

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 June 30, 2022

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 July 27, 2022, the registrant had 83,571,171 shares of common stock outstanding, which excludes 248,382 shares of unvested restricted common stock. The shares of common stock trade on the New York Stock Exchange under the ticker symbol "WMS."

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PART I. FINANCIAL INFORMATION

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

	June 30, 2022	March 31, 2022
ASSETS		
Current assets:		
Cash	\$ 463,696	\$ 20,125
Receivables (less allowance for doubtful accounts of \$7,868 and \$8,198, respectively)	427,620	341,753
Inventories	489,492	494,324
Other current assets	20,532	15,696
Total current assets	1,401,340	871,898
Property, plant and equipment, net	636,042	619,383
Other assets:		
Goodwill	619,626	610,293
Intangible assets, net	449,115	431,385
Other assets	119,240	116,799
Total assets	<u>\$ 3,225,363</u>	<u>\$ 2,649,758</u>
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of debt obligations	\$ 18,113	\$ 19,451
Current maturities of finance lease obligations	5,227	5,089
Accounts payable	274,606	224,986
Other accrued liabilities	148,605	134,877
Accrued income taxes	58,207	6,838
Total current liabilities	504,758	391,241
Long-term debt obligations (less unamortized debt issuance costs of \$12,879 and \$1,648, respectively)	1,279,176	908,705
Long-term finance lease obligations	11,429	11,393
Deferred tax liabilities	166,741	168,435
Other liabilities	66,472	64,939
Total liabilities	2,028,576	1,544,713
Commitments and contingencies (see Note 9)		
Mezzanine equity:		
Redeemable common stock: \$0.01 par value; 11,619 and 0 shares outstanding, respectively	188,828	—
Redeemable convertible preferred stock: \$0.01 par value; 0 and 47,070 shares authorized, respectively; 0 and 44,170 shares issued; 0 and 15,630 shares outstanding, respectively	—	195,384
Total mezzanine equity	188,828	195,384
Stockholders' equity:		
Common stock; \$0.01 par value: 1,000,000 shares authorized; 76,607 and 75,529 shares issued, respectively; 72,386 and 72,309 shares outstanding, respectively	11,623	11,612
Paid-in capital	1,079,701	1,065,628
Common stock in treasury, at cost	(408,861)	(318,691)
Accumulated other comprehensive loss	(28,289)	(24,386)
Retained earnings	335,822	158,876
Total ADS stockholders' equity	989,996	893,039
Noncontrolling interest in subsidiaries	17,963	16,622
Total stockholders' equity	1,007,959	909,661
Total liabilities, mezzanine equity and stockholders' equity	<u>\$ 3,225,363</u>	<u>\$ 2,649,758</u>

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 June 30,	
	2022	2021
Net sales	\$ 914,186	\$ 669,300
Cost of goods sold	562,079	468,179
Gross profit	352,107	201,121
Operating expenses:		
Selling, general and administrative	86,520	76,221
Loss (gain) on disposal of assets and costs from exit and disposal activities	303	(11)
Intangible amortization	13,677	15,645
Income from operations	251,607	109,266
Other expense:		
Interest expense	11,072	7,907
Derivative gains and other income, net	(1,902)	(2,014)
Income before income taxes	242,437	103,373
Income tax expense	55,065	26,455
Equity in net income of unconsolidated affiliates	(1,110)	(205)
Net income	188,482	77,123
Less: net income attributable to noncontrolling interest	1,336	1,136
Net income attributable to ADS	187,146	75,987
Weighted average common shares outstanding:		
Basic	83,144	71,534
Diluted	84,389	73,124
Net income per share:		
Basic	\$ 2.25	\$ 0.89
Diluted	\$ 2.22	\$ 0.87

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 June 30,	
	2022	2021
Net income	\$ 188,482	\$ 77,123
Currency translation (loss) gain	(3,898)	2,041
Comprehensive income	184,584	79,164
Less: other comprehensive income attributable to noncontrolling interest	5	615
Less: net income attributable to noncontrolling interest	1,336	1,136
Total comprehensive income attributable to ADS	\$ 183,243	\$ 77,413

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,	
	2022	2021
Cash Flows from Operating Activities		
Net income	\$ 188,482	\$ 77,123
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,578	34,656
Deferred income taxes	(1,272)	64
Loss (gain) on disposal of assets and costs from exit and disposal activities	303	(11)
ESOP and stock-based compensation	6,273	20,806
Amortization of deferred financing charges	344	95
Fair market value adjustments to derivatives	(90)	(675)
Equity in net income of unconsolidated affiliates	(1,110)	(205)
Other operating activities	(3,535)	450
Changes in working capital:		
Receivables	(79,616)	(67,388)
Inventories	8,039	(28,985)
Prepaid expenses and other current assets	(4,840)	(7,442)
Accounts payable, accrued expenses, and other liabilities	101,209	75,860
Net cash provided by operating activities	249,765	104,348
Cash Flows from Investing Activities		
Capital expenditures	(36,189)	(25,546)
Acquisition, net of cash acquired	(47,492)	—
Other investing activities	13	53
Net cash used in investing activities	(83,668)	(25,493)
Cash Flows from Financing Activities		
Payments on syndicated Term Loan Facility	(1,750)	(1,750)
Proceeds from Revolving Credit Agreement	26,200	—
Payments on Revolving Credit Agreement	(140,500)	—
Proceeds from Amended Revolving Credit Agreement	97,000	—
Payments on Amended Revolving Credit Agreement	(97,000)	—
Proceeds from Senior Notes due 2030	500,000	—
Debt issuance costs	(11,575)	—
Payments on Equipment Financing	(3,548)	—
Payments on finance lease obligations	(1,721)	(5,379)
Repurchase of common stock	(57,699)	(102,013)
Cash dividends paid	(10,170)	(9,451)
Dividends paid to noncontrolling interest holder	—	(957)
Proceeds from exercise of stock options	1,249	1,336
Payment of withholding taxes on vesting of restricted stock units	(22,809)	(12,976)
Other financing activities	—	(131)
Net cash provided by (used in) financing activities	277,677	(131,321)
Effect of exchange rate changes on cash	(203)	290
Net change in cash	443,571	(52,176)
Cash at beginning of period	20,125	195,009
Cash at end of period	\$ 463,696	\$ 142,833
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for income taxes	\$ 5,055	\$ 2,605
Cash paid for interest	4,714	3,714
<i>Non-cash operating, investing and financing activities:</i>		
Repurchase of common stock pending settlement	9,662	13,365
Acquisition of property, plant and equipment under finance lease and incurred lease obligations	1,754	9,382
Balance in accounts payable for the acquisition of property, plant and equipment	16,881	6,578

