Veritiv Corp
Form 10-K
February 28, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
q 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)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
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 x 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 x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
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	x
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 x
As of June 29, 2018, the aggregate market value of the voting common stock of the registrant held by non-affiliates of the registrant, based on the closing sale price of those shares on the New York Stock Exchange reported on June 29, 2018, was $454,160,966. For the purposes of this disclosure only, the registrant has assumed that its directors and executive officers (as defined in Rule 3b-7 under the Exchange Act) and the UWW Holdings, LLC stockholder are the affiliates of the registrant.
The number of shares outstanding of the registrant's common stock as of February 22, 2019 was 15,901,416.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2019 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

Table of Contents

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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 this report 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 this report 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.

PART I

ITEM 1. BUSINESS

Our Company

Veritiv Corporation ("Veritiv" or the "Company" and sometimes referred to in this Annual Report on Form 10-K as "we", "our" or "us") 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

Table of Contents

customers. Veritiv's focus on segment-tailored market leadership in distribution and a commitment to operational excellence allows it to partner with world class suppliers, add value through multiple capabilities and deliver solutions to a wide range of customer segments.

We operate from approximately 160 distribution centers primarily throughout the United States ("U.S."), Canada and Mexico, serving customers across a broad range of industries. These customers include printers, publishers, data centers, manufacturers, higher education institutions, healthcare facilities, sporting and performance arenas, retail stores, government agencies, property managers and building service contractors.

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 our 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 North America and in key global markets. The business is strategically focused on higher growth industries including light industrial/general manufacturing, food production, 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 and dispensers, 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 we manage a world class network of leading suppliers in most facilities solutions categories. Additionally, we offer 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, wide format and specialty paper 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. Our broad geographic platform of operations coupled with the breadth of paper and graphics products, including our 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 our customers.

The table below summarizes net sales for each of the above reportable segments, as well as the Corporate & Other category, as a percentage of consolidated net sales:

	Year Ended December 31,		
	2018	2017	2016

Packaging	41%	38%	34%
Facility Solutions	15%	16%	15%
Print	31%	33%	37%
Publishing	12%	11%	13%
Corporate & Other	1%	2%	1%
Total	100%	100%	100%

Table of Contents

Additional financial information regarding our reportable business segments and certain geographic information is included in Item 7 of this report and in Note 18 of the Notes to Consolidated Financial Statements in Item 8 of this report.

Our History

Veritiv was established in 2014, following the spin-off of International Paper Company's ("International Paper") xpedx distribution solutions business ("xpedx") and the merger (the "Merger") of xpedx with UWW Holdings, Inc. ("UWWH"), the parent company of Unisource Worldwide, Inc. ("Unisource"), which we collectively refer to as the "Transactions". Following the Merger, Veritiv's common stock began regular-way trading on the New York Stock Exchange on July 2, 2014 under the ticker symbol "VRTV".

International Paper's distribution business was consolidated into a division operating under the xpedx name in 1998 to serve the U.S. and Mexico markets. International Paper grew its distribution business both organically and through the acquisition of over 30 distribution businesses located across the U.S. and Mexico. Unisource was a wholly-owned subsidiary of Alco Standard Corporation until its spin-off of Unisource in December 1996 whereby Unisource became a separate public company. Unisource was acquired by Georgia-Pacific, now owned by Koch Industries, in July 1999. In November 2002, Bain Capital acquired approximately a 60% ownership interest in Unisource, while Georgia-Pacific retained approximately a 40% ownership interest.

On August 31, 2017, Veritiv completed its acquisition of 100% of the equity interest in various All American Containers entities (collectively, "AAC"), a family owned and operated distributor of rigid packaging products, including plastic, glass and metal containers, caps, closures and plastic pouches. The acquisition of AAC aligns with the Company's strategy of investing in higher growth and higher margin segments of the business. Through the acquisition, Veritiv gained expertise in rigid plastic, glass and metal packaging that complements its portfolio of packaging products and services. This acquisition also provided Veritiv with additional marketing, selling and distribution channels into the growing U.S. rigid packaging market. The rigid packaging market's primary product categories include paperboard, plastics, metals and glass.

Products and Services

Veritiv distributes well-known national and regional brand products as well as products marketed under its own private label brands. Products under the Company's private label brands are manufactured by third-party suppliers in accordance with specifications established by the Company. Our portfolio of private label products includes:

- Coated and uncoated papers, coated board and cut size under the Endurance, nordic+, Econosource, Starbrite Opaque Select and other brands;
- Packaging products under the TUFflex brand, which include stretch film, mailers, shrink film, carton sealing tape, and other specialty tapes; and
- Foodservice disposable products, cleaning chemicals, towels and tissues, can liners, sanitary maintenance supplies and a wide range of facility supplies products under the Reliable and Spring Grove brands.

The table below summarizes sales of products sold under private label brands as a percentage of the respective total Company or applicable segment's net sales for the periods shown:

	Year Ended December 31,		
	2018	2017	2016
Packaging	6%	6%	6%

Facility Solutions	9%	8%	8%
Print	19%	20%	22%
Total Company	10%	10%	11%

Customers

We serve customers across a broad range of industries, through a variety of means ranging from multi-year sales agreements to transactional sales. The Company has valuable, multi-year, sales agreements with many of its largest customers that set forth the terms and conditions of sale including product pricing. We enter into incentive agreements with certain of our largest customers, which are generally based on sales to these customers. The Company's customers are

3

Table of Contents

generally not required to purchase any minimum amount of products under these agreements and can place orders on an individual purchase order basis.

For the years ended December 31, 2018, 2017 and 2016, no single customer accounted for more than 5% of the Company's consolidated net sales.

Suppliers

We purchase our products from thousands of suppliers, both domestic and international, across different business segments. Although varying by segment, the Company's suppliers consist generally of large corporations selling brand name and private label products and, to a more limited extent, independent regional and private label suppliers. Suppliers are selected based on customer demand for the product and a supplier's total service, cost and product quality offering.

Our sourcing organization supports the purchasing of well-known national and regional brand products as well as products marketed under our own private label brands from key national suppliers in the packaging, facility solutions and print industries. The Publishing segment primarily operates as a direct ship business aligned with the Company's core supplier strategy. In addition, under the guidance and oversight of the sourcing team, our merchandising personnel located within individual distribution centers source products not available within our core offering in order to meet specialized customer needs.

The product sourcing program is designed to ensure that the Company is able to offer consistent product selections and market competitive pricing across the enterprise while maintaining the ability to service localized market requirements. Our procurement program is also focused on replenishment which includes purchase order placement and controlling the total cost of inventory by proactively managing the number of day's inventory on hand, negotiating favorable payment terms and maintaining vendor-owned and vendor-managed programs. As one of the largest purchasers of paper, graphics, packaging and facility supplies, we can qualify for volume allowances with some suppliers and can realize significant economies of scale.

During the year ended December 31, 2018, approximately 38% of our purchases were made from ten suppliers.

Competition

The packaging, facility solutions, paper and publishing distribution industry is highly competitive, with numerous regional and local competitors, and is a mature industry characterized by slowing growth or, in the case of paper, declining demand. The Company's principal competitors include national, regional and local distributors, national and regional manufacturers, independent brokers and both catalog-based and online business-to-business suppliers. Most of these competitors generally offer a wide range of products at prices comparable to those Veritiv offers, though at varying service levels. Additionally, new competition could arise from non-traditional sources, group purchasing organizations, e-commerce, discount wholesalers or consolidation among competitors. Veritiv believes it offers the full range of services required to effectively compete, but if new competitive sources appear, it may result in margin erosion or make it more difficult to attract and retain customers.

The following summary briefly describes the key competitive landscape for each of Veritiv's business segments:

- Packaging – The packaging market is fragmented and consists of competition from national and regional packaging distributors, national and regional manufacturers of packaging materials, independent brokers and both catalog-based and online business-to-business suppliers. Veritiv believes there are few national packaging distributors with substrate neutral design capabilities similar to the Company’s capabilities.

- Facility Solutions – There are few national, but numerous regional and local distributors of facility supply solutions. Several groups of distributors have created strategic alliances among multiple distributors to provide broader geographic coverage for larger customers. Other key competitors include the business-to-business divisions of big box stores, purchasing group affiliates and both catalog-based and online business-to-business suppliers.

- Print – Industry sources estimate that there are hundreds of regional and local companies engaged in the marketing and distribution of paper and graphics products. While the Company believes there are few national distributors of paper and graphics products similar to Veritiv, several regional and local distributors have cooperated together to

4

Table of Contents

serve customers nationally. The Company's customers also have the opportunity to purchase products directly from paper and graphics manufacturers. In addition, competitors also include regional and local specialty distributors, office supply and big box stores, online business-to-business suppliers, independent brokers and large commercial printers that broker the sale of paper in connection with the sale of their printing services.

- Publishing – The publishing market is serviced by printers, paper brokers and distributors. The Company's customers also have the opportunity to purchase paper directly from paper manufacturers. The market consists primarily of magazine and book publishers, cataloguers, direct mailers and retail customers using catalog, insert and direct mail as a method of advertising.

We believe that our competitive advantages include over 1,600 sales and marketing professionals and the breadth of our selection of quality products, including high-quality private brands. The breadth of products distributed and services offered, the diversity of the types of customers served, and our broad geographic footprint in the U.S., Canada and Mexico buffer the impact of regional economic declines while also providing a network to readily serve national accounts.

Distribution and Logistics

Timely and accurate delivery of a customer's order, on a consistent basis, are important criteria in a customer's decision to purchase products and services from Veritiv. Delivery of products is provided through two primary channels, either from the Company's warehouses or directly from the manufacturer. Our distribution centers offer a range of delivery options depending on the customer's needs and preferences, and the strategic placement of the distribution centers also allows for delivery of special or "rush" orders to many customers.

Working Capital

Veritiv's working capital needs generally reflect the need to carry significant amounts of inventory in our distribution centers to meet delivery requirements of our customers, as well as significant accounts receivable balances. As is typical in our industry, our customers often do not pay upon receipt, but are offered terms which are dependent on the specific circumstances of the sale.

Employees

As of December 31, 2018, Veritiv had approximately 8,700 employees worldwide, of which approximately 10% were in collective bargaining units. Labor contract negotiations are handled on an individual basis by a team of Veritiv Human Resources and operations personnel with legal support. Approximately 25% of the Company's unionized employees have collective bargaining agreements that expire during 2019. We currently expect that we will be able to renegotiate such agreements on satisfactory terms. We consider labor relations to be good.

Government Relations

As a distributor, our transportation operations are subject to the U.S. Department of Transportation Federal Motor Carrier Safety Regulations. We are also subject to federal, state and local regulations regarding licensing and inspection of facilities, including compliance with the U.S. Occupational Safety and Health Act. These regulations require us to comply with health and safety standards to protect our employees from accidents and establish communication programs to transmit information on the hazards of certain chemicals present in specific products that we distribute.

We are also subject to regulation by numerous U.S., Canadian and Mexican federal, state and local regulatory agencies, including, but not limited to, the U.S. Department of Labor, which sets employment practice standards for workers. Although we are subject to other U.S., Canadian and Mexican federal, state and local provisions relating to the protection of the environment and the discharge or destruction of materials, these provisions do not materially impact the use or operation of the Company's facilities. Compliance with these laws has not had, and is not anticipated to have, a material effect on Veritiv's capital expenditures, earnings or competitive position.

Intellectual Property

We have numerous well-recognized trademarks, represented primarily by our private label brands. Most of our trademark registrations are effective for an initial period of ten years, and we generally renew our trademark registrations

Table of Contents

before their expiration dates for trademarks that are in use or have reasonable potential for future use. Although our Packaging, Facility Solutions and Print segments rely on a number of trademarks that, in the aggregate, provide important protections to the Company, no single trademark is material to any one of these segments. See the Products and Services section above for additional information regarding our private label brand sales. Additionally, Veritiv does not have any material patents or licenses.

Seasonality

The Company's operating results are subject to seasonal influences. Historically, our higher consolidated net sales occur during the third and fourth quarters while our 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 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.

Executive Officers of the Company

The following table sets forth certain information concerning the individuals who serve as executive officers of the Company as of February 28, 2019.

Name	Age	Position
Mary A. Laschinger	58	Chairman and Chief Executive Officer
Stephen J. Smith	55	Senior Vice President and Chief Financial Officer
Salvatore A. Abbate	50	Senior Vice President and Chief Commercial Officer
Charles B. Henry	54	Senior Vice President Strategic Initiatives
Mark W. Hianik	58	Senior Vice President, General Counsel and Corporate Secretary
Thomas S. Lazzaro	55	Senior Vice President Sales
Elizabeth A. Patrick	51	Senior Vice President and Chief Human Resources Officer
Tracy L. Pearson	48	Senior Vice President Supply Chain Operations
Daniel J. Watkoske	50	Senior Vice President Print

The following descriptions of the business experience of our executive officers include the principal positions held by them since February 2014.

Mary A. Laschinger has served as Chairman and Chief Executive Officer of the Company since July 2014. Previously, Ms. Laschinger served as Senior Vice President of International Paper Company, a global packaging and paper manufacturing company, from 2007 to July 2014 and as President of its xpedx distribution business from January 2010 to July 2014. Ms. Laschinger previously served as President of International Paper's Europe, Middle East, Africa and Russia business, Vice President and General Manager of International Paper's Wood Products and Pulp businesses and in other senior management roles at International Paper in sales, marketing, manufacturing and supply chain. Ms. Laschinger joined International Paper in 1992. Prior to joining International Paper, Ms. Laschinger held various positions in sales, marketing and supply chain at James River Corporation and Kimberly-Clark Corporation. Ms. Laschinger has significant knowledge and executive management experience running domestic and international manufacturing and distribution businesses as well as a deep understanding of Veritiv and the industry in which it operates. Ms. Laschinger also serves as a director of Kellogg Company and the Federal Reserve Bank of Atlanta.

Stephen J. Smith has served as Senior Vice President and Chief Financial Officer of the Company since March 2014. Previously, Mr. Smith served as Senior Vice President and Chief Financial Officer of American Greetings Corporation, a global greeting card company, from November 2006 to March 2014. Previously, Mr. Smith served as Vice President of Investor Relations and Treasurer of American Greetings from April 2003 to November 2006. Prior to American Greetings, Mr. Smith served as Vice President and Treasurer of General Cable Corporation, a global wire and cable manufacturer and distributor, and Vice President, Treasurer and Assistant Secretary of Insilco Holding Company, a telecommunications and electrical component products manufacturer. During Mr. Smith’s tenure as a public company chief financial officer, he helped lead several strategic acquisitions and was responsible for the design and execution of the capital structure for a management buyout.

Salvatore A. Abbate has served as Senior Vice President and Chief Commercial Officer of the Company since April 2018. Previously, Mr. Abbate served as Senior Vice President, Chief Sales & Marketing Officer for Andersen Windows & Doors, Inc., a leading North American window and door manufacturer, from July 2013 to March 2018. From September 2011 to June 2013, Mr. Abbate served as Senior Vice President, Sales and Marketing for Andersen. Prior to that, Mr. Abbate served as Vice-President, Global Sales and Marketing for the performance films division of Solutia, Inc., a performance materials and specialty chemical provider. Prior to Solutia, Mr. Abbate held various sales, marketing and operations roles for several divisions of Armstrong. Mr. Abbate has significant experience in sales, marketing, field operations, manufacturing and process improvement.

Charles B. Henry has served as Senior Vice President Strategic Initiatives of the Company since April 2018 and from March 2016 to April 2018 served as Senior Vice President Corporate Services. Previously, Mr. Henry served as Senior Vice President Commercial Excellence and Enterprise Initiatives of the Company from January 2016 to March 2016. Previously, Mr. Henry served as Senior Vice President Integration and Change Management of the Company from July 2014 to December 2015. Prior to that, Mr. Henry served as Vice President, Strategy Management and Integration of xpedx from March 2013 to July 2014 and was a member of the xpedx Senior Lead Team. Prior to that, he served as Director of the xpedx Strategy Management Office from February 2011 to March 2013. Prior to that, he served as a Director in International Paper’s Supply Chain Project Management Office. Mr. Henry joined International Paper in 1986 and served in a variety of supply chain, sales and general management roles within International Paper’s Program Management Office, Printing and Communications Papers business and Global Supply Chain operations. Mr. Henry has significant strategy and project management experience in the manufacturing and distribution industries.

Mark W. Hianik has served as Senior Vice President, General Counsel and Corporate Secretary of the Company since January 2014. Previously, Mr. Hianik served as Senior Vice President, General Counsel and Chief Administrative Officer for Dex One Corporation, an advertising and marketing services company, from March 2012 to May 2013. Prior to that Mr. Hianik served as Senior Vice President, General Counsel and Corporate Secretary for Dex One (and its predecessor, R.H. Donnelley Corporation) from April 2008 to March 2012. R.H. Donnelley filed for voluntary reorganization under Chapter 11 of the U.S. Bankruptcy Code in May 2009 emerging with a confirmed plan as Dex One in January 2010 and Dex One filed a pre-packaged bankruptcy petition under Chapter 11 in March 2013 to effect a merger consummated in April 2013. Mr. Hianik previously served as Vice President and Assistant General Counsel for Tribune Company, a diversified media company, and as a corporate and securities partner in private practice. Mr. Hianik has significant experience as a public company general counsel and leader of other corporate functions as well as significant mergers and acquisitions, securities, capital markets and corporate governance experience.

Thomas S. Lazzaro has served as Senior Vice President Sales of the Company since January 2019. Previously, Mr. Lazzaro served as Senior Vice President Field Sales and Operations of the Company from July 2014 to January 2019. Previously, Mr. Lazzaro served as Executive Vice President, Supply Chain of xpedx from March 2013 to July 2014 and was a member of the xpedx Senior Lead Team. Mr. Lazzaro joined xpedx in January 2011 as Executive Vice President and Chief Procurement Officer, responsible for all aspects of the purchasing organization. Prior to xpedx, Mr. Lazzaro was a senior executive with HD Supply, The Home Depot and General Electric. Mr. Lazzaro has significant experience in general management, supply chain, operations and finance in the manufacturing and distribution industries.

Elizabeth A. Patrick has served as Senior Vice President and Chief Human Resources Officer of the Company since July 2014. Prior to that, Ms. Patrick served as Vice President, Human Resources, of xpedx from March 2013 to July 2014 and was a member of International Paper Company’s Human Resources & Communications Lead Team and the xpedx Senior Lead Team. Prior to that, she served as Director, Human Resources-Field Operations of xpedx from October 2012 to March 2013. Previously, Ms. Patrick served as Vice President of Human Resources of TE Connectivity, a global electronics manufacturing and distribution company, from April 2008 to October 2012. Previously, Ms. Patrick served as Vice President Human Resources of Guilford Mills, Inc., an automotive and specialty markets fabrics manufacturer, and in a variety of roles of increased responsibility with General Motors Company and GM spin-off, Delphi Corporation, a global automotive parts manufacturer. Ms. Patrick has significant human resources management and leadership experience.

