



MONRO
2020 ANNUAL REPORT

DRIVING THE TRANSFORMATION

CREATING A SCALABLE PLATFORM



TIRECHOICE
AUTO SERVICE CENTER

OPEN

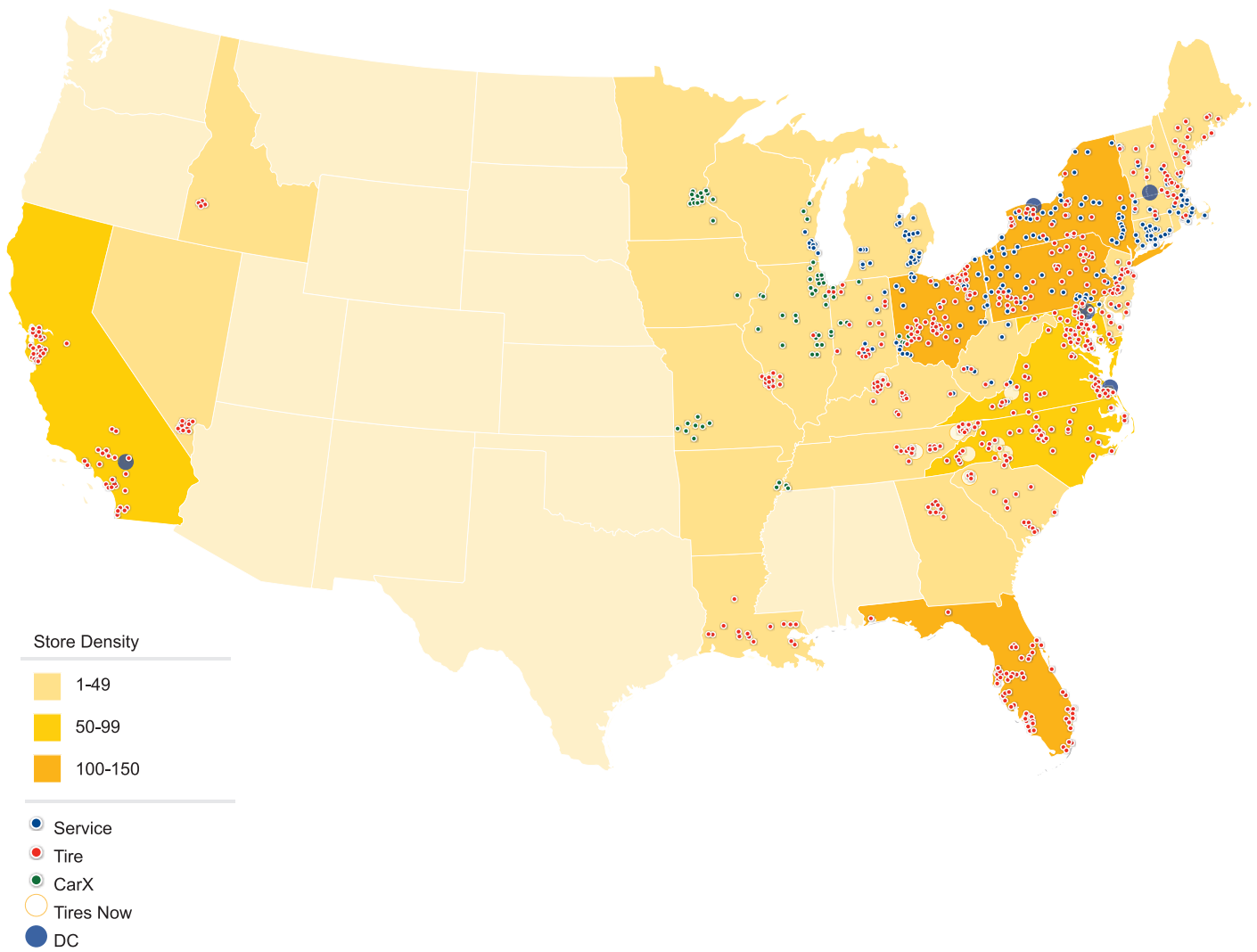


Our Company

Headquartered in Rochester, New York, Monro is a chain of 1,283 Company-operated stores, 98 franchised locations, eight wholesale locations and three retread facilities providing automotive undercar repair and tire sales and services.

The Company operates in 32 states, serving the Mid-Atlantic and New England regions and portions of the Great Lakes, Midwest, Southeast and Western United States. 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.

Monro has a strong presence in the Northeastern U.S. and continues to strengthen its store footprint by diversifying its presence in the attractive Southern and Western markets, where the Company is building a solid foundation for further expansion.



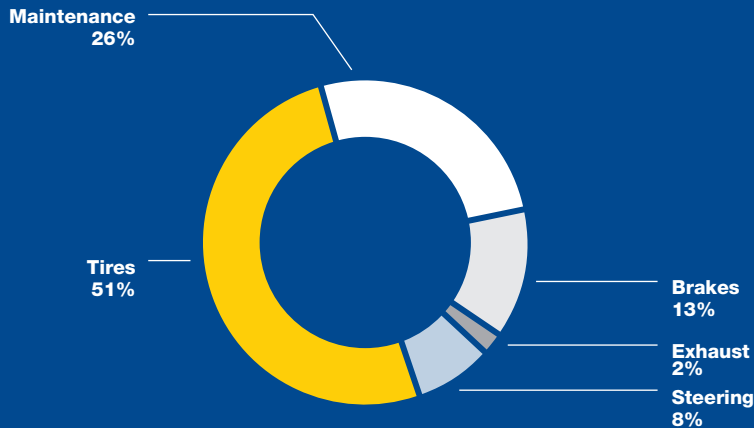
Store locations as of 6/12/20.



Our Brand Portfolio

Monro is in the process of consolidating our retail brand portfolio and shifting certain service-branded stores over to tire banners to optimize our brand awareness and increase our tire revenues without sacrificing service sales.

Sales by Category %



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.

By The Numbers

1,283

Company-operated stores

32

States

98

Franchised locations

8

Wholesale locations

3

Retread facilities

Current Store Breakdown

71

Stores Rebranded
from service banners
to tire banners

175

Store Transformations
in fiscal 2020

499

Service Brand Stores
\$600K annual revenue
per store

784

Tire Brand Stores
\$1.2M annual revenue
per store





Our Vision

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 Values

Leadership

Having a vision and the courage to shape a better future.

Integrity

We are open, honest and trustworthy in all our actions.

Ownership

A culture that instills accountability and empowerment.

Quality

What we do, we do well.

Diversity

We represent the communities and guests we serve.

Collaboration

Teamwork brings out our best.

Urgency

We cherish the truth, initiative and winning.

Shareholder Value

A balanced horizon and steward of our people and capital.

Our Monro.Forward Strategy

In fiscal 2020, we made important progress on our strategic initiatives to transform our business into a scalable platform for sustainable growth and long-term shareholder value creation.

Improve Customer Experience

- Completed the transformation of 175 stores in fiscal 2020, migrating 58 stores from service brands to tire banners
- Increased all-time average star rating of 4.6 stars



Optimize Product & Service Offering

- Launched pricing and category management technology
- Continued momentum of Good-Better-Best product and service packages
- Optimized tire assortment



Scalable platform
to drive sustainable
growth



Enhancing Customer-Centric Engagement

- Rolled out modernized in-store infrastructure and new phone system
- Collaboration with Amazon.com supporting ongoing omnichannel efforts



Accelerate Productivity & Team Engagement

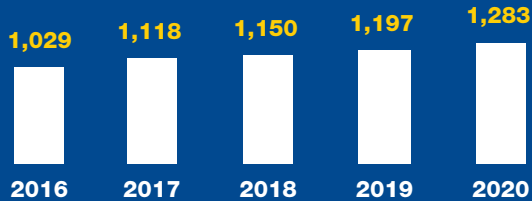
- Scaled Monro University across store base and implemented mandatory onboarding training
- Began pilot stages of data-driven store scheduling and staffing software

Our Proven M&A Track Record

Monro's disciplined acquisition approach has delivered significant growth over the years and remains a cornerstone of the Company's strategy.

Number of Locations

Monro has grown over the years through strategic acquisitions.



Since 2013:

39

Acquisitions
adding 518 locations
and \$710M revenue

13

New states entered
solidifying presence in our
Southern markets, expanding
into the Western region

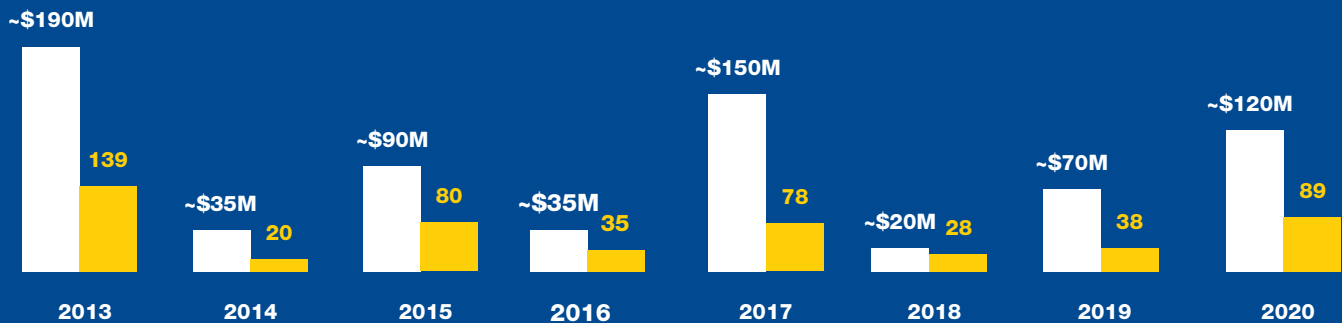
Historical Acquisition Activity

Average acquisition size: 13 stores / ~\$20 million

- 2016:** 146 franchise locations
- 2017:** 4 wholesale locations, 2 retread facilities
- 2019:** 4 wholesale locations, 1 retread facility
- 2020:** 1 distribution center

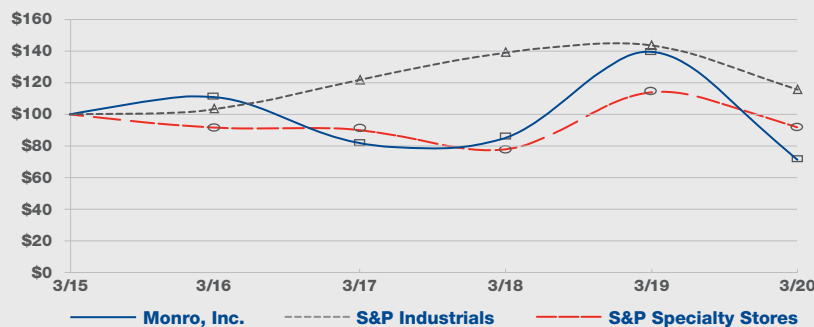
Annualized Sales Growth from Acquired Locations

Number of Locations Acquired



Comparison of 5-Year Cumulative Total Return*

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

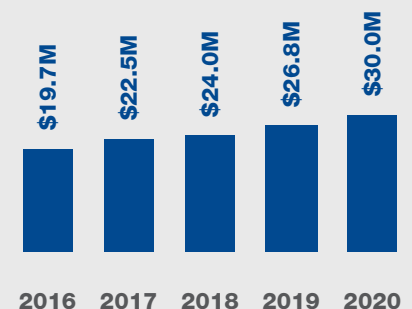


* \$100 invested on 3/31/15 in stock or index, including reinvestment of dividends. Fiscal year ending March 31.

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Cash Returned to Shareholders

Dividends
\$ millions





Corporate Social Responsibility

At Monro, our core values serve as the foundation of our decision-making, with health, safety, environmental and social responsibility considerations playing an important role in our strategic planning. We are committed to responsible business practices and continuous improvement of our operations and our relationships with our employees, investors, customers and the communities we serve to build long-term sustainable value.





Fiscal 2020 ESG Highlights

| | |
|------------|---|
| 50% | Percentage of women on Senior Leadership Team |
| 13% | Decrease in kilowatt hours used at Store Support Center |
| 147 | Shareholder engagement meetings |
| 16% | Decrease in workplace injuries from prior fiscal year |
| 51K | Hours invested in professional development and technical training for Teammates |
| 58K | Meals donated to a local foodbank |

The Company’s environmental, social and governance (ESG) program is an important lens through which we identify risks and opportunities that could materially impact our business over the long term. As part of our commitment to transparency and accountability, formalizing our ESG strategy and objectives is a top priority for senior management and the Board. We look forward to disclosing more detail regarding our program in our inaugural Sustainability Report, which we expect to publish in 2021.

The report will leverage the Sustainability Accounting Standards Board’s (SASB) guidelines relevant for our industry and will include the goals that we have established to track our performance and progress against moving forward. We will continue to enhance our disclosures in order to better inform all stakeholders on Monro’s ESG-related risks, opportunities, management strategies and performance throughout Fiscal 2021 and beyond.

In fiscal 2020, Monro recycled:

| | | | |
|---|---|---|---|
|  |  |  |  |
| 3.2M gallons of oil | 3.9M tires | 87,000 vehicle batteries | 120 tons of cardboard |

Dear Fellow Shareholders,

Fiscal 2020 was an instrumental year in our Company transformation. We made a number of strides in the execution of our Monro.Forward strategy and reached critical milestones in our journey to build a scalable platform for sustainable growth. While we recognize our financial performance was challenged during the year, particularly in light of the unprecedented impact of the COVID-19 pandemic on our fourth quarter results, we are firmly committed to our strategy and remain confident in our path forward. The changes we are making across our business to drive operational excellence and streamline our organization position us well to deliver a consistent, 5-star customer experience and long-term shareholder value.

Importantly, I would like to thank our teammates, whose commitment and dedication to excellent customer service have been critical as we make strategic improvements to our business to drive stronger future performance.

Executing Monro.Forward

Our Monro.Forward strategy centers around four pillars including: Improving Customer Experience, Enhancing Customer-Centric Engagement, Optimizing Product & Service Offering and Accelerating Productivity & Team Engagement. Our strategy is further supported by investments in technology and data analytics, as we are working to increase the overall lifetime value of our customers, drive operational consistency and enhance productivity across all our store locations.



Transforming our Store Base

During fiscal 2020, we made significant progress on our store rebrand and reimage initiative, which focuses on creating a more consistent store appearance while implementing standardized in-store operating procedures, which we call our Monro Playbook. We are consolidating our brand portfolio and rebranding select service stores to tire banners to optimize our portfolio and drive increased tire revenues without sacrificing service revenues. We transformed 175 stores in fiscal 2020, and have rebranded 71 stores to tire brands. While we are still in the early innings of this initiative, we are very encouraged by the solid performance of our rebranded stores, which underscores the strong opportunity we have and the benefits that come with a streamlined brand portfolio. In addition, as part of this initiative, we have partnered with a customer analytics firm to provide market segmentation and demographic data specific to geographic areas in the vicinity of our Monro locations. This has allowed us to assess our existing real estate portfolio and identify a total of 42 underperforming stores for closure. We expect this one-time, planned portfolio adjustment to drive a more efficient organization and improve our operating income by \$5.1 million on an annual basis.

Investing in Technology to Support Growth

During the year, we made critical investments in technology that will support our future operations. This includes implementing our store network infrastructure upgrade and new digital phone system, which will help us be more sophisticated in our customer execution approach and will be instrumental in driving more traffic to our stores. Through our digital phone system, we are creating a centralized call center that provides added flexibility and significantly improves our customer responsiveness. In the fourth quarter, we also launched the pilot stages of our tire category management and pricing tool, which provides real-time visibility into demand dynamics, allowing us to better refine our assortment and execute our strategy to be the number one destination for tires at any price point. Lastly, in the fourth quarter, we began transitioning to our data-driven store staffing and scheduling tool, which will allow us to seamlessly adjust our labor in response to changing demand dynamics by more accurately rebalancing the number of technicians and the level of skillsets in each store.

