

UNIVERSAL FOREST PRODUCTS INC  
Form 10-Q  
October 27, 2016

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 September 24, 2016

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

38-1465835

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

2801 East Beltline NE, Grand Rapids, Michigan

49525

(Address of principal executive offices)

(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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller reporting company

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 September 24, 2016 |
|----------------------------|--------------------------------------|
| Common stock, no par value | 20,330,939                           |

UNIVERSAL FOREST PRODUCTS, INC.

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## UNIVERSAL FOREST PRODUCTS, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)

|   | September<br>24, 2016 | December<br>26, 2015 | September<br>26, 2015 |
|---|-----------------------|----------------------|-----------------------|
| <b>ASSETS</b>   |                       |                      |                       |
| <b>CURRENT ASSETS:</b>  |                       |                      |                       |
| Cash and cash equivalents   | \$36,683              | \$87,756             | \$55,373              |
| Restricted cash   | 909                   | 586                  | 1,139                 |
| Investments   | 10,453                | 6,743                | 5,955                 |
| Accounts receivable, net  | 343,771               | 222,964              | 273,737               |
| <b>Inventories:</b>   |                       |                      |                       |
| Raw materials   | 180,740               | 168,548              | 161,519               |
| Finished goods  | 189,188               | 136,370              | 126,690               |
| Total inventories   | 369,928               | 304,918              | 288,209               |
| Refundable income taxes   | 7,407                 | 7,784                | 201                   |
| Deferred income taxes   | —                     | —                    | 6,257                 |
| Other current assets  | 21,636                | 17,481               | 16,654                |
| <b>TOTAL CURRENT ASSETS</b>   | <b>790,787</b>        | <b>648,232</b>       | <b>647,525</b>        |
| <b>DEFERRED INCOME TAXES</b>  | <b>2,416</b>          | <b>1,312</b>         | <b>1,091</b>          |
| <b>OTHER ASSETS</b>   | <b>8,757</b>          | <b>8,298</b>         | <b>7,843</b>          |
| <b>GOODWILL</b>   | <b>207,832</b>        | <b>180,990</b>       | <b>182,394</b>        |
| <b>INDEFINITE-LIVED INTANGIBLE ASSETS</b>   | <b>2,340</b>          | <b>2,340</b>         | <b>2,340</b>          |
| <b>OTHER INTANGIBLE ASSETS, NET</b>   | <b>14,014</b>         | <b>15,357</b>        | <b>16,195</b>         |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>   |                       |                      |                       |
| Property, plant and equipment   | 717,287               | 628,045              | 631,028               |
| Less accumulated depreciation and amortization  | (432,796 )            | (376,895 )           | (376,498 )            |
| <b>PROPERTY, PLANT AND EQUIPMENT, NET</b>   | <b>284,491</b>        | <b>251,150</b>       | <b>254,530</b>        |
| <b>TOTAL ASSETS</b>   | <b>\$1,310,637</b>    | <b>\$1,107,679</b>   | <b>\$1,111,918</b>    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                       |                      |                       |
| <b>CURRENT LIABILITIES:</b>   |                       |                      |                       |
| Cash overdraft  | \$13,940              | \$—                  | \$—                   |
| Accounts payable  | 137,979               | 95,041               | 101,117               |
| <b>Accrued liabilities:</b>   |                       |                      |                       |
| Compensation and benefits   | 99,549                | 78,877               | 77,290                |
| Other   | 57,104                | 29,112               | 35,060                |
| Current portion of long-term debt   | 1,584                 | 1,145                | 834                   |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>310,156</b>        | <b>204,175</b>       | <b>214,301</b>        |
| <b>LONG-TERM DEBT</b>   | <b>110,362</b>        | <b>84,750</b>        | <b>84,722</b>         |
| <b>DEFERRED INCOME TAXES</b>  | <b>14,066</b>         | <b>23,838</b>        | <b>30,919</b>         |
| <b>OTHER LIABILITIES</b>  | <b>28,963</b>         | <b>28,507</b>        | <b>25,838</b>         |
| <b>TOTAL LIABILITIES</b>  | <b>463,547</b>        | <b>341,270</b>       | <b>355,780</b>        |
| <b>SHAREHOLDERS' EQUITY:</b>  |                       |                      |                       |
| <b>Controlling interest shareholders' equity:</b>   |                       |                      |                       |
| Preferred stock, no par value; shares authorized 1,000,000; issued and outstanding, none                                  | \$—                   | \$—                  | \$—                   |
| Common stock, no par value; shares authorized 40,000,000; issued and outstanding, 20,330,939, 20,141,709, and 20,133,427. | 20,331                | 20,142               | 20,133                |
| Additional paid-in capital  | 183,962               | 171,562              | 170,324               |

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|   |             |             |             |
|---|-------------|-------------|-------------|
| Retained earnings                               | 637,536     | 565,636     | 555,193     |
| Accumulated other comprehensive income          | (4,854      | ) (4,585    | ) (1,560    |
| Total controlling interest shareholders' equity | 836,975     | 752,755     | 744,090     |
| Noncontrolling interest                         | 10,115      | 13,654      | 12,048      |
| TOTAL SHAREHOLDERS' EQUITY                      | 847,090     | 766,409     | 756,138     |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY      | \$1,310,637 | \$1,107,679 | \$1,111,918 |

See notes to consolidated condensed financial statements.