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 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	—	—	—	—	—	—	75,987	75,987	1,136	77,123	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	1,426	—	1,426	615	2,041	—	—	—	—	—
Redeemable convertible preferred stock dividends	—	—	—	—	—	—	(1,550)	(1,550)	—	(1,550)	—	—	—	—	—
Common stock dividends (\$0.11 per share)	—	—	—	—	—	—	(7,901)	(7,901)	—	(7,901)	—	—	—	—	—
Dividends paid to noncontrolling interest holder	—	—	—	—	—	—	—	—	(957)	(957)	—	—	—	—	—
Share repurchases	—	—	—	1,056	(115,378)	—	—	(115,378)	—	(115,378)	—	—	—	—	—
Allocation of ESOP shares to participants for compensation	—	—	12,064	—	—	—	—	12,064	—	12,064	—	—	(167)	2,091	2,091
Exercise of common stock options	48	—	1,336	—	—	—	—	1,336	—	1,336	—	—	—	—	—
Restricted stock awards	99	1	—	29	(3,231)	—	—	(3,230)	—	(3,230)	—	—	—	—	—
Performance-based restricted stock units	245	2	—	92	(9,745)	—	—	(9,743)	—	(9,743)	—	—	—	—	—
Stock-based compensation expense	—	—	6,651	—	—	—	—	6,651	—	6,651	—	—	—	—	—
ESOP distribution in common stock	764	8	12,404	—	—	—	—	12,412	—	12,412	(993)	(12,412)	—	—	(12,412)
Other	—	—	(79)	—	—	—	—	(79)	—	(79)	—	—	—	—	—
Balance at June 30, 2021	<u>\$ 73,227</u>	<u>\$ 11,589</u>	<u>\$ 950,963</u>	<u>\$ 1,678</u>	<u>\$ (139,313)</u>	<u>\$ (22,794)</u>	<u>\$ (8,666)</u>	<u>\$ 791,779</u>	<u>\$ 14,525</u>	<u>\$ 806,304</u>	<u>\$ 18,282</u>	<u>\$ 228,532</u>	<u>\$ 799</u>	<u>\$ (8,942)</u>	<u>\$ 219,590</u>

	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 Common Stock		Redeemable Convertible Preferred Stock		Total Mezzanine Equity
	Shares	Amount		Shares	Amount						Shares	Amount	Shares	Amount	
Balance at April 1, 2022	75,529	\$ 11,612	\$ 1,065,628	3,220	\$ (318,691)	\$ (24,386)	\$ 158,876	\$ 893,039	\$ 16,622	\$ 909,661	—	\$ —	15,630	\$ 195,384	\$ 195,384
Net income	—	—	—	—	—	—	187,146	187,146	1,336	188,482	—	—	—	—	—
Other comprehensive (loss) income	—	—	—	—	—	(3,903)	—	(3,903)	5	(3,898)	—	—	—	—	—
Common stock dividends (\$0.12 per share)	—	—	—	—	—	—	(10,200)	(10,200)	—	(10,200)	—	—	—	—	—
Share repurchases	—	—	—	772	(67,361)	—	—	(67,361)	—	(67,361)	—	—	—	—	—
ESOP share conversion	—	—	—	—	—	—	—	—	—	—	12,022	195,384	(15,630)	(195,384)	—
KSOP redeemable common stock conversion	403	4	6,552	—	—	—	—	6,556	—	6,556	(403)	(6,556)	—	—	(6,556)
Exercise of common stock options	67	1	1,248	—	—	—	—	1,249	—	1,249	—	—	—	—	—
Restricted stock awards	81	1	—	24	(2,458)	—	—	(2,457)	—	(2,457)	—	—	—	—	—
Performance-based restricted stock units	527	5	—	205	(20,351)	—	—	(20,346)	—	(20,346)	—	—	—	—	—
Stock-based compensation expense	—	—	6,273	—	—	—	—	6,273	—	6,273	—	—	—	—	—
Balance at June 30, 2022	<u>76,607</u>	<u>\$ 11,623</u>	<u>\$ 1,079,701</u>	<u>4,221</u>	<u>\$ (408,861)</u>	<u>(28,289)</u>	<u>\$ 335,822</u>	<u>\$ 989,996</u>	<u>\$ 17,963</u>	<u>\$ 1,007,959</u>	<u>11,619</u>	<u>\$ 188,828</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 188,828</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 onsite 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, 2022 was derived from audited financial statements included in the Annual Report on Form 10-K for the year ended March 31, 2022 (“Fiscal 2022 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 June 30, 2022 and the results of operations for the three months ended June 30, 2022 and cash flows for the three months ended June 30, 2022. 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 2022 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.

