**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2019**

**or**

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

**For the transition period from \_\_\_\_\_\_\_\_ to \_\_\_\_\_\_\_\_\_**

**Commission file number 001-36479**



**VERITIV CORPORATION**

**(Exact name of registrant as specified in its charter)**

|  |  |  |
| --- | --- | --- |
| **Delaware** | **46-3234977** |  |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification Number)** |  |
| **1000 Abernathy Road NE** |  |  |
| **Building 400, Suite 1700** |  |  |
| **Atlanta, Georgia** | **30328** |  |
| **(Address of principal executive offices)** | **(Zip Code)** |  |
|  |  |
| **(770) 391-8200** |  |  |
| **(Registrant's telephone number, including area code)** |  |  |

**Not Applicable**

**(Former name, former address and former fiscal year, if changed since last report)**

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

|  |  |  |
| --- | --- | --- |
| **Title of each class** | **Trading Symbol(s)** | **Name of each exchange on which registered** |
|  |  |  |
| **Common stock, $0.01 par value** | **VRTV** | **New York Stock Exchange** |
|  |  |  |

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

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

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Large accelerated filer | ☐ | Accelerated filer | ☒ |  |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |  |
|  |  |
|  |  | Emerging growth company | ☐ |  |

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

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

The number of shares outstanding of the registrant's common stock as of August 1, 2019 was 16,099,579.



|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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**PART I. FINANCIAL INFORMATION**

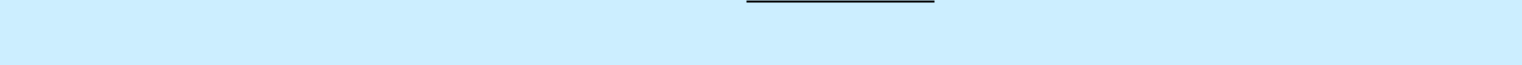
**ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

**VERITIV CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in millions, except per share data, unaudited)

|  |  |  |
| --- | --- | --- |
| Net sales (including sales to related party of $5.2, $7.8, $11.6 and | $ |  |
| $14.7, respectively) |  |
|  |  |



Cost of products sold (including purchases from related party of $21.4, $35.8, $46.2 and $77.9, respectively) (exclusive of depreciation and amortization shown separately below)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Three Months Ended** | | | |  | **Six Months Ended** | | | |
| **June 30,** | |  |  |  | **June 30,** | | |  |
|  |  |  |  |  |  |  |  |  |
| **2019** |  | **2018** |  |  | **2019** |  |  | **2018** |
|  |  |  |  |  |  |  |  |  |
| 1,958.2 | $ | 2,171.9 |  | $ | 3,899.7 |  | $ | 4,272.9 |
| 1,584.3 |  | 1,788.5 |  |  | 3,175.7 |  |  | 3,518.0 |



|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Distribution expenses |  | 132.0 |  |  | 132.0 |  |  | 262.4 |  |  | 265.1 |
| Selling and administrative expenses |  | 211.2 |  |  | 223.6 |  |  | 427.3 |  |  | 446.3 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Depreciation and amortization |  | 13.4 |  |  | 14.0 |  |  | 26.2 |  |  | 28.4 |
| Integration and acquisition expenses |  | 4.5 |  |  | 8.4 |  |  | 8.8 |  |  | 16.7 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Restructuring charges, net |  | 6.9 |  |  | 11.4 |  |  | 9.3 |  |  | 23.3 |
| **Operating income (loss)** |  | 5.9 |  |  | (6.0) |  |  | (10.0) |  |  | (24.9) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense, net |  | 10.2 |  |  | 10.2 |  |  | 21.6 |  |  | 19.5 |
| Other (income) expense, net |  | 7.6 |  |  | (2.9) |  |  | 13.8 |  |  | (13.4) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Loss before income taxes** |  | (11.9) |  |  | (13.3) |  |  | (45.4) |  |  | (31.0) |
| Income tax benefit |  | (0.6) |  |  | (2.7) |  |  | (7.4) |  |  | (4.6) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Net loss** | $ | (11.3) |  | $ | (10.6) |  | $ | (38.0) |  | $ | (26.4) |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Loss per share: |  |  |  |  |  |  |  |  |  |  |  |
| Basic and diluted | $ | (0.70) |  | $ | (0.67) |  | $ | (2.37) |  | $ | (1.67) |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted-average shares outstanding: |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Basic and diluted |  | 16.09 |  |  | 15.84 |  |  | 16.01 |  |  | 15.80 |
|  |  |  |  |  |  |  |  |  |  |  |  |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**VERITIV CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(in millions, unaudited)

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended** | | | |  |  |  | **Six Months Ended** | | | |
|  |  | **June 30,** | | |  |  |  | **June 30,** | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | **2019** |  |  | **2018** |  |  |  | **2019** |  |  | **2018** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net loss | $ | (11.3) |  | $ | (10.6) |  | $ | (38.0) |  | $ | (26.4) |
| Other comprehensive income (loss): |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Foreign currency translation adjustments |  | 1.3 |  |  | (3.9) |  |  | 3.7 |  |  | (4.1) |
| Change in fair value of cash flow hedge, net of $0.0, $0.0, $(0.1) and |  |  |  |  |  |  |  |  |  |  |  |
| $0.2 tax, respectively |  | 0.2 |  |  | 0.1 |  |  | 0.3 |  |  | 0.1 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Pension liability adjustments, net of $0.0, $0.0, $0.0 and $0.7 tax, |  |  |  |  |  |  |  |  |  |  |  |
| respectively |  | 0.1 |  |  | 0.0 |  |  | 0.1 |  |  | (0.6) |
| Other comprehensive income (loss) |  | 1.6 |  |  | (3.8) |  |  | 4.1 |  |  | (4.6) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total comprehensive income (loss) | $ | (9.7) |  | $ | (14.4) |  | $ | (33.9) |  | $ | (31.0) |
|  |  |  |  |  |  |  |  |  |  |  |  |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**VERITIV CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(dollars in millions, except par value, unaudited)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **June 30, 2019** | |  | **December 31, 2018** |
|  |  |  |  |  |  |
| **Assets** |  |  |  |  |  |
| Current assets: |  |  |  |  |  |
|  |  |  |  |  |  |
| Cash | $ | 56.1 |  | $ | 64.3 |
| Accounts receivable, less allowances of $53.0 and $62.0, respectively |  | 1,012.0 |  |  | 1,181.4 |
|  |  |  |  |  |  |
| Related party receivable |  | 2.4 |  |  | 3.2 |
| Inventories |  | 638.3 |  |  | 688.2 |
|  |  |  |  |  |  |
| Other current assets |  | 124.6 |  |  | 147.2 |
| **Total current assets** |  | 1,833.4 |  |  | 2,084.3 |
|  |  |  |  |  |  |
| Property and equipment (net of accumulated depreciation and amortization of $342.5 and |  |  |  |  |  |
| $320.7, respectively) |  | 209.2 |  |  | 206.7 |
| Goodwill |  | 99.6 |  |  | 99.6 |
|  |  |  |  |  |  |
| Other intangibles, net |  | 54.5 |  |  | 57.2 |
| Deferred income tax assets |  | 65.1 |  |  | 56.5 |
|  |  |  |  |  |  |
| Other non-current assets |  | 435.0 |  |  | 25.4 |
| **Total assets** | $ | 2,696.8 |  | $ | 2,529.7 |
| **Liabilities and shareholders' equity** |  |  |  |  |  |
| Current liabilities: |  |  |  |  |  |
|  |  |  |  |  |  |
| Accounts payable | $ | 603.1 |  | $ | 641.9 |
| Related party payable |  | 6.3 |  |  | 9.3 |
|  |  |  |  |  |  |
| Accrued payroll and benefits |  | 42.1 |  |  | 56.5 |
| Other accrued liabilities |  | 220.0 |  |  | 134.7 |
|  |  |  |  |  |  |
| Current maturities of long-term debt |  | 8.9 |  |  | 6.7 |
| Financing obligations, current portion |  | — | |  | 0.6 |
|  |  |  |  |  |  |
| **Total current liabilities** |  | 880.4 |  |  | 849.7 |
| Long-term debt, net of current maturities |  | 815.1 |  |  | 963.6 |
|  |  |  |  |  |  |
| Financing obligations, less current portion |  | — | |  | 23.6 |
| Defined benefit pension obligations |  | 21.1 |  |  | 21.1 |
|  |  |  |  |  |  |
| Other non-current liabilities |  | 461.5 |  |  | 128.6 |
| **Total liabilities** |  | 2,178.1 |  |  | 1,986.6 |
|  |  |  |  |  |  |
| Commitments and contingencies (Note 12) |  |  |  |  |  |
| Shareholders' equity: |  |  |  |  |  |
|  |  |  |  |  |  |
| Preferred stock, $0.01 par value, 10.0 million shares authorized, none issued |  | — | |  | — |
| Common stock, $0.01 par value, 100.0 million shares authorized; shares issued - 16.4 |  |  |  |  |  |
| million and 16.2 million, respectively; shares outstanding - 16.1 million and 15.9 million, |  |  |  |  |  |
| respectively |  | 0.2 |  |  | 0.2 |
|  |  |  |  |  |  |
| Additional paid-in capital |  | 612.5 |  |  | 605.7 |
| Accumulated (deficit) earnings |  | (43.8) |  |  | (8.5) |
|  |  |  |  |  |  |
| Accumulated other comprehensive loss |  | (36.6) |  |  | (40.7) |
| Treasury stock at cost - 0.3 million shares at June 30, 2019 and December 31, 2018 |  | (13.6) |  |  | (13.6) |
|  |  |  |  |  |  |
| **Total shareholders' equity** |  | 518.7 |  |  | 543.1 |
| **Total liabilities and shareholders' equity** | $ | 2,696.8 |  | $ | 2,529.7 |
|  |  |  |  |  |  |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**VERITIV CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

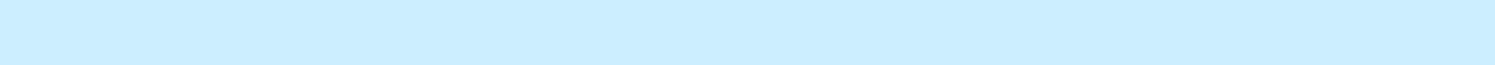
(in millions, unaudited)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **Six Months Ended June 30,** | | | |  |
|  |  |  |  |  |  |  |
| **Operating activities** |  | **2019** |  |  | **2018** |  |
|  |  |  |  |  |  |  |
| Net loss | $ | (38.0) |  | $ | (26.4) |  |
| Depreciation and amortization |  | 26.2 |  |  | 28.4 |  |
|  |  |  |  |  |  |  |
| Amortization of deferred financing fees |  | 1.3 |  |  | 1.3 |  |
| Net losses (gains) on dispositions of property and equipment |  | (0.2) |  |  | (2.5) |  |
|  |  |  |  |  |  |  |
| Provision for allowance for doubtful accounts |  | 9.0 |  |  | 10.4 |  |
| Deferred income tax (benefit) |  | (9.6) |  |  | (5.9) |  |
|  |  |  |  |  |  |  |
| Stock-based compensation |  | 9.0 |  |  | 10.7 |  |
| Other non-cash items, net |  | 10.2 |  |  | (10.0) |  |
|  |  |  |  |  |  |  |
| Changes in operating assets and liabilities |  |  |  |  |  |  |
| Accounts receivable and related party receivable |  | 165.3 |  |  | (15.9) |  |
|  |  |  |  |  |  |  |
| Inventories |  | 53.6 |  |  | (1.2) |  |
| Other current assets |  | 23.7 |  |  | (13.6) |  |
|  |  |  |  |  |  |  |
| Accounts payable and related party payable |  | (59.8) |  |  | 39.2 |  |
| Accrued payroll and benefits |  | (14.6) |  |  | (18.5) |  |
|  |  |  |  |  |  |  |
| Other accrued liabilities |  | (6.0) |  |  | 15.3 |  |
| Other |  | 12.1 |  |  | (3.3) |  |
|  |  |  |  |  |  |  |
| Net cash provided by operating activities |  | 182.2 |  |  | 8.0 |  |
| **Investing activities** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Property and equipment additions |  | (14.9) |  |  | (21.5) |  |
| Proceeds from asset sales |  | 0.3 |  |  | 4.0 |  |
|  |  |  |  |  |  |  |
| Net cash used for investing activities |  | (14.6) |  |  | (17.5) |  |
| **Financing activities** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Change in book overdrafts |  | 15.2 |  |  | (8.1) |  |
| Borrowings of long-term debt |  | 3,416.1 |  |  | 2,603.8 |  |
|  |  |  |  |  |  |  |
| Repayments of long-term debt |  | (3,592.5) |  |  | (2,572.5) |  |
| Payments under right-of-use finance leases and capital leases, respectively |  | (4.2) |  |  | (3.2) |  |
|  |  |  |  |  |  |  |
| Payments under financing obligations (including obligations to related party of $8.6 in the prior year |  | — | |  | (8.9) |  |
| period) |  |  |  |
|  |  |  |  |  |  |
| Payments under Tax Receivable Agreement |  | (7.8) |  |  | (9.9) |  |
|  |  |  |  |  |  |  |
| Other |  | (2.8) |  |  | (2.1) |  |
| Net cash used for financing activities |  | (176.0) |  |  | (0.9) |  |
|  |  |  |  |  |  |  |
| Effect of exchange rate changes on cash |  | 0.2 |  |  | (0.4) |  |
| Net change in cash |  | (8.2) |  |  | (10.8) |  |
|  |  |  |  |  |  |  |
| Cash at beginning of period |  | 64.3 |  |  | 80.3 |  |
| Cash at end of period | $ | 56.1 |  | $ | 69.5 |  |



**Supplemental cash flow information**

|  |  |  |
| --- | --- | --- |
| Cash paid for income taxes, net of refunds | $ |  |
| Cash paid for interest |  |  |
| **Non-cash investing and financing activities** |  |  |
| Non-cash additions to property and equipment for right-of-use finance leases and capital leases, | $ |  |
| respectively |  |
|  |  |



Non-cash additions to other non-current assets for right-of-use operating leases

See accompanying Notes to Condensed Consolidated Financial Statements.

4

2.1 $ 0.1

19.9 17.9

3.4 $ 26.2

62.1 —

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**VERITIV CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(in millions, unaudited)

**Three and Six Months Ended June 30, 2019**



|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Common Stock Issued** | | **Additional** | **Accumulated** |  | **Treasury Stock** | |  |  |
| **Paid-in** | **(Deficit)** |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **Shares** | **Amount** | **Capital** | **Earnings** | **AOCL (1)** | **Shares** | **Amount** | **Total** |  |



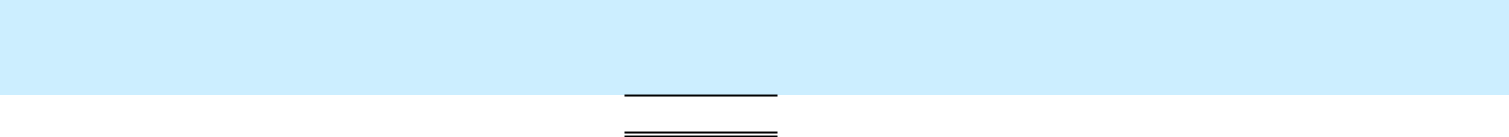
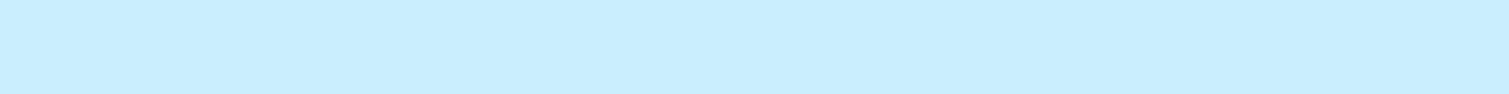
|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Balance at December 31, 2018 | 16.2 |  | $ | 0.2 | $ |
| Net loss |  |  |  |  |  |
| Other comprehensive income (loss) |  |  |  |  |  |
| Stock-based compensation |  |  |  |  |  |
| Issuance of common stock, net of |  |  |  |  |  |
| stock received for minimum tax |  |  |  |  |  |
| withholdings | 0.2 |  |  | 0.0 |  |
| Adoption impact - Accounting |  |  |  |  |  |
| Standards Update 2016-02 |  |  |  |  |  |
|  |  |  |  |  |  |
| Balance at March 31, 2019 | 16.4 |  |  | 0.2 |  |
| Net loss |  |  |  |  |  |
| Other comprehensive income (loss) |  |  |  |  |  |
| Stock-based compensation |  |  |  |  |  |
| Issuance of common stock, net of |  |  |  |  |  |
| stock received for minimum tax |  |  |  |  |  |
| withholdings | 0.0 |  |  | 0.0 |  |
|  |  |  |  |  |  |
| Balance at June 30, 2019 | 16.4 |  | $ | 0.2 | $ |