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## UNIVERSAL FOREST PRODUCTS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS  
AND COMPREHENSIVE INCOME  
(Unaudited)

(in thousands, except per share data)

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 24,<br>2016 | September 26,<br>2015 | September 24,<br>2016 | September 26,<br>2015 |
| NET SALES  | \$826,665             | \$ 762,275            | \$2,380,909           | \$ 2,233,470          |
| COST OF GOODS SOLD   | 708,611               | 651,569               | 2,028,629             | 1,930,739             |
| GROSS PROFIT   | 118,054               | 110,706               | 352,280               | 302,731               |
| SELLING, GENERAL AND ADMINISTRATIVE<br>EXPENSES                      | 74,457                | 67,951                | 223,059               | 198,087               |
| NET LOSS ON DISPOSITION AND IMPAIRMENT OF<br>ASSETS                  | 45                    | 230                   | 94                    | 68                    |
| EARNINGS FROM OPERATIONS   | 43,552                | 42,525                | 129,127               | 104,576               |
| INTEREST EXPENSE   | 1,096                 | 1,060                 | 3,274                 | 3,615                 |
| INTEREST INCOME  | (119 )                | (47 )                 | (431 )                | (214 )                |
| EQUITY IN EARNINGS OF INVESTEE                                       | (50 )                 | (89 )                 | (241 )                | (283 )                |
| EARNINGS BEFORE INCOME TAXES   | 927                   | 924                   | 2,602                 | 3,118                 |
| INCOME TAXES   | 42,625                | 41,601                | 126,525               | 101,458               |
| NET EARNINGS   | 13,861                | 14,718                | 43,268                | 36,887                |
| LESS NET EARNINGS ATTRIBUTABLE TO<br>NONCONTROLLING INTEREST         | 28,764                | 26,883                | 83,257                | 64,571                |
| NET EARNINGS ATTRIBUTABLE TO CONTROLLING<br>INTEREST                 | (945 )                | (1,327 )              | (2,828 )              | (2,876 )              |
| EARNINGS PER SHARE - BASIC   | \$27,819              | \$ 25,556             | \$80,429              | \$ 61,695             |
| EARNINGS PER SHARE - DILUTED   | \$1.36                | \$ 1.26               | \$3.95                | \$ 3.06               |
| NET EARNINGS   | \$1.36                | \$ 1.26               | \$3.94                | \$ 3.06               |
| OTHER COMPREHENSIVE LOSS   | 28,764                | 26,883                | 83,257                | 64,571                |
| COMPREHENSIVE INCOME   | (1,156 )              | (2,578 )              | (1,521 )              | (4,206 )              |
| LESS COMPREHENSIVE INCOME ATTRIBUTABLE TO<br>NONCONTROLLING INTEREST | 27,608                | 24,305                | 81,736                | 60,365                |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO<br>CONTROLLING INTEREST         | (495 )                | (445 )                | (1,576 )              | (1,578 )              |
|  | \$27,113              | \$ 23,860             | \$80,160              | \$ 58,787             |

See notes to consolidated condensed financial statements.

## UNIVERSAL FOREST PRODUCTS, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

(in thousands, except share and per share data)

|   | Controlling Interest Shareholders' Equity |                                  |                      |  |   |                            |            |
|---|---|----------------------------------|----------------------|--|---|----------------------------|------------|
|   | Common<br>Stock                           | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehen-<br>sive<br>Earnings | Employees<br>Stock<br>Notes<br>Receivable | Noncontrolling<br>Interest | Total      |
| Balance at December 27, 2014  | \$ 19,984                                 | \$ 162,483                       | \$ 502,334           | \$ 1,348   | \$ (455 )                                 | \$ 13,866                  | \$ 699,560 |
| Net earnings  |   |                                  | 61,695               |  |   | 2,876                      | 64,571     |
| Foreign currency translation<br>adjustment                          |   |                                  |                      | (2,809 )   |   | (1,298 )                   | (4,107 )   |
| Unrealized gain (loss) on<br>investment                             |   |                                  |                      | (99 )  |   |                            | (99 )      |
| Noncontrolling interest associated<br>with business acquisitions    |   |                                  |                      |  |   | 1,019                      | 1,019      |
| Distributions to noncontrolling<br>interest                         |   |                                  |                      |  |   | (3,159 )                   | (3,159 )   |
| Purchases of noncontrolling<br>interest                             |   |                                  |                      |  |   | (1,256 )                   | (1,256 )   |
| Cash Dividends \$0.400 per share                                    |   |                                  | (8,050 )             |  |   |                            | (8,050 )   |
| Issuance of 28,276 shares under<br>employee stock plans             | 28  | 933                              |                      |  |   |                            | 961        |
| Issuance of 75,408 shares under<br>stock grant programs             | 76  | 1,811                            |                      |  |   |                            | 1,887      |
| Issuance of 58,905 shares under<br>deferred compensation plans      | 59  | (59 )                            |                      |  |   |                            | —          |
| Repurchase of 13,613 shares   | (14 )                                     |                                  | (786 )               |  | 304                                       |                            | (496 )     |
| Tax benefits from non-qualified<br>stock options exercised          |   | 186                              |                      |  |   |                            | 186        |
| Expense associated with<br>share-based compensation<br>arrangements |   | 1,351                            |                      |  |   |                            | 1,351      |
| Accrued expense under deferred<br>compensation plans                |   | 3,619                            |                      |  |   |                            | 3,619      |
| Payments received on employee<br>stock notes receivable             |   |                                  |                      |  | 151                                       |                            | 151        |
| Balance at September 26, 2015                                       | \$ 20,133                                 | \$ 170,324                       | \$ 555,193           | \$ (1,560 )  | \$ —                                      | \$ 12,048                  | \$ 756,138 |
| Balance at December 26, 2015  | 20,142                                    | 171,562                          | 565,636              | (4,585 )   | —   | 13,654                     | 766,409    |
| Net earnings  |   |                                  | 80,429               |  |   | 2,828                      | 83,257     |
| Foreign currency translation<br>adjustment                          |   |                                  |                      | (620 )   |   | (1,252 )                   | (1,872 )   |
| Unrealized gain (loss) on<br>investment & foreign currency          |   |                                  |                      | 351  |   |                            | 351        |
| Distributions to noncontrolling<br>interest                         |   |                                  |                      |  |   | (3,160 )                   | (3,160 )   |
| Purchases of noncontrolling<br>interest                             |   | 855                              |                      |  |   | (1,955 )                   | (1,100 )   |

