

UNIVERSAL FOREST PRODUCTS INC

Form 10-Q

May 02, 2018

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

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

For the quarterly period ended March 31, 2018

OR

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

Commission File Number 0 22684

UNIVERSAL FOREST PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

|  |   |
|--|---|
| Michigan<br>(State or other jurisdiction of incorporation or organization) | 38 1465835<br>(I.R.S. Employer Identification Number) |
|--|---|

|   |                     |
|---|---------------------|
| 2801 East Beltline NE, Grand Rapids, Michigan<br>(Address of principal executive offices) | 49525<br>(Zip Code) |
|---|---------------------|

Registrant's telephone number, including area code (616) 364 6161

NONE

(Former name or former address, if changed since last report.)

Indicate by checkmark 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 and posted on its corporate Web site, if any, 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

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Indicate by checkmark 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  
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 an new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by checkmark whether the registrant is a shell company (as defined by 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:

| Class                       | Outstanding as of March 31, 2018 |
|-----------------------------|----------------------------------|
| Common stock, \$1 par value | 61,543,902                       |

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

TABLE OF CONTENTS

| PART I.  | FINANCIAL INFORMATION.  | Page No. |
|----------|---|----------|
| Item 1.  | Financial Statements  |          |
|          | <u>Consolidated Condensed Balance Sheets at March 31, 2018, December 30, 2017 and April 1, 2017</u>                                       | 3        |
|          | <u>Consolidated Condensed Statements of Earnings and Comprehensive Income for the Three Months Ended March 31, 2018 and April 1, 2017</u> | 4        |
|          | <u>Consolidated Condensed Statements of Shareholders' Equity for the Three Months Ended March 31, 2018 and April 1, 2017</u>              | 5        |
|          | <u>Consolidated Condensed Statements of Cash Flows for the Three Months Ended March 31, 2018 and April 1, 2017</u>                        | 6        |
|          | <u>Notes to Unaudited Consolidated Condensed Financial Statements</u>   | 7        |
| Item 2.  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>  | 15       |
| Item 3.  | <u>Quantitative and Qualitative Disclosures about Market Risk</u>   | 25       |
| Item 4.  | <u>Controls and Procedures</u>  | 26       |
| PART II. | OTHER INFORMATION   |          |
| Item 1.  | Legal Proceedings – NONE  |          |
| Item 1A. | <u>Risk Factors – NONE</u>  | 27       |
| Item 2.  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 27       |
| Item 3.  | Defaults upon Senior Securities – NONE  |          |
| Item 4.  | Mine Safety Disclosures – NONE  |          |
| Item 5.  | <u>Other Information – NONE</u>   | 27       |
| Item 6.  | <u>Exhibits</u>   | 28       |



Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)

|  | March 31,<br>2018 | December 30,<br>2017 | April 1,<br>2017 |
|--|-------------------|----------------------|------------------|
| <b>ASSETS</b>                                  |                   |                      |                  |
| <b>CURRENT ASSETS:</b>                         |                   |                      |                  |
| Cash and cash equivalents                      | \$ 25,326         | \$ 28,339            | \$ 31,020        |
| Restricted cash                                | 32,425            | 477                  | 909              |
| Investments                                    | 10,701            | 11,269               | 5,928            |
| Accounts receivable, net                       | 430,251           | 327,751              | 365,620          |
| Inventories:                                   |                   |                      |                  |
| Raw materials                                  | 261,808           | 234,354              | 232,647          |
| Finished goods                                 | 259,898           | 225,954              | 239,369          |
| Total inventories                              | 521,706           | 460,308              | 472,016          |
| Refundable income taxes                        | —                 | 7,228                | 3,170            |
| Other current assets                           | 23,304            | 28,115               | 20,650           |
| <b>TOTAL CURRENT ASSETS</b>                    | <b>1,043,713</b>  | <b>863,487</b>       | <b>899,313</b>   |
| <b>DEFERRED INCOME TAXES</b>                   | <b>2,273</b>      | <b>1,865</b>         | <b>1,960</b>     |
| <b>RESTRICTED INVESTMENTS</b>                  | <b>10,238</b>     | <b>8,359</b>         | <b>3,800</b>     |
| <b>OTHER ASSETS</b>                            | <b>7,123</b>      | <b>7,368</b>         | <b>12,573</b>    |
| <b>GOODWILL</b>                                | <b>212,596</b>    | <b>212,644</b>       | <b>211,061</b>   |
| <b>INDEFINITE-LIVED INTANGIBLE ASSETS</b>      | <b>7,407</b>      | <b>7,415</b>         | <b>2,340</b>     |
| <b>OTHER INTANGIBLE ASSETS, NET</b>            | <b>34,543</b>     | <b>34,910</b>        | <b>36,759</b>    |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>          |                   |                      |                  |
| Property, plant and equipment                  | 754,603           | 763,101              | 720,912          |
| Less accumulated depreciation and amortization | (441,032)         | (434,472)            | (411,059)        |
| <b>PROPERTY, PLANT AND EQUIPMENT, NET</b>      | <b>313,571</b>    | <b>328,629</b>       | <b>309,853</b>   |
| <b>TOTAL ASSETS</b>                            | <b>1,631,464</b>  | <b>1,464,677</b>     | <b>1,477,659</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>    |                   |                      |                  |
| <b>CURRENT LIABILITIES:</b>                    |                   |                      |                  |
| Cash overdraft                                 | \$ 30,026         | \$ 25,851            | \$ 21,566        |
| Accounts payable                               | 176,469           | 140,106              | 156,030          |
| Accrued liabilities:                           |                   |                      |                  |
| Compensation and benefits                      | 61,976            | 97,556               | 58,491           |
| Income taxes                                   | 1,600             | —                    | —                |
| Other  | 42,633            | 38,404               | 39,473           |
| Current portion of long-term debt              | 425               | 1,329                | 2,280            |
| <b>TOTAL CURRENT LIABILITIES</b>               | <b>313,129</b>    | <b>303,246</b>       | <b>277,840</b>   |
| <b>LONG-TERM DEBT</b>                          | <b>261,327</b>    | <b>144,674</b>       | <b>252,904</b>   |
| <b>DEFERRED INCOME TAXES</b>                   | <b>13,894</b>     | <b>14,079</b>        | <b>21,364</b>    |
| <b>OTHER LIABILITIES</b>                       | <b>26,192</b>     | <b>28,655</b>        | <b>28,198</b>    |

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|  |              |              |              |
|--|--------------|--------------|--------------|
| TOTAL LIABILITIES  | 614,542      | 490,654      | 580,306      |
| SHAREHOLDERS' EQUITY:  |              |              |              |
| Controlling interest shareholders' equity:   |              |              |              |
| Preferred stock, no par value; shares authorized 1,000,000; issued and outstanding, none                                 | \$ —         | \$ —         | \$ —         |
| Common stock, \$1 par value; shares authorized 80,000,000; issued and outstanding, 61,543,902, 61,191,888 and 61,554,147 | 61,544       | 61,192       | 61,554       |
| Additional paid-in capital   | 172,929      | 161,928      | 156,320      |
| Retained earnings  | 768,223      | 736,212      | 670,115      |
| Accumulated other comprehensive income   | (1,140)      | 144          | (3,450)      |
| Total controlling interest shareholders' equity  | 1,001,556    | 959,476      | 884,539      |
| Noncontrolling interest  | 15,366       | 14,547       | 12,814       |
| TOTAL SHAREHOLDERS' EQUITY   | 1,016,922    | 974,023      | 897,353      |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY   | \$ 1,631,464 | \$ 1,464,677 | \$ 1,477,659 |

See notes to consolidated condensed financial statements.

Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS

## AND COMPREHENSIVE INCOME

(Unaudited)

(in thousands, except per share data)

|   | Three Months Ended |                  |
|---|--------------------|------------------|
|   | March 31,<br>2018  | April 1,<br>2017 |
| NET SALES   | \$ 993,857         | \$ 846,130       |
| COST OF GOODS SOLD  | 862,968            | 725,390          |
| GROSS PROFIT  | 130,889            | 120,740          |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES                      | 93,206             | 86,983           |
| NET GAIN ON DISPOSITION OF ASSETS                                 | (6,534)            | (64)             |
| EARNINGS FROM OPERATIONS  | 44,217             | 33,821           |
| INTEREST EXPENSE  | 1,778              | 1,504            |
| INTEREST AND INVESTMENT INCOME                                    | (717)              | (82)             |
| EQUITY IN EARNINGS OF INVESTEE                                    | —                  | (5)              |
|   | 1,061              | 1,417            |
| EARNINGS BEFORE INCOME TAXES                                      | 43,156             | 32,404           |
| INCOME TAXES  | 9,574              | 10,770           |
| NET EARNINGS  | 33,582             | 21,634           |
| LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST         | (749)              | (572)            |
| NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST                 | \$ 32,833          | \$ 21,062        |
| <br>  |                    |                  |
| EARNINGS PER SHARE - BASIC  | \$ 0.53            | \$ 0.34          |
| EARNINGS PER SHARE - DILUTED                                      | \$ 0.53            | \$ 0.34          |
| <br>  |                    |                  |
| OTHER COMPREHENSIVE INCOME:                                       |                    |                  |
| NET EARNINGS  | 33,582             | 21,634           |
| OTHER COMPREHENSIVE GAIN (LOSS)                                   | (439)              | 3,035            |
| COMPREHENSIVE INCOME  | 33,143             | 24,669           |
| LESS COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST | (1,594)            | (1,427)          |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO CONTROLLING INTEREST         | \$ 31,549          | \$ 23,242        |

See notes to consolidated condensed financial statements.

Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

(in thousands, except share and per share data)

|   | Controlling Interest Shareholders' Equity |                            |                   | Accumulated Other Comprehensive Earnings |           | Noncontrolling Interest Total |
|---|---|----------------------------|-------------------|--|-----------|-------------------------------|
|   | Common Stock                              | Additional Paid-In Capital | Retained Earnings | Earnings                                 | Interest  |                               |
| Balance at December 31, 2016                                  | \$ 61,026                                 | \$ 144,649                 | \$ 649,135        | \$ (5,630)                               | \$ 11,286 | \$ 860,466                    |
| Net earnings  |   |                            | 21,062            |  | 572       | 21,634                        |
| Foreign currency translation adjustment                       |   |                            |                   | 1,971                                    | 855       | 2,826                         |
| Unrealized gain (loss) on investment & foreign currency       |   |                            |                   | 209                                      |           | 209                           |
| Distributions to noncontrolling interest                      |   |                            |                   |  | (1,673)   | (1,673)                       |
| Additional purchases of noncontrolling interest               |   |                            |                   |  | 1,774     | 1,774                         |
| Issuance of 5,214 shares under employee stock plans           | 5   | 142                        |                   |  |           | 147                           |
| Issuance of 407,328 shares under stock grant programs         | 408                                       | 6,836                      |                   |  |           | 7,244                         |
| Issuance of 118,038 shares under deferred compensation plans  | 118                                       | (118)                      |                   |  |           | —                             |
| Repurchase of 2,640 shares                                    | (3)                                       |                            | (82)              |  |           | (85)                          |
| Expense associated with share-based compensation arrangements |   | 571                        |                   |  |           | 571                           |
| Accrued expense under deferred compensation plans             |   | 4,240                      |                   |  |           | 4,240                         |
| Balance at April 1, 2017                                      | \$ 61,554                                 | \$ 156,320                 | \$ 670,115        | \$ (3,450)                               | \$ 12,814 | \$ 897,353                    |
| Balance at December 30, 2017                                  | 61,192                                    | 161,928                    | 736,212           | 144                                      | 14,547    | 974,023                       |
| Net earnings  |   |                            | 32,833            |  | 749       | 33,582                        |
| Foreign currency translation adjustment                       |   |                            |                   | (785)                                    | 845       | 60                            |
| Unrealized gain (loss) on investment & foreign currency       |   |                            |                   | (499)                                    |           | (499)                         |
| Distributions to noncontrolling interest                      |   |                            |                   |  | (775)     | (775)                         |
| Additional purchases of noncontrolling interest               |   |                            |                   |  | —         | —                             |
| Net purchase and dissolution of noncontrolling interest       |   |                            |                   |  | —         | —                             |
| Issuance of 7,469 shares under employee stock plans           | 8   | 199                        |                   |  |           | 207                           |
| Issuance of 253,289 shares under stock grant programs         | 253                                       | 5,292                      |                   |  |           | 5,545                         |
| Issuance of 117,068 shares under deferred compensation plans  | 117                                       | (117)                      |                   |  |           | —                             |



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|   |           |            |            |            |           |              |
|---|-----------|------------|------------|------------|-----------|--------------|
| Repurchase of 25,812 shares                                   | (26)      |            | (822)      |            |           | (848)        |
| Expense associated with share-based compensation arrangements |           | 1,034      |            |            |           | 1,034        |
| Accrued expense under deferred compensation plans             |           | 4,593      |            |            |           | 4,593        |
| Balance at March 31, 2018                                     | \$ 61,544 | \$ 172,929 | \$ 768,223 | \$ (1,140) | \$ 15,366 | \$ 1,016,922 |

See notes to consolidated condensed financial statements.

5

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Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

|  | Three Months Ended |                  |
|--|--------------------|------------------|
|  | March 31,<br>2018  | April 1,<br>2017 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                 |                    |                  |
| Net earnings   | \$ 33,582          | \$ 21,634        |
| Adjustments to reconcile net earnings to net cash from operating activities: |                    |                  |
| Depreciation   | 12,712             | 11,392           |
| Amortization of intangibles  | 1,228              | 1,119            |
| Expense associated with share-based and grant compensation arrangements      | 1,094              | 617              |
| Deferred income taxes (credits)  | (519)              | 224              |
| Equity in earnings of investee   | —                  | (5)              |
| Net gain on disposition of assets  | (6,534)            | (64)             |
| Changes in:  |                    |                  |
| Accounts receivable  | (99,765)           | (67,766)         |
| Inventories  | (57,403)           | (60,984)         |
| Accounts payable and cash overdraft  | 39,935             | 32,769           |
| Accrued liabilities and other  | (8,502)            | (9,676)          |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                                 | <b>(84,172)</b>    | <b>(70,740)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                 |                    |                  |
| Purchases of property, plant and equipment                                   | (24,362)           | (16,531)         |
| Proceeds from sale of property, plant and equipment                          | 36,250             | 353              |
| Acquisitions, net of cash received   | (8,787)            | (55,441)         |
| Advances of notes receivable   | (12)               | (228)            |
| Collections on notes receivable  | 482                | 721              |
| Purchases of investments   | (6,718)            | (819)            |
| Proceeds from sale of investments  | 5,045              | 1,204            |
| Other  | (594)              | 142              |
| <b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>                          | <b>1,304</b>       | <b>(70,599)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                 |                    |                  |
| Borrowings under revolving credit facilities                                 | 296,342            | 281,090          |
| Repayments under revolving credit facilities                                 | (179,429)          | (137,767)        |
| Borrowings of debt   | 1,376              | —                |
| Repayment of debt  | (5,232)            | —                |
| Proceeds from issuance of common stock                                       | 206                | 146              |
| Distributions to noncontrolling interest                                     | (775)              | (1,673)          |
| Repurchase of common stock   | (848)              | (83)             |
| Other  | (70)               | (16)             |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>                                    | <b>111,570</b>     | <b>141,697</b>   |
| Effect of exchange rate changes on cash                                      | 233                | 882              |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                               | <b>28,935</b>      | <b>1,240</b>     |

|  |           |           |
|--|-----------|-----------|
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR   | 28,816    | 34,489    |
| CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD       | \$ 57,751 | \$ 35,729 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH: |           |           |
| Cash and cash equivalents, beginning of period                   | \$ 28,339 | \$ 34,091 |
| Restricted cash, beginning of period                             | 477       | 398       |
| Cash, cash equivalents, and restricted cash, beginning of period | \$ 28,816 | \$ 34,489 |
| Cash and cash equivalents, end of period                         | \$ 25,326 | \$ 31,020 |
| Restricted cash, end of period                                   | 32,425    | 4,709     |
| Cash, cash equivalents, and restricted cash, end of period       | \$ 57,751 | \$ 35,729 |
| SUPPLEMENTAL INFORMATION:  |           |           |
| Interest paid  | \$ 843    | \$ 497    |
| Income taxes paid  | 1,245     | 2,337     |
| NON-CASH FINANCING ACTIVITIES:                                   |           |           |
| Common stock issued under deferred compensation plans            | 4,237     | 3,793     |
| See notes to consolidated condensed financial statements.        |           |           |

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

## NOTES TO UNAUDITED

## CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

## A. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated condensed financial statements (the “Financial Statements”) include our accounts and those of our wholly-owned and majority-owned subsidiaries and partnerships, and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, the Financial Statements do not include all of the information and footnotes normally included in the annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States. All intercompany transactions and balances have been eliminated.

In our opinion, the Financial Statements contain all material adjustments necessary to present fairly our consolidated financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. These Financial Statements should be read in conjunction with the annual consolidated financial statements, and footnotes thereto, included in our Annual Report to Shareholders on Form 10 K for the fiscal year ended December 30, 2017.

Seasonality has a significant impact on our working capital from March to August which historically results in negative or modest cash flows from operations in our first and second quarters. Conversely, we experience a substantial decrease in working capital from September to February which typically results in significant cash flow from operations in our third and fourth quarters. For comparative purposes, we have included the April 1, 2017 balances in the accompanying unaudited consolidated condensed balance sheets.