While we are still in the process of rolling these initiatives out across our store base, we firmly believe they will be instrumental in improving our customer execution and driving long-term margin expansion.

Expanding and Diversifying Our Store Footprint

We also made impressive strides in expanding and diversifying our geographical footprint through strategic acquisitions in fiscal 2020. We acquired more than 50 stores in California, representing entry into the dynamic Western region. Our position in this market was further solidified by acquisitions of 18 stores in Idaho and Nevada, new states for our Company. In addition, we acquired 20 stores in Louisiana, a new state for Monro that expanded our presence in the Southern markets.

Importantly, by executing our strategic initiatives, including our new brand standards and operating procedures, we expect to integrate our new acquisitions more effectively and efficiently. Our disciplined acquisition strategy has delivered significant growth over the years and remains a key pillar of our Monro.Forward strategy.

Demonstrating Our Commitment to Best-in-Class Customer Service

Finally, we have maintained a focus on improving our in-store execution and customer experience, leveraging the feedback we receive to drive enhanced customer satisfaction and improve our online reputation. These efforts increased our all-time star rating to 4.6 stars across online review sites at the end of the year.

Overall, we are extremely pleased with the initiatives we accomplished during fiscal 2020, and believe we made solid progress in positioning our business for long-term growth.

Delivering Results in a Dynamic Environment

The transformation we are undergoing is substantial, and we recognize our results will not be linear as we move through this journey. In fiscal 2020, we reported sales of \$1.257 billion and diluted earnings per share of \$1.71. We are committed to improving performance by focusing on the elements of our business that are within our control, and the structural changes we are making across our organization are necessary for us to achieve strong results no matter the external circumstances.

When the effects of the global COVID-19 pandemic began to substantially impact our business late during the fourth quarter, our organization reacted quickly, focusing on three key priorities: prioritizing health and safety in all aspects of our business, ensuring business continuity to serve our customers and emerging even stronger post-crisis. I am pleased with our team's agility and flexibility and believe the actions we have taken position us well to capitalize on the opportunities ahead.

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 \$30M in dividends in fiscal 2020 and recently announced a quarterly dividend for the first quarter of fiscal 2021.

A Look Back at Fiscal 2020



\$1.257B

in sales in Fiscal 2020, totalling a 5% increase.



\$120M

in annualized sales represented by acquisitions completed in 2020, with entry into four new markets.



4.6

stars average company star rating across online review sites at the end of fiscal 2020.



\$30M

returned in cash to shareholders through dividends in fiscal 2020.

Promoting Corporate Responsibility

Monro strives to maintain an environmentally and socially conscious corporate culture, as demonstrated by our efforts to promote sustainability and recycling across our organization, support charitable organizations that help the communities we serve, provide transparency to our investors and invest in our teammates to ensure a safe and rewarding workplace.

During the year, as part of our commitment to protect the environment, Monro recycled 3.2M gallons of oil and 3.9M tires, as well as approximately 87,000 vehicle batteries and 120 tons of cardboard. We seek to proactively engage with the communities we serve by giving back our time and financial resources, including donating over \$525,000 to the United Way and other charities in the past two years. Among other shareholder engagement, we had 147 opportunities to talk directly with investors and analysts at investor meetings and on conference calls.

In an exciting development both in our commitment to the environment and in responding to shareholder feedback, this proxy season, for the first time, Monro will follow the Securities and Exchange Commission's "e-proxy" rules that allow public companies to furnish proxy materials to shareholders over the Internet, therefore reducing the amount of paper consumed during this process. Finally, we are committed to supporting our teammates and have expanded our ongoing learning and professional development opportunities through Monro University, our online training platform, as well as by implementing mandatory onboard training for new hires to help them better thrive at Monro. These efforts are improving engagement and satisfaction among our teammates, resulting in the lowest annual turnover rates since 2015.

Creating Long-term Value

In summary, fiscal 2020 was a critical year in our Company transformation. We accomplished a number of key initiatives and made fundamental changes across our organization that position us well to continue to deliver long-term sustainable value for our shareholders. I have firm conviction in our path forward and look forward to capitalizing on the significant opportunities ahead of us

On behalf of the Board of Directors and the Monro leadership team, I would like to thank you for your continued support and confidence. I look forward to speaking with you at our virtual annual meeting on August 18, 2020.

Sincerely,



President and Chief Executive Officer



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 28, 2020

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 Holleder 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:

| <u>Title of each class</u> | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|---|------------------------------|--|
| 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 | <input checked="" type="checkbox"/> | Accelerated Filer | <input type="checkbox"/> |
| Non-Accelerated Filer | <input type="checkbox"/> | Smaller Reporting Company | <input type="checkbox"/> |
| Emerging Growth Company | <input type="checkbox"/> | | |

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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 27, 2019 was \$2,556,600,000.

The number of shares of Registrant's Common Stock outstanding as of May 22, 2020 was 33,284,357.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement (to be filed pursuant to Regulation 14A) for the 2020 Annual Meeting of Shareholders to be held August 18, 2020 (the "Proxy Statement") are incorporated by reference in Part III of this report.



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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 Item 1. “Business” and Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, 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,” “will” 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 duration and impact of the novel strain of coronavirus (“COVID-19”) pandemic and its impact on our customers, executive officers and employees, 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 on products imported from China, 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.

EXPLANATORY NOTE

The Company relied on the Securities and Exchange Commission’s Order under Section 36 of the Securities Exchange Act of 1934 Modifying Exemptions from the Reporting and Proxy Delivery Requirements for Public Companies dated March 25, 2020 (Release No. 34-88465) (the “Release”) to delay the filing of its Annual Report on Form 10-K for the fiscal year ended March 28, 2020 (the “2020 10-K”), due to circumstances related to the COVID-19 pandemic. In particular, COVID-19 has caused severe disruptions in Company operations including limited access to and support from the Company’s accounting staff, which caused a delay in the Company’s ability to complete the 2020 10-K by the original due date of May 27, 2020. On May 27, 2020, the Company filed a Current Report on Form 8-K which stated that it expected to file its 2020 10-K no later than 45 days after the original due date, in compliance with the provisions of the Release.

Item 1. Business

□ GENERAL

Monro is a chain of 1,283 Company-operated stores (as of March 28, 2020), 98 franchised locations, eight wholesale locations, three retreat facilities and two dealer-operated stores providing automotive undercar repair and tire sales and services in the United States. At March 28, 2020, Monro operated Company stores in 32 states, including Arkansas, California, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nevada, 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,” 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 6.1 million vehicles in fiscal 2020. (References herein to fiscal years are to our year ended fiscal March, e.g., references to “fiscal 2020” are to our fiscal year ended March 28, 2020.)

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. Monro 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 31 additional states.

Our principal executive offices are located at 200 Holleder Parkway, Rochester, New York 14615, and our telephone number is (585) 647-6400.

We provide tire sales and services as well as a broad range of routine maintenance services, including state inspections, primarily on passenger cars, light trucks and vans. We also provide other products and services for brakes; mufflers and exhaust systems; and steering, drive train, suspension and wheel alignment. We specialize 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. We typically do not perform under-the-hood repair services except for routine maintenance services, such as 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, as well as rebranding certain service stores to 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 28, 2020, there were 499 stores designated as service stores and 784 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 28, 2020, Monro had eight wholesale locations and three retread facilities.

Our sales mix for fiscal 2020, 2019 and 2018 was as follows:

| | Service Stores | | | Tire Stores | | | Total Company | | |
|---------------------|----------------|-------------|-------------|-------------|-------------|-------------|---------------|-------------|-------------|
| | FY20 | FY19 | FY18 | FY20 | FY19 | FY18 | FY20 | FY19 | FY18 |
| Brakes | 25% | 25% | 23% | 10% | 9% | 9% | 13% | 14% | 13% |
| Exhaust | 6 | 7 | 7 | 1 | 1 | 1 | 2 | 2 | 2 |
| Steering | 10 | 10 | 11 | 7 | 7 | 8 | 8 | 8 | 8 |
| Tires | 23 | 22 | 23 | 60 | 61 | 60 | 51 | 50 | 50 |
| Maintenance | 36 | 36 | 36 | 22 | 22 | 22 | 26 | 26 | 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 four wholly-owned operating subsidiaries, Monro Service Corporation, Car-X, LLC, MNRO Holdings, LLC and MNRO Service Holdings, LLC. Both of MNRO Holdings, LLC and MNRO Service Holdings, LLC, each of which are a Delaware limited liability company, were organized in connection with our West Coast operations.

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 28, 2020, Monro had 97 Car-X franchised locations.

Our 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 (and prior to the COVID-19 pandemic) are being driven more miles per year.³ Over the past few years, the industry grew significantly in vehicles zero to five years old, driven by the growth in new car sales after the Great Recession.⁴ Conversely, six to 11 year old vehicles, which we consider our targeted segment, declined over the past several years.⁵ However, we believe these structural headwinds were transitory, and have started to turn into tailwinds, a trend we expect to continue over the next few years as the shifting dynamic of the age of vehicles in operation indicates the volume of vehicles in the

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 2020

² IHS Markit, report on Average Age of Cars and Light Trucks in U.S., June 2019 (“IHS Markit Data”)

³ FRED Economic Data, Moving 12-Month Total Vehicle Miles Traveled, May 2020

⁴ IHS Markit, report on U.S. Light Vehicles in Operation, accessed May 2018

⁵ Ibid.



six to 11 year old range, which drive the most repair opportunities, are expected to grow 27 percent from 2018-2023.⁶ This is evidenced by the increasing average age of cars and light trucks in the United States, which rose to 11.8 years in 2019.⁷

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 focused 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.⁸ 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. As vehicles are becoming more technologically complex, we expect consumers will be less likely to be able to service their cars themselves, and instead will need to bring them to an automotive repair provider, such as Monro, to be serviced.

In addition, any meaningful shift to fully electric vehicles will create opportunities for expanded services to complement the tires, ride control and brake services 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 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 long-term industry dynamics and favorable macro trends, which we expect will help position Monro to deliver consistent and sustainable organic growth.

In the near-term, the U.S. automotive aftermarket industry has been significantly impacted by the effects of COVID-19. On March 11, 2020, the World Health Organization (the "WHO") declared COVID-19 a pandemic. On March 13, 2020, the U.S. government declared a national emergency and U.S. state governments have declared states of emergency, as well. In response to the COVID-19 pandemic, many U.S. state governments, in states in which we operate, have taken preventative or protective actions, such as issuing stay-at-home orders and other social distancing measures. State and local governments have ordered temporary closures of some businesses and numerous other businesses have temporarily closed voluntarily. Further, individuals' ability to travel has been curtailed through mandated travel restrictions and may be further limited through additional voluntary or mandated closures of certain businesses. However, in our locations, the automotive undercar repair and tire sales and services industry has been classified as an essential business.

While our industry is considered an essential business, state mandated shutdowns and stay-at-home orders enacted across the country impacted consumer demand and we experienced an immediate and significant decline in traffic during the fourth quarter of fiscal 2020, and this reduction in traffic has continued through the date of this report. In the macroeconomic environment, the impact of the pandemic has led to a significant increase in the U.S. unemployment rate, while decreasing new car sales and total miles driven.

⁶ IHS Markit Data, June 2019

⁷ Ibid.

⁸ Auto Care Association, Auto Care Factbook, accessed May 2018

To the extent the pandemic is ongoing, we expect a continued negative impact of these factors, but we are unable to predict the duration and magnitude of the impact to our business. Once the pandemic subsides and government actions to curb the spread begin to abate, we believe consumers will drive more, supported by low gas prices, as well as the fact that they may be less willing to fly or take public transportation. Additionally, in a recessionary environment, consumers will be less likely to buy new cars and more likely to repair the existing cars they own. We believe this will continue to increase the average age of vehicles in operation.

□ MONRO.FOWARD STRATEGY

In October 2017, we 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.

In the long term, executing on accretive acquisition opportunities also remains a key element of our growth strategy. However, we have currently paused all acquisition activity due to the impact of the COVID-19 pandemic. Moving forward, and when we are able to better understand the impact of the COVID-19 pandemic, 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 from which 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 | Name ^(c) (Abbreviated) |
|---------------------|--|---|--------------------|-----------------------------------|
| August 2015 | Kost Tire Distributors, Inc. | 27 | NY, PA | Mr. Tire |
| May 2016 | McGee Tire Stores, Inc. | 29 ^(d) | FL | Tire Choice |
| September 2016 | Clark Tire & Auto, Inc. | 26 ^(e) | NC | Mr. Tire |
| February 2017 | Nona, Inc. | 16 | IL, IA | Car-X |
| July 2017 | UVR, Inc. | 13 ^(f) | 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 |
| March 2019 | Allied Discount Tire & Brake, Inc. | 12 | LA | Tire Choice |
| May 2019 | Certified Tire & Service Centers, Inc. | 40 ^(h) | CA | Tire Choice |
| August 2019 | Atlas Tire Center, Inc.; LRZ3 Auto, LLC; T-Boy's Tire and Automotive, LLC; Twin Tire & Auto Care, Inc.; Twin Tire & Auto Care Team, Inc.; Scotty's Tire & Automotive, Inc. | 8 | LA | Tire Choice |
| October 2019 | S & S Unlimited, Inc. and Lloyd's Tire Service, Inc. | 9 | CA | Tire Choice |
| November 2019 | Nevada Tire Holdings, LLC and Idaho Tire Holdings, LLC | 18 ⁽ⁱ⁾ | NV, ID | Tire Choice |

- (a) Table includes only acquisitions of five or more Company-operated stores for the five-year fiscal period ended March 28, 2020.
- (b) Seven 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 name, not the corporation. Additionally, stores acquired from S&S Unlimited, Inc., Lloyd’s Tire Service, Inc., Nevada Tire Holdings, LLC and Idaho Tire Holdings, LLC have yet to be renamed, but are expected to begin operating under the Tire Choice name in fiscal 2021.
- (d) One retread facility was also acquired and is operating under the McGee Tire name.
- (e) 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.
- (f) One acquired store was never opened.
- (g) Four wholesale locations and one retread facility were also acquired and are operating under the Tires Now and FreeService Tire names, respectively. (One wholesale location has since closed.)
- (h) One distribution center was also acquired.
- (i) One acquired store in Nevada is under construction and has yet to open. This store is expected to open in fiscal 2021.

□ 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 | | | | |
|--|-------------------------|-------------------|-------------------|--------------------|-------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Stores open at beginning of year . . | 1,197 | 1,150 | 1,118 | 1,029 | 999 |
| Stores added during year | 98 ^(c) | 60 ^(d) | 49 ^(e) | 105 ^(f) | 52 ^(g) |
| Stores closed during year ^(b) | (12) | (13) | (17) | (16) | (22) |
| Stores open at end of year | <u>1,283</u> | <u>1,197</u> | <u>1,150</u> | <u>1,118</u> | <u>1,029</u> |
| Service stores | <u>499</u> | <u>560</u> | <u>542</u> | <u>534</u> | <u>515</u> |
| Tire stores | <u>784</u> | <u>637</u> | <u>608</u> | <u>584</u> | <u>514</u> |

- (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.
- (c) Includes 88 stores acquired in the fiscal 2020 Acquisitions. One additional store was acquired from Nevada Tire Holdings, LLC which was under construction at closing. This store is expected to open in fiscal 2021.
- (d) Includes 51 stores acquired in the fiscal 2019 Acquisitions.
- (e) Includes 45 stores acquired in the fiscal 2018 Acquisitions. (Excludes the UVR, Inc. store that was never opened.)
- (f) Includes 90 stores acquired in the fiscal 2017 Acquisitions.
- (g) Includes 40 stores acquired in the fiscal 2016 Acquisitions.

