — RELATED PARTY TRANSACTIONS

We are currently a party to six leases for certain facilities where the lessor is a former officer of Monro or a family member of such former officer, or such former officer or family member has an interest in entities that are lessors. The payments under such operating and capital leases amounted to \$.8 million for fiscal years 2019, 2018 and 2017, respectively. These payments are comparable to rents paid to unrelated parties. No amounts were payable at March 30, 2019 or March 31, 2018. No related party leases exist, other than these six leases, and no new leases are contemplated.

☐ NOTE 15 — SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Significant Non-cash Investing and Financing Activities

In connection with the accounting for capital leases and financing obligations, we increased both property, plant and equipment and capital leases and financing obligations by approximately \$14.6 million, \$19.2 million and \$14.2 million for the years ended March 30, 2019, March 31, 2018 and March 25, 2017, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Interest and Taxes Paid

The following table sets forth the cash paid for interest and income taxes for the years ended March 30, 2019, March 31, 2018 and March 25, 2017:

	Year Ended Fiscal March		
	2019	2018	2017
	(Dollars in thousands)		
Cash paid during the year:			
Interest, net	\$25,422	\$22,808	\$18,385
Income taxes, net	\$ 9,680	\$25,214	\$24,778

□ NOTE 16 – COMMITMENTS AND CONTINGENCIES

Commitments

Payments due by period under long-term debt, other financing instruments and commitments are as follows:

	Total	Within 1 Year	2 to 3 Years	4 to 5 Years	After 5 Years
	(Dollars in thousands)				
Principal payments on long-term debt	\$137,722	\$ 40			\$137,682
Capital lease commitments/financing obligations	260,278	22,189	\$ 50,701	\$52,953	134,435
Operating lease commitments	148,159	33,129	52,176	29,294	33,560
Other liabilities	2,733	800	1,600	333	
Total	<u>\$548,892</u>	<u>\$56,158</u>	<u>\$104,477</u>	<u>\$82,580</u>	<u>\$305,677</u>

We believe that we can fulfill our contractual commitments utilizing our cash flow from operations and, if necessary, bank financing.

Contingencies

On December 13, 2017, the Company settled a litigation matter entitled Ellersick, et.al. v. Monro Muffler Brake, Inc. and Monro Service Corporation (U.S. District Court, Western District of New York), together with related matters, which were first instituted in September 2010, regarding current and former Company technicians and assistant managers who alleged violations of the Fair Labor Standards Act and various state laws relating to, among other things, overtime and unpaid wages. The settlement amount of \$1,950,000 is included within operating, selling, general and administrative expenses in the Company's Consolidated Financial Statements for fiscal 2018. Such settlement amount was estimated by the Company to be less than the legal fees and expenses that the Company believed it would have likely incurred in connection with defending such matter during the twelve month period following settlement.

We are currently a party to various claims and legal proceedings incidental to the conduct of our business. If management believes that a loss arising from any of these matters is probable and can reasonably be estimated, we will record the amount of the loss, or the minimum estimated liability when the loss is estimated using a range, and no point within the range is more probable than another. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Litigation is subject to inherent uncertainties, and unfavorable rulings could occur and may include monetary damages. If an unfavorable ruling were to occur, there exists the possibility of a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

material adverse impact on the financial position and results of operations of the period in which any such ruling occurs, or in future periods. However, based on currently available information, management believes that the ultimate outcome of any of these matters, individually and in the aggregate, will not have a material adverse effect on our financial position, results of operations or cash flows.

☐ NOTE 17 – SUBSEQUENT EVENTS

On April 25, 2019, we entered into the Amended Credit Facility to extend the term of the existing Credit Facility for another five years such that the Amended Credit Facility now expires on April 25, 2024. See Note 6 for additional information.

In May 2019, Monro's Board of Directors declared a regular quarterly cash dividend of \$.22 per share or share equivalent to be paid to shareholders of record as of June 3, 2019. The dividend will be paid on June 17, 2019.

See Note 2 for a discussion of acquisitions subsequent to March 30, 2019.

