

Core-Mark Announces Third Quarter 2017 Financial Results

November 7, 2017

- **Third Quarter Sales of \$4.3 Billion, a 7.9% Increase**
- **Total Non-Cigarette Sales Increased 18.8%**
- **Diluted EPS was \$0.29, or \$0.37 Excluding LIFO Expense (Non-GAAP) (1)**
- **Dividend Increased to \$0.10 Per Share Quarterly, or \$0.40 Per Share Annually**
- **Updated 2017 Guidance**

SOUTH SAN FRANCISCO, Calif., Nov. 07, 2017 (GLOBE NEWSWIRE) -- Core-Mark Holding Company, Inc. (NASDAQ:CORE) ("the Company"), one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America, announced financial results for the third quarter ended September 30, 2017.

"Core-Mark continues to make good progress toward our 2017 goals, but we continue to face a soft sales environment and operational challenges at two of our divisions," said Thomas B. Perkins, Chief Executive Officer. "Our focus for the remainder of the year continues to be on the execution of our key operational cost reduction initiatives as well as the execution of our core strategies."

Third Quarter Results

Net sales increased 7.9% to \$4.3 billion for the third quarter of 2017 compared to \$4.0 billion for the same period in 2016. Non-cigarette sales increased 18.8% while cigarette sales increased 3.6%. Non-cigarette sales increased due primarily to net market share gains, including our July 2017 acquisition of Farner-Bocken Company (Farner-Bocken), the addition of 7-Eleven Inc. (7-Eleven) and Wal-Mart Stores, Inc. (Walmart), and incremental food/non-food sales to existing customers. Candy sales grew 50%, driven primarily by sales to Walmart. Sales of our Food category grew 15.4% relative to the comparable period. Cigarette sales benefited from increases in cigarette manufacturers' prices and increases in cigarette excise taxes in certain jurisdictions, offset by a decline in carton sales to existing customers. In addition, both cigarette and non-cigarette sales in the third quarter this year were impacted by a soft convenience industry sales environment and by the expiration of certain distribution agreements in 2017.

Gross profit in the third quarter of 2017 increased 11.7% to \$222.2 million for the third quarter of 2017 compared to \$198.9 million for the same period in 2016. The increase in gross profit was due primarily to the addition of 7-Eleven & Walmart, the acquisition of Farner-Bocken and higher cigarette inventory holding gains, due primarily to the timing of manufacturer price increases. These increases were partially offset by the expiration of our distribution agreements with Circle K and Kroger. Remaining gross profit, a non-GAAP financial measure, increased 9.6% to \$221.6 million from \$202.2 million.

Note (1): See the reconciliation of Diluted Earnings Per Share ("Diluted EPS") to Diluted EPS excluding LIFO Expense in "Supplemental Schedule for Items Impacting Diluted EPS."

The following table reconciles remaining gross profit, a non-GAAP financial measure, to gross profit, its most comparable financial measure under U.S. GAAP:

RECONCILIATION OF GROSS PROFIT (U.S. GAAP) TO REMAINING GROSS PROFIT (NON-GAAP) (Unaudited and \$ in millions)

	For the Three Months Ended September 30,					% Change
	2017		2016			
	Amounts	% of Net Sales	Amounts	% of Net Sales		
Gross profit	\$ 222.2	5.2 %	\$ 198.9	5.0 %	11.7 %	
Cigarette inventory holding gains	(6.6)	(0.2)%	(0.4)	— %		
LIFO expense	6.0	0.1 %	3.7	0.1 %		
Remaining gross profit (Non-GAAP)	\$ 221.6	5.1 %	\$ 202.2	5.1 %	9.6 %	

The Company's operating expenses for the third quarter of 2017 were \$196.8 million compared to \$176.7 million for the same period in 2016. The increase was due primarily to the addition of Farner-Bocken and higher warehousing and distribution expenses related primarily to the servicing of 7-Eleven. Operating expenses as a percentage of net sales were 4.6% for the third quarter of 2017 compared to 4.4% for the third quarter of 2016.