Tracy L. Pearson has served as Senior Vice President of Supply Chain Operations of the Company since January 2019. Previously, Ms. Pearson served as Senior Vice President Packaging of the Company from October 2016 to January

Table of Contents

2019. Prior to that, Ms. Pearson served as Vice President and General Manager, South Area, for the Container the Americas business of International Paper Company, a global packaging and paper manufacturing company, from May 2016 to October 2016. Prior to that, Ms. Pearson served as Vice President and General Manager for the Foodservice packaging business of International Paper from August 2011 to May 2016. Ms. Pearson joined International Paper in 1994 and served in a variety of sales, supply chain, marketing, process engineering, product development, and sales and general management roles within International Paper's packaging and print businesses. Ms. Pearson has significant experience in general management, sales and sales management, and supply chain in the packaging and paper manufacturing and distribution industries.

Daniel J. Watkoske has served as Senior Vice President Print of the Company since July 2014 and, from October 2016 to January 2019, also served as Senior Vice President of Veritiv Services. Previously, Mr. Watkoske served as Executive Vice President Sales for xpedx from January 2011 to July 2014 and was a member of the xpedx Senior Lead Team. Prior to that, Mr. Watkoske served as Group Vice President for the xpedx Metro New York Group from January 2008 to January 2011. Previously, Mr. Watkoske served as Vice President National Accounts for xpedx. Mr. Watkoske joined International Paper in 1989 as a sales trainee for Nationwide Papers, which later became part of xpedx. Mr. Watkoske has significant sales, sales management and operations experience in the paper and packaging distribution industries.

We have been advised that there are no family relationships among any of our executive officers or directors and that there is no arrangement or understanding between any of our executive officers and any other persons pursuant to which they were appointed, respectively, as an executive officer.

Company Information

Veritiv was incorporated in Delaware on July 10, 2013. Our principal executive offices are located at 1000 Abernathy Road NE, Building 400, Suite 1700, Atlanta, Georgia 30328.

Our corporate website is https://www.veritivcorp.com. Information contained on our website is not part of this Annual Report on Form 10-K. Through the "Investor Relations" portion of this website, we make available, free of charge, our proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other relevant filings with the SEC and any amendments to those reports as soon as reasonably practicable after such material has been filed with, or furnished to, the SEC. These filings are also accessible on the SEC's website at http://www.sec.gov.

ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors, together with the other information contained in this report, in evaluating us and an investment in our common stock. The risks described below are the material risks, although not the only risks, relating to us and our common stock. If any of the following risks and uncertainties develop into actual events, these events could have a material adverse effect on our business, financial condition, results of operations or cash flows.

Risks Relating to Our Business

The industry-wide decline in demand for paper and related products could have a material adverse effect on our financial condition and results of operations.

Our Print and Publishing businesses rely heavily on the sale of paper and related products. The industry-wide decrease in demand for paper and related products in key markets we serve places continued pressure on our revenues and profit margins and makes it more difficult to maintain or grow earnings. This trend is expected to continue. The failure to effectively differentiate us from our competitors in the face of increased use of email, increased and permanent product substitution, including less print advertising, more electronic billing, more e-commerce, fewer catalogs and a reduced volume of mail, could have a material adverse effect on market share, sales and profitability through increased expenditures or decreased prices. Our failure to grow the Packaging and Facility Solutions businesses at rates adequate to offset the expected decline in Print and Publishing could also have a material adverse effect on our financial results.

Competition in our industry may adversely impact our margins and our ability to retain customers and make it difficult to maintain our market share and profitability.

The business-to-business distribution industry is highly competitive, with numerous regional and local competitors, and is a mature industry characterized by slowing revenue growth. Our principal competitors include regional and local

Table of Contents

distributors in the Print segment; regional, national and international paper manufacturers and other merchants and brokers in the Publishing segment; national distributors, national and regional manufacturers and independent brokers in the Packaging segment; and national, regional and local distributors in the Facility Solutions segment. Most of these competitors generally offer a wide range of products at prices comparable to those we offer. Additionally, new competition could arise from non-traditional sources, group purchasing organizations, e-commerce, discount wholesalers or consolidation among competitors. New competitive sources may result in increased focus on pricing and on limiting price increases, or may require increased discounting. Such competition may result in margin erosion or make it difficult to attract and retain customers.

Increased competition within the industry, reduced demand for paper, increased and permanent product substitution through less print advertising, more electronic billing, more e-commerce, fewer catalogs, a reduced volume of mail and general economic conditions has served to further increase pressure on the industry's profit margins, and continued margin pressure within the industry may have a material adverse impact on our operating results and profitability.

Adverse developments in general business and economic conditions as well as conditions in the global capital and credit markets could have a material adverse effect on the demand for our products, the business, and the financial condition and results of operations of our Company and our customers.

The persistently slow rate of increase in the U.S. gross domestic product ("GDP") in recent years has adversely affected our results of operations. If GDP continues to increase at a slow rate or if economic growth declines, demand for the products we sell will be adversely affected. In addition, volatility in the global capital and credit markets, which impacts interest rates, currency exchange rates and the availability of credit, could have a material adverse effect on the business, financial condition and results of operations of our Company and our customers. Financial difficulties of customers, whether as a result of a downturn in general economic or industry conditions or otherwise, may result in failures of customers to timely pay amounts due or adversely affect the collectability of our accounts receivable, which could have a material adverse effect on our business, financial condition and results of operations. We also have exposure to counterparties with which we routinely execute transactions. A bankruptcy or liquidity event by one or more of our customers or counterparties, such as financial institutions, could have a material adverse effect on our business, financial condition and results of operations.

In order to compete, we must attract, train and retain highly qualified employees, and the failure to do so could have a material adverse effect on our results of operations.

To successfully compete, we must attract, train and retain a large number of highly qualified employees while controlling related labor costs. Specifically, we must recruit and retain qualified sales professionals. If we were to lose a significant amount of our sales professionals, we could lose a material amount of sales, which would have a material adverse effect on our financial condition and results of operations. Many of our sales professionals are subject to confidentiality and non-competition agreements. If our sales professionals were to violate these agreements, we could seek to legally enforce these agreements, but we may incur substantial costs in connection with such enforcement and may not be successful in such enforcement. We compete with other businesses for employees and invest significant resources in training and motivating them. There is no assurance that we will be able to attract or retain highly qualified employees. The inability to retain or hire qualified personnel at economically reasonable compensation levels would restrict our ability to improve our business and result in lower operating results and profitability.

Our business may be adversely affected by work stoppages, union negotiations and labor disputes.

Approximately 10% of our employees were in collective bargaining units as of December 31, 2018. Historically, the effects of collective bargaining and other similar labor agreements have not been significant. However, if a larger number of our employees were to unionize, including in the wake of any future legislation or administrative regulation that makes it easier for employees to unionize, the effect may be negative.

Approximately 25% of the Company's unionized employees have collective bargaining agreements that expire during 2019. Any inability to negotiate acceptable new contracts under these collective bargaining arrangements could cause strikes or other work stoppages, and new contracts could result in increased operating costs. If any such strikes or other work stoppages occur, or if additional employees become represented by a union, a disruption of our operations and higher labor costs could result. Labor relations matters affecting our suppliers of products and services could also adversely affect our business from time to time.

Table of Contents

The loss of any of our significant customers could adversely affect our financial condition.

Our ten largest customers generated approximately 9% of our consolidated net sales for the year ended December 31, 2018, and our largest customer accounted for approximately 2% of our consolidated net sales in that same period. We cannot guarantee that we will maintain or improve our relationships with these customers or that we will continue to supply these customers at historic levels.

Generally, our customers are not contractually required to purchase any minimum amount of products. Should such customers purchase products sold by us in significantly lower quantities than they have in the past, such decreased purchases could have a material adverse effect on our financial condition, operating results and cash flows.

In addition, consolidation among customers could also result in changes to the purchasing habits and volumes among some of our present customers. The loss of one or more of these significant customers, a significant customer's decision to purchase our products in substantially lower quantities than they have in the past, or a deterioration in the relationship with any of these customers could adversely affect our financial condition, operating results and cash flows.

Changes in business conditions in our international operations could adversely affect our business and results of operations.

Our operating results and business prospects could be substantially affected by risks related to Canada, Mexico and other non-U.S. countries where we sell and distribute or purchase our products. Some of our operations are in or near locations that have suffered from political, social and economic issues; civil unrest; and a high level of criminal activity. In those locations where we have employees or operations, we may incur substantial costs to maintain the safety of our personnel and the security of our operations. Downturns in economic activity, adverse tax consequences or any change in social, political or labor conditions in any of the countries in which we operate could negatively affect our financial results. In addition, our international operations are subject to regulation under U.S. law and other laws related to operations in foreign jurisdictions. For example, the Foreign Corrupt Practices Act of 1977 (the "FCPA") prohibits U.S. companies and their representatives from offering, promising, authorizing or making payments to foreign officials for the purpose of obtaining or retaining business abroad. Failure to comply with domestic or foreign laws could result in various adverse consequences, including the imposition of civil or criminal sanctions and the prosecution of executives overseeing our international operations.

We purchase all of the products we sell to our customers from other parties, and conditions beyond our control can interrupt our supplies and increase our product costs.

As a distributor, we obtain our packaging, paper and facility products from third-party suppliers. Our business and financial results are dependent on our ability to purchase products from suppliers not controlled by us that we, in turn, sell to our customers. We may not be able to obtain the products we need on open credit, with market or other favorable terms, or at all. During the year ended December 31, 2018, approximately 38% of our purchases were made from ten suppliers. A sustained disruption in our ability to source products from one or more of the largest of these vendors might have a material impact on our ability to fulfill customer orders resulting in lost sales and, in rare cases, damages for late or non-delivery.

For the most part, we do not have a significant number of long-term contracts with our suppliers committing them to provide products to us. Suppliers may not provide the products and supplies needed in the quantities and at the prices and times requested. We are also subject to delays caused by interruption in production and increases in product costs based on conditions outside of our control. These conditions include raw material shortages, environmental restrictions on operations, work slowdowns, work interruptions, strikes or other job actions by employees of suppliers, product recalls, transportation interruptions, unavailability of fuel or increases in fuel costs, competitive demands and natural disasters or other catastrophic events. Our inability to obtain adequate supplies of paper, packaging and facility products as a result of any of the foregoing factors or otherwise could mean that we could not fulfill our obligations to customers, and customers may turn to other distributors.

In addition, increases in product costs may reduce our margins if we are unable to pass all or a portion of these costs along to our customers, which we have historically had difficulty doing. Any such inability may have a negative impact on our business and our profitability.

Table of Contents

Changes in prices for raw materials, including pulp, paper and resin, could negatively impact our results of operations and cash flows.

Changes in prices for raw materials, such as pulp, paper and resin, could significantly impact our results of operations in the print market. Although we do not produce paper products and are not directly exposed to risk associated with production, declines in pulp and paper prices, driven by falling secular demand, periods of industry overcapacity and overproduction by paper suppliers, may adversely affect our revenues and net income to the extent such factors produce lower paper prices. Declining pulp and paper prices generally produce lower revenues and profits, even when volume and trading margin percentages remain constant. During periods of declining pulp and paper prices, customers may alter purchasing patterns and defer paper purchases or deplete inventory levels until long-term price stability occurs. Alternatively, if prices for raw materials rise and we are unable to pass these increases on to our customers, our results of operations and profits may also be negatively impacted.

Increases in the cost of fuel and third-party freight as well as the availability of third-party freight providers could have an adverse effect on our business and results of operations.

Volatile fuel prices have a direct impact on our business. We also depend upon third-party freight providers in order to conduct our business. The cost of fuel and third-party freight affects the price paid by us for products as well as the expense incurred to deliver products to our customers. Increased fuel costs, increased government regulation and limitations on driver availability impacting the freight transportation industry may adversely impact the cost and availability of third-party freight services. Although we have been able to pass along a portion of increased fuel and third-party freight costs to our customers in the past, there is no guarantee that we can continue to do so. Increases in fuel and third-party freight costs or the unavailability of third-party freight providers may adversely affect our business and results of operations.

Changes in U.S. and international trade policies and regulations could adversely affect our business and operating results.

Although we primarily serve markets in the U.S., we also have operations in Canada and Mexico, and we purchase our products from a wide variety of domestic and international suppliers. Changes to U.S. trade policies, including the adoption or expansion of trade restrictions, sanctions and other related governmental actions or policies, can disrupt geographic and industry demand trends and prompt other countries to change their own trade policies, including through the adoption of retaliatory tariffs or expansion of other trade restrictions. These changes may cause us to make changes in our supply chain strategies or adversely impact our own costs. Increasing the costs of our products as a result of tariffs or other adverse trade restrictions, or minimizing the number of our products subject to tariffs or other adverse trade restrictions, could cause customers to turn to other distributors and we may be unable to locate alternative suppliers at acceptable costs. Such actions may result in margin erosion or make it difficult to attract and retain customers.

Inclement weather, anti-terrorism measures and other disruptions to the transportation network could impact our distribution system and operations.

Our ability to provide efficient distribution of products to our customers is an integral component of our overall business strategy. Disruptions at distribution centers or shipping ports or the closure of roads or imposition of other driving bans due to natural events such as flooding, tornadoes and blizzards may affect our ability to both maintain key products in inventory and deliver products to our customers on a timely basis, which may in turn adversely affect our results of operations.

Furthermore, in the aftermath of terrorist attacks in the United States, federal, state and local authorities have implemented and continue to implement various security measures that affect many parts of the transportation network in the U.S. and abroad. Our customers typically require delivery of products in short time frames and rely on our on-time delivery capabilities. If security measures disrupt or impede the timing of our deliveries, we may fail to meet the needs of our customers, or may incur increased expenses to do so. Any of these disruptions to our operations may reduce our sales and have an adverse effect on our business, financial condition and results of operations.

Table of Contents

We are dependent on a variety of IT and telecommunications systems and the Internet, and any failure of these systems could adversely impact our business and operating results.

We depend on information technology ("IT") and telecommunications systems and the Internet for our operations. These systems support a variety of functions including inventory management, order placement and processing with vendors and from customers, shipping, shipment tracking and billing. Our information systems are vulnerable to natural disasters, wide-area telecommunications or power utility outages, terrorist or cyber-attacks and other major disruptions and our redundant information systems may not operate effectively.

Failures or significant downtime of our IT or telecommunications systems for any reason, including as a result of disruptions from integrating the xpedx and Unisource businesses, could prevent us from taking customer orders, printing product pick-lists, shipping products, billing customers and handling call volume. Sales also may be adversely impacted if our reseller and retail customers are unable to access pricing and product availability information. We also rely on the Internet, electronic data interchange and other electronic integrations for a large portion of our orders and information exchanges with our suppliers and customers. The Internet and individual websites have experienced a number of disruptions and slowdowns, some of which were caused by organized attacks. In addition, some websites have experienced security breakdowns. If we were to experience a security breakdown, disruption or breach that compromised sensitive information, it could harm our relationships with our suppliers and customers. Disruption of our website or the Internet in general could impair our order processing or more generally prevent our suppliers and resellers from accessing information. Failures of our systems could also lead to delivery delays and may expose us to litigation and penalties under some of our contracts. Any significant increase in our IT and telecommunications costs or temporary or permanent loss of our IT or telecommunications systems, including as a result of disruptions from integrating the xpedx and Unisource businesses, could harm our relationships with our customers and suppliers and result in lost sales, business delays and bad publicity. The occurrence of any of these events, as well as the costs we may incur in preventing or responding to such events, could have a material adverse effect on our business, financial condition and results of operations.

We are subject to cyber-security risks related to breaches of security pertaining to sensitive company, customer, employee and vendor information as well as breaches in the technology that manages operations and other business processes.

Our operations rely upon secure IT systems for data capture, processing, storage and reporting. Our IT systems, and those of our third-party providers, could become subject to cyber-attacks. Network, system, application and data breaches could result in operational disruptions or information misappropriation including, but not limited to, interruption of systems availability, or denial of access to and misuse of applications required by our customers to conduct business with us. Access to internal applications required to plan our operations, source materials, ship finished goods and account for orders could be denied or misused. Theft of intellectual property or trade secrets, and inappropriate disclosure of confidential information, could stem from such incidents. Any operational disruptions or misappropriation of information could harm our relationship with our customers and suppliers, result in lost sales, business delays and negative publicity and could have a material adverse effect on our business, financial condition and results of operations.

Costs to comply with environmental, health and safety laws, and to satisfy any liability or obligation imposed under such laws, could negatively impact our business, financial condition and results of operations.

Our operations are subject to U.S. and international environmental, health and safety laws, including laws regulating the emission or discharge of materials into the environment, the use, storage, treatment, disposal and management of hazardous substances and waste, the investigation and remediation of contamination and the health and safety of our employees and the public. We could incur substantial fines or sanctions, enforcement actions (including orders limiting our operations or requiring corrective measures), investigation, remediation and closure costs and third-party claims for property damage and personal injury as a result of violations of, or liabilities or obligations under, environmental, health and safety laws. We could be held liable for the costs to address contamination at any real property we have ever owned, operated or used as a disposal site.

In addition, changes in, or new interpretations of, existing laws, the discovery of previously unknown contamination, or the imposition of other environmental liabilities or obligations in the future, may lead to additional compliance or other costs that could impact our business and results of operations. Moreover, as environmental issues, such as climate change, have become more prevalent, U.S. and foreign governments have responded, and are expected to continue to respond, with

Table of Contents

increased legislation and regulation, which could negatively impact our business, financial condition and results of operations.

Expenditures related to the cost of compliance with laws, rules and regulations could adversely impact our business and results of operations.

Our operations are subject to U.S. and international laws and regulations, including regulations of the U.S. Department of Transportation Federal Motor Carrier Safety Administration, the import and export of goods, customs regulations, Office of Foreign Asset Control and the FCPA. Expenditures related to the cost of compliance with laws, rules and regulations, tariffs and duties could adversely impact our business and results of operations. In addition, we could incur substantial fines or sanctions, enforcement actions (including orders limiting our operations or requiring corrective measures), and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, laws, regulations, codes and common law.

Tax assessments and unclaimed property audits by governmental authorities could adversely impact our operating results.

We remit a variety of taxes and fees to various governmental authorities, including federal and state income taxes, excise taxes, property taxes, sales and use taxes and payroll taxes. The taxes and fees remitted by us are subject to review and audit by the applicable governmental authorities which could result in liability for additional assessments. In addition, we are subject to unclaimed property (escheat) laws which require us to turn over to certain government authorities the property of others held by us that has been unclaimed for a specified period of time. We are subject to audit by individual U.S. states with regard to our escheatment practices. The legislation and regulations related to tax and unclaimed property matters tend to be complex and subject to varying interpretations by both government authorities and taxpayers. Although management believes that the positions we have taken are reasonable, various taxing authorities may challenge certain of the positions we have taken, which may also potentially result in additional liabilities for taxes, unclaimed property, interest and penalties in excess of accrued liabilities. Our positions are reviewed as events occur such as the availability of new information, the lapsing of applicable statutes of limitations, the conclusion of tax audits, the measurement of additional estimated liabilities based on current calculations, the identification of new tax contingencies or the rendering of relevant court decisions. An unfavorable resolution of assessments by a governmental authority could have a material adverse effect on our financial condition, results of operations and cash flows in future periods.

Adverse developments in general business and economic conditions, including the industry-wide decline in demand for paper and related products could have a material adverse effect on our financial condition and results of operations impairing our ability to use Net Operating Loss ("NOL") carryforwards and other deferred tax assets.

