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Core-Mark Holding Company, Inc.

Form 10-K

March 01, 2019

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter: \$1,019,910,160.

As of February 25, 2019, the registrant had 45,870,201 shares of its common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The information called for by Part III of this Form 10-K will be included in an amendment to this Form 10-K or incorporated by reference to the registrant's 2019 definitive proxy statement to be filed pursuant to Regulation 14A.

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**FORM 10-K**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**  
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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Statements in this Annual Report on Form 10-K that are not statements of historical fact are forward-looking statements made pursuant to the safe-harbor provisions of the Exchange Act of 1934 and the Securities Act of 1933. Forward-looking statements in some cases can be identified by the use of words such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “seek,” “anticipate,” “estimate,” “believe,” “could,” “would,” “project,” “predict,” “continue,” “plan,” “pro” similar words or expressions. Forward-looking statements are made only as of the date of this Form 10-K and are based on our current intent, beliefs, plans and expectations. They involve risks and uncertainties that could cause actual future results, performance or developments to differ materially from historical results or those described in or implied by such forward-looking statements.

A detailed discussion of risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in Part I, Item 1A, “Risk Factors” of this Form 10-K. Management of Core-Mark Holding Company, Inc. (“Core-Mark”) undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## **SEC Regulation - Non-GAAP Information**

The financial statements in this Annual Report on Form 10-K are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Core-Mark uses certain non-GAAP financial measures including (i) Adjusted EBITDA, (ii) net sales, less excise taxes, (iii) remaining gross profit (including cigarette remaining gross profit and Food/Non-food remaining gross profit), (iv) remaining gross profit margin (including cigarette remaining gross profit margin and Food/Non-food remaining gross profit margin), (v) remaining gross profit margin less excise taxes (including cigarette remaining gross profit margin less excise taxes and Food/Non-food remaining gross profit margin less excise taxes), and (vi) cigarette remaining gross profit per carton. We believe these non-GAAP financial measures provide meaningful supplemental information for investors regarding the performance of our business and facilitate a meaningful period-to-period evaluation. We also believe these measures allow investors to view the results in a manner similar to the method used by our management. Management uses these non-GAAP financial measures in order to have comparable financial results to analyze changes in Core-Mark’s underlying business. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. These measures may be defined differently than other companies and therefore, such measures may not be comparable to ours. We strongly encourage readers to review our financial statements and publicly filed reports in their entirety and not to rely on any single financial measure. More information about such measures are included in Item 7 - *Non-GAAP Financial Information*.

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**PART I**

**ITEM 1. BUSINESS**

*Unless the context indicates otherwise, all references in this Annual Report on Form 10-K to “Core-Mark,” “the Company,” “we,” “us,” or “our” refer to Core-Mark Holding Company, Inc. and its subsidiaries.*

**Company Overview**

Core-Mark is one of the largest wholesale distributors to the convenience retail industry in North America, providing sales, marketing, distribution and logistics services to approximately 43,000 customer locations across the United States (“U.S.”) and Canada through 32 distribution centers (excluding two distribution facilities we operate as a third-party logistics provider). Our origins date back to 1888, when Glaser Bros., a family-owned-and-operated candy and tobacco distribution business, was founded in San Francisco, California.

Our mission is to be the most valued marketer of fresh and broad-line supply solutions to the convenience retail industry. In that pursuit, we are focused on three key strategic priorities: growing sales and margin faster than the industry, building on our leadership position in providing category management solutions, and leveraging our cost structure. We have also been successful in growing our business organically and through strategic acquisitions which have allowed us to expand our distribution network, product selection and customer base.

We operate in an industry where, in 2017, total in-store sales at convenience retail locations across both the U.S. and Canada were approximately \$278.7 billion. In the U.S., total in-store sales at convenience locations in 2017 were approximately \$237.0 billion, an increase of 1.7% over the prior year, based on the National Association of Convenience Stores (“NACS”) State of the Industry (“SOI”) report. Over the ten years from 2008 through the end of 2017, U.S. convenience in-store sales have increased by a compounded annual growth rate of approximately 3.1%. The most recent NACS Convenience Industry Store Count noted that the U.S. had approximately 155,000 convenience store locations as of December 31, 2017. Approximately 103,000, or 66%, of the convenience stores in the U.S. are considered independents with ten or fewer stores. In Canada, we estimate that total in-store sales at convenience locations in 2017 were approximately CAD \$56.0 billion generated through approximately 27,000 stores, based on the Canadian Convenience Store Association 2017 Industry report.

Core-Mark is one of two national distributors to the convenience store industry in the U.S. and is the largest in Canada. Our established national market presence rests primarily with our ability to service customers in every geographic region within the U.S. through 27 distribution centers and to service customers in Canada through our five Canadian distribution centers. We offer our customer base scale and buying power, coupled with marketing programs to assist them in growing their businesses. Our leading category management strategies including our Vendor Consolidation Initiative (“VCI”), Focused Marketing Initiative (“FMI”) and “Fresh” products and food service programs have a proven track record of helping our customers grow their sales and profits at an accelerated rate. We believe this gives us a strong competitive advantage in the North American convenience retail industry.

**Company Highlights**

Our net sales grew 4.5% to \$16.4 billion in 2018 from \$15.7 billion in 2017. The rate of growth in our net sales was lower than what we experienced the last several years due primarily to an acceleration of the decline of cigarette carton sales as well as fewer significant retail chains bidding their business in 2018. Our net income for 2018 increased 35.8% to \$45.5 million and Adjusted EBITDA increased 21.4% to \$164.7 million compared with 2017. Our growth has been driven primarily by our business strategies described more fully below. We believe these strategies have positioned us to continue to grow our approximate 7% market share of North American in-store convenience store sales, and to take advantage of growth opportunities with other retail store formats. Below are recent key highlights:

In July 2017, we acquired substantially all of the assets of Farner-Bocken Company (“Farner-Bocken”), located in Carroll, Iowa, for approximately \$174.0 million. The acquisition of Farner-Bocken further expands our market share in the Midwest.

In May 2017, we began service of our three-year supply agreement with approximately 530 Walmart Inc. (“Walmart”) stores in five western states (Arizona, California, New Mexico, Nevada and Utah). We currently service

approximately 560 Walmart stores and are their primary distributor for candy, tobacco, certain snack foods and health food items. Candy sales to Walmart, the largest product category serviced under the agreement, contributed approximately 34% and 24% of the Company's total sales for this category in 2018 and 2017, respectively.

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### **Business Strategy**

Our objective is to increase overall return to stockholders by growing faster and more profitable than our industry, being the industry leader in category management solutions and leveraging operating costs to increase profitability. As one of the largest marketers of fresh and broad-line supply solutions to the convenience retail industry in North America with a track record of effectively selling into other retail channels, we believe we are well-positioned to meet this objective moving forward. Our business strategy includes the following initiatives, designed to further enhance the value we provide to our retail customers:

**Fresh Products and Food Service.** There is an increasing trend among consumers to purchase fresh food and food service products from convenience and other retail store formats. To meet this demand, we have modified and upgraded our refrigerated capacity, including investing in chill docks, and tri-temperature (“tri-temp”) trailers, which provide the infrastructure to deliver a significant range of chilled items including milk, produce, fresh and food service items to retail outlets. We have established partnerships with strategically-located dairies, fresh kitchens, food service providers and bakeries to further enable us to deliver premium consumer items such as fresh pizza, fried chicken, fresh made sandwiches, wraps, cut-fruit, parfaits, pastries, doughnuts, bread and home meal replacement solutions. We continue to promote our fresh products through the development of unique and comprehensive marketing and equipment programs that assist retailers in showcasing their fresh product offerings. We believe our investments in infrastructure, combined with our strategically located suppliers and in-house expertise, positions us as a leader in providing fresh food and food service products and programs to the convenience retail industry. Proper execution of our VCI program, the cornerstone being dairy distribution, provides Core-Mark the critical mass necessary to offer retailers a multiple weekly delivery platform, which facilitates the proper handling and dating of fresh products. We believe that fresh items are increasingly driving consumer decisions and will continue to be an important category.

