

ADVANCED DRAINAGE SYSTEMS, INC.
Form 10-K
May 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2018

OR

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

For the transition period from _____ to _____

COMMISSION FILE NO.: 001-36557

ADVANCED DRAINAGE SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware 51-0105665
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification Number)

4640 Trueman Boulevard, Hilliard, Ohio 43026

(Address of principal executive offices and zip code)

(614) 658-0050

(Registrant's telephone number, including area code)

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

Edgar Filing: ADVANCED DRAINAGE SYSTEMS, INC. - Form 10-K

As of May 21, 2018, the registrant had 56,562,490 shares of common stock outstanding. The shares of common stock trade on the New York Stock Exchange under the ticker symbol "WMS." In addition, as of May 21, 2018, 191,791 shares of unvested restricted common stock were outstanding and 23,298,404 shares of ESOP preferred stock, convertible into 17,921,132 shares of common stock, were outstanding. As of May 21, 2018, 74,675,413 shares of common stock were outstanding, inclusive of outstanding shares of unvested restricted common stock and on an as-converted basis with respect to the outstanding shares of ESOP preferred stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this report incorporates by reference specific portions of the Registrant's Notice of Annual Meeting and Proxy Statement relating to the Annual Meeting of Stockholders to be held on July 24, 2018.

TABLE OF CONTENTS

<u>Cautionary Statement About Forward-Looking Statements</u>	Page 1
<u>PART I</u>	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	12
Item 1B. <u>Unresolved Staff Comments</u>	30
Item 2. <u>Properties</u>	30
Item 3. <u>Legal Proceedings</u>	31
Item 4. <u>Mine Safety Disclosures</u>	32
<u>PART II</u>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	33
Item 6. <u>Selected Financial and Operating Data</u>	35
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	39
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	61
Item 8. <u>Financial Statements and Supplementary Data</u>	62
Item 9. <u>Changes in and Disagreements with Accountant on Accounting and Financial Disclosure</u>	62
Item 9A. <u>Controls and Procedures</u>	62
Item 9B. <u>Other Information</u>	64
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	65
Item 11. <u>Executive Compensation</u>	65
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	65
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	65

Item 14. <u>Principal Accountant Fees and Services</u>	65
--	----

PART IV

Item 15. <u>Exhibits and Financial Statement Schedules</u>	66
--	----

Table of Contents

Advanced Drainage Systems, Inc.

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Some of the forward-looking statements can be identified by the use of terms such as “believes,” “expects,” “may,” “will,” “should,” “could,” “seeks,” “intends,” “plans,” “estimates,” “anticipates” or other comparable terms. These forward-looking statements include all matters that are not related to present facts or current conditions or that are not historical facts. They appear in a number of places throughout this Annual Report on Form 10-K and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our consolidated results of operations, financial condition, liquidity, prospects, growth strategies, and the industries in which we operate and include, without limitation, statements relating to our future performance.

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

- the effect of any claims, litigation, investigations or proceedings resulting from the restatement of our previously issued financial statements, or the matters related to such restatement, including those described below under “Item 3. Legal Proceedings” of this Annual Report;
- fluctuations in the price and availability of resins and other raw materials and our ability to pass any increased costs of raw materials on to our customers in a timely manner;
- volatility in general business and economic conditions in the markets in which we operate, including without limitation factors relating to availability of credit, interest rates, fluctuations in capital and business and consumer confidence;
- cyclicity and seasonality of the non-residential and residential construction markets and infrastructure spending;
- the risks of increasing competition in our existing and future markets, including competition from both manufacturers of high performance thermoplastic corrugated pipe and manufacturers of products using alternative materials;
- our ability to continue to convert current demand for concrete, steel and polyvinyl chloride (“PVC”) pipe products into demand for our high performance thermoplastic corrugated pipe and Allied Products;
- the effect of 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;

1

Table of Contents

Advanced Drainage Systems, Inc.

- our ability to manage our assets;
- the risks associated with our product warranties;
- our ability to manage our supply purchasing and customer credit policies;
- the risks associated with our self-insured programs;
- our ability to control labor costs and to attract, train and retain highly-qualified employees and key personnel;
- our ability to protect our intellectual property rights;
- changes in laws and regulations, including environmental laws and regulations;
- our ability to project product mix;
- the risks associated with our current levels of indebtedness;
- fluctuations in our effective tax rate, including from the recently enacted Tax Cuts and Jobs Act;
- changes to our operating results, cash flows and financial condition attributable to the recently enacted Tax Cuts and Jobs Act;
- our ability to meet future capital requirements and fund our liquidity needs; and
 - other risks and uncertainties, including those listed under “Item 1A. Risk Factors.”

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

Table of Contents

Advanced Drainage Systems, Inc.

PART I

Item 1. Business

COMPANY OVERVIEW

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

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

We believe the markets we serve in the United States represent approximately \$11 billion of annual revenue opportunity. In addition, we believe the increasing acceptance of thermoplastic pipe products in international markets represents an attractive growth opportunity. For fiscal 2018, we generated net sales of \$1.3 billion, net income of \$64.8 million and adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) of \$210.2 million and, as of March 31, 2018, we had \$300.8 million of total outstanding debt. For a reconciliation of Adjusted EBITDA to the most directly comparable measure calculated in accordance with accounting principles generally accepted in the United States of America (“GAAP”), see “Item 6. Selected Financial and Operating Data.” We believe our extensive national footprint in the United States creates a cost and service advantage versus our HDPE pipe producing competitors, the largest of which has only 11 domestic HDPE pipe manufacturing plants and, according to the December 25, 2017 ranking by Plastics News of Pipe, Profile & Tubing Extruders, recently had estimated sales of \$135 million, or approximately ten times less than our net sales in fiscal 2018.

Table of Contents

Advanced Drainage Systems, Inc.

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

Fiscal Year 2018 Revenue

SEGMENT INFORMATION

For a discussion of segment and geographic information, see “Note 20. Business Segment Information” to our audited consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” of this Form 10-K.

OUR MANUFACTURING AND DISTRIBUTION PLATFORM

We have a leading domestic and international manufacturing and distribution infrastructure, serving customers in all 50 U.S. states as well as approximately 80 other countries through 57 manufacturing plants and 32 distribution centers, including 7 manufacturing plants and 6 distribution centers owned or leased by our joint ventures. We manufacture our corrugated pipe products in 17 different diameters ranging from 2” to 60” using a continuous extrusion process, where molten polyethylene or polypropylene is pushed through a die into a moving series of corrugated U-shaped molds. Blown air and vacuum are used to form the corrugations of the pipe which is pulled through a corrugator and then cut to length. We utilize customized and proprietary production equipment, which we believe is faster and more cost efficient than other pipe making equipment generally available in the market.

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

The standard fittings products (tees, wyes, elbows, etc.) that we produce and sell to connect our pipe on jobsites are blow molded or injection molded at four domestic plants. In addition, customized fabricated fittings (e.g., more complex dual wall pipe reducers, bends or structures) are produced in 20 of our North American plants. In addition to the extrusion of pipe, and blow molding and injection molding of fittings, we also use a variety of other processes in our manufacturing facilities. These processes include thermoforming, compression molding, and custom plastic welding and fabrication. The wide variety of production processes and expertise allow us to provide cost-effective finished goods at competitive prices delivered in a timely fashion to our customers.

Table of Contents

Advanced Drainage Systems, Inc.

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

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

Quality Control - We have two internal quality control laboratory facilities equipped and staffed to evaluate and confirm incoming raw material and finished goods quality in addition to the quality testing that is done at our manufacturing facilities. We conduct annual safety, product and process quality audits at each of our facilities, using centralized internal resources in combination with external third-party services. In the quality area, various national agencies such as National Transportation Product Evaluation Program ("NTPEP"), International Association of Plumbing and Mechanical Officials ("IAPMO"), Bureau de normalisation du Québec ("BNQ"), Intertek for Canadian Standards Association ("CSA"), Entidad Mexicana de Acreditacion A.C. ("EMA") and NSF International and numerous state Departments of Transportation ("DOT") and municipal authorities conduct both scheduled and unscheduled inspections of our plants to verify product quality and compliance to applicable standards.

Training - Core to our commitment and enablement of a safe and productive manufacturing environment are our operational and management training programs. Through our ADS Academy, we deliver targeted role-specific training to our operations team members through a blended curriculum of on-line and hands-on training experiences covering safety, quality, product knowledge and manufacturing process. Our learning management system, which hosts over 600 custom modules, serves as the foundation of our operational training programs and provides us with appropriate scale, efficiency, and governance to support our growth. We have a strong commitment to the training of our manufacturing supervisors and managers in technical, management, and leadership subjects through intense role-based assimilation plans, e-learning and classroom-based development experiences.

Fleet - We also operate an in-house fleet of approximately 700 tractors. Our effective shipping radius is between approximately 300-350 miles from one of our manufacturing plants or distribution centers. The combination of a dedicated fleet and team of company drivers allows greater flexibility and responsiveness in meeting dynamic customer jobsite delivery expectations. We strive to achieve less than three-day lead-time on deliveries, and have the added benefit of redeploying fleet and driver assets to respond to short-term regional spikes in sales activity. For deliveries that are outside an economic delivery radius of our truck fleet, common carrier deliveries are tendered using a customized software platform to ensure that lowest delivered freight costs are achieved. In addition, in the United States and Canada, approximately 11% of our pipe volume is sold on a pick-up or walk-in basis at our plant and yard locations, further leveraging our footprint and lowering freight cost per pound and per revenue dollar.

Our North American truck fleet incorporates approximately 1,200 trailers that are specially designed to haul our lightweight pipe and fittings products. These designs maximize payload versus conventional over the road trailers and

facilitate unassisted unloading of our products at the jobsites by our drivers. The scope of fleet operations also includes backhaul of purchased raw materials providing a lower delivered cost to our plant locations.

Facility Network - Our scale and extensive network of facilities provide a critical cost advantage versus our competitors, as we are able to more efficiently transport products to our customers and end users and to promote faster product shipments due to our proximity to the delivery location.

OUR PRODUCTS

We design, manufacture and market a complete line of high performance thermoplastic corrugated pipe and related water management products for use in a wide range of end markets. Our product line includes: single, double

Table of Contents

Advanced Drainage Systems, Inc.

and triple wall corrugated polypropylene and polyethylene pipe (or “Pipe”) and a variety of Allied Products including: storm retention/detention and septic chambers (or “Chambers”); PVC drainage structures (or “Structures”); fittings (or “Fittings”); and water quality filters and separators (or “Water Quality”). We also sell various complementary products distributed through resale agreements, including geotextile products and drainage grates and other (or “Other Resale”). The table below summarizes the percentage of Net Sales for Pipe and Allied Products.

	2018	2017	2016
Pipe	72 %	72 %	74 %
Allied Products	28 %	28 %	26 %

Pipe

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

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

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

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

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

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

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

Triple Wall Corrugated Pipe and Smoothwall HDPE Pipe - Our ADS-3000 Triple Wall pipe, small diameter triple wall corrugated pipe, consists of a corrugated polyethylene core molded between a smooth white outer wall and a smooth black inner wall. This combination of the three wall design adds strength and stiffness, while reducing weight as compared to PVC 2729. Triple Wall is produced in two sizes, 3” and 4”, and sold through our distribution

Table of Contents

Advanced Drainage Systems, Inc.

network. We also manufacture smoothwall HDPE pipe in 3", 4", and 6" diameters that are sold into the residential drainage and on-site septic systems markets.

Allied Products

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

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

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

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

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

7

Table of Contents

Advanced Drainage Systems, Inc.

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

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

Water Quality - Our BaySaver product line targets the removal of sediment, debris, oils and suspended solids throughout a stormwater rain event by separating and/or filtering unwanted pollutants. Our BaySeparators can be fabricated into multiple sizing combinations to fit a variety of applications and customer requirements. These products assist owners, developers and design engineers in remaining compliant with discharge requirements set forth by the Environmental Protection Agency (“EPA”) as well as state and local regulatory agencies. Our BaySaver product line coupled with our pipe, StormTech chambers, fabricated fittings, Nyloplast structures, FleXstorm inlet protection systems and geotextiles make up a comprehensive stormwater management solution.

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

RAW MATERIALS AND SUPPLIERS

Virgin HDPE and PP resins are derivatives of ethylene and propylene, respectively. Ethylene and propylene are derived from natural gas liquids or crude oil derivatives in the U.S. We currently purchase in excess of 850 million pounds of virgin and recycled resin annually from over 460 suppliers in North America. As a high-volume buyer of resin, we are able to achieve economies of scale to negotiate favorable terms and pricing. Our purchasing strategies differ based on the material (virgin resin versus recycled material) ordered for delivery to our production locations. The price movements of the different materials also vary, resulting in the need to use a number of strategies to reduce volatility and successfully pass on cost increases to our customer through timely selling price increases when needed.

We have developed relationships with all of the North American producers of virgin high density polyethylene and impact copolymer polypropylene producers that manufacture the grades we need to produce our products, including Braskem Americas, Inc., Chevron Phillips Chemical Co. LP, The Dow Chemical Company, Equistar Chemicals, LP, ExxonMobil Chemical Company, Formosa Plastics Corporation, U.S.A., Ineos Olefins & Polyolefins, USA, Sasol USA, and Nova Chemical. The North American capacity for ethylene derivatives has been expanded during fiscal 2018 primarily as a result of the new supplies of natural gas liquids being produced through sustained oil and gas exploration and production. Additional design capacity should be achieved during fiscal 2019. Polypropylene capacity expansion projects are projected to be available in the second half of fiscal 2019.

We leverage our raw material blending and processing technologies to produce an HDPE pipe that incorporates recycled resin. This product, which meets an ASTM International standard, replaces a majority of the virgin resin that is used in the American Association of State Highway and Transportation Officials product with optimized recycled materials. To further develop our recycled material strategies, we established Green Line Polymers, Inc. (“GLP”), as our wholly-owned recycling subsidiary in 2012. GLP procures and processes recycled raw materials that can be used in products we produce and sell. Our first production facilities were established in Ohio and Georgia and are focused on processing post-industrial HDPE recycled materials. Based on the success of this strategy, we acquired a business that could supply clean, post-consumer recycled HDPE to our upper Midwest plants and established a second post-consumer processing plant, in Pennsylvania, to support our plants in Ohio, Michigan and the eastern and southern United States. In fiscal 2018, 98% of our non-virgin HDPE raw material needs were internally processed (enhanced) through our GLP operations.

Table of Contents

Advanced Drainage Systems, Inc.

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

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

CUSTOMERS

We have a large, active customer base of approximately 20,000 customers, with two customers representing 10% or more of fiscal 2018 net sales. Ferguson Enterprises (“Ferguson”) accounted for 13.4% and Core and Main accounted for 12.0% of fiscal 2018 net sales. Our customer base is diversified across the range of end markets that we serve.

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

Our customer service organization of more than 130 employees is supplemented by the employees of our manufacturing plants, distribution centers and drivers of our tractor-trailers. We staff and operate four regional customer service call centers located in three time zones where orders are processed. In conjunction with our field sales and engineering team, this highly-trained and competent staff allows us to maintain more customer touch points and interaction than any of our competitors.

SALES AND MARKETING

We have one of the largest and most experienced sales and engineering force in the industry, with approximately 400 sales and engineering professionals. Offering the broadest product line in the industry enables our sales force to source the greatest number of new opportunities and more effectively cross-sell products than any of our competitors.

We consistently maintain thousands of touch points with customers, civil engineers and municipal authorities, continuously educating them on new product innovations and their advantages relative to traditional products. We believe we are the industry leader in these efforts and we view this work as an important part of our marketing strategy, particularly in promoting N-12 and SaniTite HP for storm and sanitary sewer systems, as regulatory approvals are essential to the specification and acceptance of these product lines.

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

Table of Contents

Advanced Drainage Systems, Inc.

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

SEASONALITY

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

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

PRACTICES RELATED TO WORKING CAPITAL ITEMS

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

COMPETITION

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

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

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

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

Table of Contents

Advanced Drainage Systems, Inc.

INTELLECTUAL PROPERTY

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

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

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

EMPLOYEES

As of March 31, 2018, in our domestic and international operations the Company and its consolidated and unconsolidated joint ventures had approximately 4,400 employees, consisting of approximately 3,000 hourly personnel and approximately 1,400 salaried employees. As of March 31, 2018, approximately 350 hourly personnel in our Mexican and South American joint ventures were covered by collective bargaining agreements.

REGULATION

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

We have been able to consistently capitalize on changes in both local and federal regulatory statutes relating to storm and sanitary sewer construction, repair and replacement. Most noteworthy is the Federal Clean Water Act of 1972 and the subsequent EPA Phase I, II and sustainable infrastructure regulations relating to storm sewer construction, storm water quantity, storm water quality, and combined sewer separation. Our diversity of products offering a

solution-based selling approach coupled with detailed market knowledge makes us an integral industry resource in both regulatory changes and compliance.

An important element of our growth strategy has been our focus on industry education efforts to drive regulatory approvals for our core HDPE products at national, state and local levels. We employ a team of approximately 55 field-based engineers who work closely with government agencies to obtain regulatory approvals for our products, and also with civil engineering firms to specify our products on non-residential construction and road-building projects. With the introduction of our HP storm and sanitary pipe, we have refocused our efforts calling on state departments of transportation to enhance their approval of our pipe products. Additional state and local regulatory approvals will continue to present new growth opportunities in new and existing geographic markets for us. The trend of substituting traditional materials for HDPE and PP is expected to continue as more states and municipalities recognize the benefits of our HDPE N-12 pipe and our polypropylene HP pipe by approving it for use in a broader range of applications.

Table of Contents

Advanced Drainage Systems, Inc.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

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

CORPORATE AND AVAILABLE INFORMATION

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

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

The public may read and copy any materials filed by the Company with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov.

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

Item 1A. Risk Factors

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

Risks Relating to Restatements and Our Financial Reporting Process

The restatements of our previously issued financial statements and the related claims, investigations and proceedings arising out of the Prior Restatement have been time-consuming and expensive and could expose us to additional risks that would adversely affect our financial position, results of operations and cash flows.

As described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2015 (the “Fiscal 2015 Form 10-K”), we restated our previously issued consolidated financial statements for the fiscal years ended March 31, 2014 and 2013, as well as each of the first three quarters in fiscal 2015 and for all of the quarterly periods in fiscal 2014 (the “Prior Restatement”). We also restated our financial results for the fiscal years ended March 31, 2012 and 2011, as summarized in “Item 6. Selected Financial and Operating Data” to our Fiscal 2015 Form 10-K. In addition, as described in our Annual Report on Form 10-K/A for the fiscal year ended March 31, 2016 (the “Fiscal 2016 Form 10-K”), we restated our previously issued consolidated financial statements for the fiscal years ended

Table of Contents

Advanced Drainage Systems, Inc.

March 31, 2016, 2015 and 2014 as well as each of the quarters in fiscal 2016 and 2015 (the “Stock-Based Compensation Restatement”). Both the Prior Restatement and the Stock-Based Compensation Restatement were time-consuming and expensive and could expose us to a number of additional risks that would adversely affect our financial position, results of operations and cash flows.

In particular, we incurred significant expense, including audit, legal, consulting and other professional fees in connection with the Prior Restatement and the Stock-Based Compensation Restatement. Expenses incurred during fiscal 2018, 2017 and 2016 as a result of the Prior Restatements were approximately \$4 million, \$24 million and \$28 million, respectively. We have also incurred significant expenses in connection with the remediation of the weaknesses in our internal control over financial reporting as further described below.

While we have remediated previously identified material weaknesses in our internal control over financial reporting related to the Prior Restatement, we may identify other material weaknesses in the future which could, if not remediated, adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner, investor confidence in our company and, as a result, the value of our common stock.

We are required to evaluate the effectiveness of our disclosure controls on a periodic basis and publicly disclose the results of these evaluations and related matters in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. We had previously identified certain material weaknesses in our internal control over financial reporting that related to the matters associated with the Prior Restatement, which material weaknesses have been remediated. A “material weakness” is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

While we have remediated those previously identified material weaknesses, there can be no assurances that our controls will remain adequate. Any failure to implement or maintain required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses or material misstatement in our consolidated financial statements. Any new misstatement could result in a further restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations, reduce our ability to obtain financing or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price. We cannot assure you that we will not discover additional weaknesses in our internal control over financial reporting.

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

The Prior Restatement of our previously issued financial results has resulted in an ongoing investigation by the SEC as well as private litigation, and could result in additional litigation, government investigations and enforcement actions that could have a material adverse impact on our results of operations, financial condition, liquidity and cash

flows.

As further described below under “Item 3. Legal Proceedings,” the accounting errors and internal control problems disclosed in the Prior Restatement have been the subject of a formal investigation by the SEC’s Division of Enforcement (“Enforcement Division”). The Company has continued to cooperate with the SEC investigation and recently has engaged in discussions with the staff of the Enforcement Division about a potential resolution. As part of settlement discussions the Company has submitted a formal offer of settlement to the Enforcement Division. The accounting errors and internal control problems disclosed in the Prior Restatement were also the subject of a putative class action lawsuit filed in the U.S. District Court for the Southern District of New York. While the United States Court of Appeals for the Second Circuit denied a petition for rehearing on an order affirming dismissal of the class action on November 28, 2017 (and the plaintiff did not seek Supreme Court review), we could become subject to

13

Table of Contents

Advanced Drainage Systems, Inc.

additional litigation or government investigations and enforcement actions arising out of the Prior Restatement, the Stock-Based Compensation Restatement, as well as any delinquent Exchange Act filings.

To date our management has devoted significant time and attention related to these matters, and we may be required to devote even more time and attention to such matters in the future, and these and any additional matters that arise could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows. The terms of the SEC settlement offer described above remain subject to approval of the Commission and there can be no assurance that our efforts to resolve the SEC's investigation will be successful or that the settlement amount will be as anticipated, and we cannot predict the ultimate timing or outcome of the Commission's consideration. Although we maintain insurance that may provide coverage for some of these expenses (excluding any civil monetary penalties that may be imposed by the Commission as part of its investigation as referenced above), and we have given notice to our insurers of the claims, there is risk that the insurers will rescind or otherwise not renew the policies, that some or all of the claims will not be covered by such policies, or that, even if covered, our ultimate liability will exceed the available insurance. For additional discussion of these matters, see "Note 14. Commitments and Contingencies — Litigation" to our audited consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" of this Fiscal 2018 Form 10-K.

Risks Relating to Our Business

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

The principal raw materials that we use in our high performance thermoplastic corrugated pipe and Allied Products are virgin and recycled resins. Our ability to operate profitably depends, to a large extent, on the markets for these resins. In particular, as resins are derived either directly or indirectly from crude oil derivatives and natural gas liquids, resin prices fluctuate substantially as a result of changes in crude oil and natural gas prices, changes in existing processing capabilities and the capacity of resin suppliers. The petrochemical industry historically has been cyclical and volatile. The cycles are generally characterized by periods of tight supply, followed by periods of oversupply, primarily resulting from significant capacity additions. For example, resin prices have increased since 2010 due to increased demand in the broader economy. Unanticipated changes in and disruptions to existing petrochemical capacities could also significantly increase resin prices, often within a short period of time, even if crude oil and natural gas prices remain low.

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

control. An extended disruption in the timely availability of raw materials from our key suppliers would result in a decrease in our revenues and profitability.

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

Table of Contents

Advanced Drainage Systems, Inc.

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

The markets in which we operate are sensitive to general business and economic conditions in the United States and worldwide, including availability of credit, interest rates, fluctuation in capital and business and consumer confidence. These conditions, combined with price fluctuations in crude oil derivatives and natural gas liquids, declining business and consumer confidence and increased unemployment, precipitated an economic slowdown and severe recession in recent years. The difficult conditions in these markets and the overall economy affect our business in a number of ways. For example:

• The volatility of the United States economy in general can have an adverse effect on our sales that are dependent on the non-residential construction market. Continued uncertainty about current economic conditions to pose a risk to our business units that serve the non-residential construction market, as participants in this industry may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a continued material adverse effect on the demand for our products and services.

• The homebuilding industry underwent a significant decline after its peak in 2005. While new housing starts demonstrated a compounded annual growth rate of 9.0% from 2012 to 2017, current levels remain below the long-term average of 1.4 million starts since the U.S. Census Bureau began reporting the data demand for our products and services in this market, which in turn had a significant adverse effect on our financial condition and results of operations.

• Our business depends to a great extent upon general activity levels in the agriculture market. Changes in corn production, soybean production, farm income, farmland value and the level of farm output in the geographic locations in which we operate are all material factors that could adversely affect the agriculture market and result in a decrease in the amount of products that our customers purchase. The nature of the agriculture market is such that a downturn in demand can occur suddenly, resulting in excess inventories, un-utilized production capacity and reduced prices for pipe products. These downturns may be prolonged and our revenue and profitability would be harmed.

• Demand for our products and services depend to a significant degree on spending on infrastructure, which is inherently cyclical. Infrastructure spending is affected by a variety of factors beyond our control, including interest rates, availability and commitment of public funds for municipal spending and highway spending and general economic conditions. Our products sales may be adversely impacted by budget cuts by governments, including as a result of lower than anticipated tax revenues.

All of our markets are sensitive to changes in the broader economy. Downturns or lack of substantial improvement in the economy in any region in which we operate have adversely affected and could continue to adversely affect our business, financial condition and results of operations. While we operate in many markets, our business is particularly impacted by changes in the economies of the United States, Canada and Mexico, which represented approximately 88.3%, 7.1% and 3.5%, respectively, of our net sales for fiscal 2018 and collectively represented approximately 98.9% of our net sales for fiscal 2018.

We cannot predict the duration of current economic conditions, or the timing or strength of any future recovery of activities in our markets. Continued weakness in the market in which we operate could have a material adverse effect on our business, financial condition, results of operations and cash flows. We may have to close under-performing facilities from time to time as warranted by general economic conditions and/or weakness in the markets in which we operate. In addition to a reduction in demand for our products, these factors may also reduce the price we are able to

charge for our products and restrict our ability to pass raw material cost increases to our customers. This, combined with an increase in excess capacity, will negatively impact our profitability, cash flows and our financial condition, generally.

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

We compete with both manufacturers of high performance thermoplastic corrugated pipe and manufacturers of alternative products, such as concrete, steel and PVC pipe products, on the basis of a number of considerations,

Table of Contents

Advanced Drainage Systems, Inc.

including product characteristics such as durability, design, ease of installation, price on a price-to-value basis and service. In particular, we compete on a global, national and local basis with pipe products made of traditional materials which our high performance thermoplastic corrugated pipe products are designed to replace. For example, our N-12 and SaniTite HP products face competition from concrete, steel and PVC pipe products in the small- and large-diameter size segments of the market.

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

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

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

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

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

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

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

Table of Contents

Advanced Drainage Systems, Inc.

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

Our ten largest customers generated approximately 40% of our net sales in fiscal 2018. We cannot guarantee that we will maintain or improve our relationships with these customers or that we will continue to supply these customers at historical levels. Because we do not have long-term arrangements with many of our customers, such customers may cease purchasing our products without notice or upon short notice to us. During the economic downturn, some of our customers reduced their operations. For example, some homebuilder customers exited or severely curtailed building activity in certain of our markets. There is no assurance that our customers will increase their activity level or return it to historic levels. A slow economic recovery could continue to have material adverse effect on our business, financial condition, results of operations and cash flows.

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

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

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

Because we depend on the creditworthiness of certain of our customers, if the financial condition of our customers declines, our credit risk could increase. Significant contraction in our markets, coupled with tightened credit availability and financial institution underwriting standards, could adversely affect certain of our customers. Should one or more of our larger customers declare bankruptcy, it could adversely affect the collectability of our accounts receivable, bad debt reserves and net income.

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

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

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

The U.S. Foreign Corrupt Practices Act (“FCPA”) and similar foreign anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to wrongfully

Table of Contents

Advanced Drainage Systems, Inc.

influence foreign government officials for the purpose of obtaining or retaining business or obtaining an unfair advantage, and generally require companies to maintain accurate books and records and internal controls, including at foreign controlled subsidiaries. Recent years have seen a substantial increase in the global enforcement of anti-corruption laws, with more frequent voluntary self-disclosures by companies, aggressive investigations and enforcement proceedings by both the U.S. Department of Justice and the SEC resulting in record fines and penalties, increased enforcement activity by non-U.S. regulators, and increases in criminal and civil proceedings brought against companies and individuals.

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

Furthermore, as part of the Prior Restatement, management identified certain weaknesses in the Company's internal control over financial reporting, which weaknesses included certain control deficiencies related to the ADS Mexicana control environment, as well as the ADS Mexicana revenue recognition cut-off practices. Certain of the matters related to the ADS Mexicana control environment were already the subject of investigation by third party advisors to the Audit Committee as part of the restatement of our previously issued financial statements as set forth in the Fiscal 2015 Form 10-K. Although such matters resulted in a determination of material weakness, which material weaknesses have been remediated, neither the Audit Committee's advisors in the course of their investigation nor management concluded whether the weaknesses in the ADS Mexicana control environment, the ADS Mexicana revenue recognition cut-off practices, or any other material weaknesses of the Company, would result in an ultimate determination by the SEC or any other applicable regulatory agency that the Company has not complied with the books and records and internal control provisions of the FCPA as set forth in sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act. In the event that we believe or have reason to believe that our employees, agents or joint venture partners have or may have violated applicable anti-corruption laws, including the FCPA, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. A finding that the Company or its affiliates have violated any of these laws may result in severe criminal or civil sanctions, which could disrupt our business and result in a material adverse effect on our reputation, financial condition, results of operations and cash flows.

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

With respect to our existing joint ventures in Mexico and South America, any differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues. We also cannot control the actions of our joint venture partners, including any nonperformance, default or bankruptcy of our joint venture partners. As a result, we may be unable to control the quality of products produced by the joint ventures or achieve consistency of product quality as compared with our other operations. In addition to net sales and market share, this may have a material negative impact on our brand and how it is perceived thereafter. Moreover, if our partners also

fail to invest in the joint venture in the manner that is anticipated or otherwise fail to meet their contractual obligations, the joint ventures may be unable to adequately perform and conduct their respective operations, requiring us to make additional investments or perform additional services to ensure the adequate performance and delivery of products and/or services to the joint ventures' customers, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

We may expand into new product markets based on our existing manufacturing, design and engineering capabilities and services. Our business depends in part on our ability to identify future products and product lines that complement existing products and product lines and that respond to our customers' needs. We may not be able

Table of Contents

Advanced Drainage Systems, Inc.

to compete effectively unless our product selection keeps up with trends in the markets in which we compete or trends in new products. In addition, our ability to integrate new products and product lines into our distribution network could impact our ability to compete. Furthermore, the success of new products and new product lines will depend on market demand and there is a risk that new products and new product lines will not deliver expected results, which could negatively impact our future sales and results of operations.

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

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

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

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

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

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

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

Table of Contents

Advanced Drainage Systems, Inc.

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

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

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

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

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

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

We generally provide limited product warranties on our products against defects in materials and workmanship in normal use and service. Most of our pipe products have a warranty that is not limited in duration. The warranty period for other products such as our StormTech chambers, our Inserta Tee product line, our BaySaver product line and our FleXstorm inlet protection systems is generally one year. Estimating the required warranty reserves requires a high level of judgment. Management estimates warranty reserves, based in part upon historical warranty costs, as a proportion of sales by product line. Management also considers various relevant factors, including its stated warranty policies and procedures, as part of its evaluation of its liability. Because warranty issues may surface later in the product life cycle, management continues to review these estimates on a regular basis and considers adjustments to these estimates based on actual experience compared to historical estimates. Although management believes that our warranty reserves as of March 31, 2018 are adequate, actual results may vary from these estimates.

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

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

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

Table of Contents

Advanced Drainage Systems, Inc.

decline in revenues and profitability. In addition, even if we are successful in defending any claim relating to the products we distribute, claims of this nature could negatively impact customer confidence in us and our products.

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

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

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

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

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

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

Cuts and Jobs Act, collect and prepare necessary data, and interpret any additional guidance, we may make adjustments to provisional amounts that we have recorded that may materially impact our provision for income taxes in the period in which the adjustments are made.

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

We cannot predict whether future developments in law and regulations concerning our business units will affect our business, financial condition and results of operations in a negative manner. Similarly, we cannot assess

Table of Contents

Advanced Drainage Systems, Inc.

whether our business units will be successful in meeting future demands of regulatory agencies in a manner which will not materially adversely affect our business, financial condition, results of operations and cash flows.

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

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

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

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

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

We may experience a failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks or information security breaches.

Information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. A failure in or breach of our operational or information security systems, or those of our third-party service providers, as a result of cyber-attacks

or information security breaches could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and/or cause losses. As a result, cyber security and the continued development and enhancement of the controls and processes designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us. As cyber threats continue to evolve, we may be required to expend additional significant resources to continue to enhance our information security measures and/or to investigate and remediate any information security vulnerabilities.

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

We provide workers' compensation, automobile and product/general liability coverage through a high deductible insurance program. In addition, we provide medical coverage to some of our employees through a self-

Table of Contents

Advanced Drainage Systems, Inc.

insured preferred provider organization. Our business, financial condition, results of operations and cash flows may be adversely affected if the number and severity of insurance claims increases.

