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MASONITE INTERNATIONAL CORP

Form 10-Q

November 07, 2018

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iso4217:USD xbrli:shares door:Customer iso4217:USD door:Lease_Option door:facility

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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)

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 and posted 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 Smaller reporting company

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 26,520,558 shares of Common Stock, no par value, as of November 2, 2018.

MASONITE INTERNATIONAL CORPORATION
INDEX TO QUARTERLY REPORT ON FORM 10-Q
September 30, 2018

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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 31, 2017, 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:

- our ability to successfully implement our business strategy;
- general economic, market and business conditions, including foreign exchange rate fluctuation and inflation;
- levels of residential new construction; residential repair, renovation and remodeling; and non-residential building construction activity;
- the United Kingdom's formal trigger of the two year process for its exit from the European Union, and related negotiations;
- competition;
- our ability to manage our operations including integrating our recent acquisitions and companies or assets we acquire in the future;
- 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;
- labor relations (i.e., disruptions, strikes or work stoppages), labor costs and availability of labor;
- increases in the costs of raw materials or wages or any shortage in supplies or labor;
- our ability to keep pace with technological developments;
- cyber security threats and attacks;
- the actions taken by, and the continued success of, certain key customers;
- our ability to maintain relationships with certain customers;
- the ability to generate the benefits of our restructuring activities;
- retention of key management personnel;
- environmental and other government 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 (Loss)**

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

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
	2018	2017	2018	2017
Net sales	\$ 557,148	\$ 517,503	\$ 1,641,753	\$ 1,524,425
Cost of goods sold	446,306	413,517	1,301,808	1,217,556
Gross profit	110,842	103,986	339,945	306,869
Selling, general and administration expenses	64,530	59,063	204,592	188,043
Restructuring costs, net	—	1,393	—	986
Loss (gain) on disposal of subsidiaries	—	—	—	212
Operating income (loss)	46,312	43,530	135,353	117,628
Interest expense (income), net	10,151	7,213	27,981	21,349
Loss on extinguishment of debt	5,414	—	5,414	—
Other expense (income), net	(1,105)	(451)	(2,347)	(1,253)
Income (loss) from continuing operations before income tax expense (benefit)	31,852	36,768	104,305	97,532
Income tax expense (benefit)	6,151	5,989	20,746	13,242
Income (loss) from continuing operations	25,701	30,779	83,559	84,290
Income (loss) from discontinued operations, net of tax	(157)	(139)	(538)	(518)
Net income (loss)	25,544	30,640	83,021	83,772
Less: net income (loss) attributable to non-controlling interest	748	1,162	2,658	3,845
Net income (loss) attributable to Masonite	\$ 24,796	\$ 29,478	\$ 80,363	\$ 79,927
Earnings (loss) per common share attributable to Masonite:				
Basic	\$ 0.90	\$ 1.01	\$ 2.90	\$ 2.70
Diluted	\$ 0.89	\$ 1.00	\$ 2.85	\$ 2.65
Earnings (loss) per common share from continuing operations attributable to Masonite:				
Basic	\$ 0.91	\$ 1.02	\$ 2.91	\$ 2.72
Diluted	\$ 0.89	\$ 1.00	\$ 2.87	\$ 2.67
Comprehensive income (loss):				
Net income (loss)	\$ 25,544	\$ 30,640	\$ 83,021	\$ 83,772
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	2,484	13,652	(23,187)	36,133
Amortization of actuarial net losses	300	292	899	876
Income tax benefit (expense) related to other comprehensive income (loss)	(63)	427	(263)	(385)
Other comprehensive income (loss), net of tax:	2,721	14,371	(22,551)	36,624
Comprehensive income (loss)	28,265	45,011	60,470	120,396
Less: comprehensive income (loss) attributable to non-controlling interest	990	1,521	2,288	4,585
Comprehensive income (loss) attributable to Masonite	\$ 27,275	\$ 43,490	\$ 58,182	\$ 115,811

See accompanying notes to the condensed consolidated financial statements.