**Vendor Consolidation Initiative.** We expect our VCI program will allow us to continue to grow our sales by capitalizing on the highly fragmented supply chain that services the convenience retail industry. A convenience retailer generally receives store merchandise through a large number of direct-store deliveries. This represents a highly inefficient and costly process for retailers. Our VCI program targets inefficiencies in the convenience store supply chain by offering the retailer the ability to receive multiple weekly deliveries for the bulk of their products, including dairy and other merchandise they previously purchased from multiple direct-store delivery companies. This simplifies the customer supply chain and provides retailers with an opportunity to improve inventory turns and working capital, reduce operational and transaction costs, and greatly diminish their out-of-stocks.

**Focused Marketing Initiative.** Designed to enhance our relationship with our independent customer base and to further differentiate us in the market place, our FMI program is centered on increasing the sales and profitability of the independent store through improved category insights, optimized retail price strategy and demographic decision-making, along with providing Core-Mark’s marketing solutions to create a comprehensive retail marketing strategy. We believe our innovative approach, which focuses on building a trusted partnership with our customers, has established us as the market leader in providing valuable marketing and supply chain solutions to the convenience retail industry.

**Acquisitions and Expansion.** We believe there remains a significant opportunity to increase our market presence and revenue growth through strategic and opportunistic acquisitions and the continued expansion of our facility infrastructure. We completed six acquisitions and added three primary distribution centers between 2010 and 2018, which expanded our distribution network, product selection and customer base. We will continue to be opportunistic in pursuing acquisitions that allow further leveraging of our geographic footprint and bring Fresh Products, Food Service and VCI to a broader customer base.

### **Competitive Strengths**

We believe we have the following fundamental competitive strengths, which form the foundation for our business strategy:

**Innovation and Flexibility.** Wholesale distributors typically provide convenience retailers access to a broad product line, the ability to place small quantity orders, inventory management and access to trade credit. Our capability to increase sales and profitability with existing and new customers is based on our ability to deliver consistently high

levels of service, innovative marketing programs, technology solutions and logistics support. We believe we are the best in class at capitalizing on emerging trends and bringing retailers our unique category management solutions such as fresh foods, food service solutions and healthier options, as well as our VCI and FMI initiatives.

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**Distribution Capabilities.** The wholesale distribution industry is highly fragmented and historically has consisted of a large number of small, privately-owned businesses and a small number of large, full-service wholesale distributors serving multiple geographic regions. Relative to smaller competitors, large national distributors such as Core-Mark benefit from several competitive advantages including: increased purchasing power, the ability to service large national chain accounts, economies of scale in sales and operations, and the resources to invest in information technology and other productivity-enhancing technologies. Our wholesale distributing capabilities provide valuable services to both manufacturers of consumer products and convenience retailers. Manufacturers benefit from our broad retail coverage, inventory management, efficiency in processing small orders and frequency of deliveries. Convenience retailers benefit from our distribution capabilities by gaining access to a broad product line, optimizing inventory management and accessing trade credit.

**Customers**

We service approximately 43,000 customer locations in all 50 states in the U.S., five Canadian provinces and one Canadian territory. Our primary customer base consists of traditional convenience stores, as well as alternative outlets selling consumer packaged goods. Our traditional convenience store customers include many of the major national and super-regional convenience store operators, as well as independently owned convenience stores. Our alternative outlet customers comprise a variety of store formats, including grocery stores, drug stores, big box or supercenter stores, liquor stores, cigarette and tobacco shops, hotel gift shops, military exchanges, college and corporate campuses, casinos, hardware stores, airport concessions and other specialty and small format stores that carry convenience products.

Our top ten customers accounted for 39.4% of our net sales in 2018 including Murphy U.S.A., our largest customer, which accounted for 11.9% of our total net sales.

**Products**

We purchase a variety of brand name and private label products, representing approximately 58,000 stock keeping units (“SKUs”), from suppliers and manufacturers. Cigarette products represent less than 5% of our total SKUs purchased. We offer customers a variety of food/non-food products, including fast food, candy, snacks, groceries, fresh products, dairy, bread, beverages, other tobacco products, alternative nicotine products, general merchandise, and health and beauty care products.

Below is a comparison of our net sales mix by primary product category for the last three years (in millions, except percentages):

<u>Product Category</u>	Year Ended December 31,		2017		2016	
	2018	% of Net Sales	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Cigarettes	\$10,974.5	66.9 %	\$10,887.4	69.4 %	\$10,335.7	71.1 %
Food	1,659.0	10.1	1,561.1	10.0	1,422.5	9.8
Fresh	474.2	2.9	436.3	2.8	389.8	2.7
Candy	992.0	6.1	833.4	5.3	620.0	4.3
Other tobacco products (“OTP”)	387.2	8.5	1,272.3	8.1	1,133.8	7.8
Health, beauty & general	711.5	4.3	513.3	3.3	446.7	3.1
Beverages	191.0	1.2	183.4	1.1	176.5	1.2
Equipment/other	5.9	—	0.4	—	4.4	—
Total food/non-food products	5,420.8	33.1 %	4,800.2	30.6 %	4,193.7	28.9 %
Total net sales	\$16,395.3	100.0%	\$15,687.6	100.0%	\$14,529.4	100.0%

**Cigarette Products.** We purchase cigarette products from major U.S. and Canadian manufacturers. We have no long-term cigarette purchase agreements and buy substantially all of our products on an as-needed basis. Cigarette manufacturers historically offer structured incentive programs to wholesalers based on maintaining market share and executing promotional programs. Net sales of the cigarettes category grew 0.8% in 2018 to \$10,974.5 million, accounting for approximately 66.9% of our total net sales and 26.0% of our total gross profit in 2018. We control major purchases of cigarettes centrally to optimize inventory levels and purchasing opportunities. Daily replenishment

of inventory and brand selection is controlled by our distribution centers.

In 2018, our cigarette carton sales in the U.S. and Canada decreased 3.9% and 1.8%, respectively. Excluding the addition of Farner-Bocken, we had a 6.7% decrease in carton sales (7.1% and 1.8% for the U.S. and Canada, respectively) compared to 2017, which was partially offset by a 4.7% increase in the average sales price per carton. The decrease in carton sales in the U.S.

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was driven primarily by a general decline in the consumption of cigarettes, which was greater in 2018 compared to historical norms, and the expiration of our distribution agreement with Kroger Convenience (“Kroger”). The increase in the average sales price per carton was due primarily to increases in cigarette manufacturers’ prices and increases in excise taxes in certain jurisdictions.

In the industry overall, U.S. and Canadian cigarette consumption steadily declined over the last decade. Based on data compiled from the U.S. Department of Agriculture - Economic Research Service and provided by the Tobacco Merchants Association (“TMA”), total cigarette consumption in the U.S. declined from 351 billion cigarettes in 2008 to 249 billion cigarettes in 2017, or a compounded annual decline of approximately 3.4%. Total cigarette consumption declined in Canada from 28 billion cigarettes in 2008 to 25 billion cigarettes in 2017, or a compounded annual decline of approximately 1.1% based on statistics provided by the TMA. More recently, a greater decline in total cigarette consumption has been partially offset by consumption of alternative nicotine products and OTP. Although we anticipate overall cigarette consumption will continue to decline, we expect to offset these declines through continued growth in our non-cigarette categories including alternative nicotine products and OTP, market share expansion and incremental gross profit from cigarette manufacturer price increases. We expect cigarette manufacturers will continue to raise prices for the foreseeable future as carton sales decline in order to maintain or enhance their overall profitability.

Excise taxes are levied on cigarettes and other tobacco products by the U.S. and Canadian federal governments and are also imposed by various states, localities and provinces. We collect state, local, and provincial excise taxes from our customers and remit these amounts to the appropriate authorities based on the credit terms, if applicable, extended by each jurisdiction. Net sales and cost of sales includes amounts related to state, local and provincial excise taxes which were approximately \$3.5 billion for both 2018 and 2017, and approximately \$3.0 billion in 2016.

