



ADVANCED DRAINAGE SYSTEMS, INC.

Fiscal Year 2020
Annual Report

ADVANCED DRAINAGE SYSTEMS, INC
ads-pipe.com



Dear Fellow Shareholders




Fiscal 2020 was a transformative year for Advanced Drainage Systems. We achieved record financial performance; successfully executed on our commitments and growth strategy; returned over \$100 million to shareholders; completed a large, highly strategic acquisition; implemented a new capital structure; and built a strong foundation for our Environmental, Social and Governance (ESG) program. These accomplishments and our continued execution position us well for the future to deliver sustainable, long-term growth.

As of this publication, the world is navigating through the coronavirus (COVID-19) pandemic with changes to everyday lives and the way we do business. During this time, ADS and Infiltrator facilities remain open as stormwater management and onsite septic solutions are critical to the well-being of the communities we serve and essential to the economic recovery expected to follow. We take this responsibility very seriously and are committed to protecting employee health and safety while providing these essential products and services. I'm proud of the entire Company's efforts over these difficult past few months to come together and support each other as well as the communities we serve. Our industry-leading position and proven business resiliency give me confidence that we will successfully manage through these unprecedented times and emerge stronger than before.

Successfully Executing the Plan

We ended Fiscal 2020 with \$1.67 billion in revenue and \$362 million of Adjusted EBITDA, up 21% and 56% year-over-year, respectively. Our domestic construction market sales outpaced the growth in their end markets by 600 basis points, driven by continued execution of material conversion and water management solutions, as well as focus on key growth states. Sales in our domestic agriculture market also increased by 35% as we capitalized on favorable industry dynamics by successfully implementing organizational changes, introducing new products and executing with greater focus.

Adjusted EBITDA margin expanded 480 basis points to 21.6%, driven by the traditional ADS levers of strong sales growth, disciplined pricing and favorable material and recycling costs as well as the contribution from the acquisition of Infiltrator Water Technologies. We are also building additional profitability levers focused on fundamental improvements to transportation and logistics as well as continuous improvement in manufacturing, which started to gain traction towards the end of the year. These will be important initiatives that drive better delivery performance, quality and operational results.



The outstanding financial results of the past year allowed us to achieve our long-term Adjusted EBITDA and cash conversion targets one year ahead of plan while also remaining on track to achieve our long-term revenue target. The domestic business is exceeding expectations due to outperformance in the construction markets while the international business has faced challenges, primarily from the market decline in Mexico. Despite the International segment being difficult from a demand perspective, we improved International EBITDA by 3.5% in FY20 led by the Canada and Exports businesses. The fundamentals of the ADS and Infiltrator businesses built on material conversion, Allied product growth, focus on key states that drive construction spending, new products, material recycling expertise and scale, plus the focus on continuous improvement and supply chain execution remain the right activities to focus on in the stormwater and on-site septic markets.

Transformative Acquisition and Improved Capital Structure

The most notable event of Fiscal 2020 was the acquisition of Infiltrator Water Technologies, a leader in on-site septic wastewater treatment. This strategic acquisition combined the leaders in stormwater and on-site septic wastewater management. Infiltrator and ADS have highly complementary businesses with similar go-to-market distribution strategies, innovation and most importantly a shared commitment to material science and recycling. This acquisition was the natural evolution of more than 15 years of mutual partnership. Since closing the acquisition, we have an even greater appreciation for Infiltrator's world-class operations and are pleased that their performance to date is better than initially planned. The synergy plans, focused on recycling, procurement and material science, are on pace to deliver targeted synergies of \$20 to \$25 million by the third year following the close of the acquisition. We are excited about the fundamental strengths that Infiltrator adds to the Company for sales growth, margin expansion and cash flow generation.

To fund this acquisition, significant changes were made to ADS' capital structure. We issued \$300 million of equity and \$1.05 billion of debt with maturities into 2027, with favorable market reaction to both offerings. Immediately following the acquisition we had a leverage ratio of 4.4 times Adjusted EBITDA, which is above our target leverage range of 2 to 3 times. We made a commitment to get back within the targeted range by the end of calendar 2020 and achieved this one year ahead of schedule with a leverage ratio at 2.7 times in March 2020 by issuing the equity, early payment of \$50M of the term loan and strong cash flow performance of the business. We continue to focus on reducing leverage to the lower end of the target range to protect and enhance our already strong balance sheet and liquidity position.

Looking Ahead

Fiscal 2021 started similarly to how the prior year ended with strength across the majority of our businesses and end markets. Demand and business activity remained fairly stable into the first quarter, but we expect market conditions may be less favorable in the second half of the year. Accordingly, a cost reduction and efficiency program was implemented to get ahead of what could be a potentially difficult demand environment. We continue to closely follow the markets, work the plan and make the necessary adjustments to operate the ADS and Infiltrator businesses.

We are committed to providing a safe and healthy work environment for employees and took this to a new level over the past few months. In response to the pandemic, we implemented appropriate health protocols across all of the ADS and Infiltrator facilities and closely following guidelines from the Centers for Disease Control and Prevention (CDC) as well as federal, state and local governments. We also continue to prioritize investments in safety, highlighted by the \$4 million approved for safety-related capital projects in Fiscal 2020.



Beyond safety, we made other investments in ADS' Environmental, Social and Governance (ESG) program last year, which will continue to be a priority as we move through Fiscal 2021 and beyond. I am excited to announce that we began tracking energy usage and emissions output by setting up processes and procedures to gather this data efficiently throughout our network. We will report on this data as well as our recycling efforts, fleet efficiency and safety metrics, as recommended by the Sustainability Accounting Standards Board (SASB), in our Fiscal 2020 Sustainability Report. We have made significant progress on sustainability related objectives and are excited to continue to build a best-in-class ESG program.

As we continue to adjust to what the new normal will look like in Fiscal 2021 and beyond, we are focused on the safety and well-being of employees. We will also maintain flexibility to adjust our strategy and operating levers to maximize value creation with a focus on delivering operational improvements, executing our material conversion and water management solutions strategies, expanding in key states where construction growth remains active and becoming a more sustainable company. Though we are facing new challenges as a company and as a nation, our goal remains the same: driving shareholder value through sales growth, margin improvement and cash flow generation while maintaining a healthy balance sheet. Furthermore, we are working to strategically position the business to respond to changes in demand as well as ensuring the capability to ramp up quickly when economic recovery occurs.

Finally, I want to thank the customers and the communities we serve for entrusting ADS with their water management needs, our shareholders for their ongoing support and most of all, our employees, whose adherence to new health protocols and work with management in this new environment have ultimately driven our success and ability to service ADS and Infiltrator customers. I am confident we will emerge a stronger business as market conditions improve.

Sincerely,

D. Scott Barbour
President and CEO



Letter from the Chairman



Dear Fellow Shareholders,

The ADS Board is focused on value creation.

In this past fiscal year, the board made the decision to declare a \$75 million special dividend to all shareholders and take an important step to wind down the ESOP. Notably, ADS has returned \$200 million to shareholders through dividends and share repurchases since going public. Further, ADS preserved the financial strength to pursue the Infiltrator Water Technologies acquisition, announced last August, as well as fund substantial capital investments as part of our three-year growth plan.

ADS also continued to deliver strong financial performance, growing Adjusted EBITDA by 56% to \$362 million in Fiscal 2020.

The board also took steps to strengthen governance and respond to shareholder priorities. These governance enhancements included a proposal to declassify the board over the next three years, at which point all directors would stand for election on an annual basis. The board also approved the proposal to eliminate the supermajority vote requirement for charter and bylaw changes that require shareholder approval. In addition, the board introduced the majority vote standard for the uncontested election of our directors (with a plurality carveout for contested elections). These actions follow best practices and establish greater accountability to our shareholders.

Additionally, as part of our governance work, the board established an Environmental, Social and Governance (ESG) board sub-committee to develop and review ADS' corporate citizenship, sustainability programs and ESG policies. The sub-committee will be led by Michael Coleman, the former Mayor of Columbus, Ohio, who has a unique experience in driving sustainability programs and ESG initiatives. The sub-committee will periodically review the Company's sustainability strategy and performance, as well as its reporting and disclosure practices. This is an important step in advancing ADS' ESG program by providing enhanced focus, oversight and accountability at the board level.

Finally, the board is working to ensure that ADS has experienced, diverse and independent directors. In Fiscal 2020, ADS welcomed an exceptional leader, Manuel Perez de la Mesa, to our board of directors. Manny is a respected industry veteran who brings deep experience in industrial distribution, strategic planning, and international operations. The board is also proposing that shareholders approve a new director, Anesa Chaibi, at the annual shareholder meeting. Anesa has broad general management experience in variety of industries with a deep understanding of the water industry gained during her time at HD Supply and General Electric. ADS governance is strengthened with these two outstanding leaders.

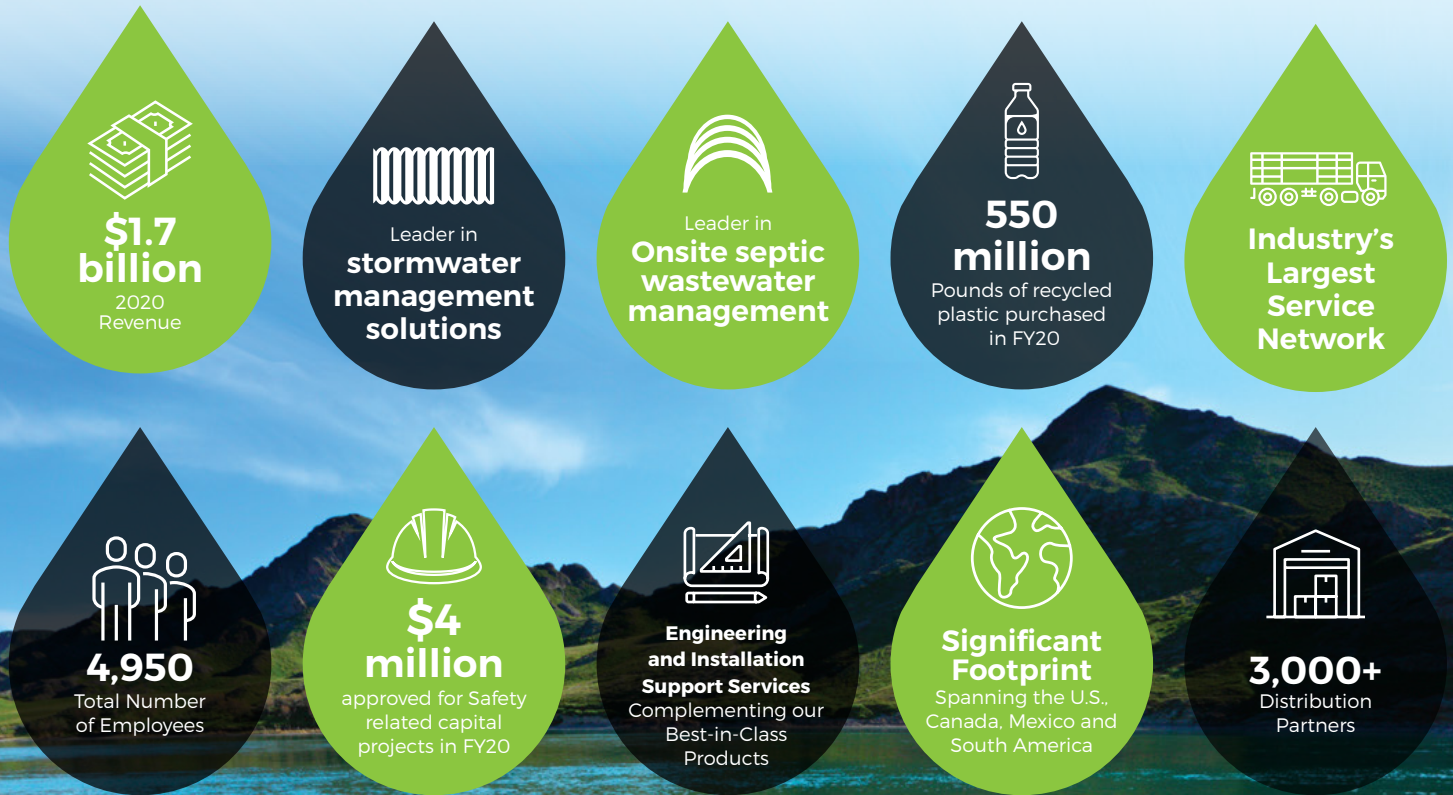
Collectively, the actions taken this year by the company and the board will help ADS sustain long-term growth and deliver shareholder value. On behalf of the board, you have our commitment to continue to focus on driving value creation.

A handwritten signature in black ink, appearing to read 'C. Robert Kidder'.

C. Robert Kidder
Chairman of the Board of Directors

Company Snapshot

Advanced Drainage Systems, Inc. (ADS) is a leading manufacturer of high performance thermoplastic corrugated pipe, providing innovative solutions to some of the world's most challenging water management problems. Whether at construction sites, on farmland or within businesses, schools and neighborhoods, our products make a difference in communities around the world. We established our market leading position through innovative products that displace traditional materials and we have accelerated our growth by differentiating ourselves as a water management solutions provider. Our comprehensive set of products help communities efficiently and safely manage storm and waste water from the minute it hits the ground until it is released back into the ecosystem.



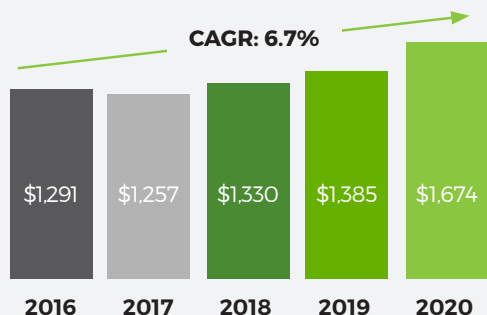
Spotlight on ADS' Agriculture Business

Fiscal 2020 saw significant growth in our domestic agriculture market sales, as we capitalized on favorable industry dynamics through improved execution. We successfully implemented organizational changes and introduced new products, further capitalizing on the 20% agriculture market growth driven by prevented plant acres and pent up-demand. ADS' agriculture sales outpaced the market by 15% as we generated broad-based growth across the United States. We made incredible progress this year and look forward to building on these achievements in the years to come.

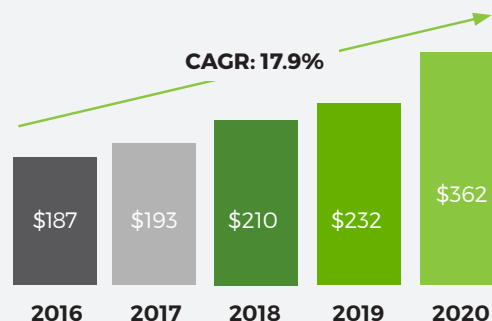


Key Financial Highlights

FY 2020 Revenue (Figures in millions)

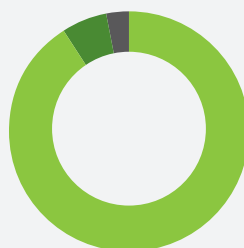
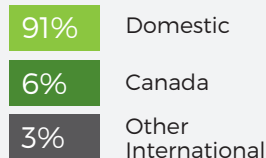


FY 2020 Adjusted EBITDA¹ (Figures in millions)

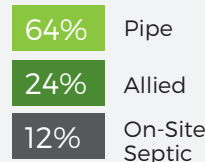


¹ EBITDA adjustments exclude one-time transaction costs and certain non-cash items.

FY 2020 Sales by Geography



FY 2020 Sales by Product Category



FY 2020 Domestic Revenue Growth vs. End Market

| End Market | % of Domestic Sales | Market Performance ² | ADS Sales |
|---------------------------------------|---------------------|---------------------------------|-----------|
| Non-Residential Construction | 52% | +3% | +7% |
| Residential Construction ³ | 32% | +2% | +76% |
| Infrastructure Construction | 8% | +1% | +6% |
| Agriculture | 8% | +20% | +35% |

Organic⁴ construction market sales outperformed overall end markets by 600 basis points

¹ Non-GAAP. Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the accompanying Form 10-K for the definitions of non-GAAP measures and reconciliation of non-GAAP measures to GAAP measures.

² Based on management estimates.

³ Includes Infiltrator Water Technologies results.

⁴ Organic results represent the legacy ADS business and exclude Infiltrator Water Technologies results.

Infiltrator Water Technologies Overview

Infiltrator Overview

- Leading national provider of onsite wastewater treatment products
- Market leader in leachfield chambers and systems, septic tanks and accessories
- Sophisticated and scaled internal recycling capabilities complementary to ADS
- Best-in-class manufacturing technologies
- Strong commitment to innovation



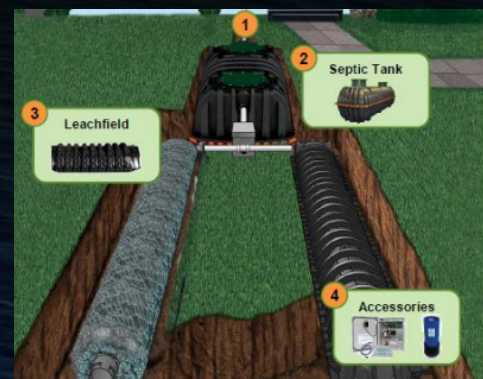
A Compelling Strategic Acquisition

- ✓ Builds on ADS' core strengths and enhances position as a leader in water management solutions
- ✓ Expands and diversifies ADS' addressable opportunity into highly related and attractive on-site septic business
- ✓ Shared go-to-market distribution strategy founded on driving conversion from traditional materials
- ✓ Complementary cultures, similar growth strategies and a shared commitment to innovation
- ✓ Strengthens ADS' commitment to sustainability with best-in-class polypropylene (PP) and polyethylene (PE) recycling capabilities
- ✓ Enhances ADS' growth, margin and cash flow profile as well as expected to generate significant synergies

On-Site Wastewater Overview

- The On-site wastewater industry was an estimated \$1.2 billion in 2018
- Approximately 30% of the new North American single-family homes utilize septic systems
- Replacement systems make up approximately one third of overall demand
- Traditionally, wastewater systems have been comprised of pipe and stone leach fields and concrete septic tanks

Infiltrator Water Technologies Wastewater System



- 1 Piping/Transfer:** wastewater is fed through piping systems into an underground tank located outside of the home
- 2 Septic Tank (Primary Treatment):** stores and treats solids while releasing clarified effluent into the leach field
- 3 Leach field (Secondary Treatment):** stores and allows infiltration of effluent into soil; naturally treated and returned to the local aquifer
- 4 Controls:** flow control units and devices can be incorporated to better treat the effluent on sites with poor soil conditions

Storming the Field at KIPP Columbus



On October 24, 2019, KIPP (“Knowledge Is Power Program”) Columbus, a free college preparatory public school serving nearly 2,000 students from 6 weeks old through the 12th grade from under-served communities, held a ribbon cutting ceremony at their newly constructed football field in Columbus, OH. The following day, the school’s first class of graduating seniors hosted their first and only home football game of the year. This milestone event was a long time coming and marked the unwavering commitment of school leaders through a number of construction obstacles.

KIPP works with families and communities to create joyful, academically excellent schools that prepare students with the skills and confidence to pursue the paths they choose - college, career, and beyond - so they can lead fulfilling lives and create a more just world. Nationally, there are 242 KIPP schools serving more than 100,000 students and more than 12,000 KIPP alumni who are graduating from college at a rate of three times their peers. Founded in 2008 with 50 students in the 5th grade, KIPP Columbus has grown to serve nearly 2,000 students from birth through twelfth grade. The spring of 2020 represents a landmark for KIPP Columbus as they celebrate their first class of graduating seniors from KIPP Columbus High School.

When the project first broke ground, contractors quickly discovered six feet of peat, or soil material consisting of decaying plants, below the surface. With its low strength level and high compressibility, contractors knew quickly the peat had to be removed. However, the removal and replacement presented its own challenges, including unexpected associated costs and build time and more importantly, a new way to manage stormwater on the build site given the high water retention of peat.



As part of Advanced Drainage Systems’ continued commitment that began in 2008 when we helped to initially build the KIPP Columbus High campus, we donated 300 StormTech chambers to build a stormwater retention system under the athletic campus last year. The system went in fast, enabling construction to continue and eventually finish in time for that one and only home football game of 2019.

Advanced Drainage Systems is proud to be a part of this milestone for KIPP Columbus as we strive to be a good community partner where our employees live and work.

Go Jaguars!

Industry Leading Recycling Solutions

Sustainability is at the core of who we are and what we do. We are proud of the important work we are doing to have a positive environmental, operational and social impact.

We are one of the 5 largest plastic recycling companies in North America. In Fiscal 2020, ADS and Infiltrator purchased over half a billion pounds of recycled plastic, keeping it out of landfills and further preventing over 730 million pounds of Greenhouse Gas emissions (GHG) from being released into the atmosphere. Our industry-leading resin blending programs convert this recycled plastic into pipe, chambers and other products that can support America's stormwater management and on-site septic needs.



In fiscal 2020, we consumed **29%** of the recycled pigmented HDPE bottles in the United States.

The amount of recycled plastic we consumed in fiscal 2020 reduced our Greenhouse Gas emissions by over 730 million pounds, which amounts to taking **70,000** cars off the road.




**<1
year
LIFE SPAN**

**100+
years
LIFE SPAN**

Figures based on "Life Cycle Impacts For Postconsumer Recycled Resins: PET, HDPE, and PP" report prepared for the Association of Plastics Recyclers by Franklin Associates, A Division of Eastern Research Group, published in December 2018.

Sustainability By-the-Numbers

ENVIRONMENTAL



5th Largest recycling company in North America



550 Million¹ pounds of recycled plastic purchased



7% decrease in greenhouse gas emissions (sales weighted)



66% of pipe revenue derived from remanufactured products



44%¹ increase in purchased recycled plastic



3% decrease in energy intensity

OPERATIONAL



11% decrease in near-miss frequency rate (NMFR)



\$4 Million approved for safety-related capital projects in FY20



12% decrease in scrap rate



4% increase in payload efficiency



16% decrease in downtime rate



2% increase in fleet MPG

SOCIAL & GOVERNANCE



ADS Philanthropic Foundation

Established in 2020



400+ employees participated in leadership training



2 enhancements made to corporate governance program



\$2 Million

donated to charitable organizations



Engaged with **40%** of institutional shareholder base around corporate governance effectiveness and sustainability efforts



ESG Board of Directors Sub-Committee

Established in 2020

¹ Includes Infiltrator Water Technologies purchases.

Board of Directors

Robert Kidder

Chairman

Scott Barbour

Director, President and
Chief Executive Officer

Michael Coleman

Partner
Ice Miller LLP

Robert M. Eversole

Managing Director
Stonehenge Partners, Inc.

Alexander R. Fischer

President and Chief Executive Officer
Columbus Partnership

Tanya Fratto

Retired President and Chief Executive Officer
General Electric Superabrasives

M.A. (Mark) Haney

Retired Executive Vice President of Olefins and
Polyolefins
Chevron Phillips Chemical Company LP

Ross M. Jones

Managing Director
Berkshire Partners

Carl A. Nelson, Jr.

Retired Managing Partner
Arthur Andersen

Manuel J. Perez de la Mesa

Retired President and Chief Executive Officer
Pool Corporation

Executive Officers

Scott Barbour

Director, President and
Chief Executive Officer

Scott A. Cottrill

Executive Vice President,
Chief Financial Officer, Secretary

Darin Harvey

Executive Vice President, Supply Chain

Robert M. Klein

Executive Vice President, Sales

Roy E. Moore, Jr.

Executive Vice President, Infiltrator

Kevin C. Talley

Executive Vice President and
Chief Administrative Officer

Ronald R. Vitarelli

Executive Vice President,
Engineering and Business Development

Chairman Emeritus

Joe Chlapaty

Chlapaty Investments LLC
Retired Chairman, President and
Chief Executive Officer
Advanced Drainage Systems

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended March 31, 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 NO.: 001-36557

ADVANCED DRAINAGE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

51-0105665

(I.R.S. Employer
Identification Number)

4640 Trueman Boulevard, Hilliard, Ohio 43026

(Address of principal executive offices and zip code)

(614) 658-0050

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Stock, \$0.01 par value per share

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange On Which Registered |
|--|----------------------|---|
| Common Stock, \$0.01 par value per share | WMS | New York Stock Exchange |

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

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

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

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

Indicate by check mark whether the registrant 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. Yes No

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 shares of common stock held by non-affiliates of the registrant (treating all executive officers and directors of the registrant, for this purpose, as affiliates of the registrant) was \$1,540 million as of September 30, 2019, the last business day of the registrant's most recently completed second fiscal quarter, based on the reported closing price of the shares of common stock as reported on the New York Stock Exchange on September 30, 2019.

As of May 19, 2020, the registrant had 69,338,180 shares of common stock outstanding. The shares of common stock trade on the New York Stock Exchange under the ticker symbol "WMS." In addition, as of May 19, 2020, 392,994 shares of unvested restricted common stock were outstanding and 21,559,132 shares of ESOP preferred stock, convertible into 16,583,284 shares of common stock, were outstanding. As of May 19, 2020, 86,314,458 shares of common stock were outstanding, inclusive of outstanding shares of unvested restricted common stock and on an as-converted basis with respect to the outstanding shares of ESOP preferred stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report incorporates by reference specific portions of the Registrant's Notice of Annual Meeting and Proxy Statement relating to the Annual Meeting of Stockholders to be held on July 23, 2020.

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Advanced Drainage Systems, Inc.

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements. Some of the forward-looking statements can be identified by the use of terms such as “believes,” “expects,” “may,” “will,” “should,” “could,” “seeks,” “intends,” “plans,” “estimates,” “anticipates” or other comparable terms. These forward-looking statements include all matters that are not related to present facts or current conditions or that are not historical facts. They appear in a number of places throughout this Annual Report on Form 10-K and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our consolidated results of operations, financial condition, liquidity, prospects, growth strategies, and the industries in which we operate and include, without limitation, statements relating to our future performance.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which are beyond our control. We caution that forward-looking statements are not guarantees of future performance and that our actual consolidated results of operations, financial condition, liquidity, and industry development may differ materially from those made in or suggested by the forward-looking statements contained in this Annual Report on Form 10-K. In addition, even if our actual consolidated results of operations, financial condition, liquidity, and industry development are consistent with the forward-looking statements contained in this Annual Report on Form 10-K, those results or developments may not be indicative of results or developments in subsequent periods. A number of important factors could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including those reflected in forward-looking statements relating to our operations and business, the risks and uncertainties discussed in this Annual Report on Form 10-K (including under the heading “Item 1A. Risk Factors”) and those described from time to time in our other filings with the SEC. Factors that could cause actual results to differ from those reflected in forward-looking statements relating to our operations and business include, among other things:

- fluctuations in the price and availability of resins and other raw materials and our ability to pass any increased costs of raw materials on to our customers in a timely manner;
- volatility in general business and economic conditions in the markets in which we operate, including the adverse impact on the U.S. and global economy of the COVID-19 global pandemic, and the impact of COVID-19 in the near, medium and long-term on our business, results of operations, financial position, liquidity or cash flows, and other limitation factors relating to availability of credit, interest rates, fluctuations in capital and business and consumer confidence;
- cyclical and seasonality of the non-residential and residential construction markets and infrastructure spending;
- the risks of increasing competition in our existing and future markets, including competition from both manufacturers of high performance thermoplastic corrugated pipe and manufacturers of products using alternative materials;
- uncertainties surrounding the integration of acquisitions and similar transactions, including the acquisition of Infiltrator Water Technologies and the integration of Infiltrator Water Technologies;
- our ability to realize the anticipated benefits from the acquisition of Infiltrator Water Technologies;
- risks that the acquisition of Infiltrator Water Technologies and related transactions may involve unexpected costs, liabilities or delays;
- our ability to continue to convert current demand for concrete, steel and polyvinyl chloride (“PVC”) pipe products into demand for our high performance thermoplastic corrugated pipe and Allied Products;
- the effect of any claims, litigation, investigations or proceedings, including those described below under “Item 3. Legal Proceedings” of this Annual Report;
- the effect of weather or seasonality;
- the loss of any of our significant customers;
- the risks of doing business internationally;

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Advanced Drainage Systems, Inc.

- our ability to remediate the material weakness in our internal control over financial reporting, including remediation of the control environment for our joint venture affiliate ADS Mexicana, S.A. de C.V. as described in “Item 9A. Controls and Procedures” of this Annual Report;
- the risks of conducting a portion of our operations through joint ventures;
- our ability to expand into new geographic or product markets, including risks associated with new markets and products associated with our recent acquisition of Infiltrator Water Technologies; our ability to achieve the acquisition component of our growth strategy;
- the risk associated with manufacturing processes;
- our ability to manage our assets;
- the risks associated with our product warranties;
- our ability to manage our supply purchasing and customer credit policies;
- the risks associated with our self-insured programs;
- our ability to control labor costs and to attract, train and retain highly qualified employees and key personnel;
- our ability to protect our intellectual property rights;
- changes in laws and regulations, including environmental laws and regulations;
- our ability to project product mix;
- the risks associated with our current levels of indebtedness, including borrowings under our existing credit agreement and outstanding indebtedness under our existing senior notes;
- the nature, cost and outcome of any future litigation and other legal proceedings, including any such proceedings related to our acquisition of Infiltrator Water Technologies as may be instituted against the Company and others;
- fluctuations in our effective tax rate, including from the Tax Cuts and Jobs Act;
- changes to our operating results, cash flows and financial condition attributable to the Tax Cuts and Jobs Act;
- our ability to meet future capital requirements and fund our liquidity needs;
- the risk that information may arise that would require the Company to make adjustments or revisions or to restate further the financial statements and other financial data for certain prior periods and any future periods;
- any delay in the filing of any filings with the SEC;
- the review of potential weaknesses or deficiencies in the Company’s disclosure controls and procedures, and discovering further weaknesses of which we are not currently aware or which have not been detected;
- additional uncertainties related to accounting issues generally; and
- other risks and uncertainties, including those listed under “Item 1A. Risk Factors.”

Please read this Annual Report on Form 10-K completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this Annual Report on Form 10-K are qualified by these cautionary statements. All forward-looking statements are made only as of the date of this Annual Report on Form 10-K, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

PART I

Item 1. Business

COMPANY OVERVIEW

Unless the context otherwise indicates or requires, as used in this Annual Report on Form 10-K, the terms “we,” “our,” “us,” “ADS” and the “Company” refer to Advanced Drainage Systems, Inc. and its directly- and indirectly-owned subsidiaries as a combined entity, except where it is clear that the terms mean only Advanced Drainage Systems, Inc. exclusive of its subsidiaries. The term “Infiltrator Water Technologies” refers to Infiltrator Water Technologies Ultimate Holdings, Inc., our wholly owned subsidiary. The term “Legacy ADS” refers to the combined entity excluding Infiltrator Water Technologies.

We are the leading manufacturer of innovative water management solutions in the stormwater and on-site septic waste water industries, providing superior drainage solutions for use in the construction and agriculture marketplace. Our innovative products are used across a broad range of end markets and applications, including non-residential, infrastructure and agriculture applications. We have established a leading position in many of these end markets by leveraging our national sales and distribution platform, overall product breadth and scale and manufacturing excellence.

On July 31, 2019, we completed the acquisition (the “Acquisition”) of Infiltrator Water Technologies, a leading national provider of plastic leach field chambers and systems, septic tanks and accessories, primarily for use in residential applications. Infiltrator Water Technologies products are used in on-site water treatment systems in the United States and Canada. Infiltrator Water Technologies has been a longstanding supplier and customer of the Company for over 15 years of StormTech and ARC Septic Chambers.

We are the leading manufacturer of high performance thermoplastic corrugated pipe, providing a comprehensive suite of water management products and superior drainage solutions for use in the underground construction and infrastructure marketplace. Our products are generally lighter, more durable, more cost effective and easier to install than comparable alternatives made with traditional materials. Following our entrance into the non-residential construction market with the introduction of N-12 corrugated polyethylene pipe in the late 1980s, our pipe has been displacing traditional materials, such as reinforced concrete, corrugated steel and polyvinyl chloride, or PVC, across an ever expanding range of end markets, including non-residential, residential, agriculture and infrastructure applications. We have established a leading position in many of these end markets by leveraging our national sales and distribution platform, our overall product breadth and scale and our manufacturing excellence. In the United States, our national footprint combined with our strong local presence and broad product offering make us the leader in an otherwise highly fragmented sector comprised of many smaller competitors. We believe the ADS brand has long been associated with quality products and market-leading performance. Our trademarked green stripe, which is prominently displayed on many of our products, serves as clear identification of our commitment to the customers and markets we serve.

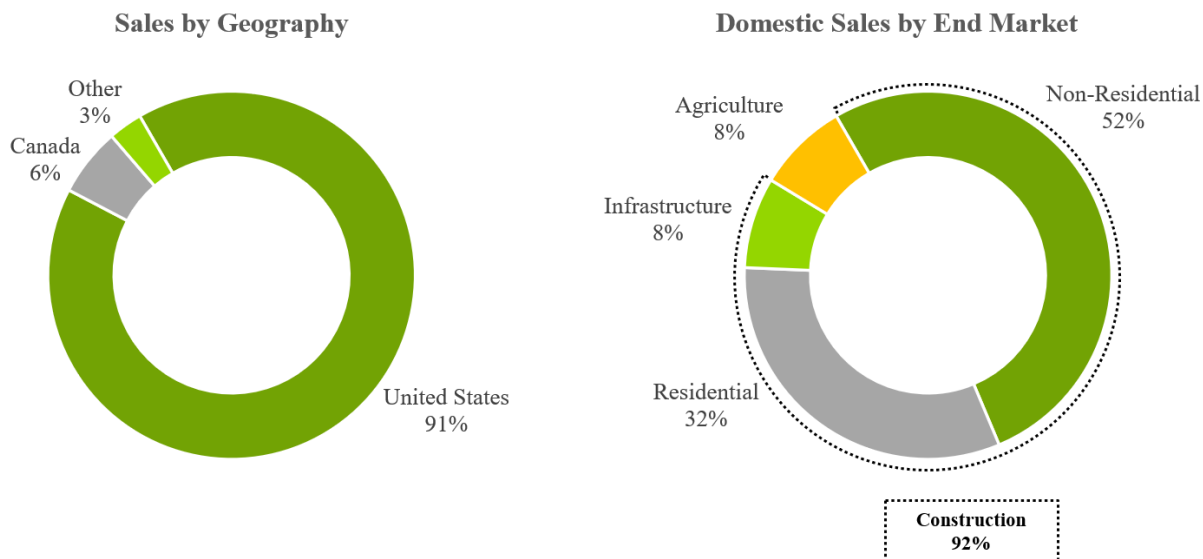
We believe the increasing acceptance of thermoplastic pipe products in international markets represents an attractive growth opportunity. We further believe our extensive national footprint in the United States creates a cost and service advantage compared to our HDPE pipe producing competitors, the largest of which has only eight HDPE pipe manufacturing plants in the United States and Canada and, according to the December 23, 2019 ranking by Plastics News of Pipe, Profile & Tubing Extruders, had estimated sales of \$140 million, or approximately 12 times less than our net sales for the fiscal year ended March 31, 2020.

The Acquisition strengthens our position as an industry leading provider of plastic storm water and plastic wastewater solutions globally. The Acquisition adds scale in the on-site wastewater industry. We estimate that the storm water industry is an approximately \$6.0 billion industry. We estimate that the on-site septic market is a roughly \$1.2 billion industry and that approximately 30% of new North American single-family homes utilize septic systems. On a combined basis, we estimate that we had an addressable market opportunity of approximately \$7 billion.

Advanced Drainage Systems, Inc.

As illustrated in the charts below, we provide a broad range of high performance thermoplastic corrugated pipe and related water management products to a highly diversified set of end markets and geographies.

Fiscal 2020 Revenue



SEGMENT INFORMATION

For a discussion of segment and geographic information, see “Note 21. Business Segment Information” to our audited consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” of this Form 10-K.

OUR MANUFACTURING AND DISTRIBUTION PLATFORM

Pipe - We have a leading domestic and international manufacturing and distribution infrastructure, serving customers in all 50 U.S. states, Canada, Mexico and approximately 80 other countries through 64 manufacturing plants and 32 distribution centers, including eight manufacturing plants and five distribution centers owned or leased by our joint ventures. We manufacture our corrugated pipe products in 17 different diameters ranging from 2” to 60” using a continuous extrusion process, where molten polyethylene or polypropylene is pushed through a die into a moving series of corrugated U-shaped molds. Blown air and vacuum are used to form the corrugations of the pipe which is pulled through a corrugator and then cut to length. We utilize customized and proprietary production equipment, which we believe is faster and more cost efficient than other pipe making equipment generally available in the market.

Domestically, we are capable of producing more than one billion pounds of pipe annually on a standard five-day per week schedule. Additional capacity is in place to support seasonal production needs and expected growth. Our production equipment is built to accept transportable molds and die tooling over a certain range of sizes so each plant is not required to house the full range of tooling at any given time. This transportability provides us with the flexibility to optimize our capacity through centrally coordinated production planning, which helps to adapt to shifting sales demand patterns while reducing the capital needed for tooling. With our large manufacturing footprint in place, we can support rapid seasonal growth in demand, focusing on customer service while minimizing transportation costs.

Allied and Other - The standard fittings products (tees, wyes, elbows, etc.) that we produce and sell to connect our pipe on jobsites are blow molded or injection molded at three domestic plants. In addition, customized fabricated fittings (e.g., more complex dual wall pipe reducers, bends or structures) are produced in 20 of our North American plants. In addition to the extrusion of pipe, and blow molding and injection molding of fittings, we also use a variety

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of other processes in our manufacturing facilities. These processes include thermoforming, compression molding, and custom plastic welding and fabrication. The wide variety of production processes and expertise allow us to provide cost-effective finished goods at competitive prices delivered in a timely fashion to our customers.

Our manufacturing plants have no material process-related by-products released into the atmosphere, waterways, or solid waste discharge. During pipe production start-ups and size changeovers, non-compliant scrap and any damaged finished goods pipe are recycled through a grinder for internal re-use.

Infiltrator Water Technologies – We produce septic chambers, tanks and accessories at our six manufacturing facilities, which include 23 injection molding machines ranging in size from approximately 750 tons to 6,000 tons. Our molds and machines have been designed to maximize interchangeability to optimize flexibility, maximize efficiency and minimize downtime.

We have developed extensive expertise in molding very large parts including chambers in excess of 130 pounds and tank halves weighing in excess of 240 pounds. We have jointly designed all injection molds, built one of the largest injection molds in world and designed and built its own injection molding machines. Additionally, we have extensive experience designing, installing and programming automation cells which are heavily incorporated throughout the molding operation.

EZflow is produced at five facilities throughout the U.S. using steam expansion. Using steam expansion, these plants convert profile extruded polystyrene bead, having been injected with gas, into an EPS aggregate, or synthetic stone. The bead used to produce the aggregate can be either purchased through a third-party supplier or produced on a tandem extruder in one of our other facilities and then shipped to the EZflow manufacturing facilities. Once expanded, the bead is formed into various diameter bundles with various design capabilities to meet targeted market needs.

Presby Environmental Enviro- Septic and Advanced Enviro-Septic systems are produced in one of our manufacturing facilities. Enviro-Septic and Advanced Enviro-Septic are manufactured on two production lines. Each production line includes corrugated pipe extrusion, pipe perforation, and a sewing cell where the geotextile fabrics and plastic fiber are wrapped around the pipe and sewn together to produce the finished product. The fiber for all products is manufactured on-site through fiber extrusion, stretching and drying. The EnviroFin are manufactured on an independent production line which includes fabric layout, fiber roll and pipe insertion, and fabric bonding via adhesives. All coupling adapters and end caps required to complete field installation are injection molded on-site and shipped with the various products as required. Enviro-Septic and Advanced Enviro-Septic are cut to 10' lengths and packaged in racks for shipping.

Delta Treatment Systems manufactures residential advanced wastewater treatment products including Ecopod and Whitewater product lines within our facility. The manufacturing process includes assembling contract-manufactured components along with commercially available components into finished wastewater treatment products. In addition, manufacturing produces sub-component assemblies to be used in commercial packaged treatment plants designed by Delta Treatment Systems.

International Presence – We own manufacturing facilities in Canada to produce our products for sale in the Canadian markets. We serve international markets primarily in Mexico and South America through joint ventures with local partners. Our joint venture strategy has provided us with local and regional access to key markets such as Mexico, Brazil, Chile, Argentina, and Peru. Our international joint ventures produce pipe and related products to be sold in their respective regional markets. We also have wholly-owned subsidiaries that distribute our pipe and related products in Europe and the Middle East. Combining local partners' customer relationships, brand recognition and local management talent, with our world-class manufacturing and process expertise, broad product portfolio and innovation creates a powerful platform and exciting opportunities for continued profitable international expansion.

Quality Assurance Control - We have two internal quality assurance control laboratory facilities equipped and staffed to evaluate and confirm incoming raw material and finished goods quality in addition to the quality testing that is done at our manufacturing facilities. We conduct annual safety, product and process quality audits at each of our facilities, using centralized internal resources in combination with external third-party services. In the quality

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area, various national and international agencies such as National Transportation Product Evaluation Program (“NTPEP”), International Association of Plumbing and Mechanical Officials (“IAPMO”), Bureau de normalisation du Québec (“BNQ”), Intertek for Canadian Standards Association (“CSA”), Entidad Mexicana de Acreditacion A.C. (“EMA”) and NSF International and several state Departments of Transportation (“DOT”) and municipal agencies conduct both scheduled and unscheduled audits/inspections of our plants to verify product quality and compliance to applicable standards.

Training - Core to our commitment and enablement of a safe and productive manufacturing environment are our operational and management training programs. Through our ADS Academy, we deliver targeted role-specific training to our operations team members through a blended curriculum of online and hands-on training experiences covering safety, quality, product knowledge and manufacturing process. Our learning management system, which hosts approximately 350 custom modules, serves as the foundation of our operational training programs and provides us with appropriate scale, efficiency, and governance to support our growth. We have a strong commitment to the training of our manufacturing supervisors and managers in technical, management, and leadership subjects through intense role-based assimilation plans, e-learning and classroom-based development experiences.

Fleet – For our ADS legacy business, we also operate an in-house fleet of approximately 725 tractors. Our effective shipping radius is approximately 300 miles from one of our manufacturing plants or distribution centers. The combination of a dedicated fleet and team of company drivers allows greater flexibility and responsiveness in meeting dynamic customer jobsite delivery expectations. We strive to achieve less than three-day lead-time on deliveries and have the added benefit of redeploying fleet and driver assets to respond to short-term regional spikes in sales activity. For deliveries that are outside an economic delivery radius of our truck fleet, common carrier deliveries are tendered using a customized software platform to ensure that lowest delivered freight costs are achieved. In addition, in the United States and Canada, approximately 12% of our pipe volume is sold on a pick-up or walk-in basis at our plant and yard locations, further leveraging our footprint and lowering freight cost per pound and per revenue dollar.

Our North American truck fleet incorporates approximately 1,350 trailers that are specially designed to haul our lightweight pipe and fittings products. These designs maximize payload versus conventional over the road trailers and facilitate unassisted unloading of our products at the jobsites by our drivers. The scope of fleet operations also includes backhaul of purchased raw materials providing a lower delivered cost to our plant locations. In addition, we are pleased to announce that as of March 2020 we have committed to work towards a more cost-effective and environmentally efficient fleet by becoming an official U.S. EPA SmartWay partner.

Facility Network - Our scale and extensive network of Pipe and Allied Products facilities provide a critical cost advantage versus our competitors, as we are able to more efficiently transport products to our customers and end users and to promote faster product shipments due to our proximity to the delivery location. The optimized design of our Infiltrator Water Technologies chambers and tanks provide the ability to nest products, enabling us to manufacture products from one location and efficiently ship throughout North America.

OUR PRODUCTS

We design, manufacture and market a complete line of high performance thermoplastic corrugated pipe and related water management products for use in a wide range of end markets. Our product line includes: single, double and triple wall corrugated polypropylene and polyethylene pipe (or “Pipe”), plastic leach field chambers and systems, septic tanks and accessories (or “Infiltrator Water Technologies”), and a variety of additional water management products (“Allied Products & Other”) including: storm retention/detention and septic chambers (or “Chambers”); PVC drainage structures (or “Structures”); fittings (or “Fittings”); and water quality filters and separators (or “Water Quality”). We also sell various complementary products distributed through resale agreements, including geotextile products, drainage grates and other products (or “Other Resale”). The table below summarizes the percentage of Net Sales for Pipe, Infiltrator Water Technologies and Allied Products & Other.

| | 2020 | 2019 | 2018 |
|--------------------------------|-------|-------|-------|
| Pipe | 56.9% | 62.7% | 63.5% |
| Infiltrator Water Technologies | 10.1% | — | — |
| International | 8.9% | 11.6% | 11.7% |
| Allied Products & Other | 24.1% | 25.7% | 24.8% |

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Advanced Drainage Systems, Inc.

Pipe

Dual Wall Corrugated Pipe - Our N-12 pipe is a dual wall HDPE pipe with a corrugated exterior for strength and a smooth interior wall for hydraulics and flow capacity. Our N-12 pipe competes in the storm sewer and drainage markets that are also served by concrete pipe.

Our N-12 pipe is available in 17 different diameters ranging from 2” to 60” and in sections ranging from 10’ to 30’ in length. N-12 provides joint integrity, with integral bell and spigot joints for fast push-together installation, and is sold either with watertight or soil-tight coupling and fitting systems.

Our corrugated polyethylene pipe offers many benefits including ease of installation, job-site handling and resistance to corrosion and abrasion. Corrugated pipe can easily be cut or coupled together, providing precise laying lengths while minimizing installation waste and difficulty.

HP Storm Pipe and SaniTite HP Pipe - Our HP Storm pipe utilizes polypropylene resin, which provides (i) increased pipe stiffness relative to HDPE; (ii) higher Environmental Stress Crack Resistance (“ESCR”); and (iii) improved thermal properties, which improves joint performance. These improved physical characteristics result in a reduced need for select backfill, which creates installation savings for customers and expands the range of possible product applications.

Our SaniTite HP pipe utilizes the same polypropylene resins as our HP Storm pipe but includes a smooth third exterior wall in 30” to 60” pipe. The highly engineered polypropylene resin along with the triple wall design enables SaniTite HP to surpass the 46 pounds per square inch (“psi”), stiffness requirement for sanitary sewer applications. SaniTite HP offers cost and performance advantages relative to reinforced concrete pipe (such as improved hydraulics and better joint integrity) and PVC pipe (such as impact resistance).

Single Wall Corrugated Pipe - Our single wall corrugated HDPE pipe is ideal for drainage projects where flexibility, light weight and low cost are important. Single wall HDPE pipe products have been used for decades in agricultural drainage, highway edge drains, septic systems and other construction applications. In the agricultural market, improved technology has highlighted the favorable impact of drainage on crop yields. For homeowners, it is an economical and easily installed solution for downspout run-off, foundation drains, driveway culverts and general lawn drainage. Single wall pipe is also used for golf courses, parks and athletic fields to keep surfaces dry by channeling away excess underground moisture.

Standard single wall products are available in 2” to 24” diameters and sold in varying lengths. Pipe with 2” to 6” diameters is typically sold in coils ranging from 25’ to over 3,000’ in length, while larger diameter pipe is typically sold in 20’ lengths. Pipe can be either perforated or non-perforated depending on the particular drainage application.

Triple Wall Corrugated Pipe and Smoothwall HDPE Pipe - Our ADS-3000 Triple Wall pipe, small diameter triple wall corrugated pipe, consists of a corrugated polyethylene core molded between a smooth white outer wall and a smooth black inner wall. This combination of the three wall design adds strength and stiffness, while reducing weight as compared to PVC 2729. Triple Wall is produced in two sizes, 3” and 4”, and sold through our distribution network. We also manufacture smoothwall HDPE pipe in 3”, 4”, and 6” diameters that are sold into the residential drainage and on-site septic systems markets.

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Infiltrator Water Technologies

Infiltrator Water Technologies is the leading designer and manufacturer of highly engineered plastic chambers, synthetic aggregate leachfields, combined treatment and dispersal systems, plastic tanks, advanced treatment systems, and related accessories that are used in septic systems. The on-site wastewater (septic) market is heavily reliant on rural homes and communities that do not have access to centralized sewer and will require an on-site wastewater or septic solution. On-site wastewater technologies are scalable and can easily meet the needs of churches, schools, light commercial and small community construction projects.

Leachfield Products – Our Quick4 and ARC line of septic leachfield chambers are injection molded using recycled polyolefin materials. There are 10 Quick4 chamber models available to meet a wide variety of regulatory and market needs. There are five ARC chamber models available to meet a majority of regulatory and market needs. The Quick4 and ARC chambers are engineered for strength and performance, easy to install, and offer the user greater design flexibility, including a smaller footprint, as compared with traditional stone and pipe products. The product advantages are cost savings on labor, materials and time savings on the job.

EZflow - EZflow synthetic aggregate bundles replace stone and pipe leachfields for effluent and drainage applications. The EZflow proprietary products are a modular design that incorporates recycled polystyrene aggregate bundles and corrugated polyethylene pipe that act as a replacement to the traditional materials stone and pipe. EZflow septic systems are designed to improve infiltrative performance by eliminating fines and reducing compaction and embedment associated with crushed stone installation methods. EZflow drainage products use the same polystyrene media and polyethylene pipe with an additional geotextile barrier commonly used in drainage applications.

Tank Products – Our IM-Series line of septic tanks are injection-molded polypropylene plastic tanks manufactured from recycled materials. IM-Series septic tanks are available in 500, 1,000, and 1,500-gallon capacities for wastewater storage. Our IM-Tank is the only two-piece construction, injection molded tank design in North America. In comparison to traditional concrete tanks, our IM-Series septic tanks are easier to transport to the jobsite and require less time and energy to install. IM-Series tanks are efficiently shipped in two halves that nest together and are assembled locally by certified wholesale distributors prior to being sold to a septic system installer. Infiltrator Water Technologies offers a complete line of tank riser and safety accessory components.

Our IM-Series line of potable tanks are injection-molded polypropylene plastic tanks manufactured from virgin materials suitable for water reuse and drinking water storage. IM-Series potable tanks are available in 500, 1,200, and 1,750-gallon capacities for water storage. IM-Series potable tanks are commonly used in water cistern applications, such as rainwater harvesting systems. IM-Series tanks are efficiently shipped in two halves that nest together and are assembled by certified wholesale distributors prior to being sold to a contractor or homeowner.

