



NEWS RELEASE

Advanced Drainage Systems Announces First Quarter Fiscal 2023 Results

8/4/2022

HILLIARD, Ohio--(BUSINESS WIRE)-- Advanced Drainage Systems, Inc. (NYSE: WMS) ("ADS" or the "Company"), a leading provider of innovative water management solutions in the stormwater and onsite septic wastewater industries today announced financial results for the fiscal first quarter ended June 30, 2022.

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 (Non-GAAP) increased 79.5% to \$299.0 million

Scott Barbour, President and Chief Executive Officer of ADS commented, "We achieved record revenue and Adjusted EBITDA results in the first quarter of fiscal 2023, with results coming in well above plan. Sales growth of 37% was driven by favorable pricing at both ADS and Infiltrator, as well as strong volume growth in Allied Products, Infiltrator and the residential end market driven by share gains. In addition, the new production equipment installed during the fourth quarter of fiscal year 2022, at both ADS and Infiltrator is producing to expected rates and helping to bring down elevated backlogs. While pipe volume in our non-residential, infrastructure and agriculture end markets started slower than anticipated, year-over-year volume performance improved as the quarter progressed and we remain confident in the outlook for all of our end markets for the remainder of the fiscal year."

Barbour continued, "The favorable top line growth we achieved in the first quarter was broad based across our construction end markets and geographies, with notable strength in our priority states. This growth offset inflationary cost pressures that we continue to see in transportation and our manufacturing operations. In addition, the pricing actions we have taken have more than offset our raw material costs, which moderated, but remain at elevated levels. As a result of these actions, we generated strong

growth in Adjusted EBITDA, which in combination with improvements in working capital, helped drive significant free cash flow generation."

Barbour concluded, "Based on better than expected performance this quarter that we anticipate will continue into the second quarter, we are raising our fiscal year guidance for both revenue and Adjusted EBITDA. While there is uncertainty around general economic conditions, specifically in residential construction, the strength we see in our leading indicators including project identification, quoting, book-to-bill and order trends, give us confidence we can achieve the updated guidance issued today."

First Quarter Fiscal 2023 Results

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 (Non-GAAP) 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.

Reconciliations of GAAP to Non-GAAP financial measures for Adjusted EBITDA and Free Cash Flow have been provided in the financial statement tables included in this press release. An explanation of these measures is also included below under the heading "Non-GAAP Financial Measures."

Balance Sheet and Liquidity

Net cash provided by operating activities was \$249.8 million, as compared to \$104.3 million in the prior year. Free cash flow (Non-GAAP) was \$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, a decrease of \$74.3 million from March 31, 2021.

On June 9, 2022 the Company issued \$500.0 million aggregate principal amount of 6.375% Senior Notes due 2030. Some of the proceeds of this issuance were used to repay the outstanding borrowings under its senior secured revolving credit facility.

ADS had total liquidity of \$1,059 million, comprised of cash of \$464 million as of June 30, 2022 and \$595 million of availability under committed credit facilities. As of June 30, 2022, the Company's leverage ratio was 1.1 times.

In the three months ended June 30, 2022, the Company repurchased 0.8 million shares of its common stock for a total cost of \$67.4 million. As of June 30, 2022, approximately \$932.6 million of common stock may be repurchased under the authorization.

Fiscal 2023 Outlook

Based on current visibility, backlog of existing orders and business trends, the Company raised its financial targets for fiscal 2023. Net sales are now expected to be in the range of \$3.250 billion to \$3.350 billion. Adjusted EBITDA is expected to be in the range of \$900 to \$940 million. Capital expenditures are expected to be in the range of \$150 million to \$180 million.

Conference Call Information

Webcast: Interested investors and other parties can listen to a webcast of the live conference call by logging in through the Investor Relations section of the Company's website at <https://investors.ads-pipe.com/events-and-presentations>. An online replay will be available on the same website following the call.

Teleconference: To participate in the live teleconference, participants may register at <https://ige.netroadshow.com/registration/q4inc/11113/ads/#39-first-quarter-fiscal-year-2023-financial-results/>. After registering, participants will receive a confirmation through email, including dial in details and unique conference call codes for entry. Registration is open through the live call. To ensure participants are connected for the full call, please register at least 10 minutes before the start of the call.

About the Company

Advanced Drainage Systems is a leading manufacturer of innovative stormwater and onsite septic wastewater solutions that manages the world's most precious resource: water. ADS provides superior drainage solutions for use in a wide variety of markets and applications including commercial, residential, infrastructure and agriculture. ADS delivers tremendous service to its customers with the industry's largest company-owned fleet, an expansive sales team, and a vast manufacturing network of approximately 70 manufacturing plants and 38 distribution centers. ADS is the largest plastic recycling company in North America, ensuring over half a billion pounds of plastic is kept out of landfills every year. Founded in 1966, ADS' water management solutions are designed to last for decades. To learn more, visit the Company's website at www.adspipe.com.