**Food/Non-food Products.** Our food products include fast food, candy, snacks, groceries, beverages and fresh products such as sandwiches, juices, salads, produce, dairy and bread. Our non-food products include cigars, tobacco, alternative nicotine products, health and beauty care products, general merchandise and equipment. Net sales of the combined food/non-food product categories grew 12.9% in 2018 to \$5,420.8 million, which was 33.1% of our total net sales. The increase was driven primarily by incremental sales to existing customers and net market share gains, including the additions of Farner-Bocken and Walmart, partially offset by the expiration of our distribution agreements with Kum & Go and Kroger. The increase in candy was driven primarily by sales to Walmart, which we began servicing in May 2017. Sales generated from Fresh, VCI and FMI were the primary drivers of increased sales to existing customers. Our Health, beauty & general category continued to benefit from the increasing popularity of alternative nicotine delivery products, which are included in this category. We believe the overall trend toward the increased use of alternative nicotine delivery products and other tobacco products will continue and partially offset the impact of the expected long-term decline of cigarette consumption.

Gross profit for food/non-food categories grew \$64.1 million, or 11.1%, to \$641.9 million in 2018, which was 74.0% of our total gross profit. Our strategy is to continue to grow sales of food/non-food products through our category management solutions including Fresh and Food Service, VCI and FMI. In order to take advantage of the significantly higher margins earned by food/non-food products, two of our key business strategies, Fresh and VCI, focus primarily on the highest margin categories in the food/non-food group. We believe there is an increasing trend toward purchases of quality fresh food, “healthy for you” and food service items from convenience and other retail store formats.

Combined sales of our Food and Fresh categories grew \$135.8 million, or 6.8%, to \$2,133.2 million in 2018 driven primarily by this trend, as well as net market share gains. Sales of OTP increased \$114.9 million, or 9.0%, while the Health, beauty & general category increased \$198.2 million or 38.6%, driven primarily by the increasing popularity of alternative nicotine products.

**Suppliers**

We purchase products for resale from approximately 5,800 trade suppliers and manufacturers located across the U.S. and Canada. In 2018, we purchased approximately 80% of our products from our top 20 suppliers, with our top two suppliers, Altria Group, Inc. (the parent company of Philip Morris USA, Inc.) and R.J. Reynolds Tobacco Company, accounting for approximately 33% and 23% of our purchases, respectively. We coordinate our purchasing from suppliers by negotiating, on a company-wide basis, special arrangements to obtain volume discounts and additional



incentives, while also taking advantage of promotional and marketing incentives offered to us as a wholesale distributor. In addition, buyers in each of our distribution facilities purchase products directly from manufacturers, improving product mix and availability for individual markets.

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**Operations**

As of December 31, 2018, we operated a network of 32 primary distribution centers in the U.S. and Canada (excluding two distribution facilities we operate as a third-party logistics provider). Twenty-seven of our distribution centers are located in the U.S. and five are located in Canada.

The map below depicts the scope of our operations and the names of our distribution centers.

We operate five consolidation centers which buy products from our suppliers in bulk quantities and then redistribute the products to many of our other distribution centers. The products purchased by our consolidation centers may include frozen and chilled items, candy, snacks, beverages, health and beauty care and general merchandise products. We operate two additional facilities as a third-party logistics provider dedicated solely to supporting the logistics and management requirements of one of our major customers, Alimentation Couche-Tard, Inc. (“Couche-Tard”). These distribution facilities are located in Phoenix, Arizona and San Antonio, Texas.

Our proprietary Distribution Center Management System platform provides our distribution centers with the flexibility to adapt rapidly to changing business needs and allows them to provide our customers with necessary information technology requirements and integration capabilities.

**Distribution**

As of December 31, 2018, we employed approximately 2,000 personnel in our transportation department, including delivery drivers, shuttle drivers, routers, training supervisors and managers, all of whom focus on achieving safe, on-time deliveries. Our daily orders are picked and loaded nightly in route sequence, with the majority reaching their destination within 24 hours. At December 31, 2018, our distribution fleet consisted of approximately 1,500 leased tractors and trailers and approximately 1,200 additional owned tractors and trailers. Our “tri-temp” trailer fleet gives us the capability to deliver frozen, chilled and non-refrigerated goods in one delivery and provides us the multiple temperature zone capability needed to support our focus on delivering fresh products to our customers. Excluding the fleet of trucks and trailers acquired with the acquisition of Farner-Bocken, which are dual temp, substantially all of our trailers were “tri-temp” as of December 31, 2018.

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As of December 31, 2018, approximately 16% of our trucks ran on Compressed Natural Gas (“CNG”), which allows us to reduce our carbon footprint and lower our transportation costs. We utilize seven CNG stations, two of which we own (located in Wilkes-Barre, Pennsylvania and Corona, California). The other five are operated in partnership with U.S. Oil (a division of U.S. Venture, Inc.) under the name GAIN Clean Fuel (“GAIN”) and are located in Aurora, Colorado; Forrest City, Arkansas; Sanford, North Carolina; Atlanta, Georgia and Tampa, Florida. In addition to providing fuel to our fleet, the GAIN stations are also open to other public fleets for fueling.

### **Competition**

Competition within the industry is based primarily on the range and quality of the services provided, price, product selection and the reliability of wholesalers’ logistics as well as proximity to the customer’s stores. We operate from a perspective that focuses heavily on flexibility and providing outstanding customer service, order fulfillment rates, on-time delivery, innovative marketing solutions and merchandising support as well as competitive pricing.

Core-Mark is one of the two largest wholesale convenience distributors (measured by annual sales) serving North America. We service both convenience store chain customers and independent operators with ten or fewer stores which comprise approximately 66% of the convenience retail store market. The McLane Company, Inc., a subsidiary of Berkshire Hathaway Inc., our largest competitor, focuses on servicing large regional or national convenience store chains as well as chain customers in other trade channels. There are two other large companies that cover the eastern half of the U.S.: The H.T. Hackney Company and the Eby-Brown Company. In addition, there are many local distributors serving small regional chains and independent convenience retailers. In Canada, in addition to Core-Mark, several companies make-up the competitive landscape. Wallace & Carey, Inc., has national distribution capabilities. Pratts Wholesale Limited, regionally serves the Manitoba, Saskatchewan, and Alberta markets. Sobeys Inc. is a large national convenience store and grocery wholesaler.

Beyond the traditional wholesale supply channels, we face potential competition from at least three other supply avenues. First, certain consumer product manufacturers such as Anheuser-Busch Companies, Inc., MillerCoors LLC, The Coca-Cola Company, and PepsiCo (including its Frito-Lay, Inc. division) deliver their products directly to convenience retailers. Secondly, club wholesalers such as Costco Wholesale Corporation and Sam’s West, Inc. (“Sam’s Club”) provide a limited selection of products at generally competitive prices; however, they often have limited delivery options and limited services. Finally, some large convenience retail chains self-distribute products due to the geographic density of their stores and their belief that they can economically service such locations.

We face competition from the diversion into certain U.S. and Canadian markets of cigarettes intended for sale outside of these markets, including the sale of cigarettes in non-taxable jurisdictions, inter-state/provincial and international smuggling of cigarettes, the sale of counterfeit cigarettes by third parties, increased imports of foreign low priced brands, the sale of cigarettes by third parties over the internet and by other means designed to avoid collection of applicable taxes. The competitive environment has been heightened by a continued influx of generic products, tobacco, and nicotine alternatives that challenge sales of higher priced cigarettes.

### **Working Capital Practices**

We sell products on credit terms to our customers that averaged, as measured by days sales outstanding, about nine days for each of 2018, 2017 and 2016. Credit terms may impact pricing and are competitive within our industry. Many of our customers remit payment electronically, which facilitates efficient and timely monitoring of payment risk. Canadian days sales outstanding in receivables tend to be lower as Canadian industry practice is for shorter credit terms than in the U.S.