## B. FAIR VALUE

We apply the provisions of ASC 820, Fair Value Measurements and Disclosures, to assets and liabilities measured at fair value. Assets measured at fair value are as follows:

|                    | March 31, 2018  |   |          | April 1, 2017   |   |          |
|--------------------|---|---|----------|---|---|----------|
|                    | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Prices with<br>Other<br>Observable<br>Inputs<br>(Level 2) | Total    | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Prices with<br>Other<br>Observable<br>Inputs<br>(Level 2) | Total    |
| (in thousands)     |   |   |          |   |   |          |
| Money market funds | \$ 65   | \$ 4,744  | \$ 4,809 | \$ 64   | \$ 4,564  | \$ 4,628 |
| Fixed income funds | 2,159   | 7,111   | 9,270    | 4,055   | —   | 4,055    |
| Equity securities  | 7,202   | —   | 7,202    | 5,928   | —   | 5,928    |
| Mutual funds:      |   |   |          |   |   |          |

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|                           |           |           |           |           |          |           |
|---------------------------|-----------|-----------|-----------|-----------|----------|-----------|
| Domestic stock funds      | 1,158     | —         | 1,158     | 316       | —        | 316       |
| International stock funds | 1,159     | —         | 1,159     | 81        | —        | 81        |
| Target funds              | 281       | 743       | 1,024     | 246       | —        | 246       |
| Bond funds                | 207       | 347       | 554       | 203       | —        | 203       |
| Total mutual funds        | 2,805     | 1,090     | 3,895     | 846       | —        | 846       |
| Total                     | \$ 12,231 | \$ 12,945 | \$ 25,176 | \$ 10,893 | \$ 4,564 | \$ 15,457 |
| Assets at fair value      | \$ 12,231 | \$ 12,945 | \$ 25,176 | \$ 10,893 | \$ 4,564 | \$ 15,457 |

We maintain money market, mutual funds, bonds, and/or stocks in our non-qualified deferred compensation plan and our wholly owned licensed captive insurance company. These funds are valued at prices quoted in an active

7

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Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

exchange market and are included in “Cash and Cash Equivalents”, “Investments”, “Restricted Cash”, and “Restricted Investments”. We have elected not to apply the fair value option under ASC 825, Financial Instruments, to any of our financial instruments except for those expressly required by U.S. GAAP.

We did not maintain any Level 3 assets or liabilities at March 31, 2018, or April 1, 2017.

In 2017, our wholly-owned captive, Ardellis Insurance Ltd. (“Ardellis”) transferred \$4.1 million in fixed income securities from its Investment Account and purchased an additional \$3.8 million in fixed income securities which are held in a newly formed collateral trust account in line with regulatory requirements in the State of Michigan to allow Ardellis to act as an admitted carrier in the State. These funds are intended to safeguard the insureds of the Michigan Branch of Ardellis. The funds are classified as “Restricted Investments”.

In accordance with our investment policy, our wholly-owned captive, Ardellis Insurance Ltd. (“Ardellis”), maintains an investment portfolio, totaling \$19.4 million as of March 31, 2018, consisting of domestic and international stocks, and fixed income bonds.

Ardellis’ available for sale investment portfolio, including funds held with the State of Michigan, consists of the following:

|              | March 31, 2018 |                           |            |
|--------------|----------------|---------------------------|------------|
|              | Cost           | Unrealized<br>Gain/(Loss) | Fair Value |
| Fixed Income | \$ 9,437       | \$ (167)                  | \$ 9,270   |
| Equity       | 6,389          | 813                       | 7,202      |
| Mutual Funds | 2,947          | (34)                      | 2,913      |
| Total        | \$ 18,773      | \$ 612                    | \$ 19,385  |

Our fixed income investments consist of a blend of US Government and Agency bonds and investment grade corporate bonds with varying maturities. Our equity investments consist of small, mid, and large cap growth and value funds, as well as international equity. The net pre-tax effected unrealized gain was \$0.6 million. Carrying amounts above are recorded in the investments and restricted investments line items within the balance sheet as of March 31, 2018. During the first three months of 2018, Ardellis’ investments reported a net realized gain of \$256 thousand, which was recorded in interest income on the statement of earnings.

## C. REVENUE RECOGNITION

On May 28, 2014, the FASB issued ASU No. 2014-09 (Accounting Standard Codification 606), Revenue from Contracts with Customers. Topic 606 supersedes the revenue recognition requirements in Accounting Standards Codification Topic 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the considerations to which the entity expects to be entitled to in exchange for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The Company has adopted the requirements of the new standard as of January 1, 2018, and utilized the modified retrospective method of transition which was applied to all contracts.

The Company completed the new revenue recognition standard assessment and determined that there was no material impact to our consolidated financial statements, aside from additional required disclosures, thus no needed adjustment to the opening retained earnings for the annual reporting period.

Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

Within the three markets (retail, industrial, and construction) that the Company operates, there are a variety of written and oral contracts that are utilized to generate revenue from the sale of wood, wood composite and other products. The transaction price is stated at the purchase order level, which includes shipping and/or freight costs and any applicable governmental authority taxes. The majority of our contracts have a single performance obligation concentrated around the delivery of goods to the carrier, Free On Board (FOB) shipping point. Therefore, revenue is recognized when this performance obligation is satisfied. Generally, title and control passes at the time of shipment. In certain circumstances, the customer takes title when the shipment arrives at the destination. However, our shipping process is typically completed the same day.

Certain customer products that we provide require installation by the Company or a 3rd party. Installation revenue is recognized upon completion, which is typically 2-3 days after receipt. If it is determined to utilize a 3rd party for installation, the party will act as an agent to the Company until completion of the installation. Installation revenue represents an immaterial share of the Company's total sales.

The Company utilizes rebates, credits, discounts and/or cash-based incentives with certain customers which are accounted for as variable consideration. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We believe that there will not be significant changes to our estimates of variable consideration. The allocation of these costs are applied at the invoice level and recognized in conjunction with revenue. Additionally, the volume returns and refunds are estimated on a historical and expected basis which is a reduction of revenue recognized.

Earnings on construction contracts are reflected in operations using over time accounting, under either cost to cost or units of delivery methods, depending on the nature of the business at individual operations, which is in accordance with ASC 606 as revenue is recognized when certain performance obligations are performed. Under over time accounting using the cost to cost method, revenues and related earnings on construction contracts are measured by the relationships of actual costs incurred related to the total estimated costs. Under over time accounting using the units of delivery method, revenues and related earnings on construction contracts are measured by the relationships of actual units produced related to the total number of units. Revisions in earnings estimates on the construction contracts are recorded in the accounting period in which the basis for such revisions becomes known. Projected losses on individual contracts are charged to operations in their entirety when such losses become apparent.

Our construction contracts are generally entered into with a fixed price and completion of the projects can range from 6 to 18 months in duration. Therefore, our operating results are impacted by, among many other things, labor rates and commodity costs. During the year, we update our estimated costs to complete our projects using current labor and commodity costs and recognize losses to the extent that they exist.

The following table presents our gross revenues disaggregated by revenue source:

| (in thousands)                | Three Months Ended |                  |          |
|-------------------------------|--------------------|------------------|----------|
|                               | March 31,<br>2018  | April 1,<br>2017 | % Change |
| Market Classification         |                    |                  |          |
| FOB Shipping Point Revenue    | \$ 981,691         | \$ 826,876       | 18.72%   |
| Construction Contract Revenue | 29,976             | 31,981           | -6.27%   |
| Total Sales                   | 1,011,667          | 858,857          | 17.79%   |



The North and West segments comprise the construction contract revenue above, \$20.6 million and \$9.4 million, respectively. Construction contract revenue is primarily made up of site-built and framing customers.

9

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Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

The following table presents the balances of over time accounting accounts which are included in “Other current assets” and “Accrued liabilities: Other”, respectively (in thousands):

|   | March 31,<br>2018 | December 30,<br>2017 | April 1,<br>2017 |
|---|-------------------|----------------------|------------------|
| Cost and Earnings in Excess of Billings | \$ 2,517          | \$ 5,005             | \$ 3,063         |
| Billings in Excess of Cost and Earnings | 3,386             | 4,435                | 4,352            |

## D. EARNINGS PER SHARE

The computation of earnings per share (“EPS”) is as follows (in thousands):

|   | Three Months Ended |                  |
|---|--------------------|------------------|
|   | March 31,<br>2018  | April 1,<br>2017 |
| Numerator:  |                    |                  |
| Net earnings attributable to controlling interest                       | \$ 32,833          | \$ 21,062        |
| Adjustment for earnings allocated to non-vested restricted common stock | (724)              | (362)            |
| Net earnings for calculating EPS  | \$ 32,109          | \$ 20,700        |
| Denominator:  |                    |                  |
| Weighted average shares outstanding                                     | 61,636             | 61,410           |
| Adjustment for non-vested restricted common stock                       | (1,358)            | (1,053)          |
| Shares for calculating basic EPS  | 60,278             | 60,357           |
| Effect of dilutive restricted common stock                              | 85                 | 99               |
| Shares for calculating diluted EPS                                      | 60,363             | 60,456           |
| Net earnings per share:   |                    |                  |
| Basic   | \$ 0.53            | \$ 0.34          |
| Diluted   | \$ 0.53            | \$ 0.34          |

No options were excluded from the computation of diluted EPS for the quarters ended March 31, 2018, or April 1, 2017.

On October 17, 2017, our Board of Directors declared a three-for-one stock split effected in the form of a stock dividend. The record date of the stock split was on October 31, 2017, and the eventual stock distribution to shareholders occurred on November 14, 2017. As a result of the stock split, all historical per share data and number of shares outstanding presented in future financial statements are retroactively adjusted.

## E. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

We are self-insured for environmental impairment liability, including certain liabilities which are insured through a wholly owned subsidiary, Ardellis Insurance Ltd., a licensed captive insurance company.