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|   |          |           |           |             |      |           |
|---|----------|-----------|-----------|-------------|------|-----------|
| Dividends \$0.420 per share                                   |          |           | (8,529 )  |             |      | (8,529 )  |
| Issuance of 5,195 shares under employee stock plans           | 5        | 390       |           |             |      | 395       |
| Issuance of 133,293 shares under stock grant programs         | 133      | 5,143     |           |             |      | 5,276     |
| Issuance of 50,742 shares under deferred compensation plans   | 51       | (51 )     |           |             |      | —         |
| Expense associated with share-based compensation arrangements |          | 1,568     |           |             |      | 1,568     |
| Accrued expense under deferred compensation plans             |          | 4,495     |           |             |      | 4,495     |
| Balance at September 24, 2016                                 | \$20,331 | \$183,962 | \$637,536 | \$ (4,854 ) | \$ — | \$ 10,115 |
| See notes to consolidated condensed financial statements.     |          |           |           |             |      |           |



## UNIVERSAL FOREST PRODUCTS, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

|  | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|
|  | September 26,<br>2016 | September 26,<br>2015 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                 |                       |                       |
| Net earnings   | \$83,257              | \$ 64,571             |
| Adjustments to reconcile net earnings to net cash from operating activities: |                       |                       |
| Depreciation   | 29,014                | 28,013                |
| Amortization of intangibles  | 1,868                 | 2,730                 |
| Expense associated with share-based compensation arrangements                | 1,568                 | 1,351                 |
| Excess tax benefits from share-based compensation arrangements               | —                     | (33)                  |
| Expense associated with stock grant plans                                    | 105                   | 85                    |
| Deferred income taxes (credits)  | (53)                  | (269)                 |
| Equity in earnings of investee   | (241)                 | (283)                 |
| Net loss on disposition and impairment of assets                             | 94                    | 68                    |
| Changes in:  |                       |                       |
| Accounts receivable  | (69,357)              | (76,723)              |
| Inventories  | 21,683                | 51,068                |
| Accounts payable and cash overdraft  | 35,026                | 10,864                |
| Accrued liabilities and other  | 33,413                | 39,967                |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                                    | <b>136,377</b>        | <b>121,409</b>        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                 |                       |                       |
| Purchases of property, plant and equipment                                   | (35,723)              | (36,520)              |
| Proceeds from sale of property, plant and equipment                          | 516                   | 2,382                 |
| Acquisitions, net of cash received   | (66,615)              | (2,584)               |
| Repayments of debt of acquiree   | (92,830)              | —                     |
| Purchase of remaining noncontrolling interest of subsidiary                  | (1,100)               | (1,256)               |
| Advances of notes receivable   | (5,400)               | (4,403)               |
| Collections on notes receivable  | 5,819                 | 8,784                 |
| Purchases of investments   | (4,468)               | (5,955)               |
| Proceeds from sale of investments  | 1,395                 | —                     |
| Cash restricted as to use  | (323)                 | (734)                 |
| Other  | (1,733)               | 180                   |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                 | <b>(200,462)</b>      | <b>(40,106)</b>       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                 |                       |                       |
| Borrowings under revolving credit facilities                                 | 52,479                | 297,354               |
| Repayments under revolving credit facilities                                 | (27,177)              | (311,253)             |
| Proceeds from issuance of common stock                                       | 396                   | 960                   |
| Distributions to noncontrolling interest                                     | (3,160)               | (3,159)               |
| Dividends paid to shareholders   | (8,529)               | (8,050)               |
| Repurchase of common stock   | —                     | (800)                 |
| Other  | (28)                  | 22                    |
| <b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>                          | <b>13,981</b>         | <b>(24,926)</b>       |
| Effect of exchange rate changes on cash                                      | (969)                 | (1,004)               |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                               | <b>(51,073)</b>       | <b>55,373</b>         |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                          | <b>87,756</b>         | <b>—</b>              |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                              | <b>\$36,683</b>       | <b>\$ 55,373</b>      |

SUPPLEMENTAL INFORMATION:

|   |         |          |
|---|---------|----------|
| Interest paid   | \$2,587 | \$ 2,834 |
| Income taxes paid   | 43,384  | 25,304   |
| NON-CASH INVESTING ACTIVITIES                                     |         |          |
| Notes receivable exchanged for property                           | —       | 389      |
| NON-CASH FINANCING ACTIVITIES:                                    |         |          |
| Common stock issued under deferred compensation plans             | 3,657   | 3,042    |
| Property exchanged for notes receivable                           | —       | 300      |
| Acquisition earnout adjustment prior to final purchase accounting | —       | 9,236    |
| See notes to consolidated condensed financial statements.         |         |          |

## 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 26, 2015.

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 September 26, 2015 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:

| (in thousands)            | September 24, 2016                                       |   |          | September 26, 2015                                       |   |          |
|---------------------------|--|---|----------|--|---|----------|
|                           | Quoted<br>Prices<br>in<br>Active<br>Markets<br>(Level 1) | Prices with<br>Other<br>Observable<br>Inputs<br>(Level 2) | Total    | Quoted<br>Prices<br>in<br>Active<br>Markets<br>(Level 1) | Prices with<br>Other<br>Observable<br>Inputs<br>(Level 2) | Total    |
| Money market funds        | \$64   | \$ 132  | \$196    | \$952  | \$  | —\$952   |
| Fixed income funds        | 2,049  | 2,335   | 4,384    | 3,195  | —   | 3,195    |
| Equity securities         | 5,592  | —   | 5,592    | 215  | —   | 215      |
| Mutual funds:             |  |   |          |  |   |          |
| Domestic stock funds      | 760  | —   | 760      | 2,625  | —   | 2,625    |
| International stock funds | 70   | —   | 70       | 223  | —   | 223      |
| Target funds              | 234  | —   | 234      | 228  | —   | 228      |
| Bond funds                | 203  | —   | 203      | 171  | —   | 171      |
| Total mutual funds        | 1,267  | —   | 1,267    | 3,247  | —   | 3,247    |
| Assets at fair value      | \$8,972  | \$ 2,467  | \$11,439 | \$7,609  | \$  | —\$7,609 |

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 exchange market and are included in "Cash and Cash Equivalents", "Investments", and "Other Assets". 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 September 24, 2016 or September 26, 2015.