Recent Accounting Guidance

There have been no new accounting pronouncements issued or adopted since the filing of the Fiscal 2022 Form 10-K that have significance, or potential significance, to the Condensed Consolidated Financial Statements.

2. ACQUISITIONS

Acquisition of Cultec - On April 29, 2022, the Company completed its acquisition of Cultec, Inc. (“Cultec”). Cultec was a family-owned technology leader in the stormwater and onsite septic wastewater industries. The acquisition of Cultec expands the Company’s portfolio of innovative water management solutions in the stormwater and onsite septic wastewater industries. The total fair value of consideration transferred was \$47.5 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 finalization may result in material changes from the preliminary purchase price allocation. 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	
Accounts receivable	\$	5,957
Inventory		4,469
Intangible assets		31,400
Goodwill		9,660
Property, plant and equipment		1,986
Accounts payable		(5,539)
Accrued expenses		(75)
Other liabilities		(366)
Total fair value of consideration transferred	\$	47,492

The preliminary goodwill of \$9.7 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 deductible for income tax purposes and is assigned to Allied Products & Other.

The preliminary purchase price excludes transaction costs. During the three months ended June 30, 2022, the Company incurred \$1.5 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 Cultec are based on preliminary valuations including customer relationships, patents and developed technology and tradename and trademarks totaling \$31.4 million.

(Amounts in thousands)	Preliminary fair value	
Customer relationships	\$	2,800
Patents and developed technology		16,200
Tradename and trademarks		12,400
Total identifiable intangible assets	\$	31,400

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 12. 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:

	June 30, 2022	March 31, 2022
	(In thousands)	
Contract asset - product returns	\$ 1,061	\$ 978
Refund liability	2,940	2,356

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

28 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.

5. INVENTORIES

Inventories as of the periods presented consisted of the following:

	June 30, 2022		March 31, 2022
	(In thousands)		
Raw materials	\$ 148,527	\$	156,050
Finished goods	340,965		338,274
Total inventories	\$ 489,492	\$	494,324

6. NET INCOME PER SHARE AND STOCKHOLDERS' EQUITY

Employee Stock Ownership Plan ("ESOP") - As previously disclosed in the Fiscal 2022 Form 10-K, in April 2022 all currently outstanding 15.6 million shares of Preferred Stock held by the ESOP were converted into 12.0 million shares of the Company's redeemable common stock at the Conversion rate of 0.7692. The Company's 401(k) retirement plan ("KSOP") holds these shares of common stock. When participants sell or forfeit these shares, the shares are no longer subject to the put option of the Internal Revenue Code and are no longer required to be classified in mezzanine equity.

Net Income per Share - For the three months ended June 30, 2021, the Company was required to apply the two-class method to compute both basic and diluted net income per share. Holders of redeemable convertible preferred stock participated in dividends on an as-converted basis when declared on common stock. As a result, redeemable convertible preferred stock met the definition of participating securities. 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 Company was not required to apply the two-class method to compute net income per share for the three months ended June 30, 2022 as the redeemable common stock and common stock have the same rights to earnings 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:

(In thousands, except per share data)	Three Months Ended June 30,	
	2022	2021
NET INCOME PER SHARE—BASIC:		
Net income attributable to ADS	\$ 187,146	\$ 75,987
Adjustments for:		
Dividends to participating securities	—	(1,635)
Net income available to common stockholders and participating securities	187,146	74,352
Undistributed income allocated to participating securities	—	(10,933)
Net income available to common stockholders – Basic	\$ 187,146	\$ 63,419
Weighted average number of common shares outstanding – Basic	83,144	71,534
Net income per common share – Basic	\$ 2.25	\$ 0.89
NET INCOME PER SHARE—DILUTED:		
Net income available to common stockholders – Diluted	\$ 187,146	\$ 63,419
Weighted average number of common shares outstanding – Basic	83,144	71,534
Assumed restricted stock - nonparticipating	147	282
Assumed exercise of stock options	757	941
Assumed performance units	341	367
Weighted average number of common shares outstanding – Diluted	84,389	73,124
Net income per common share – Diluted	\$ 2.22	\$ 0.87
Potentially dilutive securities excluded as anti-dilutive	24	14,102

Stockholders' Equity – During the three months ended June 30, 2022, the Company repurchased 0.8 million shares of common stock at a cost of \$67.4 million. The repurchases were made under the Board of Directors' authorization in February 2022 to repurchase up to an additional \$1.0 billion of ADS Common Stock in accordance with applicable securities laws. As of June 30, 2022, approximately \$932.6 million of common stock may be repurchased under the authorization. The repurchase program does not obligate the Company to acquire any particular amount of common stock and may be suspended or terminated at any time at the Company's discretion.

7. RELATED PARTY TRANSACTIONS

ADS Mexicana - ADS conducts business in Mexico and Central America through its joint venture ADS Mexicana, 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 6, 2022, the Company and ADS Mexicana amended the Intercompany Revolving Credit Promissory Note (the "Intercompany Note") with a borrowing capacity of \$9.5 million. The Intercompany Note matures on June 8, 2027. 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 Secured Overnight Financing Rate ("SOFR") plus an applicable margin based on the Leverage Ratio. As of June 30, 2022 and March 31, 2022, there were no borrowings and \$1.5 million borrowings, respectively, outstanding under the Intercompany Note.

