

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2021

OR

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

For the transition period from to

Commission File Number: 001-38579

BrightView Holdings, Inc.

(Exact name of Registrant as specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

46-4190788

(I.R.S. Employer
Identification No.)

980 Jolly Road

Blue Bell, Pennsylvania

(Address of principal executive offices)

19422

(Zip Code)

Registrant's telephone number, including area code: (484) 567-7204

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

Title of Each Class	Trading Symbol	Name of exchange on which registered
Common Stock, Par Value \$0.01 Per Share	BV	New York Stock Exchange

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

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

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

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

Large accelerated filer ☐

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of Registrant's Common Stock outstanding as of January 31, 2022 was 99,300,000.

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*Table of Contents***SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q (this “Form 10-Q”) contains “forward-looking statements” within the meaning of the safe harbor provision of the U.S. Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the “safe harbor” created by those sections. All statements, other than statements of historical facts included in this Form 10-Q, including statements concerning our plans, objectives, goals, beliefs, business strategies, future events, business conditions, results of operations, financial position, business outlook, business trends and other information, may be forward-looking statements.

Words such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “intends,” “plans,” “estimates,” or “anticipates,” and variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not historical facts, or guarantees of future performance and are based upon our current expectations, beliefs, estimates and projections, and various assumptions, many of which, by their nature, are inherently uncertain and beyond our control. Our expectations, beliefs, and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management’s expectations, beliefs and projections will result or be achieved and actual results may vary materially from what is expressed in or indicated by the forward-looking statements.

There are a number of risks, uncertainties and other important factors, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking statements contained in this Form 10-Q. Such risks, uncertainties and other important factors that could cause actual results to differ include, among others, the risks, uncertainties and factors set forth under the heading “Business”, “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Form 10-Q. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Some of the key factors that could cause actual results to differ from our expectations include risks related to:

- general business economic and financial conditions;
- the duration and extent of the novel coronavirus (COVID-19) pandemic and its resurgence, and the impact of federal, state and local governmental actions and customer behavior in response to the pandemic, including possible additional or reinstated restrictions as a result of a resurgence of the pandemic;
- competitive industry pressures;
- the failure to retain current customers, renew existing customer contracts and obtain new customer contracts;
- the failure to enter into profitable contracts, or maintaining customer contracts that are unprofitable;
- a determination by customers to reduce their outsourcing or use of preferred vendors;
- the dispersed nature of our operating structure;
- our ability to implement our business strategies and achieve our growth objectives;
- acquisition and integration risks;
- the seasonal nature of our landscape maintenance services;
- our dependence on weather conditions and the impact of severe weather and climate change on our business;

- increases in prices for raw materials and fuel;
- changes in our ability to source adequate supplies and materials in a timely manner;
- any failure to accurately estimate the overall risk, requirements, or costs when we bid on or negotiate contracts that are ultimately awarded to us;
- the conditions and periodic fluctuations of real estate markets, including residential and commercial construction;
- our ability to retain our executive management and other key personnel;
- our ability to attract and retain field and hourly employees, trained workers, and third-party contractors and seasonal workers;
- any failure to properly verify employment eligibility of our employees;
- subcontractors taking actions that harm our business;

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- our recognition of future additional impairment charges;
- laws and governmental regulations, including those relating to employees, wage and hour, immigration, human health and safety and transportation;
- environmental, health and safety laws and regulations, including regulatory costs, claims and litigation related to the use of chemicals and pesticides by employees and related third-party claims;
- the distraction and impact caused by litigation, of adverse litigation judgments and settlements resulting from legal proceedings;
- increase in on-job accidents involving employees;
- any failure, inadequacy, interruption, security failure or breach of our information technology systems;
- our ability to adequately protect our intellectual property;
- restrictions imposed by our debt agreements that limit our flexibility in operating our business;
- our ability to generate sufficient cash flow to satisfy our significant debt service obligations;
- our ability to obtain additional financing to fund future working capital, capital expenditures, investments or acquisitions, or other general corporate requirements;
- increases in interest rates governing our variable rate indebtedness increasing the cost of servicing our substantial indebtedness including changes related to LIBOR reform;
- ownership of our common stock;
- occurrence of natural disasters, terrorist attacks or other external events;
- changes in generally accepted accounting principles in the United States; and
- costs and requirements imposed as a result of maintaining the requirement of being a public company.

We caution you that the risks, uncertainties, and other factors referenced above may not contain all of the risks, uncertainties and other factors that are important to you. In addition, we cannot assure you that we will realize the results, benefits, or developments that we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our business in the way expected. We undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances, any change in assumptions, beliefs or expectations or any change in circumstances upon which any such forward-looking statements are based, except as required by law.

Table of Contents**PART I—FINANCIAL INFORMATION****Item 1. Financial Statements.**

BrightView Holdings, Inc.
Consolidated Balance Sheets
(Unaudited)
(In millions, except par value and share data)

	December 31, 2021	September 30, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 132.8	\$ 123.7
Accounts receivable, net	382.2	378.9
Unbilled revenue	85.2	111.2
Other current assets	111.5	97.0
Total current assets	711.7	710.8
Property and equipment, net	273.4	264.4
Intangible assets, net	189.0	197.6
Goodwill	1,950.5	1,950.8
Operating lease assets	72.0	69.5
Other assets	48.5	44.5
Total assets	<u>\$ 3,245.1</u>	<u>\$ 3,237.6</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 144.1	\$ 144.4
Current portion of long-term debt	10.4	10.4
Deferred revenue	63.5	48.2
Current portion of self-insurance reserves	49.3	50.2
Accrued expenses and other current liabilities	165.9	220.9
Current portion of operating lease liabilities	23.2	22.0
Total current liabilities	456.4	496.1
Long-term debt, net	1,204.0	1,130.6
Deferred tax liabilities	60.7	70.8
Self-insurance reserves	104.8	104.5
Long-term operating lease liabilities	55.2	54.2
Other liabilities	29.5	38.7
Total liabilities	1,910.6	1,894.9
Stockholders' equity:		
Preferred stock, \$0.01 par value; 50,000,000 shares authorized; no shares issued or outstanding as of December 31, 2021 and September 30, 2021	—	—
Common stock, \$0.01 par value; 500,000,000 shares authorized; 105,700,000 and 105,200,000 shares issued and 105,300,000 and 105,200,000 shares	1.1	1.1

outstanding as of December 31, 2021 and September 30, 2021, respectively

Treasury stock, at cost; 426,000 and 287,000 shares as of

December 31, 2021 and September 30, 2021, respectively

Additional paid-in-capital

Accumulated deficit

Accumulated other comprehensive loss

Total stockholders' equity

Total liabilities and stockholders' equity

(6.5)	(4.4)
1,495.3	1,489.1
(154.4)	(141.6)
(1.0)	(1.5)
<u>1,334.5</u>	<u>1,342.7</u>
<u>\$ 3,245.1</u>	<u>\$ 3,237.6</u>

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

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BrightView Holdings, Inc.
Consolidated Statements of Operations
(Unaudited)
(In millions, except per share data)

	Three Months Ended December 31,	
	2021	2020
Net service revenues	\$ 591.8	\$ 554.4
Cost of services provided	451.9	420.8
Gross profit	139.9	133.6
Selling, general and administrative expense	134.9	123.3
Amortization expense	13.4	13.9
(Loss) from operations	(8.4)	(3.6)
Other income	0.7	1.4
Interest expense	9.7	13.6
(Loss) before income taxes	(17.4)	(15.8)
Income tax benefit	4.6	3.8
Net (loss)	<u>\$ (12.8)</u>	<u>\$ (12.0)</u>
(Loss) per share:		
Basic and Diluted	\$ (0.12)	\$ (0.11)

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

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BrightView Holdings, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
(In millions)

	Three Months Ended December 31,	
	2021	2020
Net (loss)	\$ (12.8)	\$ (12.0)
Net derivative gains arising during the period, net of tax of \$(0.3) and \$0.0, respectively	1.0	—
Reclassification of (gains) losses into net (loss), net of tax of \$0.2 and \$(1.4), respectively	(0.5)	3.6
Other comprehensive income	0.5	3.6
Comprehensive (loss)	<u>\$ (12.3)</u>	<u>\$ (8.4)</u>

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

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BrightView Holdings, Inc.
Consolidated Statements of Changes in Stockholders' Equity
Three Months ended December 31, 2021 and 2020
(Unaudited)
(In millions)

	Common Stock		Addition	Accumulat	Accumulated	Other	Treasur	Total
	Shares	Amount	Paid-In	ed	Comprehens	ive	y	Stockholder
			Capital	Deficit	Loss		Stock	s' Equity
			1,489.					
Balance, September 30, 2021	105.2	\$ 1.1	\$ 1	\$ (141.6)	\$ (1.5)	\$ (4.4)		1,342.7
Net (loss)	—	—	—	(12.8)	—	—	—	(12.8)
Other comprehensive income, net of tax	—	—	—	—	0.5	—	—	0.5
Capital contributions and issuance of common stock	0.5	—	1.5	—	—	—	—	1.5
Equity-based compensation	—	—	4.7	—	—	—	—	4.7
Repurchase of common stock and distributions	—	—	—	—	—	(2.1)	—	(2.1)
			1,495.					
Balance, December 31, 2021	105.7	\$ 1.1	\$ 3	\$ (154.4)	\$ (1.0)	\$ (6.5)		1,334.5

	Common Stock		Addition	Accumulat	Accumulated	Other	Treasur	Total
	Shares	Amount	Paid-In	ed	Comprehens	ive	y	Stockholder
			Capital	Deficit	Loss		Stock	s' Equity
			1,467.					
Balance, September 30, 2020	104.9	\$ 1.0	\$ 8	\$ (187.9)	\$ (6.9)	\$ (2.5)		1,271.5
Net (loss)	—	—	—	(12.0)	—	—	—	(12.0)
Other comprehensive income, net of tax	—	—	—	—	3.6	—	—	3.6
Capital contributions and issuance of common stock	0.2	0.1	1.7	—	—	—	—	1.8
Equity-based compensation	—	—	4.9	—	—	—	—	4.9
Repurchase of common stock and distributions	—	—	—	—	—	(1.1)	—	(1.1)
			1,474.					
Balance, December 31, 2020	105.1	\$ 1.1	\$ 4	\$ (199.9)	\$ (3.3)	\$ (3.6)		1,268.7

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

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BrightView Holdings, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(In millions)

