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MASONITE INTERNATIONAL CORP

Form 10-Q

May 02, 2019

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door:Customer iso4217:USD door:facility

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

or

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

For the transition period from _____ to _____

Commission File Number: 001-11796

Masonite International Corporation

(Exact name of registrant as specified in its charter)

British Columbia, Canada

(State or other jurisdiction of incorporation or organization)

98-0377314

(I.R.S. Employer Identification No.)

2771 Rutherford Road

Concord, Ontario L4K 2N6 Canada

(Address of principal executive offices)

(800) 895-2723

(Registrant's telephone number, including area code)

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

Common Stock (no par value) DOOR New York Stock Exchange

(Title of class) (Trading symbol) (Name of exchange on which registered)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

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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 Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

The registrant had outstanding 25,146,479 shares of Common Stock, no par value, as of April 29, 2019.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the federal securities laws, including, without limitation, statements concerning the conditions in our industry, our operations, our economic performance and financial condition, including, in particular, statements relating to our business and growth strategy and product development efforts under "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements include all statements that do not relate solely to historical or current facts and can be identified by the use of words such as "may," "might," "will," "should," "estimate," "project," "plan," "anticipate," "expect," "intend," "outlook," "believe" and other similar expressions. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based on estimates and assumptions by our management that, although we believe to be reasonable, are inherently uncertain and subject to a number of risks and uncertainties. These risks and uncertainties include, without limitation, those identified under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 30, 2018, subsequent reports on Form 10-Q, and elsewhere in this Quarterly Report.

The following list represents some, but not necessarily all, of the factors that could cause actual results to differ from historical results or those anticipated or predicted by these forward-looking statements:

- downward trends in our end markets and in economic conditions;
- reduced levels of residential new construction; residential repair, renovation and remodeling; and non-residential building construction activity due to increases in mortgage rates, changes in mortgage interest deductions and related tax changes and reduced availability of financing;
- competition;
- the continued success of, and our ability to maintain relationships with, certain key customers in light of customer concentration and consolidation;
- new tariffs and evolving trade policy between the United States and other countries, including China;
- increases in prices of raw materials and fuel;
- increases in labor costs, the availability of labor, or labor relations (i.e., disruptions, strikes or work stoppages);
- our ability to manage our operations including anticipating demand for our products, managing disruptions in our operations, managing manufacturing realignments (including related restructuring charges), managing customer credit risk and successful integration of acquisitions;
 - the continuous operation of our information technology and enterprise resource planning systems and management of potential cyber security threats and attacks;
- our ability to generate sufficient cash flows to fund our capital expenditure requirements, to meet our pension obligations, and to meet our debt service obligations, including our obligations under our senior notes and our ABL Facility;
- political, economic and other risks that arise from operating a multinational business;
- uncertainty relating to the United Kingdom's anticipated exit from the European Union;
- fluctuating exchange and interest rates;
- our ability to innovate and keep pace with technological developments;
- product liability claims and product recalls;
- retention of key management personnel;
- environmental and other government regulations, including the FCPA, and any changes in such regulations; and
- limitations on operating our business as a result of covenant restrictions under our existing and future indebtedness, including our senior notes and our ABL Facility.

We caution you that the foregoing list of important factors is not exclusive. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this Quarterly Report may not in fact occur. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Table of Contents**PART I – FINANCIAL INFORMATION****Item 1. Unaudited Financial Statements****MASONITE INTERNATIONAL CORPORATION****Condensed Consolidated Statements of Comprehensive Income**

(In thousands of U.S. dollars, except per share amounts)

(Unaudited)

	Three Months Ended March 31, April 1, 2019 2018	
Net sales	\$530,311	\$517,879
Cost of goods sold	418,207	412,450
Gross profit	112,104	105,429
Selling, general and administration expenses	78,100	68,211
Restructuring costs	3,740	—
Asset impairment	10,625	—
Loss on disposal of subsidiaries	4,605	—
Operating income	15,034	37,218
Interest expense, net	11,127	8,756
Other income, net of expense	(1,130)	(22)
Income before income tax expense	5,037	28,484
Income tax expense	58	6,701
Net income	4,979	21,783
Less: net income attributable to non-controlling interests	1,190	957
Net income attributable to Masonite	\$3,789	\$20,826
Basic earnings per common share attributable to Masonite	\$0.15	\$0.74
Diluted earnings per common share attributable to Masonite	\$0.15	\$0.73
Comprehensive income:		
Net income	\$4,979	\$21,783
Other comprehensive income:		
Foreign currency translation gain	13,991	5,774
Amortization of actuarial net losses	404	300
Income tax expense related to other comprehensive income	(93)	(100)
Other comprehensive income, net of tax:	14,302	5,974
Comprehensive income	19,281	27,757
Less: comprehensive income attributable to non-controlling interests	1,406	714
Comprehensive income attributable to Masonite	\$17,875	\$27,043

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**MASONITE INTERNATIONAL CORPORATION****Condensed Consolidated Balance Sheets**

(In thousands of U.S. dollars, except share amounts)

(Unaudited)

	March 31, 2019	December 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$79,642	\$ 115,656
Restricted cash	10,985	10,485
Accounts receivable, net	291,298	283,580
Inventories, net	255,499	250,407
Prepaid expenses	31,432	32,970
Income taxes receivable	3,181	3,495
Total current assets	672,037	696,593
Property, plant and equipment, net	598,064	609,753
Operating lease right-of-use assets	126,600	—
Investment in equity investees	14,372	13,474
Goodwill	182,898	180,297
Intangible assets, net	208,947	212,045
Deferred income taxes	29,451	28,509
Other assets	39,347	37,794
Total assets	\$1,871,716	\$ 1,778,465
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$95,523	\$ 96,362
Accrued expenses	147,922	147,345
Income taxes payable	2,643	1,599
Total current liabilities	246,088	245,306
Long-term debt	796,586	796,398
Deferred income taxes	79,302	82,122
Long-term operating lease liabilities	114,426	—
Other liabilities	24,944	32,334
Total liabilities	1,261,346	1,156,160
Commitments and Contingencies (Note 10)		
Equity:		
Share capital: unlimited shares authorized, no par value, 25,314,850 and 25,835,664 shares issued and outstanding as of March 31, 2019, and December 30, 2018, respectively	567,490	575,207
Additional paid-in capital	214,294	218,988
Accumulated deficit	(45,852)	(30,836)
Accumulated other comprehensive loss	(138,833)	(152,919)
Total equity attributable to Masonite	597,099	610,440
Equity attributable to non-controlling interests	13,271	11,865
Total equity	610,370	622,305
Total liabilities and equity	\$1,871,716	\$ 1,778,465

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**MASONITE INTERNATIONAL CORPORATION**
Condensed Consolidated Statements of Changes in Equity

(In thousands of U.S. dollars, except share amounts)

(Unaudited)

	Three Months Ended	
	March	April 1,
	31, 2019	2018
Total equity, beginning of period	\$622,305	\$735,902
Share capital:		
Beginning of period	575,207	624,403
Common shares issued for delivery of share based awards	6,152	9,864
Common shares issued under employee stock purchase plan	517	516
Common shares repurchased and retired	(14,386)	(15,229)
End of period	567,490	619,554
Additional paid-in capital:		
Beginning of period	218,988	226,528
Share based compensation expense	2,680	3,065
Common shares issued for delivery of share based awards	(6,152)	(9,864)
Common shares withheld to cover income taxes payable due to delivery of share based awards	(1,090)	(2,422)
Common shares issued under employee stock purchase plan	(132)	(79)
End of period	214,294	217,228
Accumulated deficit:		
Beginning of period	(30,836)	(18,150)
Net income attributable to Masonite	3,789	20,826
Common shares repurchased and retired	(18,805)	(28,962)
End of period	(45,852)	(26,286)
Accumulated other comprehensive loss:		
Beginning of period	(152,919)	(110,152)
Other comprehensive income attributable to Masonite, net of tax	14,086	6,217
End of period	(138,833)	(103,935)
Equity attributable to non-controlling interests:		
Beginning of period	11,865	13,273
Net income attributable to non-controlling interests	1,190	957
Other comprehensive income (loss) attributable to non-controlling interests, net of tax	216	(243)
Dividends to non-controlling interests	—	(975)
End of period	13,271	13,012
Total equity, end of period	\$610,370	\$719,573
Common shares outstanding:		
Beginning of period	25,835,664	28,369,877
Common shares issued for delivery of share based awards	116,252	166,248
Common shares issued under employee stock purchase plan	9,036	7,386
Common shares repurchased and retired	(646,102)	(691,783)
End of period	25,314,850	27,851,728

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**MASONITE INTERNATIONAL CORPORATION**
Condensed Consolidated Statements of Cash Flows

(In thousands of U.S. dollars)

(Unaudited)

	Three Months	
	Ended	
	March 31,	April 1,
	2019	2018
Cash flows from operating activities:		
Net income	\$4,979	\$21,783
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Loss on disposal of subsidiaries	4,605	—
Depreciation	18,285	13,934
Amortization	7,597	6,585
Share based compensation expense	2,680	3,065
Deferred income taxes	(3,708)	3,619
Unrealized foreign exchange loss	272	692
Share of income from equity investees, net of tax	(898)	(311)
Pension and post-retirement funding, net of expense	(1,661)	(1,424)
Non-cash accruals and interest	(562)	382
Loss on sale of property, plant and equipment	2,913	612
Asset impairment	10,625	—
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(6,587)	(16,629)
Inventories	(5,902)	(1,644)
Prepaid expenses	1,986	(176)
Accounts payable and accrued expenses	(16,193)	(1,969)
Other assets and liabilities	80	(1,326)
Net cash flow provided by operating activities	18,511	27,193
Cash flows from investing activities:		
Additions to property, plant and equipment	(20,422)	(21,801)
Cash used in acquisitions, net of cash acquired	(219)	(96,309)
Cash disposed in sale of subsidiaries, net of cash proceeds	(230)	—
Proceeds from sale of property, plant and equipment	88	—
Other investing activities	(418)	(862)
Net cash flow used in investing activities	(21,201)	(118,972)
Cash flows from financing activities:		
Repayments of long-term debt	(6)	(102)
Tax withholding on share based awards	(1,090)	(2,422)
Distributions to non-controlling interests	—	(975)
Repurchases of common shares	(33,191)	(44,191)
Net cash flow used in financing activities	(34,287)	(47,690)
Net foreign currency translation adjustment on cash	1,463	(224)
Decrease in cash, cash equivalents and restricted cash	(35,514)	(139,693)
Cash, cash equivalents and restricted cash, beginning of period	126,141	188,564
Cash, cash equivalents and restricted cash, at end of period	\$90,627	\$48,871

See accompanying notes to the condensed consolidated financial statements.

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MASONITE INTERNATIONAL CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business Overview and Significant Accounting Policies

Unless we state otherwise or the context otherwise requires, references to "Masonite," "we," "our," "us" and the "Company" in these notes to the condensed consolidated financial statements refer to Masonite International Corporation and its subsidiaries.

Description of Business

Masonite International Corporation is one of the largest manufacturers of doors in the world, with significant market share in both interior and exterior door products. Masonite operates 67 manufacturing locations in 8 countries and sells doors to customers throughout the world, including the United States, Canada and the United Kingdom.

Basis of Presentation

We prepare these unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP") and applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments consisting of normal and recurring entries considered necessary for a fair presentation of the results for the interim periods presented have been included. All significant intercompany balances and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts in the financial statements and accompanying notes. These estimates are based on information available as of the date of the unaudited condensed consolidated financial statements; therefore, actual results could differ from those estimates. Interim results are not necessarily indicative of the results for a full year.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2018, as filed with the SEC. Our fiscal year is the 52- or 53-week period ending on the Sunday closest to December 31. In a 52-week year, each fiscal quarter consists of 13 weeks. For ease of disclosure, the 13-week periods are referred to as three-month periods. Certain prior year amounts have been reclassified to conform to the current basis of presentation, related to discontinued operations, as described in the 2018 Form 10-K.

Changes in Accounting Standards and Policies

There have been no changes in the significant accounting policies from those that were disclosed in the fiscal year 2018 audited consolidated financial statements, other than as noted below.