We own and operate a number of facilities throughout the United States that chemically treat lumber products. In connection with the ownership and operation of these and other real properties, and the disposal or treatment of hazardous or toxic substances, we may, under various federal, state, and local environmental laws, ordinances, and regulations, be potentially liable for removal and remediation costs, as well as other potential costs, damages, and expenses. Environmental reserves, calculated with no discount rate, have been established to cover remediation activities at wood preservation facilities in Stockertown, PA; Elizabeth City, NC; and Auburndale, FL. In addition, a reserve was established for our facility in Thornton, CA to remove certain lead containing materials which existed on the property at the time of purchase.

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

On a consolidated basis, we have reserved approximately \$2.6 million and \$3.6 million on March 31, 2018, and April 1, 2017, respectively, representing the estimated costs to complete future remediation efforts. These amounts have not been reduced by an insurance receivable.

Many of our wood treating operations utilize “Subpart W” drip pads, defined as hazardous waste management units by the Environmental Protection Agency. The rules regulating drip pads require that a pad be “closed” at the point that it is no longer intended to be used for wood treating operations or to manage hazardous waste. Closure involves identification and disposal of contaminants which are required to be removed from the facility. The cost of closure is dependent upon a number of factors including, but not limited to, identification and removal of contaminants, cleanup standards that vary from state to state, and the time period over which the cleanup would be completed. Based on our present knowledge of existing circumstances, it is considered probable that these costs will approximate \$0.2 million. As a result, this amount is recorded in other long-term liabilities on March 31, 2018.

In February 2014, one of our operations was served with a federal grand jury subpoena from the Southern District of New York. The subpoena was issued in connection with an investigation being conducted by the US Attorney’s Office for the Southern District of New York. The subpoena requested documents relating to a developer and construction projects for which our operation had provided materials and labor. Following receipt of the subpoena, the Audit Committee of the Company’s Board of Directors retained outside counsel to conduct an internal investigation and respond to the subpoena. The Company cooperated in all respects with the US Attorney’s Office, complied with this subpoena and voluntarily provided additional information. As a result of the internal investigation, in 2014, two Company employees were terminated for violating the Company’s Code of Business Conduct and Ethics. In May 2015, those ex-employees were indicted by the grand jury. In April 2016, one of the two former employees pled guilty to four of the charges included in the indictment. In May 2016, the other former employee was found guilty by a jury on four of the charges included in the indictment. The Company has not been named as a target and continues to cooperate with the US Attorney’s Office in this matter. Based upon prior communications with the US Attorney’s Office, we do not believe that the resolution of this matter will have a material adverse impact on our financial condition or the results of our operations.

In addition, on March 31, 2018, we were parties either as plaintiff or defendant to a number of lawsuits and claims arising through the normal course of our business. In the opinion of management, our consolidated financial statements will not be materially affected by the outcome of these contingencies and claims.

On March 31, 2018, we had outstanding purchase commitments on commenced capital projects of approximately \$28.5 million.

We provide a variety of warranties for products we manufacture. Historically, warranty claims have not been material. We distribute products manufactured by other companies, some of which are no longer in business. While we do not warrant these products, we have received claims as a distributor of these products when the manufacturer no longer exists or has the ability to pay. Historically, these costs have not had a material effect on our consolidated financial statements.

As part of our operations, we supply building materials and labor to site-built construction projects or we jointly bid on contracts with framing companies for such projects. In some instances, we are required to post payment and performance bonds to insure the project owner that the products and installation services are completed in accordance with our contractual obligations. We have agreed to indemnify the surety for claims made against the bonds. As of

March 31, 2018, we had approximately \$12.9 million outstanding payment and performance bonds for open projects. We had approximately \$6.8 million in payment and performance bonds outstanding for completed projects which are still under warranty.

On March 31, 2018, we had outstanding letters of credit totaling \$26.4 million, primarily related to certain insurance contracts and industrial development revenue bonds described further below.

Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

In lieu of cash deposits, we provide irrevocable letters of credit in favor of our insurers to guarantee our performance under certain insurance contracts. We currently have irrevocable letters of credit outstanding totaling approximately \$16.6 million for these types of insurance arrangements. We have reserves recorded on our balance sheet, in accrued liabilities, that reflect our expected future liabilities under these insurance arrangements.

We are required to provide irrevocable letters of credit in favor of the bond trustees for all industrial development revenue bonds that have been issued. These letters of credit guarantee principal and interest payments to the bondholders. We currently have irrevocable letters of credit outstanding totaling approximately \$9.8 million related to our outstanding industrial development revenue bonds. These letters of credit have varying terms but may be renewed at the option of the issuing banks.

Certain wholly owned domestic subsidiaries have guaranteed the indebtedness of Universal Forest Products, Inc. in certain debt agreements, including the Series 2012 Senior Notes and our revolving credit facility. The maximum exposure of these guarantees is limited to the indebtedness outstanding under these debt arrangements and this exposure will expire concurrent with the expiration of the debt agreements.

We did not enter into any new guarantee arrangements during the first quarter of 2018 which would require us to recognize a liability on our balance sheet.

## F. BUSINESS COMBINATIONS

We completed the following acquisitions in three months ended 2018 and 2017 which were accounted for using the purchase method in thousands unless otherwise noted:

| Company Name                           | Acquisition Date | Purchase Price   | Intangible Assets | Net Tangible Assets | Operating Segment |
|--|------------------|--|-------------------|---------------------|-------------------|
| Spinner Wood Products, LLC ("Spinner") | January 23, 2018 | cash paid for 100% asset purchase  | \$ 850            | \$ 2,092            | West              |
|  |                  | A manufacturer and distributor of agricultural bin and various industrial packaging. Spinner had annual sales of approximately \$8 million. The acquisition of Spinner allows us to expand our industrial packaging product offering and creates operating leverage by consolidating with other regional operations. |                   |                     |                   |
| Great Northern Lumber, LLC             | January 15, 2018 | cash paid for 100% asset purchase  | \$ 50             | \$ 5,795            | North             |
|  |                  | A manufacturer of industrial products as well as serving the concrete forming market in the Chicago area. Great Northern Lumber had annual sales of approximately \$25 million. The acquisition of Great Northern Lumber enables us to expand our concrete forming product offering and regional coverage.           |                   |                     |                   |
|  | October 16, 2017 | \$931 cash paid for 100% asset   | \$ 909            | \$ 22               | All Other         |

|                                |  |
|--------------------------------|--|
| Silverwater Box                | <p style="text-align: center;">purchase</p> <p>A manufacturer and distributor of total packaging solutions in timber, plastic, steel, fiberglass, and cardboard. Silverwater Box had annual sales of approximately \$2.8 million. The acquisition of Silverwater Box allows us to make progress on our goal of becoming a global provider of packaging solutions.</p>  |
| Go Boy Pallets, LLC ("Go Boy") | <p style="text-align: center;">\$5,042</p> <p>May 26, 2017    cash paid for 100% asset    \$ 4,880    \$ 162    South<br/>purchase</p> <p>A manufacturer and distributor of industrial pallets and packaging in Georgia and North Carolina. Go Boy had annual sales of approximately \$8 million. The acquisition of Go Boy enabled us to expand our industrial packaging product offering and lumber sourcing in this region.</p> |

Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

|   |  |          |           |           |       |
|---|--|----------|-----------|-----------|-------|
|   |  | \$31,818 |           |           |       |
|   | March 6, 2017 cash paid for 100% asset purchase  |          | \$ 7,653  | \$ 24,165 | South |
| Robbins Manufacturing Co. ("Robbins")   | A manufacturer of treated wood products with facilities in Florida, Georgia, and North Carolina. Robbins had annual sales of approximately \$86 million. The acquisition of Robbins allowed us to expand our presence in this region and serve customers more cost effectively.              |          |           |           |       |
|   |  | \$22,789 |           |           |       |
|   | March 6, 2017 cash paid for 100% asset purchase  |          | \$ 14,341 | \$ 8,448  | North |
| Quality Hardwood Sales, LLC ("Quality") | A manufacturer and supplier of hardwood products, including components of cabinets used in homes and recreational vehicles. Quality had annual sales of approximately \$30 million. The acquisition of Quality enabled us to expand our product offering to include hardwood-based products. |          |           |           |       |

The intangible assets for each acquisition were finalized and allocated to their respective identifiable intangible asset and goodwill accounts during 2018. In aggregate, acquisitions completed since the end of March 2017 contributed approximately \$38.7 million in revenue and \$0.8 million in operating profit during the first quarter of 2018.

## G. SEGMENT REPORTING

ASC 280, Segment Reporting ("ASC 280"), defines operating segments as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

The Company operates manufacturing, treating and distribution facilities throughout North America, but primarily in the United States. The Company manages the operations of its individual locations primarily through a geographic reporting structure under which each location is included in a region and regions are included in our North, South, West, and International divisions. The exceptions to this geographic reporting and management structure are (a) the Company's Alternative Materials Division, which offers a portfolio of non-wood products and distributes those products nation-wide (b) the Company's distribution unit (referred to as UFPD) which distributes a variety of products to the manufactured housing industry nation-wide and is accounted for as a reporting unit within the North segment, and (c) the idX division, which designs, produces, and installs customized in-store environments, for customers world-wide.

With respect to the facilities in the north, south, and west segments, these facilities generally supply the three markets the Company serves nationally - Retail, Industrial, and Construction. Also, substantially all of our facilities support customers in the immediate geographical region surrounding the facility.

Our Alternative Materials, International and idX division have been included in the "All Other" column of the table below. The "Corporate" column includes unallocated administrative costs and certain incentive compensation expense.