We currently expect to close 36 stores in fiscal 2021 that we concluded have failed to maintain an acceptable level of profitability.

We plan to add approximately 10 to 20 new greenfield stores in fiscal 2021 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. We partner with a customer analytics firm to provide market segmentation and demographic data specific to a geographic area in close proximity to a Monroe location to identify high value lookalike customers and market directly to them. We attempt 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 our 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 2020, 10 of the stores added (including acquired stores) were located in existing markets and 88 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;
- Online 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 \$95,000 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 \$130,000 for inventory. In instances where we acquire an existing business, we 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 28, 2020, we leased the land and/or the building at approximately 74% 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 \$450,000 and \$1,050,000, respectively, in their first 12 months of operation, or \$77,000 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 reimagining 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 determine 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 fiscal 2019, we reached a significant milestone in this initiative by completing our pilot initiative of 30 stores in Rochester, NY. During fiscal 2020, we completed the roll out of our brand operational standards and the store modernization of 175 additional stores. We have currently suspended all capital expenditures related to the roll out of our brand operational standards and store modernization initiatives due to the impact of the COVID-19 pandemic. When we are able to better understand the impact of the COVID-19 pandemic, we plan to continue the roll out of our brand operational standards across our store base and modernize our remaining store portfolio, which we estimate will take two to four 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 | 1,800 |
| Tire stores (excluding Tire Warehouse and Tire Barn Warehouse stores) | 7 | 6,500 | \$129,000 | 1,200 |

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 \$246,000 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. Our stores are currently operating on a reduced schedule in response to the COVID-19 pandemic. When we are able to better understand the impact of the COVID-19 pandemic, we plan to operate our stores on a more normalized schedule prior to the schedule reduction.

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 Regional 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 and Assistant Managers receive either hourly or salaried compensation. Due to the impact of the COVID-19 pandemic, we have reduced staffing to match lower demand.

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 expect to implement during fiscal 2021 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 substantially implemented during fiscal 2020 a cloud-based curriculum called Monro University. We believe this curriculum provides 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 offer free online ASE certification preparation courses and will reimburse technicians for the cost of ASE certification registration fees and test fees. We also offer 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 developed by our training department and operations management are provided through Monro University, 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 Store Manager and Technician sections that contain other training programs, including on-line training videos, and documents specific 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 traffic. 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 districts.

□ 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 launched the pilot phase of our tire category and pricing system in a number of our markets during the fourth quarter of fiscal 2020. This new tool will allow us to dynamically track demand trends and make rapid adjustments to optimize our tire assortment by leveraging the breadth of our tire brand portfolio to offer the right tires at the right price points. We see potential in leveraging data analytics to align our tire inventory assortment with consumer demographics, so that we can drive long-term margin expansion in our largest category by providing 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 74% 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 92% 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, 80% of Tire Warehouse and 90% 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 28, 2020, we have an all-time high average Company rating of 4.6 stars across our 1,283 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, fliers, 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 digital radio, 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. On-line reviews are obtained from various review sites, including Google and Facebook. Our review star rating has increased to an all-time high of 4.6 as of March 28, 2020. Digital advertising also includes 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. Due to the impact of the COVID-19 pandemic, we have reduced advertising spend. When we are able to better understand the impact of the COVID-19 pandemic, we plan to adjust advertising to a more normalized level.

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 primary 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.carx.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. Information available on our website and the websites listed above is not part of, and is not incorporated into, this Annual Report on Form 10-K.

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 2020.

Our ten largest vendors accounted for approximately 84% of our total stocking purchases, with the largest vendor accounting for approximately 28% of total stocking purchases in fiscal 2020. In fiscal 2020, Monro imported approximately 25% of our parts (excluding batteries, oil and supplies) and tire purchases. We purchase parts, oil and tires from approximately 120 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 (including the impact from the COVID-19 pandemic) 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, 92% of all items ordered by the stores' automatic POS-driven replenishment system. Monro operates warehouses in California, Kentucky, Maryland, New Hampshire, New York, North Carolina, South Carolina, Tennessee and Virginia. These warehouses each carry, on average, approximately 2,500 SKUs.

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 primarily under the NTB, Midas and Tire Kingdom brands), Firestone Complete Auto Care service stores, The Pep Boys — Manny, Moe and Jack service stores, Meineke, 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 28, 2020, Monro had 8,184 employees, of whom 7,595 were employed in the field organization, 261 were employed at the warehouses, 272 were employed at our corporate headquarters and 56 were employed in other offices. Monro’s employees are not members of any union. Due to the impact of the COVID-19 pandemic, we have reduced our workforce through furlough or other reduction. When we are able to better understand the impact of the COVID-19 pandemic, we plan to adjust our workforce to meet demand.

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 2020 since the fourth quarter of fiscal 2015, continuing a trend we observed in the fourth quarter of fiscal 2019. We have received strong positive feedback from our employees supporting our Monro.Forward initiatives and the actions we are 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 2020, Monro recycled approximately 3.2 million gallons of oil and 3.9 million tires, as well as approximately 87,000 vehicle batteries and 850 tons of cardboard, all as part of our commitment to the environment. Further, Monro and its employees donated to a number of charities during fiscal 2020, including over \$230,000 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:

Matters related to the COVID-19 pandemic have and will continue to significantly and adversely impact our business, financial position, results of operations and cash flows.

The spread of COVID-19 has created a global public health crisis that has resulted in widespread volatility and deteriorations in household, business, economic and market conditions. We have experienced negative impacts to demand for our products and services from the COVID-19 pandemic, which is adversely affecting our results of operations, and we have also experienced significant disruption to our normal business operations and planned implementation of certain strategic initiatives.

Our business will continue to be affected by the broader economic effects from the COVID-19 and related regulatory actions, including customer demand for our products. While we have so far been able to source required materials and products at reasonable cost, the pandemic may also affect our supply chain in ways that are beyond our control. We may also incur costs or experience further disruption to comply with new or changing regulations in response to the pandemic.

The overall magnitude of the COVID-19 pandemic, including the extent of its direct and indirect impact on our business, financial position, results of operations or liquidity is inherently uncertain due to the rapid development and fluidity of the situation. Further, the ultimate impact of the COVID-19 pandemic depends on many factors that are not within our control, including, but not limited to: governmental, business and individuals' actions that have been and continue to be taken in response to the COVID-19 pandemic; the severity and duration of outbreaks of the virus; the impact of the COVID-19 pandemic and actions taken in response on global and regional economies, travel, and economic activity; the availability of federal, state, local or non-U.S. funding programs; general economic uncertainty in key global markets and financial market volatility; global economic conditions and levels of economic growth; and the pace of recovery, particularly in our markets, when the COVID-19 pandemic subsides.

In addition, preparing for and responding to the continuing pandemic could divert management's attention from our key strategic priorities, increase costs as we prioritize health and safety matters for our teammates and customers, cause us to reduce, delay, alter or abandon initiatives that may otherwise increase our long-term value, increase vulnerability to information technology or cybersecurity related risks as certain of our teammates work remotely and otherwise continue to disrupt our business operations.

We are unable to estimate the impact of COVID-19 with certainty on our business and operations at this time. The pandemic could cause us to experience impairment of our goodwill and other financial assets, further reduce demand for our products and services and other adverse impacts on our financial position, results of operations and cash flows.

Sustained adverse effects may also prevent us from satisfying financial covenants in our credit agreement or result in downgrades in our credit ratings.

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. For example, as a result of the COVID-19 pandemic, there has recently been a marked decrease in the number of miles driven by automobile owners due to the various stay-at-home orders across the regions in which we operate. As a result of this reduction in the number of miles driven by automobile owners, there has been a negative effect on the demand for our products and services. As another 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. Although the recent retail cost of gasoline has generally decreased as a result of the reduced number of miles driven by automobile owners, the volatile general economic conditions as well as the impact of the stay-at-home orders are expected to result in less frequent service intervals and fewer repairs. Accordingly, continued significant reduction in the number of miles driven by automobile owners will 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, including the current economic volatility resulting from the COVID-19 pandemic. 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.

Beginning in 2018, the U.S. government imposed new or higher tariffs on specified imported products originating from China in response to what it characterizes as unfair trade practices, and China responded by imposing new or higher tariffs on specified products imported from the United States. Simultaneously, 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, with expansions on such tariffs as recently as early 2020. Trade tensions with China have

increased as the U.S. government has implemented and 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. Due to the COVID-19 pandemic, our suppliers may experience shortages of the products we purchase resulting in interruptions to our supply chains. 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, including those occurring as a result of the COVID-19 pandemic;
- 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. We may also face claims related to the COVID-19 pandemic, including claims from employees or customers who contract COVID-19 at our stores or offices. 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, global health crises, 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. We may currently be at a higher risk of a security breach due to the COVID-19 pandemic and the increased number of our employees who are working remotely. 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, including those caused by the impact of the COVID-19 pandemic, 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 28, 2020. Additionally, we have evaluated our ability to recover the carrying value of our intangible assets and also concluded that we do not have any impairment of intangible assets for the year ended March 28, 2020. However, we evaluated certain stores having indicators of impairment based on operating performance and taking into consideration the negative impact of the COVID-19 pandemic on forecasted store performance. Based on the estimate of future recoverable cash flows, we recorded an impairment of long-lived assets of \$2.3 million for the year ended March 28, 2020.

Planned store closings have resulted in acceleration of costs and future store closings could result in additional 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. The economic impact of the COVID-19 pandemic may require us to close certain stores either temporarily or permanently. 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.

In particular, during the fourth quarter of fiscal 2020, we evaluated market segmentation and demographic data specific to geographic areas where our stores are located. As a result, we plan to close 36 underperforming stores in fiscal 2021 that we have identified to have failed to maintain an acceptable level of profitability. We recorded \$4.3 million in store closure impairment costs in fiscal 2020 related to these planned store closures in fiscal 2021.

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.

On March 27, 2020, we notified Citizens Bank, N.A. (the “Administrative Agent”), as administrative agent of the Revolving Credit Facility that we were requesting to borrow \$350.4 million under the Revolving Credit Facility in order to enhance liquidity and financial flexibility given the uncertain market conditions caused by the COVID-19 pandemic. Prior to March 27, 2020, there was \$216.0 million outstanding under the Revolving Credit Facility. Significant increases 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 may not pay or may reduce the dividends on our common stock.

Holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock.

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.

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, including the stock market's recent volatility as a result of the COVID-19 pandemic. 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 171,500 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. Additionally, the Company owns one retread facility in North Carolina.

Of Monro's 1,283 Company-operated stores at March 28, 2020, 332 were owned, 886 were leased and for 65 stores, only the land was leased. We lease additional warehouse space in California, Kentucky, Maryland, North Carolina, South Carolina, Tennessee, and Virginia, and office space in Illinois for our Car-X franchise operations. In addition to the Company-operated stores, eight wholesale locations and two retread facilities were leased at March 28, 2020. 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



(610 stores) expire after March 2030. 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 22, 2020, Monro's Common Stock was held by approximately 46 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 Revolving Credit Facility, we may declare, make or pay any dividend or distribution up to \$38.5 million in the aggregate for the period from June 30, 2020 to June 30, 2021 if we are in compliance with the financial covenants and other restrictions in the Revolving Credit Facility, as amended. For additional information regarding our 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 28, 2020. 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. "Financial Statements and Supplementary Data" of this report and in conjunction with other financial information included elsewhere in this Form 10-K.

| | Year Ended Fiscal March | | | | |
|--|---|-------------|-------------|-------------|-----------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| | (Amounts in thousands, except per share data) | | | | |
| Income Statement Data: | | | | | |
| Sales | \$1,256,524 | \$1,200,230 | \$1,127,815 | \$1,021,511 | \$943,651 |
| Cost of sales, including distribution and occupancy costs | 779,866 | 735,002 | 692,241 | 624,622 | 557,948 |
| Gross profit | 476,658 | 465,228 | 435,574 | 396,889 | 385,703 |
| Operating, selling, general and administrative expenses | 374,956 | 338,485 | 308,278 | 280,505 | 265,114 |
| Operating income | 101,702 | 126,743 | 127,296 | 116,384 | 120,589 |
| Interest expense, net of interest income | 28,213 | 27,013 | 24,296 | 19,768 | 15,542 |
| Other income, net | (785) | (630) | (454) | (628) | (374) |
| Income before income taxes | 74,274 | 100,360 | 103,454 | 97,244 | 105,421 |
| Provision for income taxes | 16,250 | 20,608 | 39,519 | 35,718 | 38,616 |
| Net income | \$ 58,024 | \$ 79,752 | \$ 63,935 | \$ 61,526 | \$ 66,805 |
| Earnings per share | | | | | |
| Basic ^(a) | \$ 1.73 | \$ 2.41 | \$ 1.94 | \$ 1.88 | \$ 2.07 |
| Diluted ^(a) | \$ 1.71 | \$ 2.37 | \$ 1.92 | \$ 1.85 | \$ 2.00 |
| Weighted average number of common shares outstanding | | | | | |
| Basic | 33,246 | 32,980 | 32,767 | 32,413 | 32,026 |
| Diluted | 33,953 | 33,675 | 33,341 | 33,301 | 33,353 |
| Cash dividends per share or share equivalent | \$ 0.88 | \$ 0.80 | \$ 0.72 | \$ 0.68 | \$ 0.60 |
| Selected Operating Data: | | | | | |
| Sales growth: | | | | | |
| Total | 4.7% | 6.4% | 10.4% | 8.3% | 5.5% |
| Comparable store ^(b) | (2.3)% | 0.4% | 1.8% | (4.3)% | (0.1)% |
| Company-operated stores open at beginning of year ^(c) | 1,197 | 1,150 | 1,118 | 1,029 | 999 |
| Company-operated stores open at end of year ^(c) | 1,283 | 1,197 | 1,150 | 1,118 | 1,029 |
| Capital expenditures ^(d) | \$ 55,918 | \$ 44,468 | \$ 39,122 | \$ 34,640 | \$ 36,834 |
| Balance Sheet Data (at period end): | | | | | |
| Net working capital | \$ 341,084 | \$ 21,460 | \$ 13,251 | \$ 13,337 | \$ 2,504 |
| Total assets | 2,049,457 | 1,312,288 | 1,218,432 | 1,185,264 | 999,438 |
| Long-term obligations | 1,035,727 | 375,771 | 375,288 | 395,503 | 269,045 |
| Shareholders' equity | 734,440 | 699,510 | 628,476 | 581,254 | 536,195 |

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 2020, 2019 and 2018.
- (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.

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 | |
|---|-------------------------|---------------------|
| | 2020 ^(a) | 2019 ^(a) |
| Sales | 100.0% | 100.0% |
| Cost of sales, including distribution and occupancy costs | <u>62.1</u> | <u>61.2</u> |
| Gross profit | 37.9 | 38.8 |
| Operating, selling, general and administrative expenses | <u>29.8</u> | <u>28.2</u> |
| Operating income | 8.1 | 10.6 |
| Interest expense, net | 2.2 | 2.3 |
| Other income, net | <u>(0.1)</u> | <u>(0.1)</u> |
| Income before income taxes | 5.9 | 8.4 |
| Provision for income taxes | <u>1.3</u> | <u>1.7</u> |
| Net income | <u><u>4.6%</u></u> | <u><u>6.6%</u></u> |

- (a) The table may not subtract down by +/- 0.1% due to rounding as percentages are calculated based on unrounded numbers.

❑ 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.

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 the right of use (“ROU”) assets and intangible assets, including trade names and customer relationships. ROU assets are recorded at the present value of remaining lease payments adjusted to reflect favorable or unfavorable market terms of the lease. As a result, in the case of significant acquisitions, we normally obtain the assistance of a third-party valuation specialist in estimating the value of the ROU assets as well as 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. Favorable or unfavorable market terms used to



value the ROU assets are estimated based on comparable market data. 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, like the COVID-19 pandemic, 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 of our 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.