Advanced Treatment Systems – Our Delta Treatment Systems’ (“Delta”) advanced wastewater treatment systems have been manufactured since the 1960s. Delta provides wastewater treatment solutions for residential and commercial systems with daily flows up to 100,000 gallons per day. The Delta product line includes Whitewater, ECOPOD, EA, and Package Treatment Plants. All Delta products are available in modular sizes to treat varying daily flows of wastewater. Delta products for residential use fall under a certification protocol administered by NSF. Delta products for commercial applications are custom designed and manufactured for the requirements of the project.

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Combined Treatment Dispersal Systems - Our Presby Environmental Enviro-Septic and Advanced Enviro-Septic systems are proprietary combined treatment and dispersal systems made with a twelve-inch diameter corrugated extrusion product that is encapsulated in fibrous materials and geotextiles. These systems when installed in a bed of sand have been proven to remove up to 98% of wastewater contaminants without using any electricity or replacement media, recycling clean water into the environment and recharging natural water supplies. Advanced Enviro-Septic and Enviro-Septic are wastewater treatment systems that combine treatment and dispersal in the same small footprint and at a reduced cost with minimal long-term maintenance. Advanced Enviro-Septic and Enviro-Septic are patented and patent-pending.

Our Advanced Treatment Leachfield (“ATL”) product is an alternative combined treatment and dispersal system that provides passive advanced wastewater treatment. The ATL is a profile of polystyrene aggregates and geotextiles installed in a bed of sand. The ATL system provides installers a low maintenance alternative to mechanical advanced treatment systems.

Allied Products & Other

We produce a range of Allied Products that are complementary to our Pipe products. Our Allied Products offer adjacent technologies to our core Pipe offering, presenting a complete drainage solution for our clients and customers. This combination of Pipe and Allied Products is a key strategy in our sales growth, profitability and market share penetration. The practice of selling a drainage system is attractive to both distributors and end users, by providing a broad package of products that can be sold on individual projects and strengthens our competitive advantage in the marketplace. We aggressively seek and evaluate new products, technologies and regulatory changes that impact our customers’ needs for Allied Products.

Using the strength of our overall sales and distribution platform, our Allied Product strategy allows us to more deeply penetrate our end markets and anticipate the evolving needs of our customers. The underground construction industry has historically been project (not product) driven, creating the impetus for owners, engineers and contractors to seek manufacturers that deliver solution-based product portfolios. Many of the components of underground construction are related and require linear compatibility of function, regulatory approval and technology.

Storm and Septic Chambers - Our StormTech chambers are used for stormwater retention, detention and “first flush” underground water storage on non-residential site development and public projects. These highly engineered chambers are injection molded from HDPE and PP resins into a proprietary design which provides strength, durability, and resistance to corrosion. The chambers allow for the efficient storage of stormwater volume, reducing the underground construction footprint and costs to the contractors, developers, and property owners. Our StormTech chambers offer great flexibility in design and layout of underground water storage systems. They are an attractive alternative to open ponds by reducing ongoing maintenance and liability and providing more useable land for development. Stormwater runoff is collected and stored in rows of chambers and gradually reenters the water system base, reducing erosion and protecting waterways. The chambers are open bottom, which allows for high density stacking in both storage and shipment. This freight-efficient feature drives favorable cost-competitiveness in serving long-distance export markets. These chamber systems typically incorporate our other product lines such as corrugated pipe, fabricated fittings, water quality units and geotextiles.

Our ARC and BioDiffuser products are chambers that are used in septic systems for residential and small volume non-residential wastewater treatment and disposal. Rural homes and communities that do not have access to central sewer lines require an on-site septic solution. Our ARC and BioDiffuser chamber products are installed and perform their septic treatment function without gravel, reducing costs to the contractor and homeowner over traditional pipe and stone systems. States and municipalities have different sizing criteria for on-site septic treatment systems based on soil and site conditions. The innovative design of our ARC chamber is generally approved for a footprint reduction, further reducing the cost of the septic system. Injection-molded from HDPE, these products are strong, durable, and chemical-resistant. These interconnecting chambers are favored by septic contractors because they are lightweight, easy to install and offer articulating features which increase site-specific design flexibility. The ARC chamber products are manufactured by Infiltrator Water Technologies.

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Structures - Our Nyloplast PVC drainage structures are used in non-residential, residential and municipal site development, road and highway construction, as well as landscaping, recreational, industrial and mechanical applications. The product family includes inline drains, drain basins, curb inlets and water control structures which move surface-collected stormwater vertically down to pipe conveyance systems. These custom structures are fabricated from sections of PVC pipe using a thermo-forming process to achieve exact site-specific hydraulic design requirements. Our Nyloplast products are a preferred alternative to heavier and larger concrete structures, by offering greater design flexibility and improved ease of installation which reduces overall project costs and timelines. The structures incorporate rubber gaskets to ensure watertight connections, preventing soil infiltration which plagues competitive products.

Our Inserta Tee product line consists of a PVC hub, rubber sleeve and stainless steel band. Inserta Tee is compression fit into the cored wall of a mainline pipe and can be used with all pipe material types and profiles. This product offers an easy tap-in to existing sanitary and storm sewers by limiting the excavation needed for installation compared to competitive products.

Fittings - We produce fittings and couplings utilizing blow molding, injection molding and custom fabrication on our pipe products. Our innovative coupling and fitting products are highly complementary to our broader product suite, and include both soil-tight and water-tight capabilities across the full pipe diameter spectrum. Our fittings are sold in all end markets where we sell our current pipe products.

Water Quality - Our BaySaver product line targets the removal of sediment, debris, oils and suspended solids throughout a stormwater rain event by separating and/or filtering unwanted pollutants. Our BaySeparators can be fabricated into multiple sizing combinations to fit a variety of applications and customer requirements. These products assist owners, developers and design engineers in remaining compliant with discharge requirements set forth by the Environmental Protection Agency (“EPA”) as well as state and local regulatory agencies. Our BaySaver product line coupled with our pipe, StormTech chambers, fabricated fittings, Nyloplast structures, Flexstorm inlet protection systems and geotextiles make up a comprehensive stormwater management solution. Our Barracuda separator removes sediment and other debris from storm water run-off, further protecting water resources. The Barracuda separator is designed to be used in a single manhole configuration and offers multiple pipe configurations.

Construction Fabrics & Geotextiles - We purchase and distribute construction fabrics and other geosynthetic products for soil stabilization, reinforcement, filtration, separation, erosion control, and sub-surface drainage. Constructed of woven and non-woven PP, geotextile products provide permanent, cost-efficient site-development solutions. Construction fabrics and geotextiles have applications in all of our end markets.

RAW MATERIALS AND SUPPLIERS

Virgin HDPE and PP resins are derivatives of ethylene and propylene, respectively. Ethylene and propylene are derived from natural gas liquids or crude oil derivatives in the U.S. We currently purchase in excess of 1,100 million pounds of virgin and recycled resin annually from approximately 470 suppliers in North America. As a high-volume buyer of resin, we are able to achieve economies of scale to negotiate favorable terms and pricing. Our purchasing strategies differ based on the material (virgin resin versus recycled material) ordered for delivery to our production locations. The price movements of the different materials also vary, resulting in the need to use a number of strategies to reduce volatility and successfully pass on cost increases to our customer through timely selling price increases when needed.

We have developed relationships with most of the North American producers of virgin high-density polyethylene and impact copolymer polypropylene producers that manufacture the grades we need to produce our products, including Braskem Americas, Inc., Chevron Phillips Chemical Co. LP, The Dow Chemical Company, Equistar Chemicals, LP, ExxonMobil Chemical Company, Formosa Plastics Corporation, U.S.A., Ineos Olefins & Polyolefins, USA, Sasol USA, and Nova Chemical. The North American capacity for ethylene derivatives has been expanded primarily as a result of the new supplies of natural gas liquids being produced through sustained oil and gas exploration and production.

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We leverage our raw material blending and processing technologies to produce an HDPE pipe that incorporates recycled resin. These products, which meet an ASTM International standard and an American Association of State Highway and Transportation Officials standard, replaces a majority of the virgin resin that is used with optimized recycled materials. To further develop our recycled material strategies, we established Green Line Polymers, Inc. (“GLP”), as our wholly-owned recycling subsidiary in 2012. GLP procures and processes recycled raw materials that can be used in products we produce and sell. Our first production facilities were established in Ohio and Georgia and are focused on processing post-industrial HDPE recycled materials. Based on the success of this strategy, we acquired a business that could supply clean, post-consumer recycled HDPE to our upper Midwest plants and established a second post-consumer processing plant, in Pennsylvania, to support our plants in Ohio, Michigan and the eastern and southern U.S. In fiscal 2020, 81% of our non-virgin HDPE raw material needs were internally processed (enhanced) through our GLP operations.

Infiltrator Water Technologies is a world-class manufacturer of plastic solutions in the on-site septic industry with leading positions in each of its core product offerings. Our combined business benefits from Infiltrator Water Technologies’ differentiated recycling capabilities and position as one of the largest consumers of post-industrial plastic in the United States. In 1991, Infiltrator Water Technologies manufactured the first chamber from 100% recycled materials and in 1995, formally launched the Champion Recycling facility which sources and processes consistent materials ranging from post-industrial resins to used carpet, at attractive prices. Sourcing recycled content is less volatile from a pricing perspective than virgin resin, and we estimate that more than 55% of our combined material purchases will be recycled inputs rather than virgin resin (which represents the remaining roughly 42%).

We maintain relationships with several of the largest environmental companies such as Waste Management, Inc., Republic Services, Inc., and Rumpke, Inc., which provide us with post-consumer HDPE recycled materials. We also maintain relationships with several key post-industrial HDPE suppliers, including Performance Materials NA, Inc. (formerly E.I. du Pont de Nemours and Company), Silgan Plastics, Consolidated Container Company and Alpla, Inc., which provide us with materials that cannot otherwise be utilized in their respective production processes.

We are one of the largest domestic recyclers of HDPE. We believe that we are well positioned for future growth as we add additional recycled material processing facilities, add capacity to existing facilities, and expand our supplier base for virgin resin. We anticipate continued growth in the availability of ethylene and propylene which are used to manufacture HDPE and PP, respectively.

CUSTOMERS

We have a large, active customer base of approximately 20,000 customers, with two customers representing 10% or more of fiscal 2020 net sales. Ferguson Enterprises (“Ferguson”) accounted for 13.4% and Core and Main accounted for 10.9% of fiscal 2020 net sales. Our customer base is diversified across the range of end markets that we serve.

A majority of our sales are made through distributors, including many of the largest national and independent waterworks distributors, with whom we have long-standing distribution relationships. These include Ferguson and Core and Main who sell primarily to the storm sewer and sanitary sewer markets. We also utilize a network of hundreds of small to medium-sized independent distributors across the United States. We have strong relationships with major national retailers that carry drainage products, including The Home Depot, Lowe’s, Ace Hardware and Do it Best. We offer the most complete line of HDPE products in the industry and are the only national manufacturer that can service the “Big-Box” retailers from coast-to-coast. We also sell to buying groups and co-ops in the United States that serve the plumbing, hardware, irrigation and landscaping markets. Selling to buying groups and co-ops provides us a further presence on a national, regional and local basis for the distribution of our products. Our preferred vendor status with these groups allows us to reach thousands of locations in an effective manner. Members of these groups and co-ops generally are independent businesses with strong relationships and brand recognition with smaller contractors and homeowners in their local markets. The combination of our large sales force, long-standing retail and contractor customer relationships and extensive network of manufacturing and distribution facilities complements and strengthens our broad customer and market coverage.

Our customer service organization of more than 150 employees is supplemented by the employees of our manufacturing plants, distribution centers and drivers of our tractor-trailers. We staff and operate three regional

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customer service call centers. In conjunction with our field sales and engineering team, this highly trained and competent staff allows us to maintain more customer touch points and interaction than any of our competitors.

SALES AND MARKETING

Pipe and Allied Products & Other - We have one of the largest and most experienced sales and engineering forces in the industry, with more than 450 sales and engineering professionals. Offering the broadest product line in the industry enables our sales force to source the greatest number of new opportunities and more effectively cross-sell products than any of our competitors. We consistently maintain thousands of touch points with customers, civil engineers and municipal authorities, continuously educating them on new product innovations and their advantages relative to traditional products. We believe we are the industry leader in these efforts, and we view this work as an important part of our marketing strategy, particularly in promoting N-12 and SaniTite HP for storm and sanitary sewer systems, as regulatory approvals are essential to the specification and acceptance of these product lines.

Our sales and marketing strategy is divided into four components — comprehensive market coverage, diverse product offerings, readily-available local inventory and specification efforts. Our goal is to provide the distributor/owner with the most complete, readily available product line in our industry. We strive to use our manufacturing footprint, product portfolio and market expertise to efficiently service our customers.

Our sales and engineering objective is to influence, track and quote all selling opportunities as early in the project life cycle as possible. We strive to be meaningfully involved in all phases of the project cycle, including design, bidding, award and installation. Conceptual project visibility allows sales and engineering professionals the ability to influence design specifications and increase the probability of inclusion of our products in bid documents. The inclusion of our products in bid documents improves the probability of completing the sale. On-demand installation support allows us to maintain customer relationships and ensure positive installation experience. In addition to direct channel customers, we also maintain and develop relationships with federal agencies, municipal agencies, national standard regulators, private consulting engineers and architects. Our consistent interaction with these market participants enables us to continue our market penetration. This ongoing dialogue has positioned us as an industry resource for design guidance and product development and as a respected expert in water management solutions.

Infiltrator Water Technologies - The Infiltrator Water Technologies salesforce works to pull through business to over 1,500 distribution points in the U.S. and Canada. Most of our distributors are plumbing or waterworks wholesalers. Relationships with individual distribution points are managed by our Infiltrator Water Technologies direct salesforce. Key national, regional, and buying group distributor relationships are managed by our Infiltrator Water Technologies sales leadership team. Training provided by our salesforce to distributors is a significant driver of product adoption and penetration. Sales representatives train distribution staff on effective sales methods and attend joint customer meetings/sales calls.

We have largest team of experienced sales, technical service, and regulatory affairs professionals in the onsite wastewater industry. Over 60 professionals educate wastewater decision makers and installers to drive the acceptance and use of Infiltrator products in residential and commercial wastewater treatment systems.

SEASONALITY

Historically, sales of our products have been higher in the first and second quarters of each fiscal year due to favorable weather and longer daylight conditions accelerating construction activity during these periods. Seasonal variations in operating results may also be impacted by inclement weather conditions, such as cold or wet weather, which can delay projects.

In the non-residential, residential and infrastructure markets in the northern United States and Canada, construction activity typically begins to increase in late March and is slower in December, January and February. In the southern and western United States, Mexico, Central America and South America, the construction markets are less seasonal. The agricultural drainage market is concentrated in the early spring just prior to planting and in the fall just after crops are harvested prior to freezing of the ground in winter.

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PRACTICES RELATED TO WORKING CAPITAL ITEMS

Information about the Company's working capital practices is incorporated herein by reference to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Working Capital and Cash Flows" of this Form 10-K.

COMPETITION

We operate in a highly fragmented industry and hold leading positions in multiple market sectors. Competition, including our competitors and specific competitive factors, varies for each market sector.

We believe the principal competitive factors for our market sectors include local selling coverage, product availability, breadth and cost of products, technical knowledge and expertise, customer and supplier relationships, reliability and accuracy of service, effective use of technology, delivery capabilities and timeliness, pricing of products, and the provision of credit. We believe that our competitive strengths and strategy allow us to compete effectively in our market sectors.

The stormwater drainage industry, in particular, is highly fragmented with many smaller specialty and regional competitors providing a variety of product technologies and solutions. We compete against concrete pipe, corrugated steel pipe and PVC pipe producers on a national, regional and local basis. In addition, there are many HDPE pipe producers in the United States.

In the United States, our primary competitors are concrete pipe producers, including Quikrete, Forterra and Oldcastle CRH Precast, as well as smaller, regional competitors. In the corrugated steel pipe sector, our primary national competitor is Contech Engineered Solutions, and we compete with Lane Enterprises, Pacific Corrugated and Southeast Culvert on a regional level, as well as other smaller competitors. In the PVC pipe sector, we compete primarily with JM Eagle, Diamond Plastics and North American Pipe. In the septic tank and drainfield sector, we compete with Tank Holding, Orenco Systems, Eljen as well as smaller local producers. We believe we are the only corrugated HDPE pipe producer with a national footprint, and our competitors operate primarily on a regional and local level. In the corrugated HDPE pipe sector in the United States, our primary competitors on a regional basis are JM Eagle, Lane Enterprises, Prinsco, Southeast Culvert and Pacific Corrugated.

INTELLECTUAL PROPERTY

We rely upon a combination of patents, trademarks, trade names, licensing arrangements, trade secrets, know-how and proprietary technology in order to secure and protect our intellectual property rights, both in the United States and in foreign countries.

We seek to protect our new technologies with patents and trademarks and defend against patent infringement allegations. We hold a significant amount of intellectual property rights pertaining to product patents, process patents and trademarks. We continually seek to expand and improve our existing product offerings through product development and acquisitions. Although our intellectual property is important to our business operations and in the aggregate constitutes a valuable asset, we do not believe that any single patent, trademark or trade secret is critical to the success of our business as a whole. We cannot be certain that our patent applications will be issued or that any issued patents will provide us with any competitive advantages or will not be challenged by third parties.

In addition to the foregoing protections, we generally control access to and use of our proprietary and other confidential information through the use of internal and external controls, including contractual protections with employees, distributors and others. See "Item 1A. Risk Factors — Risks Relating to Our Business — If we are unable to protect our intellectual property rights, or we infringe on the intellectual property rights of others, our ability to compete could be negatively impacted."

EMPLOYEES

As of March 31, 2020, in our domestic and international operations the Company and its consolidated subsidiaries had approximately 4,950 employees, consisting of approximately 3,400 hourly personnel and

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approximately 1,550 salaried employees. As of March 31, 2020, approximately 225 hourly personnel in our Mexican joint venture were covered by collective bargaining agreements.

REGULATION

Our operations are affected by various statutes, regulations and laws in the markets in which we operate, which historically have not had a material effect on our business. We are subject to various laws applicable to businesses generally, including laws affecting land usage, zoning, the environment, health and safety, transportation, labor and employment practices, competition, immigration and other matters. Additionally, building codes may affect the products our customers are allowed to use, and, consequently, changes in building codes may affect the salability of our products. The transportation and disposal of many of our products are also subject to federal regulations. The U.S. Department of Transportation (“U.S. DOT”) regulates our operations in domestic interstate commerce. We are subject to safety requirements governing interstate operations prescribed by the U.S. DOT. Vehicle dimensions and driver hours of service also remain subject to both federal and state regulation.

We have been able to consistently capitalize on changes in both local and federal regulatory statutes relating to storm and sanitary sewer construction, repair and replacement. Most noteworthy is the Federal Clean Water Act of 1972 and the subsequent EPA Phase I, II and sustainable infrastructure regulations relating to storm sewer construction, storm water quantity, storm water quality, and combined sewer separation. Our diversity of products offering a solution-based selling approach coupled with detailed market knowledge makes us an integral industry resource in both regulatory changes and compliance.

An important element of our growth strategy has been our focus on industry education efforts to drive regulatory approvals for our core HDPE products at national, state and local levels. We employ a team of approximately 75 field-based engineers who work closely with government agencies to obtain regulatory approvals for our products, and also with civil engineering firms to specify our products on non-residential construction and road-building projects. With the introduction of our HP storm and sanitary pipe, we have refocused our efforts calling on state departments of transportation to enhance their approval of our pipe products. Additional state and local regulatory approvals will continue to present new growth opportunities in new and existing geographic markets for us. The trend of substituting traditional materials for HDPE and PP is expected to continue as more states and municipalities recognize the benefits of our HDPE N-12 pipe and our polypropylene HP pipe by approving it for use in a broader range of applications.

Our Infiltrator Water Technologies products are used primarily in on-site septic and decentralized wastewater treatment systems. The products used in these systems cannot be sold without a regulatory approval. Infiltrator Water Technologies was the first in the industry to institute a formal regulatory management department in 1998 as part of the sales function. We have a dedicated regulatory team with a track record of gaining favorable regulatory approvals and advancing policy and legislation. Over the past 10 years the team has successfully embarked in over 100 regulatory initiatives increasing the addressability and size of markets across the U.S. and Canada.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

We are subject to a broad range of foreign, federal, state and local environmental, health and safety laws and regulations, including those pertaining to air emissions, water discharges, the handling, disposal and transport of solid and hazardous materials and wastes, the investigation and remediation of contamination and otherwise relating to health and safety and the protection of the environment and natural resources. To a limited extent, our current and past operations, and those of many of the companies we have acquired, involve materials that are, or could be classified as, toxic or hazardous. There is inherent risk of contamination and environmental damage in our operations and the products we handle, transport and distribute. See “Item 1A. Risk Factors — Risks Relating to Our Business — We could incur significant costs in complying with environmental, health and safety laws or permits or as a result of satisfying any liability or obligation imposed under such laws or permits.”

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CORPORATE AND AVAILABLE INFORMATION

We were founded in 1966 and are a Delaware corporation. Our principal executive offices are located at 4640 Trueman Boulevard, Hilliard, Ohio 43026, and our telephone number at that address is (614) 658-0050. Our corporate website is www.ads-pipe.com.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, ("Exchange Act") are filed with the SEC. We are subject to the informational requirements of the Exchange Act and file or furnish reports, proxy statements, and other information with the SEC. Such reports and other information filed by the Company with the SEC are available free of charge on our website at www.ads-pipe.com when such reports are available on the SEC's website. We use our www.ads-pipe.com website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor such portions of www.ads-pipe.com in addition to following press releases, SEC filings and public conference calls and webcasts.

The contents of the websites referred to above are not incorporated into this filing. Further, our references to these websites are intended to be inactive textual references only.

Item 1A. Risk Factors

Please carefully consider the risks described below, together with all other information included or incorporated by reference in this Annual Report on Form 10-K. If any of the following risks actually occur, our business, financial condition, results of operations and cash flows could be materially adversely affected. In these circumstances, the market price of our common stock could decline significantly.

Risks Relating to Our Business

The COVID-19 pandemic, efforts to mitigate the pandemic, and the related weakening economic conditions, have impacted our business and could have a significant negative impact on our operations, liquidity, financial condition and financial results.

In the last quarter of our fiscal 2020, a novel strain of coronavirus, COVID-19, started to impact the global economic environment causing extreme volatility and uncertainty in global markets. On March 11, 2020, the World Health Organization declared COVID-19 to be a global pandemic and we started to see certain impacts to our business. The COVID-19 pandemic has negatively impacted the global economy and lowered equity valuations, in addition to disrupting global supply chains and workforce participation. Quarantines and "stay in place" orders, the timing and length of containment and eradication solutions, travel restrictions, absenteeism by infected workers, labor shortages or other disruptions to our supply chain or our customers will adversely impact our sales and operating results and has resulted in some project delays.

In addition, the pandemic has resulted in an economic downturn that could affect the ability of our customers to obtain financing for projects and therefore impact demand for our products and services. Order lead times could be extended or delayed and our pricing or pricing of suppliers for needed materials could increase. Some critical materials, products or services may become unavailable if the regional or global spread were significant enough to prevent alternative sourcing.

To date, we have experienced some delays in state and municipal construction projects due to COVID-19. While manufacturing and manufacturing-related industries are considered an "essential service" in most jurisdictions in which we operate, site closures or project delays have occurred and increased social distancing and health-related precautions are required on many work sites, which may cause additional project delays and additional costs to be incurred. We have also experienced the temporary closure of many of our customer's retail locations and we temporarily shut down our factories in this segment to comply with government "stay in place" orders. We expect this global pandemic to have an impact on our revenue and our results of operations, the size and duration of which we are currently unable to predict. Additionally, if future revenue were to fall below forecasted levels or if market conditions were to decline in a material or sustained manner, due to COVID-19 or otherwise, we could incur a non-cash impairment charge that would negatively impact our net earnings for the fiscal period in which the charge was recorded.

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The global outbreak of COVID-19 continues to rapidly evolve. The extent to which COVID-19 will impact our business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate severity and spread of the disease, the duration of the outbreak, travel restrictions and social distancing requirements in the United States and other countries, business closures or business disruptions and the effectiveness of actions taken in the United States and other countries to contain and treat the disease.

There are no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change, especially if a second wave of COVID-19 occurs later in 2020. Given the speed and frequency of continuously evolving developments with respect to this pandemic, we cannot reasonably estimate the magnitude of the impact to our results of operations, liquidity or financial position. To the extent that our customers and suppliers are adversely impacted by the coronavirus outbreak, this could reduce the availability, or result in delays, of materials or supplies, or delays in customer payments, which in turn could materially interrupt our business operations and/or impact our liquidity.

Fluctuations in the price and availability of resins, our principal raw materials, and our inability to obtain adequate supplies of resins from suppliers and pass on resin price increases to customers could adversely affect our business, financial condition, results of operations and cash flows.

The principal raw materials that we use in our high performance thermoplastic corrugated pipe and Allied Products are virgin and recycled resins. Our ability to operate profitably depends, to a large extent, on the markets for these resins. In particular, as resins are derived either directly or indirectly from crude oil derivatives and natural gas liquids, resin prices fluctuate substantially as a result of changes in crude oil and natural gas prices, changes in existing processing capabilities and the capacity of resin suppliers. The petrochemical industry historically has been cyclical and volatile. The cycles are generally characterized by periods of tight supply, followed by periods of oversupply, primarily resulting from significant capacity additions. Unanticipated changes in and disruptions to existing petrochemical capacities could also significantly increase resin prices, often within a short period of time, even if crude oil and natural gas prices remain low.

Our ability to offer our core products depends on our ability to obtain adequate resins, which we purchase directly from major petrochemical and chemical suppliers. We maintain supply agreements with our major resin suppliers that provide multi-year terms and volumes that are in excess of our projected consumption. For our polypropylene virgin resin price exposure, we utilize financial hedges of propylene as a proxy for polypropylene. Historically, the month to month change in market-based pricing has been very similar between propylene and polypropylene. The loss of, or substantial decrease in the availability of, raw materials from our suppliers, or the failure by our suppliers to continue to provide us with raw materials on commercially reasonable terms, or at all, could adversely affect our business, financial condition, results of operations and cash flows. In addition, supply interruptions could arise from labor disputes or weather conditions affecting supplies or shipments, transportation disruptions or other factors beyond our control, including disruptions resulting from the impact of the evolving COVID-19 pandemic. An extended disruption in the timely availability of raw materials from our key suppliers would result in a decrease in our revenues and profitability.

Our ability to maintain profitability heavily depends on our ability to pass through to our customers the full amount of any increase in raw material costs, which are a large portion of our overall product costs. We may be unable to do so in a timely manner, or at all, due to competition in the markets in which we operate. In addition, certain of our largest customers historically have exerted significant pressure on their outside suppliers to keep prices low because of their market share. If increases in the cost of raw materials cannot be passed on to our customers, or the duration of time associated with a pass through becomes extended, our business, financial condition, results of operations and cash flows will be adversely affected.

Any disruption or volatility in general business and economic conditions in the markets in which we operate could have a material adverse effect on the demand for our products and services.

The markets in which we operate are sensitive to general business and economic conditions in the United States and worldwide, including availability of credit, interest rates, fluctuation in capital and business and consumer confidence. These conditions, combined with price fluctuations in crude oil derivatives and natural gas liquids, declining business and consumer confidence and increased unemployment, precipitated an economic

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slowdown and severe recession in recent years. Furthermore, the U.S. and global economy as well as the markets in which we operate face the adverse impact of the COVID-19 global pandemic, which will impact our business, results of operations, financial position, liquidity and cash flows, as referenced above. The difficult conditions in these markets and the overall economy affect our business in a number of ways. For example:

- The volatility of the United States economy in general (including as a result of COVID-19) can have an adverse effect on our sales that are dependent on the non-residential construction market. Continued uncertainty about current economic conditions may pose a risk to our business units that serve the non-residential construction market, as participants in this industry may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a continued material adverse effect on the demand for our products and services.
- Our business depends to a great extent upon general activity levels in the agriculture market. Changes in corn production, soybean production, farm income, farmland value and the level of farm output in the geographic locations in which we operate are all material factors that could adversely affect the agriculture market and result in a decrease in the amount of products that our customers purchase. The nature of the agriculture market is such that a downturn in demand can occur suddenly, resulting in excess inventories, un-utilized production capacity and reduced prices for pipe products. These downturns may be prolonged, and our revenue and profitability would be harmed.
- The homebuilding industry underwent a significant decline after its peak in 2005. While new housing starts demonstrated a compounded annual growth rate of 5.2% from 2014 to 2019, current levels remain below the long-term average of 1.4 million starts since the U.S. Census Bureau began reporting the data demand for our products and services in this market, and may be further adversely impacted by the COVID-19 pandemic, which in turn would result in a significant adverse effect on our financial condition and results of operations.
- Demand for our products and services depend to a significant degree on spending on infrastructure, which is inherently cyclical. Infrastructure spending is affected by a variety of factors beyond our control, including interest rates, availability and commitment of public funds for municipal spending and highway spending and general economic conditions. Our products sales may be adversely impacted by budget cuts by governments, including as a result of lower than anticipated tax revenues.

All of our markets are sensitive to changes in the broader economy. Downturns or lack of substantial improvement in the economy in any region in which we operate have adversely affected and could continue to adversely affect our business, financial condition and results of operations. The evolving COVID-19 pandemic is also expected to adversely impact the markets in which we operate. While we operate in many markets, our business is particularly impacted by changes in the economies of the United States, Canada and Mexico, which represented 91.1%, 5.5% and 2.3%, respectively, of our net sales for fiscal 2020 and collectively represented 98.9% of our net sales for fiscal 2020.

We cannot predict the duration of current economic conditions, or the timing or strength of any future recovery of activities in our markets. Continued weakness in the market in which we operate could have a material adverse effect on our business, financial condition, results of operations and cash flows. We may have to close under-performing facilities from time to time as warranted by general economic conditions and/or weakness in the markets in which we operate. In addition to a reduction in demand for our products, these factors may also reduce the price we are able to charge for our products and restrict our ability to pass raw material cost increases to our customers. This, combined with an increase in excess capacity, will negatively impact our profitability, cash flows and our financial condition, generally.

Demand for our products and services could decrease if we are unable to compete effectively, and our success depends largely on our ability to convert current demand for competitive products into demand for our products.

We compete with both manufacturers of high performance thermoplastic corrugated pipe and manufacturers of alternative products, such as concrete, steel and PVC pipe products, on the basis of a number of considerations, including product characteristics such as durability, design, ease of installation, price on a price-to-value basis and service. In particular, we compete on a global, national and local basis with pipe products made of traditional

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materials which our high performance thermoplastic corrugated pipe products are designed to replace. For example, our N-12 and SaniTite HP products face competition from concrete, steel and PVC pipe products in the small- and large-diameter size segments of the market.

Our ability to successfully compete and grow depends largely on our ability to continue to convert the current demand for concrete, steel and PVC pipe products into demand for our high performance thermoplastic corrugated pipe and Allied Products. Our thermoplastic pipe typically has an installed cost advantage of approximately 20% over concrete pipe. However, depending upon certain factors such as the size of the pipe, the geography of a particular location and then-existing raw material costs, the initial cost of our thermoplastic pipe may be higher than the initial cost of alternative products such as concrete, steel and PVC pipe products. To increase our market share, we will need to increase material conversion by educating our customers about the value of our products in comparison to existing alternatives, particularly on an installed cost basis, working with government agencies to expand approvals for our products and working with civil engineering firms which may influence the specification of our products on construction projects. No assurance can be given that our efforts to increase or maintain the current rate of material conversion will be successful, and our failure to do so would have a material adverse effect on our business, financial condition, results of operations and cash flows.

We also expect that new competitors may develop over time. No assurance can be given that we will be able to respond effectively to such competitive pressures. Increased competition by existing and future competitors could result in reductions in sales, prices, volumes and gross margins that would materially adversely affect our business, financial condition, results of operations and cash flows. Furthermore, our success will depend, in part, on our ability to maintain our market share and gain market share from competitors.

Certain of our competitors have financial and other resources that are greater than ours and may be better able to withstand price competition, especially with respect to traditional products. In addition, consolidation by industry participants could result in competitors with increased market share, larger customer bases, greater diversified product offerings and greater technological and marketing expertise, which would allow them to compete more effectively against us. Moreover, our competitors may develop products that are superior to our products or may adapt more quickly to new technologies or evolving customer requirements. Technological advances by our competitors may lead to new manufacturing techniques and make it more difficult for us to compete. In many markets in which we operate there are no significant entry barriers that would prevent new competitors from entering the market, especially on the local level, or existing competitors from expanding in the market. In addition, because we do not have long-term arrangements with many of our customers, these competitive factors could cause our customers to cease purchasing our products.

In addition, our contracts with municipalities are often awarded and renewed through periodic competitive bidding. We may not be successful in obtaining or renewing these contracts on financially attractive terms or at all, which could adversely affect our business, financial condition, results of operations and cash flows.

Our results of operations could be adversely affected by the effects of weather.

Although weather patterns affect our operating results throughout the year, adverse weather historically has reduced construction activity in our third and fourth fiscal quarters. In contrast, our highest volume of net sales historically has occurred in our first and second fiscal quarters.

Most of our business units experience seasonal variation as a result of the dependence of our customers on suitable weather to engage in construction projects. Generally, during the winter months, construction activity declines due to inclement weather, frozen ground and shorter daylight hours. In addition, to the extent that hurricanes, severe storms, floods, other natural disasters or similar events occur in the geographic regions in which we operate, our results of operations may be adversely affected. We anticipate that fluctuations of our operations results from period to period due to seasonality will continue in the future.

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The loss of any of our significant customers could adversely affect our business, financial condition, results of operations and cash flows.

Our ten largest customers generated approximately 40% of our net sales in fiscal 2020. We cannot guarantee that we will maintain or improve our relationships with these customers or that we will continue to supply these customers at historical levels. Because we do not have long-term arrangements with many of our customers, such customers may cease purchasing our products without notice or upon short notice to us. During the economic downturn, some of our customers reduced their operations. For example, some homebuilder customers exited or severely curtailed building activity in certain of our markets. There is no assurance that our customers will increase their activity level or return it to historic levels. A slow economic recovery could continue to have material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, consolidation among customers could also result in a loss of some of our present customers to our competitors. The loss of one or more of our significant customers, a significant customer's decision to purchase our products in significantly lower quantities than they have in the past, or deterioration in our relationship with any of them could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The majority of our net sales are credit sales which are made primarily to customers whose ability to pay is dependent, in part, upon the economic strength of the industry and geographic areas in which they operate, including recent changes in U.S. tax laws, and the failure to collect monies owed from customers could adversely affect our financial condition.

The majority of our net sales volume is facilitated through the extension of credit to our customers whose ability to pay is dependent, in part, upon the economic strength of the industry in the areas where they operate. Our business units offer credit to customers, either through unsecured credit that is based solely upon the creditworthiness of the customer, or secured credit for materials sold for a specific job where the security lies in lien rights associated with the material going into the job. The type of credit offered depends both on the financial strength of the customer and the nature of the business in which the customer is involved. End users, resellers and other non-contractor customers generally purchase more on unsecured credit than secured credit. The inability of our customers to pay off their credit lines in a timely manner, or at all, would adversely affect our business, financial condition, results of operations and cash flows. Furthermore, our collections efforts with respect to non-paying or slow-paying customers could negatively impact our customer relations going forward.

Because we depend on the creditworthiness of certain of our customers, if the financial condition of our customers declines, our credit risk could increase. Our customers may also face economic challenges due disruptions in the economy caused by the evolving COVID-19 pandemic which may in turn impact our ability to collect from any customers facing disruption. Significant contraction in our markets, coupled with tightened credit availability and financial institution underwriting standards, could adversely affect certain of our customers. Should one or more of our larger customers declare bankruptcy, it could adversely affect the collectability of our accounts receivable, bad debt reserves and net income.

We may be unable to successfully integrate our and Infiltrator Water Technologies' businesses in order to realize the anticipated benefits of the acquisition or do so within the intended timeframe.

We will be required to devote significant management attention and resources to the ongoing integration the business practices and operations of Infiltrator Water Technologies with our business. We may be unable to realize the planned synergies from the acquisition or other benefits in the timeframe that we expect or at all. We continue to assess synergies that we may realize as a combined company, the realization of which will depend on a number of factors.

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The success of the acquisition, including anticipated synergies, benefits and cost savings, will depend, in part, on our ability to successfully combine and integrate our current operations with Infiltrator Water Technologies' business. If we experience difficulties with the integration process or other unforeseen costs, the anticipated benefits and cost savings of the acquisition may not be realized fully or at all, or may take longer to realize than expected. The integration planning and implementation process will result in significant costs and divert management attention and resources. These integration matters could have an adverse effect on our combined company for an undetermined period after completion of the acquisition. In addition, the actual cost savings of the acquisition could be less than anticipated, or otherwise offset by other factors.

Additional difficulties we may encounter as part of the integration process include the following:

- the costs of integration and compliance and the possibility that the full benefits anticipated to result from our acquisition of Infiltrator Water Technologies will not be realized;
- any delay in the integration of management teams, strategies, operations, products and services;
- diversion of the attention of each company's management as a result of our acquisition of Infiltrator Water Technologies;
- differences in business backgrounds, corporate cultures and management philosophies that may delay successful integration;
- the ability to retain key employees;
- the ability to create and enforce uniform standards, controls, procedures, policies and information systems;
- the challenge of integrating complex systems, technology, networks and other assets of Infiltrator Water Technologies into those of ours in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies;
- potential unknown liabilities and unforeseen increased expenses or delays associated with the acquisition, including costs to integrate Infiltrator Water Technologies beyond current estimates; and
- the disruption of, or the loss of momentum in, each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies.

Any of these factors could adversely affect each company's ability to maintain relationships with customers, suppliers, employees and other constituencies or our ability to achieve the anticipated benefits of the acquisition or could reduce each company's earnings or otherwise adversely affect our business and financial results after the acquisition. These risks are not limited to our acquisition of Infiltrator Water Technologies and could also apply to our future acquisitions.

Our results after our acquisition of Infiltrator Water Technologies may suffer if we do not effectively manage our expanded operations following the acquisition.

Following our acquisition of Infiltrator Water Technologies, the size and complexity of our business increased significantly beyond the previous size of either our or Infiltrator Water Technologies' previously existing business. Our future success depends, in part, upon our ability to manage this expanded business, which will pose substantial challenges for management, including challenges related to the management and monitoring of new operations and new types of manufacturing processes and products and associated increased costs and complexity. There can be no assurances that we will be successful after completion of the acquisition or that we will realize the expected benefits currently anticipated from our acquisition of Infiltrator Water Technologies.

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The business of Infiltrator Water Technologies may underperform relative to our expectations.

We may not be able to maintain the levels of revenue, earnings or operating efficiency that we and Infiltrator Water Technologies have achieved or might achieve separately. The business and financial performance of Infiltrator Water Technologies is subject to certain risks and uncertainties, including the risk of the loss of, or changes to, its relationships with its customers. We may be unable to achieve the same growth, revenues and profitability that Infiltrator Water Technologies has achieved in the past.

The unaudited pro forma financial information related to the acquisition may not accurately reflect our financial position or results of operations.

The unaudited pro forma financial information contained in “Note 4. Acquisitions” to the notes to our unaudited financial statements included in this Annual Report and the unaudited pro forma financing information included in our Current Report on Form 8-K dated August 1, 2019, was presented for illustrative purposes only and may not be an indication of what our financial position or results of operations would have been had the Merger been completed on the dates indicated. The unaudited pro forma financial information was derived from our audited and unaudited historical financial statements along with those of Infiltrator Water Technologies, and certain adjustments and assumptions were made regarding the combined company after giving effect to the Merger. The assets and liabilities of Infiltrator Water Technologies were measured at fair value based on various preliminary estimates using assumptions that Infiltrator Water Technologies’ management believed to be reasonable utilizing information currently available. The process for estimating the fair value of acquired assets and assumed liabilities requires the use of judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. Differences between preliminary estimates in the pro forma financial information and the final acquisition accounting will occur and could have a material impact on the pro forma financial information and the combined company’s financial position and future results of operations. In addition, the assumptions used in preparing the pro forma financial information may not prove to be accurate, and other factors may affect our financial condition or results of operations following the Merger. Any potential decline in our financial condition or results of operations may cause significant variations in the trading price of our common stock following the Merger.

Our international operations expose us to political, economic and regulatory risks not normally faced by businesses that operate only in the United States.

International operations are exposed to different political, economic and regulatory risks that are not faced by businesses that operate solely in the United States. Some of our operations are outside the United States, with manufacturing and distribution facilities in Canada and several Latin American countries. Our international operations are subject to risks similar to those affecting our operations in the United States in addition to a number of other risks, including: difficulties in enforcing contractual and intellectual property rights; impositions or increases of withholding and other taxes on remittances and other payments by subsidiaries and affiliates; exposure to different legal standards; fluctuations in currency exchange rates; impositions or increases of investment and other restrictions by foreign governments; the requirements of a wide variety of foreign laws; political and economic instability; war; and difficulties in staffing and managing operations, particularly in remote locations.

As a result of our international operations, we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar foreign anti-corruption laws.

The U.S. Foreign Corrupt Practices Act (“FCPA”) and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to wrongfully influence foreign government officials for the purpose of obtaining or retaining business or obtaining an unfair advantage, and generally require companies to maintain accurate books and records and internal controls, including at foreign controlled subsidiaries. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by both the U.S. Department of Justice and the SEC resulting in record fines and penalties, increased enforcement activity by non-U.S. regulators, and increases in criminal and civil proceedings brought against companies and individuals.

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We have operations in Canada as well as existing joint ventures in Mexico and South America. Our internal policies provide for compliance with all applicable anti-corruption laws for both us and for our joint venture operations. Our continued operation and expansion outside the United States, including in developing countries, could increase the risk of such violations in the future. Despite our training and compliance programs, our internal control policies and procedures may not always protect us from unauthorized, reckless or criminal acts committed by our employees, agents or joint venture partners.

Conducting a portion of our operations through joint ventures exposes us to risks and uncertainties, many of which are outside of our control, and such risks could have a material adverse effect on our business, financial condition, results of operations and cash flows.

With respect to our existing joint ventures, any differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues. We also cannot control the actions of our joint venture partners, including any nonperformance, default or bankruptcy of our joint venture partners. As a result, we may be unable to control the quality of products produced by the joint ventures or achieve consistency of product quality as compared with our other operations. In addition to net sales and market share, this may have a material negative impact on our brand and how it is perceived thereafter. Moreover, if our partners also fail to invest in the joint venture in the manner that is anticipated or otherwise fail to meet their contractual obligations, the joint ventures may be unable to adequately perform and conduct their respective operations, requiring us to make additional investments or perform additional services to ensure the adequate performance and delivery of products and/or services to the joint ventures' customers, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may not be able to successfully expand into new product or geographic markets, which could negatively impact our future sales and results of operations.

We may expand into new product markets based on our existing manufacturing, design and engineering capabilities and services. Our business depends in part on our ability to identify future products and product lines that complement existing products and product lines and that respond to our customers' needs. We may not be able to compete effectively unless our product selection keeps up with trends in the markets in which we compete or trends in new products. In addition, our ability to integrate new products and product lines into our distribution network could impact our ability to compete. Furthermore, the success of new products and new product lines will depend on market demand and there is a risk that new products and new product lines will not deliver expected results, which could negatively impact our future sales and results of operations.

Our expansion into new geographic markets may present competitive, distribution and regulatory challenges that differ from current ones. We may be less familiar with the target customers and may face different or additional risks, as well as increased or unexpected costs, compared to existing operations. Expansion into new geographic markets may also bring us into direct competition with companies with whom we have little or no past experience as competitors. To the extent we rely upon expansion into new geographic markets for growth and do not meet the new challenges posed by such expansion, our future sales growth could be negatively impacted, our operating costs could increase, and our business operations and financial results could be adversely affected.

We may not achieve the acquisition component of our growth strategy, which could negatively impact our financial condition and results of operations.

Acquisitions are an important component of our growth strategy; however, there can be no assurance that we will be able to continue to grow our business through acquisitions as we have done historically or that any businesses acquired will perform in accordance with expectations or that business judgments concerning the value, strengths and weaknesses of businesses acquired will prove to be correct. Future acquisitions may result in the incurrence of debt and contingent liabilities, an increase in interest expense and amortization expense and significant charges relative to integration costs. Our strategy could be impeded if we do not identify suitable acquisition candidates and our financial condition and results of operations will be adversely affected if we are unable to properly evaluate acquisition targets.

Acquisitions involve a number of special risks, including: problems implementing disclosure controls and procedures for the newly acquired business; unforeseen difficulties extending internal control over financial

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reporting and performing the required assessment at the newly acquired business; potential adverse short-term effects on operating results through increased costs or otherwise; diversion of management's attention and failure to recruit new, and retain existing, key personnel of the acquired business; failure to successfully implement infrastructure, logistics and systems integration; our business growth could outpace the capability of our systems; and the risks inherent in the systems of the acquired business and risks associated with unanticipated events or liabilities, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, we may not be able to obtain financing necessary to complete acquisitions on attractive terms or at all.

Increased fuel and energy prices, and our inability to obtain sufficient quantities of fuel to operate our in-house delivery fleet, could adversely affect our business, financial condition, results of operations and cash flows.

Energy and petroleum prices have fluctuated significantly in recent years. Prices and availability of petroleum products are subject to political, economic and market factors that are outside our control. Political events in petroleum-producing regions as well as hurricanes and other weather-related events may cause the price of fuel to increase.

We consume a large amount of energy and petroleum products in our operations, including the manufacturing process and delivering a significant volume of products to our customers by our in-house fleet. While we utilize a diesel hedging program associated with our in-house fleet to mitigate against higher fuel prices, our operating profit will be adversely affected if we are unable to obtain the energy and fuel we require or to fully offset the anticipated impact of higher energy and fuel prices through increased prices or surcharges to our customers or through other hedging strategies. If shortages occur in the supply of energy or necessary petroleum products and we are not able to pass along the full impact of increased energy or petroleum prices to our customers, our business, financial condition, results of operations and cash flows would be adversely affected.

We have substantial fixed costs and, as a result, our income from operations is sensitive to changes in our net sales.

A significant portion of our expenses are fixed costs, including personnel. Consequently, a decline in our net sales could have a greater percentage effect on our income from operations if we do not act to reduce personnel or take other fixed cost reduction actions. Moreover, a key element of our strategy is managing our assets, including our substantial fixed assets, more effectively, including through sales or other disposals of excess assets. Our failure to rationalize our fixed assets in the time, and within the costs, we expect could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Internally manufacturing our products at our own facilities subjects our business to risks associated with manufacturing processes.

We internally manufacture our own products at our facilities. While we maintain insurance covering our manufacturing and production facilities and have significant flexibility to manufacture and ship our own products from various facilities, a catastrophic loss of the use of certain of our facilities due to accident, fire, explosion, labor issues, weather conditions, pandemics (including the current COVID-19 pandemic), other natural disaster or otherwise, whether short or long-term, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Unexpected failures of our equipment and machinery may result in production delays, revenue loss and significant repair costs, injuries to our employees, and customer claims. Any interruption in production capability may limit our ability to supply enough products to customers and may require us to make large capital expenditures to remedy the situation, which could have a negative impact on our profitability and cash flows. Our business interruption insurance may not be sufficient to offset the lost revenues or increased costs that we may experience during a disruption of our operations.

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We provide product warranties that could expose us to claims, which could in turn damage our reputation and adversely affect our business, financial condition, results of operations and cash flows.

We generally provide limited product warranties on our products against defects in materials and workmanship in normal use and service. Most of our pipe products have a warranty that is not limited in duration. The warranty period for other products such as our StormTech chambers, our Inserta Tee product line, our BaySaver product line and our FleXstorm inlet protection systems is generally one year. Estimating the required warranty reserves requires judgment. Management estimates warranty reserves based in part upon historical warranty costs. Management also considers various relevant factors, including its stated warranty policies and procedures, as part of its evaluation of its liability. Because warranty issues may surface later in the product life cycle, management continues to review these estimates on a regular basis and considers adjustments to these estimates based on actual experience compared to historical estimates. Although management believes that our warranty reserves as of March 31, 2020 are adequate, actual results may vary from these estimates.

The nature of our business exposes us to construction defect and product liability claims as well as other legal proceedings, which could damage our reputation and adversely affect our business, financial condition, results of operations and cash flows.

We are exposed to construction defect and product liability claims relating to our various products if our products do not meet customer expectations. Such liabilities may arise out of the quality of raw materials we purchase from third-party suppliers, over which we do not have direct control. We also operate a large fleet of trucks and other vehicles and therefore face the risk of traffic accidents.

While we currently maintain insurance coverage to address a portion of these types of liabilities, we cannot make assurances that we will be able to obtain such insurance on acceptable terms in the future, if at all, or that any such insurance will provide adequate coverage against potential claims. Further, while we intend to seek indemnification against potential liability for products liability claims from relevant parties, we cannot guarantee that we will be able to recover under any such indemnification agreements. Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant time periods, regardless of the ultimate outcome. An unsuccessful product liability defense could be highly costly and accordingly result in a decline in revenues and profitability. In addition, even if we are successful in defending any claim relating to the products we distribute, claims of this nature could negatively impact customer confidence in us and our products.

From time to time, we are also involved in government inquiries and investigations, as well as consumer, employment, tort proceedings and other litigation. We cannot predict with certainty the outcomes of these legal proceedings and other contingencies, including potential environmental remediation and other proceedings commenced by government authorities. The outcome of some of these legal proceedings and other contingencies could require us to take actions which would adversely affect our operations or could require us to pay substantial amounts of money. Additionally, defending against these lawsuits and proceedings may involve significant expense and diversion of management's attention and resources from other matters.

Because our business is working capital intensive, we rely on our ability to manage our supply purchasing and customer credit policies.

Our operations are working capital intensive, and our inventories, accounts receivable and accounts payable are significant components of our net asset base. We manage our inventories and accounts payable through our purchasing policies and our accounts receivable through our customer credit policies. If we fail to adequately manage our supply purchasing or customer credit policies, our working capital and financial condition may be adversely affected.

Our failure to maintain effective disclosure controls and internal control over financial reporting could adversely affect our business, financial position and results of operations.