Three Months Ended March 31, 2018



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|                                 | North      | South      | West       | All Other  | Corporate | Total      |
|---------------------------------|------------|------------|------------|------------|-----------|------------|
| Net sales to outside customers  | \$ 270,186 | \$ 242,020 | \$ 362,468 | \$ 119,183 | \$ —      | \$ 993,857 |
| Intersegment net sales          | 12,025     | 18,649     | 15,599     | 62,720     | —         | 108,993    |
| Segment operating profit (loss) | 8,694      | 19,544     | 21,083     | (3,100)    | (2,004)   | 44,217     |

13

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Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

|                                | Three Months Ended April 1, 2017 |            |            |            |           | Total      |
|--------------------------------|----------------------------------|------------|------------|------------|-----------|------------|
|                                | North                            | South      | West       | All Other  | Corporate |            |
| Net sales to outside customers | \$ 227,920                       | \$ 188,743 | \$ 319,161 | \$ 110,306 | \$ —      | \$ 846,130 |
| Intersegment net sales         | 16,171                           | 17,278     | 21,833     | 20,006     | —         | 75,288     |
| Segment operating profit       | 9,978                            | 10,689     | 18,305     | 604        | (5,755)   | 33,821     |

## H. INCOME TAXES

Effective tax rates differ from statutory federal income tax rates, primarily due to provisions for state and local income taxes and permanent tax differences. Our effective tax rate was 22.2% in the first quarter of 2018 compared to 33.2% for same period in 2017. This decrease was due primarily to the Tax Act, which reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. Pursuant to SAB 118, the accounting for the Tax Act was incomplete at December 30, 2017 and is still incomplete as of March 31, 2018. As noted at year-end, however, we were able to reasonably estimate certain effects and, therefore, recorded provisional adjustments associated with the deemed repatriation transition tax, a provisional decrease for certain of our Deferred Tax Assets (DTAs) and Deferred Tax Liabilities (DTLs) related to the reduced corporate tax rate, and a provisional benefit related to our intent to fully expense all qualifying expenditures under the new cost recovery rules.

We have not made any additional measurement-period adjustments related to these items during the quarter. However, we are continuing to gather additional information to complete our accounting for these items and expect to complete our accounting within the prescribed measurement period.

As noted at year-end, we were not yet able to reasonably estimate the effects for Global Intangible Low-Taxed Income (GILTI). Therefore, no provisional adjustment was recorded.

Because of the complexity of the new GILTI tax rules, we are continuing to evaluate this provision of the Act and the application of ASC 740. Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the “period cost method”) or (2) factoring such amounts into a company’s measurement of its deferred taxes (the “deferred

method”). Our selection of an accounting policy related to the new GILTI tax rules will depend, in part, on analyzing our global income to determine whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, what the impact is expected to be. Because whether we expect to have future U.S. inclusions in taxable income related to GILTI depends on a number of different aspects or our estimated future results of global operations, we are not yet able to reasonably estimate the long-term effects of this provision of the Act. Therefore, we have not recorded any potential deferred tax effects related to GILTI in our financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI or use the period cost method. We have however, included an estimate of the estimated 2018 current GILTI impact in our Annual Effective Tax Rate (AETR) for 2018. We expect to complete our accounting within the prescribed measurement period.

## I. PROPERTY SALE

The Company completed a sale of a property in Medley, Florida, during the first quarter of 2018. The sale price for the property was approximately \$36 million and created a \$7 million pre-tax gain. The transaction is part of a strategy to create efficiencies and advantages not possible with the current facility by optimizing the capacity of its other three Florida operations, including two it acquired from Robbins Manufacturing in 2017, and adding a state-of-the-art facility in South Florida. The Company will lease back the Medley, Florida, facility for two years as it executes its long-term plan for Florida and the Southeast region, however, only a minor portion of the property sold was leased back, the entire gain is included in income.

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Universal Forest Products, Inc. is a holding company with subsidiaries throughout North America, Europe, Asia, and in Australia that supply wood, wood composite and other products to three robust markets: retail, industrial, and construction. The Company is headquartered in Grand Rapids, Mich. For more information about Universal Forest Products, Inc., or its affiliated operations, go to [www.ufpi.com](http://www.ufpi.com).

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act, as amended, that are based on management's beliefs, assumptions, current expectations, estimates and projections about the markets we serve, the economy and the Company itself. Words like "anticipates," "believes," "confident," "estimates," "expects," "forecasts," "likely," "plans," "projects," "should," variations of such words, and similar expressions identify such forward-looking statements. These statements do not guarantee future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. The Company does not undertake to update forward-looking statements to reflect facts, circumstances, events, or assumptions that occur after the date the forward-looking statements are made. Actual results could differ materially from those included in such forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty. Among the factors that could cause actual results to differ materially from forward-looking statements are the following: fluctuations in the price of lumber; adverse or unusual weather conditions; adverse economic conditions in the markets we serve; government regulations, particularly involving environmental and safety regulations; and our ability to make successful business acquisitions. Certain of these risk factors as well as other risk factors and additional information are included in the Company's reports on Form 10-K and 10-Q on file with the Securities and Exchange Commission. We are pleased to present this overview of 2018.

OVERVIEW

Our results for the first quarter of 2018 were impacted by the following:

- Our gross sales increased by 18% compared to the first quarter of 2017, which was comprised of a 9% increase in unit sales and a 9% increase in selling prices primarily due to the commodity lumber market (see Historical Lumber Prices below). Acquired operations contributed 4% to our unit sales growth. All of our markets contributed to our 5% overall organic growth rate.
- Our operating profits increased by 30.7% compared to the first quarter of 2017, which was primarily due to a pre-tax net gain of approximately \$6.5 million as a result of the of sale of certain assets including our Medley, FL, plant. Excluding the impact of the sale, our operating profits increased by 11%, which is comparable with our 9% increase in unit sales.
- Our effective tax rate was approximately 22% primarily due to the change in tax law.
- Cash flow used in operating activities was \$84 million due to seasonal working capital requirements totaling approximately \$126 million since year end.

Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

## HISTORICAL LUMBER PRICES

We experience significant fluctuations in the cost of commodity lumber products from primary producers (“Lumber Market”). The following table presents the Random Lengths framing lumber composite price:

|                                 | Random Lengths Composite<br>Average \$/MBF |        |
|---------------------------------|--|--------|
|                                 | 2018                                       | 2017   |
| January                         | \$ 449                                     | \$ 356 |
| February                        | 496  | 393    |
| March                           | 505  | 401    |
| First quarter average           | \$ 483                                     | \$ 383 |
| First quarter percentage change | 26.1                                       | %      |

In addition, a Southern Yellow Pine (“SYP”) composite price, which we prepare and use, is presented below. Our purchases of this species comprised approximately 42% and 44% of total lumber purchases through the first three months of 2018 and 2017, respectively.

|                                 | Random Lengths SYP<br>Average \$/MBF |        |
|---------------------------------|--------------------------------------|--------|
|                                 | 2018                                 | 2017   |
| January                         | \$ 418                               | \$ 397 |
| February                        | 459                                  | 420    |
| March                           | 480                                  | 433    |
| First quarter average           | \$ 452                               | \$ 417 |
| First quarter percentage change | 8.4                                  | %      |

## IMPACT OF THE LUMBER MARKET ON OUR OPERATING RESULTS

We generally price our products to pass lumber costs through to our customers so that our profitability is based on the value-added manufacturing, distribution, engineering, and other services we provide. As a result, our sales levels (and working capital requirements) are impacted by the lumber costs of our products. Lumber costs were 53.1% and 52.1% of our sales in the first three months of 2018 and 2017, respectively.

Our gross margins are impacted by (1) the relative level of the Lumber Market (i.e. whether prices are higher or lower from comparative periods), and (2) the trend in the market price of lumber (i.e. whether the price of lumber is increasing or decreasing within a period or from period to period). Moreover, as explained below, our products are

priced differently. Some of our products have fixed selling prices, while the selling prices of other products are indexed to the reported Lumber Market with a fixed dollar adder to cover conversion costs and profits. Consequently, the level and trend of the Lumber Market impact our products differently.

Below is a general description of the primary ways in which our products are priced.

- Products with fixed selling prices. These products include value-added products such as deck components and fencing sold to retail customers, as well as trusses, wall panels and other components sold to the construction market, and most industrial packaging products. Prices for these products are generally fixed at the time of the sales quotation for a specified period of time or are based upon a specific quantity. In order to

Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

maintain margins and reduce any exposure to adverse trends in the price of component lumber products, we attempt to lock in costs with our suppliers for these sales commitments. Also, the time period and quantity limitations eventually allow us to re-price our products for changes in lumber costs from our suppliers.

- Products with selling prices indexed to the reported Lumber Market with a fixed dollar “adder” to cover conversion costs and profits. These products primarily include treated lumber, remanufactured lumber, and trusses sold to the manufactured housing industry. For these products, we estimate the customers’ needs and we carry anticipated levels of inventory. Because lumber costs are incurred in advance of final sale prices, subsequent increases or decreases in the market price of lumber impact our gross margins.

For each of the product pricing categories above, our margins are exposed to changes in the trend of lumber prices.