Net income was \$13.7 million for the third quarter of 2017 compared to \$13.5 million for the same period in 2016. Adjusted EBITDA, a non-GAAP financial measure, was \$47.9 million for the third quarter of 2017 compared to \$39.2 million for the third quarter of 2016.

The following table reconciles Adjusted EBITDA to net income, its most comparable financial measure under U.S. GAAP:

RECONCILIATION OF NET INCOME (U.S. GAAP) TO ADJUSTED EBITDA (NON-GAAP) (Unaudited and \$ in millions)

	For the Three Months Ended September 30,		
	2017	2016	% Change

Net income	\$	13.7	\$	13.5	1.5 %
Interest expense, net ⁽¹⁾		3.8		1.5	
Provision for income taxes		8.1		6.7	
Depreciation and amortization		15.3		11.4	
LIFO expense		6.0		3.7	
Stock-based compensation expense		1.2		1.9	
Foreign currency transaction (gains) loss, net		(0.2)		0.5	
Adjusted EBITDA (Non-GAAP)	\$	47.9	\$	39.2	22.2 %

(1) Interest expense, net, is reported net of interest income.

Diluted EPS were \$0.29 for the third quarter of both 2017 and 2016. Diluted EPS excluding LIFO expense, a non-GAAP financial measure, were \$0.37 for the third quarter of 2017 compared to \$0.34 for the third quarter of 2016. See the attached "Supplemental Schedule for Items Impacting Diluted EPS" following the financial schedules for the reconciliation of Diluted EPS to Diluted EPS excluding LIFO expense.

First Nine Months of 2017

Net sales increased 8.6% to \$11.6 billion for the first nine months of 2017 compared to \$10.7 billion for the same period in 2016. Non-cigarette sales increased 13.3%, while cigarette sales increased 6.7%. Non-cigarette sales increased due primarily to net market share gains, including the acquisition of Farner-Bocken in July 2017 and Pine State Convenience (Pine State) in June 2016, the addition of 7-Eleven Inc. (7-Eleven) and Wal-Mart Stores, Inc. (Walmart), and incremental food/non-food sales to existing customers. Cigarette sales benefited from increases in cigarette manufacturers' prices and increases in cigarette excise taxes in certain jurisdictions, offset by a decline in carton sales to existing customers. In addition, both cigarette and non-cigarette sales for the first nine months of 2017 were impacted by a soft convenience industry sales environment and by the expiration of certain distribution agreements in 2017.

Gross profit increased 8.3% to \$582.3 million for the first nine months of 2017 compared to \$537.9 million for the same period in 2016. The increase in gross profit for the first nine months of 2017 was driven primarily by net market share gains, including the acquisitions of Farner-Bocken and Pine State, a shift in sales mix towards higher margin food/non-food items, and a net increase in sales to existing customers, offset by the expiration of the aforementioned distribution agreements. Cigarette inventory holding gains of \$14.1 million were higher than the \$8.4 million recognized in the same period in 2016 due primarily to the timing of manufacturer price increases. Remaining gross profit, a non-GAAP financial measure, increased 7.8% to \$581.8 million from \$539.5 million.

The following table reconciles remaining gross profit, a non-GAAP financial measure, to gross profit, its most comparable financial measure under U.S. GAAP:

RECONCILIATION OF GROSS PROFIT (U.S. GAAP) TO REMAINING GROSS PROFIT (NON-GAAP) (Unaudited and \$ in millions)

	For the Nine Months Ended September 30,						
	2017			2016			
	Amounts	% of Net Sales		Amounts	% of Net Sales	% Change	
Gross profit	\$	582.3	5.0 %	\$	537.9	5.0 %	8.3 %
Cigarette inventory holding gains		(14.1)	(0.1)%		(8.4)	(0.1)%	
Other tobacco products (OTP) tax refunds		(1.2)	— %		—	— %	
LIFO expense		14.8	0.1 %		10.0	0.1 %	
Remaining gross profit (Non-GAAP)	\$	581.8	5.0 %	\$	539.5	5.0 %	7.8 %

The Company's operating expenses for the first nine months of 2017 were \$542.6 million compared to \$478.8 million for the same period in 2016. The increase in operating expenses was due primarily to the acquisitions of Farner-Bocken and Pine State in July 2017 and June 2016, respectively, and higher warehousing and distribution expenses at two of our Western distribution centers related primarily to the onboarding and servicing of 7-Eleven. Operating expenses as a percentage of net sales were 4.7% for the first nine months of 2017 compared to 4.5% for the same period of 2016.