We maintain our inventory of products based on the level of sales of the particular product and manufacturer replenishment cycles. The number of days a particular item of inventory remains in our distribution centers varies by product and is principally driven by the turnover of that product and economic order quantities. We typically order and carry in inventory additional amounts of certain critical products to assure high order fulfillment levels for these items. Periodically, we may carry higher levels of inventory to take advantage of anticipated manufacturer price increases. The number of days of cost of sales in inventory averaged about 14 days, 16 days and 15 days, in 2018, 2017 and 2016, respectively. The cigarette category averaged seven days, eleven days and nine days, in 2018, 2017 and 2016, respectively. The food/non-food categories averaged 25 days, 29 days and 27 days in 2018, 2017 and 2016, respectively.

We obtain terms from our vendors and certain taxing jurisdictions based on industry practices, consistent with our credit standing. We take advantage of the full complement of term offerings, which may include enhanced cash discounts for earlier payment or prepayment. Terms for our accounts payable and cigarette and tobacco taxes payable range anywhere from two days prepaid to 60 days credit. Days payable outstanding for both categories, excluding the impact of prepayments, during each of 2018, 2017 and 2016 averaged 11 days.

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Table of Contents**Employees**

The following chart provides a breakdown of our employees by function and geographic region (including employees at our third-party logistics facilities) as of December 31, 2018:

**TOTAL EMPLOYEES BY BUSINESS FUNCTION**

	U.S.	Canada	Total
Sales and marketing	1,491	110	1,601
Warehousing and distribution	4,992	397	5,389
Management, administration, finance and purchasing	949	148	1,097
Total for all categories	7,432	655	8,087

Four of our distribution centers, Hayward, Las Vegas, Los Angeles and Calgary, have employees who are covered by collective bargaining agreements with local affiliates of The International Brotherhood of Teamsters (Hayward, Las Vegas and Los Angeles) and the United Food and Commercial Workers International Union (Calgary).

Approximately 400 employees, or 5% of our workforce, are unionized. There have been no disruptions in customer service, strikes, work stoppages or slowdowns as a result of union activities, and we believe we have satisfactory relations with our employees.

**Regulation**

As a distributor of food products in the U.S., we are subject to the Federal Food, Drug and Cosmetic Act and regulations promulgated by the U.S. Food and Drug Administration (“FDA”). In Canada, similar standards related to food and over-the-counter medications are governed by Health Canada. The products we distribute are also subject to federal, state, provincial and local regulation through such measures as: the licensing of our facilities; enforcement by state, provincial and local health agencies of relevant standards for the products we distribute; and regulation of our trade practices in connection with the sale of our products. Our facilities are inspected periodically by federal, state, provincial and local authorities, including the Occupational Safety and Health Administration (“OSHA”) under the U.S. Department of Labor, which require us to comply with certain health and safety standards to protect our employees. We are also subject to regulation by the U.S. and Canadian Departments of Transportation, and similar state, provincial and local agencies. Our distribution centers in the U.S. and Canada are subject to a broad spectrum of federal, state, provincial and local environmental protection statutes including those that govern emissions to air, soil and water, and the disposal of hazardous substances.

Our policy is to comply with all regulatory and legal requirements, and management is not aware of any related issues that may have a material effect upon our business, financial condition or results of operations.

**Trademarks**

We have trademarks including the following: Arcadia Bay<sup>®</sup>, Arcadia Bay Coffee Company<sup>®</sup>, Cable Car<sup>®</sup>, Core-Mark<sup>®</sup>, Core Solutions Group<sup>®</sup>, EMERALD<sup>®</sup>, Java Street<sup>®</sup>, SmartStock<sup>®</sup>, Pine State Convenience<sup>™</sup>, Taco Depo<sup>®</sup> and Farner-Bocken<sup>™</sup>.

**Segment and Geographic Information**

We have two operating segments which aggregate into one reportable segment. We also present certain financial information by operating segment region — the U.S. and Canada. See *Note 16 - Segment and Geographic Information* to our consolidated financial statements.

**Seasonality**

We typically generate higher net sales and gross profits during the warm weather months (April through September) than other times of the year. We believe this occurs because the convenience store industry tends to be busier due to timing of vacations and an increase in travel during this period.

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**Corporate and Contact Information**

As of the date of this filing, our corporate headquarters is located at 395 Oyster Point Boulevard, Suite 415, South San Francisco, California, 94080 and our telephone number is (650) 589-9445.

Effective on or before July 1, 2019, our corporate headquarters will be relocated to 1500 Solana Boulevard, Suite 3400, Westlake, Texas, 76262, and our telephone number will be (800) 622-1713.

Our website address is [www.core-mark.com](http://www.core-mark.com). We provide free access to various reports that we file with or furnish to the U.S. Securities and Exchange Commission (“SEC”) through our website, as soon as they have been filed or furnished. These reports include, but are not limited to, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports. Our SEC reports can be accessed through the “Investors” section of our website under “Financials & Filings,” or through [www.sec.gov](http://www.sec.gov).

Also available on our website are printable versions of Core-Mark’s Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, Code of Business Conduct and Ethics, Corporate Governance Guidelines and Principles and other corporate information. Copies of these documents may also be requested from the addresses above.

***Code of Business Conduct and Ethics and Whistle Blower Policy***

Our Code of Business Conduct and Ethics is designed to promote honest, ethical and lawful conduct by all employees, officers and directors and is available on the “Investors” section of our website at [www.core-mark.com](http://www.core-mark.com) under “Corporate Governance.”

Additionally, the Audit Committee of the Board of Directors of Core-Mark has established procedures to receive, retain, investigate and act on complaints and concerns of employees, stockholders and others regarding accounting, internal accounting controls and auditing matters, including complaints regarding attempted or actual circumvention of internal accounting controls or complaints regarding violations of our accounting policies. The procedures are also described on our website at [www.core-mark.com](http://www.core-mark.com) under “Corporate Governance” in the “Investors” section.

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**ITEM 1A. RISK FACTORS**

Our business is subject to a variety of risks. Set forth below are certain of the important risks that we face, the occurrence of which may have a material effect on our business, financial condition or results of operations.

**Risks Related to Our Business and Industry**

**A significant portion of our sales volume is dependent upon the distribution of cigarettes, sales of which are generally declining.**

The distribution of cigarettes is currently a significant portion of our business. In 2018, approximately 66.9% of our net sales (including excise taxes) and 26.0% of our gross profit were generated from the distribution of cigarettes. Due to increases in the prices of cigarettes, restrictions on cigarette manufacturers' marketing and promotions, increases in cigarette regulation and excise taxes, health concerns, increased pressure from anti-tobacco groups, the rise in popularity of tobacco alternatives, including electronic cigarettes, other alternative nicotine products, and other factors, cigarette consumption in the U.S. and Canada has been declining gradually over the past few decades. In many instances, tobacco alternatives, such as electronic cigarettes, are not subject to federal, state, provincial and local excise taxes like the sale of conventional cigarettes or other tobacco products. We expect consumption trends of legal cigarette products will continue to be negatively impacted by the factors described above. In addition, we expect rising prices may lead to a higher percentage of consumers purchasing cigarettes through illicit markets, or by other means designed to avoid payment of cigarette taxes. If we are unable to sell other products to make up for these declines in cigarette unit sales, our operating results may suffer.

**We are dependent on the convenience retail industry, and our results of operations could suffer if it experiences an overall decline or consolidation.**

The majority of our sales are generated from convenience retail stores which inherently involve industry-specific risks. These risks include: declining sales in the convenience retail industry due to general economic conditions, including rising energy and fuel costs, which may impact "in-store" retail sales; competition from internet retailers such as Amazon.com, Inc. ("Amazon"), club stores, grocery stores and other retail outlets; termination of customer relationships and consolidation of our customer base. Such events could cause us to experience decreases in revenues, put pressure on our margins and increase our credit risk and potential bad debt exposure.

**We depend on attracting and retaining qualified labor including our senior management and other key personnel.**

We depend on the continued services and performance of our senior executive officers as named in our Proxy Statement and other key employees. We do not maintain key person life insurance policies on these individuals, and we do not have employment agreements with any of them. The loss of the services of one or more of our senior executive officers or other key personnel could harm our business.

