

**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**

Commission file number: 001-36557

ADVANCED DRAINAGE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

51-0105665
(I.R.S. Employer
Identification No.)

4640 Trueman Boulevard, Hilliard, Ohio 43026
(Address of Principal Executive Offices, Including Zip Code)

(614) 658-0050
(Registrant's Telephone Number, Including Area Code)

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

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

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. (Check one):

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
Emerging Growth Company	☐		

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of January 27, 2022, the registrant had 71,919,817 shares of common stock outstanding. The shares of common stock trade on the New York Stock Exchange under the ticker symbol "WMS." In addition, as of January 27, 2022, 319,145 shares of unvested restricted common stock were outstanding and 16,082,413 shares of ESOP, preferred stock, convertible into 12,370,592 shares of common stock, were outstanding. As of January 27, 2022, 84,609,554 shares of common stock were outstanding, inclusive of outstanding shares of unvested restricted common stock and on an as-converted basis with respect to the outstanding shares of ESOP preferred stock.

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PART I. FINANCIAL INFORMATION

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (In thousands, except par value)

	December 31, 2021	March 31, 2021
ASSETS		
Current assets:		
Cash	\$ 22,173	\$ 195,009
Receivables (less allowance for doubtful accounts of \$8,122 and \$5,323, respectively)	303,140	236,191
Inventories	465,518	300,961
Other current assets	16,188	10,817
Total current assets	807,019	742,978
Property, plant and equipment, net	590,949	504,275
Other assets:		
Goodwill	611,578	599,072
Intangible assets, net	447,411	482,016
Other assets	98,802	85,491
Total assets	\$ 2,555,759	\$ 2,413,832
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of debt obligations	\$ 20,764	\$ 7,000
Current maturities of finance lease obligations	5,167	19,318
Accounts payable	195,471	171,098
Other accrued liabilities	140,578	116,151
Accrued income taxes	2,104	4,703
Total current liabilities	364,084	318,270
Long-term debt obligations (less unamortized debt issuance costs of \$1,744 and \$2,030, respectively)	931,765	782,220
Long-term finance lease obligations	13,354	32,964
Deferred tax liabilities	172,143	162,185
Other liabilities	53,903	54,767
Total liabilities	1,535,249	1,350,406
Commitments and contingencies (see Note 10)		
Mezzanine equity:		
Redeemable convertible preferred stock: \$0.01 par value; 47,070 shares authorized; 44,170 shares issued; 16,871 and 19,275 shares outstanding, respectively	210,888	240,944
Deferred compensation – unearned ESOP shares	(5,146)	(11,033)
Total mezzanine equity	205,742	229,911
Stockholders' equity:		
Common stock; \$0.01 par value; 1,000,000 shares authorized; 74,492 and 72,071 shares issued, respectively; 71,295 and 71,570 shares outstanding, respectively	11,601	11,578
Paid-in capital	1,008,610	918,587
Common stock in treasury, at cost	(316,049)	(10,959)
Accumulated other comprehensive loss	(26,681)	(24,220)
Retained earnings (deficit)	121,918	(75,202)
Total ADS stockholders' equity	799,399	819,784
Noncontrolling interest in subsidiaries	15,369	13,731
Total stockholders' equity	814,768	833,515
Total liabilities, mezzanine equity and stockholders' equity	\$ 2,555,759	\$ 2,413,832

See accompanying Notes to Condensed Consolidated Financial Statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited) (In thousands, except per share data)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
Net sales	\$ 715,357	\$ 486,145	\$ 2,091,128	\$ 1,538,971
Cost of goods sold	506,380	317,640	1,480,973	976,106
Gross profit	208,977	168,505	610,155	562,865
Operating expenses:				
Selling, general and administrative	80,059	66,606	230,231	194,083
Loss on disposal of assets and costs from exit and disposal activities	3,466	980	2,554	3,254
Intangible amortization	15,138	17,956	46,229	53,893
Income from operations	110,314	82,963	331,141	311,635
Other expense:				
Interest expense	8,756	8,433	25,100	27,763
Derivative gains and other income, net	(979)	(165)	(2,791)	(883)
Income before income taxes	102,537	74,695	308,832	284,755
Income tax expense	28,792	20,264	82,063	79,291
Equity in net (income) loss of unconsolidated affiliates	(717)	390	(1,128)	150
Net income	74,462	54,041	227,897	205,314
Less: net income attributable to noncontrolling interest	784	267	2,873	838
Net income attributable to ADS	73,678	53,774	225,024	204,476
Weighted average common shares outstanding:				
Basic	71,267	70,450	71,087	69,893
Diluted	72,789	71,586	72,752	70,853
Net income per share:				
Basic	\$ 0.88	\$ 0.63	\$ 2.67	\$ 2.42
Diluted	\$ 0.86	\$ 0.62	\$ 2.61	\$ 2.38

See accompanying Notes to Condensed Consolidated Financial Statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (In thousands)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
Net income	\$ 74,462	\$ 54,041	\$ 227,897	\$ 205,314
Currency translation (loss) gain	(860)	7,440	(2,225)	12,996
Comprehensive income	73,602	61,481	225,672	218,310
Less: other comprehensive (loss) income attributable to noncontrolling interest	(199)	1,367	236	2,024
Less: net income attributable to noncontrolling interest	784	267	2,873	838
Total comprehensive income attributable to ADS	\$ 73,017	\$ 59,847	\$ 222,563	\$ 215,448

See accompanying Notes to Condensed Consolidated Financial Statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Nine Months Ended December 31,	
	2021	2020
Cash Flows from Operating Activities		
Net income	\$ 227,897	\$ 205,314
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	103,687	107,321
Deferred income taxes	6,243	(8,032)
Gain on disposal of assets and costs from exit and disposal activities	2,554	3,254
ESOP and stock-based compensation	61,900	45,413
Amortization of deferred financing charges	286	293
Fair market value adjustments to derivatives	118	(2,537)
Equity in net income of unconsolidated affiliates	(1,128)	150
Other operating activities	(9,898)	6,162
Changes in working capital:		
Receivables	(59,821)	12,502
Inventories	(161,878)	46,809
Prepaid expenses and other current assets	(5,199)	(2,288)
Accounts payable, accrued expenses, and other liabilities	29,086	34,415
Net cash provided by operating activities	193,847	448,776
Cash Flows from Investing Activities		
Capital expenditures	(100,367)	(57,675)
Acquisition, net of cash acquired	(49,210)	—
Other investing activities	(463)	516
Net cash used in investing activities	(150,040)	(57,159)
Cash Flows from Financing Activities		
Payments on syndicated Term Loan Facility	(5,250)	(205,250)
Proceeds from Revolving Credit Agreement	258,100	—
Payments on Revolving Credit Agreement	(124,600)	(100,000)
Proceeds from Equipment Financing	35,963	—
Payments on Equipment Financing	(1,177)	—
Payments on finance lease obligations	(49,365)	(15,859)
Repurchase of common stock	(292,000)	—
Cash dividends paid	(27,826)	(24,507)
Dividends paid to noncontrolling interest holder	(1,471)	—
Proceeds from exercise of stock options	4,274	3,989
Payment of withholding taxes on vesting of restricted stock units	(13,055)	—
Other financing activities	(167)	(1,489)
Net cash used in financing activities	(216,574)	(343,116)
Effect of exchange rate changes on cash	(69)	1,262
Net change in cash	(172,836)	49,763
Cash at beginning of period	195,009	174,233
Cash at end of period	\$ 22,173	\$ 223,996
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 81,028	\$ 64,344
Cash paid for interest	20,080	25,305
<i>Non-cash operating, investing and financing activities:</i>		
Acquisition of property, plant and equipment under finance lease and incurred lease obligations	16,258	4,299
Balance in accounts payable for the acquisition of property, plant and equipment	16,313	3,443

See accompanying Notes to Condensed Consolidated Financial Statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND MEZZANINE EQUITY
(Unaudited) (In thousands)

	Common Stock		Paid-In Capital	Common Stock in Treasury		Accumulated Other Comprehensive Loss	Retained (Deficit) Earnings	Total ADS Stockholders' Equity	Non-controlling Interest in Subsidiaries	Total Stockholders' Equity	Redeemable Convertible Preferred Stock		Deferred Compensation Unearned ESOP Shares		Total Mezzanine Equity
	Shares	Amount		Shares	Amount						Shares	Amount	Shares	Amount	
Balance at October 1, 2020	70,502	\$ 11,562	\$ 859,254	500	\$ (10,859)	\$ (30,426)	\$ (133,011)	\$ 696,520	\$ 12,990	\$ 709,510	21,030	\$ 262,872	1,398	\$ (16,779)	\$ 246,093
Net income	—	—	—	—	—	—	53,774	53,774	267	54,041	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	6,073	—	6,073	1,367	7,440	—	—	—	—	—
Redeemable convertible preferred stock dividends	—	—	—	—	—	—	(1,288)	(1,288)	—	(1,288)	—	—	—	—	—
Common stock dividends (\$0.09 per share)	—	—	—	—	—	—	(6,378)	(6,378)	—	(6,378)	—	—	—	—	—
Dividends paid to noncontrolling interest holder	—	—	—	—	—	—	—	—	(1,470)	(1,470)	—	—	—	—	—
Allocation of ESOP shares to participants for compensation	—	—	10,686	—	—	—	—	10,686	—	10,686	—	—	(226)	2,827	2,827
Exercise of common stock options	29	—	714	—	—	—	—	714	—	714	—	—	—	—	—
Restricted stock awards	4	—	—	1	(90)	—	—	(90)	—	(90)	—	—	—	—	—
Stock-based compensation expense	—	—	4,813	—	—	—	—	4,813	—	4,813	—	—	—	—	—
ESOP distribution in common stock	454	5	7,376	—	—	—	—	7,381	—	7,381	(591)	(7,381)	—	—	(7,381)
Balance at December 31, 2020	70,989	\$ 11,567	\$ 882,843	501	\$ (10,949)	\$ (24,353)	\$ (86,903)	\$ 772,205	\$ 13,154	\$ 785,359	20,439	\$ 255,491	1,172	\$ (13,952)	\$ 241,539
Balance at April 1, 2020	69,810	\$ 11,555	\$ 827,573	491	\$ (10,461)	\$ (35,325)	\$ (267,619)	\$ 525,723	\$ 11,762	\$ 537,485	21,562	\$ 269,529	1,850	\$ (22,432)	\$ 247,097
Adoption of ASU 2016-13	—	—	—	—	—	—	(779)	(779)	—	(779)	—	—	—	—	—
Net income	—	—	—	—	—	—	204,476	204,476	838	205,314	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	10,972	—	10,972	2,024	12,996	—	—	—	—	—
Redeemable convertible preferred stock dividends	—	—	—	—	—	—	(3,983)	(3,983)	—	(3,983)	—	—	—	—	—
Common stock dividends (\$0.27 per share)	—	—	—	—	—	—	(18,998)	(18,998)	—	(18,998)	—	—	—	—	—
Dividends paid to noncontrolling interest holder	—	—	—	—	—	—	—	—	(1,470)	(1,470)	—	—	—	—	—
Allocation of ESOP shares to participants for compensation	—	—	21,026	—	—	—	—	21,026	—	21,026	—	—	(678)	8,480	8,480
Exercise of common stock options	181	2	3,989	—	—	—	—	3,991	—	3,991	—	—	—	—	—
Restricted stock awards	134	1	—	10	(488)	—	—	(487)	—	(487)	—	—	—	—	—
Stock-based compensation expense	—	—	15,908	—	—	—	—	15,908	—	15,908	—	—	—	—	—
ESOP distribution in common stock	864	9	14,029	—	—	—	—	14,038	—	14,038	(1,123)	(14,038)	—	—	(14,038)
Other	—	—	318	—	—	—	—	318	—	318	—	—	—	—	—
Balance at December 31, 2020	70,989	\$ 11,567	\$ 882,843	501	\$ (10,949)	\$ (24,353)	\$ (86,903)	\$ 772,205	\$ 13,154	\$ 785,359	20,439	\$ 255,491	1,172	\$ (13,952)	\$ 241,539