We are required to evaluate the effectiveness of our disclosure controls on a periodic basis and publicly disclose the results of these evaluations and related matters in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. As of March 31, 2020, we have identified a material weakness in internal control over financial reporting. The material weakness in our internal control over financial reporting as of March 31, 2020

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was a result of a material weakness in the control environment of our consolidated joint venture affiliate, ADS Mexicana. See Item 9A. “Controls and Procedures” for further description.

A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. We are actively engaged in remediation activities designed to address the material weakness, but our remediation efforts are not complete and are ongoing. Although we are working to remedy the ineffectiveness of the Company’s internal control over financial reporting, there can be no assurance as to when the remediation plan will be fully implemented or the aggregate cost of implementation. Until our remediation plan is fully implemented, our management will continue to devote significant time and attention to these efforts. If we do not complete our remediation in a timely fashion, or at all, or if our remediation plan is inadequate, there will continue to be an increased risk that we will be unable to timely file future periodic reports with the SEC and that our future consolidated financial statements could contain errors that will be undetected. If we are unable to report our results in a timely and accurate manner, we may not be able to comply with the applicable covenants in our financing arrangements, and may be required to seek additional amendments or waivers under these financing arrangements, which could adversely impact our liquidity and financial condition. Further and continued determinations that there is a material weakness in the effectiveness of the Company’s internal control over financial reporting could reduce our ability to obtain financing or could increase the cost of any financing we obtain and require additional expenditures of both money and our management’s time to comply with applicable requirements.

Any failure to implement or maintain required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses or material misstatement in our consolidated financial statements. Any new misstatement could result in a further restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations, reduce our ability to obtain financing or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price. We cannot assure you that we will not discover additional weaknesses in our internal control over financial reporting.

As a result of the material weakness, our management concluded that we did not maintain effective internal control over financial reporting as of March 31, 2020. This could cause investors to lose confidence in the reliability of our financial statements and could result in a decrease in the value of our common stock. Failure to comply with the Sarbanes-Oxley Act of 2002 could potentially subject us to sanctions or investigations by the SEC, NYSE, or other regulatory authorities.

Furthermore, as we grow our business, our disclosure controls and internal controls will become more complex, and we may require significantly more resources to ensure the effectiveness of these controls. If we are unable to continue upgrading our financial and management controls, reporting systems, information technology and procedures in a timely and effective fashion, additional management and other resources may need to be devoted to assist in compliance with the disclosure and financial reporting requirements and other rules that apply to reporting companies, which could adversely affect our business, financial position and results of operations.

Our operations are affected by various laws and regulations in the markets in which we operate, and our failure to obtain or maintain approvals by municipalities, state departments of transportation, engineers and developers may affect our results of operations.

Our operations are principally affected by various statutes, regulations and laws in the United States, Canada and Latin America. While we are not engaged in a regulated industry, we are subject to various laws applicable to businesses generally, including laws affecting land usage, zoning, the environment, health and safety, transportation, labor and employment practices (including pensions), competition, immigration and other matters. Additionally, approvals by municipalities, the U.S. and state departments of transportation, engineers and developers may affect the products our customers are allowed to use, and, consequently, failure to obtain or maintain such approvals may affect the saleability of our products. Building codes may also affect the products our customers are allowed to use, and, consequently, changes in building codes may also affect the saleability of our products. Changes in applicable regulations governing the sale of some of our products could increase our costs of doing business. In addition, changes to applicable tax laws and regulations could increase our costs of doing business. We cannot provide assurance that we will not incur material costs or liabilities in connection with regulatory requirements.

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In addition, the U.S. Tax Cuts and Jobs Act of 2017 (the “Tax Cuts and Jobs Act”) significantly changed how the U.S. taxes corporations. The Tax Cuts and Jobs Act requires complex computations to be performed that were not previously required in U.S. tax law, significant judgments to be made in interpretation of the provisions of the Tax Cuts and Jobs Act and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the Internal Revenue Service (the “IRS”), and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Cuts and Jobs Act will be applied or otherwise administered that is different from our interpretation.

We deliver products to many of our customers through our own fleet of vehicles. The U.S. DOT regulates our operations in domestic interstate commerce. We are subject to safety requirements governing interstate operations prescribed by the U.S. DOT. Vehicle dimensions and driver hours of service also remain subject to both federal and state regulation. More restrictive limitations on vehicle weight and size, trailer length and configuration, or driver hours of service could increase our costs, which, if we are unable to pass these cost increases on to our customers, would reduce our gross profit and net income (loss) and increase our selling, general and administrative expenses.

We cannot predict whether future developments in law and regulations concerning our business units will affect our business, financial condition and results of operations in a negative manner. Similarly, we cannot assess whether our business units will be successful in meeting future demands of regulatory agencies in a manner which will not materially adversely affect our business, financial condition, results of operations and cash flows.

Interruptions in the proper functioning of information technology systems could disrupt operations and cause unanticipated increases in costs, decreases in revenues, or both. The implementation of our technology initiatives could disrupt our operations in the near term, and our technology initiatives might not provide the anticipated benefits or might fail.

Because we use our information technology (“IT”) systems to, among other things, manage inventories and accounts receivable, make purchasing decisions and monitor our results of operations, the proper functioning of our IT systems is important to the successful operation of our business. Although our IT systems are protected through physical and software safeguards and remote processing capabilities exist, IT systems are still vulnerable to natural disasters, power losses, unauthorized access, telecommunication failures and other problems. If critical IT systems fail, or are otherwise unavailable, our ability to process orders, track credit risk, identify business opportunities, maintain proper levels of inventories, collect accounts receivable and pay expenses and otherwise manage our business units would be adversely affected.

Management uses IT systems to support decision making and to monitor business performance. We may fail to generate accurate financial and operational reports essential for making decisions at various levels of management. Failure to adopt systematic procedures to maintain quality IT general controls could disrupt our business. In addition, if we do not maintain adequate controls such as reconciliations, segregation of duties and verification to prevent errors or incomplete information, our ability to operate our business could be limited.

Third-party service providers are responsible for managing a significant portion of our IT systems. Our business and results of operations may be adversely affected if the third-party service provider does not perform satisfactorily. Additionally, there is no guarantee that we will continue to have access to these third-party IT systems after our current license agreements expire, and, if we do not obtain licenses to use effective replacement IT systems, our financial condition and operating results could be adversely affected.

We have made, and will continue to make, significant technology investments in each of our business units and in our administrative functions. Our technology initiatives are designed to streamline our operations to allow our associates to continue to provide high quality service to our customers and to provide our customers a better experience, while improving the quality of our internal control environment. The cost and potential problems and interruptions associated with the implementation of our technology initiatives could disrupt or reduce the efficiency of our operations in the near term. In addition, our new or upgraded technology might not provide the anticipated benefits, it might take longer than expected to realize the anticipated benefits or the technology might fail altogether. The occurrence of such interruptions could have a material adverse effect on our business financial condition and results of operations.

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Cybersecurity attacks may threaten our confidential information, disrupt operations and result in harm to our reputation and adversely impact our business and financial performance.

Cybersecurity attacks across industries, including ours, are increasing in sophistication and frequency and may range from uncoordinated individual attempts to measures targeted specifically at us. These attacks include but are not limited to, malicious software or viruses, including “ransomware” attempts to gain unauthorized access to, or otherwise disrupt, our information systems, attempts to gain unauthorized access to business, proprietary or other confidential information, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. “Ransomware,” are electronic security breaches through which an attacker gains access to an organization’s computer files, renders them temporarily inaccessible and threatens to permanently delete them if a cash ransom is not paid. Cybersecurity failures may be caused by employee error, malfeasance, other corporate or governmental actors, system errors or vulnerabilities, including vulnerabilities of our vendors, suppliers, and their products. While we have been subject to cybersecurity attacks in the past, that (based on information known to date) did not have a material impact on our financial condition or results of operations, we may experience such attacks in the future, potentially with more frequency or sophistication which may have a material impact on our financial condition or results of operations.

Failures of our IT systems as a result of cybersecurity attacks or other disruptions could result in a breach of critical operational or financial controls and lead to a disruption of our operations, commercial activities or financial processes. Cybersecurity attacks or other disruptions impacting significant customers and/or suppliers could also lead to a disruption of our operations or commercial activities. Despite our attempts to safeguard our systems and mitigate potential risks, there is no assurance that such actions will be sufficient to prevent cyberattacks or security breaches that manipulate or improperly use our systems or networks, compromise confidential or otherwise protected information, destroy or corrupt data, or otherwise disrupt our operations. The occurrence of such events could have a material adverse effect on our business financial condition and results of operations.

If we become subject to material liabilities under our self-insured programs, our financial results may be adversely affected. We may see increased costs arising from health care legislation.

We provide workers’ compensation, automobile and product/general liability coverage through a high deductible insurance program. In addition, we provide medical coverage to some of our employees through a self-insured preferred provider organization. Possible changes to health care legislation could have possible adverse effects including increased costs, exposure to expanded liability and requirements for us to revise ways in which we provide healthcare and other benefits to our employees. Our business, financial condition, results of operations and cash flows may be adversely affected if the cost, number and severity of insurance claims increases.

Our success depends upon our ability to control labor costs and to attract, train and retain highly qualified employees and key personnel.

To be successful, we must attract, train and retain a large number of highly qualified employees while controlling related labor costs. Our ability to control labor costs is subject to numerous external factors, including prevailing wage rates and health and other insurance costs. We compete with other businesses for these employees and invest significant resources in training and motivating them. There is no assurance that we will be able to attract or retain highly qualified employees in the future, including, in particular, those employed by companies we acquire. None of our domestic employees are currently covered by collective bargaining or other similar labor agreements. However, if a number of our employees were to unionize, including in the wake of any future legislation that makes it easier for employees to unionize, the effect on us may be negative. Inability to negotiate acceptable new contracts under any collective bargaining arrangements could cause strikes or other work stoppages, and new contracts could result in increased operating costs. If any such strikes or other work stoppages occur, or if employees become represented by a union, we could experience a disruption of our operations and higher labor costs. Labor relations matters affecting our suppliers of products and services could also adversely affect our business from time to time.

In addition, our business results of operations depend largely upon our chief executive officer and senior management team as well as our plant managers and sales personnel, including those of companies recently acquired, and their experience, knowledge of local market dynamics and specifications and long-standing customer relationships. We customarily sign executive responsibility agreements with certain key personnel who are granted

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restricted stock, stock options and/or performance-based restricted stock units under our employee incentive compensation programs, which contain confidentiality and non-competition provisions. However, in certain jurisdictions, non-competition provisions may not be enforceable or may not be enforceable to their full extent. Our inability to retain or hire qualified plant managers or sales personnel at economically reasonable compensation levels would restrict our ability to grow our business, limit our ability to continue to successfully operate our business and result in lower operating results and profitability.

If we are unable to protect our intellectual property rights, or we infringe on the intellectual property rights of others, our ability to compete could be negatively impacted.

Our ability to compete effectively depends, in part, upon our ability to protect and preserve proprietary aspects of our intellectual property, which we attempt to do, both in the United States and in foreign countries, through a combination of patent, trademark, copyright and trade secret laws, as well as licensing agreements and third-party nondisclosure and assignment agreements. Because of the differences in foreign trademark, patent and other laws concerning proprietary rights, our intellectual property rights may not receive the same degree of protection in foreign countries as they would in the United States. Our failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, results of operations and financial condition.

We have applied for patent protection relating to certain existing and proposed products, processes and services. While we generally apply for patents in those countries where we primarily intend to make, have made, use, or sell patented products, we may not accurately predict all of the countries where patent protection will ultimately be desirable. If we fail to timely file a patent application in any such country, we may be precluded from doing so at a later date. Furthermore, we cannot assure that any of our patent applications will be approved. We also cannot assure that the patents issuing as a result of our foreign patent applications will have the same scope of coverage as our United States patents. The patents we own could be challenged, invalidated or circumvented by others and may not be of sufficient scope or strength to provide us with any meaningful protection or commercial advantage. Further, we cannot assure that competitors will not infringe our patents, or that we will have adequate resources to enforce our patents.

We also rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology. To protect our trade secrets and other proprietary information, we generally require applicable employees, consultants, advisors and collaborators to enter into confidentiality agreements. We cannot assure that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. If we are unable to maintain the proprietary nature of our technologies, we could be materially adversely affected.

We rely on our trademarks, trade names and brand names to distinguish our products from the products of our competitors and have registered or applied to register many of these trademarks. We cannot assure that our trademark applications will be approved. Third parties may also oppose our trademark applications or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition, and could require us to devote resources to advertising and marketing new brands. Further, we cannot assure that competitors will not infringe our trademarks or that we will have adequate resources to enforce our trademarks. We also license third parties to use certain of our trademarks. In an effort to preserve our trademark rights, we enter into license agreements with these third parties which govern the use of our trademarks and which require our licensees to abide by quality control standards with respect to the goods and services that they provide under our trademarks. Although we make efforts to police the use of our trademarks by our licensees, we cannot assure that these efforts will be sufficient to ensure that our licensees abide by the terms of their licenses. In the event that our licensees fail to do so, our trademark rights could be diluted.

Although we rely on copyright laws to protect the works of authorship (including software) created by us, we generally do not register the copyrights in any of our copyrightable works. Copyrights of United States origin must be registered before the copyright owner may bring an infringement suit in the United States. Furthermore, if a copyright of United States origin is not registered within three months of publication of the underlying work, the

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copyright owner is precluded from seeking statutory damages or attorneys' fees in any United States enforcement action and is limited to seeking actual damages and lost profits. Accordingly, if one of our unregistered copyrights of United States origin is infringed by a third party, we will need to register the copyright before we can file an infringement suit in the United States, and our remedies in any such infringement suit may be limited.

The misuse of our intellectual property rights by others could adversely impact our ability to compete, cause our net sales to decrease or otherwise harm our business. If it became necessary for us to resort to litigation to protect our intellectual property rights, any proceedings could be burdensome and costly, and we may not prevail.

Also, we cannot be certain that the products that we sell do not and will not infringe issued patents or other intellectual property rights of others. Further, we are subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the patents, trademarks and other intellectual property rights of third parties by us or our customers, whom we generally indemnify in connection with their use of the products that we manufacture. These claims could divert management's attention and resources and may require us to initiate or defend protracted and costly litigation on behalf of ourselves or our customers, regardless of the merits of the claims. Should we be found liable for infringement, we may be required to enter into licensing agreements (if available on acceptable terms or at all) or pay damages and cease making or selling certain products. Moreover, we may need to redesign or sell different products to avoid future infringement liability. Any of the foregoing could cause us to incur significant costs, prevent us from selling our products or negatively impact our ability to compete.

We could incur significant costs in complying with environmental, health and safety laws or permits or as a result of satisfying any liability or obligation imposed under such laws or permits.

Our operations are subject to various federal, state, local and foreign environmental, health and safety laws and regulations. Among other things, these laws regulate the emission or discharge of materials into the environment, govern the use, storage, treatment, disposal and management of hazardous substances and wastes, protect the health and safety of our employees and the end users of our products, regulate the materials used in and the recycling of products and impose liability for the costs of investigating and remediating, and damages resulting from, present and past releases of hazardous substances. Violations of these laws and regulations, failure to obtain or maintain required environmental permits or non-compliance with any conditions contained in any environmental permit can result in substantial fines or penalties, injunctive relief, requirements to install pollution or other controls or equipment, civil and criminal sanctions, permit revocations and/or facility shutdowns. We could be held liable for the costs to address contamination of any real property we have ever owned, leased, operated or used, including as a disposal site. We could also incur fines, penalties, sanctions or be subject to third-party claims for property damage, personal injury or nuisance or otherwise as a result of violations of or liabilities under environmental laws in connection with releases of hazardous or other materials.

In addition, changes in, or new interpretations of, existing laws, regulations or enforcement policies, the discovery of previously unknown contamination, or the imposition of other environmental liabilities or obligations in the future, including additional investigation or other obligations with respect to any potential health hazards of our products or business activities or the imposition of new permit requirements, may lead to additional compliance or other costs that could have material adverse effect on our business, financial condition, results of operations and cash flows.

A change in our product mix could adversely affect our results of operations.

Our results may be affected by a change in our product mix on which our gross margin depends. Changes in our product mix may result from marketing activities to existing customers and needs communicated to us from existing and prospective customers. Our outlook, budgeting and strategic planning assume a certain product mix of sales. If actual results vary from this projected product mix of sales, our financial results could be negatively impacted.

We may be affected by global climate change or by legal, regulatory or market responses to such potential change.

Concern over climate change, including the impact of global warming, has led to significant federal, state, and international legislative and regulatory efforts to limit greenhouse gas ("GHG") emissions. For example, in the past

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several years, the U.S. Congress has considered various bills that would regulate GHG emissions. While these bills have not yet received sufficient Congressional support for enactment, some form of federal climate change legislation is possible in the future. Even in the absence of such legislation, the Environmental Protection Agency, spurred by judicial interpretation of the Clean Air Act, may regulate GHG emissions, especially diesel engine emissions, and this could impose substantial costs on us. These costs include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our internal fleet of trucks and other vehicles prematurely. In addition, new laws or future regulation could directly and indirectly affect our customers and suppliers (through an increase in the cost of production or their ability to produce satisfactory products) and our business (through the impact on our inventory availability, cost of sales, operations or demands for the products we sell). Until the timing, scope and extent of any future regulation becomes known, we cannot predict its effect on our cost structure or our operating results. Notwithstanding our dedication to being a responsible corporate citizen, it is reasonably possible that such legislation or regulation could impose material costs on us.

Anti-terrorism measures and other disruptions to the raw material supply network could impact our operations.

Our ability to provide efficient distribution of products to our customers is an integral component of our overall business strategy. In the aftermath of terrorist attacks in the United States, federal, state and local authorities have implemented and continue to implement various security measures that affect the raw material supply network in the United States and abroad. If security measures disrupt or impede the receipt of sufficient raw materials, we may fail to meet the needs of our customers or may incur increased expenses to do so.

Risks Relating to Our Indebtedness

Our level of indebtedness could adversely affect our business, financial conditions or results of operations and prevent us from fulfilling our obligations under the agreements governing the terms of our indebtedness.

As of March 31, 2020, we had, on a consolidated basis, total indebtedness (excluding finance lease obligations) of approximately \$1,100 million (excluding \$8.5 million of outstanding letters of credit), excluding \$241.5 million of undrawn availability under the revolving credit facility (the "Revolving Credit Facility") portion of our existing senior secured credit facility with Barclays Bank PLC as administrative agent, and the several lenders from time to time party thereto (the "Senior Secured Credit Facility"). Our indebtedness could have risks. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the Company's existing 5.0% senior notes due 2027 (the "Senior Notes") and our Senior Secured Credit Facility;
- increase our vulnerability to and compromise our flexibility to plan for, or react to, general adverse economic, industry or competitive conditions, including interest rate fluctuations, because a portion of our borrowings, will be at variable rates of interest;
- cause us to be unable to meet the financial covenants contained in our debt agreements, or to generate cash sufficient to make required debt payments, which circumstances would have the potential of accelerating the maturity of some or all of our outstanding indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, joint ventures and investments and other general corporate purposes, that could improve our competitive position, results of operations or share price;
- require us to sell debt or equity securities or to sell some of our core assets, possibly on unfavorable terms, to meet payment obligations;
- expose us to the risk of increased interest rates, as certain of our borrowings are at variable rates of interest;
- increase our vulnerability to downturns or adverse changes in general economic, industry or competitive conditions and adverse changes in government regulations;

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- place us at a competitive disadvantage compared to our competitors that do not have the same level of indebtedness as we do and competitors that may be in a more favorable position to access additional capital resources;
- limit our ability to execute business development and acquisition activities to support our strategies;
- limit our ability to obtain additional indebtedness or equity financing for working capital, capital expenditures, service line development, debt service requirements, acquisitions and general corporate or other purposes due to applicable financial and restrictive covenants in our debt agreements; and
- limit our ability to refinance our substantial indebtedness on more favorable terms.

We expect to pay expenses and to pay principal and interest on current and future debt from cash provided by from operating activities. Therefore, our ability to meet these payment obligations will depend on future financial performance and cash availability, which is subject in part to numerous economic, business and financial factors beyond our control. If our cash flow and capital resources are insufficient to fund our debt obligations, we may be forced to reduce or delay expansion plans and capital expenditures, limit payment of dividends, sell material assets or operations, obtain additional capital or restructure our debt.

We borrowed under our new Credit Agreement to finance our acquisition of Infiltrator Water Technologies. Any failure by us to comply with operating and financial restrictions and covenants under the Senior Secured Credit Facility could result in the accelerated maturity of debt obligations, which could materially and adversely affect our liquidity.

In connection with our acquisition of Infiltrator Water Technologies, we replaced our previous credit agreement and financing under a shelf arrangement with the Senior Secured Credit Facility, which was used to finance the acquisition of Infiltrator Water Technologies. The credit agreement under the Senior Secured Credit Facility (the "Credit Agreement") contains numerous restrictive covenants that limit our discretion in the operation of our business, which could, in turn, have a materially adverse effect on our business, financial condition and results of operations. If we are unable to generate sufficient cash flow or otherwise obtain the funds necessary to make required repayments under the Credit Agreement, or if we fail to comply with the requirements of the covenant pertaining to limitations on our indebtedness, we could trigger an event of default under the Credit Agreement. Any default that is not cured or waived could result in the acceleration of the obligations under the Credit Agreement. Any such default which actually causes an acceleration of obligations could have a material adverse effect on our liquidity and financial condition. Additionally, the covenants in the Credit Agreement may restrict the conduct of our business, which could adversely affect our business by, among other things, limiting our ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that may be beneficial to our business. Our ability to comply with covenants contained in the Credit Agreement may be affected by events beyond our control, including prevailing economic, financial and industry conditions.

The Credit Agreement governing our Senior Secured Credit Facility and the Indenture governing our Senior Notes each permit us and our subsidiaries to incur substantial additional indebtedness. This could exacerbate the risks associated with our substantial indebtedness.

We and our subsidiaries may be able to incur substantial additional indebtedness, including additional secured debt, in the future. Although the terms of the Indenture governing the Senior Notes and the Credit Agreement governing our Senior Secured Credit Facility contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and the indebtedness incurred in compliance with these restrictions could be substantial. As of March 31, 2020, after giving effect to the Transactions, we would have had, on a consolidated basis, total indebtedness (excluding finance lease obligations) of \$1,100 million (excluding \$8.5 million of outstanding letters of credit), excluding \$241.5 million of undrawn availability under the Revolving Credit Facility portion of the Senior Secured Credit Facility. In addition, the Indenture governing the Senior Notes allows us to issue additional notes under certain circumstances and to incur other types of indebtedness, which will also be guaranteed by the subsidiary guarantors. In addition, the Indenture does prevent us from incurring certain other liabilities that do not constitute "Indebtedness" (as defined in the Indenture). If new debt

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or other liabilities are added to our current debt levels, the related risks that we and our subsidiaries new face could intensify.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations and to fund working capital, planned capital expenditures and expansion efforts and any strategic alliances or acquisitions we may make in the future depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our debt.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital, restructure or refinance our debt or sell assets. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. If our operating results and available cash are insufficient to meet our debt service obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or to obtain the proceeds sought from them, and these proceeds may not be adequate to meet any debt service obligations then due. Further, we may need to refinance all or a portion of our debt on or before maturity. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations, and we cannot assure you that we will be able to refinance any of our debt on commercially reasonable terms or at all.

We may have future capital needs and may not be able to obtain additional financing on acceptable terms.

Although we believe that our current cash position and the additional committed funding available under our Senior Secured Credit Facility is sufficient for our current operations, any reductions in our available borrowing capacity, or our inability to renew or replace our debt facilities when required or when business conditions warrant, could have a material adverse effect on our business, financial condition and results of operations. The economic conditions, credit market conditions, and economic climate affecting our industry, as well as other factors, may constrain our financing abilities. Our ability to secure additional financing, if available, and to satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, the availability of credit generally, economic conditions and financial, business and other factors, many of which are beyond our control. The market conditions and the macroeconomic conditions that affect our industry could have a material adverse effect on our ability to secure financing on favorable terms, if at all.

If financing is not available when needed, or is available on unfavorable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

The agreements and instruments governing our indebtedness impose or will impose restrictions that may limit our operating and financial flexibility.

The operating and financial covenants and restrictions in each of the Credit Agreement that governs the Senior Secured Credit Facility and the Indenture that governs the Senior Notes may adversely affect our ability to finance our future operations or capital needs or engage in other business activities that may be in our interest. The agreements governing our indebtedness will restrict, subject to certain important exceptions and qualifications, our and our subsidiaries' ability to, among other things:

- incur additional debt or issue certain disqualified stock and preferred stock;
- create liens;

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- pay dividends or distributions or redeem or repurchase equity;
- prepay subordinated debt or make certain investments;
- transfer and sell assets;
- engage in a consolidation or merger, or sell, transfer or otherwise dispose of all or substantially all of their assets;
- enter into agreements that restrict dividends, loans and other distributions from our subsidiaries; and
- enter into transactions with affiliates.

These covenants could have the effect of limiting our flexibility in planning for or reacting to changes in our business and the markets in which we compete. In addition, the agreements governing our Senior Secured Credit Facility will require us to comply with a financial maintenance covenant. Operating results below current levels or other adverse factors, including a significant increase in interest rates, could result in our being unable to comply with the financial covenant contained in the Credit Agreement. If we violate covenants under the Credit Agreement and are unable to obtain a waiver from our lenders, our indebtedness under our Senior Secured Credit Facility would be in default and could be accelerated by our lenders. Because of cross-default provisions in the agreements and instruments governing our debt, a default under one agreement or instrument could result in a default under, and the acceleration of, our other debt.

If our indebtedness is accelerated, we may not be able to repay our indebtedness or borrow sufficient funds to refinance it. Even if we are able to obtain new financing, it may not be on commercially reasonable terms, on terms that are acceptable to us, or at all. If our indebtedness is in default for any reason, our business, financial condition and results of operations could be materially and adversely affected. In addition, complying with these covenants may also cause us to take actions that are not favorable to holders of the Senior Notes and may make it more difficult for us to successfully execute our business strategy and compete against companies that are not subject to such restrictions.

Risks Relating to Our Common Stock

Our ability to make future dividend payments, if any, may be restricted.

We have a history of paying dividends to our stockholders when sufficient cash is available, and we currently intend to pay dividends in the future. Any determination to pay dividends on our capital stock in the future will be at the discretion of our board of directors, subject to applicable laws and the provisions of our amended and restated certificate of incorporation (including those relating to the payment of dividends on our convertible preferred stock), and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors considers relevant. In addition, the terms of our Credit Facilities contain restrictions on our ability to pay dividends. Also, Delaware law may impose requirements that may restrict our ability to pay dividends to holders of our common stock.

In addition, we recently declared a special dividend. The fact that we declared a special dividend does not suggest and stockholders should not expect that our Board of Directors will declare a regular or special cash dividend in the future. Any future dividends will depend on a variety of factors, including our liquidity and balance sheet position, solvency, strength of operations, product successes, research and development needs and other factors.

We cannot assure our stockholders that an active market for shares of our common stock can be sustained and the market price of our common stock may be volatile and could decline in the future.

We cannot assure that an active public market for our common stock will be sustained. In the absence of a public trading market, you may not be able to liquidate your investment in our common stock. The market price of our common stock may fluctuate significantly. Among the factors that could affect our stock price are: industry or general market conditions; domestic and international economic factors unrelated to our performance (including the economic impact of the COVID-19 pandemic); changes in our customers' preferences; new regulatory

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pronouncements and changes in regulatory guidelines; actual or anticipated fluctuations in our quarterly operating results; changes in securities analysts' estimates of our financial performance or lack of research and reports by industry analysts; action by institutional stockholders or other large stockholders, including future sales; speculation in the press or investment community; investor perception of us and our industry; changes in market valuations or earnings of similar companies; announcements by us or our competitors of significant products, contracts, acquisitions or strategic partnerships; developments or disputes concerning patents or proprietary rights, including increases or decreases in litigation expenses associated with intellectual property lawsuits we may initiate, or in which we may be named as defendants; failure to complete significant sales; any future sales of our common stock or other securities; and additions or departures of key personnel.

The stock markets have experienced extreme volatility in recent years that has been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. In the past, following periods of volatility in the market price of a company's securities, class action litigation has often been instituted against such company. Any litigation of this type brought against us could result in substantial costs and a diversion of our management's attention and resources, which would harm our business, operating results and financial condition.

Future sales of shares by existing stockholders, including our Employee Stock Ownership Plan, could cause our stock price to decline.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. Based on shares outstanding as of March 31, 2020, we have 69.3 million outstanding shares of common stock, including 0.4 million outstanding shares of our restricted stock, a significant portion of which are freely tradeable without restriction under the Securities Act of 1933, as amended, ("Securities Act") unless held by "affiliates," as that term is defined in Rule 144 under the Securities Act. The remaining shares of common stock outstanding are restricted securities within the meaning of Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if their offer and sale is registered under the Securities Act or if the offer and sale of those securities qualify for an exemption from registration, including exemptions provided by Rules 144 and 701 under the Securities Act. We have filed one or more registration statements on Form S-8 under the Securities Act to register the shares of common stock to be issued under our equity compensation plans and, as a result, all shares of common stock acquired upon exercise of stock options granted under our plans are also freely tradable under the Securities Act, unless purchased by our affiliates. As of March 31, 2020, there were stock options outstanding to purchase a total of approximately 1.4 million shares of our common stock. In addition, approximately 1.8 million shares of common stock are available for grant under our 2017 Omnibus Plan.

Certain of our significant stockholders may distribute shares that they hold to their investors who themselves may then sell into the public market. Such sales may not be subject to the volume, manner of sale, holding period and other limitations of Rule 144 of the Securities Act ("Rule 144"). As resale restrictions end, the market price of our common stock could decline if the holders of those shares sell them or are perceived by the market as intending to sell them.

All of the shares of our convertible preferred stock held by our Employee Stock Ownership Plan ("ESOP") may be converted into our common stock at any time by action of the ESOP trustee, and will be automatically converted into our common stock upon distributions of such shares allocated to the ESOP accounts of ESOP participants upon a distribution event such as retirement or other termination of employment. Such distributed common stock will not be subject to any lock-up agreement and will be eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. As of March 31, 2020, there were approximately 21.6 million shares of convertible preferred stock held by our ESOP, which in aggregate could be converted into approximately 16.5 million shares of our common stock. All of these shares will be eligible for future sale, either by the ESOP trustee or by ESOP participants, subject to the limitations of Rule 144.

In the future, we may issue additional shares of common stock or other equity or debt securities convertible into common stock in connection with a financing, acquisition, litigation settlement or employee arrangement or otherwise. Any of these issuances could result in substantial dilution to our existing stockholders and could cause the trading price of our common stock to decline.

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Our directors, officers and principal stockholders have significant voting power and may take actions that may not be in the best interests of our other stockholders.

As of May 19, 2020, our directors, officers and principal stockholders and their affiliates collectively own approximately 50% of our outstanding shares of common stock. Additionally, our ESOP holds convertible preferred stock that converts into a substantial number of shares of our common stock and, prior to conversion, is entitled to vote on a one-for-one basis on any matter requiring the vote or consent of our stockholders, voting together with our common stock as a single class unless otherwise required by law. Thus, the collective voting power of our directors, officers and principal stockholders and their affiliates as of May 19, 2020 is approximately 62%, inclusive of the outstanding shares of convertible preferred stock held by the ESOP. As a result, these stockholders, if they act together, may be able to control our management and affairs and most matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change of control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of our other stockholders.

The trustee of our ESOP has certain limited powers to vote a large block of shares on matters presented to stockholders for approval.

In general, the ESOP trustee votes the shares of convertible preferred stock held by the ESOP as directed by the ESOP's participants. Consequently, the ESOP trustee has the ability to vote a significant block of shares on certain matters presented to stockholders for approval. Each participant in the ESOP may direct the ESOP trustee on how to vote the shares of convertible preferred stock allocated to the participant's ESOP accounts; and the ESOP trustee must vote any unallocated stock and allocated stock for which no participant instructions were received in the same proportion as the allocated stock for which participants' voting instructions have been received is voted.

Anti-takeover provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of us and may affect the trading price of our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws include a number of provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. For example, our amended and restated certificate of incorporation and amended and restated bylaws: authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to thwart a takeover attempt; maintain a classified board of directors, as a result of which our board will continue to be divided into three classes, with each class serving for staggered three-year terms, which prevents stockholders from electing an entirely new board of directors at an annual meeting; limit the ability of stockholders to remove directors; provide that vacancies on our board of directors, including newly-created directorships, may be filled only by a majority vote of directors then in office; prohibit stockholders from calling special meetings of stockholders; prohibit stockholder action by written consent, thereby requiring all actions to be taken at a meeting of the stockholders; do not give the holders of our common stock cumulative voting rights with respect to the election of directors, which means that the holders of a majority of our outstanding shares of common stock can elect all directors standing for election; establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; require a super-majority stockholders vote of 75% to approve any reorganization, recapitalization, share exchange, share reclassification, consolidation, merger, conversion or sale of all or substantially all assets to which we are a party that is not approved by the affirmative vote of at least 75% of the members of our board of directors; and require the approval of holders of at least 75% of the outstanding shares of our voting common stock to amend the bylaws and certain provisions of the certificate of incorporation.

Any provision of our amended and restated certificate of incorporation, amended and restated bylaws or Delaware General Corporation Law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws may also make it difficult for stockholders to replace or remove our management. These provisions may facilitate management

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entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our stockholders.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a claim of breach of a fiduciary duty owed to us or our stockholders by our directors, officers, employees or agents; any action asserting a claim against us arising under the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our common stock shall be deemed to have notice of and to have consented to the provisions of our amended and restated certificate of incorporation described above. The choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, employees or agents, which may discourage such lawsuits against us or our directors, officers, employees or agents. If a court were to find the choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Property

We have a network of 64 manufacturing plant locations and 32 distribution centers, summarized in the following table:

| | Manufacturing Plants | Distribution Centers | Total |
|---------------------------------|---------------------------------|---------------------------------|--------------|
| United States | 52 | 21 | 73 |
| Canada | 4 | 5 | 9 |
| Mexico ⁽¹⁾ | 4 | — | 4 |
| South America ⁽¹⁾⁽²⁾ | 4 | 5 | 9 |
| Other ⁽³⁾ | — | 1 | 1 |
| Total | 64 | 32 | 96 |

- (1) Manufacturing plants and distribution centers in Mexico and South America are owned or leased by our joint ventures.
- (2) Manufacturing plants and distribution centers owned or leased by our South America joint venture are not consolidated.
- (3) The other facility is located in the Netherlands.

We currently own approximately 36,000 square feet and lease approximately 16,000 square feet of office space in Hilliard, Ohio for our corporate headquarters and lease an office space in Old Saybrook, Connecticut for our Infiltrator Water Technologies headquarters.

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Our network of 64 manufacturing plants consist of 45 that are owned and 19 that are leased. We generally prefer to own our manufacturing plant locations, with a typical pipe manufacturing facility consisting of approximately 40,000 square feet and 15-20 acres of land for storage of pipe and related products. Our network of 32 distribution centers consisted of 2 owned and 30 leased. We believe that our properties have been adequately maintained and are generally in good condition. The extent to which we use our properties varies by property and from time to time but we believe the capacity of our facilities is adequate for the level of production and distribution activities necessary in our business as presently conducted. Each distribution center carries single wall and dual wall pipe and fittings and Allied Products per needs of the local market.

In-House Fleet

As of March 31, 2020, our in-house fleet consist of approximately 725 tractors and approximately 1,350 trailers that are specially designed to haul our lightweight pipe and fittings products.

Item 3. Legal Proceedings

The Company is involved from time to time in various legal proceedings that arise in the ordinary course of our business, including but not limited to commercial disputes, environmental matters, employee related claims, intellectual property disputes and litigation in connection with transactions including acquisitions and divestitures. The Company does not believe that such litigation, claims, and administrative proceedings will have a material adverse impact on our financial position or our results of operations. The Company records a liability when a loss is considered probable, and the amount can be reasonably estimated.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information for Common Stock

Our common stock is listed and traded on the NYSE under the symbol “WMS”.

During each quarter of fiscal 2020, the Board of Directors approved a quarterly cash dividend of \$0.09 per share to all common stockholders. During the first quarter of fiscal 2020, the Board of Directors approved a special dividend of \$1.00 per share payable on June 14, 2019 to stockholder of record at the close of business on June 3, 2019. In addition, during each quarter of fiscal 2019 and fiscal 2018, the Board of Directors approved a quarterly cash dividend of \$0.08 per share and \$0.07 per share, respectively, to all common stockholders.

During the first quarter of fiscal 2021, the Company declared a quarterly cash dividend of \$0.09 per share of common stock. The dividend is payable on June 15, 2020 to stockholders of record at the close of business on June 1, 2020.

Holders of Record

As of May 19, 2020, we had 574 holders of record of our common stock. The number of holders of record is based upon the actual number of holders registered as of such date and does not include holders of shares in “street name” or persons, partnerships, associates, corporations or other entities in security position listings maintained by depositories.

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Stock Performance Graph

The following graph presents a comparison from March 31, 2015 through March 31, 2020 of the cumulative return of our common stock, the Standard and Poor’s Index (“S&P 500”) and the Russell 2000 Index (“Russell 2000”). The graph assumes investment of \$100 on March 31, 2015 in our common stock and in each of the two indices and the reinvestment of dividends.



Recent Sales of Unregistered Securities

Since the completion of our IPO, we have not sold any securities without registration under the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

In February 2017, our Board of Directors authorized the repurchase of up to \$50 million of our common stock. Repurchases of common stock will be made in accordance with applicable securities laws. The stock repurchase program does not obligate us to acquire any particular amount of common stock, and may be suspended or terminated at any time at our discretion. During fiscal 2018, we repurchased 400,000 shares of common stock at a cost of \$7.9 million.

Equity Compensation Plan Information

For equity compensation plan information, refer to “Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters,” of this Annual Report on Form 10-K.

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Item 6. Selected Financial and Operating Data

The following tables set forth selected historical consolidated financial data, for the periods and as of the dates indicated, that should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our consolidated financial statements and notes thereto included in “Item 8. Financial Statements and Supplementary Data,” of this Form 10-K. The following table presents Non-GAAP measures of Adjusted EBITDA and Free Cash Flow. We explain these measures below and reconcile to their most directly comparable financial measures calculated and presented in accordance with GAAP. Our historical results are not necessarily indicative of future results.

| (Amounts in thousands, except per share data) | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|-------------|-------------|-------------|-------------|-------------|
| Consolidated statement of operations data: | | | | | |
| Net sales | \$1,673,805 | \$1,384,733 | \$1,330,354 | \$1,257,261 | \$1,290,678 |
| Cost of goods sold | 1,188,716 | 1,057,766 | 1,027,873 | 961,451 | 1,005,326 |
| Cost of goods sold - ESOP special dividend compensation | 168,610 | — | — | — | — |
| Gross profit | 316,479 | 326,967 | 302,481 | 295,810 | 285,352 |
| Selling expenses | 117,068 | 96,335 | 92,764 | 91,475 | 88,478 |
| General and administrative expenses | 154,270 | 89,692 | 98,392 | 110,950 | 92,504 |
| Selling, general and administrative - ESOP special dividend compensation | 78,142 | — | — | — | — |
| Loss on disposal of assets and costs from exit and disposal activities | 5,338 | 3,647 | 15,003 | 8,509 | 812 |
| Intangibles amortization | 57,010 | 7,880 | 8,068 | 8,548 | 9,224 |
| Income from (loss) operations | (95,349) | 129,413 | 88,254 | 76,328 | 94,334 |
| Interest expense | 82,711 | 18,618 | 15,262 | 17,467 | 18,460 |
| Derivative losses (gains) and other expense (income), net | 1,554 | (815) | (3,950) | (5,970) | 16,575 |
| (Loss) income before income taxes | (179,614) | 111,610 | 76,942 | 64,831 | 59,299 |
| Income tax expense | 14,092 | 30,049 | 11,411 | 24,615 | 23,498 |
| Equity in net (income) loss of unconsolidated affiliates | (1,909) | 95 | 739 | 4,308 | 5,234 |
| Net (loss) income | (191,797) | 81,466 | 64,792 | 35,908 | 30,567 |
| Less: net income attributable to noncontrolling interest | 1,377 | 3,694 | 2,785 | 2,958 | 5,515 |
| Net (loss) income attributable to ADS | (193,174) | 77,772 | 62,007 | 32,950 | 25,052 |
| Weighted average common shares outstanding: | | | | | |
| Basic | 63,820 | 57,025 | 55,696 | 54,919 | 53,978 |
| Diluted | 63,820 | 57,611 | 56,334 | 55,624 | 55,176 |
| Net (loss) income per share | | | | | |
| Basic | \$ (3.21) | \$ 1.23 | \$ 1.00 | \$ 0.51 | \$ 0.40 |
| Diluted | (3.21) | 1.22 | 0.99 | 0.50 | 0.39 |
| Cash dividends declared per share | 1.36 | 0.32 | 0.28 | 0.24 | 0.20 |

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| (Amounts in thousands) | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|-------------|------------|------------|------------|------------|
| Consolidated balance sheet data: | | | | | |
| Cash | \$ 174,233 | \$ 8,891 | \$ 17,587 | \$ 6,450 | \$ 6,555 |
| Working capital ⁽¹⁾ | 427,998 | 260,228 | 237,210 | 184,812 | 187,378 |
| Total assets | 2,369,888 | 1,042,159 | 1,043,242 | 1,046,285 | 1,037,316 |
| Long-term debt | 1,089,368 | 208,602 | 270,900 | 310,849 | 312,214 |
| Long-term finance lease obligations | 44,501 | 61,555 | 59,963 | 58,710 | 56,809 |
| Total liabilities | 1,585,306 | 541,524 | 609,433 | 695,850 | 723,080 |
| Total mezzanine equity ⁽²⁾ | 247,097 | 102,322 | 109,550 | 112,825 | 111,747 |
| Total stockholders' equity | 537,485 | 398,313 | 324,259 | 237,610 | 202,489 |
| Consolidated statement of cash flows data: | | | | | |
| Net cash provided by operating activities | \$ 306,189 | \$ 151,678 | \$ 137,120 | \$ 104,239 | \$ 135,342 |
| Net cash used in investing activities ⁽³⁾ | (1,150,470) | (42,544) | (30,445) | (61,259) | (49,018) |
| Net cash (used in) provided by financing activities ⁽⁴⁾ | 1,011,572 | (117,655) | (94,953) | (42,825) | (82,964) |
| Other financial data: | | | | | |
| Adjusted EBITDA (Non-GAAP) | \$ 361,868 | \$ 231,960 | \$ 210,230 | \$ 193,371 | \$ 187,340 |
| Adjusted EBITDA Margin (Non-GAAP) | 21.6% | 16.8% | 15.8% | 15.4% | 14.5% |
| Capital expenditures | 67,677 | 43,412 | 41,709 | 46,676 | 44,942 |
| Free Cash Flow (Non-GAAP) | 238,512 | 108,266 | 95,411 | 57,563 | 90,400 |

- (1) Working capital is equal to current assets less current liabilities. Working capital is an indication of liquidity and potential need for short-term funding.
- (2) Our mezzanine equity consists of the redeemable convertible preferred stock held by our ESOP as well, prior to the acquisition of the noncontrolling interest in third quarter of fiscal 2019, the Redeemable noncontrolling interest in subsidiaries related to the noncontrolling interest in the BaySaver joint venture. See "Note 4. Acquisitions" and "Note 10. Investment in Consolidated Affiliates," within our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data," of this Form 10-K for further information regarding the accounting treatment for certain of the amounts included in mezzanine equity, "Note 16. Employee Benefit plans" regarding the accounting treatment for our mezzanine equity post-IPO.
- (3) We acquired Infiltrator Water Technologies on July 31, 2019.
- (4) Financing activities are described in detail in the section "Liquidity and Capital Resources".

Non-GAAP Measures

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin – EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin, non-GAAP financial measures, have been presented in this Annual Report on Form 10-K as supplemental measures of financial performance that are not required by, or presented in accordance with GAAP. We calculate EBITDA as net income before interest, income taxes and depreciation and amortization. We calculate adjusted EBITDA as net income before interest, income taxes, depreciation and amortization, stock-based compensation expense, non-cash charges and certain other expenses. We calculate Adjusted EBITDA Margin as Adjusted EBITDA divided by net sales.

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are included in this Annual Report on Form 10-K because they are key metrics used by management and our Board of Directors to assess our financial performance. EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In addition to covenant compliance and executive performance evaluations, we use EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures.

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EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are not GAAP measures of our financial performance and should not be considered as alternatives to net income as measures of financial performance or cash flows from operations or any other performance measure derived in accordance with GAAP, and it should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized. In evaluating EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation, such as stock-based compensation expense, derivative fair value adjustments, and foreign currency transaction losses. Management compensates for these limitations by relying on our GAAP results in addition to using EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin on a supplemental basis. Our measure of EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

The following table presents a reconciliation of EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin to Net income (loss), the most comparable GAAP measure, for each of the periods indicated.

| (Amounts in thousands) | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---------------------|-------------------|-------------------|-------------------|-------------------|
| Net income (loss) | \$ (191,797) | \$ 81,466 | \$ 64,792 | \$ 35,908 | \$ 30,567 |
| Depreciation and amortization | 124,940 | 71,900 | 75,003 | 72,355 | 71,009 |
| Interest expense | 82,711 | 18,618 | 15,262 | 17,467 | 18,460 |
| Income tax expense | 14,092 | 30,049 | 11,411 | 24,615 | 23,498 |
| EBITDA | 29,946 | 202,033 | 166,468 | 150,345 | 143,534 |
| Loss on disposal of assets or businesses | 5,338 | 3,647 | 15,003 | 8,509 | 812 |
| ESOP and stock-based compensation expense | 32,395 | 21,828 | 18,845 | 17,875 | 4,382 |
| ESOP special dividend compensation ^(a) | 246,752 | — | — | — | — |
| Transaction costs ^(b) | 22,896 | 699 | 1,362 | 372 | — |
| Inventory step up related to the Acquisition | 7,880 | — | — | — | — |
| Strategic growth and operational improvement initiatives ^(c) | 6,659 | 3,450 | — | — | — |
| COVID-19 related expenses ^(d) | 5,081 | — | — | — | — |
| Restatement-related costs ^(e) | 8 | (1,924) | 4,227 | 24,026 | 27,970 |
| Other adjustments ^(f) | 4,913 | 2,227 | 4,325 | (7,756) | 10,642 |
| Adjusted EBITDA | \$ 361,868 | \$ 231,960 | \$ 210,230 | \$ 193,371 | \$ 187,340 |
| Adjusted EBITDA Margin | 21.6% | 16.8% | 15.8% | 15.4% | 14.5% |

- (a) In the first quarter of fiscal 2020, the Company paid a special dividend of \$1.00 per share. The dividend was used to pay back a portion of the ESOP loan resulting in \$246.8 million in additional stock-based compensation. See “Note 19. Net Income Per Share and Stockholders’ Equity” for additional information.
- (b) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with business or asset acquisitions and dispositions.
- (c) Represents professional fees incurred in connection with our strategic growth and operational improvement initiatives, which include various market feasibility assessments and acquisition strategies, along with our operational improvement initiatives, which include evaluation of our manufacturing network and improvement initiatives.
- (d) Includes expenses in connection with our response to the COVID-19 pandemic including pandemic pay, see “Note 16. Employee Benefit Plans” for additional information, and crisis management.
- (e) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements. The benefit recognized in fiscal 2019 is the result of insurance proceeds received in fiscal 2019. Fiscal 2019 and 2018 expenses relate to the ongoing SEC Enforcement Division’s investigation and related shareholder litigation.

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- (f) Includes derivative fair value adjustments, foreign currency transaction (gains) losses, the proportionate share of interest, income taxes, depreciation and amortization related to the South American Joint Venture, which is accounted for under the equity method of accounting, contingent consideration remeasurement, executive retirement expense (benefit) and legal settlements. The other adjustments in fiscal 2020 also includes expenses related to the ADS Mexicana’s investigation as described in “Note 15. Commitments and Contingencies”.

Free Cash Flow - Free cash flow is a non-GAAP financial measure that comprises cash flow from operations less capital expenditures. Free cash flow is a measure used by management and our Board of Directors to assess our ability to generate cash. Accordingly, free cash flow has been presented in this Annual Report on Form 10-K as a supplemental measure of liquidity that is not required by, or presented in accordance with GAAP, because management believes that free cash flow provides useful information to investors and others in understanding and evaluating our ability to generate cash flow from operations after capital expenditures.

Free cash flow is not a GAAP measure of our liquidity and should not be considered as an alternative to cash flow from operating activities as a measure of liquidity or any other liquidity measure derived in accordance with GAAP. Our measure of free cash flow is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

The following table presents a reconciliation of Free cash flow to Cash flow from operating activities, the most comparable GAAP measure, for each of the periods indicated.

| (Amounts in thousands) | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| Cash flow from operating activities | \$ 306,189 | \$ 151,678 | \$ 137,120 | \$ 104,239 | \$ 135,342 |
| Capital expenditures | (67,677) | (43,412) | (41,709) | (46,676) | (44,942) |
| Free cash flow | \$ 238,512 | \$ 108,266 | \$ 95,411 | \$ 57,563 | \$ 90,400 |

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

Our fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, references to “year” pertain to our fiscal year. For example, 2020 refers to fiscal 2020, which is the period from April 1, 2019 to March 31, 2020.

The following discussion and analysis of our financial condition and results of our operations should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the sections titled “Item 1A. Risk Factors” and “Cautionary Statement About Forward-Looking Statements” included elsewhere in this Annual Report on Form 10-K. Please read the following discussion together with the sections titled “Item 1A. Risk Factors,” “Item 6. Selected Financial and Operating Data” and our consolidated financial statements, including the related notes, included in “Item 8. Financial Statements and Supplementary Data” of this Form 10-K.

We consolidate our joint venture for purposes of GAAP, except for our South American Joint Venture.

Overview

We are the leading manufacturer of high performance thermoplastic corrugated pipe, providing a comprehensive suite of water management products and superior drainage solutions for use in the underground construction and infrastructure marketplace. Our innovative products are used across a broad range of end markets and applications, including non-residential, residential, agriculture and infrastructure applications. We have established a leading position in many of these end markets by leveraging our national sales and distribution platform, our overall product breadth and scale and our manufacturing excellence. In the United States, our national footprint combined with our strong local presence and broad product offering make us the leader in an otherwise highly fragmented sector comprised of many smaller competitors. With the acquisition of Infiltrator Water Technologies in the second quarter of fiscal 2020, we are now a leading provider of plastic leach field chambers, septic tanks and accessories for use primarily in residential applications.