Adoption of Recent Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-15, "Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract." This ASU amended the definition of a hosting arrangement and required a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 "Intangibles—Goodwill and Other—Internal-Use Software" to determine which implementation costs to capitalize as assets or expense as incurred. Capitalized implementation costs related to a hosting arrangement that is a service contract are amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. The guidance was effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods; early adoption was permitted and either retrospective or prospective application was required for all implementation costs incurred after the date of adoption. We have early adopted this guidance prospectively as of December 31, 2018, the beginning of fiscal year 2019, and the adoption did not have any material impact on our results of operations.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment," which amended ASC 350 "Intangibles—Goodwill and Other." This ASU simplified the accounting for goodwill impairments and

allowed a goodwill impairment charge to be based upon the amount of a reporting unit's carrying value in excess of its fair value; thus, eliminating what is currently known as "Step 2" under the current guidance. This ASU was effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods; early adoption

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Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)**

was permitted and prospective application was required. We have early adopted this guidance prospectively as of December 31, 2018, the beginning of fiscal year 2019, and the adoption did not have a material impact on our financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which replaces the existing guidance in ASC 840, "Leases." This standard was supplemented by ASUs 2018-01, 2018-10, 2018-11 and 2019-01. The updated standards aim to increase transparency and comparability among organizations by requiring lessees to recognize right-of-use ("ROU") assets and lease liabilities on the balance sheet and requiring disclosure of key information about leasing arrangements. The transition option in ASU 2018-11 allows entities to not apply the standards to the comparative periods they present in their financial statements in the year of adoption. These ASUs were effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods; early adoption was permitted. We have elected to adopt these standards utilizing the modified retrospective method as of December 31, 2018, with the package of practical expedients permitted under the transition guidance of the new standards, which allowed us to not reassess whether any expired or existing contracts contain leases, to carry forward the historical lease classification and permitted us to exclude from our assessment initial direct costs for any existing leases. Additionally, we have elected to utilize the practical expedient which allows us to account for each separate lease component and the non-lease components associated with that lease component as a single lease component. We also made an accounting policy election to exclude leases with an initial term of twelve months or less from our transition adjustment. Lease payments are recognized in the consolidated statements of comprehensive income on a straight-line basis over the lease term.

The adoption of the standard resulted in the recognition of a ROU asset and lease liability for our operating leases of \$108.0 million and \$113.9 million, respectively, as of December 31, 2018. Our operating leases include leases for real estate and machinery and equipment and we have no material finance leases. The difference between the opening ROU asset and lease liability amounts was due to the reclassification of the existing deferred rent liability balance against the opening ROU assets to which it related. The standard did not materially affect our results of operations, liquidity or compliance with our debt covenants under our current agreements. Additional transition disclosures, including our updated lease accounting policy, are included in Note 6.

Other Recent Accounting Pronouncements not yet Adopted

In August 2018, the FASB issued ASU 2018-14, "Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans," which amended ASC 715, "Compensation—Retirement Benefits." This standard is applicable for employers that sponsor defined benefit pension or other postretirement plans, and eliminates disclosures no longer considered cost beneficial, clarifies specific disclosure requirements for entities that provide aggregate disclosures for two or more plans and adds requirements for explanations for significant gains and losses related to changes in benefit obligations. The guidance will be effective for annual periods ending after December 15, 2020; early adoption is permitted and retrospective application is required. We are in the process of evaluating this guidance to determine the impact it may have on our financial statements.

2. Acquisitions and Disposition*2018 Acquisitions*

On November 1, 2018, we completed the acquisition of the operating assets of Bridgewater Wholesalers Inc. ("BWI") for cash considerations of \$22.3 million, net of cash acquired. BWI is headquartered in Branchburg, New Jersey, and is a fabricator and distributor of residential interior and exterior door systems, supporting customers in the Mid-Atlantic and Northeastern United States. Their product offerings include residential interior and exterior doors, commercial doors and hardware as well as value added pre-finishing services. The excess purchase price over the fair value of net assets acquired of \$3.7 million was allocated to goodwill. The goodwill principally represents anticipated synergies to be gained from the integration into our existing North American Residential business and the goodwill is

deductible for tax purposes.

On June 1, 2018, we completed the acquisition of the operating assets of the wood door companies of AADG, Inc., including the brands Graham Manufacturing Corporation and The Maiman Company (collectively, "Graham & Maiman"). We acquired the operating assets of Graham & Maiman for cash consideration of \$39.0 million. Graham & Maiman are based in Mason City, Iowa, and Springfield, Missouri. Graham & Maiman provide the non-residential

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Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(Unaudited)

construction industry with a full range of architectural premium and custom grade flush wood doors, architectural stile and rail wood doors, thermal-fused flush wood doors and wood door frames. The excess purchase price over the fair value of net assets acquired of \$11.0 million was allocated to goodwill. The goodwill principally represents anticipated synergies to be gained from the integration into our existing Architectural business and the goodwill is deductible for tax purposes.

On January 29, 2018, we completed the acquisition of DW3 Products Holdings Limited ("DW3"), a leading UK provider of high quality premium door solutions and window systems, supplying products under brand names such as Solidor, Residor, Nicedor and Residence. We acquired 100% of the equity interests in DW3 for cash consideration of \$96.3 million, net of cash acquired. DW3 is based in Stoke-on-Trent and Gloucester, England, and their online quick ship capabilities and product portfolio both complement and expand the strategies we are pursuing with our business. The excess purchase price over the fair value of net assets acquired of \$33.6 million was allocated to goodwill. The goodwill principally represents anticipated synergies to be gained from the integration into our existing United Kingdom business and the goodwill is not deductible for tax purposes.

The fair value of assets acquired and liabilities assumed in the 2018 acquisitions are as follows:

<i>(In thousands)</i>	BWI	Graham & Maiman	DW3	Total 2018 Acquisitions
Accounts receivable	\$9,215	\$—	\$8,590	\$ 17,805
Inventory	10,736	6,090	5,059	21,885
Property, plant and equipment	2,222	19,557	8,196	29,975
Goodwill	3,739	10,996	33,623	48,358
Intangible assets	2,970	2,750	62,873	68,593
Accounts payable and accrued expenses	(6,816)	(426)	(10,418)	(17,660)
Deferred income taxes	—	—	(11,546)	(11,546)
Other assets and liabilities, net	240	—	(68)	172
Cash consideration, net of cash acquired	\$22,306	\$38,967	\$96,309	\$ 157,582

During the three months ended March 31, 2019, we finalized the purchase price allocation for the BWI acquisition, which resulted in a \$0.4 million increase in goodwill due to final working capital adjustments. The fair values of intangible assets acquired are based on management's estimates and assumptions including variations of the income approach, the cost approach and the market approach. The intangible assets acquired are not expected to have any residual value. The gross contractual value of acquired trade receivables was \$9.3 million and \$9.1 million for the BWI and DW3 acquisitions, respectively.

Intangible assets acquired from the 2018 acquisitions consist of the following:

<i>(In thousands)</i>	BWI	Expected Useful Life (Years)	Graham & Maiman	Expected Useful Life (Years)	DW3	Expected Useful Life (Years)
Customer relationships	\$1,200	10.0	\$ 2,400	10.0	\$49,554	10.0
Trademarks and trade names	900	10.0	350	1.5	11,785	10.0
Patents	—		—		1,420	10.0
Other	870	2.2	—		114	3.0
Total intangible assets acquired	\$2,970		\$ 2,750		\$62,873	

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)**

The following schedule represents the amounts of net sales and net income (loss) attributable to Masonite from the 2018 Acquisitions which have been included in the consolidated statements of comprehensive income for the periods indicated subsequent to the acquisition date:

	Three Months Ended March 31, 2019			
	BWI	Graham & Maiman	DW3	Total 2018 Acquisitions
<i>(In thousands)</i>				
Net sales	\$21,943	\$ 16,656	\$ 19,662	\$ 58,261
Net income attributable to Masonite	78	220	2,857	3,155
	Three Months Ended April 1, 2018			
<i>(in thousands)</i>	DW3			
Net sales	\$ 11,198			
Net income attributable to Masonite	948			

Pro Forma Information

The following unaudited pro forma financial information represents the consolidated financial information as if the acquisitions had been included in our consolidated results beginning on the first day of the fiscal year prior to their respective acquisition dates. The pro forma results have been calculated after adjusting the results of the acquired entities to remove intercompany transactions and transaction costs incurred and to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on the first day of the fiscal year prior to the respective acquisitions, together with the consequential tax effects. The pro forma results do not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the acquisitions; the costs to combine the companies' operations; or the costs necessary to achieve these costs savings, operating synergies and revenue enhancements. The pro forma results do not necessarily reflect the actual results of operations of the combined companies' under our ownership and operation.

	Three Months Ended April 1, 2018					
	Masonite	BWI	Graham & Maiman	DW3	Intercompany Eliminations	Pro Forma
<i>(In thousands, except per share amounts)</i>						
Net sales	\$517,879	23,060	\$ 15,599	\$4,918	\$ (11,109)	\$ 550,347
Net income attributable to Masonite	20,826	130	202	81		21,239
Basic earnings per common share	\$0.74					\$0.75
Diluted earnings per common share	0.73					0.74

Disposition

On March 21, 2019, we completed the sale of all of the capital stock of Performance Doorset Solutions Limited ("PDS") for nominal consideration. We have had and will continue to have no continuing involvement with PDS subsequent to the sale, and the purchasers are not considered to be a related party. The disposition of this business

resulted in a loss on disposal of subsidiaries of \$4.6 million, which was recognized during the first quarter of 2019 in the Europe segment. The total charge consists of \$3.6 million relating to the write-off of the net assets sold and other professional fees and \$1.0 million relating to the recognition of the cumulative translation adjustment out of accumulated other comprehensive income (loss).

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Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(Unaudited)**3. Accounts Receivable**

Our customers consist mainly of wholesale distributors, dealers, homebuilders and retail home centers. Our ten largest customers accounted for 52.6% and 54.6% of total accounts receivable as of March 31, 2019, and December 30, 2018, respectively. Our largest customer, The Home Depot, Inc., accounted for more than 10% of the consolidated gross accounts receivable balance as of March 31, 2019, and December 30, 2018. The allowance for doubtful accounts balance was \$1.9 million and \$2.1 million as of March 31, 2019, and December 30, 2018, respectively.

We maintain an accounts receivable sales program with a third party (the "AR Sales Program"). Under the AR Sales Program, we can transfer ownership of eligible trade accounts receivable of certain customers. Receivables are sold outright to a third party that assumes the full risk of collection, without recourse to us in the event of a loss. Transfers of receivables under this program are accounted for as sales. Proceeds from the transfers reflect the face value of the accounts receivable less a discount. Receivables sold under the AR Sales Program are excluded from trade accounts receivable in the condensed consolidated balance sheets and are included in cash flows from operating activities in the condensed consolidated statements of cash flows. The discounts on the sales of trade accounts receivable sold under the AR Sales Program were not material for any of the periods presented and were recorded in selling, general and administration expense within the condensed consolidated statements of comprehensive income.

4. Inventories

The amounts of inventory on hand were as follows as of the dates indicated:

<i>(In thousands)</i>	March 31, December 30,	
	2019	2018
Raw materials	\$187,587	\$ 189,145
Finished goods	76,326	69,026
Provision for obsolete or aged inventory	(8,414)	(7,764)
Inventories, net	\$255,499	\$ 250,407

5. Property, Plant and Equipment

The carrying amounts of our property, plant and equipment and accumulated depreciation were as follows as of the dates indicated:

<i>(In thousands)</i>	March 31, December 30,	
	2019	2018
Land	\$29,747	\$ 30,653
Buildings	181,124	179,888
Machinery and equipment	716,789	724,431
Property, plant and equipment, gross	927,660	934,972
Accumulated depreciation	(329,596)	(325,219)
Property, plant and equipment, net	\$598,064	\$ 609,753

Total depreciation expense was \$18.3 million and \$13.9 million in the three months ended March 31, 2019, and April 1, 2018, respectively. Depreciation expense is included primarily within cost of goods sold in the condensed consolidated statements of comprehensive income.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

6. Leases

Lease Accounting Policy

Our updated policy for lease accounting, which we adopted prospectively as of December 31, 2018, is as follows: We determine if a contract is a lease at inception or upon acquisition and reevaluate each time a lease contract is amended or otherwise modified. A lease will be classified as an operating lease if it does not meet any of the criteria for a finance lease. Those criteria include the transfer of ownership of the underlying asset by the end of the lease term; an option to purchase the underlying asset that we would be reasonably certain to exercise; the lease term is for the major part of the remaining economic life of the underlying asset; the present value of the sum of the lease payments and any residual value guaranteed by us that is not already reflected in the lease payments equals or exceeds substantially all of the fair value of the underlying asset or if the underlying asset is of such a specialized nature that it is expected to have no alternative use to us at the end of the lease term.

The assets and liabilities relating to operating leases are included in operating lease ROU assets, accrued expenses, and long-term operating lease liabilities in our consolidated balance sheets. The assets and liabilities relating to finance leases are included in property, plant and equipment and other long-term liabilities in our consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the respective lease commencement date based on the present value of lease payments over the expected lease term. Since our leases do not specify implicit discount rates, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any initial direct costs and is adjusted for lease incentives and prepaid or accrued rent. The lease term begins on the date when the lessor makes the underlying asset available for use to us, and our expected lease terms include options to extend the lease when it is reasonably certain that we will exercise those options. Lease payments are recognized in the consolidated statements of comprehensive income on a straight-line basis over the expected lease term.