We compete with other businesses in each of our markets to attract and retain qualified employees. A shortage of qualified employees, especially drivers, in any given market could require us to enhance our wage and benefit packages in order to compete effectively in the hiring and retention of qualified employees or to hire more expensive temporary employees in the affected market. Any such shortage of qualified employees could decrease our ability to effectively serve our customers and might lead to lower profits due to higher labor costs.

Our ability to meet our labor needs is generally subject to numerous other external factors, including prevailing wage rates, changing demographics, health and other insurance costs, and adoption of new or revised employment and labor laws and regulations. These external factors could prevent us from locating, attracting or retaining qualified personnel, which could adversely impact the quality of the services we provide to our customers, as well as our financial performance.

**Many of the markets in which we compete are highly competitive and we may lose market share and suffer a decline in sales and profitability in these markets if we are unable to outperform our competition.**

Our distribution centers operate in highly competitive markets. A substantial amount of our sales are made under purchase orders and short-term contracts with convenience retail stores which inherently involve significant risks. We face competition from local, regional and national tobacco and consumable products distributors on the basis of service, price, reliability, delivery schedules, and variety of products offered. We also face competition from club stores and alternate sources that sell consumable products to convenience retailers. Some of our competitors, including

The McLane Company, Inc. (a subsidiary of Berkshire Hathaway Inc.), have substantial financial resources and long-standing customer relationships. In addition, heightened competition among our existing competitors, or by new entrants into the distribution market, could create additional competitive pressures that may result in the loss of major customers, reduced margins, or other adverse effects on our business. If we fail to successfully respond to these competitive pressures or to implement our strategies effectively, we may lose market share, and our results of operations could suffer.



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**Our ability to operate effectively could be impaired by the risks and costs associated with expansion activities.**

Our business has expanded rapidly and market share growth is one of our key company initiatives. To accomplish this growth, we have focused on strategic acquisitions and securing large regional and national customers as key elements of success. Any significant expansion activity comes with inherent risks. Acquisitions may entail various risks, such as identifying suitable candidates, realizing acceptable rates of return on investment, identifying potential liabilities, obtaining adequate financing, negotiating acceptable terms and conditions, and successfully integrating operations and converting systems post acquisition. Integrating a large new customer has similar risks related to realizing acceptable returns on invested working capital and negotiating acceptable pricing and service levels, while managing resources and business interruptions as we integrate the new business into our current infrastructure. We may realize higher costs, lower margins or fewer benefits than originally anticipated and may experience disruption to our base business in connection with such acquisitions and other new customer integration activities.

**Our failure to maintain relationships with large customers could potentially harm our business.**

We have relationships with many large regional and national convenience and other store chains. While we expect to maintain these relationships for the foreseeable future, any termination, non-renewal or reduction in services that we provide to such customers could cause our revenues and operating results to suffer.

**We may lose business if manufacturers or large retail customers convert to direct distribution of their products.**

In the past, certain large manufacturers and customers have elected to engage in direct distribution or third-party distribution of their products and ceased relying on wholesale distributors such as Core-Mark. Similarly, manufacturers or other providers may choose to move their product distribution to Amazon or other e-commerce providers. If other manufacturers or retail customers make similar elections in the future, our revenues and profits would be adversely affected and there can be no assurance that we will be able to mitigate such losses.

**Our business is sensitive to fuel prices and related transportation costs, which could adversely affect our business.**

Our operating results may be adversely affected by unexpected increases in fuel or other transportation-related costs, including costs from the use of third-party carriers, temporary staff and overtime. Historically, we have been able to pass on a substantial portion of increases in our own fuel or other transportation costs to our customers in the form of fuel or delivery surcharges, but our ability to continue to pass through these increases is not assured. If we are unable to continue to pass on fuel and transportation-related cost increases to our customers, do not realize the benefits we expect from converting a large percentage of our trucks to operate on natural gas or incur higher expenses due to decreases in diesel fuel prices that are not matched by similar decreases in natural gas prices, our operating results could be negatively affected.

**Information technology systems may be subject to failure, disruptions, security breaches (such as malware, viruses, hacking, break-ins, business e-mail compromises, phishing attacks, attempts to overload our services or other cyber-attacks) which could compromise our ability to conduct business, seriously harm our business and adversely affect our financial results.**

Our business is highly dependent on our enterprise information technology systems. We rely on these systems and our information technology staff to maintain the information required to operate our distribution centers and support corporate departments in providing our customers with fast, efficient and reliable services. We continue to take steps to increase redundancy in our information technology systems and have resiliency and recovery plans in place to mitigate events that could disrupt our systems' service. However, if our systems fail or are not reliable, we may suffer disruptions in service to our customers and our results of operations could suffer.

In addition, we retain sensitive data, including intellectual property, proprietary business information and personally identifiable information, in our secure data centers and on our networks. As the number of global cyber-attacks continue to escalate, we may face increased threats of unauthorized access, security breaches and other system disruptions to our environment. To help mitigate the risk, we utilize the expertise of internal and external security resources to monitor our environment and install/upgrade tools that protect our systems and data. We strive to maintain a sustainable security program that balances the need to protect against the needs to run our business, however, despite these measures, our infrastructure may be vulnerable to attacks by experienced hackers or other

disruptive events as “perfect protection” is unfortunately not possible.

Computer malware, viruses, hacking, break-ins, business e-mail compromises, phishing attacks, attempts to overload our servers and other cyber-attacks have become more prevalent and may occur on our systems in the future. Intruders may also take the form of parties that attempt to fraudulently induce employees or other users of our systems to disclose sensitive or confidential information, make unauthorized cash payments or funds transfers, or otherwise disrupt operations. Any such security breach may compromise information stored on our networks and may result in significant data losses or theft of intellectual property, proprietary business information or personally identifiable information belonging to us or our customers, business partners or employees. Though it is difficult to determine what, if any, harm may directly result from any specific interruption or attack, any failure to maintain performance, reliability and security affects the availability of our technical infrastructure and technology-based services.

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Any such failure may harm our reputation and our ability to retain existing customers and attract new customers and could impact our results of operation. We attempt to address these risks, in part, by continuously providing communications to our employees regarding the threats and characteristics of phishing attempts and have established a formal ongoing security training program to increase the level of awareness across the Company.

In many cases our systems are integrated with customers and vendors, through enterprise resource planning, electronic data interchange or other integration. Accordingly, if our customers' or vendors' systems are compromised, fail, or are not reliable, we may suffer disruptions in services to customers, our payments to vendors may be delayed or could be misappropriated, and our results of operations and cash flows could suffer.

**Cigarette and consumable goods distribution is a low-margin business sensitive to inflation and deflation.**

We derive most of our revenues from the distribution of cigarettes, other tobacco products, candy, snacks, fast food, groceries, fresh products, dairy, beverages, general merchandise and health and beauty care products. Our industry is characterized by a high volume of sales with low profit margins. Our food/non-food sales are generally priced based on the manufacturer's cost of the product plus a percentage markup. As a result, our profit levels may be negatively impacted during periods of cost deflation or stagnation for these products, even though our gross profit as a percentage of the price of goods sold may remain relatively constant. In addition, periods of product cost inflation may have a negative impact on our gross profit margins with respect to sales of cigarettes because gross profits on cigarette sales are generally fixed on a cents per carton basis. Therefore, as cigarette prices increase, gross profit generally decreases as a percentage of sales. In addition, if the cost of the cigarettes that we purchase increases due to manufacturer price increases, reduced or eliminated manufacturer discounts and incentive programs, or increases in applicable excise tax rates, our inventory carrying costs and accounts receivable could rise, placing pressure on our working capital requirements.

**We rely on manufacturer discount and incentive programs and cigarette excise stamping allowances, and any material changes in these programs could adversely affect our results of operations.**

We receive payments from manufacturers on the products we distribute for allowances, discounts, volume rebates and other merchandising and incentive programs. These payments are a substantial contributor to our gross profit. The amount and timing of these payments are affected by changes in the programs by manufacturers, our ability to sell specified volumes of a particular product, attaining specified levels of purchases by our customers and the duration of carrying a specified product. In addition, we receive discounts from certain taxing jurisdictions in connection with the collection of excise taxes. If manufacturers or taxing jurisdictions change or discontinue these programs or change the timing of payments, or if we are unable to maintain the volume of our sales required by such programs, our results of operations could be negatively affected.