See accompanying Notes to Condensed Consolidated Financial Statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND MEZZANINE EQUITY (CONTINUED)
(Unaudited) (In thousands)

	Common Stock		Paid-In Capital	Common Stock in Treasury		Accumulated Other Comprehensive Loss	Retained (Deficit) Earnings	Total ADS Stockholders' Equity	Non-controlling Interest in Subsidiaries	Total Stockholders' Equity	Redeemable Convertible Preferred Stock		Deferred Compensation Unearned ESOP Shares		Total Mezzanine Equity
	Shares	Amount		Shares	Amount						Shares	Amount	Shares	Amount	
Balance at October 1, 2021	73,333	\$ 11,590	\$ 968,198	3,196	\$ (315,935)	\$ (26,020)	\$ 57,386	\$ 695,219	\$ 14,784	\$ 710,003	18,282	\$ 228,532	644	\$ (7,014)	\$ 221,518
Net income	—	—	—	—	—	—	73,678	73,678	784	74,462	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	(661)	—	(661)	(199)	(860)	—	—	—	—	—
Redeemable convertible preferred stock dividends	—	—	—	—	—	—	(1,267)	(1,267)	—	(1,267)	—	—	—	—	—
Common stock dividends (\$0.11 per share)	—	—	—	—	—	—	(7,879)	(7,879)	—	(7,879)	—	—	—	—	—
Allocation of ESOP shares to participants for compensation	—	—	15,353	—	—	—	—	15,353	—	15,353	—	—	(149)	1,868	1,868
Exercise of common stock options	71	1	1,094	—	—	—	—	1,095	—	1,095	—	—	—	—	—
Restricted stock awards	2	—	—	1	(114)	—	—	(114)	—	(114)	—	—	—	—	—
Stock-based compensation expense	—	—	6,242	—	—	—	—	6,242	—	6,242	—	—	—	—	—
ESOP distribution in common stock	1,086	10	17,634	—	—	—	—	17,644	—	17,644	(1,411)	(17,644)	—	—	(17,644)
Other	—	—	89	—	—	—	—	89	—	89	—	—	—	—	—
Balance at December 31, 2021	<u>74,492</u>	<u>\$ 11,601</u>	<u>\$ 1,008,610</u>	<u>3,197</u>	<u>\$ (316,049)</u>	<u>\$ (26,681)</u>	<u>\$ 121,918</u>	<u>\$ 799,399</u>	<u>\$ 15,369</u>	<u>\$ 814,768</u>	<u>16,871</u>	<u>\$ 210,888</u>	<u>495</u>	<u>\$ (5,146)</u>	<u>\$ 205,742</u>
Balance at April 1, 2021	72,071	\$ 11,578	\$ 918,587	501	\$ (10,959)	\$ (24,220)	\$ (75,202)	\$ 819,784	\$ 13,731	\$ 833,515	19,275	\$ 240,944	966	\$ (11,033)	\$ 229,911
Net income	—	—	—	—	—	—	225,024	225,024	2,873	227,897	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	(2,461)	—	(2,461)	236	(2,225)	—	—	—	—	—
Redeemable convertible preferred stock dividends	—	—	—	—	—	—	(4,364)	(4,364)	—	(4,364)	—	—	—	—	—
Common stock dividends (\$0.33 per share)	—	—	—	—	—	—	(23,540)	(23,540)	—	(23,540)	—	—	—	—	—
Dividends paid to noncontrolling interest holder	—	—	—	—	—	—	—	—	(1,471)	(1,471)	—	—	—	—	—
Share repurchases	—	—	—	2,574	(292,000)	—	—	(292,000)	—	(292,000)	—	—	—	—	—
Allocation of ESOP shares to participants for compensation	—	—	37,502	—	—	—	—	37,502	—	37,502	—	—	(471)	5,887	5,887
Exercise of common stock options	195	2	4,273	—	—	—	—	4,275	—	4,275	—	—	—	—	—
Restricted stock awards	131	1	—	30	(3,345)	—	—	(3,344)	—	(3,344)	—	—	—	—	—
Performance-based restricted stock units	245	2	—	92	(9,745)	—	—	(9,743)	—	(9,743)	—	—	—	—	—
Stock-based compensation expense	—	—	18,511	—	—	—	—	18,511	—	18,511	—	—	—	—	—
ESOP distribution in common stock	1,850	18	30,038	—	—	—	—	30,056	—	30,056	(2,404)	(30,056)	—	—	(30,056)
Other	—	—	(301)	—	—	—	—	(301)	—	(301)	—	—	—	—	—
Balance at December 31, 2021	<u>74,492</u>	<u>\$ 11,601</u>	<u>\$ 1,008,610</u>	<u>3,197</u>	<u>\$ (316,049)</u>	<u>\$ (26,681)</u>	<u>\$ 121,918</u>	<u>\$ 799,399</u>	<u>\$ 15,369</u>	<u>\$ 814,768</u>	<u>16,871</u>	<u>\$ 210,888</u>	<u>495</u>	<u>\$ (5,146)</u>	<u>\$ 205,742</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business - Advanced Drainage Systems, Inc. and subsidiaries (collectively referred to as “ADS” or the “Company”), incorporated in Delaware, designs, manufactures and markets innovative water management solutions in the stormwater and on-site septic waste water industries, providing superior drainage solutions for use in the construction and agriculture marketplace. ADS’s products are used across a broad range of end markets and applications, including non-residential, infrastructure and agriculture applications.

The Company is managed and reports results of operations in three reportable segments: Pipe, Infiltrator Water Technologies Ultimate Holdings, Inc (“Infiltrator”) and International. The Company also reports the results of its Allied Products and all other business segments as Allied Products and Other.

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

Basis of Presentation - The Company prepares its Condensed Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Condensed Consolidated Balance Sheet as of March 31, 2021 was derived from audited financial statements included in the Annual Report on Form 10-K for the year ended March 31, 2021 (“Fiscal 2021 Form 10-K”). The accompanying unaudited Condensed Consolidated Financial Statements contain all adjustments, of a normal recurring nature, necessary to present fairly its financial position as of December 31, 2021 and the results of operations for the three and nine months ended December 31, 2021 and cash flows for the nine months ended December 31, 2021. The interim Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements, including the notes thereto, filed in the Company’s Fiscal 2021 Form 10-K.

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

Certain prior year amounts have been reclassified to conform to the fiscal 2022 presentation.

Recent Accounting Guidance

Recently Adopted Accounting Guidance

<i>Standard</i>	<i>Adoption</i>
<i>ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes</i>	In December 2019, the FASB issued an ASU to simplify the accounting for income taxes by removing certain exceptions to the general principles in ASC 740, Income Taxes and improve the comparability of financial statements. The Company adopted this standard effective April 1, 2021. The Company’s adoption of the standard had no impact on the Company’s Condensed Consolidated Financial Statements.

Except for the pronouncements described above, there have been no new accounting pronouncements issued or adopted since the filing of the Fiscal 2021 Form 10-K that have significance, or potential significance, to the Condensed Consolidated Financial Statements.

2. ACQUISITIONS

Acquisition of Jet - On December 3, 2021, the Company completed its acquisition of Jet Polymer Recycling, Inc., The Traylor Group, Inc. and certain assets of EAT Properties, L.L.C. (collectively “Jet”). Jet was a privately-owned recycling company located in the southeastern United States. The acquisition of Jet expands the Company’s plastic

recycling capabilities to support future growth. Jet is currently the largest supplier of recycled polypropylene plastic for Infiltrator. The total fair value of consideration transferred was \$49.4 million.

The following table summarizes the consideration transferred and the preliminary purchase price allocation of assets acquired and liabilities assumed. The purchase price allocation for assets acquired and liabilities assumed is preliminary and will be finalized when valuations are complete and final assessments of the fair value of acquired assets and assumed liabilities are completed. Such finalizations may result in material changes from the preliminary purchase price allocations. The Company's estimates and assumptions are subject to change during the measurement period (up to one year from the closing date), as the Company continues to finalize the valuations of assets acquired and liabilities assumed.