1. Accumulated other comprehensive loss.



|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 605.7 | $ | (8.5) |  | $ | (40.7) |  | (0.3) |  | $ | (13.6) |  | $ | 543.1 |
|  |  | (26.7) |  |  |  |  |  |  |  |  |  |  | (26.7) |
|  |  |  |  |  | 2.5 |  |  |  |  |  |  |  | 2.5 |
| 4.7 |  |  |  |  |  |  |  |  |  |  |  |  | 4.7 |
| (2.7) |  |  |  |  |  |  |  |  |  |  |  |  | (2.7) |
|  |  | 2.7 |  |  |  |  |  |  |  |  |  |  | 2.7 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 607.7 |  | (32.5) |  |  | (38.2) |  | (0.3) |  |  | (13.6) |  |  | 523.6 |
|  |  | (11.3) |  |  |  |  |  |  |  |  |  |  | (11.3) |
|  |  |  |  |  | 1.6 |  |  |  |  |  |  |  | 1.6 |
| 4.3 |  |  |  |  |  |  |  |  |  |  |  |  | 4.3 |
| 0.5 |  |  |  |  |  |  |  |  |  |  |  |  | 0.5 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 612.5 | $ | (43.8) |  | $ | (36.6) |  | (0.3) |  | $ | (13.6) |  | $ | 518.7 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |



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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  | **Three and Six Months Ended June 30, 2018** | | | | | | | | | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | |  |  | |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **Common Stock Issued** | | | | |  | **Additional** | |  | **Accumulated** | |  |  |  | **Treasury Stock** | | | | |  |  |  |
|  |  |  |  | **Paid-in** | |  | **(Deficit)** | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **Shares** | |  | **Amount** | |  | **Capital** | |  | **Earnings** | |  | **AOCL (1)** | | **Shares** | |  | **Amount** | |  | **Total** |  |
|  | Balance at December 31, 2017 | | 16.0 |  | $ | 0.2 |  | $ | 590.2 |  | $ | 6.4 |  | $ | (33.5) |  | (0.3) |  | $ | (13.6) |  | $ | 549.7 |  |
|  | Net loss | |  |  |  |  |  |  |  |  |  | (15.8) |  |  |  |  |  |  |  |  |  |  | (15.8) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Other comprehensive income (loss) | |  |  |  |  |  |  |  |  |  |  |  |  | 0.0 |  |  |  |  |  |  |  | 0.0 |  |
|  | Stock-based compensation | |  |  |  |  |  |  | 5.6 |  |  |  |  |  |  |  |  |  |  |  |  |  | 5.6 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Issuance of common stock, net of | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | stock received for minimum tax | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | withholdings | | 0.1 |  |  | 0.0 |  |  | (1.8) |  |  |  |  |  |  |  |  |  |  |  |  |  | (1.8) |  |
|  | Adoption impact - Accounting | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Standards Update 2018-02 | |  |  |  |  |  |  |  |  |  | 0.8 |  |  | (0.8) |  |  |  |  |  |  |  | 0.0 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Balance at March 31, 2018 | | 16.1 |  |  | 0.2 |  |  | 594.0 |  |  | (8.6) |  |  | (34.3) |  | (0.3) |  |  | (13.6) |  |  | 537.7 |  |
|  | Net loss | |  |  |  |  |  |  |  |  |  | (10.6) |  |  |  |  |  |  |  |  |  |  | (10.6) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Other comprehensive income (loss) | |  |  |  |  |  |  |  |  |  |  |  |  | (3.8) |  |  |  |  |  |  |  | (3.8) |  |
|  | Stock-based compensation | |  |  |  |  |  |  | 5.1 |  |  |  |  |  |  |  |  |  |  |  |  |  | 5.1 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Issuance of common stock, net of | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | stock received for minimum tax | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | withholdings | | 0.1 |  |  | 0.0 |  |  | (0.2) |  |  |  |  |  |  |  |  |  |  |  |  |  | (0.2) |  |
|  | Balance at June 30, 2018 | | 16.2 |  | $ | 0.2 |  | $ | 598.9 |  | $ | (19.2) |  | $ | (38.1) |  | (0.3) |  | $ | (13.6) |  | $ | 528.2 |  |



1. Accumulated other comprehensive loss.



See accompanying Notes to Condensed Consolidated Financial Statements.

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**VERITIV CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

Veritiv Corporation ("Veritiv" or the "Company") is a North American business-to-business distributor of packaging, facility solutions, print and publishing products and services. Additionally, Veritiv provides logistics and supply chain management solutions to its customers. Veritiv was established in 2014, following the merger (the "Merger") of International Paper Company's xpedx distribution solutions business ("xpedx") and UWW Holdings, Inc. ("UWWH"), the parent company of Unisource Worldwide, Inc. ("Unisource"). Veritiv operates from approximately 160 distribution centers primarily throughout the United States ("U.S."), Canada and Mexico.

**Basis of Presentation**

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for a complete set of annual audited financial statements.

The accompanying unaudited financial information should be read in conjunction with the Consolidated Financial Statements and Notes contained in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") for the year ended December 31, 2018. In the opinion of management, all adjustments, including normal recurring accruals and other adjustments, considered necessary for a fair presentation of the interim financial information have been included. The operating results for the interim periods are not necessarily indicative of results for the full year. These financial statements include all of the Company's subsidiaries. All significant intercompany transactions between Veritiv's businesses have been eliminated.

**Use of Estimates**

The preparation of unaudited financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses and certain financial statement disclosures. Estimates and assumptions are used for, but not limited to, revenue recognition, right-of-use ("ROU") asset and liability valuations, accounts receivable valuation, inventory valuation, employee benefit plans, income tax contingency accruals and valuation allowances, recognition of the Tax Cuts and Jobs Act (the "Tax Act"), multi-employer pension plan withdrawal liabilities, contingency accruals and goodwill and other intangible asset valuations. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, actual results may ultimately differ from these estimates and assumptions. Estimates are revised as additional information becomes available.

**Accounting Pronouncements**

Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)* ("Topic 842") and its related interpretations*.* The standard requires lessees to recognize ROU assets and liabilities for leases with a lease term greater than twelve months on their balance sheet. The pattern and classification of expense recognition in a lessee's statement of operations remains similar to prior accounting guidance. The new standard also eliminates the prior guidance related to real estate specific provisions. Upon adoption, the Company recorded (i) operating lease obligations and related ROU assets of approximately $428 million and (ii) an increase to retained earnings of $2.7 million, primarily driven by the derecognition of the unamortized deferred gain from the 2017 sale of the Austin, Texas property. The Company's debt covenants and bank capital requirements were not impacted by the adoption of this ASU.

The guidance allows an entity to make an election to adopt the standard using either a modified retrospective approach, applying the standard to leases that existed at the beginning of the earliest period presented and those entered into thereafter with restated comparative period financial statements, or an additional transition approach (under ASU 2018-11), which allows an entity to initially apply the new lease standard at the adoption date (January 1, 2019, for the Company) and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

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Consequently, an entity’s reporting for the comparative periods presented in the financial statements, in the period in which it adopts the new lease standard, will not be restated and will continue to be in accordance with prior U.S. GAAP (Topic 840, *Leases*). The Company adopted this ASU applying the additional transition approach.

The standard permits entities to elect a package of practical expedients which must be applied consistently to all leases that commenced prior to the effective date. If the package of practical expedients is elected, entities do not need to reassess: (i) whether expired or existing contracts contain leases; (ii) lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. The Company elected to apply the package of practical expedients to all leases that commenced prior to the date of adoption. The guidance also allows entities to make certain policy elections under the new standard, including: (i) the use of hindsight to determine lease term and when assessing existing ROU assets for impairment; (ii) a policy to not record short-term leases on the balance sheet; and (iii) a policy to not separate lease and non-lease components. The Company made a policy election to exclude short-term leases from the balance sheet and to separate lease and non-lease components for most lease categories. The Company also made a policy election to not use hindsight to determine lease term and when assessing existing ROU assets for impairment. See [Note 3, Leases](#page15), for additional information regarding the Company's leases.

***Recently Issued Accounting Standards Not Yet Adopted***



**Standard**



ASU 2016-13, *Financial* *Instruments-Credit Losses (Topic 326)*



ASU 2018-13, *Fair Value*

*Measurement (Topic 820)*



|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  | **Effect on the Financial Statements or Other** |
| **Description** | | **Effective Date** | | **Significant Matters** |
|  |  |  |  |  |
| The standard will replace the currently required incurred | | January 1, 2020; | | The Company is currently evaluating the impact this |
| loss impairment methodology with guidance that reflects | | early adoption is | | ASU will have on its Consolidated Financial |
| expected credit losses and requires consideration of a | | permitted for fiscal | | Statements and related disclosures. The Company |
| broader range of reasonable and supportable information | | years beginning | | currently plans to adopt this ASU on January 1, 2020. |
| to be considered in making credit loss estimates. The | | after December 15, | |  |
| guidance requires application on a modified | | 2018 |  |  |
| retrospective basis. Other application requirements exist | |  |  |  |
| for specific assets impacted by a more-than-insignificant | |  |  |  |
| credit deterioration since origination. | |  |  |  |
|  |  |  |  |  |
| The standard modifies the disclosure requirements on | | January 1, 2020; | | The Company is currently evaluating the impact this |
| fair value measurements by removing certain disclosure | | early adoption is | | ASU will have on its disclosures. The Company |
| requirements related to the fair value hierarchy, | | permitted | | currently plans to adopt this ASU on January 1, 2020. |
| modifying existing disclosure requirements related to | |  |  |  |
| measurement uncertainty and adding new disclosure | |  |  |  |
| requirements. The amendments in this update are | |  |  |  |
| effective for fiscal years, and interim periods within | |  |  |  |
| those fiscal years, beginning after December 15, 2019. | |  |  |  |
| The amendments on changes in unrealized gains and | |  |  |  |
| losses, the range and weighted-average of significant | |  |  |  |
| unobservable inputs used to develop Level 3 fair value | |  |  |  |
| measurements, and the narrative description of | |  |  |  |
| measurement uncertainty should be applied | |  |  |  |
| prospectively for only the most recent interim or annual | |  |  |  |
| period presented in the initial fiscal year of adoption. All | |  |  |  |
| other amendments should be applied retrospectively to | |  |  |  |
| all periods presented upon their effective date. | |  |  |  |
|  |  |  |  |  |

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***Recently Issued Accounting Standards Not Yet Adopted (continued)***



**Standard**



ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20)*



|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  | **Effect on the Financial Statements or Other** |
| **Description** | | **Effective Date** | | **Significant Matters** |
|  |  |  |  |  |
| The standard modifies the disclosure requirements for | | December 31, | | The Company does not expect the adoption of this |
| employers that sponsor defined benefit pension or other | | 2020; early | | standard to have a material impact on its disclosures. |
| postretirement benefit plans. The guidance removes | | adoption is | | The Company currently plans to adopt this ASU on |
| disclosures that are no longer considered cost beneficial. | | permitted | | December 31, 2020. |
| This standard requires new disclosures for the weighted- | |  |  |  |
| average interest crediting rates for cash balance plans | |  |  |  |
| and other plans with promised interest crediting rates | |  |  |  |
| and an explanation of the reasons for significant gains | |  |  |  |
| and losses related to changes in the benefit obligation for | |  |  |  |
| the period. The amendments in this update are effective | |  |  |  |
| for fiscal years ending after December 15, 2020. The | |  |  |  |
| amendments in this update should be applied on a | |  |  |  |
| retrospective basis to all periods presented. | |  |  |  |



|  |  |  |  |
| --- | --- | --- | --- |
| ASU 2018-15, *Intangibles-* | The standard aligns the requirements for capitalizing | January 1, 2020; | The Company does not expect the adoption of this |
| *Goodwill and Other-Internal-Use* | implementation costs incurred in a hosting arrangement | early adoption is | standard to have a material impact on its Consolidated |
| *Software (Subtopic 350-40)* | that is a service contract with the requirements for | permitted | Financial Statements and related disclosures. The |
|  | capitalizing implementation costs incurred to develop or |  | Company currently plans to adopt this ASU on January |
|  | obtain internal-use software. The amendments in this |  | 1, 2020. |
|  | update also require companies to expense capitalized |  |  |
|  | implementation costs over the term of the hosting |  |  |
|  | arrangement, including periods covered by renewal |  |  |
|  | options that are reasonably certain to be exercised. The |  |  |
|  | amendments also stipulate presentation requirements for |  |  |
|  | the Statement of Operations, Balance Sheet and |  |  |
|  | Statement of Cash Flows. The amendments in this |  |  |
|  | update are effective for fiscal years beginning after |  |  |
|  | December 15, 2019, and interim periods within those |  |  |
|  | fiscal years. The amendments in this update should be |  |  |
|  | applied either retrospectively or prospectively to all |  |  |
|  | implementation costs incurred after the date of adoption. |  |  |



**2. REVENUE RECOGNITION**

The Company adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("Topic 606") on January 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption, with no impact to the opening retained earnings. The Company elected to adopt certain practical expedients outlined in Topic 606. As such, Veritiv does not include sales tax in the transaction price and does recognize revenue in the amount to which it has a right to invoice the customer as it believes that amount corresponds directly with the value provided to the customer. Additionally, Veritiv utilized certain exceptions allowed under Topic 606, including: (i) not assessing whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer and (ii) not disclosing the value of unsatisfied performance obligations for contracts with an original estimated length of time to convert of one year or less.

**Revenue Recognition**

Veritiv applies the five step model to assess its contracts with customers. The Company's revenue is reported as net sales and is measured as the determinable transaction price, net of any variable consideration (e.g., sales incentives and rights to return product) and any taxes collected from customers and remitted to governmental authorities.

When the Company enters into a sales arrangement with a customer, it believes it is probable that it will collect substantially all of the consideration to which it will be entitled in exchange for the goods or services that will be transferred

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to the customer. When management cannot conclude collectability is probable for shipments to a particular customer, revenue associated with that customer is not recognized until cash is collected or management is otherwise able to establish that collectability is probable. The Company has established credit and collection processes whereby collection assessments are performed and allowances for bad debt are recognized. As a normal business practice, Veritiv does not enter into contracts that require more than one year to complete or that contain significant financing components.

Additionally, Veritiv enters into incentive programs with certain of its customers, which are generally based on sales to those same customers. Veritiv follows the expected value method when estimating its retrospective incentives and records the estimated amount as a reduction to gross sales when revenue is recognized. Estimates of the variable consideration are based primarily on contract terms, current customer forecasts as well as historical experience.

Customer product returns are estimated based on historical experience and the identification of specific events necessitating an adjustment. The estimated return value is recognized as a reduction of gross sales and related cost of products sold. The estimated inventory returns value is recognized as part of inventories, while the estimated customer refund liability is recognized as part of other accrued liabilities on the Condensed Consolidated Balance Sheets.

A customer contract liability will arise when Veritiv has received payment for goods and services, but has not yet transferred the items to a customer and satisfied its performance obligations. Veritiv records a customer contract liability for performance obligations outstanding related to payments received in advance for customer deposits on equipment sales and its bill-and-hold arrangements. Veritiv expects to satisfy these remaining performance obligations and recognize the related revenues upon delivery of the goods and services to the customer's designated location within 12 months following receipt of the payment. Most equipment sales deposits are held for approximately 90 days and most bill-and-hold arrangements initially cover a 90 day period, but can be renewed by the customer.

As of June 30, 2019 and December 31, 2018, the Company recognized estimated inventory returns of approximately $2.1 million and $2.5 million, respectively, which are included in inventories on the Condensed Consolidated Balance Sheets. Additionally, the Company recognized customer contract liabilities related to its customer deposits for equipment sales and payments received for bill-and-hold arrangements, which are included in accounts payable on the Condensed Consolidated Balance Sheets. See the table below for a summary of the changes to the customer contract liabilities for the six months ended June 30, 2019 and 2018:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Customer Contract Liabilities** | | | |
|  |  |  |  |  |  |
| *(in millions)* |  | **2019** |  |  | **2018** |
|  |  |  |  |  |  |
| Balance at January 1 | $ | 17.7 |  | $ | 20.5 |
| Payments received |  | 24.4 |  |  | 24.2 |
|  |  |  |  |  |  |
| Revenue recognized from beginning balance |  | (17.2) |  |  | (13.8) |
| Revenue recognized from current year receipts |  | (12.8) |  |  | (11.7) |
|  |  |  |  |  |  |
| Balance at June 30 | $ | 12.1 |  | $ | 19.2 |
|  |  |  |  |  |  |

**Revenue Composition**

Veritiv’s revenues are primarily derived from purchase orders and rate agreements associated with (i) the delivery of standard listed products with observable standalone sale prices or (ii) transportation and warehousing services. Revenue generally consists of a single performance obligation to transfer a promised good or service and is short-term in nature. Revenues are recognized when control of the promised goods or services is transferred to Veritiv’s customers and in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods and services. Sales transactions with customers are designated free on board destination and revenue is recorded at the point in time when the product is delivered to the customer’s designated location or when the customer has otherwise obtained the benefit of the goods, when title and risk of loss are transferred. Revenues from Veritiv's transportation services are recognized upon completion of the related delivery services and revenues from warehousing services are recognized over time as the storage services are provided. The Company considers handling and delivery as activities to fulfill its performance obligations. Billings for third-party freight are accounted for as net sales and handling and delivery costs are accounted for as distribution expenses.