Leases with an initial term of 12 months or less are not recorded on the balance sheet, with the related lease expense recognized on a straight-line basis over the lease term. Lease and non-lease components of a contract are combined into a single lease component for accounting purposes.

Current Period Lease Disclosures

Our operating leases include leases for real estate (including manufacturing sites, warehouses and offices) and machinery and equipment and we have no material finance leases or subleases. Certain of our operating leases contain provisions for renewal ranging from one to four options of one to ten years each.

Total operating lease expense, including non-cancelable operating leases and short-term leases, was \$9.2 million and \$7.7 million for the three months ended March 31, 2019, and April 1, 2018, respectively.

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(Unaudited)

The current portion of operating lease liabilities is included with accrued expenses in the consolidated balance sheets. Supplemental balance sheet information as of the period indicated related to operating leases was as follows:

<i>(In thousands)</i>	March 31, 2019
Operating lease right-of-use assets	\$ 126,600
Current portion of operating lease liabilities	19,819
Long-term operating lease liabilities	114,426
Total operating lease liabilities	\$ 134,245
Weighted average remaining lease term (years)	12.4
Weighted average discount rate	4.8 %

Maturities of operating lease liabilities are as follows:

<i>(In thousands)</i>	March 31, 2019
Fiscal year:	
2019 (remaining nine months)	\$ 19,239
2020	24,103
2021	17,273
2022	13,603
2023	11,030
Thereafter	104,357
Total undiscounted lease payments	189,605
Less imputed interest	(55,360)
Total	\$ 134,245

As of March 31, 2019, we have additional undiscounted commitments for operating leases, primarily for administrative offices, that have not yet commenced of \$15.8 million. These operating leases will commence between fiscal year 2019 and fiscal year 2020 with lease terms of 10 years.

7. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill were as follows as of the dates indicated:

<i>(In thousands)</i>	North			
	American Residential	Europe	Architectural	Total
December 30, 2018	\$ 6,189	\$63,220	\$ 110,888	\$ 180,297
Measurement period adjustment	390	—	—	390
Foreign exchange fluctuations	7	2,129	75	2,211
March 31, 2019	\$ 6,586	\$65,349	\$ 110,963	\$ 182,898

During the three months ended March 31, 2019, we finalized the purchase price allocation for the BWI acquisition, which resulted in a \$0.4 million increase in goodwill due to final working capital adjustments.

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(Unaudited)

The cost and accumulated amortization values of our intangible assets were as follows as of the dates indicated:

<i>(In thousands)</i>	March 31, 2019			December 30, 2018		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Definite life intangible assets:						
Customer relationships	\$ 177,020	\$ (87,129)	\$ 89,891	\$ 173,637	\$ (81,220)	\$ 92,417
Patents	31,668	(22,429)	9,239	31,363	(21,840)	9,523
Software	33,042	(30,162)	2,880	32,660	(29,296)	3,364
Trademarks and tradenames	34,803	(4,906)	29,897	33,784	(3,948)	29,836
Other	975	(209)	766	971	(97)	874
Total definite life intangible assets	277,508	(144,835)	132,673	272,415	(136,401)	136,014
Indefinite life intangible assets:						
Trademarks and tradenames	76,274	—	76,274	76,031	—	76,031
Total intangible assets	\$ 353,782	\$ (144,835)	\$ 208,947	\$ 348,446	\$ (136,401)	\$ 212,045

Amortization of intangible assets was \$7.2 million and \$6.1 million for the three months ended March 31, 2019, and April 1, 2018, respectively. Amortization expense is classified within selling, general and administration expenses in the condensed consolidated statements of comprehensive income.

The estimated future amortization of intangible assets with definite lives is as follows:

<i>(In thousands)</i>	March 31, 2019
Fiscal year:	
2019 (remaining nine months)	\$ 21,465
2020	22,735
2021	19,118
2022	15,656
2023	14,158

8. Accrued Expenses

The details of our accrued expenses were as follows as of the dates indicated:

<i>(In thousands)</i>	March 31, December 30,	
	2019	2018
Accrued payroll	\$ 42,493	\$ 39,823
Accrued rebates	31,703	36,711
Current portion of operating lease liabilities	19,819	—
Accrued interest	2,365	14,570
Other accruals	51,542	56,241
Total accrued expenses	\$ 147,922	\$ 147,345

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)****9. Long-Term Debt**

<i>(In thousands)</i>	March 31, December 30,	
	2019	2018
5.625% senior unsecured notes due 2023	\$ 500,000	\$ 500,000
5.75% senior unsecured notes due 2026	300,000	300,000
Unamortized premium on 2023 Notes	3,463	3,684
Debt issuance costs	(8,009)	(8,394)
Other long-term debt	1,132	1,108
Total long-term debt	\$ 796,586	\$ 796,398

Interest expense related to our consolidated indebtedness under senior unsecured notes was \$11.3 million and \$8.7 million for the three months ended March 31, 2019, and April 1, 2018, respectively.

5.75% Senior Notes due 2026

On August 27, 2018, we issued \$300.0 million aggregate principal senior unsecured notes (the "2026 Notes"). The 2026 Notes were issued in a private placement for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to buyers outside of the United States pursuant to Regulation S under the Securities Act. The 2026 Notes were issued without registration rights and are not listed on any securities exchange. The 2026 Notes bear interest at 5.75% per annum, payable in cash semiannually in arrears on March 15 and September 15 of each year and are due September 15, 2026. The 2026 notes were issued at par. We received net proceeds of \$295.7 million after deducting \$4.3 million of debt issuance costs. The debt issuance costs were capitalized as a reduction to the carrying value of debt and are being accreted to interest expense over the term of the 2026 Notes using the effective interest method. The net proceeds from issuance of the 2026 Notes were used to redeem \$125.0 million aggregate principal amount of the 2023 Notes (as described below), including the payment of related premiums, fees and expenses, with the balance of the proceeds available for general corporate purposes. Subsequent to the closing of the 2026 Notes offering, the 2023 Notes were partially redeemed, with that portion of the notes considered extinguished as of September 12, 2018. Under the terms of the indenture governing the 2023 Notes, we paid the applicable premium of \$5.3 million. Additionally, the proportionate shares of the unamortized premium of \$1.0 million and unamortized debt issuance costs of \$1.1 million relating to the 2023 Notes were written off in conjunction with the partial extinguishment of the 2023 Notes. The resulting loss on extinguishment of debt was \$5.4 million and is recorded as part of income (loss) from continuing operations before income tax expense (benefit) in the consolidated statements of comprehensive income. Additionally, the cash payment of interest accrued to, but not including, the redemption date was accelerated to the redemption date.

Obligations under the 2026 Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by certain of our directly or indirectly wholly-owned subsidiaries. We may redeem the 2026 Notes, in whole or in part, at any time on or after September 15, 2021, at the applicable redemption prices specified under the indenture governing the 2026 Notes, plus accrued and unpaid interest, if any, to the date of redemption. If we experience certain changes of control or consummate certain asset sales and do not reinvest the net proceeds, we must offer to repurchase all of the 2026 Notes at a purchase price of 101.00% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date.

The indenture governing the 2026 Notes contains restrictive covenants that, among other things, limit our ability and the ability of our subsidiaries to: (i) incur additional debt and issue disqualified or preferred stock, (ii) make restricted payments, (iii) sell assets, (iv) create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to the parent company, (v) create or incur certain liens, (vi) enter into sale and leaseback transactions, (vii) merge or consolidate with other entities and (viii) enter into transactions with affiliates. The

foregoing limitations are subject to exceptions as set forth in the indenture governing the 2026 Notes. In addition, if in the future the 2026 Notes have an investment grade rating from at least two nationally recognized statistical rating organizations, certain of these covenants will be terminated. The indenture governing the 2026 Notes contains customary

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)**

events of default (subject in certain cases to customary grace and cure periods). As of March 31, 2019, and December 30, 2018, we were in compliance with all covenants under the indenture governing the 2026 Notes.

5.625% Senior Notes due 2023

On September 27, 2017, and March 23, 2015, we issued \$150.0 million and \$475.0 million aggregate principal senior unsecured notes, respectively (the "2023 Notes"). The 2023 Notes were issued in two private placements for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and to buyers outside the United States pursuant to Regulation S under the Securities Act. The 2023 Notes were issued without registration rights and are not listed on any securities exchange. The 2023 Notes bear interest at 5.625% per annum, payable in cash semiannually in arrears on March 15 and September 15 of each year and are due March 15, 2023. The 2023 Notes were issued at 104.0% and par in 2017 and 2015, respectively, and the resulting premium of \$6.0 million is being amortized to interest expense over the term of the 2023 Notes using the effective interest method. We received net proceeds of \$153.9 million and \$467.9 million, respectively, after deducting \$2.1 million and \$7.1 million of debt issuance costs in 2017 and 2015, respectively. The debt issuance costs were capitalized as a reduction to the carrying value of debt and are being accreted to interest expense over the term of the 2023 Notes using the effective interest method. The net proceeds from the 2017 issuance of the 2023 Notes are for general corporate purposes. The net proceeds from the 2015 issuance of the 2023 Notes, together with available cash balances, were used to redeem \$500.0 million aggregate principal of prior 8.25% senior unsecured notes due 2021 and to pay related premiums, fees and expenses.

Obligations under the 2023 Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by certain of our directly or indirectly wholly-owned subsidiaries. We may redeem the 2023 Notes, in whole or in part, at any time on or after March 15, 2018, at the applicable redemption prices specified under the indenture governing the 2023 Notes, plus accrued and unpaid interest, if any, to the date of redemption. If we experience certain changes of control or consummate certain asset sales and do not reinvest the net proceeds, we must offer to repurchase all of the 2023 Notes at a purchase price of 101.00% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date.

The indenture governing the 2023 Notes contains restrictive covenants that, among other things, limit our ability and the ability of our subsidiaries to: (i) incur additional debt and issue disqualified or preferred stock, (ii) make restricted payments, (iii) sell assets, (iv) create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to the parent company, (v) create or incur certain liens, (vi) enter into sale and leaseback transactions, (vii) merge or consolidate with other entities and (viii) enter into transactions with affiliates. The foregoing limitations are subject to exceptions as set forth in the indenture governing the 2023 Notes. In addition, if in the future the 2023 Notes have an investment grade rating from at least two nationally recognized statistical rating organizations, certain of these covenants will be replaced with a less restrictive covenant. The indenture governing the 2023 Notes contains customary events of default (subject in certain cases to customary grace and cure periods). As of March 31, 2019, and December 30, 2018, we were in compliance with all covenants under the indenture governing the 2023 Notes.

ABL Facility

On January 31, 2019, we and certain of our subsidiaries amended and restated our asset-based revolving credit facility (the "ABL Facility") in order to extend the maturity date of the ABL Facility and amend certain other provisions. The amended and restated ABL Facility increased the revolving commitments to \$250.0 million from \$150.0 million and extended the final maturity date to January 31, 2024, from April 9, 2020. The borrowing base is calculated based on a percentage of the value of selected U.S., Canadian and U.K. accounts receivable and inventory, less certain ineligible amounts. Obligations under the ABL Facility are secured by a first priority security interest in such accounts receivable, inventory and other related assets of Masonite and our subsidiaries. In addition, obligations under the ABL Facility are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis, by certain of our

directly or indirectly wholly-owned subsidiaries. Borrowings under the ABL Facility bear interest at a rate equal to, at our opinion, (i) the U.S., Canadian or U.K. Base Rate (each as defined in the credit agreement relating to the ABL Facility, the "Amended and Restated Credit Agreement") plus a margin ranging from 0.25% to 0.50% per annum, or (ii) the Adjusted LIBO Rate or BA Rate (each as defined in the Amended and Restated Credit Agreement), plus a margin ranging from 1.25% to 1.50% per annum. In addition to paying interest on any outstanding principal under the ABL Facility, a

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Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)**

commitment fee is payable on the undrawn portion of the ABL Facility in an amount equal to 0.25% per annum of the average daily balance of unused commitments during each calendar quarter.