Net income was \$22.7 million for the first nine months of 2017 compared to \$35.5 million for the same period in 2016. Adjusted EBITDA, a non-GAAP financial measure, was \$97.6 million for the first nine months of 2017 compared to \$105.8 million for the same period in 2016.

The following table reconciles Adjusted EBITDA to net income, its most comparable financial measure under U.S. GAAP:

RECONCILIATION OF NET INCOME (U.S. GAAP) TO ADJUSTED EBITDA (NON-GAAP) (Unaudited and \$ in millions)

	For the Nine Months Ended September 30,				
	2017		2016		% Change
Net income	\$	22.7	\$	35.5	(36.1 %)
Interest expense, net ⁽¹⁾		7.7		3.2	
Provision for income taxes		11.2		20.3	
Depreciation and amortization		39.6		31.2	
LIFO expense		14.8		10.0	
Stock-based compensation expense		3.5		5.5	

Foreign currency transaction (gains) loss, net		(1.9)		0.1	
Adjusted EBITDA (Non-GAAP)	\$	97.6	\$	105.8	(7.8 %)

(1) Interest expense, net, is reported net of interest income.

Diluted EPS were \$0.49 for the first nine months of 2017 compared to \$0.76 for the same period in 2016. Diluted EPS excluding LIFO expense, a non-GAAP financial measure, were \$0.69 for the first nine months of 2017 compared to \$0.89 for the first nine months of 2016. See the attached "Supplemental Schedule for Items Impacting Diluted EPS" following the financial schedules for the reconciliation of Diluted EPS to Diluted EPS excluding LIFO expense.

Dividend

Core-Mark also announced today that its Board of Directors has approved a \$0.10 cash dividend per common share for the fourth quarter, or \$0.40 annually, an increase of 11% from the prior dividend. The dividend is payable on December 22, 2017 to stockholders of record as of the close of business on November 28, 2017.

Guidance for 2017

The Company is revising guidance for 2017 based on the outlook for the fourth quarter and updates in certain key assumptions. Annual net sales for 2017 are expected to be between \$15.7 billion and \$15.8 billion. The Company expects Adjusted EBITDA to be between \$152 million and \$156 million. Diluted earnings per share for the year are estimated to be between \$0.93 and \$0.97 and excluding LIFO expense to be \$1.20 to \$1.24. The key assumptions the Company now expects are a tax rate of 36.0% rather than 37.5% and \$20 million in LIFO expense rather than \$18 million. In addition, the Company also expects interest expense of \$10.5 million for the year and fully diluted shares outstanding to be 46.4 million. The Company's projections include cigarette inventory holding gains, but do not include candy or other significant holding gains, nor any pension settlement expenses.

Capital expenditure estimates for 2017 are expected to be approximately \$50 million, which will be utilized for expansion projects, including expenditures associated with our supply agreement with Walmart and maintenance investments.

Conference Call and Webcast Information

Core-Mark will host an earnings call on Tuesday, November 7, 2017 at 9:00 a.m. Pacific time during which management will review the results of the third quarter of 2017. The call may be accessed by dialing 1-800-588-4973 using the code 45846188. The call may also be listened to on the Company's website www.core-mark.com.

An audio replay will be available for approximately one month following the call by dialing 1-888-843-7419 using the same code provided above. The replay will also be available via webcast at www.core-mark.com for approximately 90 days following the call.

Core-Mark

Core-Mark is one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America. Founded in 1888, Core-Mark offers a full range of products, marketing programs and technology solutions to approximately 46,000 customer locations in the U.S. and Canada through 32 distribution centers (excluding two distribution facilities the Company operates as a third party logistics provider). Core-Mark services traditional convenience retailers, grocers, drug, liquor and specialty stores, and other stores that carry convenience products. For more information, please visit www.core-mark.com.