Our products are generally lighter, more durable, more cost effective and easier to install than comparable alternatives made with traditional materials. Following our entrance into the non-residential construction market with the introduction of N-12 corrugated polyethylene pipe in the late 1980s, our pipe has been displacing traditional materials, such as reinforced concrete, corrugated steel and PVC, across an ever-expanding range of end markets. This has allowed us to consistently gain share and achieve above market growth throughout economic cycles. We expect to continue to drive conversion to our products from traditional materials as contractors, civil design engineers and municipal agencies increasingly acknowledge the superior physical attributes and compelling value proposition of our thermoplastic products. In addition, we believe that overall demand for our products will benefit as the regulatory environment continues to evolve.

Our broad product line includes HDPE pipe, PP pipe, related water management products and, after the Acquisition, plastic leach field chambers and septic tanks. We refer to our plastic leach field chamber and septic tank products as Infiltrator Water Technologies. Infiltrator Water Technologies shares a similar conversion strategy as our Pipe products, gaining market share through conversion from traditional materials. Building on our core drainage businesses, we have aggressively pursued attractive ancillary product categories such as storm chambers, PVC drainage structures, fittings and filters, and water quality filters and separators, including our acquisition of Infiltrator Water Technologies. We refer to our ancillary product categories as Allied Products & Other. Given the scope of our overall sales and distribution platform, we have been able to drive growth within our Allied Products & Other and believe there are significant growth opportunities going forward.

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Executive Summary

Fiscal Year 2020 Results

- Net sales increased 20.9% to \$1,673.8 million
- Net loss of \$191.8 million as compared to net income of \$81.5 million in the prior year
 - Includes \$246.8 million of additional one-time ESOP stock-based compensation expense
- Adjusted EBITDA increased 56.0% to \$361.9 million
- Cash provided by operating activities increased 101.9% to \$306.2 million
- Free cash flow increased 120.3% to \$238.5 million

Net sales increased \$289.1 million, or 20.9%, to \$1,673.8 million, as compared to \$1,384.7 million in the prior year. Domestic pipe sales increased \$85.8 million, or 9.9%, to \$954.6 million. Allied & Other sales increased \$47.9 million, or 13.5%, to \$403.3 million. These increases were driven by strong performance in both the U.S. construction and agriculture end markets. International net sales decreased \$12.0 million or 7.5% to \$148.6 million as compared to \$160.6 million in the prior year, driven primarily by a decrease in Mexico sales. Infiltrator Water Technologies contributed an additional \$211.0 million to net sales prior to the effects of intercompany eliminations.

As part of the Company's capital allocation strategy, the Company paid a dividend of \$1.09 per share in the first quarter of fiscal 2020, including a \$1.00 special dividend to all shareholders of record. The ESOP used a portion of its proceeds to payback a portion of its loan from the Company, resulting in an allocation of approximately 11.6 million shares to participants and \$246.8 million of non-cash, stock-based compensation expense. The Company recorded \$168.6 million of this expense in Cost of goods sold – ESOP special dividend compensation and \$78.1 million of this expense in Selling, general and administrative – ESOP special dividend compensation.

Gross profit decreased \$10.5 million to \$316.5 million due to the \$168.6 million ESOP compensation expense described above. Excluding the ESOP special dividend compensation, gross profit increased \$158.1 million, or 48.4%, primarily due to an increase in both pipe and allied product sales as well as favorable pricing and material cost. Infiltrator Water Technologies contributed an additional \$82.9 million of gross profit prior to the effects of intercompany eliminations. This was partially offset by unfavorable inventory absorption cost due to the retention of key manufacturing employees during the fourth quarter of fiscal 2019 despite lower production volume.

Impact of COVID-19

In March 2020, the World Health Organization categorized the novel coronavirus ("COVID-19") as a pandemic, and it continues to spread throughout the United States and globally. The COVID-19 pandemic has resulted, and is likely to continue to result, in significant economic disruptions and may have an adverse effect on our business. Significant uncertainty exists concerning the magnitude of the impact and duration of the COVID-19 pandemic. While our production facilities are operating as essential businesses, the Company may experience future impacts such as reduced operations or temporarily closing facilities.

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In efforts to maintain a safe work environment and help contain the spread of COVID-19, we have transitioned to a work-from-home policy for those that are able and suspended all nonessential employee travel and events. We have also proactively implemented further safety and risk mitigation practices, including:

- Educating associates on COVID-19 related symptoms;
- Regularly assessing deliveries and orders in virus “hot zones” and higher-risk geographic regions;
- Employing strict social distancing practices across all departments and divisions; and
- Instituting additional health screenings such as temperature checks at facilities, which currently all remain open.

Importantly, we are following all guidelines and directives from governmental and regulatory agencies across manufacturing facilities, distribution centers, and delivery fleets in order to continue operating safely and responsibly, while meeting the needs of customers.

Factors deriving from the COVID-19 response that have or may negatively impact sales and operating profit in the future include, but are not limited to: limitations on our ability to procure raw materials, declines in product demand, limitations on our ability to meet delivery requirements and commitments, limitations on the ability of our employees to perform their work due to illness caused by the pandemic or local, state, or federal orders requiring employees to remain at home and limitations on the ability of our customers to pay us on a timely basis.

While we may experience unfavorable impacts to our business, given the dynamic nature of these circumstances, the full extent of the COVID-19 pandemic on our ongoing business, results of operations and overall financial performance is difficult to forecast at this time. In fiscal 2020, we communicated to all hourly employees that each of them would be entitled to the equivalent of two weeks, or 80 hours, of pandemic pay regardless of whether they experienced any interruption of employment. We recognized pandemic pay costs and accrued pandemic pay liability of \$4.8 million in the fiscal year ended March 31, 2020. The cash payment of pandemic pay did not occur in fiscal 2020 and will occur at a future date. Also, we have deferred payment of the Company’s share of Social Security payroll taxes as permitted under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which allows for the deferral of these payments through the end of 2020 and requires repayment of the deferred amounts in 2021 and 2022.

Key Factors Affecting Our Results of Operations

Product Demand - There are numerous factors that influence demand for our products. Our businesses are cyclical in nature and sensitive to general economic conditions, primarily in the United States, Canada, Mexico and South America. The non-residential, residential, agricultural and infrastructure markets we serve are affected by the availability of credit, lending practices, interest rates and unemployment rates. Demand for new homes, farm income, commercial development and highway infrastructure spending have a direct impact on our financial condition and results of operations. Accordingly, the following factors may have a direct impact on our business in the markets in which our products are sold:

- the strength of the economy;
- the amount and type of non-residential and residential construction;
- funding for infrastructure spending;
- farm income and agricultural land values;
- inventory of improved housing lots;
- changes in raw material prices;
- the availability and cost of credit;
- non-residential occupancy rates;

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- commodity prices; and
- demographic factors such as population growth and household formation.

Product Pricing - The price of our products is impacted by competitive pricing dynamics in our industry as well as by raw material input costs. Our industry is highly competitive and the sales prices for our products may vary based on the sales policies of our competitors. Raw material costs represent a significant portion of the cost of goods sold for our products. We aim to increase our product selling prices in order to cover raw material price increases, but the inability to do so could impact our profitability. Movements in raw material, logistics or other overhead costs and resulting changes in the selling prices may also impact changes in period-to-period comparisons of net sales.

Material Conversion - Our HDPE and PP pipe, plastic leach field chambers, septic tanks and related water management product lines compete with other manufacturers of corrugated polyethylene pipe as well as manufacturers of alternative products made with traditional materials, such as concrete, steel and PVC. Our net sales are driven by market trends, including the continued increase in adoption of thermoplastic corrugated pipe products as a replacement for traditional materials. Thermoplastic corrugated pipe is generally lighter, more durable, more cost effective and easier to install than comparable products made from traditional materials. We believe customers will continue to acknowledge the superior attributes and compelling value proposition of our thermoplastic products and expanded regulatory approvals allow for their use in new markets and geographies. In addition, we believe that PP pipe products will also help accelerate conversion given the additional applications for which our PP pipe products can be used.

We believe the adoption of HDPE and PP pipe outside of the United States is still in its early stages and represents a significant opportunity for us to continue to increase the conversion to our products from traditional products in these markets, including Canada, Mexico and South America where we operate.

Growth in Allied Products & Other - Our Allied Products & Other include storm and septic chambers, PVC drainage structures, fittings, stormwater filters and water separators. These products complement our pipe product lines and allow us to offer a comprehensive water management solution to our customers and drive organic growth. Our leading market position in pipe products allows us to cross-sell Allied Products & Other effectively. Our comprehensive offering of Allied Products & Other also helps us increase pipe sales in certain markets. Our Allied Products & Other are less sensitive to increases in resin prices since resin prices represent a smaller percentage of the cost for Allied Products & Other.

Our leading position in the pipe market has allowed us to increase organic growth of our Allied Products & Other. We also expect to expand our Allied Product offerings through acquisitions.

Raw Material Costs - Our raw material cost and product selling prices fluctuate with changes in the price of resins utilized in production. We actively manage our resin purchases and pass fluctuations in the cost of resin through to our customers, where possible, in order to maintain our profitability. Fluctuations in the price of crude oil and natural gas prices may impact the cost of resin. In addition, changes in and disruptions to existing ethylene or polyethylene capacities could also significantly increase resin prices, often within a short period of time, even if crude oil and natural gas prices remain low. Our ability to pass through raw material price increases to our customers may, in some cases, lag the increase in our costs of goods sold. Sharp rises in raw material prices over a short period of time have historically occurred with a significant supply disruption (hurricanes or fires at petrochemical facilities), which may increase prices to levels that cannot be fully passed through to customers due to pricing of competing products made from different raw materials or the anticipated length of time the raw material pricing will stay elevated. For more information regarding risks relating to our raw material costs, see “Item 1A. Risk Factors — Risks Relating to Our Business.”

We currently purchase in excess of 1,100 million pounds of virgin and recycled resin annually from over 470 suppliers in North America. As a high-volume buyer of resin, we are able to achieve economies of scale to negotiate favorable terms and pricing. Our purchasing strategies differ based on the material (virgin resin versus recycled material) ordered for delivery to our production locations. The price movements of the different materials also vary, resulting in the need to use a number of strategies to reduce volatility.

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In order to reduce the volatility of raw material costs in the future, our raw material strategies for managing our costs include the following:

- increasing the use of less price-volatile recycled HDPE resin in our pipe products in place of virgin resin while meeting or exceeding industry standards;
- internally processing an increasing percentage of our recycled HDPE resin in order to closely monitor quality and minimize costs (approximately 81% of our recycled HDPE resin was internally processed (enhanced) in fiscal 2020);
- managing a resin price risk program that may entail both physical fixed price and volume contracts along with financial hedges. For our PP virgin resin price exposure, we have the ability to utilize financial hedges of propylene as a proxy for PP; and
- maintaining supply agreements with our major resin suppliers that provide multi-year terms and volumes that are in excess of our projected consumption.

We also consume a large amount of energy and other petroleum products in our operations, including the electricity we use in our manufacturing process as well as the diesel fuel consumed in delivering a significant volume of products to our customers through our in-house fleet. As a result, our operating profit also depends upon our ability to manage the cost of the energy and fuel we require, as well as our ability to pass through increased prices or surcharges to our customers.

Seasonality - Our operating results are impacted by seasonality. Historically, sales of our products have been higher in the first and second quarters of each fiscal year due to favorable weather and longer daylight conditions accelerating construction project activity during these periods while fourth quarter results are impacted by the timing of spring in the northern United States and Canada. Seasonal variations in operating results may also be significantly impacted by inclement weather conditions, such as cold or wet weather, which can delay projects, resulting in decreased net sales for one or more quarters, but we believe that these delayed projects generally result in increased net sales during subsequent quarters.

In the non-residential, residential and infrastructure markets in the northern United States and Canada, the construction season typically begins to gain momentum in late March and lasts through November, before winter sets in, significantly slowing the construction markets. In the southern and western United States, Mexico, Central America and South America, the construction markets are less seasonal. The agricultural drainage market is concentrated in the early spring just prior to planting and in the fall just after crops are harvested prior to freezing of the ground in winter.

Currency Exchange Rates - Although we sell and manufacture our products in many countries, our sales and production costs are primarily denominated in U.S. dollars. We have wholly-owned facilities in Canada, the Netherlands and joint venture facilities in Mexico, Chile, Brazil, Argentina, Colombia and Peru. The functional currencies in the areas in which we have wholly-owned facilities and joint venture facilities other than the U.S. dollar are the Canadian dollar, Euro, Mexican peso, Chilean peso, Brazilian real and Colombian peso. In fiscal 2019, we converted the functional currency of joint venture facilities using the Argentine peso to the Chilean peso. From time to time, we use derivatives to reduce our exposure to currency fluctuations.

Description of our Segments

Following the acquisition of Infiltrator Water Technologies, we revised our reportable segments to reflect how the Chief Operating Decision Maker (“CODM”) currently reviews financial information and makes operational decisions. After the Acquisition, we operate our business in three distinct reportable segments: “Pipe”, “International” and “Infiltrator Water Technologies.” “Allied Products & Other” represents our Allied Products and all other business segments. “Pipe” and “Allied Products & Other” were previously disclosed as our Domestic segment.

We generate a greater proportion of our net sales and gross profit in our Pipe segment, which consists of Pipe product sales in all regions of the United States. We expect the percentage of total net sales and gross profit derived

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from our other segments to continue to increase in future periods as we continue to expand non-Pipe product and our international presence. See “Note 21. Business Segment Information,” to our audited consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” of this Form 10-K.

Pipe – Our Pipe segment manufactures and markets high performance thermoplastic corrugated pipe throughout the United States. We maintain and serve these markets through product distribution relationships with many of the largest national and independent waterworks distributors, buying groups and co-ops, major national retailers as well as an extensive network of hundreds of small to medium-sized distributors across the United States. For fiscal 2020, 2019 and 2018, we generated net sales attributable to our Pipe segment of \$954.6 million, \$868.8 million, and \$844.9 million, respectively.

Infiltrator Water Technologies –Infiltrator Water Technologies is a leading national provider of plastic leach field chambers and systems, septic tanks and accessories, primarily for use in residential applications. Infiltrator Water Technologies products are used in on-site septic wastewater treatment systems in the United States and Canada. We acquired Infiltrator Water Technologies on July 31, 2019. We generated net sales to external customers attributable to our Infiltrator Water Technologies segment of \$211.0 million subsequent to the acquisition.

International - Our International segment manufactures and markets products in regions outside of the United States, with a strategy focused on our owned facilities in Canada and those markets serviced through our joint ventures in Mexico and South America. Pipe manufactured in these countries is primarily sold into the same region. Our joint venture strategy has provided us with local and regional access to new markets. For fiscal 2020, 2019, and 2018, we generated net sales attributable to our International segment of \$148.6 million, \$160.6 million, and \$155.9 million, respectively. Our investment in the South American Joint Venture is accounted for under the equity method and is not consolidated for financial reporting purposes. The unconsolidated sales of the South American Joint Venture were \$52.5 million, \$47.6 million, and \$44.6 million, in fiscal 2020, 2019, and 2018, respectively.

Allied Products & Other – Our other operating segments manufacture a range of Allied Products & Other that are complementary to our Pipe products. Our Allied Products & Other offer adjacent technologies to our core Pipe offering, presenting a complete drainage solution for our clients and customers. For fiscal 2020, 2019 and 2018, our other reporting units generated net sales of \$403.3 million, \$355.3 million and \$329.6 million, respectively. Unconsolidated sales for our domestic unconsolidated joint venture, Tigre-ADS USA, prior to the Company’s divestiture in April 2018 were \$17.6 million in fiscal 2018.

Non-GAAP Financial Measures

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin - EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin, non-GAAP financial measures, have been presented in this Annual Report on Form 10-K as supplemental measures of financial performance that are not required by, or presented in accordance with GAAP. We calculate EBITDA as net income before interest, income taxes and depreciation and amortization. We calculate adjusted EBITDA as net income before interest, income taxes, depreciation and amortization, stock-based compensation expense, non-cash charges and certain other expenses. We calculate Adjusted EBITDA Margin as Adjusted EBITDA divided by net sales.

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are included in this Annual Report on Form 10-K because they are key metrics used by management and our Board of Directors to assess our financial performance. EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In addition to covenant compliance and executive performance evaluations, we use EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures.

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are not GAAP measures of our financial performance and should not be considered as alternatives to net income as measures of financial performance or cash flows from operations or any other performance measure derived in accordance with GAAP, and it should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin contain certain other limitations, including the failure to reflect

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our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized. In evaluating EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation, such as stock-based compensation expense, derivative fair value adjustments, and foreign currency transaction losses. Management compensates for these limitations by relying on our GAAP results in addition to using EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin on a supplemental basis. Our measure of EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

For a reconciliation of EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin to net income (loss), the most comparable GAAP measure, see “Item 6. Selected Financial and Operating Data.”

The following table presents our Adjusted EBITDA for the Company prior to the Acquisition (“Legacy ADS”), which consists of the combination of the Segment Adjusted Gross Profit for Pipe, Allied Products & Other, and International plus the portion of corporate and selling expenses which impacts Adjusted EBITDA and Infiltrator Water Technologies prior to the Acquisition (“Legacy Infiltrator Water Technologies”), which consists of the combination of the Segment Adjusted Gross Profit for Infiltrator Water Technologies plus the portion of corporate and selling expenses which impacts Adjusted EBITDA.

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|--|-------------------|-------------------|-------------------|
| Legacy ADS Adjusted EBITDA | | | |
| Pipe Adjusted Gross Profit | \$ 239,531 | \$ 191,002 | \$ 186,330 |
| International Adjusted Gross Profit | 36,999 | 37,191 | 31,725 |
| Allied Products & Other Adjusted Gross Profit | 201,206 | 168,729 | 155,166 |
| Unallocated corporate and selling expenses | (190,353) | (164,962) | (162,991) |
| Legacy ADS Adjusted EBITDA | \$ 287,383 | \$ 231,960 | \$ 210,230 |
| Legacy Infiltrator Water Technologies Adjusted EBITDA | | | |
| Infiltrator Water Technologies Adjusted Gross Profit | 98,245 | — | — |
| Unallocated corporate and selling expenses | (21,865) | — | — |
| Legacy Infiltrator Water Technologies Adjusted EBITDA | \$ 76,380 | \$ — | \$ — |
| Intersegment eliminations | (1,895) | — | — |
| Consolidated Adjusted EBITDA | \$ 361,868 | \$ 231,960 | \$ 210,230 |

Free Cash Flow - Free cash flow is a non-GAAP financial measure that comprises cash flow from operations less capital expenditures. Free cash flow is a measure used by management and our Board of Directors to assess our ability to generate cash. Accordingly, free cash flow has been presented in this Annual Report on Form 10-K as a supplemental measure of liquidity that is not required by, or presented in accordance with GAAP, because management believes that free cash flow provides useful information to investors and others in understanding and evaluating our ability to generate cash flow from operations after capital expenditures.

Free cash flow is not a GAAP measure of our liquidity and should not be considered as an alternative to cash flow from operating activities as a measure of liquidity or any other liquidity measure derived in accordance with GAAP. Our measure of free cash flow is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

For a reconciliation of Free cash flow to Cash flow from operating activities, the most comparable GAAP measure, see “Item 6. Selected Financial and Operating Data.”

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Results of Operations

Results of Operations by Segment

The following table presents our net sales by segment, net sales by segment as a percentage of total net sales, gross profit by segment, gross profit by segment as a percentage of total gross profit, Segment Adjusted Gross Profit and Segment Adjusted Gross Profit as a percentage of total Adjusted Gross Profit by segment for the periods presented.

| (Amounts in thousands) | 2020 | | 2019 | | 2018 | |
|---|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| Net sales from external customers by segment | | | | | | |
| Pipe | \$ 952,603 | 56.9% | \$ 868,805 | 62.7% | \$ 844,875 | 63.5% |
| Infiltrator Water Technologies | 169,348 | 10.1% | — | — | — | — |
| International | | | | | | |
| International - Pipe | 108,624 | 6.5% | 122,836 | 8.9% | 119,207 | 9.0% |
| International - Allied Products & Other | 39,957 | 2.4% | 37,766 | 2.7% | 36,715 | 2.8% |
| Total International | 148,581 | 8.9% | 160,602 | 11.6% | 155,922 | 11.7% |
| Allied Products & Other | 403,273 | 24.1% | 355,326 | 25.7% | 329,557 | 24.8% |
| Total net sales | <u>\$1,673,805</u> | <u>100.0%</u> | <u>\$1,384,733</u> | <u>100.0%</u> | <u>\$1,330,354</u> | <u>100.0%</u> |
| Gross profit by segment | | | | | | |
| Pipe | \$ 179,722 | 56.8% | \$ 131,445 | 40.2% | \$ 127,083 | 42.0% |
| Infiltrator Water Technologies | 82,922 | 26.2% | — | — | — | — |
| International | 30,666 | 9.7% | 31,232 | 9.6% | 25,052 | 8.3% |
| Allied Products & Other | 25,064 | 7.9% | 164,290 | 50.2% | 150,346 | 49.7% |
| Intersegment Elimination | (1,895) | (0.6)% | — | — | — | — |
| Total gross profit | <u>\$ 316,479</u> | <u>100.0%</u> | <u>\$ 326,967</u> | <u>100.0%</u> | <u>\$ 302,481</u> | <u>100.0%</u> |
| Segment Adjusted Gross Profit | | | | | | |
| Pipe | \$ 239,531 | 41.7% | \$ 191,002 | 48.1% | \$ 186,330 | 49.9% |
| Infiltrator Water Technologies | 98,245 | 17.1% | — | — | — | — |
| International | 36,999 | 6.4% | 37,191 | 9.4% | 31,725 | 8.5% |
| Allied Products & Other | 201,206 | 35.0% | 168,729 | 42.5% | 155,166 | 41.6% |
| Intersegment Elimination | (1,895) | (0.3)% | — | — | — | — |
| Total Adjusted Gross Profit | <u>\$ 574,086</u> | <u>100.0%</u> | <u>\$ 396,922</u> | <u>100.0%</u> | <u>\$ 373,221</u> | <u>100.0%</u> |

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Fiscal Year Ended March 31, 2020 Compared with Fiscal Year Ended March 31, 2019

The following table summarizes our operating results as a percentage of net sales that have been derived from our Consolidated Financial Statements for the fiscal years ended March 31, 2020 and 2019. We believe this presentation is useful to investors in comparing historical results.

| | 2020 | | 2019 | |
|--|---------------------|----------------|------------------|-------------|
| Consolidated Statements of Operations data: | | | | |
| Net sales | \$1,673,805 | 100.0% | \$1,384,733 | 100.0% |
| Cost of goods sold | 1,188,716 | 71.0 | 1,057,766 | 76.4 |
| Cost of goods sold - ESOP special dividend compensation | 168,610 | 10.1 | — | — |
| Gross profit | 316,479 | 18.9 | 326,967 | 23.6 |
| Selling expenses | 117,068 | 7.0 | 96,335 | 7.0 |
| General and administrative expenses | 154,270 | 9.2 | 89,692 | 6.5 |
| Selling, general and administrative - ESOP special dividend compensation | 78,142 | 4.7 | — | — |
| Loss on disposal of assets and costs from exit and disposal activities | 5,338 | 0.3 | 3,647 | 0.3 |
| Intangible amortization | 57,010 | 3.4 | 7,880 | 0.6 |
| (Loss) income from operations | (95,349) | (5.7) | 129,413 | 9.3 |
| Interest expense | 82,711 | 4.9 | 18,618 | 1.3 |
| Derivative losses (gains) and other expense (income), net | 1,554 | 0.1 | (815) | (0.1) |
| (Loss) income before income taxes | (179,614) | (10.7) | 111,610 | 8.1 |
| Income tax expense | 14,092 | 0.8 | 30,049 | 2.2 |
| Equity in net (income) loss of unconsolidated affiliates | (1,909) | (0.1) | 95 | — |
| Net (loss) income | (191,797) | (11.5) | 81,466 | 5.9 |
| Less: net income attributable to the non-controlling interest | 1,377 | 0.1 | 3,694 | 0.3 |
| Net (loss) income attributable to ADS | <u>\$ (193,174)</u> | <u>(11.5)%</u> | <u>\$ 77,772</u> | <u>5.6%</u> |

Net sales – Net sales increased by \$289.1 million, of which \$169.3 million represented sales from Infiltrator Water Technologies. Net sales excluding Infiltrator Water Technologies are referred to as organic sales, a non-GAAP measure.

| (Amounts in thousands) | 2020 | | | 2019 | | |
|--|---------------------------|------------------------|-----------------------------------|---------------------------|------------------------|-----------------------------------|
| | Net Sales | Intersegment Net Sales | Net Sales from External Customers | Net Sales | Intersegment Net Sales | Net Sales from External Customers |
| Pipe | \$ 954,633 | \$ (2,030) | \$ 952,603 | \$ 868,805 | \$ — | \$ 868,805 |
| Infiltrator Water Technologies International | 211,005 | (41,657) | 169,348 | — | — | — |
| International - Pipe | 108,624 | — | 108,624 | 122,836 | — | 122,836 |
| International - Allied Products & Other | 39,957 | — | 39,957 | 37,766 | — | 37,766 |
| Total International | 148,581 | — | 148,581 | 160,602 | — | 160,602 |
| Allied Products & Other | 403,273 | — | 403,273 | 355,326 | — | 355,326 |
| Intersegment Eliminations | (43,687) | 43,687 | — | — | — | — |
| Total Consolidated | <u>\$1,673,805</u> | <u>\$ —</u> | <u>\$1,673,805</u> | <u>\$1,384,733</u> | <u>\$ —</u> | <u>\$1,384,733</u> |

- Pipe net sales to all customers for fiscal 2020 increased by \$85.8 million, or 9.9% compared to fiscal 2019. The increase was due to an increase in pipe volume resulting in a \$91.1 million offset by a \$7.7 million decrease as a result of price and product mix.

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- Infiltrator Water Technologies net sales to all customers increased by \$211.0 million. The Company acquired Infiltrator Water Technologies in fiscal 2020 and therefore did not report any Infiltrator Water Technologies sales for fiscal 2019.
- International net sales for fiscal 2020 decreased by \$12.0 million, or 7.5%, compared to fiscal 2019. International Pipe sales decreased by \$14.2 million, attributable to volume decreases, offset by an increase of \$2.2 million in International Allied Product sales.
- Allied Products & Other net sales for fiscal 2020 increased \$47.9 million, or 13.5%, compared to fiscal 2019. The increase was due to the combination of both volume increases along with favorable price and product mix.

Cost of goods sold and Gross profit - Cost of goods sold increased by \$299.6 million, or 28.3%, and gross profit decreased by \$10.5 million, or 3.2%, in fiscal 2020 compared to fiscal 2019. The decrease in gross profit was primarily due to the ESOP special dividend compensation expense of \$168.6 million allocated to Cost of goods sold. Gross profit excluding Infiltrator Water Technologies and ESOP special dividend compensation, referred to as organic gross profit, a non-GAAP measure, increased by 23.6%.

| | <u>Fiscal Year Ended March 31,</u> | | <u>\$ Variance</u> | <u>% Variance</u> |
|---|------------------------------------|-------------------|--------------------|-------------------|
| | <u>2020</u> | <u>2019</u> | | |
| | (in thousands) | | | |
| Pipe | \$ 179,722 | \$ 131,445 | \$ 48,277 | 36.7% |
| International | 30,666 | 31,232 | (566) | (1.8)% |
| Allied Products & Other | 193,674 | 164,290 | 29,384 | 17.9% |
| Organic gross profit | 404,062 | 326,967 | 77,095 | 23.6% |
| Infiltrator Water Technologies | 82,922 | — | 82,922 | — |
| Cost of goods sold - ESOP special dividend compensation | (168,610) | — | (168,610) | — |
| Intersegment eliminations | (1,895) | — | (1,895) | — |
| Total gross profit | \$ 316,479 | \$ 326,967 | \$ (10,488) | (3.2)% |

- Pipe gross profit increased primarily due to the increase in volume sold, offset by the decrease in the price and product mix of net sales discussed above. The increase in Pipe gross profit was also attributable to lower material and transportation costs, which was partially offset by higher labor and overhead costs
- The Company acquired Infiltrator Water Technologies in fiscal 2020 and therefore did not report and Infiltrator Water Technologies gross profit for fiscal 2019.
- International gross profit decreased primarily due to the decreased net sales discussed above partially offset by decreased material and transportation costs.
- Allied Products & Other gross profit increased primarily due to the increase in net sales discussed above.

Selling expenses - Selling expenses for fiscal 2020 as a percentage of net sales were consistent with fiscal 2019.

General and administrative expenses - General and administrative expenses for fiscal 2020 increased \$64.6 million from the prior year. The increase was primarily due to an increase of \$22.2 million in transaction costs primarily related to the Acquisition, \$13.4 million in general and administrative expenses at Infiltrator Water Technologies, \$16.0 million increase in salary, bonus, and stock-based compensation expenses to support growth and \$3.2 million of strategic growth and operational improvement initiative expenses.

Selling, general and administrative – ESOP special dividend compensation – In fiscal 2020, ESOP special dividend compensation expense of \$78.1 million was allocated to selling, general and administrative expenses.

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Loss on disposal of assets and costs from exit and disposal activities – In the fiscal year ended March 31, 2020, we recorded \$5.3 million of expense related to loss on disposal of assets and costs from exit and disposal activities compared to \$3.6 million in the year ended March 31, 2019. The increase is primarily due to \$2.6 million of Acquisition related severance and other costs. See “Note 2. Loss on Disposal of Assets and Costs from Exit and Disposal Activities” for additional discussion.

Intangible amortization - Intangible amortization increased as a percentage of net sales primarily due to the addition of intangible assets related to the Acquisition.

Interest expense - Interest expense increased \$64.1 million in fiscal 2020 as compared to fiscal 2019. The increase was primarily due to \$33.2 million of the write-off of deferred financing costs and \$4.2 million prepayment penalty from the extinguishment of debt instruments. The remainder of the increase was due to increased debt levels offset by changes in interest rates. See “Note 13. Debt” for additional discussion.

Derivative losses (gains) and other expense (income), net – Derivative losses (gains) and other expenses (income), net, decreased by \$2.4 million for fiscal 2020 compared to fiscal 2019. The decrease is primarily due to changes in realized and unrealized diesel hedges.

Income tax expense – For the fiscal years ended March 31, 2020 and 2019, we had effective tax rates of (7.9%) and 26.9%, respectively. The decrease in the effective tax rate was primarily due to stock appreciation from the additional ESOP shares allocated and the Acquisition. See “Note 18. Income Taxes” for additional information.

Equity in net (income) loss of unconsolidated affiliates - Equity in net (income) loss of unconsolidated affiliates represents our proportionate share of income or loss attributed to our unconsolidated joint venture in which we have significant influence, but not control, over operations. The equity in net (income) loss of unconsolidated affiliates increased to \$1.9 million income for fiscal 2020 from a \$0.1 million loss for fiscal 2019. Prior to the acquisition of the noncontrolling interest of Baysaver in fiscal 2019, our proportionate share of income or loss in BaySaver was included in equity in net (income) loss of unconsolidated affiliates.

Net income attributable to noncontrolling interest - Income attributable to noncontrolling interest decreased by \$2.3 million from net income of \$3.7 million in fiscal 2019 to \$1.4 million in fiscal 2020. The change is primarily attributable to fluctuations in the profitability of ADS Mexicana.

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Fiscal Year Ended March 31, 2019 Compared with Fiscal Year Ended March 31, 2018

The following table summarizes our operating results as a percentage of net sales that have been derived from our Consolidated Financial Statements for the fiscal years ended March 31, 2019 and 2018. We believe this presentation is useful to investors in comparing historical results.

| | 2019 | | 2018 | |
|--|------------------|-------------|------------------|-------------|
| Consolidated Statements of Operations data: | | | | |
| Net sales | \$1,384,733 | 100.0% | \$1,330,354 | 100.0% |
| Cost of goods sold | 1,057,766 | 76.4 | 1,027,873 | 77.3 |
| Gross profit | 326,967 | 23.6 | 302,481 | 22.7 |
| Selling expenses | 96,335 | 7.0 | 92,764 | 7.0 |
| General and administrative expenses | 89,692 | 6.5 | 98,392 | 7.4 |
| Loss on disposal of assets and costs from exit and disposal activities | 3,647 | 0.3 | 15,003 | 1.1 |
| Intangible amortization | 7,880 | 0.6 | 8,068 | 0.6 |
| Income from operations | 129,413 | 9.3 | 88,254 | 6.6 |
| Interest expense | 18,618 | 1.3 | 15,262 | 1.1 |
| Derivative gains and other income, net | (815) | (0.1) | (3,950) | (0.3) |
| Income before income taxes | 111,610 | 8.1 | 76,942 | 5.8 |
| Income tax expense | 30,049 | 2.2 | 11,411 | 0.9 |
| Equity in net loss of unconsolidated affiliates | 95 | — | 739 | 0.1 |
| Net income | 81,466 | 5.9 | 64,792 | 4.9 |
| Less: net income attributable to the non-controlling interest | 3,694 | 0.3 | 2,785 | 0.2 |
| Net income attributable to ADS | <u>\$ 77,772</u> | <u>5.6%</u> | <u>\$ 62,007</u> | <u>4.7%</u> |

Net sales - Net sales totaled \$1,384.7 million in fiscal 2019, increasing \$54.4 million or 4.1%, as compared to \$1,330.4 million in fiscal 2018.

| (Amounts in thousands) | 2019 | | | 2018 | | |
|---|---------------------------|------------------------|-----------------------------------|---------------------------|------------------------|-----------------------------------|
| | Net Sales | Intersegment Net Sales | Net Sales from External Customers | Net Sales | Intersegment Net Sales | Net Sales from External Customers |
| Pipe | \$ 868,805 | \$ — | \$ 868,805 | \$ 844,875 | \$ — | \$ 844,875 |
| Infiltrator Water Technologies | — | — | — | — | — | — |
| International | | | | | | |
| International - Pipe | 122,836 | — | 122,836 | 119,207 | — | 119,207 |
| International - Allied Products & Other | 37,766 | — | 37,766 | 36,715 | — | 36,715 |
| Total International | 160,602 | — | 160,602 | 155,922 | — | 155,922 |
| Allied Products & Other | 355,326 | — | 355,326 | 329,557 | — | 329,557 |
| Intersegment Eliminations | — | — | — | — | — | — |
| Total Consolidated | <u>\$1,384,733</u> | <u>\$ —</u> | <u>\$1,384,733</u> | <u>\$1,330,354</u> | <u>\$ —</u> | <u>\$1,330,354</u> |

- Pipe net sales to all customers for fiscal 2019 increased by \$23.9 million, or 2.8% compared to fiscal 2018. The increase was due to price increases and changes in product mix of \$49.3 million partially offset by a pipe volume decrease of \$15.9 million.
- International net sales for fiscal 2019 increased by \$4.7 million, or 3.0%, compared to fiscal 2018. The decrease was primarily due to an increase in international pipe sales of \$3.6 million, or 3.0%, which was primarily attributable to price increases and changes in product mix, and a \$1.1 million increase in international Allied Products & Other net sales.

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- Allied Products & Other net sales for fiscal 2019 increased \$25.8 million, or 7.8%, compared to fiscal 2018.

Cost of goods sold and Gross profit - Cost of goods sold increased \$29.9 million, or 2.9%, to \$1,057.8 million during fiscal 2019 as compared to \$1,027.9 million during fiscal 2018.

Gross profit increased \$24.5 million, or 8.1%, to \$327.0 million from \$302.5 million during fiscal 2018. Gross profit as a percentage of net sales increased to 23.6% in fiscal 2019 from 22.7% in fiscal 2018.

| | Fiscal Year Ended March 31, | | \$ Variance | % Variance |
|--------------------------------|--------------------------------|-------------------|------------------|-------------|
| | 2019 | 2018 | | |
| | (in thousands) | | | |
| Pipe | \$ 131,445 | \$ 127,083 | \$ 4,362 | 3.4% |
| International | 31,232 | 25,052 | 6,180 | 24.7% |
| Allied Products & Other | 164,290 | 150,346 | 13,944 | 9.3% |
| Organic gross profit | 326,967 | 302,481 | 24,486 | 8.1% |
| Infiltrator Water Technologies | — | — | — | — |
| Intersegment eliminations | — | — | — | — |
| Total gross profit | \$ 326,967 | \$ 302,481 | \$ 24,486 | 8.1% |

- Pipe gross profit increased primarily due to the price increases and changes in product mix, offset by the decrease in pipe volumes discussed above. The increase in Pipe net sales were offset by an increase in material and transportation costs and increased labor and overhead.
- International gross profit increased \$6.2 million, or 24.7%, for fiscal 2019 as compared to fiscal 2018 primarily due to decreased labor and overhead and the gross profit impact of the net sales increase discussed above. These increases were offset by an increase in material and transportation costs.
- Allied Products & Other gross profit increased primarily due to the increase in net sales discussed above and lower labor and overhead costs.

Selling expenses - Selling expenses for fiscal 2019 as a percentage of net sales were consistent with fiscal 2018.

General and administrative expenses - General and administrative expenses for fiscal 2019 decreased as a percentage of net sales by 90 basis points over fiscal 2018. The decrease was primarily due to a decrease in professional and legal fees of \$10.7 million resulting from decreased restatement costs and a legal settlement of \$2.0 million in fiscal 2018. The decrease was offset by an increase in salaries and benefits of \$4.4 million due to increased headcount to support growth.

Loss on disposal of assets and costs from exit and disposal activities - In the fiscal year ended March 31, 2019, we recorded \$1.6 million of expense related to restructuring activities, including closing one underutilized manufacturing facility. In addition, we recorded a loss on other disposals and partial disposals of property, plant and equipment of approximately \$2.0 million. In the fiscal year ended March 31, 2018, we recorded \$11.4 million of expense related to restructuring activities, including closing four underutilized manufacturing facilities. In addition, we recorded a loss on other disposals and partial disposals of property, plant and equipment of approximately \$3.6 million. See "Note 2. Loss on Disposal of Assets and Costs from Exit and Disposal Activities" for additional discussion.

Intangible amortization - Intangible amortization remained relatively flat as a percentage of net sales in fiscal 2019 compared to fiscal 2018.

Interest expense - Interest expense from our debt and finance lease obligations increased \$3.4 million, or 22.0%, in fiscal 2019 as compared to fiscal 2018. Interest expense increased primarily due to a \$4.5 million change in mark to

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market losses related to our interest rate swaps. This increase was offset by a decrease in our average overall outstanding debt of \$49.6 million, or 23.9%, for fiscal 2019 compared to the average balance for fiscal 2018.

Derivative gains and other income, net – Derivative gains and other income, net, decreased to gains of \$0.8 million in fiscal 2019 compared to gains of \$4.0 million in fiscal 2018. The decrease in derivative gains and other income, net is primarily due to other non-operating income of \$3.0 million for fiscal 2018.

Income tax expense – For the fiscal years ended March 31, 2019 and 2018, we had effective tax rates of 26.9% and 14.8%, respectively. The increase in the effective tax rate was primarily due to the impact of tax reform items and other discrete items. See “Note 18. Income Taxes” for additional information.

Equity in net loss of unconsolidated affiliates - Equity in net loss of unconsolidated affiliates decreased \$0.6 million to a net loss of \$0.1 million for fiscal 2019 compared to a net loss of \$0.7 million during fiscal 2018. We are no longer invested in Tigre-ADS USA and therefore no longer recognizing a proportionate share of Tigre-ADS USA net losses. In addition, net income in the South American Joint Venture decreased to a net loss.

Net income attributable to noncontrolling interest - Income attributable to noncontrolling interest remained relatively flat as a percentage of net sales in fiscal 2019 compared to fiscal 2018.

Liquidity and Capital Resources

Historically we have funded our operations through internally generated cash flow supplemented by debt financings, equity issuance and finance and operating leases. These sources have been sufficient historically to fund our primary liquidity requirements, including working capital, capital expenditures, debt service and dividend payments for our convertible preferred stock and common stock. From time to time, we may explore additional financing methods and other means to raise capital. There can be no assurance that any additional financing will be available to us on acceptable terms or at all.

The following table presents key liquidity metrics utilized by management. The table includes the Non-GAAP measure, Free cash flow, which is further discussed and defined above.

| (Amounts in thousands) | 2020 | 2019 |
|---|------------|------------|
| Net cash provided by operating activities | \$ 306,189 | \$ 151,678 |
| Capital expenditures | (67,677) | (43,412) |
| Free cash flow | 238,512 | 108,266 |
| Total debt (debt and finance lease obligations) | 1,162,206 | |
| Cash | 174,233 | |
| Net debt (total debt less cash) | 987,973 | |
| Leverage ratio | 2.7 | |

The following table summarizes our available liquidity as of March 31, 2020:

| (Amounts in thousands) | March 31, 2020 |
|-------------------------------------|-------------------|
| Revolver capacity | \$ 350,000 |
| Less: outstanding borrowings | 100,000 |
| Less: letters of credit | 8,505 |
| Revolver available liquidity | \$ 241,495 |

In addition to the available liquidity above, we have the ability to borrow up to \$1.3 billion under our Term Loan Facility, subject to leverage ratio restrictions.

As of March 31, 2020, we had \$10.8 million in cash that was held by our foreign subsidiaries. We continue to evaluate our strategy regarding foreign cash, but our earnings in foreign subsidiaries still remain indefinitely reinvested.

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Debt and Equity Financing Transactions

As further described below, during the fiscal year ended March 31, 2020, the Company and certain of its subsidiaries entered into a series of transactions that resulted in the refinancing of the existing external borrowings of the Company with the new financings, as well as the completion of an underwritten public offering of common stock. These financing activities were in connection with the completion of the Acquisition of Infiltrator Water Technologies.

On July 29, 2019, the Company repaid in full all its outstanding indebtedness and other obligations under the Shelf Note Agreement totaling \$104.4 million by using borrowings from the Company's existing credit facility under the PNC Credit Agreement. Concurrently with the repayment, all security interests and liens securing the Shelf Note Agreement were terminated and released, and the Shelf Note Agreement was terminated.

On July 31, 2019, the Company entered into the Base Credit Agreement with Barclays Bank PLC, as administrative agent and the several lenders from time to time party thereto. The Company borrowed under the Credit Agreement and the funds were used to (i) finance the Merger Consideration for the acquisition of Infiltrator Water Technologies, (ii) repay the total outstanding amount under the existing PNC Credit Agreement, (iii) repay outstanding amounts of existing indebtedness incurred by Infiltrator Water Technologies under its outstanding credit facility in effect prior to the Acquisition, and (iv) pay certain transaction fees and expenses associated with the Acquisition and the Credit Agreement.

Thereafter, on the Acquisition Closing Date, using borrowings of the Bridge Loan Facility and Bridge Revolving Facility under the Bridge Credit Facility, the Company repaid in full all its indebtedness and other obligations under the PNC Credit Agreement totaling \$239.2 million. Concurrently with the repayment, all security interests and liens securing the PNC Credit Agreement were terminated and released and the PNC Credit Agreement was terminated.

On September 10, 2019, the Company closed the underwritten public offering of common stock (the "Common Stock Offering") and received net proceeds of approximately \$293.6 million after deducting underwriting discounts and offering expenses, the proceeds of which were used in part to repay outstanding borrowings under the Bridge Credit Facility. On September 23, 2019, the Company issued \$350.0 million aggregate principal amount of its Senior Notes, the proceeds of which were used in part to repay outstanding borrowings under the Bridge Credit Facility.

On September 24, 2019, the Company entered into the Senior Secured Credit Facility that amended certain pricing and related terms under the Base Credit Agreement. In connection with the Senior Secured Credit Facility, the Company also prepaid outstanding borrowings under the Term Loan Facility of the Senior Secured Credit Facility in an aggregate principal amount of \$600 million.

Working Capital and Cash Flows

During fiscal 2020, our net increase in cash amounted to \$165.3 million compared to a net decrease of \$8.7 million during fiscal 2019. Our sources of funds in fiscal 2020 were primarily driven by borrowings under the Term Loan Facility, Senior Notes and Revolving Credit Facility, proceeds from our Common Stock Offering and an increase in cash provided by operating activities. Our use of cash during fiscal 2020 was primarily related to the Acquisition and repayment of our previous debt arrangements. Our source of funds in fiscal 2019 was primarily driven by an increase in cash provided by operating activities due to increased income from continuing operations and increased deferred tax liabilities. Additionally, repayments of our long-term debt and revolving credit facility, cash dividend payments and payments of finance lease obligations impacted our cash position.

As of March 31, 2020, we had \$415.7 million in liquidity, including \$174.2 million of cash, \$241.5 million in borrowings available under our Revolving Credit Facility, excluding \$8.5 million of outstanding letters of credit. We believe that our cash on hand, together with the availability of borrowings under our Revolving Credit Facility and cash generated from operations, will be sufficient to meet our working capital requirements, anticipated capital expenditures, scheduled interest payments on our indebtedness and dividend payment requirement for our convertible preferred stock for at least the next twelve months.

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As of March 31, 2020, we had consolidated indebtedness (excluding finance lease obligations) of approximately \$1,099.7 million, an increase of \$862.9 million compared to March 31, 2019.

Working Capital - Working capital is an indication of liquidity and potential need for short-term funding. We define working capital as current assets less current liabilities.

Working capital increased to \$428.0 million as of March 31, 2020, from \$260.2 million as of March 31, 2019, primarily due to an increase in cash of \$165.3 million. The Company holds a favorable cash position and drew down \$100 million prior to March 31, 2020 on its revolving credit facility out of an abundance of caution to ensure liquidity during the COVID-19 pandemic.

Working capital increased to \$260.2 million as of March 31, 2019, from \$237.2 million as of March 31, 2018, primarily due to an increase in receivables of \$15.0 million and a decrease in accounts payable of \$11.9 million.

Operating Cash Flows - During fiscal 2020, cash provided by operating activities was \$306.2 million as compared with cash provided by operating activities of \$151.7 million for fiscal 2019. Cash flow from operating activities during fiscal 2020 was primarily impacted by changes in working capital, including improved collections from accounts receivable, faster inventory turns and extension of terms of our accounts payable.

During fiscal 2019, cash provided by operating activities was \$151.7 million as compared with cash provided by operating activities of \$137.1 million for fiscal 2018. Cash flow from operating activities during fiscal 2019 was primarily impacted by increased income from continuing operations including decreased restructuring costs.

Investing Cash Flows - During fiscal 2020, cash used for investing activities was \$1,150.5 million. The increase in cash used for investing activities was primarily due to the Acquisition of Infiltrator Water Technologies, net of cash acquired. Capital expenditures was \$67.7 million compared to \$43.4 million in fiscal 2019.

During fiscal 2019, cash used for investing activities was \$42.5 million, primarily due to \$43.4 million for capital expenditures and additions to capitalized software.

During fiscal 2018, cash used for investing activities was \$30.4 million, primarily due to \$41.7 million for capital expenditures and additions to capitalized software, and \$2.0 million for the acquisition of Duraslot, Inc. The Company also received \$13.6 million of proceeds from the sale of corporate-owned life insurance.

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Advanced Drainage Systems, Inc.

Financing Cash Flows – During fiscal 2020, cash provided by financing activities was \$1,011.6 million, due to the new Term Loan Facility, Senior Notes and Common Stock Offering. These cash inflows were offset by the repayment of the PNC Credit Agreement and Prudential Senior Notes, the special and quarterly dividend payments of \$92.1 million and payments on our finance lease obligations of \$27.1 million. The table below summarizes the cash flows from the Acquisition, and the related debt and equity transactions.

| (Amounts in thousands) | Sources | Uses |
|---|----------------|----------------|
| Bridge Loan Facility | \$ 1,300,000 | \$ — |
| Bridge Revolving Credit Facility | 145,000 | — |
| PNC Credit Agreement draw | 104,429 | — |
| Prudential Senior Notes payoff | — | (104,429) |
| PNC Credit Agreement payoff | — | (239,240) |
| Acquisition of Infiltrator Water Technologies, fair value of consideration transferred | — | (1,146,526) |
| Common stock offering, net of offering costs | 293,648 | — |
| Bridge Loan Facility - payment | — | (300,000) |
| Proceeds from Senior Notes Issuance | 350,000 | — |
| Bridge Loan Facility - payment | — | (300,000) |
| Term Loan Facility | 700,000 | — |
| Bridge Loan Facility - payment | — | (700,000) |
| Debt issuance costs | — | (34,606) |
| Cash to Balance Sheet | — | (68,276) |
| Total | \$ 2,893,077 | \$ (2,893,077) |

During fiscal 2019, cash used in financing activities was \$117.7 million, primarily for net debt payments of \$62.1 million related to the repayments of the Secured Bank Loans and Senior Notes Payable, payments on our finance lease obligations of \$24.3 million, dividend payments of \$26.1 million and the acquisition of all the noncontrolling interest in BaySaver for \$8.8 million.

During fiscal 2018, cash used in financing activities was \$95.0 million, primarily for net debt payments of \$46.8 million related to the refinancing of the Secured Bank Loans and Senior Notes Payable, as discussed in “Note 13. Debt,” payments on our finance lease obligations of \$24.2 million, dividend payments of \$18.5 million and repurchases of common stock of \$7.9 million.

Capital Expenditures

Capital expenditures totaled \$67.7 million for fiscal 2020. Infiltrator Water Technologies capital expenditures for fiscal 2020 was \$24.9 million of our total capital expenditures. Our capital expenditures were used primarily to support facility improvements, equipment replacements, our recycled resin and operating efficiency initiatives and technology.

Capital expenditures totaled \$43.4 million for fiscal 2019. Our capital expenditures were used primarily to support facility expansions, equipment replacements, our recycled resin initiatives and technology. For fiscal year ended March 31, 2019, our most significant capital expenditures were \$10.8 million for increased capacity related to manufacturing facility expansion and additional production lines, as well as \$4.8 million for additional processing and utilization of recycled resin.

Capital expenditures totaled \$41.7 million for fiscal 2018. Our capital expenditures were used primarily to support facility expansions, equipment replacements, our recycled resin initiatives and technology. For fiscal year ended March 31, 2018, our most significant capital expenditures were \$8.4 million for increased capacity related to the opening of the manufacturing facility in Harrisonville, MO and \$3.7 million related to the implementation of three software solutions to support sales growth and operating effectiveness initiatives.

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Advanced Drainage Systems, Inc.