The ABL Facility contains various customary representations, warranties and covenants by us that, among other things, and subject to certain exceptions, restrict Masonite's ability and the ability of our subsidiaries to: (i) pay dividends on our common shares and make other restricted payments, (ii) make investments and acquisitions, (iii) engage in transactions with our affiliates, (iv) sell assets, (v) merge and (vi) create liens. The Amended and Restated Credit Agreement amended the ABL Facility to, among other things, (i) permit us to incur unlimited unsecured debt as long as such debt does not contain covenants or default provisions that are more restrictive than those contained in the ABL Facility, (ii) permit us to incur debt as long as the pro forma secured leverage ratio is less than 4.5 to 1.0, and (iii) add certain additional exceptions and exemptions under the restricted payment, investment and indebtedness covenants (including increasing the amount of certain debt permitted to be incurred under existing exceptions). As of March 31, 2019, and December 30, 2018, we were in compliance with all covenants under the credit agreement governing the ABL Facility and there were no amounts outstanding under the ABL Facility.

10. Commitments and Contingencies

The following discussion describes material developments in previously disclosed legal proceedings that occurred since December 30, 2018. Refer to Note 9. Commitments and Contingencies in the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 30, 2018, for a full description of the previously disclosed legal proceedings.

Class Action Proceedings

With respect to the consolidated purported class action direct purchaser and end-purchaser complaints filed against us and JELD-WEN, Inc., the judge denied our motion to transfer the proceedings from the Eastern District of Virginia, Richmond Division. On March 1, 2019, we filed a motion to dismiss all of the claims in both of these complaints. In addition, from time to time, we are involved in various claims and legal actions. In the opinion of management, the ultimate disposition of these matters, individually and in the aggregate, will not have a material effect on our financial condition, results of operations or cash flows.

11. Share Based Compensation Plans

Share based compensation expense was \$2.7 million and \$3.1 million for the three months ended March 31, 2019, and April 1, 2018, respectively. As of March 31, 2019, the total remaining unrecognized compensation expense related to share based compensation amounted to \$22.1 million, which will be amortized over the weighted average remaining requisite service period of 2.2 years. Share based compensation expense is recognized using a graded-method approach, or to a lesser extent a cliff-vesting approach, depending on the terms of the individual award and is classified within selling, general and administration expenses in the condensed consolidated statements of comprehensive income. All share based awards are settled through issuance of new shares of our common stock. The share based award agreements contain restrictions on sale or transfer other than in limited circumstances. All other transfers would cause the share based awards to become null and void.

Equity Incentive Plans

Our equity incentive plans under the 2009 Plan and the 2012 Plan are described in detail and defined in our Annual Report on Form 10-K for the year ended December 30, 2018. The aggregate number of common shares that can be issued with respect to equity awards under the 2012 Plan cannot exceed 2,000,000 shares plus the number of shares subject to existing grants under the 2009 Plan that may expire or be forfeited or cancelled. As of March 31, 2019, there were 742,651 shares of common stock available for future issuance under the 2012 Plan.

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)***Deferred Compensation Plan*

We offer to certain of our employees and directors a Deferred Compensation Plan, which is described in detail in our Annual Report on Form 10-K for the year ended December 30, 2018. As of March 31, 2019, the liability and asset relating to deferred compensation had a fair value of \$6.1 million and \$6.2 million, respectively. Any unfunded gain or loss relating to changes in the fair value of the deferred compensation liability is recognized in selling, general and administration expense in the condensed consolidated statements of comprehensive income. As of March 31, 2019, participation in the deferred compensation plan is limited and no restricted stock awards have been deferred into the deferred compensation plan.

Stock Appreciation Rights

We have granted Stock Appreciation Rights ("SARs") to certain employees under both the 2009 Plan and the 2012 Plan, which entitle the recipient to the appreciation in value of a number of common shares over the exercise price over a period of time, each as specified in the applicable award agreement. The exercise price of any SAR granted may not be less than the fair market value of our common shares on the date of grant. The compensation expense for the SARs is measured based on the fair value of the SARs at the date of grant and is recognized over the requisite service period. The SARs vest over a maximum of three years, have a life of ten years and settle in common shares. We recognize forfeitures of SARs in the period in which they occur.

The total fair value of SARs vested was \$1.1 million and \$0.7 million during the three months ended March 31, 2019, and April 1, 2018, respectively.

<i>Three Months Ended March 31, 2019</i>	Stock Appreciation Rights	Aggregate Intrinsic Value (in thousands)	Weighted Average Exercise Price	Average Remaining Contractual Life (Years)
Outstanding, beginning of period	514,313	\$ 7,254	\$ 39.01	4.6
Granted	54,585		57.52	
Exercised	(29,288)	1,060	18.69	
Outstanding, end of period	539,610	\$ 7,632	\$ 41.99	5.2
Exercisable, end of period	422,248	\$ 7,632	\$ 36.10	4.0

The value of SARs granted is determined using the Black-Scholes Merton valuation model, and the corresponding expense is recognized over the average requisite service period of 2.0 years for all periods presented. Expected volatility is based upon the historical volatility of our public industry peers' common shares amongst other considerations. The expected term is calculated using the simplified method, due to insufficient exercise activity during recent years as a basis from which to estimate future exercise patterns. The weighted average grant date assumptions used for the SARs granted were as follows for the periods indicated:

	2019 Grants
SAR value (model conclusion)	\$ 15.82
Risk-free rate	2.5 %
Expected dividend yield	0.0 %
Expected volatility	22.0 %
Expected term (years)	6.0

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(Unaudited)*Restricted Stock Units*

We have granted Restricted Stock Units ("RSUs") to directors and certain employees under both the 2009 Plan and the 2012 Plan. The RSUs confer the right to receive shares of our common stock at a specified future date or when certain conditions are met. The compensation expense for the RSUs awarded is based on the fair value of the RSUs at the date of grant and is recognized over the requisite service period. The RSUs vest over a maximum of three years and call for the underlying shares to be delivered no later than 30 days following the vesting date unless the participant is subject to a blackout period. In such case, the shares are to be delivered once the blackout restriction has been lifted. We recognize forfeitures of RSUs in the period in which they occur.

	Three Months Ended March 31, 2019	
	Total Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Outstanding, beginning of period	429,027	\$ 66.03
Granted	245,468	56.95
Performance adjustment ⁽¹⁾	(21,953)	57.51
Delivered	(97,858)	
Withheld to cover ⁽²⁾	(19,061)	
Forfeited	(9,691)	
Outstanding, end of period	525,932	\$ 63.13

(1) Performance-based RSUs are presented as outstanding, granted and forfeited in the table above assuming targets are met and the awards pay out at 100%. The performance adjustment represents the difference in shares ultimately awarded due to performance attainment above or below target.

A portion of the vested RSUs delivered were net share settled to cover statutory requirements for income and other employment taxes. We (2) remit the equivalent cash to the appropriate taxing authorities. These net share settlements had the effect of share repurchases by us as we reduced and retired the number of shares that would have otherwise been issued as a result of the vesting.

Approximately three-fourths of the RSUs granted during the three months ended March 31, 2019, vest at specified future dates with only service requirements, while the remaining portion of the RSUs vest based on both performance and service requirements. The expense for RSUs granted in the three months ended March 31, 2019, is being recognized over the weighted average requisite service period of 2.4 years. 116,919 RSUs vested during the three months ended March 31, 2019, at a fair value of \$7.2 million.

12. Restructuring Costs

Restructuring costs were not material in the three months ended April 1, 2018. The following table summarizes the restructuring charges recorded for the periods indicated:

	Three Months Ended March 31, 2019				
	North America Residential	Europe	Architectural	Corporate & Other	Total
<i>(In thousands)</i>					
2019 Plan	\$ 1,459	\$ 331	\$ 604	\$ 394	\$ 2,788
2018 Plan	421	531	—	—	952
Total Restructuring Costs	\$ 1,880	\$ 862	\$ 604	\$ 394	\$ 3,740

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(Unaudited)

<i>(In thousands)</i>	Cumulative Amount Incurred Through March 31, 2019				
	North America Residential	Europe	Architectural	Corporate & Other	Total
2019 Plan	\$ 1,459	\$ 331	\$ 604	\$ 394	\$ 2,788
2018 Plan	696	1,880	—	—	2,576
2016 Plan	—	—	3,707	—	3,707
2014 Plan	—	—	—	7,993	7,993
Total Restructuring Costs	\$ 2,155	\$ 2,211	\$ 4,311	\$ 8,387	\$ 17,064

In February 2019, we began implementing a plan to improve overall business performance that includes the reorganization of our manufacturing capacity and a reduction of our overhead and selling, general and administration workforce across all of our reportable segments and in our head offices. The reorganization of our manufacturing capacity involves specific plants in the North American Residential and Architectural segments and costs associated with the closure of these plants and related headcount reductions have begun taking place in the first quarter of 2019 (collectively, the "2019 Plan"). Costs associated with the 2019 Plan include severance, retention and closure charges and will continue through 2020. As of March 31, 2019, we expect to incur approximately \$10 million to \$12 million of additional charges related to the 2019 Plan.

During the fourth quarter of 2018, we began implementing a plan to reorganize and consolidate certain aspects of our United Kingdom head office function and optimize our portfolio by divesting non-core assets to enable more effective and consistent business processes in the Europe segment. In addition, in the North America segment we announced a new facility that will optimize and expand capacity through increased automation, which will result in the closure of one existing facility and related headcount reductions beginning in the second quarter of 2019 (collectively, the "2018 Plan"). Costs associated with the 2018 Plan include severance, retention and closure charges and will continue throughout 2019. Additionally, the plan to divest non-core assets was determined to be a triggering event requiring a test of the carrying value of the definite-lived assets relating to the divestitures, as further described in Note 13. As of March 31, 2019, we expect to incur approximately \$2 million of additional charges related to the 2018 Plan. Our restructuring plans initiated in 2016 and prior years are described in detail in our Annual Report on Form 10-K for the year ended December 30, 2018. Costs and actions associated with these restructuring plans include severance and closure charges and are substantially completed. As of March 31, 2019, we do not expect to incur any material future charges relating to our restructuring plans initiated in 2016 and prior years. Other plans initiated in prior years did not have a material impact on the consolidated statements of comprehensive income or consolidated statements of cash flows for the three months ended March 31, 2019, or April 1, 2018, or on the consolidated balance sheets as of March 31, 2019, or December 30, 2018.

The changes in the accrual for restructuring by activity were as follows for the periods indicated:

<i>(In thousands)</i>	December 30, 2018	Severance	Closure Costs	Cash Payments	March 31, 2019
2019 Plan	\$ —	\$ 2,770	\$ 18	\$ (1,035)	\$ 1,753
2018 Plan	596	983	(31)	(546)	1,002
Other	58	—	—	(17)	41
Total	\$ 654	\$ 3,753	\$ (13)	\$ (1,598)	\$ 2,796

(In thousands) **December 31,** **Cash Payments** **April 1,**

	2017		2018
2016 Plan	\$ 90	\$ (90)	\$—
Other	194	(43)	151
Total	\$ 284	\$ (133)	\$151

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Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(Unaudited)**13. Asset Impairment**

During the three months ended March 31, 2019, we recognized non-cash asset impairment charges of \$10.6 million related to two asset groups in the North American Residential segment, as a result of announced plant closures under the 2019 Plan. This amount was determined based upon the excess of the asset groups' carrying values of property, plant and equipment over the respective fair values of such assets, determined using a discounted cash flows approach for each asset group. Each of these valuations was performed on a non-recurring basis and is categorized as having Level 3 valuation inputs as established by the FASB's Fair Value Framework. The Level 3 unobservable inputs include an estimate of future cash flows and the salvage value for each of the asset groups. The fair value of the asset groups was determined to be \$11.3 million, compared to a book value of \$21.9 million, with the difference representing the asset impairment charge recorded in the condensed consolidated statements of comprehensive income.

14. Income Taxes

The effective tax rate differs from the Canadian statutory rate of 26.5% primarily due to mix of earnings in foreign jurisdictions that are subject to tax rates which differ from the Canadian statutory rate and changes in our valuation allowances. In addition, we recognized \$0.1 million of income tax expense due to the exercise and delivery of share-based awards during the three months ended March 31, 2019, compared to \$0.2 million of income tax benefit during the three months ended April 1, 2018.

15. Earnings Per Share

Basic earnings per share ("EPS") is calculated by dividing earnings attributable to Masonite by the weighted-average number of our common shares outstanding during the period. Diluted EPS is calculated by dividing earnings attributable to Masonite by the weighted-average number of common shares plus the incremental number of shares issuable from non-vested and vested RSUs and SARs outstanding during the period.