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

MONRO, INC. AND SUBSIDIARIES

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth consolidated statement of income data by quarter for the years ended March 2019 and 2018. Individual line items summed by quarters may not agree to the annual amounts reported due to rounding.

	Fiscal Quarter Ended			
	June 2018	Sept. 2018	Dec. 2018	March 2019
	(Amounts in thousands, except per share data)			
Sales	\$295,811	\$307,105	\$310,110	\$287,203
Cost of sales	178,573	187,157	192,144	177,126
Gross profit	117,238	119,948	117,966	110,077
Operating, selling, general and administrative expenses	84,166	85,440	87,256	81,623
Operating income	33,072	34,508	30,710	28,454
Interest expense, net	6,580	6,803	6,797	6,834
Other (income) expense, net	(227)	(261)	(321)	179
Income before provision for income taxes	26,719	27,966	24,234	21,441
Provision for income taxes	6,075	6,205	3,703	4,625
Net income	\$ 20,644	\$ 21,761	\$ 20,531	\$ 16,816
Basic earnings per share	\$ 0.63	\$ 0.66	\$ 0.62	\$ 0.50
Diluted earnings per share	\$ 0.62	\$ 0.65	\$ 0.61	\$ 0.50
Weighted average number of common shares used in computing earnings per share				
Basic	32,853	32,911	33,032	33,126
Diluted	33,457	33,640	33,766	33,866
	Fiscal Quarter Ended			
	June 2017	Sept. 2017	Dec. 2017	March 2018
	(Amounts in thousands, except per share data)			
Sales	\$278,491	\$278,017	\$285,730	\$285,578
Cost of sales	165,607	170,076	178,743	177,815
Gross profit	112,884	107,941	106,987	107,763
Operating, selling, general and administrative expenses	79,135	74,120	77,688	77,334
Operating income	33,749	33,821	29,299	30,429
Interest expense, net	5,742	6,117	6,138	6,299
Other income, net	(11)	(226)	(99)	(117)
Income before provision for income taxes	28,018	27,930	23,260	24,247
Provision for income taxes	10,433	10,663	11,659	6,765
Net income	\$ 17,585	\$ 17,267	\$ 11,601	\$ 17,482
Basic earnings per share	\$ 0.53	\$ 0.52	\$ 0.35	\$ 0.53
Diluted earnings per share	\$ 0.53	\$ 0.52	\$ 0.35	\$ 0.52
Weighted average number of common shares used in computing earnings per share				
Basic	32,704	32,754	32,779	32,822
Diluted	33,292	33,309	33,352	33,417

Significant fourth quarter adjustments

There was no material, extraordinary, unusual or infrequently occurring items recognized in the fourth quarter of fiscal 2019 or 2018.

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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that we file or submit pursuant to the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to Monro's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In conjunction with the close of each fiscal quarter and under the supervision of our Chief Executive Officer and Chief Financial Officer, we conduct an evaluation of the effectiveness of our disclosure controls and procedures. It is the conclusion of Monro's Chief Executive Officer and Chief Financial Officer, based upon an evaluation completed as of March 30, 2019, that our disclosure controls and procedures were effective in ensuring that any material information relating to Monro was recorded, processed, summarized and reported to its principal officers to allow timely decisions regarding required disclosures.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Monro'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 reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Monro's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Monro; (ii) 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 Monro are being made only in accordance with authorizations of management and directors of Monro; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Monro's assets that could have a material effect on the financial statements.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that Monro's internal control over financial reporting was effective as of March 30, 2019, the end of our fiscal year. Management has reviewed the results of its assessment with the Audit Committee of the Board of Directors. The effectiveness of Monro's internal control over financial reporting as of March 30, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Inherent Limitations on Effectiveness of Controls

Monro's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that its disclosure controls and procedures or its internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a

control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within Monro have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls' effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Controls over Financial Reporting

There were no changes in Monro's internal control over financial reporting during the quarter ended March 30, 2019 that materially affected, or are reasonably likely to materially affect, Monro's internal control over financial reporting.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information concerning the directors and executive officers of Monro is incorporated herein by reference to the section captioned “Proposal No. 1 — Election of Directors” and “Our Executive Officers”, respectively, in the Proxy Statement.