The realization of our NOLs and other deferred tax assets depends on the timing and amount of taxable income earned by our Company in the future and a lack of future taxable income would adversely affect our ability to realize these tax assets. Tax attributes are generally subject to expiration at various times in the future to the extent that they have not previously been applied to offset the taxable income of our Company, and there is a risk that our existing NOL carryforwards could expire unused and be unavailable to offset future income tax liabilities.

The Merger resulted in an ownership change for Unisource under Section 382 of the Internal Revenue Code (the "Code"), limiting the use of Unisource’s NOLs to offset future taxable income for both U.S. federal and state income tax purposes. Moreover, future trading of our stock by our significant shareholders may result in additional ownership changes as defined under Section 382 of the Code, further limiting the use of Unisource's NOLs. These limitations may affect the availability and the timing of when these NOLs may be used which could impair our deferred tax assets which, in turn, may adversely impact the timing and amount of cash taxes payable by our Company.

Significant judgment is required in evaluating the need for and magnitude of appropriate valuation allowances against deferred tax assets. The realization of these assets is dependent on generating future taxable income, as well as successful implementation of various tax planning strategies. Although we believe that the judgments and estimates with respect to the valuation allowances are appropriate and reasonable under the circumstances, actual results could differ from projected results, which could give rise to additions to valuation allowances or reductions in valuation allowances. It is possible that such changes could have a material adverse effect on the amount of income tax expense (benefit) recorded in our Consolidated Statements of Operations.

Table of Contents

Our inability to renew existing leases on acceptable terms, negotiate rent decreases or concessions and identify affordable real estate could adversely affect our operating results.

We may be unable to successfully negotiate or renew existing leases at attractive rents, negotiate rent decreases or concessions or identify affordable real estate. A key factor in our operating performance is the location and associated real estate costs of our distribution centers. Our inability to negotiate or renew these leases on favorable terms, or at all, could have a material adverse effect on our business and results of operations due to, among other things, any resultant increased lease payments.

Results of legal proceedings could have a material adverse effect on our consolidated financial statements.

We rely on manufacturers and other suppliers to provide us with the products and equipment we sell, distribute and service. As we do not have direct control over the quality of the products manufactured or supplied by such third-party suppliers, we are exposed to risks relating to the quality of the products and equipment we sell, distribute and service. It is possible that inventory from a manufacturer or supplier could be sold to our customers and later be alleged to have quality problems or to have caused personal injury, subjecting us to potential claims from customers or third parties. Our ability to hold such manufacturer or supplier liable will depend on a variety of factors, including its financial viability. Moreover, as we increase the number of private label products we distribute, our exposure to potential liability for product liability claims may increase. Finally, even if we are successful in defending any claim relating to the products or equipment we distribute, claims of this nature could negatively impact our reputation and customer confidence in our products, equipment and company. We have been subject to such claims in the past, which have been resolved without material financial impact. We also operate a significant number of facilities and a large fleet of trucks and other vehicles and therefore face the risk of premises-related liabilities and vehicle-related liabilities including traffic accidents.

From time to time, we may also be involved in government inquiries and investigations, as well as class action, employment and other litigation. We cannot predict with certainty the outcomes of these legal proceedings and other contingencies, including environmental remediation and other proceedings commenced by government authorities. The costs and other effects of pending litigation against us cannot be determined with certainty. There can be no assurance that the outcome of any lawsuit or claim or its effect on our business or financial condition will be as expected. The defense of these lawsuits and claims may divert our management’s attention, and significant expenses may be incurred as a result. In addition, we may be required to pay damage awards or settlements, or become subject to injunctions or other equitable remedies, that could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Although we currently maintain insurance coverage to address some of these types of liabilities, we cannot make assurances that we will be able to obtain such insurance on acceptable terms in the future, if at all, or that any such insurance will provide adequate coverage against potential claims. In addition, we may choose not to seek to obtain such insurance in the future. Moreover, indemnification rights that we have may be insufficient or unavailable to protect us against potential loss exposures.

We may not be able to adequately protect our material intellectual property and other proprietary rights, or to defend successfully against intellectual property infringement claims by third parties.

Our ability to compete effectively depends in part upon our intellectual property rights, including but not limited to trademarks, copyrights and proprietary technology. The use of contractual provisions, confidentiality procedures and agreements, and trademark, copyright, unfair competition, trade secret and other laws to protect intellectual property rights and proprietary technology may not be adequate. Litigation may be necessary to enforce our intellectual property rights and protect proprietary technology, or to defend against claims by third parties that our conduct or our use of intellectual property infringes upon such third-party’s intellectual property rights. Any intellectual property litigation or claims brought against us, whether or not meritorious, could result in substantial costs and diversion of our resources, and there can be no assurances that favorable final outcomes will be obtained. The terms of any settlement or judgment may require us to pay substantial amounts to the other party or cease exercising our rights in such intellectual property, including ceasing the use of certain trademarks used by us to distinguish our services from those of others or ceasing the exercise of our rights in copyrightable works. In addition, we may be required to seek a license to continue practices found to be in violation of a third-party’s rights, which may not be available on reasonable terms, or at all. Our business, financial condition or results of operations could be adversely affected as a result.

Table of Contents

Our pension and health care costs are subject to numerous factors which could cause these costs to change.

Our pension and health care costs are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience, including, for pension costs, actuarial assumptions regarding life expectancies. Pension plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity market returns, changes in general interest rates and changes in the number of retirees may result in increased pension costs in future periods. Significant changes in any of these factors may adversely impact our cash flows, financial condition and results of operations.

We participate in multi-employer pension plans and multi-employer health and welfare plans, which could create additional obligations and payment liabilities.

We contribute to multi-employer defined benefit pension plans as well as multi-employer health and welfare plans under the terms of collective bargaining agreements that cover certain unionized employee groups in the United States. The risks of participating in multi-employer pension plans differ from single employer-sponsored plans and such plans are subject to regulation under the Pension Protection Act (the "PPA"). Additionally, changes in regulations covering these plans could increase our costs and/or potential withdrawal liability.

Multi-employer pension plans are cost-sharing plans subject to collective-bargaining agreements. Contributions to a multi-employer plan by one employer are not specifically earmarked for its employees and may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan are borne by the remaining participating employers. In addition, if a multi-employer plan is determined to be underfunded based on the criteria established by the PPA, the plan may be required to implement a financial improvement plan or rehabilitation plan that may require additional contributions or surcharges by participating employers.

In addition to the contributions discussed above, we could be obligated to pay additional amounts, known as withdrawal liabilities, upon decrease or cessation of participation in a multi-employer pension plan. Although an employer may obtain an estimate of such liability, the final calculation of the withdrawal liability may not be able to be determined for an extended period of time. Generally, the cash obligation of such withdrawal liability is payable over a 20 year period.

Our substantial indebtedness could adversely affect our financial condition and impair our ability to operate our business.

As of December 31, 2018, we had approximately $984.8 million in total indebtedness, reflecting borrowings of $932.1 million under the asset-based lending facility (the "ABL Facility"), $14.5 million of financing obligations (exclusive of the non-monetary portion) and $38.2 million of equipment capital lease and other obligations. This level of indebtedness could have important consequences to our financial condition, operating results and business, including the following:

- limiting our ability to obtain additional debt or equity financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes;
- increasing our cost of borrowing;
- requiring that a substantial portion of our cash flows from operations be dedicated to payments on our indebtedness instead of other purposes, including operations, capital expenditures and future business opportunities;
- making it more difficult for us to make payments on our indebtedness or satisfy other obligations;

- exposing us to risk of increased interest rates on our borrowings due to the variable rate exposure associated with the ABL Facility, which can be worsened by (i) increased interest rates up to the level covered by our interest rate cap, (ii) increased interest rates on borrowings in excess of the notional amount of our interest rate cap, and (iii) the expiration of our interest rate cap without an equivalent replacement;
- limiting our ability to make the expenditures necessary to complete the integration of xpedx’s business with Unisource’s business;
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors that have less debt; and
- increasing our vulnerability to a downturn in general economic conditions or in our business, and making us unable to carry out capital spending that is important to our growth.

Table of Contents

Despite our substantial indebtedness, we may still be able to incur substantially more indebtedness in the future. This could further exacerbate the risks to our financial condition described above.

We may be able to incur significant additional indebtedness in the future, including secured indebtedness. Although the agreements governing the ABL Facility contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. If new indebtedness is added to our current indebtedness levels, the related risks we will face could intensify.

The agreements governing our indebtedness contain restrictive covenants, which could restrict our operational flexibility.

The agreements governing the ABL Facility contain restrictions and limitations on our ability to engage in activities that may be in our long-term best interests, including financial and other restrictive covenants that could limit our ability to:

- incur additional indebtedness or guaranties, or issue certain preferred shares;
- pay dividends, redeem stock or make other distributions;
- repurchase, prepay or redeem subordinated indebtedness;
- make investments or acquisitions;
- create liens;
- make negative pledges;
- consolidate or merge with another company;
- sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with affiliates; and
- change the nature of our business.

The agreements governing the ABL Facility also contain other restrictions customary for asset-based facilities of this nature.

Our ability to borrow additional amounts under the ABL Facility will depend upon satisfaction of these covenants. Events beyond our control could affect our ability to meet these covenants. Our failure to comply with obligations under the agreements governing the ABL Facility may result in an event of default under those agreements. A default, if not cured or waived, may permit acceleration of our indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. This could have serious consequences to our business, financial condition and operating results and could cause us to become bankrupt or insolvent.

Risks Relating to the Transactions

We may not realize the full benefits of the anticipated synergies, cost savings and growth opportunities from the Merger.

The benefits of the Merger depend, in part, on our ability to realize anticipated growth opportunities, cost savings and other synergies. Even if we are able to integrate the xpedx and Unisource businesses successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost savings and other synergies that we currently expect from this integration within the anticipated time frame or at all. We have incurred and will continue to incur expenses in connection with the integration of these businesses. Such expenses may exceed current estimates and accordingly, the full benefits from the Merger may be offset by costs or delays incurred in integrating the businesses.

We have incurred and continue to incur significant costs and charges associated with the Transactions that could affect our period-to-period operating results.

Through December 31, 2018, we have incurred approximately $282 million in costs and charges associated with the Transactions, including approximately $106 million for capital expenditures and $22 million related to the complete or partial withdrawal from various multi-employer pension plans. We anticipate that we will incur additional costs and charges associated with the Transactions. We are not able to quantify the total amount of these costs and charges or the period in which they will be incurred as the operating plans affecting these costs are evolving and most charges relating to the

Table of Contents

withdrawal from multi-employer pension plans are uncertain. Excluding the multi-employer pension plan withdrawal charges, we currently anticipate that total net costs and charges associated with the Transactions will be approximately $320 million to $330 million through December 31, 2019. The amount and timing of these costs and charges could adversely affect our period-to-period operating results, which could result in a reduction in the market price of shares of our common stock. Moreover, delays in completing the integration may reduce or delay the synergies and other benefits expected from the Transactions and such reduction may be material.

If costs to integrate our IT infrastructure and network systems are more than amounts that have been budgeted, our business, financial condition and results of operations could be adversely affected.

We expect to incur additional costs associated with achieving anticipated cost savings and other synergies from the Transactions. Some of these costs will consist of information technology infrastructure, systems integration and planning. The primary areas of spending will be integrating our financial, operational and human resources systems. We expect that a portion of these expenditures will be capitalized. Such expenditures and other integration costs could adversely affect our business, financial condition and results of operations.

Risks Relating to Our Common Stock

Our stock price may fluctuate significantly.

The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in the operating results of our Company due to factors related to our business;
- success or failure of the strategy of our Company;
- the quarterly or annual earnings of our Company, or those of other companies in our industry;
- continued industry-wide decrease in demand for paper and related products;
- our ability to obtain third-party financing as needed;
- announcements by us or our competitors of significant acquisitions or dispositions;
- restrictions on our ability to pay dividends under our ABL Facility;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the operating and stock price performance of other comparable companies;
- investor perception of our Company;
- natural or environmental disasters that investors believe may affect our Company;
- overall market fluctuations;
- a large sale of our stock by a significant shareholder;
- results from any material litigation or government investigation;
- changes in laws and regulations affecting our Company or any of the principal products sold by our Company; and
- general economic and political conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations could adversely affect the trading price of our common stock.

If securities or industry analysts do not continue to publish research, or publish unfavorable research, about our Company, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us and our business. If the current coverage of our Company by securities or industry analysts ceases, the trading price for our stock would be negatively impacted. In addition, if one or more of these analysts downgrades our stock or publishes misleading or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our Company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price or trading volume to decline.

A significant percentage of our outstanding common stock is held by our three largest shareholders, and certain of those shareholders exercise significant influence over matters requiring shareholder approval. So long as a significant percentage of our common stock continues to be held by a small number of shareholders, the liquidity of our common

Table of Contents

stock may be impacted, and future sales by those shareholders may result in a reduction in the market price of our common stock.

Our three largest shareholders collectively owned approximately 52% of our outstanding common stock as of December 31, 2018. As a result, certain of these shareholders may exercise significant influence over all matters requiring shareholder approval, including approval of significant corporate transactions, which may reduce the market price of our common stock. Additionally, the interests of these shareholders may conflict with the interests of our other shareholders.

This concentrated ownership could also result in a limited amount of shares being available to be traded in the market, resulting in reduced liquidity. Further, all of the shares of our common stock owned by the UWWH Stockholder are registered for resale under the Securities Act of 1933 and, subject to certain limitations, all or a portion of such shares may be offered and sold to the public in the future. When some or all of the shares held by the UWWH Stockholder are sold, or if it is perceived that they will be sold, the market price of our common stock could decline.

Anti-takeover provisions in our charter and amended and restated by-laws (our "by-laws") could discourage, delay or prevent a change of control of our Company and may affect the trading price of our common stock.

Our charter and by-laws include a number of provisions that may discourage, delay or prevent a change in our management or control over us that shareholders may consider favorable. For example, our charter and by-laws collectively:

- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- limit the ability of shareholders to remove directors;
- provide that vacancies on our board of directors, including vacancies resulting from an enlargement of our board of directors, may be filled only by a majority vote of directors then in office;
- prohibit shareholders from calling special meetings of shareholders unless called by the holders of not less than 20% of our outstanding shares of common stock;
- prohibit shareholder action by written consent, unless initiated by the holders of not less than 20% of the outstanding shares of common stock;
- establish advance notice requirements for nominations of candidates for election as directors or to bring other business before an annual meeting of our shareholders; and
- require the approval of holders of at least a majority of the outstanding shares of our common stock to amend our by-laws and certain provisions of our charter.

These provisions may prevent our shareholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if the provisions are viewed as discouraging takeover attempts in the future.

Our charter and by-laws may also make it difficult for shareholders to replace or remove our management. These provisions may facilitate management entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our shareholders.

We have not historically paid dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have not historically declared or paid dividends on our common stock. We currently intend to invest our future earnings, if any, to fund our growth, to develop our business, for working capital needs, to reduce debt and for general corporate purposes. Therefore, the success of an investment in shares of our common stock will depend upon any future appreciation in their value. There is no guarantee that shares of our common stock will appreciate in value or even maintain their current value.

Any decision to pay dividends in the future will be at the discretion of Veritiv's Board of Directors and will depend upon various factors then existing, including earnings, financial condition, results of operations, capital requirements, level of indebtedness, restrictions imposed by applicable law, general business conditions and other factors that Veritiv's Board of Directors may deem relevant. In addition, our operations are conducted almost entirely through our subsidiaries. As such, to the extent that we determine in the future to pay dividends on our common stock, none of our subsidiaries will be obligated to

Table of Contents

make funds available to us for the payment of dividends. Further, the agreements governing our ABL Facility can, and agreements governing future indebtedness may, in certain circumstances, restrict the ability of our subsidiaries to pay dividends or otherwise transfer assets to us.

Our charter designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our shareholders, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us.

Our charter provides that the Court of Chancery of the State of Delaware is the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us or our shareholders by any of our directors, officers, employees or agents, (iii) any action asserting a claim against us arising under the Delaware General Corporation Law or (iv) any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision in our charter may limit our shareholders' ability to obtain a favorable judicial forum for disputes with us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

As of December 31, 2018, we had a distribution network operating from approximately 160 distribution centers.

	Leased	Owned	Total
Properties	150	10	160
Square feet (in millions)	18.3	1.1	19.4

These facilities are strategically located throughout the U.S., Canada and Mexico in order to efficiently serve our customer base in the surrounding areas while also facilitating expedited delivery services for special orders. We continually evaluate location, size and attributes to maximize efficiency, deliver top quality customer service and achieve economies of scale. The Company also leases various office spaces for corporate and sales functions.

ITEM 3. 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 cash flow, results of operations or financial condition.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Veritiv's common stock is publicly traded on the New York Stock Exchange ("NYSE") under the ticker symbol "VRTV". As of February 22, 2019, there were 5,445 shareholders of record. The number of record holders does not include shareholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees.

Veritiv has not historically paid dividends on its common stock. The Company currently intends to invest its future earnings, if any, to fund its growth, to develop its business, for working capital needs, to reduce debt and for general corporate purposes. Any payment of dividends will be at the discretion of Veritiv's Board of Directors and will depend upon various factors then existing, including earnings, financial condition, results of operations, capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends, restrictions imposed by applicable law, general business conditions and other factors that Veritiv's Board of Directors may deem relevant.

On November 23, 2016, the UWWH Stockholder, one of Veritiv's existing stockholders and the former parent company of Unisource Worldwide, Inc., sold 1.76 million shares of Veritiv common stock in an underwritten public offering. Concurrently with the closing of the offering, Veritiv repurchased 0.31 million of these offered shares from the underwriters at a price of $42.8625 per share, which is the price at which the underwriters purchased such shares from the selling stockholder, for an aggregate purchase price of approximately $13.4 million. The Company may repurchase additional shares in the future, however, there is currently no share repurchase authorization plan approved by the Company's Board of Directors.

Table of Contents

On March 22, 2017 and September 25, 2018, the UWWH Stockholder sold 1.80 million shares and 1.50 million shares of Veritiv common stock, respectively, in block trades. The Company did not sell or repurchase any shares and did not receive any of the proceeds in these transactions.

The UWWH Stockholder beneficially owned 2,783,840 shares of Veritiv's outstanding common stock as of December 31, 2018.

Performance Graph

The following graph provides a comparison of the cumulative shareholder return on the Company's common stock to the returns of the Russell 2000 Index and the average performance of a group consisting of the Company's peer companies (the "Peer Group") based on total shareholder return from June 18, 2014 (the first day Veritiv's common stock began "when-issued" trading on the NYSE) through December 31, 2018. Companies included in the Peer Group are as follows:

- Anixter International Inc.
- Applied Industrial Technologies, Inc.
- Arrow Electronics, Inc.
- Avery Dennison Corporation
- Avnet, Inc.
- Bemis Company, Inc.
- Brady Corporation
- Deluxe Corporation
- Domtar Corporation
- Ennis, Inc.
- Essendant Inc.
- Fastenal Company
- Genuine Parts Company
- Graphic Packaging Holding Company
- InnerWorkings, Inc.
- International Paper Company
- Kaman Corporation
- MSC Industrial Direct Co., Inc.
- Neenah Inc.
- Office Depot, Inc.
- Packaging Corporation of America
- P.H. Glatfelter Company
- R.R. Donnelley & Sons Company
- Resolute Forest Products, Inc.
- ScanSource, Inc.
- Sealed Air Corporation
- Sonoco Products Company
- W.W. Grainger, Inc.
- WESCO International, Inc.
- WestRock Company

KapStone Paper and Packaging Corporation was removed from the Peer Group due to its acquisition by WestRock Company in November 2018.