We currently anticipate that we will make capital expenditures of approximately \$60 to 65 million in fiscal 2021. Such capital expenditures are expected to be financed using funds generated by operations.

Employee Stock Ownership Plan (“ESOP”)

The Company established the Advanced Drainage Systems, Inc. ESOP (the “ESOP” or the “Plan”) effective April 1, 1993 to enable eligible employees to acquire stock ownership in ADS in the form of redeemable convertible preferred shares. The Plan was funded by an existing tax-qualified profit-sharing retirement plan, as well as a 30-year term loan from ADS. Within 30 days following the repayment of the ESOP loan, which will occur no later than March 2023, the ESOP committee can direct the shares of redeemable convertible preferred stock owned by the ESOP to be converted into shares of the Company’s common stock.

The Company is obligated to make contributions to the Plan, which, when aggregated with the Plan’s dividends, equal the amount necessary to enable the Plan to make its regularly scheduled payments of principal and interest due on its term loan to ADS. Compensation expense is recognized based upon the average annual fair value of the shares during the period which ADS receives payments on the term loan, and the number of ESOP shares allocated to participant accounts.

As disclosed in “Note 16. Employee Benefit Plans”, redeemable convertible preferred stock can convert to common stock upon retirement, disability, death, or vested terminations over the life of the Plan. As stated above, within 30 days following the repayment of the ESOP loan, all redeemable convertible preferred stock will be converted to common stock, which will be no later than March 2023.

Following the repayment of the ESOP loan discussed above, the ESOP’s conversion of redeemable convertible preferred stock into common stock will impact on the Company’s net income, net income per share and common shares outstanding as follows (with the outstanding shares of common stock being approximately 30% greater after conversion):

Impact on Net Income – Absent any other participating securities, the Company will no longer be required to apply the two-class method to determine Net income per share once all of the redeemable convertible preferred stock is converted into common stock. After the preferred shares are fully allocated upon the repayment of the ESOP loan and all of the redeemable convertible preferred stock is converted into common stock, the Company will no longer incur the fair value of ESOP deferred compensation attributable to the shares of redeemable convertible preferred shares.

The impact of the ESOP on net income includes the fair value of ESOP deferred compensation attributable to the shares of redeemable convertible preferred stock allocated to employee ESOP accounts during the applicable period, which is a non-cash charge to our earnings and not deductible for income tax purposes.

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|--|--------------|-----------|-----------|
| Net (loss) income attributable to ADS | \$ (193,174) | \$ 77,772 | \$ 62,007 |
| ESOP special dividend compensation | 246,752 | — | — |
| ESOP deferred stock-based compensation | 20,126 | 15,296 | 11,724 |

Impact on Common Stock Outstanding – The impact on the number of common shares outstanding will be as shares are converted, the number of common shares outstanding will increase.

| (Shares in millions) | 2020 | 2019 | 2018 |
|---|------|------|------|
| Weighted average common shares outstanding | 63.8 | 57.0 | 55.7 |
| Conversion of redeemable convertible shares | 17.1 | 17.6 | 18.3 |

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Advanced Drainage Systems, Inc.

The repayment of a significant portion of the ESOP loan had an impact on the Company's net income per share in fiscal 2020.

Debt and Capitalized Lease Obligations

See "Note 6. Leases" and "Note 13. Debt" to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" for a discussion of the Company's financing transactions, including the Secured Bank Loans, the Senior Notes and the Company's finance lease obligations.

Financing Transactions

PNC Term Loans - On June 22, 2017, we entered into the PNC Credit Agreement, which amends and restates the original agreement dated as of June 12, 2013, which provided us with a \$550 million revolving credit facility, which is more fully described in our Fiscal 2019 Form 10-K. On the Closing Date, using borrowings of the new Term Loan Facility the Company repaid in full all of its and its subsidiaries indebtedness and other obligations totaling \$239.2 million under the PNC Credit Agreement. Concurrently with the repayment, all security interests and liens held by the Collateral Agent (as defined in the PNC Credit Agreement) securing the PNC Credit Agreement were terminated and released and the PNC Credit Agreement was terminated.

ADS Mexicana Revolving Credit Facility - The Company and ADS Mexicana entered into an Intercompany Revolving Credit Promissory Note (the "Intercompany Note") with a capacity of \$12.0 million on June 22, 2018. The Intercompany Note matures on June 22, 2022. The Intercompany Note indemnifies the ADS Mexicana joint venture partner for 49% of any unpaid borrowing. The interest rates under the Intercompany Note are determined by certain base rates or LIBOR rates plus an applicable margin based on the Leverage Ratio. As of March 31, 2020, there were no borrowings under the Intercompany Note.

Prudential Senior Notes - On June 22, 2017, we entered into the Shelf Note Agreement to provide for the issuance of secured senior notes to the Shelf Note Lenders from time to time in the aggregate principal amount of up to \$175 million, which is more fully described in our Fiscal 2019 Form 10-K. On July 29, 2019, the Company repaid in full all of its and its subsidiaries indebtedness and other obligations totaling \$104.4 million under the Shelf Note Agreement using borrowings from the PNC Credit Agreement as in effect as of July 29, 2019. Concurrently with the repayment, the Prudential Shelf Noteholders authorized and directed PNC Bank, National Association, in its capacity as Collateral Agent (as defined in the Shelf Note Agreement) to release the security interests and liens securing the Shelf Note Agreement and the Shelf Note Agreement was terminated.

Bridge Credit Facility - On July 31, 2019, we entered into the Base Credit Agreement with Barclays Bank PLC, as administrative agent and the several lenders from time to time party thereto. The Base Credit Agreement provides for up to \$1.3 billion as a Term Loan Facility, up to \$350 million as a Revolving Facility, up to \$50 million as an L/C Facility and up to \$50 million, as a sublimit of the Revolving Facility.

On July 31, 2019, the Company borrowed under the Base Credit Agreement which was used to (i) finance the Merger Consideration paid in connection with the closing of the acquisition of Infiltrator Water Technologies by us which occurred on July 31, 2019 (the "Merger"), (ii) and repay the total outstanding amount as of the Closing Date under the PNC Credit Agreement, (iii) repay outstanding amounts of existing indebtedness incurred by Infiltrator Water Technologies under its outstanding credit facility in effect prior to the Acquisition, and (iv) pay certain transaction fees and expenses associated with the Acquisition and the Base Credit Agreement.

New Senior Secured Credit Facility - On September 24, 2019, the joint lead arrangers informed the Company that the parties had successfully completed a syndication of the remaining balance of the Bridge Credit Facility. The Senior Secured Credit Facility provided for a Term Loan Facility with an initial aggregate amount of \$700 million, up to \$350 million as a Revolving Facility, and up to \$50 million as a letter of credit facility, as a sublimit of the Revolving Facility.

The Term Loan Facility must have an amortization feature equal to 1% of the original \$700 million balance paid in equal quarterly installments commencing on January 1, 2020 and continuing on the first day of each consecutive

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April, July, October and January thereafter. To the extent not previously paid, all then-outstanding amounts under the Term Loan Facility are due and payable on the maturity date of the Term Loan Facility, which is September 26, 2026. Borrowings under the Revolving Facility are available beginning on the Closing Date and, to the extent not previously paid, all then-outstanding amounts under the Revolving Facility are due and payable on the maturity date of the Revolving Facility, which is September 29, 2024.

The Senior Secured Credit Facility includes customary representations, warranties, covenants and events of default.

At the option of the Company, borrowings under the Term Loan Facility and under the Revolving Facility (subject to certain limitations) bear interest at either a base rate (as determined pursuant to the Senior Secured Credit Facility) or at a Eurocurrency Rate, based on LIBOR (as defined in the Senior Secured Credit Facility), plus the applicable margin as set forth therein from time to time. In the case of the Revolving Facility, the applicable margin is based on the Company's consolidated senior secured net leverage ratio (as defined in the Senior Secured Credit Facility). All borrowings under the Term Loan Facility used to finance the Merger Consideration as described above initially bear interest at a Eurocurrency Rate (as defined in the Senior Secured Credit Facility).

The Company's obligations under the Credit Agreement have been secured by granting a first priority lien on substantially all of the Company's assets (subject to certain exceptions and limitations), and each of StormTech, LLC, Advanced Drainage of Ohio, Inc. and Infiltrator Water Technologies, LLC (collectively the "Guarantors") has agreed to guarantee the obligations of the Company under the Senior Secured Credit Facility and to secure the obligations thereunder by granting a first priority lien in substantially all of such Guarantor's assets (subject to certain exceptions and limitations).

The Senior Secured Credit Facility requires, if the aggregate amount of outstanding exposure under the Revolving Facility exceeds \$122.5 million at the end of any fiscal quarter, the Company to maintain a consolidated senior secured net leverage ratio (commencing with the fiscal quarter ending March 31, 2020) not to exceed 4.25 to 1.00 for any four consecutive fiscal quarter periods.

The Senior Secured Credit Facility also includes other covenants, including negative covenants that, subject to certain exceptions, limit the Company's and its restricted subsidiaries' (as defined in the Senior Secured Credit Facility) ability to, among other things: (i) incur additional debt, including guarantees; (ii) create liens upon any of their property; (iii) enter into any merger, consolidation or amalgamation, liquidate, wind up or dissolve, or dispose of all or substantially all of their property or business; (iv) dispose of assets; (v) pay subordinated debt; (vi) make certain investments; (vii) enter into swap agreements; (viii) engage in transactions with affiliates; (ix) engage in new lines of business; (x) modify certain material contractual obligations, organizational documents, accounting policies or fiscal year; or (xi) create or permit restrictions on the ability of any subsidiary of any Loan Party (as defined in the Senior Secured Credit Facility) to pay dividends or make distributions to the Company or any of its subsidiaries.

The Senior Secured Credit Facility also contains customary provisions requiring the following mandatory prepayments (subject to certain exceptions and limitations): (i) annual prepayments (beginning with the fiscal year ending March 31, 2021) with a percentage of excess cash flow (as defined in the Senior Secured Credit Facility); (ii) 100% of the net cash proceeds from any non-ordinary course sale of assets and certain casualty or condemnation events; and (iii) 100% of the net cash proceeds of indebtedness not permitted to be incurred under the Senior Secured Credit Facility.

Issuance of Senior Notes due 2027 - On September 23, 2019, the Company issued \$350.0 million aggregate principal amount of its Senior Notes, pursuant to the Indenture among the Company, the Guarantors and the Trustee. The Senior Notes are guaranteed by each of the Company's present and future direct and indirect wholly owned domestic subsidiaries that is a guarantor under the Company's Senior Secured Credit Facility. The Senior Notes were offered and sold either to persons reasonably believed to be "qualified institutional buyers" pursuant to Rule 144A under the Securities Act or to persons outside the United States under Regulation S of the Securities Act.

Interest on the Senior Notes will be payable semi-annually in cash in arrears on March 31 and September 30 of each year, commencing on March 31, 2020, at a rate of 5.000% per annum. The Senior Notes will mature on September

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30, 2027. The Company used the majority of the net proceeds from the offering of the Senior Notes for the repayment of \$300.0 million of its outstanding borrowings under the Company's Bridge Credit Facility.

The Company may redeem the Senior Notes, in whole or in part, at any time on or after September 30, 2022 at established redemption prices. At any time prior to September 30, 2022, the Company may also redeem up to 40% of the Senior Notes with net cash proceeds of certain equity offerings at a redemption price equal to 105.000% of the principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. In addition, at any time prior to September 30, 2022, the Company may redeem the Senior Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date plus an applicable "make-whole" premium.

The Indenture contains customary events of default, including, among other things, payment default, failure to comply with covenants or agreements contained in the Indenture or the Senior Notes and certain provisions related to bankruptcy events. The Indenture also contains customary negative covenants.

Covenant Compliance

The Senior Secured Credit Facility requires, if the aggregate amount of outstanding exposure under the Revolving Facility exceeds \$122.5 million at the end of any fiscal quarter, the Company to maintain a consolidated senior secured net leverage ratio (commencing with the fiscal quarter ending March 31, 2020) not to exceed 4.25 to 1.00 for any four consecutive fiscal quarter periods.

The Senior Secured Credit Facility also includes other covenants, including negative covenants that, subject to certain exceptions, limit the Company's and its restricted subsidiaries' (as defined in the Credit Agreement) ability to, among other things: (i) incur additional debt, including guarantees; (ii) create liens upon any of their property; (iii) enter into any merger, consolidation or amalgamation, liquidate, wind up or dissolve, or dispose of all or substantially all of their property or business; (iv) dispose of assets; (v) pay subordinated debt; (vi) make certain investments; (vii) enter into swap agreements; (viii) engage in transactions with affiliates; (ix) engage in new lines of business; (x) modify certain material contractual obligations, organizational documents, accounting policies or fiscal year; or (xi) create or permit restrictions on the ability of any subsidiary of any Loan Party (as defined in the Senior Secured Credit Facility) to pay dividends or make distributions to the Company or any of its subsidiaries.

The Senior Secured Credit Facility also contains customary provisions requiring the following mandatory prepayments (subject to certain exceptions and limitations): (i) annual prepayments (beginning with the fiscal year ending March 31, 2021) with a percentage of excess cash flow (as defined in the Senior Secured Credit Facility); (ii) 100% of the net cash proceeds from any non-ordinary course sale of assets and certain casualty or condemnation events; and (iii) 100% of the net cash proceeds of indebtedness not permitted to be incurred under the Senior Secured Credit Facility.

For further information, see "Note 13. Debt" to the Consolidated Financial Statements. We were in compliance with our debt covenants as of March 31, 2020.

Contractual Obligations as of March 31, 2020

| (Amounts in thousands) | Total | Payments Due by Period | | | More than 5 Years |
|----------------------------------|--------------------|------------------------|-------------------|-------------------|----------------------|
| | | Less than 1 Year | 1-3 Years | 3-5 Years | |
| Contractual obligations: | | | | | |
| Long-term debt ⁽¹⁾ | \$1,099,742 | \$ 7,955 | \$ 14,532 | \$ 114,000 | \$ 963,255 |
| Interest payments ⁽²⁾ | 301,675 | 45,931 | 91,000 | 88,128 | 76,616 |
| Operating leases | 28,951 | 8,511 | 9,556 | 4,809 | 6,075 |
| Finance leases | 73,965 | 23,492 | 32,660 | 13,091 | 4,722 |
| Total | \$1,504,333 | \$ 85,889 | \$ 147,748 | \$ 220,028 | \$1,050,668 |

(1) The Secured Bank Loans mature in June 2027.

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Advanced Drainage Systems, Inc.

(2) Based on applicable rates and pricing margins as of March 31, 2020.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, with the exception of the guarantee of 50% of certain debt of our unconsolidated South American Joint Venture, as further discussed in “Note 12. Related Party Transactions” of our Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data,” of this Form 10-K. Our maximum potential obligation under this guarantee totals \$11 million as of March 31, 2020. The maximum borrowing permitted under the South American Joint Venture’s credit facility is \$22 million. As of March 31, 2020, our South American Joint Venture had approximately \$9.3 million of outstanding debt subject to our guarantee, resulting in our guarantee of 50%, or \$4.7 million, of that amount. We do not believe that this guarantee will have a current or future effect on our financial condition, results of operations, liquidity, or capital resources.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts in our consolidated financial statements and accompanying notes.

Certain of our accounting policies involve a higher degree of judgment and complexity in their application, and therefore, represent the critical accounting policies used in the preparation of our financial statements. If different assumptions or conditions were to prevail, the results could be materially different from our reported results. We believe the following accounting policies may involve a higher degree of judgment and complexity in their application and represent the critical accounting policies used in the preparation of our financial statements. For additional discussion of our significant accounting policies, see “Note 1. Background and Summary of Significant Accounting Policies” to our consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” included in this Form 10-K.

Advanced Drainage Systems, Inc.

| Policy | Judgments and Estimates | Effect if Actual Results Differ from Assumptions |
|---|---|--|
| <p>Goodwill- Goodwill is reviewed annually for impairment as of March 31 or whenever events or changes in circumstances indicate the carrying value may not be recoverable. The fair value of goodwill is determined by considering both the income and market approach.</p> | <p>Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions.</p> <ul style="list-style-type: none"> • Reporting units - As a result of the Acquisition of Infiltrator Water Technologies, we revised our reportable segments and allocated the goodwill balance of \$92.5 million recorded on the former Domestic reportable segment to our revised reporting units based on the relative fair value. Our Pipe reporting unit was allocated approximately \$57.7 million of goodwill from our former Domestic reporting unit. No other reporting unit was allocated more than \$10 million of goodwill. • These estimates and assumptions include revenue growth rates and EBITDA used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. • The fair value estimates are based on assumptions management believes to be reasonable, but are inherently uncertain. | <p>We performed our annual impairment test for goodwill as of March 31, 2020. We performed the test for all reporting units with goodwill, which include our Domestic pipe reporting unit, the International reporting units, the Infiltrator Water Technologies reporting unit, and the various Allied Product reporting units.</p> <p>Based on our analysis, the estimated fair value of each reporting unit exceeded its carrying value. Based on our analysis, the estimated fair value of each reporting unit exceeded its carrying value. However, the estimated fair value exceeded the carrying value by less than 20% for two of our reporting units, Infiltrator Water Technologies and Canada, which had goodwill balances of \$495.8 million and \$9.9 million, respectively, at March 31, 2020. We utilized a discount rate of 14%, in determining the discounted cash flows in our fair value analysis and a long-term growth rate of 3.0% and 2.0%, respectively. If our discount rate were to increase by 150 basis points, the fair value of these reporting units would fall below carrying value, which would indicate impairment of the goodwill.</p> <p>In addition, these discounted cash flow analyses are dependent upon achieving forecasted levels of net sales and profitability. If performance were to fall below forecasted levels, or if market conditions were to decline in a material or sustained manner, impairment would be indicated at these reporting units, and potentially at our other reporting units. Management forecasts considered the impact of COVID-19 on net sales and profitability, but, if we see worse than expected impacts from COVID-19 that will likely have a negative impact on our forecasted revenue and profitability and this,</p> |

Advanced Drainage Systems, Inc.

| Policy | Judgments and Estimates | Effect if Actual Results Differ from Assumptions |
|--|---|--|
| | | along with the decline in our stock price and other market conditions, could result in an indication of impairment of goodwill in fiscal 2021. |
| <p><i>Definite-lived intangible assets-</i> Definite-lived intangible assets are tested for recoverability whenever events or changes in circumstances indicate that carrying amounts of the asset group may not be recoverable. Asset groups are established primarily by determining the lowest level of cash flows available. If the estimated undiscounted future cash flows are less than the carrying amounts of such assets, an impairment loss is recognized to the extent the fair value of the asset less any costs of disposition is less than the carrying amount of the asset.</p> <p><i>Indefinite-lived intangible assets-</i> Indefinite-lived intangible assets are tested for impairment annually as of March 31 or whenever events or changes in circumstances indicate the carrying value may be greater than fair value. Determining the fair value of these assets is judgmental in nature and involves the use of significant estimates and assumptions. We base our fair value estimates on assumptions we believe to be reasonable, but that are inherently uncertain. To estimate the fair value of these indefinite-lived intangible assets, we use an income approach, which utilizes a market derived rate of return to discount anticipated performance. An impairment loss is recognized when the estimated fair value of the intangible asset is less than the carrying value.</p> | <p>Determining the fair value of the definite-lived and indefinite-lived intangible assets is judgmental in nature and involves the use of significant estimates and assumptions. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period.</p> | <p>We did not record any impairment charges for definite-lived intangible assets in fiscal 2020, 2019, or 2018. Due to the expected retirement of the “Hancor” trademark in fiscal 2021, we accelerated the amortization of our “Hancor” trademark recording additional amortization expense of \$4.4 million.</p> <p>We performed our annual impairment test for indefinite-lived intangible assets as of March 31, 2020. We determined for our indefinite-lived intangible assets that the fair value of the assets exceeded its carrying value. Accordingly, we did not incur any impairment charges for indefinite-lived intangible assets in fiscal 2020, 2019 or 2018. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period.</p> |

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Advanced Drainage Systems, Inc.

| Policy | Judgments and Estimates | Effect if Actual Results Differ from Assumptions |
|---|--|--|
| <p>Revenue Recognition- We generate revenue by selling pipe and related water management products primarily to distributors, retailers, buying groups and co-operative buying groups. Products are shipped predominately by our internal fleet, and we do not provide any additional revenue generating services after product delivery. Payment terms and conditions vary by contract.</p> <p>Revenue is recognized at the point in-time obligations under the terms of a contract with a customer are satisfied, which generally occurs upon the transfer of control of the promised goods. In substantially all of our contracts with customers, control is transferred to the customer upon delivery. We recognize revenue in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.</p> | <p>We estimate and allocate variable consideration, such as right of return, credits or incentives, based on numerous factors, including the customer agreements and past transaction history.</p> | <p>If our historical experience differs from future experience, our estimates of variable consideration could differ.</p> |
| <p>Employee Stock Ownership Plan (“ESOP”)- When shares of convertible preferred stock are allocated to the ESOP stock accounts of ESOP participants, we reduce the amount of deferred compensation reflected in Deferred compensation — unearned ESOP shares in mezzanine equity.</p> | <p>Shares of convertible preferred stock are valued based on an annual valuation for the ESOP by an independent third-party appraisal firm as required by the Plan.</p> | <p>As the value of the shares increase or decrease, it could result in a significant increase or decrease in compensation expense.</p> |

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Advanced Drainage Systems, Inc.

| Policy | Judgments and Estimates | Effect if Actual Results Differ from Assumptions |
|--|--|---|
| <p><i>Stock-Based Compensation Plan-</i> Equity-classified awards are measured based on the grant-date estimated fair value of each award, net of estimated forfeitures, at each relevant reporting date for accounting purposes. Compensation expense is recognized on a straight-line basis over the employee’s requisite service period, which is generally the vesting period of the grant.</p> | <p>The fair value of each stock option granted is estimated using the Black-Scholes option pricing model. Determining the fair value of stock options under the Black-Scholes option-pricing model requires judgment, common stock volatility, expected term of the awards, dividend yield and the risk-free interest rate. The assumptions used in calculating the fair value of stock options represent our best estimates, based on management’s judgment and subjective future expectations. These estimates involve inherent uncertainties. We developed our assumptions the following:</p> <ul style="list-style-type: none"> • Volatility. • Expected term. • Risk-free interest rate. • Dividend yield. <p>The Company also issues performance-based restricted stock units that vest over a term based on the achievement of targets defined in the award. The Company estimates the amount of units that will vest by forecasting the various performance metrics.</p> | <p>All current stock-based awards qualify for equity classification. Changes in the assumptions utilized to determine the fair value could cause fluctuations in the stock-based compensation expense for future grants.</p> <p><i>Performance-Based Restricted Stock Units</i></p> <p>As the Company forecasts the performance metrics to target over the vesting term, changes in forecast could cause fluctuations in the stock-based compensation expense.</p> |

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Advanced Drainage Systems, Inc.

| Policy | Judgments and Estimates | Effect if Actual Results Differ from Assumptions |
|--|--|---|
| <p>Business Combinations – Acquisitions, such as the acquisition of Infiltrator Water Technologies, are accounted for in accordance with ASC 805, <i>Business Combinations</i>. We recognize separately from goodwill the assets acquired and the liabilities assumed, at their acquisition date fair values and goodwill is defined as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed.</p> <p>During the measurement period, which may take up to one year from the acquisition date, adjustments due to changes in the estimated fair value of assets acquired and liabilities assumed may be recorded as adjustments to the consideration transferred and related allocations. Upon the conclusion of the measurement period or the final determination of the values of assets acquired and liabilities assumed, whichever comes first, any such adjustments are charged to the consolidated statements of operations.</p> | <p>Fair values allocated to assets acquired and liabilities assumed in business combinations require management to make significant judgments, estimates, and assumptions, especially with respect to intangible assets. Management makes estimates of fair values based upon assumptions it believes to be reasonable. These estimates are based upon historical experience, information obtained from the management of the acquired company, comparable transactions, and market and industry considerations and these estimates are inherently uncertain. The estimated fair values related to intangible assets primarily consist of customer relationships, patents and developed technology, and tradenames and trademarks. Estimates in the discounted cash flow models include, but are not limited to, certain assumptions that form the basis of the forecasted results (e.g. revenue growth rates, discount rate, royalty, customer attrition rates and EBITDA).</p> | <p>These significant assumptions are forward looking and could be affected by future economic and market conditions.</p> <p><i>Customer Relationships</i> - In addition to revenue growth rates, EBITDA and discount rate, a key input for customer relationships is the customer attrition rate. A higher than expected customer attrition rate could result in an impairment charge.</p> <p><i>Developed Technology</i> – In addition to revenue growth rates, discount rate, royalty rate and an obsolescence factor, the timing of obsolescence of the acquired technology could result in a shorter useful life than originally determined and an acceleration of amortization expense.</p> <p><i>Tradenames and Trademarks</i> - The most significant driver is revenue growth rates, discount rate and royalty rate. If revenue growth rates are lower than expected, it could result in an impairment charge.</p> |

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see “Note 1. Background and Summary of Significant Accounting Policies” to our consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data.”

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to various market risks, primarily related to changes in interest rates, credit risk, raw material supply prices, and, to a lesser extent, foreign currency exchange rates. Our financial position, results of operations or cash flows may be negatively impacted in the event of adverse movements in the respective market rates or prices in each of these risk categories. Our exposure in each category is limited to those risks that arise in the normal course of business, as we do not engage in speculative, non-operating transactions.

Interest Rate Risk

We are subject to interest rate risk associated with our bank debt. Changes in interest rates impact the fair value of our fixed-rate debt, but there is no impact to earnings and cash flow. Alternatively, changes in interest rates do not affect the fair value of our variable-rate debt, but they do affect future earnings and cash flow. The Revolving Credit Facility and the Term Note, notes bear variable interest rates. The Revolving Credit Facility and Term Note bear interest either at LIBOR or the Prime Rate, at our option, plus applicable pricing margins. A 1.0% increase in interest rates on our variable-rate debt would increase our annual forecasted interest expense by approximately

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Advanced Drainage Systems, Inc.

\$7.4 million based on our borrowings as of March 31, 2020. Assuming the Revolving Credit Facility is fully drawn, each 1.0% increase or decrease in the applicable interest rate would change our interest expense by approximately \$9.9 million, for the year ended March 31, 2020.

Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist principally of accounts receivable. We provide our products to customers based on an evaluation of the customers' financial condition, generally without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. We monitor the exposure for credit losses and maintain allowances for anticipated losses. Concentrations of credit risk with respect to our accounts receivable are limited due to the large number of customers comprising our customer base and their dispersion among many different geographies and end markets. One customer has an accounts receivable balance equal to approximately 20% of our Receivables balance as of March 31, 2020.

Raw Material and Commodity Price Risk

Our primary raw materials used in the production of our products are HDPE and PP resins. As these resins are hydrocarbon-based materials, changes in the price of feedstocks, such as crude oil derivatives and natural gas liquids, as well as changes in the market supply and demand may cause the cost of these resins to fluctuate significantly. Raw materials account for the majority of our cost of goods sold. Given the significance of these costs and the inherent volatility in supplier pricing, our ability to reflect these changes in the cost of resins in our product selling prices in an efficient manner contributes to the management of our overall risk and the potential impact on our results of operations. A 1% increase in the price of resin would increase our cost of goods sold by approximately \$4 million.

We have a resin price risk management program with physical fixed price contracts which are designed to apply to a significant portion of our annual virgin resin purchases. We also maintain supply agreements with our major resin suppliers that provide multi-year terms and volumes that are in excess of our projected consumption. These supply agreements generally do not contain minimum purchase volumes or fixed prices. Accordingly, our suppliers may change their selling prices or other relevant terms on a monthly basis, exposing us to pricing risk.

Inflation Risk

Our cost of goods sold is subject to inflationary pressures and price fluctuations of the raw materials we use, primarily HDPE and PP resins. Historically, we have generally been able, over time, to recover the effects of inflation and price fluctuations through sales price increases and production efficiencies related to technological enhancements and improvements. However, we cannot reasonably estimate our ability to successfully recover any price increases.

Foreign Currency Exchange Rate Risk

We have operations in countries outside of the United States, which primarily use the respective local foreign currency as their functional currency. Each of these operations may enter into contractual arrangements with customers or vendors that are denominated in currencies other than its respective functional currency. Consequently, our results of operations may be affected by exposure to changes in foreign currency exchange rates and economic conditions in the regions in which we sell or distribute our products. Exposure to variability in foreign currency exchange rates from these transactions is managed, to the extent possible, by natural hedges which result from purchases and sales occurring in the same foreign currency within a similar period of time, thereby offsetting each other to varying degrees.

In addition to the foreign currency transaction-related gains and losses that are reflected within the results of operations, we are subject to foreign currency translation risk, as the financial statements for our foreign subsidiaries are measured and recorded in the respective subsidiary's functional currency and translated into U.S. dollars for consolidated financial reporting purposes. The resulting translation adjustments are recorded net of tax impact in the Consolidated Statements of Comprehensive (Loss) Income.

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Advanced Drainage Systems, Inc.

Item 8. Financial Statements and Supplementary Data

The Report of Independent Registered Public Accounting Firm, Consolidated Financial Statements and supplementary financial data required for this Item are set forth on pages F-1 through F-57 of this Annual Report on Form 10-K and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountant on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of March 31, 2020. Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified under Securities Exchange Commission (“SEC”) rules and forms. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2020 because of the material weakness in our internal control over financial reporting, as further described below.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f).

Management, including our Chief Executive Officer and our Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of March 31, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control — Integrated Framework (2013). A material weakness in internal controls is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Due to its inherent limitations, internal control over financial reporting may not prevent or detect all 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 policies or procedures may deteriorate.

Based on this assessment, management has concluded that the Company did not maintain effective internal control over financial reporting as of March 31, 2020, due to the fact that the material weakness in the control environment of our consolidated joint venture affiliate, ADS Mexicana, as previously identified in our Annual Report on Form 10-K for the fiscal year ended March 31, 2019, had not been remediated. This material weakness was a result of the Company’s findings as part of its internal investigation conducted in fiscal year 2019 into ADS Mexicana’s senior management’s ethical and business conduct, including compliance of certain products with Mexican laws and regulations. We continue the process to remediate the underlying causes of the material weakness as further described below. Accordingly this previously identified material weakness cannot be considered remediated until the necessary controls have operated for a sufficient period of time and until management has concluded, through testing, that the control is operating effectively.

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Advanced Drainage Systems, Inc.

We have excluded from the scope of our assessment of internal control over financial reporting the operations and related assets of Infiltrator Water Technologies (“IWT”) which we acquired on July 31, 2019. At March 31, 2020 and for the period from acquisition through March 31, 2020, total assets, total revenues, and net loss subject to IWT’s internal control over financial reporting represented 31%, 10%, and (5%) of consolidated total assets, total revenues, and net loss, respectively of ADS as of and for the year ended March 31, 2020.

Deloitte & Touche LLP, our independent registered public accounting firm, has issued an audit report on the effectiveness of our internal control over financial reporting as of March 31, 2020 and this report is included herein.

Ongoing Remediation Process

We continue the process to remediate the underlying causes of the material weakness in the control environment at ADS Mexicana. In fiscal year 2020 ADS Mexicana hired a new general manager and controller, as well as a manager of financial reporting and compliance. The manager of financial reporting and compliance reports to ADS finance personnel. Responsibilities within ADS Mexicana have been segregated among senior management individuals responsible for sales; quality and product development; and manufacturing. Supplement training on ADS Mexicana’s Code of Business Conduct and Ethics has been provided to ADS Mexicana personnel and additional training has been provided to ADS Mexicana personnel who provide oversight of claims submitted to the Ethics Hotline. We have leveraged new technology recently implemented at ADS Mexicana that we believe has strengthened controls and allows for further oversight by ADS, Inc. The hiring of additional ADS Mexicana personnel as described above occurred during fiscal year 2020, and will necessitate additional time in order for such personnel to positively impact the control environment, improve process and execute controls for a sufficient period of time such that the operating effectiveness of those changes can be demonstrated through testing.

The material weaknesses did not result in a material misstatement in the financial statements included in our Annual Report on Form 10-K for the year ended March 31, 2020 or previously issued financial statements.

We believe the foregoing efforts will effectively remediate the material weakness described above. As we continue to evaluate and work to improve our internal control over financial reporting, we may take additional measures to address this control deficiency or modify the remediation plan described above. We cannot assure you, however, when we will remediate such weakness, nor can we be certain of whether additional actions will be required. See above under Item 1A, “Risk Factors — Our failure to maintain effective disclosure controls and internal control over financial reporting could adversely affect our business, financial position and results of operations.”

Changes in Internal Control over Financial Reporting

As of March 31, 2020, management is in the process of evaluating and integrating the internal controls of the acquired IWT business into the Company’s existing operations. Other than the controls enhanced or implemented to integrate the IWT business, there were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a15(d) or 15d-15(d) of the Exchange Act during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Advanced Drainage Systems, Inc.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the captions “EXECUTIVE OFFICERS”, “ELECTION OF DIRECTORS” and “OTHER DIRECTOR INFORMATION, COMMITTEES OF DIRECTORS AND CORPORATE GOVERNANCE INFORMATION” in our definitive Proxy Statement for the 2020 Annual Meeting of Shareholders, to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act (the “Proxy Statement”), is incorporated herein by reference.

Item 11. Executive Compensation

The information contained under the captions “COMPENSATION OF MANAGEMENT,” “OTHER DIRECTOR INFORMATION, COMMITTEES OF DIRECTORS AND CORPORATE GOVERNANCE INFORMATION”, “REPORT OF THE COMPENSATION COMMITTEE” and “COMPENSATION DISCUSSION AND ANALYSIS” in the Proxy Statement is incorporated herein by reference. Notwithstanding the foregoing, the information contained in the Proxy Statement under the caption “REPORT OF THE COMPENSATION COMMITTEE” shall be deemed furnished, and not filed, in this Report on Form 10-K and shall not be deemed incorporated by reference into any filing we make under the Securities Act of 1933, as amended, or the Exchange Act.

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

The information contained under the caption “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT” and “EQUITY COMPENSATION PLAN INFORMATION” in the Proxy Statement is incorporated herein by reference.

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

The information contained under the captions “CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS” and “OTHER DIRECTOR INFORMATION, COMMITTEES OF DIRECTORS AND CORPORATE GOVERNANCE INFORMATION” in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained under the caption “AUDIT AND OTHER SERVICE FEES” in the Proxy Statement is incorporated herein by reference.

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Advanced Drainage Systems, Inc.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)1. *Financial Statements*. See “Table of Contents” on page F-1.

(a)2. *Financial Statement Schedules*. Schedule II — Consolidated Valuation and Qualifying Accounts.

Other schedules are omitted because they are not required or applicable, or the required information is included in our consolidated financial statements or related notes.

(a)3. *Exhibits*. See “Index to Exhibits.”

INDEX TO EXHIBITS

| Exhibit Number | Description |
|-----------------------|--|
| 2.1 | <u>Agreement and Plan of Merger, dated as of July 31, 2019, among Advanced Drainage Systems, Inc., ADS Ocean Merger Sub, Inc., Infiltrator Water Technologies Ultimate Holdings, Inc. and 2461461 Ontario Limited, an Ontario corporation (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 1, 2019).</u> |
| 3.1 | <u>Amended and Restated Certificate of Incorporation of Advanced Drainage Systems, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 30, 2014).</u> |
| 3.2 | <u>Second Amended and Restated Bylaws of Advanced Drainage Systems, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 30, 2014).</u> |
| 4.1 | <u>Form of Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 5 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on July 14, 2014).</u> |
| 4.2 | <u>Form of Common Stock Certificate (incorporated by reference to Exhibit 4.2 to Amendment No. 5 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on July 14, 2014).</u> |
| 4.3 | <u>Registration Rights Agreement, dated as of July 30, 2014, by and among Advanced Drainage Systems, Inc. and the stockholders from time to time party thereto (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 30, 2014).</u> |
| 4.4 | <u>Description of Registrant's Securities.#</u> |
| 4.5 | <u>Indenture, dated September 23, 2019, among Advanced Drainage Systems, Inc., each of the guarantors party thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on September 23, 2019).</u> |
| 4.6 | <u>Form of 5.000% Senior Notes due 2027 (included with Indenture, dated September 23, 2019, among Advanced Drainage Systems, Inc., each of the guarantors party thereto and U.S. Bank National Association, as trustee) (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on September 23, 2019).</u> |
| 10.1 | <u>Credit Agreement, dated as of July 31, 2019, by and among Advanced Drainage Systems, Inc., Barclays Bank PLC, as administrative agent, the several lenders from time to time party thereto, Barclays Bank PLC and Morgan Stanley Senior Funding, Inc., as joint lead arrangers, joint bookrunners, syndication agents and documentation agents (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 1, 2019).</u> |
| 10.1A | <u>First Amendment to Credit Agreement, by and among the Advanced Drainage Systems, Inc., the banks and other financial institutions or entities parties thereto, constituting all the Lenders under the Credit Agreement, the Issuing Lenders party thereto and Barclays Bank PLC, as administrative agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on September 30, 2019).</u> |

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Advanced Drainage Systems, Inc.

| Exhibit Number | Description |
|-----------------------|---|
| 10.2 | <u>Advanced Drainage Systems, Inc. Guarantee and Collateral Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 1, 2019).</u> |
| 10.3† | <u>Advanced Drainage Systems, Inc. Non-Employee Director Compensation Plan (incorporated by reference to Exhibit 10.8 to Amendment No. 4 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on July 2, 2014).</u> |
| 10.4† | <u>Advanced Drainage Systems, Inc. Amended 2000 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.9 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |
| 10.4A† | <u>First Amendment to Amended 2000 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 15, 2014).</u> |
| 10.5† | <u>Advanced Drainage Systems, Inc. 2008 Restricted Stock Plan (incorporated by reference to Exhibit 10.10 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |
| 10.5A† | <u>First Amendment to the 2008 Restricted Stock Plan (incorporated by reference to Exhibit 10.2 to Form 8-K filed February 10, 2017).</u> |
| 10.6† | <u>Advanced Drainage Systems, Inc. 2013 Stock Option Plan (incorporated by reference to Exhibit 10.11 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |
| 10.6A† | <u>First Amendment to 2013 Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 15, 2014).</u> |
| 10.6B† | <u>Form of Amendment to Pre-2017 Stock Option Agreements (incorporated by reference to Exhibit 10.11B of Form 10-K filed May 10, 2017).</u> |
| 10.6C† | <u>Form of Amendment to Pre-2017 Stock Option Agreements (incorporated by reference to Exhibit 10.11B of Form 10-K filed May 10, 2017).</u> |
| 10.7† | <u>Executive Employment Agreement, dated as of September 1, 2017, by and between Advanced Drainage Systems, Inc. and D. Scott Barbour (incorporated by reference to Exhibit 10.3 to Form 8-K filed August 17, 2017).</u> |
| 10.8† | <u>Amended and Restated Executive Employment Agreement, dated as of June 20, 2014, by and between Advanced Drainage Systems, Inc. and Joseph A. Chlapaty (incorporated by reference to Exhibit 10.12 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |
| 10.8A† | <u>First Amendment to Amended and Restated Executive Employment Agreement, by and between the Company and Joseph A. Chlapaty (incorporated by reference to Exhibit 10.1 to Form 8-K filed February 10, 2017).</u> |
| 10.8B† | <u>Second Amendment to Amended and Restated Executive Employment Agreement, by and between the Company and Joseph A. Chlapaty (incorporated by reference to Exhibit 10.2 to Form 8-K filed August 17, 2017).</u> |
| 10.9† | <u>Amended and Restated Executive Employment Agreement, dated as of June 20, 2014, by and between Advanced Drainage Systems, Inc. and Thomas M. Fussner (incorporated by reference to Exhibit 10.14 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |

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Advanced Drainage Systems, Inc.

| Exhibit Number | Description |
|-----------------------|--|
| 10.9A | <u>First Amendment to Amended and Restated Executive Employment Agreement by and between the Company and Thomas M. Fussner (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, File No. 001-36557, filed on March 21, 2018).</u> |
| 10.10† | <u>Amended and Restated Executive Employment Agreement, dated as of June 20, 2014, by and between Advanced Drainage Systems, Inc. and Ronald R. Vitarelli (incorporated by reference to Exhibit 10.15 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |
| 10.11† | <u>Amended and Restated Executive Employment Agreement, dated as of June 20, 2014, by and between Advanced Drainage Systems, Inc. and Robert M. Klein (incorporated by reference to Exhibit 10.16 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |
| 10.12† | <u>Form of Indemnification Agreement (incorporated by reference to Exhibit 10.6 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 6, 2014).</u> |
| 10.10† | <u>Form of Incentive Stock Option Agreement pursuant to 2000 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.18 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |
| 10.10A† | <u>Form of Incentive Stock Option Agreement (post-IPO) pursuant to 2000 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.18A to Form 10-K for the year ended March 31, 2015 filed with the Securities and Exchange Commission on March 29, 2016).</u> |
| 10.14† | <u>Form of Non-Qualified Stock Option Agreement (other than for Joseph A. Chlapaty) pursuant to 2013 Stock Option Plan (incorporated by reference to Exhibit 10.19 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |
| 10.14A† | <u>Form of Non-Qualified Stock Option Agreement (for Joseph A. Chlapaty) pursuant to 2013 Stock Option Plan (incorporated by reference to Exhibit 10.19A to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |
| 10.15† | <u>Form of Restricted Stock Agreement (other than for Joseph A. Chlapaty) pursuant to 2008 Restricted Stock Plan (incorporated by reference to Exhibit 10.20 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |
| 10.15A† | <u>Form of Restricted Stock Agreement (for Joseph A. Chlapaty) pursuant to 2008 Restricted Stock Plan (incorporated by reference to Exhibit 10.20A to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |
| 10.16† | <u>Form of Director Stock Agreement (incorporated by reference to Exhibit 10.21 to Amendment No. 4 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on July 2, 2014).</u> |
| 10.17 | <u>Participation Agreement, dated as of July 17, 2000, by and between ADS Worldwide, Inc., Grupo Altima S.A. de C.V., and ADS Mexicana, S.A. de C.V. (formerly known as Sistemas Ecologicos de Drenaje, S.A. de C.V.), as amended on April 19, 2010, May 19, 2011, May 24, 2011, April 26, 2013 and January 31, 2014 (incorporated by reference to Exhibit 10.22 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 6, 2014).</u> |

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Advanced Drainage Systems, Inc.

| Exhibit Number | Description |
|-----------------------|--|
| 10.18 | <u>Interestholders Agreement, dated as of June 5, 2009, by and among Tubos y Plasticos ADS Chile Limitada, Tigre Chile S.A., and Tuberias T-A Limitada, joined by Advanced Drainage Systems, Inc. and Tigre S.A. — Tubos e Conexoes, as amended on July 31, 2009, October 2009, December 15, 2009, May 18, 2010, August 10, 2010, April 1, 2011 and January 25, 2012, with First Addendum to Interestholders Agreement, dated as of June 27, 2011 (incorporated by reference to Exhibit 10.23 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).</u> |
| 10.18A | <u>Second Addendum to Interestholders Agreement, dated as of December 1, 2013 but entered into on September 30, 2014, by and among Tubos y Plasticos ADS Chile Limitada, Tigre Chile S.A., Tuberias Tigre-ADS Limitada, Advanced Drainage Systems, Inc. and Tigre S.A. — Tubos e Conexoes (incorporated by reference to Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q (File No. 001-36557) filed with the Securities and Exchange Commission on November 10, 2014).</u> |
| 10.19† | <u>Executive Employment Agreement dated November 9, 2015, by and between the Company and Scott A. Cottrill (incorporated by reference to Exhibit 10.1 to Form 8-K filed November 9, 2015).</u> |
| 10.20† | <u>Form of Restricted Stock Agreement (for Joseph A. Chlapaty) pursuant to 2008 Restricted Stock Plan (incorporated by reference to Exhibit 10.3 to Form 8-K filed February 10, 2017).</u> |
| 10.21† | <u>Form of Restricted Stock Agreement (other than for Joseph A. Chlapaty) pursuant to 2008 Restricted Stock Plan (incorporated by reference to Exhibit 10.4 to Form 8-K filed February 10, 2017).</u> |
| 10.22 | <u>Form of Non-Qualified Stock Option Agreement pursuant to 2013 Stock Option Plan (incorporated by reference to Exhibit 10.5 to Form 8-K filed February 10, 2017).</u> |
| 10.23 | <u>Advanced Drainage Systems, Inc. 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, File No. 001-36557, filed on September 8, 2017).</u> |
| 10.24 | <u>Form of Restricted Stock Award Notice and Award Agreement pursuant to 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, File No. 001-36557, filed on September 8, 2017).</u> |
| 10.25 | <u>Form of Notice of Grant of Stock Options and Stock Option Award Agreement pursuant to 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K, File No. 001-36557, filed on September 8, 2017).</u> |
| 10.26 | <u>Form of Director Restricted Stock Award Notice and Award Agreement pursuant to 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q, File No. 001-36557, filed on November 6, 2017).</u> |
| 10.27 | <u>Form of Performance Unit Award Agreement pursuant to 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 of Form 8-K, filed on May 30, 2018).</u> |
| 10.28 | <u>Confidentiality Agreement by and between the Company and Joseph A. Chlapaty (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, File No. 001-36557, filed on August 17, 2017).</u> |
| 10.29 | <u>Consulting Agreement by and between the Company and Thomas M. Fussner (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, File No. 001-36557, filed on March 21, 2018).</u> |
| 10.30† | <u>Executive Employment Agreement, dated as of November 10, 2016, by and between Advanced Drainage Systems, Inc. and Kevin C. Talley.</u> |

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Advanced Drainage Systems, Inc.

| Exhibit Number | Description |
|-----------------------|---|
| 10.31† | <u>Amended and Restated Employment Agreement, effective as of May 27, 2015, by and between Infiltrator Water Technologies, LLC and Roy E. Moore, Jr. #</u> |
| 10.32† | <u>Advanced Drainage Systems, Inc. Employee Stock Ownership Plan, as amended May 30, 2019 (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-36557) filed with the Securities and Exchange Commission on August 1, 2019.</u> |
| 21.1 | <u>List of Subsidiaries. #</u> |
| 23.1 | <u>Consent of Deloitte & Touche LLP. #</u> |
| 24.1 | <u>Power of Attorney. #</u> |
| 31.1 | <u>Certification of President and Chief Executive Officer of Advanced Drainage Systems, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. #</u> |
| 31.2 | <u>Certification of Executive Vice President and Chief Financial Officer of Advanced Drainage Systems, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. #</u> |
| 32.1 | <u>Certification of Principal Executive Officer of Advanced Drainage Systems, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. #</u> |
| 32.2 | <u>Certification of Principal Financial Officer of Advanced Drainage Systems, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. #</u> |
| 101.INS | XBRL Instance Document. # |
| 101.SCH | XBRL Taxonomy Extension Schema. # |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. # |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. # |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. # |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. # |
| 104 | Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101) |

† Management contract or compensatory plan.

Filed herewith.

Item 16. Form 10-K Summary

None.

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Advanced Drainage Systems, Inc.

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.

Date: June 1, 2020

ADVANCED DRAINAGE SYSTEMS, INC.

By: /s/ D. Scott Barbour
Name: D. Scott Barbour
Title: President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Scott A. Cottrill
Name: Scott A. Cottrill
Title: Chief Financial Officer (Principal
Financial Officer)

By: /s/ Tim A. Makowski
Name: Tim A. Makowski
Title: Vice President, Controller and Chief
Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in their indicated capacities, on June 1, 2020.

| <u>Signature</u> | <u>Title</u> |
|---|--|
| <u>/s/ D. Scott Barbour</u> D. Scott Barbour | Director, President and Chief Executive Officer (Principal Executive Officer) |
| <u>/s/ Scott A. Cottrill</u> Scott A. Cottrill | Executive Vice President, Chief Financial Officer and Secretary (Principal Financial Officer) |
| <u>/s/ Tim A. Makowski</u> Tim A. Makowski | Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer) |
| <u>/s/ C. Robert Kidder**</u> C. Robert Kidder | Chairman of the Board of Directors and Director |
| <u>/s/ Robert M. Eversole**</u> Robert M. Eversole | Director |
| <u>/s/ Michael B. Coleman **</u> Michael B. Coleman | Director |
| <u>/s/ Alexander R. Fischer**</u> Alexander R. Fischer | Director |
| <u>/s/ Tanya Fratto**</u> Tanya Fratto | Director |
| <u>/s/ M.A. (Mark) Haney**</u> M.A. (Mark) Haney | Director |
| <u>/s/ Ross M. Jones**</u> Ross M. Jones | Director |
| <u>/s/ Carl A. Nelson, Jr.**</u> Carl A. Nelson, Jr. | Director |
| <u>/s/ Manuel J. Perez de la Mesa**</u> Manuel J. Perez de la Mesa | Director |

** The undersigned, by signing his name hereto, does hereby sign this report on behalf of each of the above-indicated directors of the registrant pursuant to powers of attorney executed by such directors.

By: /s/ Scott A. Cottrill
Scott A. Cottrill, Attorney-in-fact

Advanced Drainage Systems, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Advanced Drainage Systems, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Advanced Drainage Systems, Inc. and subsidiaries (the "Company") as of March 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity (deficit) and mezzanine equity, and cash flows, for each of the three years in the period ended March 31, 2020, and the related notes and the financial statement schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 1, 2020, expressed an adverse opinion on the Company's internal control over financial reporting because of material weakness.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, effective April 1, 2019, the Company adopted FASB Accounting Standards Update ("ASU"), *ASC 842 Leases*, using the modified approach.

Basis for Opinion

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

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Acquisitions, Infiltrator Water Technologies, Customer Relationships Intangible— Refer to Note 4 to the financial statements

Critical Audit Matter Description

On July 31, 2019, the Company completed its Acquisition of Infiltrator Water Technologies (IWT) for cash consideration of \$1,147.2 million. The Company records acquisitions resulting in the consolidation of an enterprise using the acquisition method of accounting. Under this method, the Company allocated the fair value of purchase consideration transferred to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition, including customer relationships intangible asset of approximately \$360.0 million. The fair value assigned is based on estimates and assumptions determined by management.