## UNIVERSAL FOREST PRODUCTS, INC.

In accordance with our investment policy, our wholly-owned captive, Ardellis Insurance Ltd. ("Ardellis"), maintains an investment portfolio, totaling \$10.5 million as of September 24, 2016, consisting of mutual funds, domestic and international stocks, and fixed income bonds.

Ardellis' available for sale investment portfolio consists of the following:

|              | Cost    | Unrealized<br>Gain/(Loss) | Fair<br>Value |
|--------------|---------|---------------------------|---------------|
| Fixed Income | \$4,307 | \$ 69                     | \$4,376       |
| Equity       | 5,171   | 422                       | 5,593         |
| Mutual Funds | \$484   | \$ —                      | \$484         |
| Total        | \$9,962 | \$ 491                    | \$10,453      |

Our Fixed Income investments consist of short, intermediate, and long term bonds, as well as fixed blend bonds. Within the fixed income investments, we maintain a specific mixture of US treasury notes, US agency mortgage backed securities, private label mortgage backed securities, and various corporate securities. Our equity investments consist of small, mid, and large cap growth and value funds, as well as international equity. The net pre-tax effect unrealized gain was \$491 thousand. Carrying amounts above are recorded in the investments line item within the balance sheet as of September 24, 2016. During 2016, Ardellis investments reported a net realized gain of \$15 thousand, which was recorded in interest income on the statement of earnings.

### C. REVENUE RECOGNITION

Revenue is recognized at the time the product is shipped to the customer. Generally, title 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.

Earnings on construction contracts are reflected in operations using percentage-of-completion accounting, under either cost to cost or units of delivery methods, depending on the nature of the business at individual operations. Under percentage-of-completion 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 percentage-of-completion 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. Construction contract revenue decreased to approximately \$31.9 million, during the third quarter of 2016, from \$39.6 million during the same period of 2015. Construction contract revenue was approximately \$95.2 million and \$98.4 million through the first nine months of 2016 and 2015, respectively.

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 the balances of percentage-of-completion accounts which are included in "Other current assets" and "Accrued liabilities: Other", respectively (in thousands):

|   | September<br>24, 2016 | December<br>26, 2015 | September<br>26, 2015 |
|---|-----------------------|----------------------|-----------------------|
| Cost and Earnings in Excess of Billings | \$ 2,788              | \$ 3,624             | \$ 4,718              |
| Billings in Excess of Cost and Earnings | 6,222                 | 4,978                | 4,145                 |

D. EARNINGS PER SHARE

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## UNIVERSAL FOREST PRODUCTS, INC.

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

|   | Three Months Ended |           | Nine Months Ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September          | September | September         | September |
|   | 24, 2016           | 26, 2015  | 24, 2016          | 26, 2015  |
| Numerator:  |                    |           |                   |           |
| Net earnings attributable to controlling interest                       | \$27,819           | \$25,556  | \$80,429          | \$61,695  |
| Adjustment for earnings allocated to non-vested restricted common stock | (463 )             | (341 )    | (1,281 )          | (789 )    |
| Net earnings for calculating EPS  | \$27,356           | \$25,215  | \$79,148          | \$60,906  |
| Denominator:  |                    |           |                   |           |
| Weighted average shares outstanding                                     | 20,402             | 20,210    | 20,360            | 20,148    |
| Adjustment for non-vested restricted common stock                       | (340 )             | (270 )    | (324 )            | (258 )    |
| Shares for calculating basic EPS  | 20,062             | 19,940    | 20,036            | 19,890    |
| Effect of dilutive stock options  | 33                 | 38        | 32                | 35        |
| Shares for calculating diluted EPS                                      | 20,095             | 19,978    | 20,068            | 19,925    |
| Net earnings per share:   |                    |           |                   |           |
| Basic   | \$1.36             | \$1.26    | \$3.95            | \$3.06    |
| Diluted   | \$1.36             | \$1.26    | \$3.94            | \$3.06    |

No options were excluded from the computation of diluted EPS for the quarters ended September 24, 2016 or September 26, 2015.

#### 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; Auburndale, FL; and Medley, 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.

On a consolidated basis, we have reserved approximately \$3.4 million on September 24, 2016 and September 26, 2015, 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 \$0.6 million. As a result, this amount is recorded in other long-term liabilities on September 24, 2016.

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.



UNIVERSAL FOREST PRODUCTS, INC.

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 April 2014, two Company employees were terminated for violating the Company's Code of Conduct and Business 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; however, because of the duration and unique nature of this proceeding, any potential, adverse financial implications to the Company are uncertain.

In addition, on September 24, 2016, 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 September 24, 2016, we had outstanding purchase commitments on commenced capital projects of approximately \$22.3 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 affect 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 September 24, 2016 we had approximately \$1.7 million outstanding payment and performance bonds for open projects. We had approximately \$0.3 million in payment and performance bonds outstanding for completed projects which are still under warranty.

On September 24, 2016, we had outstanding letters of credit totaling \$25.5 million, primarily related to certain insurance contracts and industrial development revenue bonds described further below.

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 \$15.7 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 third quarter of 2016 which would require us to recognize a liability on our balance sheet.