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

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

(Unaudited)

	September 30,	December 31,
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 192,843	\$ 176,669
Restricted cash	10,485	11,895
Accounts receivable, net	301,599	269,235
Inventories, net	249,742	234,042
Prepaid expenses	30,193	27,665
Income taxes receivable	1,994	2,364
Total current assets	786,856	721,870
Property, plant and equipment, net	594,281	573,559
Investment in equity investees	12,782	11,310
Goodwill	178,862	138,449
Intangible assets, net	222,657	182,484
Long-term deferred income taxes	28,079	29,899
Other assets, net	27,974	22,687
Total assets	\$ 1,851,491	\$ 1,680,258
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 103,454	\$ 94,497
Accrued expenses	133,482	126,759
Income taxes payable	4,248	869
Total current liabilities	241,184	222,125
Long-term debt	796,388	625,657
Long-term deferred income taxes	80,006	60,820
Other liabilities	30,227	35,754
Total liabilities	1,147,805	944,356
Commitments and Contingencies (Note 9)		
Equity:		
Share capital: unlimited shares authorized, no par value, 27,135,071 and 28,369,877 shares issued and outstanding as of September 30, 2018, and December 31, 2017, respectively	603,965	624,403
Additional paid-in capital	220,032	226,528
Retained earnings (accumulated deficit)	139	(18,150)
Accumulated other comprehensive income (loss)	(132,333)	(110,152)
Total equity attributable to Masonite	691,803	722,629
Equity attributable to non-controlling interests	11,883	13,273
Total equity	703,686	735,902
Total liabilities and equity	\$ 1,851,491	\$ 1,680,258

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)

	Common Shares Outstanding	Share Capital	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Equity Attributable to Masonite	Equity Attributable to Non-controlling Interests	Total Equity
Balances as of January 1, 2017	29,774,784	\$ 650,007	\$ 234,926	\$ (89,063)	\$ (148,986)	\$ 646,884	\$ 12,892	\$ 659,776
Net income (loss)				151,739		151,739	5,242	156,981
Other comprehensive income (loss), net of tax					38,834	38,834	752	39,586
Dividends to non-controlling interests						—	(5,613)	(5,613)
Share based compensation expense			11,644			11,644		11,644
Common shares issued for delivery of share based awards	372,826	12,290	(12,290)			—		—
Common shares withheld to cover income taxes payable due to delivery of share based awards			(7,466)			(7,466)		(7,466)
Common shares issued under employee stock purchase plan	16,368	1,168	(286)			882		882
Common shares repurchased and retired	(1,794,101)	(39,062)		(80,826)		(119,888)		(119,888)
Balances as of December 31, 2017	28,369,877	\$ 624,403	\$ 226,528	\$ (18,150)	\$ (110,152)	\$ 722,629	\$ 13,273	\$ 735,902
Net income (loss)				80,363		80,363	2,658	83,021
Other comprehensive income (loss), net of tax					(22,181)	(22,181)	(370)	(22,551)
Dividends to non-controlling interests						—	(3,678)	(3,678)
Share based compensation expense			8,243			8,243		8,243
Common shares issued for delivery of share based awards	215,910	11,043	(11,043)			—		—
Common shares withheld to cover income taxes payable due to delivery of share based awards			(3,594)			(3,594)		(3,594)
Common shares issued under employee stock purchase plan	13,984	949	(102)			847		847
Common shares repurchased and retired	(1,464,700)	(32,430)		(62,074)		(94,504)		(94,504)
Balances as of September 30, 2018	27,135,071	\$ 603,965	\$ 220,032	\$ 139	\$ (132,333)	\$ 691,803	\$ 11,883	\$ 703,686

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)