In March 2010, the United States government enacted comprehensive health care reform legislation which, among other things, includes guaranteed coverage requirements, eliminates pre-existing condition exclusions and annual and lifetime maximum limits, restricts the extent to which policies can be rescinded and imposes new and significant taxes on health insurers and health care benefits. The legislation imposes implementation effective dates which began in 2010 and extend through 2020, and many of the changes require additional guidance from government agencies or federal regulations. Therefore, due to the phased-in nature of the implementation and the lack of interpretive guidance, it is difficult to determine at this time what impact the health care reform legislation will have on our financial results. Possible adverse effects of the health care reform legislation include increased costs, exposure to expanded liability and requirements for us to revise ways in which we provide healthcare and other benefits to our employees. As a result, our business, financial condition, results of operations and cash flows could be materially adversely affected.

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

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

In addition, our business results of operations depend largely upon our chief executive officer and senior management team as well as our plant managers and sales personnel, including those of companies recently acquired, and their experience, knowledge of local market dynamics and specifications and long-standing customer relationships. We customarily sign executive responsibility agreements with certain key personnel who are granted restricted stock or stock options under our employee incentive compensation programs, which contain confidentiality and non-competition provisions. However, in certain jurisdictions, non-competition provisions may not be enforceable or may not be enforceable to their full extent. Our inability to retain or hire qualified plant managers or sales personnel at economically reasonable compensation levels would restrict our ability to grow our business, limit our ability to continue to successfully operate our business and result in lower operating results and profitability.

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

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

We have applied for patent protection relating to certain existing and proposed products, processes and services. While we generally apply for patents in those countries where we primarily intend to make, have made, use, or sell patented products, we may not accurately predict all of the countries where patent protection will

Table of Contents

Advanced Drainage Systems, Inc.

ultimately be desirable. If we fail to timely file a patent application in any such country, we may be precluded from doing so at a later date. Furthermore, we cannot assure that any of our patent applications will be approved. We also cannot assure that the patents issuing as a result of our foreign patent applications will have the same scope of coverage as our United States patents. The patents we own could be challenged, invalidated or circumvented by others and may not be of sufficient scope or strength to provide us with any meaningful protection or commercial advantage. Further, we cannot assure that competitors will not infringe our patents, or that we will have adequate resources to enforce our patents.

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

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

Although we rely on copyright laws to protect the works of authorship (including software) created by us, we generally do not register the copyrights in any of our copyrightable works. Copyrights of United States origin must be registered before the copyright owner may bring an infringement suit in the United States. Furthermore, if a copyright of United States origin is not registered within three months of publication of the underlying work, the copyright owner is precluded from seeking statutory damages or attorneys' fees in any United States enforcement action and is limited to seeking actual damages and lost profits. Accordingly, if one of our unregistered copyrights of United States origin is infringed by a third party, we will need to register the copyright before we can file an infringement suit in the United States, and our remedies in any such infringement suit may be limited.

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

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

Table of Contents

Advanced Drainage Systems, Inc.

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

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

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

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

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

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

Concern over climate change, including the impact of global warming, has led to significant federal, state, and international legislative and regulatory efforts to limit greenhouse gas (“GHG”) emissions. For example, in the past several years, the U.S. Congress has considered various bills that would regulate GHG emissions. While these bills have not yet received sufficient Congressional support for enactment, some form of federal climate change legislation is possible in the future. Even in the absence of such legislation, the Environmental Protection Agency, spurred by judicial interpretation of the Clean Air Act, may regulate GHG emissions, especially diesel engine emissions, and this could impose substantial costs on us. These costs include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our internal fleet of trucks and other vehicles prematurely. In addition, new laws or future regulation could directly and indirectly affect our customers and suppliers (through an increase in the cost of production or their ability to produce satisfactory products) and our business (through the impact on our inventory availability, cost of sales, operations or demands for the products we sell). Until

the timing, scope and extent of any future regulation becomes known, we cannot predict its effect on our cost structure or our operating results. Notwithstanding our dedication to being a responsible corporate citizen, it is reasonably possible that such legislation or regulation could impose material costs on us.

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

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

Table of Contents

Advanced Drainage Systems, Inc.

Risks Relating to Our Indebtedness

We have substantial debt and may incur substantial additional debt, which could adversely affect our financial health, reduce our profitability, limit our ability to obtain financing in the future and pursue certain business opportunities and reduce the value of your investment.

As of March 31, 2018, we had an aggregate principal amount of \$300.8 million of outstanding debt. In fiscal year 2018, we incurred \$11.2 million of interest expense, net of the impact of interest rate swaps, related to this debt.

The amount of our debt or such other obligations could have important consequences for holders of our common stock, including, but not limited to: a substantial portion of our cash flow from operations must be dedicated to the payment of principal and interest on our indebtedness, thereby reducing the funds available to us for other purposes; our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes and other purposes may be impaired in the future; we are exposed to the risk of increased interest rates because a portion of our borrowings is at variable rates of interest; we may be at a competitive disadvantage compared to our competitors with less debt or with comparable debt at more favorable interest rates and that, as a result, may be better positioned to withstand economic downturns; our ability to refinance indebtedness may be limited or the associated costs may increase; our ability to engage in acquisitions without raising additional equity or obtaining additional debt financing may be impaired in the future; it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on and acceleration of such indebtedness; we may be more vulnerable to general adverse economic and industry conditions; and our flexibility to adjust to changing market conditions and our ability to withstand competitive pressures could be limited, or we may be prevented from making capital investments that are necessary or important to our operations in general, growth strategy and efforts to improve operating margins of our business units.

If our cash flow and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek to obtain additional equity capital or refinance our debt. We cannot make assurances that we will be able to refinance our debt on terms acceptable to us, or at all. In the future, our cash flow and capital resources may not be sufficient for payments of interest on and principal of our debt, and such alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

We cannot make assurances that we will be able to refinance any of our indebtedness, or obtain additional financing, particularly because of our high levels of debt and the debt incurrence restrictions imposed by the agreements governing our debt, as well as prevailing market conditions. We could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Subject to certain exceptions, our Secured Bank Loans and our Senior Notes, which we have defined in “Note 12. Debt” to our consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data,” restrict our ability to dispose of assets and how we use the proceeds from any such dispositions. We cannot make assurances that we will be able to consummate those dispositions, or if we do, what the timing of the dispositions will be or whether the proceeds that we realize will be adequate to meet our debt service obligations, when due.

Despite our current level of indebtedness, we may still be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.

We may be able to incur significant additional indebtedness in the future. Although the agreements governing our indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness, including obligations under lease arrangements that are currently recorded as operating leases. In addition, our Revolving Credit Facility provides an aggregate commitment of up to \$550.0 million. As of March 31, 2018, we had an additional \$365.5 million of availability under the Revolving Credit Facility. Our subsidiary ADS Mexicana had \$12.0 million in availability outstanding under a separate revolving credit facility. If new debt is added to our current debt levels, the related risks that we now face could intensify. See “Note 12. Debt” to our consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data.”

Table of Contents

Advanced Drainage Systems, Inc.

The agreements and instruments governing our debt contain restrictions and limitations that could significantly impact our ability to operate our business and adversely affect the holders of our common stock.

The covenants contained in our Secured Bank Loans and our Senior Notes, which we refer to collectively as our Credit Facilities, are consistent. These covenants, among other things, restrict or limit our ability to: dispose of assets; incur additional indebtedness (including guarantees of additional indebtedness); prepay or amend our various debt instruments; pay dividends and make certain payments; redeem stock or make other distributions; create liens on assets; make certain investments; engage in certain asset sales, mergers, acquisitions, consolidations or sales of all, or substantially all, of our assets; and engage in certain transactions with affiliates.

Our ability to comply with the covenants and restrictions contained in the Credit Facilities may be affected by economic, financial and industry conditions beyond our control. The breach of any of these covenants or restrictions could result in a default under the Credit Facilities that would permit the applicable lenders or noteholders, as the case may be, to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If we are unable to repay indebtedness, secured parties having secured obligations, such as the lenders under the Credit Facilities, could proceed against the collateral securing the secured obligations. This could have serious consequences to our financial condition and results of operations and could cause us to become bankrupt or insolvent.

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

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

If financing is not available when needed, or is available on unfavorable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations. If we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership, and any new securities we issue could have rights, preferences and privileges senior to those of holders of our common stock.

We may not be able to satisfy our outstanding obligations upon a change of control.

Under the Secured Bank Loans, a change of control (as defined therein) constitutes an event of default that permits the lenders to accelerate the maturity of borrowings under the agreement and terminate their commitments to lend. Additionally, under the Senior Notes, a change of control (as defined therein) constitutes an event of default that

permits the noteholders to declare all of their notes to be immediately due and payable. In order to avoid events of default under each of our Credit Facilities, we may therefore have to avoid certain change of control transactions that would otherwise be beneficial to us.

Risks Relating to Our Common Stock

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

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

Table of Contents

Advanced Drainage Systems, Inc.

addition, the terms of our Credit Facilities contain restrictions on our ability to pay dividends. Also, Delaware law may impose requirements that may restrict our ability to pay dividends to holders of our common stock.

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

We cannot assure that an active public market for our common stock will be sustained. In the absence of a public trading market, you may not be able to liquidate your investment in our common stock. The market price of our common stock may fluctuate significantly. Among the factors that could affect our stock price are: industry or general market conditions; domestic and international economic factors unrelated to our performance; changes in our customers' preferences; new regulatory pronouncements and changes in regulatory guidelines; actual or anticipated fluctuations in our quarterly operating results; changes in securities analysts' estimates of our financial performance or lack of research and reports by industry analysts; action by institutional stockholders or other large stockholders, including future sales; speculation in the press or investment community; investor perception of us and our industry; changes in market valuations or earnings of similar companies; announcements by us or our competitors of significant products, contracts, acquisitions or strategic partnerships; developments or disputes concerning patents or proprietary rights, including increases or decreases in litigation expenses associated with intellectual property lawsuits we may initiate, or in which we may be named as defendants; failure to complete significant sales; any future sales of our common stock or other securities; and additions or departures of key personnel.

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

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

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could cause the market price of our common stock to decline. Based on shares outstanding as of March 31, 2018, we have 56.9 million outstanding shares of common stock, including 0.2 million outstanding shares of our restricted stock, a significant portion of which are freely tradeable without restriction under the Securities Act of 1933, as amended, ("Securities Act") unless held by "affiliates," as that term is defined in Rule 144 under the Securities Act. The remaining shares of common stock outstanding are restricted securities within the meaning of Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if their offer and sale is registered under the Securities Act or if the offer and sale of those securities qualify for an exemption from registration, including exemptions provided by Rules 144 and 701 under the Securities Act. We have filed one or more registration statements on Form S-8 under the Securities Act to register the shares of common stock to be issued under our equity compensation plans and, as a result, all shares of common stock acquired upon exercise of stock options granted under our plans are also freely tradable under the Securities Act, unless purchased by our affiliates. As of March 31, 2018, there were stock options outstanding to purchase a total of approximately 1.8 million shares of our common stock. In

addition, approximately 3.3 million shares of common stock are available for grant under our 2017 Omnibus Plan.

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

28

Table of Contents

Advanced Drainage Systems, Inc.

All of the shares of our convertible preferred stock held by our Employee Stock Ownership Plan (“ESOP”) may be converted into our common stock at any time by action of the ESOP trustee, and will be automatically converted into our common stock upon distributions of such shares allocated to the ESOP accounts of ESOP participants upon a distribution event such as retirement or other termination of employment. Such distributed common stock will not be subject to any lock-up agreement and will be eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144. As of March 31, 2018, there were approximately 23.3 million shares of convertible preferred stock held by our ESOP, which in aggregate could be converted into approximately 17.9 million shares of our common stock. All of these shares will be eligible for future sale, either by the ESOP trustee or by ESOP participants, subject to the limitations of Rule 144.

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

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

As of May 21, 2018, our directors, officers and principal stockholders and their affiliates collectively own approximately 49.2% of our outstanding shares of common stock. Additionally, our ESOP holds convertible preferred stock that converts into a substantial number of shares of our common stock and, prior to conversion, is entitled to vote on a one-for-one basis on any matter requiring the vote or consent of our stockholders, voting together with our common stock as a single class unless otherwise required by law. Thus, the collective voting power of our directors, officers and principal stockholders and their affiliates as of May 21, 2018 is approximately 64.0%, inclusive of the outstanding shares of convertible preferred stock held by the ESOP. As a result, these stockholders, if they act together, may be able to control our management and affairs and most matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing a change of control and might adversely affect the market price of our common stock. This concentration of ownership may not be in the best interests of our other stockholders.

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

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

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

Our amended and restated certificate of incorporation and amended and restated bylaws include a number of provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. For example, our amended and restated certificate of incorporation and amended and restated bylaws: authorize the issuance of “blank check” preferred stock that could be issued by our board of directors to thwart a takeover attempt; maintain a classified board of directors, as a result of which our board will continue to be divided into three classes, with each class serving for staggered three-year terms, which prevents stockholders from electing an entirely new board of directors at an annual meeting; limit the ability of stockholders to remove directors; provide that vacancies on our board of directors, including newly-created directorships, may be filled only by a majority vote of directors then in office; prohibit stockholders from calling special meetings of stockholders; prohibit stockholder action by written consent, thereby requiring all actions to be taken at a meeting of the stockholders; do not give the holders of our common stock cumulative voting rights with respect to the election of directors, which means that the holders of a majority of our outstanding shares of common stock can elect all directors standing for election; establish advance notice requirements for nominations for election to our board of

Table of Contents

Advanced Drainage Systems, Inc.

directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; require a super-majority stockholders vote of 75% to approve any reorganization, recapitalization, share exchange, share reclassification, consolidation, merger, conversion or sale of all or substantially all assets to which we are a party that is not approved by the affirmative vote of at least 75% of the members of our board of directors; and require the approval of holders of at least 75% of the outstanding shares of our voting common stock to amend the bylaws and certain provisions of the certificate of incorporation.

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

Our amended and restated certificate of incorporation and amended and restated bylaws may also make it difficult for stockholders to replace or remove our management. These provisions may facilitate management entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our stockholders.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Property

We have a network of 57 manufacturing plant locations and 32 distribution centers, summarized in the following table:

	Manufacturing Plants	Distribution Centers	Total
United States	45	20	65
Canada	5	5	10
Mexico ⁽¹⁾	4	—	4
South America ⁽¹⁾⁽²⁾	3	6	9
Netherlands	—	1	1
Total	57	32	89

(1) Manufacturing plants and distribution centers in Mexico and South America are owned or leased by our joint ventures.

30

Table of Contents

Advanced Drainage Systems, Inc.

(2) Manufacturing plants and distribution centers owned or leased by our South America joint venture are not consolidated in ADS.

We sell to customers across all 50 U.S. states and 10 Canadian provinces through 75 locations in the United States and Canada.

We currently own approximately 36,000 square feet and lease approximately 9,500 square feet of office space in Hilliard, Ohio for our corporate headquarters.

Our network of 57 manufacturing plants consist of 45 that are owned and 12 that are leased. We generally prefer to own our manufacturing plant locations, with a typical pipe manufacturing facility consisting of approximately 40,000 square feet and 15-20 acres of land for storage of pipe and related products. Our network of 32 distribution centers consisted of 1 owned and 31 leased. We believe that our properties have been adequately maintained and are generally in good condition. The extent to which we use our properties varies by property and from time to time but we believe the capacity of our facilities is adequate for the level of production and distribution activities necessary in our business as presently conducted. Each distribution center carries single wall and dual wall pipe and fittings and Allied Products per needs of the local market.

Our manufacturing plants and distribution centers, including those operated through our joint ventures, are shown in the map below. ⁽¹⁾

(1) Additionally, we have a distribution center in Rotterdam, The Netherlands.

In-House Fleet

As of March 31, 2018, our in-house fleet consist of approximately 700 tractors and approximately 1,200 trailers that are specially designed to haul our lightweight pipe and fittings products.

Item 3. Legal Proceedings

On July 29, 2015, a putative stockholder class action, Christopher Wyche, individually and on behalf of all others similarly situated v. Advanced Drainage Systems, Inc., et al. (Case No. 1:15-cv-05955-KPF), was commenced in the U.S. District Court for the Southern District of New York (the "District Court"), naming the Company, along with Joseph A. Chlapaty, the Company's former Chief Executive Officer, and Mark B. Sturgeon, the Company's former Chief Financial Officer, as defendants and alleging violations of the federal securities laws.

Table of Contents

Advanced Drainage Systems, Inc.

An amended complaint was filed on April 28, 2016. The amended complaint alleged that the Company made material misrepresentations and/or omissions of material fact in its public disclosures during the period from July 25, 2014 through March 29, 2016, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. On March 10, 2017, the District Court dismissed Plaintiff's claims against all defendants in their entirety and with prejudice. Plaintiff appealed to the United States Court of Appeals for the Second Circuit, and on October 13, 2017 the District Court's judgment was affirmed by the Second Circuit. On October 27, 2017, Plaintiff filed a petition for rehearing with the Second Circuit. The Second Circuit denied the petition for rehearing on November 28, 2017. The plaintiff did not seek Supreme Court review and therefore the matter is closed.

On August 12, 2015, the SEC's Division of Enforcement (the "Enforcement Division") informed the Company that it was conducting an informal inquiry with respect to the Company. As part of this inquiry, the Enforcement Division requested the voluntary production of certain documents generally related to the Company's accounting practices. Subsequent to the initial voluntary production request, the Company received document subpoenas from the Enforcement Division pursuant to a formal order of investigation. The Company has continued to cooperate with the Enforcement Division's investigation and recently has engaged in discussions with the staff of the Enforcement Division about a potential resolution. As part of settlement discussions the Company has submitted a formal offer of settlement to the Enforcement Division for consideration by the Commission. The terms of the settlement offer remain subject to approval by the Commission. Accordingly, there can be no assurance that the Company's efforts to resolve the investigation will be successful or that the settlement amount will be as anticipated, and the Company cannot predict the ultimate timing or outcome of the Commission's consideration.

In May 2017, a former employee filed a class action complaint against the Company in Superior Court for the State of California, County of Kern (the "Hayes matter"), alleging that the Company violated certain California wage and hour laws for missed meal and rest periods and other wage and hour claims. In June 2017, the Company removed the case to the United States District Court for the Eastern District of California. The plaintiffs were seeking to recover, on their own behalf and on behalf of a putative class of all non-exempt ADS employees in the State of California from December 16, 2012 through present, damages resulting from missed rest breaks, missed meal periods, unpaid minimum wage, straight-time and overtime pay, improper wage statements, non-payment of wages at termination, and attorneys' fees and costs. On January 24, 2018, the parties attended mediation and entered into a settlement agreement to resolve the class action for \$1.8 million. As part of the parties' agreement, ADS consented to have the case remanded back to Kern County Superior Court for approval of the class settlement.

Thereafter, during the fourth quarter of fiscal 2018, the parties agreed to amend their existing Hayes settlement agreement (i) to expand the settlement class to include temporary employees assigned to work at ADS locations in California and (ii) to increase the settlement amount from \$1.8 million to \$2.0 million. The parties stipulated to the filing of an Amended Complaint to add a California Private Attorneys General Act ("PAGA") claim, as well as a joint employer claim on behalf of temporary employees assigned to work at ADS locations in California. Pursuant to the settlement, the Company would pay approximately \$2.0 million, which includes payments to class members in resolution of all claims, attorneys' fees, and settlement fund claims administration fees. The settlement is subject to court approval and approval by the California Labor and Workforce Development Agency; these approvals are pending.

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

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

Advanced Drainage Systems, Inc.

PART II

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

Market Information for Common Stock

Our common stock began trading on the NYSE under the symbol "WMS" on July 25, 2014. Prior to that date, there was no public trading market for our common stock. The following table sets forth the high and low sales prices per share of our common stock as reported on the NYSE and the dividends paid for each quarter of fiscal years 2018 and 2017:

	Stock Prices		Dividends Paid
	High	Low	Per Share
2018			
First Quarter	\$23.42	\$18.85	\$ 0.07
Second Quarter	\$22.65	\$18.40	\$ 0.07
Third Quarter	\$24.50	\$17.90	\$ 0.07
Fourth Quarter	\$28.15	\$21.70	\$ 0.07
Year			\$ 0.28
2017			
First Quarter	\$27.74	\$20.98	\$ 0.06
Second Quarter	\$28.49	\$22.64	\$ 0.06
Third Quarter	\$24.12	\$18.60	\$ 0.06
Fourth Quarter	\$26.29	\$20.00	\$ 0.06
Year			\$ 0.24

During each quarter of fiscal 2017, the Board of Directors approved a quarterly cash dividend of \$0.06 per share to all common stockholders. In addition, during each quarter of fiscal 2018, the Board of Directors approved a quarterly cash dividend of \$0.07 per share to all common stockholders. Any future determination relating to dividends will be made at the discretion of our Board of Directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects, contractual restrictions, legal requirements and other factors our Board of Directors may deem relevant.

During the first quarter of fiscal 2019, the Company declared a quarterly cash dividend of \$0.08 per share of common stock. The dividend is payable on June 15, 2018 to stockholders of record at the close of business on June 5, 2018.

Holder of Record

As of May 21, 2018, we had 321 holders of record of our common stock. The number of holders of record is based upon the actual number of holders registered as of such date and does not include holders of shares in “street name” or persons, partnerships, associates, corporations or other entities in security position listings maintained by depositories.

Table of Contents

Advanced Drainage Systems, Inc.

Stock Performance Graph

The following graph presents a comparison from July 25, 2014 (the date our common stock commenced trading on the NYSE) through March 31, 2018 of the cumulative return of our common stock, the Standard and Poor's Index ("S&P 500") and the Russell 2000 Index ("Russell 2000"). The graph assumes investment of \$100 on July 25, 2014 in our common stock and in each of the two indices and the reinvestment of dividends.

Recent Sales of Unregistered Securities

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

Issuer Purchases of Equity Securities

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

Equity Compensation Plan Information

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

Table of Contents

Advanced Drainage Systems, Inc.

Item 6. Selected Financial and Operating Data

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

(Amounts in thousands, except per share data)	2018	2017	2016	2015	2014
Consolidated statement of operations data:					
Net sales	\$1,330,354	\$1,257,261	\$1,290,678	\$1,180,073	\$1,067,780
Cost of goods sold	1,027,873	961,451	1,005,326	974,960	875,232
Gross profit	302,481	295,810	285,352	205,113	192,548
Selling expenses	92,764	91,475	88,478	80,481	74,042
General and administrative expenses	98,392	110,950	92,504	75,855	62,897
Loss (gain) on disposal of assets and					
costs from exit and disposal activities	15,003	8,509	812	362	(2,863)
Intangibles amortization	8,068	8,548	9,224	9,754	10,145
Income from operations	88,254	76,328	94,334	38,661	48,327
Interest expense	15,262	17,467	18,460	19,368	18,807
Derivative (gains) losses and other (income)					
expense, net	(3,950)	(5,970)	16,575	14,370	(1,177)
Income before income taxes	76,942	64,831	59,299	4,923	30,697
Income tax expense	11,411	24,615	23,498	6,284	19,637
Equity in net loss of unconsolidated					
affiliates	739	4,308	5,234	2,335	3,086
Net income (loss)	64,792	35,908	30,567	(3,696)	7,974
Less: net income attributable to noncontrolling					
interest	2,785	2,958	5,515	4,131	3,593
Net income (loss) attributable to ADS	62,007	32,950	25,052	(7,827)	4,381
Weighted average common shares outstanding:					
Basic	55,696	54,919	53,978	51,344	47,277
Diluted	56,334	55,624	55,176	51,344	47,277
Net income (loss) per share					
Basic	\$1.00	\$0.51	\$0.40	\$(0.38)	\$(0.21)
Diluted	0.99	0.50	0.39	(0.38)	(0.21)
Cash dividends declared per share	0.28	0.24	0.20	0.08	1.68

Table of Contents

Advanced Drainage Systems, Inc.

(Amounts in thousands)	2018	2017	2016	2015	2014
Consolidated balance sheet data:					
Cash	\$17,587	\$6,450	\$6,555	\$3,623	\$3,931
Working capital ⁽¹⁾	237,210	184,812	187,378	228,947	226,535
Total assets	1,043,242	1,046,285	1,037,316	1,033,581	977,164
Long-term debt	270,900	310,849	312,214	385,772	436,926
Long-term capital lease obligations	59,963	58,710	56,809	45,503	34,366
Total liabilities	609,433	695,850	723,080	748,435	787,012
Total mezzanine equity ⁽²⁾	109,550	112,825	111,747	108,021	643,191
Total stockholders' equity (deficit)	324,259	237,610	202,489	177,125	(453,039)
Consolidated statement of cash flows data:					
Net cash provided by operating activities	\$137,120	\$104,239	\$135,342	\$74,379	\$72,410
Net cash used in investing activities	(30,445)	(61,259)	(49,018)	(76,093)	(38,712)
Net cash (used in) provided by financing activities	(94,953)	(42,825)	(82,964)	1,791	(31,109)
Other financial data:					
Adjusted EBITDA (Non-GAAP)	\$210,230	\$193,371	\$187,340	\$143,877	\$151,333
Capital expenditures	41,709	46,676	44,942	32,080	40,933
Free Cash Flow (Non-GAAP)	95,411	57,563	90,400	42,299	31,477

- (1) Working capital is equal to current assets less current liabilities. Working capital is an indication of liquidity and potential need for short-term funding.
- (2) Prior to our IPO, our mezzanine equity also included redeemable common stock held by certain stockholders who have certain rights associated with such shares, which rights are considered to be a redemption right, which is beyond our control and common stock subject to repurchase agreements. Our mezzanine equity consists of the redeemable convertible preferred stock held by our ESOP as well the Redeemable noncontrolling interest in subsidiaries related to the noncontrolling interest in the BaySaver joint venture. See "Note 9. Investment in Consolidated Affiliates," within our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data," of this Form 10-K for further information regarding the accounting treatment for certain of the amounts included in mezzanine equity, "Note 8. Fair Value Measurement" regarding the accounting treatment for our mezzanine equity post-IPO.

Non-GAAP Measures

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

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

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

Table of Contents

Advanced Drainage Systems, Inc.

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

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

(Amounts in thousands)	2018	2017	2016	2015	2014
Net income (loss)	\$64,792	\$35,908	\$30,567	\$(3,696)	\$7,974
Depreciation and amortization	75,003	72,355	71,009	65,472	63,674
Interest expense	15,262	17,467	18,460	19,368	18,807
Income tax expense	11,411	24,615	23,498	6,284	19,637
EBITDA	166,468	150,345	143,534	87,428	110,092
Derivative fair value adjustments ^(a)	(443)	(10,921)	2,163	7,746	(53)
Foreign currency transaction (gains) losses ^(b)	(1,748)	(1,629)	697	5,404	845
Loss (gain) on disposal of assets or businesses	15,003	8,509	812	362	(2,863)
Unconsolidated affiliates interest, taxes, depreciation and amortization ^(c)	2,692	2,751	3,215	3,585	2,845
Special dividend compensation ^(d)	—	—	—	—	25,134
Contingent consideration remeasurement	39	(265)	371	174	738
Stock-based compensation expense (benefit) ^(e)	7,121	8,307	(5,868)	24,247	4,338
ESOP deferred stock-based compensation ^(f)	11,724	9,568	10,250	12,144	7,891
Executive retirement expense (benefit) ^(g)	1,473	1,092	(294)	328	737
Expense related to executive stock repurchase agreements ^(h)	—	—	—	1,011	69
Loss related to BaySaver step acquisition	—	—	490	—	—
Inventory step up related to PTI acquisition	—	525	—	—	—
Bargain purchase gain on PTI acquisition	—	(609)	—	—	—
Restatement-related costs ⁽ⁱ⁾	4,227	24,026	27,970	—	—
Legal Settlement ⁽ⁱ⁾	2,000	—	—	—	—

Impairment of investment in unconsolidated

affiliate ^(k)	312	1,300	4,000	—	—
Transaction costs ^(l)	1,362	372	—	1,448	1,560
Adjusted EBITDA	\$210,230	\$193,371	\$187,340	\$143,877	\$151,333

(a) Represents the non-cash gains and losses arising from changes in mark-to-market values for derivative contracts related to diesel fuel, interest rate and propylene swaps.

(b) Represents the gains and losses incurred on purchases, sales and intercompany loans and dividends denominated in non-functional currencies. Fiscal 2015 includes a \$5.6 million loss on Canadian currency derivative contract related to the Ideal Pipe acquisition.

37

Table of Contents

Advanced Drainage Systems, Inc.

- (c) Represents our proportional share of interest, income taxes, depreciation and amortization related to our South American joint venture and our Tigre-ADS USA joint venture, which are accounted for under the equity method of accounting. In addition, these amounts include our proportional share of interest, income taxes, depreciation and amortization related to our BaySaver joint venture prior to our acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting. Fiscal 2014 includes our proportionate share of an asset impairment of \$1.0 million recorded by our South American joint venture. Our use of non-GAAP measures that are subject to our unconsolidated affiliates' adjustments is not intended to imply that we have control over the operations and resulting revenues and expenses of our unconsolidated affiliates
- (d) Represents compensation recorded as a result of the January 2014 Special Dividend on shares of redeemable convertible preferred stock held by the ESOP.
- (e) Represents the non-cash stock-based compensation cost related to our stock options and restricted stock awards.
- (f) Represents the non-cash stock-based compensation expense attributable to the shares of convertible preferred stock allocated to employee ESOP accounts during the applicable period.
- (g) Represents the non-cash compensation expense recorded related to future payments to certain executives upon retirement or other qualified termination events.
- (h) Represents the non-cash compensation expense recorded related to agreements with certain executives to repurchase their company stock at the time of death or certain events of termination. These agreements were terminated upon the IPO.
- (i) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the restatement of our prior period financial statements. Fiscal 2018 expenses relate to the ongoing SEC Enforcement Division's investigation and related shareholder litigation.
- (j) Represents settlement agreement to resolve the Hayes matter, as further discussed in "Note 14. Commitments and Contingencies" to the Consolidated Financial Statements.
- (k) Represents an other-than-temporary impairment of our investments in Tigre-ADS USA and the South American Joint Venture.
- (l) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with our debt refinancing, the IPO and secondary public offering and as well as expenses related to both successful and unsuccessful potential asset acquisitions and dispositions.

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

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

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

(Amounts in thousands)	2018	2017	2016	2015	2014
Cash flow from operating activities	\$137,120	\$104,239	\$135,342	\$74,379	\$72,410
Capital expenditures	(41,709)	(46,676)	(44,942)	(32,080)	(40,933)
Free Cash Flow	\$95,411	\$57,563	\$90,400	\$42,299	\$31,477

Table of Contents

Advanced Drainage Systems, Inc.

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

Our fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, references to "year" pertain to our fiscal year. For example, 2018 refers to fiscal 2018, which is the period from April 1, 2017 to March 31, 2018.

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

We consolidate all of our joint ventures for purposes of GAAP, except for our South American Joint Venture and our Tigre-ADS USA Joint Venture.

Overview

We are the leading manufacturer of high performance thermoplastic corrugated pipe, providing a comprehensive suite of water management products and superior drainage solutions for use in the underground construction and infrastructure marketplace. Our innovative products are used across a broad range of end markets and applications, including non-residential, residential, agriculture and infrastructure applications. We have established a leading position in many of these end markets by leveraging our national sales and distribution platform, our overall product breadth and scale and our manufacturing excellence. In the United States, our national footprint combined with our strong local presence and broad product offering make us the leader in an otherwise highly fragmented sector comprised of many smaller competitors. We believe the markets we serve in the United States represent approximately \$11 billion of annual revenue opportunity. In addition, we believe the increasing acceptance of thermoplastic pipe products in international markets represents an attractive growth opportunity.

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

Our broad product line includes HDPE pipe, PP pipe and related water management products. Building on our core drainage businesses, we have aggressively pursued attractive ancillary product categories such as storm and septic

chambers, PVC drainage structures, fittings and filters, and water quality filters and separators. We refer to these ancillary product categories as Allied Products. Given the scope of our overall sales and distribution platform, we have been able to drive growth within our Allied Products and believe there are significant growth opportunities going forward.

Table of Contents

Advanced Drainage Systems, Inc.

Restructuring Activities

In fiscal 2018, we initiated restructuring activities designed to improve our cost structure, including closing four underutilized manufacturing facilities, reducing headcount and eliminating nonessential costs. The following table summarizes the restructuring activity included in Loss on disposal of assets and costs from exit and disposal activities recorded during the fiscal year ended March 31, 2018:

(Amounts in thousands)	2018
Accelerated depreciation	\$3,759
Plant severance	2,041
Corporate severance	4,133
Product rationalization	1,351
Other restructuring activities	159
Total Restructuring Activities	\$11,443

The following table summarizes the line items of the Consolidated Statements of Operations where the expenses above would have been recorded absent a restructuring program:

(Amounts in thousands)	2018
Cost of goods sold	\$7,878
Selling expenses	1,620
General and administrative expenses	1,945
Total Restructuring Activities	\$11,443

The restructuring costs above may not indicative of expected costs or cost savings in future periods.

As of March 31, 2018, we have \$3.4 million and \$0.5 million of restructuring liabilities related to the restructuring activities recorded in Other accrued liabilities and Other liabilities, respectively, in the Consolidated Balance Sheet.