#### F. BUSINESS COMBINATIONS

We completed the following acquisitions in fiscal 2016 and 2015 which were accounted for using the purchase method in thousands unless otherwise noted:

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UNIVERSAL FOREST PRODUCTS, INC.

| Company Name                                | Acquisition Date  | Purchase Price  | Intangible Assets | Net Tangible Assets | Operating Segment | Business Description   |
|---|---|---|-------------------|---------------------|-------------------|--|
| idX Holdings, Inc. ("idX")                  | September 16, 2016  | \$64,266 cash paid for 100% stock purchase which excludes a \$1,000 holdback and includes \$11,366 in cash received. Also, paid \$86,294 to retire outstanding debt and \$6,536 of certain other obligations. | \$19,750          | \$44,516            | All Other         | A designer, producer, and installer of customized in-store environments that are used in a range of end markets. idX had annual sales of \$302.5 million.                              |
| Seven D Truss, L.P.                         | July 29, 2016   | \$1,246 cash paid for asset purchase  | \$405             | \$841               | North             | A manufacturer and distributor of roof and floor trusses. 7D had annual sales of approximately \$4.0 million.  |
| Idaho Western, Inc. ("IWI")                 | June 30, 2016   | \$10,787 cash paid for 100% stock purchase plus \$500 holdback.   | \$6,817           | \$4,248             | West              | A supplier of products ranging from lumber and plywood to siding and doors. IWI had annual sales of approximately \$21 million.  |
| Packnet Ltd ("Packnet")                     | November 24, 2014 (majority interest)<br>April 15, 2016 (minority interest) | \$7,506<br>November 24, 2014 cash paid for controlling interest and \$1,877 cash paid for noncontrolling asset purchase.  | \$7,885           | \$1,498             | West              | A supplier of industrial packaging and services based in Eagan, MN. Packnet had annual sales of \$9.6 million.   |
| Capital Components & Millwork, Inc. ("CCM") | April 15, 2016  | \$1,682 cash paid for asset purchase plus \$205 assumed liability   | \$—               | \$1,887             | North             | A producer of doors and trim for customers in the greater Washington, D.C., metro area and Virginia. CCM had approximately \$16.6 million in annual sales.                             |
| Rapid Wood Mfg., LLC ("Rapid Wood")         | February 2, 2015  | \$1,638 cash paid for asset purchase  | \$789             | \$849               | West              | A supplier of lumber products to the region's manufactured housing and recreational vehicle industries based in Caldwell, Idaho. Rapid Wood had annual sales of \$3.5 million in 2015. |

|  |                     |   |  |  |           |   |
|--|---------------------|---|--|--|-----------|---|
| Integra<br>Packaging<br>Proprietary,<br>Ltd (“Integra<br>Packaging”) | January 16,<br>2015 | \$1,102<br>cash paid for 51.94%<br>stock purchase | \$1,406<br>(The<br>Company<br>portion of<br>Intangible<br>Assets \$730<br>or 51.94%) | \$715<br>(The<br>Company<br>portion of<br>Net Tangible<br>Assets \$372<br>or 51.94%) | All Other | An Australian-based<br>manufacturer and<br>distributor of industrial<br>wood specialty packaging<br>products. Integra<br>Packaging had annual<br>sales of \$7.6 million in<br>2015. |
|--|---------------------|---|--|--|-----------|---|

The intangible assets for each acquisition, excluding IWI and idX, were finalized and allocated to their respective identifiable intangible asset and goodwill accounts during 2016. Purchase accounting for idX is planned to be completed in the first half of 2017. We closed on the idX acquisition on September 16, 2016, and excluded the income statement activity from the closing date

## UNIVERSAL FOREST PRODUCTS, INC.

to our fiscal quarter-end, September 24, 2016. The excluded income statement activity was deemed immaterial to the financial statements.

## 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, and West 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 and (b) the Company's distribution unit (referred to as UFPD) which distributes a variety of products to the manufactured housing industry and is accounted for as a reporting unit within the North segment.

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 and International divisions, as well as our recently acquired 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 September 24, 2016 |         |           |           |           |             |
|---------------------------------|---------------------------------------|---------|-----------|-----------|-----------|-------------|
|                                 | North                                 | South   | West      | All Other | Corporate | Total       |
| Net sales to outside customers  | \$267,156                             | 173,715 | \$335,981 | \$49,813  | \$ —      | \$826,665   |
| Intersegment net sales          | 14,318                                | 9,642   | 22,054    | 4,574     | —         | 50,588      |
| Segment operating profit        | 14,630                                | 9,900   | 19,962    | 2,959     | (3,899)   | 43,552      |
|                                 | Three Months Ended September 26, 2015 |         |           |           |           |             |
|                                 | North                                 | South   | West      | All Other | Corporate | Total       |
| Net sales to outside customers  | \$252,447                             | 160,345 | \$305,407 | \$44,076  | \$ —      | \$762,275   |
| Intersegment net sales          | 14,666                                | 6,838   | 15,791    | 3,191     | —         | 40,486      |
| Segment operating profit        | 16,965                                | 8,045   | 19,902    | 1,055     | (3,442)   | 42,525      |
|                                 | Nine Months Ended September 24, 2016  |         |           |           |           |             |
|                                 | North                                 | South   | West      | All Other | Corporate | Total       |
| Net sales to outside customers  | \$758,066                             | 533,239 | \$940,188 | \$149,416 | \$ —      | \$2,380,909 |
| Intersegment net sales          | 42,071                                | 28,693  | 65,325    | 16,559    | —         | 152,648     |
| Segment operating profit (loss) | 43,054                                | 35,830  | 58,434    | 11,542    | (19,733)  | 129,127     |