	Nine Months Ended	
	September 30,	October 1,
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$83,021	\$83,772
Adjustments to reconcile net income (loss) to net cash flow provided by (used in) operating activities:		
Loss (income) from discontinued operations, net of tax	538	518
Loss (gain) on disposal of subsidiaries	—	212
Loss on extinguishment of debt	5,414	—
Depreciation	43,340	43,475
Amortization	20,951	17,782
Share based compensation expense	8,243	8,694
Deferred income taxes	9,985	8,359
Unrealized foreign exchange loss (gain)	(699)	) 1,083
Share of loss (income) from equity investees, net of tax	(1,472)	) (1,293)
Pension and post-retirement expense (funding), net	(5,976)	) (5,743)
Non-cash accruals and interest	605	1,161
Loss (gain) on sale of property, plant and equipment	2,574	1,529
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(25,780)	) (39,532)
Inventories	(7,480)	) (18,399)
Prepaid expenses	(2,411)	) (1,745)
Accounts payable and accrued expenses	12,240	2,993
Other assets and liabilities	(2,642)	) (4,761)
Net cash flow provided by (used in) operating activities	140,451	98,105
Cash flows from investing activities:		
Additions to property, plant and equipment	(51,259)	) (52,340)
Cash used in acquisitions, net of cash acquired	(135,276))
Proceeds from sale of property, plant and equipment	1,404	962
Other investing activities	(2,862)	) (2,793)
Net cash flow provided by (used in) investing activities	(187,993)	(54,171)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	300,000	155,246
Repayments of long-term debt	(125,279)	) (332)
Payment of debt extinguishment costs	(5,250))
Payment of debt issuance costs	(4,344))
Tax withholding on share based awards	(3,594)	) (6,167)
Distributions to non-controlling interests	(3,678)	) (2,955)
Repurchases of common shares	(94,504)	) (109,866)
Net cash flow provided by (used in) financing activities	63,351	35,926
Net foreign currency translation adjustment on cash	(1,045)	) (844)
Increase (decrease) in cash, cash equivalents and restricted cash	14,764	79,016
Cash, cash equivalents and restricted cash, beginning of period	188,564	83,910
Cash, cash equivalents and restricted cash, at end of period	\$203,328	\$162,926

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 31, 2017, 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- and 39-week periods are referred to as three- and nine-month periods, respectively. Certain prior year amounts have been reclassified to conform to the current basis of presentation, related to Accounting Standards Updates ("ASU") 2017-07 and 2016-18, as described below.

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 2017 audited consolidated financial statements, other than as noted below.

Adoption of Recent Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which amended Accounting Standards Codification ("ASC") 715, "Retirement Benefits". This ASU required disaggregation of the service cost component from the other components of net benefit cost. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. This standard was effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years; early adoption was permitted and retrospective application was required. We have utilized the practical expedient allowing the use of the prior years' disclosed service cost and other cost as the basis for our retrospective changes in presentation. The adoption of this standard changed the presentation of the other components of net benefit cost in our condensed consolidated statements of comprehensive income (loss), requiring the reclassification of a \$0.3 million and \$0.8 million benefit related to other components of net benefit cost out of previously-presented selling, general and administration expense and into previously presented other expense (income), net, for the three and nine months ended October 1, 2017, respectively. The effect of this reclassification

reduced previously-presented operating income by this amount for the same periods. The total benefit which will be reclassified for the years ended December 31, 2017, and January 1, 2017, will be \$1.1 million and \$0.5 million, respectively.

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

In November 2016, the FASB issued ASU 2016-18, "Restricted Cash Flows", which amended ASC 230 "Statement of Cash Flows". This ASU clarified how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. This ASU was effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods; early adoption was permitted and retrospective application was required. The adoption of this standard changed the presentation of restricted cash in our condensed consolidated statements of cash flows, which is now being summed with cash and cash equivalents, and had the effect of a \$0.3 million increase to previously-presented cash flow used in investing activities for the nine months ended October 1, 2017.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which created ASC 606, "Revenue from Contracts with Customers," and largely superseded the existing guidance of ASC 605, "Revenue Recognition." This standard outlined a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers - Deferral of the Effective Date," and the guidance would now be effective for annual and interim periods beginning on or after December 15, 2017. We have adopted the guidance of ASC 606 as of January 1, 2018, using the modified retrospective method and have applied the standard to only those contracts which were not completed as of the transition date. The adoption of this standard did not have any material impact on revenues in the three months ended April 1, 2018. Prior period amounts were not adjusted and have continued to be reported in accordance with our historic accounting under Topic 605. While we considered an adjustment to opening retained earnings as prescribed by the modified retrospective method, there was no material adjustment ultimately required. Furthermore, there was no material difference between the prior period amounts as reported under ASC 605 and such amounts as would have been reported under ASC 606. Information about the nature, amount and timing of our revenues from contracts with customers is disclosed in Note 10. Revenues. Our accounting policy for revenue recognition is set forth below.