<i>(In thousands, except share and per share information)</i>	Three Months Ended	
	March 31, 2019	April 1, 2018
Net income attributable to Masonite	\$3,789	\$ 20,826
Shares used in computing basic earnings per share	25,574,920	20,189,790
Effect of dilutive securities:		
Incremental shares issuable under share compensation plans	376,574	482,472
Shares used in computing diluted earnings per share	25,951,494	20,672,262
Basic earnings per common share attributable to Masonite	\$0.15	\$ 0.74
Diluted earnings per common share attributable to Masonite	\$0.15	\$ 0.73
Anti-dilutive instruments excluded from diluted earnings per common share:		
Stock appreciation rights	235,650	51,129

The weighted average number of shares outstanding utilized for the diluted EPS calculation contemplates the exercise of all currently outstanding SARs and the conversion of all RSUs. The dilutive effect of such equity awards is calculated based on the weighted average share price for each fiscal period using the treasury stock method. For all periods presented, common shares issuable for stock appreciation rights which have a higher strike price than our weighted average market price have been excluded from the computation of diluted earnings per share, as their effect

would have been anti-dilutive.

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Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(Unaudited)**16. Segment Information**

Our reportable segments are organized and managed principally by end market: North American Residential, Europe and Architectural. The North American Residential reportable segment is the aggregation of the Wholesale and Retail operating segments. The Europe reportable segment is the aggregation of the United Kingdom and Central Eastern Europe operating segments. The Architectural reportable segment consists solely of the Architectural operating segment. The Corporate & Other category includes unallocated corporate costs and the results of immaterial operating segments which were not aggregated into any reportable segment. Operating segments are aggregated into reportable segments only if they exhibit similar economic characteristics. In addition to similar economic characteristics we also consider the following factors in determining the reportable segments: the nature of business activities, the management structure directly accountable to our chief operating decision maker for operating and administrative activities, availability of discrete financial information and information presented to the Board of Directors and investors.

Our management reviews net sales and Adjusted EBITDA (as defined below) to evaluate segment performance and allocate resources. Net assets are not allocated to the reportable segments. Adjusted EBITDA is a non-GAAP financial measure which does not have a standardized meaning under GAAP and is unlikely to be comparable to similar measures used by other companies. Adjusted EBITDA should not be considered as an alternative to either net income or operating cash flows determined in accordance with GAAP. Adjusted EBITDA is defined as net income (loss) attributable to Masonite adjusted to exclude the following items:

- depreciation;
- amortization;
- share based compensation expense;
- loss (gain) on disposal of property, plant and equipment;
- registration and listing fees;
- restructuring costs;
- asset impairment;
- loss (gain) on disposal of subsidiaries;
- interest expense (income), net;
- loss on extinguishment of debt;
- other expense (income), net;
- income tax expense (benefit);
- loss (income) from discontinued operations, net of tax; and
- net income (loss) attributable to non-controlling interest.

This definition of Adjusted EBITDA differs from the definitions of EBITDA contained in the indentures governing the 2026 Notes and 2023 Notes and the credit agreement governing the ABL Facility. Adjusted EBITDA is used to evaluate and compare the performance of the segments and it is one of the primary measures used to determine employee incentive compensation. Intersegment transfers are negotiated on an arm's length basis, using market prices. Certain information with respect to segments is as follows for the periods indicated:

	Three Months Ended March 31, 2019				
	North			Corporate	Total
<i>(In thousands)</i>	American Residential	Europe	Architectural	& Other	
Net sales	\$354,802	\$84,739	\$ 88,353	\$ 6,728	\$534,622
Intersegment sales	(1,077)	(472)	(2,762)	—	(4,311)
Net sales to external customers	\$353,725	\$84,267	\$ 85,591	\$ 6,728	\$530,311

Adjusted EBITDA	\$53,621	\$9,997	\$ 7,614	\$(5,753)	\$65,479
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Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)**

<i>(In thousands)</i>	Three Months Ended April 1, 2018				
	North American Residential	Europe	Architectural	Corporate & Other	Total
Net sales	\$360,542	\$87,752	\$ 71,564	\$ 4,424	\$524,282
Intersegment sales	(862)	(648)	(4,893)	—	(6,403)
Net sales to external customers	\$359,680	\$87,104	\$ 66,671	\$ 4,424	\$517,879
Adjusted EBITDA	\$50,398	\$9,930	\$ 7,660	\$(6,574)	\$61,414

A reconciliation of our consolidated Adjusted EBITDA to net income (loss) attributable to Masonite is set forth as follows for the periods indicated:

<i>(In thousands)</i>	Three Months Ended	
	March 31, 2019	April 1, 2018
Adjusted EBITDA	\$65,479	\$61,414
Less (plus):		
Depreciation	18,285	13,934
Amortization	7,597	6,585
Share based compensation expense	2,680	3,065
Loss on disposal of property, plant and equipment	2,913	612
Restructuring costs	3,740	—
Asset impairment	10,625	—
Loss on disposal of subsidiaries	4,605	—
Interest expense, net	11,127	8,756
Other income, net of expense	(1,130)	(22)
Income tax expense	58	6,701
Net income attributable to non-controlling interest	1,190	957
Net income attributable to Masonite	\$3,789	\$20,826

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**
(Unaudited)**17. Accumulated Other Comprehensive Income and Other Comprehensive Income**

A rollforward of the components of accumulated other comprehensive income (loss) is as follows for the periods indicated:

<i>(In thousands)</i>	Three Months Ended	
	March 31, 2019	April 1, 2018
Accumulated foreign currency translation losses, beginning of period	\$(129,930)	\$(89,824)
Foreign currency translation gain	12,990	5,774
Income tax benefit (expense) on foreign currency translation gain	12	(22)
Cumulative translation adjustment recognized upon deconsolidation of subsidiary	1,001	—
Less: foreign currency translation gain (loss) attributable to non-controlling interest	216	(243)
Accumulated foreign currency translation losses, end of period	(116,143)	(83,829)
Accumulated pension and other post-retirement adjustments, beginning of period	(22,989)	(20,328)
Amortization of actuarial net losses	404	300
Income tax expense on amortization of actuarial net losses	(105)	(78)
Accumulated pension and other post-retirement adjustments	(22,690)	(20,106)
Accumulated other comprehensive loss	\$(138,833)	\$(103,935)
Other comprehensive income, net of tax	\$14,302	\$5,974
Less: other comprehensive income (loss) attributable to non-controlling interest	216	(243)
Other comprehensive income attributable to Masonite	\$14,086	\$6,217

Cumulative translation adjustments are reclassified out of accumulated other comprehensive loss into loss on disposal of subsidiaries. Actuarial net losses are reclassified out of accumulated other comprehensive loss into cost of goods sold in the condensed consolidated statements of comprehensive income.

18. Supplemental Cash Flow Information

Certain cash and non-cash transactions were as follows for the periods indicated:

<i>(In thousands)</i>	Three Months Ended	
	March 31, 2019	April 1, 2018
Transactions involving cash:		
Interest paid	\$23,785	\$17,337
Interest received	672	400
Income taxes paid	1,308	1,583
Income tax refunds	—	70
Cash paid for operating lease liabilities	6,290	—
Non-cash transactions:		
Right-of-use assets acquired under operating leases	20,289	—

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)**

The following reconciles total cash, cash equivalents and restricted cash as of the dates indicated:

	March 31, December 30,	
	2019	2018
Cash and cash equivalents	\$ 79,642	\$ 115,656
Restricted cash	10,985	10,485
Total cash, cash equivalents and restricted cash	\$ 90,627	\$ 126,141

Property, plant and equipment additions in accounts payable were \$3.5 million and \$8.7 million as of March 31, 2019, and December 30, 2018, respectively.

19. Fair Value of Financial Instruments

The carrying amounts of our cash and cash equivalents, restricted cash, accounts receivable, income taxes receivable, accounts payable, accrued expenses and income taxes payable approximate fair value because of the short-term maturity of those instruments. The estimated fair value of the 2026 Notes as of March 31, 2019, was \$303.7 million, compared to a carrying value of \$296.0 million, and as of December 30, 2018, was \$282.6 million, compared to a carrying value of \$295.8 million. The estimated fair value of the 2023 Notes as of March 31, 2019, was \$511.0 million, compared to a carrying value of \$499.5 million, and as of December 30, 2018, was \$484.9 million, compared to a carrying value of \$499.5 million. These estimates are based on market quotes and calculations based on current market rates available to us and are categorized as having Level 2 valuation inputs as established by the FASB's Fair Value Framework. Market quotes used in these calculations are based on bid prices for our debt instruments and are obtained from and corroborated with multiple independent sources. The market quotes obtained from independent sources are within the range of management's expectations.

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MASONITE INTERNATIONAL CORPORATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is based upon accounting principles generally accepted in the United States of America and discusses the financial condition and results of operations for Masonite International Corporation for the three months ended March 31, 2019, and April 1, 2018. In this MD&A, "Masonite," "we," "us," "our" and the "Company" refer to Masonite International Corporation and its subsidiaries.

This discussion should be read in conjunction with (i) the unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and (ii) the annual audited consolidated financial statements, including the accompanying notes and MD&A, which are included in our Annual Report on Form 10-K for the year ended December 30, 2018. The following discussion should also be read in conjunction with the disclosure under "Special Note Regarding Forward Looking Statements" elsewhere in this Quarterly Report on Form 10-Q. Our actual results could differ materially from the forward-looking statements as a result of these risks and uncertainties. Certain prior year amounts have been reclassified to conform to the current basis of presentation.

Overview

We are a leading global designer, manufacturer and distributor of interior and exterior doors for the new construction and repair, renovation and remodeling sectors of the residential and the non-residential building construction markets. Since 1925, we have provided our customers with innovative products and superior service at compelling values. In order to better serve our customers and create sustainable competitive advantages, we focus on developing innovative products, advanced manufacturing capabilities and technology-driven sales and service solutions.

We market and sell our products to remodeling contractors, builders, homeowners, retailers, dealers, lumberyards, commercial and general contractors and architects through well-established wholesale, retail and direct distribution channels as part of our cross-merchandising strategy. Customers are provided a broad product offering of interior and exterior doors and entry systems at various price points. We manufacture a broad line of interior doors, including residential molded, flush, stile and rail, louver and specially-ordered commercial and architectural doors; door components for internal use and sale to other door manufacturers; and exterior residential steel, fiberglass and wood doors and entry systems.

We operate 67 manufacturing and distribution facilities in 8 countries in North America, South America, Europe and Asia, which are strategically located to serve our customers through multiple distribution channels. These distribution channels include: (i) direct distribution to retail home center customers and homebuilders; (ii) one-step distribution that sells directly to homebuilders and contractors; and (iii) two-step distribution through wholesale distributors. For retail home center customers, numerous door fabrication facilities provide value-added fabrication and logistical services, including pre-finishing and store delivery of pre-hung interior and exterior doors. We believe our ability to provide: (i) a broad product range; (ii) frequent, rapid, on-time and complete delivery; (iii) consistency in products and merchandising; (iv) national service; and (v) special order programs enables retail customers to increase comparable store sales and helps to differentiate us from our competitors. We believe investments in innovative new product manufacturing and distribution capabilities, coupled with an ongoing commitment to operational excellence, provide a strong platform for future growth.

Our reportable segments are organized and managed principally by end market: North American Residential, Europe and Architectural. In the three months ended March 31, 2019, we generated net sales of \$353.7 million or 66.7%, \$84.3 million or 15.9% and \$85.6 million or 16.1% in our North American Residential, Europe and Architectural segments, respectively.

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MASONITE INTERNATIONAL CORPORATION

Key Factors Affecting Our Results of Operations

Product Demand

There are numerous factors that influence overall market demand for our products. Demand for new homes, home improvement products and other building construction products have a direct impact on our financial condition and results of operations. Demand for our products may be impacted by changes in United States, Canadian, European, Asian or other global economic conditions, including inflation, deflation, interest rates, availability of capital, consumer spending rates, energy availability and costs, and the effects of governmental initiatives to manage economic conditions. Additionally, trends in residential new construction, repair, renovation and remodeling and architectural building construction may directly impact our financial performance. Accordingly, the following factors may have a direct impact on our business in the countries and regions in which our products are sold:

- the strength of the economy;
- the amount and type of residential and commercial construction;
- housing sales and home values;
- the age of existing home stock, home vacancy rates and foreclosures;
- non-residential building occupancy rates;
- increases in the cost of raw materials or wages or any shortage in supplies or labor;
- the availability and cost of credit;
- employment rates and consumer confidence; and
- demographic factors such as immigration and migration of the population and trends in household formation.

Additionally, the United Kingdom's anticipated exit from the European Union has created uncertainty in European demand, particularly in the United Kingdom, which could have a material adverse effect on the demand for our products in the foreseeable future. The anticipated exit has been postponed due to a failure to reach a deal on exit terms, and the new deadline is currently October 31, 2019.

Product Pricing and Mix

The building products industry is highly competitive and we therefore face pressure on sales prices of our products. In addition, our competitors may adopt more aggressive sales policies and devote greater resources to the development, promotion and sale of their products than we do, which could result in a loss of customers. Our business in general is subject to changing consumer and industry trends, demands and preferences. Trends within the industry change often and our failure to anticipate, identify or quickly react to changes in these trends could lead to, among other things, rejection of a new product line and reduced demand and price reductions for our products, which could materially adversely affect us. Changes in consumer preferences may also lead to increased demand for our lower margin products relative to our higher margin products, which could reduce our future profitability.