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Certain revenues are derived from shipments which are made directly from a manufacturer to a Veritiv customer. The Company is considered to be a principal to these transactions because, among other factors, it maintains control of the goods after they leave the supplier and before they are received at the customer's location, in most cases it selects the supplier and sets the price to the customer, and it bears the risk of the customer defaulting on payment or rejecting the goods. Revenues from these sales are reported on a gross basis in the Condensed Consolidated Statements of Operations and have historically represented approximately one-third of Veritiv's total net sales.

The Company has determined that certain services provided to customers represent activities necessary to obtain or fulfill the contract and deliver the end product to the customer's designated location. These costs have been evaluated and do not meet the criteria for recognition as capitalizable costs. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from both net sales and expenses.

Veritiv evaluated the nature of the products and services provided to its customers as well as the nature of the customer and the geographical distribution of its customer base and determined that the best representative level of disaggregated revenue is the product category basis as shown in the segment results. The Company is able to serve a wide variety of customers, from large national companies to small local customers, through its distribution network. Historically, the Company's ten largest customers have generated less than 10% of its consolidated annual net sales. Veritiv’s principal markets are concentrated primarily across North America with net sales in the U.S., Canada and Mexico of approximately 90%, 8% and 1%, respectively.

The following is a brief description of the Company's four reportable segments, organized by major product category:

* ***Packaging*** – The Packaging segment provides standard as well as custom and comprehensive packaging solutions for customers based in NorthAmerica and in key global markets. The business is strategically focused on higher growth industries including light industrial/general manufacturing, food processing, fulfillment and internet retail, as well as niche verticals based on geographical and functional expertise. This segment also provides supply chain solutions, structural and graphic packaging design and engineering, automation, workflow and equipment services and kitting and fulfillment.
* ***Facility Solutions*** – The Facility Solutions segment sources and sells cleaning, break-room and other supplies such as towels, tissues, wipers anddispensers, can liners, commercial cleaning chemicals, soaps and sanitizers, sanitary maintenance supplies and equipment, safety and hazard supplies, and shampoos and amenities primarily in the U.S., Canada and Mexico. Additionally, the Company offers total cost of ownership solutions with re-merchandising, budgeting and compliance reporting, and inventory management.
* ***Print*** – The Print segment sells and distributes commercial printing, writing, copying, digital, paper-based wide format and specialty products,graphics consumables and graphics equipment primarily in the U.S., Canada and Mexico. This segment also includes customized paper conversion services of commercial printing paper for distribution to document centers and form printers. Veritiv's broad geographic platform of operations coupled with the breadth of paper and graphics products, including exclusive private brand offerings, provides a foundation to service national, regional and local customers across North America.
* ***Publishing*** – The Publishing segment sells and distributes coated and uncoated commercial printing papers to publishers, retailers, converters,printers and specialty businesses for use in magazines, catalogs, books, directories, gaming, couponing, retail inserts and direct mail. This segment also provides print management, procurement and supply chain management solutions to simplify paper and print procurement processes for its customers.

The Company’s consolidated financial results also include a "Corporate & Other" category which includes certain assets and costs not primarily attributable to any of the reportable segments. Corporate & Other also includes the Veritiv logistics solutions business which provides transportation and warehousing solutions.

See [Note 13, Segment Information](#page28), for the disaggregation of revenue and other information related to the Company’s reportable segments and Corporate & Other.

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**3. LEASES**

The Company adopted Topic 842*,* and its related interpretations on January 1, 2019, applying the additional transition approach, available under ASU 2018-11, *Leases*, whereby the new lease standard is applied at the adoption date recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, the reporting for the comparative periods presented in the financial statements in which the new lease standard is adopted will continue to be reported in accordance with Topic 840, *Leases*. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed for the carry-forward of historical lease classification. The Company did not elect the hindsight practical expedient in determining lease terms for existing leases and when assessing existing ROU assets for impairment. The Company does not expect the new accounting standard to have a material effect on future financial results as the adoption did not change the lease classifications of its historical operating leases. The Company’s accounting for finance leases, previously reported as capital leases and financing obligations, remained unchanged except for the Company's one non-related party failed sale-leaseback. The Company determined that upon transition to Topic 842, the previously reported failed sale-leaseback financing obligation would be reported as a financing lease, and its land operating lease would now be combined with its building finance lease and reported together as one finance lease. Finance leases are reported as part of property and equipment, net and debt obligations on the Condensed Consolidated Balance Sheets. The Company elected the practical expedients permitted under Topic 842 and made accounting policy elections to (i) not include short-term leases on the balance sheets and (ii) not separate lease and non-lease components for its delivery equipment leases. The Company determines if an arrangement is a lease at lease inception and reviews lease arrangements for finance or operating lease classification at their commencement date. The Company leases certain property and equipment used for operations to limit exposure to risks related to ownership. The major leased asset categories include: real estate, delivery equipment, material handling equipment and computer and office equipment.

As of June 30, 2019, the Company had a distribution network operating from approximately 160 distribution centers of which approximately 150 were leased. These facilities are strategically located throughout the U.S., Canada and Mexico in order to efficiently serve the customer base in the surrounding areas while also facilitating expedited delivery services for special orders. The Company also leases various office spaces for corporate and sales functions. Real estate leases generally carry lease terms of three to seven years. Delivery equipment leases generally carry lease terms of three to eight years and other non-real estate leases generally carry lease terms of three to five years. In order to value the ROU assets and related liabilities, the Company makes certain estimates and assumptions related to establishing the lease term, discount rates and variable lease payments (e.g., rent escalations tied to changes in the Consumer Price Index). The exercise of any lease renewal or asset purchase option is at the Company’s sole discretion. The lease term for all of the Company's leases includes the noncancelable period of the lease and any periods covered by renewal options that the Company is reasonably certain to exercise. Certain leases include rent escalations pre-set in the agreements, which are factored into the lease payment stream. Similar to a variable lease payment, certain delivery equipment leases include a provision for an amount the Company may have to pay at the end of the lease for any residual value deficiency incurred by the lessor upon resale of the underlying asset. The Company uses the implicit rate of interest when it is available; however, as most of the Company’s leases do not provide an implicit rate of interest, the Company uses its incremental borrowing rate based on information available at the lease commencement date in determining the discounted value of the lease payments. Lease expense and depreciation expense are recognized on a straight-line basis over the lease term, or for a finance lease, over the shorter of the life of the underlying asset or the lease term.

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The components of lease expense were as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| *(in millions)* |  | **Three Months Ended June** | | | **Six Months Ended June 30,** | |
| **Lease Classification** | **Financial Statement Classification** |  | **30, 2019** |  |  | **2019** |
|  |  |  |  |  |  |  |
| **Short-term lease expense**(1) | Operating expenses | $ | 2.2 |  | $ | 4.1 |
|  |  |  |  |  |  |  |
| **Operating lease expense**(2) | Operating expenses | $ | 27.4 |  | $ | 54.7 |
|  |  |  |  |  |  |  |
| **Finance lease expense:** |  |  |  |  |  |  |
| Amortization of right-of-use assets | Depreciation and amortization | $ | 2.6 |  | $ | 4.9 |
|  |  |  |  |  |  |  |
| Interest expense | Interest expense, net |  | 0.5 |  |  | 1.0 |
| Total finance lease expense |  | $ | 3.1 |  | $ | 5.9 |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **Total Lease Cost** |  | $ | 32.7 |  | $ | 64.7 |



1. Short-term lease expense includes expenses related to leases with a term of one month or less.
2. Sublease income and variable lease expense are not included in the above table as the amounts were immaterial for the three and six months ended June 30, 2019.



Supplemental balance sheet and other information were as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| *(in millions, except weighted-average data)* |  |  |  |
| **Lease Classification** | **Financial Statement Classification** |  | **June 30, 2019** |
|  |  |  |  |
| **Operating Leases:** |  |  |  |
| Operating lease right-of-use assets | Other non-current assets | $ | 412.3 |
|  |  |  |  |
|  |  |  |  |
| Operating lease obligations - current | Other accrued liabilities | $ | 87.4 |
|  |  |  |  |
| Operating lease obligations - non-current | Other non-current liabilities |  | 358.3 |
| Total operating lease obligations |  | $ | 445.7 |
|  |  |  |  |
|  |  |  |  |
| Weighted-average remaining lease term in years |  |  | 6.5 |
|  |  |  |  |
| Weighted-average discount rate |  |  | 4.5% |
|  |  |  |  |
| **Finance Leases:** |  |  |  |
| Finance lease right-of-use assets | Property and equipment | $ | 63.8 |
|  |  |  |  |
|  |  |  |  |
| Finance lease obligations - current | Current maturities of long-term debt | $ | 8.9 |
|  |  |  |  |
| Finance lease obligations - non-current | Long-term debt, net of current maturities |  | 58.0 |
| Total finance lease obligations |  | $ | 66.9 |
|  |  |  |  |
| Weighted-average remaining lease term in years |  |  | 8.7 |
|  |  |  |  |
| Weighted-average discount rate |  |  | 3.2% |
|  | 13 |  |  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  | | |  |  |  |  |
| Cash paid for amounts included in the measurement of lease liabilities was as follows: | | | |  |  |  |  |
| *(in millions)* | |  |  |  | **Six Months Ended June 30,** | | |
| **Lease Classification** | | **Financial Statement Classification** | |  |  |  | **2019** |
|  |  |  |  |  |  |  |  |
| **Operating Leases:** | |  |  |  |  |  |  |
| Operating cash flows from operating leases | | Operating activities | |  | $ |  | 53.6 |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| **Finance Leases:** | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| Operating cash flows from finance leases | | Operating activities | |  | $ |  | 1.0 |
| Financing cash flows from finance leases | | Financing activities | |  |  |  | 4.2 |
| **Lease Commitments** | |  |  |  |  |  |  |
| Future minimum lease payments at June 30, 2019 were as follows: | | | |  |  |  |  |
| *(in millions)* | |  |  | **Finance Leases** |  |  | **Operating Leases(1)** |
| 2019 (excluding the six months ended June 30, 2019) | | $ | | 5.5 | $ | | 54.0 |
| 2020 |  |  |  | 10.7 |  |  | 100.4 |
|  |  |  |  |  |  |  |  |
| 2021 |  |  |  | 10.0 |  |  | 84.4 |
| 2022 |  |  |  | 9.5 |  |  | 70.0 |
|  |  |  |  |  |  |  |  |
| 2023 |  |  |  | 8.4 |  |  | 49.5 |
| 2024 |  |  |  | 6.9 |  |  | 40.1 |
|  |  |  |  |  |  |  |  |
| Thereafter | |  |  | 26.4 |  |  | 119.6 |
| Total future minimum lease payments | |  |  | 77.4 |  |  | 518.0 |
|  |  |  |  |  |  |  |  |
| Amount representing interest | |  |  | (10.5) |  |  | (72.3) |
| Total future minimum lease payments, net of interest | |  | $ | 66.9 |  | $ | 445.7 |



1. Future sublease income is not included in the above table as the amount is immaterial.



Total future minimum lease payments at June 30, 2019 for finance and operating leases, including the amount representing interest, are comprised of $517.4 million for real estate leases and $78.0 million for non-real estate leases.

At June 30, 2019, the Company had committed to additional future obligations of approximately $52 million for operating leases of real estate that have not yet commenced and therefore are not included in the table above. These leases will commence over the next six months with an average lease term of seven years.

Future minimum lease payments at December 31, 2018 were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Financing Obligation and** | |  |  |  |  | **Operating Leases** | |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| *(in millions)* |  | **Equipment Capital Leases** | |  | **Lease Obligations** | |  | **Sublease Income** | |  | **Total** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2019 | $ | 9.3 |  | $ | 108.3 |  | $ | (0.3) |  | $ | 108.0 |  |
| 2020 |  | 9.0 |  |  | 98.3 |  |  | (0.1) |  |  | 98.2 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2021 |  | 8.3 |  |  | 82.2 |  |  | — | |  | 82.2 |  |
| 2022 |  | 7.9 |  |  | 69.3 |  |  | — | |  | 69.3 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2023 |  | 6.8 |  |  | 49.4 |  |  | — | |  | 49.4 |  |
| Thereafter |  | 23.0 |  |  | 173.4 |  |  | — | |  | 173.4 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | 64.3 |  |  | 580.9 |  |  | (0.4) |  |  | 580.5 |  |
| Amount representing interest |  | (11.6) |  |  | — | |  | — | |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total future minimum lease payments | $ | 52.7 |  | $ | 580.9 |  | $ | (0.4) |  | $ | 580.5 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
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**4. INTEGRATION, ACQUISITION AND RESTRUCTURING CHARGES**

**Merger of xpedx and Unisource**

The Company currently expects net costs and charges associated with achieving anticipated cost savings and other synergies from the Merger (excluding charges relating to the complete or partial withdrawal from multi-employer pension plans ("MEPP"), some of which are uncertain at this time, and including cash proceeds from sales of assets related to consolidation), to be approximately $315 million to $325 million through December 31, 2019. Included in the estimate is approximately $120 million to $125 million for capital expenditures, primarily consisting of information technology infrastructure, systems integration and planning. Through June 30, 2019, the Company has incurred approximately $302 million in costs and charges, including approximately $111 million for capital expenditures.

**Integration and Acquisition Expenses**

During the three and six months ended June 30, 2019 and 2018, Veritiv incurred costs and charges related primarily to: internally dedicated integration management resources, retention compensation, information technology conversion costs, professional services and other costs to integrate its businesses.

The following table summarizes the components of integration and acquisition expenses:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | |  | **Six Months Ended** | | |  |
|  |  | **June 30,** | | |  |  |  | **June 30,** | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| *(in millions)* |  | **2019** |  |  | **2018** |  |  | **2019** |  |  | **2018** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Integration management | $ | 2.7 |  | $ | 4.5 |  | $ | 5.4 |  | $ | 8.9 |
| Retention compensation |  | (0.1) |  |  | 0.1 |  |  | (0.1) |  |  | 0.1 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Information technology conversion costs |  | 1.0 |  |  | 2.4 |  |  | 1.8 |  |  | 4.5 |
| Legal, consulting and other professional fees |  | — | |  | 0.1 |  |  | — | |  | 0.3 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Other |  | 0.6 |  |  | 0.9 |  |  | 1.2 |  |  | 1.5 |
| All American Containers ("AAC") integration and |  |  |  |  |  |  |  |  |  |  |  |
| acquisition |  | 0.3 |  |  | 0.4 |  |  | 0.5 |  |  | 1.4 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Total integration and acquisition expenses | $ | 4.5 |  | $ | 8.4 |  | $ | 8.8 |  | $ | 16.7 |
|  |  |  |  |  |  |  |  |  |  |  |  |

**Veritiv Restructuring Plan: Merger Related**

As part of the Merger, the Company is executing on a multi-year restructuring program of its North American operations intended to integrate the legacy xpedx and Unisource operations, generate cost savings and capture synergies across the combined company. The restructuring plan includes initiatives to (i) consolidate warehouse facilities in overlapping markets, (ii) improve efficiency of the delivery network, (iii) consolidate customer service centers, (iv) reorganize the field sales and operations functions and (v) restructure the corporate general and administrative functions. As part of its restructuring efforts, the Company continues to evaluate its operations outside of North America to identify additional cost saving opportunities. The Company may elect to restructure its operations in specific countries, which may include staff reductions, lease terminations and facility closures, or the complete exit of a market. The Company may continue to record restructuring charges in the future as restructuring activities progress, which may include gains or losses from the disposition of assets. See [Note 13, Segment Information,](#page28) for the impact these charges had on the Company's reportable segments.

Related to these company-wide initiatives, the Company recorded net restructuring charges of $6.9 million and $11.1 million for the three months ended June 30, 2019 and 2018, respectively, and $9.3 million and $13.7 million for the six months ended June 30, 2019 and 2018, respectively. On June 30, 2018, the related party failed sale-leaseback agreements, originally entered into with Georgia-Pacific, expired in accordance with their terms. The agreements contained provisions that required Veritiv to incur costs during the lease term related to general repairs and maintenance. Certain termination and repair costs were incurred at or near the end of the agreements' expirations. Costs related to properties that were exited as part of the restructuring plan were included in restructuring charges, net, on the Condensed Consolidated Statements of

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Operations, and totaled $10.0 million and $10.4 million for the three and six months ended June 30, 2018, respectively. Also, during the three and six months ended June 30, 2018, the Company recognized a $2.1 million gain on the sale of a facility.

Other direct costs reported in the tables below include facility closing costs, actual and estimated MEPP withdrawal charges and other incidental costs associated with the development, communication, administration and implementation of these initiatives.