Forward Looking Statements

Certain statements in this press release may be deemed to be forward-looking statements. These statements are not historical facts but rather are based on the Company's current expectations, estimates and projections regarding the Company's business, operations and other factors relating thereto. Words such as "may," "will," "could," "would," "should," "anticipate," "predict," "potential," "continue," "expects," "intends," "plans," "projects," "believes," "estimates," "confident" and similar expressions are used to identify these forward-looking statements. 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; 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; 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; and other risks and uncertainties described in the Company's filings with the SEC. New risks and uncertainties emerge from time to time and it is not possible for the Company to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this press release. In light of the significant uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the Company's expectations, objectives or plans will be achieved in the timeframe anticipated or at all. Investors are cautioned not to place undue reliance on the Company's forward-looking statements and the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Financial Statements

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME (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 |
| 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 | \$ 187,146 | \$ 63,419 |
| 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 |
| Cash dividends declared per share | \$ 0.12 | \$ 0.11 |

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(unaudited)

| | As of | |
|---------------------------------------------------------------|---------------------|---------------------|
| | June 30, 2022 | March 31, 2022 |
| (Amounts in thousands) | | |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 463,696 | \$ 20,125 |
| Receivables, net | 427,620 | 341,753 |
| Inventories | 489,492 | 494,324 |
| Other current assets | 20,532 | 15,696 |
| Total current assets | <u>1,401,340</u> | <u>871,898</u> |
| 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 | <u>504,758</u> | <u>391,241</u> |
| Long-term debt obligations, net | 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 | <u>2,028,576</u> | <u>1,544,713</u> |
| Mezzanine equity: | | |
| Redeemable common stock | 188,828 | — |
| Redeemable convertible preferred stock | — | 195,384 |
| Total mezzanine equity | <u>188,828</u> | <u>195,384</u> |
| Stockholders' equity: | | |
| Common stock | 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 | <u>989,996</u> | <u>893,039</u> |
| Noncontrolling interest in subsidiaries | 17,963 | 16,622 |
| Total stockholders' equity | <u>1,007,959</u> | <u>909,661</u> |
| Total liabilities, mezzanine equity and stockholders' equity | <u>\$ 3,225,363</u> | <u>\$ 2,649,758</u> |

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

| | Three Months Ended June 30, | |
|-----------------------------------------------------------------------------------|-----------------------------|-----------|
| | 2022 | 2021 |
| (Amounts in thousands) | | |
| Cash Flow 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 |

Selected Financial Data

The following tables set forth net sales by reportable segment for each of the periods indicated.

| | 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 |
| (In thousands) | | | | | | |
| Pipe | \$ 524,857 | \$ (9,874) | \$ 514,983 | \$ 374,010 | \$ (1,903) | \$ 372,107 |
| Infiltrator Water Technologies | 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 |

Non-GAAP Financial Measures

This press release contains financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America ("GAAP"). ADS management uses non-GAAP measures in its analysis of the Company's performance. Investors are encouraged to review the reconciliation of non-GAAP financial measures to the comparable GAAP results available in the accompanying tables.

Reconciliation of Non-GAAP Financial Measures

This press release includes references to organic results, Adjusted EBITDA and Free Cash Flow, non-GAAP financial measures. These non-GAAP financial measures are used in addition to and in conjunction with results presented in accordance with GAAP. These measures are not intended to be substitutes for those reported in accordance with GAAP. Adjusted EBITDA and Free Cash Flow may be different from non-GAAP financial measures used by other companies, even when similar terms are used to identify such

measures.

EBITDA and Adjusted EBITDA are non-GAAP financial measures that comprise net income before interest, income taxes, depreciation and amortization, stock-based compensation, non-cash charges and certain other expenses. The Company's definition of Adjusted EBITDA may differ from similar measures used by other companies, even when similar terms are used to identify such measures. Adjusted EBITDA is a key metric used by management and the Company's board of directors to assess financial performance and evaluate the effectiveness of the Company's business strategies. Accordingly, management believes that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as the Company's management and board of directors. In order to provide investors with a meaningful reconciliation, the Company has provided below reconciliations of Adjusted EBITDA to net income.

Free Cash Flow is a non-GAAP financial measure that comprises cash flow from operating activities less capital expenditures. Free Cash Flow is a measure used by management and the Company's board of directors to assess the Company's ability to generate cash. Accordingly, 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. In order to provide investors with a meaningful reconciliation, the Company has provided below a reconciliation of cash flow from operating activities to Free Cash Flow.

The following tables present a reconciliation of EBITDA and Adjusted EBITDA to Net Income and Free Cash Flow to Cash Flow from Operating Activities, the most comparable GAAP measures, for each of the periods indicated.

Reconciliation of Segment Adjusted Gross Profit to Gross profit

| (Amounts in thousands) | Three Months Ended June 30, | |
|--------------------------------------------|--------------------------------|-------------------|
| | 2022 | 2021 |
| Segment adjusted gross profit | | |
| Pipe | \$ 168,579 | \$ 84,143 |
| Infiltrator Water Technologies | 75,794 | 59,402 |
| International | 20,484 | 21,378 |
| Allied Products & Other | 109,041 | 63,299 |
| Intersegment Eliminations | (815) | (14) |
| Total Segment Adjusted Gross Profit | 373,083 | 228,208 |
| Depreciation and amortization | 20,302 | 17,532 |
| ESOP and stock-based compensation expense | 674 | 9,555 |
| Total Gross Profit | \$ 352,107 | \$ 201,121 |

Reconciliation of Adjusted EBITDA to Net Income

| (Amounts in thousands) | Three Months Ended June 30, | |
|-------------------------------------------------------------------------------|--------------------------------|------------------|
| | 2022 | 2021 |
| 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 | 1,715 | 43 |
| Other adjustments(a) | 555 | (397) |
| Adjusted EBITDA | \$ 299,043 | \$ 166,582 |

(a) 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.

Reconciliation of Free Cash Flow to Cash flow from Operating Activities

| (Amounts in thousands) | Three Months Ended June 30, | |
|-----------------------------------------|--------------------------------|------------------|
| | 2022 | 2021 |
| Net cash flow from operating activities | \$ 249,765 | \$ 104,348 |
| Capital expenditures | (36,189) | (25,546) |
| Free cash flow | \$ 213,576 | \$ 78,802 |

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