South American Joint Venture - The Tuberias 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 June 30, 2022. 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 June 30, 2022 and March 31, 2022, the outstanding principal balances of the credit facility including letters of credit were \$8.6 million and \$9.9

million, respectively. As of June 30, 2022, there were no U.S. dollar denominated loans. The weighted average interest rate as of June 30, 2022 was 5.8% on Chilean peso denominated loans.

8. DEBT

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

	June 30, 2022	March 31, 2022
	(In thousands)	
Term Loan Facility	\$ 432,500	\$ 434,250
Senior Notes due 2027	350,000	350,000
Senior Notes due 2030	500,000	—
Revolving Credit Facility	—	114,300
Equipment Financing	27,668	31,254
Total	1,310,168	929,804
Unamortized debt issuance costs	(12,879)	(1,648)
Current maturities	(18,113)	(19,451)
Long-term debt obligations	\$ 1,279,176	\$ 908,705

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”).

In May 2022, the Company entered into a Second Amendment (the “Second Amendment”) to the Company’s Base Credit Agreement with Barclays Bank PLC, as administrative agent under the Term Loan Facility, PNC Bank, National Association, as new administrative agent under the Revolving Credit Facility. Among other things, the Second Amendment (i) amended the Base Credit Agreement by increasing the Revolving Credit Facility (the “Amended Revolving Credit Facility”) from \$350 million to \$600 million (including an increase of the sub-limit for the swing-line sub-facility from \$50 million to \$60 million), (ii) extended the maturity date of the Revolving Credit Facility to May 26, 2027, (iii) revised the “applicable margin” to provide an additional step-down to 175 basis points (for Term Benchmark based loans) and 75 basis points (for base rate loans) in the event the consolidated senior secured net leverage ratio is less than 2.00 to 1.00, and (iv) reset the “incremental amount” and the investment basket in non-guarantors and joint ventures. The Second Amendment also revises the reference interest rate from LIBOR to SOFR for both the Amended Revolving Credit Facility and the Term Loan Facility. Letters of credit outstanding at June 30, 2022 and March 31, 2022 amount to \$5.2 million and \$9.2 million, respectively, and reduced the availability of the Revolving Credit Facility.

Senior Notes due 2027 – On September 23, 2019, the Company issued \$350.0 million aggregate principal amount of 5.0% Senior Notes due 2027 (the “2027 Notes”) pursuant to an Indenture, dated September 23, 2019 (the “2027 Indenture”), among the Company, the guarantors party thereto (the “Guarantors”) and U.S. Bank National Association, as Trustee (the “Trustee”). The 2027 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 2027 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.

Senior Notes due 2030 – On June 9, 2022, the Company issued \$500.0 million aggregate principal amount of 6.375% Senior Notes due 2030 (the “2030 Notes”) pursuant to an Indenture, dated June 9, 2022 (the “2030 Indenture”), among the Company, the Guarantors and the Trustee. The 2030 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 2030 Notes will be payable semi-annually in cash in arrears on January 15 and July 15 of each year, commencing on January 15, 2023, at a rate of 6.375% per annum. The Senior Notes will mature on July 15, 2030. The Company used a portion of the net proceeds from the offering of the 2030 Notes to repay in full the outstanding borrowings under its Revolving Credit Facility and will use the remainder for general corporate purposes. The deferred financing costs associated with the 2030 Notes totaled \$9.0 million and are recorded as a direct reduction from the carrying amount of the related debt.

The Company may redeem the Notes, in whole or in part, at any time on or after July 15, 2025 at certain specified redemption prices set forth in the Indenture. In addition, at any time prior to July 15, 2025, the Company may redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date plus an applicable “make-whole” premium. At any time prior to July 15, 2025, the Company may also redeem up to 40% of the aggregate principal amount of Notes issued under the Indenture with net cash proceeds of certain equity offerings at a redemption price equal to 106.375% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

The 2030 Indenture contains customary events of default, including, among other things, payment default, failure to comply with covenants or agreements contained in the 2030 Indenture or the 2030 Notes and certain provisions related to bankruptcy events. The 2030 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 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 \$11.1 million and the long-term portion is \$16.6 million at June 30, 2022.

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. The following table presents the carrying and fair value of the Company's 2027 Notes, 2030 Notes and Equipment Financing for the periods presented:

	June 30, 2022		March 31, 2022	
	Fair Value	Carrying Value	Fair Value	Carrying Value
(In thousands)				
Senior Notes due 2027	\$ 324,198	\$ 350,000	\$ 349,902	\$ 350,000
Senior Notes due 2030	489,580	500,000	—	—
Equipment Financing	26,784	27,668	29,302	31,254
Total fair value	\$ 840,562	\$ 877,668	\$ 379,204	\$ 381,254

The fair values of the 2027 Notes and 2030 Notes was determined based on a quoted market data for the Company's 2027 Notes and 2030 Notes, respectively. 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 2027 Notes, 2030 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.

9. 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 June 30, 2022.

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.

10. 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 June 30, 2022 and 2021, the Company utilized an effective tax rate of 22.7% and 25.6%, respectively, to calculate its provision for income taxes. Several items increased the effective rate including state and local income taxes for the three months ended June 30, 2022 and 2021. The Company's ESOP also increased the effective rate for the three months ended June 30, 2021, which no longer impacts the effective tax rate after the repayment of the ESOP loan and the allocation of the remaining unallocated shares of Preferred Stock in the prior year. Additionally, discrete income tax benefits related to the stock-based compensation windfall decreased the rate for the three months ended June 30, 2022 and 2021.