	Three Months Ended December 31,	
	2021	2020
Cash flows from operating activities:		
Net (loss)	\$ (12.8)	\$ (12.0)
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Depreciation	21.4	21.6
Amortization of intangible assets	13.4	13.9
Amortization of financing costs and original issue discount	0.9	0.9
Deferred taxes	(5.6)	(4.1)
Equity-based compensation	4.7	4.9
Realized loss on hedges	(0.6)	5.3
Other non-cash activities, net	(0.1)	0.5
Change in operating assets and liabilities:		
Accounts receivable	(4.3)	(23.0)
Unbilled and deferred revenue	41.6	32.3
Other operating assets	(20.9)	2.4
Accounts payable and other operating liabilities	(60.1)	(37.6)
Net cash (used) provided by operating activities	<u>(22.4)</u>	<u>5.1</u>
Cash flows from investing activities:		
Purchase of property and equipment	(28.6)	(9.7)
Proceeds from sale of property and equipment	1.1	0.6
Business acquisitions, net of cash acquired	(6.0)	(62.2)
Other investing activities, net	(0.2)	(0.1)
Net cash (used) by investing activities	<u>(33.7)</u>	<u>(71.4)</u>
Cash flows from financing activities:		
Repayments of finance lease obligations	(5.6)	(4.0)
Repayments of term loan	(2.6)	(2.6)
Proceeds from receivables financing agreement, net of issue costs	75.0	—
Proceeds from issuance of common stock, net of share issuance costs	0.5	0.5
Repurchase of common stock and distributions	(2.1)	(1.1)
Other financing activities, net	—	(2.0)
Net cash provided (used) by financing activities	<u>65.2</u>	<u>(9.2)</u>
Net change in cash and cash equivalents	9.1	(75.5)
Cash and cash equivalents, beginning of period	123.7	157.1
Cash and cash equivalents, end of period	<u>\$ 132.8</u>	<u>\$ 81.6</u>
Supplemental Cash Flow Information:		
Cash paid for income taxes, net	\$ 4.6	\$ 0.6
Cash paid for interest	\$ 8.7	\$ 13.5

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

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BrightView Holdings, Inc.
Notes to Consolidated Financial Statements
(Unaudited)
(In millions, except per share and share data)

1. Business and Basis of Presentation

BrightView Holdings, Inc. (the “Company” and, collectively with its consolidated subsidiaries, “BrightView”) provides landscape maintenance and enhancements, landscape development, snow removal and other landscape related services for commercial customers throughout the United States. BrightView is aligned into two reportable segments: Maintenance Services and Development Services. Prior to its initial public offering completed in July 2018 (the “IPO”), the Company was a wholly-owned subsidiary of BrightView Parent L.P. (“Parent”), an affiliate of KKR & Co. Inc. (“KKR”). The Parent and Company were formed through a series of transactions entered into by KKR to acquire the Company on December 18, 2013 (the “KKR Acquisition”). The Parent was dissolved in August 2018 following the IPO.

After the completion of the IPO and through May 13, 2021, affiliates of the Sponsors controlled a majority of the voting power of the Company’s common stock. On May 14, 2021, in accordance with the terms of the Stockholders Agreement, MSD Partners, L.P. notified the Company of its election to terminate (i) its right to nominate a director pursuant to Section 2.1(a) of the Stockholders Agreement and (ii) the voting agreement pursuant to Section 2.1(j) of the Stockholders Agreement, effective immediately. As a result, the Company no longer qualifies as a “controlled company” within the meaning of the corporate governance standards of the New York Stock Exchange (“NYSE”).

Basis of Presentation

These consolidated financial statements have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim reporting and are unaudited.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments, including normal, recurring accruals that are necessary for a fair presentation of the Company’s operations for the periods presented in conformity with GAAP. All intercompany activity and balances have been eliminated from the consolidated financial statements. The consolidated results of operations for the interim periods presented are not necessarily indicative of results for the full year.

The Consolidated Balance Sheet as of September 30, 2021, presented herein, has been derived from the Company’s audited consolidated financial statements as of and for the fiscal year ended September 30, 2021, but does not include all disclosures required by GAAP, for annual financial statements. For a more complete discussion of the Company’s accounting policies and certain other information refer to the audited consolidated financial statements and the notes thereto included in the Company’s annual report on Form 10-K for the fiscal year ended September 30, 2021, filed with the Securities and Exchange Commission (“SEC”).

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. On an ongoing basis, management reviews its estimates, including those related to allowances for doubtful accounts, revenue recognition, self-insurance reserves, estimates related to the Company’s assessment of goodwill for impairment, useful lives for depreciation and amortization,

realizability of deferred tax assets, and litigation based on currently available information. Changes in facts and circumstances may result in revised estimates and actual results may differ from estimates.

2. Recent Accounting Pronouncements

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* which removes specified exceptions and adds requirements to simplify the accounting for income taxes. The Company adopted the guidance in the first quarter of fiscal 2022. The adoption of ASU 2019-12 did not have a material impact on the Company's consolidated financial statements and disclosures.

Reference Rate Reform

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* which provides optional expedients and exceptions for the accounting for contracts, hedging

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relationships, and other transactions affected by reference rate reform if certain criteria are met. The guidance is effective for the Company upon issuance through December 31, 2022. The guidance in ASU 2020-04 is optional and may be elected over time as reference rate reform activities occur. During the third quarter of fiscal 2020 the Company elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation. In January 2021, the FASB issued ASU 2021-01 to clarify the scope of certain optional expedients for derivatives that are affected by the discounting transition. The Company continues to evaluate the impact of the guidance on its consolidated financial statements and may apply other elections as applicable as additional changes in the market occur.

Business Combinations

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers which requires that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606 as if it had originated the contracts. The guidance is effective for the Company in the first quarter of fiscal 2023. The Company is in the process of evaluating the impact of ASU No. 2021-08 on its consolidated financial statements.

3. Revenue

The Company's revenue is generated from Maintenance Services and Development Services. The Company generally recognizes revenue from the sale of services as the services are performed, typically ratably over the term of the contract(s), which the Company believes to be the best measure of progress. The Company recognizes revenues as it transfers control of products and services to its customers. The Company recognizes revenue in an amount reflecting the total consideration it expects to receive from the customer. Revenue is recognized according to the following five step model: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenues when a performance obligation is satisfied. The Company determined that for contracts containing multiple performance obligations, stand-alone selling price is readily determinable for each performance obligation and therefore allocation of the transaction price to multiple performance obligations is not necessary. The transaction price will include estimates of variable consideration, such as returns and provisions for doubtful accounts and sales incentives, to the extent it is probable that a significant reversal of revenue recognized will not occur. In all cases, when a sale is recorded by the Company, no significant uncertainty exists surrounding the purchaser's obligation to pay.

Maintenance Services

The Company's Maintenance Services revenues are generated primarily through landscape maintenance services and snow removal services. Landscape maintenance services that are primarily viewed as non-discretionary, such as lawn care, mowing, gardening, mulching, leaf removal, irrigation and tree care, are provided under recurring annual contracts, which typically range from one to three years in duration and are generally cancellable by the customer with 30-90 days' notice. Snow removal services are provided on either fixed fee based contracts or per occurrence contracts. Both landscape maintenance services and snow removal services can also include enhancement services that represent supplemental maintenance or improvement services generally provided under contracts of short duration related to specific services. Revenue for landscape maintenance and snow removal services under fixed fee models is recognized over time using an output based method. Additionally, a portion of the Company's recurring fixed fee landscape maintenance and snow removal services are recorded under the series guidance. The right to invoice practical expedient, defined below, is generally applied to revenue related to landscape maintenance and snow removal services performed in relation

to per occurrence contracts as well as enhancement services. When use of the practical expedient is not appropriate for these contracts, revenue is recognized using a cost-to-cost input method. Fees for contracted landscape maintenance services are typically billed on an equal monthly basis. Fees for fixed fee snow removal services are typically billed on an equal monthly basis during snow season, while fees for time and material or other activity-based snow removal services are typically billed as the services are performed. Fees for enhancement services are typically billed as the services are performed.

Development Services

For Development Services, revenue is primarily recognized over time using the cost-to-cost input method, measured by the percentage of cost incurred to date to the estimated total cost for each contract, which we believe to be the best measure of progress. The full amount of anticipated losses on contracts is recorded as soon as such losses can be estimated. These losses are immaterial to

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current and historical operations. Changes in job performance, job conditions, and estimated profitability, including final contract settlements, may result in revisions to costs and revenue and are recognized in the period in which the revisions are determined.

Disaggregation of revenue

The following table presents the Company's reportable segment revenues, disaggregated by revenue type. The Company disaggregates revenue from contracts with customers into major services lines. The Company has determined that disaggregating revenue into these categories depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The Company's reportable segments are Maintenance Services and Development Services. As noted in the business segment reporting information in Note 12 "Segments", the Company's reportable segments are Maintenance Services and Development Services.

	Three Months Ended December 31,	
	2021	2020
Landscape Maintenance	\$ 402.2	\$ 362.2
Snow Removal	36.0	55.8
Maintenance Services	438.2	418.0
Development Services	154.7	137.4
Eliminations	(1.1)	(1.0)
Net service revenues	<u>\$ 591.8</u>	<u>\$ 554.4</u>

Remaining Performance Obligations

Remaining performance obligations represent the estimated revenue expected to be recognized in the future related to performance obligations which are fully or partially unsatisfied at the end of the period.

As of December 31, 2021, the estimated future revenues for remaining performance obligations that are part of a contract that has an original expected duration of greater than one year was approximately \$335.6. The Company expects to recognize revenue on 64% of the remaining performance obligations over the next 12 months and an additional 36% over the 12 months thereafter.

Contract Assets and Liabilities

When a contract results in revenue being recognized in excess of the amount the Company has invoiced or has the right to invoice to the customer, a contract asset is recognized. Contract assets are transferred to Accounts receivable, net when the rights to the consideration become unconditional. Contract assets are presented as Unbilled revenue on the Consolidated Balance Sheets.

Contract liabilities consist of payments received from customers, or such consideration that is contractually due, in advance of providing the product or performing services such that control has not passed to the customer. Contract liabilities are presented as Deferred revenue on the Consolidated Balance Sheets.

Changes in Deferred revenue for the three month period ended December 31, 2021 were as follows:

	Deferred Revenue
Balance, September 30, 2021	\$ 48.2
Recognition of revenue	(236.8)
Deferral of revenue	252.1
	<u>\$ 63.5</u>

Balance, December 31, 2021

\$ 63.5

There were \$42.6 of amounts billed during the period and \$16.6 of additions to our Unbilled revenue balance during the three month period ended December 31, 2021.

Table of Contents***Practical Expedients and Exemptions***

The Company offers certain interest-free contracts to customers where payments are received over a period not exceeding one year. Additionally, certain Maintenance Services and Development Services customers may pay in advance for services. The Company does not adjust the promised amount of consideration for the effects of these financing components. At contract inception, the period of time between the performance of services and the customer payment is one year or less.