**We depend on relatively few suppliers for a large portion of our products, and any interruptions in the supply of the products that we distribute could adversely affect our results of operations.**

We obtain the products we distribute from third-party suppliers. At December 31, 2018, we had approximately 5,800 vendors and during 2018 we purchased approximately 80% of our products from our top 20 suppliers, with purchases from our top two suppliers, Altria Group, Inc. (parent of Philip Morris USA, Inc.) and R.J. Reynolds Tobacco Company, representing approximately 33% and 23% of our purchases, respectively. We do not have any long-term contracts with our suppliers committing them to provide products to us. Our suppliers may not provide the products we distribute in the quantities we request on favorable terms, or at all. We are also subject to delays caused by interruptions in production due to conditions outside our control, such as slow-downs or strikes by employees of suppliers, inclement weather, transportation interruptions, regulatory requirements and natural disasters. Our inability to obtain adequate supplies of the products we distribute could cause us to fail to meet our contractual and other obligations to our customers and reduce the volume of our sales and profitability.

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**We may be subject to product liability claims and counterfeit product claims which could materially adversely affect our business.**

As a distributor of food and consumer products, we face the risk of exposure to product liability claims in the event that the use of a product sold by us causes injury or illness. In addition, certain products that we distribute may be subject to counterfeiting. Our business could be adversely affected if consumers lose confidence in the safety and quality of the food and other products we distribute. Further, our operations could be subject to disruptions as a result of manufacturer recalls. This risk may increase as we continue to expand our distribution of fresh products. If we do not have adequate insurance, if contractual indemnification from the supplier or manufacturer of the defective, contaminated or counterfeit product is not available, or if a supplier or manufacturer cannot fulfill its indemnification obligations to us, the liability relating to such product claims or disruption as a result of recall efforts could adversely impact our results of operations.

**We may not be able to achieve the expected benefits from the implementation of marketing initiatives.**

We are continuously improving our competitive performance through a series of strategic marketing initiatives, such as Focused Marketing Initiative, SmartStock and Vendor Consolidation Initiative. The goal of this effort is to develop and implement a comprehensive and competitive business strategy, addressing the special needs of the convenience industry environment, increasing our market position within the industry and ultimately creating increased stockholder value. Customer acceptance of our new marketing initiatives may not be as anticipated or competitive pressures may cause us to curtail or abandon these initiatives, resulting in lower revenue and profit growth.

**Maintaining our brand and reputation is necessary for the success of our business.**

Our established brand and reputation within the market largely contributes to our success. Our current and future business could be negatively impacted if we were poorly represented or garnered negative publicity through various media channels, which include but are not limited to print, broadcast, web-based and social media. Brand value is based in large part on perceptions of subjective qualities, and even isolated incidents can erode trust and confidence, particularly if they result in adverse publicity, governmental investigations or litigation. Even if the aforementioned situations were unfounded or not material to our business, these events could still decrease demand for our products and services and erode customer confidence. If any of these events were to occur, they could have a negative impact on our results of operations and financial condition.

**We may be subject to various claims and lawsuits that could result in significant expenditures.**

The nature of our business exposes us to the potential for various claims and litigation related to labor and employment, personal injury, property damage, business practices, environmental liability and other matters. Any material litigation or a catastrophic accident or series of accidents could have a material adverse effect on our business, financial position, results of operations and cash flows.

**Unions may attempt to organize our employees.**

As of December 31, 2018, approximately 400 or 5%, of our employees were covered by collective bargaining agreements with labor organizations, under agreements that expire at various times. We cannot assure that we will be able to renew our respective collective bargaining agreements on favorable terms, that employees at other facilities will not unionize or that our labor costs will not increase. In addition, we are subject to changes in rules, regulations, and laws that could impact our ability to manage our labor force and wage successful campaigns preventing further unionization of our employees. To the extent we suffer business interruptions as a result of strikes or other work stoppages or slow-downs, or our labor costs increase and we are not able to recover such increases through increased prices charged to customers or offsets by productivity gains, our results of operations could be materially adversely affected.

**Employee health benefit costs represent a significant expense to us and may negatively affect our profitability.**

With approximately 6,500 employees and their families participating in our health plans, our expenses relating to employee health benefits are substantial. In past years, we have experienced significant increases in certain of these costs, largely as a result of economic factors beyond our control, including, in particular, ongoing increases in health care costs well in excess of the rate of inflation. Increased participation in our health plans, continued increasing health care costs, as well as changes in laws, regulations and assumptions used to calculate health and benefit expenses, may adversely affect our business, financial position and results of operations. In addition, the Patient

Protection and Affordable Care Act (“ACA”) may continue to increase our employee healthcare-related costs. We have migrated a significant number of employees to our high deductible plan, resulting in a reduction in our claims exposure and offsetting other costs related to ACA. While we have taken steps to minimize the impact of ACA, there is no guarantee our efforts will be successful.

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**Changes to minimum wage laws and other governmental legislation or regulations could increase our costs substantially.**

As of December 31, 2018, we believe we had no employees who were paid under the minimum wage in their respective locations. Several bills have been introduced in the U.S. legislature over the past few years to increase the federal minimum wage. In addition, certain states have adopted or are considering adopting minimum wage statutes that exceed the federal minimum wage rate. Any increases in federal or state minimum wages could require us to increase the wages paid to our minimum wage employees and create pressure to raise wages for other employees who already earn above-minimum wages. Further, changes to wage and hour laws and/or new legislation increasing mandatory paid leave can add costs to our business. If we are unable to pass these additional labor costs on to our customers in the form of increased prices or surcharges, our business and results of operations would be adversely affected.

**If we are unable to comply with governmental regulations that affect our business or if there are substantial changes in these regulations, our business could be adversely affected.**

As a distributor of food and other consumable products, we are subject to regulation by the FDA, Health Canada and similar regulatory authorities at the federal, state, provincial and local levels. In addition, our employees operate tractor trailers, trucks, forklifts and various other powered material handling equipment, and we are therefore subject to regulation by the U.S. and Canadian Departments of Transportation. Our operations are also subject to regulation by OSHA, the U.S. Drug Enforcement Administration and a myriad of other federal, state, provincial and local agencies. Each of these regulatory authorities has broad administrative powers with respect to our operations. Regulations, and the costs of complying with those regulations, have been increasing in recent years. If we fail to adequately comply with government regulations, we could experience increased inspections or audits, regulatory authorities could take remedial action including imposing fines, suspending or canceling our licenses, or shutting down our operations, or we could be subject to increased compliance costs. If any of these events were to occur, our results of operations would be adversely affected.

**Natural disaster damage could have a material adverse effect on our business.**

Our headquarters and several of our warehouses in California, and one warehouse located near Vancouver, British Columbia, Canada, are in or near high hazard earthquake zones. We also have operations in areas that have been affected by natural disasters such as hurricanes, tornados, floods, and ice and snow storms. While we maintain insurance to cover us for certain potential losses, our insurance may not be sufficient in the event of a significant natural disaster, or payments under our policies may not be received timely enough to prevent adverse impacts on our business. Our customers could also be affected by similar events, which could adversely affect our sales and results of operations. While we maintain insurance to cover us for certain potential losses and maintain two data centers in geographically disparate locations, each of which can provide core services for the other if required, in the event of a natural disaster our insurance may not be sufficient to cover our losses, insurance payments may be delayed and our business may nevertheless be interrupted and adversely affected.