About Non-GAAP Financial Measures

This press release includes non-GAAP financial measures including remaining gross profit, Adjusted EBITDA, and Diluted EPS excluding LIFO expense. We believe these non-GAAP financial measures provide meaningful supplemental information for investors regarding the performance of our business and facilitate a meaningful period-to-period evaluation. We also believe these measures allow investors to view results in a manner similar to the method used by our management. We use these non-GAAP financial measures in order to have comparable financial results to analyze changes in our underlying business. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. These measures may be defined differently than other companies and therefore such measures may not be comparable to ours. We strongly encourage investors and stockholders to review our financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

Remaining gross profit is a measure we provide to segregate the effects of LIFO expense, cigarette inventory holding gains and other items that significantly affect the comparability of gross profit.

Adjusted EBITDA is a measure used by us to measure operating performance. Adjusted EBITDA is also among the primary measures used externally by our investors, analysts and peers in our industry for purposes of valuation and comparing our results to other companies. Adjusted EBITDA is equal to net income adding back net interest expense, provision for income taxes, depreciation and amortization, LIFO expense, stock-based compensation expense, and net foreign currency transaction gains or losses.

Diluted EPS excluding LIFO expense is a measure used by us to measure financial performance. Diluted EPS is also among the primary measures used externally by our investors, analysts and peers in our industry for purposes of valuation and comparing our results to other companies.

We do not provide reconciliations for non-GAAP estimates on a forward-looking basis (including the information under ("Guidance for 2017" above) where we are unable to provide a meaningful calculation or estimation of reconciling items and the information is not available without unreasonable effort. This is due to the inherent difficulty of forecasting the timing or amount of various items that would impact the most directly comparable forward-looking GAAP financial measure, that have not yet occurred, are out of the company's control and/or cannot be reasonably predicted. For the same reasons, we are unable to address the probable significance of the unavailable information. Forward-looking non-GAAP financial measures provided without the most directly comparable GAAP financial measures may vary materially from the corresponding GAAP financial measures.

The tables in this press release contain more details on the GAAP financial measures that are most directly comparable to non-GAAP financial measures and the related reconciliations between these financial measures.

Forward-Looking Statements

Statements in this press release that are not statements of historical fact are forward-looking statements made pursuant to the safe-harbor provisions of the Securities Exchange Act of 1934 and the Securities Act of 1933. These statements include statements regarding our guidance for 2017 net sales, Adjusted

EBITDA, diluted EPS, diluted EPS excluding LIFO expense, capital expenditures and related disclosures. Forward-looking statements in some cases can be identified by the use of words such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “seek,” “anticipate,” “estimate,” “believe,” “could,” “would,” “project,” “predict,” “continue,” “plan,” “propose” or other similar words or expressions. Forward-looking statements are made only as of the date of this press release and are based on our current intent, beliefs, plans and expectations. They involve risks and uncertainties that could cause actual results to differ materially from historical results or those described in or implied by such forward-looking statements.

Factors that might cause or contribute to such differences include, but are not limited to, risks and costs associated with efforts to grow our business through expansion activities; our dependence on qualified labor, our senior management and other key personnel; our dependence on the convenience retail industry for our revenues; competition in our distribution markets; the dependence of some of our distribution centers on a few relatively large customers; manufacturers or retail customers adopting direct distribution channels; fuel and other transportation costs; the low-margin nature of cigarette and consumable goods distribution; our reliance on manufacturer discount and incentive programs and cigarette excise stamping allowances; our dependence on relatively few suppliers; risks and costs associated with efforts to grow our business through acquisitions; product liability and counterfeit product claims and manufacturer recalls of products; our ability to achieve the expected benefits of implementation of marketing initiatives; failing to maintain our brand and reputation; failure or disruptions of our information technology systems; unexpected outcomes in legal proceedings; attempts by unions to organize our employees; increasing expenses related to employee health benefits; increasing labor costs related to contract employees; changes to minimum wage laws; failure to comply with governmental regulations or substantial changes to governmental regulations; earthquake and natural disaster damage; increases in the number or severity of insurance and claims expenses; declining cigarette sales volumes; legislation and other matters negatively affecting the cigarette and tobacco industry; increases in excise taxes or reduction in credit terms by taxing jurisdictions; potential liabilities associated with sales of cigarettes and other tobacco products; changes to federal, state or provincial income tax legislation; changes in the funding of our pension plans; reduction in the payment of dividends; currency exchange rate fluctuations; our ability to borrow additional capital; restrictive covenants in our Credit Facility; and changes to accounting rules or regulations. Refer to the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 1, 2017 and Part II, Item 1A, “Risk Factors” of any quarterly report on Form 10-Q subsequently filed by us for a more comprehensive discussion of these and other risk factors. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share and per share data)
(Unaudited)