As permitted under the practical expedient available under ASU No. 2014-09, the Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less, (ii) contracts with variable consideration that is allocated entirely to unsatisfied performance obligations or to a wholly unsatisfied promise accounted for under the series guidance and (iii) contracts for which the Company recognizes revenue at the amount which we have the right to invoice for services performed.

4. Accounts Receivable, net

Accounts receivable of \$382.2 and \$378.9, is net of an allowance for doubtful accounts of \$3.0 and \$3.2 and includes amounts of retention on incomplete projects to be completed within one year of \$46.0 and \$43.4 at December 31, 2021 and September 30, 2021, respectively.

5. Property and Equipment, net

Property and equipment, net consists of the following:

	Useful Life	December 31, 2021	September 30, 2021
Land	—	\$ 42.2	\$ 42.2
Buildings and leasehold improvements	2-40 yrs.	43.6	38.6
Operating equipment	2-7 yrs.	252.1	239.1
Transportation vehicles	3-7 yrs.	296.0	288.4
Office equipment and software	3-10 yrs.	76.9	74.3
Construction in progress	—	3.1	4.1
Property and equipment		713.9	686.7
Less: Accumulated depreciation		440.5	422.3
Property and equipment, net		<u>\$ 273.4</u>	<u>\$ 264.4</u>

Construction in progress includes costs incurred for software and other assets that have not yet been placed in service. Depreciation expense related to property and equipment was \$21.4 and \$21.6 for the three months ended December 31, 2021 and 2020, respectively.

6. Intangible Assets, Goodwill and Acquisitions***Intangible assets***

Identifiable intangible assets consist of acquired customer contracts and relationships, trademarks and non-compete agreements. Amortization expense related to intangible assets was \$13.4 and \$13.9 for the three months ended December 31, 2021 and 2020, respectively. These assets are amortized over their estimated useful lives of which the reasonableness is continually evaluated by the Company. The weighted average amortization period of intangible assets acquired during the three months ended December 31, 2021 is seven years.

Intangible assets as of December 31, 2021 and September 30, 2021 consisted of the following:

	<u>Estimated Useful Life</u>	<u>December 31, 2021</u>		<u>September 30, 2021</u>	
		<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Customer relationships	6-21 yrs.	\$ 699.7	\$ (513.0)	\$ 694.9	\$ (499.8)
Trademarks	12 yrs.	3.8	(2.4)	3.8	(2.3)
Non-compete agreements	5 yrs.	2.7	(1.8)	2.7	(1.7)
Total intangible assets		<u>\$ 706.2</u>	<u>\$ (517.2)</u>	<u>\$ 701.4</u>	<u>\$ (503.8)</u>

Table of Contents**Goodwill**

The following is a summary of the goodwill activity for the periods ended September 30, 2021 and December 31, 2021:

	Maintenance Services	Development Services	Total
Balance, September 30, 2020	\$ 1,680.4	\$ 178.9	\$ 1,859.3
Acquisitions	77.6	13.9	91.5
Balance, September 30, 2021	\$ 1,758.0	\$ 192.8	\$ 1,950.8
Acquisitions	1.4	(1.7)	(0.3)
Balance, December 31, 2021	\$ 1,759.4	\$ 191.1	\$ 1,950.5

Acquisitions

During the three months ended December 31, 2020, the Company acquired, through a series of separate transactions, 100% of the operations of three unrelated companies, one of which was allocated between Maintenance Services and Development Services. The Company paid approximately \$62.2 in aggregate consideration for the acquisitions, net of cash acquired. The Company accounted for the business combinations under the acquisition method and, accordingly, recorded the assets acquired and liabilities assumed at their estimated fair market values based on management's preliminary estimates, with the excess allocated to goodwill. The fair values were primarily estimated using Level 3 assumptions within the fair value hierarchy, including estimated future cash flows, discount rates and other factors. The amount allocated to goodwill is reflective of the benefits the Company expects to realize from anticipated synergies and the acquired assembled workforce. The Company expects a portion of the goodwill resulting from these acquisitions will be deductible for tax purposes.

7. Long-term Debt

Long-term debt consists of the following:

	December 31, 2021	September 30, 2021
Series B term loan	\$ 999.2	\$ 1,001.7
Receivables financing agreement	225.4	150.4
Financing costs, net	(10.2)	(11.1)
Total debt, net	1,214.4	1,141.0
Less: Current portion of long-term debt	10.4	10.4
Long-term debt, net	\$ 1,204.0	\$ 1,130.6

First Lien credit facility term loans and Series B Term Loan due 2025

In connection with the KKR Acquisition, the Company and a group of financial institutions entered into a credit agreement (the "Credit Agreement") dated December 18, 2013. The Credit Agreement consisted of seven-year \$1,460.0 term loans ("First Lien Term Loans") and a five-year \$210.0 revolving credit facility. All amounts outstanding under the Credit Agreement were collateralized by substantially all of the assets of the Company.

On August 15, 2018, the Company entered into Amendment No. 5 to the Credit Agreement (the "Amended Credit Agreement"). Under the terms of the Amended Credit Agreement, the Credit Agreement was

amended to provide for: (i) a \$1,037.0 seven-year term loan (the “Series B Term Loan”) and (ii) a \$260.0 five-year revolving credit facility. The Series B Term Loan matures on August 15, 2025 and bears interest at a rate per annum of LIBOR, plus 2.5%. The Company used the net proceeds from the Series B Term Loan to repay all amounts outstanding under the Company’s First Lien Term Loans. An original discount of \$2.8 was incurred when the Series B Term Loan was issued and is being amortized using the effective interest method over the life of the debt, resulting in an effective yield of 2.5%. Debt repayments for the Series B Term Loan consisted of contractual payments per the Credit Agreement and totaled \$2.6 for the three months ended December 31, 2021.

Table of Contents*Revolving credit facility*

The Company has a five-year \$260.0 revolving credit facility (the “Revolving Credit Facility”) that matures on August 15, 2023 and bears interest at a rate per annum of LIBOR plus a margin ranging from 2.00% to 2.50%, with the margin determined based on the Company’s first lien net leverage ratio. The Revolving Credit Facility replaces the previous \$210.0 revolving credit facility under the Credit Agreement. The Company had no outstanding balance under the Revolving Credit Facility as of December 31, 2021 and September 30, 2021. There were no borrowings or repayments under the facility for the three months ended December 31, 2021, respectively.

Receivables financing agreement

On April 28, 2017, the Company, through a wholly-owned subsidiary, entered into a receivables financing agreement (the “Receivables Financing Agreement”). The Receivables Financing Agreement provided a borrowing capacity of \$175.0 through April 27, 2020. On February 21, 2019, the Company entered into the First Amendment to the Receivables Financing Agreement (the "Amendment Agreement") which increased the borrowing capacity to \$200.0 and extended the term through February 20, 2022. On February 19, 2021, the Company entered into the Second Amendment to the Receivables Financing Agreement (the "Second Amendment") which extended the term through February 20, 2024 and increased the borrowing capacity to \$235.0 through September 20, 2021 and \$250.0 thereafter. All amounts outstanding under the Receivables Financing Agreement are collateralized by substantially all of the accounts receivable and unbilled revenue of the Company. During the three months ended December 31, 2021, the Company borrowed \$75.0 against the capacity. During the three months ended December 31, 2020, there were no borrowings or repayments under the facility.

The following are the scheduled maturities of long-term debt for the remainder of fiscal 2022, and the following five fiscal years and thereafter, which do not include any estimated excess cash flow payments:

2022	\$	7.8
2023		10.4
2024		235.8
2025		972.2
2026 and thereafter		—
Total long-term debt		<u>1,226.2</u>
Less: Current maturities		10.4
Less: Original issue discount		1.6
Less: Financing costs		10.2
Total long-term debt, net	\$	<u><u>1,204.0</u></u>

The Company has estimated the fair value of its long-term debt to be approximately \$1,222.4 and \$1,148.7 as of December 31, 2021 and September 30, 2021, respectively. Fair value is based on market bid prices around period-end (Level 2 inputs).

8. Fair Value Measurements and Derivative Instruments

Fair value is defined as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (that is,

an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

Fair Value Hierarchy

The following hierarchy for inputs used in measuring fair value should maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that the most observable inputs be used when available:

- Level 1 Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement dates.
- Level 2 Significant observable inputs that are used by market participants in pricing the asset or liability based on market data obtained from independent sources.
- Level 3 Significant unobservable inputs the Company believes market participants would use in pricing the asset or liability based on the best information available.

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The carrying amounts shown for the Company's cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to the short-term maturity of those instruments. The valuation is based on settlements of similar financial instruments all of which are short-term in nature and are generally settled at or near cost.

Investments held in Rabbi Trust

A non-qualified deferred compensation plan is available to certain executives. Under this plan, participants may elect to defer up to 70% of their compensation. The Company invests the deferrals in participant-selected diversified investments that are held in a Rabbi Trust and which are classified within Other assets on the Consolidated Balance Sheets. The fair value of the investments held in the Rabbi Trust is based on the quoted market prices of the underlying mutual fund investments. These investments are based on the participants' selected investments, which represent the underlying liabilities to the participants in the non-qualified deferred compensation plan. Gains and losses on these investments are included in Other income on the Consolidated Statements of Operations.

Derivatives

The Company's objective in entering into derivative transactions is to manage its exposure to interest rate movements associated with its variable rate debt and changes in fuel prices. The Company recognizes derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. The fair values of the derivative financial instruments are determined using widely accepted valuation techniques including discounted cash flow analysis based on the expected cash flows of each derivative. Although the Company has determined that the significant inputs, such as interest yield curve and discount rate, used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the Company's counterparties and its own credit risk utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2021 and September 30, 2021, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The following tables summarize the financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 and September 30, 2021:

December 31, 2021				
	Carrying Value	Level 1	Level 2	Level 3
Other assets:				
Investments held by Rabbi Trust	\$ 14.6	\$ 14.6	\$ —	\$ —
Total assets	<u>\$ 14.6</u>	<u>\$ 14.6</u>	<u>\$ —</u>	<u>\$ —</u>
Accrued expenses and other current liabilities:				
Interest rate swap contracts	1.7	—	1.7	—
Other liabilities:				
Obligation to Rabbi Trust	14.6	14.6	—	—
Total liabilities	<u>\$ 16.3</u>	<u>\$ 14.6</u>	<u>\$ 1.7</u>	<u>\$ —</u>
September 30, 2021				
	Carrying Value	Level 1	Level 2	Level 3

Other assets:

Investments held by Rabbi Trust

\$	13.5	\$	13.5	\$	—	\$	—
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Fuel hedges

	1.2		—		1.2		—
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Total Assets

<u>\$</u>	<u>14.7</u>	<u>\$</u>	<u>13.5</u>	<u>\$</u>	<u>1.2</u>	<u>\$</u>	<u>—</u>
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Accrued expenses and other current liabilities:

Interest rate swap contracts

—	—	—	—
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Fuel hedges

—	—	—	—
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Other liabilities:

Interest rate swap contracts

3.6	—	3.6	—
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Obligation to Rabbi Trust

13.5	13.5	—	—
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Total Liabilities

<u>\$</u>	<u>17.1</u>	<u>\$</u>	<u>13.5</u>	<u>\$</u>	<u>3.6</u>	<u>\$</u>	<u>—</u>
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Table of ContentsHedging Activities

As of December 31, 2021 and September 30, 2021, the Company's outstanding derivatives qualify as cash flow hedges. The Company assesses whether derivatives used in hedging transactions are "highly effective" in offsetting changes in the cash flow of the hedged forecasted transactions. Regression analysis is used for the hedge relationships and high effectiveness is achieved when a statistically valid relationship reflects a high degree of offset and correlation between the fair values of the derivative and the hedged forecasted transaction. The entire change in the fair value for highly effective derivatives is reported in Other comprehensive income (loss) and subsequently reclassified into Interest expense (in the case of interest rate contracts) and Cost of services provided (in the case of fuel hedge contracts) in the Consolidated Statements of Operations when the hedged item affects earnings. If the hedged forecasted transaction is no longer probable of occurring, then the amount recognized in Accumulated other comprehensive loss is released to earnings. Cash flows from the derivatives are classified in the same category as the cash flows from the underlying hedged transaction.