The graph is not, and is not intended to be, indicative of future performance of our common stock. The graph assumes $100 invested on June 18, 2014 in the Company, the Russell 2000 Index and the Peer Group. Total return indices reflect reinvestment of dividends and are weighted on the basis of market capitalization at the time of each reported data point.

Table of Contents

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following table presents the selected historical consolidated financial data for Veritiv and should be read in conjunction with Item 7 of this report and the audited Consolidated Financial Statements and notes thereto contained in Item 8 of this report. The Consolidated Statements of Operations data for the years ended December 31, 2018, 2017 and 2016 and the Consolidated Balance Sheets data as of December 31, 2018 and 2017 set forth below are derived from the audited Consolidated Financial Statements included in Item 8 of this report.

The Consolidated and Combined Statements of Operations data for the years ended December 31, 2015 and 2014 and the Consolidated Balance Sheets data as of December 31, 2016, 2015 and 2014 are derived from Veritiv's audited Consolidated Financial Statements for 2016 and 2015. These financial statements are not included in this report.

The financial information may not be indicative of Veritiv's future performance and the financial information presented for the period prior to the Transactions does not necessarily reflect what the financial condition and results of operations would have been had Veritiv operated as a separate, stand-alone entity during that period.

Table of Contents

(in millions, except per share data)	As of and for the Year Ended December 31,				
Statements of Operations Data	2018	2017	2016	2015	2014[1]
Net sales	$8,696.2	$8,364.7	$8,326.6	$8,717.7	$7,406.5
Cost of products sold	7,155.7	6,846.6	6,826.4	7,160.3	6,180.9
Distribution expenses	550.5	516.9	505.1	521.8	426.2
Selling and administrative expenses [2]	867.6	875.7	827.9	856.0	690.5
Depreciation and amortization	53.5	54.2	54.7	56.9	37.6
Integration, acquisition and merger expenses	31.8	36.5	25.9	34.9	75.1
Restructuring charges, net	21.3	16.7	12.4	11.3	4.0
Operating income (loss) [2]	15.8	18.1	74.2	76.5	(7.8)
Income tax expense (benefit)	5.5	11.4	19.8	18.2	(2.1)
Income (loss) from continuing operations	(15.7)	(13.3)	21.0	26.7	(19.5)
Loss from discontinued operations, net of income taxes	—	—	—	—	(0.1)
Net income (loss)	(15.7)	(13.3)	21.0	26.7	(19.6)
Earnings (loss) per share[3]:					
Basic					
Continuing operations	$(0.99)	$(0.85)	$1.31	$1.67	$(1.61)
Discontinued operations	—	—	—	—	(0.01)
Basic earnings (loss) per share	$(0.99)	$(0.85)	$1.31	$1.67	$(1.62)
Diluted					
Continuing operations	$(0.99)	$(0.85)	$1.30	$1.67	$(1.61)
Discontinued operations	—	—	—	—	(0.01)
Diluted earnings (loss) per share	$(0.99)	$(0.85)	$1.30	$1.67	$(1.62)
Balance Sheets Data (at period end)					
Accounts receivable, net	$1,181.4	$1,174.3	$1,048.3	$1,037.5	$1,115.1
Inventories	688.2	722.7	707.9	720.6	673.2
Total assets [4]	2,529.7	2,708.4	2,483.7	2,476.9	2,574.5
Long-term debt, net of current maturities [5]	963.6	908.3	749.2	800.5	855.0
Financing obligations, less current portion [4]	23.6	181.6	176.1	197.8	212.4
Defined benefit pension obligations	21.1	24.4	27.6	28.7	36.3
Other non-current liabilities	128.6	137.0	121.2	105.6	107.2

[1] Includes the operating results of Unisource for the six months ended December 31, 2014.
[2] Prior year amounts have been revised to reflect the impact of the adoption of ASU 2017-07 in 2018. See Note 1 of the Notes to Consolidated Financial Statements for information regarding the adoption.
[3] See Note 14 of the Notes to Consolidated Financial Statements for information regarding the shares of common stock utilized in the computation of basic and diluted earnings per share for the years ended December 31, 2018, 2017 and 2016.
[4] See Note 6 of the Notes to Consolidated Financial Statements for information regarding the impacts to property and equipment and financing obligations due to the termination or expiration of the related party financing obligations, the majority of which occurred in 2018.
[5] See Note 3 of the Notes to Consolidated Financial Statements for information regarding the acquisition of All American Containers in 2017, which was funded through the Company's ABL Facility.

Table of Contents

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the Company’s results of operations and financial condition should be read in conjunction with the Consolidated Financial Statements and Notes thereto, included elsewhere in this report.

Executive Overview

Business Overview

Veritiv 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. The Company operates from approximately 160 distribution centers primarily throughout the United States ("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 following summary describes the products and services offered in each of the segments:

- Packaging – The Packaging segment provides standard as well as custom and comprehensive packaging solutions for customers based in North America and in key global markets. The business is strategically focused on higher growth industries including light industrial/general manufacturing, food production, 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 and dispensers, 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, wide format and specialty paper 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. The Company's broad geographic platform of operations coupled with the breadth of paper and graphics products, including its 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.

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 its Veritiv logistics solutions business which provides transportation and warehousing solutions.

Consistent with our strategy of investing in higher growth and higher margin segments, on August 31, 2017, Veritiv acquired 100% of the equity interest in various All American Containers entities (collectively, "AAC"), a distributor of rigid packaging, including plastic, glass and metal containers, caps, closures and plastic pouches. Through this acquisition, the Company gained expertise in rigid packaging and was provided with additional marketing, selling and distribution channels into the growing U.S. rigid packaging market.

Table of Contents

Results of Operations, Including Business Segments

The following discussion compares the consolidated operating results of Veritiv for the years ended December 31, 2018, 2017 and 2016.

Comparison of the Years Ended December 31, 2018, 2017 and 2016

	Year Ended December 31,			2018 vs. 2017 Increase (Decrease)		2017 vs. 2016 Increase (Decrease)	
(in millions)	2018	2017	2016	$	%	$	%
Net sales	$8,696.2	$8,364.7	$8,326.6	$331.5	4.0 %	$38.1	0.5 %
Cost of products sold (exclusive of depreciation and amortization shown separately below)	7,155.7	6,846.6	6,826.4	309.1	4.5 %	20.2	0.3 %
Distribution expenses	550.5	516.9	505.1	33.6	6.5 %	11.8	2.3 %
Selling and administrative expenses (1)	867.6	875.7	827.9	(8.1)	(0.9)%	47.8	5.8 %
Depreciation and amortization	53.5	54.2	54.7	(0.7)	(1.3)%	(0.5)	(0.9)%
Integration and acquisition expenses	31.8	36.5	25.9	(4.7)	(12.9)%	10.6	40.9 %
Restructuring charges, net	21.3	16.7	12.4	4.6	27.5 %	4.3	34.7 %
Operating income (1)	15.8	18.1	74.2	(2.3)	(12.7)%	(56.1)	(75.6)%
Interest expense, net	42.3	31.2	27.5	11.1	35.6 %	3.7	13.5 %
Other (income) expense, net (1)	(16.3)	(11.2)	5.9	(5.1)	(45.5)%	(17.1)	*
Income (loss) before income taxes	(10.2)	(1.9)	40.8	(8.3)	*	(42.7)	(104.7)%
Income tax expense	5.5	11.4	19.8	(5.9)	(51.8)%	(8.4)	(42.4)%
Net income (loss)	$(15.7)	$(13.3)	$21.0	$(2.4)	(18.0)%	$(34.3)	(163.3)%

* - not meaningful

(1) Prior year amounts have been revised to reflect the impact of the adoption of ASU 2017-07 in 2018. See Note 1 of the Notes to Consolidated Financial Statements for information related to the adoption.

Net Sales

- 2018 compared to 2017: Net sales increased by $331.5 million, or 4.0%, primarily due to a $172.5 million increase in net sales for the eight months with no comparable sales related to the AAC acquisition on August 31, 2017. Increases in net sales in the Packaging and Publishing segments were partially offset by a decline in the Print segment. See the “Segment Results” section for additional discussion.

- 2017 compared to 2016: Net sales increased by $38.1 million, or 0.5%, primarily due to the incremental net sales of $71.7 million resulting from the AAC acquisition. Increases in net sales in the Packaging and Facility Solutions segments as well as Veritiv's logistics solutions business were offset by declines in the Print and Publishing segments. See the “Segment Results” section for additional discussion.

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

- 2018 compared to 2017: Cost of products sold increased by $309.1 million, or 4.5%, primarily due to the growth in net sales as previously discussed. See the “Segment Results” section for additional discussion.

- 2017 compared to 2016: Cost of products sold increased by $20.2 million, or 0.3%, primarily due to the growth in net sales as previously discussed. See the “Segment Results” section for additional discussion.

Distribution Expenses

-

2018 compared to 2017: Distribution expenses increased by $33.6 million or 6.5%. The increase was primarily due to (i) a $10.9 million increase in personnel expense primarily due to the withdrawal from a multi-employer pension plan in the year ended December 31, 2018, (ii) a $10.3 million increase for the eight months with no comparable expenses related to the AAC acquisition on August 31, 2017, (iii) a $6.9 million increase in facilities rent primarily due to r

Table of Contents

eplacing certain property leases, that were previously treated as financing arrangements (expenses included in depreciation and amortization and interest expense, net) with operating leases (expenses included in distribution expenses) and (iv) a $2.6 million increase in freight and logistics expenses driven mostly by increased third-party freight costs and diesel fuel prices.

- 2017 compared to 2016: Distribution expenses increased by $11.8 million or 2.3%. Distribution expenses increased $12.2 million from an increase in freight and logistics expenses, primarily due to increased third-party freight costs, transfer expenses and diesel fuel prices and $4.9 million related to the AAC acquisition. These increases were partially offset by (i) a $1.7 million decrease in facilities rent and other related expenses, (ii) a $1.5 million decrease in insurance expense and (iii) a $1.6 million decrease in personnel expenses as well as maintenance and material expenses. The offsetting decreases were primarily driven by warehouse consolidations.

Selling and Administrative Expenses

- 2018 compared to 2017: Selling and administrative expenses decreased by $8.1 million or 0.9%. The decrease was primarily due to a (i) $17.8 million decrease in compensation expense mainly driven by a decrease in personnel and commission expenses primarily related to the Print segment as well as a decrease in incentive compensation expense, (ii) a $7.7 million decrease from asset impairments related to goodwill and customer relationships in the Veritiv logistics solutions business in the year ended December 31, 2017, (iii) a $3.8 million decrease in legal expense, (iv) a $2.8 million decrease in travel and entertainment expenses, (v) a net gain of $2.7 million related to a warehouse sale and (vi) a $2.1 million decrease in marketing and communications expense. The decrease was partially offset by a $17.6 million increase for the eight months with no comparable expenses related to the AAC acquisition on August 31, 2017 and an $11.1 million increase in bad debt expense primarily driven by the Print segment. The increase in bad debt expense was primarily due to additional reserves related to certain customers with declining financial conditions during 2018. See Note 4 of the Notes to Consolidated Financial Statements for information related to the Print segment restructuring plan.

- 2017 compared to 2016: Selling and administrative expenses increased by $47.8 million or 5.8%. The increase was primarily attributed to (i) an $18.8 million increase in personnel expenses, (ii) a $13.3 million increase in bad debt expense and (iii) a $9.3 million increase related to the AAC acquisition. The increase in personnel expenses was primarily driven by an increase in headcount to support the Company's growth strategy as well as lower commissions in 2016 due to the recovery of commission advances. The increase in bad debt expense was primarily due to additional reserves related to certain customers with declining financial conditions during 2017 combined with favorable collections experience in 2016. Selling and administrative expenses also included $7.7 million of impairment charges related to the impairment of the logistics solutions business goodwill and customer relationship intangible asset and $0.7 million for the impairment of software.

Depreciation and Amortization

- 2018 compared to 2017: Depreciation and amortization expense decreased $0.7 million.

- 2017 compared to 2016: Depreciation and amortization expense decreased $0.5 million.

Integration and Acquisition Expenses

During the years ended December 31, 2018, 2017 and 2016, Veritiv incurred costs and charges to integrate its combined businesses. Integration expenses include internally dedicated integration management resources, retention compensation, information technology conversion costs, rebranding, professional services and other costs to integrate its businesses. Additionally, Veritiv incurred integration and acquisition expenses of $2.1 million and $8.0 million in 2018 and 2017, respectively, related to the acquisition of AAC. See Note 4 of the Notes to Consolidated Financial Statements for information related to integration and acquisition expenses.

Restructuring Charges, Net

Restructuring charges, net relates primarily to Veritiv's restructuring of its North American operations intended to integrate the legacy xpedx and Unisource operations, generate cost savings and capture synergies across the combined company. Restructuring charges, net includes net gains related to the sale or exit of certain facilities totaling $15.0 million, $24.4 million and $2.1 million for the years ended December 31, 2018, 2017 and 2016, respectively. See Note 4 of the Notes to Consolidated Financial Statements for information related to restructuring charges. The Company may continue to record restructuring charges in the future as these activities progress, which may include gains or losses from the disposition of assets.

Table of Contents

Interest Expense, Net

Interest expense, net in 2018 consisted of (i) $36.9 million of interest expense on the Company’s asset-based lending facility (the “ABL Facility”), (ii) $2.6 million for amortization of deferred financing costs related to the ABL Facility and (iii) $2.8 million in miscellaneous interest expense. Interest expense, net in 2018 increased by $11.1 million compared to 2017 due to (i) increased interest rates due primarily to an increase in LIBOR and (ii) an increased average balance on the Company's ABL Facility. The increased average balance on the ABL Facility was primarily due to borrowings to fund the acquisition of AAC. See Note 6 of the Notes to Consolidated Financial Statements for information related to the ABL Facility. See Note 3 of the Notes to Consolidated Financial Statements for information related to the acquisition of AAC.

Interest expense, net in 2017 consisted of (i) $25.5 million of interest expense on the Company’s ABL Facility, (ii) $2.6 million for amortization of deferred financing costs related to the ABL Facility and (iii) $3.1 million in miscellaneous interest expense. Interest expense, net in 2017 increased by $3.7 million compared to 2016 due to (i) an increased average balance on the ABL Facility and (ii) increased interest rates due primarily to an increase in LIBOR. The increased average balance and interest rates on the ABL Facility were primarily due to borrowings to fund the acquisition of AAC on August 31, 2017. See Note 6 of the Notes to Consolidated Financial Statements for information related to the ABL Facility. See Note 3 of the Notes to Consolidated Financial Statements for information related to the acquisition of AAC.

Other (Income) Expense, Net

- 2018 compared to 2017: Other (income) expense, net, was income of $16.3 million. This was a net other income increase of $5.1 million, compared to the same period in 2017. In 2018 there was a $12.3 million reduction in the estimated fair value of the AAC contingent consideration compared to an increase of $2.0 million in 2017. See Note 12 of the Notes to Consolidated Financial Statements for information related to the AAC contingent consideration. The remaining income was primarily driven by changes associated with the Tax Receivable Agreement. See Note 10 of the Notes to Consolidated Financial Statements for information related to the Tax Receivable Agreement.

- 2017 compared to 2016: Other (income) expense, net was income of $11.2 million in 2017 compared to expense of $5.9 million in 2016. The $17.1 million change is primarily the result of the Tax Cuts and Jobs Act (the "Tax Act") which lowered the U.S. corporate federal tax rate, from 35.0% to 21.0%. The lower rate reduced the value of the Tax Receivable Agreement liability by $13.5 million which was recorded as other income in the fourth quarter of 2017. See Note 9 of the Notes to Consolidated Financial Statements for information related to the Tax Act.

Effective Tax Rate

Veritiv's effective tax rates were (53.9)%, (600.0)% and 48.5% for the years ended December 31, 2018, 2017 and 2016 respectively. The difference between the Company’s effective tax rates for the years ended December 31, 2018, 2017 and 2016 and the U.S. statutory tax rates of 21.0% for 2018 and 35.0% for 2017 and 2016, includes the impact of non-deductible expenses, state income taxes (net of federal income tax benefit), the Company's income (loss) by jurisdiction, the tax effect of Tax Receivable Agreement changes, and changes in the valuation allowance against deferred tax assets.

Additionally, the Company’s effective tax rate for the year ended December 31, 2018 was impacted by the following discrete items:

- A $1.7 million expense for the impact of stock compensation vesting.
- A $1.4 million expense for the impact of Global Intangible Low Taxed Income.
- A $1.3 million expense recorded in 2018 for the accounting completed under the measurement period related to the Tax Act under Staff Accounting Bulletin 118, totaling $31.5 million of cumulative effect of which $24.0 million is remeasurement of our deferred taxes and $7.5 million for the one-time transition tax. See Note 9 of the Notes to the Consolidated Financial Statements for additional details regarding the Tax Act.

- A $1.0 million benefit for certain tax credits.

Further, the Company’s effective tax rate for the year ended December 31, 2017 was impacted by a near break-even pre-tax book loss in combination with the impact of the following discrete items:

- A $30.2 million expense in connection with our provisional estimate of the impact of the Tax Act, including $23.0 million for the remeasurement of our deferred taxes and $7.2 million for the one-time transition tax.
- A $13.4 million benefit for the reversal of the valuation allowance on the deferred tax assets of the Company’s Canadian subsidiary. The reversal reflects the Company’s cumulative recent income and improved expectation of future taxable income.

Table of Contents

- A $3.8 million tax rate benefit for the reduction in the fair value of the Tax Receivable Agreement, including the federal rate reduction.
- A $3.1 million benefit in conjunction with the third quarter 2017 filing of Veritiv's 2016 U.S. federal tax return and amended 2015 and 2014 U.S. federal tax returns for credits related to foreign taxes and research and experimentation activities.
- A tax rate effect of $2.1 million for the impact of impairing non-deductible goodwill.

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 year ended December 31, 2018, the Company's provision for income taxes continued to be highly sensitive for these reasons. The Company continues to expect a volatile effective tax rate for the full year 2019. 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, uncertainty related to the future impact of the Tax Act, and other items that could impact the effective tax rate. See Note 9 of the Notes to Consolidated Financial Statements for additional details.

Segment Results

Adjusted EBITDA 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. 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").

Veritiv uses 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) because 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.

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 metrics do 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 both 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 expenses 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 net sales volume based on changes in net 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

Table of Contents

a proxy for the change in net sales volume. After any other significant net sales variances are identified, the remaining net sales variance is attributed to price/mix. As a result of the information technology conversion efforts under the Company's integration plan, the Company has enhanced its insight into the Print segment's changes in volume and thus it no longer needs to rely on cost of products sold as a proxy for the changes in sales volumes.