Federal Income Tax Reform

The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017. The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering the U. S. corporate income tax rate from 35% to 21%, full expensing on qualified property, eliminates the domestic manufacturing deduction and implements a territorial tax system. The 21% U.S. corporate income tax rate is effective January 1, 2018. Based on the Company's fiscal year end of March 31, the U.S. statutory federal rate is 31.5% for the fiscal year ended March 31, 2018. We currently estimate the provisional future effective tax rate will be in the range of 30% to 32% which is a decrease of 8% to 10% from our previous historical expectation.

The Company has recognized the provisional tax impacts related to revaluation of deferred tax assets and liabilities and deemed repatriated earnings and included these amounts in its financial statements for the year ended March 31, 2018. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance

that may be issued, and actions the Company may take as a result of the Tax Act. The accounting is expected to be finalized when the fiscal 2018 U.S. corporate income tax return is filed.

The Company recognized an initial provisional amount for revaluing its deferred tax attributes resulting in a \$14.7 million tax benefit for the quarter ended December 31, 2017. On the basis of revised computations during the fourth quarter, we recognized an additional deferred tax benefit of \$1.3 million for the quarter ended March 31, 2018. A total deferred tax benefit of \$16.0 million was recorded for the fiscal year ended March 31, 2018.

The Company had an estimated \$33.2 million of undistributed earnings on its foreign subsidiaries subject to the deemed mandatory repatriation. The Company recognized an initial provisional \$4.4 million of income tax expense for the quarter ended December 31, 2017. After the utilization of existing foreign tax credits, the Company

Table of Contents

Advanced Drainage Systems, Inc.

expected to pay additional U.S. federal taxes of approximately \$0.9 million on the deemed mandatory repatriation as of the quarter ended December 31, 2017. On the basis of revised undistributed earnings computations that were calculated during the fourth quarter, we recognized an additional measurement-period adjustment of \$0.8 million to income tax expense for the quarter ended March 31, 2018. A total transition tax expense of \$5.2 million has been recorded for the fiscal year ended March 31, 2018. After the utilization of existing foreign tax credits, the Company expects to pay additional U.S. federal taxes of approximately \$1.0 million as of the fiscal year ended March 31, 2018.

Key Factors Affecting Our Results of Operations

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

- the strength of the economy;
- the amount and type of non-residential and residential construction;
- funding for infrastructure spending;
- farm income and agricultural land values;
- inventory of improved housing lots;
- changes in raw material prices;
- the availability and cost of credit;
- non-residential occupancy rates;
- commodity prices; and
- demographic factors such as population growth and household formation.

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

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

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

Table of Contents

Advanced Drainage Systems, Inc.

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

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

Raw Material Costs - Our raw material cost and product selling prices fluctuate with changes in the price of resins utilized in production. We actively manage our resin purchases and pass fluctuations in the cost of resin through to our customers, where possible, in order to maintain our profitability. Fluctuations in the price of crude oil and natural gas prices may impact the cost of resin. In addition, changes in and disruptions to existing ethylene or polyethylene capacities could also significantly increase resin prices (such as the aftermath of Hurricanes Katrina in 2005, Rita in late 2005 and Harvey in 2017), often within a short period of time, even if crude oil and natural gas prices remain low. Our ability to pass through raw material price increases to our customers may, in some cases, lag the increase in our costs of goods sold. Sharp rises in raw material prices over a short period of time have historically occurred with a significant supply disruption (hurricanes or fires at petrochemical facilities), which may increase prices to levels that cannot be fully passed through to customers due to pricing of competing products made from different raw materials or the anticipated length of time the raw material pricing will stay elevated. For more information regarding risks relating to our raw material costs, see “Item 1A. Risk Factors — Risks Relating to Our Business.”

We currently purchase in excess of 850 million pounds of virgin and recycled resin annually from over 460 suppliers in North America. As a high-volume buyer of resin, we are able to achieve economies of scale to negotiate favorable terms and pricing. Our purchasing strategies differ based on the material (virgin resin versus recycled material) ordered for delivery to our production locations. The price movements of the different materials also vary, resulting in the need to use a number of strategies to reduce volatility.

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

- increasing the use of less price-volatile recycled HDPE resin in our pipe products in place of virgin resin while meeting or exceeding industry standards;
- internally processing an increasing percentage of our recycled HDPE resin in order to closely monitor quality and minimize costs (approximately 98% of our recycled HDPE resin was internally processed (enhanced) in fiscal year 2018);
- managing a resin price risk program that entails both physical fixed price and volume contracts along with financial hedges. For our polypropylene virgin resin price exposure, we utilize financial hedges of propylene as a proxy for the polypropylene.
- maintaining supply agreements with our major resin suppliers that provide multi-year terms and volumes that are in excess of our projected consumption.

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

Seasonality - Our operating results are impacted by seasonality. Historically, sales of our products have been higher in the first and second quarters of each fiscal year due to favorable weather and longer daylight conditions accelerating construction project activity during these periods while fourth quarter results are impacted by the timing of spring in the northern United States and Canada. Seasonal variations in operating results may also be significantly

Table of Contents

Advanced Drainage Systems, Inc.

impacted by inclement weather conditions, such as cold or wet weather, which can delay projects, resulting in decreased net sales for one or more quarters, but we believe that these delayed projects generally result in increased net sales during subsequent quarters.

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

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

Description of our Segments

We operate a geographically diverse business, serving customers in approximately 80 countries. For fiscal 2018, approximately 88% (\$1,174.4 million) of net sales were attributable to customers located in the United States and approximately 12% (\$155.9 million) of net sales were attributable to customers outside of the United States.

Our operations are organized into two reportable segments based on the markets we serve: Domestic and International. We generate a greater proportion of our net sales and gross profit in our Domestic segment, which consists of all regions of the United States. We expect the percentage of total net sales and gross profit derived from our International segment to continue to increase in future periods as we continue to expand globally. See “Note 20. Business Segment Information,” to our audited consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” of this Form 10-K.

Domestic - Our operating results have been, and will continue to be, impacted by macroeconomic trends in the United States. For fiscal 2018, 2017, and 2016, we generated net sales attributable to our Domestic segment of \$1,174.4 million, \$1,102.2 million, and \$1,113.8 million, respectively. Unconsolidated sales for our domestic unconsolidated joint ventures (our Tigre-ADS USA joint venture and our BaySaver joint venture prior to July 17, 2015), were \$17.6 million, \$18.7 million and \$20.9 million in fiscal years 2018, 2017, and 2016, respectively.

International - Our International segment manufactures and markets products in regions outside of the United States, with a growth strategy focused on our owned facilities in Canada and those markets serviced through our joint ventures in Mexico and South America. Pipe manufactured in these countries is primarily sold into the same region. Our joint venture strategy has provided us with local and regional access to new markets. For fiscal 2018, 2017, and 2016, we generated net sales attributable to our International segment of \$155.9 million, \$155.1 million, and \$176.9 million, respectively. Our investment in the South American Joint Venture is accounted for under the equity

method and is not consolidated for financial reporting purposes. The unconsolidated sales of the South American Joint Venture were \$44.6 million, \$42.2 million, and \$50.3 million, in fiscal 2018, 2017, and 2016, respectively.

Table of Contents

Advanced Drainage Systems, Inc.

Non-GAAP Financial Measures

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

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

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

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

Free Cash Flow - Free Cash Flow is a non-GAAP financial measure used by management and the Company’s Board of Directors to assess the Company’s ability to generate cash. 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 does not include property, plant and equipment purchases completed through financing arrangements. Free Cash Flow should not be considered as an alternative to cash flow from operating activities as a measure of liquidity or any other liquidity measure derived in accordance with GAAP. Our measure of Free Cash Flow is not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

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

Table of Contents

Advanced Drainage Systems, Inc.

Results of Operations

Results of Operations by Segment

The following table presents our net sales by segment, net sales by segment as a percentage of total net sales, net income by segment, net income by segment as a percentage of total net income, Segment Adjusted EBITDA and Segment Adjusted EBITDA as a percentage of total Adjusted EBITDA by segment for the periods presented.

(Amounts in thousands)	2018		2017		2016	
Net sales by segment						
Domestic:						
Pipe	\$835,421	62.8 %	\$786,546	62.6 %	\$812,071	62.9 %
Allied Products	339,011	25.5 %	315,690	25.1 %	301,725	23.4 %
Total domestic	1,174,432	88.3 %	1,102,236	87.7 %	1,113,796	86.3 %
International						
Pipe	118,644	8.9 %	122,384	9.7 %	139,731	10.8 %
Allied Products	37,278	2.8 %	32,641	2.6 %	37,151	2.9 %
Total international	155,922	11.7 %	155,025	12.3 %	176,882	13.7 %
Total net sales	\$1,330,354	100.0 %	\$1,257,261	100.0 %	\$1,290,678	100.0 %
Net income by segment						
Domestic	\$57,279	88.4 %	\$35,118	97.8 %	\$24,875	81.4 %
International	7,513	11.6 %	790	2.2 %	5,692	18.6 %
Total net income	\$64,792	100.0 %	\$35,908	100.0 %	\$30,567	100.0 %
Segment Adjusted EBITDA						
Domestic	\$191,629	91.2 %	\$175,676	90.8 %	\$162,875	86.9 %
International	18,601	8.8 %	17,695	9.2 %	24,465	13.1 %
Total Adjusted EBITDA	\$210,230	100.0 %	\$193,371	100.0 %	\$187,340	100.0 %

Fiscal Year Ended March 31, 2018 Compared with Fiscal Year Ended March 31, 2017

The following table summarizes our operating results as a percentage of net sales that have been derived from our Consolidated Financial Statements for the fiscal years ended March 31, 2018 and 2017. We believe this presentation is useful to investors in comparing historical results.

	2018	2017
Consolidated Statements of Operations data:		
Net sales	100.0%	100.0%
Cost of goods sold	77.3	76.5
Gross profit	22.7	23.5
Selling expenses	7.0	7.3
General and administrative expenses	7.4	8.8
Loss on disposal of assets and costs from exit	1.1	0.7

and disposal activities				
Intangible amortization	0.6		0.7	
Income from operations	6.6		6.1	
Interest expense	1.1		1.4	
Derivative gains and other income, net	(0.3)		(0.5)	
Income before income taxes	5.8		5.2	
Income tax expense	0.9		2.0	
Equity in net loss of unconsolidated affiliates	0.1		0.3	
Net income	4.9		2.9	
Less: net income attributable to the non-				
controlling interest	0.2		0.2	
Net income attributable to ADS	4.7	%	2.6	%

Table of Contents

Advanced Drainage Systems, Inc.

Net sales - Net sales totaled \$1,330.4 million in fiscal 2018, increasing \$73.1 million or 5.8%, as compared to \$1,257.3 million in fiscal 2017.

	Fiscal Year Ended March 31,		\$ Variance	% Variance	
	2018	2017			
	(in thousands)				
Domestic					
Pipe	\$835,421	\$786,546	\$48,875	6.2	%
Allied Products	339,011	315,690	23,321	7.4	
Total domestic	1,174,432	1,102,236	72,196	6.5	%
International					
Pipe	118,644	122,384	(3,740)	(3.1)	%)
Allied Products	37,278	32,641	4,637	14.2	
Total international	155,922	155,025	897	0.6	
Total net sales	\$1,330,354	\$1,257,261	\$73,093	5.8	%

Our Domestic sales increased \$72.2 million, or 6.5%, as compared to fiscal 2017. Our domestic pipe sales increased by \$48.9 million, or 6.2%, which was primarily the result of pipe volume increase of \$27.0 million and price increases and changes in product mix of \$21.4 million. Allied Product sales increased \$23.3 million, or 7.4%.

International sales remained relatively flat with an increase of \$0.9 million, or 0.6%, to \$155.9 million in fiscal year 2018, as compared to \$155.0 million in the prior year. The increase was primarily attributable to an increase in Allied Product sales of \$4.6 million, or 14.2%. This increase was offset by a decrease in international pipe sales of \$3.7 million.

Cost of goods sold and Gross profit - Cost of goods sold increased \$66.4 million, or 6.9%, to \$1,027.9 million during year 2018 as compared to \$961.5 million during fiscal 2017.

Gross profit increased \$6.7 million, or 2.3%, to \$302.5 million from \$295.8 million during fiscal 2017. Gross profit as a percentage of net sales decreased to 22.7% in fiscal 2018 from 23.5% in fiscal 2017.

	Fiscal Year Ended March 31,		\$ Variance	% Variance	
	2018	2017			
	(in thousands)				
Gross Profit					
Domestic	\$277,429	\$267,976	\$9,453	3.5	%

Edgar Filing: ADVANCED DRAINAGE SYSTEMS, INC. - Form 10-K

International	25,052	27,834	(2,782)	(10.0)
Total gross profit	\$302,481	\$295,810	\$ 6,671	2.3 %

Domestic gross profit increased \$9.4 million, or 3.5%, to \$277.4 million for fiscal 2018 as compared to \$268.0 million during fiscal 2017. The increase was primarily due to the gross profit impact of the net sales increase discussed above offset by a \$13.2 million increase in material costs and a \$6.5 million increase in distribution expenses.

International gross profit decreased \$2.8 million, or 10.0%, for fiscal 2018 over fiscal 2017 primarily due to a \$3.6 million increase in labor and overhead costs partially offset by the gross profit impact of the 0.6% increase in net sales discussed above.

Selling expenses - Selling expenses for fiscal 2018 decreased as a percentage of revenue by 30 basis points over fiscal 2017. The decrease is primarily due to a benefit in bad debt expense in fiscal 2018 resulting from the collection of approximately \$0.6 million from a Canadian customer that had previously been reserved offset by an increase of \$1.3 million in compensation expense.

General and administrative expenses - General and administrative expenses for fiscal 2018 decreased as a percentage of revenue by 140 basis points over fiscal 2017. The decrease was primarily due to a decrease in

Table of Contents

Advanced Drainage Systems, Inc.

professional and legal fees of \$13.5 million resulting from decreased restatement costs. The decrease was also due to a decrease in stock-based compensation expense of \$1.3 million. This decrease was partially offset by a legal settlement of \$2.0 million. On April 1, 2017, all stock options were amended and became equity classified. In the fiscal year ended March 31, 2017, all stock options were liability-classified resulting in adjustments to fair value each period.

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

Intangible amortization - Intangible amortization remained relatively flat as a percentage of revenue in fiscal 2018 compared to fiscal 2017.

Interest expense - Interest expense from our debt and capital lease obligations decreased \$2.2 million or 12.6% in fiscal 2018 as compared to fiscal 2017. Interest expense decreased primarily due to our average overall outstanding debt decreasing by \$25.0 million or 7.1% for fiscal 2018 compared to the average balance outstanding for fiscal 2017.

Derivative gains and other income, net – Derivative gains and other income, net, decreased to gains of \$4.0 million in fiscal 2018 compared to gains of \$6.0 million in fiscal 2017. The decrease in gain on derivative contracts is primarily due to a significant amount of the Company’s propylene swaps maturing in fiscal 2017. The decrease in gain on derivative contracts was partially offset by changes in foreign currency exchange rates.

Income tax expense – For the fiscal years ended March 31, 2018 and 2017, we had effective tax rates of 14.8% and 38.0%, respectively. The decrease in the effective tax rate was primarily due to impact of the Tax Act and return to provision adjustments. See “Note 17. Income Taxes” for additional information.

Equity in net loss of unconsolidated affiliates - Equity in net loss of unconsolidated affiliates decreased \$3.6 million over fiscal 2018 to a net loss of \$0.7 million for fiscal 2018 compared to a net loss of \$4.3 million during fiscal 2017. The net loss decreased primarily as a result of the \$1.9 million gain recognized as a result of the contribution of outstanding receivables we made to the South American Joint Venture. See “Note 10. Investment in Unconsolidated Affiliates” for additional information. The decrease was also due to the \$1.3 million impairment charge related to our investment in the South American Joint Venture in fiscal 2017, which was partially offset by the \$0.3 million impairment charge related to our investment in the Tigre-ADS USA in fiscal 2018.

Net income attributable to noncontrolling interest - Income attributable to noncontrolling interest remained relatively flat as a percentage of revenue in fiscal 2018 compared to fiscal 2017.

Table of Contents

Advanced Drainage Systems, Inc.

Fiscal Year Ended March 31, 2017 Compared with Fiscal Year Ended March 31, 2016

The following table summarizes our operating results as a percentage of net sales that have been derived from our Consolidated Financial Statements for the fiscal years ended March 31, 2017 and 2016. We believe this presentation is useful to investors in comparing historical results.

	2017	2016
Consolidated Statements of Operations data:		
Net sales	100.0%	100.0%
Cost of goods sold	76.5	77.9
Gross profit	23.5	22.1
Selling expenses	7.3	6.9
General and administrative expenses	8.8	7.2
Loss on disposal of assets and costs from exit and disposal activities	0.7	0.1
Intangible amortization	0.7	0.7
Income from operations	6.1	7.3
Interest expense	1.4	1.4
Derivative (gains) losses and other (income)		
expense, net	(0.5)	1.3
Income before income taxes	5.2	4.6
Income tax expense	2.0	1.8
Equity in net loss of unconsolidated affiliates	0.3	0.4
Net income	2.9	2.4
Less: net income attributable to the non-		
controlling interest	0.2	0.4
Net income attributable to ADS	2.6 %	1.9 %

Net sales - Net sales totaled \$1,257.3 million in fiscal 2017, decreasing \$33.4 million or 2.6%, as compared to \$1,290.7 million in fiscal 2016.

	Fiscal Year Ended		\$	%
	March 31,			
	2017	2016	Variance	Variance
	(in thousands)			
Domestic				
Pipe	\$786,546	\$812,071	\$(25,525)	(3.1)%
Allied Products	315,690	301,725	13,965	4.6
Total domestic	1,102,236	1,113,796	(11,560)	(1.0)%
International				
Pipe	122,384	139,731	(17,347)	(12.4)%
Allied Products	32,641	37,151	(4,510)	(12.1)

Edgar Filing: ADVANCED DRAINAGE SYSTEMS, INC. - Form 10-K

Total international	155,025	176,882	(21,857)	(12.4))
Total net sales	\$1,257,261	\$1,290,678	\$(33,417)	(2.6))%

Our Domestic sales decreased \$11.6 million, or 1.0%, as compared to fiscal 2016. Domestic pipe sales decreased \$25.5 million, or 3.1%, which was primarily a result of volume decreases of \$16.6 million and net price decreases of \$8.8 million. The agriculture market has experienced continued sales decreases. Allied product sales increased \$14.0 million, or 4.6%, as well as increased sales volume of products sold primarily into the non-residential and infrastructure end markets.

Table of Contents

Advanced Drainage Systems, Inc.

International sales decreased \$21.9 million, or 12.4%, to \$155.0 million in fiscal year 2017, as compared to \$176.9 million in the prior year. The decrease in pipe sales resulted from a reduction in volumes of \$15.1 million and net price decreases of \$2.7 million. There was also a decrease in Allied product sales of \$4.5 million, or 12.1%.

Cost of goods sold and Gross profit - Cost of goods sold decreased \$43.9 million, or 4.4%, to \$961.5 million during year 2017 as compared to \$1,005.3 million during fiscal 2016.

Gross profit increased \$10.5 million, or 3.7%, to \$295.8 million from \$285.4 million during fiscal 2016. Gross profit as a percentage of net sales increased to 23.5% in fiscal 2017 from 22.1% in fiscal 2016.

	Fiscal Year Ended				
	March 31,				
	2017	2016	\$	%	
	(in thousands)		Variance	Variance	
Gross Profit					
Domestic	\$267,976	\$249,817	\$ 18,159	7.3	%
International	27,834	35,535	(7,701)	(21.7)	
Total gross profit	\$295,810	\$285,352	\$ 10,458	3.7	%

Domestic gross profit increased \$18.2 million, or 7.3%, to \$268.0 million for fiscal 2017 as compared to \$249.8 million during fiscal 2016. The increase was primarily the result of lower raw material costs of \$38.7 million due to decreased raw material prices. The increase was offset by the decrease in net sales discussed above, a \$5.2 million increase in labor and overhead costs and a \$3.5 million increase in transportation expenses.

International gross profit decreased \$7.7 million, or 21.7%, for fiscal 2017 over fiscal 2016 primarily due to the decrease in sales discussed above and a \$6.6 million increase in labor and overhead cost. The decreases were offset by a \$17.2 million decrease in raw material due to decreased raw material cost and a \$1.3 million decrease in transportation expenses.

Selling expenses - Selling expenses for fiscal 2017 increased \$3.0 million, or 3.4%, over fiscal 2016. The increase was primarily the result of an increase in bad debt expense of \$2.9 million primarily resulting from the deterioration of five customer accounts, including a \$0.6 million write off of a receivable from an unconsolidated affiliate. As a percentage of net sales, selling expenses increased to 7.3% for fiscal year 2017 compared to 6.9% over fiscal year 2016.

General and administrative expenses - General and administrative expenses for fiscal 2017 increased \$18.4 million, or 19.9%, over fiscal 2016. The increase was primarily due to stock-based compensation expense of \$8.0 million for fiscal 2017 compared to a benefit of \$5.1 million for fiscal 2016. Additionally, legal and professional fees increased by \$6.5 million as a result of third-party consulting expenses and ongoing litigation.

Loss on disposal of assets and costs from exit and disposal activities - Loss on the disposal of assets or businesses totaled \$8.5 million in fiscal 2017 compared to \$0.8 million in fiscal 2016, a net increase of \$7.7 million in fiscal 2017 as compared to fiscal 2016. In fiscal 2017, we recorded expenses related to three manufacturing facilities that were closed during fiscal 2017 of approximately \$3.5 million and accelerated depreciation of specifically identified

obsolete assets of approximately \$3.0 million. In addition, we recorded \$2.0 million of disposals and partial disposals of fixed assets, as compared to \$0.8 million in fiscal 2016.

Intangible amortization - Intangible amortization remained relatively flat in fiscal 2017 compared to fiscal 2016.

Interest expense - Interest expense from our debt and capital lease obligations decreased \$1.0 million or 5.4% in fiscal 2017 as compared to fiscal 2016. Our average overall outstanding debt was down by \$46.0 million or 11.8% for fiscal 2017 compared to the average balance outstanding for fiscal 2016. The impact of lower debt outstanding on interest expense was partially offset by higher average capital lease obligations of \$6.6 million or 9.1% for fiscal 2017 compared to fiscal 2016, which resulted in a decrease in interest expense.

Table of Contents

Advanced Drainage Systems, Inc.

Derivative (gains) losses and other (income) expense, net – Derivative (gains) losses and other (income) expense, net, improved to gains of \$6.0 million in fiscal 2017 compared to losses of \$16.6 million in fiscal 2016. The following table details the net unrealized and realized (gain) loss on derivatives.

	Fiscal Year Ended March 31,		\$
	2017	2016	Variance
(Amounts in millions)			
Net unrealized (gain) loss			
Propylene raw material	\$ (8.0)	\$ 2.9	\$ (10.9)
Fuel Hedging	(2.6)	(0.2)	(2.4)
Realized (gain) loss			
Propylene raw material	6.7	11.7	(5.0)
Fuel Hedging	1.9	3.1	(1.2)

In addition, fiscal 2016 included a loss of \$0.5 million recognized for the fair value remeasurement of our original investment in BaySaver at the time we acquired a controlling interest in July 2015, whereas there was no comparable amount in the current year. The remainder of the change is primarily related to foreign exchange gains.

Income tax expense - The provision for income taxes totaled \$24.6 million in fiscal 2017 compared to \$23.5 million in fiscal 2016, an increase of \$1.1 million. These provisions represent an effective tax rate of 38.0% in fiscal 2017 compared to 39.6% in fiscal 2016. The current year tax rate is higher than the federal statutory rate of 35% due principally to state and local income taxes and non-deductible expenses, partially offset by foreign income taxed at lower rates. The current year tax rate decreased from the prior year primarily due to the income tax impacts of the closure of the Puerto Rico manufacturing facility partially offset by the income tax impacts of stock-based compensation. For fiscal 2017, uncertain tax positions related to foreign jurisdictions were released due to the lapse of statute of limitations.

Equity in net loss of unconsolidated affiliates - Equity in net loss of unconsolidated affiliates decreased \$0.9 million over fiscal 2017 to a net loss of \$4.3 million for fiscal 2017 compared to a net loss of \$5.2 million during fiscal 2016. The net loss decreased due to the \$4.0 million impairment charge related to our investment in the South American Joint Venture in fiscal 2016, which was partially offset by the \$1.3 million impairment charge related to our investment in the South American Joint Venture in fiscal 2017 and our share of higher net losses during fiscal 2017 of \$2.5 million compared to \$1.4 million during fiscal 2016.

Net income attributable to noncontrolling interest - Income attributable to noncontrolling interest decreased \$2.5 million, or 46.4%, to \$3.0 million in fiscal 2017 compared to \$5.5 million in fiscal year 2016. The decrease was primarily attributable to a decrease in the net income of ADS-Mexicana.

Liquidity and Capital Resources

Our primary liquidity requirements are working capital, capital expenditures, debt service, and dividend payments for our convertible preferred stock and common stock. We have historically funded, and expect to continue to fund, our operations primarily through internally generated cash flow, debt financings, equity issuance and capital and operating leases. 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.

As of March 31, 2018, we had \$14.7 million in cash that was held by our foreign subsidiaries. Prior to the Tax Act, our intent was to indefinitely reinvest our earnings in foreign subsidiaries with the exception of cash dividends paid by our ADS Mexicana joint venture. As a result of the Tax Act, we continue to evaluate our strategy with our foreign cash but we still intend to indefinitely reinvest our earnings in foreign subsidiaries.

In February 2017, our Board of Directors authorized the repurchase of up to \$50 million of our common stock. Repurchases of common stock will be made in accordance with applicable securities laws. The stock repurchase program does not obligate us to acquire any particular amount of common stock, and may be suspended or

Table of Contents

Advanced Drainage Systems, Inc.

terminated at any time at our discretion. During fiscal 2018, we repurchased 400,000 shares of common stock at a cost of \$7.9 million.

Working Capital and Cash Flows

During fiscal 2018, our net increase in cash amounted to \$11.1 million compared to a net decrease of \$0.1 million during fiscal 2017. Our source of funds in fiscal 2018 was primarily driven by an increase in cash provided by operating activities. Our use of cash in fiscal year 2018 was primarily driven by decreased accounts payable, accrued expenses, other liabilities, increased receivables and our long-term debt restructuring. Our source of funds in fiscal 2017 was primarily driven by a decrease in cash used in financing activities offset by increased cash used in investing activities and a decrease in cash used by operations. Our use of cash in fiscal year 2017 was primarily driven by increased inventories, capital expenditures, payment of capital lease obligations, and the payment of dividends. Our source of funds in fiscal 2016 was primarily driven by higher operating earnings and the impact of increased current liabilities, lower inventories and non-cash charges (depreciation, amortization and stock-based compensation expense). Our use of cash in fiscal 2016 was primarily driven by capital expenditures, a reduction of our debt, payment of capital lease obligations, and the payment of dividends.

As of March 31, 2018, we had \$433.1 million in liquidity, including \$17.6 million of cash, \$365.5 million in borrowings available under our Revolving Credit Facility and \$50.0 million under the senior notes, described below. We believe that our cash on hand, together with the availability of borrowings under our Revolving Credit Facility and other financing arrangements and cash generated from operations, will be sufficient to meet our working capital requirements, anticipated capital expenditures, scheduled interest payments on our indebtedness and dividend payment requirement for our convertible preferred stock for at least the next twelve months.

As of March 31, 2018, we had consolidated indebtedness (excluding capital lease obligations) of approximately \$300.8 million, down \$49.6 million compared to March 31, 2017.

The following table sets forth the major sources and uses of cash for each of the periods presented:

(Amounts in thousands)	2018	2017	2016
Statement of Cash Flows data:			
Net cash provided by operating activities	\$ 137,120	\$ 104,239	\$ 135,342
Net cash used in investing activities	(30,445)	(61,259)	(49,018)
Net cash used in by financing activities	(94,953)	(42,825)	(82,964)

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

Working capital increased to \$237.2 million as of March 31, 2018, from \$184.8 million as of March 31, 2017, primarily due to a decrease in accounts payable of \$16.4 million, the reclassification of \$11.9 million due to the modification of the liability-classified stock-based awards, as discussed in "Note 16. Stock-Based Compensation", an increase in cash of \$11.1 million and a decrease of \$10.9 million of the current debt obligations maturities related to the refinancing of the Secured Bank Loans and Senior Notes Payable, as discussed in "Note 12. Debt."

Working capital decreased to \$184.8 million as of March 31, 2017, from \$187.4 million as of March 31, 2016, primarily due to a decrease in accounts receivable of \$17.9 million and deferred income taxes and other current assets of \$8.9 million. As disclosed in Note 1, the reduction of net current deferred tax assets is due to the adoption of an accounting standard update that requires all deferred tax assets and liabilities to be classified as non-current. These increases were largely offset by an increase in inventory of \$27.9 million.

Operating Cash Flows - During the fiscal 2018, cash provided by operating activities was \$137.1 million as compared with cash provided by operating activities of \$104.2 million for fiscal 2017. Cash flow from operating activities during fiscal 2018 was primarily impacted by increased income from continuing operations including decreased restatement related costs.

Table of Contents

Advanced Drainage Systems, Inc.

During the fiscal 2017, cash provided by operating activities was \$104.2 million as compared with cash provided by operating activities of \$135.3 million for fiscal 2016. Cash flow from operating activities during fiscal 2017 was primarily impacted by a \$27.9 million increase in inventory and other changes in working capital.

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

During fiscal 2017, cash used for investing activities was \$61.3 million, primarily due to \$46.7 million for capital expenditures and additions to capitalized software, and \$8.6 million for the acquisition of Plastic Tubing Industries (“PTI”) and \$4.6 million for the purchase of equipment through financing.

During fiscal 2016, cash used for investing activities was \$49.0 million, primarily due to \$44.9 million for capital expenditures and additions to capitalized software, and \$3.2 million for the acquisition of BaySaver.

Financing Cash Flows - During fiscal 2018, cash used in financing activities was \$95.0 million, primarily for net debt payments of \$46.8 million related to the refinancing of the Secured Bank Loans and Senior Notes Payable, as discussed in “Note 12. Debt,” payments on our capital lease obligations of \$24.2 million, dividend payments of \$18.5 million and repurchases of common stock of \$7.9 million.

During fiscal 2017, cash used in financing activities was \$42.8 million, primarily for net debt payments of \$5.1 million, payments on our capital lease obligations of \$21.8 million and dividend payments of \$16.8 million.

During fiscal 2016, cash used in financing activities was \$83.0 million, primarily for net debt payments of \$48.7 million, payments on our capital lease obligations of \$19.8 million and dividend payments of \$16.2 million.

Capital Expenditures

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

Capital expenditures totaled \$46.7 million for fiscal 2017. Our capital expenditures were used primarily for major plant equipment replacements, new equipment to provide capacity additions, facility expansions and yard upgrades, our recycled resin initiatives and capitalized software. Our most significant capital expenditures specifically for increased capacity was \$7.5 million in fiscal 2017 for the opening of our new manufacturing facility in Harrisonville, MO.

Capital expenditures totaled \$44.9 million for fiscal 2016. Our capital expenditures were used primarily for major plant equipment replacements, new equipment to provide capacity additions, facility expansions and yard upgrades, our recycled resin initiatives and capitalized software. Our most significant capital expenditures specifically for

increased capacity was \$7.9 million in fiscal 2016, primarily for tooling for the Midwest and South regions.

We currently anticipate that we will make capital expenditures of approximately \$60-70 million in fiscal 2019. Such capital expenditures are expected to be financed using funds generated by operations.

Employee Stock Ownership Plan (“ESOP”)

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

Table of Contents

Advanced Drainage Systems, Inc.

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

As disclosed in "Note 15. Employee Benefit Plans", redeemable convertible preferred stock can convert to common stock upon retirement, disability, death, or vested terminations over the life of the Plan. As stated above, within 30 days following the repayment of the ESOP loan, all redeemable convertible preferred stock will be converted to common stock, which will be no later than March 2023.

The ESOP's conversion of redeemable convertible preferred stock into common stock will have a meaningful impact on the Company's net income, net income per share and common shares outstanding. The outstanding shares of common stock would be 33% greater after conversion.

Impact on Net Income – Following the repayment of the ESOP loan discussed above, the Company will no longer be required to apply the two-class method to determine Net income per share. In addition, the Company would not be required to recognize the fair value of ESOP deferred compensation attributable to the shares of redeemable convertible preferred shares allocated.

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

(Amounts in thousands)	2018	2017	2016
Net income attributable to ADS	\$62,007	\$32,950	\$25,052
ESOP deferred stock-based compensation	11,724	9,568	10,250

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

(Shares in millions)	2018	2017	2016
Weighted average common shares outstanding	55.7	54.9	54.0
Conversion of redeemable convertible shares	18.3	18.9	19.4

Debt and Capitalized Lease Obligations

See "Note 5. Leases" and "Note 12. Debt" to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" for a discussion of the Company's financing transactions, including the Secured Bank Loans, the Senior Notes and the Company's capital lease obligations.

Financing Transactions

Secured Bank Loans - On September 24, 2010, we entered into a credit agreement with PNC Bank, National Association, or PNC, as administrative agent, and lender parties thereto. The credit agreement, as amended and restated on June 12, 2013 and subsequently further amended, provides for our Bank Term Loans consisting of (i) the Revolving Credit Facility providing for revolving loans and letters of credit of up to a maximum aggregate principal amount of \$325 million, (ii) the Term Loan Facility providing for the Term Loans in an aggregate original principal amount of \$100 million, and (iii) the ADS Mexicana Revolving Credit Facility, described below, which is more fully described in our Fiscal 2017 Form 10-K. On June 22, 2017, we entered into a Second Amended and Restated Credit Agreement with PNC, which amends and restates the agreement dated as of June 12, 2013, to provide us a \$550 million Revolving Credit Facility, which is more fully described in “Note 12. Debt” to the Consolidated Financial Statements.