	September 30, 2017	December 31, 2016
Current assets:		
Cash and cash equivalents	\$ 55.8	\$ 26.4
Restricted cash	—	15.3
Accounts receivable, net of allowance for doubtful accounts of \$7.1 as of September 30, 2017 and December 31, 2016	458.6	365.9
Other receivables, net	101.1	106.5
Inventories, net	626.7	596.6
Deposits and prepayments	54.6	82.8
Total current assets ⁽¹⁾	1,296.8	1,193.5
Property and equipment, net	250.4	194.7
Goodwill	79.4	36.0
Other intangible assets, net	58.7	41.5
Other non-current assets, net ⁽¹⁾	23.7	26.5
Total assets ⁽¹⁾	\$ 1,709.0	\$ 1,492.2
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 173.2	\$ 119.2
Book overdrafts	45.4	37.9
Cigarette and tobacco taxes payable	240.8	259.8
Accrued liabilities	141.4	131.8
Total current liabilities ⁽¹⁾	600.8	548.7
Long-term debt	500.3	347.7
Deferred income taxes ⁽¹⁾	27.6	25.3
Other long-term liabilities	14.1	11.5
Claims liabilities	26.3	26.8
Pension liabilities	2.3	2.4
Total liabilities ⁽¹⁾	1,171.4	962.4
Stockholders' equity:		
Common stock, \$0.01 par value (100,000,000 shares authorized, 52,397,668 and 52,227,511 shares issued; 46,191,446 and 46,152,958 shares outstanding at September 30, 2017 and December 31, 2016, respectively)	0.5	0.5
Additional paid-in capital	275.3	275.5
Treasury stock at cost (6,206,222 and 6,074,553 shares of common stock at September 30, 2017 and December 31, 2016, respectively)	(74.3)	(70.7)

Retained earnings	348.9	338.7
Accumulated other comprehensive loss	(12.8)	(14.2)
Total stockholders' equity	537.6	529.8
Total liabilities and stockholders' equity ⁽¹⁾	\$ 1,709.0	\$ 1,492.2

(1) The Company adopted ASU No. 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*, as of January 1, 2017. Certain amounts as of December 31, 2016 have been reclassified to reflect the effects of the adoption.

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net sales	\$ 4,310.7	\$ 3,993.9	\$ 11,615.6	\$ 10,692.6
Cost of goods sold	4,088.5	3,795.0	11,033.3	10,154.7
Gross profit	222.2	198.9	582.3	537.9
Warehousing and distribution expenses	137.4	117.4	370.1	315.0
Selling, general and administrative expenses	57.0	57.6	166.5	160.0
Amortization of intangible assets	2.4	1.7	6.0	3.8
Total operating expenses	196.8	176.7	542.6	478.8
Income from operations	25.4	22.2	39.7	59.1
Interest expense	(3.9)	(1.5)	(7.9)	(3.3)
Interest income	0.1	—	0.2	0.1
Foreign currency transaction gains (loss), net	0.2	(0.5)	1.9	(0.1)
Income before income taxes	21.8	20.2	33.9	55.8
Provision for income taxes	(8.1)	(6.7)	(11.2)	(20.3)
Net income	\$ 13.7	\$ 13.5	\$ 22.7	\$ 35.5
Basic net income per common share ⁽¹⁾	\$ 0.29	\$ 0.29	\$ 0.49	\$ 0.77
Diluted net income per common share ⁽¹⁾	\$ 0.29	\$ 0.29	\$ 0.49	\$ 0.76
Basic weighted-average shares	46.3	46.3	46.3	46.3
Diluted weighted-average shares	46.4	46.5	46.4	46.5
Dividends declared and paid per common share	\$ 0.09	\$ 0.08	\$ 0.27	\$ 0.24