Information concerning required Section 16(a) disclosure is incorporated herein by reference to the section captioned “Delinquent Section 16(a) Reports” in the Proxy Statement.

Information concerning Monro’s corporate governance policies and procedures is incorporated herein by reference to the section captioned “Corporate Governance Practices and Policies” in the Proxy Statement.

Monro’s directors and executive officers are subject to the provisions of Monro’s Code of Ethics for All Board Members, Executive Officers and Management Employees (the “Code”), which is available in the Investor Information section of Monro’s website, www.monro.com. Changes to the Code and any waivers are also posted on Monro’s website in the Investor Information section.

Item 11. Executive Compensation

Information concerning executive compensation is incorporated herein by reference to the section captioned “Executive Compensation” in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning security ownership of certain beneficial owners and management is incorporated herein by reference to the section captioned “Security Ownership of Certified Beneficial Owners and Management” in the Proxy Statement.

Information concerning Monro’s shares authorized for issuance under its equity-based compensation plans at March 30, 2019 is incorporated herein by reference to the section captioned “Equity Compensation Plan Information” in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information concerning certain relationships and related transactions is incorporated herein by reference to the sections captioned “Board and Committee Independence” and “Certain Relationships and Related Party Transactions” in the Proxy Statement.

Item 14. Principal Accountant Fees and Services

Information concerning Monro’s principal accounting fees and services is incorporated herein by reference to the section captioned “Matters Relating to the Independent Registered Public Accounting Firm” in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements

Reference is made to Item 8 of Part II hereof.

Financial Statement Schedules

Schedules have been omitted because they are inapplicable, not required, the information is included elsewhere in the Financial Statements or the notes thereto or is immaterial. Specific to warranty reserves and related activity, as stated in the Financial Statements, these amounts are immaterial.

Exhibits

Agreements accompanying this Form 10-K or incorporated herein by reference as listed below may contain representations, warranties and other provisions that were made, among other things, to provide the parties thereto with specified rights and obligations and to allocate risk among them, and such agreements should not be relied upon by buyers, sellers or holders of Monro's securities.

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 report to be signed on its behalf by the undersigned, thereunto duly authorized.

MONRO, INC.

By: /s/ Brett T. Ponton

Brett T. Ponton
Chief Executive Officer and President

Date: May 29, 2019

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Brett T. Ponton</u> Brett T. Ponton	Chief Executive Officer, President and Director (Principal Executive Officer)	May 29, 2019
<u>/s/ Brian J. D'Ambrosia</u> Brian J. D'Ambrosia	Executive Vice President — Finance, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	May 29, 2019
<u>/s/ Robert E. Mellor*</u> Robert E. Mellor	Chairman of the Board, Director	May 29, 2019
<u>/s/ John L. Auerbach*</u> John L. Auerbach	Director	May 29, 2019
<u>/s/ Frederick M. Danziger*</u> Frederick M. Danziger	Director	May 29, 2019
<u>/s/ Donald Glickman*</u> Donald Glickman	Director	May 29, 2019
<u>/s/ Lindsay N. Hyde*</u> Lindsay N. Hyde	Director	May 29, 2019
<u>/s/ Stephen C. McCluski*</u> Stephen C. McCluski	Director	May 29, 2019
<u>/s/ Peter J. Solomon*</u> Peter J. Solomon	Director	May 29, 2019

* By: /s/ Brett T. Ponton
Brett T. Ponton,
as Attorney-in-Fact

CERTIFICATION

I, Brett T. Ponton, certify that:

1. I have reviewed this annual report on Form 10-K of Monro, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 29, 2019

/s/ Brett T. Ponton

Brett T. Ponton

Chief Executive Officer and President



CERTIFICATION

I, Brian J. D'Ambrosia, certify that:

1. I have reviewed this annual report on Form 10-K of Monroe, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 29, 2019

/s/ Brian J. D'Ambrosia

Brian J. D'Ambrosia
Executive Vice President — Finance,
Chief Financial Officer and Treasurer



**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

Pursuant to, and solely for purposes of, 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002), each of the undersigned hereby certifies in the capacity and on the date indicated below that:

1. The Annual Report of Monro, Inc. (“Monro”) on Form 10-K for the period ended March 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Monro.