As of March 31, 2018, the outstanding principal drawn on the Revolving Credit Facility was \$171.5 million, with \$365.5 million available to be drawn on the U.S. facility, net of \$13.0 million of outstanding letters of credit.

Table of Contents

Advanced Drainage Systems, Inc.

ADS Mexicana Revolving Credit Facility - On September 24, 2010, ADS Mexicana entered into a credit agreement with PNC, as administrative agent, and lender parties thereto. The credit agreement, as amended and restated on June 12, 2013 and subsequently further amended, provides for revolving loans and letters of credit of up to a maximum aggregate principal amount of \$12.0 million. As of March 31, 2018, ADS Mexicana had no outstanding principal drawn on the Revolving Credit Facility with \$12.0 million available to be drawn.

Senior Notes - On December 11, 2009, we entered into a private shelf agreement with Prudential Investment Management Inc., or Prudential, which agreement, as amended and restated on September 24, 2010 and subsequently further amended, provides for the issuance by us of senior secured promissory notes to Prudential or its affiliates from time to time in the aggregate principal amount up to \$100 million. On June 22, 2017, we entered into the Second Amended and Restated Private Shelf Agreement with Prudential, which amends and restates the agreement dated as of September 24, 2010, to provide for the issuance of secured senior notes to Prudential or its affiliates from time to time in the aggregate principal amount of up to \$175 million, which is more fully described in “Note 12. Debt” to the Consolidated Financial Statements. We have \$50 million available for issuance of senior notes under the private shelf agreement. At March 31, 2018, the outstanding principal balance on these notes was \$125 million.

Covenant Compliance

Our outstanding debt agreements and instruments contain various restrictive covenants including, but not limited to, limitations on additional indebtedness and capital distributions, including dividend payments. The two primary debt covenants of the amended ADS Revolving Credit Facility and Senior Notes include a Leverage Ratio and an Interest Coverage Ratio maintenance covenant. The Credit Agreement Leverage Ratio generally requires that at the end of any fiscal quarter, for the four fiscal quarters then ended, we will not permit the ratio of its total consolidated indebtedness to our Consolidated EBITDA (as defined in the Credit Agreement) to be greater than 4.00 to 1.00 (or 4.25 to 1.00 as of the date of any acquisitions permitted under the Credit Agreement for which the aggregate consideration is \$100.0 million or greater). The Credit Agreement Interest Coverage Ratio generally requires that at the end of any fiscal quarter, for the four fiscal quarters then ended, we will not permit the ratio of Consolidated EBITDA to our consolidated interest expense payable during such period to be less than 3.00 to 1.00.

The primary debt covenant of the ADS Mexicana Revolving Credit Facility is a Leverage Ratio maintenance covenant. For any relevant period of determination, the Leverage Ratio is calculated by dividing Total Consolidated Indebtedness (funded debt plus guarantees) by Consolidated EBITDA, as defined by the credit facility. The current upper limit is 4.0 times.

For further information, see “Note 12. Debt” to the Consolidated Financial Statements. We were in compliance with our debt covenants as of March 31, 2018.

Contractual Obligations as of March 31, 2018

(Amounts in thousands)	Payments Due by Period				
	Total	Less than	1-3 Years	3-5 Years	More than

Edgar Filing: ADVANCED DRAINAGE SYSTEMS, INC. - Form 10-K

	1 Year			5 Years	
Contractual obligations:					
Long-term debt ⁽¹⁾	\$300,776	\$26,848	\$26,896	\$172,032	\$75,000
Interest payments ⁽²⁾	46,844	11,015	19,023	13,497	3,309
Operating leases	11,656	3,297	4,016	1,695	2,648
Capital leases	89,977	24,809	37,383	20,086	7,699
Contractual purchase obligations ⁽³⁾	13,320	13,320	—	—	—
Total	\$462,573	\$79,289	\$87,318	\$207,310	\$88,656

(1) The Secured Bank Loans mature in June 2022.

(2) Based on applicable rates and pricing margins as of March 31, 2018.

(3) Purchase obligations include commitments with vendors to purchase raw material.

54

Table of Contents

Advanced Drainage Systems, Inc.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, with the exception of the guarantee of 50% of certain debt of our unconsolidated South American Joint Venture, as further discussed in “Note 11. Related Party Transactions” of our Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data,” of this Form 10-K. Our maximum potential obligation under this guarantee totals \$11 million as of March 31, 2018. The maximum borrowing permitted under the South American Joint Venture’s credit facility is \$22 million. As of March 31, 2018, our South American Joint Venture had approximately \$14.5 million of outstanding debt subject to our guarantee, resulting in our guarantee of 50%, or \$7.3 million, of that amount. We do not believe that this guarantee will have a current or future effect on our financial condition, results of operations, liquidity, or capital resources.

Critical Accounting Policies and Estimates

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

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

Policy	Judgments and Estimates	Effect if Actual Results Differ from Assumptions
Consolidation and Investments- Our consolidated financial statements include our wholly-owned subsidiaries, our majority owned subsidiaries, and variable interest entities (“VIEs”) of which we are the primary beneficiary. We use the equity method of accounting for equity investments where we exercise significant influence but do not hold a controlling financial interest, such as our South American joint venture.	Significant judgment may be necessary to determine if we are the primary beneficiary of a VIE. The non-controlling interests in our subsidiaries that are consolidated but not wholly owned by us are included in the accompanying financial statements.	We currently consolidate ADS Mexicana as the primary beneficiary. We do not consolidate our South American joint venture. Changes in the primary beneficiary would change our consolidation conclusion.
Allowance for Doubtful Accounts-We hold receivables from customers in various	The evaluation of the customer’s financial condition is performed to	This estimate is periodically adjusted when management

countries. Credit is extended to customers based on an evaluation of their financial condition and collateral is generally not required.

reduce the risk of loss. Accounts receivable are evaluated for collectability based on numerous factors, including the length of time individual receivables are past due, past transaction history with customers, their credit worthiness and the economic environment. Accounts receivable becomes aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filing) or as a result of changes in historical collection patterns.

Table of Contents

Advanced Drainage Systems, Inc.

Policy	Judgments and Estimates	Effect if Actual Results Differ from Assumptions
<p>Inventories- Inventories are stated at the lower of cost or net realizable value. Cost is determined using the FIFO method, which is based on analyses that are highly complex due to the significant number of materials purchased by the company. The complexity of the FIFO analysis is further increased in periods of volatile raw material pricing.</p>	<p>Net realizable value is based on assumptions related to deterioration, obsolescence and other judgmental factors. The valuation of inventory also involves estimates and assumptions relate to which overhead costs qualify for capitalization and in what amounts.</p>	<p>Our lower of cost or net realizable value estimate is currently not material.</p>
<p>Accounting for Leases- We enter into leases for buildings, transportation and other equipment, and airplanes. Judgment is required in applying the criteria necessary to determine if a lease should be classified as a capital lease.</p>	<p>Specifically, judgment is required in applying the criteria to determine if a lease should be capitalized including whether to include certain lease renewal periods in the lease term, the present value of minimum lease payments, the fair value of leased assets, and the useful lives of assets.</p>	<p>Changes in which renewal periods are included would impact the asset and the related liability.</p>
<p>Goodwill- Goodwill is reviewed annually for impairment as of March 31 or whenever events or changes in circumstances indicate the carrying value may not be recoverable. Implied fair value of goodwill is determined by considering both the income and market approach.</p>	<p>Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. The fair value estimates are based on assumptions management believes to be reasonable, but are inherently uncertain.</p>	<p>We performed our annual impairment test for goodwill as of March 31, 2018. We determined for our Domestic reporting unit that it was not more likely than not that the fair value of the reporting unit was less than its carrying value. We determined for the remaining goodwill that the fair value exceeded the carrying value for each of our reporting units. Accordingly, we did not incur any impairment charges for goodwill in fiscal 2018, 2017 or 2016. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period.</p>

Table of Contents

Advanced Drainage Systems, Inc.

Policy	Judgments and Estimates	Effect if Actual Results Differ from Assumptions
<p>Definite-lived intangible assets-Definite-lived intangible assets are tested for recoverability whenever events or changes in circumstances indicate that carrying amounts of the asset group may not be recoverable. Asset groups are established primarily by determining the lowest level of cash flows available. If the estimated undiscounted future cash flows are less than the carrying amounts of such assets, an impairment loss is recognized to the extent the fair value of the asset less any costs of disposition is less than the carrying amount of the asset.</p>	<p>Determining the fair value of these assets is judgmental in nature and involves the use of significant estimates and assumptions. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period.</p>	<p>We did not record any impairment charges for intangible assets in fiscal 2018, 2017, or 2016. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period.</p>
<p>Indefinite lived intangible assets-Indefinite-lived intangible assets are tested for impairment annually as of March 31 or whenever events or changes in circumstances indicate the carrying value may be greater than fair value. Determining the fair value of these assets is judgmental in nature and involves the use of significant estimates and assumptions. We base our fair value estimates on assumptions we believe to be reasonable, but that are inherently uncertain. To estimate the fair value of these indefinite-lived intangible assets, we use an income approach, which utilizes a market derived rate of return to discount anticipated performance. An impairment loss is recognized when the estimated fair value of the intangible asset is less than the carrying value.</p>		

Table of Contents

Advanced Drainage Systems, Inc.

Policy	Judgments and Estimates	Effect if Actual Results Differ from Assumptions
<p>Other Assets- Other assets includes equity-method investments. We evaluate other assets for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable, and recognizes an impairment loss when a decline in value below carrying value is determined to be other-than-temporary.</p>	<p>Under these circumstances, we would adjust the carrying value down to its estimated fair value, which then becomes its new carrying value. Determining the fair value of these assets is judgmental in nature and involves the use of significant estimates and assumptions.</p>	<p>We recorded an impairment charge of \$1.3 million and \$4.0 million in fiscal 2017 and 2016, respectively, on our South American Joint Venture.</p>
<p>Revenue Recognition-We sell pipe products and related water management products. We ship products to customers predominantly by internal fleet and to a lesser extent by third-party carriers. We do not provide any additional revenue generating services after product delivery.</p>	<p>We estimate an allowance for doubtful accounts based on numerous factors, including the length of time individual receivables are past due, past transaction history with customers, their credit worthiness and the economic environment.</p>	<p>We recorded an impairment charge of \$0.3 million in fiscal 2018 on our Tigre-ADS USA investment, which was disposed of in April 2018. If our historical experience differs from future experience, our allowance for doubtful accounts could differ.</p>
<p>Sales, net of sales tax and allowances for returns, rebates and discounts are recognized from product sales when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collectability is reasonably assured. We recognize revenue when both persuasive evidence of an arrangement and the price is fixed or determinable. Title to the products and risk of loss generally passes to the</p>		

customer upon delivery. We perform credit check procedures on all new customers, establishes credit limits accordingly, and monitors the creditworthiness of existing customers, which is the basis for concluding that collectability is reasonably assured.

58

Table of Contents

Advanced Drainage Systems, Inc.

Policy	Judgments and Estimates	Effect if Actual Results Differ from Assumptions
<p>Employee Stock Ownership Plan (ESOP)- When shares of convertible preferred stock are allocated to the ESOP stock accounts of ESOP participants, we reduce the amount of deferred compensation reflected in Deferred compensation — unearned ESOP shares in mezzanine equity.</p>	<p>Shares of convertible preferred stock are valued based on an annual valuation for the ESOP by an independent third-party appraisal firm.</p>	<p>As the value of the shares increase, it could result in a significant increase in ESOP compensation in the fourth quarter.</p>
<p>Stock-Based Compensation Plan-Equity-classified awards are measured based on the grant-date estimated fair value of each award, net of estimated forfeitures, at each relevant reporting date for accounting purposes. Compensation expense is recognized on a straight-line basis over the employee’s requisite service period, which is generally the vesting period of the grant.</p>	<p>The fair value of each stock option granted is estimated using the Black-Scholes option pricing model. Determining the fair value of stock options under the Black-Scholes option-pricing model requires judgment, common stock volatility, expected term of the awards, dividend yield and the risk-free interest rate. The assumptions used in calculating the fair value of stock options represent our best estimates, based on management’s judgment and subjective future expectations. These estimates involve inherent uncertainties.</p> <p>We developed our assumptions as follows:</p> <ul style="list-style-type: none"> •Volatility. •Expected term. •Risk-free interest rate. •Dividend yield. 	<p>All current stock based awards qualify for equity classification. If the Company were to offer awards that require liability classification, there could be significant fluctuations in expenses due to stock price fluctuations.</p>

Table of Contents

Advanced Drainage Systems, Inc.

Policy	Judgments and Estimates	Effect if Actual Results Differ from Assumptions
<p>Valuation of redeemable convertible preferred stock- Prior to the effective date of the IPO, the trustee of our ESOP had the ability to put the shares of our Redeemable convertible preferred stock to us. If our common stock, which our Redeemable convertible preferred stock may convert to, is no longer a “registration-type class of security” (e.g., in the event a delisting), the option held by the trustee of the ESOP, which granted it the ability to put the shares of our Redeemable convertible preferred stock to us, would then become applicable. Preferred securities that become redeemable upon a contingent event that is not solely within the control of the Company should be classified outside of permanent equity.</p>	<p>The Company has determined that it is not probable that the redemption feature will become applicable. Since the Redeemable convertible preferred stock is not currently redeemable and it is not probable that the instrument will become redeemable, subsequent adjustment to fair value is not required. As such, the Redeemable convertible preferred stock was recorded to fair value at the effective date of the IPO on July 25, 2014 and will remain in mezzanine equity without further adjustment to carrying value unless it becomes probable that the redemption feature will become applicable.</p>	<p>If the redemption feature became applicable, there would be adjustments to the fair value of redeemable convertible preferred stock. The current carrying value of redeemable convertible preferred stock are \$12.50 per share in equity. Currently, the fair value of redeemable convertible preferred stock is valued at \$20.00. As of March 31, 2018, we had valuation allowances of less than \$0.1 million and unrecognized tax benefits of \$7.6 million. Although we believe our estimates are reasonable, if these judgments are not accurate then future income tax expense or benefit could be different.</p>
<p>Income Taxes- Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized and represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.</p>	<p>Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which the related temporary differences are expected to be recovered or settled.</p>	
<p>Uncertain tax positions- We recognize uncertain tax positions in accordance with FASB ASC 740, “Income Taxes” which provides guidance related to the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. The standard prescribes the minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. ASC 740, “Income Taxes” also provides</p>		

guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure.

Initial recognition, derecognition and measurement is based on management's judgment given the facts, circumstances and information available at the reporting date.

Table of Contents

Advanced Drainage Systems, Inc.

Recent Accounting Pronouncements

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

We are subject to interest rate risk associated with our bank debt. Changes in interest rates impact the fair value of our fixed-rate debt, but there is no impact to earnings and cash flow. Alternatively, changes in interest rates do not affect the fair value of our variable-rate debt, but they do affect future earnings and cash flow. The Revolving Credit Facility, the Term Note, and our industrial development revenue bond, or IDRB, 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. The IDRB notes bear interest at weekly commercial paper rates, 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 \$0.7 million based on our borrowings as of March 31, 2018. Assuming the Revolving Credit Facility is fully drawn and considering our interest rate swap, each 1.0% increase or decrease in the applicable interest rate would change our interest expense by approximately \$4.5 million, as of March 31, 2018.

Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist principally of accounts receivable. We provide our products to customers based on an evaluation of the customers’ financial condition, generally without requiring collateral. Exposure to losses on receivables is principally dependent on each customer’s financial condition. We monitor the exposure for credit losses and maintain allowances for anticipated losses. Concentrations of credit risk with respect to our accounts receivable are limited due to the large number of customers comprising our customer base and their dispersion among many different geographies. One customer has an accounts receivable balance equal to approximately 18% of our Receivables balance as of March 31, 2018.

Raw Material and Commodity Price Risk

Our primary raw materials used in the production of our products are high density polyethylene and polypropylene resins. As these resins are hydrocarbon-based materials, changes in the price of feedstocks, such as crude oil derivatives and natural gas liquids, as well as changes in the market supply and demand may cause the cost of these resins to fluctuate significantly. Raw materials account for the majority of our cost of goods sold. Given the significance of these costs and the inherent volatility in supplier pricing, our ability to reflect these changes in the cost

of resins in our product selling prices in an efficient manner contributes to the management of our overall risk and the potential impact on our results of operations. A 1% increase in the price of resin would increase our cost of goods sold by approximately \$4 million.

We have a resin price risk management program with physical fixed price contracts which are designed to apply to a significant portion of our annual virgin resin purchases. We also maintain supply agreements with our major resin suppliers that provide multi-year terms and volumes that are in excess of our projected consumption. These supply agreements generally do not contain minimum purchase volumes or fixed prices. Accordingly, our suppliers may change their selling prices or other relevant terms on a monthly basis, exposing us to pricing risk. To manage this risk for our polypropylene virgin resin price exposure, we utilize financial hedges of propylene as a proxy for polypropylene. Historically, the month to month change in market based pricing has been very similar between propylene and polypropylene.

Table of Contents

Advanced Drainage Systems, Inc.

Our use of forward fixed price contracts, financial hedges and the incorporation of vertical integration for recycled material have increased our focus on efficiency and resulted in lower overall supply costs.

We began a diesel hedging program in 2008 which was executed through several financial swaps and collar structures covering future months demand for diesel fuel and are designed to decrease our exposure to changing fuel costs. These hedges covered a portion of the diesel fuel consumed by the truck fleet that we operate to deliver products to our customers.

Inflation Risk

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

Foreign Currency Exchange Rate Risk

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

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

Item 8. Financial Statements and Supplementary Data

The Report of Independent Registered Public Accounting Firm, Consolidated Financial Statements and supplementary financial data required for this Item are set forth on pages F-1 through F-62 of this Annual Report on Form 10-K and are incorporated herein by reference.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of March 31, 2018. Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified under Securities Exchange Commission (“SEC”) rules and forms. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2018.

Table of Contents

Advanced Drainage Systems, Inc.

Management's Report on Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management, including our Chief Executive Officer and our Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of March 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework (2013). A material weakness in internal controls is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Because of its inherent limitations, even appropriate internal control over financial reporting may not prevent or detect misstatements.

Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of March 31, 2018.

Deloitte & Touche LLP, our independent registered public accounting firm, has issued an audit report on the effectiveness of our internal control over financial reporting as of March 31, 2018 and this report is included herein.

Remediation of Previously Identified Material Weakness

As of March 31, 2018, we have completed our actions to remediate the material weaknesses previously identified in our Fiscal 2017 Form 10-K. These previously identified material weaknesses in internal control over financial reporting that have been remediated were in the areas of (i) control environment, (ii) accounting for leases, (iii) accounting for inventory, (iv) journal entry and account reconciliation, (v) ADS Mexicana control environment, and (vi) ADS Mexicana revenue recognition cut-off practices.

A summary of remediation actions that have been taken with respect to each of the previously identified material weaknesses are summarized below:

• **Control Environment** – We hired qualified individuals to key finance and leadership positions; enhanced training and development with emphasis on ethics, compliance, anti-corruption and public company culture; completed an assessment of the finance and senior executive organization; implemented and enhanced entity level controls and enhanced reporting line procedures. We also took actions to improve the process and controls to enhance the documentation and basis for account balances, journal entries and accounting estimates.

• **Accounting for Leases** – We improved the process and controls in the determination of the appropriate accounting and classification of leases. These actions included the implementation of a new software solution to improve the process

of accounting for leases, improvements to the design of existing controls and implementation of additional controls.

• **Accounting for Inventory** – We improved the design of existing controls, implemented additional controls and enhanced the process of accounting for inventory cost, including related to the capitalization of variances.

• **Journal Entry and Account Reconciliation** – We implemented an enhanced journal entry and account reconciliation policy to support account balances, journal entries, accrual calculations and management estimates. We made improvements to the journal entry process, including assessment of user access and system approval enhancements for journal entries. In addition, we implemented a new software solution to improve the process and documentation for account reconciliations.

63

Table of Contents

Advanced Drainage Systems, Inc.

•ADS Mexicana Control Environment – We established a management oversight committee related to foreign operations, implemented and enhanced entity level controls, enhanced critical accounting policies and procedures, and completed enhanced training on ethics, compliance and anti-corruption in our Mexican operations.

•ADS Mexicana Revenue Recognition Cut-Off Process – We established a new policy and enhanced internal controls related to the ADS Mexicana revenue recognition cut-off process.

As part of our assessment of internal controls over financial reporting, management evaluated all controls to assess whether they were designed and operating effectively as of March 31, 2018. Based on this assessment, management concluded that the above noted previously identified material weaknesses were remediated during the quarter ended March 31, 2018.

Changes in Internal Control over Financial Reporting

Except for the remediation of the previously identified material weaknesses described above, there were no changes in our 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 March 31, 2018 that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Item 9B. Other Information

None.

Table of Contents

Advanced Drainage Systems, Inc.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information contained under the captions “EXECUTIVE OFFICERS”, “ELECTION OF DIRECTORS” and “OTHER DIRECTOR INFORMATION, COMMITTEES OF DIRECTORS AND CORPORATE GOVERNANCE INFORMATION” in our definitive Proxy Statement for the 2018 Annual Meeting of Shareholders, to be filed with the SEC pursuant to Regulation 14A promulgated under the Exchange Act (the “Proxy Statement”), is incorporated herein by reference.

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accountant Fees and Services

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

Table of Contents

Advanced Drainage Systems, Inc.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

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

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

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

66

Table of Contents

Advanced Drainage Systems, Inc.

INDEX TO EXHIBITS

Exhibit

Number Description

- 3.1 Amended and Restated Certificate of Incorporation of Advanced Drainage Systems, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 30, 2014).
- 3.2 Second Amended and Restated Bylaws of Advanced Drainage Systems, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 30, 2014).
- 4.1 Form of Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 5 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on July 14, 2014).
- 4.2 Form of Common Stock Certificate (incorporated by reference to Exhibit 4.2 to Amendment No. 5 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on July 14, 2014).
- 4.3 Registration Rights Agreement, dated as of July 30, 2014, by and among Advanced Drainage Systems, Inc. and the stockholders from time to time party thereto (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on July 30, 2014).
- 4.4 Form of 5.60% Senior Series A Secured Notes due September 24, 2018 (incorporated by reference to Exhibit 4.5 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).
- 4.5 Form of 4.05% Senior Series B Secured Notes due September 24, 2019 (incorporated by reference to Exhibit 4.6 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).
- 4.6 Form of 3.53% Senior Series C Secured Notes due June 28, 2024 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on June 28, 2017).
- 10.1 Second Amended and Restated Credit Agreement, dated as of June 12, 2013, by and among ADS Mexicana, S.A. de C.V., as borrower, the lenders party thereto, PNC Bank, National Association, as administrative

agent for the lenders party thereto, and the other parties thereto (incorporated by reference to Exhibit 10.1 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 6, 2014).

- 10.1A First Amendment to Second Amended and Restated Credit Agreement, dated as of December 20, 2013 (incorporated by reference to Exhibit 10.1A to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 6, 2014).
- 10.1B Second Amendment to Second Amended and Restated Credit Agreement, dated as of August 21, 2015 (incorporated by reference to Exhibit 10.1 of Form 8-K filed August 26, 2015).
- 10.1C Third Amendment to Second Amended and Restated Credit Agreement, dated as of November 30, 2015 (incorporated by reference to Exhibit 10.1 of Form 8-K filed December 4, 2015).
- 10.1D Fourth Amendment to Second Amended and Restated Credit Agreement, dated as of December 28, 2015 (incorporated by reference to Exhibit 10.2 of Form 8-K filed December 31, 2015).
- 10.1E Fifth Amendment to Second Amended and Restated Credit Agreement, dated as of February 17, 2016 (incorporated by reference to Exhibit 10.2 of Form 8-K filed February 17, 2016).

Table of Contents

Advanced Drainage Systems, Inc.

Exhibit

Number Description

- 10.1F Sixth Amendment to Second Amended and Restated Credit Agreement, dated as of March 15, 2017 (incorporated by reference to Exhibit 10.2F of Form 10-K filed May 10, 2017).
- 10.2 Second Amended and Restated Credit Agreement, dated as of June 22, 2017, by and among Advanced Drainage Systems, Inc., as borrower, the guarantors from time to time party thereto, the lenders from time to time party thereto, PNC Bank, National Association, as administrative agent for the lenders party thereto, and the other parties thereto (incorporated by reference to Exhibit 10.1 of Form 8-K filed June 28, 2017).
- 10.3 Second Amended and Restated Private Shelf Agreement, dated as of June 22, 2017, by and among Advanced Drainage Systems, Inc., as seller, the guarantors from time to time party thereto, PGIM, Inc., as a purchaser, and the other purchasers from time to time party thereto (incorporated by reference to Exhibit 10.2 of Form 8-K filed June 28, 2017).
- 10.4 Second Amended and Restated Security Agreement, dated as of June 22, 2017, by and among Advanced Drainage Systems, Inc., as borrower, the guarantors from time to time party thereto, and PNC Bank, National Association, as collateral agent for certain secured parties (incorporated by reference to Exhibit 10.3 of Form 8-K filed June 28, 2017).
- 10.5 Second Amended and Restated Pledge Agreement, dated as of June 22, 2017, by Advanced Drainage Systems, Inc. and certain other parties thereto, as pledgors, in favor of PNC Bank, National Association, as collateral agent for certain secured parties (incorporated by reference to Exhibit 10.4 of Form 8-K filed June 28, 2017).
- 10.6 Second Amended and Restated Intercompany Subordination Agreement, dated as of June 22, 2017, by and among Advanced Drainage Systems, Inc., the guarantors from time to time party thereto, and PNC Bank, National Association, as administrative agent for certain lenders (incorporated by reference to Exhibit 10.5 of Form 8-K filed June 28, 2017).
- 10.7 Amended and Restated Intercompany Subordination Agreement, dated as of June 22, 2017, by and among Advanced Drainage Systems, Inc., the guarantors from time to time party thereto, and PGIM, Inc. (incorporated by reference to Exhibit 10.6 of Form 8-K filed June 28, 2017).
- 10.8 Second Amended and Restated Intercreditor and Collateral Agency Agreement, dated as of June 22, 2017, by and among PNC Bank, National Association, as collateral agent for certain secured parties, PNC Bank, National Association, as administrative agent for certain lenders, and certain noteholders (incorporated by reference to Exhibit 10.7 of Form 8-K filed June 28, 2017).
- 10.9†

Advanced Drainage Systems, Inc. Non-Employee Director Compensation Plan (incorporated by reference to Exhibit 10.8 to Amendment No. 4 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on July 2, 2014).

10.10† Advanced Drainage Systems, Inc. Amended 2000 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.9 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).

10.10A† First Amendment to Amended 2000 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 15, 2014).

10.11† Advanced Drainage Systems, Inc. 2008 Restricted Stock Plan (incorporated by reference to Exhibit 10.10 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).

10.11A† First Amendment to the 2008 Restricted Stock Plan (incorporated by reference to Exhibit 10.2 to Form 8-K filed February 10, 2017).

Table of Contents

Advanced Drainage Systems, Inc.

Exhibit

Number Description

- 10.12† Advanced Drainage Systems, Inc. 2013 Stock Option Plan (incorporated by reference to Exhibit 10.11 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).
- 10.12A† First Amendment to 2013 Stock Option Plan (incorporated by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K (File No. 001-36557) filed with the Securities and Exchange Commission on August 15, 2014).
- 10.12B† Form of Amendment to Pre-2017 Stock Option Agreements(incorporated by reference to Exhibit 10.11B of Form 10-K filed May 10, 2017).
- 10.13† Executive Employment Agreement, dated as of September 1, 2017, by and between Advanced Drainage Systems, Inc. and D. Scott Barbour (incorporated by reference to Exhibit 10.3 to Form 8-K filed August 17, 2017).
- 10.14† Amended and Restated Executive Employment Agreement, dated as of June 20, 2014, by and between Advanced Drainage Systems, Inc. and Joseph A. Chlapaty (incorporated by reference to Exhibit 10.12 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).
- 10.14A† First Amendment to Amended and Restated Executive Employment Agreement, by and between the Company and Joseph A. Chlapaty (incorporated by reference to Exhibit 10.1 to Form 8-K filed February 10, 2017).
- 10.14B† Second Amendment to Amended and Restated Executive Employment Agreement, by and between the Company and Joseph A. Chlapaty (incorporated by reference to Exhibit 10.2 to Form 8-K filed August 17, 2017).
- 10.15† Amended and Restated Executive Employment Agreement, dated as of June 20, 2014, by and between Advanced Drainage Systems, Inc. and Thomas M. Fussner (incorporated by reference to Exhibit 10.14 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).
- 10.15A First Amendment to Amended and Restated Executive Employment Agreement by and between the Company and Thomas M. Fussner (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, File No. 001-36557, filed on March 21, 2018).

- 10.16† Amended and Restated Executive Employment Agreement, dated as of June 20, 2014, by and between Advanced Drainage Systems, Inc. and Ronald R. Vitarelli (incorporated by reference to Exhibit 10.15 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).
- 10.17† Amended and Restated Executive Employment Agreement, dated as of June 20, 2014, by and between Advanced Drainage Systems, Inc. and Robert M. Klein (incorporated by reference to Exhibit 10.16 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).
- 10.18† Form of Indemnification Agreement (incorporated by reference to Exhibit 10.6 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 6, 2014).
- 10.19† Form of Incentive Stock Option Agreement pursuant to 2000 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.18 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).
- 10.19A† Form of Incentive Stock Option Agreement (post-IPO) pursuant to 2000 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.18A to Form 10-K for the year ended March 31, 2015 filed with the Securities and Exchange Commission on March 29, 2016).

Table of Contents

Advanced Drainage Systems, Inc.

Exhibit

Number Description

- 10.20† Form of Non-Qualified Stock Option Agreement (other than for Joseph A. Chlapaty) pursuant to 2013 Stock Option Plan (incorporated by reference to Exhibit 10.19 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).
- 10.20A† Form of Non-Qualified Stock Option Agreement (for Joseph A. Chlapaty) pursuant to 2013 Stock Option Plan (incorporated by reference to Exhibit 10.19A to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).
- 10.21† Form of Restricted Stock Agreement (other than for Joseph A. Chlapaty) pursuant to 2008 Restricted Stock Plan (incorporated by reference to Exhibit 10.20 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).
- 10.21A† Form of Restricted Stock Agreement (for Joseph A. Chlapaty) pursuant to 2008 Restricted Stock Plan (incorporated by reference to Exhibit 10.20A to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).
- 10.22† Form of Director Stock Agreement (incorporated by reference to Exhibit 10.21 to Amendment No. 4 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on July 2, 2014).
- 10.23 Participation Agreement, dated as of July 17, 2000, by and between ADS Worldwide, Inc., Grupo Altima S.A. de C.V., and ADS Mexicana, S.A. de C.V. (formerly known as Sistemas Ecologicos de Drenaje, S.A. de C.V.), as amended on April 19, 2010, May 19, 2011, May 24, 2011, April 26, 2013 and January 31, 2014 (incorporated by reference to Exhibit 10.22 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 6, 2014).
- 10.24 Interestholders Agreement, dated as of June 5, 2009, by and among Tubos y Plasticos ADS Chile Limitada, Tigre Chile S.A., and Tuberias T-A Limitada, joined by Advanced Drainage Systems, Inc. and Tigre S.A. — Tubos e Conexoes, as amended on July 31, 2009, October 2009, December 15, 2009, May 18, 2010, August 10, 2010, April 1, 2011 and January 25, 2012, with First Addendum to Interestholders Agreement, dated as of June 27, 2011 (incorporated by reference to Exhibit 10.23 to Amendment No. 3 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 20, 2014).

10.24A

Second Addendum to Interestholders Agreement, dated as of December 1, 2013 but entered into on September 30, 2014, by and among Tubos y Plasticos ADS Chile Limitada, Tigre Chile S.A., Tuberias Tigre-ADS Limitada, Advanced Drainage Systems, Inc. and Tigre S.A. — Tubos e Conexoes (incorporated by reference to Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q (File No. 001-36557) filed with the Securities and Exchange Commission on November 10, 2014).

10.25 Limited Liability Company Agreement, dated July 15, 2013, by and among ADS Ventures, Inc., BaySaver Technologies, Inc. and Mid-Atlantic Storm Water Research Center, Inc. formerly known as Sistemas Ecologicos de Drenaje, S.A. de C.V.), as amended on April 19, 2010, May 19, 2011, May 24, 2011, April 26, 2013 and January 31, 2014 (incorporated by reference to Exhibit 10.24 to Amendment No. 2 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on June 6, 2014).

10.25A Amendment No. 1 to BaySaver Technologies, LLC Limited Liability Company Agreement dated as of July 17, 2015 by and among ADS Ventures, Inc., BaySaver Technologies, Inc. and Mid-Atlantic Storm Water Research Center, Inc. (incorporated by reference to Exhibit 10.2 to Form 8-K filed July 20, 2015).

Table of Contents

Advanced Drainage Systems, Inc.