Business Wins and Losses

Our customers consist mainly of wholesalers and retail home centers. In fiscal year 2018, our top ten customers together accounted for approximately 44% of our net sales and our top customer, The Home Depot, Inc. accounted for approximately 18% of our net sales. Net sales from customers that have accounted for a significant portion of our net sales in past periods, individually or as a group, may not continue in future periods, or if continued, may not reach or exceed historical levels in any period. Certain customers perform periodic product line reviews to assess their product offerings, which have, on past occasions, led to business wins and losses. In addition, as a result of competitive bidding processes, we may not be able to increase or maintain the margins at which we sell our products to our customers.

Organizational Restructuring

Over the past several years, we have engaged in a series of restructuring programs related to exiting certain geographies and non-core businesses, consolidating certain internal support functions and engaging in other actions designed to reduce our cost structure and improve productivity. These initiatives primarily consist of severance

actions and lease termination costs. Management continues to evaluate our business; therefore, in future years, there may be additional provisions for new plan initiatives, as well as changes in previously recorded estimates, as payments are made

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MASONITE INTERNATIONAL CORPORATION

or actions are completed. Asset impairment charges were also incurred in connection with these restructuring actions for those assets sold, abandoned or made obsolete as a result of these programs.

In February 2019, we began implementing a plan to improve overall business performance that includes the reorganization of our manufacturing capacity and a reduction of our overhead and selling, general and administration workforce. The reorganization of our manufacturing capacity will involve specific plants in the North American Residential and Architectural segments and costs associated with the closure of these plants and related headcount reductions began during the first quarter of 2019 (collectively, the "2019 Plan"). Costs associated with the 2019 Plan include severance, retention and closure charges and will continue through 2020. As of March 31, 2019, we expect to incur approximately \$10 million to \$12 million of charges related to the 2019 Plan. Once fully implemented, the actions taken as part of the 2019 Plan are expected to increase our annual earnings and cash flows by approximately \$14 million to \$19 million.

During the fourth quarter of 2018, we began implementing a plan to reorganize and consolidate certain aspects of our United Kingdom head office function and optimize our portfolio by divesting non-core assets to enable more effective and consistent business processes in the Europe segment. In addition, in the North America segment we announced a new facility that will optimize and expand capacity through increased automation, which will result in the closure of one existing facility and related headcount reductions beginning in the second quarter of 2019 (collectively, the "2018 Plan"). Costs associated with the 2018 Plan include severance, retention and closure charges and will continue throughout 2019. Additionally, the plan to divest non-core assets was determined to be a triggering event requiring a test of the carrying value of the definite-lived assets relating to the divestitures, as further described in Note 13. As of March 31, 2019, we expect to incur approximately \$2 million of additional charges related to the 2018 Plan. Once fully implemented, the actions taken as part of the 2018 Plan are expected to increase our annual earnings and cash flows by approximately \$6 million.

Foreign Exchange Rate Fluctuation

Our financial results may be adversely affected by fluctuating exchange rates. In the three months ended March 31, 2019, and April 1, 2018, approximately 32% and 36% of our net sales were generated outside of the United States, respectively. In addition, a significant percentage of our costs during the same period were not denominated in U.S. dollars. For example, for most of our manufacturing and distribution facilities, the prices for a significant portion of our raw materials are quoted in the domestic currency of the country where the facility is located or other currencies that are not U.S. dollars. We also have substantial assets outside the United States. As a result, the volatility in the price of the U.S. dollar has exposed, and in the future may continue to expose, us to currency exchange risks. Also, since our financial statements are denominated in U.S. dollars, changes in currency exchange rates between the U.S. dollar and other currencies have had, and will continue to have, an impact on many aspects of our financial results. Changes in currency exchange rates for any country in which we operate may require us to raise the prices of our products in that country or allow our competitors to sell their products at lower prices in that country. Unrealized exchange gains and losses arising from the translation of the financial statements of our non-U.S. functional currency operations are accumulated in the cumulative translation adjustments account in accumulated other comprehensive income (loss).

Inflation

An increase in inflation could have a significant impact on the cost of our raw material inputs. Wage inflation, increased prices for raw materials or finished goods used in our products, tariffs and/or interruptions in deliveries of raw materials or finished goods could adversely affect our profitability, margins and net sales, particularly if we are not able to pass these incurred costs on to our customers. In addition, interest rates normally increase during periods of rising inflation. Historically, as interest rates increase, demand for new homes and home improvement products decreases.

Seasonality

Our business is moderately seasonal and our net sales vary from quarter to quarter based upon the timing of the building season in our markets. Severe weather conditions in any quarter, such as unusually prolonged warm or cold conditions, rain, blizzards or hurricanes, could accelerate, delay or halt construction and renovation activity.

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MASONITE INTERNATIONAL CORPORATION

Acquisitions and Disposition

We have pursued a strategic initiative of optimizing our global business portfolio. As part of this strategy, in the last several years we have pursued strategic acquisitions targeting companies who produce components for our existing operations, manufacture niche products and provide value-added services. Additionally, we target companies with strong brands, complementary technologies, attractive geographic footprints and opportunities for cost and distribution synergies. We also continuously analyze our operations to determine which businesses, market channels and products create the most value for our customers and acceptable returns for our shareholders.

Acquisitions

BWI: On November 1, 2018, we completed the acquisition of the operating assets of Bridgewater Wholesalers Inc. ("BWI") for total consideration of \$22.3 million, subject to certain customary post-closing adjustments. BWI is headquartered in Branchburg, New Jersey, and is a fabricator and distributor of residential interior and exterior door systems, supporting customers in the Mid-Atlantic and Northeastern United States. Their product offerings include residential interior and exterior doors, commercial doors and hardware as well as value added pre-finishing services. Due to the timing of the acquisition, the purchase price allocation was not complete as of the date the financial statements were issued.

Graham and Maiman: On June 1, 2018, we completed the acquisition of the operating assets of the wood door companies of AADG, Inc., including the brands Graham Manufacturing Corporation and The Maiman Company (collectively, "Graham & Maiman"). We acquired the operating assets of Graham & Maiman for cash consideration of \$39.0 million. Graham & Maiman are based in Mason City, Iowa, and Springfield, Missouri. Graham & Maiman provide the non-residential construction industry with a full range of architectural premium and custom grade flush wood doors, architectural stile and rail wood doors, thermal-fused flush wood doors and wood door frames.

DW3: On January 29, 2018, we completed the acquisition of DW3 Products Holdings Limited ("DW3"), a leading UK provider of high quality premium door solutions and window systems, supplying products under brand names such as Solidor, Residor, Nicedor and Residence. We acquired 100% of the equity interests in DW3, funded solely by cash on hand of \$96.3 million, net of cash acquired. DW3 is based in Stoke-on-Trent and Gloucester, England, and their online quick ship capabilities and product portfolio both complement and expand the strategies we are pursuing with our business.

Disposition

PDS: On March 21, 2019, we completed the sale of all of the capital stock of Performance Doorset Solutions Limited ("PDS") for nominal consideration. The disposition of this business resulted in a loss on deconsolidation of \$4.6 million, which was recognized during the first quarter of 2019 in the Europe segment.

Components of Results of Operations

There have been no material changes to the information provided in the section entitled "Components of Results of Operations" in our Annual Report on Form 10-K for the year ended December 30, 2018. For the definition of and other information regarding Adjusted EBITDA, please see Note 15. Segment Information in the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report.

Table of Contents**MASONITE INTERNATIONAL CORPORATION****Results of Operations**

<i>(In thousands)</i>	Three Months Ended	
	March 31, 2019	April 1, 2018
Net sales	\$530,311	\$517,879
Cost of goods sold	418,207	412,450
Gross profit	112,104	105,429
<i>Gross profit as a % of net sales</i>	21.1 %	20.4 %
Selling, general and administration expenses	78,100	68,211
<i>Selling, general and administration expenses as a % of net sales</i>	14.7 %	13.2 %
Restructuring costs	3,740	—
Asset impairment	10,625	—
Loss on disposal of subsidiaries	4,605	—
Operating income	15,034	37,218
Interest expense, net	11,127	8,756
Other income, net of expense	(1,130)	(22)
Income before income tax expense	5,037	28,484
Income tax expense	58	6,701
Net income	4,979	21,783
Less: net income attributable to non-controlling interests	1,190	957
Net income attributable to Masonite	\$3,789	\$20,826

Three Months Ended March 31, 2019, Compared with Three Months Ended April 1, 2018**Net Sales**

Net sales in the three months ended March 31, 2019, were \$530.3 million, an increase of \$12.4 million or 2.4% from \$517.9 million in the three months ended April 1, 2018. Net sales in the first quarter of 2019 were negatively impacted by \$9.7 million as a result of foreign exchange rate fluctuations. Excluding this exchange rate impact, net sales would have increased by \$22.1 million or 4.3%. Our 2018 acquisitions, net of dispositions, contributed \$24.7 million or 4.8% of incremental net sales in the first quarter of 2019. Average unit price increased net sales in the first quarter of 2019 by \$23.5 million or 4.5% compared to the same period in 2018. Lower volumes excluding the incremental impact of acquisitions and dispositions ("base volume") decreased net sales by \$25.8 million or 5.0% in the first quarter of 2019 compared to the same period in 2018. Net sales of components and other products to external customers, were \$0.3 million lower in the first quarter of 2019 compared to the same period in 2018.

Net Sales and Percentage of Net Sales by Reportable Segment

<i>(In thousands)</i>	Three Months Ended March 31, 2019				
	North American Residential	Europe	Architectural	Corporate & Other	Total
Sales	\$354,802	\$84,739	\$ 88,353	\$ 6,728	\$534,622
Intersegment sales	(1,077)	(472)	(2,762)	—	(4,311)
Net sales to external customers	\$353,725	\$84,267	\$ 85,591	\$ 6,728	\$530,311
<i>Percentage of consolidated external net sales</i>	66.7 %	15.9 %	16.1 %		

Table of Contents**MASONITE INTERNATIONAL CORPORATION**

<i>(In thousands)</i>	Three Months Ended April 1, 2018				Total
	North American Residential	Europe	Architectural	Corporate & Other	
Sales	\$360,542	\$87,752	\$71,564	\$4,424	\$524,282
Intersegment sales	(862)	(648)	(4,893)	—	(6,403)
Net sales to external customers	\$359,680	\$87,104	\$66,671	\$4,424	\$517,879
<i>Percentage of consolidated external net sales</i>	<i>69.5</i>	<i>% 16.8</i>	<i>% 12.9</i>	<i>%</i>	

North American Residential

Net sales to external customers from facilities in the North American Residential segment in the three months ended March 31, 2019, were \$353.7 million, a decrease of \$6.0 million or 1.7% from \$359.7 million in the three months ended April 1, 2018. Net sales in the first quarter of 2019 were negatively impacted by \$3.4 million as a result of foreign exchange rate fluctuations. Excluding this exchange rate impact, net sales would have decreased by \$2.6 million or 0.7%. Lower base volume decreased net sales by \$32.5 million or 9.0% in the first quarter of 2019 compared to the same period in 2018. Net sales of components and other products to external customers were \$1.9 million lower in the first quarter of 2019 compared to the same period in 2018. Average unit price increased net sales in the first quarter of 2019 by \$20.4 million or 5.7% compared to the same period in 2018. Our 2018 acquisition of BWI contributed \$11.4 million or 3.2% of incremental net sales in the first quarter of 2019.

Europe

Net sales to external customers from facilities in the Europe segment in the three months ended March 31, 2019, were \$84.3 million, a decrease of \$2.8 million or 3.2% from \$87.1 million in the three months ended April 1, 2018. Net sales in 2019 were negatively impacted by \$5.7 million as a result of foreign exchange fluctuations. Excluding this exchange rate impact, net sales would have increased by \$2.9 million or 3.3%. Higher base volume increased net sales in the first quarter of 2019 by \$4.6 million or 5.3% compared to the same period in 2018. Net sales in the first quarter of 2019 were reduced by \$0.5 million due to the net impact of acquisitions and dispositions, including lost sales due to the disposition of a non-core product line, mostly offset by incremental sales from the DW3 acquisition. Net sales of components and other products to external customers were \$1.2 million lower in the first quarter of 2019 compared to the same period in 2018.