The greatest risk associated with changes in the trend of lumber prices is on the following products:

- Products with significant inventory levels with low turnover rates, whose selling prices are indexed to the Lumber Market. In other words, the longer the period of time these products remain in inventory, the greater the exposure to changes in the price of lumber. This would include treated lumber, which comprises approximately 19% of our total sales. This exposure is less significant with remanufactured lumber, trusses sold to the manufactured housing market, and other similar products, due to the higher rate of inventory turnover. We attempt to mitigate the risk associated with treated lumber through vendor consignment inventory programs. (Please refer to the “Risk Factors” section of our annual report on form 10 K, filed with the United States Securities and Exchange Commission.)
- Products with fixed selling prices sold under long-term supply arrangements, particularly those involving multi-family construction projects. We attempt to mitigate this risk through our purchasing practices by locking in costs.

In addition to the impact of the Lumber Market trends on gross margins, changes in the level of the market cause fluctuations in gross margins when comparing operating results from period to period. This is explained in the following example, which assumes the price of lumber has increased from period one to period two, with no changes in the trend within each period.

|                 | Period 1 | Period 2 |
|-----------------|----------|----------|
| Lumber cost     | \$ 300   | \$ 400   |
| Conversion cost | 50       | 50       |
| = Product cost  | 350      | 450      |
| Adder           | 50       | 50       |
| = Sell price    | \$ 400   | \$ 500   |
| Gross margin    | 12.5 %   | 10.0 %   |

As is apparent from the preceding example, the level of lumber prices does not impact our overall profits, but does impact our margins. Gross margins are negatively impacted during periods of high lumber prices; conversely, we experience margin improvement when lumber prices are relatively low. In order to more effectively evaluate our profitability in such periods, we believe it is useful to compare our change in units shipped with our changes in costs and profits.

## BUSINESS COMBINATIONS

We completed two business acquisitions during the first three months of 2018 and four during all of 2017. The annual historical sales attributable to acquisitions completed in the first three months 2018 and all of 2017 were approximately

17

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Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

\$33 million and \$127 million, respectively. These business combinations were not significant to our quarterly or year-to-date operating results individually or in aggregate and thus pro forma results for 2018 or 2017 are not presented.

See Notes to the Unaudited Condensed Consolidated Financial Statements, Note F, "Business Combinations" for additional information.

## RESULTS OF OPERATIONS

The following table presents, for the periods indicated, the components of our Unaudited Condensed Consolidated Statements of Earnings as a percentage of net sales.

|   | Three Months Ended |   |                  |   |
|---|--------------------|---|------------------|---|
|   | March 31,<br>2018  |   | April 1,<br>2017 |   |
| Net sales   | 100.0              | % | 100.0            | % |
| Cost of goods sold  | 86.8               |   | 85.7             |   |
| Gross profit  | 13.2               |   | 14.3             |   |
| Selling, general, and administrative expenses             | 9.4                |   | 10.3             |   |
| Net gain on disposition and impairment of assets          | (0.7)              |   | —                |   |
| Earnings from operations                                  | 4.4                |   | 4.0              |   |
| Other expense, net  | 0.1                |   | 0.2              |   |
| Earnings before income taxes                              | 4.3                |   | 3.8              |   |
| Income taxes  | 1.0                |   | 1.3              |   |
| Net earnings  | 3.4                |   | 2.6              |   |
| Less net earnings attributable to noncontrolling interest | (0.1)              |   | (0.1)            |   |
| Net earnings attributable to controlling interest         | 3.3                | % | 2.5              | % |

Note: Actual percentages are calculated and may not sum to total due to rounding.

## GROSS SALES

We design, manufacture and market wood and wood-alternative products for national home centers and other retailers, structural lumber and other products for the manufactured housing industry, engineered wood components for residential and commercial construction, specialty wood packaging, components and packing materials for various industries, and customized interior fixtures used in a variety of retail stores, commercial and other structures. Our strategic long-term sales objectives include:

- Diversifying our end market sales mix by increasing sales of specialty wood packaging to industrial users, increasing our penetration of the concrete forming market, increasing our sales of engineered wood components for custom home, multi-family, military and light commercial construction, increasing our market share with independent retailers, and increasing our sales of customized interior fixtures used in a variety of markets.
- Expanding geographically in our core businesses, domestically and internationally.
- Increasing sales of "value-added" products, which primarily consist of fencing, decking, lattice, and other specialty products sold to the retail market, specialty wood packaging, engineered wood components, customized interior

fixtures, and "wood alternative" products. Engineered wood components include roof trusses, wall panels, and floor systems. Wood alternative products consist primarily of composite wood and plastics. Although we consider the treatment of dimensional lumber with certain chemical preservatives a value-added process, treated lumber is not presently included in the value-added sales totals.

Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

- Maximizing unit sales growth while achieving return on investment goals.
  - Developing new products and expanding our product offering for existing customers. New product sales were \$103.9 million in the first quarter of 2018 compared to \$86.2 million during the first quarter of 2017.

| (in thousands)          | New Product Sales by Market |                  |          |
|-------------------------|-----------------------------|------------------|----------|
|                         | Three Months Ended          |                  |          |
|                         | March 31,<br>2018           | April 1,<br>2017 | % Change |
| Market Classification   |                             |                  |          |
| Retail                  | \$ 55,243                   | \$ 48,014        | 15.1     |
| Industrial              | 28,955                      | 24,420           | 18.6     |
| Construction            | 19,668                      | 13,745           | 43.1     |
| Total New Product Sales | \$ 103,866                  | \$ 86,179        | 20.5     |

Note: Certain prior year product reclassifications and the change in designation of certain products as “new” resulted in a change in prior year’s sales.

## Value-Added and Commodity-Based Sales:

The following table presents, for the periods indicated, our percentage of value-added and commodity-based sales to total sales. Value-added products generally carry higher gross margins than our commodity-based products.

|                 | Three Months Ended |                  |
|-----------------|--------------------|------------------|
|                 | March 31,<br>2018  | April 1,<br>2017 |
| Value-Added     | 61.7 %             | 62.9 %           |
| Commodity-Based | 38.3 %             | 37.1 %           |

The following table presents, for the periods indicated, our gross sales and percentage change in gross sales by market classification.

| (in thousands)        | Three Months Ended |                  |             |
|-----------------------|--------------------|------------------|-------------|
|                       | March 31,<br>2018  | April 1,<br>2017 | %<br>Change |
| Market Classification |                    |                  |             |
| Retail                | \$ 370,961         | \$ 312,352       | 18.8        |
| Industrial            | 332,966            | 280,599          | 18.7        |
| Construction          | 307,740            | 265,906          | 15.7        |
| Total Gross Sales     | \$ 1,011,667       | \$ 858,857       | 17.8        |
| Sales Allowances      | (17,810)           | (12,727)         | 39.9        |
| Total Net Sales       | \$ 993,857         | \$ 846,130       | 17.5        |

Note: During 2018, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Gross sales in the first quarter of 2018 increased 18% compared to the same period of 2017, due to a 9% increase in unit sales and a 9% increase in selling prices primarily due to the Lumber Market. Acquired operations contributed 4% to our unit sales growth, and our organic unit sales growth was 5%.

Changes in our gross sales by market are discussed below.

19

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Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

Retail:

Gross sales to the retail market increased almost 19% in the first quarter of 2018 compared to the same period of 2017, due to a 10% increase in unit sales and a 9% increase in selling prices. Within this market, sales to our big box customers increased over 15%, and sales to other independent retailers increased 24%. Businesses we acquired contributed 7% to our growth in unit sales, primarily to independent retail customers. Our organic unit growth was 3% for the quarter and was adversely impacted by inclement weather in certain areas of the U.S.

Industrial:

Gross sales to the industrial market increased almost 19% in the first quarter of 2018 compared to the same period of 2017, resulting from an 11% increase in unit sales and an 8% increase in selling prices. Businesses we acquired contributed 4% to our growth in unit sales. Our organic growth in unit sales of 7% was due to adding over 300 new customers and 46 new locations of existing customers as well as greater customer demand.

Construction:

Gross sales to the construction market increased almost 16% in the first quarter of 2018 compared to 2017. The increase was due to a 6% increase in unit sales and a 10% increase in our selling prices. Our increase in unit sales was driven by a 10% increase to manufactured housing customers, a 3% increase to residential construction customers, and a 5% increase to commercial construction customers. Our sales to residential construction customers were impacted by inclement weather in certain areas of the U.S.

By comparison (and based upon various industry publications):

- Production of HUD-code manufactured homes in January and February 2018, the most recent period reported, was up 10.3% compared to the same period of 2017.
- Non-residential construction activity in January and February increased approximately 8.2% compared to the same period of 2017.
- National housing starts increased approximately 2.6% in the period from December 2017 through February 2018 (our sales trail housing starts by about a month) compared to the same period of 2017.