Exhibit

Number Description

- 10.25B Sale and Assignment of Ownership Interest dated as of July 17, 2015 by and among ADS Ventures, Inc., BaySaver Technologies, Inc. and Mid-Atlantic Storm Water Research Center, Inc. (incorporated by reference to Exhibit 10.1 to Form 8-K filed July 20, 2015).
- 10.26 USA Shareholders Agreement, dated as of April 7, 2014, by and among Tigre-ADS USA Inc., ADS Ventures, Inc. and Tigre S.A. — Tubos e Conexoes (incorporated by reference to Exhibit 10.25 to Amendment No. 4 to the Registrant’s Registration Statement on Form S-1 (File No. 333-194980) filed with the Securities and Exchange Commission on July 2, 2014).
- 10.27† Executive Employment Agreement dated November 9, 2015, by and between the Company and Scott A. Cottrill (incorporated by reference to Exhibit 10.1 to Form 8-K filed November 9, 2015).
- 10.28† Form of Restricted Stock Agreement (for Joseph A. Chlapaty) pursuant to 2008 Restricted Stock Plan (incorporated by reference to Exhibit 10.3 to Form 8-K filed February 10, 2017).
- 10.29† Form of Restricted Stock Agreement (other than for Joseph A. Chlapaty) pursuant to 2008 Restricted Stock Plan (incorporated by reference to Exhibit 10.4 to Form 8-K filed February 10, 2017).
- 10.30 Form of Non-Qualified Stock Option Agreement pursuant to 2013 Stock Option Plan (incorporated by reference to Exhibit 10.5 to Form 8-K filed February 10, 2017).
- 10.31 Advanced Drainage Systems, Inc. 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, File No. 001-36557, filed on September 8, 2017).
- 10.32 Form of Restricted Stock Award Notice and Award Agreement pursuant to 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, File No. 001-36557, filed on September 8, 2017).
- 10.33 Form of Notice of Grant of Stock Options and Stock Option Award Agreement pursuant to 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K, File No. 001-36557, filed on September 8, 2017).
- 10.34 Form of Director Restricted Stock Award Notice and Award Agreement pursuant to 2017 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q, File No. 001-36557, filed on November 6, 2017).
- 10.35 Confidentiality Agreement by and between the Company and Joseph A. Chlapaty (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, File No. 001-36557, filed on August 17, 2017).

- 10.36 Consulting Agreement by and between the Company and Thomas M. Fussner (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, File No. 001-36557, filed on March 21, 2018).
- 21.1 List of Subsidiaries. #
- 23.1 Consent of Deloitte & Touche LLP. #
- 24.1 Power of Attorney. #
- 31.1 Certification of President and Chief Executive Officer of Advanced Drainage Systems, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. #
- 31.2 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. #
- 32.1 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. #

71

Table of Contents

Advanced Drainage Systems, Inc.

Exhibit

Number Description

32.2 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. #

101.INS XBRL Instance Document. #

101.SCH XBRL Taxonomy Extension Schema. #

101.CAL XBRL Taxonomy Extension Calculation Linkbase. #

101.DEF XBRL Taxonomy Extension Definition Linkbase. #

101.LAB XBRL Taxonomy Extension Label Linkbase. #

101.PRE XBRL Taxonomy Extension Presentation Linkbase. #

Management contract or compensatory plan.

#Filed herewith.

72

Table of Contents

Advanced Drainage Systems, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 30, 2018

ADVANCED DRAINAGE SYSTEMS, INC.

By: /s/ D. Scott Barbour

Name: D. Scott Barbour

Title: President and Chief Executive Officer (Principal Executive Officer)

By: /s/ Scott A. Cottrill

Name: Scott A. Cottrill

Title: Chief Financial Officer (Principal Financial Officer)

By: /s/ Tim A. Makowski

Name: Tim A. Makowski

Title: Vice President, Controller and Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in their indicated capacities, on May 30, 2018.

Signature	Title
/s/ D. Scott Barbour D. Scott Barbour	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ Scott A. Cottrill Scott A. Cottrill	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial Officer)
/s/ Tim A. Makowski Tim A. Makowski	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)
/s/ C. Robert Kidder**	Chairman of the Board of Directors and Director

C. Robert Kidder

/s/ Robert M. Eversole** Director
Robert M. Eversole

/s/ Alexander R. Fischer** Director
Alexander R. Fischer

/s/ Tanya Fratto** Director
Tanya Fratto

/s/ M.A. (Mark) Haney** Director
M.A. (Mark) Haney

/s/ Richard A. Rosenthal** Director
Richard A. Rosenthal

/s/ Carl A. Nelson, Jr.** Director
Carl A. Nelson, Jr.

/s/ Abigail S. Wexner** Director
Abigail S. Wexner

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

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

Table of Contents

Advanced Drainage Systems, Inc.

TABLE OF CONTENTS

	Page
Audited Consolidated Financial Statements	
<u>Reports of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of March 31, 2018 and 2017</u>	F-4
<u>Consolidated Statements of Operations for the fiscal years ended March 31, 2018, 2017 and 2016</u>	F-5
<u>Consolidated Statements of Comprehensive Income (Loss) for the fiscal years ended March 31, 2018, 2017, and 2016</u>	F-6
<u>Consolidated Statements of Cash Flows for the fiscal years ended March 31, 2018, 2017, and 2016</u>	F-7
<u>Consolidated Statements of Stockholders' Equity (Deficit) and Mezzanine Equity for the fiscal years ended March 31, 2018, 2017, and 2016</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-14
<u>Schedule II. Consolidated Valuation and Qualifying Accounts for the fiscal years ended March 31, 2018, 2017, and 2016</u>	F-58

F-1

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Advanced Drainage Systems, Inc. and subsidiaries (the "Company") as of March 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity (deficit) and mezzanine equity, and cash flows, for each of the three years in the period ended March 31, 2018, and the related notes and the financial statement schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 30, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

/s/Deloitte & Touche LLP

Columbus, Ohio

May 30, 2018

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

F-1

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Advanced Drainage Systems, Inc. and subsidiaries (the “Company”) as of March 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended March 31, 2018, of the Company and our report dated May 30, 2018, expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Columbus, Ohio

May 30, 2018

F-2

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except par value)	As of March 31,	
	2018	2017
ASSETS		
Current assets:		
Cash	\$17,587	\$6,450
Receivables (less allowance for doubtful accounts of \$6,826 and \$10,431, respectively)	171,961	168,943
Inventories	263,792	258,430
Other current assets	5,113	6,743
Total current assets	458,453	440,566
Property, plant and equipment, net	399,381	406,858
Other assets:		
Goodwill	103,017	100,566
Intangible assets, net	44,437	51,758
Other assets	37,954	46,537
Total assets	\$1,043,242	\$1,046,285
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of debt obligations	\$26,848	\$37,789
Current maturities of capital lease obligations	22,007	21,450
Accounts payable	105,521	121,922
Other accrued liabilities	60,560	66,386
Accrued income taxes	6,307	8,207
Total current liabilities	221,243	255,754
Long-term debt obligation (less unamortized debt issuance costs of \$3,028 and \$1,723, respectively)	270,900	310,849
Long-term capital lease obligations	59,963	58,710
Deferred tax liabilities	32,304	44,007
Other liabilities	25,023	26,530
Total liabilities	609,433	695,850
Commitments and contingencies (see Note 14)		
Mezzanine equity:		
Redeemable convertible preferred stock: \$0.01 par value; 47,070 shares authorized;		
44,170 shares issued; 23,300 and 24,225 shares outstanding, respectively	291,247	302,814
Deferred compensation — unearned ESOP shares	(190,168)	(198,216)
Redeemable noncontrolling interest in subsidiaries	8,471	8,227
Total mezzanine equity	109,550	112,825
Stockholders' equity:		
Common stock: \$0.01 par value; 1,000,000 shares authorized; 56,889		
shares issued; 56,476 and 55,338 shares outstanding, respectively	11,426	12,393
Paid-in capital	364,908	755,787
Common stock in treasury, at cost	(8,277)	(436,984)

Edgar Filing: ADVANCED DRAINAGE SYSTEMS, INC. - Form 10-K

Accumulated other comprehensive loss	(21,247)	(24,815)
Retained deficit	(39,214)	(83,678)
Total ADS stockholders' equity	307,596	222,703
Noncontrolling interest in subsidiaries	16,663	14,907
Total stockholders' equity	324,259	237,610
Total liabilities, mezzanine equity and stockholders' equity	\$1,043,242	\$1,046,285

See accompanying notes to consolidated financial statements.

F-3

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands, except per share data)	Fiscal Year Ended March 31,		
	2018	2017	2016
Net sales	\$1,330,354	\$1,257,261	\$1,290,678
Cost of goods sold	1,027,873	961,451	1,005,326
Gross profit	302,481	295,810	285,352
Operating expenses:			
Selling	92,764	91,475	88,478
General and administrative	98,392	110,950	92,504
Loss on disposal of assets and costs from exit and disposal activities	15,003	8,509	812
Intangible amortization	8,068	8,548	9,224
Income from operations	88,254	76,328	94,334
Other expense:			
Interest expense	15,262	17,467	18,460
Derivative (gains) losses and other (income) expense, net	(3,950)	(5,970)	16,575
Income before income taxes	76,942	64,831	59,299
Income tax expense	11,411	24,615	23,498
Equity in net loss of unconsolidated affiliates	739	4,308	5,234
Net income	64,792	35,908	30,567
Less: net income attributable to noncontrolling interest	2,785	2,958	5,515
Net income attributable to ADS	62,007	32,950	25,052
Weighted average common shares outstanding:			
Basic	55,696	54,919	53,978
Diluted	56,334	55,624	55,176
Net income per share available to common stockholders:			
Basic	\$1.00	\$0.51	\$0.40
Diluted	\$0.99	\$0.50	\$0.39
Cash dividends declared per share	\$0.28	\$0.24	\$0.20

See accompanying notes to consolidated financial statements.

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Amounts in thousands)	Fiscal Year Ended March		
	2018	2017	2016
Net income	\$64,792	\$35,908	\$30,567
Other comprehensive income (loss):			
Currency translation	3,886	(5,037)	(8,594)
Comprehensive income	68,678	30,871	21,973
Less: other comprehensive (gain) loss attributable to			
noncontrolling interest, net of tax	318	(1,483)	(2,854)
Less: net income attributable to noncontrolling interest	2,785	2,958	5,515
Total comprehensive income attributable to ADS	\$65,575	\$29,396	\$19,312

See accompanying notes to consolidated financial statements.

F-5

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Fiscal Year Ended March 31,		
	2018	2017	2016
Cash Flows from Operating Activities			
Net income	\$64,792	\$35,908	\$30,567
Adjustments to reconcile net income to net cash provided			
by operating activities:			
Depreciation and amortization	75,003	72,355	71,009
Deferred income taxes	(11,239)	(8,971)	10,686
Loss on disposal of assets and costs from exit and disposal activities	12,655	7,316	812
ESOP, stock repurchase agreement and stock-based compensation	18,845	17,875	4,382
Amortization of deferred financing charges	934	1,408	1,412
Fair market value adjustments to derivatives	(3,244)	(10,921)	2,163
Loss on purchase of non-controlling interest	—	—	490
Equity in net loss of unconsolidated affiliates	739	4,308	5,234
Gain on bargain purchase of PTI acquisition	—	(609)	—
Other operating activities	1,010	(5,871)	7,243
Changes in working capital:			
Receivables	(4,327)	15,055	(37,788)
Inventories	(4,841)	(27,917)	28,330
Prepaid expenses and other current assets	1,648	(2,548)	646
Accounts payable, accrued expenses and other liabilities	(14,855)	6,851	10,156
Net cash provided by operating activities	137,120	104,239	135,342
Cash Flows from Investing Activities			
Capital expenditures	(41,709)	(46,676)	(44,942)
Cash paid for acquisitions, net of cash acquired	(1,990)	(8,573)	(3,188)
Purchase of property, plant and equipment through financing	—	(4,620)	—
Proceeds from note receivable to related party	—	—	3,854
Issuance of note receivable to related party	—	—	(3,854)
Proceeds from sale of corporate-owned life insurance	13,644	—	—
Other investing activities	(390)	(1,390)	(888)
Net cash used in investing activities	(30,445)	(61,259)	(49,018)
Cash Flows from Financing Activities			
Proceeds from Revolving Credit Facility	487,850	412,400	409,100
Payments on Revolving Credit Facility	(512,150)	(382,600)	(448,200)
Payments on Term Loan	(72,500)	(10,000)	(8,750)
Proceeds from Senior Notes	75,000	—	—
Payments on Senior Notes	(25,000)	(25,000)	—
Proceeds from notes, mortgages, and other debt	—	1,000	6,378
Payments of notes, mortgages, and other debt	(1,905)	(870)	(7,208)
Payments on loans against corporate-owned life insurance	—	(6,823)	—
Equipment financing loans	—	4,620	—
Debt issuance costs	(2,268)	—	—

Edgar Filing: ADVANCED DRAINAGE SYSTEMS, INC. - Form 10-K

Payments on capital lease obligations	(24,214)	(21,760)	(19,780)
Cash dividends paid	(18,478)	(16,820)	(16,240)
Proceeds from option exercises	9,087	4,011	1,765
Repurchase of common stock	(7,947)	—	—
Other financing activities	(2,428)	(983)	(29)
Net cash used in financing activities	(94,953)	(42,825)	(82,964)
Effect of exchange rate changes on cash	(585)	(260)	(428)
Net change in cash	11,137	(105)	2,932
Cash at beginning of year	6,450	6,555	3,623
Cash at end of year	\$17,587	\$6,450	\$6,555

See accompanying notes to consolidated financial statements.

F-6

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND MEZZANINE EQUITY

(Amounts in thousands)	Common Stock		Paid-In Capital	Common Stock in Treasury		Accumulated Other Comprehensive Income (Deficit)		Retained Earnings	Total ADS Stockholders' Equity	Non-controlling Interest Subsidiaries	Total Stockholders' Equity
	Shares	Amount		Shares	Amount	Income	(Deficit)				
Balance April 1, 2015	153,560	\$12,393	\$723,495	100,038	\$(445,065)	\$(15,521)	\$(114,590)	\$160,712	\$16,413	\$177,125	
Net income	—	—	—	—	—	—	25,052	25,052	5,080	30,132	
Other comprehensive loss	—	—	—	—	—	(5,740)	—	(5,740)	(2,854)	(8,594)	
Redeemable convertible preferred stock dividends	—	—	—	—	—	—	(1,293)	(1,293)	—	(1,293)	
Common stock dividend (\$ 0.20 per share)	—	—	—	—	—	—	(10,815)	(10,815)	—	(10,815)	
Dividend paid to noncontrolling interest holder	—	—	—	—	—	—	—	—	(3,606)	(3,606)	
Allocation of ESOP shares to participants for:											
Compensation	—	—	3,577	—	—	—	—	3,577	—	3,577	
Dividend	—	—	—	—	—	—	(132)	(132)	—	(132)	
Exercise of common stock options	—	—	4,379	(215)	954	—	—	5,333	—	5,333	
Restricted stock awards	—	—	582	(69)	309	—	—	891	—	891	
Tax benefit resulting from exercise of certain stock-based compensation awards	—	—	194	—	—	—	—	194	—	194	
	—	—	7,443	(631)	2,807	—	—	10,250	—	10,250	

ESOP distributions in common stock										
Acquisition of redeemable noncontrolling interest	—	—	—	—	—	—	—	—	—	—
Accretion of redeemable noncontrolling interest	—	—	(573)	—	—	—	—	(573)	—	(573)
Balance March 31, 2016	153,560	\$12,393	\$739,097	99,123	\$(440,995)	\$(21,261)	\$(101,778)	\$187,456	\$15,033	\$202,489

See accompanying notes to consolidated financial statements.

F-7

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND MEZZANINE EQUITY

	Redeemable		Deferred		Reedemable	
	Convertible		Compensation –		Non-	
	Preferred Stock	Shares	Unearned ESOP		Subsidiaries	Total
(Amounts in thousands)	Shares	Amount	Shares	Amount	Amount	Mezzanine Equity
Balance April 1, 2015	25,639	\$320,490	16,990	\$(212,469)	\$ —	\$ 108,021
Net income	—	—	—	—	435	435
Other comprehensive loss	—	—	—	—	—	—
Redeemable convertible preferred stock dividends	—	—	—	—	—	—
Common stock dividend (\$ 0.20 per share)	—	—	—	—	—	—
Dividend paid to noncontrolling interest holder	—	—	—	—	(526)	(526)
Allocation of ESOP shares to participants for:						
Compensation	—	—	(534)	6,673	—	6,673
Dividend	—	—	(8)	132	—	132
Exercise of common stock options	—	—	—	—	—	—
Restricted stock awards	—	—	—	—	—	—
Tax benefit resulting from exercise of certain						
stock-based compensation awards	—	—	—	—	—	—
ESOP distributions in common stock	(820)	(10,250)	—	—	—	(10,250)
Acquisition of redeemable noncontrolling interest	—	—	—	—	6,330	6,330
Accretion of redeemable noncontrolling interest	—	—	—	—	932	932
Balance March 31, 2016	24,819	\$310,240	16,448	\$(205,664)	\$ 7,171	\$ 111,747

See accompanying notes to consolidated financial statements.

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND MEZZANINE EQUITY

(Amounts in thousands)	Common Stock		Paid-In Capital	Common Stock in Treasury		Accumulated Other Comprehensive Income		Total ADS Stockholders' Equity	Non-controlling Interest Subsidiaries	Total Stockholders' Equity
	Shares	Amount		Shares	Amount	Retained	(Deficit)			
Balance April 1, 2016	153,560	\$12,393	\$739,097	99,123	\$(440,995)	\$(21,261)	\$(101,778)	\$187,456	\$15,033	\$202,489
Net income	—	—	—	—	—	—	32,950	32,950	2,236	35,186
Other comprehensive loss	—	—	—	—	—	(3,554)	—	(3,554)	(1,483)	(5,037)
Redeemable convertible preferred stock dividends	—	—	—	—	—	—	(1,512)	(1,512)	—	(1,512)
Common stock dividend (\$ 0.24 per share)	—	—	—	—	—	—	(13,204)	(13,204)	—	(13,204)
Dividend paid to noncontrolling interest holder	—	—	—	—	—	—	—	—	(879)	(879)
Allocation of ESOP shares to participants for:										
Compensation	—	—	2,254	—	—	—	—	2,254	—	2,254
Dividend	—	—	—	—	—	—	(134)	(134)	—	(134)
Exercise of common stock options	—	—	6,571	(358)	1,595	—	—	8,166	—	8,166
Restricted stock awards	—	—	2,926	(86)	383	—	—	3,309	—	3,309
Equity classified stock-based compensation expense before related tax effects	—	—	139	—	—	—	—	139	—	139
Tax benefit resulting from exercise of	—	—	439	—	—	—	—	439	—	439

certain stock-based compensation awards										
Reclassification of liability-classified awards	—	—	220	—	—	—	—	220	—	220
ESOP distributions in common stock	—	—	5,393	(457)	2,033	—	—	7,426	—	7,426
Accretion of redeemable noncontrolling interest	—	—	(1,252)	—	—	—	—	(1,252)	—	(1,252)
Balance March 31, 2017	153,560	\$ 12,393	\$ 755,787	98,222	\$(436,984)	\$(24,815)	\$(83,678)	\$ 222,703	\$ 14,907	\$ 237,610

See accompanying notes to consolidated financial statements.

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND MEZZANINE EQUITY

	Redeemable		Deferred Compensation –		Reedemable	
	Convertible		Unearned ESOP		Non-Controlling	Total
	Preferred Stock	Shares	Shares	Amount	Subsidiaries	Mezzanine
(Amounts in thousands)	Shares	Amount	Shares	Amount	Amount	Equity
Balance April 1, 2016	24,819	\$ 310,240	16,448	\$(205,664)	\$ 7,171	\$ 111,747
Net income	—	—	—	—	722	722
Other comprehensive loss	—	—	—	—	—	—
Redeemable convertible preferred stock dividends	—	—	—	—	—	—
Common stock dividend (\$ 0.24 per share)	—	—	—	—	—	—
Dividend paid to noncontrolling interest holder	—	—	—	—	(1,226)	(1,226)
Allocation of ESOP shares to participants for:						
Compensation	—	—	(585)	7,314	—	7,314
Dividend	—	—	—	134	—	134
Exercise of common stock options	—	—	—	—	—	—
Restricted stock awards	—	—	—	—	—	—
Equity classified stock-based compensation expense before related tax effects	—	—	—	—	—	—
Tax benefit resulting from exercise of certain stock-based compensation awards	—	—	—	—	—	—
Reclassification of liability-classified awards	—	—	—	—	—	—
ESOP distributions in common stock	(594)	(7,426)	—	—	—	(7,426)
Accretion of redeemable noncontrolling interest	—	—	—	—	1,560	1,560
Balance March 31, 2017	24,225	\$ 302,814	15,863	\$(198,216)	\$ 8,227	\$ 112,825

See accompanying notes to consolidated financial statements.

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND MEZZANINE EQUITY

(Amounts in thousands)	Common Stock		Paid-In Capital	Common Stock in Treasury		Accumulated Other Comprehensive Income		Total ADS Stockholders' Equity	Non-controlling Interest Subsidiaries	Total Stockholders' Equity
	Shares	Amount		Shares	Amount	Retained	(Deficit)			
Balance April 1, 2017	153,560	\$ 12,393	\$ 755,787	98,222	\$ (436,984)	\$ (24,815)	\$ (83,678)	\$ 222,703	\$ 14,907	\$ 237,610
Net income	—	—	—	—	—	—	62,007	62,007	1,928	63,935
Other comprehensive loss	—	—	—	—	—	3,568	—	3,568	318	3,886
Redeemable convertible preferred stock dividends	—	—	—	—	—	—	(1,724)	(1,724)	—	(1,724)
Common stock dividend (\$ 0.28 per share)	—	—	—	—	—	—	(15,685)	(15,685)	—	(15,685)
Dividend paid to noncontrolling interest holder	—	—	—	—	—	—	—	—	(490)	(490)
Allocation of ESOP shares to participants for:										
Compensation	—	—	3,809	—	—	—	—	3,809	—	3,809
Dividend	—	—	—	—	—	—	(134)	(134)	—	(134)
Exercise of common stock options	666	7	9,161	2	(81)	—	—	9,087	—	9,087
Restricted stock awards	90	1	2,664	(72)	153	—	—	2,818	—	2,818
Equity classified stock-based compensation expense before related tax effects	—	—	4,148	—	—	—	—	4,148	—	4,148
Reclassification of liability-classified awards	—	—	13,714	—	—	—	—	13,714	—	13,714

ESOP distributions in common stock	318	2	9,811	(394)	1,753	—	—	11,566	—	11,566
Retirement of common stock held in treasury	(97,745)	(977)	(433,852)	(97,745)	434,829	—	—	—	—	—
Common stock repurchases	—	—	—	400	(7,947)	—	—	(7,947)	—	(7,947)
Accretion of redeemable noncontrolling interest	—	—	(334)	—	—	—	—	(334)	—	(334)
Balance March 31, 2018	56,889	\$11,426	\$364,908	413	\$(8,277)	\$(21,247)	\$(39,214)	\$307,596	\$16,663	\$324,259

See accompanying notes to consolidated financial statements.

Table of Contents

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND MEZZANINE EQUITY

	Redeemable		Deferred Compensation –		Reedemable	
	Convertible		Unearned ESOP		Non-Controlling	Total
	Preferred Stock	Shares	Shares	Amount	Subsidiaries	Mezzanine
(Amounts in thousands)	Shares	Amount	Shares	Amount	Amount	Equity
Balance April 1, 2017	24,225	\$ 302,814	15,863	\$(198,216)	\$ 8,227	\$ 112,825
Net income	—	—	—	—	857	857
Other comprehensive loss	—	—	—	—	—	—
Redeemable convertible preferred stock dividends	—	—	—	—	—	—
Common stock dividend (\$ 0.24 per share)	—	—	—	—	—	—
Dividend paid to noncontrolling interest holder	—	—	—	—	(613)	(613)
Allocation of ESOP shares to participants for:						
Compensation	—	—	(644)	8,048	—	8,048
Dividend	—	—	—	—	—	—
Exercise of common stock options	—	—	—	—	—	—
Restricted stock awards	—	—	—	—	—	—
ESOP distributions in common stock	(925)	(11,567)	—	—	—	(11,567)
Accretion of redeemable noncontrolling interest	—	—	—	—	—	—
Balance March 31, 2018	23,300	\$ 291,247	15,219	\$(190,168)	\$ 8,471	\$ 109,550

See accompanying notes to consolidated financial statements.

Table of Contents

Advanced Drainage Systems, Inc.

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BACKGROUND AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Company’s fiscal year begins on April 1 and ends on March 31. Unless otherwise noted, references to “year” pertain to our fiscal year. For example, 2018 refers to fiscal 2018, which is the period from April 1, 2017 to March 31, 2018.

The Company is managed based primarily on the geographies in which it operates and reports results of operations in two reportable segments. The reportable segments are Domestic and International.

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

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

Receivables and Allowance for Doubtful Accounts - Receivables include trade receivables, net of an allowance for doubtful accounts, and other miscellaneous receivables. Receivables at March 31, 2018 and 2017 are as follows:

(Amounts in thousands)	2018	2017
------------------------	------	------

Trade receivables	\$ 159,291	\$ 160,655
Other miscellaneous receivables	12,670	8,288
Receivables	\$ 171,961	\$ 168,943

As of March 31, 2018 and 2017, Other miscellaneous receivables includes an insurance recoverable of approximately \$3.4 million and \$2.4 million, respectively, which has a corresponding liability recorded in Other accrued liabilities.

Credit is extended to customers based on an evaluation of their financial condition and collateral is generally not required. The evaluation of the customer's financial condition is performed to reduce the risk of loss.

F-13

Table of Contents

Advanced Drainage Systems, Inc.

Accounts receivable are evaluated for collectability based on numerous factors, including the length of time individual receivables are past due, past transaction history with customers, their credit worthiness and the economic environment. This estimate is periodically adjusted when management becomes aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filing) or as a result of changes in historical collection patterns.

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

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

	Years
Buildings and leasehold improvement	20 — 45 or the lease term if shorter
Machinery and equipment	3 — 18

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

Construction in progress is also recorded at cost and includes capitalized interest, capitalized payroll costs and related costs such as taxes and other fringe benefits. Interest capitalized was \$0.6 million, \$0.6 million, and \$0.4 million during the fiscal years ended March 31, 2018, 2017, and 2016, respectively.

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

Goodwill is reviewed annually for impairment as of March 31 or whenever events or changes in circumstances indicate the carrying value may be greater than fair value. The goodwill impairment analysis is comprised of two steps. The first step requires the comparison of the fair value of the applicable reporting unit to its respective carrying

value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not considered impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then the Company would record an impairment loss equal to the difference. With respect to this testing, a reporting unit is a component of the Company for which discrete financial information is available and regularly reviewed by management. Implied fair value of goodwill is determined by considering both the income and market approach. Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and

F-14

Table of Contents

Advanced Drainage Systems, Inc.

assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. The fair value estimates are based on assumptions management believes to be reasonable, but are inherently uncertain. For the fiscal 2018, ADS completed a quantitative fair value assessment of the International reporting unit and determined no impairment charge was required.

GAAP allows entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit for the goodwill impairment test. If the qualitative assessment is performed, an entity is no longer required to calculate the fair value of a reporting unit unless the entity determines that, based on that assessment, it is more likely than not that its fair value is less than its carrying amount. ADS completed a quantitative fair value measurement of the Domestic reporting unit in fiscal 2016. The test indicated that the fair value of the Domestic reporting unit exceeded the carrying value, indicating that no impairment existed. ADS applied the qualitative assessment to the Domestic reporting unit for the annual impairment test performed as of March 31, 2018 and 2017. For the current year test, ADS assessed various assumptions, events and circumstances that would have affected the estimated fair value of the reporting unit as compared to its March 31, 2016 quantitative fair value measurement. The results of this assessment indicated that it is not more likely than not that the reporting unit fair value is less than the reporting unit carrying value. The Company did not incur any impairment charges for goodwill in the fiscal years ended March 31, 2018, 2017, and 2016.

Intangible Assets

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

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

GAAP allows entities testing indefinite-lived intangible assets for impairment the option of performing a qualitative assessment before calculating the fair value of the indefinite-lived intangible assets for the impairment test. If the qualitative assessment is performed, an entity is no longer required to calculate the fair value of an indefinite-lived intangible assets unless the entity determines that, based on that assessment, it is more likely than not that its fair value is less than its carrying amount. ADS completed a quantitative fair value measurement of indefinite-lived trademarks in March 31, 2016. The test indicated that the fair value of the indefinite-lived trademarks substantially exceeded the carrying value, indicating that no impairment existed.

ADS applied the qualitative assessment to specific trademarks for the annual impairment test performed as of March 31, 2018 and 2017. For the current year test, ADS assessed various assumptions, events and circumstances that would have affected the estimated fair value of the reporting unit as compared to its March 31, 2016 quantitative fair value measurement. The results of this assessment indicated that it is not more likely than not that the trademarks fair value is less than the reporting unit carrying value. The Company did not incur any impairment charges for Intangible assets in the fiscal years ended March 31, 2018, 2017, and 2016.

F-15

Table of Contents

Advanced Drainage Systems, Inc.

Other Assets - Other assets include investments in unconsolidated affiliates accounted for under the equity method, cash surrender value of officer life insurance on key senior management executives, capitalized software development costs, deposits, central parts, and other miscellaneous assets. In the year ended March 31, 2018, the Company discontinued offering the cash surrender value of officer life insurance, and collected proceeds of \$13.6 million from the sale of the officer life insurance. The Company capitalizes development costs for internal use software. Capitalization of software development costs begins in the application development stage and ends when the asset is placed into service. The Company amortizes such costs using the straight-line method over estimated useful lives of 2 to 10 years, which is included in General and administrative expense, Selling expense or Cost of goods sold within the Consolidated Statements of Operations depending on the nature of the asset and its intended use. Central parts represent spare production equipment items which are used to replace worn or broken production equipment parts and help reduce the risk of prolonged equipment outages. The cost of central parts is amortized on a straight line basis over estimated useful lives of 5 to 10 years.

The Company evaluates its investments in unconsolidated affiliates for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable, and recognizes an impairment loss when a decline in value below carrying value is determined to be other-than-temporary. Under these circumstances, the Company would adjust the investment down to its estimated fair value, which then becomes its new carrying value. For the fiscal years ended March 31, 2017, the Company recorded an impairment charge of \$1.3 million related to its investment in the South American Joint Venture. The impairment charge is included in Equity in net loss of unconsolidated affiliates in the Consolidated Statements of Operations. See “Note 10. Investment in Unconsolidated Affiliates.”

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

(Amounts in thousands)	2018	2017
Investments in unconsolidated affiliates	\$12,343	\$8,986
Cash surrender value of officer life insurance	—	12,028
Capitalized software development costs, net	10,195	7,980
Deposits	2,776	1,289
Central parts	2,089	1,856
Other	10,551	14,398
Total other assets	\$37,954	\$46,537

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

(Amounts in thousands)	2018	2017	2016
Capitalized software development costs	\$2,156	\$3,372	\$3,872
Central parts	47	54	362
Other	1,688	1,689	1,898

Table of Contents

Advanced Drainage Systems, Inc.

Leases - Leases are reviewed for capital or operating classification at their inception. The Company uses the lower of the rate implicit in the lease or its incremental borrowing rate in the assessment of lease classification and assumes the initial lease term includes cancellable and renewal periods that are reasonably assured. For leases classified as capital leases at lease inception, the Company records a capital lease asset and lease financing obligation equal to the lesser of the present value of the minimum lease payments or the fair market value of the leased asset. The capital lease asset is recorded in Property, plant and equipment, net and amortized to its expected residual value at the end of the lease term using the straight-line method, and the lease financing obligation is amortized using the effective interest method over the lease term with the rental payments being allocated to principal and interest. For leases classified as operating leases, the Company records rent expense over the useful life using the straight-line method.

Foreign Currency Translation - Assets and liabilities of foreign subsidiaries with a functional currency other than the U.S. dollar are translated into U.S. dollars at the current rate of exchange on the last day of the reporting period. Revenues and expenses are translated at a monthly average exchange rate and equity transactions are translated using either the actual exchange rate on the day of the transaction or a monthly average historical exchange rate. For the fiscal years ended March 31, 2018, 2017, and 2016, the Company's Accumulated other comprehensive loss ("AOCL") consisted of foreign currency translation gains and losses.

Net Sales - The Company sells pipe products and related water management products. ADS ships products to customers predominantly by internal fleet and to a lesser extent by third-party carriers. The Company does not provide any additional revenue generating services after product delivery.

Sales, net of sales tax and allowances for returns, rebates and discounts are recognized from product sales when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collectability is reasonably assured. ADS recognizes revenue when both persuasive evidence of an arrangement and the price is fixed or determinable. Title to the products and risk of loss generally passes to the customer upon delivery. ADS performs credit check procedures on all new customers, establishes credit limits accordingly, and monitors the creditworthiness of existing customers, which is the basis for concluding that collectability is reasonably assured.