(1) Basic and diluted earnings per share are calculated based on unrounded actual amounts.

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended	
	September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 22.7	\$ 35.5
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
LIFO and inventory provisions	14.6	10.0
Amortization of debt issuance costs	0.6	0.3
Stock-based compensation expense	3.5	5.5
Bad debt expense, net	0.9	1.6
Depreciation and amortization	39.6	31.2

Foreign currency (gains) loss, net	(1.9)	0.1
Deferred income taxes	2.1	3.6
Pension settlement expenses	—	1.2
Changes in operating assets and liabilities:		
Accounts receivable, net	(48.7)	(48.6)
Other receivables, net	6.2	(39.2)
Inventories, net	(2.7)	(74.3)
Deposits, prepayments and other non-current assets	36.3	(31.6)
Accounts payable	53.5	(25.9)
Cigarette and tobacco taxes payable	(23.0)	36.2
Pension, claims, accrued and other long-term liabilities	5.6	39.3
Excess tax deductions associated with stock-based compensation	—	(2.8)
Net cash provided by (used in) operating activities	<u>109.3</u>	<u>(57.9)</u>
Cash flows from investing activities:		
Acquisition of business	(169.0)	(88.4)
Change in restricted cash	15.3	0.5
Additions to property and equipment, net	(44.0)	(44.5)
Capitalization of software and related development costs	(3.4)	(5.1)
Net cash used in investing activities	<u>(201.1)</u>	<u>(137.5)</u>
Cash flows from financing activities:		
Borrowings under revolving credit facility	1,273.9	1,164.8
Repayments under revolving credit facility	(1,135.9)	(949.9)
Payments of financing costs	(1.8)	(1.5)
Payments on capital leases	(1.5)	(1.8)
Dividends paid	(12.6)	(11.3)
Repurchases of common stock	(3.6)	(7.2)
Proceeds from exercise of common stock options	—	0.3
Tax withholdings related to net share settlements of restricted stock units	(3.6)	(5.4)
Excess tax deductions associated with stock-based compensation	—	2.8
Increase in book overdrafts	7.4	13.7
Net cash provided by financing activities	<u>122.3</u>	<u>204.5</u>
Effects of changes in foreign exchange rates	<u>(1.1)</u>	<u>1.3</u>
Change in cash and cash equivalents	29.4	10.4
Cash and cash equivalents, beginning of period	26.4	12.5
Cash and cash equivalents, end of period	<u>\$ 55.8</u>	<u>\$ 22.9</u>
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes, net	\$ 13.0	\$ 14.4
Interest	\$ 6.5	\$ 2.3
Non-cash capital lease obligations incurred	\$ 0.7	\$ 0.2
Non-cash indemnification holdback	\$ 5.0	\$ —
Unpaid property and equipment purchases included in accrued liabilities	\$ 0.3	\$ 1.3

(1) The Company adopted ASU 2016-09, *Compensation - Stock Compensation: Topic 718: Improvements to Employee Share-Based Payment Accounting*, as of January 1, 2017. As a result of the adoption, excess tax benefits are included in operating activities rather than in financing activities.