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 periodically use the services of an actuary 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 2019 and 2018 U.S. federal tax years 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.

□ IMPACT OF COVID-19

In February 2020, we formed a COVID-19 Crisis Committee comprised of members of management that has been closely monitoring the impact of COVID-19 on Monro and our workforce. On March 11, 2020, the WHO declared COVID-19 a pandemic. On March 13, 2020, the U.S. government declared a national emergency and U.S. state governments have declared states of emergency, as well.

In response to the COVID-19 pandemic, many U.S. state governments, in states in which we operate, have taken preventative or protective actions, such as issuing stay-at-home orders and other social distancing measures. State and local governments have ordered temporary closures of some businesses and numerous other businesses have temporarily closed voluntarily. Further, individuals' ability to travel has been curtailed through mandated travel restrictions and may be further limited through additional voluntary or mandated closures of certain businesses. However, in our locations, the automotive undercar repair and tire sales and services industry has been classified as an essential business and as such we are still able to provide these services while taking appropriate precautions for our employees and customers.

As mandated shutdowns and stay-at-home orders went into effect across the country, we experienced an immediate and significant decline in traffic during the fourth quarter of fiscal 2020, and this reduction in traffic has continued through the date of this report. The decline in demand caused a material deterioration in our sales in the fourth quarter of fiscal 2020, which has impacted our revenue. The full extent of the ongoing impact of the COVID-19 pandemic on our longer-term operational and financial performance will depend on future developments, many of which are outside of our control, and all of which cannot be predicted with certainty. Please see the risks set forth in "Item 1A. Risk Factors" above for further discussion of the risks that may impact our longer-term operational and financial performance.

At our store locations, we have implemented plans to adapt to changing circumstances arising from this pandemic that we will continue to update as necessary. We have increased store location cleaning, sanitizing



and handwashing protocols. We have also provided face masks and other protective equipment, including sneeze guards installed at each sales counter, necessary to ensure the safety of our employees and customers.

We have also taken a number of actions in response to prevailing uncertain market conditions. In order to enhance our liquidity position, we drew down the remaining \$350 million available to us under our Revolving Credit Facility in March 2020. To further improve our liquidity, we have taken the following measures to reduce costs: (i) suspended all non-critical capital expenditures, including the suspension of all capital expenditures related to our store rebrand and reimage initiatives; (ii) reduced store hours and store labor to align with reduced demand across our store locations; (iii) undertook significant reductions in operating expenses across the Company, including non-store compensation expense through the furlough of or other reduction to certain members of our non-store workforce; and (iv) paused any acquisition activity until we are able to better understand the impact of the COVID-19 pandemic. Additionally, we are undertaking conversations with landlords to discuss potential deferral or abatement of rent payments.

We are continuously monitoring the performance of our Company-operated stores to ensure the locations are sustainable during the pandemic. During the fourth quarter of fiscal 2020, we evaluated certain stores having indicators of impairment based on operating performance and after taking into consideration the negative impact of the COVID-19 pandemic on current business performance expectations, we recorded an impairment of \$2.3 million on certain long-lived assets.

We have also implemented various measures intended to reduce the spread of COVID-19 among our non-store workforce including working from home and encouraging employees to adhere to prevention measures recommended by the Centers for Disease Control and the WHO. Since our non-store workforce is able to work remotely using various technology tools, we are able to maintain our operations and internal controls over financial reporting and disclosures.

Despite the challenges, some positive signs have begun to emerge. Since the low point during the beginning of April, we have experienced steady increases in sales driven by growth in traffic. However, there can be no assurance as to the time required to fully recover operations and sales to pre-pandemic levels or if we will reach those levels again.

Current Trends

Following the significant decline in traffic that we experienced during the fourth quarter of fiscal 2020, Company-operated stores have experienced steady sales increases over the last few weeks. The following table presents information about our current trends in the first quarter of fiscal 2021. There is no assurance that these trends will continue.

| | March 21 | March 28 | April 4 | April 11 | April 18 | April 25 | May 2 | May 9 | May 16 | May 23 | May 30 | June 6 |
|---|----------|----------|---------|----------|----------|----------|-------|-------|--------|--------|--------|--------|
| Comparable store sales % (year-over-year decline) . . . | (31)% | (47)% | (51)% | (52)% | (42)% | (35)% | (34)% | (29)% | (28)% | (25)% | (23)% | (19)% |

We define comparable store sales as sales for stores that have been open or acquired at least one fiscal year prior to March 31, 2019.

As we move through this transition and anticipate a ramp up in sales, we expect to incur some labor inefficiencies as we adjust to new protocols and operating models with a goal to remain as efficient as possible while still offering safe and high quality service to our customers. We will also incur additional costs and investments in supplies necessary to keep our teams and customers safe, such as face masks, hand sanitizer and cleaning supplies, which are all expected to be ongoing costs for the duration of the COVID-19 pandemic and recovery period.

Given the unpredictable nature of this situation, we cannot estimate with certainty the long-term impacts of COVID-19 on our business, financial condition, results of operations, or cash flows in the future.



As of June 5, 2020, we had \$384.2 million in cash on hand. We believe we have sufficient liquidity available from operating cash flow and cash on hand to support our operations for at least the next 12 months.

□ NON-GAAP FINANCIAL MEASURES

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes certain financial measures, such as adjusted net income and adjusted diluted earnings per common share ("EPS"), not derived in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Non-GAAP financial measures should not be used as a substitute for GAAP financial measures, or considered in isolation, for the purpose of analyzing our operating performance, financial position or cash flows, and may not be comparable to similarly titled non-GAAP financial measures used by other companies. We have included reconciliations of the non-GAAP financial measures used in this Management's Discussion and Analysis of Financial Condition and Results of Operations to their most directly comparable GAAP measures in the section titled "Reconciliation of Non-GAAP Financial Measures" below.

□ RESULTS OF OPERATIONS

We have elected to omit discussion on the earliest of the three years covered by the consolidated financial statements presented. The discussion of the fiscal year ended March 31, 2018 is incorporated herein by reference to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" located in our Form 10-K for the fiscal year ended March 30, 2019, filed on May 29, 2019.

Fiscal 2020 as Compared to Fiscal 2019

Sales for fiscal 2020 increased \$56.3 million or 4.7% to \$1.257 billion as compared to \$1.200 billion in fiscal 2019. The increase was largely due to an increase of \$83.3 million related to new stores, of which \$73.2 million came from the fiscal 2020 and fiscal 2019 acquisitions. Partially offsetting this was a decrease in comparable store sales of 2.3%. The decline in comparable store sales was primarily driven by a substantial decrease in traffic related to the COVID-19 pandemic late in the fourth quarter, as well as mild winter weather in the Company's Northern markets in January and February. Additionally, there was a decrease in sales from closed stores amounting to \$3.4 million. There were 361 selling days in both fiscal 2020 and fiscal 2019.

During the year ended March 28, 2020, 98 Company-operated stores were added and 12 were closed. At March 28, 2020, we had 1,283 Company-operated stores in operation compared to 1,197 Company-operated stores in operation at March 30, 2019.

During fiscal 2020, we opened one franchised location and closed one franchised location. At March 28, 2020, we had 98 franchised locations.

Comparable store front end/shocks and alignment category sales for fiscal 2020 both decreased by approximately 3% from the prior year. Additionally, maintenance services and tires category sales both decreased by approximately 2% on a comparable store basis as compared to the prior year. Comparable store brakes category sales for fiscal 2020 decreased by approximately 1% from the prior year. Comparable store sales were impacted by lower traffic, offset by higher average ticket.

Gross profit for fiscal 2020 was \$476.7 million or 37.9% of sales as compared with \$465.2 million or 38.8% of sales for fiscal 2019. The decrease in gross profit for fiscal 2020, as a percentage of sales, was due primarily to an increase in distribution and occupancy costs, as a percentage of sales, as we lost leverage on these largely fixed costs with lower overall comparable store sales, as well as an increase in labor costs, which increased from the prior year as a percentage of sales, due to technician staffing levels and wage inflation.

Material costs were down slightly as a percentage of sales as compared to the prior year.

Operating expenses for fiscal 2020 were \$375.0 million or 29.8% of sales as compared with \$338.5 million or 28.2% of sales for fiscal 2019. The increase of \$36.5 million in operating expenses from the prior year includes \$6.6 million recognized as an impairment of certain owned and leased assets (including

\$4.3 million in store closure impairment costs related to planned store closings in fiscal 2021) and \$1.4 million in incremental costs related to Monro.Forward initiatives. The remaining increase is primarily due to increased expenses for 86 net new stores.

Operating income in fiscal 2020 of approximately \$101.7 million decreased by 19.8% as compared to operating income of approximately \$126.7 million in fiscal 2019, and decreased as a percentage of sales from 10.6% to 8.1% for the reasons described above.

Net interest expense for fiscal 2020 increased by approximately \$1.2 million as compared to the prior year, and decreased as a percentage of sales from 2.3% to 2.2%. The weighted average debt outstanding for the year ended March 28, 2020 increased by approximately \$81.4 million from the year ended March 30, 2019. This increase is primarily related to an increase in finance lease debt recorded in connection with the fiscal 2020 and fiscal 2019 acquisitions and greenfield expansion, as well as increase in debt outstanding under our Revolving Credit Facility. Partially offsetting this increase was a decrease in the weighted average interest rate of approximately 90 basis points from the prior year due to lower borrowing rates associated with new leases, as well as a decrease in the London Interbank Offered Rate (“LIBOR”) and prime rates from the prior year.

Income before income taxes for the year ended March 28, 2020 of approximately \$74.3 million decreased by 26.0% as compared to income before income taxes of approximately \$100.4 million for the year ended March 30, 2019, and decreased as a percentage of sales from 8.4% to 5.9% for the reasons described above.

The effective income tax rate was 21.9% and 20.5% of income before income taxes in fiscal 2020 and fiscal 2019, respectively. The effective income tax rate for the year ended March 30, 2019 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. Additional discrete tax items recognized during each respective fiscal year are insignificant.

Net income for fiscal 2020 decreased by \$21.7 million, or 27.2%, from \$79.8 million in fiscal 2019, to \$58.0 million. Diluted EPS for the year ended March 28, 2020 of \$1.71 decreased 27.8% as compared to diluted EPS of \$2.37 for the year ended March 30, 2019. Adjusted diluted EPS (a non-GAAP financial measure) was \$2.00 and \$2.40 for the year ended March 28, 2020 and March 30, 2019, respectively. Please refer to the “Reconciliation of Non-GAAP Financial Measures” section below for a discussion of this non-GAAP financial measure and a reconciliation to its most comparable GAAP measure, diluted EPS.

Reconciliation of Non-GAAP Financial Measures

In addition to reporting net income and diluted EPS, which are GAAP measures, this Form 10-K includes adjusted net income and adjusted diluted EPS, which are non-GAAP financial measures. We have included reconciliations to adjusted net income and adjusted diluted EPS from our most directly comparable GAAP measures, net income and diluted EPS, below. Management views these non-GAAP financial measures as indicators to better assess comparability between periods because management believes these non-GAAP financial measures reflect our core business operations while excluding certain non-recurring items and items related to Monro.Forward or acquisition initiatives.

These non-GAAP financial measures are not intended to represent, and should not be considered more meaningful than, or as an alternative to, their most directly comparable GAAP measures. These non-GAAP financial measures may be different from similarly titled non-GAAP financial measures used by other companies.

Adjusted net income is summarized as follows:

Supplemental Reconciliation of Adjusted Net Income

| | Year Ended Fiscal March | |
|--|-------------------------|-----------------|
| | 2020 | 2019 |
| | (Dollars in thousands) | |
| Net income | \$58,024 | \$79,752 |
| Store impairment charge | 6,579 | — |
| Monro.Forward initiative costs | 3,976 | 2,543 |
| Acquisition due diligence and integration costs | 1,363 | 740 |
| Headquarters expansion costs | 346 | — |
| Litigation settlement costs | 250 | — |
| Corporate and field management realignment costs | — | 350 |
| Provision for income taxes on adjustments | (3,023) | (869) |
| One-time income tax benefit | — | (2,050) |
| Adjusted net income | <u>\$67,515</u> | <u>\$80,466</u> |

Adjusted diluted EPS is summarized as follows:

Reconciliation of Adjusted Diluted EPS

| | Year Ended Fiscal March | |
|--|-------------------------|----------------|
| | 2020 | 2019 |
| Diluted EPS | \$1.71 | \$ 2.37 |
| Store impairment charge | 0.15 | — |
| Monro.Forward initiative costs | 0.09 | 0.06 |
| Acquisition due diligence and integration costs | 0.03 | 0.02 |
| Headquarters expansion costs | 0.01 | — |
| Litigation settlement costs | 0.01 | — |
| Corporate and field management realignment costs | — | 0.01 |
| One-time income tax benefit | — | (0.06) |
| Adjusted diluted EPS | <u>\$2.00</u> | <u>\$ 2.40</u> |

The adjustments to diluted EPS reflect corporate income taxes at adjusted effective tax rates of 24.2% and 23.9% for the fiscal years ended March 2020 and March 2019, respectively. See adjustments from the Supplemental Reconciliation of Adjusted Net Income table above for pre-tax amounts.

□ CAPITAL RESOURCES, CONTRACTUAL OBLIGATIONS AND LIQUIDITY

Capital Resources

Our primary capital requirements for fiscal 2020 were divided among the funding of acquisitions for \$104.4 million, as well as the upgrading of facilities and systems and the funding of our store expansion program totaling \$55.9 million. In fiscal 2019, our primary capital requirements 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 both fiscal years 2020 and 2019, capital requirements were primarily met by cash flow from operations and from our Revolving Credit Facility.

In fiscal 2021, we intend to open approximately 10 to 20 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, as well as \$225,000 for equipment (including a POS system and a truck) and \$95,000 for inventory. 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 \$130,000 for inventory. We have suspended all capital expenditures related to our store rebrand and reimage initiatives and paused acquisition activity until we are able to better understand the impact of the COVID-19 pandemic.

Monro paid dividends of \$29.7 million in fiscal 2020. In May 2020, Monro's Board of Directors declared a cash dividend of \$0.22 per share or share equivalent to be paid to shareholders of record as of June 8, 2020. The dividend will be paid on June 22, 2020.

We also plan to continue to seek suitable acquisition candidates once we more fully understand the impact of the COVID-19 pandemic on our business.

Contractual Obligations

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

| | <u>Total</u> | <u>Within 1 Year</u> | <u>2 to 3 Years</u> | <u>4 to 5 Years</u> | <u>After 5 Years</u> |
|--|------------------------|--------------------------|-------------------------|-------------------------|--------------------------|
| | (Dollars in thousands) | | | | |
| Principal payments on long-term debt | \$ 566,400 | | | \$566,400 | |
| Finance lease commitments/financing obligations ^(a) | 461,187 | \$52,480 | \$105,877 | 87,866 | \$214,964 |
| Operating lease commitments ^(a) | 238,622 | 36,590 | 62,574 | 46,226 | 93,232 |
| Other liabilities | 1,933 | 800 | 1,133 | — | — |
| Total | <u>\$1,268,142</u> | <u>\$89,870</u> | <u>\$169,584</u> | <u>\$700,492</u> | <u>\$308,196</u> |

(a) Operating and finance lease commitments represent future undiscounted lease payments and include \$74.5 million and \$115.8 million, respectively, related to options to extend lease terms that are reasonably certain of being exercised. See Note 12 to our Consolidated Financial Statements.