Shipping Costs - The Company incurs shipping costs to deliver products to customers using an in-house fleet or common carrier. Typically shipping costs are prepaid and included in the product price; however, in some instances, the Company bills shipping costs to customers. Shipping costs are also incurred to physically move raw materials, tooling and products between manufacturing and distribution facilities. Shipping costs for the fiscal years ended March 31, 2018, 2017, and 2016 were \$133.8 million, \$120.4 million, and \$120.5 million, respectively, and are included in Cost of goods sold. Shipping costs billed to customers were \$6.3 million, \$5.5 million, and \$7.0 million during 2018, 2017 and 2016, respectively, and are included in Net sales.

Stock-Based Compensation - See "Note 16. Stock-Based Compensation" for information about our stock-based compensation award programs and related accounting policies.

Advertising - The Company expenses advertising costs as incurred. Advertising costs are recorded in Selling expenses in the Consolidated Statements of Operations. The total advertising costs were \$4.1 million, \$3.1 million, and \$3.2 million for the fiscal years ended March 31, 2018, 2017, and 2016, respectively.

Self-Insurance - The Company is self-insured for short term disability and medical coverage it provides for substantially all eligible employees. The Company is self-insured for medical claims up to the individual and aggregate stop-loss coverage limits. The Company accrues for claims incurred but not reported based on an estimate of future claims related to events that occurred prior to the fiscal year end if it has not met the aggregate stop-loss coverage limit. Amounts expensed totaled \$41.3 million, \$39.5 million, and \$37.5 million for the fiscal years ended March 31, 2018, 2017, and 2016, respectively, of which employees contributed \$5.9 million, \$5.1 million, and \$4.5 million, respectively.

ADS is also self-insured for various other general insurance programs to the extent of the applicable deductible limits on the Company's insurance coverage. These programs include primarily automobile, general liability and employment practices coverage with a deductible of \$0.3 million per occurrence or claim

F-17

Table of Contents

Advanced Drainage Systems, Inc.

incurred. Amounts expensed during the period, including an estimate for claims incurred but not reported at year end, were \$2.2 million, \$1.8 million, and \$2.1 million, for the years ended March 31, 2018, 2017, and 2016, respectively.

ADS is also self-insured for workers' compensation insurance with stop-loss coverage for claims that exceed \$0.5 million per incident up to the respective state statutory limits. Amounts expensed, including an estimate for claims incurred but not reported, were \$1.3 million, \$2.1 million, and \$3.9 million for the fiscal years ended March 31, 2018, 2017, and 2016, respectively.

Income Taxes - Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized and represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. They are measured using the enacted tax rates expected to apply to taxable income in the years in which the related temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The deferred income tax provision represents the change during the reporting period in the deferred tax assets and deferred tax liabilities. Penalties and interest recorded on income taxes payable are recorded as part of Income tax expense.

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

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

Level 1 — Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2 — Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3 — Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

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

Concentrations of Risk - The Company has a large, active customer base of approximately twenty thousand customers with two customers, Ferguson Enterprises and Core and Main, each representing more than 10% of annual net sales. Such customers accounted for 25.4%, 23.5%, and 21.1% of fiscal year 2018, 2017 and 2016 net sales, respectively. The Company's customer base is diversified across the range of end markets that it serves.

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of Receivables. The Company provides its products to customers based on an evaluation of the customers' financial

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

F-18

Table of Contents

Advanced Drainage Systems, Inc.

One customer, Ferguson Enterprises, accounted for approximately 17.6% and 15.7% of Receivables at March 31, 2018 and 2017, respectively.

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

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

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Measurement of Inventory — In July 2015, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update (“ASU”) which requires entities to measure most inventory at the lower of cost and net realizable value, simplifying current guidance under which an entity must measure inventory at the lower of cost or market. The determination of market value, under current guidance, is considered unnecessarily complex as there are several potential outcomes based on its definition as replacement cost, net realizable value, or net realizable value less an approximate normal profit margin. Whereas net realizable value, under the update, is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The Company adopted this standard effective April 1, 2017. The new standard did not have a material impact on the Consolidated Financial Statements.

Stock-Based Compensation — In March 2016, the FASB issued an ASU which is intended to simplify certain aspects of the accounting for stock-based compensation. The Company adopted the standard on April 1, 2017. The adoption of the ASU did not have a material impact on the historical Consolidated Financial Statements. This update contains changes to the accounting for excess tax benefits, whereby excess tax benefits will be recognized in the income statement rather than in additional paid-in capital on the balance sheet. This update is expected to result in increased volatility to income tax expense in future periods dependent upon the timing of employee exercises of stock options, the price of the Company's common stock and the vesting of restricted stock awards. In addition, excess tax benefits will now be classified as operating cash flows rather than financing cash flows in the Consolidated Statements of Cash Flows.

The amendment also contained potential changes to the accounting for forfeitures, whereby entities could elect to either continue to apply the previous requirement to estimate forfeitures when determining compensation expense, or to alternatively reverse the compensation expense of forfeited awards when they occur. The Company will account for

forfeitures as they occur, which may result in expense volatility based on the timing of forfeitures.

In addition, the update also modified the net-share settlement liability classification exception for statutory income tax withholdings, whereby the new guidance allows an employer with a statutory income tax withholding obligation to withhold shares with a fair value up to the maximum statutory tax rate in the employee's applicable jurisdiction. The Company included this provision in awards issued in fiscal 2017 and modified previously issued awards on April 1, 2017. See "Note 16. Stock-Based Compensation" for further information on the modification.

F-19

Table of Contents

Advanced Drainage Systems, Inc.

Recent Accounting Pronouncements Not Yet Adopted

Revenue Recognition — In May 2014, the FASB issued an accounting standards update which amends the guidance for revenue recognition. This amendment contains principles that will require an entity to recognize revenue to depict the transfer of goods and services to customers at an amount that an entity expects to be entitled to in exchange for goods or services. The amendment sets forth a new revenue recognition model that requires identifying the contract, identifying the performance obligations and recognizing the revenue upon satisfaction of performance obligations. In August 2015, the FASB issued an additional accounting standards update that deferred the effective date of the new revenue standard for public entities to periods beginning after December 15, 2017, with early adoption permitted but not earlier than the original effective date of periods beginning after December 15, 2016. There have also been various additional accounting standards updates issued by the FASB in 2016 that further amend this new revenue standard. The updated standard permits the use of either the retrospective or cumulative effect transition method. The Company will adopt this standard effective April 1, 2018 using the modified retrospective method. The adoption of this standard will result in the Company recording a contract asset for estimated inventory returns. At March 31, 2018, the estimated inventory returns would have resulted in a \$0.6 million decrease in Receivables, net and a \$0.6 million increase in Other current assets on the Company's Consolidated Balance Sheets. The adoption of this standard will not cause a material shift in the amount or timing of revenue recognition.

Leases — In February 2016, the FASB issued an accounting standards update which amends the guidance for leases. This amendment contains principles that will require an entity to recognize most leases on the balance sheet by recording a right-of-use asset and a lease liability, unless the lease is a short-term lease that has an accounting lease term of twelve months or less. The amendment also contains other changes to the current lease guidance that may result in changes to how entities determine which contractual arrangements qualify as a lease, the accounting for executory costs such as property taxes and insurance, as well as which lease origination costs will be capitalizable. The new standard also requires expanded quantitative and qualitative disclosures. This update is effective for fiscal years beginning after December 15, 2018, including interim periods within those years, and early adoption is permitted. The updated standard requires the use of the modified retrospective transition method, whereby the new guidance will be applied at the beginning of the earliest period presented in the financial statements of the period of adoption. The modified retrospective transition approach includes certain practical expedients that entities may elect to apply in transition. The Company expects to adopt this standard effective April 1, 2019. The Company has not yet determined whether to apply any of the available practical expedients. The Company has begun the process of reviewing contracts under the new standard to determine the impact the new standard will have on the consolidated financial statements. The Company implemented a new software solution to improve the process of accounting for leases under the current and new standard.

Measurement of Credit Losses — In June 2016, the FASB issued an accounting standards update which provides amended guidance on the measurement of credit losses on financial instruments, including trade receivables. This accounting standards update requires the use of an impairment model referred to as the current expected credit loss model. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those years, and early adoption is permitted for fiscal years beginning after December 15, 2018. The Company expects to adopt this standard effective April 1, 2020. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

Cash Flow Classification — In August 2016, the FASB issued an accounting standards update which provides amended guidance on the classification of certain cash receipts and cash payments in the statement of cash flows, including

related to debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance and distributions received from equity method investees. This update is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, and early adoption is permitted. This amended guidance must be applied retrospectively to all periods presented, but may be applied prospectively if retrospective application would be impracticable. The Company expects to adopt this standard effective April 1, 2018. The adoption of this standard will not have a material impact on the consolidated financial statements.

F-20

Table of Contents

Advanced Drainage Systems, Inc.

Definition of a Business – In January 2017, the FASB issued an accounting standards update to clarify the definition of a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. The amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company expects to adopt this standard effective April 1, 2018. The adoption of this standard will not have a material impact on the consolidated financial statements.

Goodwill Impairment – In January 2017, the FASB issued an accounting standards update which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the standards update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendments are effective for annual periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company expects to adopt this standard effective April 1, 2020. The Company is currently evaluating the impact of this standard on the consolidated financial statements.

With the exception of pronouncements described above, there have been no new accounting pronouncements that have significance, or potential significance, to our consolidated financial statements.

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

The Company recorded loss on disposal of assets and costs from exit and disposal activities of \$15.0 million, \$8.5 million and \$0.8 million for the fiscal years ended March 31, 2018, 2017 and 2016, respectively.

In fiscal 2018, the Company initiated restructuring activities (the "2018 Restructuring Plan"), including closing four underutilized manufacturing facilities, reducing headcount, optimizing product offerings and eliminating nonessential costs, designed to improve the Company's cost structure. As additional restructuring opportunities may be identified, the Company does not have an estimated completion date or expected total cost estimate for the 2018 Restructuring Plan. In fiscal year ended March 31, 2017, the Company recorded expenses related to three manufacturing facilities that were closed during fiscal 2017 of approximately \$3.5 million. In addition, the Company accelerated depreciation of specifically identified obsolete assets of approximately \$3.0 million, and recorded \$2.0 million of disposals and partial disposals of fixed assets. The following table summarizes the activity included in Loss on disposal of assets and costs from exit and disposal activities recorded during the fiscal years ended March 31, 2018, 2017 and 2016:

(Amounts in thousands)	2018	2017	2016
Accelerated depreciation	\$3,759	\$—	\$—
Plant severance	2,041	—	—
Corporate severance	4,133	—	—
Product rationalization	1,351	—	—
Other restructuring activities	159	—	—
Total 2018 Restructuring Plan activities	\$11,443	\$—	\$—
Loss on other disposals and partial disposals of property,	3,560	8,509	812

plant and equipment			
Total loss on disposal of assets and costs from exit			
and disposal activities	\$ 15,003	\$ 8,509	\$ 812

Approximately \$11.0 million and \$0.4 million of the Total 2018 Restructuring Plan activities related to the Domestic and International reporting segment, respectively.

F-21

Table of Contents

Advanced Drainage Systems, Inc.

A reconciliation of the beginning and ending amounts of restructuring liability related to the 2018 Restructuring Plan for the year ended March 31, 2018 is as follows:

(Amounts in thousands)	2018
Balance at beginning of year	\$—
Expenses	11,443
Non-cash expenses	(4,882)
Payments	(2,660)
Balance at end of year	\$3,901

As of March 31, 2018, we have \$0.5 million of long-term severance liability related to the restructuring activities recorded in Other liabilities in the Consolidated Balance Sheet.

Periodically, the Company will dispose of equipment, including equipment accounted for as capital leases. The net loss on the disposition of the equipment was \$3.6 million, \$8.5 million, and \$0.8 million during fiscal 2018, 2017 and 2016, respectively.

3. ACQUISITIONS

Fiscal 2018 Acquisition of DURASLOT, Inc.

On August 1, 2017, ADS acquired DURASLOT, Inc., a manufacturer of linear surface drains, for \$2.3 million. The acquisition included approximately \$2.1 million of tax-deductible goodwill.

Fiscal 2017 Acquisition of Plastic Tubing Industries

On February 6, 2017, ADS acquired Plastic Tubing Industries (“PTI”), a manufacturer of HDPE pipe and related accessories. With the acquisition, ADS will increase its manufacturing footprint in Georgia and Texas, while adding production capacity to the existing ADS manufacturing facilities in Florida, to better serve growing demand in the region. The purchase price of PTI was \$9.5 million, financed through the existing line of credit facility. At the time of acquisition, \$8.5 million was paid in cash; the remaining \$1.0 million will be paid on August 6, 2018. The results of operations of PTI are included in the Consolidated Statements of Operations after February 6, 2017. The Net sales and Income before income taxes of PTI since the acquisition date included in the Consolidated Statements of Operations for the fiscal year ended March 31, 2017 were immaterial.

The fair value of the net assets acquired exceeded the purchase price. The difference was recognized as a gain on bargain purchase in fiscal 2017. The purchase price allocation is as follows:

(Amounts in thousands)	
Intangible assets	\$160
Inventory	2,050
Property, plant and equipment	7,899
Fair value of net assets acquired	10,109
Purchase price	9,500
Gain on bargain purchase	\$609

The acquired identifiable intangible assets represent trade name of \$0.2 million (seven-year useful life). The following table contains unaudited pro forma Consolidated Statements of Operations information assuming the acquisition occurred on April 1, 2015 and includes adjustments for amortization of intangibles and depreciation of fixed asset. This unaudited pro forma information is presented for illustrative purposes only and is not indicative of what actual results would have been if the acquisition had taken place on April 1, 2015 or of future results. In addition, the unaudited pro forma consolidated results are not projections of future results of operations of the combined company nor do they reflect the expected realization of any cost savings or synergies associated with the acquisition.

F-22

Table of Contents

Advanced Drainage Systems, Inc.

(Amounts in thousands)	Proforma	
	2017	2016
Net sales	\$1,266,602	\$1,302,120
Net income attributable to ADS	33,634	25,100

Unaudited pro forma net income attributable to ADS for the fiscal years ended March 31, 2017 and 2016 has been calculated after adjusting the combined results of the Company to reflect additional intangible asset amortization expense, net of related income taxes, of less than \$0.1 million, and depreciation expense, net of related income taxes, of \$0.6 million.

Fiscal 2016 Step Acquisition of BaySaver

On July 17, 2015, ADS Ventures, Inc. (“ADS/V”), a wholly-owned subsidiary of the Company, acquired an additional 10% of the issued and outstanding membership interests in BaySaver, increasing the Company’s total ownership interest in BaySaver to 65%, for a purchase price of \$3.2 million, plus contingent consideration with an initial estimated fair value of \$0.8 million. Concurrent with the purchase of the additional membership investment, the BaySaver joint venture agreement was amended to modify the voting rights from an equal vote for each member to a vote based upon the ownership interest. As a result, the Company has accounted for this transaction as a business combination with BaySaver being consolidated into the financial statements after July 17, 2015.

As the Company has accounted for the investment in BaySaver prior to the purchase of the 10% additional membership interest under the equity method of accounting, the Company accounted for this business combination as a step acquisition and recognized a loss of \$0.5 million on remeasurement to fair value of the previously held investment. The loss is included in Derivative losses and other expense, net in the Consolidated Statements of Operations. The fair value of our BaySaver investment immediately before the July 17, 2015 acquisition was measured based on a combination of the discounted cash flow and guideline public company valuation methods and involves significant unobservable inputs (Level 3). These inputs include projected sales, margin, required rate of return and tax rate for the discounted cash flow method, as well as implied pricing multiples, and guideline public company group for the guideline public company method.

The purchase price was determined as follows:

(Amounts in thousands)	
Acquisition-date fair value of prior equity interest	\$4,220
Acquisition-date fair value of noncontrolling interest	6,330
Cash paid at acquisition date	3,200
Fair value of contingent consideration	750
Total purchase price	\$14,500

The purchase price has been allocated to the estimated fair values of acquired tangible and intangible assets, assumed liabilities and goodwill. The fair value of identifiable intangible assets has been determined primarily using the

income approach, which involves significant unobservable inputs (Level 3 inputs). These inputs include projected sales, margin, required rate of return and tax rate, as well as an estimated royalty rate in the cases of the developed technology and trade name and trademark intangibles. The developed technology and trade name and trademark intangibles are valued using a relief-from-royalty method.

Redeemable noncontrolling interest in subsidiaries is classified as mezzanine equity in the Consolidated Balance Sheets due to a put option held by the joint venture partner, which may be exercised on or after April 1, 2017. The redeemable noncontrolling interest balance will be accreted to the estimated redemption value using the effective interest method until April 1, 2017.

The excess of the purchase price over the fair value of the net assets acquired of \$2.5 million was allocated to goodwill, assigned to the Domestic segment, and consists primarily of the acquired workforce and sales and

F-23

Table of Contents

Advanced Drainage Systems, Inc.

cost synergies the two companies anticipate realizing as a combined company. None of the goodwill is deductible for tax purposes.

The purchase price allocation is as follows:

(Amounts in thousands)	
Cash	\$ 12
Other current assets	2,262
Property, plant and equipment	164
Goodwill	2,495
Intangible assets	10,800
Other assets	152
Current liabilities	(1,385)
Total purchase price	\$ 14,500

The acquired identifiable intangible assets represent customer relationships of \$5.4 million, developed technology of \$4.0 million and trade name and trademark of \$1.4 million, each of which have an estimated 10-year useful life. Transaction costs were immaterial.

The net sales and income before income taxes of BaySaver since the acquisition date included in the Consolidated Statements of Operations for the fiscal year ended March 31, 2016 were \$10.2 million, and \$1.2 million, respectively.

The following table contains unaudited pro forma Consolidated Statements of Operations information assuming the acquisition occurred on April 1, 2014 and includes adjustments for amortization of intangibles, interest expense and the prior equity method accounting for BaySaver. This unaudited pro forma information is presented for illustrative purposes only and is not indicative of what actual results would have been if the acquisition had taken place on April 1, 2014 or of future results. The unaudited pro forma consolidated results are not projections of future results of operations of the combined company nor do they reflect the expected realization of any cost savings or synergies associated with the acquisition.

(Amounts in thousands)	Proforma 2016
Net sales	\$ 1,294,277
Net income (loss) attributable to ADS	25,090

Unaudited pro forma net income attributable to ADS has been calculated after adjusting the combined results of the Company to reflect additional intangible asset amortization expense, net of related income taxes and amounts related to the noncontrolling interest, of \$0.1 million, additional interest expense, net of related income taxes and amounts related to the noncontrolling interest, of less than \$0.1 million and the impact of our prior equity method accounting of

\$0.1 million, net of related income taxes, for the year ended March 31, 2016.

4. PROPERTY, PLANT AND EQUIPMENT

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

(Amounts in thousands)	2018	2017
Land, buildings and improvements	\$200,459	\$189,163
Machinery and equipment	780,210	771,878
Construction in progress	6,607	14,022
Total cost	987,276	975,063
Less: accumulated depreciation	(587,895)	(568,205)
Property, plant and equipment, net	\$399,381	\$406,858

F-24

Table of Contents

Advanced Drainage Systems, Inc.

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

(Amounts in thousands)	2018	2017	2016
Depreciation expense (inclusive of leased assets depreciation) ⁽¹⁾	\$63,044	\$58,692	\$55,650

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

5. LEASES

Capital Leases - The Company leases certain buildings and transportation equipment including its fleet of trucks and trailers, under capital lease agreements.

Leased assets included in Property, plant and equipment as of the fiscal years ended March 31 consisted of the following:

(Amounts in thousands)	2018	2017
Buildings and improvements	\$6,124	\$6,044
Machinery and equipment	208,475	199,813
Total cost	214,599	205,857
Less: accumulated depreciation	(110,346)	(108,144)
Leased assets in Property, plant and equipment, net	\$104,253	\$97,713

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

(Amounts in thousands)	2018	2017	2016
Lease interest expense	\$4,086	\$3,864	\$3,367
Depreciation of leased assets	18,511	17,415	15,782

The following is a schedule by year of future minimum lease payments under capital leases and the present value of the net minimum lease payments as of March 31, 2018:

(Amounts in thousands)	
2019	\$24,809

Edgar Filing: ADVANCED DRAINAGE SYSTEMS, INC. - Form 10-K

2020	20,660
2021	16,723
2022	12,887
2023	7,199
Thereafter	7,699
Total minimum lease payments ^(a)	\$89,977
Less: amount representing interest ^(b)	8,007
Present value of net minimum lease payments	\$81,970
Current maturities of capital lease obligations	22,007
Long-term capital lease obligations	59,963
Total lease obligation	\$81,970

F-25

Table of Contents

Advanced Drainage Systems, Inc.

(a) Excludes contingent rentals which may be paid. Contingent rentals amounted to \$0.6 million, \$0.6 million and \$0.1 million for the years ended March 31, 2018, 2017 and 2016, respectively.

(b) Amount necessary to reduce minimum lease payments to present value calculated at the lower of the rate implicit in the lease or the Company's incremental borrowing rate at lease inception.

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

Operating leases - The Company leases certain real estate and office equipment under various cancellable and non-cancellable operating lease agreements that expire at various dates through fiscal year 2037.

Future minimum rental commitments under non-cancellable operating leases as of March 31, 2018, are summarized below (amounts in thousands):

	2019	2020	2021	2022	2023	Thereafter
Future operating lease payments	\$3,297	\$2,371	\$1,645	\$1,033	\$662	\$2,648

Total rent expense was \$6.6 million, \$6.6 million, and \$6.3 million in the fiscal years ended March 31, 2018, 2017, and 2016, respectively.

6. INVENTORIES

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

(Amounts in thousands)	2018	2017
Raw materials	\$54,909	\$52,746
Finished goods	208,883	205,684
Total Inventories	\$263,792	\$258,430

The Company had no work-in-process inventories as of March 31, 2018 and 2017. During fiscal years ended March 31, 2018 and 2017, the Company incurred production-related general and administrative costs included in the cost of finished goods inventory of \$27.0 million and \$21.2 million, respectively, of which \$6.5 million and \$6.3 million remained in inventory at March 31, 2018 and 2017, respectively.

7. GOODWILL AND INTANGIBLE ASSETS

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

(Amounts in thousands)	Domestic	International	Total
Balance at April 1, 2016	\$ 90,002	\$ 10,883	\$100,885
Currency translation	—	(319)	(319)
Balance at March 31, 2017	\$ 90,002	\$ 10,564	\$100,566
Acquisition	2,103	—	2,103
Currency translation	—	348	348
Balance at March 31, 2018	\$ 92,105	\$ 10,912	\$103,017

F-26

Table of Contents

Advanced Drainage Systems, Inc.

Intangible Assets - Intangible assets as of March 31, 2018 and 2017 consisted of the following:

	2018			2017		
	Gross	Accumulated	Net	Gross	Accumulated	Net
(Amounts in thousands)	Intangible	Amortization	Intangible	Intangible	Amortization	Intangible
Definite-lived intangible assets						
Developed technology	\$27,580	\$ (17,405)	\$ 10,175	\$27,580	\$ (14,888)	\$ 12,692
Customer relationships	31,035	(20,567)	10,468	40,767	(26,768)	13,999
Patents	7,512	(4,956)	2,556	7,512	(4,768)	2,744
Non-compete and other contractual agreements	607	(567)	40	1,242	(1,102)	140
Trademarks and tradenames	15,969	(6,678)	9,291	15,741	(5,465)	10,276
Total definite-lived intangible assets	82,703	(50,173)	32,530	92,842	(52,991)	39,851
Indefinite-lived intangible assets						
Trademarks	11,907	—	11,907	11,907	—	11,907
Total Intangible assets	\$94,610	\$ (50,173)	\$ 44,437	\$104,749	\$ (52,991)	\$ 51,758

The gross intangible asset value of customer relationships and non-compete and other contractual agreements decreased due to intangible assets fully amortized in fiscal 2017. Trademarks and tradenames increased as a result of the Duraslot acquisition.

The following table presents the weighted average amortization period for definite-lived intangible assets at March 31, 2018:

	Weighted Average Amortization Period (in years)
Developed technology	11.0
Customer relationships	8.6
Patents	8.2

Non-compete and other contractual agreements	5.2
Trademarks and tradenames	13.4

The following table presents the future intangible asset amortization expense based on existing intangible assets at March 31, 2018:

(Amounts in thousands)	Fiscal Year						Total
	2019	2020	2021	2022	2023	Thereafter	
Amortization expense	\$7,702	\$6,017	\$5,876	\$4,159	\$2,520	\$ 6,256	\$32,530

8. FAIR VALUE MEASUREMENT

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

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

Table of Contents

Advanced Drainage Systems, Inc.

Generally, the fair value of our Level 3 instruments is estimated as the net present value of expected future cash flows based on internal and external inputs.

Recurring Fair Value Measurements

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

(Amounts in thousands)	March 31, 2018			
	Total	Level 1	Level 2	Level 3
Assets:				
Derivative assets — diesel fuel contracts	\$596	\$ —	\$596	\$—
Interest rate swaps	2,801	—	2,801	—
Total assets at fair value on a recurring basis	\$3,397	\$ —	\$3,397	\$—
Liabilities:				
Derivative liability - diesel fuel contracts	\$116	\$ —	\$116	\$—
Contingent consideration for acquisitions	578	—	—	578
Total liabilities at fair value on a recurring basis	\$694	\$ —	\$116	\$578
(Amounts in thousands)	March 31, 2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Derivative assets — diesel fuel contracts	\$179	\$ —	\$179	\$—
Total assets at fair value on a recurring basis	\$179	\$ —	\$179	\$—
Liabilities:				
Derivative liability - diesel fuel contracts	\$142	\$ —	\$142	\$—
Contingent consideration for acquisitions	1,348	—	—	1,348
Total liabilities at fair value on a recurring basis	\$1,490	\$ —	\$142	\$1,348

Quantitative Information about Level 3 Fair Value Measurements

(Amounts in thousands)

	Fair Value	Valuation	Quantifiable
	at	Technique(s)	Input
Liabilities & Mezzanine Equity	3/31/18	Unobservable Input	Input

Contingent consideration for acquisitions	\$ 578	Discounted cash flow	Weighted Average Cost of Capital (“WACC” ^(a))	9.50%
---	--------	----------------------	---	-------

	Fair Value at	Valuation Technique(s)	Unobservable Input	Quantifiable Input
Liabilities & Mezzanine Equity Contingent consideration for acquisitions	3/31/17	Discounted cash flow	Weighted Average Cost of Capital (“WACC” ^(a))	9.50%

(a) Represents discount rates or rates of return estimates and assumptions that the Company believes would be used by market participants when valuing these liabilities.

F-28

Table of Contents

Advanced Drainage Systems, Inc.

Changes in the fair value of recurring fair value measurements using significant unobservable inputs (Level 3) for the fiscal years ended March 31, 2018 and 2017 were as follows:

	Contingent
	consideration
Balance at March 31, 2016	\$ 2,858
Change in fair value	(266)
Payments of contingent consideration	
liability	(1,244)
Balance at March 31, 2017	\$ 1,348
Change in fair value	39
Payments of contingent consideration	
liability	(809)
Balance at March 31, 2018	\$ 578

There were no transfers in or out of Levels 1, 2 and 3 for the fiscal years ended March 31, 2018 and 2017.

Valuation of Contingent Consideration for Acquisitions - The fair values of the contingent consideration payables for acquisitions were calculated based on a discounted cash flow model, whereby the probability-weighted future payment value is discounted to the present value using a market discount rate. The method used to price these liabilities is considered Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

Valuation of Debt - The carrying amounts of current financial assets and liabilities approximate fair value because of the immediate or short-term maturity of these items, or in the case of derivative instruments, because they are recorded at fair value. The carrying and fair value of the Company's Senior Notes (discussed in "Note 12. Debt") were \$125.0 million and \$122.3 million, respectively, as of March 31, 2018 and \$75.0 million and \$75.9 million, respectively, at March 31, 2017. The fair value of the Senior Notes was determined based on a comparison of the interest rate and terms of such borrowings to the rates and terms of similar debt available for the period. The Company believes the carrying amount on the remaining long-term debt, including the Secured Bank Loans, is not materially different from its fair value as the interest rates and terms of the borrowings are similar to currently available borrowings. The categorization of the framework used to evaluate this debt is considered Level 2.

Non-recurring Fair Value Measurements

Valuation of Investment in the South American Joint Venture - During the fourth quarter of each of the fiscal years ended March 31, 2017 and 2016, the Company recorded an impairment charge related to its investment in the South American Joint Venture equal to the difference between the fair value of the investment and the carrying value. The method used to value the investment is considered Level 3 due to the subjective nature of the unobservable inputs

used to determine the fair value. In the determination of fair value of its investment, the Company used a weighted income approach, based on internal forecasts of expected future cash flows, and market approach, based on comparable public companies. Significant unobservable inputs included the WACC used to discount the future cash flows, which were between 9.3% and 16.5%, based on the markets in which the South American Joint Venture conducts business. See “Note 10. Investment in Unconsolidated Affiliates.”

9. INVESTMENT IN CONSOLIDATED AFFILIATES

ADS participates in two consolidated joint ventures, ADS Mexicana, which is 51% owned by the Company’s wholly-owned subsidiary ADS Worldwide, Inc., and BaySaver, which is 65% owned by the Company’s wholly-owned subsidiary ADS Ventures, Inc. The equity owned by the Company’s joint venture partner is shown as either Noncontrolling interest in subsidiaries (ADS Mexicana) or Redeemable noncontrolling interest in subsidiaries (BaySaver) in the Consolidated Balance Sheets and the joint venture partner’s portion of net income is shown as Net income attributable to noncontrolling interest in the Consolidated Statements of Operations.

F-29

Table of Contents

Advanced Drainage Systems, Inc.

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

The table below includes the assets and liabilities of ADS Mexicana that are consolidated as of March 31, 2018 and 2017. The balances exclude intercompany transactions that are eliminated upon consolidation.

(Amounts in thousands)	2018	2017
Assets		
Current assets	\$24,616	\$24,952
Property, plant and equipment, net	18,855	19,262
Other noncurrent assets	1,314	2,269
Total assets	\$44,785	\$46,483
Liabilities		
Current liabilities	\$8,979	\$11,042
Noncurrent liabilities	1,343	2,961
Total liabilities	\$10,322	\$14,003

BaySaver - BaySaver was established in July 2013 to design, engineer, manufacture, market and sell water quality filters and separators used in the removal of sediment and pollution from storm water anywhere in the world except New Zealand, Australia and South Africa. The acquisition of an additional interest in BaySaver is disclosed in "Note 3. Acquisitions".

The table below includes the assets and liabilities of BaySaver that are consolidated as of March 31, 2018 and 2017. The balances exclude intercompany transactions that are eliminated upon consolidation.

(Amounts in thousands)	2018	2017
Assets		
Current assets	\$3,761	\$2,572
Property, plant and equipment, net	216	111
Other noncurrent assets	10,470	11,568
Total assets	\$14,447	\$14,251

Liabilities

Current liabilities	\$ 820	\$ 1,344
Total liabilities	\$ 820	\$ 1,344

F-30

Table of Contents

Advanced Drainage Systems, Inc.

Redeemable Noncontrolling Interest in Subsidiaries - The membership interests held by the joint venture partner are presented in Redeemable noncontrolling interest in subsidiaries in the Consolidated Balance Sheets, which is classified as mezzanine equity, due to a put option held by the joint venture partner which may be exercised on or after April 1, 2017. The Redeemable noncontrolling interest in subsidiaries balance was accreted to the redemption value using the effective interest method until April 1, 2017.

10. INVESTMENT IN UNCONSOLIDATED AFFILIATES

The Company participates in two unconsolidated joint ventures, South American Joint Venture, which is 50% owned by the Company's wholly-owned subsidiary ADS Chile, and Tigre-ADS USA, Inc. ("Tigre-ADS USA"), which is 49% owned by the Company's wholly-owned subsidiary ADS Ventures, Inc. The Company has concluded that it is appropriate to account for these investments using the equity method, whereby the Company's share of the income or loss of the joint venture is reported in the Consolidated Statements of Operations under Equity in net loss (income) of unconsolidated affiliates and the Company's investment in the joint venture is included in Other assets in the Consolidated Balance Sheets.

South American Joint Venture - The Company's investment in this unconsolidated joint venture was formed for the purpose of expanding upon the growth of manufacturing and selling HDPE corrugated pipe in the South American market via the joint venture partner's local presence and expertise throughout the region. The Company is not required to consolidate the South American Joint Venture as it is not the primary beneficiary, although the Company does hold significant variable interests in the South American Joint Venture through the equity investment and debt guarantee.

Summarized financial data as of the fiscal years ended March 31 for the South American Joint Venture is as follows:

(Amounts in thousands)	2018	2017
Investment in South American Joint Venture	\$12,343	\$6,559
Net Receivable from South American Joint Venture	817	3,639

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

During the fourth quarter of each of the fiscal years ended March 31, 2017 and 2016, the Company determined there was an other-than-temporary decline in the fair value of its investment in the South American Joint Venture, resulting from a further decline of unfavorable regional economic conditions. Accordingly, the Company recorded impairment charges of \$1.3 million and \$4.0 million, respectively, reducing the carrying value of the investment to its fair value. The past impairment charges resulted in a basis difference between the cost of the investment and the amount of underlying equity in net assets of the South American Joint Venture of \$4.4 million and \$4.9 million as of March 31,

2018 and 2017 respectively. The basis difference will be amortized over the estimated remaining useful life of the underlying property, plant and equipment, 8 years. The Company recognized \$0.5 million, \$0.4 million and \$0.1 million of amortization of the basis difference in fiscal 2018, 2017 and 2016, respectively. The impairment charge is included in Equity in net loss of unconsolidated affiliates in the Consolidated Statements of Operations.