/s/ Brett T. Ponton

Brett T. Ponton
Chief Executive Officer and President

Dated: May 29, 2019

/s/ Brian J. D’Ambrosia

Brian J. D’Ambrosia
Executive Vice President — Finance,
Chief Financial Officer and Treasurer

Dated: May 29, 2019

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BOARD OF DIRECTORS

John L. Auerbach (1)

Senior Vice President and Managing Director
of Art and Objects
Sotheby's, Inc.
Founder and Chairman of Eloquii Design, Inc.

Frederick M. Danziger (1) (3) (4)

Executive Chairman of the Board
of Directors
Griffin Industrial Realty, Inc.

Donald Glickman (2) (5)

Partner
J.F. Lehman & Company

Lindsay N. Hyde (3)

Entrepreneur In Residence,
Modern Ventures

Stephen C. McCluski (1) (3) (4) (5)

Chief Financial Officer – retired
Bausch & Lomb Incorporated

Robert E. Mellor (1) (2) (3) (4) (6)

Chairman and Chief Executive
Officer – retired
Building Materials Holding Corporation

Brett T. Ponton (2)

President and Chief Executive Officer
Monro, Inc.

Peter J. Solomon (2) (5)

Chairman
PJ Solomon, L.P.

(1) Member of Compensation Committee
(2) Member of Executive Committee
(3) Member of Audit Committee
(4) Member of Nominating and Governance Committee
(5) Member of Finance Committee
(6) Chairman of the Board

COMPANY OFFICERS

Brett T. Ponton

President and Chief Executive Officer

Brian J. D'Ambrosia

Executive Vice President and Chief
Financial Officer

Deborah R. Brundage

Senior Vice President –
Chief Marketing Officer

Avi Dasgupta

Senior Vice President –
Chief Information Officer

Gerald G. Alessia

Senior Vice President –
Chief Merchandising Officer

Samuel Senuk

Senior Vice President –
Store Operations

Maureen E. Mulholland

Senior Vice President –
General Counsel and Secretary

Jack Heisman

Vice President –
Business Development
and Real Estate

Russell W. Welsh

Regional Vice President –
Acquisitions

Scott Davis

Regional Vice President –
Western Region

Robert Tanevski

Regional Vice President –
Central Region

Daniel J. Tripoli

Regional Vice President –
Eastern Region

Keith B. Sullivan

Regional Vice President –
Southern Region

SHAREHOLDER INFORMATION

Corporate Offices

200 Holleder Parkway
Rochester, New York 14615
585-647-6400

Annual Meeting

August 13, 2019
Strathallan Hotel & Spa
550 East Avenue
Rochester, New York 14607

Legal Counsel

Harter Secrest & Emery LLP
Rochester, New York 14604

Certified Public Accountants

PricewaterhouseCoopers LLP
Rochester, New York 14604

Common Stock

Monro's common stock is quoted on the
NASDAQ National Market System under
the symbol "MNRO"

Form 10-K

Shareholders may obtain a copy of
our annual report Form 10-K for the
fiscal year ended March 30, 2019,
by going to the Investor Information
page at www.corporate.monro.com

Shareholders may also request
a copy of our annual report by
submitting an electronic request
at the Investor Information page at
www.corporate.monro.com, by calling
Kimberly Rudd at 585-784-3324,
or by sending a written request to:

Monro, Inc.
200 Holleder Parkway
Rochester, New York 14615
Attention: Secretary



ACCELERATING GROWTH
DRIVING OPERATIONAL EXCELLENCE

Monro, Inc.

200 Holleder Parkway
Rochester, NY 14615
corporate.monro.com