Architectural

Net sales to external customers from facilities in the Architectural segment in the three months ended March 31, 2019, were \$85.6 million, an increase of \$18.9 million or 28.3% from \$66.7 million in the three months ended April 1, 2018. Net sales in 2019 were negatively impacted by \$0.5 million as a result of foreign exchange fluctuations. Excluding this exchange rate impact, net sales would have increased by \$19.4 million or 29.1%. Our 2018 acquisition of Graham & Maiman contributed \$13.8 million or 20.7% of incremental net sales in the first quarter of 2019. Average unit price increased net sales in the first quarter of 2019 by \$3.1 million or 4.6% compared to the 2018 period. Higher base volume increased net sales in the first quarter of 2019 by \$1.4 million or 2.1% compared to the 2018 period. Net sales of components and other products to external customers were \$1.1 million higher in the first quarter of 2019 compared to the 2018 period.

Cost of Goods Sold

Cost of goods sold as a percentage of net sales was 78.9% and 79.6% for the three months ended March 31, 2019, and April 1, 2018, respectively. Material cost of sales, direct labor and distribution costs as a percentage of net sales in the first quarter of 2019 decreased by 1.0%, 0.4% and 0.4%, respectively. Partially offsetting these decreases, overhead and depreciation costs as a percentage of net sales increased by 0.7% and 0.4%, respectively, compared to the 2018 period. The decrease in material cost of sales as a percentage of net sales was driven by higher average unit prices, partly offset by increases due to inflation and a higher transactional impact from foreign exchange related to the

weakening of the the Canadian Dollar. The increase in overhead as a percentage of net sales was primarily due to lower volumes.

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Table of Contents**MASONITE INTERNATIONAL CORPORATION*****Selling, General and Administration Expenses***

In the three months ended March 31, 2019, selling, general and administration ("SG&A") expenses, as a percentage of net sales, were 14.7% compared to 13.2% the three months ended April 1, 2018, an increase of 150 basis points. SG&A expenses in the three months ended March 31, 2019, were \$78.1 million, an increase of \$9.9 million from \$68.2 million in the three months ended April 1, 2018. The overall increase was driven by a \$5.0 million net increase in non-cash items in SG&A expenses, including share based compensation, depreciation and amortization, deferred compensation and loss on disposal of property, plant and equipment. The increase in non-cash charges includes a \$2.5 million charge directly related to the divestiture of a non-core product line in the Europe segment. Additionally, the increase was driven by incremental SG&A from our 2018 acquisitions of \$3.7 million (net of dispositions) and an increase in personnel costs of \$2.4 million. These increases were partially offset by favorable foreign exchange impacts of \$1.2 million. The incremental SG&A from our 2018 acquisitions was driven by amortization of intangible assets and the increase in personnel costs was primarily due to investments in resources in our Architectural segment to facilitate acquisition integration and support growth.

Restructuring Costs

Restructuring costs in the three months ended March 31, 2019 were \$3.7 million. There were no restructuring costs in the three months ended April 1, 2018. Restructuring costs in the current year were related to the 2019 and 2018 Plans.

Asset Impairment

Asset impairment charges in the three months ended March 31, 2019, were \$10.6 million. There were no asset impairment charges in the three months ended April 1, 2018. Asset impairment charges in 2019 resulted from actions associated with the 2019 Plan.

Loss on Disposal of Subsidiaries

Loss on disposal of subsidiaries in the three months ended March 31, 2019 was \$4.6 million. There was no loss on disposal of subsidiaries in the three months ended April 1, 2018. The loss in the current year was related to the sale of PDS for nominal consideration during the first quarter of 2019. The total charge consists of \$3.6 million relating to the write-off of the net assets sold and other professional fees and \$1.0 million relating to the recognition of the cumulative translation adjustment out of accumulated other comprehensive loss.

Interest Expense, Net

Interest expense, net, in the three months ended March 31, 2019, was \$11.1 million, compared to \$8.8 million in the three months ended April 1, 2018. This increase primarily relates to the issuance of \$300.0 million aggregate principal amount of 2026 Senior Notes on September 27, 2018.

Other Income, Net of Expense

Other income, net of expense, in the three months ended March 31, 2019, was \$1.1 million compared to a nominal amount in the three months ended April 1, 2018. The change in other income, net of expense, is primarily due to unrealized gains and losses on foreign currency remeasurements. Also contributing to the change were our portion of dividends and the net gains and losses related to our non-majority owned unconsolidated subsidiaries that are recognized under the equity method of accounting and other miscellaneous non-operating income net of expenses.

Income Tax Expense

Our income tax expense in the three months ended March 31, 2019, decreased by \$6.6 million compared to the three months ended April 1, 2018, primarily due to (i) the reduction in income within the tax jurisdictions with various tax rates in which we operate and (ii) discrete income tax benefits of \$1.0 million recorded in the three months ended March 31, 2019, compared to \$0.1 million of benefit recorded in the three months ended April 1, 2018. The discrete income tax benefits of \$1.0 million are primarily attributable to the recognition of a deferred tax asset through reversal of a valuation allowance.

Table of Contents**MASONITE INTERNATIONAL CORPORATION****Segment Information**

<i>(In thousands)</i>	Three Months Ended March 31, 2019				
	North American Residential	Europe	Architectural	Corporate & Other	Total
Adjusted EBITDA	\$53,621	\$9,997	\$ 7,614	\$ (5,753)	\$65,479
Adjusted EBITDA as a percentage of segment net sales	15.2 %	11.9 %	8.9 %		12.3 %

<i>(In thousands)</i>	Three Months Ended April 1, 2018				
	North American Residential	Europe	Architectural	Corporate & Other	Total
Adjusted EBITDA	\$50,398	\$9,930	\$ 7,660	\$ (6,574)	\$61,414
Adjusted EBITDA as a percentage of segment net sales	14.0 %	11.4 %	11.5 %		11.9 %

The following reconciles Adjusted EBITDA to net income (loss) attributable to Masonite:

<i>(In thousands)</i>	Three Months Ended March 31, 2019				
	North American Residential	Europe	Architectural	Corporate & Other	Total
Adjusted EBITDA	\$53,621	\$9,997	\$ 7,614	\$ (5,753)	\$65,479
Less (plus):					
Depreciation	9,079	2,382	2,741	4,083	18,285
Amortization	449	3,965	2,093	1,090	7,597
Share based compensation expense	—	—	—	2,680	2,680
Loss on disposal of property, plant and equipment	341	2,469	97	6	2,913
Restructuring costs	1,880	862	604	394	3,740
Asset impairment	10,625	—	—	—	10,625
Loss on disposal of subsidiaries	—	4,605	—	—	4,605
Interest expense, net	—	—	—	11,127	11,127
Other income, net of expense	—	(139)	—	(991)	(1,130)
Income tax expense	—	—	—	58	58
Net income attributable to non-controlling interest	986	—	—	204	1,190
Net income (loss) attributable to Masonite	\$30,261	\$(4,147)	\$ 2,079	\$(24,404)	\$3,789

Table of Contents**MASONITE INTERNATIONAL CORPORATION**

<i>(In thousands)</i>	Three Months Ended April 1, 2018				Total
	North America Residential	Europe	Architectural	Corporate & Other	
Adjusted EBITDA	\$50,398	\$9,930	\$ 7,660	\$(6,574)	\$61,414
Less (plus):					
Depreciation	7,344	2,303	2,030	2,257	13,934
Amortization	481	3,239	2,254	611	6,585
Share based compensation expense	—	—	—	3,065	3,065
Loss on disposal of property, plant and equipment	533	—	79	—	612
Interest expense, net	—	—	—	8,756	8,756
Other (income), net of expense	—	35	—	(57)	(22)
Income tax expense	—	—	—	6,701	6,701
Net income (loss) attributable to non-controlling interest	970	—	—	(13)	957
Net income (loss) attributable to Masonite	\$41,070	\$4,353	\$ 3,297	\$(27,894)	\$20,826

Adjusted EBITDA in our North American Residential segment increased \$3.2 million, or 6.3%, to \$53.6 million in the three months ended March 31, 2019, from \$50.4 million in the three months ended April 1, 2018. Adjusted EBITDA in the North American Residential segment included corporate allocations of shared costs of \$14.0 million and \$13.7 million in the first quarter of 2019 and 2018, respectively. The allocations generally consist of certain costs of human resources, legal, finance, information technology and research and development.

Adjusted EBITDA in our Europe segment increased \$0.1 million, or 1.0%, to \$10.0 million in the three months ended March 31, 2019, from \$9.9 million in the three months ended April 1, 2018. Adjusted EBITDA in the Europe segment included corporate allocations of shared costs of \$0.3 million in the first quarter of 2019. There were no such allocation in the first quarter of 2018. The allocations generally consist of certain costs of human resources, legal, finance and information technology.

Adjusted EBITDA in our Architectural segment decreased \$0.1 million, or 1.3%, to \$7.6 million in the three months ended March 31, 2019, from \$7.7 million in the three months ended April 1, 2018. Adjusted EBITDA in the Architectural segment also included corporate allocations of shared costs of \$2.7 million and \$2.2 million in the first quarter of 2019 and 2018, respectively. The allocations generally consist of certain costs of human resources, legal, finance, information technology and research and development.

Liquidity and Capital Resources

Our liquidity needs for operations vary throughout the year. Our principal sources of liquidity are cash flows from operating activities, the borrowings under our ABL Facility and accounts receivable sales program with a third party ("AR Sales Program") and our existing cash balance. Our anticipated uses of cash in the near term include working capital needs, capital expenditures and share repurchases. On a continual basis, we evaluate and consider strategic acquisitions, divestitures, and joint ventures to create shareholder value and enhance financial performance.

We believe that our cash balance on hand, future cash generated from operations, the use of our AR Sales Program, our ABL Facility, and ability to access the capital markets will provide adequate liquidity for the foreseeable future. As of March 31, 2019, we had \$79.6 million of cash and cash equivalents, availability under our ABL Facility of \$159.6 million and availability under our AR Sales Program of \$14.4 million.

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MASONITE INTERNATIONAL CORPORATION

Cash Flows

Cash provided by operating activities was \$18.5 million during the three months ended March 31, 2019, compared to \$27.2 million in the three months ended April 1, 2018. This \$8.7 million decrease in cash provided by operating activities was partially due to a \$3.8 million decrease in our net income attributable to Masonite, adjusted for non-cash and non-operating items, with the balance attributable to changes in net working capital in the first three months of 2019 compared to the same period in 2018.

Cash used in investing activities was \$21.2 million during the three months ended March 31, 2019, compared to \$119.0 million in the three months ended April 1, 2018. This \$97.8 million decrease in cash used in investing activities was driven by \$96.3 million of cash used in the DW3 acquisition (net of cash acquired) in 2018, a \$1.4 million decrease in cash additions to property, plant and equipment and a decrease in other investing outflows of \$0.1 million in the first three months of 2019 compared to the same period in 2018.

Cash used in financing activities was \$34.3 million during the three months ended March 31, 2019, compared to \$47.7 million during the three months ended April 1, 2018. This \$13.4 million decrease in cash used in financing activities was driven by an \$11.0 million decrease in cash used for repurchases of common shares, a \$1.3 million decrease in cash used for tax withholding on share based awards and a decrease in other financing outflows of \$1.1 million in the first three months of 2019 compared to the same period in 2018.

Share Repurchases

We currently have in place a \$600 million share repurchase authorization, stemming from three separate authorizations by our Board of Directors. On February 23, 2016, our Board of Directors authorized a share repurchase program whereby we may repurchase up to \$150 million worth of our outstanding common shares and on February 22, 2017, and May 10, 2018, our Board of Directors authorized an additional \$200 million and \$250 million, respectively (collectively, the "share repurchase programs"). The share repurchase programs have no specified end date and the timing and amount of any share repurchases will be determined by management based on our evaluation of market conditions and other factors. Any repurchases under the share repurchase programs may be made in the open market, in privately negotiated transactions or otherwise, subject to market conditions, applicable legal requirements and other relevant factors. The share repurchase programs do not obligate us to acquire any particular amount of common shares, and they may be suspended or terminated at any time at our discretion. Repurchases under the share repurchase programs are permitted to be made under one or more Rule 10b5-1 plans, which would permit shares to be repurchased when we might otherwise be precluded from doing so under applicable insider trading laws. During the three months ended March 31, 2019, we repurchased and retired 646,102 of our common shares in the open market at an aggregate cost of \$33.2 million as part of the share repurchase programs. During the three months ended April 1, 2018, we repurchased 691,783 of our common shares in the open market at an aggregate cost of \$44.2 million. As of March 31, 2019, there was \$170.8 million available for repurchase in accordance with the share repurchase programs.