(Amounts in thousands)	Initial Amount
Cash	\$ 160
Total current assets, excluding cash	12,993
Property, plant and equipment	22,495
Goodwill	12,597
Intangible assets	11,500
Other assets	158
Total current liabilities	(5,750)
Deferred tax liabilities	(2,999)
Other liabilities	(1,784)
Total fair value of consideration transferred	\$ 49,370

The preliminary goodwill of \$12.6 million represents the excess of consideration transferred over the preliminary fair value of assets acquired and liabilities assumed and is attributable to expected operating efficiencies. The goodwill is not deductible for income tax purposes and is assigned to the Pipe segment.

The preliminary purchase price excludes transaction costs. During the three months ended December 31, 2021, the Company incurred \$2.6 million of transaction costs related to the acquisition such as legal, accounting, valuation and other professional services. These costs are included in selling, general and administrative expenses in the Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income.

The identifiable intangible assets recorded in connection with the closing of the acquisition of Jet are based on preliminary valuations including supplier and customer relationships, tradename and non-compete agreements totaling \$11.5 million.

(Amounts in thousands)	Preliminary fair value
Supplier and customer relationships	\$ 10,500
Other	1,000
Total identifiable intangible assets	\$ 11,500

The Company has excluded certain disclosures required under ASC 805, Business Combinations as they are not material to the financial statements.

3. REVENUE RECOGNITION

Revenue Disaggregation - The Company disaggregates net sales by Domestic, International and Infiltrator and further disaggregates Domestic and International by product type, consistent with its reportable segment disclosure. This disaggregation level best depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to "Note 13. Business Segments Information" for the Company's disaggregation of Net sales by reportable segment.

Contract Balances - The Company recognizes a contract asset representing the Company's right to recover products upon the receipt of returned products and a contract liability for the customer refund. The following table presents the balance of the Company's contract asset and liability as of the periods presented:

	December 31, 2021	March 31, 2021
	(In thousands)	
Contract asset - product returns	\$ 1,052	\$ 694
Refund liability	2,508	1,801

4. LEASES

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

Master Lease Agreement - In May 2021, the Company entered into a Master Lease Agreement and an Interim Funding Schedule with Fifth Third Bank, National Association, ("Fifth Third") to finance its procurement of material handling equipment, trucks and trailers (the "Master Lease Agreement"). The Master Lease Agreement and Interim Funding Schedule have an initial capacity of \$62.5 million denominated in USD and \$2.5 million denominated in CAD. Financings will either bear interest at a fixed rental amount or at a rate based on the London Interbank Offered Rate plus the applicable margin. In November 2021, the Company purchased all material handling equipment, trucks and trailers previously classified as finance leases under a master lease agreement with its previous service provider. The outstanding lease obligation as of March 31, 2021 was \$36.6 million. The purchase was funded with debt through the Master Lease Agreement and Interim Funding Agreement with Fifth Third. As of December 31, 2021, the Company had financings of \$43.0 million outstanding under the agreements, including \$36.0 million of Equipment Financing (as defined and further discussed in "Note 9. Debt").

5. INVENTORIES

Inventories as of the periods presented consisted of the following:

	December 31, 2021	March 31, 2021
	(In thousands)	
Raw materials	\$ 170,049	\$ 75,294
Finished goods	295,469	225,667
Total inventories	\$ 465,518	\$ 300,961

6. FAIR VALUE MEASUREMENTS AND DERIVATIVE TRANSACTIONS

The Company uses commodity options in the form of collars and swaps and has previously used interest rate swaps and foreign currency forward contracts to manage its various exposures to interest rate, commodity price fluctuations and foreign currency exchange rate fluctuations. Mark-to-market adjustments for changes in fair value and contract settlement gains and losses for collars, commodity swaps and foreign currency forward contracts are recorded in the Condensed Consolidated Statements of Operations in Derivative gains and other income, net.

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

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

Recurring Fair Value Measurements - The assets and liabilities carried at fair value as of the periods presented were as follows:

December 31, 2021				
	Total	Level 1	Level 2	Level 3
(In thousands)				
Assets:				
Derivative assets – diesel fuel contracts	\$ 1,240	—	\$ 1,240	—
Total assets at fair value on a recurring basis	\$ 1,240	—	\$ 1,240	—
Liabilities:				
Derivative liabilities – diesel fuel contracts	\$ 195	—	\$ 195	—
Total liabilities at fair value on a recurring basis	\$ 195	—	\$ 195	—

March 31, 2021				
	Total	Level 1	Level 2	Level 3
(In thousands)				
Assets:				
Derivative assets – diesel fuel contracts	\$ 1,194	—	\$ 1,194	—
Total assets at fair value on a recurring basis	\$ 1,194	—	\$ 1,194	—
Liabilities:				
Derivative liabilities - diesel fuel contracts	\$ 32	—	\$ 32	—
Total liabilities at fair value on a recurring basis	\$ 32	—	\$ 32	—

For the nine months ended December 31, 2021 and 2020, respectively, there were no transfers in or out of Levels 1, 2 or 3.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
	(In thousands)			
Diesel fuel option collars	\$ 564	\$ (1,082)	\$ 118	\$ (2,537)
Total net unrealized mark-to-market loss (gains)	\$ 564	\$ (1,082)	\$ 118	\$ (2,537)
Diesel fuel option collars	(749)	261	(2,016)	1,578
Total net realized (gain) loss	\$ (749)	\$ 261	\$ (2,016)	\$ 1,578

Valuation of Debt - The carrying amounts of current financial assets and liabilities approximate fair value because of the immediate or short-term maturity of these items, or in the case of derivative instruments, because they are recorded at fair value. The following table presents the carrying and fair value of the Company's Senior Notes and Equipment Financing (as defined below and further discussed in "Note 9. Debt") for the periods presented:

	December 31, 2021		March 31, 2021	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
Senior Notes	\$ 362,614	\$ 350,000	\$ 367,633	\$ 350,000
Equipment Financing	\$ 33,300	\$ 34,773	\$ —	\$ —
Total fair value	\$ 395,914	\$ 384,773	\$ 367,633	\$ 350,000

The fair value of the Senior Notes was determined based on a quoted market data for the Company's Senior Notes. The fair value of the Equipment Financing was determined based on a comparison of the interest rate and terms of such borrowings to the rates and terms of similar debt available for the period. The categorization of the framework

used to evaluate the Senior Notes and Equipment Financing are considered Level 2. The Company believes the carrying amount on the remaining long-term debt, including the Term Loan Facility and Revolving Credit Facility, is not materially different from its fair value as the interest rates and terms of the borrowings are similar to currently available borrowings.

7. NET INCOME PER SHARE AND STOCKHOLDERS' EQUITY

The Company is required to apply the two-class method to compute both basic and diluted net income per share. The two-class method is an earnings allocation formula that treats participating securities as having rights to earnings that would otherwise have been available to common stockholders.

The following table presents information necessary to calculate net income per share for the periods presented, as well as potentially dilutive securities excluded from the weighted average number of diluted common shares outstanding because their inclusion would have been anti-dilutive:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
(In thousands, except per share data)				
NET INCOME PER SHARE—BASIC:				
Net income attributable to ADS	\$ 73,678	\$ 53,774	\$ 225,024	\$ 204,476
Adjustments for:				
Dividends to participating securities	(1,357)	(1,288)	(4,633)	(3,985)
Net income available to common stockholders and participating securities	72,321	52,486	220,391	200,491
Undistributed income allocated to participating securities	(9,457)	(7,798)	(30,870)	(31,699)
Net income available to common stockholders – Basic	\$ 62,864	\$ 44,688	\$ 189,521	\$ 168,792
Weighted average number of common shares outstanding – Basic	71,267	70,450	71,087	69,893
Net income per common share – Basic	\$ 0.88	\$ 0.63	\$ 2.67	\$ 2.42
NET INCOME PER SHARE—DILUTED:				
Net income available to common stockholders – Diluted	\$ 62,864	\$ 44,688	\$ 189,521	\$ 168,792
Weighted average number of common shares outstanding – Basic	71,267	70,450	71,087	69,893
Assumed restricted stock - nonparticipating	236	886	245	745
Assumed exercise of stock options	854	250	904	215
Assumed performance units	432	—	516	—
Weighted average number of common shares outstanding – Diluted	72,789	71,586	72,752	70,853
Net income per common share – Diluted	\$ 0.86	\$ 0.62	\$ 2.61	\$ 2.38
Potentially dilutive securities excluded as anti-dilutive	12,271	14,347	13,240	14,807

Stockholders' Equity – During the nine months ended December 31, 2021, the Company repurchased 2.6 million shares of common stock at a cost of \$292.0 million. The repurchases were made under the Board of Directors' authorization in May 2021 to repurchase up to an additional \$250 million of ADS Common Stock, in addition to the \$42 million previously authorized, in accordance with applicable securities laws. As of December 31, 2021, the Company has utilized all of the common stock repurchase authorization. The repurchase program does not obligate the Company to acquire any particular amount of common stock and may be suspended or terminated at any time at the Company's discretion.

8. RELATED PARTY TRANSACTIONS

ADS Mexicana - ADS conducts business in Mexico and Central America through its joint venture ADS Mexicana, S.A. de C.V. (together with its affiliate ADS Corporativo, S.A. de C.V., "ADS Mexicana"). ADS owns 51% of the outstanding stock of ADS Mexicana and consolidates ADS Mexicana for financial reporting purposes.

On June 22, 2018, the Company and ADS Mexicana entered into an Intercompany Revolving Credit Promissory Note (the "Intercompany Note") with a borrowing capacity of \$12.0 million. The Intercompany Note matures on

June 22, 2022. The Intercompany Note indemnifies the ADS Mexicana joint venture partner for 49% of any unpaid borrowing. The interest rates under the Intercompany Note are determined by certain base rates or London Interbank Offered Rate (“LIBOR”) plus an applicable margin based on the Leverage Ratio. As of December 31, 2021 and March 31, 2021, there were \$1.5 million and no borrowings, respectively, outstanding under the Intercompany Note.