**Insurance and claims expenses could have a material adverse effect on us.**

We have a combination of both self-insurance and high-deductible insurance programs for the risks arising out of the services we provide and the nature of our operations throughout North America, including claims exposure resulting from personal injury, property damage, business interruption and workers' compensation. Workers' compensation, automobile and general liabilities are determined using actuarial estimates of the aggregate liability for claims incurred and an estimate of incurred but not reported claims. Our accruals for insurance reserves reflect certain actuarial assumptions and management judgments, which are subject to a high degree of variability. If the number or severity of claims for which we are retaining risk increases, our financial condition and results of operations could be adversely affected. If we lose our ability to self-insure these risks, our insurance costs could materially increase and we may find it difficult to obtain adequate levels of insurance coverage.

**Risks Related to the Distribution of Cigarettes and Other Tobacco Products**

**Legislation, regulation and other matters are negatively affecting the cigarette, tobacco and alternative nicotine industries.**

The cigarette, tobacco and alternative nicotine industries are subject to a wide range of laws and regulations regarding the marketing, distribution, sale, taxation and use of their products imposed by governmental entities. For example, various jurisdictions have adopted or are considering legislation and regulations restricting displays and marketing of tobacco and alternative nicotine products, raising the minimum age to possess or purchase tobacco and alternative nicotine products, requiring the disclosure of ingredients used in the manufacture of tobacco and alternative nicotine products, and imposing restrictions on public smoking and vaping. In addition, the FDA has been empowered to regulate changes to nicotine yields and the chemicals and flavors used in tobacco and alternative nicotine products (including cigars, pipe and e-cigarette products), require ingredient listings be displayed on tobacco and alternative nicotine products, prohibit the use of certain terms which may attract youth or mislead users as to the risks involved with using tobacco and alternative nicotine products, as well as limit or otherwise impact the marketing of tobacco and alternative nicotine products by requiring additional labels or warnings that must be pre-approved by the FDA. Such legislation

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and related regulation is likely to continue adversely impacting the market for tobacco and alternative nicotine products and, accordingly, our sales of such products. In addition, representatives from the FDA have indicated that new restrictions on the sale of alternative nicotine products could be expected in the near future.

In Canada, several provinces have enacted legislation authorizing and facilitating the recovery by provincial governments of tobacco-related health care costs from the tobacco industry by way of lawsuit. Some Canadian provincial governments have either already initiated lawsuits or indicated an intention that such lawsuits will be filed. It is unclear at this time how such restrictions and lawsuits may affect Core-Mark and its Canadian operations.

**If excise taxes are increased or credit terms are reduced, our sales of cigarettes and other tobacco products could decline and our liquidity could be negatively impacted.**

Cigarettes and tobacco products are subject to substantial excise taxes in the U.S. and Canada. Significant increases in cigarette-related taxes and/or fees have been proposed or enacted and are likely to continue to be proposed or enacted by various taxing jurisdictions within the U.S. and Canada as a means of increasing government revenues. These tax increases negatively impact consumption. Additionally, they may cause a shift in sales from premium brands to discount brands, illicit channels or tobacco alternatives, such as electronic cigarettes, as smokers seek lower priced options.

Taxing jurisdictions have the ability to change or rescind credit terms currently extended for the remittance of taxes that we collect on their behalf. If these excise taxes are substantially increased, or credit terms are substantially reduced, it could have a negative impact on our liquidity. Accordingly, we may be required to obtain additional debt financing, which we may not be able to obtain on satisfactory terms or at all.

**Our distribution of cigarettes and other tobacco products exposes us to potential liabilities.**

In June 1994, the Mississippi attorney general brought an action against various tobacco industry members on behalf of the state to recover state funds paid for health care costs related to tobacco use. Most other states sued the major U.S. cigarette manufacturers based on similar theories. In November 1998, the major U.S. tobacco product manufacturers entered into a Master Settlement Agreement (“MSA”) with 46 states, the District of Columbia and certain U.S. territories. The other four states: Mississippi, Florida, Texas and Minnesota (“non-MSA states”), settled their litigations with the major cigarette manufacturers by separate agreements. The MSA and the other state settlement agreements settled health care cost recovery actions and monetary claims relating to future conduct arising out of the use of, or exposure to, tobacco products, imposed a stream of future payment obligations on major U.S. cigarette manufacturers and placed significant restrictions on the ability to market and sell cigarettes. The payments required under the MSA result in higher pricing of products sold by the participating manufacturers than those sold by non-MSA state manufacturers. In addition, the growth in market share of discount brands since the MSA was signed has had an adverse impact on the total volume of the cigarettes that we sell.

In connection with the MSA, we were indemnified by most of the tobacco product manufacturers from which we purchased cigarettes and other tobacco products, for liabilities arising from our sale of the tobacco products that they supplied to us. Should the MSA ever be invalidated, we could be subject to substantial litigation due to our distribution of cigarettes and other tobacco products, and we may not be indemnified for such costs by the tobacco product manufacturers in the future. In addition, even if we are indemnified by cigarette manufacturers that are parties to the MSA, future litigation awards against such cigarette manufacturers could be so large as to prevent the manufacturers from satisfying their indemnification obligations.

**Risks Related to Financial Matters, Financing and Foreign Exchange**

**Changes to federal, state or provincial income tax legislation could have a material adverse effect on our business and results of operations.**

From time to time, new tax legislation is adopted by the federal government and various states or other regulatory bodies. Significant changes in tax legislation could adversely affect our business or results of operations in a material way. As tax laws and related regulations change, our financial results could be materially impacted. For example, in the U.S. the federal government has in the past proposed legislation which effectively could limit, or even eliminate, use of the last-in, first-out (“LIFO”) inventory method for financial and income tax purposes. Although the final outcome of any such proposals cannot be ascertained, the ultimate financial impact to us of the transition from LIFO to another inventory method could be material to our operating results. Given the unpredictability of possible changes



and their potential interdependency, it is very difficult to assess whether the overall effect of such potential tax changes would be cumulatively positive or negative for our earnings and cash flow, but such changes could adversely impact our financial results.

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**There can be no assurance that we will continue to declare cash dividends in the future or in any particular amounts and if there is a reduction in dividend payments, our stock price may be harmed.**

Since the fourth quarter of 2011, we have paid a quarterly cash dividend to our stockholders. We intend to continue to pay quarterly dividends subject to capital availability and periodic determinations by our Board of Directors that cash dividends are in the best interest of our stockholders and are in compliance with all applicable laws and agreements to which we are a party. Future dividends may be affected by a variety of factors such as available cash, anticipated working capital requirements, overall financial condition, credit agreement restrictions, future prospects for earnings and cash flows, capital requirements for acquisitions, stock repurchase programs, reserves for legal risks and changes in federal and state income tax or corporate laws. Our Board of Directors may, at its discretion, decrease or entirely discontinue the payment of dividends at any time. Any such action could have a material, negative effect on our stock price.

**Currency exchange rate fluctuations could have an adverse effect on our revenues and financial results.**

We generate a portion of our revenues in Canadian dollars, approximately 9% in 2018 and 2017. We also incur a significant portion of our expenses in Canadian dollars. To the extent that we are unable to match revenues received in Canadian dollars with costs paid in the same currency, exchange rate fluctuations in Canadian dollars could have an adverse effect on our financial results. During times of a strengthening U.S. dollar, our reported sales and earnings from Canadian operations will be reduced because the Canadian currency will be translated into fewer U.S. dollars. Conversely, during times of a weakening U.S. dollar, our reported sales and earnings from our Canadian operations will be increased because the Canadian currency will be translated into more U.S. dollars. U.S. GAAP requires that foreign currency transaction gains or losses on short-term intercompany transactions be recorded currently as gains or losses within the consolidated statement of operations. To the extent we incur losses on such transactions, our net income will be reduced. We currently do not hedge our Canadian foreign currency cash flows.

**We may not be able to borrow additional capital to provide us with sufficient liquidity and capital resources necessary to meet our future financial obligations.**

We expect that our principal sources of funds will be cash generated from our operations and, if necessary, borrowings under a \$750 million revolving credit facility (“Credit Facility”) as of December 31, 2018. The Credit Facility, initially dated as of October 12, 2005, as amended or otherwise modified from time to time, is between us, as Borrowers, the Lenders named therein, and JPMorgan Chase Bank, N.A., as administrative agent. The Credit Facility expires in March 2022. While we believe our sources of liquidity are adequate, we cannot guarantee that these sources will be available or continue to provide us with sufficient liquidity and capital resources required to meet our future financial obligations, or to provide funds for our working capital, capital expenditures and other needs. As such, additional equity or debt financing sources may be necessary and we may not be able to expand our existing Credit Facility or obtain new financing on terms satisfactory to us.