Liquidity

In April 2019, we entered into a new five-year \$600 million revolving credit facility agreement with eight banks (the "Credit Facility") that will expire in April 2024. The Credit Facility amended and restated our previous revolving credit facility which would have expired in January 2021. Interest only is payable monthly throughout the Credit Facility's term. The borrowing capacity for the Credit Facility of \$600 million includes an accordion feature permitting us to request an increase in availability of up to an additional \$250 million. The Credit Facility bears interest at 75 to 200 basis points over LIBOR (or replacement index) or at the prime rate, depending on the type of borrowing and the rates then in effect. The Credit Facility requires fees payable quarterly throughout the term between 0.125% and 0.35% of the amount of the average net availability under the Credit Facility during the preceding quarter.

At March 28, 2020 and March 30, 2019, the interest rate spread paid by the Company was 100 basis points and 125 basis points over LIBOR, respectively.

Within the Credit Facility, we have a sub-facility of \$80 million available for the purpose of issuing standby letters of credit. 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. There was a \$33.6 million outstanding letter of credit at March 28, 2020.

Mortgages and specific lease financing arrangements with other parties (with certain limitations) are permitted under the Credit Facility. Other specific terms and the maintenance of specified ratios are



generally consistent with our prior financing agreement. Additionally, the Credit Facility is not secured by our real property, although we have agreed not to encumber our real property, with certain permissible exceptions.

In response to the uncertain market conditions resulting from the COVID-19 pandemic, we drew down the remaining \$350 million available to us under the Credit Facility in March 2020 in order to enhance our liquidity position. There was \$566.4 million outstanding and no availability under the Credit Facility at March 28, 2020.

We were in compliance with all debt covenants at March 28, 2020 and expect to be for at least the next 12 months.

On June 11, 2020, we entered into a First Amendment to the Credit Facility (the “First Amendment”), which, among other things, amends the terms of certain of the financial and restrictive covenants in the credit agreement to provide us with additional flexibility to operate our business through the first quarter of fiscal 2022. Except as amended by the First Amendment, the remaining terms of the credit agreement remain in full force and effect.

Specifically, from June 11, 2020 to June 26, 2021, the First Amendment (1) eliminates the covenant for us to maintain an interest coverage ratio above 1.55x; (2) requires us to maintain liquidity of \$275 million as of the end of each fiscal month; and (3) adjusts the ratio of maximum adjusted debt to EBITDAR. The ratio of maximum adjusted debt to EBITDAR will vary by quarter as follows: (a) 5.50x in the first quarter of fiscal 2021; (b) 6.00x in the second quarter of fiscal 2021; (c) 6.25x in the third quarter of fiscal 2021; (d) 5.50x in the fourth quarter of fiscal 2021; (e) 5.00x in the first quarter of fiscal 2022; and (f) thereafter, returning to 4.75x.

For the period from June 30, 2020 to June 30, 2021, we are permitted under the First Amendment to acquire stores or other businesses up to \$100 million in the aggregate, as long as, on a pro forma basis after taking the acquisition into account, we would comply with the financial covenants and other restrictions in the First Amendment. In addition, from June 30, 2020 to June 30, 2021, we may declare, make or pay any dividend or distribution up to \$38.5 million in the aggregate, if we are in compliance with the financial covenants and other restrictions in the First Amendment and Credit Facility.

The First Amendment will permanently amend the interest rate charged on borrowings to be based on the greater of adjusted one-month LIBOR or 0.75% and also added two levels of interest rate pricing applicable during the covenant relief period in the event the ratio of adjusted debt to EBITDAR is higher than 5.00x. During the covenant relief period, the minimum interest rate spread charged on borrowings will be 225 basis points over LIBOR.

We believe our existing cash will be sufficient to fund our declared dividend, as well as contractual obligations and working capital needs for at least the next 12 months and the foreseeable future.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements at March 28, 2020.

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 28, 2020 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

We are exposed to market risk from potential changes in interest rates. As of March 28, 2020, excluding finance leases and financing obligations, we had no debt financing at fixed interest rates, of which the fair value would be affected by changes in market interest rates. Our cash flow exposure on floating rate debt would result in annual interest expense fluctuations of approximately \$5.7 million, based upon our debt position as of March 28, 2020, given a change in LIBOR of 100 basis points.

Debt financing had a carrying amount and a fair value of \$566.4 million as of March 28, 2020, as compared to a carrying amount and a fair value of \$137.7 million as of March 30, 2019.

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 28, 2020 and March 30, 2019, 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 28, 2020, 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 28, 2020, 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 28, 2020 and March 30, 2019, and the results of its operations and its cash flows for each of the three years in the period ended March 28, 2020 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 28, 2020, based on criteria established in *Internal Control — Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in the year ended March 28, 2020.

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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of Acquired Right of Use Assets

As described in Note 2 to the consolidated financial statements, the Company recorded \$29 million of finance lease and financing obligation assets, net and \$43 million of operating lease assets, net (collectively "right of use assets") relating to business combinations completed during the year ended March 28, 2020. The right of use assets acquired are recorded at the present value of remaining lease payments adjusted to reflect favorable or unfavorable market terms of the lease. Management applied significant judgment in estimating the favorable or unfavorable market terms used to value the right of use assets acquired, which is estimated based on comparable market data.

The principal considerations for our determination that performing procedures relating to the valuation of acquired right of use assets is a critical audit matter are (i) there was significant judgment by management when developing the estimates, which in turn, led to a high degree of auditor judgment and subjectivity in applying procedures relating to the fair value measurement of the acquired right of use assets; (ii) significant audit effort was required in evaluating the comparable market data assumption, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge to assist in evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls over the estimation of fair value of the acquired right of use assets. These procedures also included, among others, (i) reading the purchase agreements; (ii) testing management's process for estimating the fair value of the acquired right of use assets; and (iii) evaluating the appropriateness of the valuation method and testing the completeness and accuracy of the underlying data. Professionals with specialized skill and knowledge were used to assist us in evaluating the reasonableness of the comparable market data assumption.

/s/PricewaterhouseCoopers LLP

Rochester, New York

June 12, 2020

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 28, 2020 | March 30, 2019 |
|--|------------------------|--------------------|
| | (Dollars in thousands) | |
| Assets | | |
| Current assets: | | |
| Cash and equivalents | \$ 345,476 | \$ 6,214 |
| Trade receivables | 14,510 | 14,617 |
| Federal and state income taxes receivable | 8,056 | 5,586 |
| Inventories | 187,441 | 171,038 |
| Other current assets | 40,537 | 42,452 |
| Total current assets | <u>596,020</u> | <u>239,907</u> |
| Property, plant and equipment | 682,932 | 640,421 |
| Less – Accumulated depreciation and amortization | (354,295) | (327,869) |
| Property, plant and equipment, net | 328,637 | 312,552 |
| Finance lease and financing obligation assets, net | 196,575 | 128,029 |
| Operating lease assets, net | 199,729 | — |
| Goodwill | 671,843 | 565,503 |
| Intangible assets, net | 29,781 | 51,107 |
| Other non-current assets | 20,688 | 13,024 |
| Long-term deferred income tax assets | 6,184 | 2,166 |
| Total assets | <u>\$2,049,457</u> | <u>\$1,312,288</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Current portion of long-term debt, finance leases and financing obligations | \$ 32,257 | \$ 22,229 |
| Current portion of operating lease liabilities | 30,181 | — |
| Trade payables | 99,504 | 103,602 |
| Accrued payroll, payroll taxes and other payroll benefits | 14,429 | 20,231 |
| Accrued insurance | 43,387 | 38,742 |
| Deferred revenue | 13,129 | 12,059 |
| Other current liabilities | 22,049 | 21,584 |
| Total current liabilities | <u>254,936</u> | <u>218,447</u> |
| Long-term debt | 566,400 | 137,682 |
| Long-term finance leases and financing obligations | 298,373 | 238,089 |
| Long-term operating lease liabilities | 170,954 | — |
| Accrued rent expense | — | 4,053 |
| Other long-term liabilities | 12,873 | 12,724 |
| Long-term deferred income tax liabilities | 10,069 | — |
| Long-term income taxes payable | 1,412 | 1,783 |
| Total liabilities | <u>1,315,017</u> | <u>612,778</u> |
| Commitments and contingencies – Note 14 | | |
| Shareholders' equity: | | |
| Class C Convertible Preferred Stock, \$1.50 par value, \$0.064 conversion value; 150,000 shares authorized; 21,802 shares issued and outstanding | 33 | 33 |
| Common Stock, \$0.01 par value, 65,000,000 shares authorized; 39,644,228 and 39,510,932 shares issued at March 28, 2020 and March 30, 2019, respectively | 396 | 395 |
| Treasury Stock, 6,359,871 shares at March 28, 2020 and March 30, 2019, at cost | (108,729) | (108,729) |
| Additional paid-in capital | 229,774 | 220,173 |
| Accumulated other comprehensive loss | (6,889) | (4,536) |
| Retained earnings | 619,855 | 592,174 |
| Total shareholders' equity | <u>734,440</u> | <u>699,510</u> |
| Total liabilities and shareholders' equity | <u>\$2,049,457</u> | <u>\$1,312,288</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 | | |
|--|---|------------------|------------------|
| | 2020 | 2019 | 2018 |
| | (Amounts in thousands, except per share data) | | |
| Sales | \$1,256,524 | \$1,200,230 | \$1,127,815 |
| Cost of sales, including distribution and occupancy costs | 779,866 | 735,002 | 692,241 |
| Gross profit | 476,658 | 465,228 | 435,574 |
| Operating, selling, general and administrative expenses | 374,956 | 338,485 | 308,278 |
| Operating income | 101,702 | 126,743 | 127,296 |
| Interest expense, net of interest income | 28,213 | 27,013 | 24,296 |
| Other income, net | (785) | (630) | (454) |
| Income before income taxes | 74,274 | 100,360 | 103,454 |
| Provision for income taxes | 16,250 | 20,608 | 39,519 |
| Net income | <u>\$ 58,024</u> | <u>\$ 79,752</u> | <u>\$ 63,935</u> |
| Other comprehensive loss: | | | |
| Changes in pension, net of tax benefit of (\$764), (\$94) and (\$168), respectively | (2,353) | (288) | (390) |
| Other comprehensive loss | (2,353) | (288) | (390) |
| Comprehensive income | <u>\$ 55,671</u> | <u>\$ 79,464</u> | <u>\$ 63,545</u> |
| Earnings per share: | | | |
| Basic | <u>\$ 1.73</u> | <u>\$ 2.41</u> | <u>\$ 1.94</u> |
| Diluted | <u>\$ 1.71</u> | <u>\$ 2.37</u> | <u>\$ 1.92</u> |
| Weighted average number of common shares outstanding used in computing earnings per share: | | | |
| Basic | <u>33,246</u> | <u>32,980</u> | <u>32,767</u> |
| Diluted | <u>33,953</u> | <u>33,675</u> | <u>33,341</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 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 | <u>22</u> | <u>33</u> | <u>39,166</u> | <u>392</u> | <u>6,330</u> | <u>(106,563)</u> | <u>199,576</u> | <u>(4,248)</u> | <u>539,286</u> | <u>628,476</u> |
| 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 | <u>22</u> | <u>33</u> | <u>39,511</u> | <u>395</u> | <u>6,360</u> | <u>(108,729)</u> | <u>220,173</u> | <u>(4,536)</u> | <u>592,174</u> | <u>699,510</u> |
| Accounting change – cumulative effect | | | | | | | | | (582) | (582) |
| Adjusted balance | <u>22</u> | <u>33</u> | <u>39,511</u> | <u>395</u> | <u>6,360</u> | <u>(108,729)</u> | <u>220,173</u> | <u>(4,536)</u> | <u>591,592</u> | <u>698,928</u> |
| Net income | | | | | | | | | 58,024 | 58,024 |
| Other comprehensive loss: | | | | | | | | | | |
| Pension liability adjustment [\$(3,117) pre-tax] | | | | | | | | (2,353) | | (2,353) |
| Dividends ⁽¹⁾ : | | | | | | | | | | |
| Preferred | | | | | | | | | (449) | (449) |
| Common | | | | | | | | | (29,266) | (29,266) |
| Dividend payable | | | | | | | | | (46) | (46) |
| Activity related to equity-based plans | | | 134 | 1 | | | 5,788 | | | 5,789 |
| Stock-based compensation | | | | | | | 3,813 | | | 3,813 |
| Balance at March 28, 2020 | <u>22</u> | <u>\$33</u> | <u>39,645</u> | <u>\$396</u> | <u>6,360</u> | <u>\$(108,729)</u> | <u>\$229,774</u> | <u>\$(6,889)</u> | <u>\$619,855</u> | <u>\$734,440</u> |

(1) Dividends paid per share or share equivalent were \$0.88, \$0.80 and \$0.72, respectively, for the years ended March 28, 2020, March 30, 2019 and March 31, 2018.

(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 | | |
|--|-----------------------------|------------------|-----------------|
| | 2020 | 2019 | 2018 |
| | (Dollars in thousands) | | |
| | Increase (Decrease) in Cash | | |
| Cash flows from operating activities: | | | |
| Net income | \$ 58,024 | \$ 79,752 | \$ 63,935 |
| Adjustments to reconcile net income to net cash provided by operating activities - | | | |
| Depreciation and amortization | 64,986 | 55,531 | 49,335 |
| Stock-based compensation expense | 3,813 | 4,022 | 2,858 |
| Impairment of long-lived assets | 6,579 | — | — |
| Net change in deferred income taxes | 11,473 | 12,517 | 15,485 |
| Gain on bargain purchase | — | — | (13) |
| (Gain) loss on disposal of assets | (257) | 56 | (1,198) |
| Change in operating assets and liabilities (excluding acquisitions) | | | |
| Trade receivables | 107 | (1,361) | (88) |
| Inventories | (11,841) | (9,126) | (8,399) |
| Other current assets | 5,379 | (514) | (4,076) |
| Other non-current assets | 24,968 | (427) | 1,863 |
| Trade payables | (4,090) | 19,037 | 5,151 |
| Accrued expenses | (3,871) | (3,019) | (1,582) |
| Federal and state income taxes receivable | (2,470) | (1,401) | (658) |
| Other long-term liabilities | (31,100) | (1,967) | (930) |
| Long-term income taxes payable | (371) | (209) | (448) |
| Total adjustments | <u>63,305</u> | <u>73,139</u> | <u>57,300</u> |
| Net cash provided by operating activities | <u>121,329</u> | <u>152,891</u> | <u>121,235</u> |
| Cash flows from investing activities: | | | |
| Capital expenditures | (55,918) | (44,468) | (39,122) |
| Acquisitions, net of cash acquired | (104,436) | (62,427) | (23,439) |
| Proceeds from the disposal of assets | 967 | 723 | 4,071 |
| Other | 576 | 289 | — |
| Net cash used for investing activities | <u>(158,811)</u> | <u>(105,883)</u> | <u>(58,490)</u> |
| Cash flows from financing activities: | | | |
| Proceeds from borrowings | 814,181 | 433,460 | 344,843 |
| Principal payments on long-term debt, capital leases and financing obligations | (412,725) | (463,989) | (395,521) |
| Exercise of stock options | 6,171 | 14,640 | 4,816 |
| Dividends paid | (29,715) | (26,814) | (23,969) |
| Deferred financing costs | (1,168) | — | — |
| Net cash provided by (used for) financing activities | <u>376,744</u> | <u>(42,703)</u> | <u>(69,831)</u> |
| Increase (decrease) in cash | 339,262 | 4,305 | (7,086) |
| Cash at beginning of year | <u>6,214</u> | <u>1,909</u> | <u>8,995</u> |
| Cash at end of year | <u>\$ 345,476</u> | <u>\$ 6,214</u> | <u>\$ 1,909</u> |
| Supplemental information: | | | |
| Interest paid, net | \$ 27,250 | \$ 25,422 | \$ 22,808 |
| Income taxes | 12,745 | 9,680 | 25,214 |
| Leased assets obtained in exchange for new finance lease liabilities | 64,393 | 14,632 | 19,175 |
| Leased assets obtained in exchange for new operating lease liabilities | 6,980 | — | — |

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 — DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of business

Monro, Inc. and its wholly owned operating subsidiaries, Monro Service Corporation, Car-X, LLC, MNRO Holdings, LLC and MNRO Service Holdings, 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 1,283 Company-operated stores, 98 franchised locations, eight wholesale locations, three retread facilities and two dealer-operated automotive repair centers located in 32 states as of March 28, 2020.