Interest Rate Swap Contracts

The Company has exposures to variability in interest rates associated with its variable interest rate debt, which includes the Series B Term Loan. As such, the Company has entered into interest rate swaps to help manage interest rate exposure by economically converting a portion of its variable-rate debt to fixed-rate debt effective for the periods March 18, 2016 through December 31, 2022. The notional amount of interest rate contracts was \$500.0 at December 31, 2021 and September 30, 2021. The net deferred losses on the interest rate swaps as of December 31, 2021 of \$1.7, net of taxes, are expected to be recognized in Interest expense over the next 12 months.

The effects on the consolidated financial statements of the interest rate swaps which were designated as cash flow hedges were as follows:

	Three Months Ended December 31,	
	2021	2020
Income (loss) recognized in Other comprehensive income (loss)	\$ 1.1	\$ (0.2)
Net (loss) reclassified from Accumulated other comprehensive income (loss) into Interest expense	(0.8)	(4.2)

Fuel Swap Contracts

The Company has exposures to variability in fuel pricing associated with its purchase and usage of fuel during the ordinary course of business operating a large fleet of vehicles and equipment. As such, the Company had entered into gasoline hedge contracts to help reduce its exposure to volatility in the fuel markets. As of December 31, 2021, no remaining fuel contracts were outstanding.

The effects on the consolidated financial statements of the fuel swaps which were designated as cash flow hedges were as follows:

	Three Months Ended December 31,	
	2021	2020
Income recognized in Other comprehensive income (loss)	\$ 0.2	\$ 0.2
Net gain (loss) reclassified from Accumulated other comprehensive income (loss) into Cost of services provided	1.5	(0.8)

9. Income Taxes

The following table summarizes the Company's income tax benefit and effective income tax rate for the three months ended December 31, 2021 and 2020.

	Three Months Ended December 31,	
	2021	2020
(Loss) before income taxes	\$ (17.4)	\$ (15.8)
Income tax benefit	4.6	3.8
Effective income tax rate	26.4 %	24.1 %

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The increase in the effective tax rate for the three months ended December 31, 2021 when compared to the three months ended December 31, 2020, primarily related to the distribution of pre-tax earnings across legal entities as well as changes in state tax law that became effective in the period.

10. Equity-Based Compensation

Amended and Restated 2018 Omnibus Incentive Plan

On June 28, 2018 (and as amended and restated on March 10, 2020), in connection with the IPO, the Company's Board of Directors adopted, and its stockholders approved, the BrightView Holdings, Inc. 2018 Omnibus Incentive Plan (the "2018 Omnibus Incentive Plan"). The 2018 Omnibus Incentive Plan provides that the total number of shares of common stock that may be issued under the plan is 18,650,000. Under the plan, the Company may grant stock options, stock appreciation rights, restricted stock, other equity-based awards and other cash-based awards to employees, directors, officers, consultants and advisors.

Restricted Stock Awards

A summary of the Company's restricted stock award activity for the three month period ended December 31, 2021 is presented in the following table:

	Shares	Weighted-Avg Distribution Price per Share
Outstanding at September 30, 2021	802,000	\$ 14.31
Granted	—	—
Less: Redeemed	224,000	\$ 14.07
Less: Forfeited	21,000	\$ 14.41
Outstanding at December 31, 2021	557,000	\$ 14.40

Restricted Stock Units

A summary of the Company's restricted stock unit activity for the three month period ended December 31, 2021 is presented in the following table:

	Shares	Weighted-Avg Distribution Price per Share
Outstanding at September 30, 2021	1,299,000	\$ 15.14
Granted	714,000	\$ 15.04
Vested	359,000	\$ 15.42
Forfeited	54,000	\$ 15.17
Outstanding at December 31, 2021	1,600,000	\$ 15.03

During the three month period ended December 31, 2021, the Company issued 714,000 restricted stock units ("RSUs") at a weighted average grant date fair value of \$15.04 per share, all of which are subject to vesting. The majority of these units will vest ratably over a four-year period commencing on the grant date. Non-cash equity-based compensation expense associated with the new grants will be approximately \$9.4 over the requisite service period. During the three month period ended December 31, 2021, 359,000 RSUs were vested and 54,000 RSUs were forfeited.

Stock Option Awards

A summary of the Company's stock option activity for the three month period ended December 31, 2021 is presented in the following table:

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	Shares	Weighted-Avg Exercise Price per Share
Outstanding at September 30, 2021	7,017,000	\$ 21.55
Granted	783,000	\$ 15.04
Exercised	1,000	\$ 13.49
Forfeited	97,000	\$ 17.60
Outstanding at December 31, 2021	7,702,000	\$ 19.05
Vested and exercisable at December 31, 2021	4,234,000	\$ 20.01
Expected to vest after December 31, 2021	3,468,000	\$ 17.87

On November 18, 2021, the Company issued 783,000 stock options at a weighted average exercise price of \$15.04 per share and a weighted average grant date fair value of \$6.84 per share, the majority of which will vest and become exercisable ratably over a four-year period commencing on the grant date. Non-cash equity-based compensation expense associated with the grant will be approximately \$4.7 over the requisite service period. During the three month period ended December 31, 2021, 1,000 options were exercised and 97,000 options were forfeited.

Equity-Based Compensation Expense

The Company recognizes equity-based compensation expense using the estimated fair value as of the grant date over the requisite service or performance period applicable to the grant. Estimates of future forfeitures are made at the date of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company recognized \$4.7 and \$4.9 in equity-based compensation expense for the three months ended December 31, 2021 and 2020, respectively, included in Selling, general and administrative expense in the accompanying Consolidated Statements of Operations. The resulting charge increased Additional paid in capital by the same amount. Total unrecognized compensation cost was \$ 35.1 and \$40.5 for the three months ended December 31, 2021 and 2020, respectively, which is expected to be recognized over a weighted average period of 1.9 years.

2018 Employee Stock Purchase Plan

The Company's Stockholders have approved the Company's 2018 Employee Stock Purchase Plan, (the "ESPP"). A total of 1,100,000 shares of the Company's common stock were made available for sale under the Company's 2018 Employee Stock Purchase Plan on October 22, 2018, of which 112,000 were issued on November 15, 2021 and 120,000 were issued on November 16, 2020. An additional portion thereof is expected to be issued in November 2022.

11. Commitments and Contingencies*Risk Management*

The Company carries general liability, auto liability, workers' compensation, professional liability, directors' and officers' liability and employee health care insurance policies. In addition, the Company carries umbrella liability insurance policies to cover claims over the liability limits contained in the primary policies. The Company's insurance programs, for workers' compensation, general liability, auto liability and employee health care for certain employees contain self-insured retention amounts, deductibles and other coverage limits ("self-insured liability"). Claims that are not self-insured as well as claims in excess of the self-insured liability amounts are insured. The Company uses estimates in the determination of the required reserves. These estimates

are based upon calculations performed by third-party actuaries, as well as examination of historical trends and industry claims experience. The Company's reserve for unpaid and incurred but not reported claims under these programs at December 31, 2021 was \$154.1, of which \$49.3 was classified in current liabilities and \$104.8 was classified in non-current liabilities in the accompanying unaudited Consolidated Balance Sheet. The Company's reserve for unpaid and incurred but not reported claims under these programs at September 30, 2021 was \$154.7, of which \$50.2 was classified in current liabilities and \$104.5 was classified in non-current liabilities in the accompanying Consolidated Balance Sheets. While the ultimate amount of these claims is dependent on future developments, in management's opinion, recorded reserves are adequate to cover these claims. The Company's reserve for unpaid and incurred but not reported claims at December 31, 2021 includes \$28.9 related to claims recoverable from third party insurance carriers. Corresponding assets of \$6.5 and \$22.4 are recorded at December 31, 2021, as Other current assets and Other assets, respectively. The Company's reserve for unpaid and incurred but not reported claims at September 30, 2021 includes \$30.5 related to claims recoverable from third party insurance carriers. Corresponding assets of \$8.2 and \$22.3 were recorded at September 30, 2021, as Other current assets and Other assets, respectively.

Table of Contents**Litigation Contingency**

From time to time, the Company is subject to legal proceedings and claims in the ordinary course of its business, principally claims made alleging injuries (including vehicle and general liability matters as well as workers' compensation and property casualty claims). Such claims, even if lacking merit, can result in expenditures of significant financial and managerial resources. In the ordinary course of its business, the Company is also subject to claims involving current and/or former employees and disputes involving commercial and regulatory matters. Regulatory matters include, among other things, audits and reviews of local and federal tax compliance, safety and employment practices. Although the process of resolving regulatory matters and claims through litigation and other means is inherently uncertain, the Company is not aware of any such matter, legal proceeding or claim that it believes will have, individually or in the aggregate, a material effect on the Company, its financial condition, and results of operations or cash flows. For all legal matters, an estimated liability is established in accordance with the loss contingencies accounting guidance. This estimated liability is included in Accrued expenses and other current liabilities in the accompanying Consolidated Balance Sheets.

12. Segments

The operations of the Company are conducted through two operating segments: Maintenance Services and Development Services, which are also its reportable segments.

Maintenance Services primarily consists of recurring landscape maintenance services and snow removal services as well as supplemental landscape enhancement services.

Development Services primarily consists of landscape architecture and development services for new construction and large scale redesign projects.