Other Liquidity Matters

Our cash and cash equivalents balance includes cash held in foreign countries in which we operate. Cash held outside Canada, in which we are incorporated, is free from significant restrictions that would prevent the cash from being accessed to meet our liquidity needs including, if necessary, to fund operations and service debt obligations in Canada. However, earnings from certain jurisdictions are indefinitely reinvested in those jurisdictions. Upon the repatriation of any earnings to Canada, in the form of dividends or otherwise, we may be subject to Canadian income taxes and withholding taxes payable to the various foreign countries. As of March 31, 2019, we do not believe adverse tax consequences exist that restrict our use of cash or cash equivalents in a material manner.

We also routinely monitor the changes in the financial condition of our customers and the potential impact on our results of operations. There has not been a change in the financial condition of a customer that has had a material adverse effect on our results of operations. However, if economic conditions were to deteriorate, it is possible that

there could be an impact on our results of operations in a future period and this impact could be material.

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MASONITE INTERNATIONAL CORPORATION

Accounts Receivable Sales Program

We maintain an accounts receivable sales program with a third party (the "AR Sales Program"). Under the AR Sales Program, we can transfer ownership of eligible trade accounts receivable of certain customers. Receivables are sold outright to a third party that assumes the full risk of collection, without recourse to us in the event of a loss. Transfers of receivables under this program are accounted for as sales. Proceeds from the transfers reflect the face value of the accounts receivable less a discount. Receivables sold under the AR Sales Program are excluded from trade accounts receivable in the condensed consolidated balance sheets and are included in cash flows from operating activities in the condensed consolidated statements of cash flows. The discounts on the sales of trade accounts receivable sold under the AR Sales Program were not material for any of the periods presented and were recorded in selling, general and administration expense within the condensed consolidated statements of comprehensive income.

Senior Notes

On August 27, 2018, we issued \$300.0 million aggregate principal senior unsecured notes (the "2026 Notes"). The 2026 Notes were issued in a private placement for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to buyers outside of the United States pursuant to Regulation S under the Securities Act. The 2026 Notes were issued without registration rights and are not listed on any securities exchange. The 2026 Notes bear interest at 5.75% per annum, payable in cash semiannually in arrears on March 15 and September 15 of each year and are due September 15, 2026. The 2026 notes were issued at par. We received net proceeds of \$295.7 million after deducting \$4.3 million of debt issuance costs. The debt issuance costs were capitalized as a reduction to the carrying value of debt and are being accreted to interest expense over the term of the 2026 Notes using the effective interest method. The net proceeds from issuance of the 2026 Notes were used to redeem \$125.0 million aggregate principal amount of the 2023 Notes (as described in the footnotes to the condensed consolidated financial statements), including the payment of related premiums, fees and expenses, with the balance of the proceeds available for general corporate purposes.

Obligations under the 2026 Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by certain of our directly or indirectly wholly-owned subsidiaries. We may redeem the 2026 Notes under certain circumstances specified therein. The indenture governing the 2026 Notes contains restrictive covenants that, among other things, limit our ability and the ability of our subsidiaries to: (i) incur additional debt and issue disqualified or preferred stock, (ii) make restricted payments, (iii) sell assets, (iv) create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to the parent company, (v) create or incur certain liens, (vi) enter into sale and leaseback transactions, (vii) merge or consolidate with other entities and (viii) enter into transactions with affiliates. The foregoing limitations are subject to exceptions as set forth in the indenture governing the 2026 Notes. In addition, if in the future the 2026 Notes have an investment grade rating from at least two nationally recognized statistical rating organizations, certain of these covenants will be terminated. The indenture governing the 2026 Notes contains customary events of default (subject in certain cases to customary grace and cure periods). As of March 31, 2019, and December 30, 2018, we were in compliance with all covenants under the indenture governing the 2026 Notes.

On September 27, 2017, and March 23, 2015, we issued \$150.0 million and \$475.0 million aggregate principal senior unsecured notes, respectively (the "2023 Notes"). The 2023 Notes were issued in two private placements for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and to buyers outside the United States pursuant to Regulation S under the Securities Act. The 2023 Notes were issued without registration rights and are not listed on any securities exchange. The 2023 Notes bear interest at 5.625% per annum, payable in cash semiannually in arrears on March 15 and September 15 of each year and are due March 15, 2023. The 2023 Notes were issued at 104.0% and par in 2017 and 2015, respectively, and the resulting premium of \$6.0 million is being amortized to interest expense over the term of the 2023 Notes using the effective interest method. We received net proceeds of \$153.9 million and \$467.9 million, respectively, after deducting \$2.1 million and \$7.1 million of debt issuance costs in

2017 and 2015, respectively. The debt issuance costs were capitalized as a reduction to the carrying value of debt and are being accreted to interest expense over the term of the 2023 Notes using the effective interest method. The net proceeds from the 2017 issuance of the 2023 Notes are for general corporate purposes. The net proceeds from the 2015 issuance of the 2023 Notes, together with available cash balances, were used to redeem \$500.0 million aggregate principal of prior 8.25% senior unsecured notes due 2021 and to pay related premiums, fees and expenses.

Table of Contents**MASONITE INTERNATIONAL CORPORATION**

Obligations under the 2023 Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by certain of our directly or indirectly wholly-owned subsidiaries. We may redeem the 2023 Notes under certain circumstances specified therein. The indenture governing the 2023 Notes contains restrictive covenants that, among other things, limit our ability and our subsidiaries' ability to: (i) incur additional debt and issue disqualified or preferred stock, (ii) make restricted payments, (iii) sell assets, (iv) create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to us, (v) create or incur certain liens, (vi) enter into sale and leaseback transactions, (vii) merge or consolidate with other entities and (viii) enter into transactions with affiliates. The foregoing limitations are subject to exceptions as set forth in the indenture governing the 2023 Notes. In addition, if in the future the 2023 Notes have an investment grade rating from at least two nationally recognized statistical rating organizations, certain of these covenants will be replaced with a less restrictive covenant. The indenture governing the 2023 Notes contains customary events of default (subject in certain cases to customary grace and cure periods). As of March 31, 2019, and December 30, 2018, we were in compliance with all covenants under the indenture governing the 2023 Notes.

ABL Facility

On January 31, 2019, we and certain of our subsidiaries amended and restated our asset-based revolving credit facility (the "ABL Facility") in order to extend the maturity date of the ABL Facility and amend certain other provisions. The amended and restated ABL Facility increased the revolving commitments to \$250.0 million from \$150.0 million and extended the final maturity date to January 31, 2024, from April 9, 2020. The borrowing base is calculated based on a percentage of the value of selected U.S., Canadian and U.K. accounts receivable and inventory, less certain ineligible amounts. Obligations under the ABL Facility are secured by a first priority security interest in such accounts receivable, inventory and other related assets of Masonite and our subsidiaries. In addition, obligations under the ABL Facility are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis, by certain of our directly or indirectly wholly-owned subsidiaries. Borrowings under the ABL Facility bear interest at a rate equal to, at our opinion, (i) the U.S., Canadian or U.K. Base Rate (each as defined in the credit agreement relating to the ABL Facility, the "Amended and Restated Credit Agreement") plus a margin ranging from 0.25% to 0.50% per annum, or (ii) the Adjusted LIBO Rate or BA Rate (each as defined in the Amended and Restated Credit Agreement), plus a margin ranging from 1.25% to 1.50% per annum. In addition to paying interest on any outstanding principal under the ABL Facility, a commitment fee is payable on the undrawn portion of the ABL Facility in an amount equal to 0.25% per annum of the average daily balance of unused commitments during each calendar quarter.

The ABL Facility contains various customary representations, warranties and covenants by us that, among other things, and subject to certain exceptions, restrict Masonite's ability and the ability of our subsidiaries to: (i) pay dividends on our common shares and make other restricted payments, (ii) make investments and acquisitions, (iii) engage in transactions with our affiliates, (iv) sell assets, (v) merge and (vi) create liens. The Amended and Restated Credit Agreement amended the ABL Facility to, among other things, (i) permit us to incur unlimited unsecured debt as long as such debt does not contain covenants or default provisions that are more restrictive than those contained in the ABL Facility, (ii) permit us to incur debt as long as the pro forma secured leverage ratio is less than 4.5 to 1.0, and (iii) add certain additional exceptions and exemptions under the restricted payment, investment and indebtedness covenants (including increasing the amount of certain debt permitted to be incurred under an existing exception). As of March 31, 2019, and December 30, 2018, we were in compliance with all covenants under the credit agreement governing the ABL Facility and there were no amounts outstanding under the ABL Facility.

Supplemental Guarantor Financial Information

As described above, obligations under the ABL Facility are secured by a first priority security interest in substantially all of the current assets of Masonite and our subsidiaries. In addition, our obligations under the 2023 Notes and the ABL Facility are fully and unconditionally guaranteed, jointly and severally, by certain of our directly or indirectly wholly-owned subsidiaries. The following unaudited supplemental financial information for our non-guarantor

subsidiaries is presented:

Our non-guarantor subsidiaries generated external net sales of \$472.9 million and \$456.1 million for the three months ended March 31, 2019, and April 1, 2018, respectively. Our non-guarantor subsidiaries generated Adjusted EBITDA of \$57.1 million and \$50.8 million for the three months ended March 31, 2019, and April 1, 2018, respectively. Our non-guarantor subsidiaries had total assets of \$1.9 billion and \$1.8 billion and total liabilities of \$828.0 million and \$711.8 million as of March 31, 2019, and December 30, 2018, respectively.

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MASONITE INTERNATIONAL CORPORATION

Changes in Accounting Standards and Policies

Changes in accounting standards and policies are discussed in Note 1. Business Overview and Significant Accounting Policies in the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For our disclosures about market risk, please see Part II, Item 7A., "Quantitative and Qualitative Disclosures about Market Risk," in our Annual Report on Form 10-K for the year ended December 30, 2018. We believe there have been no material changes to the information provided therein.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter covered by this Quarterly Report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II – OTHER INFORMATION****Item 1. Legal Proceedings**

The information required with respect to this item can be found in Note 10. Commitments and Contingencies in the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report and is incorporated by reference into this Part II, Item 1. Such information should be read in conjunction with the information contained under Part I, Item 3 "Legal Proceedings" included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 1A. Risk Factors

You should carefully review and consider the information regarding certain factors which could materially affect our business, financial condition or future results as set forth under Item 1A "Risk Factors" in our Annual Report on Form 10-K filed for the year ended December 30, 2018. There have been no material changes from the risk factors disclosed in such Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**(a) Unregistered Sale of Equity Securities.**

None.

(b) Use of Proceeds.

Not applicable.

(c) Repurchases of Our Equity Securities.

During the three months ended March 31, 2019, we repurchased 646,102 of our common shares in the open market.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
December 31, 2018, through January 27, 2019	234,310	\$ 49.23	234,310	\$ 192,457,036
January 28, 2019, through February 24, 2019	127,276	55.21	127,276	185,430,364
February 25, 2019, through March 31, 2019	284,516	51.41	284,516	170,802,240
Total	646,102	\$ 51.37	646,102	

We currently have in place a \$600 million share repurchase authorization, stemming from three separate authorizations by our Board of Directors. On February 23, 2016, our Board of Directors authorized a share repurchase program whereby we may repurchase up to \$150 million worth of our outstanding common shares, and on February 22, 2017, and May 10, 2018, our Board of Directors authorized an additional \$200 million and \$250 million, respectively (collectively, the "share repurchase programs"). The share repurchase programs have no specified end date and the timing and amount of any share repurchases will be determined by management based on our evaluation of market conditions and other factors. Any repurchases under the share repurchase programs may be made in the open market, in privately negotiated transactions or otherwise, subject to market conditions, applicable legal requirements and other relevant factors. The share repurchase programs do not obligate us to acquire any particular amount of common shares, and they may be suspended or terminated at any time at our discretion. Repurchases under the share repurchase programs are permitted to be made under one or more Rule 10b5-1 plans, which would permit shares to be repurchased when we might otherwise be precluded from doing so under applicable insider trading laws. As of March 31, 2019, \$170.8 million was available for repurchase in accordance with the share repurchase programs.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following is a list of all exhibits filed or furnished as part of this report:

**Exhibit
Description
No.**

~~31~~31 Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002

~~31~~31 Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002

~~32~~32 1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

~~32~~32 2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

~~101~~101 INS XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

~~10~~10 XBRL Taxonomy Extension Schema Document

~~10~~10 XBRL Taxonomy Extension Calculation Linkbase Document

~~10~~10 XBRL Taxonomy Extension Definition Linkbase Document

~~10~~10 XBRL Taxonomy Extension Label Linkbase Document

~~10~~10 XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith.

SIGNATURES

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

MASONITE
INTERNATIONAL
CORPORATION
(Registrant)

Date: May 2, 2019 By/s/ Russell T. Tiejema
Russell T. Tiejema
Executive Vice President
and Chief Financial
Officer
(Principal Financial
Officer and Principal
Accounting Officer)