South American Joint Venture - The Tuberías Tigre - ADS Limitada joint venture (the “South American Joint Venture”) manufactures and sells HDPE corrugated pipe in certain South American markets. ADS owns 50% of the South American Joint Venture. ADS is the guarantor of 50% of the South American Joint Venture’s credit arrangement, and the debt guarantee is shared equally with the joint venture partner. The Company’s maximum potential obligation under this guarantee is \$11.0 million as of December 31, 2021. The maximum borrowings permitted under the South American Joint Venture’s credit facility are \$22.0 million. The Company does not anticipate any required contributions related to the balance of this credit arrangement. As of December 31, 2021 and March 31, 2021, the outstanding principal balances of the credit facility including letters of credit were \$9.2 million and \$10.0 million, respectively. As of December 31, 2021, there were no U.S. dollar denominated loans. The weighted average interest rate as of December 31, 2021 was 4.3% on Chilean peso denominated loans.

9. DEBT

Long-term debt as of the periods presented consisted of the following:

	December 31, 2021	March 31, 2021
	(In thousands)	
Term Loan Facility	\$ 436,000	\$ 441,250
Senior Notes	350,000	350,000
Revolving Credit Facility	133,500	—
Equipment Financing	34,773	—
Total	954,273	791,250
Unamortized debt issuance costs	(1,744)	(2,030)
Current maturities	(20,764)	(7,000)
Long-term debt obligations	\$ 931,765	\$ 782,220

Senior Secured Credit Facilities – In July 2019, the Company entered into the credit agreement (the “Base Credit Agreement”) by and among the Company, as borrower, Barclays Bank PLC, as administrative agent, the several lenders from time to time party thereto. In September 2019, the Company amended the Base Credit Agreement (as amended the “Senior Secured Credit Facility”). The Senior Secured Credit Facility provides for a term loan facility in an initial aggregate principal amount of \$700 million (the “Term Loan Facility”), a revolving credit facility in an initial aggregate principal amount of up to \$350 million (the “Revolving Credit Facility”), a letter of credit sub-facility in the initial aggregate available amount of up to \$50 million, as a sublimit of such Revolving Credit Facility (the “L/C Facility”) and a swing line sub-facility in the aggregate available amount of up to \$50 million, as a sublimit of the Revolving Credit Facility (together with the Term Loan Facility, the Revolving Credit Facility and the L/C Facility, the “Senior Secured Credit Facility”).

During the nine months ended December 31, 2021, the Company received proceeds of \$258.1 million from the Revolving Credit Facility and repaid \$5.25 million of the Term Loan Facility and \$124.6 million of the Revolving Credit Facility. Letters of credit outstanding at December 31, 2021 and March 31, 2021 amount to \$12.5 million and \$11.0 million, respectively, and reduced the availability of the Revolving Credit Facility.

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

Equipment Financing – In November 2021, the Company purchased material handling equipment, trucks and trailers previously leased under a master lease agreement and classified as finance leases. The purchase was funded with debt through the Master Lease Agreement and Interim Funding Schedule with Fifth Third. The assets acquired are titled to the Company and included in Property, plant and equipment, net on the Company's Condensed Consolidated Balance Sheet. The equipment financing has a term of between 12 and 84 months, based on the life of the equipment, and bears a weighted average interest of 1.4%. The current portion of the equipment financing is \$13.8 million and the long-term portion is \$21.0 million at December 31, 2021.

10. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has historically secured supplies of resin raw material by agreeing to purchase quantities during a future given period at a fixed price. These purchase contracts typically ranged from 1 to 12 months and occur in the ordinary course of business. The Company also enters into equipment purchase contracts with manufacturers. The Company does not have any outstanding purchase commitments as of December 31, 2021.

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

11. INCOME TAXES

The Company's effective tax rate will vary based on a variety of factors, including overall profitability, the geographical mix of income before taxes and related tax rates in jurisdictions where it operates and other one-time charges, as well as the occurrence of discrete events. For the three months ended December 31, 2021 and 2020, the Company utilized an effective tax rate of 28.1% and 27.1%, respectively, to calculate its provision for income taxes. State and local income taxes and the Company's Employee Stock Ownership Plan ("ESOP") increased the effective rate for the three months ended December 31, 2021 and 2020.

For the nine months ended December 31, 2021 and 2020, the Company utilized an effective tax rate of 26.6% and 27.8%, respectively, to calculate its provision for income taxes. State and local income taxes and the Company's ESOP increased the effective rate for the nine months ended December 31, 2021 and 2020. Additionally, discrete income tax benefits related to the stock-based compensation windfall and other items decreased the rate for the nine months ended December 31, 2021.

12. STOCK-BASED COMPENSATION

ADS has several programs for stock-based payments to employees and non-employee members of its Board of Directors, including stock options, performance-based restricted stock units and restricted stock. Equity-classified restricted stock awards are measured based on the grant-date estimated fair value of each award. The Company accounts for all restricted stock granted to Directors as equity-classified awards. The Company recognized stock-based compensation expense in the following line items of the Condensed Consolidated Statements of Operations for the periods presented:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
(In thousands)				
Component of income before income taxes:				
Cost of goods sold	\$ 700	\$ 510	\$ 2,019	\$ 1,476
Selling, general and administrative expenses	5,542	4,303	16,492	14,432
Total stock-based compensation expense	\$ 6,242	\$ 4,813	\$ 18,511	\$ 15,908

The following table summarizes stock-based compensation expense by award type for the periods presented:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
(In thousands)				
Stock-based compensation expense:				
Stock Options	\$ 793	\$ 623	\$ 2,406	\$ 2,254
Restricted Stock	1,480	1,214	4,359	3,975
Performance-based Restricted Stock Units	3,471	2,622	10,432	8,676
Non-Employee Directors	498	354	1,314	1,003
Total stock-based compensation expense	\$ 6,242	\$ 4,813	\$ 18,511	\$ 15,908

2017 Omnibus Plan

On May 24, 2017, the Board of Directors approved the 2017 Omnibus Incentive Plan (the “2017 Incentive Plan”) which was approved by the Company’s stockholders on July 17, 2017. The 2017 Incentive Plan provides for the issuance of a maximum of 5.0 million shares of the Company’s common stock for awards made thereunder, which awards may consist of stock options, restricted stock, restricted stock units, stock appreciation rights, phantom stock, cash-based awards, performance awards (which may take the form of performance cash, performance units or performance shares) or other stock-based awards.

Restricted Stock - During the three and nine months ended December 31, 2021, the Company granted less than 0.1 million shares and 0.1 million shares of restricted stock with a grant date fair value of \$0.9 million and \$8.2 million, respectively.

Performance-based Restricted Stock Units (“Performance Units”) –During the nine months ended December 31, 2021, the Company granted 0.1 million performance share units at a grant date fair value of \$5.3 million.

Options - During the nine months ended December 31, 2021, The Company granted 0.1 million nonqualified stock options under the 2017 Incentive Plan with a grant date fair value of \$4.2 million. The Company estimates the fair value of stock options using a Black-Scholes option-pricing model. The following table summarizes the assumptions used to estimate the fair value of stock-options during the periods presented:

	Nine Months Ended December 31, 2021
Common stock price	\$105.82
Expected stock price volatility	41.0%
Risk-free interest rate	1.1%
Weighted-average expected option life (years)	6.0
Dividend yield	0.3%

13. BUSINESS SEGMENTS INFORMATION

The Company operates its business in three distinct reportable segments: “Pipe”, “International” and “Infiltrator.” “Allied Products & Other” represents the Company’s Allied Products and all other business segments. The Chief Operating Decision Maker (the “CODM”) evaluates segment reporting based on Net Sales and Segment Adjusted Gross Profit. The Company calculated Segment Adjusted Gross Profit as net sales less costs of goods sold, depreciation and amortization, stock-based compensation and non-cash charges. A measure of assets is not applicable, as segment assets are not regularly reviewed by the CODM for evaluating performance or allocating resources.

Pipe – The Pipe segment manufactures and markets high performance thermoplastic corrugated pipe throughout the United States. The Company maintains and serves these markets through product distribution relationships with many of the largest national and independent waterworks distributors, buying groups and co-ops, major national retailers as well as an extensive network of hundreds of small to medium-sized distributors across the United States.

Products include single wall pipe, N-12 HDPE pipe sold into the Storm sewer, Infrastructure and Agriculture markets, High Performance polypropylene pipe sold into the Storm sewer, Infrastructure and sanitary sewer markets. Products are designed primarily for storm water management in the construction and infrastructure marketplace across a broad range of end markets and applications, including non-residential, residential, agriculture and infrastructure. Products are manufactured using HDPE and polypropylene plastic material.

Infiltrator – Infiltrator is a leading national provider of plastic leach field chambers and systems, septic tanks and accessories, primarily for use in residential applications. Infiltrator products are used in on-site septic wastewater treatment systems in the United States and Canada.

International – The International segment manufactures and markets pipe and allied products in certain regions outside of the United States, including Company owned facilities in Canada, subsidiaries that distribute to Europe and the Middle East, exports and through the Company's joint ventures with local partners in Mexico and South America. The Company's Mexican joint venture, ADS Mexicana, primarily serves the Mexican and Central American markets, while its South American Joint Venture, Tigre-ADS, is the primary channel to serve the South American markets. The Company's International product lines include single wall pipe, N-12 HDPE pipe, high performance PP pipe and certain geographies also sell our broad line of Allied Products.

Allied Products & Other – Allied Products and Other manufactures and markets products throughout the United States. Products include StormTech, Nyloplast, ARC Septic Chambers, Inserta Tee, BaySaver filters and water quality structures, Fittings, and FleXstorm. The Company maintains and serves these markets through product distribution relationships with many of the largest national and independent waterworks distributors, major national retailers as well as an extensive network of hundreds of small to medium-sized distributors across the United States. The Company also sells through a broad variety of buying groups and co-ops in the United States. The Company aggregates operating segments within the Allied Products & Other segment disclosure. None of the operating segments within the Allied Products & Other businesses segment disclosure exceeds the quantitative thresholds for separate segment reporting.