The operating segments identified above are determined based on the services provided, and they reflect the manner in which operating results are regularly reviewed by the Chief Operating Decision Maker ("CODM") to allocate resources and assess performance. The CODM is the Company's Chief Executive Officer. The CODM evaluates the performance of the Company's operating segments based upon Net Service revenues, Adjusted EBITDA and Capital Expenditures. Management uses Adjusted EBITDA to evaluate performance and profitability of each operating segment.

The accounting policies of the segments are the same as those described in Note 2 "Summary of Significant Accounting Policies" in the notes to our consolidated financial statements in the Annual Report on Form 10-K for the fiscal year ended September 30, 2021. Corporate includes corporate executive compensation, finance, legal and information technology which are not allocated to the segments. Eliminations represent eliminations of intersegment revenues. The Company does not currently provide asset information by segment, as this information is not used by management when allocating resources or evaluating performance.

The following is a summary of certain financial data for each of the segments:

	Three Months Ended December 31,	
	2021	2020
Maintenance Services	\$ 438.2	\$ 418.0
Development Services	154.7	137.4
Eliminations	(1.1)	(1.0)
Net Service Revenues	<u>\$ 591.8</u>	<u>\$ 554.4</u>
Maintenance Services	\$ 45.3	\$ 49.6
Development Services	14.5	17.1

Corporate	(17.2)	(14.3)
Adjusted EBITDA ⁽¹⁾	<u>\$ 42.6</u>	<u>\$ 52.4</u>
Maintenance Services	<u>\$ 21.9</u>	<u>\$ 8.9</u>
Development Services	1.1	0.3
Corporate	5.6	0.5
Capital Expenditures	<u>\$ 28.6</u>	<u>\$ 9.7</u>

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(1) Presented below is a reconciliation of Net income (loss) to Adjusted EBITDA:

	Three Months Ended December 31,	
	2021	2020
Net (loss)	\$ (12.8)	\$ (12.0)
Interest expense	9.7	13.6
Income tax benefit	(4.6)	(3.8)
Depreciation expense	21.4	21.6
Amortization expense	13.4	13.9
Business transformation and integration costs (a)	5.9	6.4
Offering-related expenses (b)	—	0.2
Equity-based compensation (c)	4.8	5.0
COVID-19 related expenses (d)	4.8	7.5
Adjusted EBITDA	<u>\$ 42.6</u>	<u>\$ 52.4</u>

(a) Business transformation and integration costs consist of (i) severance and related costs; (ii) business integration costs and (iii) information technology infrastructure, transformation costs, and other.

(in millions)	Three Months Ended December 31,	
	2021	2020
Severance and related costs	0.3	0.2
Business integration (e)	4.0	3.6
IT infrastructure, transformation, and other (f)	1.6	2.6
Business transformation and integration costs	<u>\$ 5.9</u>	<u>\$ 6.4</u>

- (b) Represents transaction related expenses incurred for IPO related litigation and completed or contemplated subsequent registration statements.
- (c) Represents equity-based compensation expense and related taxes recognized for equity incentive plans outstanding.
- (d) Represents expenses related to the Company's response to the COVID-19 pandemic, principally temporary and incremental salary and related expenses, personal protective equipment and cleaning and supply purchases, and other.
- (e) Represents isolated expenses specifically related to the integration of acquired companies such as one-time employee retention costs, employee onboarding and training costs, and fleet and uniform rebranding costs. The Company excludes Business integration costs from the measures disclosed above since such expenses vary in amount due to the number of acquisitions and size of acquired companies as well as factors specific to each acquisition, and as a result lack predictability as to occurrence and/or timing, and create a lack of comparability between periods.
- (f) Represents expenses related to distinct initiatives, typically significant enterprise-wide changes. Such expenses are excluded from the measures disclosed above since such expenses vary in amount based on occurrence as well as factors specific to each of the activities, are outside of the normal operations of the business, and create a lack of comparability between periods.

13. (Loss) Per Share of Common Stock

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to common shares by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period, increased to include the number of shares of common stock that would have been outstanding had potential dilutive shares of common stock been issued. Set forth below is a reconciliation of the numerator and denominator for basic and diluted earnings (loss) per share calculation for the periods indicated:

	Three Months Ended December 31,	
	2021	2020
Numerator:		
Net (loss) available to common stockholders	\$ (12.8)	\$ (12.0)
Denominator:		
Weighted average number of common shares outstanding – basic	105,259,000	105,148,000
Basic and diluted (loss) per share	\$ (0.12)	\$ (0.11)
Other Information:		
Weighted average number of anti-dilutive options and restricted stock ^(a)	4,026,000	6,799,000

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- (a) Weighted average number of anti-dilutive options is based upon the average closing price of the Company's common stock on the NYSE for the period.

14. Subsequent Events

In January 2022, the Company repaid \$75.0 of borrowings under the Receivables Financing Agreement.

On December 6, 2021, the Company announced a share repurchase program to repurchase up to \$250.0 of common stock. On December 9, 2021, the Company entered into an agreement to repurchase 5,906,954 shares from MSD Valley Investments, LLC at \$13.98 per share. Such repurchase transaction was completed on January 19, 2022.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis supplements our management's discussion and analysis for the year ended September 30, 2021 as contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 17, 2021, and presumes that readers have read or have access to such discussion and analysis. The following discussion and analysis should also be read together with the unaudited consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that reflect our plans and strategy for our business, and involve risks and uncertainties. You should review the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, and in this Quarterly Report on Form 10-Q, for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. You should carefully read "Special Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q.

Overview***Our Company***

We are the largest provider of commercial landscaping services in the United States, with revenues approximately 7 times those of our next largest commercial landscaping competitor. We provide commercial landscaping services ranging from landscape maintenance and enhancements to tree care and landscape development. We operate through a differentiated and integrated national service model which systematically delivers services at the local level by combining our network of over 280 branches with a qualified service partner network. Our branch delivery model underpins our position as a single-source end-to-end landscaping solution provider to our diverse customer base at the national, regional and local levels, which we believe represents a significant competitive advantage. We believe our commercial customer base understands the financial and reputational risk associated with inadequate landscape maintenance and considers our services to be essential and non-discretionary.

Our Segments

We report our results of operations through two reportable segments: Maintenance Services and Development Services. We serve a geographically diverse set of customers through our strategically located network of branches in 32 U.S. states, and, through our qualified service partner network, we are able to efficiently provide nationwide coverage in all 50 U.S. states.

Maintenance Services

Our Maintenance Services segment delivers a full suite of recurring commercial landscaping services in both evergreen and seasonal markets, ranging from mowing, gardening, mulching and snow removal, to more horticulturally advanced services, such as water management, irrigation maintenance, tree care, golf course maintenance and specialty turf maintenance. In addition to contracted maintenance services, we also have a strong track record of providing value-added landscape enhancements. We primarily self-perform our maintenance services through our national branch network, which are route-based in nature. Our maintenance services customers include Fortune 500 corporate campuses and commercial properties, HOAs, public parks, leading international hotels and resorts, airport authorities, municipalities, hospitals and other healthcare facilities, educational institutions, restaurants and retail, and golf courses, among others.

Development Services

Through our Development Services segment, we provide landscape architecture and development services for new facilities and significant redesign projects. Specific services include project design and management services, landscape architecture, landscape installation, irrigation installation, tree moving and installation, pool and water features and sports field services, among others. Our development services are comprised of sophisticated design, coordination and installation of landscapes at some of the most recognizable corporate, athletic and university complexes and showcase highly visible work that is paramount to our customers' perception of our brand as a market leader.

In our Development Services business, we are typically hired by general contractors, with whom we maintain strong relationships as a result of our superior technical and project management capabilities. We believe the quality of our work is also well-regarded by our end-customers, some of whom directly request that their general contractors utilize our services when outsourcing their landscape development projects.

*Table of Contents***Components of Our Revenues and Expenses*****Net Service Revenues****Maintenance Services*

Our Maintenance Services revenues are generated primarily through landscape maintenance services and snow removal services. Landscape maintenance services that are primarily viewed as non-discretionary, such as lawn care, mowing, gardening, mulching, leaf removal, irrigation and tree care, are provided under recurring annual contracts, which typically range from one to three years in duration and are generally cancellable by the customer with 30-90 days' notice. Snow removal services are provided on either fixed fee based contracts or per occurrence contracts. Both landscape maintenance services and snow removal services can also include enhancement services that represent supplemental maintenance or improvement services generally provided under contracts of short duration related to specific services. Revenue for landscape maintenance and snow removal services under fixed fee models is recognized over time using an output based method. Additionally, a portion of our recurring fixed fee landscape maintenance and snow removal services are recorded under the series guidance. The right to invoice practical expedient, defined within Note 3 "Revenue" to our unaudited consolidated financial statements, is generally applied to revenue related to landscape maintenance and snow removal services performed in relation to per occurrence contracts as well as enhancement services. When use of the practical expedient is not appropriate for these contracts, revenue is recognized using a cost-to-cost input method. Fees for contracted landscape maintenance services are typically billed on an equal monthly basis. Fees for fixed fee snow removal services are typically billed on an equal monthly basis during snow season, while fees for time and material or other activity-based snow removal services are typically billed as the services are performed. Fees for enhancement services are typically billed as the services are performed.

Development Services

For Development Services, revenue is primarily recognized over time using the cost-to-cost input method, measured by the percentage of cost incurred to date to the estimated total cost for each contract, which we believe to be the best measure of progress. The full amount of anticipated losses on contracts is recorded as soon as such losses can be estimated. These losses have been immaterial in prior periods. Changes in job performance, job conditions and estimated profitability, including final contract settlements, may result in revisions to costs and revenue and are recognized in the period in which the revisions are determined.

Expenses*Cost of Services Provided*

Cost of services provided is comprised of direct costs we incur associated with our operations during a period and includes employee costs, subcontractor costs, purchased materials, and operating equipment and vehicle costs. Employee costs consist of wages and other labor-related expenses, including benefits, workers compensation and healthcare costs, for those employees involved in delivering our services. Subcontractor costs consist of costs relating to our qualified service partner network in our Maintenance Services segment and subcontractors we engage from time to time in our Development Services segment. When our use of subcontractors increases, we may experience incrementally higher costs of services provided. Operating equipment and vehicle costs primarily consist of depreciation related to branch operating equipment and vehicles and related fuel expenses. A large component of our costs are variable, such as labor, subcontractor expense and materials.

Selling, General and Administrative Expense

Selling, general and administrative expense consists of costs incurred related to compensation and benefits for management, sales and administrative personnel, equity-based compensation, branch and office rent

and facility operating costs, depreciation expense related to branch and office locations, as well as professional fees, software costs and other miscellaneous expenses. Corporate expenses, including corporate executive compensation, finance, legal and information technology, are included in consolidated selling, general and administrative expense and not allocated to the business segments.