The following table presents a summary of restructuring charges, net, related to active restructuring initiatives that were incurred during the current fiscal year, prior fiscal years and the cumulative recorded amounts since the initiatives began:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **(Gain) Loss on Sale** | |
|  |  | **Severance and** | |  |  |  | **of Assets and Other** | |
| *(in millions)* |  | **Related Costs** | | **Other Direct Costs** | | | **(non-cash portion)** | |
|  |  |  |  |  |  |  |  |  |
| 2019 (year-to-date) | $ | 4.5 |  | $ | 5.0 |  | $ | (0.2) |
| 2018 |  | 3.3 |  |  | 22.3 |  |  | (15.0) |
| Prior years |  | 20.0 |  |  | 47.9 |  |  | (22.4) |
|  |  |  |  |  |  |  |  |  |
| Cumulative | $ | 27.8 |  | $ | 75.2 |  | $ | (37.6) |
|  |  |  |  |  |  |  |  |  |



**Total**

* 9.3

10.6

45.5



* 65.4



The following is a summary of the Company's restructuring liability activity for the three and six months ended June 30, 2019 (costs incurred exclude any non-cash portion of restructuring gains or losses on asset disposals):

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Severance and** | |  | **Other Direct** | |  |  |
| *(in millions)* |  | **Related Costs** | |  | **Costs** | |  | **Total** |
|  |  |  |  |  |  |  |  |  |
| Balance at December 31, 2018 | $ | 4.7 |  | $ | 25.1 |  | $ | 29.8 |
| Costs incurred |  | 1.3 |  |  | 1.3 |  |  | 2.6 |
|  |  |  |  |  |  |  |  |  |
| Payments |  | (1.0) |  |  | (3.1) |  |  | (4.1) |
| Balance at March 31, 2019 |  | 5.0 |  |  | 23.3 |  |  | 28.3 |
|  |  |  |  |  |  |  |  |  |
| Costs incurred |  | 3.2 |  |  | 3.7 |  |  | 6.9 |
| Payments |  | (1.3) |  |  | (2.2) |  |  | (3.5) |
|  |  |  |  |  |  |  |  |  |
| Balance at June 30, 2019 | $ | 6.9 |  | $ | 24.8 |  | $ | 31.7 |
|  |  |  |  |  |  |  |  |  |

The following is a summary of the Company's restructuring liability activity for the three and six months ended June 30, 2018 (costs incurred exclude any non-cash portion of restructuring gains or losses on asset disposals):

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Severance and** | |  | **Other Direct** | |  |  |
| *(in millions)* |  | **Related Costs** | |  | **Costs** | |  | **Total** |
|  |  |  |  |  |  |  |  |  |
| Balance at December 31, 2017 | $ | 4.4 |  | $ | 25.2 |  | $ | 29.6 |
| Costs incurred |  | 0.2 |  |  | 2.4 |  |  | 2.6 |
|  |  |  |  |  |  |  |  |  |
| Payments |  | (1.0) |  |  | (2.1) |  |  | (3.1) |
| Balance at March 31, 2018 |  | 3.6 |  |  | 25.5 |  |  | 29.1 |
|  |  |  |  |  |  |  |  |  |
| Costs incurred |  | 0.3 |  |  | 13.3 |  |  | 13.6 |
| Payments |  | (0.3) |  |  | (8.9) |  |  | (9.2) |
|  |  |  |  |  |  |  |  |  |
| Balance at June 30, 2018 | $ | 3.6 |  | $ | 29.9 |  | $ | 33.5 |
|  |  |  |  |  |  |  |  |  |
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**Veritiv Restructuring Plan: Print Segment**

To ensure that Veritiv is appropriately positioned to respond to the secular decline in the paper industry, the Company restructured its Print segment in 2018. The restructuring plan included initiatives within the Company's Print segment to improve the sustainability of the print business, better serve its customers’ needs and work more effectively with suppliers by incorporating a more customer focused, collaborative, team-selling approach as well as better aligning its support functions. The Company completed its efforts as of December 31, 2018 incurring costs of $10.7 million. During the three and six months ended June 30, 2019 the Company paid $0.5 million and $1.7 million, respectively, of the Print segment restructuring liability and had a remaining balance of $0.3 million at June 30, 2019.

The following is a summary of the Company's Print restructuring liability activity for the three and six months ended June 30, 2018:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Severance and** | |  | **Other Direct** | |  |  |
| *(in millions)* |  | **Related Costs** | |  | **Costs** | |  | **Total** |
|  |  |  |  |  |  |  |  |  |
| Balance at December 31, 2017 | $ | — | | $ | — | | $ | — |
| Costs incurred |  | 9.2 |  |  | 0.1 |  |  | 9.3 |
|  |  |  |  |  |  |  |  |  |
| Payments |  | (0.7) |  |  | 0.0 |  |  | (0.7) |
| Balance at March 31, 2018 |  | 8.5 |  |  | 0.1 |  |  | 8.6 |
|  |  |  |  |  |  |  |  |  |
| Costs incurred |  | 0.0 |  |  | 0.3 |  |  | 0.3 |
| Payments |  | (3.0) |  |  | (0.3) |  |  | (3.3) |
|  |  |  |  |  |  |  |  |  |
| Balance at June 30, 2018 | $ | 5.5 |  | $ | 0.1 |  | $ | 5.6 |
|  |  |  |  |  |  |  |  |  |

**5. DEBT AND OTHER OBLIGATIONS**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| The Company's long-term debt obligations were as follows: | |  |  |  |  |  |
|  | *(in millions)* |  | **June 30, 2019** | |  | **December 31, 2018** |
|  |  |  |  |  |  |  |
|  | Asset-Based Lending Facility (the "ABL Facility") | $ | 757.1 |  | $ | 932.1 |
|  | Finance and capital leases, respectively |  | 66.9 |  |  | 38.2 |
|  |  |  |  |  |  |  |
|  | Total debt |  | 824.0 |  |  | 970.3 |
|  | Less: current maturities of long-term debt |  | (8.9) |  |  | (6.7) |
|  |  |  |  |  |  |  |
|  | Long-term debt, net of current maturities | $ | 815.1 |  | $ | 963.6 |
|  |  |  |  |  |  |  |

The Company determined that, upon transition to Topic 842, the previously reported failed sale-leaseback financing obligation would be reported as a financing lease, and its land operating lease would now be combined with its building finance lease and reported together as one finance lease, which is reported as part of the debt obligations in the table above. As the Company adopted Topic 842 using an approach whereby the prior reporting periods have not been restated to reflect the new guidance, the financing obligation value of that one previously reported failed sale-leaseback is shown below as of December 31, 2018:

|  |  |  |
| --- | --- | --- |
| *(in millions)* |  | **December 31, 2018** |
|  |  |  |
| Obligations - other financing | $ | 24.2 |
| Less: current portion of financing obligations |  | (0.6) |
|  |  |  |
| Financing obligations, less current portion | $ | 23.6 |
|  |  |  |

Availability under the ABL Facility is determined based upon a monthly borrowing base calculation which includes eligible customer receivables and inventory, less outstanding borrowings, letters of credit and certain designated reserves. As of June 30, 2019, the available additional borrowing capacity under the ABL Facility was approximately $321.3 million. As of June 30, 2019, the Company held $13.0 million in outstanding letters of credit.

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The ABL Facility has a springing minimum fixed charge coverage ratio of at least 1.00 to 1.00 on a trailing four-quarter basis, which will be tested only when specified availability is less than the limits outlined under the ABL Facility. At June 30, 2019, the above test was not applicable and it is not expected to be applicable in the next 12 months.

**6. INCOME TAXES**

The Company has historically calculated the provision or benefit for income taxes during interim reporting periods by applying an estimate of the annual effective tax rate ("AETR") for the full fiscal year to “ordinary” income or loss (pre-tax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. Beginning in 2018, the Company determined it could no longer reliably estimate income taxes utilizing an AETR for interim reporting periods. The AETR estimate is highly sensitive to estimates of ordinary income (loss) and permanent differences such that minor fluctuations in these estimates could result in significant fluctuations of the Company’s AETR. Accordingly, Veritiv used its actual year-to-date effective tax rate to calculate taxes for the three and six months ended June 30, 2019 and 2018.

The following table presents the benefit for income taxes and the effective tax rates for the three and six months ended June 30, 2019 and 2018:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | | |  | **Six Months Ended June 30,** | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
| *(in millions)* |  | **2019** |  |  | **2018** |  |  | **2019** |  |  | **2018** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Loss before income taxes | $ | (11.9) |  | $ | (13.3) |  | $ | (45.4) |  | $ | (31.0) |
| Income tax benefit |  | (0.6) |  |  | (2.7) |  |  | (7.4) |  |  | (4.6) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Effective tax rate |  | 5.0% |  |  | 20.3% |  |  | 16.3% |  |  | 14.8% |
|  |  |  |  |  |  |  |  |  |  |  |  |

The difference between the Company’s effective tax rates for the three and six months ended June 30, 2019 and 2018 and the U.S. statutory tax rate of 21.0% primarily relates to state income taxes (net of federal income tax benefit), tax expense for stock compensation vesting, Global Intangible Low-Taxed Income, non-deductible expenses, tax credits and the Company's income (loss) by jurisdiction. The Company's net operating loss ("NOL" or "NOLs") carryforwards continue to be subject to Section 382 limitations. In accordance with Notice 2003-65, the Company was in a net unrealized built-in gain position at the time of the Merger. During the three months ended June 30, 2019, the Company's five year recognition period to recognize built-in gain ended. As such, the deferred tax asset and valuation allowance representing the book basis in excess of tax basis of various assets was written-off. There was no impact to the effective tax rate. The effective tax rate for the full year 2019 may vary significantly due to potential fluctuations in the amount and source, including both foreign and domestic, of pre-tax income and changes in amounts of non-deductible expenses, and other items that could impact the effective tax rate.

In January 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income* *(Topic 220): Reclassification of Certain Tax Effects from accumulated other comprehensive income (AOCI)* ("AOCI"), which gives companies the option toreclassify to retained earnings tax effects resulting from the Tax Act related to items in AOCI that the FASB refers to as having been stranded in AOCI.

Veritiv elected to early adopt ASU 2018-02 as of January 1, 2018. As a result of adopting this standard, the Company reclassified $0.8 million from Veritiv's accumulated other comprehensive loss to retained earnings.

**7. RELATED PARTY TRANSACTIONS**

**Agreements with the UWWH Stockholder**

In January 2019 and 2018, in connection with the Tax Receivable Agreement ("TRA") executed at the time of the Merger, Veritiv paid $8.1 million and $10.1 million, respectively, in principal and interest to UWW Holdings, LLC (the "UWWH Stockholder"), one of Veritiv's existing stockholders and the [former sole stockholder of UWWH, for the utilization of pre-merger NOLs in its 2017 and 2016 federal and state tax returns, respectively. See Note 9, Fair](#page23) [Value Measurements, for additional information regarding the TRA.](#page23)

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**Transactions with Georgia-Pacific**

Veritiv purchases certain inventory items from, and sells certain inventory items to, Georgia-Pacific in the normal course of business. As a result of the Merger and related private placement, Georgia-Pacific, as joint owner of the UWWH Stockholder, is a related party.

The following tables summarize the financial impact of these related party transactions with Georgia-Pacific:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June 30,** | | | | |  | **Six Months Ended June 30,** | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |
| *(in millions)* |  | **2019** |  |  | **2018** |  |  | **2019** |  |  | **2018** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Sales to Georgia-Pacific, reflected in net sales | $ | 5.2 |  | $ | 7.8 |  | $ | 11.6 |  | $ | 14.7 |
| Purchases of inventory from Georgia-Pacific, recognized in cost of products |  |  |  |  |  |  |  |  |  |  |  |
| sold |  | 21.4 |  |  | 35.8 |  |  | 46.2 |  |  | 77.9 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *(in millions)* |  | **June 30, 2019** | |  | **December 31, 2018** |
|  |  |  |  |  |  |
| Inventories purchased from Georgia-Pacific that remained on Veritiv's balance sheet | $ | 12.6 |  | $ | 17.3 |
| Related party payable to Georgia-Pacific |  | 6.3 |  |  | 9.3 |
|  |  |  |  |  |  |
| Related party receivable from Georgia-Pacific |  | 2.4 |  |  | 3.2 |
|  |  |  |  |  |  |

**8. DEFINED BENEFIT PLANS**

Veritiv does not maintain any active defined benefit plans for its non-union employees. Veritiv maintains a defined benefit pension plan in the U.S. for employees covered by certain collective bargaining agreements. Veritiv also assumed responsibility for Unisource’s defined benefit plans, which include frozen cash balance accounts for certain former Unisource employees. Total net periodic benefit cost (credit) associated with these plans is summarized below:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended June** | | | | | **Three Months Ended June** | | | | |  |
|  |  |  | **30, 2019** | | | |  |  | **30, 2018** | | | |  |
|  |  |  |  | |  |  |  |  |  | |  |  |  |
| *(in millions)* |  |  | **U.S.** | |  | **Canada** | |  | **U.S.** | |  | **Canada** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Components of net periodic benefit cost (credit): |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Service cost | $ | | 0.5 |  | $ | 0.1 |  | $ | 0.5 |  | $ | 0.1 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest cost | $ | | 0.5 |  | $ | 0.8 |  | $ | 0.7 |  | $ | 0.7 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Expected return on plan assets |  |  | (0.8) |  |  | (1.0) |  |  | (1.3) |  |  | (1.0) |  |
| Amortization of net loss |  |  | — | |  | 0.0 |  |  | — | |  | 0.0 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total other components |  | $ | (0.3) |  | $ | (0.2) |  | $ | (0.6) |  | $ | (0.3) |  |
| Net periodic benefit cost (credit) |  | $ | 0.2 |  | $ | (0.1) |  | $ | (0.1) |  | $ | (0.2) |  |
|  | 19 |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  | **Six Months Ended June 30,** | | | | | | **Six Months Ended June 30,** | | | | |
|  |  |  |  | **2019** | | |  |  |  | **2018** | | |  |
|  |  |  |  |  | |  |  |  |  |  | |  |  |
|  | *(in millions)* | |  | **U.S.** | |  | **Canada** | |  | **U.S.** | |  | **Canada** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Components of net periodic benefit (credit) cost: | |  |  |  |  |  |  |  |  |  |  |  |
|  | Service cost | | $ | 0.9 |  | $ | 0.2 |  | $ | 1.0 |  | $ | 0.2 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Interest cost | | $ | 1.1 |  | $ | 1.5 |  | $ | 1.3 |  | $ | 1.4 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Expected return on plan assets | |  | (1.7) |  |  | (1.9) |  |  | (2.7) |  |  | (2.0) |
|  | Amortization of net loss | |  | 0.1 |  |  | 0.0 |  |  | — | |  | 0.1 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Total other components | | $ | (0.5) |  | $ | (0.4) |  | $ | (1.4) |  | $ | (0.5) |
|  | Net periodic benefit (credit) cost | | $ | 0.4 |  | $ | (0.2) |  | $ | (0.4) |  | $ | (0.3) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |

The components of net periodic benefit cost (credit) other than the service cost component are included in other (income) expense, net in the Condensed Consolidated Statements of Operations.

**9. FAIR VALUE MEASUREMENTS**

At June 30, 2019 and December 31, 2018, the carrying amounts of cash, receivables, payables and other components of other current assets and other accrued liabilities approximate their fair values due to the short maturity of these items. Borrowings under the ABL Facility are at variable market interest rates and, accordingly, the carrying amount approximates fair value. See [Note 5, Debt and Other Obligations](#page20), for additional information regarding the Company's ABL Facility.

The Company's liabilities disclosed at fair value at June 30, 2019 were as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *(in millions)* |  | **Total** | **Level 1** | **Level 2** | **Level 3** |
|  |  |  |  |  |  |
| ABL Facility | $ | 757.1 | $ | 757.1 |  |
| TRA contingent liability |  | 32.6 |  |  | 32.6 |
|  |  |  |  |  |  |
| AAC contingent consideration |  | 22.5 |  |  | 22.5 |
|  |  |  |  |  |  |

The Company's liabilities disclosed at fair value at December 31, 2018 were as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *(in millions)* |  | **Total** | **Level 1** | **Level 2** | **Level 3** |
|  |  |  |  |  |  |
| ABL Facility | $ | 932.1 | $ | 932.1 |  |
| TRA contingent liability |  | 38.9 |  |  | 38.9 |
|  |  |  |  |  |  |
| AAC contingent consideration |  | 9.4 |  |  | 9.4 |
|  |  |  |  |  |  |

At the time of the Merger, the Company recorded a $59.4 million contingent liability associated with the TRA at fair value using a discounted cash flow model that reflected management's expectations about probability of payment. The fair value of the TRA contingent liability is a Level 3 measurement, which relied upon both Level 2 data (publicly observable data such as market interest rates) and Level 3 data (internal data such as the Company’s projected revenues, taxable income and assumptions about the utilization of Unisource’s NOLs, attributable to taxable periods prior to the Merger, by the Company).