CORE-MARK HOLDING COMPANY, INC. AND SUBSIDIARIES
RECONCILIATION OF DILUTED EARNINGS PER SHARE (U.S. GAAP) TO DILUTED EARNINGS PER SHARE
EXCLUDING LIFO EXPENSE (NON-GAAP) AND
SUPPLEMENTAL SCHEDULE FOR ITEMS IMPACTING DILUTED EPS
(In millions, except per share data)
(Unaudited)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017 (a)(b)	2016 (a)(b)	% Change	2017 (a)(b)	2016 (a)(b)	% Change
Net income	\$ 13.7	\$ 13.5	1.5 %	\$ 22.7	\$ 35.5	(36.1 %)
Diluted shares	46.4	46.5		46.4	46.5	
Diluted EPS	\$ 0.29	\$ 0.29	— %	\$ 0.49	\$ 0.76	(35.5 %)
LIFO expense	0.08	0.05		0.20	0.13	
Diluted EPS excluding LIFO expense (Non-GAAP)	<u>\$ 0.37</u>	<u>\$ 0.34</u>	8.8 %	<u>\$ 0.69</u>	<u>\$ 0.89</u>	(22.5 %)

Additional Items Impacting Diluted EPS:

Cigarette inventory holding gains ⁽¹⁾	\$	0.09	\$	0.01	\$	0.19	\$	0.12
Business expansion and integration costs ⁽²⁾		(0.01)		(0.02)		(0.05)		(0.06)
Legacy legal settlement ⁽³⁾		—		—		—		0.03
Pension liability settlement ⁽⁴⁾		—		(0.02)		—		(0.02)
Foreign exchange (loss)/gains ⁽⁵⁾		—		(0.01)		0.02		—
Net OTP tax items ⁽⁶⁾		—		—		0.01		—
Tax Items ⁽⁷⁾		0.01		0.02		0.04		0.02

(a) Amounts and percentages have been rounded for presentation purposes and might differ from unrounded results. Diluted EPS and Diluted EPS excluding LIFO expense (Non-GAAP) are calculated based on unrounded actual amounts.

(b) The per share impacts of the above items were calculated using a tax rate of 38.8% for the three and nine months ended September 30, 2017, versus 38.4% and 38.3% for the same periods in 2016.

(1) Cigarette inventory holding gains

Cigarette inventory holding gains were \$6.6 million and \$14.1 million for the three and nine months ended September 30, 2017, respectively, versus \$0.4 and \$8.4 million for the three and nine months ended September 30, 2016.

(2) Business expansion and integration costs

During the three and nine months ended September 30, 2017, the Company incurred approximately \$0.6 and \$4.1 million, respectively, in identifiable business integration expenses due primarily to the onboarding of Walmart and acquisition of Farner-Bocken Company. During the three and nine months ended September 30, 2016, the Company incurred approximately \$1.8 million and \$4.6 million, respectively, of identifiable business integration expenses related to the acquisition of Pine State, onboarding of Murphy U.S.A. and 7-Eleven, and a new building in Las Vegas.

(3) Legacy legal settlement

During the nine months ended September 30, 2016, the Company recorded a gain of \$2.0 million, net of legal costs, related to the settlement of a legal proceeding with Sonitrol Corporation.

(4) Pension liability settlement

During the three and nine months ended September 30, 2016 the Company recorded a pension settlement charge of \$1.2 million related to lump sum payments made to plan participants in lieu of future pension benefits.

(5) Foreign exchange (loss)/gains

During the nine months ended September 30, 2017, the Company recognized foreign exchange transaction gains of \$1.9 million. During the three months ended September 30, 2016, the Company recognized a foreign exchange transaction loss of \$0.5 million.

(6) Net OTP tax items

During the nine months ended September 30, 2017, the Company recognized other tobacco products tax items, net of fees, of \$1.0 million related to prior years' taxes.

(7) Tax items

During the three and nine months ended September 30, 2017, the Company recognized a net income tax benefit of \$0.4 million related primarily to adjustments of prior years' estimates. During the nine months ended September 30, 2017, the Company recognized an income tax benefit of \$1.9 million, including the aforementioned prior period estimates, of which \$1.5 million was due to the excess tax benefit from share-based award payments under ASU 2016-09, which the Company adopted in the first quarter of 2017. During both the three and nine months ended September 30, 2016, the Company recognized a net income tax benefit of \$1.1 million related primarily to adjustments of prior years' estimates.

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Source: Core-Mark Holding Company, Inc.