The following table sets forth reportable segment information with respect to the amount of Net sales contributed by each class of similar products for the periods presented:

(In thousands)	Three Months Ended					
	December 31, 2021			December 31, 2020		
	Net Sales	Intersegment Net Sales	Net Sales from External Customers	Net Sales	Intersegment Net Sales	Net Sales from External Customers
Pipe	\$ 400,027	\$ (3,332)	\$ 396,695	\$ 254,209	\$ (1,311)	\$ 252,898
Infiltrator	148,677	(26,314)	122,363	98,409	(17,188)	81,221
International						
International - Pipe	41,156	(5,700)	35,456	33,729	(2,970)	30,759
International - Allied Products & Other	14,687	—	14,687	11,648	—	11,648
Total International	55,843	(5,700)	50,143	45,377	(2,970)	42,407
Allied Products & Other	147,476	(1,320)	146,156	109,619	—	109,619
Intersegment Eliminations	(36,666)	36,666	—	(21,469)	21,469	—
Total Consolidated	\$ 715,357	\$ —	\$ 715,357	\$ 486,145	\$ —	\$ 486,145

(In thousands)	Nine Months Ended					
	December 31, 2021			December 31, 2020		
	Net Sales	Intersegment Net Sales	Net Sales from External Customers	Net Sales	Intersegment Net Sales	Net Sales from External Customers
Pipe	\$ 1,158,558	\$ (7,903)	\$ 1,150,655	\$ 819,994	\$ (4,793)	\$ 815,201
Infiltrator	421,330	(67,763)	353,567	306,548	(53,948)	252,600
International						
International - Pipe	142,135	(13,784)	128,351	96,271	(3,866)	92,405
International - Allied Products & Other	42,648	—	42,648	34,233	—	34,233
Total International	184,783	(13,784)	170,999	130,504	(3,866)	126,638
Allied Products & Other	420,231	(4,324)	415,907	344,532	—	344,532
Intersegment Eliminations	(93,774)	93,774	—	(62,607)	62,607	—
Total Consolidated	\$ 2,091,128	\$ —	\$ 2,091,128	\$ 1,538,971	\$ —	\$ 1,538,971

The following sets forth certain financial information attributable to the reportable segments for the periods presented:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
(In thousands)				
Segment Adjusted Gross Profit				
Pipe	\$ 92,066	\$ 78,651	\$ 258,681	\$ 269,746
Infiltrator	60,546	48,518	178,795	149,551
International	13,240	12,986	49,695	38,976
Allied Products & Other	72,785	55,158	204,063	176,006
Intersegment Eliminations	(44)	(932)	1,421	(918)
Total	\$ 238,593	\$ 194,381	\$ 692,655	\$ 633,361
Depreciation and Amortization				
Pipe	\$ 12,534	\$ 11,298	\$ 36,595	\$ 34,201
Infiltrator	3,551	3,132	10,362	9,270
International	1,403	1,402	4,151	4,002
Allied Products & Other ^(a)	17,349	19,930	52,579	59,848
Total	\$ 34,837	\$ 35,762	\$ 103,687	\$ 107,321
Capital Expenditures				
Pipe	\$ 18,657	\$ 4,095	\$ 41,296	\$ 12,237
Infiltrator	15,614	22,651	50,774	40,630
International	735	556	2,249	1,303
Allied Products & Other ^(a)	1,597	1,414	6,048	3,505
Total	\$ 36,603	\$ 28,716	\$ 100,367	\$ 57,675

- (a) Includes depreciation, amortization and capital expenditures not allocated to a reportable segment. The amortization expense of Infiltrator intangible assets acquired is included in Allied Products & Other.

Reconciliation of Gross Profit to Segment Adjusted Gross profit

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
(In thousands)				
Reconciliation of Segment Adjusted Gross Profit:				
Total Gross Profit	\$ 208,977	\$ 168,505	\$ 610,155	\$ 562,865
Depreciation and Amortization	18,042	16,432	52,824	49,318
ESOP and stock-based compensation expense	11,574	9,444	29,676	20,981
COVID-19 related costs ^(a)	—	—	—	197
Total Segment Adjusted Gross Profit	\$ 238,593	\$ 194,381	\$ 692,655	\$ 633,361

- (a) Includes expenses directly related to our response to the COVID-19 pandemic, including adjustments to our pandemic pay program and expenses associated with our third-party crisis management vendor.

14. SUBSEQUENT EVENTS

Common Stock Dividend - During the fourth quarter of fiscal 2022, the Company declared a quarterly cash dividend of \$0.11 per share of common stock. The dividend is payable on March 15, 2022 to stockholders of record at the close of business on March 1, 2022.

Share Repurchase Program - In February 2022, the Company announced that the Board approved a \$1.0 billion stock repurchase program (the "Repurchase Program") of ADS common stock in accordance with applicable securities laws. The Repurchase Program replaces the previously established share repurchase program, which has no remaining available capacity. The repurchase program does not obligate the Company to acquire any particular amount of common stock and may be suspended or terminated at any time at the Company's discretion.

Employee Stock Ownership Plan - On February 2, 2022 the ADS Board of Directors passed a resolution authorizing a \$0.3 million Company cash contribution to the the Advanced Drainage Systems, Inc. ESOP (the "ESOP") for the ESOP to repay the remaining balance of its ESOP loan on March 31, 2022. Effective March 31, 2022, the remaining balance on the Company's ESOP loan will be repaid in full, and the remaining shares of unallocated preferred stock will be allocated to participants of the ESOP. Within thirty days following this ESOP loan repayment, the 16.1 million shares of preferred stock outstanding as of January 27, 2022 will convert to 12.4 million shares of common stock.

For additional information on the Company's ESOP, please refer to "Note 16. Employee Benefit Plans" included in "Item 8. Financial Statements and Supplementary Data" of the Fiscal 2021 Form 10-K.

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

Unless the context otherwise indicates or requires, as used in this Quarterly Report on Form 10-Q, the terms "we," "our," "us," "ADS" and the "Company" refer to Advanced Drainage Systems, Inc. and its directly- and indirectly-owned subsidiaries as a combined entity, except where it is clear that the terms mean only Advanced Drainage Systems, Inc. exclusive of its subsidiaries.

Our fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, references to "year" pertain to our fiscal year. For example, 2022 refers to fiscal 2022, which is the period from April 1, 2021 to March 31, 2022.

The following discussion and analysis of the financial condition and results of our operations should be read in conjunction with our Condensed Consolidated Financial Statements and related footnotes included elsewhere in this Quarterly Report on Form 10-Q and with the audited Consolidated Financial Statements included in our Fiscal 2021 Form 10-K, as filed with the Securities and Exchange Commission (the "SEC") on May 27, 2021. In addition to historical condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. This discussion contains forward-looking statements that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Our actual results could differ materially from those discussed in the forward-looking statements. For more information, see the section below entitled "Forward Looking Statements."

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

Overview

ADS is the leading manufacturer of innovative water management solutions in the stormwater and on-site septic wastewater industries, providing superior drainage solutions for use in the construction and agriculture marketplaces. Our innovative products, for which we hold many patents, are used across a broad range of end markets and applications, including non-residential, infrastructure and agriculture applications. We have established a leading position in many of these end markets by leveraging our national sales and distribution platform, industry-acclaimed engineering support, overall product breadth and scale plus manufacturing excellence.

Impact of COVID-19

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

Executive Summary

Third Quarter Fiscal 2022 Results

- Net sales increased 47.1% to \$715.4 million
- Net income increased 37.8% to \$74.5 million
- Adjusted EBITDA, a non-GAAP measure, increased 26.9% to \$176.2 million

Net sales increased \$229.2 million, or 47.1%, to \$715.4 million, as compared to \$486.1 million in the prior year quarter. Domestic pipe sales increased \$145.8 million, or 57.4%, to \$400.0 million. Domestic allied products & other sales increased \$37.9 million, or 34.5%, to \$147.5 million. Infiltrator sales increased \$50.3 million, or 51.1%, to \$148.7 million. These increases were driven by double-digit sales growth in the U.S. construction end markets. International sales increased \$10.5 million, or 23.1%, to \$55.8 million, driven by strong sales growth in the Canadian, Mexican and Exports businesses.

Gross profit increased \$40.5 million, or 24.0%, to \$209.0 million as compared to \$168.5 million in the prior year. The increase in gross profit is primarily due to the increase in sales volume and favorable pricing on pipe, on-site septic and allied products. These increases were partially offset by inflationary cost pressure on materials, transportation and labor, as well as an increase in the use of third-party logistics services. Labor shortages and absenteeism related to COVID-19 remain a challenge in both manufacturing and transportation operations.

Adjusted EBITDA, a non-GAAP measure, increased \$37.3 million, or 26.9%, to \$176.2 million, as compared to \$138.9 million in the prior year. The increase is primarily due to the factors mentioned above. As a percentage of net sales, Adjusted EBITDA was 24.6% as compared to 28.6% in the prior year.

Year-to-Date Fiscal 2022 Results

- Net sales increased 35.9% to \$2,091.1 million
- Net income increased 11.0% to \$227.9 million
- Adjusted EBITDA, a non-GAAP measure, increased 7.4% to \$507.5 million
- Cash provided by operating activities of \$193.8 million
- Free cash flow, a non-GAAP measure, of \$93.5 million

Net sales increased \$552.2 million, or 35.9%, to \$2,091.1 million, as compared to \$1,539.0 million in the prior year. Domestic pipe sales increased \$338.6 million, or 41.3%, to \$1,158.6 million. Domestic allied products & other sales increased \$75.7 million, or 22.0%, to \$420.2 million. Infiltrator sales increased \$114.8 million, or 37.4%, to \$421.3 million. These increases were driven by double-digit sales growth in both the U.S. construction and agriculture end markets. International sales increased \$54.3 million, or 41.6%, to \$184.8 million, driven by double-digit sales growth in the Canadian, Mexican and Exports businesses.

Gross profit increased \$47.3 million, or 8.4%, to \$610.2 million as compared to \$562.9 million in the prior year. The increase is primarily due an increase in sales volume and favorable pricing on pipe, on-site septic and allied products. These increases were partially offset by inflationary cost pressure on materials, transportation and labor, as well as an increase in the use of third-party logistics services. Labor shortages and absenteeism related to COVID-19 remain a challenge in both manufacturing and transportation operations.

Adjusted EBITDA, a non-GAAP measure, increased \$35.1 million, or 7.4%, to \$507.5 million, as compared to \$472.4 million in the prior year. The increase is primarily due to the factors mentioned above. As a percentage of net sales, Adjusted EBITDA was 24.3% as compared to 30.7% in the prior year.