Amortization Expense

Amortization expense consists of the periodic amortization of intangible assets, including customer relationships, non-compete agreements and trademarks, recognized when KKR acquired the Company on December 18, 2013 and in connection with businesses we have acquired since December 18, 2013.

Interest Expense

Interest expense relates primarily to our long-term debt. See Note 7 “Long-term Debt” in the unaudited consolidated financial statements included under Part I, Item 1, “Financial Statements”.

*Table of Contents**Income Tax Expense (Benefit)*

Income tax expense (benefit) includes U.S. federal, state and local income taxes. Our effective tax rate differs from the statutory U.S. income tax rate due to the effect of state and local income taxes, tax credits and certain nondeductible expenses. Our effective tax rate may vary from quarter to quarter based on recurring and nonrecurring factors including, but not limited to the geographical distribution of our pre-tax earnings, changes in the tax rates of different jurisdictions, the availability of tax credits and nondeductible items. Changes in judgment due to the evaluation of new information resulting in the recognition, derecognition or remeasurement of a tax position taken in a prior annual period are recognized separately in the period of the change.

Other Income

Other income consists primarily of investment gains related to investments held in Rabbi Trust.

Trends and Other Factors Affecting Our Business

Various trends and other factors affect or have affected our operating results, including:

Seasonality

Our services, particularly in our Maintenance Services segment, have seasonal variability such as increased mulching, flower planting and intensive mowing in the spring, leaf removal and cleanup work in the fall, snow removal services in the winter and potentially minimal mowing during drier summer months. This can drive fluctuations in revenue, costs and cash flows for interim periods.

We have a significant presence in geographies that have a year-round growing season, which we refer to as our evergreen markets. Such markets require landscape maintenance services twelve months per year. In markets that do not have a year-round growing season, which we refer to as our seasonal markets, the demand for our landscape maintenance services decreases during the winter months. Typically, our revenues and net income have been higher in the spring and summer seasons, which correspond with our third and fourth fiscal quarters of our fiscal year ending September 30. The lower level of activity in seasonal markets during our first and second fiscal quarters is partially offset by revenue from our snow removal services. Such seasonality causes our results of operations to vary from quarter to quarter.

Weather Conditions

Weather may impact the timing of performance of landscape maintenance and enhancement services and progress on development projects from quarter to quarter. For example, snow events in the winter, hurricane-related cleanup in the summer and fall, and the effects of abnormally high rainfall or drought in a given market may impact our services. These less predictable weather patterns can impact both our revenues and our costs, especially from quarter to quarter, but also from year to year in some cases. Extreme weather events such as hurricanes and tropical storms can result in a positive impact to our business in the form of increased enhancement services revenues related to cleanup and other services. However, such weather events may also negatively impact our ability to deliver our contracted services or impact the timing of performance.

In our seasonal markets, the performance of our snow removal services is correlated with the amount of snowfall and number of snowfall events in a given season. We benchmark our performance against ten- and thirty-year cumulative annual snowfall averages.

Acquisitions

In addition to our organic growth, we have grown, and expect to continue to grow, our business through acquisitions in an effort to better service our existing customers and to attract new customers. These acquisitions have allowed us to execute our “strong-on-strong” acquisition strategy in which we focus on increasing our density and leadership positions in existing local markets, entering into attractive new geographic markets and expanding our portfolio of landscape enhancement services and improving technical capabilities in specialized services. As we continue to selectively pursue acquisitions that complement our “strong-on-strong” acquisition strategy, we believe we are the acquirer of choice in the highly fragmented commercial landscaping industry because we offer the ability to leverage our significant size and scale, as well as provide stable and potentially expanding career opportunities for employees of acquired businesses. In accordance with GAAP, the results of the acquisitions we have completed are reflected in our consolidated financial statements from the date of acquisition. We incur transaction costs in connection with identifying and completing acquisitions and ongoing integration costs as we integrate acquired companies and seek to achieve synergies. Integration costs vary in amount due to the number of acquisitions and size of acquired companies as well as factors specific to each acquisition, and as a result lack predictability as to occurrence and/or timing, and create a lack of comparability between periods. Costs are primarily comprised of one-time employee retention costs, employee onboarding and training costs, and fleet and uniform rebranding costs. We typically anticipate integration costs to represent approximately 7%-9% of the acquisition price, and to be incurred within 12 months of acquisition completion.

Table of Contents**Industry and Economic Conditions**

We believe the non-discretionary nature of our landscape maintenance services provides us with a fairly predictable recurring revenue model. The perennial nature of the landscape maintenance service sector, as well as its wide range of end users, minimizes the impact of a broad or sector-specific downturn. However, in connection with our enhancement services and development services, when demand for commercial construction declines, demand for landscape enhancement services and development projects may decline. When commercial construction activity rises, demand for landscape enhancement services to maintain green space may also increase. This is especially true for new developments in which green space tends to play an increasingly important role. Economic conditions, including rising inflation and fuel prices, may further increase our costs and expenses, and fluctuations in labor markets, may impact our ability to identify, hire and retain employees. Increased costs, including recruiting, retention, and overtime expenditures, could adversely affect our profitability.

COVID-19 Update

The impact of the COVID-19 pandemic and related economic conditions on the Company's results continue to be highly uncertain and outside the Company's control. Although our Maintenance and Development operations are considered essential services, future governmental orders or other restrictions may limit, restrict or prohibit operations in the future. Further limitations could have a material adverse impact on our business, financial condition and results of operations.

The scope, duration and magnitude of the direct and indirect effects of the COVID-19 pandemic are difficult or impossible to anticipate. Due to the uncertainty related to the extent of the ongoing impact of the pandemic, the Company's results in the first quarter of 2021 and 2022 may not be indicative of the Company's future results. We have experienced and may experience a loss in revenue as a result of restrictions on our ability to operate our business. In addition, the economic deterioration resulting from the impacts of the COVID-19 pandemic will likely continue to negatively impact our results of operations and financial condition. Although the outlook for a sustained economic recovery has increased in the first quarter of fiscal 2022, the degree of the impact on our business continues to be unpredictable as it will depend on factors such as the duration and spread of COVID-19, including new variants; the extent of vaccinations, vaccine mandates, the cost of complying with such mandates, and the extent to which a mandate impacts our workforce, including employee recruiting and attrition; inflationary pressures and increased costs for materials; and the timing and success of the reopening of the economy. For additional information on the risks posed by COVID-19, see "Item 1A – Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2021.

Results of Operations

The following tables summarize key components of our results of operations for the periods indicated.

(in millions)	Three Months Ended December 31,	
	2021	2020
Net service revenues	\$ 591.8	\$ 554.4
Cost of services provided	451.9	420.8
Gross profit	139.9	133.6
Selling, general and administrative expense	134.9	123.3
Amortization expense	13.4	13.9
(Loss) from operations	(8.4)	(3.6)
Other income	0.7	1.4
Interest expense		

	9.7	13.6
(Loss) before income taxes	(17.4)	(15.8)
Income tax benefit	4.6	3.8
Net (loss)	<u>\$ (12.8)</u>	<u>\$ (12.0)</u>
Adjusted EBITDA ⁽¹⁾	\$ 42.6	\$ 52.4
Adjusted Net Income ⁽¹⁾	\$ 8.2	\$ 12.9
(Loss) per Share	\$ (0.12)	\$ (0.11)
Adjusted Earnings per Share ⁽¹⁾	\$ 0.08	\$ 0.12
Cash flows from operating activities	\$ (22.4)	\$ 5.1
Free Cash Flow ⁽¹⁾	\$ (49.9)	\$ (4.0)

(1) See the “Non-GAAP Financial Measures” section included below for a reconciliation to the most directly comparable GAAP measure.

Table of Contents**Three Months Ended December 31, 2021 compared to Three Months Ended December 31, 2020***Net Service Revenues*

Net service revenues for the three months ended December 31, 2021 increased \$37.4 million, or 6.7%, to \$591.8 million, from \$554.4 million in the 2021 period. The increase was driven by increases in Maintenance Services revenues of \$20.2 million and Development Services revenues of \$17.3 million as discussed further below in Segment Results.

Gross Profit

Gross profit for the three months ended December 31, 2021 increased \$6.3 million, or 4.7%, to \$139.9 million, from \$133.6 million in the 2020 period. Gross margin decreased 50 basis points, to 23.6%, in the three months ended December 31, 2021, from 24.1% in the 2020 period. The increase in gross profit was principally driven by the increase in Maintenance Services revenues described further below in Segment Results. The decrease in gross margin was primarily due to an increase in material and fuel costs.

Selling, General and Administrative Expense

Selling, general and administrative expense for the three months ended December 31, 2021 increased \$11.6 million, or 9.4%, to \$134.9 million, from \$123.3 million in the 2020 period. The increase was primarily due to an \$11.0 million increase in salaries, travel, and other employee related expenses driven principally by the impact of acquisitions and the reinstatement of the employer match for the employee savings plan. As a percentage of revenue, Selling, general and administrative expense increased 60 basis points for the three months ended December 31, 2021 to 22.8%, from 22.2% in the 2020 period due to the items noted above.

Amortization Expense

Amortization expense for the three months ended December 31, 2021 decreased \$0.5 million, or 3.6%, to \$13.4 million, from \$13.9 million in the 2020 period. The decrease was principally due to a \$1.2 million decrease in the amortization of historical intangible assets recognized in connection with the KKR Acquisition and the ValleyCrest Acquisition, based on the pattern consistent with expected future cash flows calculated at that time, offset by a \$0.7 million increase in amortization expense for intangible assets recognized in connection with our acquired businesses subsequent to the ValleyCrest Acquisition.

Other Income

Other income was \$0.7 million for the three months ended December 31, 2021 compared to \$1.4 million in the 2020 period. The decrease of \$0.7 million was driven principally by lower gains on investments held in the Rabbi Trust.

Interest Expense

Interest expense for the three months ended December 31, 2021 decreased \$3.9 million, or 28.7%, to \$9.7 million, from \$13.6 million in the 2020 period. The decrease was driven primarily by the impact of our interest rate swaps for the period.

Income Tax Benefit

For the three months ended December 31, 2021, Income tax benefit was \$4.6 million, compared to an Income tax benefit of \$3.8 million in the 2020 period. The change was primarily attributable to the change in the Company's pretax loss of \$17.4 million in the current period compared to pretax loss of \$15.8 million in the prior period, as well as changes in tax laws that became effective in the period.

Net Income (Loss)

For the three months ended December 31, 2021, Net loss was \$12.8 million, compared to a Net loss of \$12.0 million in the 2020 period due to the changes noted above.