We identified the valuation of the customer relationships intangible asset as a critical audit matter because of the significant assumptions made by management to determine the fair value for purposes of the preliminary purchase price allocation. Those assumptions included revenue growth rates and EBITDA (together, the “forecasts”), as well as discount and customer attrition rates. Our performance of audit procedures to evaluate these assumptions required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve our fair value specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to testing the assumptions identified above included the following, among others:

- We tested the operating effectiveness of management’s internal controls over revenue growth rates, EBITDA, and the selection of the discount and customer attrition rates.
- We assessed the reasonableness of management’s forecasts by comparing the forecasted information used to IWT’s historical results, peer company historical results and forecasts, industry historical results and forecasts, and internal communications to management and the board of directors.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the following significant valuation assumptions:
 - Customer attrition rate by assessing the underlying data used in determining the rate and testing the mathematical accuracy of the calculation.
 - Discount rate by testing the source information underlying the determination of the discount rate and testing the mathematical accuracy of the calculation.

Goodwill, Infiltrator Water Technologies Reporting Unit — Refer to Note 8 to the financial statements

Critical Audit Matter Description

The Company’s evaluation of goodwill for impairment involves comparing the carrying value of each reporting unit to the estimated fair value of the reporting unit. The Company’s determination of estimated fair value of the reporting unit is determined by considering both the market approach and the income approach. The determination of the estimated fair value requires management to make significant estimates and assumptions related to the valuation of the reporting unit. Changes in these assumptions could have a significant impact on either the fair value of the reporting unit, the amount of any goodwill impairment charge, or both. The Company’s consolidated goodwill balance was \$597.8 million as of March 31, 2020, of which \$495.8 million was allocated to the IWT reporting unit, which is the reporting unit that exhibits significant sensitivity to changes in estimates and assumptions given the limited cushion between the carrying value and estimated fair value. As of March 31, 2020, the estimated fair value of the IWT reporting unit exceeded its carrying value by less than 20%.

We identified the valuation of goodwill for IWT as a critical audit matter because of the significant assumptions made by management to estimate its fair value. Those assumptions included revenue growth rates, EBITDA, and the selection of the discount rate. Our performance of audit procedures to evaluate the assumptions required a high degree of auditor judgment and an increased extent of audit effort, including the need to involve our fair value specialists.

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How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to testing the fair value of the IWT reporting unit focused on revenue growth rates, EBITDA, and the selection of the discount rate and included the following procedures, among others:

- We tested the operating effectiveness of management’s internal controls over revenue growth rates, EBITDA, and the selection of the discount rate.
- We assessed the reasonableness of management’s forecasts by comparing the forecasted information used to IWT’s historical results, peer company historical results and forecasts, industry historical results and forecasts, and internal communications to management and the board of directors.
- With the assistance of our fair value specialists, we evaluated the reasonableness of the following significant valuation assumptions:
 - The discount rate, by testing the source information underlying the determination of the discount rate and testing the mathematical accuracy of the calculation.
 - The long-term revenue growth rate in the terminal period through industry and macroeconomic benchmarking.

/s/ Deloitte & Touche LLP

Columbus, Ohio
June 1, 2020

We have served as the Company's auditor since 2002.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Advanced Drainage Systems, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Advanced Drainage Systems, Inc. and subsidiaries (the “Company”) as of March 31, 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, because of the effect of the material weakness identified below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of March 31, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Infiltrator Water Technologies Ultimate Holdings, Inc. and subsidiaries, which was acquired on July 31, 2019, and whose financial statements constitute 31% of total assets, 10% of net sales, and (5%) of net income (loss), respectively, included in the consolidated financial statement as of and for the fiscal year ended March 31, 2020. Accordingly, our audit did not include the internal control over financial reporting at Infiltrator Water Technologies.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended March 31, 2020, of the Company and our report dated June 1, 2020, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company’s adoption of FASB ASC Topic 842, Leases, using the modified approach.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

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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.

Material Weakness

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment: a material weakness in the internal control over financial reporting in the control environment of the Company's consolidated joint venture affiliate, ADS Mexicana. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the year ended March 31, 2020, of the Company, and this report does not affect our report on such financial statements.

/s/ Deloitte & Touche LLP

Columbus, Ohio
June 1, 2020

**ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

| (Amounts in thousands, except par value) | As of March 31, | |
|--|---------------------|---------------------|
| | 2020 | 2019 |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 174,233 | \$ 8,891 |
| Receivables (less allowance for doubtful accounts of \$5,035 and \$7,653, respectively) | 200,028 | 186,991 |
| Inventories | 282,398 | 264,540 |
| Other current assets | 9,552 | 6,091 |
| Total current assets | 666,211 | 466,513 |
| Property, plant and equipment, net | 481,380 | 398,891 |
| Other assets: | | |
| Goodwill | 597,819 | 102,638 |
| Intangible assets, net | 555,338 | 37,177 |
| Other assets | 69,140 | 36,940 |
| Total assets | \$ 2,369,888 | \$ 1,042,159 |
| LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of debt obligations | \$ 7,955 | \$ 25,932 |
| Current maturities of finance lease obligations | 20,382 | 23,117 |
| Accounts payable | 106,710 | 93,577 |
| Other accrued liabilities | 101,116 | 61,901 |
| Accrued income taxes | 2,050 | 1,758 |
| Total current liabilities | 238,213 | 206,285 |
| Long-term debt obligation (less unamortized debt issuance costs of \$2,419 and \$2,293, respectively) | 1,089,368 | 208,602 |
| Long-term finance lease obligations | 44,501 | 61,555 |
| Deferred tax liabilities | 175,616 | 45,963 |
| Other liabilities | 37,608 | 19,119 |
| Total liabilities | 1,585,306 | 541,524 |
| Commitments and contingencies (see Note 15) | | |
| Mezzanine equity: | | |
| Redeemable convertible preferred stock: \$0.01 par value; 47,070 shares authorized; 44,170 shares issued; 21,562 and 22,611 shares outstanding, respectively | 269,529 | 282,638 |
| Deferred compensation — unearned ESOP shares | (22,432) | (180,316) |
| Total mezzanine equity | 247,097 | 102,322 |
| Stockholders' equity: | | |
| Common stock: \$0.01 par value; 1,000,000 shares authorized; 69,810 and 57,964 shares issued, respectively; 69,319 and 57,490 shares outstanding, respectively | 11,555 | 11,436 |
| Paid-in capital | 827,573 | 391,039 |
| Common stock in treasury, at cost | (10,461) | (9,863) |
| Accumulated other comprehensive loss | (35,325) | (25,867) |
| Retained earnings (deficit) | (267,619) | 17,582 |
| Total ADS stockholders' equity | 525,723 | 384,327 |
| Noncontrolling interest in subsidiaries | 11,762 | 13,986 |
| Total stockholders' equity | 537,485 | 398,313 |
| Total liabilities, mezzanine equity and stockholders' equity | \$ 2,369,888 | \$ 1,042,159 |

See accompanying notes to consolidated financial statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

| (Amounts in thousands, except per share data) | Fiscal Year Ended March 31, | | |
|--|-----------------------------|--------------|--------------|
| | 2020 | 2019 | 2018 |
| Net sales | \$ 1,673,805 | \$ 1,384,733 | \$ 1,330,354 |
| Cost of goods sold | 1,188,716 | 1,057,766 | 1,027,873 |
| Cost of goods sold - ESOP special dividend compensation | 168,610 | — | — |
| Gross profit | 316,479 | 326,967 | 302,481 |
| Operating expenses: | | | |
| Selling | 117,068 | 96,335 | 92,764 |
| General and administrative | 154,270 | 89,692 | 98,392 |
| Selling, general and administrative - ESOP special dividend compensation | 78,142 | — | — |
| Loss on disposal of assets and costs from exit and disposal activities | 5,338 | 3,647 | 15,003 |
| Intangible amortization | 57,010 | 7,880 | 8,068 |
| (Loss) income from operations | (95,349) | 129,413 | 88,254 |
| Other expense: | | | |
| Interest expense | 82,711 | 18,618 | 15,262 |
| Derivative loss (gains) and other expense (income), net | 1,554 | (815) | (3,950) |
| (Loss) income before income taxes | (179,614) | 111,610 | 76,942 |
| Income tax expense | 14,092 | 30,049 | 11,411 |
| Equity in net (income) loss of unconsolidated affiliates | (1,909) | 95 | 739 |
| Net (loss) income | (191,797) | 81,466 | 64,792 |
| Less: net income attributable to noncontrolling interest | 1,377 | 3,694 | 2,785 |
| Net (loss) income attributable to ADS | (193,174) | 77,772 | 62,007 |
| Weighted average common shares outstanding: | | | |
| Basic | 63,820 | 57,025 | 55,696 |
| Diluted | 63,820 | 57,611 | 56,334 |
| Net (loss) income per share available to common stockholders: | | | |
| Basic | \$ (3.21) | \$ 1.23 | \$ 1.00 |
| Diluted | \$ (3.21) | \$ 1.22 | \$ 0.99 |

See accompanying notes to consolidated financial statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| (Amounts in thousands) | Fiscal Year Ended March 31, | | |
|--|-----------------------------|-------------------------|-------------------------|
| | 2020 | 2019 | 2018 |
| Net (loss) income | \$ (191,797) | \$ 81,466 | \$ 64,792 |
| Currency translation (loss) gain | (12,324) | (5,749) | 3,886 |
| Comprehensive (loss) income | (204,121) | 75,717 | 68,678 |
| Less: other comprehensive (loss) gain attributable to noncontrolling interest, net of tax | (2,866) | (1,129) | 318 |
| Less: net income attributable to noncontrolling interest | 1,377 | 3,694 | 2,785 |
| Total comprehensive (loss) income attributable to ADS | <u>\$ (202,632)</u> | <u>\$ 73,152</u> | <u>\$ 65,575</u> |

See accompanying notes to consolidated financial statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Amounts in thousands) | Fiscal Year Ended March 31, | | |
|---|-----------------------------|-----------------|------------------|
| | 2020 | 2019 | 2018 |
| Cash Flows from Operating Activities | | | |
| Net income | \$ (191,797) | \$ 81,466 | \$ 64,792 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 124,940 | 71,900 | 75,003 |
| Deferred income taxes | (2,924) | 12,813 | (11,239) |
| Loss on disposal of assets and costs from exit and disposal activities | 5,338 | 3,647 | 12,655 |
| ESOP and stock-based compensation | 32,395 | 21,828 | 18,845 |
| ESOP special dividend compensation | 246,752 | — | — |
| Amortization of deferred financing charges | 34,476 | 735 | 934 |
| Inventory step up related to Infiltrator Water Technologies acquisition | 7,880 | — | — |
| Fair market value adjustments to derivatives | 3,128 | 2,346 | (3,244) |
| Equity in net loss of unconsolidated affiliates | (1,909) | 95 | 739 |
| Other operating activities | (6,005) | (5,219) | 1,010 |
| Changes in working capital: | | | |
| Receivables | 5,170 | (17,953) | (4,327) |
| Inventories | 19,086 | (2,034) | (4,841) |
| Prepaid expenses and other current assets | (1,929) | (1,004) | 1,648 |
| Accounts payable, accrued expenses and other liabilities | 31,588 | (16,942) | (14,855) |
| Net cash provided by operating activities | 306,189 | 151,678 | 137,120 |
| Cash Flows from Investing Activities | | | |
| Capital expenditures | (67,677) | (43,412) | (41,709) |
| Acquisition of Infiltrator Water Technologies, net of cash acquired | (1,089,322) | — | — |
| Other investing activities | 6,529 | 868 | 11,264 |
| Net cash used in investing activities | (1,150,470) | (42,544) | (30,445) |
| Cash Flows from Financing Activities | | | |
| Proceeds from Term Loan Facility | 1,300,000 | — | — |
| Payments on Term Loan Facility | (1,300,000) | — | — |
| Proceeds from syndication of Term Loan Facility | 700,000 | — | — |
| Payments on syndicated Term Loan Facility | (51,750) | — | — |
| Proceeds from Senior Notes | 350,000 | — | 75,000 |
| Proceeds from Revolving Credit Agreement | 277,900 | — | — |
| Payments on Revolving Credit Agreement | (177,900) | — | — |
| Debt issuance costs | (34,606) | — | (2,268) |
| Proceeds from PNC Credit Agreement | 253,900 | 405,700 | 487,850 |
| Payments on PNC Credit Agreement | (388,300) | (442,800) | (512,150) |
| Payments on Prudential Senior Notes | (100,000) | (25,000) | (25,000) |
| Payments on Term Loan | — | — | (72,500) |
| Payments of notes, mortgages, and other debt | — | (940) | (1,905) |
| Payments on finance lease obligations | (27,119) | (24,284) | (24,214) |
| Proceeds from common stock offering, net of offering costs | 293,648 | — | — |
| Acquisition of noncontrolling interest in BaySaver | — | (8,821) | — |
| Cash dividends paid | (92,127) | (26,148) | (18,478) |
| Proceeds from option exercises | 8,163 | 5,908 | 9,087 |
| Repurchase of common stock | — | — | (7,947) |
| Other financing activities | (237) | (1,270) | (2,428) |
| Net cash provided by (used in) financing activities | 1,011,572 | (117,655) | (94,953) |
| Effect of exchange rate changes on cash | (1,949) | (175) | (585) |
| Net change in cash | 165,342 | (8,696) | 11,137 |
| Cash at beginning of year | 8,891 | 17,587 | 6,450 |
| Cash at end of year | \$ 174,233 | \$ 8,891 | \$ 17,587 |

See accompanying notes to consolidated financial statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND MEZZANINE EQUITY

| (Amounts in thousands) | Common Stock | | Paid-In Capital | Common Stock in Treasury | | Accumulated Other Comprehensive Income | Retained (Deficit) | Total ADS Stockholders' Equity | Non-controlling Interest in Subsidiaries | Total Stockholders' Equity |
|--|----------------|------------------|-------------------|--------------------------|---------------------|--|--------------------|--------------------------------|--|----------------------------|
| | Shares | Amount | | Shares | Amount | | | | | |
| Balance April 1, 2017 | 153,560 | \$ 12,393 | \$ 755,787 | 98,222 | \$ (436,984) | \$ (24,815) | \$ (83,678) | \$ 222,703 | \$ 14,907 | \$ 237,610 |
| Net income | — | — | — | — | — | — | 62,007 | 62,007 | 1,928 | 63,935 |
| Other comprehensive gain | — | — | — | — | — | 3,568 | — | 3,568 | 318 | 3,886 |
| Redeemable convertible preferred stock dividends | — | — | — | — | — | — | (1,724) | (1,724) | — | (1,724) |
| Common stock dividend (\$0.28 per share) | — | — | — | — | — | — | (15,685) | (15,685) | — | (15,685) |
| Dividend paid to noncontrolling interest holder | — | — | — | — | — | — | — | — | (490) | (490) |
| Allocation of ESOP shares to participants for: | | | | | | | | | | |
| Compensation | — | — | 3,809 | — | — | — | — | 3,809 | — | 3,809 |
| Dividend | — | — | — | — | — | — | (134) | (134) | — | (134) |
| Exercise of common stock options | 666 | 7 | 9,161 | 2 | (81) | — | — | 9,087 | — | 9,087 |
| Restricted stock awards | 90 | 1 | — | (72) | 153 | — | — | 154 | — | 154 |
| Stock-based compensation | — | — | 6,812 | — | — | — | — | 6,812 | — | 6,812 |
| Reclassification of liability-classified awards | — | — | 13,714 | — | — | — | — | 13,714 | — | 13,714 |
| ESOP distributions in common stock | 318 | 2 | 9,811 | (394) | 1,753 | — | — | 11,566 | — | 11,566 |
| Retirement of common stock held in treasury | (97,745) | (977) | (433,852) | (97,745) | 434,829 | — | — | — | — | — |
| Common stock repurchases | — | — | — | 400 | (7,947) | — | — | (7,947) | — | (7,947) |
| Accretion of redeemable noncontrolling interest | — | — | (334) | — | — | — | — | (334) | — | (334) |
| Balance March 31, 2018 | 56,889 | \$ 11,426 | \$ 364,908 | 413 | \$ (8,277) | \$ (21,247) | \$ (39,214) | \$ 307,596 | \$ 16,663 | \$ 324,259 |

See accompanying notes to consolidated financial statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND MEZZANINE EQUITY

| (Amounts in thousands) | Redeemable Convertible Preferred Stock | | Deferred Compensation – Unearned ESOP Shares | | Redeemable Non-Controlling Interest in Subsidiaries | Total Mezzanine Equity |
|--|--|-------------------|--|---------------------|---|------------------------|
| | Shares | Amount | Shares | Amount | Amount | |
| Balance April 1, 2017 | 24,225 | \$ 302,814 | 15,863 | \$ (198,216) | \$ 8,227 | \$ 112,825 |
| Net income | — | — | — | — | 857 | 857 |
| Other comprehensive gain | — | — | — | — | — | — |
| Redeemable convertible preferred stock dividends | — | — | — | — | — | — |
| Common stock dividend (\$0.28 per share) | — | — | — | — | — | — |
| Dividend paid to noncontrolling interest holder | — | — | — | — | (613) | (613) |
| Allocation of ESOP shares to participants for: | | | | | | |
| Compensation | — | — | (644) | 8,048 | — | 8,048 |
| Dividend | — | — | — | — | — | — |
| Exercise of common stock options | — | — | — | — | — | — |
| Restricted stock awards | — | — | — | — | — | — |
| ESOP distributions in common stock | (925) | (11,567) | — | — | — | (11,567) |
| Accretion of redeemable noncontrolling interest | — | — | — | — | — | — |
| Balance March 31, 2018 | 23,300 | \$ 291,247 | 15,219 | \$ (190,168) | \$ 8,471 | \$ 109,550 |

See accompanying notes to consolidated financial statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND MEZZANINE EQUITY

| (Amounts in thousands) | Common Stock | | Paid-In Capital | Common Stock in Treasury | | Accumulated Other Comprehensive Income | Retained (Deficit) | Total ADS Stockholders' Equity | Non- controlling Interest in Subsidiaries | Total Stockholders' Equity |
|--|---------------|------------------|--------------------|-----------------------------|-------------------|---|-----------------------|--------------------------------------|--|----------------------------------|
| | Shares | Amount | | Shares | Amount | | | | | |
| Balance April 1, 2018 | 56,889 | \$ 11,426 | \$ 364,908 | 413 | \$ (8,277) | \$ (21,247) | \$ (39,214) | \$ 307,596 | \$ 16,663 | \$ 324,259 |
| Net income | — | — | — | — | — | — | 77,772 | 77,772 | 2,862 | 80,634 |
| Other comprehensive loss | — | — | — | — | — | (4,620) | — | (4,620) | (1,129) | (5,749) |
| Redeemable convertible preferred stock dividends | — | — | — | — | — | — | (1,913) | (1,913) | — | (1,913) |
| Common stock dividend (\$0.32 per share) | — | — | — | — | — | — | (18,336) | (18,336) | — | (18,336) |
| Dividend paid to noncontrolling interest holder | — | — | — | — | — | — | — | — | (4,410) | (4,410) |
| Allocation of ESOP shares to participants for: | | | | | | | | | | |
| Compensation | — | — | 5,712 | — | — | — | — | 5,712 | — | 5,712 |
| Dividend | — | — | — | — | — | — | (134) | (134) | — | (134) |
| Exercise of common stock options | 420 | 4 | 5,908 | 52 | (1,372) | — | — | 4,540 | — | 4,540 |
| Restricted stock awards | 127 | 1 | — | 9 | (214) | — | — | (213) | — | (213) |
| Stock-based compensation | — | — | 6,532 | — | — | — | — | 6,532 | — | 6,532 |
| Reclassification of liability-classified awards | — | — | — | — | — | — | — | — | — | — |
| ESOP distributions in common stock | 528 | 5 | 8,604 | — | — | — | — | 8,609 | — | 8,609 |
| Acquisition of noncontrolling interest in BaySaver | — | — | (625) | — | — | — | (593) | (1,218) | — | (1,218) |
| Balance March 31, 2019 | 57,964 | \$ 11,436 | \$ 391,039 | 474 | \$ (9,863) | \$ (25,867) | \$ 17,582 | \$ 384,327 | \$ 13,986 | \$ 398,313 |

See accompanying notes to consolidated financial statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND MEZZANINE EQUITY

| (Amounts in thousands) | Redeemable Convertible Preferred Stock | | Deferred Compensation – Unearned ESOP Shares | | Redeemable Non-Controlling Interest in Subsidiaries | Total Mezzanine Equity |
|--|--|-------------------|--|---------------------|---|------------------------|
| | Shares | Amount | Shares | Amount | Amount | |
| Balance April 1, 2018 | 23,300 | \$ 291,247 | 15,219 | \$ (190,168) | \$ 8,471 | \$ 109,550 |
| Net income | — | — | — | — | 832 | 832 |
| Other comprehensive loss | — | — | — | — | — | — |
| Redeemable convertible preferred stock dividends | — | — | — | — | — | — |
| Common stock dividend (\$0.32 per share) | — | — | — | — | — | — |
| Dividend paid to noncontrolling interest holder | — | — | — | — | (1,075) | (1,075) |
| Allocation of ESOP shares to participants for: | | | | | | |
| Compensation | — | — | (767) | 9,584 | — | 9,584 |
| Dividend | — | — | — | 268 | — | 268 |
| Exercise of common stock options | — | — | — | — | — | — |
| Restricted stock awards | — | — | — | — | — | — |
| ESOP distributions in common stock | (689) | (8,609) | — | — | — | (8,609) |
| Acquisition of noncontrolling interest in BaySaver | — | — | — | — | (8,228) | (8,228) |
| Balance March 31, 2019 | 22,611 | \$ 282,638 | 14,452 | \$ (180,316) | \$ - | \$ 102,322 |

See accompanying notes to consolidated financial statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND MEZZANINE EQUITY

| (Amounts in thousands) | Common Stock | | Paid-In Capital | Common Stock in Treasury | | Accumulated Other Comprehensive Income | Retained (Deficit) Earnings | Total ADS Stockholders' Equity | Non-controlling Interest in Subsidiaries | Total Stockholders' Equity |
|--|---------------|------------------|-------------------|--------------------------|--------------------|--|-----------------------------|--------------------------------|--|----------------------------|
| | Shares | Amount | | Shares | Amount | | | | | |
| Balance April 1, 2019 | 57,964 | \$ 11,436 | \$ 391,039 | 474 | \$ (9,863) | \$ (25,867) | \$ 17,582 | \$ 384,327 | \$ 13,986 | \$ 398,313 |
| Net (loss) income | — | — | — | — | — | — | (193,174) | (193,174) | 1,377 | (191,797) |
| Other comprehensive loss | — | — | — | — | — | (9,458) | — | (9,458) | (2,866) | (12,324) |
| Redeemable convertible preferred stock dividends | — | — | — | — | — | — | (10,847) | (10,847) | — | (10,847) |
| Common stock dividend (\$1.36 per share) | — | — | — | — | — | — | (80,821) | (80,821) | — | (80,821) |
| Dividend paid to noncontrolling interest holder | — | — | — | — | — | — | — | — | (735) | (735) |
| Allocation of ESOP shares to participants for: | | | | | | | | | | |
| Compensation | — | — | 8,164 | — | — | — | — | 8,164 | — | 8,164 |
| Dividend | — | — | — | — | — | — | (359) | (359) | — | (359) |
| Special Dividend | | | 101,189 | | | | | 101,189 | | 101,189 |
| Exercise of common stock options | 571 | 6 | 8,163 | 7 | (207) | — | — | 7,962 | — | 7,962 |
| Restricted stock awards | 118 | 1 | — | 10 | (391) | — | — | (390) | — | (390) |
| Stock-based compensation | — | — | 12,269 | — | — | — | — | 12,269 | — | 12,269 |
| ESOP distributions in common stock | 807 | 8 | 13,101 | — | — | — | — | 13,109 | — | 13,109 |
| Common Stock Offering | 10,350 | 104 | 293,544 | — | — | — | — | 293,648 | — | 293,648 |
| Other | — | — | 104 | — | — | — | — | 104 | — | 104 |
| Balance March 31, 2020 | 69,810 | \$ 11,555 | \$ 827,573 | 491 | \$ (10,461) | \$ (35,325) | \$ (267,619) | \$ 525,723 | \$ 11,762 | \$ 537,485 |

See accompanying notes to consolidated financial statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND MEZZANINE EQUITY

| (Amounts in thousands) | Redeemable Convertible Preferred Stock | | Deferred Compensation – Unearned ESOP Shares | | Redeemable Non-Controlling Interest in Subsidiaries | Total Mezzanine Equity |
|--|--|-------------------|--|---------------------|---|------------------------|
| | Shares | Amount | Shares | Amount | Amount | |
| Balance April 1, 2019 | 22,611 | \$ 282,638 | 14,452 | \$ (180,316) | \$ — | \$ 102,322 |
| Net (loss) income | — | — | — | — | — | — |
| Other comprehensive loss | — | — | — | — | — | — |
| Redeemable convertible preferred stock dividends | — | — | — | — | — | — |
| Common stock dividend (\$1.36 per share) | — | — | — | — | — | — |
| Dividend paid to noncontrolling interest holder | — | — | — | — | — | — |
| Allocation of ESOP shares to participants for: | | | | | | |
| Compensation | — | — | (957) | 11,962 | — | 11,962 |
| Dividend | — | — | — | 359 | — | 359 |
| Special Dividend | — | — | (11,645) | 145,563 | — | 145,563 |
| Exercise of common stock options | — | — | — | — | — | — |
| Restricted stock awards | — | — | — | — | — | — |
| ESOP distributions in common stock | (1,049) | (13,109) | — | — | — | (13,109) |
| Common Stock Offering | — | — | — | — | — | — |
| Acquisition of noncontrolling interest in BaySaver | — | — | — | — | — | — |
| Balance March 31, 2020 | 21,562 | \$ 269,529 | 1,850 | \$ (22,432) | \$ — | \$ 247,097 |

See accompanying notes to consolidated financial statements.

Advanced Drainage Systems, Inc.

**ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business - Advanced Drainage Systems, Inc. and subsidiaries (collectively referred to as “ADS” and the “Company”), incorporated in Delaware, designs, manufactures and markets high performance thermoplastic corrugated pipe and related water management products, primarily in North and South America and Europe. ADS’s broad product line includes corrugated high-density polyethylene (or “HDPE”) pipe, polypropylene (or “PP”) pipe and related water management products.

The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, references to “year” pertain to our fiscal year. For example, 2020 refers to fiscal 2020, which is the period from April 1, 2019 to March 31, 2020.

On July 31, 2019, the Company completed the Acquisition of Infiltrator Water Technologies. Infiltrator Water Technologies is a leading national provider of plastic leach field chambers and systems, septic tanks and accessories, primarily for use in residential applications. Infiltrator Water Technologies’ products are used in on-site septic wastewater treatment systems in the United States and Canada. See “Note 3. Acquisitions” for additional information on the Acquisition

The Company is managed and reports results of operations in three reportable segments: Pipe, Infiltrator Water Technologies and International. The Company also reports the results of its Allied Products and all other business segments as Allied Products & Other.

Principles of Consolidation - The consolidated financial statements include the Company, its wholly-owned subsidiaries, its majority owned subsidiaries, and variable interest entities (“VIEs”) of which the Company is the primary beneficiary. The Company uses the equity method of accounting for equity investments where it exercises significant influence but does not hold a controlling financial interest. Such investments are recorded in Other assets in the Consolidated Balance Sheets and the related equity in earnings from these investments are included in Equity in net loss of unconsolidated affiliates in the Consolidated Statements of Operations. All intercompany balances and transactions have been eliminated in consolidation.

Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Significant estimates include, but are not limited to, purchase accounting for the Acquisition, the allowance for doubtful accounts, valuation of inventory, useful lives of property, plant and equipment and amortizing intangible assets, determination of the proper accounting for leases, valuation of equity method investments, goodwill, intangible assets and other long-lived assets for impairment, accounting for stock-based compensation and the ESOP, valuation of the redeemable convertible preferred stock, determination of allowances for sales returns, rebates and discounts, determination of the valuation allowance, if any, on deferred tax assets, and reserves for uncertain tax positions. Management’s estimates and assumptions are evaluated on an ongoing basis and are based on historical experience, current conditions and available information. Management believes the accounting estimates are appropriate and reasonably determined; however, due to the inherent uncertainties in making these estimates, actual results could differ from those estimates.

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Advanced Drainage Systems, Inc.

Receivables and Allowance for Doubtful Accounts - Receivables include trade receivables, net of an allowance for doubtful accounts, and other miscellaneous receivables. Receivables at March 31, 2020 and 2019 are as follows:

| (Amounts in thousands) | 2020 | 2019 |
|---------------------------------|-------------------|-------------------|
| Trade receivables, net | \$ 195,968 | \$ 170,887 |
| Other miscellaneous receivables | 4,060 | 16,104 |
| Receivables, net | \$ 200,028 | \$ 186,991 |

As of March 31, 2020 and 2019, Other miscellaneous receivables includes insurance recoverables of approximately \$3.2 million and \$3.9 million, respectively, which has a corresponding liability recorded in Other accrued liabilities.

Credit is extended to customers based on an evaluation of their financial condition and collateral is generally not required. The evaluation of the customer's financial condition is performed to reduce the risk of loss. Accounts receivable are evaluated for collectability based on numerous factors, including the length of time individual receivables are past due, past transaction history with customers, their credit worthiness and the economic environment. This estimate is periodically adjusted when management becomes aware of a situation in which there is doubt the customer does not have the ability or intention to pay its financial obligations (e.g. bankruptcy filing).

Inventories - Inventories are stated at the lower of cost or net realizable value. The Company's inventories are maintained on the first-in, first-out ("FIFO") method. Costs include the cost of acquiring materials, including in-bound freight from vendors and freight incurred for the transportation of raw materials, tooling or finished goods between the Company's manufacturing plants and its distribution centers, direct and indirect labor, factory overhead and certain corporate overhead costs related to the production of inventory. The portion of fixed manufacturing overhead that relates to capacity in excess of our normal capacity is expensed in the period in which it is incurred and is not included in inventory. Net realizable value of inventory is established with consideration given to deterioration, obsolescence, and other factors. The Company periodically evaluates the carrying value of inventories and adjustments are made whenever necessary to reduce the carrying value to net realizable value.

Property, Plant and Equipment and Depreciation Method - Property, plant and equipment are recorded at cost less accumulated depreciation, with the exception of assets acquired through acquisitions, which are initially recorded at fair value. Equipment acquired under finance lease is recorded at the present value of the future minimum lease payments. Depreciation is computed for financial reporting purposes using the straight-line method over the estimated useful lives of the related assets or the lease term, if shorter, as follows:

| | Years |
|--------------------------------------|---------------------------------------|
| Buildings and leasehold improvements | 20 to 45 or the lease term if shorter |
| Machinery and production equipment | 3 to 18 |
| Transportation equipment | 3 to 12 |

Costs of additions and major improvements are capitalized, whereas maintenance and repairs that do not improve or extend the life of the asset are charged to expense as incurred. When assets are retired or disposed, the cost and related accumulated depreciation are removed from the asset accounts and any resulting gain or loss is reflected in Loss on disposal of assets and costs from exit and disposal activities in our Consolidated Statements of Operations. Construction in progress is also recorded at cost and includes capitalized interest, capitalized payroll costs and related costs such as taxes and other fringe benefits.

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Advanced Drainage Systems, Inc.

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

Goodwill is reviewed annually for impairment as of March 31 or whenever events or changes in circumstances indicate the carrying value may be greater than fair value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and the Company is not required to perform further testing. If the carrying value of a reporting unit's goodwill exceeds its fair value, then the Company would record an impairment loss equal to the difference. With respect to this testing, a reporting unit is a component of the Company for which discrete financial information is available and regularly reviewed by management. The fair value of goodwill is determined by considering both the income and market approach. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparison. The fair value estimates are based on assumptions management believes to be reasonable but are inherently uncertain. For the fiscal year ended March 31, 2020, the Company completed a quantitative fair value assessment for all reporting units and determined no impairment charge was required. For all other fiscal years presented, ADS completed a quantitative fair value assessment of the Canada reporting unit and determined no impairment charge was required.

GAAP allows entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit for the goodwill impairment test. If the qualitative assessment is performed, an entity is no longer required to calculate the fair value of a reporting unit unless the entity determines that, based on that assessment, it is not more likely than not that its fair value is less than its carrying amount. ADS applied the qualitative assessment to the former Domestic reporting unit for the annual impairment tests performed as of March 31, 2019 and 2018. The qualitative assessment indicated that no impairment charges were required for goodwill in the fiscal years ended March 31, 2019 and 2018.

Intangible Assets

Intangible Assets — Definite-Lived - Definite-lived intangible assets are amortized using the straight-line method or an accelerated method over their estimated useful lives and are tested for recoverability whenever events or changes in circumstances indicate that carrying amounts of the asset group may not be recoverable. Asset groups are established primarily by determining the lowest level of cash flows available. If the estimated undiscounted future cash flows are less than the carrying amounts of such assets, an impairment loss is recognized to the extent the fair value of the asset less any costs of disposition is less than the carrying amount of the asset. Determining the fair value of these assets is judgmental in nature and involves the use of significant estimates and assumptions.

Intangible Assets — Indefinite-Lived - Indefinite-lived intangible assets are tested for impairment annually as of March 31 or whenever events or changes in circumstances indicate the carrying value may be greater than fair value. Determining the fair value of these assets is judgmental in nature and involves the use of significant estimates and assumptions. The Company bases its fair value estimates on assumptions it believes to be reasonable, but that are inherently uncertain. To estimate the fair value of these indefinite-lived intangible assets, the Company uses an income approach, which utilizes a market derived rate of return to discount anticipated performance. An impairment loss is recognized when the estimated fair value of the intangible asset is less than the carrying value.

ADS completed a quantitative fair value measurement of indefinite-lived trademarks as of March 31, 2020. The test indicated that the fair value of the indefinite-lived trademarks substantially exceeded the carrying value, indicating that no impairment existed.

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GAAP allows entities testing indefinite-lived intangible assets for impairment the option of performing a qualitative assessment before calculating the fair value of the indefinite-lived intangible assets for the impairment test. If the qualitative assessment is performed, an entity is no longer required to calculate the fair value of an indefinite-lived intangible assets unless the entity determines that, based on that assessment, it is more likely than not that its fair value is less than its carrying amount. ADS applied the qualitative assessment to specific trademarks for the annual impairment tests performed as of March 31, 2019 and 2018. For the qualitative test, ADS assessed various assumptions, events and circumstances that would have affected the estimated fair value of the reporting unit as compared to its March 31, 2016 quantitative fair value measurement. The results of this assessment indicated that it is not more likely than not that the trademarks fair value is less than the reporting unit carrying value. The Company did not incur any impairment charges for Intangible assets in the fiscal years ended March 31, 2019 and 2018.

Other Assets - Other assets include operating lease right of use assets, investments in unconsolidated affiliates accounted for under the equity method, capitalized software development costs, including cloud computing costs, deposits, central parts, and other miscellaneous assets. See “Note 6. Lease” for further information on the operating lease right of use assets. The Company capitalizes development costs for internal use software. Capitalization of software development costs begins in the application development stage and ends when the asset is placed into service. The Company amortizes such costs using the straight-line method over estimated useful lives of 2 to 10 years, which is included in General and administrative expense, Selling expense or Cost of goods sold within the Consolidated Statements of Operations depending on the nature of the asset and its intended use. Central parts represent spare production equipment items which are used to replace worn or broken production equipment parts and help reduce the risk of prolonged equipment outages. The cost of central parts is amortized on a straight-line basis over estimated useful lives of 3 to 10 years.

The Company evaluates its investments in unconsolidated affiliates for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable and recognizes an impairment loss when a decline in value below carrying value is determined to be other-than-temporary. Under these circumstances, the Company would adjust the investment down to its estimated fair value, which then becomes its new carrying value. The impairment charge is included in Equity in net loss of unconsolidated affiliates in the Consolidated Statements of Operations. See “Note 11. Investment in Unconsolidated Affiliates.”

Other assets as of the fiscal years ended March 31 consisted of the following:

| (Amounts in thousands) | 2020 | 2019 |
|---|------------------|------------------|
| Right of use assets - Operating leases | \$ 24,875 | \$ — |
| Investments in unconsolidated affiliates | 9,250 | 10,467 |
| Capitalized software development costs, net | 11,045 | 13,069 |
| Deposits | 3,842 | 2,985 |
| Central parts | 6,745 | 2,385 |
| Other | 13,383 | 8,034 |
| Total other assets | \$ 69,140 | \$ 36,940 |

The following table sets forth amortization expense related to Other assets in each of the fiscal years ended March 31:

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|--|----------|----------|----------|
| Capitalized software development costs | \$ 3,116 | \$ 2,659 | \$ 2,156 |
| Central parts | 87 | 73 | 47 |
| Other | 85 | 1,419 | 1,688 |

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Advanced Drainage Systems, Inc.

Leases - The Company determines whether an arrangement contains a lease at inception by determining if the contract conveys the right to control the use of identified plant, property, and equipment for a period of time in exchange for consideration and other facts and circumstances as defined by ASC 842. For each lease which has an accounting lease term of greater than 12 months, the Company records the right-of-use asset and lease liability on the balance sheet. The accounting lease term includes cancellable and renewal periods which are reasonably assured. The lease liability is measured utilizing the incremental borrowing rate unless the Company can specifically determine the rate implicit in the lease. Leases are evaluated for appropriate classification as operating or financing at lease inception. For leases classified as finance leases at lease inception, the Company records a finance lease asset and lease financing obligation equal to the present value of the minimum lease payments. The finance lease right of use asset is recorded in Property, plant and equipment, net and amortized to its expected residual value at the end of the lease term using the straight-line method, and the lease financing obligation is amortized using the effective interest method over the lease term with the rental payments being allocated to principal and interest. For leases classified as operating leases, the Company records the operating lease right of use asset in other assets and operating lease obligation in other accrued liabilities and other liabilities. Operating lease rent expense over the useful life using the straight-line method.

Foreign Currency Translation - Assets and liabilities of foreign subsidiaries with a functional currency other than the U.S. dollar are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues and expenses are translated at a monthly average exchange rate and equity transactions are translated using either the actual exchange rate on the day of the transaction or a monthly average historical exchange rate. The South American Joint Venture operates within Argentina, which on July 1, 2018, was identified for high inflationary accounting. The Company has determined the effect of a change in the exchange rate under high inflationary accounting does not have a material effect on the Company's results in any annual period. For the fiscal years ended March 31, 2020 and 2019, the Company's Accumulated other comprehensive loss ("AOCL") consisted of foreign currency translation gains and losses.

Net Sales - The Company generates revenue by selling pipe and related water management products primarily to distributors, retailers, buying groups and co-operative buying groups. Products are shipped predominately by the Company's internal fleet, and the Company does not provide any additional revenue generating services after product delivery. Payment terms and conditions vary by contract.

Revenue is recognized at the point in-time obligations under the terms of a contract with a customer are satisfied, which generally occurs upon the transfer of control of the promised goods. In substantially all of the Company's contracts with customers, control is transferred to the customer upon delivery. The Company recognizes revenue in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

Shipping Costs - The Company incurs shipping costs to deliver products to customers using an in-house fleet or common carrier. Typically shipping costs are prepaid and included in the product price; however, in some instances, the Company bills shipping costs to customers. Shipping costs are also incurred to physically move raw materials, tooling and products between manufacturing and distribution facilities. Shipping costs to deliver products to customers for the fiscal years ended March 31, 2020, 2019, and 2018 were \$149.0 million, \$131.3 million, and \$120.7 million, respectively, and are included in Cost of goods sold. Shipping costs billed to customers were \$7.9 million, \$7.7 million, and \$6.3 million during 2020, 2019 and 2018, respectively, and are included in Net sales.

Stock-Based Compensation - See "Note 17. Stock-Based Compensation" for information about our stock-based compensation award programs and related accounting policies.

Advertising - The Company expenses advertising costs as incurred. Advertising costs are recorded in Selling expenses in the Consolidated Statements of Operations. The total advertising costs were \$4.9 million, \$3.8 million, and \$4.1 million for the fiscal years ended March 31, 2020, 2019, and 2018, respectively.

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Advanced Drainage Systems, Inc.

Self-Insurance - The Company is self-insured for short term disability and medical coverage it provides for substantially all eligible employees. The Company is self-insured for medical claims up to the individual and aggregate stop-loss coverage limits. The Company accrues for claims incurred but not reported based on an estimate of future claims related to events that occurred prior to the fiscal year end if it has not met the aggregate stop-loss coverage limit. Amounts expensed totaled \$50.3 million, \$42.4 million, and \$41.3 million for the fiscal years ended March 31, 2020, 2019, and 2018, respectively, of which employees contributed \$7.9 million, \$6.7 million, and \$5.9 million, respectively.

ADS is also self-insured for various other general insurance programs to the extent of the applicable deductible limits on the Company's insurance coverage. These programs include primarily automobile, general liability and employment practices coverage with a deductible of \$0.5 million per occurrence or claim incurred. Amounts expensed during the period, including an estimate for claims incurred but not reported at year end, were \$2.5 million, \$2.3 million, and \$2.2 million, for the years ended March 31, 2020, 2019, and 2018, respectively.

ADS is also self-insured for workers' compensation insurance with stop-loss coverage for claims that exceed \$0.3 million per incident up to the respective state statutory limits. Amounts expensed, including an estimate for claims incurred but not reported, were \$3.0 million, \$2.8 million, and \$1.3 million for the fiscal years ended March 31, 2020, 2019, and 2018, respectively.

Income Taxes - Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized and represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. They are measured using the enacted tax rates expected to apply to taxable income in the years in which the related temporary differences are expected to be recovered or settled. Valuation allowances are established against deferred tax assets when it is more likely than not that the realization of those deferred tax assets will not occur. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The deferred income tax provision represents the change during the reporting period in the deferred tax assets and deferred tax liabilities. Penalties and interest recorded on income taxes payable are recorded as part of Income tax expense.

The Company determines whether an uncertain tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation process, based upon the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant taxing authority.

Fair Values - The fair value framework requires the categorization of assets and liabilities into three levels based upon assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment.

ADS's policy for determining when transfers between levels have occurred is to use the actual date of the event or change in circumstances that caused the transfer.

Concentrations of Risk - The Company has a large, active customer base of approximately twenty thousand customers with two customers, Ferguson Enterprises and Core and Main, each representing more than 10% of annual net sales. Such customers accounted for 24.3%, 25.4%, and 25.4% of fiscal 2020, 2019 and 2018 net sales, respectively. The Company's customer base is diversified across the range of end markets that it serves.

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of Receivables. The Company provides its products to customers based on an evaluation of the customers' financial condition, generally without requiring collateral. Exposure to losses on Receivables is principally dependent on each customer's financial condition. The Company performs ongoing credit evaluations of its customers. The Company monitors the exposure for credit losses and maintains allowances for anticipated losses. Concentrations of credit risk with respect to Receivables are limited due to the large number of customers comprising the Company's customer base and their dispersion across many different geographies.

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Advanced Drainage Systems, Inc.

One customer, Ferguson Enterprises, accounted for approximately 18.2% and 19.1% of Receivables at March 31, 2020 and 2019, respectively.

Derivatives - The Company recognizes derivative instruments as either assets or liabilities and measure those instruments at fair value. ADS uses interest rate swaps, commodity options in the form of collars and swaps, and foreign currency forward contracts to manage various exposures to interest rate, commodity price, and exchange rate fluctuations. These instruments do not qualify for hedge accounting treatment. For the interest rate swap executed on June 28, 2017, gains and losses resulting from the difference between the spot rate and applicable base rate was recorded in Interest expense. For commodity options in the form of collars and swaps, and foreign currency forward contracts, gains and losses from contract settlements and changes in fair value of the derivative instruments are recognized in Derivative losses (gains) and other expense (income), net in the Consolidated Statements of Operations. The Company's policy is to present all derivative balances on a gross basis.

The Company also has forward purchase agreements in place with certain resin suppliers for virgin polyethylene resin. The agreements specify a fixed amount of virgin resin material to be purchased at a fixed price for a given period of time in quantities the Company will use in the normal course of business, and therefore, qualify as normal purchase contracts. The cost of such resin is recognized in Cost of goods sold in the Consolidated Statements of Operations.

Recent Accounting Pronouncements

Recently Adopted Accounting Guidance

Leases - In February 2016, the Financial Accounting Standards Board (the "FASB") issued an accounting standard update ("ASU") which amends the guidance for leases ("ASC 842"). This standard contains principles that will require an entity to recognize most leases on the balance sheet by recording a right-of-use asset and a lease liability, unless the lease is a short-term lease that has an accounting lease term of twelve months or less. The standard also contains other changes to the current lease guidance that may result in changes to how entities determine which contractual arrangements qualify as a lease, the accounting for executory costs, such as property taxes and insurance, as well as which lease origination costs will be capitalizable. In July 2018, the FASB amended ASC 842 to provide another transition method, allowing a cumulative effect adjustment to the opening balance of retained earnings during the period of adoption. The Company adopted these standards effective April 1, 2019 using the transition method in the July 2018 ASU which does not require adjustments to comparative periods or require modified disclosures for those periods and includes transition relief practical expedients. See "Note 6. Leases" for further information on the adoption of the new lease ASUs.

Hedge Accounting - In August 2017, the FASB issued an ASU which expanded an entity's ability to apply hedge accounting for non-financial and financial risk components and provided a simplified approach for fair value hedging of interest rate risk. The standard also refined how entities assess hedge effectiveness. The Company adopted this standard effective April 1, 2019. The new standard did not have an impact on the Consolidated Financial Statements.

Recent Accounting Guidance Not Yet Adopted

Measurement of Credit Losses - In June 2016, the FASB issued an ASU which provides amended guidance on the measurement of credit losses on financial instruments, including trade receivables. This standard requires the use of an impairment model referred to as the current expected credit loss model. This standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those years, and early adoption is permitted for fiscal years beginning after December 15, 2018. The Company will adopt this standard effective April 1, 2020. The Company's adoption of the standard will not have a material impact on the Company's Consolidated Financial Statements.

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Reference Rate Reform - In March 2020, the FASB issued an ASU that provides optional expedients and exceptions related to financial reporting impacts related to the expected market transition from LIBOR to another reference rates. The amendments are effective on March 12, 2020 and an entity may elect to adopt prospectively through December 31, 2022. The Company is currently evaluating the impact of this standard on the Consolidated Financial Statements.

Income Taxes – In December 2019, the FASB issued an ASU to simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC 740, *Income Taxes* and improve the comparability of financial statements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and early adoption is permitted. The Company is currently evaluating the impact of this standard on the Consolidated Financial Statements.

Except for the pronouncements described above, there have been no new accounting pronouncements issued or adopted since the filing of the fiscal 2019 Form 10-K that have significance, or potential significance, to the Consolidated Financial Statements.

2. LOSS ON DISPOSAL OF ASSETS AND COSTS FROM EXIT AND DISPOSAL ACTIVITIES

In fiscal 2018, the Company initiated restructuring activities (the “2018 Restructuring Plan”), which concluded during fiscal 2019, including closing underutilized manufacturing facilities, reducing headcount, optimizing product offerings and eliminating nonessential costs, designed to improve the Company’s cost structure. The Company closed one and four manufacturing facilities in the fiscal years ended March 31, 2019 and 2018, respectively. The Company does not currently have a specified restructuring plan. The following table summarizes the activity included in Loss on disposal of assets and costs from exit and disposal activities recorded during the fiscal years ended March 31, 2020, 2019, and 2018:

The following table summarizes the activity included in loss on disposal of assets and costs from exit and disposal activities recorded during the fiscal years ended March 31, 2020, 2019, and 2018:

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|---|-----------------|-----------------|------------------|
| Accelerated depreciation | \$ — | \$ 430 | \$ 3,759 |
| Plant severance | — | 131 | 2,041 |
| Headcount reduction | — | 306 | 4,133 |
| Product optimization | — | 283 | 1,351 |
| Other restructuring activities | — | 475 | 159 |
| Total 2018 Restructuring Plan activities | \$ — | \$ 1,625 | \$ 11,443 |
| Acquisition related severance and other costs | 2,557 | \$ — | \$ — |
| Loss on other disposals and partial disposals of property, plant and equipment | 2,781 | 2,022 | 3,560 |
| Total loss on disposal of assets and costs from exit and disposal activities | \$ 5,338 | \$ 3,647 | \$ 15,003 |

Approximately \$1.2 million and \$0.4 million for fiscal year ended March 31, 2019, related to the Pipe and International reportable segment, respectively, and \$11.0 million and \$0.4 million for the fiscal year ended March 31, 2018 of the Total 2018 Restructuring Plan activities related to the Pipe and International reporting segment, respectively.

All of the Company’s restructuring liability related to the Pipe reportable segment. A reconciliation of the beginning and ending amounts of restructuring liability related to the 2018 Restructuring Plan for the fiscal years ended March 31, 2020 and 2019 is as follows:

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| (Amounts in thousands) | 2020 | 2019 |
|-------------------------------|---------------|-----------------|
| Balance at beginning of year | \$ 1,696 | \$ 3,901 |
| Expenses | — | 1,625 |
| Non-cash expenses | — | (713) |
| Payments | (1,122) | (3,117) |
| Balance at end of year | \$ 574 | \$ 1,696 |

The Company had \$0.1 million and \$0.6 million of long-term severance liability related to the restructuring activities recorded in Other liabilities in the Consolidated Balance Sheet as of March 31, 2020 and March 31, 2019, respectively.

Periodically, the Company will dispose of equipment, including equipment accounted for as finance leases. The net loss on the disposition of the equipment was \$2.8 million, \$2.0 million, and \$3.6 million during fiscal 2020, 2019 and 2018, respectively.

3. REVENUE RECOGNITION

On April 1, 2018, the Company adopted ASC 606, Revenue from Contracts with Customers (“ASC 606”), and all related amendments using the modified retrospective transition method. The adoption of ASC 606 did not impact the opening retained earnings balance or cause a material shift in the amount or timing of revenue recognition. Results for reporting periods beginning after April 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in a consistent manner with historical accounting policies.

The Company generates revenue by selling pipe and related water management products primarily to distributors, retailers, buying groups and co-operative buying groups. Products are shipped predominately by the Company’s internal fleet, and the Company does not provide any additional revenue generating services after product delivery. Payment terms and conditions vary by contract.

Revenue is recognized at the point in-time obligations under the terms of a contract with a customer are satisfied, which generally occurs upon the transfer of control of the promised goods. In substantially all of the Company’s contracts with customers, control is transferred to the customer upon delivery. The Company recognizes revenue in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Revenue is presented in the Consolidated Statements of Operations net of allowances for returns, rebates, discounts, and taxes collected concurrently with revenue-producing activities.