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.

Basis of presentation

Principles of consolidation

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

Management’s use of estimates

The 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 2020”: March 31, 2019 – March 28, 2020 (52 weeks)

“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)

Reclassifications

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

Recent accounting pronouncements

In February 2016, the Financial Accounting Standards Board (“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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Leases are 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. We adopted this standard as of March 31, 2019 using the modified retrospective approach and elected the optional transition relief amendment that allows for a cumulative-effect adjustment in the period of adoption and did not restate prior periods. In addition, we elected the package of practical expedients permitted under the transition guidance, which among other things, allowed us to carry forward the historical lease classification and provided relief from reviewing existing contracts to determine if they contain leases. We did not elect to use hindsight in determining the lease term.

The adoption of this guidance resulted in a \$165.3 million increase to total assets and a \$165.9 million increase to total liabilities as of March 31, 2019. The Company recognized \$186.9 million of operating lease ROU assets, \$174.4 million of operating lease obligations, and a \$0.7 million finance lease asset and liability related to embedded leases. The difference between the operating lease ROU assets and operating lease liabilities primarily represents the existing favorable lease intangibles of \$19.6 million and unfavorable lease intangibles and deferred rent accruals of \$7.2 million resulting from historical operating lease accounting. These were reclassified as operating ROU assets upon adoption. In addition, we recognized \$8.4 million and \$16.6 million of finance lease assets and liabilities, respectively, and removed \$11.1 million and \$18.6 million of assets and liabilities related to financial obligations connected with the construction of leased stores that are no longer considered a failed sale leaseback. As a result of using the modified retrospective approach, the adoption resulted in a cumulative-effect adjustment to retained earnings, net of tax, of approximately \$0.6 million. The adoption of this guidance did not have a material impact to our Consolidated Statements of Comprehensive Income or Consolidated Statements of Cash Flows. At adoption, we reclassified prior year capital lease and financing obligation assets from the Net property, plant and equipment line to the Finance lease and financing obligation assets, net line of our Consolidated Balance Sheet. See Note 12 for additional lease disclosures.

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 was permitted. We adopted this guidance during the first quarter of fiscal 2020. The adoption of this guidance did not have a material impact 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. The adoption of this guidance is not expected to have a material impact on our Consolidated Financial Statements.

In December 2019, the FASB issued new accounting guidance intended to simplify the accounting for income taxes. The new guidance removes certain exceptions to the general principles in Accounting Standards Codification Topic 740 Income Taxes and amends existing guidance to improve consistent application. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2020. Early adoption is permitted. We are currently evaluating the potential impact of the adoption of this guidance 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 (“SEC”) did not, or are not expected to have a material effect on Monro’s Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Summary of significant accounting policies

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 weighted average cost or net realizable value.

Barter credits

We value barter credits at the fair market value of the credits received. 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. We received barter credits from the sales of slower moving inventory of approximately \$7.7 million and \$5.4 million for fiscal 2020 and fiscal 2019, respectively.

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. 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 impairment

We evaluate the ability to recover long-lived assets, including property, plant and equipment and ROU assets, whenever events or circumstances indicate that the carrying value of the asset may not be recoverable. In addition, we report assets to be disposed at the lower of the carrying amount and the fair market value less costs to sell.

Long-lived assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows that are independent of the cash flows of other groups of assets. If it is determined that the carrying amounts of such long-lived assets are not recoverable, the assets are written down to their estimated fair values. Fair value of the assets is determined based on the highest and best use of the asset group and considers future store cash flows as well as potential sublease income based on comparable market rents.

During the fourth quarter of fiscal 2020, we evaluated certain stores having indicators of impairment based on operating performance and taking into consideration the negative impact of the novel coronavirus strain (“COVID-19”) pandemic on forecasted store performance. Additionally, we currently expect to close 36 stores during fiscal 2021. Based on the estimate of future recoverable cash flows, we recorded an impairment charge totaling \$6.6 million of which \$4.3 million was related to the stores to be closed in fiscal 2021. As part of the impairment charge, we wrote off \$4.4 million of operating lease ROU assets, \$0.6 million of finance lease ROU assets and \$1.6 million of leasehold improvements and equipment. No impairment charges were recorded during fiscal 2019 or fiscal 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

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 are charged to expense.

Leases

We determine if an arrangement is or contains a lease at inception. We record ROU assets and lease obligations for our finance and operating leases, which are initially based on the discounted future minimum lease payments over the term of the lease. As the rate implicit in our leases is not easily determinable, our applicable incremental borrowing rate is used in calculating the present value of the lease payments. We estimate our incremental borrowing rate considering the market rates of our outstanding collateralized borrowings and comparisons to comparable borrowings of similar terms.

Lease term is defined as the non-cancelable period of the lease plus any options to extend the lease when it is reasonably certain that it will be exercised. For leases with an initial term of 12 months or less, no ROU assets or lease obligations are recorded on the balance sheet and we recognize short-term lease expense for these leases on a straight-line basis over the lease term.

Certain of our lease agreements include rental payments based on a percentage of retail sales over specified levels and others include rental payments adjusted periodically for inflation. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. For the majority of all classes of underlying assets, we have elected to separate lease from non-lease components. We have elected to combine lease and non-lease components for certain classes of equipment. We sublease excess space to third parties.

Operating lease expense is recognized on a straight-line basis over the lease term and is included in cost of sales or general and administrative expense. Amortization expense for finance leases is recognized on a straight-line basis over the lease term and is included in cost of sales or general and administrative expense. Interest expense for finance leases is recognized using the effective interest method. Variable payments, short-term rentals and payments associated with non-lease components are expensed as incurred.

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. As a result of our annual qualitative assessment performed in the third quarter of fiscal 2020, we determined that it is not more-likely-than-not that the fair value is less than the carrying value.

The recent developments associated with the COVID-19 pandemic resulted in uncertainty in the global economy, and declines in equity markets, including in our share price as of fiscal year end. We considered our current business performance expectations, as well as our share price as of fiscal year end in relation to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

the share price when the annual qualitative assessment was performed in the third quarter of fiscal 2020. Based on our analysis, we concluded that the current events and circumstances related to the COVID-19 pandemic do not indicate an impairment of goodwill is more-likely-than-not as of March 28, 2020.

Intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses and are amortized over their estimated useful lives. All intangible 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. Based on our review as of March 28, 2020, we concluded that the current events and circumstances related to the COVID-19 pandemic did not indicate that the carrying values of our intangibles were not recoverable. No impairment was recorded in fiscal 2020, 2019 or 2018.

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 a more frequent review is warranted. For more complex reserve calculations, such as workers' compensation, we periodically use the services of an actuary 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 2020, 2019 and 2018 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

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.

We are 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 2020 and 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

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 28, 2020 and March 30, 2019, and advertising expense for the fiscal years ended March 2020, 2019 and 2018, were not material to these financial statements.

Vendor rebates

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

□ NOTE 2 — ACQUISITIONS

Monro's acquisitions are strategic moves in our plan to fill in and expand our presence in our existing and contiguous markets, expand into 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 our greenfield store growth strategy.

Fiscal 2020

During fiscal 2020, we acquired the following businesses for an aggregate purchase price of \$103.6 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 November 17, 2019, we acquired 18 retail tire and automotive repair stores located in Nevada and Idaho from Nevada Tire Holdings, LLC and Idaho Tire Holdings, LLC. (One retail tire and automotive repair store is expected to open in fiscal 2021.) These stores will operate under the Tire Choice name.
- On October 27, 2019, we acquired six retail tire and automotive repair stores located in California from S & S Unlimited, Inc. These stores will operate under the Tire Choice name.
- On October 27, 2019, we acquired three retail tire and automotive repair stores located in California from Lloyd's Tire Service, Inc. These stores will operate under the Tire Choice name.
- On August 25, 2019, we acquired one retail tire and automotive repair store located in Louisiana from Atlas Tire Center, Inc. This store operates under the Tire Choice name.
- On August 25, 2019, we acquired two retail tire and automotive repair stores located in Louisiana from LRZ3 Auto, LLC. These stores operate under the Tire Choice name.
- On August 25, 2019, we acquired one retail tire and automotive repair store located in Louisiana from T-Boy's Tire and Automotive, LLC. This store operates under the Tire Choice name.
- On August 25, 2019, we acquired two retail tire and automotive repair stores located in Louisiana from Twin Tire & Auto Care, Inc. These stores operate under the Tire Choice name.
- On August 25, 2019, we acquired one retail tire and automotive repair store located in Louisiana from Twin Tire & Auto Care Team, Inc. This store operates under the Tire Choice name.
- On August 25, 2019, we acquired one retail tire and automotive repair store located in Louisiana from Scotty's Tire & Automotive, Inc. This store operates under the Tire Choice name.
- On June 23, 2019, we acquired two retail tire and automotive repair stores located in California from BAW LLC. These stores operate under the Tire Choice name.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

- 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 operate under the Tire Choice name.
- On March 31, 2019, we acquired 12 retail tire and automotive repair stores located in Louisiana from Allied Discount Tire & Brake, Inc. These stores operate 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 customer lists. We have recorded acquired ROU assets at the present value of remaining lease payments adjusted to reflect favorable or unfavorable market terms of the lease.

We expensed all costs related to acquisitions during fiscal 2020. The total costs related to completed acquisitions were \$1.4 million for the year ended March 28, 2020. 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 2020 acquired locations totaled \$59.3 million and (\$3.9) million, respectively, for the period from acquisition date through March 28, 2020. The net loss of (\$3.9) million includes an allocation of certain traditional corporate related items, including vendor rebates, interest expense and the benefit from 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 valuations and estimates. The consideration transferred and net liabilities assumed were recorded as goodwill. The preliminary allocation of the aggregate purchase price as of March 28, 2020 was as follows:

| | As of Acquisition Date (Dollars in thousands) |
|---|---|
| Inventories | \$ 4,469 |
| Other current assets | 706 |
| Property, plant and equipment | 2,367 |
| Finance lease and financing obligation assets, net | 29,147 |
| Operating lease assets, net | 42,680 |
| Intangible assets | 2,847 |
| Other non-current assets | 305 |
| Long-term deferred income tax assets | 4,875 |
| Total assets acquired | <u>87,396</u> |
| Current portion of long-term debt, finance leases and financing obligations . . | 2,672 |
| Current portion of operating lease liabilities | 4,416 |
| Deferred revenue | 1,618 |
| Other current liabilities | 358 |
| Long-term finance leases and financing obligations | 36,225 |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

| | As of Acquisition Date (Dollars in thousands) |
|--|---|
| Long-term operating lease liabilities | 43,668 |
| Other long-term liabilities | 1,747 |
| Total liabilities assumed | <u>90,704</u> |
| Total net identifiable liabilities assumed | <u>\$ (3,308)</u> |
| Total consideration transferred | \$103,622 |
| Less: total net identifiable liabilities assumed | <u>(3,308)</u> |
| Goodwill | <u>\$106,930</u> |

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

| | As of Acquisition Date | |
|--------------------------|-------------------------|------------------------------------|
| | Dollars in thousands | Weighted Average Useful Life |
| Customer lists | \$2,847 | 7 years |

We continue to refine the valuations and estimates related to inventory, warranty reserves, intangible assets, real property leases and certain liabilities for the fiscal 2020 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 2019

During fiscal 2019, we acquired the following businesses for an aggregate purchase price of \$61.7 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. 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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

- 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.

We expensed all costs related to acquisitions during fiscal 2019. The total costs related to completed acquisitions were \$0.6 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 (\$0.5) million, respectively, for the period from acquisition date through March 30, 2019. The net loss of (\$0.5) million includes an allocation of certain traditional corporate related items, including vendor rebates, interest expense and the benefit from 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.

We finalized the purchase accounting relative to the fiscal 2019 acquisitions during fiscal 2020. 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 2020 include a decrease in inventories of \$0.3 million; an increase in property, plant and equipment of \$0.1 million; a decrease in finance lease and financing obligation assets, net of \$0.8 million; a decrease in intangible assets of \$0.3 million; a decrease in long-term deferred income tax assets of \$0.3 million; an increase in current portion of long-term debt, finance leases and financing obligations of \$0.2 million and a decrease in long-term finance leases and financing obligations of \$2.4 million. The measurement period adjustments resulted in a decrease of goodwill of \$0.6 million.

These adjustments were not material to the Consolidated Statement of Comprehensive Income for the fiscal years ended March 28, 2020 and March 30, 2019.

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) |
|---|---|
| Trade receivables | \$ 1,674 |
| Inventories | 8,968 |
| Other current assets | 316 |
| Property, plant and equipment | 8,583 |
| Finance lease and financing obligation assets, net | 7,546 |
| Intangible assets | 9,615 |
| Other non-current assets | 21 |
| Long-term deferred income tax assets | <u>2,719</u> |
| Total assets acquired | 39,442 |
| Current portion of long-term debt, finance leases and financing obligations | 1,651 |
| Deferred revenue | 445 |
| Other current liabilities | 540 |
| Long-term finance leases and financing obligations | 16,048 |
| Other long-term liabilities | <u>637</u> |
| Total liabilities assumed | 19,321 |
| Total net identifiable assets acquired | <u>\$20,121</u> |
| Total consideration transferred | <u>\$61,654</u> |
| Less: total net identifiable assets acquired | <u>20,121</u> |
| Goodwill | <u>\$41,533</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 |
| Customer lists | \$6,042 | 13 years |
| Favorable leases | 3,173 | 10 years |
| Trade name | 400 | 2 years |
| Total | <u>\$9,615</u> | <u>11 years</u> |

□ NOTE 3 — OTHER CURRENT ASSETS

The composition of other current assets is as follows:

| | Year Ended Fiscal March | |
|-------------------------------------|-------------------------|-----------------|
| | 2020 | 2019 |
| | (Dollars in thousands) | |
| Vendor rebates receivable | \$16,232 | \$14,169 |
| Other | <u>24,305</u> | <u>28,283</u> |
| Other current assets | <u>\$40,537</u> | <u>\$42,452</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:

| | Year Ended Fiscal March | |
|--|-------------------------|------------------|
| | 2020 | 2019 |
| | (Dollars in thousands) | |
| Land | \$ 84,765 | \$ 85,623 |
| Buildings and improvements | 272,724 | 251,431 |
| Equipment, signage and fixtures | 278,324 | 256,411 |
| Vehicles | 38,356 | 36,393 |
| Construction-in-progress | 8,763 | 10,563 |
| Property, plant and equipment | 682,932 | 640,421 |
| Less – Accumulated depreciation | 354,295 | 327,869 |
| Property, plant and equipment, net | <u>\$328,637</u> | <u>\$312,552</u> |

Depreciation expense totaled \$39.2 million, \$35.5 million and \$32.3 million for the fiscal years ended March 2020, 2019 and 2018, respectively.

