Core-Mark Holding Company, Inc.
Form 10-K
March 01, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2018
o **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: 000-51515

Core-Mark Holding Company, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-1489747**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
395 Oyster Point Boulevard, Suite 415 **South San Francisco, California 94080**	**(650) 589-9445**
(Address of Principal Executive Offices, including Zip Code)	**(Registrant's Telephone Number, including Area Code)**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	**NASDAQ Global Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

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 o No x

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

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 x No o

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. o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company o

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. o

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

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.

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):

	Year Ended December 31,					
	2018		**2017**		**2016**	
Product Category	**Net Sales**	**% 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")	1,387.2	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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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		