Tigre-ADS USA - The joint venture was established to manufacture and sell PVC fittings for waterworks, plumbing, and HVAC applications primarily in the United States and Canadian markets. The joint venture represents a continuation of the existing activities of Tigre-ADS USA through its Janesville, Wisconsin

F-31

Table of Contents

Advanced Drainage Systems, Inc.

manufacturing facility. The Company is not required to consolidate Tigre-ADS USA as it is not the primary beneficiary, although the Company does hold a significant variable interest in Tigre-ADS USA through the equity investment.

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

Summarized financial data as of the fiscal years ended March 31 for the Tigre-ADS USA joint venture is as follows:

(Amounts in thousands)	2018	2017
Investment in Tigre-ADS USA	\$ —	\$2,427
Receivable from Tigre-ADS USA	10	9

11. RELATED PARTY TRANSACTIONS

ADS Mexicana - ADS conducts business in Mexico and Central America through its joint venture ADS Mexicana. In April 2015, ADS Mexicana borrowed \$3.0 million under a revolving credit facility arrangement with Scotia Bank and loaned that amount to ADS. The loan was repaid in May 2015. In June 2015, ADS Mexicana borrowed \$3.9 million under the Scotia Bank credit facility and loaned it to an entity owned by a Grupo Altima shareholder, and such loan was repaid in July 2015. The applicable interest rate for the loans was 4.81%. ADS does not guarantee the borrowings from this facility, and therefore does not anticipate any required contributions related to the balance of this credit facility. The Scotia Bank revolving credit facility matured on December 11, 2017.

The Company is the guarantor of 100% of the ADS Mexicana Revolving Credit Facility, and the maximum potential payment under this guarantee totals \$12.0 million. See "Note 12. Debt."

South American Joint Venture - The Company's South American Joint Venture manufactures and sells HDPE corrugated pipe in the South American market. ADS is the guarantor for 50% of the South American Joint Venture's credit facility, and the debt guarantee is shared equally with the joint venture partner. The maximum potential obligation under this guarantee totals \$11.0 million as of March 31, 2018. The maximum borrowing permitted under the South American Joint Venture's credit facility is \$22.0 million. This credit facility allows borrowings in either Chilean pesos or US dollars at a fixed interest rate determined at inception of each draw on the facility. The guarantee of the South American Joint Venture's debt expires on December 31, 2020. ADS does not anticipate any required contributions related to the balance of this credit facility. As of March 31, 2018 and 2017, the outstanding principal balance of the credit facility including letters of credit was \$14.5 million and \$16.0 million, respectively. As of March 31, 2018, there were no U.S. dollar denominated loans. The weighted average interest rate as of March 31, 2018 was 5.82% on Chilean peso denominated loans.

ADS and the South American Joint Venture have entered into shared services arrangements in order to execute the joint venture services. Occasionally, the South American Joint Venture enters into agreements for pipe sales with ADS and its other related parties, which were \$2.1 million and \$1.3 million in the fiscal years ended March 31, 2018 and 2017, respectively. ADS pipe sales to the South American Joint Venture were \$0.4 million and \$0.9 million in the fiscal years ended March 31, 2018 and 2017, respectively.

F-32

Table of Contents

Advanced Drainage Systems, Inc.

BaySaver - BaySaver is a joint venture that was established to produce and distribute water quality filters and separators used in the removal of sediment and pollution from storm water. ADS owns 65% of the outstanding stock of BaySaver and consolidates its interest in BaySaver. BaySaver may at times provide short-term financing to ADS to enhance liquidity. As of March 31, 2015, BaySaver held unsecured, interest-free, notes receivable from ADS of \$0.5 million, which were fully paid in fiscal year 2016.

ADS and BaySaver have entered into shared services arrangements in order to execute the joint venture services. Included within these arrangements are the lease of a plant and adjacent yard used to conduct business and operating expenses related to the leased facility. Occasionally, ADS and BaySaver jointly enter into agreements for sales of pipe and Allied Products with their related parties in immaterial amounts.

Tigre-ADS USA - Tigre-ADS USA is a joint venture established to manufacture and sell PVC fittings for waterworks, plumbing, and HVAC applications primarily in the United States and Canadian markets. ADS owns 49% of the outstanding shares of capital stock of Tigre-ADS USA. The joint venture represents a continuation of the existing activities of Tigre-ADS USA through its Janesville, Wisconsin manufacturing facility.

ADS purchased \$2.0 million, \$1.6 million and \$0.7 million of Tigre-ADS USA manufactured products for use in the production of ADS products during fiscal years 2018, 2017 and 2016, respectively.

12. DEBT

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

(Amounts in thousands)	2018	2017
Secured Bank Loans		
Revolving Credit Facility — ADS	\$171,500	\$194,300
Revolving Credit Facility — ADS Mexicana	—	1,500
Term Note	—	72,500
Senior Notes payable	125,000	75,000
Industrial revenue bonds	940	1,845
Equipment financing	3,336	4,216
ADS Mexicana Scotia Bank revolving credit facility	—	1,000
Total	300,776	350,361
Unamortized debt issuance costs	(3,028)	(1,723)
Current maturities	(26,848)	(37,789)
Long-term debt obligations	\$270,900	\$310,849

Long-term Debt Modification

Secured Bank Loans - On June 22, 2017, the Company and certain of its subsidiaries, as guarantors (collectively, the “Guarantors”), entered into a Second Amended and Restated Credit Agreement (the “Credit Agreement”) with PNC Bank, National Association (“PNC”), as administrative agent (in such capacity, the “Agent”), and various financial institutions party thereto (together with PNC, collectively, the “Lenders”), pursuant to which the Lenders have committed to provide the Company a \$550.0 million revolving credit facility (with an option to increase such revolving credit facility or incur new term loans in an agreement amount of up to \$150.0 million) subject to the terms and conditions in the

Credit Agreement. The Credit Agreement amends and restates the Amended and Restated Credit Agreement dated as of June 12, 2013, as amended, among the Company and certain of its subsidiaries, as guarantors, various financial institutions party thereto, and the Agent. The Secured Bank Loans are secured by a lien on a significant majority of the Company's assets. Letters of credit outstanding at March 31, 2018 amounted to \$13.0 million and reduce the availability of the Revolving Credit Facilities. The amount available for borrowing for ADS, Inc. and ADS Mexicana was \$365.5 million and \$12.0 million, respectively at March 31, 2018.

F-33

Table of Contents

Advanced Drainage Systems, Inc.

Borrowings under the credit facility will be used for general corporate purposes, including repurchases of stock, repayments of existing indebtedness, repayments of short-term borrowings, working capital requirements, capital expenditures and acquisitions. The interest rates under the Credit Agreement are determined by certain base rates or LIBOR rates, plus an applicable margin based on the Leverage Ratio then in effect. The average interest rate was 3.39% as of March 31, 2018. The Credit Agreement has an expiration date of June 22, 2022.

The Credit Agreement sets forth certain customary business and financial covenants to which the Company and Guarantors are subject when any amounts under the Credit Agreement are outstanding, including covenants that limit or restrict the ability of the Company and the Guarantors to incur indebtedness, to make capital distributions, and to incur certain liens and encumbrances on any of its respective property. The two primary financial covenants of the Credit Agreement require the Company to maintain a certain Leverage Ratio and an Interest Coverage Ratio.

The Credit Agreement Leverage Ratio generally requires that at the end of any fiscal quarter, for the four fiscal quarters then ended, the Company will not permit the ratio of its total consolidated indebtedness to the Company's Consolidated EBITDA (as defined in the Credit Agreement) to be greater than 4.00 to 1.00 (or 4.25 to 1.00 as of the date of any acquisitions permitted under the Credit Agreement for which the aggregate consideration is \$100.0 million or greater). The Credit Agreement Interest Coverage Ratio generally requires that at the end of any fiscal quarter, for the four fiscal quarters then ended, the Company will not permit the ratio of Consolidated EBITDA to the Company's consolidated interest expense payable during such period to be less than 3.00 to 1.00.

The Credit Agreement provides for customary events of default, including, among other things, in the event of nonpayment of principal, interest, or other amounts, a representation or warranty proving to have been incorrect in any material respect when made, failure to perform or observe certain covenants within a specified period of time, a cross-default to other Company indebtedness of a specified amount, the bankruptcy or insolvency of the Company or a Guarantor, monetary judgment defaults of a specified amount, a change of control of the Company, and ERISA defaults resulting in liability under certain circumstances. In the event of a default by the Company, the Agent or the requisite number of Lenders may declare all amounts owed under the Credit Agreement and outstanding letters of credit immediately due and payable and terminate the Lenders' commitments to make loans under the Credit Agreement. For defaults related to bankruptcy, insolvency or reorganization proceedings, the commitments of the Lenders will be automatically terminated and all outstanding loans and other amounts will become immediately due and payable.

On June 28, 2017, ADS executed a Forward Interest Rate Swap on the 30-Day LIBOR interest rate to mitigate the impact of interest rate volatility. The swap has a notional value of \$100.0 million and a fixed rate of 1.8195% for a five year period.

Senior Notes - On June 22, 2017, the Company and the Guarantors entered into the Second Amended and Restated Private Shelf Agreement (the "Private Shelf Agreement") with PGIM, Inc. ("Prudential") and certain other parties thereto. The Private Shelf Agreement amends and restates the Amended and Restated Private Shelf Agreement dated as of September 24, 2010, as amended, pursuant to which the Company has previously issued and sold secured senior notes of the Company. Under the terms of the Private Shelf Agreement, the Company may request that Prudential purchase, over the next three years, secured senior notes of the Company so long as the aggregate principal amount of notes outstanding at any time does not exceed \$175.0 million (the "Shelf Notes"). The Shelf Notes shall bear interest at a fixed interest rate and have a maturity date not to exceed ten years from the date of issuance. Prudential and its affiliates are under no obligation to purchase any of the Shelf Notes. The interest rate and terms of payment of any series of Shelf

Notes will be determined at the time of purchase. The proceeds of any series of Shelf Notes will be used as specified in the request for purchase with respect to such series, subject to compliance with the requirements in the Private Shelf Agreement, but are anticipated to be used for general corporate purposes, including refinancing of short-term borrowings and/or repayment of outstanding indebtedness under the Credit Agreement, which is described above, as well as financing of capital expenditures and acquisitions.

F-34

Table of Contents

Advanced Drainage Systems, Inc.

Obligations under the Private Shelf Agreement are secured by capital stock of certain direct and indirect subsidiaries of the Company and the Guarantors and substantially all other tangible and intangible personal property owned by the Company and the Guarantors. Obligations under the Private Shelf Agreement are secured by the collateral on a pari passu basis with obligations under the Credit Agreement.

The Private Shelf Agreement sets forth certain customary business and financial covenants to which the Company and Guarantors are subject when any Shelf Note is outstanding, including covenants that limit or restrict the ability of the Company and the Guarantors to incur indebtedness, to make capital distributions, and to incur certain liens and encumbrances on any of its respective property. The two primary financial covenants of the Private Shelf Agreement require the Company to maintain a certain Leverage Ratio and an Interest Coverage Ratio.

The Private Self Agreement Leverage Ratio generally requires that at the end of any fiscal quarter, for the four fiscal quarters then ended, the Company will not permit the ratio of its total consolidated indebtedness to the Company's Consolidated EBITDA (as defined in the Private Shelf Agreement) to be greater than 4.00 to 1.00 (or 4.25 to 1.00 as of the date of any acquisitions permitted under the Private Self Agreement for which the aggregate consideration is \$100.0 million or greater). The Private Self Agreement Interest Coverage Ratio generally requires that at the end of any fiscal quarter, for the four fiscal quarters then ended, the Company will not permit the ratio of Consolidated EBITDA to the Company's consolidated interest expense payable during such period to be less than 3.00 to 1.00.

The Private Shelf Agreement provides for customary events of default, including, among other things, in the event of nonpayment of principal, interest, or other amounts, a representation or warranty proving to have been incorrect in any material respect when made, failure to perform or observe certain covenants within a specified period of time, a cross-default to other Company indebtedness of a specified amount, the bankruptcy or insolvency of the Company or a Guarantor, monetary judgment defaults of a specified amount, a change of control of the Company, and ERISA defaults resulting in liability under certain circumstances. In the event of a default by the Company, any or all holders of Shelf Notes may declare amounts owed under the Private Shelf Agreement immediately due and payable. For defaults related to bankruptcy, insolvency or reorganization proceedings, all amounts owed under the Agreement will become immediately due and payable, and Prudential may at its option terminate the Private Shelf Note Facility.

On June 28, 2017, the Company issued and sold Shelf Notes in the aggregate principal amount of \$75.0 million pursuant to the Private Shelf Agreement. The \$75.0 million of Shelf Notes bears interest at a fixed interest rate of 3.53% per annum and have a maturity date of seven years from the date of issuance. The rate is subject to an additional 100 basis point excess leverage fee if the calculated leverage ratio exceeds 3 to 1 at the end of a fiscal quarter.

Master Loan and Security Agreement – In June 2016, ADS signed a Master Loan and Security Agreement for Equipment Financing in the U.S. and Canada for an aggregate amount of up to \$4.5 million. During fiscal 2017, the Company issued \$4.6 million of Equipment Notes with a weighted average fixed interest rate at 2.72%, with the aggregate loan amount during fiscal 2017 reaching a total of \$4.2 million, net of principal payments. Each Equipment Note amortizes the principal over five years and is payable monthly.

Secured Bank Loans – Prior to the long-term debt modification in June 2017, the Company had a revolving credit facility with borrowing capacity of \$325.0 million for ADS, Inc., a Revolving Credit Facility for ADS Mexicana with borrowing capacity of \$12.0 million and a \$100.0 million term note. The Company did not modify ADS Mexicana's borrowing capacity. The ADSM Mexicana revolving credit facility expires in June 2018. The revolving credit

facilities and the term note had a variable interest rate that depended upon the Company's "pricing ratio" as defined in the agreements for the revolving credit facilities. The interest rate was derived from the London Inter-Bank Offered Rate ("LIBOR") or alternate base rate ("Prime Rate") at the Company's option. The average rates were 2.61% and 2.70%, at March 31, 2017 and 2016, respectively.

Senior Notes Payable – Prior to the long-term debt modification in June 2017, the Company had an agreement with Prudential Investment Management, Inc. for the issuance of senior promissory notes ("Senior Notes"), for an aggregate amount of up to \$100.0 million. During fiscal 2010, the Company issued \$75.0 million of Senior Notes with interest fixed at 5.6% and payable quarterly. The rate was subject to an additional

F-35

Table of Contents

Advanced Drainage Systems, Inc.

200 basis point excess leverage fee if the calculated leverage ratio exceeds 3 to 1 at the end of a fiscal quarter. In July 2013, ADS issued an additional \$25.0 million of Senior Notes. Interest for the additional \$25.0 million is payable quarterly and is fixed at 4.05%. A principal payment of \$25.0 million was made in fiscal 2017 and fiscal 2018. Principal payments of \$25.0 million will be made in fiscal 2019 and 2020.

Industrial Revenue Bonds - Between 1996 and 2007, ADS issued industrial revenue bonds for the construction of four production facilities. Two of the bonds were retired during fiscal 2011 and one of the bonds was retired in fiscal 2015. The remaining bond requires quarterly principal payments until it matures in February 2019 and has a variable interest rate based on the Securities Industry and Financial Markets Association (SIFMA) municipal swap index rate which is computed weekly. The rate on this bond at March 31, 2018, was 3.42%, including a letter of credit fee of 1.75%. Land and buildings with a net book value of approximately \$9.1 million at March 31, 2018, collateralize the bonds. These bonds are not considered auction rate securities.

ADS Mexicana Scotia Bank Revolving Credit Facility - On December 11, 2014, ADS's joint venture, ADS Mexicana, entered into a credit agreement with Scotia Bank. The credit agreement provides for revolving loans up to a maximum aggregate principal amount of \$5.0 million. The proceeds of the revolving credit facility have primarily been used for short term investments and are available for working capital needs. The interest rates of the revolving credit facilities are determined by LIBOR rates, Tasa de Interes Interbancaria de Equilibrio (TIIE) or the Costos de Captacion rates, plus an applicable margin. On May 27, 2016, ADS Mexicana obtained a waiver on a covenant from Scotia Bank relating to ADS Mexicana failing to notify Scotia Bank of changes in legal organizational structure and payment of dividends. The Scotia Bank revolving credit facility matured on December 11, 2017. The obligations under the revolving credit facility were not guaranteed by ADS. As of the maturity date, there was no outstanding principal drawn on the Scotia Bank revolving credit facility, which bore interest at the LIBOR, plus 1.60%.

Principal Maturities - Maturities of long-term debt (excluding interest and deferred financing costs) as of March 31, 2018 are summarized below:

	Fiscal Years Ending March 31,							
(Amounts in thousands)	2019	2020	2021	2022	2023	Thereafter	Total	
Principal maturities	\$26,848	\$25,936	\$960	\$532	\$171,500	\$75,000	\$300,776	

Fiscal Year 2017 Amendments and Consents Related to the Secured Bank Loans and Senior Notes - In July 2016, the Company obtained consents from the lenders of the previous Secured Bank Loans and Senior Notes. These consents had the effect of extending the time for delivery of the Company's fiscal 2016 audited financial statements to August 31, 2016 and first quarter fiscal 2017 quarterly financial information to October 15, 2016, whereby an event of default was waived as long as those items are delivered within a 15 day grace period after those dates. The fiscal 2016 audited financial statements were delivered within the grace period. In addition, the consents also permitted the Company's payment of quarterly dividends of \$0.06 per share on common shares in each of June and September 2016, as well as the annual dividend of \$0.0195 per share that was paid on shares of preferred stock in March 2017.

In October 2016, the Company obtained additional consents from the lenders of the previous Secured Bank Loans and Senior Notes. These consents had the effect of extending the time for delivery of the Company's first quarter fiscal

2017 quarterly financial information to November 30, 2016 and the Company's second quarter fiscal 2017 quarterly financial information to December 31, 2016, whereby an event of default was waived as long as those items are delivered within a 30 day grace period after those dates. In addition, the consents also permitted the Company's payment of a quarterly dividend of \$0.06 per share on common shares in December 2016, as well as the annual dividend of \$0.0195 per share that was paid on shares of preferred stock in March 2017.

In December 2016, the Company obtained additional consents from lenders of the previous Secured Bank Loans and Senior Notes. These consents had the effect of extending the time and delivery of the Company's first quarter fiscal 2017 quarterly financial information to January 31, 2017.

F-36

Table of Contents

Advanced Drainage Systems, Inc.

13. DERIVATIVE TRANSACTIONS

The Company uses interest rate swaps and commodity options in the form of collars and swaps to manage its various exposures to interest rate and commodity price fluctuations. For the interest rate swap executed on June 28, 2017, gains and losses resulting from the difference between the spot rate and applicable base rate is recorded in Interest Expense. For collars and commodity swaps, contract settlement gains and losses are recorded in the Consolidated Statements of Operations in Derivative gains and other income, net. Gains and losses related to mark-to-market adjustments for changes in fair value of the derivative contracts are also recorded in the Consolidated Statements of Operations in Derivative gains and other income, net.

A summary of the fair values for the various derivatives at March 31, 2018 and 2017 is presented below:

(Amounts in thousands)	2018		2017	
	Assets		Liabilities	
	Receivables	Other assets	Other liabilities	Other liabilities
Diesel fuel option collars and swaps	\$573	\$23	\$(78)	\$(38)
Interest rate swaps	311	2,490	—	—

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

(Amounts in thousands)	Net Unrealized Mark to Market Losses (Gains)		
	2018	2017	2016
Interest rate swaps	\$(2,801)	\$(252)	\$(513)
Foreign exchange forward contracts	—	—	28
Diesel fuel option collars	(443)	(2,642)	(237)
Propylene swaps	—	(8,027)	2,885
Total net unrealized mark to market losses (gains)	\$(3,244)	\$(10,921)	\$2,163

(Amounts in thousands)	Net Realized Losses (Gains)		
	2018	2017	2016
Foreign exchange forward contracts	\$—	\$—	\$(150)
Diesel fuel option collars	(476)	1,893	3,142
Propylene swaps	—	6,671	11,742
Total net realized losses (gains)	\$(476)	\$8,564	\$14,734

14. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company secures supplies of resin raw material by agreeing to purchase quantities during a future given period at a fixed price. These purchase contracts typically range from 1 to 12 months and occur in the ordinary course of business. Under such purchase contracts in place at March 31, 2018, the Company has agreed to purchase resin over the period April 2018 through December 2018 at a committed purchase cost of \$13.3 million.

Litigation

On July 29, 2015, a putative stockholder class action, Christopher Wyche, individually and on behalf of all others similarly situated v. Advanced Drainage Systems, Inc., et al. (Case No. 1:15-cv-05955-KPF), was commenced in the U.S. District Court for the Southern District of New York (the “District Court”), naming

Table of Contents

Advanced Drainage Systems, Inc.

the Company, along with Joseph A. Chlapaty, the Company's former Chief Executive Officer, and Mark B. Sturgeon, the Company's former Chief Financial Officer, as defendants and alleging violations of the federal securities laws. An amended complaint was filed on April 28, 2016. The amended complaint alleged that the Company made material misrepresentations and/or omissions of material fact in its public disclosures during the period from July 25, 2014 through March 29, 2016, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. On March 10, 2017, the District Court dismissed Plaintiff's claims against all defendants in their entirety and with prejudice. Plaintiff appealed to the United States Court of Appeals for the Second Circuit, and on October 13, 2017 the District Court's judgment was affirmed by the Second Circuit. On October 27, 2017, Plaintiff filed a petition for rehearing with the Second Circuit. The Second Circuit denied the petition for rehearing on November 28, 2017. The plaintiff did not seek Supreme Court review and therefore the matter is closed.

On August 12, 2015, the SEC Division of Enforcement ("Enforcement Division") informed the Company that it was conducting an informal inquiry with respect to the Company. As part of this inquiry, the Enforcement Division requested the voluntary production of certain documents generally related to the Company's accounting practices. Subsequent to the initial voluntary production request, the Company received document subpoenas from the Enforcement Division pursuant to a formal order of investigation. The Company has continued to cooperate with the Enforcement Division's investigation and recently has engaged in discussions with the staff of the Enforcement Division about a potential resolution. As part of settlement discussions the Company has submitted a formal offer of settlement to the Enforcement Division for consideration by the Commission. The terms of the settlement offer remain subject to approval by the Commission. Accordingly, there can be no assurance that the Company's efforts to resolve the investigation will be successful or that the settlement amount will be as anticipated, and the Company cannot predict the ultimate timing or outcome of the Commission's consideration.

In May 2017, a former employee filed a class action complaint against the Company in Superior Court for the State of California, County of Kern (the "Hayes matter"), alleging that the Company violated certain California wage and hour laws for missed meal and rest periods and other wage and hour claims. In June 2017, the Company removed the case to the United States District Court for the Eastern District of California. The plaintiffs were seeking to recover, on their own behalf and on behalf of a putative class of all non-exempt ADS employees in the State of California from December 16, 2012 through present, damages resulting from missed rest breaks, missed meal periods, unpaid minimum wage, straight-time and overtime pay, improper wage statements, non-payment of wages at termination, and attorneys' fees and costs. On January 24, 2018, the parties attended mediation and entered into a settlement agreement to resolve the class action for \$1.8 million. As part of the parties' agreement, ADS consented to have the case remanded back to Kern County Superior Court for approval of the class settlement.

Thereafter, during the fourth quarter of fiscal 2018, the parties agreed to amend their existing Hayes settlement agreement (i) to expand the settlement class to include temporary employees assigned to work at ADS locations in California and (ii) to increase the settlement amount from \$1.8 million to \$2.0 million. The parties stipulated to the filing of an Amended Complaint to add a California Private Attorneys General Act ("PAGA") claim, as well as a joint employer claim on behalf of temporary employees assigned to work at ADS locations in California. Pursuant to the settlement, the Company would pay approximately \$2.0 million, which includes payments to class members in resolution of all claims, attorneys' fees, and settlement fund claims administration fees. The settlement is subject to court approval and approval by the California Labor and Workforce Development Agency; these approvals are pending.

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

15. EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan (“ESOP”) - The Company established the Advanced Drainage Systems, Inc. ESOP (the “ESOP” or the “Plan”) effective April 1, 1993. The Plan was funded through a

F-38

Table of Contents

Advanced Drainage Systems, Inc.

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

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

The carrying value of redeemable convertible preferred stock held by the ESOP trust, but not yet earned by the ESOP participants or used for dividends, is reported as Deferred compensation — unearned ESOP shares within the mezzanine equity section of our Consolidated Balance Sheets.

Compensation expense and related dividends paid with ESOP shares for services rendered throughout the period are recognized based upon the annual fair value of the shares allocated. Deferred compensation — unearned ESOP shares is relieved at fair value, with any difference between the annual fair value and the carrying value of shares when allocated being added to Additional paid in capital. The fair value of the shares allocated was \$20.00, \$16.80, and \$16.35 per share of redeemable convertible preferred stock at March 31, 2018, 2017, and 2016, respectively, resulting in an average annual fair value per share of \$18.40, \$16.58, and \$19.20 per share for the fiscal years ended March 31, 2018, 2017, and 2016, respectively. During the fiscal years ended March 31, 2018, 2017, and 2016, the Company recognized compensation expense of \$11.7 million, \$9.6 million, and \$10.3 million, respectively, related to allocation of ESOP shares to participants.

Required dividends on allocated shares are generally passed through and paid in cash to the participants and required dividends on unallocated shares are paid in cash to the Plan and generally used to service the Plan's debt.

The ESOP committee directed the Plan trustee to retain dividends on unallocated ADS shares rather than to service the Plan's debt. In the fiscal years ended March 31, 2018, 2017 and 2016, the Company recognized compensation expense and the trustee retained \$3.2 million, \$2.9 million and \$2.5 million, respectively, for dividends on unallocated ADS shares. These dividends were allocated to participants based on the total shares in their account in relation to total shares allocated at March 31, 2018 and 2017.

Redeemable Convertible Preferred Stock - The Trustee of the Company's ESOP has the ability to put shares of the redeemable convertible preferred stock to the Company absent a market for the Company's common stock, and as a result the redeemable convertible preferred stock is classified as Mezzanine equity in the Company's Consolidated Balance Sheets. The put option requirements of the Internal Revenue Code apply in the event that the Company's common stock is not a registration type class of security or its trading has been restricted. Therefore, the holders of Redeemable convertible preferred stock have a put right to require the Company to repurchase such shares in the event that the common stock is not listed for trading or otherwise quoted on the NYSE, AMEX, NASDAQ, or any other market more senior than the OTC Bulletin Board. As of March 31, 2018, the applicable redemption value was \$0.781 per share as there were no unpaid cumulative dividends.

F-39

Table of Contents

Advanced Drainage Systems, Inc.

Given that the event that may trigger redemption of the Redeemable convertible preferred stock (the listing or quotation on a market more senior than the OTC Bulletin Board) is not solely within the Company's control, the redeemable convertible preferred stock is presented in the mezzanine equity section of the Consolidated Balance Sheets. As of March 31, 2018, the Company did not adjust the carrying value of the redeemable convertible preferred stock to its redemption value or recognize any changes in fair value as the Company did not consider it probable that the Redeemable convertible preferred stock would become redeemable.

The Redeemable convertible preferred stock has a required cumulative 2.5% dividend (based on the issue price of \$0.781 per share) and is convertible at a rate of 0.7692 shares of common stock for each share of Redeemable convertible preferred stock. ADS guarantees the value of the redeemable convertible preferred stock at \$0.781 per share. The Board of Directors approved the 2.5% annual dividend to be paid March 31 of each fiscal year to the stockholders of record as of March 15, 2018, 2017 and 2016. The annual dividend was paid in cash and stock on the allocated shares. During the first quarter of 2018, the Board of Directors approved the 2.5% annual dividend to be paid on March 31, 2018 to stockholders of record as of March 1, 2018.

Cash and stock dividends on allocated Redeemable convertible preferred stock for the fiscal years ended March 31, 2018 and 2017, respectively, are summarized in the following table.

(Amounts in thousands)	2018	2017
Quarterly cash dividends	\$1,713	\$1,494
Annual cash dividends	11	18
Total cash dividends	\$1,724	\$1,512
Annual stock dividend	134	134
Annual cash dividend	11	18
Total ESOP required dividends	\$145	\$152
Allocated shares	7,437	7,779
Required dividend per share	0.0195	0.0195
Required dividends	\$145	\$152

In the fiscal years ended March 31, 2018 and 2017, 0.6 million and 0.6 million shares of redeemable convertible preferred stock, respectively, were allocated to the ESOP participants, including, in addition to the cash dividends, less than 0.1 million and less than 0.1 million preferred shares allocated as dividends, respectively.

Executive Retirement Expense - ADS has employment agreements with certain executives that include potential payments to be made to those executives upon termination. The terms of the termination payments vary by executive, but are generally based on current base salary and bonus levels at the time of termination. The contractual termination payments vest upon either (1) certain contingent occurrences terminating employment such as death, disability, layoff, the executive voluntarily quitting due to a breach of covenants by the Company or for other "good reason" or (2) the executive reaching a specified retirement age while still working for the Company, as defined in the individual employee agreement.

The Company accrues a liability from the effective date of the executive's employment agreement to the date the executive reaches the required retirement age while working for the Company, which is considered the service period for this obligation. The liability is estimated based on each executive's current base salary and bonus levels. Because

the executives vest in the termination payments equally over the relevant service period, the Company recognizes the related compensation expense based on the straight-line method over the service period. If an executive terminates their employment prior to reaching the required retirement age, no payment is required and the previously-recorded compensation expense for that executive is reversed and recorded as a benefit to compensation expense in the period the executive terminates employment.

The compensation expense (benefit) recorded related to the executive termination payments for the fiscal years ended March 31, 2018, 2017, and 2016 was \$1.5 million, \$1.1 million and \$(0.3) million, respectively,

F-40

Table of Contents

Advanced Drainage Systems, Inc.

and is included in General and administrative expenses in the Consolidated Statements of Operations. As of March 31, 2018 and 2017, the executive termination payment obligation was \$6.1 million and \$5.1 million, respectively, and is included in Other accrued liabilities and Other liabilities in the Consolidated Balance Sheets.

Profit-Sharing Plan - The Company has a tax-qualified profit-sharing retirement plan with a 401(k) feature covering substantially all U.S. eligible employees. The Company did not make employer contributions to this plan in the fiscal years ended March 31, 2018, 2017, and 2016. The Company has a defined contribution postretirement benefit plan covering Canadian employees. The Company recognized costs of \$0.7 million, \$0.8 million and \$0.6 million in the fiscal years ended March 31, 2018, 2017 and 2016.

16. STOCK-BASED COMPENSATION

The Company has several programs for stock-based payments to employees and directors, including stock options and restricted stock. Stock-based compensation expense is recorded in General and administrative expenses, Selling expenses and Cost of goods sold in the Consolidated Statements of Operations.

The Company recognized stock-based compensation expense (benefit) in the following line items on the Consolidated Statements of Operations for the fiscal years ended March 31, 2018, 2017, and 2016:

(Amounts in thousands)	2018	2017	2016
Component of income before income taxes:			
Cost of goods sold	\$179	\$177	\$(300)
Selling expenses	105	177	(500)
General and administrative expenses	6,837	7,953	(5,068)
Total stock-based compensation expense (benefit)	\$7,121	\$8,307	\$(5,868)

The following table summarizes stock-based compensation expense (benefit) by award type for the fiscal years ended March 31, 2018, 2017, and 2016:

(Amounts in thousands)	2018	2017	2016
Stock-based compensation expense (benefit):			
Liability-classified stock options	\$—	\$4,936	\$(6,784)
Equity-classified stock options	4,148	108	—
Restricted stock	1,741	1,945	916
Non-employee director	1,232	1,318	—
Total stock-based compensation expense (benefit)	\$7,121	\$8,307	\$(5,868)

F-41

Table of Contents

Advanced Drainage Systems, Inc.

On April 1, 2017, the Company modified all outstanding awards to remove the provision that permitted employees to satisfy their personal tax liability with the net settlement of shares in excess of minimum tax withholding. Consistent with the ASU in Note 1, employees can now withhold shares with a fair value up to the maximum statutory rate. Accordingly, the Company modified the awards previously accounted for as liability-classified to equity-classified and reclassified the carrying amount of the awards of \$13.7 million to Paid-in capital in the Consolidated Balance Sheet. All stock options have been accounted for as equity-classified awards for the periods subsequent to the modification. Prior to the modification, liability-classified awards were reclassified to additional paid in capital at fair value when stock options were exercised.

The following table summarizes the assumptions used in estimating the fair value of stock options:

	2018	2017	2016
Common stock price	\$19.35 - \$22.95	\$18.70 - \$28.17	\$18.34 - \$33.03
Expected stock price volatility	32.1% - 35.6%	29.6% - 33.0%	31.1% - 39.3%
Risk-free interest rate	1.9% - 2.2%	0.9% - 1.9%	0.5% - 1.5%
Weighted-average expected			
option life (years)	5.6 – 6.0	0.5 – 5.1	0.5 – 6.2
Dividend yield	1.1% - 1.5%	0.9%	0.9%

2010 and 2013 Stock Options Plans

Equity classified stock option awards are measured based on the grant date estimated fair value of each award. Compensation expense for stock options is recognized on a straight-line basis over the employee's requisite service period, which is generally the vesting period of the grant. The Company estimates the fair value of stock options using a Black-Scholes option-pricing model.