The amount payable under the TRA is contingent on the Company generating a certain level of taxable income prior to the expiration of the NOL carry-forwards. Moreover, future trading of Company stock by significant shareholders may result in additional ownership changes as defined under Section 382 of the Internal Revenue Code, further limiting the use of Unisource's NOLs and the amount ultimately payable under the TRA. The contingent liability is remeasured at fair value at each reporting period-end with the change in fair value recognized in other (income) expense, net on the Condensed Consolidated Statements of Operations. At June 30, 2019, the Company remeasured the contingent liability using a discount rate of 4.3% (Moody's daily long-term corporate BAA bond yield). For the TRA contingent liability, there have been no

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transfers between the fair value measurement levels for the three and six months ended June 30, 2019. The Company recognizes transfers between the fair value measurement levels at the end of the reporting period.

The following table provides a reconciliation of the beginning and ending balance of the TRA contingent liability for the three and six months ended

June 30, 2019:

|  |  |  |
| --- | --- | --- |
| *(in millions)* |  | **TRA Contingent Liability** |
|  |  |  |
| Balance at December 31, 2018 | $ | 38.9 |
| Change in fair value adjustment recorded in other (income) expense, net |  | 0.9 |
|  |  |  |
| Principal payment |  | (7.8) |
| Balance at March 31, 2019 |  | 32.0 |
|  |  |  |
| Change in fair value adjustment recorded in other (income) expense, net |  | 0.6 |
| Balance at June 30, 2019 | $ | 32.6 |
|  |  |  |

The following table provides a reconciliation of the beginning and ending balance of the TRA contingent liability for the three and six months ended

June 30, 2018:

|  |  |  |
| --- | --- | --- |
| *(in millions)* |  | **TRA Contingent Liability** |
|  |  |  |
| Balance at December 31, 2017 | $ | 50.0 |
| Change in fair value adjustment recorded in other (income) expense, net |  | (0.2) |
|  |  |  |
| Principal payment |  | (9.9) |
| Balance at March 31, 2018 |  | 39.9 |
|  |  |  |
| Change in fair value adjustment recorded in other (income) expense, net |  | (0.2) |
| Balance at June 30, 2018 | $ | 39.7 |
|  |  |  |

On August 31, 2017 (the "Acquisition Date"), Veritiv completed its acquisition of 100% of the equity interests in various AAC entities. The purchase price allocation for the acquisition of AAC included $22.2 million for the estimated fair value of contingent consideration. The maximum amount payable for the contingent consideration was $50.0 million, with up to $25.0 million payable at each of the first and second anniversaries of the Acquisition Date. The Company paid $2.5 million on December 26, 2018 for contingent consideration earned as of the first anniversary of the Acquisition Date. The amount payable as of the second anniversary of the Acquisition Date will be determined based on actual growth rates in revenue and gross profit. The initial fair value estimate was based on historic growth patterns and future forecasts, which are Level 3 data. The valuation of contingent consideration uses assumptions and estimates to forecast a range of outcomes and probabilities for the contingent consideration. The contingent consideration is valued using actual and forecasted revenues and cost of products sold (Level 3 data). The Company assesses these assumptions and estimates on a quarterly basis as additional data impacting the assumptions is obtained. Any changes in the fair value of contingent consideration related to updated assumptions and estimates are recognized within other (income) expense, net, in the Condensed Consolidated Statements of Operations during the period in which the change occurs.

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The following table provides a reconciliation of the beginning and ending balance of the AAC contingent liability for the three and six months ended

June 30, 2019:

|  |  |  |
| --- | --- | --- |
| *(in millions)* |  | **AAC Contingent Liability** |
|  |  |  |
| Balance at December 31, 2018 | $ | 9.4 |
| Change in fair value adjustment recorded in other (income) expense, net |  | 5.4 |
|  |  |  |
| Balance at March 31, 2019 |  | 14.8 |
| Change in fair value adjustment recorded in other (income) expense, net |  | 7.7 |
|  |  |  |
| Balance at June 30, 2019 | $ | 22.5 |
|  |  |  |

The following table provides a reconciliation of the beginning and ending balance of the AAC contingent liability for the three and six months ended

June 30, 2018:

|  |  |  |
| --- | --- | --- |
| *(in millions)* |  | **AAC Contingent Liability** |
|  |  |  |
| Balance at December 31, 2017 | $ | 24.2 |
| Change in fair value adjustment recorded in other (income) expense, net |  | (8.3) |
|  |  |  |
| Balance at March 31, 2018 |  | 15.9 |
| Change in fair value adjustment recorded in other (income) expense, net |  | (3.0) |
|  |  |  |
| Balance at June 30, 2018 | $ | 12.9 |
|  |  |  |

**10. EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per share for Veritiv common stock is calculated by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is similarly calculated, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued, except where the inclusion of such common shares would have an antidilutive impact.

A summary of the numerators and denominators used in the basic and diluted loss per share calculations for the reportable periods is as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | |  | **Six Months Ended** | | | |
|  |  | **June 30,** | | |  |  |  | **June 30,** | | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| *(in millions, except per share data)* |  | **2019** |  |  | **2018** |  |  | **2019** |  |  | **2018** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Numerator:** |  |  |  |  |  |  |  |  |  |  |  |
| Net loss | $ | (11.3) |  | $ | (10.6) |  | $ | (38.0) |  | $ | (26.4) |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **Denominator:** |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted-average number of shares outstanding – basic and diluted |  | 16.09 |  |  | 15.84 |  |  | 16.01 |  |  | 15.80 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Loss per share: |  |  |  |  |  |  |  |  |  |  |  |
| Basic and diluted | $ | (0.70) |  | $ | (0.67) |  | $ | (2.37) |  | $ | (1.67) |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Antidilutive stock-based awards excluded from computation of diluted earnings per |  |  |  |  |  |  |  |  |  |  |  |
| share ("EPS") |  | 1.10 |  |  | 1.08 |  |  | 1.08 |  |  | 1.14 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Performance stock-based awards excluded from computation of diluted EPS because |  |  |  |  |  |  |  |  |  |  |  |
| performance conditions had not been met |  | 0.59 |  |  | 0.58 |  |  | 0.59 |  |  | 0.58 |
| 22 |  |  |  |  |  |  |  |  |  |  |  |

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During the first and second quarters of 2019 and 2018, in accordance with the Company's 2014 Omnibus Incentive Plan, as amended and restated as of March 8, 2017, shares of the Company's common stock were issued to plan participants whose Restricted Stock Units and/or Performance Condition Share Units vested during those periods. See the table below for information related to these transactions:

|  |  |  |  |
| --- | --- | --- | --- |
| *(in millions)* | **2019** |  | **2018** |
|  |  |  |  |
| Three months ended March 31, |  |  |  |
| Shares issued | 0.3 |  | 0.2 |
|  |  |  |  |
| Shares recovered for minimum tax withholding | (0.1) |  | (0.1) |
| Net shares issued | 0.2 |  | 0.1 |
|  |  |  |  |
| Three months ended June 30, |  |  |  |
|  |  |  |  |
| Shares issued | 0.0 |  | 0.1 |
| Shares recovered for minimum tax withholding | 0.0 |  | 0.0 |
|  |  |  |  |
| Net shares issued | 0.0 |  | 0.1 |
|  |  |  |  |

The net share issuance is included in additional paid-in capital on the Condensed Consolidated Statements of Shareholders' Equity for the three and six months ended June 30, 2019 and 2018. For additional information related to these plans refer to the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2018.

**11. ACCUMULATED OTHER COMPREHENSIVE LOSS ("AOCL")**

Comprehensive income (loss) is reported in the Condensed Consolidated Statements of Comprehensive Income (Loss) and consists of net income (loss) and other gains and losses affecting shareholders' equity that, under U.S. GAAP, are excluded from net income (loss).

The following table provides the components of AOCL at June 30, 2019 (amounts are shown net of their related income tax effect, if any):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Foreign currency** | | |  |  |  |  |  |  |  |  |
|  |  | **translation** | |  | **Retirement** | |  | **Interest rate** | |  |  |
| *(in millions)* |  | **adjustments** | |  | **liabilities** | |  | **swap** | |  | **AOCL** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 2018 | $ | (30.3) |  | $ | (10.1) |  | $ | (0.3) |  | $ | (40.7) |
| Unrealized net gains (losses) arising during the period |  | 2.4 |  |  | 0.0 |  |  | 0.0 |  |  | 2.4 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Amounts reclassified from AOCL |  | — | |  | — | |  | 0.1 |  |  | 0.1 |
| Net current period other comprehensive income (loss) |  | 2.4 |  |  | 0.0 |  |  | 0.1 |  |  | 2.5 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at March 31, 2019 |  | (27.9) |  |  | (10.1) |  |  | (0.2) |  |  | (38.2) |
| Unrealized net gains (losses) arising during the period |  | 1.3 |  |  | 0.1 |  |  | 0.0 |  |  | 1.4 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Amounts reclassified from AOCL |  | — | |  | — | |  | 0.2 |  |  | 0.2 |
| Net current period other comprehensive income (loss) |  | 1.3 |  |  | 0.1 |  |  | 0.2 |  |  | 1.6 |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at June 30, 2019 | $ | (26.6) |  | $ | (10.0) |  | $ | — | | $ | (36.6) |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | 23 |  |  |  |  |  |  |  |  |  |  |

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The following table provides the components of AOCL at June 30, 2018 (amounts are shown net of their related income tax effect, if any):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Foreign currency** | | |  |  |  |  |  |  |  |  |
|  |  | **translation** | |  | **Retirement** | |  | **Interest rate** | |  |  |
| *(in millions)* |  | **adjustments** | |  | **liabilities** | |  | **swap** | |  | **AOCL** |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at December 31, 2017 | $ | (23.5) |  | $ | (9.3) |  | $ | (0.7) |  | $ | (33.5) |
| Unrealized net gains (losses) arising during the period |  | (0.2) |  |  | — | |  | 0.0 |  |  | (0.2) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Amounts reclassified from AOCL |  | — | |  | (0.6) |  |  | 0.0 |  |  | (0.6) |
| Net current period other comprehensive income (loss) |  | (0.2) |  |  | (0.6) |  |  | 0.0 |  |  | (0.8) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at March 31, 2018 |  | (23.7) |  |  | (9.9) |  |  | (0.7) |  |  | (34.3) |
| Unrealized net gains (losses) arising during the period |  | (3.9) |  |  | — | |  | 0.1 |  |  | (3.8) |
|  |  |  |  |  |  |  |  |  |  |  |  |
| Net current period other comprehensive income (loss) |  | (3.9) |  |  | — | |  | 0.1 |  |  | (3.8) |
| Balance at June 30, 2018 | $ | (27.6) |  | $ | (9.9) |  | $ | (0.6) |  | $ | (38.1) |
|  |  |  |  |  |  |  |  |  |  |  |  |

See [Note 6, Income Taxes](#page21), for information related to the Company's adoption of ASU 2018-02 in January 2018.

**12. COMMITMENTS AND CONTINGENCIES**

**Legal Proceedings**

From time to time, the Company is involved in various lawsuits, claims and regulatory and administrative proceedings arising out of its business relating to general commercial and contractual matters, governmental regulations, intellectual property rights, labor and employment matters, tax and other actions.

Although the ultimate outcome of any legal proceeding or investigation cannot be predicted with certainty, based on present information, including the Company's assessment of the merits of the particular claim, the Company does not expect that any asserted or unasserted legal claims or proceedings, individually or in the aggregate, will have a material adverse effect on its results of operations, financial condition or cash flows.

**Escheat Audit**

In 2013, Unisource was notified by the State of Delaware that it intended to examine the books and records of Unisource to determine compliance with Delaware escheat laws. Since that date, seven other states have joined with Delaware in the audit process, which is conducted by an outside firm on behalf of the states.

During the fourth quarter of 2017, the Company filed an election to convert the Delaware portion of the audit into a review under the State of Delaware’s Voluntary Disclosure Agreement Program (“VDA”). Under the VDA, the Company will continue to identify source documents that support the historical treatment of the transactions at issue to determine the amount it believes is owed to Delaware. Similarly, the Company will continue to identify source documents that support the historical treatment of the transactions under audit by the other participating states.

As of June 30, 2019 and December 31, 2018, the Company has recognized an estimated liability of approximately $17.0 million and $10.0 million, respectively, based upon the information available to date. The Company currently expects to complete the VDA and audit no later than mid-2020. Due to the inherent uncertainties with respect to the ultimate outcome of these matters, any updates to this estimate of loss could have a material impact on the Company's results of operations, financial condition or cash flows.

**Western Pennsylvania Teamsters and Employers Pension Fund**

In April 2019, in the course of negotiations for a collective bargaining agreement, the Company negotiated a partial withdrawal from the Western Pennsylvania Teamsters and Employers Pension Fund (the "Fund"), a multi-employer pension

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plan. During the second quarter of 2019, the Company recorded an estimated withdrawal liability of $6.5 million. The withdrawal charge was recorded in distribution expenses as it was not related to a restructuring activity. To date, Veritiv has not received a final determination letter from the Fund for the partial withdrawal. The Company expects that payments will occur over an approximate 20-year period.

**13. SEGMENT INFORMATION**

Veritiv's business is organized under four reportable segments: Packaging, Facility Solutions, Print, and Publishing and Print Management ("Publishing"). This segment structure is consistent with the way the Chief Operating Decision Maker, who is Veritiv's Chief Executive Officer, makes operating decisions and manages the growth and profitability of the Company’s business. The Company also has a Corporate & Other category, which includes certain assets and costs not primarily attributable to any of the reportable segments, as well as the Veritiv logistics solutions business which provides transportation and warehousing solutions.

The following tables present net sales, Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, restructuring charges, net, integration and acquisition expenses and other similar charges including any severance costs, costs associated with warehouse and office openings or closings, consolidation, and relocation and other business optimization expenses, stock-based compensation expense, changes in the LIFO reserve, non-restructuring asset impairment charges, non-restructuring severance charges, non-restructuring pension charges, net, fair value adjustments related to contingent liabilities assumed in mergers and acquisitions and certain other adjustments), which is the metric management uses to assess operating performance of the segments, and certain other measures for each of the reportable segments and Corporate & Other for the periods presented:

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **Total** | |  |  |  |  |  |
|  |  |  |  |  |  | **Facility** | |  |  |  |  |  |  |  | **Reportable** | |  | **Corporate &** | |  |  |
| *(in millions)* | |  | **Packaging** | |  | **Solutions** | |  | **Print** | |  | **Publishing** | |  | **Segments** | |  | **Other** | |  | **Total** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Three Months Ended** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **June 30, 2019** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net sales | | $ | 881.5 |  | $ | 311.7 |  | $ | 528.6 |  | $ | 203.5 |  | $ | 1,925.3 |  | $ | 32.9 |  | $ | 1,958.2 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | |  | 65.5 |  |  | 8.3 |  |  | 12.3 |  |  | 5.6 |  |  | 91.7 |  |  | (48.4) |  |  |  |
| Depreciation and | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| amortization | |  | 4.7 |  |  | 1.8 |  |  | 2.1 |  |  | 0.2 |  |  | 8.8 |  |  | 4.6 |  |  | 13.4 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Restructuring charges, | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| net | |  | 2.4 |  |  | 1.0 |  |  | 1.4 |  |  | 0.0 |  |  | 4.8 |  |  | 2.1 |  |  | 6.9 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Three Months Ended** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **June 30, 2018** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net sales | | $ | 887.1 |  | $ | 334.4 |  | $ | 679.1 |  | $ | 238.3 |  | $ | 2,138.9 |  | $ | 33.0 |  | $ | 2,171.9 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | |  | 64.4 |  |  | 7.6 |  |  | 19.4 |  |  | 4.8 |  |  | 96.2 |  |  | (50.8) |  |  |  |
| Depreciation and | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| amortization | |  | 5.3 |  |  | 1.7 |  |  | 2.3 |  |  | 0.2 |  |  | 9.5 |  |  | 4.5 |  |  | 14.0 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Restructuring charges, | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| net | |  | 5.0 |  |  | 2.1 |  |  | 4.2 |  |  | 0.0 |  |  | 11.3 |  |  | 0.1 |  |  | 11.4 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Six Months Ended June** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **30, 2019** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net sales | | $ | 1,726.9 |  | $ | 610.2 |  | $ | 1,082.5 |  | $ | 413.6 |  | $ | 3,833.2 |  | $ | 66.5 |  | $ | 3,899.7 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | |  | 113.7 |  |  | 12.5 |  |  | 19.5 |  |  | 10.4 |  |  | 156.1 |  |  | (92.4) |  |  |  |
| Depreciation and | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| amortization | |  | 9.2 |  |  | 3.5 |  |  | 4.2 |  |  | 0.4 |  |  | 17.3 |  |  | 8.9 |  |  | 26.2 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Restructuring charges, | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| net | |  | 2.7 |  |  | 1.2 |  |  | 1.9 |  |  | 0.3 |  |  | 6.1 |  |  | 3.2 |  |  | 9.3 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Six Months Ended June** | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **30, 2018** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net sales | | $ | 1,732.3 |  | $ | 655.0 |  | $ | 1,339.9 |  | $ | 476.4 |  | $ | 4,203.6 |  | $ | 69.3 |  | $ | 4,272.9 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA | |  | 118.0 |  |  | 11.7 |  |  | 33.1 |  |  | 11.6 |  |  | 174.4 |  |  | (99.3) |  |  |  |
| Depreciation and | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| amortization | |  | 10.6 |  |  | 3.5 |  |  | 4.8 |  |  | 0.4 |  |  | 19.3 |  |  | 9.1 |  |  | 28.4 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Restructuring charges, | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| net | |  | 5.9 |  |  | 2.5 |  |  | 14.6 |  |  | 0.0 |  |  | 23.0 |  |  | 0.3 |  |  | 23.3 |
|  |  |  |  |  |  |  |  |  | 26 |  |  |  |  |  |  |  |  |  |  |  |  |