## UNIVERSAL FOREST PRODUCTS, INC.

Nine Months Ended September 26, 2015

|                                | North     | South   | West      | All Other | Corporate | Total       |
|--------------------------------|-----------|---------|-----------|-----------|-----------|-------------|
| Net sales to outside customers | \$713,280 | 510,037 | \$872,497 | \$137,656 | \$ —      | \$2,233,470 |
| Intersegment net sales         | 38,985    | 21,641  | 40,894    | 11,653    | —         | 113,173     |
| Segment operating profit       | 36,069    | 22,044  | 48,693    | 2,904     | (5,134)   | 104,576     |

## 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 32.5% in the third quarter of 2016 compared to 35.4% for same period of 2015, primarily due to the additional recognition of discrete tax items in 2016. Our effective tax rate was 34.2% in the first nine months of 2016 compared to 36.4% in 2015, primarily due to the extension of the research & development tax credit along with other credits that Congress did not extend until the end of 2015, which are not reflected in the 2015 first nine month's tax rate.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Universal Forest Products, Inc. is a holding company that provides capital, management and administrative resources to subsidiaries that supply wood, wood composite and other products to three markets: retail, industrial, and construction. Founded in 1955, the Company is headquartered in Grand Rapids, Mich., with affiliates throughout North America, Europe, Asia and Australia. For more about Universal Forest Products, 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 2016 results.

## OVERVIEW

Our results for the third quarter of 2016 were impacted by the following:

Our gross sales increased by 9% compared to the third quarter of 2015, which was comprised of a 5% increase in unit sales and a 4% increase in selling prices primarily due to the commodity lumber market (See Historical Lumber Prices). Our unit sales increased to the retail and construction markets and more than offset a decline in unit sales to

the industrial market.

Our operating profits increased by over 2%, and our operating profit as a percentage of net sales (operating margin) decreased slightly, comparing the third quarter of 2016 and 2015, respectively. The decrease in our operating margin was due to opportunistic buying and low lumber costs achieved on products sold with fixed selling prices in the third quarter of 2015. The loss of this benefit in 2016 was offset primarily by our continued improvements in sales mix of higher margin products.



## 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<br>Lengths<br>Composite<br>Average<br>\$/MBF |       |
|-----------------------|---|-------|
|                       | 2016  | 2015  |
| January               | \$316   | \$375 |
| February              | 310   | 358   |
| March                 | 321   | 336   |
| April                 | 345   | 334   |
| May                   | 356   | 315   |
| June                  | 353   | 328   |
| July                  | 351   | 346   |
| August                | 367   | 327   |
| September             | 354   | 300   |
| Third quarter average | \$357   | \$324 |
| Year-to-date average  | \$341   | \$335 |

Third quarter percentage change 10.2 %

Year-to-date percentage change 1.8 %

In addition, a Southern Yellow Pine ("SYP") composite price, which we prepare and use, is presented below. Our purchases of this species comprises approximately 42% and 45% of total lumber purchases through the first nine months of 2016 and 2015, respectively.

|                       | Random<br>Lengths SYP<br>Average<br>\$/MBF |       |
|-----------------------|--|-------|
|                       | 2016                                       | 2015  |
| January               | \$358                                      | \$408 |
| February              | 357  | 399   |
| March                 | 366  | 393   |
| April                 | 389  | 400   |
| May                   | 397  | 368   |
| June                  | 382  | 354   |
| July                  | 380  | 344   |
| August                | 391  | 321   |
| September             | 375  | 290   |
| Third quarter average | \$382                                      | \$318 |
| Year-to-date average  | \$377                                      | \$364 |

Third quarter percentage change 20.1 %

Year-to-date percentage change 3.6 %

IMPACT OF THE LUMBER MARKET ON OUR OPERATING RESULTS

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UNIVERSAL FOREST PRODUCTS, INC.

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. We estimate lumber comprises approximately 58% of our total cost of goods sold, but varies by product line.

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 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 generally 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 these products, our margins are exposed to changes in the trend of lumber prices.

Changes in the trend of lumber prices have their greatest impact 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 20% 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<br>1 | Period<br>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.

## UNIVERSAL FOREST PRODUCTS, INC.

## BUSINESS COMBINATIONS

We completed five business acquisitions during the first nine months of 2016 and two during all of 2015. The annual historical sales attributable to acquisitions completed in 2016 and 2015 was approximately \$344.1 million and \$11.1 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 2016 or 2015 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 |                | Nine Months Ended |                |   |
|---|--------------------|----------------|-------------------|----------------|---|
|   | September 2016     | September 2015 | September 2016    | September 2015 |   |
| Net sales   | 100.0%             | 100.0%         | 100.0%            | 100.0%         | % |
| Cost of goods sold  | 85.7               | 85.5           | 85.2              | 86.4           |   |
| Gross profit  | 14.3               | 14.5           | 14.8              | 13.6           |   |
| Selling, general, and administrative expenses             | 9.1                | 8.9            | 9.3               | 8.8            |   |
| Net gain on disposition and impairment of assets          | —                  | —              | —                 | —              |   |
| Earnings from operations                                  | 5.3                | 5.6            | 5.4               | 4.7            |   |
| Other expense (income), net                               | 0.1                | 0.1            | 0.1               | 0.1            |   |
| Earnings before income taxes                              | 5.2                | 5.5            | 5.3               | 4.5            |   |
| Income taxes  | 1.7                | 1.9            | 1.8               | 1.7            |   |
| Net earnings  | 3.5                | 3.5            | 3.5               | 2.9            |   |
| Less net earnings attributable to noncontrolling interest | (0.1)              | (0.2)          | (0.1)             | (0.1)          | ) |
| Net earnings attributable to controlling interest         | 3.4%               | 3.4%           | 3.4%              | 2.8%           | % |

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; engineered wood components, structural lumber, and other products for manufactured housing, residential and commercial construction; and specialty wood packaging, components and packing materials for various industries. Our 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 commercial construction market, increasing our sales of engineered wood components and complementary products for custom home, multi-family, military and light commercial construction, and increasing our market share with independent retailers.