11. 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 June 30,	
	2022	2021
	(In thousands)	
Component of income before income taxes:		
Cost of goods sold	\$ 674	\$ 634
Selling, general and administrative expenses	5,599	6,017
Total stock-based compensation expense	\$ 6,273	\$ 6,651

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

	Three Months Ended June 30,	
	2022	2021
	(In thousands)	
Stock-based compensation expense:		
Stock Options	\$ 1,279	\$ 753
Restricted Stock	1,761	1,359
Performance-based Restricted Stock Units	2,740	4,188
Non-Employee Directors	493	351
Total stock-based compensation expense	\$ 6,273	\$ 6,651

2017 Omnibus Incentive 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 months ended June 30, 2022, the Company granted 0.1 million shares of restricted stock with a grant date fair value of \$8.5 million.

Performance-based Restricted Stock Units ("Performance Units") – During the three months ended June 30, 2022, the Company granted 0.1 million performance share units at a grant date fair value of \$6.6 million.

Options – During the three months ended June 30, 2022, The Company granted 0.1 million nonqualified stock options under the 2017 Incentive Plan with a grant date fair value of \$5.5 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:

	Three Months Ended June 30, 2022
Common stock price	\$99.29
Expected stock price volatility	41.1%
Risk-free interest rate	2.9%
Weighted-average expected option life (years)	6
Dividend yield	0.48%

12. 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 onsite 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, Cultec 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					
	June 30, 2022			June 30, 2021		
	Net Sales	Intersegment Net Sales	Net Sales from External Customers	Net Sales	Intersegment Net Sales	Net Sales from External Customers
Pipe	\$ 524,857	\$ (9,874)	\$ 514,983	\$ 374,010	\$ (1,903)	\$ 372,107
Infiltrator	166,290	(28,906)	137,384	126,742	(19,037)	107,705
International						
International - Pipe	53,419	(5,859)	47,560	50,838	(2,914)	47,924
International - Allied Products & Other	18,095	—	18,095	14,528	—	14,528
Total International	71,514	(5,859)	65,655	65,366	(2,914)	62,452
Allied Products & Other	198,909	(2,745)	196,164	127,036	—	127,036
Intersegment Eliminations	(47,384)	47,384	—	(23,854)	23,854	—
Total Consolidated	\$ 914,186	\$ —	\$ 914,186	\$ 669,300	\$ —	\$ 669,300

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

	Three Months Ended June 30,	
	2022	2021
	(In thousands)	
Segment Adjusted Gross Profit		
Pipe	\$ 168,579	\$ 84,143
Infiltrator	75,794	59,402
International	20,484	21,378
Allied Products & Other	109,041	63,299
Intersegment Eliminations	(815)	(14)
Total	\$ 373,083	\$ 228,208
Depreciation and Amortization		
Pipe	\$ 12,865	\$ 12,035
Infiltrator	4,867	3,436
International	1,371	1,458
Allied Products & Other ^(a)	16,475	17,727
Total	\$ 35,578	\$ 34,656
Capital Expenditures		
Pipe	\$ 20,274	\$ 9,830
Infiltrator	12,532	13,026
International	913	250
Allied Products & Other ^(a)	2,470	2,440
Total	\$ 36,189	\$ 25,546

- (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 June 30,	
	2022	2021
	(In thousands)	
Reconciliation of Segment Adjusted Gross Profit:		
Total Gross Profit	\$ 352,107	\$ 201,121
Depreciation and Amortization	20,302	17,532
ESOP and stock-based compensation expense	674	9,555
Total Segment Adjusted Gross Profit	\$ 373,083	\$ 228,208

13. SUBSEQUENT EVENTS

Common Stock Dividend - During the second quarter of fiscal 2023, the Company declared a quarterly cash dividend of \$0.12 per share of common stock. The dividend is payable on September 15, 2022 to stockholders of record at the close of business on September 1, 2022.

Share Repurchase Program - During the second quarter of fiscal 2023, 0.6 million shares of common stock at a cost of \$57.7 million were repurchased under the Board of Directors' authorization in February 2022.

Employee Stock Purchase Plan - On July 21, 2022, the Company's stockholders adopted and approved the Advanced Drainage Systems, Inc. Employee Stock Purchase Plan (the "ESPP"). By approving the ESPP, the Company's stockholders set aside a fixed reserve of 400,000 shares of common stock that will be available to eligible employees of ADS and Participating Subsidiaries to purchase based on the terms and conditions of the ESPP.

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 ("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, 2023 refers to fiscal 2023, which is the period from April 1, 2022 to March 31, 2023.

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 Form 10-Q and with the audited Consolidated Financial Statements included in our Fiscal 2022 Form 10-K, as filed with the Securities and Exchange Commission (the "SEC") on May 19, 2022. 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 onsite 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.

Executive Summary

First Quarter Fiscal 2023 Results

- Net sales increased 36.6% to \$914.2 million
- Net income increased 144.4% to \$188.5 million
- Adjusted EBITDA, a non-GAAP measure, increased 79.5% to \$299.0 million

Net sales increased \$244.9 million, or 36.6%, to \$914.2 million, as compared to \$669.3 million in the prior year quarter. Domestic Pipe sales increased \$150.8 million, or 40.3%, to \$524.9 million. Domestic Allied Products & Other sales increased \$71.9 million, or 56.6%, to \$198.9 million. Infiltrator sales increased \$39.5 million, or 31.2%, to \$166.3 million. These increases were driven by double-digit sales growth in the U.S. construction end markets. International sales increased \$6.1 million, or 9.4%, to \$71.5 million, driven by strong sales growth in the Canadian, Mexican and Exports businesses.