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The table below presents a reconciliation of loss before income taxes as reflected in the Condensed Consolidated Statements of Operations to

Adjusted EBITDA for the reportable segments:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  | **Three Months Ended** | | | | |  | **Six Months Ended** | | | |  |
|  |  |  | **June 30,** | | |  |  |  | **June 30,** | | |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(in millions)* |  |  | **2019** |  |  | **2018** |  |  | **2019** |  |  | **2018** |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Loss before income taxes | $ | | (11.9) |  | $ | (13.3) |  | $ | (45.4) |  | $ | (31.0) |  |
| Interest expense, net |  |  | 10.2 |  |  | 10.2 |  |  | 21.6 |  |  | 19.5 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Depreciation and amortization |  |  | 13.4 |  |  | 14.0 |  |  | 26.2 |  |  | 28.4 |  |
| Restructuring charges, net |  |  | 6.9 |  |  | 11.4 |  |  | 9.3 |  |  | 23.3 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stock-based compensation |  |  | 4.3 |  |  | 5.1 |  |  | 9.0 |  |  | 10.7 |  |
| LIFO reserve (decrease) increase |  |  | (0.5) |  |  | 8.7 |  |  | 2.9 |  |  | 14.4 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Non-restructuring severance charges |  |  | 1.4 |  |  | 0.5 |  |  | 2.7 |  |  | 1.8 |  |
| Non-restructuring pension charges, net |  |  | 6.6 |  |  | 0.0 |  |  | 6.6 |  |  | (0.7) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Integration and acquisition expenses |  |  | 4.5 |  |  | 8.4 |  |  | 8.8 |  |  | 16.7 |  |
| Fair value adjustment on TRA contingent liability |  |  | 0.6 |  |  | (0.2) |  |  | 1.5 |  |  | (0.4) |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Fair value adjustment on contingent consideration liability |  |  | 7.7 |  |  | (3.0) |  |  | 13.1 |  |  | (11.3) |  |
| Escheat audit contingent liability |  |  | — | |  | — | |  | 7.0 |  |  | — |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other |  |  | 0.1 |  |  | 3.6 |  |  | 0.4 |  |  | 3.7 |  |
| Adjustment for Corporate & Other |  |  | 48.4 |  |  | 50.8 |  |  | 92.4 |  |  | 99.3 |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA for reportable segments | $ | | 91.7 |  | $ | 96.2 |  | $ | 156.1 |  | $ | 174.4 |  |
|  | 27 |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |

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**ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*Certain statements contained in this report regarding the Company’s future operating results, performance, business plans, prospects, guidance and any other statements not constituting historical fact are "forward-looking statements" subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Where possible, the words "believe," "expect," "anticipate," "continue," "intend," "should," "will," "would," "planned," "estimated," "potential," "goal," "outlook," "may," "predicts," "could," or the negative of such terms, or other comparable expressions, as they relate to the Company or its business, have been used to identify such forward-looking statements. All forward-looking statements reflect only the Company’s current beliefs and assumptions with respect to future operating results, performance, business plans, prospects, guidance and other matters, and are based on information currently available to the Company. Accordingly, the statements are subject to significant risks, uncertainties and contingencies, which could cause the Company’s actual operating results, performance, business plans or prospects to differ materially from those expressed in, or implied by, these statements.*

*Factors that could cause actual results to differ materially from current expectations include risks and other factors described under "Risk Factors" in our Annual Report on Form 10-K and elsewhere in the Company’s publicly available reports filed with the Securities and Exchange Commission ("SEC"), which contain a discussion of various factors that may affect the Company’s business or financial results. Such risks and other factors, which in some instances are beyond the Company’s control, include: the industry-wide decline in demand for paper and related products; increased competition from existing and non-traditional sources; adverse developments in general business and economic conditions as well as conditions in the global capital and credit markets impacting our Company and our customers; foreign currency fluctuations; our ability to attract, train and retain highly qualified employees; the effects of work stoppages, union negotiations and labor disputes; the loss of any of our significant customers; changes in business conditions in our international operations; procurement and other risks in obtaining packaging, paper and facility products from our suppliers for resale to our customers; changes in prices for raw materials; increases in the cost of fuel and third-party freight and the availability of third-party freight providers; changes in trade policies and regulations; inclement weather, anti-terrorism measures and other disruptions to the transportation network; our dependence on a variety of information technology and telecommunications systems and the Internet; our reliance on third-party vendors for various services; cyber-security risks; costs to comply with laws, rules and regulations, including environmental, health and safety laws, and to satisfy any liability or obligation imposed under such laws; regulatory changes and judicial rulings impacting our business; adverse results from litigation, governmental investigations or audits, or tax-related proceedings or audits; our inability to renew existing leases on acceptable terms, negotiate rent decreases or concessions and identify affordable real estate; our ability to adequately protect our material intellectual property and other proprietary rights, or to defend successfully against intellectual property infringement claims by third parties; our pension and health care costs and participation in multi-employer pension, health and welfare plans; increasing interest rates; our ability to generate sufficient cash to service our debt; our ability to comply with the covenants contained in our debt agreements; our ability to refinance or restructure our debt on reasonable terms and conditions as might be necessary from time to time; changes in accounting standards and methodologies; our ability to realize the full benefit of the anticipated synergies, cost savings and growth opportunities from the merger transaction and our ability to integrate the xpedx business with the Unisource business; the possibility of incurring expenditures in excess of those currently budgeted in connection with the integration, and other events of which we are presently unaware or that we currently deem immaterial that may result in unexpected adverse operating results.*

*For a more detailed discussion of these factors, see the information under the heading "Risk Factors" in our Annual Report on Form 10-K and in other filings we make with the SEC. Forward-looking statements are made only as of the date hereof, and the Company undertakes no obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, historical information should not be considered as an indicator of future performance.*

*The following discussion of the Company’s results of operations for the three and six months ended June 30, 2019 should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto, included elsewhere in this report.*

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**Executive Overview**

***Business Overview***

Veritiv Corporation ("Veritiv" or the "Company") is a leading North American business-to-business distributor of packaging, facility solutions, print and publishing products and services. Additionally, Veritiv provides logistics and supply chain management solutions to its customers. Veritiv was established in 2014, following the merger (the "Merger") of International Paper Company's xpedx distribution solutions business and UWW Holdings, Inc., the parent company of Unisource Worldwide, Inc. Veritiv operates from approximately 160 distribution centers primarily throughout the U.S., Canada and Mexico.

Veritiv's business is organized under four reportable segments: Packaging, Facility Solutions, Print, and Publishing and Print Management ("Publishing"). This segment structure is consistent with the way the Chief Operating Decision Maker, who is Veritiv's Chief Executive Officer, makes operating decisions and manages the growth and profitability of the Company’s business. The Company also has a Corporate & Other category, which includes certain assets and costs not primarily attributable to any of the reportable segments as well as the Veritiv logistics solutions business, which provides transportation and warehousing solutions. The following summary describes the products and services offered in each of the reportable segments:

* ***Packaging*** – The Packaging segment provides standard as well as custom and comprehensive packaging solutions for customers based in NorthAmerica and in key global markets. The business is strategically focused on higher growth industries including light industrial/general manufacturing, food processing, fulfillment and internet retail, as well as niche verticals based on geographical and functional expertise. Veritiv’s packaging professionals create customer value through supply chain solutions, structural and graphic packaging design and engineering, automation, workflow and equipment services and kitting and fulfillment.
* ***Facility Solutions*** – The Facility Solutions segment sources and sells cleaning, break-room and other supplies such as towels, tissues, wipers anddispensers, can liners, commercial cleaning chemicals, soaps and sanitizers, sanitary maintenance supplies and equipment, safety and hazard supplies, and shampoos and amenities primarily in the U.S., Canada and Mexico. Veritiv is a leading distributor in the Facility Solutions segment. Through this segment, Veritiv manages a world class network of leading suppliers in most facilities solutions categories. Additionally, the Company offers total cost of ownership solutions with re-merchandising, budgeting and compliance reporting, inventory management and a sales-force trained to bring leading vertical expertise to the major North American geographies.
* ***Print*** – The Print segment sells and distributes commercial printing, writing, copying, digital, paper-based wide format and specialty products,graphics consumables and graphics equipment primarily in the U.S., Canada and Mexico. This segment also includes customized paper conversion services of commercial printing paper for distribution to document centers and form printers. Veritiv's broad geographic platform of operations coupled with the breadth of paper and graphics products, including exclusive private brand offerings, provides a foundation to service national, regional and local customers across North America.
* ***Publishing*** – The Publishing segment sells and distributes coated and uncoated commercial printing papers to publishers, retailers, converters,printers and specialty businesses for use in magazines, catalogs, books, directories, gaming, couponing, retail inserts and direct mail. This segment also provides print management, procurement and supply chain management solutions to simplify paper and print procurement processes for Veritiv's customers.

On August 31, 2017, Veritiv completed its acquisition of 100% of the equity interest in various All American Containers entities (collectively, "AAC") through additional borrowings under the Company's asset-based lending facility (the "ABL Facility"). AAC was a family owned and operated distributor of rigid packaging products, including plastic, glass and metal containers, caps, closures and plastic pouches.

***Seasonality***

The Company’s operating results are subject to seasonal influences. Historically, the Company's higher consolidated net sales occur during the third and fourth quarters while the lowest consolidated net sales occur during the first quarter. The Packaging segment net sales tend to increase each quarter throughout the year and net sales for the first quarter are typically less than net sales for the fourth quarter of the preceding year. Production schedules for non-durable goods that build up to the holidays and peak in the fourth quarter drive this seasonal net sales pattern. Net sales for the Facility Solutions segment tend to peak in the third quarter due to increased summer demand in the away-from-home resort, cruise and hospitality markets and from back-to-school activities. Within the Print and Publishing segments, seasonality is driven by increased magazine advertising page

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counts, retail inserts, catalogs and direct mail primarily due to back-to-school, political election and holiday-related advertising and promotions in the second half of the year.

**Results of Operations, Including Business Segments**

The following discussion compares the consolidated operating results of Veritiv for the three and six months ended June 30, 2019 and 2018:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended** | | | | |  |  |  |  |  |  | **Six Months Ended** | | | | |  |  |  |  |  |
|  |  | **June 30,** | | |  |  |  | **Increase (Decrease)** | | | |  | **June 30,** | | |  |  |  | **Increase (Decrease)** | | |  |
|  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |  |  |  |  | |  |
| *(in millions)* |  | **2019** |  |  | **2018** |  |  | **$** | **%** | |  |  | **2019** |  |  | **2018** |  |  | **$** | **%** | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net sales | $ | 1,958.2 |  | $ | 2,171.9 |  | $ | (213.7) | (9.8)% | |  | $ | 3,899.7 |  | $ | 4,272.9 |  | $ | (373.2) | (8.7)% | |  |
| Cost of products sold (exclusive |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| of depreciation and |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| amortization shown separately |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| below) |  | 1,584.3 |  |  | 1,788.5 |  |  | (204.2) | (11.4)% | |  |  | 3,175.7 |  |  | 3,518.0 |  |  | (342.3) | (9.7)% | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Distribution expenses |  | 132.0 |  |  | 132.0 |  |  | 0.0 | 0.0 % | |  |  | 262.4 |  |  | 265.1 |  |  | (2.7) | (1.0)% | |  |
| Selling and administrative |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| expenses |  | 211.2 |  |  | 223.6 |  |  | (12.4) | (5.5)% | |  |  | 427.3 |  |  | 446.3 |  |  | (19.0) | (4.3)% | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Depreciation and amortization |  | 13.4 |  |  | 14.0 |  |  | (0.6) | (4.3)% | |  |  | 26.2 |  |  | 28.4 |  |  | (2.2) | (7.7)% | |  |
| Integration and acquisition |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| expenses |  | 4.5 |  |  | 8.4 |  |  | (3.9) | (46.4)% | |  |  | 8.8 |  |  | 16.7 |  |  | (7.9) | (47.3)% | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Restructuring charges, net |  | 6.9 |  |  | 11.4 |  |  | (4.5) | (39.5)% | |  |  | 9.3 |  |  | 23.3 |  |  | (14.0) | (60.1)% | |  |
| Operating income (loss) |  | 5.9 |  |  | (6.0) |  |  | 11.9 | (198.3)% | |  |  | (10.0) |  |  | (24.9) |  |  | 14.9 | (59.8)% | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest expense, net |  | 10.2 |  |  | 10.2 |  |  | 0.0 | 0.0 % | |  |  | 21.6 |  |  | 19.5 |  |  | 2.1 | 10.8 % | |  |
| Other (income) expense, net |  | 7.6 |  |  | (2.9) |  |  | 10.5 | \* | |  |  | 13.8 |  |  | (13.4) |  |  | 27.2 | \* | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Loss before income taxes |  | (11.9) |  |  | (13.3) |  |  | 1.4 | (10.5)% | |  |  | (45.4) |  |  | (31.0) |  |  | (14.4) | 46.5 % | |  |
| Income tax benefit |  | (0.6) |  |  | (2.7) |  |  | 2.1 | (77.8)% | |  |  | (7.4) |  |  | (4.6) |  |  | (2.8) | 60.9 % | |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net loss | $ | (11.3) |  | $ | (10.6) |  | $ | (0.7) | 6.6 % | |  | $ | (38.0) |  | $ | (26.4) |  | $ | (11.6) | 43.9 % | |  |
| *\* - not meaningful* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *Net Sales* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

For the three and six months ended June 30, 2019, net sales decreased primarily due to the decline in the Print, Publishing and Facility Solutions segments. See the “Segment Results” section for additional discussion.

*Cost of Products Sold (exclusive of depreciation and amortization shown separately below)*

For the three and six months ended June 30, 2019, cost of products sold decreased primarily due to lower net sales.

*Distribution Expenses*

For the three months ended June 30, 2019, distribution expenses were flat primarily due to a $4.7 million decrease in freight and logistics expense offset by a $3.5 million increase in personnel expense. The decrease in freight and logistics expense was primarily driven by a decrease in third-party freight, fuel and transfer expenses. The increase in personnel expense was primarily due to the partial withdrawal from a multi-employer pension plan in the three month period ended June 30, 2019, partially offset by lower wages and temporary employee expenses.

For the six months ended June 30, 2019, distribution expenses decreased by $2.7 million, or 1.0%. The decrease was primarily due to (i) a $9.9 million decrease in freight and logistics expense, primarily driven by a decrease in third-party freight, fuel and transfer expenses and (ii) a $2.0 million decrease related to replacing certain equipment leases, previously treated as operating leases (expenses included in distribution expense), with capital leases (expenses included in depreciation and amortization and interest expense, net). The decrease was partially offset by (i) a $6.1 million increase in storage expenses, primarily due to replacing certain property leases, previously treated as financing arrangements (expenses included in depreciation and amortization and interest expense, net), with operating leases (expenses included in distribution expense) and (ii) a $2.8

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million increase in personnel expense due primarily to the partial withdrawal from a multi-employer pension plan in the three month period ended June 30, 2019, partially offset by lower wages and temporary employee expenses.

*Selling and Administrative Expenses*

For the three months ended June 30, 2019, selling and administrative expenses decreased by $12.4 million, or 5.5%. The decrease was primarily due to (i) a $5.2 million decrease in compensation expense, mainly driven by a decrease in commission expenses primarily related to the Print segment, (ii) a $4.8 million decrease in professional fees expense and (iii) a $1.6 million decrease in bad debt expense.

For the six months ended June 30, 2019, selling and administrative expenses decreased by $19.0 million, or 4.3%. The decrease was primarily due to

1. a $19.4 million decrease in compensation expense, mainly driven by a decrease in commission expenses primarily related to the Print segment as well as a decrease in incentive compensation expense, (ii) a $4.6 million decrease in professional fees expense and (iii) a $1.5 million decrease in marketing and communications expense, partially offset by a $7.0 million increase primarily related to the change in the Escheat Audit liability. See [Note 12](#page27) of the Notes to Condensed Consolidated Financial Statements for information regarding the Escheat Audit liability.