□ NOTE 5 — GOODWILL AND INTANGIBLE ASSETS

A summary of the changes in goodwill during fiscal 2020 and 2019 is as follows:

| | Dollars in thousands |
|--|----------------------|
| Balance at March 31, 2018 | \$522,892 |
| Fiscal 2019 acquisitions | 42,124 |
| Adjustments to fiscal 2018 purchase accounting | 487 |
| Balance at March 30, 2019 | 565,503 |
| Fiscal 2020 acquisitions | 106,930 |
| Adjustments to fiscal 2019 purchase accounting | (590) |
| Balance at March 28, 2020 | <u>\$671,843</u> |

The composition of other intangible assets is as follows:

| | Year Ended Fiscal March | | | |
|-----------------------------------|-------------------------|--------------------------|-----------------------|--------------------------|
| | 2020 | | 2019 | |
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| | (Dollars in thousands) | | | |
| Customer lists | \$42,511 | \$26,333 | \$39,710 | \$23,258 |
| Favorable leases | — | — | 30,315 | 11,049 |
| Trade names | 21,252 | 12,072 | 21,252 | 10,851 |
| Franchise agreements | 7,220 | 2,805 | 7,220 | 2,259 |
| Other intangible assets | 590 | 582 | 590 | 563 |
| Total intangible assets | <u>\$71,573</u> | <u>\$41,792</u> | <u>\$99,087</u> | <u>\$47,980</u> |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

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, 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 2020, 2019 and 2018 totaled \$4.8 million, \$5.3 million and \$5.0 million, respectively.

Estimated future amortization of intangible assets is as follows:

| Year Ending Fiscal March | Customer lists/Trade names/ Franchise agreements/ Other |
|--------------------------|--|
| | (Dollars in thousands) |
| 2021 | \$4,101 |
| 2022 | 3,779 |
| 2023 | 3,523 |
| 2024 | 3,163 |
| 2025 | 2,806 |

□ NOTE 6 — LONG-TERM DEBT

Long-term debt consists of the following:

| | March 28, 2020 | March 30, 2019 |
|---|------------------------|-------------------|
| | (Dollars in thousands) | |
| Revolving Credit Facility, LIBOR-based ^(a) | \$566,400 | \$137,682 |
| Note payable, non-interest bearing, due in equal installments through September 2019 | | 40 |
| Less – Current portion of long-term debt | | (40) |
| Long-term debt | \$566,400 | \$137,682 |

(a) The London Interbank Offered Rate (“LIBOR”) at March 28, 2020 was .99%.

In April 2019, we entered into a new five-year \$600 million revolving credit facility agreement with eight banks (the “Credit Facility”) that will expire in April 2024. The Credit Facility amended and restated our previous revolving credit facility which would have expired in January 2021. Interest only is payable monthly throughout the Credit Facility's term. The borrowing capacity for the Credit Facility of \$600 million includes an accordion feature permitting us to request an increase in availability of up to an additional \$250 million. The Credit Facility bears interest at 75 to 200 basis points over LIBOR (or replacement index) or at the prime rate, depending on the type of borrowing and the rates then in effect. The Credit Facility requires fees payable quarterly throughout the term between 0.125% and 0.35% of the amount of the average net availability under the Credit Facility during the preceding quarter.

At March 28, 2020 and March 30, 2019, the interest rate spread paid by the Company was 100 basis points and 125 basis points over LIBOR, respectively.

Within the Credit Facility, we have a sub-facility of \$80 million available for the purpose of issuing standby letters of credit. 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. There was a \$33.6 million outstanding letter of credit at March 28, 2020.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Mortgages and specific lease financing arrangements with other parties (with certain limitations) are permitted under the Credit Facility. Other specific terms and the maintenance of specified ratios are generally consistent with our prior financing agreement. Additionally, the Credit Facility is not secured by our real property, although we have agreed not to encumber our real property, with certain permissible exceptions.

In response to the uncertain market conditions resulting from the COVID-19 pandemic, we drew down the remaining \$350 million available to us under the Credit Facility in March 2020 in order to enhance our liquidity position. There was \$566.4 million outstanding and no availability under the Credit Facility at March 28, 2020.

We were in compliance with all debt covenants at March 28, 2020.

On June 11, 2020, we entered into a First Amendment to the Credit Facility (the “First Amendment”), which, among other things, amends the terms of certain of the financial and restrictive covenants in the credit agreement to provide us with additional flexibility to operate our business through the first quarter of fiscal 2022. Except as amended by the First Amendment, the remaining terms of the credit agreement remain in full force and effect.

Specifically, from June 11, 2020 to June 26, 2021, the First Amendment (1) eliminates the covenant for us to maintain an interest coverage ratio above 1.55x; (2) requires us to maintain liquidity of \$275 million as of the end of each fiscal month; and (3) adjusts the ratio of maximum adjusted debt to EBITDAR. The ratio of maximum adjusted debt to EBITDAR will vary by quarter as follows: (a) 5.50x in the first quarter of fiscal 2021; (b) 6.00x in the second quarter of fiscal 2021; (c) 6.25x in the third quarter of fiscal 2021; (d) 5.50x in the fourth quarter of fiscal 2021; (e) 5.00x in the first quarter of fiscal 2022; and (f) thereafter, returning to 4.75x.

For the period from June 30, 2020 to June 30, 2021, we are permitted under the First Amendment to acquire stores or other businesses up to \$100 million in the aggregate, as long as, on a pro forma basis after taking the acquisition into account, we would comply with the financial covenants and other restrictions in the First Amendment. In addition, from June 30, 2020 to June 30, 2021, we may declare, make or pay any dividend or distribution up to \$38.5 million in the aggregate, if we are in compliance with the financial covenants and other restrictions in the First Amendment and Credit Facility.

The First Amendment will permanently amend the interest rate charged on borrowings to be based on the greater of adjusted one-month LIBOR or 0.75% and also added two levels of interest rate pricing applicable during the covenant relief period in the event the ratio of adjusted debt to EBITDAR is higher than 5.00x. During the covenant relief period, the minimum interest rate spread charged on borrowings will be 225 basis points over LIBOR.

Long-term debt had a carrying amount and a fair value of \$566.4 million as of March 28, 2020, as compared to a carrying amount and a fair value of \$137.7 million as of March 30, 2019. The carrying value of our debt approximated its fair value due to the variable interest nature of the debt.

□ 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



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MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

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 second 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 28, 2020 and March 30, 2019 were \$18.5 million and \$17.2 million, respectively, of which \$13.1 million and \$12.1 million, respectively, are reported in Deferred revenue and \$5.4 million and \$5.1 million, respectively, are reported in Other long-term liabilities in our Consolidated Balance Sheets.

A summary of the changes in deferred revenue related to road hazard warranty agreements during fiscal 2020 and 2019 is as follows:

| | 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 | 17,150 |
| Deferral of revenue | 17,466 |
| Deferral of revenue from acquisitions | 2,916 |
| Recognition of revenue | <u>(19,026)</u> |
| Balance at March 28, 2020 | <u>\$ 18,506</u> |

We expect to recognize \$13.1 million of deferred revenue related to road hazard warranty agreements during our fiscal year ending March 27, 2021, and \$5.4 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 | | |
|------------------|-------------------------|--------------------|--------------------|
| | 2020 | 2019 | 2018 |
| | (Dollars in thousands) | | |
| Revenues: | | | |
| Brakes | \$ 169,138 | \$ 162,709 | \$ 146,082 |
| Exhaust | 25,058 | 28,713 | 26,969 |
| Steering | 100,230 | 95,711 | 94,391 |
| Tires | 634,513 | 601,295 | 560,398 |
| Maintenance | 324,494 | 308,668 | 296,658 |
| Other | 3,091 | 3,134 | 3,317 |
| Total | <u>\$1,256,524</u> | <u>\$1,200,230</u> | <u>\$1,127,815</u> |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

□ NOTE 8 – INCOME TAXES

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

| | Year Ended Fiscal March | | |
|-------------------|-------------------------|-----------------|-----------------------------|
| | 2020 | 2019 | 2018 |
| | (Dollars in thousands) | | |
| Current – | | | |
| Federal | \$ 2,783 | \$ 5,682 | \$20,854 |
| State | 1,994 | 2,409 | 3,180 |
| | <u>4,777</u> | <u>8,091</u> | <u>24,034</u> |
| Deferred – | | | |
| Federal | 11,397 | 11,563 | 15,153 |
| State | 76 | 954 | 332 |
| | <u>11,473</u> | <u>12,517</u> | <u>15,485^(a)</u> |
| Total | <u>\$16,250</u> | <u>\$20,608</u> | <u>\$39,519</u> |

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

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 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.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted into law and provides for changes to the U.S. tax code that impact businesses. Some of the key income tax changes that have an impact on Monro include relaxation of the interest deduction limitation rules and the eligibility of Qualified Improvement Property for bonus depreciation. As of March 28, 2020, we have estimated additional allowable depreciation of approximately \$17 million related to certain improvement property now eligible for bonus depreciation in accordance with the CARES Act. The estimated effect of the additional allowable depreciation has been reflected in our current and deferred tax balances as of March 28, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Deferred tax (liabilities) assets consist of the following:

| | March 28, 2020 | March 30, 2019 |
|---|------------------------|-------------------|
| | (Dollars in thousands) | |
| Lease liabilities | \$(131,484) | \$ (62,485) |
| Goodwill | (47,204) | (39,020) |
| Property and equipment | (18,232) | (12,036) |
| Other | (1,288) | (429) |
| Total deferred tax liabilities | <u>(198,208)</u> | <u>(113,970)</u> |
| Lease assets | 169,366 | 94,244 |
| Insurance reserves | 10,192 | 9,071 |
| Warranty and other reserves | 4,317 | 3,360 |
| Loss carryforwards | 3,602 | 2,507 |
| Other | 6,846 | 6,954 |
| Total deferred tax assets | <u>194,323</u> | <u>116,136</u> |
| Net deferred tax (liabilities) assets | <u>\$ (3,885)</u> | <u>\$ 2,166</u> |

We have \$6.7 million of state net operating loss carryforwards available as of March 28, 2020. The state net operating loss carryforwards expire in varying amounts through 2040. 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.

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 | | | | | |
|--|-------------------------|-------------|-----------------|-------------|-----------------|-------------|
| | 2020 | | 2019 | | 2018 | |
| | Amount | Percent | Amount | Percent | Amount | Percent |
| | (Dollars in thousands) | | | | | |
| Federal income tax based on statutory tax rate applied to income before taxes ^(a) | \$15,597 | 21.0 | \$21,076 | 21.0 | \$32,692 | 31.6 |
| State income tax, net of federal income tax benefit | 1,374 | 1.9 | 2,767 | 2.8 | 2,218 | 2.1 |
| Tax Act ^(b) | — | — | — | — | 4,707 | 4.5 |
| Tax settlements and adjustments | — | — | (1,864) | (1.9) | — | — |
| Other | (721) | (1.0) | (1,371) | (1.4) | (98) | — |
| | <u>\$16,250</u> | <u>21.9</u> | <u>\$20,608</u> | <u>20.5</u> | <u>\$39,519</u> | <u>38.2</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 25, 2017 | \$ 6,892 |
| Tax positions related to current year: | |
| Additions | 447 |
| Reductions | — |
| Tax positions related to prior years: | |
| Additions | — |
| Reductions | (342) |
| Settlements | — |
| Lapses in statutes of limitations | <u>(788)</u> |
| Balance at March 31, 2018 | 6,209 |
| 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 | <u>(1,123)</u> |
| Balance at March 30, 2019 | 6,424 |
| Tax positions related to current year: | |
| Additions | 644 |
| Reductions | — |
| Tax positions related to prior years: | |
| Additions | — |
| Reductions | (30) |
| Settlements | — |
| Lapses in statutes of limitations | <u>(1,826)</u> |
| Balance at March 28, 2020 | <u>\$ 5,212</u> |

The total amount of unrecognized tax benefits was \$5.2 million and \$6.4 million at March 28, 2020 and March 30, 2019, 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 \$0.3 million and \$0.4 million of interest and penalties associated with uncertain tax benefits accrued as of March 28, 2020 and March 30, 2019, respectively.



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 2019 and 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 28, 2020 and March 30, 2019.

□ 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 28, 2020, March 30, 2019 and March 31, 2018 was \$3.8 million, \$4.0 million and \$2.9 million, respectively, and the related income tax benefit for each fiscal year was \$0.9 million, \$1.0 million and \$1.0 million, respectively. As of March 28, 2020, the total unrecognized compensation expense related to all unvested stock-based awards was \$5.0 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 28, 2020, 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 929,360 shares available for grant at March 28, 2020.

Non-Qualified Stock Options

Generally, employee options vest over a four year period, and have a duration of six years. Outstanding options are exercisable for various periods through March 2026. 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 | | |
|-----------------------------------|-------------------------|-------|-------|
| | 2020 | 2019 | 2018 |
| Risk-free interest rate | 1.85% | 2.81% | 1.78% |
| Expected life, in years | 4 | 4 | 4 |
| Expected volatility | 30.4% | 28.3% | 26.1% |
| Expected dividend yield | 1.12% | 1.24% | 1.49% |

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 2020 or 2019.

The weighted average fair value of options granted during fiscal 2020, 2019 and 2018 was \$18.92, \$15.44 and \$8.84, respectively. A summary of changes in outstanding stock options is as follows:

| | Weighted Average Exercise Price | Options Outstanding |
|-----------------------------|---------------------------------|---------------------|
| 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 |
| Granted | \$78.92 | 129,886 |
| Exercised | \$55.26 | (113,706) |
| Canceled | \$62.07 | (88,319) |
| At March 28, 2020 | \$58.55 | 802,766 |

The total shares exercisable at March 28, 2020, March 30, 2019 and March 31, 2018 were 471,192, 405,245 and 495,573, respectively. The weighted average exercise price of all shares exercisable at March 28, 2020 was \$55.52.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The weighted average contractual term of all options outstanding at March 28, 2020 and March 30, 2019 was 3.4 years and 3.9 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 was \$26.6 million. There was no aggregate intrinsic value of all options outstanding at March 28, 2020.

The weighted average contractual term of all options exercisable at March 28, 2020 and March 30, 2019 was 2.8 years and 3.2 years, respectively. The aggregate intrinsic value of all options exercisable at March 30, 2019 was \$12.2 million. There was no aggregate intrinsic value of all options exercisable at March 28, 2020.

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 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 |
| Granted | 129,886 | \$18.92 |
| Vested | (185,226) | \$10.93 |
| Canceled | (82,746) | \$14.03 |
| Non-vested at March 28, 2020 | 331,574 | \$14.03 |

The following table summarizes information about stock options outstanding at March 28, 2020:

| 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 |
| \$43.99 – \$46.99 | 5,500 | 3.62 | \$44.82 | 2,500 | \$44.90 |
| \$47.00 – \$48.28 | 328,043 | 3.37 | \$47.25 | 211,923 | \$47.21 |
| \$48.29 – \$64.99 | 168,316 | 1.95 | \$57.77 | 122,889 | \$58.58 |
| \$65.00 – \$88.63 | 300,907 | 4.20 | \$71.56 | 133,880 | \$66.07 |

During the fiscal years ended March 28, 2020, March 30, 2019 and March 31, 2018, the fair value of awards vested under Monro's stock plans was \$2.0 million, \$2.8 million and \$1.4 million, respectively.

The aggregate intrinsic value is based on Monro's closing stock price of \$40.01, \$86.52 and \$53.60 as of the last trading day of the fiscal years ended March 28, 2020, March 30, 2019 and March 31, 2018, respectively. The aggregate intrinsic value of options exercised during the fiscal years ended March 28, 2020, March 30, 2019 and March 31, 2018 was \$2.9 million, \$7.4 million and \$2.8 million, respectively.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Cash received from option exercises under all stock option plans was \$6.2 million, \$14.6 million and \$4.8 million for the fiscal years ended March 28, 2020, March 30, 2019 and March 31, 2018, respectively. The actual tax benefit realized for the tax deductions from option exercises was \$0.4 million, \$1.0 million and \$0.5 million for the fiscal years ended March 28, 2020, March 30, 2019 and March 31, 2018, 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 2020 and 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.