The Company disaggregates net sales by Domestic, International and Infiltrator Water Technologies and further disaggregates Domestic and International by product type, consistent with its reportable segment disclosure. This disaggregation level best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to “Note 21. Business Segments Information” for the Company’s disaggregation of Net sales by reportable segment.

Significant Judgments - The Company’s performance obligation under contracts with customers is to sell and deliver pipe and related water management products. The Company’s contracts with customers may contain multiple performance obligations by promising to deliver multiple products to the customer. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis.

The Company’s products are generally sold with a right of return, and the Company may provide credits or incentives, which are accounted for as variable consideration when estimating the amount of revenue to recognize. Variable consideration is estimated at contract inception and updated at the end of each reporting period as additional information becomes available and only to the extent that it is probable that a significant reversal of any incremental revenue will not occur.

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Contract Balances - The Company recognizes a contract asset representing the Company's right to recover products upon the receipt of returned products and a contract liability for the customer refund. The adoption of this standard resulted in the Company recording a contract asset for estimated inventory returns. On April 1, 2018, the estimated inventory returns resulted in a \$0.6 million decrease in Receivables, net and a \$0.6 million increase in Other current assets on the Company's Consolidated Balance Sheets. The following table presents the balance of the Company's contract asset and liability as of March 31, 2020 and April 1, 2019:

| | March 31, 2020 | April 1, 2019 |
|----------------------------------|-------------------|------------------|
| | (In thousands) | |
| Contract asset - product returns | \$ 594 | \$ 646 |
| Refund liability | 1,458 | 1,372 |

Practical Expedients and Exemptions - The Company expenses incremental costs to obtain a contract (e.g. sales commissions) when incurred as the amortization period would have been one year or less. These costs are recorded within selling expenses on the Consolidated Statements of Operations.

The Company elected the accounting policy election permitted by ASC 606 to account for shipping and handling costs as activities to fulfill the promise to transfer the goods when these activities are performed after a customer obtains control of the goods.

The Company elected the accounting policy to exclude from the transaction price all sales taxes that are assessed by a governmental authority and that are imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer, for example, sales, use, value added, and some excise taxes.

Further, the Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

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4. ACQUISITIONS

Fiscal 2020 Acquisition of Infiltrator Water Technologies

On July 31, 2019 (the “Closing Date”), the Company completed its Acquisition of Infiltrator Water Technologies pursuant to an Agreement and Plan of Merger (the “Merger Agreement”) dated July 31, 2019. Infiltrator Water Technologies manufactures and sells wastewater systems for homes and provides drainage chambers for septic and storm water management. The total fair value of consideration transferred was \$1,147.2 million. The Merger Agreement was funded through the Bridge Loan Facility as further described in “Note 13. Debt”. The results of operations of Infiltrator Water Technologies are included in the Consolidated Statements of Operations after July 31, 2019.

The following table summarizes the consideration transferred and the preliminary purchase price allocation of the assets acquired and liabilities assumed. The Company’s estimates and assumptions are subject to change during the measurement period. The measurement period ends on July 31, 2020. Any changes to the Company’s estimates or assumptions may result in material changes from the preliminary purchase price allocations.

| (Amounts in thousands) | Initial Amount | Adjustments to Purchase Price | Adjustments to Property, Plant and Equipment | Adjustments to Intangible Assets | Tax Adjustments | Updated Amount |
|--|--------------------|--|---|---|--------------------|--------------------|
| Cash | \$ 57,375 | \$ — | \$ — | \$ — | \$ — | \$ 57,375 |
| Total current assets, excluding cash | 75,847 | — | — | — | — | 75,847 |
| Property, plant and equipment | 98,860 | — | (6,575) | — | — | 92,285 |
| Goodwill | 567,034 | 704 | 6,575 | (100,000) | 21,528 | 495,841 |
| Intangible assets, net | 475,000 | — | — | 100,000 | — | 575,000 |
| Other assets | 14,366 | — | — | — | — | 14,366 |
| Total current liabilities | (22,756) | — | — | — | 931 | (21,825) |
| Deferred tax liabilities | (109,926) | — | — | — | (22,459) | (132,385) |
| Other liabilities | (9,274) | — | — | — | — | (9,274) |
| Total fair value of consideration transferred | <u>\$1,146,526</u> | <u>\$ 704</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$1,147,230</u> |

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The fair value of consideration transferred includes \$6.0 million of Infiltrator Water Technologies payable to the Company and \$6.6 million of Infiltrator Water Technologies receivable due from the Company.

The goodwill of \$495.8 million represents the excess of consideration transferred over the fair value of assets acquired and liabilities assumed and is attributable to expected revenue synergies, as well as operating efficiencies and cost savings. The goodwill is not deductible for tax purposes and is assigned to the Infiltrator Water Technologies segment.

Of the \$132.4 million of preliminary purchase price allocated to deferred tax liabilities, \$82.3 million related to the step up of GAAP basis for fair market valuations, while the remaining \$50.1 million were acquired deferred tax liabilities. Of the total \$82.3 million, \$80.2 million was attributed to intangible assets. See “Note 18. Income Taxes” for additional information.

The purchase price excludes transaction costs. During the fiscal year ended March 31, 2020, the Company incurred \$22.9 million of transaction costs related to the Acquisition such as legal, accounting, valuation and other professional services. The Company estimates approximately \$7.3 million of transaction costs are not deductible for tax purposes. These costs are included in general and administrative expenses in the Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income.

The identifiable intangible assets recorded in connection with the closing of the Acquisition are based on valuations including customer relationships, patents and developed technology, and tradename and trademarks totaling \$575.0 million. Customer relationships are amortized using an accelerated method over an estimated useful life of 20 years. Patents and developed technology and tradename and trademarks are on a straight-line basis over the respective useful lives of 10 and 20 years.

| (Amounts in thousands) | Preliminary fair value | Estimated useful lives |
|---|------------------------|------------------------|
| Customer relationships | \$ 360,000 | 20 years |
| Patents and developed technology | 150,000 | 10 years |
| Tradename and trademarks | 65,000 | 20 years |
| Total identifiable intangible assets | \$ 575,000 | |

The net sales to external customers of Infiltrator Water Technologies since the acquisition are included in the Consolidated Statements of Operations for the fiscal year ended March 31, 2020 was \$169.3 million. The income before taxes of Infiltrator Water Technologies since the acquisition are included in the Consolidated Statements of Operations for the fiscal year ended March 31, 2020 was \$8.2 million

The unaudited pro forma information for the fiscal year ended March 31, 2020 presented below includes the effects of the Acquisition as if it had been consummated as of April 1, 2017, with adjustments to give effect to pro forma events that are directly attributable to the Acquisition. Adjustments include those related to the amortization of acquired intangible assets, increases in interest expense due to additional borrowings incurred to finance the Acquisition, transaction costs, the elimination of transactions between the Company and Infiltrator Water Technologies and the estimated tax impacts thereof. The unaudited pro forma information does not reflect any operating efficiency or potential cost savings that could result from the consolidation of Infiltrator Water Technologies. Accordingly, the unaudited pro forma information is presented for informational purposes only and is not necessarily indicative of the actual results of the combined company if the Acquisition had occurred at the beginning of the period presented, nor is it indicative of the future results of operations.

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|---------------------------------------|--------------|--------------|--------------|
| Net sales | \$ 1,760,208 | \$ 1,608,450 | \$ 1,520,571 |
| Net income (loss) attributable to ADS | (145,244) | 27,411 | (33,606) |

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Fiscal 2019 Acquisition of Noncontrolling interest in BaySaver

BaySaver Technologies LLC (“BaySaver”) was a joint venture that was established to produce and distribute water quality filters and separators used in the removal of sediment and pollution from storm water. During the third quarter of fiscal 2019, ADS purchased the remaining 35% ownership interest in BaySaver for a purchase price of \$8.8 million. The purchase of the remaining 35% ownership interest was reflected as a reduction in the Redeemable noncontrolling interest in subsidiary in the Consolidated Balance Sheets and as a financing activity in the Consolidated Statement of Cash Flows. Additionally, resulting from this transaction, the Company recorded a \$0.4 million non-cash adjustment to deferred taxes. BaySaver is now a wholly-owned subsidiary of ADS.

Fiscal 2018 Acquisition of DURASLOT, Inc.

On August 1, 2017, ADS acquired DURASLOT, Inc., a manufacturer of linear surface drains, for \$2.3 million. The acquisition included approximately \$2.1 million of tax-deductible goodwill. The acquisition of DURASLOT, Inc. is included in Other investing activities on the Consolidated Statement of Cash Flows.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, net as of the fiscal years ended March 31 consisted of the following:

| (Amounts in thousands) | 2020 | 2019 |
|---|-------------------|-------------------|
| Land, buildings and improvements | \$ 253,379 | \$ 199,810 |
| Machinery and production equipment | 631,932 | 560,858 |
| Transportation equipment | 208,037 | 221,721 |
| Construction in progress | 19,925 | 19,749 |
| Total cost | 1,113,273 | 1,002,138 |
| Less: accumulated depreciation | (631,893) | (603,247) |
| Property, plant and equipment, net | \$ 481,380 | \$ 398,891 |

The following table sets forth depreciation expense related to Property, plant and equipment in each of the fiscal years ended March 31:

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|---|-----------|-----------|-----------|
| Depreciation expense (inclusive of leased assets depreciation) ⁽¹⁾ | \$ 64,642 | \$ 59,869 | \$ 63,044 |

(1) Depreciation expense does not include accelerated depreciation expense from the 2018 Restructuring plan. See “Note 2. Loss on Disposal of Assets and Costs from Exit and Disposal Activities” for additional discussion.

6. LEASES

ASC 842 Adoption - The Company adopted the provisions of ASC 842 beginning on April 1, 2019 using the transition methodology in ASC 842 which does not require adjustments to comparative periods or require modified disclosures. The Company elected the transition relief practical expedient package as described in ASC 842-10-65-1. ASC 842 provides lessees with the option of electing an accounting policy, by class of underlying asset, in which the lessee may choose not to separate nonlease components from lease components. The Company elected this practical expedient for leases of certain classes of equipment, including forklifts and fleet tractors and trailers. The Company also elected the accounting policy to not recognize the right-of-use asset and lease liability for leases with an accounting lease term of twelve months or less (“Short-term leases”). The adoption of ASC 842 resulted in the recording of \$13.3 million of additional lease liabilities and right-of-use assets to the beginning balance of the Company’s Consolidated Balance Sheet. Infiltrator Water Technologies adopted ASC 842 on July 31, 2019 using the same methodology and policy elections taken by the Company on April 1, 2019. The Infiltrator Water Technologies adoption of ASC 842 resulted in the recording of \$11.2 million of additional lease liabilities and corresponding right-of-use assets to the beginning balance of the Company’s Consolidated Balance Sheet. At the date of adoption, ASC 842 did not have an impact on the Company’s Consolidated Statement of Operations and Consolidated Statement of Cash Flows.

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Nature of the Company's Leases - The Company has operating and finance leases for plants, yards, corporate offices, tractors, trailers and other equipment. The Company's leases have remaining terms of less than one year to 30 years. A portion of the Company's real estate leases include an option to extend the leases for up to 5 years. The Company has included renewal options which are reasonably certain to be exercised in its right-of-use assets and lease liabilities.

The Company's lease payments are generally fixed. Certain equipment leases contain residual value guarantees that create a contingent obligation on the part of the Company to compensate the lessor if the leased asset cannot be sold for an amount in excess of a specified minimum value at the conclusion of the lease term. The calculation is based on the original cost of the transportation equipment, less lease payments made, compared to a percentage of the transportation equipment's fair market value at the time of sale. All leased units covered by this guarantee have been classified as finance leases and a corresponding finance lease obligation was recorded. Therefore, no contingent obligation is needed.

For all leases with an initial expected term of more than 12 months, the Company recorded, at the adoption date of ASC 842 or lease commencement date for leases entered into after the adoption date, a lease liability, which is the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Company will utilize its collateralized incremental borrowing rate commensurate to the lease term as the discount rate for its leases, unless the Company can specifically determine the lessor's implicit rate. The incremental borrowing rate for each lease is determined based on the Company's credit rating, adjusted for the impacts of collateral, and the lease term.

Lease Cost - The components of lease cost for the year ended March 31, 2020 was:

| (Amounts in thousands) | Income Statement Classification | 2020 |
|-------------------------------------|---------------------------------|------------------|
| Operating lease cost | | |
| Operating lease cost | Cost of goods sold | \$ 5,548 |
| Operating lease cost | General and administrative | 1,204 |
| Short-term lease cost | Cost of goods sold | 2,393 |
| Total operating lease cost | | \$ 9,145 |
| Finance lease cost | | |
| Amortization of right-of-use assets | Cost of goods sold | 17,059 |
| Amortization of right-of-use assets | General and administrative | 2,543 |
| Interest on lease liabilities | Interest expense | 4,344 |
| Total finance lease cost | | \$ 23,946 |

Supplemental cash flow information related to leases for the fiscal year ended March 31, 2020 was as follows:

| (Amounts in thousands) | 2020 |
|---|----------|
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | \$ 6,572 |
| Operating cash flows from finance leases | 4,675 |
| Financing cash flows from finance leases | 27,119 |
| Right-of-use assets obtained in exchange for lease obligations: | |
| Operating leases | 10,529 |
| Finance leases ^(a) | 5,078 |

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- (a) The Company acquired \$27.6 million and \$26.8 million of property, plant and equipment under finance leases in the fiscal years ended March 31, 2019 and March 31, 2018, respectively.

Supplemental balance sheet information related to leases as of March 31, 2020 was as follows:

| (Amounts in thousands) | Balance Sheet Classification | 2020 |
|--|---|-----------------|
| Operating leases | | |
| Right-of-use assets | Other assets | \$24,875 |
| Current lease liabilities | Other accrued liabilities | 7,757 |
| Non-current lease liabilities | Other liabilities | 17,173 |
| Total operating lease liabilities | | \$24,930 |
| Finance leases | | |
| Right-of-use assets | Property, plant and equipment | 90,756 |
| Current lease liabilities | Current maturities of finance lease obligations | 20,382 |
| Non-current lease liabilities | Long-term finance lease obligations | 44,501 |
| Total finance lease liabilities | | \$64,883 |
| Weighted average lease term | | |
| Operating leases | | 6.97 |
| Finance leases | | 10.72 |
| Weighted average discount rate | | |
| Operating leases | | 3.57% |
| Finance leases | | 5.36% |

The following is a schedule by year of future minimum lease payments on a rolling twelve-month basis under operating and finance leases and the present value of the net minimum lease payments as of March 31, 2020:

| (Amounts in thousands) | Operating Leases | Finance Leases |
|--|------------------|------------------|
| Year 1 | \$ 8,511 | \$ 23,492 |
| Year 2 | 5,717 | 19,478 |
| Year 3 | 3,839 | 13,182 |
| Year 4 | 2,768 | 8,355 |
| Year 5 | 2,041 | 4,736 |
| Thereafter | 6,075 | 4,722 |
| Total minimum lease payments | \$ 28,951 | \$ 73,965 |
| Less: amount representing interest | 4,021 | 9,082 |
| Present value of net minimum lease payments | \$ 24,930 | \$ 64,883 |

Disclosures Related to Periods Prior to the Adoption of ASC 842 – Leased assets included in Property, plant and equipment as of the fiscal year ended March 31, 2019 consisted of the following:

| (Amounts in thousands) | 2019 |
|--|-------------------|
| Buildings and improvements | \$ 5,357 |
| Machinery and equipment | 220,279 |
| Total cost | 225,636 |
| Less: accumulated depreciation | (114,856) |
| Leased assets in Property, plant and equipment, net | \$ 110,780 |

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The following sets forth the interest and depreciation expense related to capital leases recorded in each fiscal year ended March 31:

| (Amounts in thousands) | 2019 | 2018 |
|-------------------------------|----------|----------|
| Lease interest expense | \$ 5,215 | \$ 4,086 |
| Depreciation of leased assets | 19,155 | 18,511 |

As of March 31, 2019, total contractual obligations for capital and operating leases were as follows:

| (Amounts in thousands) | Operating Leases | Finance Leases |
|---|---------------------|------------------|
| Year 1 | \$ 4,159 | \$ 26,604 |
| Year 2 | 2,924 | 22,507 |
| Year 3 | 1,814 | 18,064 |
| Year 4 | 690 | 11,721 |
| Year 5 | 325 | 7,143 |
| Thereafter | 2,236 | 8,198 |
| Total minimum lease payments | \$ 12,148 | \$ 94,237 |
| Less: amount representing interest | — | 9,565 |
| Present value of net minimum lease payments | <u>\$ 12,148</u> | <u>\$ 84,672</u> |

7. INVENTORIES

Inventories as of the fiscal years ended March 31 consisted of the following:

| (Amounts in thousands) | 2020 | 2019 |
|--------------------------|--------------------------|--------------------------|
| Raw materials | \$ 66,524 | \$ 47,910 |
| Finished goods | 215,874 | 216,630 |
| Total Inventories | <u>\$ 282,398</u> | <u>\$ 264,540</u> |

The Company had no work-in-process inventories as of March 31, 2020 and 2019.

During fiscal years ended March 31, 2020 and 2019, the Company incurred production-related general and administrative costs included in the cost of finished goods inventory of \$38.8 million and \$29.4 million, respectively, of which \$8.6 million and \$8.2 million remained in inventory at March 31, 2020 and 2019, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill - The carrying amount of goodwill by reportable segment is as follows:

| (Amounts in thousands) | <u>As Previously Reported</u> | | | Infiltrator Water Technologies | Allied Products & Other | Total |
|--|-------------------------------|------------------------|-------------------------|--------------------------------------|-------------------------------|-------------------------|
| | Domestic | International | Pipe | | | |
| Balance at March 31, 2018 | \$ 92,105 | \$ 10,912 | \$ — | \$ — | \$ — | \$103,017 |
| Currency translation | — | (379) | — | — | — | (379) |
| Balance at March 31, 2019 | \$ 92,105 | \$ 10,533 | \$ — | \$ — | \$ — | \$102,638 |
| Reallocation due to change in segments | (92,105) | — | 57,663 | — | 34,442 | — |
| Acquisition | — | — | — | 495,841 | — | 495,841 |
| Currency translation | — | (660) | — | — | — | (660) |
| Balance at March 31, 2020 | <u>\$ —</u> | <u>\$ 9,873</u> | <u>\$ 57,663</u> | <u>\$ 495,841</u> | <u>\$ 34,442</u> | <u>\$597,819</u> |

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Intangible Assets – Intangible assets as of March 31, 2020 and 2019 consisted of the following:

| (Amounts in thousands) | 2020 | | | 2019 | | |
|--|-------------------|--------------------------|-------------------|------------------|--------------------------|------------------|
| | Gross Intangible | Accumulated Amortization | Net Intangible | Gross Intangible | Accumulated Amortization | Net Intangible |
| Definite-lived intangible assets | | | | | | |
| Developed technology | \$ 177,579 | \$ (32,437) | \$ 145,142 | \$ 27,580 | \$ (19,922) | \$ 7,658 |
| Customer relationships | 377,742 | (47,051) | 330,691 | 29,851 | (23,000) | 6,851 |
| Patents | 8,951 | (6,419) | 2,532 | 8,313 | (5,561) | 2,752 |
| Non-compete and other contractual agreements | — | — | — | 155 | (138) | 17 |
| Trademarks and tradenames | 69,847 | (4,736) | 65,111 | 15,978 | (7,968) | 8,010 |
| Total definite lived intangible assets | 634,119 | (90,643) | 543,476 | 81,877 | (56,589) | 25,288 |
| Indefinite-lived intangible assets ^(a) | | | | | | |
| Trademarks | 11,862 | — | 11,862 | 11,889 | — | 11,889 |
| Total Intangible assets | \$ 645,981 | \$ (90,643) | \$ 555,338 | \$ 93,766 | \$ (56,589) | \$ 37,177 |

(a) Indefinite-lived intangible assets decreased as a result of foreign currency translation.

The gross intangible asset value of developed technology, customer relationships and trademarks and tradenames increased as a result of the Acquisition. See “Note 4. Acquisitions” for additional information.

The following table presents the amortization expense and weighted average amortization period for definite-lived intangible assets at March 31, 2020:

| | Amortization expense (in thousands) | | | Weighted Average Amortization Period (in years) |
|--|-------------------------------------|----------|----------|---|
| | 2020 | 2019 | 2018 | |
| Developed technology | \$ 12,517 | \$ 2,517 | \$ 2,517 | 10.0 |
| Customer relationships | 36,093 | 3,546 | 3,633 | 19.8 |
| Patents | 522 | 546 | 591 | 12.0 |
| Non-compete and other contractual agreements | 22 | 22 | 104 | — |
| Trademarks and tradenames | 7,856 | 1,249 | 1,223 | 19.6 |

The following table presents the future intangible asset amortization expense based on existing intangible assets at March 31, 2020:

| (Amounts in thousands) | Fiscal Year | | | | | Thereafter | Total |
|------------------------|-------------|-----------|-----------|-----------|-----------|------------|------------|
| | 2021 | 2022 | 2023 | 2024 | 2025 | | |
| Amortization expense | \$ 71,705 | \$ 61,305 | \$ 52,328 | \$ 48,200 | \$ 44,872 | \$ 265,066 | \$ 543,476 |

9. FAIR VALUE MEASUREMENT

When applying fair value principles in the valuation of assets and liabilities, the Company is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The Company has not changed its valuation techniques used in measuring the fair value of any financial assets or liabilities during the fiscal years presented. The fair value estimates take into consideration the credit risk of both the Company and its counterparties.

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When active market quotes are not available for financial assets and liabilities, ADS uses industry standard valuation models. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including credit risk, interest rate curves, foreign currency rates and forward and spot prices for currencies. In circumstances where market-based observable inputs are not available, management judgment is used to develop assumptions to estimate fair value. Generally, the fair value of our Level 3 instruments is estimated as the net present value of expected future cash flows based on internal and external inputs.

Recurring Fair Value Measurements

The assets, liabilities and mezzanine equity carried at fair value as of the fiscal years ended March 31 were as follows:

| (Amounts in thousands) | March 31, 2020 | | | |
|---|-----------------|-------------|-----------------|--------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Derivative assets — diesel fuel contracts | \$ 36 | \$ — | \$ 36 | \$ — |
| Total assets at fair value on a recurring basis | \$ 36 | \$ — | \$ 36 | \$ — |
| Liabilities: | | | | |
| Derivative liability - diesel fuel contracts | \$ 2,228 | \$ — | \$ 2,228 | \$ — |
| Contingent consideration for acquisitions ^(a) | 60 | — | — | 60 |
| Total liabilities at fair value on a recurring basis | \$ 2,288 | \$ — | \$ 2,228 | \$ 60 |

| (Amounts in thousands) | March 31, 2019 | | | |
|---|-----------------|-------------|-----------------|---------------|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Derivative assets — diesel fuel contracts | \$ 189 | \$ — | \$ 189 | \$ — |
| Interest rate swaps | 1,088 | — | 1,088 | — |
| Total assets at fair value on a recurring basis | \$ 1,277 | \$ — | \$ 1,277 | \$ — |
| Liabilities: | | | | |
| Derivative liability - diesel fuel contracts | \$ 283 | \$ — | \$ 283 | \$ — |
| Foreign exchange forward contracts | 60 | — | 60 | — |
| Contingent consideration for acquisitions | 203 | — | — | 203 |
| Total liabilities at fair value on a recurring basis | \$ 546 | \$ — | \$ 343 | \$ 203 |

- (a) The fair value of the contingent consideration for acquisitions is based on management’s estimate of contractual payments based on future product certifications obtained.

The contingent consideration for acquisitions are recorded at their fair value based on a discounted cash flow valuation technique. The Company’s unobservable input is the weighted average cost of capital (“WACC”) which represents discount rates or rates of return estimates and assumptions that the Company believes would be used by market participants when valuing these liabilities. The Company’s weighted average cost of capital was approximately 9.5% as of March 31, 2020 and 2019.

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Changes in the fair value of recurring fair value measurements using significant unobservable inputs (Level 3) for the fiscal years ended March 31, 2020 and 2019 were as follows:

| | Contingent consideration |
|--|-----------------------------|
| Balance at March 31, 2018 | \$ 578 |
| Asset acquisition | \$ 40 |
| Change in fair value | (6) |
| Payments of contingent consideration liability | (409) |
| Balance at March 31, 2019 | \$ 203 |
| Payments of contingent consideration liability | (143) |
| Balance at March 31, 2020 | \$ 60 |

There were no transfers in or out of Level 3 for the fiscal years ended March 31, 2020 and 2019.

Valuation of Contingent Consideration for Acquisitions - The method used to price these liabilities is considered Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

Valuation of Debt - The carrying amounts of current financial assets and liabilities approximate fair value because of the immediate or short-term maturity of these items, or in the case of derivative instruments, because they are recorded at fair value. The carrying and fair value of the Company's Senior Notes (discussed in "Note 13. Debt") were \$350.0 million and \$315.0 million, respectively, as of March 31, 2020 and \$100.0 million and \$98.9 million, respectively, at March 31, 2019. The fair value of the Senior Notes was determined based on a comparison of the interest rate and terms of such borrowings to the rates and terms of similar debt available for the period. The Company believes the carrying amount on the remaining long-term debt, including the Secured Bank Loans, is not materially different from its fair value as the interest rates and terms of the borrowings are similar to currently available borrowings. The categorization of the framework used to evaluate this debt is considered Level 2.

10. INVESTMENT IN CONSOLIDATED AFFILIATES

ADS participates in one consolidated joint venture, ADS Mexicana, which is 51% owned by the Company's wholly-owned subsidiary ADS Worldwide, Inc. The equity owned by the Company's joint venture partner is shown as Noncontrolling interest in subsidiaries in the Consolidated Balance Sheets and the joint venture partner's portion of net income is shown as Net income attributable to noncontrolling interest in the Consolidated Statements of Operations.

ADS participated in an additional joint venture, BaySaver. In the third quarter of fiscal 2019, the Company acquired the noncontrolling interest in BaySaver. As a result, BaySaver is a wholly-owned subsidiary of the Company after the acquisition. Prior to the acquisition, the equity owned by the Company's joint venture partner was shown as Redeemable noncontrolling interest in subsidiaries in the Consolidated Balance Sheets and the joint venture partner's portion of net income is shown as Net income attributable to noncontrolling interest in the Consolidated Statements of Operations.

ADS Mexicana - ADS participates in joint ventures for the purpose of expanding upon the growth of manufacturing and selling HDPE corrugated pipe and PVC conduit in emerging markets. ADS invested in ADS Mexicana for the purpose of expanding upon our growth of manufacturing and selling ADS licensed HDPE corrugated pipe and related products in the Mexican and Central American markets via the joint venture partner's local presence and expertise throughout the region. The Company owns a 51% equity interest in ADS Mexicana. The Company executed a Technology, Patents and Trademarks Sub-License Agreement and a Distribution Agreement with ADS Mexicana that provides ADS Mexicana with the rights to manufacture and sell ADS licensed products in Mexico and Central America. The Company has concluded that it holds a variable interest in and is the primary beneficiary of ADS Mexicana based on the power to direct the most significant activities of ADS Mexicana and the obligation to absorb losses and the right to

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receive benefits that could be significant to ADS Mexicana. As the primary beneficiary, the Company is required to consolidate the assets and liabilities of ADS Mexicana.

The table below includes the assets and liabilities of ADS Mexicana that are consolidated as of March 31, 2020 and 2019. The balances exclude intercompany transactions that are eliminated upon consolidation.

| (Amounts in thousands) | 2020 | 2019 |
|------------------------------------|------------------|------------------|
| Assets | | |
| Current assets | \$ 18,357 | \$ 18,683 |
| Property, plant and equipment, net | 12,438 | 17,054 |
| Other noncurrent assets | 1,317 | 1,396 |
| Total assets | \$ 32,112 | \$ 37,133 |
| Liabilities | | |
| Current liabilities | \$ 6,350 | \$ 6,581 |
| Noncurrent liabilities | 1,131 | 1,264 |
| Total liabilities | \$ 7,481 | \$ 7,845 |

11. INVESTMENT IN UNCONSOLIDATED AFFILIATES

The Company participates in an unconsolidated joint venture, South American Joint Venture, which is 50% owned by the Company's wholly-owned subsidiary ADS Chile. Prior to April 2018, the Company participated in an unconsolidated joint venture, Tigre-ADS USA, Inc. ("Tigre-ADS USA"), which was 49% owned by the Company's wholly-owned subsidiary ADS Ventures, Inc.

South American Joint Venture - The Company's investment in this unconsolidated joint venture was formed for the purpose of expanding upon the growth of manufacturing and selling HDPE corrugated pipe in the South American market via the joint venture partner's local presence and expertise throughout the region. The Company has concluded that it is appropriate to account for this investment using the equity method, whereby the Company's share of the income or loss of the joint venture is reported in the Consolidated Statements of Operations under Equity in net loss (income) of unconsolidated affiliates and the Company's investment in the joint venture is included in Other assets in the Consolidated Balance Sheets. The Company is not required to consolidate the South American Joint Venture as it is not the primary beneficiary, although the Company does hold significant variable interests in the South American Joint Venture through the equity investment and debt guarantee.

In order to improve the South American Joint Venture's working capital position and allow it to reallocate capital resources to business growth, the Company and the joint venture partner each contributed equal amounts of outstanding receivables owed to them from the South American Joint Venture in exchange for incremental ownership interest in the South American Joint Venture in December 2017. The Company and the joint venture partner continue to maintain a 50% ownership interest in the South American Joint Venture following the contribution. As a result of the transaction the Company contributed receivables of approximately \$5.8 million net of a \$3.0 million allowance for doubtful accounts and recorded an additional investment in the South American Joint Venture at the fair value of \$4.7 million and a \$1.9 million gain on the book value of the receivables. The investment is recorded within Other assets on the Company's Consolidated Balance Sheets and the gain is recorded within Equity in net (income) loss of unconsolidated affiliates on the Company's Consolidated Statements of Operations.

Past impairment charges have resulted in a basis difference between the cost of the investment and the amount of underlying equity in net assets of the South American Joint Venture of \$3.7 million and \$4.0 million as of March 31, 2020 and 2019, respectively. The basis difference will be amortized over the estimated remaining useful life of the underlying property, plant and equipment, 7 years. The Company recognized \$0.3 million, \$0.4 million and \$0.5 million of amortization of the basis difference in fiscal 2020, 2019 and 2018, respectively. The impairment charge is included in Equity in net loss of unconsolidated affiliates in the Consolidated Statements of Operations.

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Tigre-ADS USA - The former joint venture was established to manufacture and sell PVC fittings for waterworks, plumbing, and HVAC applications primarily in the United States and Canadian markets. The joint venture represented a continuation of the activities of Tigre-ADS USA through its Janesville, Wisconsin manufacturing facility. The Company was not required to consolidate Tigre-ADS USA as it was not the primary beneficiary, although the Company did hold a significant variable interest in Tigre-ADS USA through the equity investment.

In April 2018, the Company and the joint venture partner agreed to exchange the Company's shares of Tigre-ADS USA for a release from the existing debt guarantees. Following the exchange, the Company no longer has an interest in Tigre-ADS USA. As a result of the agreement, the Company determined there was an other-than-temporary decline in the fair value of its investment in Tigre-ADS USA. Accordingly, the Company recorded an impairment charge of \$0.3 million, reducing the carrying value of the investment to its fair value. The impairment charge is included in Equity in net loss of unconsolidated affiliates in the Consolidated Statements of Operations.

12. RELATED PARTY TRANSACTIONS

ADS Mexicana - ADS conducts business in Mexico and Central America through its joint venture ADS Mexicana. ADS Mexicana's Revolving Credit Facility expired on June 22, 2018 and was replaced by an Intercompany Revolving Credit Promissory Note (the "Intercompany Note") with a borrowing capacity of \$12.0 million. The Intercompany Note matures on June 22, 2022. The Intercompany Note indemnifies the ADS Mexicana joint venture partner for 49% of any unpaid borrowing. The interest rates under the Intercompany Note are determined by certain base rates or London Interbank Offered Rate ("LIBOR") plus an applicable margin based on the Leverage Ratio. As of March 31, 2020 and 2019, there were no borrowings under the Intercompany Note.

South American Joint Venture - The Company's South American Joint Venture manufactures and sells HDPE corrugated pipe in the South American market. ADS is the guarantor for 50% of the South American Joint Venture's credit facility, and the debt guarantee is shared equally with the joint venture partner. The maximum potential obligation under this guarantee totals \$11.0 million as of March 31, 2020. The maximum borrowing permitted under the South American Joint Venture's credit facility is \$22.0 million. This credit facility allows borrowings in either Chilean pesos or US dollars at a fixed interest rate determined at inception of each draw on the facility. The guarantee of the South American Joint Venture's debt expires on December 31, 2020. ADS does not anticipate any required contributions related to the balance of this credit facility. As of March 31, 2020 and 2019, the outstanding principal balance of the credit facility including letters of credit was \$9.3 million and \$12.3 million, respectively. As of March 31, 2020, there were no U.S. dollar denominated loans. The weighted average interest rate as of March 31, 2020 was 5.32% on Chilean peso denominated loans.

ADS and the South American Joint Venture have entered into shared services arrangements in order to execute the joint venture services. Occasionally, the South American Joint Venture enters into agreements for pipe sales with ADS and its other related parties, which were \$0.7 million, \$1.3 million and \$2.1 million in the fiscal years ended March 31, 2020, 2019 and 2018, respectively. ADS pipe sales to the South American Joint Venture were \$0.9 million, \$1.2 million and \$0.4 million in the fiscal years ended March 31, 2020, 2019 and 2018, respectively.

Tigre-ADS USA - Tigre-ADS USA was a joint venture established to manufacture and sell PVC fittings for waterworks, plumbing, and HVAC applications primarily in the United States and Canadian markets. ADS owned 49% of the outstanding shares of capital stock of Tigre-ADS USA. The joint venture represented a continuation of the existing activities of Tigre-ADS USA through its Janesville, Wisconsin manufacturing facility. In April 2018, the Company and the joint venture partner agreed to exchange the Company's shares of Tigre-ADS USA for a release from the existing debt guarantees. Following the exchange, the Company no longer has an interest in Tigre-ADS USA. Following the exchange of Tigre-ADS USA shares, the Company still considers Tigre-ADS USA a related party as a result of the Company's joint venture in the South American Joint Venture discussed above.

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ADS purchased \$2.0 million, \$0.3 million and \$2.0 million of Tigre-ADS USA manufactured products for use in the production of ADS products during fiscal years 2020, 2019 and 2018, respectively.

13. DEBT

Long-term debt as of the fiscal years ended March 31 consisted of the following:

| (Amounts in thousands) | 2020 | 2019 |
|-----------------------------------|---------------------------|--------------------------|
| Term Loan Facility | \$ 648,250 | \$ — |
| Senior Notes | 350,000 | — |
| Revolving Credit Facility | 100,000 | — |
| PNC Credit Agreement | — | 134,400 |
| Prudential Senior Notes | — | 100,000 |
| Equipment financing | 1,492 | 2,427 |
| Total | 1,099,742 | 236,827 |
| Unamortized debt issuance costs | (2,419) | (2,293) |
| Current maturities | (7,955) | (25,932) |
| Long-term debt obligations | <u>\$1,089,368</u> | <u>\$ 208,602</u> |

Bridge Credit Facility

On July 31, 2019, the Company entered into a credit agreement (the “Base Credit Agreement”) by and among the Company, as borrower, Barclays Bank PLC, as administrative agent, the several lenders from time to time party thereto.

The Base Credit Agreement provided for a term loan facility in an initial aggregate principal amount of up to \$1.3 billion (the “Bridge Loan Facility”), a revolving credit facility in an initial aggregate principal amount of up to \$350 million (the “Bridge Revolving Credit Facility”), a letter of credit sub-facility in the initial aggregate available amount of up to \$50 million, as a sublimit of such Revolving Credit Facility (the “Bridge L/C Facility”) and a swing line sub-facility in the aggregate available amount of up to \$50 million, as a sublimit of the Revolving Credit Facility (together with the Bridge Loan Facility, the Bridge Revolving Credit Facility and the Bridge L/C Facility, the “Bridge Credit Facility”).

On July 31, 2019, the Company borrowed approximately \$1.3 billion under the Bridge Loan Facility and \$145 million under the Bridge Revolving Credit Facility, which amounts were to (i) finance the consideration paid in connection with the closing of the Acquisition, (ii) repay the total outstanding amount as of the Closing Date under the Company’s then existing revolving credit facility with PNC, (iii) repay outstanding amounts of existing indebtedness incurred by Infiltrator Water Technologies under its outstanding credit facility in effect prior to the Acquisition, and (iv) pay certain transaction fees and expenses associated with the Acquisition and the Bridge Loan Facility. Approximately \$300.0 million of outstanding borrowings under the Base Credit Agreement were repaid on September 10, 2019 with proceeds from the Company’s public offering of common stock as further described in “Note 19. Net Income Per Share and Stockholders’ Equity” and approximately \$300.0 million of outstanding borrowings under the Bridge Loan Facility were repaid on September 23, 2019 with proceeds from the Company’s offering of \$350.0 million Senior Notes, as defined and further described below.

As a result of this borrowing, on July 31, 2019, the Company initially capitalized approximately \$46.9 million of deferred financing fees associated with the Bridge Credit Facility. This amount was later reduced by \$14.9 million due to refunds received by ADS. The remaining deferred financing costs were written off due to loss on early extinguishment of debt resulting from the \$300.0 million principal payment primarily from the Common Stock Offering, \$300.0 million principal payment from the issuance of Senior Notes due 2027, and \$700.0 million principal payment from the issuance of the Senior Secured Credit Facility on September 24, 2019. These financings resulted in the Company treating the Bridge Credit Facility as having been extinguished and replaced with the Common Stock Offering, Senior Notes due 2027 and the syndicated Senior Secured Credit Facility for accounting purposes under ASC 470-50. The loss on early extinguishment of debt,

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which is included in interest expense in the Company's Consolidated Statements of Operations, primarily reflects the write-off of unamortized debt issuance costs and discounts.

Repayment of Prudential Senior Notes

On July 29, 2019, the Company repaid in full all of its and its subsidiaries' indebtedness and other obligations totaling \$104.4 million under that certain Second Amended and Restated Private Shelf Agreement, dated as of June 22, 2017 (as amended the "Shelf Note Agreement") of the Company's Senior Notes ("Prudential Senior Notes"), by and among the Company, as issuer, the guarantors from time to time a party thereto, PGIM, Inc., as a purchaser and the other purchasers from time to time a party thereto. The Company repaid the outstanding indebtedness under the Shelf Note Agreement using borrowings from the Company's Second Amended and Restated Credit Agreement (the "PNC Credit Agreement") as in effect as of July 29, 2019. Concurrently with the repayment, the Shelf Noteholders authorized and directed PNC Bank, National Association, in its capacity as Collateral Agent (as defined in the Shelf Note Agreement) to release the security interests and liens securing the Shelf Note Agreement and the Shelf Note Agreement was terminated.

As a result of the repayment described above, the Company expensed approximately \$4.2 million primarily consisting of prepayment premium or penalty associated with the debt payoff activity and the write-off of unamortized deferred financing fees, as the payoff meets the criteria to be accounted for as a debt extinguishment.

Repayment of PNC Credit Agreement

On the Closing Date, using borrowings of the new Bridge Loan Facility the Company repaid in full all of its and its subsidiaries indebtedness and other obligations totaling \$239.2 million under the PNC Credit Agreement. Concurrently with the repayment, all security interests and liens held by the Collateral Agent (as defined in the PNC Credit Agreement) securing the PNC Credit Agreement were terminated and released and the PNC Credit Agreement was terminated.

As a result of the repayment described above, the Company expensed approximately \$2.0 million primarily consisting of the write-off of unamortized deferred financing fees associated with the debt payoff activity, as the payoff meets the criteria to be accounted for as a debt extinguishment.

Issuance of Senior Notes due 2027

On September 23, 2019, the Company issued \$350.0 million aggregate principal amount of 5.0% senior notes due 2027 (the "Senior Notes") pursuant to an Indenture, dated September 23, 2019 (the "Indenture"), among the Company, the guarantors party thereto (the "Guarantors") and U.S. Bank National Association, as Trustee (the "Trustee"). The Senior Notes are guaranteed by each of the Company's present and future direct and indirect wholly owned domestic subsidiaries that is a guarantor under the Company's Senior Secured Credit Facility. The Senior Notes were offered and sold either to persons reasonably believed to be "qualified institutional buyers" pursuant to Rule 144A under the Securities Act of 1933 (the "Securities Act") or to persons outside the United States under Regulation S of the Securities Act.

Interest on the Senior Notes will be payable semi-annually in cash in arrears on March 31 and September 30 of each year, commencing on March 31, 2020, at a rate of 5.0% per annum. The Senior Notes will mature on September 30, 2027. The Company used the majority of the net proceeds from the offering of the Senior Notes for the repayment of \$300.0 million of its outstanding borrowings under the Company's Bridge Loan Facility. The deferred financing costs associated with the Senior Notes totaled \$2.1 million and are recorded as a direct reduction from the carrying amount of the related debt.

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The Company may redeem the Senior Notes, in whole or in part, at any time on or after September 30, 2022 at established redemption prices. At any time prior to September 30, 2022, the Company may also redeem up to 40% of the Senior Notes with net cash proceeds of certain equity offerings at a redemption price equal to 105.0% of the principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. In addition, at any time prior to September 30, 2022, the Company may redeem the Senior Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Senior Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date plus an applicable “make-whole” premium.

The Indenture contains customary events of default, including, among other things, payment default, failure to comply with covenants or agreements contained in the Indenture or the Senior Notes and certain provisions related to bankruptcy events. The Indenture also contains customary negative covenants.

New Senior Secured Credit Facility

On September 24, 2019, the Company successfully completed a \$700 million syndication of the remaining balance of the Bridge Credit Facility subsequent to the aforementioned Common Stock Offering and Senior Notes due 2027 and in connection with the syndication, the Company amended the Base Credit Agreement (the “Senior Secured Credit Facility”). The Senior Secured Credit Facility reduced the applicable margin utilized in the determination of the interest rate, as well as other provisions.

The Senior Secured Credit Facility provides for a term loan facility in an initial aggregate principal amount of \$700 million (the “Term Loan Facility”), a revolving credit facility in an initial aggregate principal amount of up to \$350 million (the “Revolving Credit Facility”), a letter of credit sub-facility in the initial aggregate available amount of up to \$50 million, as a sublimit of such Revolving Credit Facility (the “L/C Facility”) and a swing line sub-facility in the aggregate available amount of up to \$50 million, as a sublimit of the Revolving Credit Facility (together with the Term Loan Facility, the Revolving Credit Facility and the L/C Facility, the “Senior Secured Credit Facility”). During fiscal 2020, the Company prepaid \$51.8 million of the Term Loan Facility. Letters of credit outstanding at March 31, 2020 amounts to \$8.5 million and reduced the availability of the Revolving Credit Facility.

In connection with entering into the Senior Secured Credit Facility, the Company capitalized approximately \$0.4 million in deferred financing fees. To the extent not previously paid, all then-outstanding amounts under the Term Loan Facility are due and payable on the maturity date of the Term Loan Facility, which is seven years from the Closing Date. Borrowings under the Revolving Credit Facility are available beginning on September 24, 2019 and, to the extent not previously paid, all then-outstanding amounts under the Revolving Credit Facility are due and payable on the maturity date of the Revolving Credit Facility, which is five years from the Closing Date.

At the option of the Company, borrowings under the Term Loan Facility and under the Revolving Credit Facility (subject to certain limitations) bear interest at either a base rate (as determined pursuant to the Senior Secured Credit Facility) or at a Eurocurrency Rate, based on LIBOR (as defined in the Senior Secured Credit Facility), plus the applicable margin as set forth therein from time to time. In the case of the Revolving Credit Facility, the applicable margin is based on the Company’s consolidated senior secured net leverage ratio (as defined in the Senior Secured Credit Facility). All borrowings under the Term Loan Facility used to finance the Merger Consideration as described above initially bear interest at a Eurocurrency Rate applicable to Eurocurrency Loans (as defined in the Senior Secured Credit Facility) denominated in U.S. Dollars.

The Company is also required to pay a commitment fee that is based upon the undrawn amounts of the Revolving Credit Facility at a rate per annum based upon a calculated ratio as prescribed within the Senior Secured Credit Facility. As of March 31, 2020, the rate the Company was committed to paying on the undrawn portion was equal to 0.2%.

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The Company's obligations under the Senior Secured Credit Facility have been secured by granting a first priority lien on substantially all of the Company's assets (subject to certain exceptions and limitations), and each of StormTech, LLC, Advanced Drainage of Ohio, Inc. and Infiltrator Water Technologies, LLC (collectively the "Guarantors") has agreed to guarantee the obligations of the Company under the Senior Secured Credit Facility and to secure the obligations thereunder by granting a first priority lien in substantially all of such Guarantor's assets (subject to certain exceptions and limitations).

Principal Maturities - Maturities of long-term debt (excluding interest and deferred financing costs) as of March 31, 2020 are summarized below:

| (Amounts in thousands) | Fiscal Years Ending March 31, | | | | | Thereafter | Total |
|------------------------|-------------------------------|----------|----------|----------|------------|------------|--------------|
| | 2021 | 2022 | 2023 | 2024 | 2025 | | |
| Principal maturities | \$ 7,955 | \$ 7,532 | \$ 7,000 | \$ 7,000 | \$ 107,000 | \$ 963,255 | \$ 1,099,742 |

14. DERIVATIVE TRANSACTIONS

The Company uses interest rate swaps and commodity options in the form of collars and swaps to manage its various exposures to interest rate and commodity price fluctuations. For the interest rate swap executed on June 28, 2017, gains and losses resulting from the difference between the spot rate and applicable base rate is recorded in Interest expense. The Company's interest rate swap was terminated during the year ended March 31, 2020 in conjunction with the new Senior Secured Credit Facility. For collars and commodity swaps, contract settlement gains and losses are recorded in the Consolidated Statements of Operations in Derivative gains and other income, net. Gains and losses related to mark-to-market adjustments for changes in fair value of the derivative contracts are also recorded in the Consolidated Statements of Operations in Derivative gains and other income, net.

A summary of the fair values for the various derivatives at March 31, 2020 and 2019 is presented below:

| (Amounts in thousands) | 2020 | | | |
|--------------------------------------|-------------|--------------|---------------------------|-------------------|
| | Assets | | Liabilities | |
| | Receivables | Other assets | Other accrued liabilities | Other liabilities |
| Diesel fuel option collars and swaps | \$ 21 | \$ 15 | \$ (2,000) | \$ (228) |

| (Amounts in thousands) | 2019 | | | |
|--------------------------------------|-------------|--------------|---------------------------|-------------------|
| | Assets | | Liabilities | |
| | Receivables | Other assets | Other accrued liabilities | Other liabilities |
| Diesel fuel option collars and swaps | \$ 127 | \$ 62 | \$ (201) | \$ (82) |
| Foreign exchange forward contracts | — | — | (60) | — |
| Interest rate swaps | 566 | 522 | — | — |

The Company recorded net losses and net (gains) on mark-to-market adjustments for changes in the fair value of derivative contracts as well as net losses and net (gains) on the settlement of derivative contracts as follows:

| (Amounts in thousands) | Net Unrealized Mark to Market Losses (Gains) | | |
|---|--|-----------------|-------------------|
| | 2020 | 2019 | 2018 |
| Interest rate swaps | \$ 1,029 | \$ 1,712 | \$ (2,801) |
| Foreign exchange forward contracts | — | 60 | — |
| Diesel fuel option collars | 2,099 | 574 | (443) |
| Total net unrealized mark to market losses (gains) | \$ 3,128 | \$ 2,346 | \$ (3,244) |

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| (Amounts in thousands) | Net Realized Losses (Gains) | | |
|--|-----------------------------|-------------------|-----------------|
| | 2020 | 2019 | 2018 |
| Interest rate swaps | \$ 378 | \$ (329) | \$ — |
| Foreign exchange forward contracts | 102 | (163) | — |
| Diesel fuel option collars | 357 | (698) | (476) |
| Total net realized losses (gains) | \$ 837 | \$ (1,190) | \$ (476) |

15. COMMITMENTS AND CONTINGENCIES***Purchase Commitments***

The Company has historically secured supplies of resin raw material by agreeing to purchase quantities during a future given period at a fixed price. These purchase contracts typically ranged from 1 to 12 months and occur in the ordinary course of business. The Company, also, enters into equipment purchase contracts with manufacturers. The Company does not have any outstanding purchase commitments as of March 31, 2020.

Litigation and Other Proceedings

The Company is involved from time to time in various legal proceedings that arise in the ordinary course of business, including but not limited to commercial disputes, environmental matters, employee related claims, intellectual property disputes and litigation in connection with transactions including acquisitions and divestitures. The Company does not believe that such litigation, claims, and administrative proceedings will have a material adverse impact on the Company's financial position or results of operations. The Company records a liability when a loss is considered probable, and the amount can be reasonably estimated.

Other Commitments and Contingencies

In March 2019, the Company initiated an internal investigation process, under the guidelines of the Company's Code of Business Conduct and Ethics, into its consolidated joint venture affiliate ADS Mexicana's senior management's ethical and business conduct, as well as compliance of certain products with, along with considerations into Mexican laws and regulations over the last 12 months. The Company has concluded that the current estimate of probable losses resulting from the investigation is not material to our consolidated financial statements, however due to the inherent uncertainties in determining the use, installation application and location of our ADS Mexicana products sold, along with the consideration of Mexican laws and regulations related to warranty and product liability obligations, the Company is unable to determine the maximum potential future losses that may occur, which could be material to the consolidated financial statements.

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16. EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan (“ESOP”) - The Company established the Advanced Drainage Systems, Inc. ESOP (the “ESOP” or the “Plan”) effective April 1, 1993. The Plan was funded through a transfer of assets from our tax-qualified profit-sharing retirement plan, as well as a 30-year term loan from ADS. Within 30 days following the repayment of the ESOP loan, which will occur no later than March 2023, the ESOP committee can direct the shares of redeemable convertible preferred stock owned by the ESOP to be converted into shares of the Company’s common stock. The Plan operates as a tax-qualified leveraged ESOP and was designed to enable eligible employees to acquire stock ownership interest in ADS. Employees of ADS who have reached the age of 18 are generally eligible to participate in the Plan on March 31 after six months of service. Upon retirement, disability, death, or vested terminations, (i) a participant or designated beneficiary may elect to receive the amount in their account attributable to the 1993 transfer of assets from our tax-qualified profit sharing retirement plan in the form of cash or ADS stock with any fractional shares paid in cash; (ii) stock credited to the participants’ ESOP stock account resulting from the ESOP’s loan repayments are distributed in the form of ADS stock, and (iii) amounts credited to the participants’ ESOP cash account are distributed in the form of cash. Upon attainment of age 50 and seven years of participation in the Plan, a participant may elect to diversify specified percentages of the number of shares of ADS stock credited to the participant’s ESOP stock account in compliance with applicable law.