*Depreciation and Amortization*

For the three and six months ended June 30, 2019, depreciation and amortization decreased by $0.6 million and $2.2 million, respectively. The decreases were primarily attributable to replacing certain property leases, previously treated as financing arrangements (expenses included in depreciation and amortization and interest expense, net), with operating leases (expenses included in distribution expense).

*Integration and Acquisition Expenses*

See [Note 4](#page18) of the Notes to Condensed Consolidated Financial Statements for information related to the Company's integration efforts as well as its 2018 AAC acquisition expenses.

*Restructuring Charges, Net*

For the three and six months ended June 30, 2019, restructuring charges, net, decreased by $4.5 million and $14.0 million, respectively. See [Note 4](#page18) of the Notes to Condensed Consolidated Financial Statements for additional information related to the Company's restructuring efforts. The Company may continue to record restructuring charges in the future as restructuring activities progress, which may include gains or losses from the disposition of assets.

*Interest Expense, Net*

For the three months ended June 30, 2019, interest expense, net was flat. Higher interest rates due primarily to an increase in LIBOR were offset by a decreased average balance on the Company's ABL Facility. See [Note 5](#page20) of the Notes to Condensed Consolidated Financial Statements for information related to the ABL Facility.

For the six months ended June 30, 2019, interest expense, net increased by $2.1 million, or 10.8%. Higher interest rates due primarily to an increase in LIBOR were partially offset by a decreased average balance on the Company's ABL Facility. See [Note 5](#page20) of the Notes to Condensed Consolidated Financial Statements for information related to the ABL Facility.

*Other (Income) Expense, Net*

For the three months ended June 30, 2019, other (income) expense, net, was expense of $7.6 million. This was a net other expense increase of $10.5 million as compared to the same period in 2018. For the three months ended June 30, 2019, there was a $7.7 million increase in the estimated fair value of the AAC contingent consideration as compared to a reduction of $3.0 million in the same period in 2018. See [Note 9](#page23) of the Notes to Condensed Consolidated Financial Statements for information related to the AAC contingent consideration.

For the six months ended June 30, 2019, other (income) expense, net, was expense of $13.8 million. This was a net other expense increase of $27.2 million as compared to the same period in 2018. For the six months ended June 30, 2019, there was a $13.1 million increase in the estimated fair value of the AAC contingent consideration as compared to a reduction of $11.3 million in the same period in 2018. The remaining expense increase was primarily driven by changes associated with the Tax Receivable Agreement. See [Note 9](#page23) of the Notes to Condensed Consolidated Financial Statements for information related to the AAC contingent consideration.

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*Effective Tax Rate*

Veritiv's effective tax rates were 5.0% and 20.3% for the three months ended June 30, 2019 and 2018, respectively. Veritiv's effective tax rates were 16.3% and 14.8% for the six months ended June 30, 2019 and 2018, respectively. The difference between the Company’s effective tax rates and the U.S. statutory tax rate of 21.0% primarily relates to state income taxes (net of federal income tax benefit), tax expense for stock compensation vesting, Global Intangible Low-Taxed Income, non-deductible expenses, tax credits and the Company's income (loss) by jurisdiction.

The volatility of the Company's effective tax rate has been primarily due to both the level of pre-tax income as well as variations in the Company's income (loss) by jurisdiction. For the six months ended June 30, 2019, the Company’s provision for income taxes continued to be highly sensitive to changes in certain estimates of ordinary income (loss) or permanent items resulting in the use of an actual year-to-date effective tax rate method. The Company expects a volatile effective tax rate for the full year 2019, significantly different than the June 30, 2019 rate. The effective tax rate may continue to vary significantly due to potential fluctuations in the amount and source, including both foreign and domestic, of pre-tax income and changes in amounts of non-deductible expenses, and other items that could impact the effective tax rate.

***Segment Results***

Adjusted EBITDA (earnings before interest, income taxes, depreciation and amortization, restructuring charges, net, integration and acquisition expenses and other similar charges including any severance costs, costs associated with warehouse and office openings or closings, consolidation, and relocation and other business optimization expenses, stock-based compensation expense, changes in the LIFO reserve, non-restructuring asset impairment charges, non-restructuring severance charges, non-restructuring pension charges, net, fair value adjustments related to contingent liabilities assumed in mergers and acquisitions and certain other adjustments) is the primary financial performance measure Veritiv uses to manage its businesses, to monitor its results of operations, to measure its performance against the ABL Facility and to incentivize its management.

Veritiv believes investors commonly use Adjusted EBITDA as a key financial metric for valuing companies. In addition, the credit agreement governing the ABL Facility permits the Company to exclude these and other charges in calculating Consolidated EBITDA, as defined in the ABL Facility. This common metric is intended to align shareholders, debt holders and management. Adjusted EBITDA is a non-GAAP financial measure and is not an alternative to net income, operating income or any other measure prescribed by U.S. generally accepted accounting principles ("U.S. GAAP").

Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of Veritiv’s results as reported under U.S. GAAP. For example, Adjusted EBITDA:

* Does not reflect the Company’s income tax expenses or the cash requirements to pay its taxes; and
* Although depreciation and amortization charges are non-cash charges, it does not reflect that the assets being depreciated and amortized will often have to be replaced in the future and the foregoing metric does not reflect any cash requirements for such replacements.

Other companies in the industry may calculate Adjusted EBITDA differently than Veritiv does, limiting its usefulness as a comparative measure. Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to Veritiv to invest in the growth of its business. Veritiv compensates for these limitations by relying on the Company's U.S. GAAP results and by using Adjusted EBITDA for supplemental purposes. Additionally, Adjusted EBITDA is not an alternative measure of financial performance under U.S. GAAP and therefore should be considered in conjunction with net income and other performance measures such as operating income or net cash provided by operating activities and not as an alternative to such U.S. GAAP measures.

Due to the shared nature of the distribution network, distribution expenses are not a specific charge to each segment, but are instead allocated to each segment based primarily on operational metrics that correlate with changes in volume. Accordingly, distribution expenses allocated to each segment are highly interdependent on the results of other segments. Lower volume in any segment that is not offset by a reduction in distribution expenses can result in the other segments absorbing a larger share of distribution expenses. Conversely, higher volume in any segment can result in the other segments absorbing a smaller share of distribution expenses. The impact of this at the segment level is that the changes in distribution expense trends may not correspond with volume trends within a particular segment.

The Company sells thousands of products. In the Packaging and Facility Solutions segments, Veritiv is unable to compute the impact of changes in sales volume based on changes in sales of each individual product. Rather, the Company assumes that the margin stays constant and estimates the volume impact based on changes in cost of products sold as a proxy for the change in sales volume. After any other significant sales variances are identified, the remaining sales variance is attributed to price/mix.

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The Company approximates foreign currency effects by applying the foreign currency exchange rate for the prior period to the local currency results for the current period. The Company believes the elimination of the foreign currency translation impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.

The Company believes that the decline in demand for paper and related products is due to the widespread use of electronic media and permanent product substitution, more e-commerce, less print advertising, fewer catalogs and a reduced volume of direct mail, among other factors. This trend is expected to continue and will place continued pressure on the Company’s revenues and profit margins and make it more difficult to maintain or grow Adjusted EBITDA within the Print and Publishing segments.

Included in the following table are net sales and Adjusted EBITDA for each of the reportable segments and Corporate & Other:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  | **Facility** | |  |  |  |  |  |  |  | **Corporate &** |
|  | *(in millions)* |  | **Packaging** | |  | **Solutions** | |  | **Print** | |  | **Publishing** | |  | **Other** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended June 30, 2019** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Net sales | $ | 881.5 |  | $ | 311.7 |  | $ | 528.6 |  | $ | 203.5 |  | $ | 32.9 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Adjusted EBITDA |  | 65.5 |  |  | 8.3 |  |  | 12.3 |  |  | 5.6 |  |  | (48.4) |
|  | Adjusted EBITDA as a % of net sales |  | 7.4% |  |  | 2.7% |  |  | 2.3% |  |  | 2.8% |  |  | \* |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended June 30, 2018** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Net sales | $ | 887.1 |  | $ | 334.4 |  | $ | 679.1 |  | $ | 238.3 |  | $ | 33.0 |
|  | Adjusted EBITDA |  | 64.4 |  |  | 7.6 |  |  | 19.4 |  |  | 4.8 |  |  | (50.8) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Adjusted EBITDA as a % of net sales |  | 7.3% |  |  | 2.3% |  |  | 2.9% |  |  | 2.0% |  |  | \* |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Six Months Ended June 30, 2019** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Net sales | $ | 1,726.9 |  | $ | 610.2 |  | $ | 1,082.5 |  | $ | 413.6 |  | $ | 66.5 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Adjusted EBITDA |  | 113.7 |  |  | 12.5 |  |  | 19.5 |  |  | 10.4 |  |  | (92.4) |
|  | Adjusted EBITDA as a % of net sales |  | 6.6% |  |  | 2.0% |  |  | 1.8% |  |  | 2.5% |  |  | \* |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Six Months Ended June 30, 2018** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Net sales | $ | 1,732.3 |  | $ | 655.0 |  | $ | 1,339.9 |  | $ | 476.4 |  | $ | 69.3 |
|  | Adjusted EBITDA |  | 118.0 |  |  | 11.7 |  |  | 33.1 |  |  | 11.6 |  |  | (99.3) |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | Adjusted EBITDA as a % of net sales |  | 6.8% |  |  | 1.8% |  |  | 2.5% |  |  | 2.4% |  |  | \* |
|  | *\* - not meaningful* |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

See [Note 13](#page28) of the Notes to Condensed Consolidated Financial Statements for additional information related to Adjusted EBITDA, including a reconciliation of loss before income taxes as reflected in the Condensed Consolidated Statements of Operations to Adjusted EBITDA for reportable segments.

**Packaging**

The table below presents selected data for the Packaging segment:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June** | | | | |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **30,** | |  |  |  | **Increase (Decrease)** | | | **Six Months Ended June 30,** | | | |  | **Increase (Decrease)** | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(in millions)* |  | **2019** |  |  | **2018** |  |  | **$** | **%** |  | **2019** |  | **2018** |  |  | **$** | **%** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net sales | $ | 881.5 | $ | | 887.1 |  | $ | (5.6) | (0.6)% |  | $ 1,726.9 |  | $ 1,732.3 |  | $ | (5.4) | (0.3)% |
| Adjusted EBITDA |  | 65.5 |  |  | 64.4 |  |  | 1.1 | 1.7 % |  | 113.7 |  | 118.0 |  |  | (4.3) | (3.6)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA as a % of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| net sales |  | 7.4% |  |  | 7.3% |  |  |  |  |  | 6.6% |  | 6.8% |  |  |  |  |
|  |  |  |  |  |  |  |  | 33 |  |  |  |  |  |  |  |  |  |

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The table below presents the components of the net sales change compared to the prior year:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Increase (Decrease)** | | | |
|  |  |  | |  |  |
|  |  | **Three Months Ended** | |  | **Six Months Ended** |
|  |  | **June 30,** | |  | **June 30,** |
|  |  |  |  |  |  |
| *(in millions)* |  | **2019 vs. 2018** | |  | **2019 vs. 2018** |
|  |  |  |  |  |  |
| Volume | $ | (13.8) |  | $ | (11.8) |
| Foreign currency |  | (3.1) |  |  | (6.8) |
|  |  |  |  |  |  |
| Price/Mix |  | 11.3 |  |  | 13.2 |
| Total change | $ | (5.6) |  | $ | (5.4) |
|  |  |  |  |  |  |

***Comparison of the Three Months Ended June 30, 2019 and June 30, 2018***

Net sales decreased $5.6 million, or 0.6%, as compared to the same period in 2018. The net sales decrease was primarily attributable to decreased sales of corrugated products, food packaging products and films, partially offset by increased sales of rigid packaging products.

Adjusted EBITDA increased $1.1 million, or 1.7%, as compared to the same period in 2018. The increase in Adjusted EBITDA was primarily attributable to cost of products sold decreasing at a faster rate than net sales, partially offset by (i) a $3.7 million increase in selling and administrative expenses, (ii) a $2.3 million increase in distribution expenses and (iii) a slight decline in net sales. The increase in selling and administrative expenses was primarily driven by a $3.3 million increase in personnel expenses associated with increased headcount to support the Company's Packaging growth strategy. The increase in distribution expenses was primarily due to an increase in facility rent related to replacing certain property leases, previously treated as financing arrangements (expenses included in depreciation and amortization and interest expense, net) with operating leases (expenses included in distribution expense).

***Comparison of the Six Months Ended June 30, 2019 and June 30, 2018***

Net sales decreased $5.4 million, or 0.3%, as compared to the same period in 2018. The net sales decrease was primarily attributable to decreased sales of corrugated products, food packaging products and films, partially offset by increased sales of rigid packaging products. Net sales were negatively impacted by the Company's non-U.S. businesses primarily due to the timing of certain customer programs.

Adjusted EBITDA decreased $4.3 million, or 3.6%, as compared to the same period in 2018. The decrease in Adjusted EBITDA was primarily attributable to (i) a $7.4 million increase in selling and administrative expenses, (ii) a $5.1 million increase in distribution expenses and (iii) a slight decline in net sales, partially offset by cost of products sold decreasing at a faster rate than net sales. The increase in selling and administrative expenses was primarily driven by a $6.4 million increase in personnel expenses associated with increased headcount to support the Company's Packaging growth strategy. The increase in distribution expenses was primarily due to an increase in facility rent related to replacing certain property leases, previously treated as financing arrangements (expenses included in depreciation and amortization and interest expense, net) with operating leases (expenses included in distribution expense).

**Facility Solutions**

The table below presents selected data for the Facility Solutions segment:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June 30,** | | | | | |  | **Increase (Decrease)** | | | **Six Months Ended June 30,** | | | | | |  | **Increase (Decrease)** | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(in millions)* |  | **2019** |  |  | **2018** |  |  | **$** | **%** |  |  | **2019** |  |  | **2018** |  |  | **$** | **%** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net sales | $ | 311.7 |  | $ | 334.4 |  | $ | (22.7) | (6.8)% |  | $ | 610.2 |  | $ | 655.0 |  | $ | (44.8) | (6.8)% |
| Adjusted EBITDA |  | 8.3 |  |  | 7.6 |  |  | 0.7 | 9.2 % |  |  | 12.5 |  |  | 11.7 |  |  | 0.8 | 6.8 % |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA as a % of |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| net sales |  | 2.7% |  |  | 2.3% |  |  |  |  |  |  | 2.0% |  |  | 1.8% |  |  |  |  |
|  |  |  |  |  |  |  |  | 34 |  |  |  |  |  |  |  |  |  |  |  |

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The table below presents the components of the net sales change compared to the prior year:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Increase (Decrease)** | | | |
|  |  |  | |  |  |
|  |  | **Three Months Ended** | |  | **Six Months Ended** |
|  |  | **June 30,** | |  | **June 30,** |
|  |  |  |  |  |  |
| *(in millions)* |  | **2019 vs. 2018** | |  | **2019 vs. 2018** |
|  |  |  |  |  |  |
| Volume | $ | (21.2) |  | $ | (40.0) |
| Foreign currency |  | (2.6) |  |  | (5.8) |
|  |  |  |  |  |  |
| Price/Mix |  | 1.1 |  |  | 1.0 |
| Total change | $ | (22.7) |  | $ | (44.8) |
|  |  |  |  |  |  |

***Comparison of the Three Months Ended June 30, 2019 and June 30, 2018***

Net sales decreased $22.7 million, or 6.8%, as compared to the same period in 2018. The net sales decrease was primarily attributable to decreased sales of food service products, chemicals and janitorial supplies. The decrease in net sales was also due to strategic decisions to exit certain customer relationships that were not aligned with the Company's product and service capabilities.

Adjusted EBITDA increased $0.7 million, or 9.2%, as compared to the same period in 2018. The increase in Adjusted EBITDA was primarily attributable to (i) a $3.2 million decrease in distribution expenses and (ii) a $1.6 million decrease in selling and administrative expenses, partially offset by a decline in net sales. The decrease in distribution expenses was primarily driven by decreased utilization of the distribution network and was evidenced by (i) a $1.4 million decrease in freight and logistics expense primarily driven by a decrease in fuel expense and third-party freight and (ii) a $1.1 million decrease in personnel expense. The decrease in selling and administrative expenses was primarily driven by a $1.2 million decrease in personnel expense.

***Comparison of the Six Months Ended June 30, 2019 and June 30, 2018***

Net sales decreased $44.8 million, or 6.8%, as compared to the same period in 2018. The net sales decrease was primarily attributable to decreased sales of food service products, retail, office and school supplies and chemicals. The decrease in net sales was also due to strategic decisions to exit certain customer relationships that were not aligned with the Company's product and service capabilities.