A summary of restricted stock activity during fiscal 2020 and 2019 is as follows:

| | 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> |
| Granted | 31,128 | \$75.33 | |
| Vested | (22,499) | \$51.61 | |
| Forfeited | (11,125) | \$61.38 | |
| Non-vested as of March 28, 2020 | <u>55,730</u> | <u>\$64.96</u> | <u>1.78</u> |

The aggregate intrinsic value is based on Monro's closing stock price of \$40.01 and \$86.52 as of the last trading day of the periods ended March 28, 2020 and March 30, 2019, respectively. The aggregate intrinsic value of non-vested restricted stock as of March 28, 2020 and March 30, 2019 was \$2.2 million and \$5.0 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

□ NOTE 11 — EARNINGS PER COMMON SHARE

A reconciliation of basic and diluted earnings per common share for the years ended March is as follows:

| | Year Ended Fiscal March | | |
|---|---|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| | (Amounts in thousands, except per share data) | | |
| Numerator for earnings per common share calculation: | | | |
| Net income | \$58,024 | \$79,752 | \$63,935 |
| Less: Preferred stock dividends | (449) | (408) | (368) |
| Income available to common stockholders | <u>\$57,575</u> | <u>\$79,344</u> | <u>\$63,567</u> |
| Denominator for earnings per common share calculation: | | | |
| Weighted average common shares, basic | 33,246 | 32,980 | 32,767 |
| Effect of dilutive securities: | | | |
| Preferred stock | 510 | 510 | 510 |
| Stock options | 167 | 154 | 56 |
| Restricted stock | 30 | 31 | 8 |
| Weighted average common shares, diluted | <u>33,953</u> | <u>33,675</u> | <u>33,341</u> |
| Basic earnings per common share: | <u>\$ 1.73</u> | <u>\$ 2.41</u> | <u>\$ 1.94</u> |
| Diluted earnings per common share: | <u>\$ 1.71</u> | <u>\$ 2.37</u> | <u>\$ 1.92</u> |

The computation of diluted earnings per common share for fiscal 2020, 2019 and 2018 excludes the effect of assumed exercise of approximately 177,000, 146,000 and 1,091,000 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 enter into lease agreements for certain retail stores, warehouses, distribution centers, office space and land as well as service contracts that are considered leases.

Our leases have remaining lease terms, including renewals reasonably certain to be exercised, of less than one year to approximately 38 years. Most of our leases include one or more options to extend the lease, for periods ranging from one year to 30 years or more.

Historical failed sale leasebacks that were assumed through acquisitions and do not qualify for sale leaseback accounting continue to be accounted for as financing obligations. As of March 28, 2020, net assets of \$4.5 million and liabilities of \$7.5 million due to failed sale leaseback arrangements were included with finance lease assets and liabilities, respectively, on the Consolidated Balance Sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The components of operating and finance lease cost for the year ended March 28, 2020 is as follows:

| | <u>(Dollars in thousands)</u> |
|--|-------------------------------|
| Operating lease cost | \$38,525 |
| Finance lease/financing obligations cost: | |
| Amortization of assets | 21,033 |
| Interest on liabilities | 21,330 |
| Short term and variable lease cost | 2,194 |
| Sublease income | (166) |
| Total lease cost | <u>\$82,916</u> |

As reported under the previous accounting standard, net rental expense and lease amortization for the years ended March 30, 2019 and March 31, 2018 is comprised of the following:

| | <u>Year Ended Fiscal March</u> | |
|--|--------------------------------|-----------------|
| | <u>2019</u> | <u>2018</u> |
| | <u>(Dollars in thousands)</u> | |
| Gross rental expense | \$38,024 | \$39,003 |
| Sublease rental income | (64) | (149) |
| Rental expense, net | <u>\$37,960</u> | <u>\$38,854</u> |
| Amortization of finance (capital) lease assets | \$14,721 | \$12,026 |

Supplemental cash flow information related to leases for the year ended March 28, 2020 is as follows:

| | <u>(Dollars in thousands)</u> |
|--|-------------------------------|
| Cash paid for amounts included in measurement of lease obligations: | |
| Operating cash flows from operating leases | \$36,808 |
| Operating cash flows from finance leases/financing obligations | 21,340 |
| Financing cash flows from finance leases/financing obligations | 27,212 |

The following table summarizes weighted average remaining lease term and discount rates:

| | <u>Operating Leases</u> | <u>Finance Leases and Financing Obligations</u> |
|---|-------------------------|---|
| Weighted average remaining lease term, in years | 9.4 | 9.9 |
| Weighted average discount rate | 3.51% | 8.73% |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

Future maturities of our lease liabilities, excluding subleases, as of March 28, 2020 are as follows:

| | Operating Leases | Finance Leases and Financing Obligations |
|--|------------------------|---|
| | (Dollars in thousands) | |
| 2021 | \$ 36,590 | \$ 52,480 |
| 2022 | 33,321 | 52,270 |
| 2023 | 29,253 | 53,607 |
| 2024 | 24,778 | 45,794 |
| 2025 | 21,448 | 42,072 |
| Thereafter | 93,232 | 214,964 |
| Total undiscounted lease obligations | <u>\$238,622</u> | <u>\$ 461,187</u> |
| Less: imputed interest | (37,487) | (130,557) |
| Net lease obligation | <u>\$201,135</u> | <u>\$ 330,630</u> |

Total lease payments include \$74.5 million related to options to extend operating leases that are reasonably certain of being exercised, include \$115.8 million related to options to extend finance leases that are reasonably certain of being exercised and exclude \$11.9 million of legally binding lease payments for leases signed but not yet commenced as of March 28, 2020.

□ 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 2020 and 2019.

The underfunded status of Monro's defined benefit plan is recognized as an Other long-term liability in the Consolidated Balance Sheets as of March 28, 2020 and March 30, 2019, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

The underfunded status of the plan is set forth below:

| | Fiscal March | |
|--|------------------------|-----------------|
| | 2020 | 2019 |
| | (Dollars in thousands) | |
| Change in Plan Assets: | | |
| Fair value of plan assets at beginning of year | \$20,838 | \$20,629 |
| Actual (loss) return on plan assets | (1,507) | 929 |
| Benefits paid | (720) | (720) |
| Fair value of plan assets at end of year | <u>18,611</u> | <u>20,838</u> |
| Change in Projected Benefit Obligation: | | |
| Benefit obligation at beginning of year | 20,972 | 20,606 |
| Interest cost | 752 | 781 |
| Actuarial loss | 642 | 305 |
| Benefits paid | (720) | (720) |
| Benefit obligation at end of year | <u>21,646</u> | <u>20,972</u> |
| Underfunded status of plan | <u>\$ (3,035)</u> | <u>\$ (134)</u> |

The projected and accumulated benefit obligations were equivalent at March 31 for both 2020 and 2019.

Amounts recognized in accumulated other comprehensive loss consist of:

| | Year Ended Fiscal March | |
|---|----------------------------|----------------|
| | 2020 | 2019 |
| | (Dollars in thousands) | |
| Unamortized transition obligation | \$ — | \$ — |
| Unamortized prior service cost | — | — |
| Unamortized net loss | 9,174 | 6,057 |
| Total | <u>\$9,174</u> | <u>\$6,057</u> |

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

| | Year Ended Fiscal March | |
|-------------------------------------|----------------------------|----------------|
| | 2020 | 2019 |
| | (Dollars in thousands) | |
| Net transition obligation | \$ — | \$ — |
| Prior service cost | — | — |
| Net actuarial loss | (3,117) | (382) |
| Total | <u>\$(3,117)</u> | <u>\$(382)</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 | | |
|---|-------------------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| | (Dollars in thousands) | | |
| Interest cost on projected benefit obligation | \$ 752 | \$ 781 | \$ 796 |
| Expected return on plan assets | (1,423) | (1,409) | (1,416) |
| Amortization of unrecognized actuarial loss | 455 | 403 | 336 |
| Net pension income | <u>\$ (216)</u> | <u>\$ (225)</u> | <u>\$ (284)</u> |

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

| | Year Ended Fiscal March | |
|-------------------------|-------------------------|-------|
| | 2020 | 2019 |
| Discount rate | 3.34% | 3.72% |

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

| | Year Ended Fiscal March | | |
|---|-------------------------|-------|-------|
| | 2020 | 2019 | 2018 |
| Discount rate | 3.72% | 3.89% | 3.98% |
| 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, for the years ended March are as follows:

| | March 28, | March 30, |
|-------------------------------------|---------------|---------------|
| | 2020 | 2019 |
| Cash and cash equivalents | 4.1% | 1.8% |
| Fixed income | 37.9% | 38.5% |
| Equity securities | 58.0% | 59.7% |
| 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 28, 2020 and March 30, 2019, respectively:

| | Fair Value Measurements at March 28, 2020 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 | \$ 7,666 | \$ 7,383 | \$ 283 | |
| International companies | 3,137 | 3,137 | | |
| Fixed income: | | | | |
| U.S. corporate bonds | 6,686 | | 6,686 | |
| International bonds | 361 | | 361 | |
| Cash equivalents | 761 | | 761 | |
| Total | <u>\$18,611</u> | <u>\$10,520</u> | <u>\$8,091</u> | |
| | 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> | |

There are no required or expected contributions in fiscal 2021 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) |
| 2021 | \$1,072 |
| 2022 | 1,122 |
| 2023 | 1,154 |
| 2024 | 1,158 |
| 2025 | 1,198 |
| 2026 – 2030 | 6,384 |

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 2020, 2019 and 2018 amounted to approximately \$1.7 million, \$1.4 million and \$1.0 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 28, 2020 and March 30, 2019 related to the Deferred Compensation Plan was approximately \$2.2 million and \$2.0 million, respectively.

□ NOTE 14 — 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 | \$ 566,400 | | | \$566,400 | |
| Finance lease commitments/financing obligations ^(a) | 461,187 | \$52,480 | \$105,877 | 87,866 | \$214,964 |
| Operating lease commitments ^(a) | 238,622 | 36,590 | 62,574 | 46,226 | 93,232 |
| Other liabilities | 1,933 | 800 | 1,133 | — | — |
| Total | <u>\$1,268,142</u> | <u>\$89,870</u> | <u>\$169,584</u> | <u>\$700,492</u> | <u>\$308,196</u> |

(a) Operating and finance lease commitments represent future undiscounted lease payments and include \$74.5 million and \$115.8 million, respectively, related to options to extend lease terms that are reasonably certain of being exercised. See Note 12.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MONRO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (continued)

We believe that we can fulfill our commitments utilizing our cash flow from operations and, if necessary, cash on hand.

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 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 15 – SUBSEQUENT EVENTS**

In May 2020, Monro's Board of Directors declared a cash dividend of \$0.22 per share or share equivalent to be paid to shareholders of record as of June 8, 2020. The dividend will be paid on June 22, 2020.

On June 11, 2020, we entered into a First Amendment to our existing credit agreement, which, among other things, amends the terms of certain of the financial and restrictive covenants in the credit agreement through the first quarter of fiscal 2022. The First Amendment requires us to maintain monthly minimum liquidity levels and adjusts the range of interest spread we may pay on outstanding borrowings. The payment of dividends and the payment for acquisitions are permitted for the period from June 30, 2020 to June 30, 2021 subject to the terms in the First Amendment and credit agreement. See additional discussion of the First Amendment under Note 6.

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 2020 and 2019. Individual line items summed by quarters may not agree to the annual amounts reported due to rounding.

| | Fiscal Quarter Ended | | | |
|---|---|---------------|--------------|---------------|
| | June 2019 | Sept. 2019 | Dec. 2019 | March 2020 |
| | (Amounts in thousands, except per share data) | | | |
| Sales | \$317,063 | \$324,113 | \$329,281 | \$286,066 |
| Cost of sales | 188,916 | 202,040 | 204,929 | 183,979 |
| Gross profit | 128,147 | 122,073 | 124,352 | 102,087 |
| Operating, selling, general and administrative expenses | 91,776 | 88,716 | 92,781 | 101,683 |
| Operating income | 36,371 | 33,357 | 31,571 | 404 |
| Interest expense, net of interest income | 7,157 | 6,961 | 6,983 | 7,113 |
| Other income, net | (175) | (207) | (274) | (128) |
| Income (loss) before income taxes | 29,389 | 26,603 | 24,862 | (6,581) |
| Provision for (benefit from) income taxes | 6,783 | 6,289 | 5,982 | (2,805) |
| Net income (loss) | \$ 22,606 | \$ 20,314 | \$ 18,880 | \$ (3,776) |
| Basic earnings (loss) per share | \$ 0.68 | \$ 0.61 | \$ 0.56 | \$ (0.12) |
| Diluted earnings (loss) per share | \$ 0.67 | \$ 0.60 | \$ 0.56 | \$ (0.12) |
| Weighted average number of common shares used in computing earnings per share | | | | |
| Basic | 33,183 | 33,244 | 33,274 | 33,284 |
| Diluted | 33,964 | 33,979 | 33,973 | 33,284 |
| | 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 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 |

Material fourth quarter adjustments

We recorded a material impairment charge totaling \$6.6 million during the fourth quarter of fiscal 2020. There were no additional material, extraordinary, unusual or infrequently occurring items recognized in the fourth quarter of fiscal 2020 or 2019.

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 28, 2020, 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 28, 2020, the end of our fiscal year. The effectiveness of Monro's internal control over financial reporting as of March 28, 2020 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 28, 2020 that materially affected, or are reasonably likely to materially affect, Monro's internal control over financial reporting.

Item 9B. Other Information

On November 14, 2019, Gerald G. Alessia resigned from his position as Senior Vice President — Chief Merchandising Officer.

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 Teammates (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 28, 2020 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: June 12, 2020

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) | June 12, 2020 |
| <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) | June 12, 2020 |
| <u>/s/ Robert E. Mellor*</u> Robert E. Mellor | Chairman of the Board, Director | June 12, 2020 |
| <u>/s/ John L. Auerbach*</u> John L. Auerbach | Director | June 12, 2020 |
| <u>/s/ Frederick M. Danziger*</u> Frederick M. Danziger | Director | June 12, 2020 |
| <u>/s/ Donald Glickman*</u> Donald Glickman | Director | June 12, 2020 |
| <u>/s/ Lindsay N. Hyde*</u> Lindsay N. Hyde | Director | June 12, 2020 |
| <u>/s/ Stephen C. McCluski*</u> Stephen C. McCluski | Director | June 12, 2020 |
| <u>/s/ Peter J. Solomon*</u> Peter J. Solomon | Director | June 12, 2020 |

* 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: June 12, 2020

/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: June 12, 2020

/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 28, 2020 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

Dated: June 12, 2020

Brett T. Ponton
Chief Executive Officer and President

/s/ Brian J. D'Ambrosia

Dated: June 12, 2020

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

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Board Of Directors

John L. Auerbach (1)

Partner
Auerbach Advisers

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

Director
Griffin Industrial Realty, Inc.

Donald Glickman (2) (5)

Member
J.F. Lehman & Company

Lindsay N. Hyde (3)

Entrepreneur In Residence,
Moderne 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

Robert J. Rajkowski

Senior Vice President –
Chief Operating Officer

Maureen E. Mulholland

Senior Vice President –
General Counsel and Secretary

Donna G. Maxwell

Senior Vice President –
Chief Human Resource Officer

Cindy L. Donovan

Vice President –
Information Technology

John A. Heisman

Vice President –
Business Development
and Real Estate

Karla J. Hock

Vice President –
Safety and Risk Management

Daniel J. Tripoli

Regional Vice President –
Northern 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 18, 2020
[www.virtualshareholdermeeting.com/
MNRO2020](http://www.virtualshareholdermeeting.com/MNRO2020)

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 on Form 10-K for
the fiscal year ended March 28, 2020,
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



200 Holleder Pkwy
Rochester, NY 14615
www.monro.com