Table of Contents*Adjusted EBITDA*

Adjusted EBITDA decreased \$9.8 million for the three months ended December 31, 2021, to \$42.6 million, from \$52.4 million in the 2020 period. Adjusted EBITDA as a percentage of revenue was 7.2% and 9.5% for the three months ended December 31, 2021 and 2020, respectively. The decrease in Adjusted EBITDA was primarily driven by a decrease of \$4.3 million, or 8.7% in Maintenance Services Segment Adjusted EBITDA coupled with a decrease of \$2.6 million, or 15.2% in Development Services Segment Adjusted EBITDA, as discussed further below in Segment Results.

Adjusted Net Income

Adjusted Net Income for the three months ended December 31, 2021 decreased \$4.7 million to \$8.2 million, from \$12.9 million in the 2020 period due to the changes noted above.

Non-GAAP Financial Measures

In addition to our GAAP financial measures, we review various non-GAAP financial measures including Adjusted EBITDA, Adjusted Net Income, Adjusted Earnings per Share (“Adjusted EPS”) and Free Cash Flow.

We believe that Adjusted EBITDA, Adjusted Net Income and Adjusted EPS are helpful supplemental measures to assist us and investors in evaluating our operating results as they exclude certain items whose fluctuations from period to period do not necessarily correspond to changes in the operations of our business. Adjusted EBITDA represents net income (loss) before interest, taxes, depreciation, amortization and certain non-cash, non-recurring and other adjustment items. Adjusted Net Income is defined as net income (loss) including interest and depreciation and excluding other items used to calculate Adjusted EBITDA and further adjusted for the tax effect of these exclusions and the removal of the discrete tax items. Adjusted EPS is defined as Adjusted Net Income divided by the weighted average number of common shares outstanding for the period used in the calculation of basic EPS. We believe that the adjustments applied in presenting Adjusted EBITDA, Adjusted Net Income and Adjusted EPS are appropriate to provide additional information to investors about certain material non-cash items and about non-recurring items that we do not expect to continue at the same level in the future.

We believe Free Cash Flow is a helpful supplemental measure to assist us and investors in evaluating our liquidity. Free Cash Flow represents cash flows from operating activities less capital expenditures, net of proceeds from the sale of property and equipment. We believe Free Cash Flow is useful to provide additional information to assess our ability to pursue business opportunities and investments and to service our debt. Free Cash Flow has limitations as an analytical tool, including that it does not account for our future contractual commitments and excludes investments made to acquire assets under finance leases and required debt service payments.

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Set forth below are the reconciliations of net income (loss) to Adjusted EBITDA and Adjusted Net Income, and cash flows from operating activities to Free Cash Flow. Adjusted EPS is defined as Adjusted Net Income (shown below) divided by the weighted average number of common shares outstanding for the period used in the calculation of basic EPS and presented in Note 13 “Earnings (Loss) Per Share of Common Stock” in the Notes to unaudited consolidated financial statements.

(in millions)	Three Months Ended December 31,	
	2021	2020
Adjusted EBITDA		
Net (loss)	\$ (12.8)	\$ (12.0)
Plus:		
Interest expense, net	9.7	13.6
Income tax benefit	(4.6)	(3.8)
Depreciation expense	21.4	21.6
Amortization expense	13.4	13.9
Business transformation and integration costs (a)	5.9	6.4
Offering-related expenses (b)	—	0.2
Equity-based compensation (c)	4.8	5.0
COVID-19 related expenses (d)	4.8	7.5
Adjusted EBITDA	\$ 42.6	\$ 52.4
Adjusted Net Income		
Net (loss)	\$ (12.8)	\$ (12.0)
Plus:		
Amortization expense	13.4	13.9
Business transformation and integration costs (a)	5.9	6.4
Offering-related expenses (b)	—	0.2
Equity-based compensation (c)	4.8	5.0
COVID-19 related expenses (d)	4.8	7.5
Income tax adjustment (e)	(7.9)	(8.1)
Adjusted Net Income	\$ 8.2	\$ 12.9
Free Cash Flow		
Cash flows from operating activities	\$ (22.4)	\$ 5.1
Minus:		
Capital expenditures	28.6	9.7
Plus:		
Proceeds from sale of property and equipment	1.1	0.6
Free Cash Flow	\$ (49.9)	\$ (4.0)

- (a) Business transformation and integration costs consist of (i) severance and related costs; (ii) business integration costs and (iii) information technology infrastructure, transformation costs, and other.

(in millions)	Three Months Ended December 31,	
	2021	2020
Severance and related costs	\$ 0.3	\$ 0.2
Business integration (f)	4.0	3.6
IT infrastructure, transformation, and other (g)	1.6	2.6
Business transformation and integration costs	\$ 5.9	\$ 6.4

- (b) Represents transaction related expenses incurred for IPO related litigation and completed or contemplated subsequent registration statements.
- (c) Represents equity-based compensation expense and related taxes recognized for equity incentive plans outstanding.
- (d) Represents expenses related to the Company's response to the COVID-19 pandemic, principally temporary and incremental salary and related expenses, personal protective equipment and cleaning and supply purchases, and other.
- (e) Represents the tax effect of pre-tax items excluded from Adjusted Net Income and the removal of the applicable discrete tax items, which collectively result in a reduction of income tax. The tax effect of pre-tax items excluded from Adjusted Net Income is computed using the statutory rate related to the jurisdiction that was impacted by the adjustment after taking into account the impact of permanent differences and

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valuation allowances. Discrete tax items include changes in laws or rates, changes in uncertain tax positions relating to prior years and changes in valuation allowances.

(in millions)	Three Months Ended December 31,	
	2021	2020
Tax impact of pre-tax income adjustments	\$ 7.9	\$ 7.6
Discrete tax items	-	0.5
Income tax adjustment	<u>\$ 7.9</u>	<u>\$ 8.1</u>

- (f) Represents isolated expenses specifically related to the integration of acquired companies such as one-time employee retention costs, employee onboarding and training costs, and fleet and uniform rebranding costs. The Company excludes Business integration costs from the measures disclosed above since such expenses vary in amount due to the number of acquisitions and size of acquired companies as well as factors specific to each acquisition, and as a result lack predictability as to occurrence and/or timing, and create a lack of comparability between periods.
- (g) Represents expenses related to distinct initiatives, typically significant enterprise-wide changes. Such expenses are excluded from the measures disclosed above since such expenses vary in amount based on occurrence as well as factors specific to each of the activities, are outside of the normal operations of the business, and create a lack of comparability between periods.

Segment Results

We classify our business into two segments: Maintenance Services and Development Services. Our corporate operations are not allocated to the segments and are not discussed separately as any results that had a significant impact on operating results are included in the consolidated results discussion above.

We evaluate the performance of our segments on Net Service Revenues, Segment Adjusted EBITDA and Segment Adjusted EBITDA Margin (Segment Adjusted EBITDA as a percentage of Net Service Revenues). Segment Adjusted EBITDA is indicative of operational performance and ongoing profitability. Our management closely monitors Segment Adjusted EBITDA to evaluate past performance and identify actions required to improve profitability.

Segment Results for the Three Months Ended December 31, 2021 and 2020

The following tables present Net Service Revenues, Segment Adjusted EBITDA, and Segment Adjusted EBITDA Margin for each of our segments. Changes in Segment Adjusted EBITDA Margin are shown in basis points, or bps.

Maintenance Services Segment Results

(in millions)	Three Months Ended December 31,		Percent Change 2021 vs. 2020
	2021	2020	
Net Service Revenues	\$ 438.2	\$ 418.0	4.8 %
Segment Adjusted EBITDA	\$ 45.3	\$ 49.6	(8.7 %)
Segment Adjusted EBITDA Margin	10.3 %	11.9 %	(160) bps

Maintenance Services Net Service Revenues

Maintenance Services net service revenues for the three months ended December 31, 2021 increased by \$20.2 million, or 4.8%, from the 2020 period. The increase was primarily driven by a \$26.4 million, or 7.3%,

increase in underlying commercial landscape services underpinned by a combination of contract services growth and to a greater extent ancillary services growth, as well as a \$17.8 million revenue contribution from acquired businesses. Offsetting this was a decrease of \$19.8 million in snow removal services, net of \$4.2 million from acquired businesses.

Maintenance Services Segment Adjusted EBITDA

Segment Adjusted EBITDA for the three months ended December 31, 2021 decreased by \$4.3 million to \$45.3 million from \$49.6 million in the 2020 period. Segment Adjusted EBITDA Margin decreased 160 basis points, to 10.3%, in the three months ended December 31, 2021, from 11.9% in the 2020 period. The decreases in Segment Adjusted EBITDA and Segment Adjusted EBITDA Margin were principally driven by the decrease in snow removal revenues described above and higher fuel costs which were partially offset by increases in underlying commercial landscape services and revenues from acquisitions discussed above.

Table of Contents*Development Services Segment Results*

(in millions)	Three Months Ended December 31,		Percent Change 2021 vs. 2020
	2021	2020	
Net Service Revenues	\$ 154.7	\$ 137.4	12.6 %
Segment Adjusted EBITDA	\$ 14.5	\$ 17.1	(15.2 %)
Segment Adjusted EBITDA Margin	9.4 %	12.4 %	(300) bps

Development Services Net Service Revenues

Development Services net service revenues for the three months ended December 31, 2021 increased \$17.3 million, or 12.6%, compared to the 2020 period. The increase was principally driven by a \$21.9 million revenue contribution from acquired businesses, partially offset by a decrease of \$4.6 million due to project delays principally impacted by isolated unfavorable weather.

Development Services Segment Adjusted EBITDA

Segment Adjusted EBITDA for the three months ended December 31, 2021 decreased \$2.6 million, to \$14.5 million, compared to the 2020 period. Segment Adjusted EBITDA Margin decreased 300 basis points, to 9.4% for the quarter from 12.4% in the 2020 period. Segment Adjusted EBITDA and Segment Adjusted EBITDA Margin decreased principally due to higher material costs as a percentage of revenue which more than offset the increase in revenues described above.

Liquidity and Capital Resources***Liquidity***

Our principal sources of liquidity are existing cash and cash equivalents, cash generated from operations and borrowings under the Credit Agreement and the Receivables Financing Agreement. Our principal uses of cash are to provide working capital, meet debt service requirements, fund capital expenditures and finance strategic plans, including acquisitions and share repurchases under the share repurchase program announced in December 2021. We may also seek to finance capital expenditures under finance leases or other debt arrangements that provide liquidity or favorable borrowing terms. We continue to consider acquisition opportunities, but the size and timing of any future acquisitions and the related potential capital requirements cannot be predicted. While we have in the past financed certain acquisitions with internally generated cash, in the event that suitable businesses are available for acquisition upon acceptable terms, we may obtain all or a portion of the necessary financing through the incurrence of additional long-term borrowings.