Results of Operations

Comparison of the Three Months ended December 31, 2021 to the Three Months ended December 31, 2020

The following table summarizes our operating results as a percentage of net sales that have been derived from our Condensed Consolidated Financial Statements for the periods presented. We believe this presentation is useful to investors in comparing historical results.

	For the Three Months Ended December 31,			
	2021		2020	
Consolidated Statements of Operations data:	(In thousands)			
Net sales	\$ 715,357	100.0 %	\$ 486,145	100.0 %
Cost of goods sold	506,380	70.8	317,640	65.3
Gross profit	208,977	29.2	168,505	34.7
Selling, general and administrative	80,059	11.2	66,606	13.7
Loss on disposal of assets and costs from exit and disposal activities	3,466	0.5	980	0.2
Intangible amortization	15,138	2.1	17,956	3.7
Income from operations	110,314	15.4	82,963	17.1
Interest expense	8,756	1.2	8,433	1.7
Derivative gains and other income, net	(979)	(0.1)	(165)	—
Income before income taxes	102,537	14.3	74,695	15.4
Income tax expense	28,792	4.0	20,264	4.2
Equity in net (income) loss of unconsolidated affiliates	(717)	(0.1)	390	0.1
Net income	74,462	10.4	54,041	11.1
Less: net income attributable to noncontrolling interest	784	0.1	267	0.1
Net income attributable to ADS	\$ 73,678	10.3 %	\$ 53,774	11.1 %

Net sales - The following table presents net sales to external customers by reportable segment for the three months ended December 31, 2021 and 2020.

(Amounts in thousands)	2021	2020	\$ Variance	% Variance
Pipe	\$ 396,695	\$ 252,898	\$ 143,797	56.9 %
Infiltrator	122,363	81,221	41,142	50.7
International	50,143	42,407	7,736	18.2
Allied Products & Other	146,156	109,619	36,537	33.3
Total Consolidated	\$ 715,357	\$ 486,145	\$ 229,212	47.1 %

Our consolidated net sales for the three months ended December 31, 2021 increased by \$229.2 million, or 47.1%, compared to the same period in fiscal 2021. The increase in net sales was primarily a result of growth in our domestic Pipe along with both the Infiltrator and International segments.

Our Pipe segment experienced growth primarily through improved pricing/mix of products sold. Infiltrator achieved growth through improved price/mix of products sold and higher volumes associated with the residential market. The increase in our International segment was driven by growth in the Canadian and Mexican businesses. Growth in Allied Products & Other was driven mainly by improved price/mix of products offerings.

Cost of goods sold and Gross profit - The following table presents gross profit by reportable segment for the three months ended December 31, 2021 and 2020.

(Amounts in thousands)	2021	2020	\$ Variance	% Variance
Pipe	\$ 68,717	\$ 58,679	\$ 10,038	17.1 %
Infiltrator	56,871	45,264	11,607	25.6
International	11,816	11,581	235	2.0
Allied Products & Other	71,617	53,913	17,704	32.8
Intersegment eliminations	(44)	(932)	888	(95.3)
Total gross profit	\$ 208,977	\$ 168,505	\$ 40,472	24.0 %

Our consolidated Cost of goods sold for the three months ended December 31, 2021 increased by \$188.7 million, or 59.4%, and our consolidated Gross profit increased by \$40.5 million, or 24.0%, compared to the same period in fiscal 2021. The increase in our gross profit was due to an increase in net sales from improved pricing partially offset by inflationary pressures of higher material and transportation costs along with higher manufacturing costs.

Selling, general and administrative expenses

(Amounts in thousands)	Three Months Ended December 31,	
	2021	2020
Selling, general and administrative expenses	\$ 80,059	\$ 66,606
% of Net sales	11.2 %	13.7 %

Selling, general and administrative expenses for three months ended December 31, 2021 increased \$13.5 million from the same period in fiscal 2021 and as a percentage of sales, decreased by 2.5%. The increase in Selling, general and administrative expenses is the result of increased headcount to support business growth along with higher spend in various areas impacted last year by COVID-19 including travel and entertainment expenses and increased transaction costs.

Loss on disposal of assets and costs from exit and disposal activities - The change in Loss on disposal of assets and costs from exit and disposal activities is primarily due to asset disposals.

Intangible amortization - Intangible amortization decreased \$2.8 million due to the accelerated method of amortization for customer relationships.

Interest expense - Interest expense increased \$0.3 million in the three months ended December 31, 2021 compared to the same period in the previous fiscal year. The increase was primarily due to increased average debt levels.

Derivative gain and other income, net - Derivative gain and other income increased by \$0.8 million for the three months ended December 31, 2021 compared to the same period in the previous fiscal year.

Income tax expense - The following table presents the effective tax rates for the three months ended December 31, 2021 and 2020.

	Three Months Ended December 31,	
	2021	2020
Effective tax rate	28.1 %	27.1 %

The change in the effective tax rate was primarily due to changes in the Company's projected annual effective tax rate and other items. See "Note 11. Income Taxes" for additional information.

Equity in net (income) loss of unconsolidated affiliates - The Equity in net (income) loss of unconsolidated affiliates increased for the three months ended December 31, 2021 as compared to the same period in the previous fiscal year due to an increase in the current period income at our South American Joint Venture.

Net income attributable to noncontrolling interest - Net income attributable to noncontrolling interest increased for three months ended December 31, 2021 due to an increase in net income at our ADS Mexicana joint venture.

Comparison of the Nine Months Ended December 31, 2021 to the Nine Months Ended December 31, 2020

The following table summarizes our operating results as a percentage of net sales that have been derived from our Condensed Consolidated Financial Statements for the periods presented. We believe this presentation is useful to investors in comparing historical results.

	For the Nine Months Ended December 31,			
	2021		2020	
Consolidated Statements of Operations data:	(In thousands)			
Net sales	\$ 2,091,128	100.0 %	\$ 1,538,971	100.0 %
Cost of goods sold	1,480,973	70.8	976,106	63.4
Gross profit	610,155	29.2	562,865	36.6
Selling, general and administrative	230,231	11.0	194,083	12.6
Loss on disposal of assets and costs from exit and disposal activities	2,554	0.1	3,254	0.2
Intangible amortization	46,229	2.2	53,893	3.5
Income from operations	331,141	15.8	311,635	20.2
Interest expense	25,100	1.2	27,763	1.8
Derivative gain and other income, net	(2,791)	(0.1)	(883)	(0.1)
Income before income taxes	308,832	14.8	284,755	18.5
Income tax expense	82,063	3.9	79,291	5.2
Equity in net (income) loss of unconsolidated affiliates	(1,128)	(0.1)	150	—
Net income	227,897	10.9	205,314	13.3
Less: net income attributable to noncontrolling interest	2,873	0.1	838	0.1
Net income attributable to ADS	\$ 225,024	10.8 %	\$ 204,476	13.3 %

Net sales - The following table presents net sales to external customers by reportable segment for the nine months ended December 31, 2021 and 2020.

(Amounts in thousands)	2021	2020	\$ Variance	% Variance
Pipe	\$ 1,150,655	\$ 815,201	\$ 335,454	41.1 %
Infiltrator	353,567	252,600	100,967	40.0
International	170,999	126,638	44,361	35.0
Allied Products & Other	415,907	344,532	71,375	20.7
Total Consolidated	\$ 2,091,128	\$ 1,538,971	\$ 552,157	35.9 %

Our consolidated net sales for the nine months ended December 31, 2021 increased by \$552.2 million, or 35.9%, compared to the same period in fiscal 2021. The increase in net sales was primarily a result of growth in our domestic Pipe along with both the Infiltrator and International segments.

Our Pipe segment experienced growth in the residential, agriculture and construction markets through both higher volumes and improved pricing/mix of products sold. Infiltrator achieved growth through improved price/mix of products sold and higher volumes associated with the residential market. The increase in our International segment was driven by growth in the Canadian, Mexican and Export businesses. Growth in Allied Products & Other was driven mainly by improved price/mix of products offerings.

Cost of goods sold and Gross profit - The following table presents gross profit by reportable segment for the nine months ended December 31, 2021 and 2020.

(Amounts in thousands)	2021	2020	\$ Variance	% Variance
Pipe	\$ 194,644	\$ 216,318	\$ (21,674)	(10.0) %
Infiltrator	168,090	139,941	28,149	20.1
International	45,512	34,948	10,564	30.2
Allied Products & Other	200,488	172,576	27,912	16.2
Intersegment eliminations	1,421	(918)	2,339	(254.8)
Total gross profit	\$ 610,155	\$ 562,865	\$ 47,290	8.4 %

Our consolidated Cost of goods sold for the nine months ended December 31, 2021 increased by \$504.9 million, or 51.7%, and our consolidated Gross profit increased by \$47.3 million, or 8.4%, compared to the same period in fiscal 2021. The increase in our gross profit was due to an increase in net sales from higher volumes and improved pricing and was partially offset by inflationary pressures of higher material and transportation costs along with higher manufacturing costs.

Selling, general and administrative expenses

(Amounts in thousands)	For the Nine Months Ended December 31,	
	2021	2020
Selling, general and administrative expenses	\$ 230,231	\$ 194,083
% of Net sales	11.0 %	12.6 %

Selling, general and administrative expenses for nine months ended December 31, 2021 increased \$36.1 million from the same period in fiscal 2021 and as a percentage of sales, decreased by 1.6%. The increase in Selling, general and administrative expenses is the result of increased headcount to support business growth along with higher spend in various areas impacted last year by COVID-19 including travel and entertainment expenses and transaction costs.

Loss on disposal of assets and costs from exit and disposal activities - The change in Loss on disposal of assets and costs from exit and disposal activities is primarily due to asset disposals.

Intangible amortization - Intangible amortization decreased by \$7.7 million primarily due the accelerated method of amortization for customer relationships.

Interest expense - Interest expense decreased \$2.7 million in the nine months ended December 31, 2021 compared to the same period in the previous fiscal year. The decrease was primarily due to decreased average debt levels.

Derivative gain and other income, net - Derivative gain and other income increased by \$1.9 million for the nine months ended December 31, 2021 compared to the same period in the previous fiscal year.