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. We believe 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 the 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:

(in millions)	Packaging	Facility Solutions	Print	Publishing	Corporate & Other
Year Ended December 31, 2018					
Net sales	$3,547.1	$1,311.7	$2,676.7	$1,019.2	$ 141.5
Adjusted EBITDA	246.7	29.0	64.0	24.6	(178.9)
Adjusted EBITDA as a % of net sales	7.0 %	2.2 %	2.4 %	2.4 %	*
Year Ended December 31, 2017					
Net sales	$3,157.8	$1,309.7	$2,793.7	$958.0	$ 145.5
Adjusted EBITDA	238.0	35.5	60.8	26.4	(184.3)
Adjusted EBITDA as a % of net sales	7.5 %	2.7 %	2.2 %	2.8 %	*
Year Ended December 31, 2016					
Net sales	$2,854.2	$1,271.6	$3,047.4	$1,033.6	$ 119.8
Adjusted EBITDA	221.2	47.0	76.8	23.6	(176.4)
Adjusted EBITDA as a % of net sales	7.7 %	3.7 %	2.5 %	2.3 %	*

* - not meaningful

See Note 18 of the Notes to Consolidated Financial Statements for a reconciliation of income (loss) before income taxes as reflected in the Consolidated Statements of Operations to Adjusted EBITDA for the reportable segments.

Table of Contents

Packaging

The table below presents selected data with respect to the Packaging segment:

	Year Ended December 31,			2018 vs. 2017 Increase (Decrease)		2017 vs. 2016 Increase (Decrease)	
(in millions)	2018	2017	2016	$	%	$	%
Net sales	$3,547.1	$3,157.8	$2,854.2	$389.3	12.3 %	$303.6	10.6 %
Adjusted EBITDA	246.7	238.0	221.2	8.7	3.7 %	16.8	7.6 %
Adjusted EBITDA as a % of net sales	7.0 %	7.5 %	7.7 %				

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

	Increase (Decrease)	
(in millions)	2018 vs. 2017	2017 vs. 2016
Volume	$410.4	$315.0
Foreign currency	0.9	3.3
Price/Mix	(22.0)	(14.7)
	$389.3	$303.6

Comparison of the Years Ended December 31, 2018 and 2017

Net sales increased $389.3 million, or 12.3%, compared to 2017. The net sales increase was primarily attributable to an increase in sales of corrugated products, equipment and parts and films due to increases in volume. In addition, $172.5 million of rigid packaging products were sold for the eight months with no comparable sales related to the AAC acquisition on August 31, 2017.

Adjusted EBITDA increased $8.7 million, or 3.7%, compared to 2017 primarily due to the increase in net sales. The increase in net sales was partially offset by (i) a $35.1 million increase in distribution expenses, (ii) a $31.1 million increase in selling and administrative expenses and (iii) cost of products sold increasing at a faster rate than net sales. The increase in distribution expenses was primarily driven by increased utilization of the distribution network, which was evidenced by (i) an $11.9 million increase in facilities rent and other related expenses primarily due to replacing certain property leases, which were previously treated as financing arrangements (expenses included in depreciation and amortization and interest expense, net) with operating leases (expenses included in distribution expenses), (ii) a $6.5 million increase in personnel expenses and (iii) a $4.2 million increase in freight and logistics expenses driven primarily by increased third-party freight costs and diesel fuel prices. Additionally, there was a $10.3 million increase in distribution expenses for the eight months with no comparable expenses related to the AAC acquisition. The increase in selling and administrative expenses was driven by (i) a $17.6 million increase for the eight months with no comparable expenses related to the AAC acquisition on August 31, 2017, (ii) an $11.1 million increase in personnel expenses associated with increased headcount to support the Company's Packaging growth strategy and (iii) a $2.6 million increase in bad debt expense.

Comparison of the Years Ended December 31, 2017 and 2016

Net sales increased $303.6 million, or 10.6%, compared to 2016. The net sales increase was primarily attributable to an increase in net sales of corrugated products, films and tertiary packaging items due to increases in volume and market prices as well as $71.7 million of rigid packaging product net sales in 2017 relating to the AAC acquisition.

Adjusted EBITDA increased $16.8 million, or 7.6%, compared to 2016 primarily due to increased net sales volume. The increase in net sales was partially offset by (i) cost of products sold increasing at a faster rate than net sales, (ii) a $25.0 million increase in distribution expenses and (iii) an $18.7 million increase in selling and administrative expenses. The increase in distribution expenses was primarily driven by increased utilization of the distribution network, which is reflected in (i) increased freight and logistics expenses driven primarily by increased third-party freight, transfer expenses and diesel fuel prices, (ii) increased personnel expenses and (iii) increased facilities rent and other related expenses. The increase in selling and administrative expenses was primarily driven by higher personnel expenses associated with increased headcount to support

Table of Contents

our growth strategy. The AAC acquisition resulted in a $4.9 million increase in distribution expenses and a $9.4 million increase in selling and administrative expenses.

Facility Solutions

The table below presents selected data with respect to the Facility Solutions segment:

	Year Ended December 31,			2018 vs. 2017 Increase (Decrease)		2017 vs. 2016 Increase (Decrease)	
(in millions)	2018	2017	2016	$	%	$	%
Net sales	$1,311.7	$1,309.7	$1,271.6	$2.0	0.2 %	$38.1	3.0 %
Adjusted EBITDA	29.0	35.5	47.0	(6.5)	(18.3)%	(11.5)	(24.5)%
Adjusted EBITDA as a % of net sales	2.2 %	2.7 %	3.7 %				

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

	Increase (Decrease)	
(in millions)	2018 vs. 2017	2017 vs. 2016
Volume	$11.3	$43.1
Foreign currency	—	5.1
Price/Mix	(9.3)	(10.1)
	$2.0	$38.1

Comparison of the Years Ended December 31, 2018 and 2017

Net sales increased $2.0 million, or 0.2%, compared to 2017. The net sales increase was primarily attributable to increased net sales of towels and tissues, food service products and can liners.

Adjusted EBITDA decreased $6.5 million, or 18.3%, compared to 2017. The decrease in Adjusted EBITDA was primarily driven by (i) cost of products sold increasing at a faster rate than net sales and (ii) a $3.1 million increase in distribution expenses, partially offset by a $3.3 million decrease in selling and administrative expenses. The increase in distribution expenses was primarily driven by increased utilization of the distribution network and was evidenced by (i) a $2.0 million increase in freight and logistics expenses driven primarily by increased third-party freight costs and diesel fuel prices and (ii) a $1.1 million increase in personnel expenses. The decrease in selling and administrative expenses was primarily driven by a $1.9 million decrease in personnel expenses.

Comparison of the Years Ended December 31, 2017 and 2016

Net sales increased $38.1 million, or 3.0%, compared to 2016. The net sales increase was primarily attributable to increased net sales of food service products, safety supplies, chemicals, towels and tissues.

Adjusted EBITDA decreased $11.5 million, or 24.5%, compared to 2016. The decrease in Adjusted EBITDA was primarily driven by (i) cost of products sold increasing at a faster rate than net sales, (ii) a $6.9 million increase in distribution expenses and (iii) a $5.6 million increase in selling and administrative expenses, partially offset by an increase in net sales. The increase in distribution expenses was primarily driven by increased utilization of the distribution network and was evidenced by (i) increased freight and logistics expenses driven primarily by increased third-party freight, transfer expenses and diesel fuel prices and (ii) increased personnel expenses. The increase in selling and administrative expenses was primarily driven by (i) an increase in personnel expenses primarily due to increased headcount to support our growth strategy and (ii) an increase in bad debt expense.

Table of Contents

Print

The table below presents selected data with respect to the Print segment:

	Year Ended December 31,			2018 vs. 2017 Increase (Decrease)		2017 vs. 2016 Increase (Decrease)	
(in millions)	2018	2017	2016	$	%	$	%
Net sales	$2,676.7	$2,793.7	$3,047.4	$(117.0)	(4.2)%	$(253.7)	(8.3)%
Adjusted EBITDA	64.0	60.8	76.8	3.2	5.3 %	(16.0)	(20.8)%
Adjusted EBITDA as a % of net sales	2.4 %	2.2 %	2.5 %				

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

(in millions)	Increase (Decrease) 2018 vs. 2017	2017 vs. 2016
Volume	$(219.2)	$(256.8)
Foreign currency	0.2	3.5
Price/Mix	102.0	(0.4)
	$(117.0)	$(253.7)

Comparison of the Years Ended December 31, 2018 and 2017
Net sales decreased $117.0 million, or 4.2%, compared to 2017. 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 $3.2 million, or 5.3%, compared to 2017. The Adjusted EBITDA increase was primarily driven by (i) a $20.0 million decrease in selling and administrative expenses and (ii) an $8.8 million decrease in distribution expenses, which more than offset the decline in net sales and the impact of cost of products sold increasing at a faster rate than net sales. The decrease in selling and administrative expenses was driven by a $26.9 million decrease in personnel expenses due to a decrease in headcount and commission expenses primarily related to the Print segment restructuring plan and a decrease in net sales, partially offset by a $9.0 million increase in bad debt expense. See Note 4 of the Notes to Consolidated Financial Statements for information related to the Print segment restructuring plan. The increase in bad debt expense was primarily due to additional reserves related to certain customers with declining financial conditions. The decrease in distribution expenses was primarily due to decreased utilization of the distribution network and was evidenced by (i) a $4.6 million decrease in personnel expenses and (ii) a $3.6 million decrease in facilities rent and other related expenses.

Comparison of the Years Ended December 31, 2017 and 2016
Net sales decreased $253.7 million, or 8.3%, compared to 2016. The net sales decrease was primarily attributable to the continued secular decline in the paper industry.

Adjusted EBITDA decreased $16.0 million, or 20.8%, compared to 2016. The Adjusted EBITDA decrease was largely attributable to the decline in net sales. The decline in net sales was partially offset by (i) a $16.0 million decrease in distribution expenses and (ii) a $5.2 million decrease in selling and administrative expenses. The decrease in distribution expenses was primarily driven by decreased utilization of the distribution network, which is reflected in (i) a decrease in facilities rent and other related expenses and (ii) a decrease in personnel expenses. The decrease in selling and administrative expenses was primarily driven by a decrease in personnel expenses and professional fees, partially offset by an increase in bad debt expense.

Table of Contents

Publishing

The table below presents selected data with respect to the Publishing segment:

	Year Ended December 31,			2018 vs. 2017 Increase (Decrease)		2017 vs. 2016 Increase (Decrease)	
(in millions)	2018	2017	2016	$	%	$	%
Net sales	$1,019.2	$958.0	$1,033.6	$61.2	6.4 %	$(75.6)	(7.3)%
Adjusted EBITDA	24.6	26.4	23.6	(1.8)	(6.8)%	2.8	11.9 %
Adjusted EBITDA as a % of net sales	2.4 %	2.8 %	2.3 %				

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

	Increase (Decrease)	
(in millions)	2018 vs. 2017	2017 vs. 2016
Volume	$(5.1)	$(82.5)
Foreign currency	0.9	0.8
Price/Mix	65.4	6.1
	$61.2	$(75.6)

Comparison of the Years Ended December 31, 2018 and 2017

Net sales increased $61.2 million, or 6.4%, compared to 2017. The net sales increase was primarily attributable to higher market prices.

Adjusted EBITDA decreased $1.8 million, or 6.8%, compared to 2017. The Adjusted EBITDA decrease was primarily attributable to cost of products sold increasing at a faster rate than net sales, partially offset by the increase in net sales and a $3.2 million decrease in selling and administrative expenses, which was primarily driven by a decrease in personnel expenses.

Comparison of the Years Ended December 31, 2017 and 2016

Net sales decreased $75.6 million, or 7.3%, compared to 2016. The net sales decrease was primarily attributable to a decline in volume, reflecting the continued secular decline in the paper industry.

Adjusted EBITDA increased $2.8 million, or 11.9%, compared to 2016. The Adjusted EBITDA increase was primarily attributable to the cost of products sold decreasing at a faster rate than net sales and a $1.9 million decrease in selling and administrative expenses partially offset by a decrease in net sales. The decrease in selling and administrative expenses was primarily driven by a decrease in personnel expenses.

Corporate & Other

	Year Ended December 31,			2018 vs. 2017 Increase (Decrease)		2017 vs. 2016 Increase (Decrease)	
(in millions)	2018	2017	2016	$	%	$	%

Net sales	$141.5	$145.5	$119.8	$(4.0)	(2.7)%	$25.7	21.5 %
Adjusted EBITDA	(178.9)	(184.3)	(176.4)	5.4	2.9 %	(7.9)	(4.5)%

Comparison of the Years Ended December 31, 2018 and 2017

Net sales decreased $4.0 million, or 2.7%, compared to 2017. The net sales decrease was primarily attributable to the strategic decision to substantially exit the third-party logistics warehousing business.

Table of Contents

Adjusted EBITDA increased $5.4 million, or 2.9%, compared to 2017. The Adjusted EBITDA increase was primarily driven by (i) a $5.5 million decrease in distribution expenses and (ii) a $1.4 million decrease in selling and administrative expenses. The decrease in distribution expenses was primarily driven by a decrease in freight and logistics expenses. The decrease in selling and administrative expenses was primarily due to lower incentive compensation expense.

Comparison of the Years Ended December 31, 2017 and 2016

Net sales increased $25.7 million, or 21.5%, compared to 2016. The net sales increase was primarily attributable to an increase in freight brokerage services.

Adjusted EBITDA decreased $7.9 million, or 4.5%, compared to 2016. The Adjusted EBITDA decrease was primarily driven by (i) cost of products sold increasing at a faster rate than net sales, (ii) a $9.1 million increase in selling and administrative expenses partially offset by an increase in net sales and (iii) a $3.3 million decrease in distribution expenses. The increase in selling and administrative expenses was driven primarily by (i) an increase in personnel expenses primarily driven by increased headcount to support the Company's growth strategy and (ii) lower commission expense in 2016 due to the recovery of commission advances.

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:

	Year Ended December 31,		
(in millions)	2018	2017	2016
Net cash provided by (used for):			
Operating activities	$15.0	$36.6	$140.2
Investing activities	(21.7)	(126.2)	(34.4)
Financing activities	(8.7)	99.2	(89.9)

Analysis of Cash Flows

The Company ended 2018 with $64.3 million in cash, a decrease of $16.0 million over the prior year-end balance. Cash flow from operations was $15.0 million in 2018 compared with $36.6 million in 2017. The factors driving cash flow from operating activities in 2018 were: (i) a $26.4 million decrease in inventories, (ii) a $17.2 million increase in other accrued liabilities and (iii) a $9.8 million increase from other operating activities. The increase in cash from operating activities was partially offset by: (i) a net loss, (ii) a $43.9 million increase in accounts receivable and related party receivable, (iii) a $23.2 million increase in other current assets, (iv) a $16.6 million decrease in accrued payroll and benefits and (v) a $15.9 million decrease in accounts payable and related party payable. The Company also generated $38.0 million in cash flow from a net increase in revolving loan borrowings under the ABL Facility and $23.7 million related to proceeds from asset sales. The primary uses of cash during 2018 were: (i) $45.4 million for property and equipment additions, of which $23.9 million were integration-related capital expenditures and $21.5 million were ordinary capital expenditures, (ii) a $16.2 million decline in book overdrafts, (iii) $9.9 million for the Tax Receivable Agreement payment, (iv) $9.3 million for payments under financing obligations including obligations to related party and (v) $6.7 million for payments under capital lease obligations.

The Company ended 2017 with $80.3 million in cash, an increase of $10.7 million over the prior year-end balance. Cash flow from operations was $36.6 million in 2017 compared with $140.2 million in 2016. The factors driving cash flow from operating activities in 2017 were: (i) a $48.3 million increase in accounts payable and related party payable, (ii) a $30.1 million decrease in inventories, (iii) a $13.6 million increase in other accrued liabilities and (iv) a $15.3 million increase from other operating activities. The increase in cash from operating activities was partially offset by: (i) a net loss, (ii) a $101.9 million increase in accounts receivable and related party receivable, (iii) an $11.3 million decrease in accrued payroll and benefits and (iv) an $8.4 million increase in other current assets. The Company also generated $167.3 million in cash flow from a net increase in revolving loan borrowings under the ABL Facility and $51.1 million related to proceeds from asset sales. The primary uses of cash during 2017 were: (i) $144.8 million for the acquisition of AAC, (ii) a $40.5 million decline in book overdrafts, (iii) $32.5 million for property and equipment additions, of which $16.1 million were integration-related capital expenditures and $16.4 million were ordinary capital expenditures, (iv) $16.4 million for payments under financing obligations including obligations to related party, (v) $8.5 million for the Tax Receivable Agreement payment and (vi) $2.7 million for payments under capital lease obligations.

The primary sources of cash during 2016 were: (i) a $69.9 million increase in accounts payable and related party payable, (ii) a $14.3 million increase in other operating activities and (iii) a $13.1 million reduction in inventories. The Company also generated $18.9 million in positive cash flow from an increase in book overdrafts and $6.6 million related to proceeds from asset sales. The primary uses of cash during 2016 were: (i) a $40.9 million decrease in accrued payroll and benefits, (ii) a $14.7 million increase in accounts receivable and related party receivable, (iii) an $11.4 million increase in other current assets and (iv) a $3.6 million decrease in other accrued liabilities. Cash was also used by: (i) $70.1 million of net repayments of revolving loan borrowings under the ABL Facility, (ii) $41.0 million of property and equipment additions, of which $25.5 million were integration-related capital expenditures and $15.5 million were ordinary capital expenditures, (iii) $19.9 million of payments under financing obligations to related party, (iv) $13.6 million used to repurchase 0.31 million shares of Veritiv outstanding common stock, (v) $3.2 million for payments under capital lease obligations and (vi) $2.0 million for financing fees incurred in connection with an amendment to the ABL Facility.

Funding and Liquidity Strategy

Veritiv has a $1.4 billion ABL Facility, which is comprised of U.S. and Canadian sub-facilities of $1,250.0 million and $150.0 million, respectively. The ABL Facility is available to be drawn in U.S. dollars, in the case of the U.S. sub-facilities, and in U.S. dollars or Canadian dollars, in the case of the Canadian sub-facilities, or in other currencies that are mutually agreeable. The Company's accounts receivable and inventories in the U.S. and Canada are collateral under the ABL Facility.

On August 11, 2016, the Company amended the ABL Facility to, among other things, extend the maturity date to August 11, 2021. All other significant terms remained consistent. The ABL Facility provides for the right of the individual lenders to extend the maturity date of their respective commitments and loans upon the request of Veritiv and without the consent of any other lenders. The ABL Facility may be prepaid at Veritiv's option at any time without premium or penalty and is subject to mandatory prepayment if the amount outstanding under the ABL Facility exceeds either the aggregate commitments with respect thereto or the current borrowing base, in an amount equal to such excess. The Company incurred and deferred $2.0 million of new financing fees associated with the amendment, which are reflected in other non-current assets in the Consolidated Balance Sheets, and will be amortized to interest expense on a straight-line basis over the amended term of the ABL Facility.

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 limits outlined under the ABL Facility. At December 31, 2018 the above test was not applicable and is not expected to be applicable in the next 12 months.

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 December 31, 2018, the available additional borrowing capacity under the ABL Facility was approximately $278.7 million. As of December 31, 2018, the Company held $11.5 million in outstanding letters of credit.

Under the terms of the ABL Facility, interest rates are based upon LIBOR or the prime rate plus a margin rate, or in the case of Canada, a banker’s acceptance rate or base rate plus a margin rate. For the years ended December 31, 2018 and 2017, the weighted-average borrowing interest rates were 4.6% and 3.3%, respectively.