2000 Plan - The Company's 2000 stock option plan ("2000 Plan") provides for the issuance of statutory and non-statutory stock options to management based upon the discretion of the Board of Directors. The plan generally provides for grants with the exercise price equal to fair value on the date of grant, which vest in three equal annual amounts beginning in year five and expire after approximately 10 years from issuance. The Company had no shares available for grant under the 2000 Plan as of March 31, 2018.

The stock option activity for the fiscal year ended March 31, 2018 is summarized as follows:

(Share amounts in thousands)	Number	Weighted	Weighted
	of	Average	Average
	Shares		

Edgar Filing: ADVANCED DRAINAGE SYSTEMS, INC. - Form 10-K

		Exercise Price	Remaining Contractual Term (in years)
Outstanding at beginning of year	195	\$ 13.31	5.4
Granted	—	—	—
Exercised	(55)	11.73	—
Forfeited	(5)	15.74	—
Outstanding at end of year	135	13.85	4.8
Vested at end of year	81	12.61	4.1
Unvested at end of year	54	15.74	6.0
Fair value of options granted during the year		\$ —	

All outstanding options are expected to vest.

F-42

Table of Contents

Advanced Drainage Systems, Inc.

The following table summarizes information about the unvested stock option grants as of the fiscal year ended March 31, 2018:

(Share amounts in thousands)	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of year	59	\$ 6.76
Granted	—	—
Vested	—	—
Forfeitures	(5)	6.76
Unvested at end of year	54	\$ 6.76

As of March 31, 2018, there was a total of \$0.2 million of unrecognized compensation expense related to unvested stock option awards under the 2000 plan that will be recognized as an expense as the awards vest over the remaining weighted average service period of 3.3 years.

No options vested during the fiscal years ended March 31, 2018, 2017 and 2016. No options were granted during the fiscal years ended March 31, 2018, 2017 and 2016. The aggregate intrinsic value for options outstanding and currently exercisable as of March 31, 2018 was \$1.6 million and \$1.1 million, respectively. The total intrinsic value of options exercised during the fiscal years ended March 31, 2018, 2017, and 2016 were \$0.5 million, \$3.7 million and \$3.7 million, respectively.

2013 Plan - The Company's 2013 stock option plan ("2013 Plan") provides for the issuance of non-statutory common stock options to management subject to the Board's discretion. The plan generally provides for grants with the exercise price equal to fair value on the date of grant. The grants generally vest in three to five equal annual amounts beginning in year one and expire after approximately 10 years from issuance. Options issued to the former Chief Executive Officer vested equally over four years and expire after approximately 10 years from issuance.

The Company had no shares available for grant under the 2013 Plan as of March 31, 2018.

The stock option activity for the fiscal year ended March 31, 2018 is summarized as follows:

(Share amounts in thousands)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual
------------------------------	------------------------	--	---

			Term (in years)
Outstanding at beginning of year	2,260	\$ 16.04	6.7
Granted	3	22.95	—
Exercised	(618)	13.65	—
Forfeited	(143)	24.20	—
Outstanding at end of year	1,502	16.27	5.9
Vested at end of year	1,063	15.10	5.4
Unvested at end of year	439	19.09	6.5
Fair value of options granted during the year		\$ 7.53	

All outstanding options are expected to vest.

F-43

Table of Contents

Advanced Drainage Systems, Inc.

The following table summarizes information about the unvested stock option grants as of the fiscal year ended March 31, 2018:

	Number of Shares	Weighted Average Grant Date Fair Value
(Share amounts in thousands)		
Unvested at beginning of year	1,120	\$ 8.51
Granted	3	7.53
Vested	(541)	8.76
Forfeited	(143)	7.99
Unvested at end of year	439	\$ 8.42

As of March 31, 2018, there was a total of \$2.4 million of unrecognized compensation expense related to unvested stock option awards under the 2013 Plan that will be recognized as an expense as the awards vest over the remaining weighted average service period of 1.5 years.

The aggregate intrinsic value for options outstanding and currently exercisable as of March 31, 2018 was \$14.5 million and \$11.4 million, respectively. The total fair value of options that vested during the fiscal years ended March 31, 2018, 2017, and 2016 were \$4.7 million, \$3.4 million, and \$3.6 million, respectively. The total intrinsic value of options exercised during the fiscal year ended March 31, 2018 was \$4.4 million.

2008 Restricted Stock Plan

On September 16, 2008, the Board of Directors adopted the restricted stock plan, which provides for the issuance of restricted stock awards to certain key employees. The restricted stock generally vest ratably over a five-year period from the original restricted stock grant date, contingent on the employee's continuous employment by ADS. In certain instances, however, a portion of the grants vested immediately or for accounting purposes were deemed to have vested immediately, including the grants to the former Chief Executive Officer, which do not have a substantial risk of forfeiture as a result of different vesting provisions. Under the restricted stock plan, vested shares are considered issued and outstanding. Employees with restricted stock have the right to dividends on the shares awarded (vested and unvested) in addition to voting rights on non-forfeited shares.

The restricted stock is accounted for as equity-classified awards. The fair value of restricted stock is based on the fair value of the Company's common stock. Compensation expense is recognized on a straight-line basis over the employee's requisite service period, which is generally the vesting period of the grant.

The Company had no shares available for grant under this plan as of March 31, 2018.

The information about the unvested restricted stock grants as of March 31, 2018 is as follows:

	Number	Weighted Average Grant Date	Fair Value
(Share amounts in thousands)	of Shares		
Unvested at beginning of year	254		\$ 21.92
Granted	1		22.15
Vested	(151)		21.25
Forfeited	(3)		22.49
Unvested at end of year	101		\$ 22.95

The Company expects all restricted stock grants to vest.

At March 31, 2018, there was approximately \$1.9 million of unrecognized compensation expense related to the restricted stock that will be recognized over the weighted average remaining service period of 1.7 years. During the fiscal year ended March 31, 2018 and 2017, the weighted average grant date fair value of restricted stock granted was \$22.15 and \$24.20, respectively. No restricted stock was granted during the fiscal year

F-44

Table of Contents

Advanced Drainage Systems, Inc.

ended March 31, 2016. During the fiscal years ended March 31, 2018, 2017, and 2016, the total fair value of restricted stock that vested was \$2.9 million, \$1.2 million and \$1.1 million, respectively.

2017 Omnibus Plan

On May 24, 2017, the Board of Directors approved the 2017 Omnibus Incentive Plan (the “2017 Incentive Plan”) which was approved by the Company’s stockholders on July 17, 2017. The 2017 Incentive Plan provides for the issuance of a maximum of 3.5 million shares of the Company’s common stock for awards made thereunder, which awards may consist of stock options, restricted stock, restricted stock units, stock appreciation rights, phantom stock, cash-based awards, performance awards (which may take the form of performance cash, performance units or performance shares) or other stock-based awards. The Company had approximately 3.3 million shares available for awards as of March 31, 2018. The 2017 Incentive Plan replaces the 2000 Incentive Stock Option Plan, 2008 Restricted Stock Plan, 2013 Stock Option Plan, and 2014 Non-Employee Director Compensation Plan (the “Prior Plans”) and no further grants will be made under the prior plans.

The stock option activity for the fiscal year ended March 31, 2018 is summarized as follows:

(Share amounts in thousands)	Number of Shares	Weighted Average Price Exercise	Weighted Average Remaining Contractual Term (in years)
Outstanding at beginning of year	—	—	—
Granted	198	\$ 19.75	—
Exercised	—	—	—
Forfeited	—	—	—
Outstanding at end of year	198	19.75	9.4
Vested at end of year	—	—	—
Unvested at end of year	198	19.75	9.4
Fair value of options granted during the year		5.94	

All outstanding options are expected to vest.

The following table summarizes information about the unvested stock option grants as of the fiscal year ended March 31, 2018:

(Share amounts in thousands)	Number of Shares	Weighted Average Grant
------------------------------	------------------------	---------------------------

		Date Fair Value
Unvested at beginning of year	—	—
Granted	198	\$ 5.94
Vested	—	—
Forfeited	—	—
Unvested at end of year	198	\$ 5.94

As of March 31, 2018, there was a total of \$0.9 million of unrecognized compensation expense related to unvested stock option awards under the 2017 Incentive Plan that will be recognized as an expense as the awards vest over the remaining weighted average service period of 2.4 years.

F-45

Table of Contents

Advanced Drainage Systems, Inc.

The aggregate intrinsic value for options outstanding as of March 31, 2018 was \$1.2 million. There were no options that vested or were exercised during the fiscal year ended March 31, 2018.

The information about the unvested restricted stock grants as of March 31, 2018 is as follows:

	Weighted Average Grant Date	Fair Value
(Share amounts in thousands)	Number of Shares	Date
Unvested at beginning of year	—	\$ —
Granted	108	19.91
Vested	—	—
Forfeited	—	—
Unvested at end of year	108	\$ 19.91

At March 31, 2018, there was approximately \$1.2 million of unrecognized compensation expense related to the restricted stock that will be recognized over the weighted average remaining service period of 2.4 years. During the fiscal year ended March 31, 2018, the weighted average grant date fair value of restricted stock granted was \$19.91. During the fiscal year ended March 31, 2018, no restricted stock vested.

Non-Employee Director Compensation Plan

On June 18, 2014, the Company amended its then-existing Stockholders' Agreement to authorize 0.3 million shares of restricted stock to be granted to non-employee members of its Board of Directors. The shares typically will vest one year from the date of issuance. Under this stock plan, the vested shares granted are considered issued and outstanding. Non-employee directors with this stock have the right to dividends on the shares awarded (vested and unvested) in addition to voting rights.

The Company has determined that the restricted stock granted to directors should be accounted for as equity-classified awards. The Company had no shares available for grant under this plan as of March 31, 2018.

The following table summarizes information about the unvested Non-Employee Director Compensation stock grants as of March 31, 2018 :

	Weighted	
	Average	
	Grant	
	Number	Date Fair
	of	
(Share amounts in thousands)	Shares	Value
Unvested at beginning of year	40	\$ 24.20
Granted	—	—
Vested	(40)	—
Unvested at end of year	—	\$ —

As of March 31, 2018, there was no unrecognized compensation expense.

17. INCOME TAXES

The components of Income before income taxes for the fiscal years ended March 31 are as follows:

(Amounts in thousands)	2018	2017	2016
United States	\$72,109	\$59,543	\$45,159
Foreign	4,833	5,288	14,140
Total	\$76,942	\$64,831	\$59,299

Table of Contents

Advanced Drainage Systems, Inc.

The components of Income tax expense for the fiscal years ended March 31 consisted of the following:

(Amounts in thousands)	2018	2017	2016
Current:			
Federal	\$17,107	\$24,318	\$6,889
State and local	3,541	4,652	2,126
Foreign	2,242	3,040	3,791
Total current tax expense	22,890	32,010	12,806
Deferred:			
Federal	(11,236)	(5,887)	10,019
State and local	(55)	(1,297)	1,431
Foreign	(188)	(211)	(758)
Total deferred tax expense (benefit)	(11,479)	(7,395)	10,692
Total Income tax expense	\$11,411	\$24,615	\$23,498

For the fiscal years ended March 31, the effective tax rate varied from the statutory Federal income tax rate as a result of the following factors:

	2018	2017	2016
Federal statutory rate	31.5 %	35.0%	35.0%
ESOP stock appreciation	5.4	4.1	5.0
Effect of tax rate of foreign subsidiaries	0.7	1.3	0.8
State and local taxes—net of federal income			
tax benefit	3.6	4.1	4.3
Stock-based compensation	0.5	0.3	(1.8)
Uncertain tax position change	0.3	(1.1)	(3.6)
Impact of tax reform	(19.4)	—	—
Return to provision - federal and state	(5.0)	1.1	—
Qualified production activity deduction	(2.5)	(3.3)	(0.9)
Closure of Puerto Rico	—	(4.2)	—
Other	(0.3)	0.7	0.8
Effective rate	14.8 %	38.0%	39.6%

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering the U. S. corporate income tax rate from 35% to 21%, full expensing on qualified property, eliminates the domestic manufacturing deduction and implements a territorial tax system. The 21% U.S. corporate income tax rate is effective January 1, 2018. Based on the Company’s fiscal year end of March 31, the U.S. statutory federal rate is 31.5% for the fiscal year ended March 31, 2018.

The Company has recognized the provisional tax impacts related to revaluation of deferred tax assets and liabilities and deemed repatriated earnings and included these amounts in its financial statements for the year ended March 31, 2018. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Act. The accounting is expected to be finalized when the fiscal 2018 U.S. corporate income tax return is filed.

The Company recognized an initial provisional amount for revaluing its deferred tax attributes resulting in a \$14.7 million tax benefit for the quarter ended December 31, 2017. On the basis of revised computations during the fourth quarter, we recognized an additional deferred tax benefit of \$1.3 million for the quarter ended March 31, 2018. A total deferred tax benefit of \$16.0 million was recorded for the fiscal year ended March 31, 2018.

F-47

Table of Contents

Advanced Drainage Systems, Inc.

The Company had an estimated \$33.2 million of undistributed earnings on its foreign subsidiaries subject to the deemed mandatory repatriation. The Company recognized an initial provisional \$4.4 million of income tax expense for the quarter ended December 31, 2017. After the utilization of existing foreign tax credits, the Company expected to pay additional U.S. federal taxes of approximately \$0.9 million on the deemed mandatory repatriation as of the quarter ended December 31, 2017. On the basis of revised undistributed earnings computations that were calculated during the fourth quarter, we recognized an additional measurement-period adjustment of \$0.8 million to income tax expense for the quarter ended March 31, 2018. A total transition tax expense of \$5.2 million has been recorded for the fiscal year ended March 31, 2018. After the utilization of existing foreign tax credits, the Company expects to pay additional U.S. federal cash taxes of approximately \$1.0 million as of the fiscal year ended March 31, 2018.

These undistributed earnings are intended to be reinvested indefinitely with the exception of cash dividends paid by our ADS Mexicana joint venture. It is not practicable to estimate the amount of U.S. tax, in addition to the repatriation amount, that might be payable on the eventual remittance of such earnings.

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at March 31 were comprised of:

(Amounts in thousands)	2018	2017
Deferred tax assets:		
State income taxes	\$1,126	\$1,474
ESOP loan repayment	891	1,363
Receivable and other allowances	1,696	2,660
Inventory	3,558	5,820
Non-qualified stock options	3,596	6,052
Executive termination payments (Note 15)	1,299	2,044
Worker's compensation	732	1,323
Foreign net operating losses	445	2,223
Other	2,441	3,359
Total deferred tax assets	15,784	26,318
Less: valuation allowance	(26)	(2,223)
Total net deferred tax assets	15,758	24,095
Deferred tax liabilities:		
Intangible assets	4,254	9,728
Property, plant and equipment	38,181	52,322
Goodwill	3,698	3,886
Other	1,814	1,464
Total deferred tax liabilities	47,947	67,400
Net deferred tax liability	\$32,189	\$43,305

Net deferred tax assets and liabilities are included in Other assets and Deferred tax liabilities, respectively, on the Consolidated Balance Sheets. The related balances at March 31 were as follows:

Edgar Filing: ADVANCED DRAINAGE SYSTEMS, INC. - Form 10-K

(Amounts in thousands)	2018	2017
Net non-current deferred tax assets	\$115	\$702
Net non-current deferred tax liabilities	32,304	44,007

F-48

Table of Contents

Advanced Drainage Systems, Inc.

Accounting for Uncertain Tax Positions

As of March 31, 2018, the Company had unrecognized tax benefit of \$7.6 million, which if resolved favorably, would reduce income tax expense by \$7.6 million. A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended March 31, 2018, 2017, and 2016 is as follows:

(Amounts in thousands)	2018	2017	2016
Balance at beginning of year	\$6,196	\$7,998	\$10,452
Tax positions taken in current year	81	—	917
Decreases in tax positions for prior years	—	(1,786)	(599)
Increases in tax positions for prior years	5,108	80	358
Lapse of statute of limitations	(3,940)	(96)	(3,130)
Foreign translation adjustment	148	—	—
Balance at end of year	\$7,593	\$6,196	\$7,998

The unrecognized tax benefits are primarily recorded in Other liabilities in the Company's Consolidated Balance Sheets. These amounts include potential accrued interest and penalties of \$2.1 million and \$1.8 million at March 31, 2018 and 2017, respectively.

It is reasonably possible that there could be a change in the amount of unrecognized tax benefits within the next twelve months due to activities of the IRS or other taxing authorities, including proposed assessments of additional tax, possible settlement of audit issues, or the expiration of applicable statutes of limitation.

The Company is currently open to audit under the statute of limitations by the IRS for the fiscal years ended March 31, 2015 through March 31, 2018. The majority of the Company's state income tax returns are open to audit under the statute of limitations for the years ended March 31, 2014 through March 31, 2018. The foreign income tax returns are open to audit under the statute of limitations for the years ended March 31, 2014 through March 31, 2018.

18. NET INCOME PER SHARE AND STOCKHOLDERS' EQUITY

Basic net income per share is calculated by dividing the Net income available to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net income per share is computed by dividing the Net income available to common stockholders by the weighted-average number of common stock equivalents outstanding for the period.

Holders of unvested restricted stock have non-forfeitable rights to dividends when declared on common stock, and holders of redeemable convertible preferred stock participate in dividends on an as-converted basis when declared on common stock. As a result, unvested restricted stock and redeemable convertible preferred stock meet the definition of participating securities, which requires us to apply the two-class method to compute both basic and diluted net income per share. The two-class method is an earnings allocation formula that treats participating securities as having rights to earnings that would otherwise have been available to common stockholders.

The dilutive effect of stock options and unvested restricted stock is based on the more dilutive of the treasury stock method or the diluted two-class method. In computing diluted net income per share, income available to common stockholders used in the basic net income per share calculation (numerator) is adjusted, subject to sequencing rules, for certain adjustments that would result from the assumed issuance of potential common shares. After the effective date of the IPO, management's intent is to share settle; therefore, these shares are included in the calculation from July 26, 2014 through March 31, 2018, if dilutive. For purposes of the calculation of diluted net income per share, stock options and unvested restricted stock are considered to be potential common stock and are only included in the calculations when their effect is dilutive.

The Company's redeemable common stock is included in the weighted-average number of common shares outstanding for calculating basic and diluted net income per share.

F-49

Table of Contents

Advanced Drainage Systems, Inc.

The following table presents information necessary to calculate net income per share for the fiscal years ended March 31, 2018, 2017, and 2016, as well as potentially dilutive securities excluded from the weighted average number of diluted common shares outstanding because their inclusion would have been anti-dilutive:

(Amounts in thousands, except per share data)	2018	2017	2016
NET INCOME PER SHARE — BASIC:			
Net income attributable to ADS	\$62,007	\$32,950	\$25,052
Adjustment for:			
Accretion of redeemable noncontrolling interest			
in subsidiaries	—	(1,560)	(932)
Dividends paid to redeemable convertible			
preferred stockholders	(1,858)	(1,646)	(1,425)
Dividends paid to unvested restricted			
stockholders	(49)	(73)	(24)
Net income available to common stockholders			
and participating securities	60,100	29,671	22,671
Undistributed income allocated to participating			
securities	(4,514)	(1,700)	(1,270)
Net income available to common			
stockholders — Basic	55,586	27,971	21,401
Weighted average number of common shares			
outstanding — Basic	55,696	54,919	53,978
Net income per common share —			
Basic	\$1.00	\$0.51	\$0.40
NET INCOME PER SHARE —			
DILUTED:			
Net income available to common			
stockholders — Diluted	55,586	27,971	21,401
Weighted average number of common shares			
outstanding — Basic	55,696	54,919	53,978
Assumed exercise of stock options	638	705	1,198
Weighted average number of common shares			
outstanding — Diluted	56,334	55,624	55,176

Net income per common share —

Diluted	\$0.99	\$0.50	\$0.39
---------	--------	--------	--------

Potentially dilutive securities excluded as anti-

dilutive	6,167	6,228	6,383
----------	-------	-------	-------

Stockholders' Equity – During the fiscal year ended March 31, 2018, the Company repurchased 0.4 million shares of common stock at a cost of \$7.9 million. The repurchases were made under the Board of Directors' authorization in February 2017 to repurchase up to \$50 million of ADS common stock in accordance with applicable securities laws. As of March 31, 2018, approximately \$42.1 million of common stock may be repurchased under the authorization. The repurchase program does not obligate the Company to acquire any particular amount of common stock, and may be suspended or terminated at any time at the Company's discretion.

Treasury Stock Retirement – On November 1, 2017, the Board of Directors resolved to retire 97.7 million shares of Treasury Stock. The retirement of the Treasury Stock resulted in a reclassification of Treasury stock to Paid-In-Capital and did not have an impact on Total Stockholders' Equity.

Table of Contents

Advanced Drainage Systems, Inc.

19. OTHER ACCRUED LIABILITIES

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

(Amounts in thousands)	2018	2017
Accrued compensation and benefits ⁽¹⁾	\$ 17,980	\$ 17,066
Accrued rebate liability ⁽²⁾	12,938	8,480
Self-insurance accruals	12,439	8,559
Current portion of liability-classified stock-based awards	—	11,926
Other	17,203	20,355
Total accrued liabilities	\$ 60,560	\$ 66,386

(1) Accrued compensation and benefits is primarily comprised of accrued payroll, bonuses and commissions.

(2) Accrued rebate liability represents the Company's estimated rebates to be paid to customers.

20. BUSINESS SEGMENT INFORMATION

ADS operates its business in two distinct operating and reportable segments based on the markets it serves: "Domestic" and "International." The Chief Operating Decision Maker ("CODM") evaluates segment reporting based on Net sales and Segment Adjusted EBITDA. The Company calculates Segment Adjusted EBITDA as net income or loss before interest, income taxes, depreciation and amortization, stock-based compensation expense, non-cash charges and certain other expenses.

Domestic

The Company's Domestic segment manufactures and markets products 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, major national retailers as well as an extensive network of hundreds of small to medium-sized distributors across the U.S. The Company also sells through a broad variety of buying groups and co-ops in the United States. Products include single wall pipe, N-12 HDPE pipe sold into the Storm sewer and Infrastructure markets, High Performance PP pipe sold into the Storm sewer and sanitary sewer markets, and our broad line of Allied Products including StormTech, Nyloplast, ARC Septic Chambers, Inserta Tee, BaySaver filters and water quality structures, Fittings, and FleXstorm. The Company's Domestic segment sales are diversified across all regions of the country.

International

The Company's International segment manufactures and markets products in certain regions outside of the United States, with a growth strategy focused on 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 joint venture strategy provides it with local and regional access to new markets such as Brazil, Chile, Argentina, Peru and Colombia. 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 line includes single wall pipe, N-12 HDPE pipe, and High Performance PP pipe. The Canadian market also sells our broad line of Allied Products, while sales in Latin America are currently concentrated in fittings and Nyloplast.

Table of Contents

Advanced Drainage Systems, Inc.

The following table sets forth reportable segment information with respect to the amount of Net sales contributed by each class of similar products in each of the fiscal years ended March 31:

(Amounts in thousands)	2018	2017	2016
Domestic			
Pipe	\$835,421	\$786,546	\$812,071
Allied Products	339,011	315,690	301,725
Total domestic	1,174,432	1,102,236	1,113,796
International			
Pipe	118,644	122,384	139,731
Allied Products	37,278	32,641	37,151
Total international	155,922	155,025	176,882
Total net sales	\$1,330,354	\$1,257,261	\$1,290,678

The following sets forth certain additional financial information attributable to the reportable segments for the fiscal years ended March 31.

(Amounts in thousands)	2018	2017	2016
Segment Adjusted EBITDA			
Domestic	\$191,629	\$175,676	\$162,875
International	18,601	17,695	24,465
Total	\$210,230	\$193,371	\$187,340
Interest expense			
Domestic	\$14,929	\$17,049	\$17,908
International	333	418	552
Total	\$15,262	\$17,467	\$18,460
Income tax expense			
Domestic	\$9,199	\$21,786	\$20,465
International	2,212	2,829	3,033
Total	\$11,411	\$24,615	\$23,498
Depreciation and amortization			
Domestic	\$66,978	\$63,747	\$62,625
International	8,025	8,608	8,384
Total	\$75,003	\$72,355	\$71,009
Equity in net (loss) income of unconsolidated affiliates			
Domestic	\$(2,427)	\$(505)	\$181
International	1,688	(3,803)	(5,415)
Total	\$(739)	\$(4,308)	\$(5,234)

Edgar Filing: ADVANCED DRAINAGE SYSTEMS, INC. - Form 10-K

Capital expenditures			
Domestic	\$39,562	\$39,642	\$37,242
International	2,147	7,034	7,700
Total	\$41,709	\$46,676	\$44,942

F-52

Table of Contents

Advanced Drainage Systems, Inc.

The following sets forth certain additional financial information attributable to the reportable segments as of March 31:

(Amounts in thousands)	2018	2017
Investments in unconsolidated affiliates		
Domestic	\$—	\$2,427
International	12,343	6,559
Total	\$12,343	\$8,986
Total identifiable assets		
Domestic	\$904,718	\$917,006
International	142,822	134,987
Eliminations	(4,298)	(5,708)
Total	\$1,043,242	\$1,046,285

Reconciliation of Segment Adjusted EBITDA to Net income

(Amounts in thousands)	2018		2017		2016	
	Domestic	International	Domestic	International	Domestic	International
Net income (loss)	\$57,279	\$ 7,513	\$35,118	\$ 790	\$24,875	\$ 5,692
Depreciation and amortization	66,978	8,025	63,747	8,608	62,625	8,384
Interest expense	14,929	333	17,049	418	17,908	552
Income tax expense	9,199	2,212	21,786	2,829	20,465	3,033
Derivative fair value adjustments	(443)	—	(10,921)	—	2,139	24
Foreign currency transaction (gains) losses	—	(1,748)	—	(1,629)	—	697
Loss (gain) on disposal of assets and costs from exit and disposal activities	14,248	755	4,793	3,716	892	(80)
Unconsolidated affiliates interest, taxes, depreciation and amortization ^(a)	1,181	1,511	1,088	1,663	1,052	2,163
Contingent consideration remeasurement	39	—	(265)	—	371	—
Stock-based compensation expense (benefit)	7,121	—	8,307	—	(5,868)	—
ESOP deferred stock-based compensation	11,724	—	9,568	—	10,250	—
Executive retirement expense (benefit)	1,473	—	1,092	—	(294)	—
Loss related to BaySaver step acquisition	—	—	—	—	490	—
Inventory step up related to PTI acquisition	—	—	525	—	—	—

Edgar Filing: ADVANCED DRAINAGE SYSTEMS, INC. - Form 10-K

Bargain purchase gain on PTI acquisition	—	—	(609)	—	—	—
Restatement-related costs ^(b)	4,227	—	24,026	—	27,970	—
Legal settlement ^(c)	2,000	—	—	—	—	—
Impairment on investment in unconsolidated						
affiliate ^(d)	312	—	—	1,300	—	4,000
Transaction costs ^(e)	1,362	—	372	—	—	—
Segment Adjusted EBITDA ^(f)	\$191,629	\$ 18,601	\$175,676	\$ 17,695	\$162,875	\$ 24,465

F-53

Table of Contents

Advanced Drainage Systems, Inc.

- (a) Includes the Company's proportional share of interest, income taxes, depreciation and amortization related to its South American Joint Venture and its Tigre-ADS USA Joint Venture, which are accounted for under the equity method of accounting. In addition, these amounts include the Company's proportional share of interest, income taxes, depreciation and amortization related to its BaySaver Joint Venture prior to the step acquisition of BaySaver on July 17, 2015, which was previously accounted for under the equity method of accounting.
- (b) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the restatement of the prior period financial statements as reflected in the fiscal year 2015 Form 10-K and fiscal year 2016 Form 10-K/A.
- (c) Represents settlement agreement to resolve the Hayes matter, as further discussed in "Note 14. Commitments and Contingencies" to the Consolidated Financial Statements.
- (d) Represents an other-than-temporary impairment of our investments in Tigre-ADS USA and the South American Joint Venture.
- (e) Represents expenses recorded related to legal, accounting and other professional fees incurred in connection with the debt refinancing and asset acquisitions and dispositions.
- (f) A portion of the reduction in International Adjusted EBITDA from fiscal 2016 to fiscal 2017 is related to transfer pricing. The reduction is fully offset by an increase in Domestic Adjusted EBITDA.

Geographic Sales and Assets Information

Net sales are attributed to the geographic location based on the location of the customer. The table below represents the Net sales and long-lived asset information by geographic location for each of the fiscal years ended March 31:

(Amounts in thousands)	2018	2017	2016
Net Sales			
North America	\$1,313,917	\$1,243,074	\$1,274,700
Other	16,437	14,187	15,978
Total	\$1,330,354	\$1,257,261	\$1,290,678

(Amounts in thousands)	2018	2017
Long-Lived Assets ^(a)		
North America	\$401,470	\$411,752
Other	12,343	6,559
Total	\$413,813	\$418,311

(a) For segment reporting purposes, long-lived assets include Investments in unconsolidated affiliates, Central parts and Property, plant and equipment.

21. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the fiscal years ended March 31 were as follows:

(Amounts in thousands)	2018	2017	2016
------------------------	------	------	------

Supplemental disclosures of cash flow

information — cash paid during years:

Interest	\$17,890	\$17,273	\$18,352
Income taxes	24,510	13,525	32,175

F-54

Table of Contents

Advanced Drainage Systems, Inc.

(Amounts in thousands)	2018	2017	2016
Supplemental disclosures of noncash investing and financing activities:			
Redeemable convertible preferred stock dividend	\$134	\$134	\$132
Purchases of plant, property, and equipment included in accounts payable	1,258	2,549	1,165
Receivable recorded for sale of businesses	—	—	150
ESOP distributions in common stock	11,566	7,425	10,250
Assets acquired and obligation incurred under capital lease	26,571	26,276	34,207
Lease obligation retired upon disposition of leased assets	636	390	134
Reclassification of liability-classified stock options and restricted stock to equity	—	4,147	3,702
Contribution of net accounts receivable to the South American Joint Venture	2,785	—	—
Payable recorded for business acquisition	300	950	—

22. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following tables set forth certain historical unaudited consolidated condensed quarterly financial information for each of the quarters during the years ended March 31, 2018 and 2017. In the Company's opinion, the unaudited quarterly financial information reflects all normal and recurring accruals and adjustments necessary for a fair presentation of net income for interim periods.

(in thousands, except per share amounts)	Fiscal Year 2018			
	For the Three Months Ended			
	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017
Net sales	\$250,114	\$320,832	\$401,049	\$358,359
Gross profit	48,115	77,826	89,801	86,739
Net (loss) income	(4,856)	33,215	17,959	18,474
Net (loss) income attributable to ADS	(5,703)	32,105	17,863	17,742
Net (loss) income per share				
Basic ⁽¹⁾	\$(0.11)	\$0.52	\$0.29	\$0.29

Edgar Filing: ADVANCED DRAINAGE SYSTEMS, INC. - Form 10-K

Diluted ⁽¹⁾	\$ (0.11)	\$ 0.51	\$ 0.29	\$ 0.28
------------------------	------------	---------	---------	---------

(in thousands, except per share amounts)	Fiscal Year 2017			
	For the Three Months Ended			
	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016
Net sales	\$244,184	\$294,716	\$360,785	\$357,576
Gross profit	39,251	69,441	90,512	96,606
Net (loss) income	(18,052)	10,258	24,281	19,421
Net (loss) income attributable to ADS	(18,110)	9,053	23,734	18,273
Net (loss) income per share				
Basic ⁽¹⁾	\$ (0.34)	\$ 0.14	\$ 0.38	\$ 0.29
Diluted ⁽¹⁾	\$ (0.34)	\$ 0.14	\$ 0.38	\$ 0.29

(1) The earnings per share calculations for each quarter are based upon the applicable weighted average shares outstanding for each period and may not necessarily be equal to the full year share amount.

F-55

Table of Contents

Advanced Drainage Systems, Inc.

23. SUBSEQUENT EVENTS

Dividends on Common Stock - During the first quarter of fiscal 2019, the Company declared a quarterly cash dividend of \$0.08 per share of common stock. The dividend is payable on June 15, 2018 to stockholders of record at the close of business on June 5, 2018.

* * * * *

F-56

Table of Contents

Advanced Drainage Systems, Inc.

SCHEDULE II

ADVANCED DRAINAGE SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Valuation and Qualifying Accounts for the Fiscal Years Ended March 31, 2018,

2017 and 2016 (in thousands):

Allowance for Doubtful Accounts:

	Balance at beginning	Charged to costs and expenses	Charged to other accounts (1)	Deductions (2)	Balance at end of period
Year ended March 31, of period					
2018	\$ 10,431	\$ 503	\$ (391)	\$ (3,717)	\$6,826
2017	7,956	2,940	(13)	(452)	10,431
2016	5,423	3,542	(81)	(928)	7,956

(1) Amounts represent the impact of foreign currency translation.

(2) Amounts includes the release of a \$3.0 million allowance related to the South American Joint Venture capital contribution. See "Note 10. Investment in Unconsolidated Affiliates" for additional information.

F-57