Income tax expense – The following table presents the effective tax rates for the nine months ended December 31, 2021 and 2020

	For the Nine Months Ended December 31,	
	2021	2020
Effective tax rate	26.6 %	27.8 %

The change in the effective tax rate was primarily due to discrete income tax events related to the stock-based compensation windfall and other items. See “Note 11. Income Taxes” for additional information.

Equity in net (income) loss of unconsolidated affiliates - The Equity in net (income) loss of unconsolidated affiliates increased for the nine months ended December 31, 2021 as compared to the same period in the previous fiscal year due to an increase in the current period income at our South American Joint Venture.

Net income attributable to noncontrolling interest - Net income attributable to noncontrolling interest increased for the nine months ended December 31, 2021 due to increased net income at our ADS Mexicana joint venture.

Adjusted EBITDA and Adjusted EBITDA Margin - Adjusted EBITDA and Adjusted EBITDA Margin, which are non-GAAP financial measures, have been presented in this Quarterly Report on Form 10-Q as supplemental measures of financial performance that are not required by, or presented in accordance with GAAP and should not be considered as alternatives to net income as measures of financial performance or cash flows from operations or any other performance measure derived in accordance with GAAP. We calculate Adjusted EBITDA as net income (loss) before interest, income taxes, depreciation and amortization, stock-based compensation expense, non-cash charges and certain other expenses. We calculate Adjusted EBITDA Margin as Adjusted EBITDA divided by net sales.

Adjusted EBITDA and Adjusted EBITDA Margin are included in this Form 10-Q because they are key metrics used by management and our board of directors to assess our consolidated financial performance. These non-GAAP financial measures are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In addition to covenant compliance and executive performance evaluations, we use these non-GAAP financial measures to supplement GAAP measures of performance to evaluate the effectiveness of our consolidated business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures. We use Adjusted EBITDA Margin to evaluate our ability to generate profitable sales.

Adjusted EBITDA and Adjusted EBITDA Margin contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs, cash expenditures to replace assets being depreciated and amortized and interest expense, or the cash requirements necessary to service interest on principal payments on our indebtedness. In evaluating Adjusted EBITDA and Adjusted EBITDA Margin, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation, such as stock-based compensation expense, derivative fair value adjustments, and foreign currency transaction losses. Management compensates for these limitations by relying on our GAAP results and using non-GAAP measures on a supplemental basis.

The following table presents a reconciliation of Adjusted EBITDA to Net income, the most comparable GAAP measure, for each of the periods presented.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
(In thousands)				
Net income	\$ 74,462	\$ 54,041	\$ 227,897	\$ 205,314
Depreciation and amortization	34,837	35,762	103,687	107,321
Interest expense	8,756	8,433	25,100	27,763
Income tax expense	28,792	20,264	82,063	79,291
EBITDA	146,847	118,500	438,747	419,689
Loss on disposal of assets and costs from exit and disposal activities	3,466	980	2,554	3,254
ESOP and stock-based compensation expense	23,463	18,325	61,900	45,413
Transaction costs ^(a)	2,145	54	3,022	1,428
Strategic growth and operational improvement initiatives ^(b)	—	573	—	2,689
COVID-19 related costs ^(c)	—	—	—	806
Other adjustments ^(d)	234	431	1,318	(872)
Adjusted EBITDA	\$ 176,155	\$ 138,863	\$ 507,541	\$ 472,407
Adjusted EBITDA Margin	24.6 %	28.6 %	24.3 %	30.7 %

- (a) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with business or asset acquisitions and dispositions.
- (b) Represents professional fees incurred in connection with our strategic growth and operational improvement initiatives, which include various market feasibility assessments and acquisition strategies, along with our operational improvement initiatives, which include evaluation of our manufacturing network and improvement initiatives.
- (c) Includes expenses directly related to our response to the COVID-19 pandemic, including adjustments to our pandemic pay program and expenses associated with our third party crisis management vendor.
- (d) Includes derivative fair value adjustments, foreign currency transaction (gains) losses, the proportionate share of interest, income taxes, depreciation and amortization related to the South American Joint Venture, which is accounted for under the equity method of accounting and executive retirement expense.

Liquidity and Capital Resources

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

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The following table presents key liquidity metrics utilized by management. The table includes the Non-GAAP measure, Free Cash Flow, which is further discussed and defined below, and Leverage ratio which is calculated as net debt divided by the trailing twelve months Adjusted EBITDA.

(Amounts in thousands)	Nine Months Ended December 31,	
	2021	2020
Net cash provided by operating activities	\$ 193,847	\$ 448,776
Capital expenditures	(100,367)	(57,675)
Free Cash Flow	93,480	391,101
Total debt (debt and finance lease obligations)	971,050	
Cash	22,173	
Net debt (total debt less cash)	948,877	
Leverage Ratio	1.6	

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

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

Net cash provided by operating activities decreased \$254.9 million to \$193.8 million, as compared to \$448.8 million in the prior year, primarily due to changes in net working capital. Free cash flow (Non-GAAP) decreased \$297.6 million to \$93.5 million, as compared to \$391.1 million in the prior year. Net debt (total debt and finance lease obligations net of cash) was \$948.9 million as of December 31, 2021.

The following table summarizes our available liquidity for the periods presented.

(Amounts in thousands)	December 31, 2021
Revolver capacity	\$ 350,000
Less: outstanding borrowings	(133,500)
Less: letters of credit	(12,505)
Revolver available liquidity	\$ 203,995

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

Working Capital and Cash Flows

As of December 31, 2021, we had \$226.2 million in liquidity, including \$22.2 million of cash, \$204.0 million in borrowings available under our Revolving Credit Agreement, net of \$12.5 million of outstanding letters of credit. We believe that our cash on hand, together with the availability of borrowings under our Credit Agreement and other financing arrangements and cash generated from operations, will be sufficient to meet our working capital requirements, anticipated capital expenditures, scheduled principal and interest payments on our indebtedness and the dividend payment requirement for our convertible preferred stock for at least the next twelve months.

Working Capital - Working capital increased to \$442.9 million as of December 31, 2021, from \$424.7 million as of March 31, 2021. The increase in working capital is primarily due to increased inventory and accounts receivable. These increases were offset by decreased cash related to share repurchase activity.

(Amounts in thousands)	Nine Months Ended December 31,	
	2021	2020
Net cash provided by operating activities	\$ 193,847	\$ 448,776
Net cash used in investing activities	(150,040)	(57,159)
Net cash used in financing activities	(216,574)	(343,116)

Operating Cash Flows – Cash flows from operating activities decreased \$254.9 million during the nine months ended December 31, 2021 due to changes in net working capital including increased inventory and accounts receivable.

Investing Cash Flows - Cash flows used in investing activities during the nine months ended December 31, 2021 increased by \$92.9 million compared to the same period in fiscal 2021. The increase in cash used in investing activities was primarily due to the acquisition of Jet, net of cash acquired.

Capital expenditures totaled \$100.4 million and \$57.7 million for the nine months ended December 31, 2021 and 2020, respectively. Our capital expenditures for the nine months ended December 31, 2021 were used primarily to support facility expansions, equipment replacements, our recycled resin and technology improvement initiatives.

We currently anticipate that we will make capital expenditures of approximately \$130 to \$150 million in fiscal year 2022. Such capital expenditures are expected to be financed using funds generated by operations. As of December 31, 2021, there were no material contractual obligations or commitments related to these planned capital expenditures.

Financing Cash Flows - During the nine months ended December 31, 2021, cash used included the repurchase of common stock of \$292.0 million, repayment of \$124.6 million on the Revolving Credit Facility, \$13.1 million of shares withheld for tax purposes, \$27.8 million of dividend payments and payments on our finance lease obligations of \$49.4 million. Cash provided by financing activities included proceeds of \$258.1 million on the Revolving Credit Facility.

During the nine months ended December 31, 2020, cash used in financing activities included the repayment of \$205.3 million on the Term Loan Facility, the repayment of \$100.0 million on the Revolving Credit Facility, dividend payments of \$24.5 million and payments on our finance lease obligations of \$15.9 million.

Cash held by Foreign Subsidiaries - As of December 31, 2021, we had \$18.3 million in cash that was held by our foreign subsidiaries, including \$11.0 million held by our Canadian subsidiaries. We continue to evaluate our strategy regarding foreign cash, but our earnings in foreign subsidiaries still remain indefinitely reinvested, except for Canada. We plan to repatriate earnings from Canada and believe that there will be no additional tax costs associated with the repatriation of such earnings other than any potential non-U.S. withholding taxes.

Employee Stock Ownership Plan (“ESOP”)

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

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

As disclosed in “Note 16. Employee Benefit Plans” to the Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data” of our Fiscal 2021 Form 10-K, redeemable convertible preferred stock can convert to common stock upon retirement, disability, death, or vested terminations over the life of the Plan. As stated above, within 30 days following the repayment of the ESOP loan, all redeemable convertible preferred stock will be converted to common stock, which will be no later than March 2023.

The ESOP’s conversion of redeemable convertible preferred stock into common stock will have a meaningful impact on the Company’s net income, net income per share and common shares outstanding. The outstanding shares of common stock would be 20% greater after conversion.

Impact on Net Income - Provided that the converted common stock do not qualify as participating securities, the Company will no longer be required to apply the two-class method to determine Net income per share. In addition, the Company would not be required to recognize the fair value of ESOP deferred compensation attributable to the shares of redeemable convertible preferred shares allocated.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
	(In thousands)			
Net income attributable to ADS	\$ 73,678	\$ 53,774	\$ 225,024	\$ 204,476
ESOP deferred stock-based compensation	17,221	13,513	43,389	29,506

Impact on Common Stock Outstanding - The repayment of the ESOP loan and related conversion of redeemable convertible preferred shares will have an impact on the number of common shares outstanding. As shares are converted, the number of common shares outstanding will increase.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2021	2020	2021	2020
	(Shares in millions)			
Weighted average common shares outstanding	71.3	70.5	71.1	69.9
Conversion of redeemable convertible shares	13.0	15.8	14.0	16.2

Financing Transactions

Senior Secured Credit Facility - In July 2019, the Company entered into the Base Credit Agreement by and among the Company, as borrower, Barclays Bank PLC, as administrative agent, the several lenders from time to time party thereto. In September 2019, the Company amended the Base Credit Agreement. The Senior Secured Credit Facility provides the Term Loan Facility in an initial aggregate principal amount of \$700 million, the Revolving Credit Facility in an initial aggregate principal amount of up to \$350 million, the L/C Facility in the initial aggregate available amount of up to \$50 million, as a sublimit of such Revolving Credit Facility and a swing line sub-facility in the aggregate available amount of up to \$50 million, as a sublimit of the Revolving Credit Facility. As of December 31, 2021, the outstanding principal drawn on Term Loan Facility was \$436.0 million and \$133.5 million on the Revolving Credit Facility. The Company had \$204.0 million available to be drawn on the Revolving Credit Facility, net of \$12.5 million of outstanding letters of credit.