Revenue Recognition

Revenue from the sale of products is recognized when control of the promised goods is transferred to our customers based on the agreed-upon shipping terms, in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Volume rebates, expected returns, discounts and other incentives to customers are considered variable consideration and we estimate these amounts based on the expected amount to be provided to customers and reduce the revenues we recognize accordingly. Sales taxes and value added taxes assessed by governmental entities are excluded from the measurement of consideration expected to be received. Shipping and handling costs incurred after a customer has taken possession of our goods are treated as a fulfillment cost and are not considered a separate performance obligation. Shipping and other transportation costs charged to customers are recorded in both revenues and cost of goods sold in the condensed consolidated statements of comprehensive income (loss).

Other Recent Accounting Pronouncements not yet Adopted

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 amends the definition of a hosting arrangement and requires 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 will be 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 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods; early adoption is permitted and either retrospective or prospective application is required for all implementation costs incurred after the date of adoption. We are in the process of evaluating this guidance to determine the impact it may have on our financial statements.

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

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)", which will replace the existing guidance in ASC 840, "Leases." This standard was supplemented by ASUs 2018-10 and 2018-11 in July 2018. The updated standards aim to increase transparency and comparability among organizations by requiring lessees to recognize lease 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 new leases standard in the comparative periods they present in their financial statements in the year of adoption. These ASUs are effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods; early adoption is permitted. We are currently implementing a new lease system in connection with the adoption of ASU 2016-02. We are progressing with implementation and continuing to evaluate the impact on our consolidated financial statements and disclosures. We currently anticipate that the primary impact upon adoption will be a material adjustment to our consolidated balance sheets from the recognition, on a discounted basis, of our expected future payments for our operating leases, resulting in the recognition of right to use assets and lease obligations. Our current minimum undiscounted lease commitments under non-cancelable operating leases are disclosed in Note 9. Commitments and Contingencies.

2. Acquisitions and Disposition*2018 Acquisitions*

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. 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. This goodwill is not deductible for tax purposes and relates to the Europe segment. The fair value of assets acquired and liabilities assumed in the Graham & Maiman and DW3 acquisitions are as follows:

<i>(In thousands)</i>	Graham & Maiman	DW3	Total 2018 Acquisitions
Accounts receivable	\$—	\$8,590	\$ 8,590
Inventory	6,090	5,059	11,149
Property, plant and equipment	19,557	8,196	27,753
Goodwill	10,996	33,623	44,619
Intangible assets	2,750	62,873	65,623
Accounts payable and accrued expenses	(426)	(10,418)	(10,844)

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Deferred income taxes	—	(11,546)	(11,546)
Other assets and liabilities, net	—	(68)	(68)
Cash consideration, net of cash acquired	\$ 38,967	\$ 96,309	\$ 135,276

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

The gross contractual value of acquired trade receivables was \$9.1 million for the DW3 acquisition. 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. During the three months ended September 30, 2018, we completed the final customary working capital adjustment for the Graham & Maiman acquisition, which resulted in an immaterial difference in the purchase price allocation when compared to the previously-presented preliminary purchase price allocation. Additionally, we finalized the DW3 purchase price allocation during the nine months ended September 30, 2018.

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

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

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 (loss) for the periods indicated subsequent to the acquisition date.

<i>(In thousands)</i>	Three Months Ended September 30, 2018		
	Graham & Maiman	DW3	Total 2018 Acquisitions
Net sales	\$18,336	\$18,470	\$ 36,806
Net income (loss) attributable to Masonite	845	1,433	2,278

<i>(In thousands)</i>	Nine Months Ended September 30, 2018		
	Graham & Maiman	DW3	