On November 23, 2016, the UWWH Stockholder sold 1.76 million shares of Veritiv common stock in an underwritten public offering. Veritiv did not receive any of the proceeds. Concurrently with the closing of the offering, Veritiv repurchased 0.31 million of these offered shares from the underwriters at a price of $42.8625 per share, which is the price at which the underwriters purchased such shares from the selling stockholder, for an aggregate purchase price of approximately $13.4 million. In conjunction with these transactions, Veritiv incurred approximately $0.8 million in transaction-related fees, of which approximately $0.2 million was recorded as part of the cost to acquire the treasury stock and the remainder was included in selling and administrative expenses on the Consolidated Statements of Operations.

International Paper has a potential earn-out payment of up to $100.0 million that would become due in 2020 if Veritiv's aggregate EBITDA for fiscal years 2017, 2018 and 2019 exceeds an agreed-upon target of $759.0 million, subject to certain adjustments. If the agreed upon target is met, the $100.0 million potential earn-out payment would be reflected by Veritiv as a reduction to equity at the time of payment. Based on actual results for 2017 and 2018, Veritiv does not expect to meet the agreed-upon target value and thus does not expect to be required to make the earn-out payment in 2020.

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.

Through December 31, 2018, the Company incurred approximately $282 million in costs and charges associated with achieving anticipated cost savings and other synergies from the Merger, including approximately $106 million for capital expenditures and $22 million related to the complete or partial withdrawal from various multi-employer pension plans. The Company anticipates that it will incur additional costs and charges associated with the Merger. The Company is not able to quantify the total amount of these costs and charges or the period in which they will be incurred as the operating plans affecting these costs are evolving and charges relating to the withdrawal from multi-employer pension plans which have not yet been finalized, are uncertain. Excluding the multi-employer pension plan withdrawal charges, we currently anticipate that total costs associated with the Merger will be approximately $320 million to $330 million through December 31, 2019, including approximately $130 million to $135 million for capital expenditures, primarily consisting of information technology infrastructure, systems integration and planning. Ordinary capital expenditures for 2019 are expected to be in the range of $20 million to $30 million, with another $10 million to $20 million of integration-related capital expenditures during 2019.

All of the cash held by our non-U.S. subsidiaries is available for general corporate purposes. Veritiv considers the earnings of certain non-U.S. subsidiaries to be permanently invested outside the U.S. on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs and management's specific plans for reinvestment of those subsidiary earnings. The table below summarizes the Company's cash positions as of December 31, 2018 and 2017:

	As of December 31,	
(in millions)	2018	2017
Cash held in the U.S.	$50.5	$64.0
Cash held in foreign subsidiaries	13.8	16.3
Total Cash	$64.3	$80.3

Off-Balance Sheet Arrangements

Veritiv does not have any off-balance sheet arrangements as of December 31, 2018, other than the Other lease type obligations included in the contractual obligations table below and the letters of credit under the ABL Facility. 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.

Table of Contents

The table below summarizes the Company's contractual and certain other long-term obligations as of December 31, 2018:

(in millions)	Payment Due by Period 2019	2020 – 2021	2022 – 2023	After 2023	Total
Equipment capital lease obligations [1]	$7.8	$14.3	$11.3	$7.4	$40.8
Financing obligation [1,2]	1.5	3.0	3.4	15.6	23.5
Other lease type obligations [3]	108.0	180.4	118.7	173.4	580.5
ABL Facility [4]	42.6	1,000.8	—	—	1,043.4
Deferred compensation [5]	3.4	6.5	5.5	7.2	22.6
Tax Receivable Agreement contingent liability [6]	7.8	7.1	11.2	20.6	46.7
AAC contingent liability[7]	9.4	—	—	—	9.4
Multi-employer pension plan ("MEPP") withdrawal obligations [8]	0.7	1.3	1.4	9.2	12.6
Federal income tax liability [9]	0.5	0.9	1.4	2.8	5.6
Total	$181.7	$1,214.3	$152.9	$236.2	$1,785.1

(1) Equipment capital lease obligations and the financing obligation include amounts classified as interest.
(2) Financing obligation will not result in cash payments in excess of amounts reported above. At the end of the lease term, the net remaining financing obligation of $9.7 million will be settled by the return of the assets to the Purchaser/Landlord.
(3) Amounts shown are presented net of contractual sublease rental income.
(4) The ABL Facility will mature and the commitments thereunder will terminate after August 11, 2021. Interest payments included here were estimated using a simple interest method based on the year-end December 31, 2018 ABL Facility outstanding balance of $932.1 million and its corresponding year-end weighted-average interest rate of 4.6%. The 2021 payment amount shown above includes an estimated $932.1 million of principal balance.
(5) The deferred compensation obligation reflects gross cash payment amounts due for scheduled payments under the legacy Unisource plan and the Veritiv Deferred Compensation Savings Plan.
(6) The Tax Receivable Agreement contingent liability reflects gross contingent obligation amounts excluding interest due to related party.
(7) The AAC contingent liability reflects the fair value of the estimated amount to be paid. The remaining maximum amount payable is $25.0 million, payable at August 31, 2019.
(8) The MEPP withdrawal obligations include final gross unpaid charges for two withdrawals where determinations have been issued.
(9) The federal income tax liability reflects amounts payable over seven years resulting from the transition tax implemented in the Tax Act.

The table above does not include future expected Company contributions to its pension plans nor does it include future expected payments related to the complete or partial withdrawals from various multi-employer pension plans where final determinations have not been made. Information related to the amounts of these future payments is described in Note 11 of the Notes to Consolidated Financial Statements. The table above also excludes the liability for uncertain tax positions and for unscheduled portions of the Veritiv Deferred Compensation Savings Plan, as the Company cannot predict with reasonable certainty the timing of future cash outflows associated with these liabilities. As a result of the Merger, International Paper has a potential earn-out payment of up to $100.0 million that would become due in 2020. That potential payment is not included in the table above because Veritiv does not expect to meet the agreed-upon target value based on actual results for 2017 and 2018 and thus does not expect to be required to make the earn-out payment in 2020.

See Note 1, Note 3, Note 6, Note 8, Note 9, Note 10, Note 11 and Note 12 of the Notes to Consolidated Financial Statements for additional information related to these obligations.

The Company has recorded undiscounted charges related to the complete or partial withdrawal from various multi-employer pension plans. Charges not related to the Company's restructuring efforts are recorded as distribution expenses. Initial amounts are recorded as other non-current liabilities in the Consolidated Balance Sheets. See the table below for a summary of the net charges and the year-end balance sheet liability positions for the respective years ended December 31:

Table of Contents

(in millions)	Year Ended December 31, Restructuring charges, net	Distribution expenses	Total Net Charges
2018	$(2.8)	$ 11.2	$ 8.4
2017	17.4	2.1	19.5
2016	7.5	2.3	9.8

(in millions)	At December 31, Other accrued liabilities	Other non-current liabilities
2018	$0.7	$ 32.5
2017	0.7	27.2

Final charges for these withdrawals will not be known until the plans issue their respective determinations. As a result, these estimates may increase or decrease depending upon the final determinations. Currently, the Company expects payments will occur over an approximately 20 year period. As of December 31, 2018, the Company has received determination letters resulting from four withdrawals. Of those, the liabilities for two withdrawals were settled with lump sum payments, while payments for the other two withdrawals are expected to occur over an approximately 20 year period. The Company expects to incur similar types of charges in future periods in connection with its ongoing restructuring activities. See Note 4 of the Notes to Consolidated Financial Statements for additional information regarding restructuring efforts.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the Company to establish accounting policies and utilize estimates that affect both the amounts and timing of the recording of assets, liabilities, net sales and expenses. Some of these estimates require judgment about matters that are inherently uncertain. Different amounts would be reported under different operating conditions or under alternative assumptions.

The Company has evaluated the accounting policies used in the preparation of the accompanying Consolidated Financial Statements and related Notes and believes those policies to be reasonable and appropriate. Management believes that the accounting estimates discussed below are the most critical accounting policies whose application may have a significant effect on the reported results of operations and financial position of the Company and can require judgments by management that affect their application.

Revenue Recognition

The Company adopted Accounting Standards Update ("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. Results for periods beginning after January 1, 2018 are presented following the guidance of Topic 606, while prior period amounts are not adjusted and continue to be reported following the Company's historical accounting under the accounting standards in effect for those periods.

Under Topic 606, 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 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. 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.

Table of Contents

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.

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 Consolidated Statements of Operations and have historically represented approximately one-third of Veritiv's total net sales.

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 Consolidated Balance Sheet.

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.

Integration and Acquisition Expenses

The Company's Consolidated Statements of Operations include a line item titled, "Integration and acquisition expenses". Integration and acquisition expenses is not a defined term in U.S. GAAP, thus management must use judgment in determining whether a particular expense should be classified as an integration and acquisition expense. Management believes its accounting policy for integration and acquisition expenses is critical because these costs have been significant, generally involve cash expenditures, are not defined in U.S. GAAP, are excluded in determining compliance with the ABL Facility and are excluded in determining management compensation.

Integration and acquisition expenses include internally dedicated integration management resources, retention compensation, information technology conversion costs, rebranding, professional services and other costs to integrate its businesses. See Note 4 of the Notes to Consolidated Financial Statements for a breakdown of these expenses.

Integration and acquisition expenses are differentiated from restructuring charges as restructuring charges primarily relate to contract termination costs, involuntary termination benefits and other direct costs associated with consolidating facilities and reorganizing functions.

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects the best estimate of losses inherent in the Company's accounts receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other available evidence. The allowances contain uncertainties because the calculation requires management to make assumptions and apply judgment regarding the customer's credit worthiness. Veritiv performs ongoing evaluations of its customers' financial condition and adjusts credit limits based upon payment history and the customer's current credit worthiness as determined by its review of their current financial information. The Company continuously monitors collections from its customers and maintains a provision for estimated credit losses based upon the customers' financial condition, collection experience and any other relevant customer specific information. Veritiv's assessment of this and other information forms the basis of its allowances.

If the financial condition of Veritiv's customers deteriorates, resulting in an inability to make required payments to the Company, or if economic conditions deteriorate, additional allowances may be deemed appropriate or required. If the allowance for doubtful accounts changed by 0.1% of gross billed receivables, reflecting either an increase or decrease in expected future write-offs, the impact to consolidated pre-tax income would have been approximately $1.2 million.

Employee Benefit Plans

Veritiv sponsors defined benefit plans and Supplemental Executive Retirement Plans in the U.S. and Canada. These plans were frozen prior to the Merger with the exception of employees covered by certain collective bargaining agreements. See Note 11 of the Notes to Consolidated Financial Statements for more information about these plans.

Management is required to make certain critical estimates related to actuarial assumptions used to determine the Company's pension expense and related obligation. The Company believes the most critical assumptions are related to (i) the discount rate used to determine the present value of the liabilities and (ii) the expected long-term rate of return on plan assets. All of the actuarial assumptions are reviewed annually. Changes in these assumptions could have a material impact on the measurement of pension expense and the related obligation.

At each measurement date, management determines the discount rate by reference to rates of high-quality, long-term corporate bonds that mature in a pattern similar to the future payments anticipated to be made under the plans. As of December 31, 2018, the weighted-average discount rates used to compute the benefit obligations were 4.01% and 3.90% for the U.S. and Canadian plans, respectively.

The expected long-term rate of return on plan assets is based upon the long-term outlook of the investment strategy as well as historical returns and volatilities for each asset class. Veritiv also reviews current levels of interest rates and inflation to assess the reasonableness of the long-term rates. The Company's pension plan investment objective is to ensure all of its plans have sufficient funds to meet their benefit obligations when they become due. As a result, the Company periodically revises asset allocations, where appropriate, to improve returns and manage risk. The weighted-average expected long-term rate of return used to calculate the pension expense for the year ended 2018 was 7.15% and 5.50% for the U.S. and Canadian plans, respectively.

The following illustrates the effects of a 1% change in the discount rate or return on plan assets on the 2018 net periodic pension cost and projected benefit obligation (in millions):

Assumption	Change	Net Periodic Benefit Cost	Projected Benefit Obligation
Discount rate	1% increase	$0.5	$(4.7)
	1% decrease	0.8	6.2
Return on plan assets	1% increase	(1.5)	N/A
	1% decrease	1.5	N/A

See Note 11 of the Notes to Consolidated Financial Statements for a comprehensive discussion of Veritiv's pension and postretirement benefit expense, including a discussion of the actuarial assumptions, the policy for recognizing the associated gains and losses and the method used to estimate service and interest cost components.

Recently Issued Accounting Standards

See Note 1 of the Notes to Consolidated Financial Statements for information regarding recently issued accounting standards.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Veritiv is exposed to the impact of interest rate changes, foreign currency fluctuations, primarily related to the Canadian dollar, and fuel price changes. The Company's objective is to identify and understand these risks and implement strategies to manage them. When evaluating potential strategies, Veritiv evaluates the fundamentals of each market and the underlying accounting and business implications. To implement these strategies, the Company may enter into various hedging or similar transactions. The sensitivity analyses presented below do not consider the effect of possible adverse changes in the general economy, nor do they consider additional actions the Company may take from time to time in the future to mitigate the exposure to these or other market risks. There can be no assurance that Veritiv will manage or continue to manage any risks in the future or that any of its efforts will be successful.

Derivative Instrument

Borrowings under the ABL Facility bear interest at a variable rate, based on LIBOR or the prime rate, in either case plus an applicable margin. From time to time, Veritiv may use interest rate swap agreements to manage the variable interest rate characteristics on a portion of the outstanding debt. The Company evaluates its outstanding indebtedness, market conditions, and the covenants contained in the ABL Facility in order to determine its tolerance for potential increases in interest expense that could result from changes in variable interest rates. In July 2015, the Company entered into an interest rate cap agreement. The interest rate cap effectively limits the floating LIBOR-based portion of the interest rate. The interest rate cap expires on July 1, 2019. The initial notional amount of this agreement covered $392.9 million of the Company’s floating-rate debt at 3.0% plus the applicable credit spread. The Company paid $2.0 million for the interest rate cap agreement. Approximately $0.6 million of the amount paid represented transaction costs and was expensed immediately to earnings.

The Company designated the interest rate cap as a cash flow hedge of exposure to changes in cash flows due to changes in the LIBOR-based portion of the interest rate above 3.0% on an equivalent amount of debt. The notional amount of the cap is reduced throughout the term of the agreement to align with the expected repayment of the Company’s outstanding floating-rate debt.

At December 31, 2018, the fair value of the interest rate cap was not significant. The amount expected to be reclassified from accumulated other comprehensive loss into earnings during the next six months is approximately $0.3 million on an after-tax basis. During 2018 the amount reclassified into earnings as an adjustment to interest expense was $0.4 million on an after-tax basis.

The Company is exposed to counterparty credit risk for nonperformance and, in the event of nonperformance, to market risk for changes in the interest rate. The Company attempts to manage exposure to counterparty credit risk primarily by selecting only counterparties that meet certain credit and other financial standards. The Company believes there has been no material change in the creditworthiness of its counterparty and believes the risk of nonperformance by such party is minimal. For additional information regarding Veritiv's interest rate swap, see Note 7 of the Notes to Consolidated Financial Statements.

Interest Rate Risk

Veritiv’s exposure to fluctuations in interest rates results primarily from its borrowings under the ABL Facility. Under the terms of the ABL Facility, interest rates are based upon LIBOR or the prime rate plus a margin rate, or in the case of Canada, a banker’s acceptance rate or base rate plus a margin rate. LIBOR based loans can be set for durations of one week, or for periods of one to nine months. The margin rate amount can be adjusted upward or downward based upon usage under the line in two increments of 25 basis points. Veritiv's interest rate exposure under the ABL Facility results from changes in LIBOR, bankers' acceptance rates, the prime/base interest rates and actual borrowings. The weighted-average borrowing interest rate at December 31, 2018 was 4.6%. Based on the average borrowings under the ABL Facility during the year ended December 31, 2018, a hypothetical 100 basis point increase in the interest rate would result in approximately $9.3 million of additional interest expense.

Table of Contents

Foreign Currency Exchange Rate Risk

Veritiv conducts business in various foreign currencies and is exposed to earnings and cash flow volatility associated with changes in foreign currency exchange rates. This exposure is primarily related to international assets and liabilities, whose value could change materially in reference to the U.S. dollar reporting currency.

Veritiv’s most significant foreign currency exposure primarily relates to fluctuations in the foreign exchange rate between the U.S. dollar and the Canadian dollar. Net sales from Veritiv’s Canadian operations for the year ended December 31, 2018 represented approximately 8% of Veritiv’s total net sales. Veritiv has not used foreign exchange currency options or futures agreements to hedge its exposure to changes in foreign exchange rates.

Fuel Price Risk

Due to the nature of Veritiv's distribution business, the Company is exposed to potential volatility in fuel prices. The cost of fuel affects the price paid for products as well as the costs incurred to deliver products to the Company's customers. The price and availability of diesel fuel fluctuates due to changes in production, seasonality and other market factors generally outside of the Company's control. Increased fuel costs may have a negative impact on the Company's results of operations and financial condition. In times of higher fuel prices, Veritiv may have the ability to pass a portion of the increased costs on to customers; however, there can be no assurance that the Company will be able to do so. Based on Veritiv's 2018 fuel consumption, a 10% increase in the average annual price per gallon of diesel fuel would result in a potential increase of approximately $3.5 million in annual transportation fuel costs (excluding any amounts recovered from customers). Veritiv does not use derivatives to manage its exposure to fuel prices.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

TABLE OF CONTENTS

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and Board of Directors of Veritiv Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Veritiv Corporation and subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 28, 2019

We have served as the Company's auditor since 2013.