Gross profit increased \$151.0 million, or 75.1%, to \$352.1 million as compared to \$201.1 million in the prior year. The increase in gross profit is primarily due to the increase in sales volume and favorable pricing on pipe, onsite septic and allied products. 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.

Adjusted EBITDA, a non-GAAP measure, increased \$132.5 million, or 79.5%, to \$299.0 million, as compared to \$166.6 million in the prior year. The increase is primarily due to the factors mentioned above. As a percentage of net sales, Adjusted EBITDA was 32.7% as compared to 24.9% in the prior year.

Results of Operations

Comparison of the Three Months ended June 30, 2022 to the Three Months ended June 30, 2021

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 June 30,			
	2022		2021	
Consolidated Statements of Operations data:	(In thousands)			
Net sales	\$ 914,186	100.0 %	\$ 669,300	100.0 %
Cost of goods sold	562,079	61.5	468,179	70.0
Gross profit	352,107	38.5	201,121	30.0
Selling, general and administrative	86,520	9.5	76,221	11.4
Loss on disposal of assets and costs from exit and disposal activities	303	—	(11)	—
Intangible amortization	13,677	1.5	15,645	2.3
Income from operations	251,607	27.5	109,266	16.3
Interest expense	11,072	1.2	7,907	1.2
Derivative gains and other income, net	(1,902)	(0.2)	(2,014)	(0.3)
Income before income taxes	242,437	26.5	103,373	15.4
Income tax expense	55,065	6.0	26,455	4.0
Equity in net (income) loss of unconsolidated affiliates	(1,110)	(0.1)	(205)	—
Net income	188,482	20.6	77,123	11.5
Less: net income attributable to noncontrolling interest	1,336	0.1	1,136	0.2
Net income attributable to ADS	\$ 187,146	20.5 %	\$ 75,987	11.4 %

Net sales - The following table presents net sales to external customers by reportable segment for the three months ended June 30, 2022 and 2021.

(Amounts in thousands)	2022	2021	\$ Variance	% Variance
Pipe	\$ 514,983	\$ 372,107	\$ 142,876	38.4 %
Infiltrator	137,384	107,705	29,679	27.6
International	65,655	62,452	3,203	5.1
Allied Products & Other	196,164	127,036	69,128	54.4
Total Consolidated	\$ 914,186	\$ 669,300	\$ 244,886	36.6 %

Our consolidated net sales for the three months ended June 30, 2022 increased by \$244.9 million, or 36.6%, compared to the same period in fiscal 2022. The increase in net sales was primarily a result of growth in our domestic Pipe segment along with both the Infiltrator and International segments.

Our Pipe segment experienced growth primarily through improved pricing/mix of products sold partially offset by lower volumes in the agriculture market. 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 and higher volume.

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Cost of goods sold and Gross profit - The following table presents gross profit by reportable segment for the three months ended June 30, 2022 and 2021.

(Amounts in thousands)	2022	2021	\$ Variance	% Variance
Pipe	\$ 155,099	\$ 63,300	\$ 91,799	145.0 %
Infiltrator	70,869	55,869	15,000	26.8
International	19,109	19,904	(795)	(4.0)
Allied Products & Other	107,845	62,062	45,783	73.8
Intersegment eliminations	(815)	(14)	(801)	5,721.4
Total gross profit	\$ 352,107	\$ 201,121	\$ 150,986	75.1 %

Our consolidated Cost of goods sold for the three months ended June 30, 2022 increased by \$93.9 million, or 20.1%, and our consolidated Gross profit increased by \$151.0 million, or 75.1%, compared to the same period in fiscal 2022. 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 June 30,	
	2022	2021
Selling, general and administrative expenses	\$ 86,520	\$ 76,221
% of Net sales	9.5 %	11.4 %

Selling, general and administrative expenses for three months ended June 30, 2022 increased \$10.3 million from the same period in fiscal 2022 and as a percentage of sales, decreased by 1.9%. The increase in Selling, general and administrative expenses is the result of increased headcount to support business growth.

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

Intangible amortization - Intangible amortization decreased \$2.0 million due to the accelerated method of amortization for customer relationships.

Interest expense - Interest expense increased \$3.2 million in the three months ended June 30, 2022 compared to the same period in the previous fiscal year. The increase was primarily due to increased average debt levels.

Derivative gains and other income, net - Derivative gain and other income decreased by \$0.1 million for the three months ended June 30, 2022 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 June 30, 2022 and 2021.

	Three Months Ended June 30,	
	2022	2021
Effective tax rate	22.7 %	25.6 %

The change in the effective tax rate for the three months ended June 30, 2022 was primarily related to the transition of the Company's Employee Stock Ownership Plan ("ESOP") and the repayment of the ESOP loan in the prior year. See "Note 10. Income Taxes" for additional information.