**COST OF GOODS SOLD AND GROSS PROFIT**

Our gross margin decreased to 13.2% from 14.3% comparing the first quarter of 2018 to the same period of 2017 due to the higher level of lumber prices as our 8.4% increase in gross profit dollars was in line with our 9% increase in unit sales during the same period. Acquired operations contributed \$2.3 million of gross profit in the first quarter of 2018. Excluding acquisitions, our gross profits increased by \$7.4 million, or 6.5%, over the same period last year as follows:

- Our gross profit on sales to the retail market increased by approximately \$0.8 million, primarily due to new product growth.
- Our gross profit on sales to the industrial market increased by approximately \$4.7 million, due to a combination of growth and more effectively passing on lumber cost increases in our selling prices.
- Our gross profit on sales to the construction market increased by over \$1.9 million, primarily due to organic growth.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative (“SG&A”) expenses increased by approximately \$6.2 million, or 7.2%, in the first quarter of 2018 compared to the same period of 2017, while we reported a 9% increase in unit sales. Accrued bonus expense, which varies with our overall profitability and return on investment, totaled \$9.1 million in the first quarter of

20

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Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

2018 compared to \$8.1 million in 2017. Acquired operations contributed approximately \$1.5 million to our year over year increase. The remaining increase was primarily due to an increase in base wages and benefits (\$2.4 million) as well as sales incentive expenses (\$1.0 million).

## INTEREST, NET

Net interest costs were lower in the first quarter of 2018 compared to the same period of 2017 primarily due to approximately \$500 thousand in investment income from our captive insurance company. The increase in investment income is due to an overall increase in investments compared to the same period of 2017.

## INCOME TAXES

Effective tax rates differ from statutory federal income tax rates, primarily due to provisions for state and local income taxes and permanent tax differences. Our effective tax rate was 22.2% in the first quarter of 2018 compared to 33.2% for same period in 2017. This decrease was due primarily to the Tax Act, which reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. In addition, we recognized a favorable permanent tax difference related to our share-based compensation plans.

## SEGMENT REPORTING

|                | Net Sales          |            |            |        | Earnings from Operations |           |            |           |
|----------------|--------------------|------------|------------|--------|--------------------------|-----------|------------|-----------|
|                | Three Months Ended |            | \$         | %      | Three Months Ended       |           | \$         | %         |
| (in thousands) | March 31,          | April 1,   |            |        | March 31,                | April 1,  |            |           |
|                | 2018               | 2017       | Change     | Change | 2018                     | 2017      | Change     | Change    |
| North          | \$ 270,186         | \$ 227,920 | \$ 42,266  | 18.5 % | \$ 8,694                 | \$ 9,978  | \$ (1,284) | (12.9) %  |
| South          | 242,020            | 188,743    | 53,277     | 28.2 % | 19,544                   | 10,689    | 8,855      | 82.8 %    |
| West           | 362,468            | 319,161    | 43,307     | 13.6 % | 21,083                   | 18,305    | 2,778      | 15.2 %    |
| All Other      | 119,183            | 110,306    | 8,877      | 8.0 %  | (3,100)                  | 604       | (3,704)    | (613.2) % |
| Corporate      | —                  | —          | —          | —      | (2,004)                  | (5,755)   | 3,751      | 65.2 %    |
| Total          | \$ 993,857         | \$ 846,130 | \$ 147,727 | 17.5 % | \$ 44,217                | \$ 33,821 | \$ 10,396  | 30.7 %    |

(1) Corporate primarily represents over (under) allocated administrative costs and accrued bonus expense.

North

| Market Classification | Net Sales               |           |          |
|-----------------------|-------------------------|-----------|----------|
|                       | North Segment by Market |           |          |
| (in thousands)        | Three Months Ended      |           | % Change |
|                       | March 31,               | April 1,  |          |
|                       | 2018                    | 2017      |          |
| Retail                | \$ 95,809               | \$ 87,445 | 9.6 %    |

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|                   |            |            |      |   |
|-------------------|------------|------------|------|---|
| Industrial        | 51,620     | 32,490     | 58.9 | % |
| Construction      | 127,448    | 112,191    | 13.6 | % |
| Total Gross Sales | 274,877    | 232,126    | 18.4 | % |
| Sales Allowances  | (4,691)    | (4,206)    | 11.5 | % |
| Total Net Sales   | \$ 270,186 | \$ 227,920 | 18.5 | % |

Note: During 2018, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Net sales attributable to the North reportable segment increased in the first quarter of 2018 compared to 2017 as a result of increased sales to each of our markets primarily due to the same factors previously discussed. Acquired operations contributed \$10.8 million to our industrial sales increase.



Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

Earnings from operations for the North reportable segment decreased in the first quarter of 2018 by \$1.3 million, or 12.9%, due to a decrease in gross profit of \$0.2 million and a \$1.1 million increase in SG&A expenses compared to last year. Acquired operations contributed \$0.3 million to our operating profits in the first quarter. Many of our plants in the North segment were impacted by inclement weather in the first quarter, which had a corresponding adverse impact on earnings.

## South

|                       | Net Sales               |            |          |
|-----------------------|-------------------------|------------|----------|
|                       | South Segment by Market |            |          |
|                       | Three Months Ended      |            |          |
| (in thousands)        | March 31,               | April 1,   |          |
| Market Classification | 2018                    | 2017       | % Change |
| Retail                | \$ 115,197              | \$ 84,260  | 36.7 %   |
| Industrial            | 81,009                  | 62,710     | 29.2 %   |
| Construction          | 51,070                  | 45,856     | 11.4 %   |
| Total Gross Sales     | 247,276                 | 192,826    | 28.2 %   |
| Sales Allowances      | (5,256)                 | (4,083)    | 28.7 %   |
| Total Net Sales       | \$ 242,020              | \$ 188,743 | 28.2 %   |

Note: During 2018, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Net sales attributable to the South reportable segment increased in the first quarter of 2018 compared to 2017 due to increased sales to all markets primarily due to the same factors previously discussed. Acquired operations contributed \$26.5 million and \$1.4 million to our growth in sales to the retail and industrial market, respectively.

Earnings from operations for the South reportable segment increased in the first quarter of 2018 by \$8.9 million, or 82.8%, compared to the same period in 2017. Excluding the impact of our Medley plant sale, earnings from operations increased during the first quarter of 2018 by \$1.9 million due to an increase in gross profit dollars of \$3.9 million, offset by an increase in SG&A expenses of \$2.0 million compared to the same period of 2017. Acquired operations contributed \$1.4 million to gross profits, \$1.0 million to SG&A, and \$0.4 million to operating profits in the first quarter. The increase in gross profit was driven by the retail and industrial markets due to the same factors previously discussed.

## West

|                       | Net Sales              |           |          |
|-----------------------|------------------------|-----------|----------|
|                       | West Segment by Market |           |          |
|                       | Three Months Ended     |           |          |
| (in thousands)        | March 31,              | April 1,  |          |
| Market Classification | 2018                   | 2017      | % Change |
| Retail                | \$ 111,024             | \$ 99,011 | 12.1 %   |
| Industrial            | 127,589                | 116,269   | 9.7 %    |

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|                   |            |            |      |   |
|-------------------|------------|------------|------|---|
| Construction      | 129,171    | 107,745    | 19.9 | % |
| Total Gross Sales | 367,784    | 323,025    | 13.9 | % |
| Sales Allowances  | (5,316)    | (3,864)    | 37.6 | % |
| Total Net Sales   | \$ 362,468 | \$ 319,161 | 13.6 | % |

Note: During 2018, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Net sales attributable to the West reportable segment increased in the first quarter of 2018 compared to 2017 due to increases in sales to all markets primarily due to factors previously discussed.

Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

Earnings from operations for the West reportable segment increased in the first quarter of 2018 by \$2.8 million, or 15.2%, compared to the same period in 2017 due to a \$4.1 million increase in gross profit offset by a \$1.3 million increase in SG&A expenses. Gross profits increased primarily due to organic sales growth and improved gross profits on sales to the industrial market due to the same factors previously discussed.

## All Other

| (in thousands)           | Net Sales                   |            |          |
|--------------------------|-----------------------------|------------|----------|
|                          | All Other Segment by Market |            |          |
| Market Classification    | Three Months Ended          |            |          |
|                          | March 31,                   | April 1,   |          |
|                          | 2018                        | 2017       | % Change |
| Retail                   | \$ 48,931                   | \$ 41,636  | 17.5 %   |
| Industrial               | 72,749                      | 69,130     | 5.2 %    |
| Construction             | 50                          | 115        | (56.5) % |
| Total Gross Sales        | 121,730                     | 110,881    | 9.8 %    |
| Sales Allowances & Other | (2,547)                     | (575)      | 343.0 %  |
| Total Net Sales          | \$ 119,183                  | \$ 110,306 | 8.0 %    |

Note: During 2018, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Our All Other reportable segment consists of our Alternative Materials, International, idX, and certain other segments which are not significant.

Net sales attributable to All Other reportable segments increased in the first quarter of 2018 compared to 2017 due to increases in sales to the retail and industrial markets. Our increase in sales to the retail market was primarily due to a \$6.4 million increase in sales within our International segment.

Earnings from operations for All Other reportable segments decreased during the first quarter of 2018 by \$3.7 million due to a \$0.5 million decrease in gross profit and \$3.2 million increase in SG&A expenses, compared to the same period of 2017. The overall decrease in earnings from operations was primarily due to the Alternative Materials segment.

Table of Contents

## UNIVERSAL FOREST PRODUCTS, INC.

## OFF-BALANCE SHEET TRANSACTIONS

We have no significant off-balance sheet transactions other than operating leases.