Table of Contents

VERITIV CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	Year Ended December 31,		
	2018	2017	2016
Net sales (including sales to related party of $28.0, $32.2 and $35.6, respectively)	$8,696.2	$8,364.7	$8,326.6
Cost of products sold (including purchases from related party of $146.5, $181.6 and $224.9, respectively) (exclusive of depreciation and amortization shown separately below)	7,155.7	6,846.6	6,826.4
Distribution expenses	550.5	516.9	505.1
Selling and administrative expenses	867.6	875.7	827.9
Depreciation and amortization	53.5	54.2	54.7
Integration and acquisition expenses	31.8	36.5	25.9
Restructuring charges, net	21.3	16.7	12.4
Operating income	15.8	18.1	74.2
Interest expense, net	42.3	31.2	27.5
Other (income) expense, net	(16.3)	(11.2)	5.9
Income (loss) before income taxes	(10.2)	(1.9)	40.8
Income tax expense	5.5	11.4	19.8
Net income (loss)	$(15.7)	$(13.3)	$21.0
Earnings (loss) per share:			
Basic earnings (loss) per share	$(0.99)	$(0.85)	$1.31
Diluted earnings (loss) per share	$(0.99)	$(0.85)	$1.30
Weighted-average shares outstanding:			
Basic	15.82	15.70	15.97
Diluted	15.82	15.70	16.15

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

VERITIV CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	Year Ended December 31,		
	2018	2017	2016
Net income (loss)	$(15.7)	$(13.3)	$21.0
Other comprehensive income (loss):			
Foreign currency translation adjustments	(6.8)	5.7	(2.1)
Change in fair value of cash flow hedge, net of $0.2, $0.0 and $0.1 tax, respectively	0.5	0.0	(0.2)
Pension liability adjustments, net of $0.0, $(0.6) and $(0.3) tax, respectively	(0.1)	(0.2)	(1.7)
Other comprehensive income (loss)	(6.4)	5.5	(4.0)
Total comprehensive income (loss)	$(22.1)	$(7.8)	$17.0

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

VERITIV CORPORATION
CONSOLIDATED BALANCE SHEETS
(dollars in millions, except par value)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash	$64.3	$80.3
Accounts receivable, less allowances of $62.0 and $44.0, respectively	1,181.4	1,174.3
Related party receivable	3.2	3.3
Inventories	688.2	722.7
Other current assets	147.2	133.5
Total current assets	2,084.3	2,114.1
Property and equipment (net of accumulated depreciation and amortization of $320.7 and $314.6, respectively)	206.7	340.2
Goodwill	99.6	99.6
Other intangibles, net	57.2	64.1
Deferred income tax assets	56.5	59.6
Other non-current assets	25.4	30.8
Total assets	$2,529.7	$2,708.4
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$641.9	$680.1
Related party payable	9.3	8.5
Accrued payroll and benefits	56.5	73.5
Other accrued liabilities	134.7	134.6
Current maturities of long-term debt	6.7	2.9
Financing obligations, current portion (including obligations to related party of $0.0 and $7.1, respectively)	0.6	7.8
Total current liabilities	849.7	907.4
Long-term debt, net of current maturities	963.6	908.3
Financing obligations, less current portion (including obligations to related party of $0.0 and $155.2, respectively)	23.6	181.6
Defined benefit pension obligations	21.1	24.4
Other non-current liabilities	128.6	137.0
Total liabilities	1,986.6	2,158.7
Commitments and contingencies (Note 17)		
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 - 16.2 million and 16.0 million, respectively; shares outstanding - 15.9 million and 15.7 million, respectively	0.2	0.2
Additional paid-in capital	605.7	590.2
Accumulated (deficit) earnings	(8.5)	6.4
Accumulated other comprehensive loss	(40.7)	(33.5)
Treasury stock at cost - 0.3 million shares at December 31, 2018 and 2017	(13.6)	(13.6)
Total shareholders' equity	543.1	549.7
Total liabilities and shareholders' equity	$2,529.7	$2,708.4

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

VERITIV CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
Operating activities	2018	2017	2016
Net income (loss)	$(15.7)	$(13.3)	$21.0
Depreciation and amortization	53.5	54.2	54.7
Amortization and write-off of deferred financing fees	2.6	2.6	5.6
Net (gains) on dispositions of property and equipment	(18.5)	(25.7)	(0.8)
Goodwill and long-lived asset impairment charges	0.4	8.4	7.7
Provision for allowance for doubtful accounts	27.1	15.9	2.2
Deferred income tax provision	2.0	1.9	11.1
Stock-based compensation	18.1	15.7	8.3
Other non-cash items, net	(8.3)	(8.8)	3.7
Changes in operating assets and liabilities			
Accounts receivable and related party receivable	(43.9)	(101.9)	(14.7)
Inventories	26.4	30.1	13.1
Other current assets	(23.2)	(8.4)	(11.4)
Accounts payable and related party payable	(15.9)	48.3	69.9
Accrued payroll and benefits	(16.6)	(11.3)	(40.9)
Other accrued liabilities	17.2	13.6	(3.6)
Other	9.8	15.3	14.3
Net cash provided by operating activities	15.0	36.6	140.2
Investing activities			
Property and equipment additions	(45.4)	(32.5)	(41.0)
Proceeds from asset sales	23.7	51.1	6.6
Cash paid for purchase of business, net of cash acquired	—	(144.8)	—
Net cash used for investing activities	(21.7)	(126.2)	(34.4)
Financing activities			
Change in book overdrafts	(16.2)	(40.5)	18.9
Borrowings of long-term debt	5,805.3	4,898.8	4,555.8
Repayments of long-term debt	(5,767.3)	(4,731.5)	(4,625.9)
Payments under equipment capital lease obligations	(6.7)	(2.7)	(3.2)
Payments under financing obligations (including obligations to related party of $8.6, $15.0 and $19.9, respectively)	(9.3)	(16.4)	(19.9)
Deferred financing fees	—	—	(2.0)
Purchase of treasury stock	—	—	(13.6)
Payments under Tax Receivable Agreement	(9.9)	(8.5)	—
Payments under other contingent consideration	(2.5)	—	—
Other	(2.1)	—	—
Net cash (used for) provided by financing activities	(8.7)	99.2	(89.9)
Effect of exchange rate changes on cash	(0.6)	1.1	(0.7)
Net change in cash	(16.0)	10.7	15.2
Cash at beginning of period	80.3	69.6	54.4
Cash at end of period	$64.3	$80.3	$69.6
Supplemental cash flow information			
Cash paid for income taxes, net of refunds	$2.4	$3.7	$11.6
Cash paid for interest	38.9	27.6	20.6
Non-cash investing and financing activities			

Non-cash additions to property and equipment	31.5	17.8	20.8
Contingent consideration for purchase of business: Earn-out	—	22.2	—

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

VERITIV CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions)

	Common Stock Issued		Additional Paid-in Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at December 31, 2015	16.0	$ 0.2	$ 566.2	$ (1.3)	$ (35.0)	—	$ —	$ 530.1
Net income	—	—	—	21.0	—	—	—	21.0
Other comprehensive loss	—	—	—	—	(4.0)	—	—	(4.0)
Stock-based compensation	—	—	8.3	—	—	—	—	8.3
Treasury stock	—	—	—	—	—	(0.3)	(13.6)	(13.6)
Balance at December 31, 2016	16.0	$ 0.2	$ 574.5	$ 19.7	$ (39.0)	(0.3)	$ (13.6)	$ 541.8
Net loss	—	—	—	(13.3)	—	—	—	(13.3)
Other comprehensive income	—	—	—	—	5.5	—	—	5.5
Stock-based compensation	—	—	15.7	—	—	—	—	15.7
Balance at December 31, 2017	16.0	$ 0.2	$ 590.2	$ 6.4	$ (33.5)	(0.3)	$ (13.6)	$ 549.7
Net loss	—	—	—	(15.7)	—	—	—	(15.7)
Other comprehensive loss	—	—	—	—	(6.4)	—	—	(6.4)
Tax impact of adoption of ASU 2018-02	—	—	—	0.8	(0.8)	—	—	—
Stock-based compensation	—	—	18.1	—	—	—	—	18.1
Issuance of common stock, net of stock received for minimum tax withholdings	0.2	—	(2.6)	—	—	—	—	(2.6)
Balance at December 31, 2018	16.2	$ 0.2	$ 605.7	$ (8.5)	$ (40.7)	(0.3)	$ (13.6)	$ 543.1

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

VERITIV CORPORATION
NOTES TO 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 on July 1, 2014 (the "Distribution Date"), following the merger (the "Merger") of International Paper Company's ("International Paper") xpedx distribution solutions business ("xpedx") and UWW Holdings, Inc. ("UWWH"), the parent company of Unisource Worldwide, Inc. ("Unisource"). On July 2, 2014, Veritiv's common stock began regular-way trading on the New York Stock Exchange under the ticker symbol VRTV.

Veritiv operates from approximately 160 distribution centers primarily throughout the United States ("U.S."), Canada and Mexico.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include all of the Company's subsidiaries. All significant intercompany transactions between Veritiv's businesses have been eliminated. As a result of adopting Accounting Standards Update ("ASU") 2017-07, certain prior year amounts have been reclassified to conform to the current year presentation. See the adoption impact in the Recently Issued Accounting Standards section of this note.

Use of Estimates

The preparation of 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, 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.

Summary of Significant Accounting Policies

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.

Under Topic 606 -

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 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. 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. See Note 2, Revenue Recognition, for additional information regarding revenue recognition.

Under prior revenue recognition guidance -

Revenue was recognized when persuasive evidence of an arrangement existed, the price was fixed or determinable, collectability was reasonably assured and delivery had occurred. Revenue was recognized when the customer took title and assumed the risks and rewards of ownership. When management could not conclude collectability was reasonably assured for shipments to a particular customer, revenue associated with that customer was not recognized until cash was collected or management was otherwise able to establish that collectability was reasonably assured.

Sales transactions with customers were designated free on board ("f.o.b.") destination and revenue was recorded when the product was delivered to the customer’s delivery site, when title and risk of loss were transferred.

Certain revenues were derived from shipments arranged by the Company made directly from a manufacturer to a customer. The Company was considered to be a principal to these transactions because, among other factors, it controlled pricing to the customer, bore the credit risk of the customer defaulting on payment and was the primary obligor. Revenues from these sales were reported on a gross basis in the Consolidated Statements of Operations and amounted to $3.0 billion for each of the years ended December 31, 2017 and 2016.

Taxes collected from customers relating to product sales and remitted to governmental authorities were accounted for on a net basis. Accordingly, such taxes were excluded from both net sales and expenses.

Purchase Incentives

Veritiv enters into agreements with suppliers that entitle Veritiv to receive rebates, allowances and other discounts based on the attainment of specified purchasing levels or sales to certain customers. Purchase incentives are recorded as a reduction to inventory and recognized in cost of products sold when the sale occurs. During the year ended December 31, 2018, approximately 38% of the Company's purchases were made from ten suppliers.

Distribution Expenses

Distribution expenses consist of storage, handling and delivery costs including freight to the Company's customers’ destinations. Handling and delivery costs were $398.0 million, $380.7 million and $371.7 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Integration and Acquisition Expenses

Integration and acquisition expenses are expensed as incurred. Integration and acquisition expenses include internally dedicated integration management resources, retention compensation, information technology conversion costs, rebranding, professional services and other costs to integrate its businesses.

Accounts Receivable and Allowances

Accounts receivable are recognized net of allowances. The allowance for doubtful accounts reflects the best estimate of losses inherent in the Company’s accounts receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other available evidence. The other allowances balance is inclusive of returns, discounts and any other items affecting the realization of these assets. Accounts receivable are written off when management determines they are uncollectible.

Table of Contents

The components of the accounts receivable allowances were as follows:

(in millions)	Year Ended December 31, 2018	2017
Allowance for doubtful accounts	$49.1	$32.4
Other allowances	12.9	11.6
Total accounts receivable allowances	$62.0	$44.0

Below is a rollforward of the Company's accounts receivable allowances for the years ended December 31, 2018, 2017 and 2016:

(in millions)	Year Ended December 31, 2018	2017	2016
Beginning balance, January 1	$44.0	$34.5	$33.3
Add / (Deduct):			
Provision for bad debt expense	26.5	15.9	2.2
Net write-offs and recoveries	(6.3)	(7.7)	(6.7)
Other adjustments[1]	(2.2)	1.3	5.7
Ending balance, December 31	$62.0	$44.0	$34.5

[1] Other adjustments represent amounts reserved for returns and discounts, foreign currency translation adjustments and reserves for certain customer accounts where revenue is not recognized because collectability is not probable, and may include accounts receivable allowances recorded in connection with acquisitions.

Inventories

The Company's inventories are primarily comprised of finished goods and predominantly valued at cost as determined by the last-in first-out ("LIFO") method. Such valuations are not in excess of market. Elements of cost in inventories include the purchase price invoiced by a supplier, plus inbound freight and related costs and reduced by estimated volume-based discounts and early pay discounts available from certain suppliers. Approximately 85% and 86% of inventories were valued using the LIFO method as of December 31, 2018 and 2017, respectively. If the first-in, first-out method had been used, total inventory balances would be increased by approximately $98.7 million and $78.7 million at December 31, 2018 and 2017, respectively.

The Company reduces the value of obsolete inventory based on the difference between the LIFO cost of the inventory and the estimated market value using assumptions of future demand and market conditions. To estimate the net realizable value, the Company considers factors such as the age of the inventory, the nature of the products, the quantity of items on-hand relative to sales trends, current market prices and trends in pricing, its ability to use excess supply in another channel, historical write-offs and expected residual values or other recoveries.

Veritiv maintains some of its inventory on a consignment basis in which the inventory is physically located at the customer's premises or a third-party warehouse. Veritiv had $56.8 million and $50.9 million of consigned inventory as of December 31, 2018 and 2017, respectively, valued on a LIFO basis, net of reserves.

Property and Equipment, Net

Property and equipment are stated at cost, less accumulated depreciation and software amortization. Expenditures for replacements and major improvements are capitalized, whereas repair and maintenance costs that do not improve service potential or extend economic life are expensed as incurred. The Company capitalizes certain computer software and development costs incurred in connection with developing or obtaining software for internal use. Costs related to the development of internal use software, other than those incurred during the application development stage, are expensed as incurred.

Table of Contents

The components of property and equipment, net were as follows:

(in millions)	December 31, 2018	December 31, 2017
Land, buildings and improvements	$ 107.4	$ 106.6
Machinery and equipment	159.7	145.3
Equipment capital leases and assets related to financing obligations (including financing obligations with related party) [1]	75.3	233.3
Internal use software	166.6	159.2
Construction-in-progress	18.4	10.4
Less: Accumulated depreciation and software amortization	(320.7)	(314.6)
Property and equipment, net	$ 206.7	$ 340.2

[1] During the year ended December 31, 2018, the financing obligations for all of the Company's remaining related party financed properties were either terminated early or expired in accordance with their terms. As such, the Company derecognized the non-cash effect of $155.2 million to property and equipment. See Note 6, Debt and Other Obligations, for additional information related to these properties.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Land is not depreciated, and construction-in-progress ("CIP") is not depreciated until ready for service. Leased property and leasehold improvements are amortized on a straight-line basis over the lease term or useful life of the asset, whichever is less.

Depreciation and amortization for property and equipment, other than land and CIP, is based upon the following estimated useful lives:

Buildings	40 years
Leasehold improvements	1 to 20 years
Machinery and equipment	3 to 15 years
Equipment capital leases and assets related to financing obligations (including financing obligations with related party)	3 to 15 years
Internal use software	3 to 5 years

Additional property and equipment information is as follows:

(in millions)	Year Ended December 31, 2018	2017	2016
Depreciation expense [1]	$33.2	$33.5	$33.8
Amortization expense - internal use software	13.4	16.5	17.5
Depreciation and amortization expense related to property and equipment	$46.6	$50.0	$51.3
Accumulated depreciation on equipment capital leases and assets related to financing obligations (including financing obligations with related party)	$16.3	$35.6	
Unamortized internal use software costs, including amounts recorded in CIP	$32.9	$37.6	

[1] Includes the depreciation expense for equipment capital leases and assets related to financing obligations (including financing obligations with
related party).

Upon retirement or other disposal of property and equipment, the cost and related amount of accumulated depreciation or accumulated amortization are eliminated from the asset and accumulated depreciation or accumulated amortization accounts, respectively. The difference, if any, between the net asset value and the proceeds is included in net income.

Leases

The Company leases certain property and equipment used for operations. Such lease arrangements are reviewed for capital or operating classification at their inception.

Capital lease obligations consist of delivery equipment, material handling equipment, computer hardware and office equipment which are leased through third parties under non-cancelable leases with terms generally ranging from three to eight years. Many of the delivery equipment leases include annual rate increases based on the Consumer Price Index which are included in the calculation of the initial lease obligation. The carrying value of the related equipment associated with these capital leases is included within property and equipment, net in the Consolidated Balance Sheets and depreciated over the term of the lease. The Company does not record rent expense for capital leases. Rather, rental payments under the lease are recognized as a reduction of the capital lease obligation and interest expense. Depreciation expense for assets under capital leases is included in the total depreciation expense disclosed in the Consolidated Statements of Operations.

All other leases are operating leases. Certain lease agreements include renewal options and rent escalation clauses. Assets subject to an operating lease and the related lease payments are not recorded on the Company’s balance sheet. Rent expense is recognized on a straight-line basis over the expected lease term.

The term for all types of leases begins on the date the Company becomes legally obligated for the rent payments or takes possession of the asset, whichever is earlier. See Note 8, Leases, for additional information related to the Company's leases.

Goodwill and Other Intangible Assets, Net

Goodwill relating to a single business reporting unit is included as an asset of the applicable segment. Goodwill arising from major acquisitions that involve multiple reportable segments is allocated to the reporting units based on the relative fair value of the reporting unit.

Goodwill is reviewed by Veritiv for impairment on a reporting unit basis annually on October 1st or more frequently if indicators are present or changes in circumstances suggest that impairment may exist. The testing of goodwill for possible impairment is performed by completing a Step 0 test or electing to by-pass the Step 0 test and comparing the fair value of a reporting unit with its carrying value, including goodwill. The Step 0 test utilizes qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. Qualitative factors include: macroeconomic conditions; industry and market considerations; overall financial performance and cost factors to determine whether a reporting unit is at risk for goodwill impairment.

In the event a reporting unit fails the Step 0 goodwill impairment test, it is necessary to move forward with a comparison of the fair value of the reporting unit with its carrying value, including goodwill. If the fair value exceeds the carrying value, goodwill is not considered to be impaired. If the fair value of a reporting unit is below the carrying value, a goodwill impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, any loss recognized will not exceed the total amount of goodwill allocated to the reporting unit. See Note 5, Goodwill and Other Intangible Assets, for additional information related to the Company's goodwill.

Intangible assets acquired in a business combination are recorded at fair value. The Company's intangible assets may include customer relationships, trademarks and trade names and non-compete agreements. Intangible assets with finite useful lives are subsequently amortized using the straight-line method over the estimated useful lives of the assets. See the Impairment of Long-Lived Assets section below for the accounting policy related to the periodic review of long-lived intangible assets for impairment. See Note 5, Goodwill and Other Intangible Assets, for additional information related to the Company's intangible assets.

Impairment of Long-Lived Assets

Long-lived assets, including finite lived intangible assets, are tested for impairment whenever events or changes in circumstances indicate their carrying value may not be recoverable. The Company assesses the recoverability of long-lived assets based on the undiscounted future cash flow the assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When an impairment is identified, the Company reduces the carrying amount of the asset to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values.

For the years ended December 31, 2018, 2017 and 2016, impairment charges of $0.4 million, $0.7 million and $1.9 million, respectively, were recorded for certain long-lived assets that supported multiple segments. These charges were recorded as selling and administrative expenses as they were not related to the Company's restructuring efforts.

Employee Benefit Plans

The Company sponsors and/or contributes to defined contribution plans, defined benefit pension plans and multi-employer pension plans in the U.S. Except for certain union employees who continue to accrue benefits under the U.S. defined benefit pension plan in accordance with their collective bargaining agreements, as discussed below, the defined benefit pension plans are frozen. In addition, the Company and its subsidiaries have various pension plans and other forms of retirement arrangements outside the U.S. See Note 11, Employee Benefit Plans, for additional information related to these plans and arrangements.

The determination of defined benefit pension and postretirement plan obligations and their associated costs requires the use of actuarial computations to estimate participant plan benefits to which the employees will be entitled. The Company’s significant assumptions in this regard include discount rates, rate of future compensation increases, expected long-term rates of return on plan assets, mortality rates, and other factors. Each assumption is developed using relevant company experience in conjunction with market-related data in the U.S. and Canada. All actuarial assumptions are reviewed annually with third-party consultants and adjusted, as necessary.

For the recognition of net periodic postretirement cost, the calculation of the expected long-term rate of return on plan assets is derived using the fair value of plan assets at the measurement date. Actual results that differ from the Company's assumptions are accumulated and amortized on a straight-line basis only to the extent they exceed 10% of the higher of the fair value of plan assets or the projected benefit obligation, over the estimated remaining service period of active participants. The fair value of plan assets is determined based on market prices or estimated fair value at the measurement date.