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, 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

## UNIVERSAL FOREST PRODUCTS, INC.

chemical preservatives a value-added process, treated lumber, which comprises approximately 20% of our total sales, is not presently included in value-added sales.

Developing new products and expanding our product offering for existing customers. New product sales were \$81.3 million in the third quarter of 2016 compared to \$71.1 million during the third quarter of 2015. New product sales year-to-date for 2016 and 2015 were \$247.9 million and \$213.3 million, respectively. Certain prior year product reclassifications resulted in an increase in new product sales in 2015.

Maximizing unit sales growth while achieving return on investment goals.

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 |                |          | Nine Months Ended |                |          |
|-----------------------|--------------------|----------------|----------|-------------------|----------------|----------|
|                       | September 2016     | September 2015 | Change % | September 2016    | September 2015 | Change % |
| Market Classification |                    |                |          |                   |                |          |
| Retail                | \$339,744          | \$296,022      | 14.8     | \$1,017,225       | \$905,826      | 12.3     |
| Industrial            | 233,757            | 235,376        | (0.7)    | 669,389           | 683,763        | (2.1)    |
| Construction          | 265,563            | 241,810        | 9.8      | 733,700           | 676,228        | 8.5      |
| Total Gross Sales     | 839,064            | 773,208        | 8.5      | 2,420,314         | 2,265,817      | 6.8      |
| Sales Allowances      | (12,399)           | (10,933)       | 13.4     | (39,405)          | (32,347)       | 21.8     |
| Total Net Sales       | \$826,665          | \$762,275      | 8.4      | \$2,380,909       | \$2,233,470    | 6.6      |

Note: During 2016, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Gross sales in the third quarter of 2016 increased nearly 9% compared to the same period of 2015, due to a 5% increase in unit sales and a 4% increase in selling prices primarily due to the Lumber Market.

Gross sales in the first nine months of 2016 increased 7% compared to the same period of 2015, due to a 6% increase in unit sales and a 1% increase in overall selling prices primarily due to the Lumber Market.

Changes in our gross sales by market are discussed below.

## Retail:

Gross sales to the retail market increased almost 15% in the third quarter of 2016 compared to the same period of 2015, due to a 9% increase in unit sales and a 6% increase in selling prices. Within this market, sales to our big box customers increased 20% and sales to other retailers increased almost 8%. Our retail customers have benefited from improving consumer demand, as evidenced by their reported increases in same store sales. In addition, we gained market share with certain customers and increased our sales of new products with these customers.

Gross sales to the retail market increased by over 12% in the first nine months of 2016 compared to the same period of 2015, due to a 10% increase in unit sales and a 2% increase in overall selling prices. Within this market, sales to our big box customers increased 15% while our sales to other retailers increased almost 9% due to the same factors discussed above.

## Industrial:

Gross sales to the industrial market decreased approximately 1% in the third quarter of 2016 compared to the same period of 2015, resulting from a 2% decrease in unit sales and a 1% increase in selling prices. We believe that demand

of our existing customers has softened in 2016 as evidenced by a reported decline in U.S. industrial production due, in part, to a strong U.S. dollar and reduction of exports. In addition, we have been more selective in the business that we pursue by being more focused on higher margin value-added products.

Gross sales to the industrial market decreased approximately 2% in the first nine months of 2016 compared to the same period of 2015, due to a 2% decrease in selling prices as unit sales remained flat. The overall decrease was primarily due to the same factors discussed above.

Construction:

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## UNIVERSAL FOREST PRODUCTS, INC.

Gross sales to the construction market increased approximately 10% in the third quarter of 2016 compared to 2015. The increase was due to a 6% increase in unit sales and a 4% increase in our selling prices. Our increase in unit sales was driven by a 5% increase to manufactured housing customers, a 4% increase to commercial construction customers, and a 9% increase to residential construction customers. By comparison (and based upon various industry publications):

• Non-residential construction activity in July and August decreased approximately 0.9%.

• National housing starts increased approximately 2.4% in the period from June through August 2016 (our sales trail housing starts by about a month) compared to the same period of 2015.

• Production of HUD-code homes in July and August 2016 were up 2.3% compared to 2015.

• Modular home production increased by 7.2% in the second quarter of 2016 compared to the same period in 2015.

Gross sales to the construction market increased almost 9% in the first nine months of 2016 compared to the same period of 2015, due to an 8% increase in unit sales and a 1% increase in selling prices. A 3% increase in unit sales to our manufactured housing customers, 13% increase to our residential construction customers, and 8% increase to our commercial construction customers, comprised the overall 8% increase through the first nine months of 2016. Our increase in unit sales was primarily due to the same reasons discussed above.

## 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 |                | Nine Months Ended |                |  |
|-----------------|--------------------|----------------|-------------------|----------------|--|
|                 | September 2016     | September 2015 | September 2016    | September 2015 |  |
| Value-Added     | 61.1%              | 60.1%          | 61.5%             | 59.2%          |  |
| Commodity-Based | 38.9%              | 39.9%          | 38.5%             | 40.8%          |  |

## COST OF GOODS SOLD AND GROSS PROFIT

Our gross margin decreased to 14.3% from 14.5% comparing the third quarter of 2016 to the same period of 2015. Our gross profit dollars increased by \$7.3 million, or 6.6%, which compares favorably to our 5% increase in unit sales. The improvement in our profitability in the third quarter of 2016 was attributable to the following factors:

• \$10.0 million of our gross profit increase was attributable to our unit sales growth to the retail market and an improvement in margin on these sales primarily due to new products.

The increase above was offset by a \$1.8 million gross profit decrease on sales to the industrial market due to a decline in unit sales as discussed above and as a result of opportunistic buying and low lumber costs on products sold with fixed selling prices in 2015.