Adjusted EBITDA increased $0.8 million, or 6.8%, as compared to the same period in 2018. The increase in Adjusted EBITDA was primarily attributable to (i) a $6.5 million decrease in distribution expenses and (ii) a $3.2 million decrease in selling and administrative expenses, partially offset by a decline in net sales. The decrease in distribution expenses was primarily driven by decreased utilization of the distribution network and was evidenced by (i) a $2.9 million decrease in freight and logistics expense primarily driven by a decrease in third-party freight and fuel expense, (ii) a $2.0 million decrease in personnel expense and (iii) a $1.6 million decrease in facilities rent and other related expenses. The decrease in selling and administrative expenses was primarily driven by a $2.1 million decrease in personnel expense.

**Print**

The table below presents selected data for the Print segment:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June** | | | | | |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **30,** | | |  |  |  | **Increase (Decrease)** | | | **Six Months Ended June 30,** | | | |  | **Increase (Decrease)** | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(in millions)* |  | **2019** |  |  |  | **2018** |  |  | **$** | **%** |  | **2019** |  | **2018** |  |  | **$** | **%** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net sales | $ | 528.6 | $ | | | 679.1 |  | $ | (150.5) | (22.2)% |  | $ 1,082.5 |  | $ 1,339.9 |  | $ | (257.4) | (19.2)% |
| Adjusted EBITDA |  | 12.3 |  |  |  | 19.4 |  |  | (7.1) | (36.6)% |  | 19.5 |  | 33.1 |  |  | (13.6) | (41.1)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA as a % |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| of net sales |  | 2.3% |  |  |  | 2.9% |  |  |  |  |  | 1.8% |  | 2.5% |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | 35 |  |  |  |  |  |  |  |  |

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The table below presents the components of the net sales change compared to the prior year:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Increase (Decrease)** | | | |
|  |  |  | |  |  |
|  |  | **Three Months Ended** | |  | **Six Months Ended** |
|  |  | **June 30,** | |  | **June 30,** |
|  |  |  |  |  |  |
| *(in millions)* |  | **2019 vs. 2018** | |  | **2019 vs. 2018** |
|  |  |  |  |  |  |
| Volume | $ | (189.3) |  | $ | (341.2) |
| Foreign currency |  | (1.9) |  |  | (4.1) |
|  |  |  |  |  |  |
| Price/Mix |  | 40.7 |  |  | 87.9 |
| Total change | $ | (150.5) |  | $ | (257.4) |
|  |  |  |  |  |  |

***Comparison of the Three Months Ended June 30, 2019 and June 30, 2018***

Net sales decreased $150.5 million, or 22.2%, as compared to the same period in 2018. The net sales decrease was primarily attributable to the continued secular decline in the paper industry as well as managing risk in the Print segment through strategic adjustments to the Company's customer base and product offerings, partially offset by higher market prices.

Adjusted EBITDA decreased $7.1 million, or 36.6%, as compared to the same period in 2018. The Adjusted EBITDA decrease was primarily driven by the decline in net sales and cost of products sold decreasing at a slower rate than net sales, partially offset by a $10.1 million decrease in selling and administrative expenses and a $5.6 million decrease in distribution expenses. The decrease in selling and administration expenses was primarily due to (i) a $6.1 million decrease in personnel expenses due to a decrease in commission expense driven by lower net sales and a decrease in headcount and commission expense related to the Print segment restructuring plan and (ii) a $3.5 million decrease in bad debt expense. See [Note 4](#page18) of the Notes to Condensed Consolidated Financial Statements for information regarding the Print segment restructuring plan. The decrease in distribution expenses was driven by decreased utilization of the distribution network and was evidenced by (i) a $2.9 million decrease in freight and logistics expense primarily driven by a decrease in third-party freight and fuel expense and (ii) a $2.5 million decrease in personnel expenses.

***Comparison of the Six Months Ended June 30, 2019 and June 30, 2018***

Net sales decreased $257.4 million, or 19.2%, as compared to the same period in 2018. The net sales decrease was primarily attributable to the continued secular decline in the paper industry as well as managing risk in the Print segment through strategic adjustments to the Company's customer base and product offerings, partially offset by higher market prices.

Adjusted EBITDA decreased $13.6 million, or 41.1%, as compared to the same period in 2018. The Adjusted EBITDA decrease was primarily driven by the decline in net sales and cost of products sold decreasing at a slower rate than net sales, partially offset by a $17.7 million decrease in selling and administrative expenses and an $8.7 million decrease in distribution expenses. The decrease in selling and administration expenses was primarily due to (i) a $13.6 million decrease in personnel expenses due to a decrease in commission expense driven by lower net sales and a decrease in headcount and commission expense related to the Print segment restructuring plan and (ii) a $2.9 million decrease in bad debt expense. See [Note 4](#page18) of the Notes to Condensed Consolidated Financial Statements for information regarding the Print segment restructuring plan. The decrease in distribution expenses was driven by decreased utilization of the distribution network and was evidenced by (i) a $5.3 million decrease in freight and logistics expense primarily driven by a decrease in third-party freight, transfer expenses and fuel expense and (ii) a $3.8 million decrease in personnel expenses.

**Publishing**

The table below presents selected data for the Publishing segment:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Three Months Ended June** | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  | **30,** | | |  |  |  | **Increase (Decrease)** | | | **Six Months Ended June 30,** | | | | | |  | **Increase (Decrease)** | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(in millions)* |  | **2019** |  |  |  | **2018** |  |  | **$** | **%** |  |  | **2019** |  |  | **2018** |  |  | **$** | **%** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net sales | $ | 203.5 | $ | | | 238.3 |  | $ | (34.8) | (14.6)% |  | $ | 413.6 |  | $ | 476.4 |  | $ | (62.8) | (13.2)% |
| Adjusted EBITDA |  | 5.6 |  |  |  | 4.8 |  |  | 0.8 | 16.7 % |  |  | 10.4 |  |  | 11.6 |  |  | (1.2) | (10.3)% |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjusted EBITDA as a % |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| of net sales |  | 2.8% |  |  |  | 2.0% |  |  |  |  |  |  | 2.5% |  |  | 2.4% |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  | 36 |  |  |  |  |  |  |  |  |  |  |

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The table below presents the components of the net sales change compared to the prior year:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Increase (Decrease)** | | | |
|  |  |  | |  |  |
|  |  | **Three Months Ended** | |  | **Six Months Ended** |
|  |  | **June 30,** | |  | **June 30,** |
|  |  |  |  |  |  |
| *(in millions)* |  | **2019 vs. 2018** | |  | **2019 vs. 2018** |
|  |  |  |  |  |  |
| Volume | $ | (51.2) |  | $ | (102.4) |
| Foreign currency |  | — | |  | — |
|  |  |  |  |  |  |
| Price/Mix |  | 16.4 |  |  | 39.6 |
| Total change | $ | (34.8) |  | $ | (62.8) |
|  |  |  |  |  |  |

***Comparison of the Three Months Ended June 30, 2019 and June 30, 2018***

Net sales decreased $34.8 million, or 14.6%, as compared to the same period in 2018. The net sales decrease was primarily attributable to the continued secular decline in the paper industry, partially offset by higher market prices.

Adjusted EBITDA increased $0.8 million, or 16.7%, as compared to the same period in 2018. The Adjusted EBITDA increase was due in part to cost of products sold decreasing at a faster rate than net sales, partially offset by the decline in net sales.

***Comparison of the Six Months Ended June 30, 2019 and June 30, 2018***

Net sales decreased $62.8 million, or 13.2%, as compared to the same period in 2018. The net sales decrease was primarily attributable to the continued secular decline in the paper industry, partially offset by higher market prices.

Adjusted EBITDA decreased $1.2 million, or 10.3%, as compared to the same period in 2018. The Adjusted EBITDA decrease was primarily attributable to a decline in net sales, partially offset by a $1.8 million decrease in selling and administrative expenses which was primarily driven by a decrease in personnel expense, and cost of products sold decreasing at a faster rate than net sales.

**Corporate & Other**

The table below presents selected data for Corporate & Other:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Three Months Ended June** | | | | | | |  |  |  |  |  | **Six Months Ended June** | | | | |  |  |  |
|  |  |  | **30,** | | |  |  |  | **Increase (Decrease)** | | | | **30,** | |  |  |  |  | **Increase (Decrease)** | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| *(in millions)* |  | **2019** |  |  |  | **2018** |  |  | **$** | **%** |  |  | **2019** |  |  | **2018** |  |  | **$** | **%** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net sales | $ | 32.9 | $ | | | 33.0 |  | $ | (0.1) | (0.3)% $ | | | 66.5 |  | $ | 69.3 |  | $ | (2.8) | (4.0)% |
| Adjusted EBITDA |  | (48.4) | |  |  | (50.8) |  |  | 2.4 | 4.7 % |  |  | (92.4) |  |  | (99.3) |  |  | 6.9 | 6.9 % |

***Comparison of the Three Months Ended June 30, 2019 and June 30, 2018***

Net sales were flat as compared to the same period in 2018.

Adjusted EBITDA increased $2.4 million, or 4.7%, primarily driven by (i) a $1.2 million decrease in selling and administrative expenses which was due mainly to a decrease in professional fees and (ii) cost of products sold decreasing at a faster rate than net sales.

***Comparison of the Six Months Ended June 30, 2019 and June 30, 2018***

Net sales decreased $2.8 million, or 4.0%, as compared to the same period in 2018 driven by a decrease in volume of freight brokerage services.

Adjusted EBITDA increased $6.9 million, or 6.9%, primarily driven by a $6.2 million decrease in selling and administrative expenses which was due mainly to lower incentive compensation expense.

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**Liquidity and Capital Resources**

The cash requirements of the Company are provided by cash flows from operations and borrowings under the ABL Facility. The following table sets forth a summary of cash flows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Six Months Ended June 30,** | | | |
|  |  |  |  |  |  |
| *(in millions)* |  | **2019** |  |  | **2018** |
|  |  |  |  |  |  |
| Net cash provided by (used for): |  |  |  |  |  |
| Operating activities | $ | 182.2 |  | $ | 8.0 |
|  |  |  |  |  |  |
| Investing activities |  | (14.6) |  |  | (17.5) |
| Financing activities |  | (176.0) |  |  | (0.9) |

*Operating Activities*

Net cash provided by operating activities improved by $174.2 million as compared to the prior year primarily as a result of the combination of improvements in the changes in operating assets and liabilities, partially offset by a decline in operating results. The improvements in changes in operating assets and liabilities were primarily due to a decrease in working capital, driven by the decline in net sales and management's focus on working capital improvement, which resulted in decreases in accounts receivable and inventory, which more than offset decreases in accounts payable.

*Investing Activities*

Net cash used for investing activities improved by $2.9 million as compared to the prior year primarily due to lower capital expenditures in the current period.

*Financing Activities*

Net cash for financing activities was a higher use of cash by $175.1 million as compared to the prior year primarily due to lower net borrowings under the Company's ABL Facility, partially offset by a favorable change in book overdrafts, due to the timing of payments. See [Note 5](#page20) of the Notes to Condensed Consolidated Financial Statements for additional information regarding the Company's debt position.

**Funding and Liquidity Strategy**

Availability under the ABL Facility is determined based upon a monthly borrowing base calculation which includes eligible customer receivables and inventory, less outstanding borrowings, letters of credit and certain designated reserves. As of June 30, 2019, the available additional borrowing capacity under the ABL Facility was approximately $321.3 million. As of June 30, 2019, the Company held $13.0 million in outstanding letters of credit. See [Note 5](#page20) of the Notes to Condensed Consolidated Financial Statements for additional information regarding the Company's debt position.

The ABL Facility has a springing minimum fixed charge coverage ratio of at least 1.00 to 1.00 on a trailing four-quarter basis, which will be tested only when specified availability is less than the limits outlined under the ABL Facility. At June 30, 2019, the above test was not applicable and it is not expected to be applicable in the next 12 months.

Veritiv's ability to fund its capital needs will depend on its ongoing ability to generate cash from operations, borrowings under the ABL Facility and funds received from capital market offerings. If Veritiv's cash flows from operating activities are lower than expected, the Company will need to borrow under the ABL Facility and may need to incur additional debt or issue additional equity. Although management believes that the arrangements currently in place will permit Veritiv to finance its operations on acceptable terms and conditions, the Company’s access to, and the availability of, financing on acceptable terms and conditions in the future will be impacted by many factors, including the liquidity of the overall capital markets and the current state of the economy.

Veritiv's management expects that the Company's primary future cash needs will be for working capital, capital expenditures, contractual commitments and strategic investments. Additionally, management expects that cash provided by operating activities and available capacity under the ABL Facility will provide sufficient funds to operate the business and meet other liquidity needs.

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**Off-Balance Sheet Arrangements**

Veritiv does not have any off-balance sheet arrangements as of June 30, 2019, other than leases that have not yet commenced and the letters of credit under the ABL Facility (see [Note 3](#page15) and [Note 5](#page20) of the Notes to Condensed Consolidated Financial Statements, respectively, for additional information on these items). The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

**Contractual Obligations**

During the second quarter of 2019, the Company recorded charges related to the partial withdrawal from a multi-employer pension plan. A $6.5 million charge was recorded as distribution expense as it was unrelated to the Company's restructuring efforts. Final charges for the partial withdrawal will not be known until the plan issues its final determination. The Company expects payments will occur over an approximate 20-year period.

There have been no other material changes to the Company's contractual obligations from those disclosed in Veritiv's Annual Report on Form 10-K for the year ended December 31, 2018.

**Critical Accounting Policies and Estimates**

See [Note 1](#page10) and [Note 3](#page15) of the Notes to Condensed Consolidated Financial Statements for a description of the impact that adoption of Accounting Standards Update 2016-02*, Leases (Topic 842)* had on the Company's financial results and related disclosures. There have been no material changes to the Company's critical accounting policies and estimates from those disclosed in Veritiv's Annual Report on Form 10-K for the year ended December 31, 2018.

**Recently Issued Accounting Standards**

See [Note 1](#page10) of the Notes to Condensed Consolidated Financial Statements for information regarding recently issued accounting standards.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in market risk from the information provided in Item 7A "Quantitative and Qualitative Disclosures about Market Risk" of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

The Company’s management has carried out an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended. Based upon such evaluation, management has concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2019.

**Changes in Internal Control over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

Refer to [Note 12](#page27) of the Notes to Condensed Consolidated Financial Statements.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

**ITEM 6. EXHIBITS**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Exhibit No.** |  | **Description** |  | | | | |
| 31.1\* |  | Rule 13a-14(a) Certification of the Chief Executive Officer. | | | | |  |
| 31.2\* |  | Rule 13a-14(a) Certification of the Chief Financial Officer. | | | | | |
| 32.1\* |  | Section 1350 Certification of the Chief Executive Officer. | | |  |  | |
| 32.2\* |  | Section 1350 Certification of the Chief Financial Officer. | | | | | |
| 101.INS\* | | XBRL Instance Document. | |  | | | |
| 101.SCH\* | | XBRL Taxonomy Extension Schema Document. | | | | | |
| 101.CAL\* | | XBRL Taxonomy Extension Calculation Linkbase Document. | | | | | |
| 101.DEF\* | | XBRL Taxonomy Extension Definition Linkbase Document. | | | | | |
| 101.LAB\* | | XBRL Taxonomy Extension Label Linkbase Document. | | | | | |
| 101.PRE\* | | XBRL Taxonomy Extension Presentation Linkbase Document. | | | | | |
| \* Filed herewith | |  |  |  |  |  |  |
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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | **VERITIV CORPORATION** |
|  |  |  | (Registrant) |
| Date: | August 6, 2019 | | By: /s/ Stephen J. Smith |
|  |  |  |  |
|  |  |  | Name: Stephen J. Smith |
|  |  |  | Title: Senior Vice President and Chief Financial Officer |
|  |  |  | (Principal Financial Officer) |
| Date: | August 6, 2019 | | By: /s/ Andrew E. Magley |
|  |  |  |  |
|  |  |  | Name: Andrew E. Magley |
|  |  |  | Title: Chief Accounting Officer |
|  |  |  | (Principal Accounting Officer) |

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**EXHIBIT 31.1**

**CERTIFICATION PURSUANT TO**

**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mary A. Laschinger, certify that:

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

Date: August 6, 2019



/s/ Mary A. Laschinger



Mary A. Laschinger

Chairman and Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION PURSUANT TO**

**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen J. Smith, certify that:

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

Date: August 6, 2019



/s/ Stephen J. Smith



Stephen J. Smith

Senior Vice President and Chief Financial Officer

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Veritiv Corporation (the “Company”) for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mary A. Laschinger, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mary A. Laschinger



Mary A. Laschinger

Chairman and Chief Executive Officer

August 6, 2019

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO**

**18 U.S.C. SECTION 1350,**

**AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Veritiv Corporation (the “Company”) for the period ended June 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stephen J. Smith, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Stephen J. Smith



Stephen J. Smith

Senior Vice President and Chief Financial Officer

August 6, 2019