The Company is obligated to make contributions to the Plan, which, when aggregated with the Plan’s dividends on the Plan’s unallocated shares of redeemable convertible preferred stock, equal the amount necessary to enable the Plan to make its regularly scheduled payments of principal and interest due on its term loan to ADS. As the Plan makes annual payments of principal and interest, an appropriate percentage of preferred stock is allocated to ESOP participants’ accounts in accordance with plan terms that are compliant with applicable Internal Revenue Code and regulatory provisions.

The carrying value of redeemable convertible preferred stock held by the ESOP trust, but not yet earned by the ESOP participants or used for dividends, is reported as Deferred compensation — unearned ESOP shares within the Mezzanine equity section of our Consolidated Balance Sheets.

Compensation expense and related dividends paid with ESOP shares for services rendered throughout the period are recognized based upon the annual fair value of the shares allocated. Deferred compensation — unearned ESOP shares is relieved at fair value, with any difference between the annual fair value and the carrying value of shares when allocated being added to Additional paid in capital. The fair value of the shares allocated was \$22.70, \$19.90, and \$20.00 per share of redeemable convertible preferred stock at March 31, 2020, 2019, and 2018, respectively, resulting in an average annual fair value per share of \$21.31, \$19.95, and \$18.40 per share for the fiscal years ended March 31, 2020, 2019, and 2018, respectively. During the fiscal years ended March 31, 2020, 2019, and 2018, the Company recognized compensation expense of \$20.1 million, \$15.3 million, and \$11.7 million, respectively, related to allocation of ESOP shares to participants.

Required dividends on allocated shares are generally passed through and paid in cash to the participants and required dividends on unallocated shares are paid in cash to the Plan and generally used to service the Plan’s debt.

The ESOP committee directed the Plan trustee to retain dividends on unallocated ADS shares rather than to service the Plan’s debt. In the fiscal years ended March 31, 2020, 2019, and 2018, the Company recognized compensation expense and the trustee retained \$0.0 million, \$3.3 million and \$3.2 million, respectively, for dividends on unallocated ADS shares. These dividends were allocated to participants based on the total shares in their account in relation to total shares allocated at March 31, 2020 and 2019.

Redeemable Convertible Preferred Stock - The Trustee of the Company’s ESOP has the ability to put shares of the redeemable convertible preferred stock to the Company absent a market for the Company’s common stock, and as a result the redeemable convertible preferred stock is classified as Mezzanine equity in the Company’s Consolidated Balance Sheets. The put option requirements of the Internal Revenue Code apply in the event that the Company’s common stock is not a registration type class of security or its trading has been restricted. Therefore, the holders of Redeemable convertible preferred stock have a put right to require the

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Company to repurchase such shares in the event that the common stock is not listed for trading or otherwise quoted on the NYSE, AMEX, NASDAQ, or any other market more senior than the OTC Bulletin Board. As of March 31, 2020, the applicable redemption value was \$0.7818 per share as there were no unpaid cumulative dividends.

Given that the event that may trigger redemption of the Redeemable convertible preferred stock (the listing or quotation on a market more senior than the OTC Bulletin Board) is not solely within the Company's control, the redeemable convertible preferred stock is presented in the mezzanine equity section of the Consolidated Balance Sheets. As of March 31, 2020, the Company did not adjust the carrying value of the redeemable convertible preferred stock to its redemption value or recognize any changes in fair value as the Company did not consider it probable that the Redeemable convertible preferred stock would become redeemable.

The Redeemable convertible preferred stock has a required cumulative 2.5% dividend (based on the liquidation value of \$0.7818 per share) and is convertible at a rate of 0.7692 shares of common stock for each share of Redeemable convertible preferred stock. The 2.5% annual dividend is payable in cash or additional shares of the Redeemable convertible preferred stock. During the first quarter of fiscal 2020, the Board of Directors approved the 2.5% annual dividend to be paid in cash on March 31, 2020 to stockholders of record as of March 15, 2020. The Redeemable convertible preferred stock has a liquidation value of \$0.7818 per share that must be paid before any distribution or payment may be made to holders of common stock in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of ADS.

During fiscal year ended March 31, 2020, the Board of Directors approved a special cash dividend of \$1.00 per share. See "Note 19. Net Income Per Share and Stockholders' Equity" for additional information. Cash and stock dividends on allocated Redeemable convertible preferred stock for the fiscal years ended March 31, 2020 and 2019, respectively, are summarized in the following table.

| (Amounts in thousands) | 2020 | 2019 |
|--------------------------------------|------------------|-----------------|
| Quarterly cash dividends | \$ 10,840 | \$ 1,903 |
| Annual cash dividends | 7 | 10 |
| Total cash dividends | \$ 10,847 | \$ 1,913 |
| Annual stock dividend | 359 | 134 |
| Annual cash dividend | 7 | 10 |
| Total ESOP required dividends | \$ 366 | \$ 144 |
| Allocated shares | 18,756 | 7,392 |
| Required dividend per share | 0.0195 | 0.0195 |
| Required dividends | \$ 366 | \$ 144 |

In the fiscal years ended March 31, 2020 and 2019, 1.0 million and 0.8 million shares of redeemable convertible preferred stock, respectively, were allocated to the ESOP participants, including, in addition to the cash dividends, 0.4 million and less than 0.1 million preferred shares allocated as dividends, respectively.

Executive Retirement Expense - ADS has employment agreements with certain executives that include potential payments to be made to those executives upon termination. The terms of the termination payments vary by executive, but are generally based on current base salary and bonus levels at the time of termination. The contractual termination payments vest upon either (1) certain contingent occurrences terminating employment such as death, disability, layoff, the executive voluntarily quitting due to a breach of covenants by the Company or for other "good reason" or (2) the executive reaching a specified retirement age while still working for the Company, as defined in the individual employee agreement.

The Company accrues a liability from the effective date of the executive's employment agreement to the date the executive reaches the required retirement age while working for the Company, which is considered the service period for this obligation. The liability is estimated based on each executive's current base salary and bonus levels. Because the executives vest in the termination payments equally over the relevant service period, the Company recognizes the related compensation expense based on the straight-line method over the service

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period. If an executive terminates their employment prior to reaching the required retirement age, no payment is required and the previously recorded compensation expense for that executive is reversed and recorded as a benefit to compensation expense in the period the executive terminates employment.

The compensation (benefit) expense recorded related to the executive termination payments for the fiscal years ended March 31, 2020, 2019, and 2018 was \$0.2 million, \$(0.2) million and \$1.5 million, respectively, and is included in General and administrative expenses in the Consolidated Statements of Operations. As of March 31, 2020 and 2019, the executive termination payment obligation was \$2.6 million and \$4.3 million, respectively, and is included in Other accrued liabilities and Other liabilities in the Consolidated Balance Sheets.

Profit-Sharing Plan - The Company has a tax-qualified profit-sharing retirement plan with a 401(k) feature covering substantially all U.S. eligible employees. The Company did not make employer contributions to this plan in the fiscal years ended March 31, 2020, 2019, and 2018. The Company has defined contribution postretirement benefit plans covering Infiltrator Water Technologies and Canadian employees. The Company recognized costs of \$0.5 million, \$0.4 million and \$0.7 million in the fiscal years ended March 31, 2020, 2019, and 2018.

COVID-19 Pandemic Pay – In fiscal 2020, the Company communicated to all hourly employees that each would be entitled to the equivalent of two weeks, or 80 hours, of pandemic pay regardless of whether they experienced any interruption of employment. The Company recognized pandemic pay costs in Costs of goods sold on the Company's Consolidated Statement of Operations and accrued pandemic pay liability in Other accrued liabilities on the Company's Consolidated Balance Sheet of \$4.8 million in the fiscal year ended March 31, 2020.

17. STOCK-BASED COMPENSATION

The Company has several programs for stock-based payments to employees and directors, including stock options and restricted stock. Stock-based compensation expense is recorded in General and administrative expenses, Selling expenses and Cost of goods sold in the Consolidated Statements of Operations.

The Company recognized stock-based compensation expense in the following line items on the Consolidated Statements of Operations for the fiscal years ended March 31, 2020, 2019, and 2018:

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|---|------------------|-----------------|-----------------|
| Component of income before income taxes: | | | |
| Cost of goods sold | \$ 897 | \$ 317 | \$ 179 |
| Selling expenses | 426 | 180 | 105 |
| General and administrative expenses | 10,946 | 6,035 | 6,837 |
| Total stock-based compensation expense | \$ 12,269 | \$ 6,532 | \$ 7,121 |

The following table summarizes stock-based compensation expense by award type for the fiscal years ended March 31, 2020, 2019, and 2018:

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|---|------------------|-----------------|-----------------|
| Stock-based compensation expense: | | | |
| Equity-classified stock options | 2,554 | 2,550 | 4,148 |
| Restricted stock | 3,807 | 2,064 | 1,741 |
| Performance-based restricted stock units | 4,682 | 869 | — |
| Non-employee director | 1,226 | 1,049 | 1,232 |
| Total stock-based compensation expense | \$ 12,269 | \$ 6,532 | \$ 7,121 |

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The following table summarizes the assumptions used in estimating the fair value of stock options:

| | 2020 | 2019 | 2018 |
|---|-------------------|-------------------|-------------------|
| Common stock price | \$27.44 - \$41.85 | \$25.75 - \$27.99 | \$19.35 - \$22.95 |
| Expected stock price volatility | 30.1% - 30.9% | 30.3% - 31.1% | 32.1% - 35.6% |
| Risk-free interest rate | 1.4% - 2.3% | 2.9% - 3.1% | 1.9% - 2.2% |
| Weighted-average expected option life (years) | 6.0 | 6.0 | 5.6 - 6.0 |
| Dividend yield | 0.9% - 1.3% | 1.1% - 1.2% | 1.1% - 1.5% |

2000 and 2013 Stock Options Plans

Equity classified stock option awards are measured based on the grant date estimated fair value of each award. Compensation expense for stock options is recognized on a straight-line basis over the employee's requisite service period, which is generally the vesting period of the grant. The Company estimates the fair value of stock options using a Black-Scholes option-pricing model.

2000 Plan - The Company's 2000 stock option plan ("2000 Plan") provided for the issuance of statutory and non-statutory stock options to management based upon the discretion of the Board of Directors. The plan generally provided for grants with the exercise price equal to fair value on the date of grant, which vest in three equal annual amounts beginning in year five and expire after approximately 10 years from issuance. The Company had no shares available for grant under the 2000 Plan as of March 31, 2020.

The stock option activity for the fiscal year ended March 31, 2020 is summarized as follows:

| (Share amounts in thousands) | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) |
|---|------------------|---------------------------------|--|
| Outstanding at beginning of year | 82 | \$ 14.64 | 4.3 |
| Granted | — | — | — |
| Exercised | (8) | 13.87 | — |
| Forfeited | (3) | 15.74 | — |
| Outstanding at end of year | 71 | 14.69 | 3.4 |
| Vested at end of year | 37 | 13.73 | 2.8 |
| Unvested at end of year | 34 | 15.74 | 4.0 |
| Fair value of options granted during the year | | \$ — | |

All outstanding options are expected to vest.

The following table summarizes information about the unvested stock option grants as of the fiscal year ended March 31, 2020:

| (Share amounts in thousands) | Number of Shares | Weighted Average Grant Date Fair Value |
|--------------------------------|------------------|--|
| Unvested at beginning of year | 54 | \$ 6.76 |
| Granted | — | — |
| Vested | (17) | 8.72 |
| Forfeitures | (3) | 8.72 |
| Unvested at end of year | 34 | \$ 8.72 |

As of March 31, 2020, there was a total of \$0.1 million of unrecognized compensation expense related to unvested stock option awards under the 2000 plan that will be recognized as an expense as the awards vest over the remaining weighted average service period of 1.3 years.

During the fiscal year end March 31, 2020, 0.1 million shares vested. No options vested during fiscal years ended March 31, 2019 and 2018. No options were granted during the fiscal years ended March 31, 2020, 2019, and 2018. The aggregate intrinsic value for options outstanding and currently exercisable as of

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March 31, 2020 was \$1.0 million and \$0.6 million, respectively. The total intrinsic value of options exercised during the fiscal years ended March 31, 2020, 2019, and 2018 were \$0.2 million, \$0.8 million and \$0.5 million, respectively.

2013 Plan - The Company's 2013 stock option plan ("2013 Plan") provided for the issuance of non-statutory common stock options to management subject to the Board's discretion. The plan generally provided for grants with the exercise price equal to fair value on the date of grant. The grants generally vest in three to five equal annual amounts beginning in year one and expire after approximately 10 years from issuance. The Company had no shares available for grant under the 2013 Plan as of March 31, 2020.

The stock option activity for the fiscal year ended March 31, 2020 is summarized as follows:

| (Share amounts in thousands) | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) |
|---|------------------|---------------------------------|--|
| Outstanding at beginning of year | 1,120 | \$ 16.81 | 4.9 |
| Granted | — | — | — |
| Exercised | (555) | 14.11 | — |
| Forfeited | — | — | — |
| Outstanding at end of year | 565 | 19.45 | 4.7 |
| Vested at end of year | 542 | 19.25 | 4.6 |
| Unvested at end of year | 23 | 24.12 | 6.0 |
| Fair value of options granted during the year | | \$ — | |

All outstanding options are expected to vest.

The following table summarizes information about the unvested stock option grants as of the fiscal year ended March 31, 2020:

| (Share amounts in thousands) | Number of Shares | Weighted Average Grant Date Fair Value |
|--------------------------------|------------------|--|
| Unvested at beginning of year | 121 | \$ 7.68 |
| Granted | — | — |
| Vested | (98) | 7.80 |
| Forfeited | — | — |
| Unvested at end of year | 23 | \$ 7.20 |

As of March 31, 2020, there was a total of \$0.1 million of unrecognized compensation expense related to unvested stock option awards under the 2013 Plan that will be recognized as an expense as the awards vest over the remaining weighted average service period of 0.9 years.

The aggregate intrinsic value for options outstanding and currently exercisable as of March 31, 2020 was \$5.6 million and \$5.5 million, respectively. The total fair value of options that vested during the fiscal years ended March 31, 2020, 2019, and 2018 were \$0.8 million, \$2.6 million, and \$4.7 million, respectively. The total intrinsic value of options exercised during the fiscal year ended March 31, 2020 was \$13.2 million.

2008 Restricted Stock Plan

On September 16, 2008, the Board of Directors adopted the restricted stock plan, which provided for the issuance of restricted stock awards to certain key employees. The restricted stock generally vest ratably over a five-year period from the original restricted stock grant date, contingent on the employee's continuous employment by ADS. Under the restricted stock plan, vested shares are considered issued and outstanding.

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Employees with restricted stock have the right to dividends on the shares awarded (vested and unvested) in addition to voting rights on non-forfeited shares.

The fair value of restricted stock is based on the fair value of the Company's common stock. Compensation expense is recognized on a straight-line basis over the employee's requisite service period, which is generally the vesting period of the grant.

The Company had no shares available for grant under this plan as of March 31, 2020.

The information about the unvested restricted stock grants as of March 31, 2020 is as follows:

| (Share amounts in thousands) | Number of Shares | Weighted Average Grant Date Fair Value |
|--------------------------------|---------------------|---|
| Unvested at beginning of year | 44 | \$ 24.17 |
| Granted | — | — |
| Vested | (37) | 24.18 |
| Forfeited | (1) | 24.20 |
| Unvested at end of year | 6 | \$ 24.10 |

The Company expects all restricted stock grants to vest.

At March 31, 2020, there was approximately \$0.1 million of unrecognized compensation expense related to the restricted stock that will be recognized over the weighted average remaining service period of 1.0 years. During the fiscal years ended March 31, 2020, 2019, and 2018, the total fair value of restricted stock that vested was \$0.9 million, \$1.4 million and \$2.9 million, respectively.

2017 Omnibus Plan

On May 24, 2017, the Board of Directors approved the 2017 Omnibus Incentive Plan (the "2017 Incentive Plan") which was approved by the Company's stockholders on July 17, 2017. The 2017 Incentive Plan provides for the issuance of a maximum of 3.5 million shares of the Company's common stock for awards made thereunder, which awards may consist of stock options, restricted stock, restricted stock units, stock appreciation rights, phantom stock, cash-based awards, performance awards (which may take the form of performance cash, performance units or performance shares) or other stock-based awards. The Company had approximately 1.8 million shares available for awards as of March 31, 2020. The 2017 Incentive Plan replaces the 2000 Incentive Stock Option Plan, 2008 Restricted Stock Plan, 2013 Stock Option Plan, and 2014 Non-Employee Director Compensation Plan (the "Prior Plans") and no further grants will be made under the prior plans.

The stock option activity for the fiscal year ended March 31, 2020 is summarized as follows:

| (Share amounts in thousands) | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (in years) |
|---|---------------------|--|---|
| Outstanding at beginning of year | 457 | \$ 23.19 | 8.9 |
| Granted | 336 | 27.51 | — |
| Exercised | (8) | 25.75 | — |
| Forfeited | — | — | — |
| Outstanding at end of year | 785 | 25.01 | 8.4 |
| Vested at end of year | 212 | 22.04 | 7.7 |
| Unvested at end of year | 573 | 26.11 | 8.7 |
| Fair value of options granted during the year | | 8.02 | |

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All outstanding options are expected to vest.

The following table summarizes information about the unvested stock option grants as of the fiscal year ended March 31, 2020:

| (Share amounts in thousands) | Number of Shares | Weighted Average Grant Date Fair Value |
|--------------------------------|---------------------|--|
| Unvested at beginning of year | 388 | \$ 7.19 |
| Granted | 336 | 8.02 |
| Vested | (151) | 7.01 |
| Forfeited | — | — |
| Unvested at end of year | 573 | \$ 7.73 |

As of March 31, 2020, there was a total of \$2.9 million of unrecognized compensation expense related to unvested stock option awards under the 2017 Incentive Plan that will be recognized as an expense as the awards vest over the remaining weighted average service period of 1.8 years.

The aggregate intrinsic value for options outstanding and exercisable as of March 31, 2020 was \$3.5 million and \$1.6 million, respectively. There were 0.1 million options that were exercised during the fiscal year ended March 31, 2020.

The information about the unvested restricted stock grants as of March 31, 2020 is as follows:

| (Share amounts in thousands) | Number of Shares | Weighted Average Grant Date Fair Value |
|--------------------------------|---------------------|---|
| Unvested at beginning of year | 172 | \$ 25.02 |
| Granted | 308 | 31.96 |
| Vested | (90) | 25.63 |
| Forfeited | (2) | 27.13 |
| Unvested at end of year | 388 | \$ 30.38 |

At March 31, 2020, there was approximately \$8.2 million of unrecognized compensation expense related to the restricted stock that will be recognized over the weighted average remaining service period of 2.1 years. The total fair value of restricted stock that vested during fiscal year ended March 31, 2020 and 2019 was \$2.3 million and \$2.0 million, respectively. During the fiscal year ended March 31, 2018, no restricted stock vested.

The information about the performance units granted under the 2017 Omnibus Plan is as follows:

| (Share amounts in thousands) | Number of Shares | Weighted Average Grant Date Fair Value |
|--------------------------------|---------------------|--|
| Unvested at beginning of year | 115 | \$ 25.85 |
| Granted | 274 | 33.27 |
| Vested | — | — |
| Forfeited | — | — |
| Unvested at end of year | 389 | \$ 31.07 |

At March 31, 2020, there was approximately \$9.6 million of unrecognized compensation expense related to the performance units that will be recognized over the weighted average remaining service period of 1.9 years. For the performance units, 50% of the award is based upon the achievement of certain levels of Return on Invested Capital for the performance period and 50% is based upon the achievement of certain levels of Free cash flow for the performance period. During fiscal year 2020, the Company modified the achievement levels

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of the awards due to the Acquisition of Infiltrator Water Technologies. The modification did not result in any incremental compensation expense. The performance units have a 3-year performance period from April 1, 2019 through March 31, 2022. The performance units, and any accrued dividend equivalents, will be settled in shares of the Company's common stock, if the applicable performance and service conditions are satisfied.

In addition to the performance units based on ADS performance, the Company issued performance units based on the achievements of other performance targets. During fiscal year 2020, the Company granted 0.1 million units with a grant date fair value of \$2.9 million, subject to achieving predetermined synergies of the now consolidated legacy ADS business and Infiltrator Water Technologies. The Company further granted 0.1 million units with a grant date fair value of \$2.7 million, subject to performance conditions of the Infiltrator Water Technologies reportable segment. For the performance units based on the Infiltrator Water Technologies reportable segment, 75% of the award is based upon the achievement of certain levels of Infiltrator Water Technologies Adjusted EBITDA for the performance period and 25% is based upon the achievement of certain levels of Infiltrator Water Technologies Free cash flow for the performance period. These two performance unit grants have a 3-year performance period from August 1, 2019 through March 31, 2022.

During the fiscal year ended March 31, 2020 and 2019, the weighted average grant date fair value of performance units granted was \$33.27 and \$25.84, respectively. During the fiscal year ended March 31, 2020 and 2019, the total fair value of performance units that vested was \$0.0 million and \$0.1 million. During the fiscal year ended March 31, 2018, no performance units vested.

18. INCOME TAXES

The components of Income before income taxes for the fiscal years ended March 31 are as follows:

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|------------------------|---------------------|-------------------|------------------|
| United States | \$ (186,209) | \$ 103,559 | \$ 72,109 |
| Foreign | 6,595 | 8,051 | 4,833 |
| Total | \$ (179,614) | \$ 111,610 | \$ 76,942 |

The components of Income tax expense for the fiscal years ended March 31 consisted of the following:

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|--------------------------------------|------------------|------------------|------------------|
| Current: | | | |
| Federal | \$ 10,867 | \$ 11,575 | \$ 17,107 |
| State and local | 4,655 | 3,998 | 3,541 |
| Foreign | 1,546 | 2,050 | 2,242 |
| Total current tax expense | <u>17,068</u> | <u>17,623</u> | <u>22,890</u> |
| Deferred: | | | |
| Federal | 210 | 11,745 | (11,236) |
| State and local | (1,228) | 1,795 | (55) |
| Foreign | (1,958) | (1,114) | (188) |
| Total deferred tax expense (benefit) | <u>(2,976)</u> | <u>12,426</u> | <u>(11,479)</u> |
| Total Income tax expense | \$ 14,092 | \$ 30,049 | \$ 11,411 |

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For the fiscal years ended March 31, the effective tax rate varied from the statutory Federal income tax rate as a result of the following factors:

| | 2020 | 2019 | 2018 |
|---|----------------------|---------------------|---------------------|
| Federal statutory rate | 21.0% | 21.0% | 31.5% |
| ESOP stock appreciation, ESOP dividends and special dividend ^(a) | (30.3) | 3.2 | 5.4 |
| Effect of tax rate of foreign subsidiaries | 0.6 | (0.3) | 0.7 |
| State and local taxes—net of federal income tax benefit | (1.7) | 4.6 | 3.6 |
| Uncertain tax position change | 1.2 | (1.3) | 0.3 |
| Impact of tax reform | — | — | (19.4) |
| Equity-based compensation | 1.1 | (0.4) | 0.5 |
| Return to provision - federal and state | 0.3 | (0.2) | (5.0) |
| Qualified production activity deduction | — | — | (2.5) |
| Executive compensation | (0.8) | 1.1 | 0.1 |
| Net operating losses | 1.9 | — | — |
| Credits and incentives | 0.7 | (1.0) | (0.5) |
| Other | (1.9) | 0.2 | 0.1 |
| Effective rate | <u>(7.9)%</u> | <u>26.9%</u> | <u>14.8%</u> |

- (a) This includes the special dividend paid in the first quarter of fiscal 2020 that resulted in \$246.8 million in additional stock-based compensation. Of the total stock-based compensation expense and dividends paid, approximately \$242.9 million related to non-deductible stock appreciation and deductible dividends. This decreased the effective tax rate by 28.4%. See “Note 19. Net Income Per Share and Stockholders’ Equity” for additional information.

As discussed in “Note 4. Acquisitions”, the Company acquired Infiltrator Water Technologies on July 31, 2019. During the year ended March 31, 2020, as part of the purchase price, approximately \$132.4 million was attributed to deferred tax liabilities. Of the \$132.4 million, \$82.3 million related to the step up of GAAP basis for fair market valuations, while the remaining \$50.1 million were acquired deferred tax liabilities. Of the total \$82.3 million, \$80.2 million was attributed to intangibles. The Company also acquired a federal net operating loss of \$24.0 million.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law. The CARES Act provides that net operating losses arising in a tax year beginning in 2018, 2019, or 2020 can be carried back five years. As a result, the Company has recognized an income tax benefit of \$3.4 million related to the federal net operating loss from the acquisition of Infiltrator Water Technologies. The Company continues to evaluate the new law, and we do not expect either the U.S. or non-U.S. corporate income tax provisions of the CARES Act to have a material impact on our income tax (benefit) provision.

As of March 31, 2020, the Company has approximately \$26.5 million of undistributed earnings that are intended to be reinvested indefinitely with the exception of cash dividends paid by our ADS Mexicana joint venture and the distribution paid by our Canadian subsidiary during the fiscal year. It is not practicable to estimate the amount of U.S. tax, which would primarily relate to withholding tax, that might be payable on the eventual remittance of such undistributed earnings.

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The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31 were comprised of:

| (Amounts in thousands) | 2020 | 2019 |
|---|--------------------------|-------------------------|
| Deferred tax assets: | | |
| Receivable and other allowances | \$ 1,122 | \$ 1,546 |
| Inventory | 2,065 | 3,217 |
| Stock-based compensation | 2,770 | 3,186 |
| Worker's compensation | 2,317 | 2,063 |
| Net operating loss and credit carryforwards | 2,059 | 152 |
| Operating lease liabilities | 6,160 | - |
| Other | 5,562 | 4,673 |
| Total deferred tax assets | 22,055 | 14,837 |
| Less: valuation allowance | (941) | (269) |
| Total net deferred tax assets | <u>21,114</u> | <u>14,568</u> |
| Deferred tax liabilities: | | |
| Intangible assets | 121,276 | 2,512 |
| Property, plant and equipment | 63,649 | 52,218 |
| Operating lease assets | 6,147 | - |
| Goodwill | 4,527 | 4,078 |
| Other | 600 | 1,385 |
| Total deferred tax liabilities | 196,199 | 60,193 |
| Net deferred tax liability | <u>\$ 175,085</u> | <u>\$ 45,625</u> |

Net deferred tax assets and liabilities are included in Other assets and Deferred tax liabilities, respectively, on the Consolidated Balance Sheets. The related balances at March 31 were as follows:

| (Amounts in thousands) | 2020 | 2019 |
|--|---------|--------|
| Net non-current deferred tax assets | \$ 531 | \$ 338 |
| Net non-current deferred tax liabilities | 175,616 | 45,963 |

As a result of the acquisition of Infiltrator Water Technologies, the Company acquired state net operating losses ("NOLs") and state credit carryforward attributes. The Company has recorded deferred tax assets related to state NOLs of \$0.9 million as of March 31, 2020, with carryforward periods ranging from 5 to 20 years. Any losses not utilized within a specific state's carryforward period will expire. A valuation allowance has been recorded against \$0.1 million of these deferred tax assets as of March 31, 2020 for state NOLs that the Company does not expect to realize within their respective carryforward periods. Tax benefits associated with state tax credits will also expire if not utilized and amounted to \$0.8 million at March 31, 2020. A valuation allowance in the amount of \$0.5 million has been established related to state credits the Company does not expect to utilize.

Advanced Drainage Systems, Inc.

Deferred tax assets related to foreign NOLs were \$0.3 million as of March 31, 2020 with carryforward periods ranging from 20 years to indefinite carryforward periods. Any losses not utilized within a specific carryforward period will expire. A valuation allowance has been recorded against \$0.1 million of these deferred tax assets as of March 31, 2020 for foreign NOLs that the Company does not expect to realize within their respective carryforward periods.

Accounting for Uncertain Tax Positions

As of March 31, 2020, The Company had unrecognized tax benefit of \$3.3 million, which if resolved favorably, would reduce income tax expense by \$3.3 million. A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended March 31, 2020, 2019, and 2018 is as follows:

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|--|------------------------|------------------------|------------------------|
| Balance at beginning of year | \$ 5,681 | \$ 7,593 | \$ 6,196 |
| Tax positions taken in current year | — | 164 | 81 |
| Decreases in tax positions for prior years | (1,398) | (198) | — |
| Increases in tax positions for prior years | 1,907 | 136 | 5,108 |
| Settlements | (124) | (200) | — |
| Lapse of statute of limitations | (2,589) | (1,595) | (3,940) |
| Foreign translation adjustment | (134) | (219) | 148 |
| Balance at end of year | <u>\$ 3,343</u> | <u>\$ 5,681</u> | <u>\$ 7,593</u> |

The short-term portion of the unrecognized tax benefit of \$1.5 million at March 31, 2020 is recorded in Other Accrued liabilities on the Company's Consolidated Balance Sheet. The long-term portion of unrecognized tax benefits are recorded in Other liabilities in the Company's Consolidated Balance Sheets. These amounts include potential accrued interest and penalties of \$0.8 million and \$1.5 million at March 31, 2020 and 2019, respectively.

The Company believes that over the next twelve months, it is reasonably possible that up to \$1.5 million of unrecognized tax benefits could be resolved as the result of settlements of audits and the expiration of statutes of limitation. Final settlement of these issues may result in payments that are more or less than this amount, but the Company does not anticipate that the resolution of these matters will result in a material change to its consolidated financial position or results of operations.

The Company is currently open to audit under the statute of limitations by the IRS for the fiscal years ended March 31, 2017 through March 31, 2020. The majority of the Company's state income tax returns are open to audit under the statute of limitations for the years ended March 31, 2016 through March 31, 2020. The foreign income tax returns are open to audit under the statute of limitations for the years ended March 31, 2016 through March 31, 2020.

19. NET INCOME PER SHARE AND STOCKHOLDERS' EQUITY

Basic net income per share is calculated by dividing the Net income available to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net income per share is computed by dividing the Net income available to common stockholders by the weighted-average number of common stock equivalents outstanding for the period.

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Advanced Drainage Systems, Inc.

Holders of certain unvested restricted stock have non-forfeitable rights to dividends when declared on common stock, and holders of redeemable convertible preferred stock participate in dividends on an as-converted basis when declared on common stock. As a result, unvested restricted stock and redeemable convertible preferred stock meet the definition of participating securities, which requires us to apply the two-class method to compute both basic and diluted net income per share. The two-class method is an earnings allocation formula that treats participating securities as having rights to earnings that would otherwise have been available to common stockholders.

The dilutive effect of stock options and unvested restricted stock is based on the more dilutive of the treasury stock method or the diluted two-class method. In computing diluted net income per share, income available to common stockholders used in the basic net income per share calculation (numerator) is adjusted, subject to sequencing rules, for certain adjustments that would result from the assumed issuance of potential common shares. After the effective date of the IPO, management's intent is to share settle; therefore, these shares are included in the calculation from July 26, 2014 through March 31, 2020, if dilutive. For purposes of the calculation of diluted net income per share, stock options and unvested restricted stock are considered to be potential common stock and are only included in the calculations when their effect is dilutive.

The Company's redeemable common stock is included in the weighted-average number of common shares outstanding for calculating basic and diluted net income per share.

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Advanced Drainage Systems, Inc.

The following table presents information necessary to calculate net income per share for the fiscal years ended March 31, 2020, 2019, and 2018, as well as potentially dilutive securities excluded from the weighted average number of diluted common shares outstanding because their inclusion would have been anti-dilutive:

| (Amounts in thousands, except per share data) | 2020 | 2019 | 2017 |
|--|------------------|----------------|----------------|
| NET INCOME PER SHARE — BASIC: | | | |
| Net (loss) income attributable to ADS | \$ (193,174) | \$ 77,772 | \$ 62,007 |
| Adjustment for: | | | |
| Dividends paid to redeemable convertible preferred stockholders | (11,206) | (2,047) | (1,858) |
| Dividends paid to unvested restricted stockholders | (338) | (69) | (49) |
| Net income available to common stockholders and participating securities | (204,718) | 75,656 | 60,100 |
| Undistributed income allocated to participating securities | — | (5,474) | (4,514) |
| Net income available to common stockholders — Basic | (204,718) | 70,182 | 55,586 |
| Weighted average number of common shares outstanding — Basic | 63,820 | 57,025 | 55,696 |
| Net (loss) income per common share — Basic | \$ (3.21) | \$ 1.23 | \$ 1.00 |
| NET INCOME PER SHARE — DILUTED: | | | |
| Net income available to common stockholders — Diluted | (204,718) | 70,182 | 55,586 |
| Weighted average number of common shares outstanding — Basic | 63,820 | 57,025 | 55,696 |
| Assumed restricted stock - nonparticipating | — | 39 | — |
| Assumed exercise of stock options | — | 547 | 638 |
| Weighted average number of common shares outstanding — Diluted | 63,820 | 57,611 | 56,334 |
| Net (loss) income per common share — Diluted | \$ (3.21) | \$ 1.22 | \$ 0.99 |
| Potentially dilutive securities excluded as anti-dilutive | 14,449 | 5,966 | 6,167 |

Common Stock Offering – On September 10, 2019, the Company issued and sold an aggregate of 10,350,000 shares of common stock, \$0.01 par value per share, which included the full exercise of the underwriters’ option to purchase additional shares, at a price of \$29.75 per share, before underwriting discounts and commissions. The common stock was sold pursuant to the Company’s shelf registration statement and related prospectus supplement. The Company received proceeds of \$293.6 million from the issuance after deducting underwriting discounts and commissions and offering expenses. The Company used the net proceeds for the repayment of a portion of the outstanding borrowings under the Senior Secured Credit Facility.

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Advanced Drainage Systems, Inc.

Stockholders' Equity - The Company did not repurchase any shares of common stock during fiscal years 2020 and 2019. In February 2017, the Company's Board of Directors authorized the Company to repurchase up to \$50 million of ADS common stock in accordance with applicable securities laws. As of March 31, 2020, approximately \$42.1 million of common stock may be repurchased under the authorization. The repurchase program does not obligate the Company to acquire any particular amount of common stock and may be suspended or terminated at any time at the Company's discretion.

Special Dividend and the Employees Stock Ownership Plan ("ESOP") - During fiscal year ended March 31, 2020, the Board of Directors approved a special cash dividend of \$1.00 per share and quarterly dividends of \$0.09 per share. The special and quarterly dividend were paid to all stockholders on June 14, 2019 to stockholders of record at the close of business on June 3, 2019. The total dividend payment was \$81.6 million. The dividends received by the unallocated redeemable convertible preferred stock held in the ESOP trust was used to pay \$12.0 million of the ESOP loan back to the Company resulting in approximately 11.6 million shares of the Company's redeemable convertible preferred stock being allocated to ESOP participants. The Company recognized \$246.8 million in stock-based compensation expense based on the fair value on the date the Board of Directors approved the special dividend. The Board of Director's approval committed the ESOP to use those proceeds to pay down the ESOP loan. The special dividend compensation expense was recognized in Cost of goods sold - ESOP special dividend compensation and Selling, general and administrative expenses - ESOP special dividend compensation on the Company's Consolidated Statement of Operations. The Company's ESOP is further described in "Note 16. Employee Benefit Plans".

20. OTHER ACCRUED LIABILITIES

Other accrued liabilities as of fiscal years ended March 31 consisted of the following:

| (Amounts in thousands) | 2020 | 2019 |
|--|-------------------|------------------|
| Accrued compensation and benefits ⁽¹⁾ | \$ 33,215 | \$ 18,108 |
| Accrued rebate liability ⁽²⁾ | 14,479 | 12,313 |
| Lease liability - Operating leases | 7,757 | — |
| Self-insurance accruals | 12,486 | 11,697 |
| Other | 33,179 | 19,783 |
| Total accrued liabilities | \$ 101,116 | \$ 61,901 |

(1) Accrued compensation and benefits is primarily comprised of accrued payroll, bonuses and commissions.

(2) Accrued rebate liability represents the Company's estimated rebates to be paid to customers.

21. BUSINESS SEGMENT INFORMATION

Following the Acquisition of Infiltrator Water Technologies, the Company revised its reportable segments to reflect how the Chief Operating Decision Maker ("CODM") currently reviews financial information and makes operational decisions. After the Acquisition, ADS operates its business in three distinct reportable segments: "Pipe", "International" and "Infiltrator Water Technologies." "Allied Products & Other" represents the Company's Allied Products and all other business segments. "Pipe" and "Allied Products & Other" were previously included as Domestic. With the change in reportable segments, the CODM is now evaluating segment reporting based on Net Sales and Segment Adjusted Gross Profit. The Company calculated Segment Adjusted Gross Profit as net sales less costs of goods sold, depreciation and amortization, stock-based compensation, non-cash charges and certain other expenses. A measure of assets is not applicable, as segment assets are not regularly reviewed by the CODM for evaluating performance or allocating resources. The prior period segment results and related disclosures have been recast to conform to the current year presentation.

Pipe – The Pipe segment manufactures and markets high performance thermoplastic corrugated pipe throughout the United States. The Company maintains and serves these markets through product distribution relationships with many of the largest national and independent waterworks distributors, buying groups and co-ops, major national retailers as well as an extensive network of hundreds of small to medium-sized distributors across the U.S.

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Advanced Business Systems, Inc.

Products include single wall pipe, N-12 HDPE pipe sold into the Storm sewer, Infrastructure and Agriculture markets, High Performance polypropylene pipe sold into the Storm sewer, Infrastructure and sanitary sewer markets. Products are designed primarily for storm water management in the construction and infrastructure marketplace across a broad range of end markets and applications, including non-residential, residential, agriculture and infrastructure. Products are manufactured using HDPE and polypropylene plastic material.

Infiltrator Water Technologies – Infiltrator Water Technologies is a leading national provider of plastic leach field chambers and systems, septic tanks and accessories, primarily for use in residential applications. Infiltrator Water Technologies products are used in on-site septic wastewater treatment systems in the United States and Canada.

International – The International segment manufactures and markets pipe and allied products in certain regions outside of the United States, including Company owned facilities in Canada, subsidiaries that distribute to Europe and the Middle East, exports and through the Company’s joint ventures with local partners in Mexico and South America. The Company’s Mexican joint venture, ADS Mexicana, primarily serves the Mexican and Central American markets, while its South American Joint Venture, Tigre-ADS, is the primary channel to serve the South American markets. The Company’s International product lines include single wall pipe, N-12 HDPE pipe, high performance PP pipe and certain geographies also sell our broad line of Allied Products & Other.

Allied Products & Other – Allied Products & Other manufactures and markets products throughout the United States. Products include StormTech, Nyloplast, ARC Septic Chambers, Inserta Tee, BaySaver filters and water quality structures, Fittings, and FleXstorm. The Company maintains and serves these markets through product distribution relationships with many of the largest national and independent waterworks distributors, major national retailers as well as an extensive network of hundreds of small to medium-sized distributors across the U.S. The Company also sells through a broad variety of buying groups and co-ops in the United States.

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Advanced Drainage Systems, Inc.

The following table sets forth reportable segment information with respect to the amount of Net sales contributed by each class of similar products for the fiscal years ended March 31:

| (Amounts in thousands) | 2020 | | |
|---|---------------------|------------------------|-----------------------------------|
| | Net Sales | Intersegment Net Sales | Net Sales from External Customers |
| Pipe | \$ 954,633 | \$ (2,030) | \$ 952,603 |
| Infiltrator Water Technologies | 211,005 | (41,657) | 169,348 |
| International | | | |
| International - Pipe | 108,624 | — | 108,624 |
| International - Allied Products & Other | 39,957 | — | 39,957 |
| Total International | 148,581 | — | 148,581 |
| Allied Products & Other | 403,273 | — | 403,273 |
| Intersegment Eliminations | (43,687) | 43,687 | — |
| Total Consolidated | \$ 1,673,805 | \$ — | \$ 1,673,805 |
| | | | |
| | 2019 | | |
| (Amounts in thousands) | Net Sales | Intersegment Net Sales | Net Sales from External Customers |
| Pipe | \$ 868,805 | \$ — | \$ 868,805 |
| Infiltrator Water Technologies | — | — | — |
| International | | | |
| International - Pipe | 122,836 | — | 122,836 |
| International - Allied Products & Other | 37,766 | — | 37,766 |
| Total International | 160,602 | — | 160,602 |
| Allied Products & Other | 355,326 | — | 355,326 |
| Intersegment Eliminations | — | — | — |
| Total Consolidated | \$ 1,384,733 | \$ — | \$ 1,384,733 |
| | | | |
| | 2018 | | |
| (Amounts in thousands) | Net Sales | Intersegment Net Sales | Net Sales from External Customers |
| Pipe | \$ 844,875 | \$ — | \$ 844,875 |
| Infiltrator Water Technologies | — | — | — |
| International | | | |
| International - Pipe | 119,207 | — | 119,207 |
| International - Allied Products & Other | 36,715 | — | 36,715 |
| Total International | 155,922 | — | 155,922 |
| Allied Products & Other | 329,557 | — | 329,557 |
| Intersegment Eliminations | — | — | — |
| Total Consolidated | \$ 1,330,354 | \$ — | \$ 1,330,354 |

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Advanced Drainage Systems, Inc.

The following sets forth certain financial information attributable to the reportable segments for the fiscal years ended March 31:

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|--|-------------------|-------------------|-------------------|
| Segment adjusted gross profit | | | |
| Pipe | \$ 239,531 | \$ 191,002 | \$ 186,330 |
| Infiltrator Water Technologies | 98,245 | — | — |
| International | 36,999 | 37,191 | 31,725 |
| Allied Products & Other | 201,206 | 168,729 | 155,166 |
| Intersegment Elimination | (1,895) | — | — |
| Total | \$ 574,086 | \$ 396,922 | \$ 373,221 |
| Depreciation and amortization | | | |
| Pipe | \$ 46,611 | \$ 49,419 | \$ 51,236 |
| Infiltrator Water Technologies | 7,159 | — | — |
| International | 6,013 | 5,938 | 6,431 |
| Allied Products & Other ^(a) | 65,157 | 16,543 | 17,336 |
| Total | \$ 124,940 | \$ 71,900 | \$ 75,003 |
| Capital expenditures | | | |
| Pipe | \$ 33,629 | \$ 34,878 | \$ 32,393 |
| Infiltrator Water Technologies | 24,917 | — | — |
| International | 2,623 | 3,765 | 2,147 |
| Allied Products & Other ^(a) | 6,508 | 4,769 | 7,169 |
| Total | \$ 67,677 | \$ 43,412 | \$ 41,709 |

- (a) Includes depreciation and amortization and capital expenditures not allocated to a reportable segment. The amortization expense of Infiltrator Water Technologies intangible assets acquired is included in Allied Products & Other.

Reconciliation of Gross Profit to Segment Adjusted Gross profit

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|--|-------------------|-------------------|-------------------|
| Reconciliation of Segment Adjusted Gross Profit: | | | |
| Total Gross Profit | \$ 316,479 | \$ 326,967 | \$ 302,481 |
| Depreciation and amortization | 62,225 | 59,164 | 62,113 |
| ESOP and stock-based compensation expense | 14,319 | 10,791 | 8,627 |
| ESOP special dividend compensation | 168,610 | — | — |
| COVID-19 Related Expenses ^(a) | 4,573 | — | — |
| Inventory step up related to Infiltrator Water Technologies acquisition | 7,880 | — | — |
| Total Segment Adjusted Gross Profit | \$ 574,086 | \$ 396,922 | \$ 373,221 |

- (a) Represents the Company's pandemic pay expense included in Gross profit in connection with the Company's response to the COVID-19 pandemic, see "Note 16. Employee Benefit Plans" for additional information.

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Advanced Drainage Systems, Inc.

Geographic Sales and Assets Information

Net sales are attributed to the geographic location based on the location of the customer. The table below represents the Net sales and long-lived asset information by geographic location for each of the fiscal years ended March 31:

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|------------------------|---------------------|---------------------|---------------------|
| Net Sales | | | |
| North America | \$ 1,655,219 | \$ 1,366,470 | \$ 1,313,917 |
| Other | 18,586 | 18,263 | 16,437 |
| Total | \$ 1,673,805 | \$ 1,384,733 | \$ 1,330,354 |

| (Amounts in thousands) | 2020 | 2019 |
|--|-------------------|-------------------|
| Long-Lived Assets^(a) | | |
| North America | \$ 488,125 | \$ 401,276 |
| Other | 9,250 | 10,467 |
| Total | \$ 497,375 | \$ 411,743 |

(a) For segment reporting purposes, long-lived assets include Investments in unconsolidated affiliates, Central parts and Property, plant and equipment.

22. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the fiscal years ended March 31 were as follows:

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|--|-----------|-----------|-----------|
| Supplemental disclosures of cash flow information — cash paid during years: | | | |
| Interest | \$ 41,290 | \$ 15,679 | \$ 17,890 |
| Income taxes | 8,710 | 29,841 | 24,510 |

| (Amounts in thousands) | 2020 | 2019 | 2018 |
|--|--------|--------|--------|
| Supplemental disclosures of noncash investing and financing activities: | | | |
| Redeemable convertible preferred stock dividend | \$ 359 | \$ 134 | \$ 134 |
| Purchases of plant, property, and equipment included in accounts payable | 1,588 | 1,255 | 1,258 |
| ESOP distributions in common stock | 13,109 | 8,609 | 11,566 |
| Lease obligation retired upon disposition of leased assets | 799 | 578 | 636 |
| Contribution of net accounts receivable to the South American Joint Venture | — | — | 2,785 |
| Payable recorded for business acquisition | — | — | 300 |

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The following tables set forth certain historical unaudited consolidated condensed quarterly financial information for each of the quarters during the years ended March 31, 2020 and 2019. In the Company's opinion, the unaudited quarterly financial information reflects all normal and recurring accruals and adjustments necessary for a fair presentation of net income for interim periods.

| (in thousands, except per share amounts) | Fiscal 2020 | | | |
|--|----------------------------|----------------------|-----------------------|------------------|
| | For the Three Months Ended | | | |
| | March 31, 2020 | December 31, 2019 | September 30, 2019 | June 30, 2019 |
| Net sales | \$ 370,768 | \$ 393,424 | \$ 495,905 | \$ 413,708 |
| Gross profit | 108,755 | 123,358 | 146,524 | (62,158) |
| Net income (loss) | 3,533 | 23,659 | 8,462 | (227,451) |
| Net income (loss) attributable to ADS | 2,305 | 23,288 | 7,589 | (226,356) |
| Net (loss) income per share | | | | |
| Basic ⁽¹⁾ | \$ 0.01 | \$ 0.28 | \$ 0.10 | \$ (4.06) |
| Diluted ⁽¹⁾ | \$ 0.01 | \$ 0.28 | \$ 0.10 | \$ (4.06) |

| (in thousands, except per share amounts) | Fiscal 2019 | | | |
|--|----------------------------|----------------------|-----------------------|------------------|
| | For the Three Months Ended | | | |
| | March 31, 2019 | December 31, 2018 | September 30, 2018 | June 30, 2018 |
| Net sales | \$ 272,218 | \$ 318,113 | \$ 406,555 | \$ 387,847 |
| Gross profit | 59,504 | 72,399 | 95,373 | 99,691 |
| Net income | 1,893 | 16,550 | 29,372 | 33,651 |
| Net income attributable to ADS | 1,010 | 15,812 | 28,670 | 32,280 |
| Net income per share | | | | |
| Basic ⁽¹⁾ | \$ 0.01 | \$ 0.25 | \$ 0.45 | \$ 0.51 |
| Diluted ⁽¹⁾ | \$ 0.01 | \$ 0.25 | \$ 0.45 | \$ 0.51 |

(1) The earnings per share calculations for each quarter are based upon the applicable weighted average shares outstanding for each period and may not necessarily be equal to the full year share amount.

24. SUBSEQUENT EVENTS

Dividends on Common Stock - During the first quarter of fiscal 2021, the Company declared a quarterly cash dividend of \$0.09 per share of common stock. The dividend is payable on June 15, 2020 to stockholders of record at the close of business on June 1, 2020.

* * * * *

Advanced Drainage Systems, Inc.

SCHEDULE II

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

**Consolidated Valuation and Qualifying Accounts for the Fiscal Years Ended March 31, 2020,
2019 and 2018 (in thousands):**

Allowance for Doubtful Accounts:

| Year ended March 31, | Balance at beginning of period | Charged to costs and expenses ⁽¹⁾ | Charged to other accounts ⁽²⁾ | Deductions ⁽³⁾ | Balance at end of period |
|-----------------------------|---|---|---|--------------------------------------|---|
| 2020 | \$ 7,653 | \$ (24) | \$ (234) | \$ (2,360) | \$ 5,035 |
| 2019 | 6,826 | 1,154 | (65) | (262) | 7,653 |
| 2018 | 10,431 | 503 | (391) | (3,717) | 6,826 |

- (1) Amount for the year ended March 31, 2020 includes \$0.4 million due to the Acquisition.
- (2) Amounts represent the impact of foreign currency translation.
- (3) Amounts includes the release of a \$3.0 million allowance related to the South American Joint Venture capital contribution. See "Note 11. Investment in Unconsolidated Affiliates" for additional information.



ADVANCED DRAINAGE SYSTEMS, INC.

www.ads-pipe.com



For pipe installation instructions, download our Installation Guide App by scanning the QR code.



About Advanced Drainage Systems, Inc.

Advanced Drainage Systems is a leading provider of innovative water management solutions in the stormwater and on-site septic wastewater industries, providing superior drainage solutions for use in the construction and agriculture marketplace. For over 50 years, the Company has been manufacturing a variety of innovative and environmentally friendly alternatives to traditional materials. Its innovative products are used across a broad range of end markets and applications, including non-residential, residential, infrastructure and agriculture applications. The Company has established a leading position in many of these end markets by leveraging its national sales and distribution platform, overall product breadth and scale and manufacturing excellence. Founded in 1966, the Company operates a global network of 64 manufacturing plants and 32 distribution centers. To learn more about ADS, please visit the Company's website at www.ads-pipe.com.



USDOT 019949

FIRE EXTINGUISHER



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