ADS Mexicana Revolving Credit Facility - The Company and ADS Mexicana entered into an Intercompany Revolving Credit Promissory Note (the “Intercompany Note”) with a capacity of \$12.0 million on June 22, 2018. The Intercompany Note matures on June 22, 2022. The Intercompany Note indemnifies the ADS Mexicana joint venture partner for 49% of any unpaid borrowing. The interest rates under the Intercompany Note are determined by certain base rates or LIBOR rates plus an applicable margin based on the Leverage Ratio. As of December 31, 2021 and March 31, 2021, there were \$1.5 million and no borrowings, respectively, outstanding under the Intercompany Note.

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

Interest on the Senior Notes will be payable semi-annually in cash in arrears on March 31 and September 30 of each year, commencing on March 31, 2020, at a rate of 5.000% per annum. The Senior Notes will mature on September 30, 2027. The Company used the majority of the net proceeds from the offering of the Senior Notes for the repayment of \$300.0 million of its outstanding borrowings under the Company’s Base Credit Agreement.

The Company may redeem the Senior Notes, in whole or in part, at any time on or after September 30, 2022 at established redemption prices. At any time prior to September 30, 2022, the Company may also redeem up to 40% of the Senior Notes

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

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

Equipment Financing – In November 2021, the Company purchased material handling equipment, trucks and trailers previously leased under a master lease agreement and classified as finance leases. The purchase was funded with debt through the Master Lease Agreement and Interim Funding Schedule with Fifth Third. The assets acquired are titled to the Company and included in Property, plant and equipment, net on the Company's Condensed Consolidated Balance Sheet. The equipment financing of has a balance of \$36.0 million and has a term of between 12 and 84 months, based on the life of the equipment. The equipment financing bears a weighted average interest of 1.4%.

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

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

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

For further information, see “Note 13. Debt” to the Consolidated Financial Statements in our Fiscal 2021 Form 10-K. We are in compliance with our debt covenants as of December 31, 2021.

Off-Balance Sheet Arrangements

Excluding the guarantees of 50% of certain debt of our unconsolidated South American Joint Venture as further discussed in “Note 8. Related Party Transactions” to the Condensed Consolidated Financial Statements, we do not have any other off-balance sheet arrangements. As of December 31, 2021, our South American Joint Venture had approximately \$9.2 million of outstanding debt subject to our guarantees. We do not believe that this guarantee will have a current or future effect on our financial condition, results of operations, liquidity, or capital resources.

Critical Accounting Policies and Estimates

There have been no changes in critical accounting policies from those disclosed in “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our Fiscal 2021 Form 10-K, except as disclosed in “Note 1. Background and Summary of Significant Accounting Policies”.

Forward-Looking Statements

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

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

- fluctuations in the price and availability of resins and other raw materials and our ability to pass any increased costs of raw materials on to our customers in a timely manner;
- volatility in general business and economic conditions in the markets in which we operate, including the adverse impact on the U.S. and global economy of the COVID-19 global pandemic, and the impact of COVID-19 in the near, medium and long-term on our business, results of operations, financial position, liquidity or cash flows, and other limitation factors relating to availability of credit, interest rates, fluctuations in capital and business and consumer confidence;
- cyclicity and seasonality of the non-residential and residential construction markets and infrastructure spending;
- the risks of increasing competition in our existing and future markets, including competition from both manufacturers of high performance thermoplastic corrugated pipe and manufacturers of products using alternative materials, and our ability to continue to convert current demand for concrete, steel and polyvinyl chloride (“PVC”) pipe products into demand for our high performance thermoplastic corrugated pipe and Allied Products;
- uncertainties surrounding the integration and realization of anticipated benefits of acquisitions and similar transactions, including Infiltrator;
- the effect of any claims, litigation, investigations or proceedings, including those described under “Item 1. Legal Proceedings” of this Quarterly Report;
- the effect of weather or seasonality;
- the loss of any of our significant customers;
- the risks of doing business internationally;
- the risks of conducting a portion of our operations through joint ventures;
- our ability to expand into new geographic or product markets, including risks associated with new markets and products associated with our recent acquisition of Infiltrator;
- our ability to achieve the acquisition component of our growth strategy;
- the risk associated with manufacturing processes;
- our ability to manage our assets;
- the risks associated with our product warranties;
- our ability to manage our supply purchasing and customer credit policies;
- our ability to control labor costs and to attract, train and retain highly qualified employees and key personnel;
- our ability to protect our intellectual property rights;

- changes in laws and regulations, including environmental laws and regulations;
- the risks associated with our current levels of indebtedness, including borrowings under our existing credit agreement and outstanding indebtedness under our existing senior notes;
- fluctuations in our effective tax rate, including from the Tax Cuts and Jobs Act;
- our ability to meet future capital requirements and fund our liquidity needs; and
- other risks and uncertainties, including those listed under “Item 1A. Risk Factors.” in the Fiscal 2021 Form 10-K.

All forward-looking statements are made only as of the date of this report and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking statements to reflect future events or developments. Comparisons of results for current and any prior periods are not intended to express any future trends, or indications of future performance, unless expressed as such, and should only be viewed as historical data.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to various market risks, primarily related to changes in interest rates, credit, raw material supply prices and, to a lesser extent, foreign currency exchange rates. Our financial position, results of operations or cash flows may be negatively impacted in the event of adverse movements in the respective market rates or prices in each of these risk categories. Our exposure in each category is limited to those risks that arise in the normal course of business, as we do not engage in speculative, non-operating transactions. Our exposure to market risk has not materially changed from what we previously disclosed in Part II. Item 7A. “Quantitative and Qualitative Disclosures about Market Risk” of our Annual Report on Form 10-K for the fiscal year ended March 31, 2021, except as disclosed below.

Interest Rate Risk - We are subject to interest rate risk associated with our bank debt. Changes in interest rates impact the fair value of our fixed-rate debt, but there is no impact to earnings and cash flow. Alternatively, changes in interest rates do not affect the fair value of our variable-rate debt, but they do affect future earnings and cash flow. The Revolving Credit Facility and the Term Note, notes bear variable interest rates. The Revolving Credit Facility and Term Note bear interest either at LIBOR or the Prime Rate, at our option, plus applicable pricing margins. A 1.0% increase in interest rates on our variable-rate debt would increase our annual forecasted interest expense by approximately \$5.7 million based on our borrowings as of December 31, 2021. Assuming the Revolving Credit Facility is fully drawn, each 1.0% increase or decrease in the applicable interest rate would change our interest expense by approximately \$7.8 million, for the twelve months ended December 31, 2021.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) are responsible for evaluating the effectiveness of our disclosure controls and procedures as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”), rules 13a-15(e) and 15d-15(e). The Company’s disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed in the Company’s reports 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 management, including the Company’s CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures, our CEO and CFO concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act that occurred during the three months ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Please see "Note 10. Commitments and Contingencies," of the Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q for more information regarding legal proceedings.

Item 1A. Risk Factors

Important risk factors that could affect our operations and financial performance, or that could cause results or events to differ from current expectations, are described in "Part I, Item 1A — Risk Factors" of our Fiscal 2021 Form 10-K. These factors are further supplemented by those discussed in "Part II, Item 7A — Quantitative and Qualitative Disclosures about Market Risk" of our Fiscal 2021 Form 10-K and in "Part I, Item 3 — Quantitative and Qualitative Disclosures about Market Risk" and "Part II, Item 1 — Legal Proceedings" of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

In May 2021, our Board of Directors authorized a \$250 million increase to our existing \$50 million stock repurchase program. Repurchase of common stock will be made in accordance with applicable securities laws. We did not repurchase any shares of common stock during the three months ended December 31, 2021. As of December 31, 2021, the Company does not have any remaining repurchase authorization. The stock repurchase program does not obligate us to acquire any particular amount of common stock and may be suspended or terminated at any time at our discretion.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed herewith or incorporated herein by reference.

Exhibit Number	Exhibit Description
31.1*	<u>Certification of President and Chief Executive Officer of Advanced Drainage Systems, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Executive Vice President and Chief Financial Officer of Advanced Drainage Systems, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Certification of Principal Executive Officer of Advanced Drainage Systems, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2*	<u>Certification of Principal Financial Officer of Advanced Drainage Systems, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS*	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.SCH*	Inline XBRL Taxonomy Extension Schema.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase.
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 and contained in Exhibit 101.

* Filed herewith

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.

Date: February 3, 2022

ADVANCED DRAINAGE SYSTEMS, INC.

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

By: /s/ Scott A. Cottrill
Scott A. Cottrill
Executive Vice President, Chief Financial Officer and Secretary
(Principal Financial Officer)

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

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, D. Scott Barbour, certify that:

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

Date: February 3, 2022

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

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Scott A. Cottrill, certify that:

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

Date: February 3, 2022

By: /s/ Scott A. Cottrill

Scott A. Cottrill
Executive Vice President,
Chief Financial Officer and
Secretary
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as the principal executive officer of Advanced Drainage Systems, Inc. (the "Company"), that, to the best of his knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended December 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

February 3, 2022

/s/ D. Scott Barbour

D. Scott Barbour

President and Chief Executive Officer

(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate document. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as the principal financial officer of Advanced Drainage Systems, Inc. (the "Company"), that, to the best of his knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended December 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

February 3, 2022

/s/ Scott A. Cottrill

Scott A. Cottrill

Chief Financial Officer

(Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate document. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.