Equity in net income of unconsolidated affiliates - The Equity in net income of unconsolidated affiliates increased for the three months ended June 30, 2022 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 June 30, 2022 due to an increase in 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 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 June 30,	
	2022	2021
	(In thousands)	
Net income	\$ 188,482	\$ 77,123
Depreciation and amortization	35,578	34,656
Interest expense	11,072	7,907
Income tax expense	55,065	26,455
EBITDA	290,197	146,141
Loss (gain) on disposal of assets and costs from exit and disposal activities	303	(11)
Stock-based compensation expense	6,273	6,651
ESOP compensation expense	—	14,155
Transaction costs ^(a)	1,715	43
Other adjustments ^(b)	555	(397)
Adjusted EBITDA	\$ 299,043	\$ 166,582
Adjusted EBITDA Margin	32.7 %	24.9 %

- (a) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with business or asset acquisitions and dispositions.
- (b) 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 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)	Three Months Ended June 30,	
	2022	2021
Net cash provided by operating activities	\$ 249,765	\$ 104,348
Capital expenditures	(36,189)	(25,546)
Free Cash Flow	213,576	78,802
Total debt (debt and finance lease obligations)	1,313,945	
Cash	463,696	
Net debt (total debt less cash)	850,249	
Leverage Ratio	1.1	

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 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 increased \$145.4 million to \$249.8 million, as compared to \$104.3 million in the prior year, primarily due to changes in net working capital. Free cash flow (Non-GAAP) increased \$134.8 million to \$213.6 million, as compared to \$78.8 million in the prior year. Net debt (total debt and finance lease obligations net of cash) was \$850.2 million as of June 30, 2022.

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

(Amounts in thousands)	June 30, 2022
Revolver capacity	\$ 600,000
Less: outstanding borrowings	—
Less: letters of credit	(5,150)
Revolver available liquidity	\$ 594,850

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 June 30, 2022, we had \$1,058.5 million in liquidity, including \$463.7 million of cash, \$594.9 million in borrowings available under our Revolving Credit Agreement, net of \$5.2 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, and scheduled principal and interest payments on our indebtedness for at least the next twelve months.

Working Capital - Working capital increased to \$896.6 million as of June 30, 2022, from \$480.7 million as of March 31, 2022. The increase in working capital is primarily due to increased cash from the issuance of our Senior Notes due 2030 and an increase in accounts receivable consistent with our increase in sales and partially offset by an increase in accounts payable.

(Amounts in thousands)	Three Months Ended June 30,	
	2022	2021
Net cash provided by operating activities	\$ 249,765	\$ 104,348
Net cash used in investing activities	(83,668)	(25,493)
Net cash provided by (used in) financing activities	277,677	(131,321)

Operating Cash Flows – Cash flows from operating activities increased \$145.4 million during the three months ended June 30, 2022 primarily driven by operating income and changes in net working capital.

Investing Cash Flows - Cash flows used in investing activities during the three months ended June 30, 2022 increased by \$58.2 million compared to the same period in fiscal 2022. The increase in cash used in investing activities was primarily due to the acquisition of Cultec, net of cash acquired.

Capital expenditures totaled \$36.2 million and \$25.5 million for the three months ended June 30, 2022 and 2021, respectively. Our capital expenditures for the three months ended June 30, 2022 were used primarily to support facility expansions, equipment replacements and technology improvement initiatives.

We currently anticipate that we will make capital expenditures of approximately \$150 to \$180 million in fiscal year 2023. Such capital expenditures are expected to be financed using funds generated by operations.

Financing Cash Flows - During the three months ended June 30, 2022, cash provided by financing activities included the issuance of \$500.0 million of 2030 Notes and proceeds of \$123.2 million on our revolving credit facilities. Cash used in financing activities during the three months ended June 30, 2022 included payments of \$237.5 million on our revolving credit facilities, repurchase of common stock of \$57.7 million, \$22.8 million of shares withheld for tax purposes, and \$10.1 million of dividend payments.

During the three months ended June 30, 2021, cash used in financing activities included the repurchase of common stock of \$102.0 million, \$13.0 million of shares withheld for tax purposes, \$9.5 million of dividend payments and payments on our finance lease obligations of \$5.4 million.

Cash held by Foreign Subsidiaries - As of June 30, 2022, we had \$11.2 million in cash that was held by our foreign subsidiaries, including \$3.1 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.

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. In May 2022, the Company entered into a Second Amendment to the Company's 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 \$600 million, the L/C Facility in the initial aggregate available amount of up to \$60 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 June 30, 2022, the outstanding principal drawn on Term Loan Facility was \$432.5 million and there were no borrowings on the Revolving Credit Facility. The Company had \$594.9 million available to be drawn on the Revolving Credit Facility, net of \$5.2 million of outstanding letters of credit.

ADS Mexicana Revolving Credit Facility - The Company and ADS Mexicana amended its Intercompany Revolving Credit Promissory Note (the "Intercompany Note") with a capacity of \$9.5 million on June 6, 2022. 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 June 30, 2022 and March 31, 2022, there were no borrowings and \$1.5 million 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 2027 Notes, pursuant to the 2027 Indenture among the Company, the Guarantors and the Trustee. The 2027 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 2027 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 2027 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 2027 Notes will mature on September 30, 2027. The Company used the majority of the net proceeds from the offering of the 2027 Notes for the repayment of \$300.0 million of its outstanding borrowings under the Company’s Base Credit Agreement.

The Company may redeem the 2027 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 2027 Notes with net cash proceeds of certain equity offerings at a redemption price equal to 105.000% of the principal amount of the 2027 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 2027 Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the 2027 Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date plus an applicable “make-whole” premium.

The 2027 Indenture contains customary events of default, including, among other things, payment default, failure to comply with covenants or agreements contained in the 2027 Indenture or the 2027 Notes and certain provisions related to bankruptcy events. The 2027 Indenture also contains customary negative covenants.