## LIQUIDITY AND CAPITAL RESOURCES

The table below presents, for the periods indicated, a summary of our cash flow statement (in thousands):

|  | Three Months Ended |                  |
|--|--------------------|------------------|
|  | March 31,<br>2018  | April 1,<br>2017 |
| Cash used in operating activities                                | \$ (84,172)        | \$ (70,740)      |
| Cash from (used in) investing activities                         | 1,304              | (70,599)         |
| Cash from financing activities                                   | 111,570            | 141,697          |
| Effect of exchange rate changes on cash                          | 233                | 882              |
| Net change in all cash and cash equivalents                      | 28,935             | 1,240            |
| Cash, cash equivalents, and restricted cash, beginning of period | 28,816             | 34,489           |
| Cash, cash equivalents, and restricted cash, end of period       | \$ 57,751          | \$ 35,729        |

In general, we funded our growth in the past through a combination of operating cash flows, our revolving credit facility, industrial development bonds (when circumstances permit), and issuance of long-term notes payable at times when interest rates are favorable. We have not issued equity to finance growth except in the case of a large acquisition. We manage our capital structure by attempting to maintain a targeted ratio of debt to equity and debt to earnings before interest, taxes, depreciation and amortization. We believe this is one of many important factors to maintaining a strong credit profile, which in turn helps ensure timely access to capital when needed.

Seasonality has a significant impact on our working capital due to our primary selling season which occurs during the period from March to August. Consequently, our working capital increases during our first and second quarters resulting in negative or modest cash flows from operations during those periods. Conversely, we experience a substantial decrease in working capital once we move beyond our peak selling season which typically results in significant cash flows from operations in our third and fourth quarters.

Due to the seasonality of our business and the effects of the Lumber Market, we believe our cash cycle (days of sales outstanding plus days supply of inventory less days payables outstanding) is a good indicator of our working capital management. As indicated in the table below, our cash cycle decreased to 57 days from 59 days during the first quarter of 2018 compared to the prior periods.

|                           | Three Months<br>Ended |                  |
|---------------------------|-----------------------|------------------|
|                           | March 31,<br>2018     | April 1,<br>2017 |
| Days of sales outstanding | 32                    | 32               |
| Days supply of inventory  | 46                    | 48               |
| Days payables outstanding | (21)                  | (21)             |

|                    |    |    |
|--------------------|----|----|
| Days in cash cycle | 57 | 59 |
|--------------------|----|----|

In the first three months of 2018, our cash used in operating activities was \$84.2 million, which was comprised of net earnings of \$33.6 million and \$8.0 million of non-cash expenses, offset by a \$125.8 million seasonal increase in working capital since the end of December 2017. Comparatively in the first three months of 2017, our cash used in operating activities was \$70.8 million, which was comprised of net earnings of \$21.6 million, \$13.2 million of non-cash expenses, and a \$105.6 million seasonal increase in working capital. The increase in working capital compared to the same period last year was primarily due to growth in our business and higher lumber prices.

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

Acquisitions and purchases of property, plant, and equipment comprised most of our cash used in investing activities during the first three months of 2018 and totaled \$8.8 million and \$24.4 million, respectively. Proceeds from the sale of our Medley, FL, plant provided approximately \$36 million in net cash proceeds. Outstanding purchase commitments on existing capital projects totaled approximately \$28.5 million on March 31, 2018. We currently plan to spend \$85 million for the year in 2018 on capital expenditures. We intend to fund capital expenditures and purchase commitments through our operating cash flows for the balance of the year. Comparatively, capital expenditures were \$16.5 million during the first three months of 2017. The increase in our capital expenditures in 2018 is primarily due to the additional requirements of recently acquired operations and certain real estate purchases as we continue to grow our business. The sale and purchase of investments totaling \$5.0 million and \$6.7 million, respectively, are due to investment activity in our captive insurance subsidiary.

Cash flows from financing activities primarily consisted of net borrowings under our revolving credit facility of approximately \$116.9 million, primarily as a result of seasonal working capital requirements.

On March 31, 2018, we had \$176.2 million outstanding on our \$295 million revolving credit facility. The outstanding revolving credit facility also includes letters of credit totaling approximately \$9.8 million on March 31, 2018; as a result, we have approximately \$109.0 million in remaining availability on our revolver after considering letters of credit. Additionally, we have \$225 million in availability under an amended “shelf agreement” for long term debt with a current lender. Financial covenants on the unsecured revolving credit facility and unsecured notes include minimum interest tests and a maximum leverage ratio. The agreements also restrict the amount of additional indebtedness we may incur and the amount of assets which may be sold. We were in compliance with all our covenant requirements on March 31, 2018.

ENVIRONMENTAL CONSIDERATIONS AND REGULATIONS

See Notes to Unaudited Consolidated Condensed Financial Statements, Note E, “Commitments, Contingencies, and Guarantees.”

CRITICAL ACCOUNTING POLICIES

In preparing our consolidated financial statements, we follow accounting principles generally accepted in the United States. These principles require us to make certain estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies and financial information disclosures. There have been no material changes in our policies or estimates since December 30, 2017.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risks related to fluctuations in interest rates on our variable rate debt, which consists of a revolving credit facility and industrial development revenue bonds. We do not currently use interest rate swaps, futures contracts or options on futures, or other types of derivative financial instruments to mitigate this risk.

For fixed rate debt, changes in interest rates generally affect the fair market value, but not earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not influence fair market value, but do affect future earnings and cash flows. We do not have an obligation to prepay fixed rate debt prior to maturity, and as a result, interest rate risk and changes in fair market value should not have a significant impact on such debt until we

would be required to refinance it.

We are subject to fluctuations in the price of lumber. We experience significant fluctuations in the cost of commodity lumber products from primary producers (the “Lumber Market”). A variety of factors over which we have no control, including government regulations, transportation, environmental regulations, weather conditions, economic conditions, and natural disasters, impact the cost of lumber products and our selling prices. While we attempt to minimize our risk from severe price fluctuations, substantial, prolonged trends in lumber prices can affect our sales volume, our gross

25

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Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

margins, and our profitability. We anticipate that these fluctuations will continue in the future. (See “Impact of the Lumber Market on Our Operating Results.”)

Our international operations have exposure to foreign currency rate risks, primarily due to fluctuations in their local currency, which is their functional currency, compared to the U.S. dollar. Additionally, certain of our operations enter into transactions that will be settled in a currency other than the U.S. Dollar. We entered into forward foreign exchange rate contracts in 2017 and may enter into further forward contracts in the future associated with mitigating the foreign currency exchange risk. Historically, our hedge contracts are deemed immaterial to the financial statements, however any material hedge contract in the future will be disclosed.

Item 4. Controls and Procedures.

- (a) Evaluation of Disclosure Controls and Procedures. With the participation of management, our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a – 15e and 15d – 15e) as of the quarter ended March 31, 2018 (the “Evaluation Date”), have concluded that, as of such date, our disclosure controls and procedures were effective.
- (b) Changes in Internal Controls. During the quarter ended March 31, 2018, there were no changes in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

PART II. OTHER INFORMATION

Item 1A. Risk Factors.

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

- (a) None.
- (b) None.
- (c) Issuer purchases of equity securities.

| Fiscal Month                         | (a)    | (b)   | (c) | (d)       |
|--------------------------------------|--------|-------|-----|-----------|
| December 31, 2017 - February 3, 2018 | —      | —     | —   | 2,721,023 |
| February 4 - March 3, 2018           | —      | —     | —   | 2,721,023 |
| March 4 - 31, 2018                   | 25,812 | 32.85 | —   | 2,695,211 |

- (a) Total number of shares purchased.
- (b) Average price paid per share.
- (c) Total number of shares purchased as part of publicly announced plans or programs.
- (d) Maximum number of shares that may yet be purchased under the plans or programs.

On November 14, 2001, the Board of Directors approved a share repurchase program (which succeeded a previous program) allowing us to repurchase up to 2.5 million shares of our common stock. On October 14, 2011, our Board authorized an additional 2 million shares to be repurchased under our share repurchase program. The total number of remaining shares that may be repurchased under the program is approximately 2.7 million.

Item 5. Other Information.

None.

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

PART II. OTHER INFORMATION

Item 6. Exhibits.

The following exhibits (listed by number corresponding to the Exhibit Table as Item 601 in Regulation S-K) are filed with this report:

31 Certifications.

- (a) Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- (b) Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

32 Certifications.

- (a) Certificate of the Chief Executive Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).
- (b) Certificate of the Chief Financial Officer of Universal Forest Products, Inc., pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350).

101 Interactive Data File.

(INS) XBRL Instance Document.

(SCH) XBRL Schema Document.

(CAL) XBRL Taxonomy Extension Calculation Linkbase Document.

(LAB) XBRL Taxonomy Extension Label Linkbase Document.

(PRE) XBRL Taxonomy Extension Presentation Linkbase Document.

(DEF) XBRL Taxonomy Extension Definition Linkbase Document.

Table of Contents

UNIVERSAL FOREST PRODUCTS, INC.

SIGNATURES

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

UNIVERSAL FOREST  
PRODUCTS, INC.

Date: May 2, 2018 By: /s/ Matthew J. Missad  
Matthew J. Missad,  
Chief Executive Officer and  
Principal Executive Officer

Date: May 2, 2018 By: /s/ Michael R. Cole  
Michael R. Cole,  
Chief Financial Officer,  
Principal Financial Officer  
and  
Principal Accounting  
Officer