The Company also makes contributions to multi-employer pension plans for its union employees covered by such plans. For these plans, the Company recognizes a liability only for any required contributions to the plans or surcharges imposed by the plans that are accrued and unpaid at the balance sheet date. The Company does not record an asset or liability to recognize the funded status of the plans. The Company records an estimated undiscounted charge when it becomes probable that it has incurred a withdrawal liability, as the final amount and timing is not assured. When a final determination of the withdrawal liability is received from the plan, the estimated charge is adjusted to the final amount determined by the plan.

Stock-Based Compensation

The Company measures and records compensation expense for all stock-based awards based on the grant date fair values over the vesting period of the awards. Forfeitures are recognized when they occur. See Note 16, Equity-Based Incentive Plans, for additional information.

Income Taxes

Veritiv's income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management’s best assessment of estimated current and future taxes to be paid. Veritiv records its global tax provision based on the respective tax rules and regulations for the jurisdictions in which it operates. Where treatment of a position is uncertain, liabilities are recorded based upon an evaluation of the more likely than not outcome considering technical merits of the position. Changes to recorded liabilities are made only when an identifiable event occurs that alters the likely outcome, such as settlement with the relevant tax authority or the expiration of statutes of limitation for the subject tax year. Significant judgments and estimates are required in determining the consolidated income tax expense.

The Tax Act was signed into law on December 22, 2017 and makes broad and complex changes to the U.S. tax code. We recognized provisional estimates of the impact of the Tax Act in the year ended December 31, 2017 and as of the year

Table of Contents

ended December 31, 2018, we recorded additional tax expense. Although the Company considers these items complete, the determination of the Tax Act's income tax effects may change following future legislation or further interpretation of the Tax Act based on the publication of recently proposed U.S. Treasury regulations and guidance from the Internal Revenue Service ("IRS") and state tax authorities. Additionally, the Company has concluded the applicable accounting policy election associated with Global Intangible Low Tax Income ("GILTI") will be treated as a period cost. See Note 9, Income Taxes, for additional details regarding the Tax Act.

Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Significant judgment is required in evaluating the need for and amount of valuation allowances against deferred tax assets. The realization of these assets is dependent on generating sufficient future taxable income.

While Veritiv believes that these judgments and estimates are appropriate and reasonable under the circumstances, actual resolution of these matters may differ from recorded estimated amounts.

Fair Value Measurements

Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable.

Level 1 –	Quoted market prices in active markets for identical assets or liabilities.
Level 2 –	Observable market-based inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 –	Unobservable inputs for the asset or liability reflecting the reporting entity's own assumptions or external inputs from inactive markets.

See Note 12, Fair Value Measurements, for further detail.

Foreign Currency

The assets and liabilities of the foreign subsidiaries are translated from their respective local currencies to the U.S. dollars at the appropriate spot rates as of the balance sheet date. Changes in the carrying values of these assets and liabilities attributable to fluctuations in spot rates are recognized in foreign currency translation adjustment, a component of accumulated other comprehensive loss ("AOCL"). See Note 15, Shareholders' Equity, for the impacts of foreign currency translation adjustments on AOCL.

The revenues and expenses of the foreign subsidiaries are translated using the monthly average exchange rates during the year. The gains or losses from foreign currency transactions are included in other (income) expense, net in the Consolidated Statements of Operations.

Treasury Stock

Common stock purchased for treasury is recorded at cost. Costs incurred by the Company that are associated with the acquisition of treasury stock are treated in a manner similar to stock issue costs and are added to the cost of the treasury stock.

Recently Issued Accounting Standards

Effective January 1, 2019, the Company adopted ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize right-of-use assets ("ROUs") 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 will remain similar to prior accounting guidance. The new standard also eliminates the prior guidance related to real estate specific provisions.

The guidance allows an entity to elect 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 a prospective approach, 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. Consequently, an entity’s reporting for the comparative periods presented in the financial statements in which it adopts the new leases 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 prospective 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 right of use 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 Consolidated Balance Sheet and to separate lease and non-lease components for most lease categories. The Company made a policy election to not use hindsight to determine lease term. Upon adoption, the Company recorded (i) operating lease obligations and related ROU assets of approximately $425 million and (ii) an increase to retained earnings of approximately $3.0 million, primarily driven by the derecognition of the unamortized deferred gain from the 2017 sale of the Austin, Texas property. See Note 8, Leases, for additional information related to the Austin lease.

Effective January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The standard replaces previous revenue recognition standards and significantly expands the disclosure requirements for revenue arrangements. The guidance may be adopted either retrospectively or on a modified retrospective basis for new contracts and existing contracts with remaining performance obligations as of the effective date. Veritiv adopted this ASU applying the modified retrospective transition method; accordingly, prior periods have not been adjusted to conform to the new guidance. There was determined to be no cumulative effect to opening retained earnings after applying the new guidance to all contracts with customers that were not completed as of January 1, 2018. The adoption is not expected to have a material impact on future financial results, as the adoption did not change the recognition pattern for the Company's existing revenue streams. See Note 2, Revenue Recognition, for additional information related to the Company's revenues and the Topic 606 adoption impacts.

Effective January 1, 2018, the Company adopted ASU 2017-07, Compensation-Retirement Benefits (Topic 715). The standard requires employers to disaggregate the service cost component from the other components of net benefit cost and disclose by line item the amount of net benefit cost that is included in the statement of operations or capitalized in assets. The standard requires employers to report the service cost component in the same line item(s) as other compensation costs and to report other pension-related costs (which include interest costs, amortization of pension-related costs from prior periods and the gains or losses on plan assets) separately and exclude them from the subtotal of operating income. The standard also allows only the service cost component to be eligible for capitalization when applicable. The guidance requires application on a retrospective basis for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the statement of operations and on a prospective basis for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The Company adopted this guidance on a retrospective basis; accordingly, prior periods have been adjusted to conform to the new guidance. The Company elected to use the practical expedient that permits entities to use the amounts disclosed in their pension and other postretirement benefit plan notes for the prior comparative periods as the basis of estimation for applying the retrospective presentation requirements. The Company does not currently capitalize service costs.

The effect of the retrospective presentation change related to the net periodic cost of the Company's defined benefit pension and other postretirement employee benefits plans on the Consolidated Statements of Operations was as follows:

	Year Ended December 31, 2017		
(in millions)	As Revised	Previously Reported	Effect of Change Higher/(Lower)
Selling and administrative expenses	$875.7	$ 872.6	$ 3.1
Operating income	18.1	21.2	(3.1)
Other (income) expense, net	(11.2)	(8.1)	(3.1)

58

Table of Contents

(in millions)	Year Ended December 31, 2016 As Revised	Previously Reported	Effect of Change Higher/(Lower)
Selling and administrative expenses	$827.9	$ 826.2	$ 1.7
Operating income	74.2	75.9	(1.7)
Other (income) expense, net	5.9	7.6	(1.7)

Effective January 1, 2018, the Company early adopted ASU 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from accumulated other comprehensive income (AOCI) ("AOCI"). The standard allows companies to reclassify the effect of the change in tax laws and rates on deferred tax assets and liabilities as part of the Tax Act from AOCI to retained earnings. The guidance is to be applied to each period in which the effect of the Tax Act (or portion thereof) is recorded and companies may apply it either (i) retrospectively as of the date of enactment or (ii) as of the beginning of the period of adoption. The Company elected to apply the guidance as of the beginning of the period of adoption. The guidance would have been effective for Veritiv on January 1, 2019 had the Company not early adopted. See Note 9, Income Taxes, for additional information related to the adoption impact of ASU 2018-02.

Effective March 31, 2018, the Company adopted ASU 2018-05, Income Taxes (Topic 740). The standard amends SEC paragraphs in Accounting Standards Codification ("ASC") 740 to reflect Staff Accounting Bulletin 118 ("SAB 118") to provide guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Act in the period of enactment. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete their accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete, but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act. The guidance is effective upon addition to the ASC and early adoption is permitted. The Company completed the accounting for certain income tax effects of the Tax Act during the fourth quarter of 2018 in accordance with SAB 118. See Note 9, Income Taxes, for additional information regarding the adoption of this standard.

Table of Contents

Recently Issued Accounting Standards Not Yet Adopted

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2016-13, Financial Instruments-Credit Losses (Topic 326)	The standard will replace the currently required incurred loss impairment methodology with guidance that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to be considered in making credit loss estimates. The guidance requires application on a modified retrospective basis. Other application requirements exist for specific assets impacted by a more-than-insignificant credit deterioration since origination.	January 1, 2020; early adoption is permitted for fiscal years beginning after December 15, 2018	The Company is currently evaluating the impact this ASU will have on its Consolidated Financial Statements and related disclosures. The Company currently plans to adopt this ASU on January 1, 2020.
ASU 2018-13, Fair Value Measurement (Topic 820)	The standard modifies the disclosure requirements on fair value measurements by removing certain disclosure requirements related to the fair value hierarchy, 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.	January 1, 2020; early adoption is permitted	The Company is currently evaluating the impact this ASU will have on its disclosures. The Company currently plans to adopt this ASU on January 1, 2020.
ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20)	The standard modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans. The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures and adds disclosure requirements identified as relevant. 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	December 31, 2020; early adoption is permitted	The Company does not expect the adoption of this standard to have a material impact on its disclosures. The Company currently plans to adopt this ASU on December 31, 2020.

periods presented.

Table of Contents

Recently Issued Accounting Standards Not Yet Adopted (continued)

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)	The standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments in this 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.	January 1, 2020; early adoption is permitted	The Company does not expect the adoption of this standard to have a material impact on its Consolidated Financial Statements and related disclosures. The Company currently plans to adopt this ASU on January 1, 2020.

Other Recently Adopted Accounting Standards

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2016-15, Statement of Cash Flows (Topic 230)	The standard addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance requires application on a retrospective basis.	January 1, 2018	The Company adopted this ASU on January 1, 2018. The adoption did not materially impact the Company's historical Consolidated Financial Statements or related disclosures. Impacts to future results and disclosures will be dependent upon the presence of any items noted in the standard.
ASU 2017-01, Business Combinations (Topic 805)	The standard clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance requires application on a prospective basis.	January 1, 2018	The Company adopted this ASU on January 1, 2018.

Table of Contents

2. REVENUE RECOGNITION

Adoption

In May 2014, the FASB issued Topic 606, including Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer, and costs to fulfill a contract when the costs meet certain criteria. The new standard is effective for public business entities with annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. The new guidance replaces numerous requirements in U.S. GAAP and provides a single revenue recognition model for recognizing revenue from contracts with customers. The adoption of Topic 606 represents a change in accounting principle that will more closely depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The two permitted transition methods are (i) the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect would be recognized at the earliest period shown, or (ii) the modified retrospective method in which an entity would apply the new guidance only to contracts not completed at the adoption date, would not adjust prior reporting periods and the cumulative effect would be recognized in retained earnings in the period of adoption.

The Company adopted 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. Results for periods beginning after January 1, 2018 are presented following the guidance of Topic 606, while prior period amounts are not adjusted and continue to be reported following the Company's historical accounting under the accounting standards in effect for those periods. 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 has utilized certain exceptions allowed under Topic 606 including not assessing whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer and 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

In order to achieve compliance with the accounting principles of Topic 606, 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 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 Consolidated Balance Sheet.

In accordance with Topic 606, 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

Table of Contents

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 December 31, 2018, the Company recognized estimated inventory returns of approximately $2.5 million, which is included in inventories on the Consolidated Balance Sheet. Additionally, the Company recognized approximately $17.7 million of 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 Consolidated Balance Sheet. See the table below for a summary of the changes to the customer contract liabilities for the year ended December 31, 2018:

	Customer Contract Liabilities
(in millions)	2018
Balance at January 1	$ 20.5
Payments received	55.0
Revenue recognized from beginning balance	(20.5)
Revenue recognized from current year receipts	(37.3)
Balance at December 31	$ 17.7

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 f.o.b. 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.

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 Consolidated Statements of Operations and have historically represented approximately one-third of Veritiv's total net sales. Revenues from these sales amounted to $3.1 billion for the year ended December 31, 2018.

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 across North America, primarily the U.S. (90%), Canada (8%) and Mexico (1%).

The following is a brief description of the 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 North America and in key global markets. The business is strategically focused on higher growth industries including light industrial/general manufacturing, food production, 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 and dispensers, 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, wide format and specialty paper 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 18, Segment Information, for the disaggregation of revenue and other information related to the Company’s reportable segments and Corporate & Other.

3. 2017 ACQUISITION

On August 31, 2017 (the "Acquisition Date"), Veritiv completed its acquisition of 100% of the equity interest in various All American Containers entities (collectively, "AAC"), a family owned and operated distributor of rigid packaging products, including plastic, glass and metal containers, caps, closures and plastic pouches. The acquisition of AAC aligns with the Company's strategy of investing in higher growth and higher margin segments of the business. Through the acquisition, Veritiv gains expertise in rigid plastic, glass and metal packaging that complements its portfolio of packaging products and services. This acquisition also provides Veritiv with additional marketing, selling and distribution channels into the growing U.S. rigid packaging market. The rigid packaging market's primary product categories include paperboard, plastics, metals and glass.

Acquisition-related costs of approximately $0.6 million and $7.3 million were expensed as incurred and were recognized in integration and acquisition expenses on the Consolidated Statements of Operations for the years ended December 31, 2018 and 2017, respectively. These charges are included in the table in Note 4, Integration, Acquisition and Restructuring Charges, and related primarily to legal, consulting and other professional fees, retention and other costs to integrate the business.

The acquisition of AAC was accounted for in the Company's financial statements using the acquisition method of accounting. The total consideration to complete the acquisition was approximately $169.8 million. The purchase price was allocated to tangible and intangible assets and liabilities based upon their respective estimated fair values. The following table summarizes the components of the purchase price for AAC:

Table of Contents

Purchase price:

	(in millions)
Cash consideration	$ 112.0
Loan pay-off	34.3
Contingent consideration	22.2
Other	1.3
Total purchase price	$ 169.8

The following table summarizes the allocation of the purchase price to assets acquired and liabilities assumed as of the Acquisition Date based on valuation information, estimates and assumptions available as of August 30, 2018. See Note 5, Goodwill and Other Intangible Assets, for additional information related to the goodwill acquired in the AAC acquisition. See Note 12, Fair Value Measurements, for additional information related to the fair value of the contingent consideration related to the earn-out.

Purchase price allocation:

	(in millions)
Cash	$ 1.5
Accounts receivable	30.4
Inventories	38.5
Other current assets	5.7
Property and equipment	3.5
Goodwill	55.5
Other intangible assets	49.0
Other non-current assets	1.4
Accounts payable	(12.4)
Other current liabilities	(2.7)
Other non-current liabilities	(0.6)
Total purchase price	$ 169.8

The purchase price allocated to the identifiable intangible assets acquired is as follows:

	Gross Value (in millions)	Estimated Useful Life (in years)
Customer relationships	$ 46.4	14.0
Trademarks/Trade names	1.1	1.0
Non-compete agreements	1.5	1.0
Total identifiable intangible assets acquired	$ 49.0	

Pro Forma Impact (unaudited)

The operating results of AAC are included in the Company's financial statements from September 1, 2017 through December 31, 2018 and are reported as part of the Packaging reportable segment.

The following unaudited pro forma financial information presents results as if the acquisition of AAC occurred on January 1, 2016. The historical consolidated financial information of the Company and AAC has been adjusted in the pro forma information to give effect to pro forma events that are directly attributable to the transaction and are factually supportable. The unaudited pro forma results do not reflect events that have occurred or may occur after the transaction, including the impact of any synergies expected to result from the acquisition. Accordingly, the unaudited pro forma financial

Table of Contents

information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed date, nor is it necessarily an indication of future operating results.

(Unaudited)	Year Ended December 31,	
(in millions, except share and per share data)	2017	2016
Net sales	$8,527.6	$8,548.2
Net income (loss)	(7.2)	14.1
Earnings (loss) per share:		
Basic earnings (loss) per share	$(0.46)	$0.88
Diluted earnings (loss) per share	$(0.46)	$0.87
Weighted-average shares outstanding		
Basic	15.70	15.97
Diluted	15.70	16.15

The unaudited pro forma information reflects primarily the following pre-tax adjustments for the respective periods:

- Acquisition and integration expenses: Acquisition and integration expenses of $8.9 million incurred during the year ended December 31, 2017 have been eliminated. Pro forma net income for the year ended December 31, 2016 includes acquisition and integration expenses of $8.9 million.
- Incremental amortization expense: Pro forma net loss for the year ended December 31, 2017 includes incremental amortization expense of $2.5 million. Pro forma net income for the year ended December 31, 2016 includes incremental amortization expense of $6.3 million.
- Interest expense: Pro forma net loss for the year ended December 31, 2017 includes incremental interest expense of $2.0 million. Pro forma net income for the year ended December 31, 2016 includes incremental interest expense of $2.4 million.

A combined U.S. federal statutory and state rate of 39.0% was used to determine the after-tax impact on net income (loss) of the pro forma adjustments.

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 $320 million to $330 million, through December 31, 2019. Included in the estimate is approximately $130 million to $135 million for capital expenditures, primarily consisting of information technology infrastructure, systems integration and planning. Through December 31, 2018, the Company has incurred approximately $282 million in costs and charges, including approximately $106 million for capital expenditures.

Integration and Acquisition Expenses

During the years ended December 31, 2018, 2017 and 2016, Veritiv incurred costs and charges related primarily to: internally dedicated integration management resources, retention compensation, information technology conversion costs, rebranding, professional services and other costs to integrate its businesses. The following table summarizes the components of integration and acquisition expenses:

Table of Contents

(in millions)	Year Ended December 31, 2018	2017	2016
Integration management	$17.3	$14.5	$8.3
Retention compensation	0.5	0.2	2.5
Information technology conversion costs	8.1	8.8	6.3
Rebranding	0.0	0.5	2.4
Legal, consulting and other professional fees	0.3	1.5	2.3
Other	3.5	3.0	4.1
AAC integration and acquisition	2.1	8.0	—
Total integration and acquisition expenses	$31.8	$36.5	$25.9

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 18, Segment Information, for the impact these charges had on the Company's reportable segments.

For the years ended December 31, 2018, 2017 and 2016, the Company recognized $15.0 million, $24.4 million and $2.1 million in net gains related to the sale or exit of certain facilities, respectively. During the fourth quarter of 2018, three properties were sold as part of the Company's restructuring efforts. The Company recognized a gain on the sale of these assets of approximately $12.9 million.

As described in Note 6, Debt and Other Obligations, 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 the properties that were exited as part of the restructuring plan were classified within restructuring charges, net, on the Consolidated Statements of Operations, and totaled $11.2 million for the year ended December 31, 2018.

Other direct costs reported in the tables below include facility closing costs, actual and estimated multi-employer pension plan 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 last three fiscal years and the cumulative recorded amounts since the initiative began:

(in millions)	Total

	Severance and Related Costs	Other Direct Costs	(Gain) Loss on Sale of Assets and Other (non-cash portion)	
2018	$ 3.3	$ 22.3	$ (15.0)	$ 10.6
2017	7.5	33.6	(24.4)	16.7
2016	3.5	11.0	(2.1)	