Issuance of Senior Notes Due 2030 – On June 9, 2022 the Company issued \$500.0 million aggregate principal amount of 6.375% 2030 Notes pursuant to an Indenture, dated June 9, 2022 (the “2030 Indenture”), among the Company, the Guarantors and the Trustee. The Senior Notes were offered and sold either to persons reasonably believed to be “qualified institutional buyers” pursuant to the Securities Act or to persons outside the United States under Regulation S of the Securities Act.

Interest on the 2030 Notes will be payable semi-annually in cash in arrears on January 15 and July 15 of each year, commencing on January 15, 2023, at a rate of 6.375% per annum. The Senior Notes will mature on July 15, 2030. The Company used the majority of the net proceeds from the offering of the 2030 Notes to repay in full the outstanding borrowings under its Revolving Credit Facility and the remainder for general corporate purposes. The deferred financing costs associated with the 2030 Notes totaled \$9.0 million and are recorded as a direct reduction from the carrying amount of the related debt.

The Company may redeem the Notes, in whole or in part, at any time on or after July 15, 2025 at certain specified redemption prices set forth in the Indenture. In addition, at any time prior to July 15, 2025, the Company may redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date plus an applicable “make-whole” premium. At any time prior to July 15, 2025, the Company may also redeem up to 40% of the aggregate principal amount of Notes issued under the Indenture with net cash proceeds of certain equity offerings at a redemption price equal to 106.375% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date.

The 2030 Indenture contains customary events of default, including, among other things, payment default, failure to comply with covenants or agreements contained in the 2030 Indenture or the 2030 Notes and certain provisions related to bankruptcy events. The 2030 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 \$27.7 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 \$210.0 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 11. Debt” to the Consolidated Financial Statements in our Fiscal 2022 Form 10-K. We are in compliance with our debt covenants as of June 30, 2022.

Off-Balance Sheet Arrangements

Excluding the guarantees of 50% of certain debt of our unconsolidated South American Joint Venture as further discussed in “Note 7. Related Party Transactions” to the Condensed Consolidated Financial Statements, we do not have any other off-balance sheet arrangements. As of June 30, 2022, our South American Joint Venture had approximately \$8.6 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 2022 Form 10-K, except as disclosed in “Note 1. Background and Summary of Significant Accounting Policies”.

Forward-Looking Statements

This 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 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;
- the risks related to the COVID-19 pandemic or other pandemics in the future;
- disruption or volatility in general business and economic conditions in the markets in which we operate;
- cyclical and seasonality of the non-residential and residential construction markets and infrastructure spending;
- the risks of increasing competition in our existing and future markets;
- uncertainties surrounding the integration and realization of anticipated benefits of acquisitions and similar transactions;

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- 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;
- our ability to achieve the acquisition component of our growth strategy;
- the risk associated with manufacturing processes;
- the effect of global climate change;
- cybersecurity risks;
- 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;
- other risks and uncertainties, including those listed under “Item 1A. Risk Factors.” in the Fiscal 2022 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 Fiscal 2022 Form 10-K 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 \$4.3 million based on our borrowings as of June 30, 2022. 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 \$10.3 million, for the twelve months ended June 30, 2022.

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 June 30, 2022 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 9. Commitments and Contingencies," of the Condensed Consolidated Financial Statements of this 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 2022 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 2022 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 Form 10-Q.

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

In February 2022, our Board of Directors authorized a \$1.0 billion common stock repurchase program. Repurchase of common stock will be made in accordance with applicable securities laws. During the three months ended June 30, 2022, the Company repurchased 0.8 million shares of common stock at a cost of \$67.4 million. As of June 30, 2022, approximately \$932.6 million of common stock may be repurchased under the 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.

The following table provides information with respect to repurchases of our common stock by us and our "affiliated purchasers" (as defined by Rule 10b-18(a) (3) under the Exchange Act) during the three months ended June 30, 2022:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
(amounts in thousands, except per share data)				
April 1, 2022 to April 30, 2022	—	\$ —	—	\$ 1,000,000
May 1, 2022 to May 31, 2022	—	—	—	1,000,000
June 1, 2022 to June 30, 2022	772	87.25	772	932,639
Total	772	\$ 87.25	772	\$ 932,639

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
4.1	<u>Indenture, dated June 9, 2022, among Advanced Drainage Systems, Inc., each of the guarantors party thereto and U.S. Bank Trust Company, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities Exchange Commission on June 9, 2022).</u>
4.2	<u>Form of 6.375% Senior Note due 2030 (included with Indenture, dated June 9, 2022, among Advanced Drainage Systems, Inc., each of the guarantors party thereto and U.S. Bank Trust Company, National Association, as trustee) (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities Exchange Commission on June 9, 2022).</u>
10.1	<u>Second Amendment to Credit Agreement, by and among the Advanced Drainage Systems, Inc., the banks and other financial institutions or entities parties thereto, constituting the Required Lenders under the Credit Agreement and all the Revolving Lenders under the Credit Agreement, the Issuing Lenders party thereto, Barclays Bank PLC, as administrative agent under the Term Loan Facility and PNC Bank, National Association, as administrative agent under the Revolving Facility (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities Exchange Commission on May 27, 2022).</u>
31.1*	<u>Certification of President and Chief Executive Officer of Advanced Drainage Systems, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Executive Vice President and Chief Financial Officer of Advanced Drainage Systems, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Certification of Principal Executive Officer of Advanced Drainage Systems, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2*	<u>Certification of Principal Financial Officer of Advanced Drainage Systems, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS*	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 June 30, 2022, 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: August 4, 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: August 4, 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: August 4, 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 June 30, 2022 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.

August 4, 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 June 30, 2022 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.

August 4, 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.