**Our operating flexibility is limited in significant respects by the restrictive covenants in our Credit Facility.**

Our Credit Facility imposes restrictions on us that could increase our vulnerability to general adverse economic and industry conditions by limiting our flexibility in planning for and reacting to changes in our business and industry. Specifically, these restrictions place limits on our ability to, among other things, incur additional indebtedness, pay dividends, issue stock of subsidiaries, make investments, repurchase stock, create liens, enter into transactions with affiliates, merge or consolidate, or transfer and sell our assets. In addition, under our Credit Facility, under certain circumstances we are required to meet a fixed charge coverage ratio. Our ability to comply with this covenant may be affected by factors beyond our control and a breach of the covenant could result in an event of default under our Credit Facility, which would permit the lenders to declare all amounts incurred thereunder to be immediately due and payable and to terminate their commitments to make further extensions of credit.

**Our actual business and financial results could differ as a result of the accounting methods, estimates and assumptions that we use in preparing our financial statements, which may negatively impact our results of operations and financial condition.**

To prepare financial statements in conformity with GAAP, management is required to exercise judgment in selecting and applying accounting methodologies and making estimates and assumptions. These methods, estimates, and assumptions are subject to uncertainties and changes, which affect the reported values of assets and liabilities,

revenues and expenses, and disclosures of contingent assets and liabilities. Areas requiring significant estimation by our management include but are not limited to the following: allowance for doubtful accounts, provisions for income taxes, valuation of goodwill and long-lived assets, valuation of assets and liabilities in connection with business combinations, stock-based compensation expense and accruals for estimated liabilities including litigation and self-insurance reserves.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

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Table of Contents**ITEM 2. PROPERTIES**

Our headquarters are located in South San Francisco, California, and consist of approximately 25,000 square feet of leased office space. We have entered into a lease for approximately 32,000 square feet of office space in Westlake, Texas, which will become our headquarters on or before July 1, 2019. We also lease approximately 20,000 square feet for use by our information technology and tax personnel in Richmond, British Columbia, approximately 6,000 square feet for use by our information technology personnel in Plano, Texas, and approximately 5,500 and 2,000 square feet of additional office space in Fort Worth, Texas and Phoenix, AZ, respectively. We lease approximately 5.1 million square feet and own approximately 0.6 million square feet of distribution space.

**Distribution Center Facilities by City and State/Province of Location<sup>(1)</sup>**

Albuquerque, New Mexico	Hayward, California	Tampa, Florida
Atlanta, Georgia	Henderson, Nevada	Whitinsville, Massachusetts
Aurora, Colorado	Leitchfield, Kentucky	Wilkes-Barre, Pennsylvania <sup>(5)</sup>
Bakersfield, California	Los Angeles, California	Burnaby, British Columbia
Carroll, Iowa	Minneapolis, Minnesota	Calgary, Alberta
Corona, California <sup>(2)</sup>	Portland, Oregon	Mississauga, Ontario <sup>(6)</sup>
Forrest City, Arkansas <sup>(3)</sup>	Sacramento, California <sup>(4)</sup>	Milton, Ontario
Fort Worth, Texas	Salt Lake City, Utah	Winnipeg, Manitoba
Gardiner, Maine	Sanford, North Carolina	
Glenwillow, Ohio	Spokane, Washington	

Excluding outside storage facilities or depots and two distribution facilities that we operate as a third-party logistics provider. Depots are defined as a secondary location for a division which may include any combination of sales offices, operational departments and/or storage. We own distribution center facilities located in Wilkes-Barre, Pennsylvania; Leitchfield, Kentucky; and Forrest City, Arkansas. All other facilities listed are leased. The facilities we own are subject to encumbrances under our Credit Facility.

(2) This location includes two facilities, a distribution center and our AMI/Artic West consolidating warehouse.

(3) This facility includes a distribution center and our AMI/Artic East consolidating warehouse.

(4) This facility includes a distribution center and our Artic Cascade consolidating warehouse.

(5) This facility includes a distribution center and our AMI/Artic Northeast consolidating warehouse.

(6) This facility is our Canadian consolidating warehouse.

We also operate distribution centers on behalf of one of our major customers, Couche-Tard: one in Phoenix, Arizona and one in San Antonio, Texas. Each facility is leased or owned by Couche-Tard for their use.

**ITEM 3. LEGAL PROCEEDINGS**

We are subject to certain legal proceedings, claims, investigations and administrative proceedings in the ordinary course of our business. We record a provision for a liability when it is both probable that the liability has been incurred and that the amount of the liability can be reasonably estimated. These provisions, if any, are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case. In the opinion of management, the outcome of pending litigation is not expected to have a material effect on our results of operations, financial condition or liquidity.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

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**PART II**

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

**Market and Stockholders**

Our common stock trades on the NASDAQ Global Market under the symbol "CORE." According to the records of our transfer agent, we had 1,515 stockholders of record as of February 25, 2019.

We paid dividends of \$18.9 million and \$17.2 million in 2018 and 2017, respectively. Our Credit Facility, as of December 31, 2018, allows for unlimited dividends, as long as we meet certain credit availability percentages and fixed charge coverage ratios. (See *Note 8 - Long-term Debt* to our consolidated financial statements included in this Form 10-K for additional details on the Credit Facility). We intend to continue increasing our dividends per share over time; however, the payment of any future dividends will be determined by our Board of Directors in light of then existing conditions, including our earnings, financial condition and capital requirements, strategic alternatives, restrictions in financing agreements, business conditions and other factors.

Table of Contents**PERFORMANCE COMPARISON**

The graph below presents a comparison of cumulative total return to stockholders for Core-Mark's common stock at the end of each year from 2013 through 2018, as well as the cumulative total returns of the Russell 2000 Index, the NASDAQ Non-financial Index, the Standard and Poor's ("S&P") SmallCap 600 Index, and a peer group of companies ("Performance Peer Group").

Cumulative total return to stockholders is measured by the change in the share price for the period, plus any dividends, divided by the share price at the beginning of the measurement period. Core-Mark's cumulative stockholder return is based on an investment of \$100 on December 31, 2013, and is compared to the total return of the Russell 2000 Index, the NASDAQ Non-financial Index, the S&P SmallCap 600 Index, and the weighted-average performance of the Performance Peer Group over the same period with a like amount invested, including the assumption that any dividends have been reinvested. We regularly compare our performance to the Russell 2000 Index since it includes primarily companies with relatively small market capitalization similar to us.

The companies composing the Performance Peer Group are: The Chef's Warehouse, Inc. ("CHEF"), United Natural Foods, Inc. ("UNFI"), Sysco Corp ("SYY") and AMCON Distributing Co. ("DIT").

**COMPARISON OF CUMULATIVE TOTAL RETURN  
AMONG CORE-MARK, THE RUSSELL 2000, NASDAQ NON-FINANCIAL STOCK, S&P SMALLCAP 600  
INDEXES AND THE PERFORMANCE PEER GROUP**

	<b>Investment Value at</b>					
	<b>12/31/13</b>	<b>12/31/14</b>	<b>12/31/15</b>	<b>12/31/16</b>	<b>12/31/17</b>	<b>12/31/18</b>
CORE	\$100.00	\$164.97	\$220.22	\$233.44	\$173.25	\$129.69
Russell 2000 Index	\$100.00	\$104.89	\$100.26	\$121.63	\$139.44	\$124.09
NASDAQ Non-financial Index	\$100.00	\$115.09	\$123.38	\$132.81	\$143.44	\$139.77
S&P SmallCap 600	\$100.00	\$105.76	\$103.67	\$131.20	\$148.56	\$135.96
Performance Peer Group	\$100.00	\$110.82	\$108.03	\$147.61	\$	\$