Based on our current level of operations and available cash, we believe our cash flow from operations, together with availability under the Revolving Credit Facility under the Credit Agreement and the Receivables Financing Agreement, will provide sufficient liquidity to fund our current obligations, projected working capital requirements, debt service requirements, capital spending requirements and share repurchases for the next twelve months.

A substantial portion of our liquidity needs arise from debt service requirements, and from the ongoing cost of operations, working capital and capital expenditures.

(in millions)	December 31, 2021	September 30, 2021
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Cash and cash equivalents	\$	132.8	\$	123.7
Short-term borrowings and current maturities of long-term debt	\$	10.4	\$	10.4
Long-term debt		<u>1,204.0</u>		<u>1,130.6</u>
Total debt, net	\$	<u>1,214.4</u>	\$	<u>1,141.0</u>

The Company is party to a credit agreement dated December 18, 2013 (as amended, the “Credit Agreement”), a five-year revolving credit facility that matures on August 15, 2023 (the “Revolving Credit Facility”) and, through a wholly-owned subsidiary, a receivables financing agreement dated April 28, 2017 (as amended, the “Receivables Financing Agreement”).

We can increase the borrowing availability under the Credit Agreement or increase the term loans outstanding under the Credit Agreement by up to \$303.0 million, in the aggregate, in the form of additional commitments under the Revolving Credit Facility and/or incremental term loans under the Credit Agreement, or in the form of other indebtedness in lieu thereof, plus an additional amount so long as we do not exceed a specified first lien secured leverage ratio. We can incur such additional secured or other unsecured indebtedness under the Credit Agreement if certain specified conditions are met. Our liquidity requirements are significant primarily

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due to debt service requirements. See Note 7 “Long-term Debt” to our unaudited consolidated financial statements included under Part I, Item 1, “Financial Statements”.

On July 17, 2017, the U.K. Financial Conduct Authority, which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR to the LIBOR administrator after 2021. On March 5, 2021, the ICE Benchmark Association (“IBA”) stated that it will cease the publication of all non-U.S. dollar LIBOR and the one-week and two-month U.S. dollar LIBOR settings immediately following the LIBOR publication on December 31, 2021, with the publication of the remaining U.S. dollar LIBOR settings being discontinued on June 30, 2023. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next several years. The Credit Agreement and the Receivables Financing Agreement each provide that the Company and the applicable administrative agent may amend such Credit Agreement or Receivables Financing Agreement, as applicable, to replace the LIBOR definition with a successor rate based on prevailing market convention, subject to notifying the lending syndicate of such change and not receiving within 5 business days of such notification written objections to such replacement rate from (i) with respect to the Receivables Financing Agreement, lenders holding at least a majority of the aggregate principal amount of commitments then outstanding thereunder or (ii) with respect to any class of loans under the Credit Agreement, lenders holding at least a majority of the aggregate principal amount of loans and commitments then outstanding in such class. The consequences of these developments cannot be entirely predicted, but could include an increase in the interest cost of our variable rate indebtedness.

Our business may not generate sufficient cash flows from operations or future borrowings may not be available to us under our Revolving Credit Facility or the Receivables Financing Agreement in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. Our ability to do so depends on, among other factors, prevailing economic conditions, many of which are beyond our control, including the ongoing impact of the COVID-19 pandemic. In addition, upon the occurrence of certain events, such as a change in control, we could be required to repay or refinance our indebtedness. We may not be able to refinance any of our indebtedness, including the Series B Term Loan under the Credit Agreement, on commercially reasonable terms or at all. Any future acquisitions, joint ventures, or other similar transactions may require additional capital and there can be no assurance that any such capital will be available to us on acceptable terms or at all.

Cash Flows

Information about our cash flows, by category, is presented in our statements of cash flows and is summarized below:

(in millions)	Three Months Ended December 31,	
	2021	2020
Operating activities	\$ (22.4)	\$ 5.1
Investing activities	\$ (33.7)	\$ (71.4)
Financing activities	\$ 65.2	\$ (9.2)
Free Cash Flow ⁽¹⁾	\$ (49.9)	\$ (4.0)

(1) See the “Non-GAAP Financial Measures” above for a reconciliation to the most directly comparable GAAP measure.

Cash Flows provided by Operating Activities

Net cash provided by operating activities for the three months ended December 31, 2021 decreased \$27.5 million, to \$(22.4) million, from \$5.1 million in the 2020 period. This decrease was due to an increase in the cash used by accounts payable and other operating liabilities, primarily due to the repayment of the payroll

tax deferral under the CARES Act, coupled with a reduction in cash provided by other operating assets. This was partially offset by an increase in cash provided by accounts receivable, unbilled and deferred revenue.

Cash Flows used in Investing Activities

Net cash used in investing activities decreased \$37.7 million to \$33.7 million for the three months ended December 31, 2021 from \$71.4 million in the 2020 period. The decrease was driven by cash used for acquisitions of \$6.0 million for the three months ended December 31, 2021 compared to \$62.2 million in the 2020 period, a decrease of \$56.2 million. Offsetting this was an increase of \$18.9 million in cash used for capital expenditures.

Table of Contents*Cash Flows (used) provided in Financing Activities*

Net cash flows provided by financing activities of \$65.2 million for the three months ended December 31, 2021 included proceeds from our Receivables Financing Agreement of \$75.0 million, offset by repayments of finance lease obligations of \$5.6 million and debt repayments of \$2.6 million.

Free Cash Flow

Free Cash Flow decreased \$45.9 million to \$(49.9) million for the three months ended December 31, 2021 from \$(4.0) million in the 2020 period. The decrease in Free Cash Flow was due to an increase in net cash used in operating activities and an increase in cash used for capital expenditures, as described above.

Working Capital

(in millions)	December 31, 2021	September 30, 2021
Net Working Capital:		
Current assets	\$ 711.7	\$ 710.8
Less: Current liabilities	456.4	496.1
Net working capital	<u>\$ 255.3</u>	<u>\$ 214.7</u>

Net working capital is defined as current assets less current liabilities. Net working capital increased \$40.6 million to \$255.3 million at December 31, 2021, from \$214.7 million at September 30, 2021, primarily driven by a decrease in accrued expenses and other liabilities of \$55.0 million, an increase in other current assets of \$14.5 million, and an increase in cash and cash equivalents of 9.1 million. This was partially offset by a decrease in unbilled revenue of 26.0 million and an increase in deferred revenue of \$15.3 million.

Description of Indebtedness

As of December 31, 2021, we were in compliance with all of our debt covenants and no event of default has occurred or was ongoing. See Note 7 “Long-term Debt” to our unaudited consolidated financial statements included under Part I, Item 1, “Financial Statements”.

Contractual Obligations and Commercial Commitments

During the three months ended December 31, 2021, outside of the Company's agreement to repurchase shares from MSD Valley Investments, LLC entered into in December 2021, as referenced in Part II Item 2 of this document, there were no material changes outside the ordinary course of business in our contractual obligations and commercial commitments from those reported as of September 30, 2021 in our Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

Management has evaluated the accounting policies used in the preparation of the Company's consolidated financial statements and related notes and believe those policies to be reasonable and appropriate. Certain of these accounting policies require the application of significant judgment by management in selecting appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on historical experience, trends in the industry, information provided by customers and information available from other outside sources, as appropriate. The

most significant areas involving management judgments and estimates may be found in the Annual Report on Form 10-K, in the “Critical Accounting Policies and Estimates” section of “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” There have been no material changes to our critical accounting policies as compared to the critical accounting policies described in the Annual Report on Form 10-K for the year ended September 30, 2021.

Recently Issued Accounting Policies

The information set forth in Note 2 “Recent Accounting Pronouncements” to our unaudited consolidated financial statements under Part I, Item 1, “Financial Statements” is incorporated herein by reference.

*Table of Contents***Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

For quantitative and qualitative disclosures about market risk, see “Item 7A. Quantitative and Qualitative Disclosure of Market Risk” in the Annual Report on Form 10-K for the fiscal year ended September 30, 2021.

Item 4. Controls and Procedures.**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) that are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

In accordance with Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision of our CEO and our CFO, the effectiveness of disclosure controls and procedures as of December 31, 2021. Based on this evaluation, our CEO and our CFO concluded that our disclosure controls and procedures were effective as of December 31, 2021 at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There has not been any change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II—OTHER INFORMATION****Item 1. Legal Proceedings.**

The information set forth in Note 11 “Commitments and Contingencies” to our Condensed Consolidated Financial Statements under Part I, Item 1, “Financial Statements,” is incorporated herein by reference.

Item 1A. Risk Factors.

There have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, as filed with the SEC on November 17, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**Issuer Purchases of Equity Securities**

The following table provides information about the Company's share repurchase activity during the first fiscal quarter:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Approximate dollar value of shares that may yet be purchased under the plans or programs ⁽¹⁾
October 1, 2021 - October 31, 2021	N/A	N/A	N/A	N/A
November 1, 2021 - November 30, 2021	N/A	N/A	N/A	N/A
December 1, 2021 - December 31, 2021	5,700	\$ 14.37	5,700	\$ 249,918,071
Total	5,700	\$ 14.37	5,700	\$ 249,918,071

- (1) On December 6, 2021, the Company announced a share repurchase program allowing us to repurchase up to \$250 million of common stock. On December 9, 2021, the Company entered into an agreement to repurchase 5,906,954 shares from MSD Valley Investments, LLC at \$13.98 per share. Such repurchase transaction was completed on January 19, 2022 and is excluded from the table above.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Table of Contents**Item 6. Exhibits.**

The following is a list of all exhibits filed or furnished as part of this report:

Exhibit No.	Description
3.1	<u>Third Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 2, 2018).</u>
3.2	<u>Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on July 2, 2018).</u>
10.1	<u>Share Repurchase Agreement, dated as of December 9, 2021 by and between MSD Valley Investments, LLC and BrightView Holdings, Inc. (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on December 14, 2021).</u>
10.2*	<u>Fifth Amendment to the Purchase and Sale Agreement, dated as of December 22, 2021, by and among BrightView Landscapes, LLC, as Servicer, BrightView Landscape Development, Inc., an Arizona corporation, as an Originator, BrightView Landscape Development, Inc., a Colorado corporation, as an Originator, various parties listed on the signature pages thereto as Originators and BrightView Funding LLC, as Buyer</u>
31.1*	<u>Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u>
31.2*	<u>Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u>
32.1*	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u>
32.2*	<u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).</u>
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SC H	Inline XBRL Taxonomy Extension Schema Document
101.CA L	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DE F	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LA B	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PR E	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page for the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2021, has been formatted in Inline XBRL.

* Filed or furnished herewith.

*Table of Contents***SIGNATURES**

Pursuant to the requirements 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.

BrightView Holdings, Inc.

Date: February 3, 2022

By: /s/ Louay H. Khatib

Louay H. Khatib
Chief Accounting Officer
(Principal Accounting Officer)