Our gross profit margin increased to 14.8% from 13.6% comparing the first nine months of 2016 to the same period of 2015. Our gross profit dollars increased by \$49.5 million, or 16.4%, which compares favorably to our 6% increase in unit sales. The improvement in our profitability in the first nine months of 2016 were attributable to the following factors:

\$32.1 million of our gross profit increase was attributable to our unit sales growth and margin improvement on sales to the retail market due to the same factors above.

\$8.4 million of our gross profit improvement was due to margin improvements on our sales to the industrial market resulting from improvements in our sales mix of more value-added products.

\$8.6 million of our gross profit increase was primarily due to unit sales growth to the construction market.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses increased by approximately \$6.5 million, or 9.6%, in the third quarter of 2016 compared to the same period of 2015, while we reported a 5% increase in unit sales. The increase in SG&A was primarily

## UNIVERSAL FOREST PRODUCTS, INC.

due to a \$2.5 million increase in compensation and benefit costs, a \$3.2 million increase in sales commissions and accrued bonus compensation, and several other smaller increases driven, in part, by our unit sales growth.

Selling, general and administrative ("SG&A") expenses increased by approximately \$24.9 million, or 12.6%, in the first nine months of 2016 compared to the same period of 2015, while we reported a 6% increase in unit sales. The increase in SG&A was primarily due to a \$6.6 million increase in compensation and benefit costs, a \$12.4 million increase in sales commissions and accrued bonus compensation attributable to our improvements in profitability as measured under our incentive compensation program, and several other smaller increases driven, in part, by our unit sales growth.

Our "core" SG&A expenses, excluding accrued bonus expense, were \$62.4 million, \$64.2 million, and \$62.5 million in the first, second, and third quarters of 2016, respectively.

## INTEREST, NET

Net interest costs were comparable in the third quarter of 2016 compared to the same period of 2015.

## 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 32.5% in the third quarter of 2016 compared to 35.4% for same period of 2015, and 34.2% in the first nine months of 2016 compared to 36.4% in 2015. The decrease in our rates in 2016 was primarily due to the extension of the research & development tax credit and certain other credits that Congress did not extend until the end of 2015, which are not reflected in the rates for the first nine months of 2015. In the fourth quarter of 2015, we recorded approximately \$1.2 million in benefit related to these tax credits. Additionally, we anticipate an increase in our Domestic Manufacturing Deduction in 2016.

## SEGMENT REPORTING

The following table presents, for the periods indicated, our net sales and earnings from operations by reportable segment.

| (in thousands)         | Net Sales          |           |           |          | Earnings from Operations |           |           |          |
|------------------------|--------------------|-----------|-----------|----------|--------------------------|-----------|-----------|----------|
|                        | Three Months Ended |           |           |          | Three Months Ended       |           |           |          |
|                        | September          | September | \$        | %        | September                | September | \$        | %        |
|                        | 24, 2016           | 26, 2015  | Change    | Change   | 24, 2016                 | 26, 2015  | Change    | Change   |
| North                  | \$267,156          | \$252,447 | \$14,709  | 5.8 %    | \$14,630                 | \$16,965  | \$(2,335) | (13.8) % |
| South                  | 173,715            | 160,345   | 13,370    | 8.3 %    | 9,900                    | 8,045     | 1,855     | 23.1 %   |
| West                   | 335,981            | 305,407   | 30,574    | 10.0 %   | 19,962                   | 19,902    | 60        | 0.3 %    |
| All Other              | 49,813             | 44,076    | 5,737     | 13.0 %   | 2,959                    | 1,055     | 1,904     | 180.5 %  |
| Corporate <sup>1</sup> | —                  | —         | —         |          | (3,899)                  | (3,442)   | (457)     | (13) %   |
| Total                  | \$826,665          | \$762,275 | \$64,390  | 8.4 %    | \$43,552                 | \$42,525  | \$1,027   | 2.4 %    |
| (in thousands)         | Net Sales          |           |           |          | Earnings from Operations |           |           |          |
|                        | Nine Months Ended  |           |           |          | Nine Months Ended        |           |           |          |
|                        | September          | September | \$ Change | % Change | September                | September | \$ Change | % Change |
|                        | 24, 2016           | 26, 2015  |           |          | 24, 2016                 | 26, 2015  |           |          |
| North                  | \$758,066          | \$713,280 | \$44,786  | 6.3 %    | \$43,054                 | \$36,069  | \$6,985   | 19.4 %   |
| South                  | 533,239            | 510,037   | 23,202    | 4.5 %    | 35,830                   | 22,044    | 13,786    | 62.5 %   |
| West                   | 940,188            | 872,497   | 67,691    | 7.8 %    | 58,434                   | 48,693    | 9,741     | 20.0 %   |

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|                        |             |             |           |       |           |           |          |          |
|------------------------|-------------|-------------|-----------|-------|-----------|-----------|----------|----------|
| All Other              | 149,416     | 137,656     | 11,760    | 8.5 % | 11,542    | 2,904     | 8,638    | 297.5 %  |
| Corporate <sup>1</sup> | —           | —           | —         |       | (19,733)  | (5,134)   | (14,599) | (284.4)% |
| Total                  | \$2,380,909 | \$2,233,470 | \$147,439 | 6.6 % | \$129,127 | \$104,576 | \$24,551 | 23.5 %   |

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## UNIVERSAL FOREST PRODUCTS, INC.

<sup>1</sup>Corporate primarily represents over (under) allocated administrative costs and accrued bonus expense. During the first nine months of 2015, Corporate had a more significant under allocation of costs.

## North

| (in thousands)        | Net Sales               |                       |             |                       |                       |             |
|-----------------------|-------------------------|-----------------------|-------------|-----------------------|-----------------------|-------------|
|                       | North Segment by Market |                       |             |                       |                       |             |
|                       | Three Months Ended      |                       |             | Nine Months Ended     |                       |             |
| Market Classification | September<br>24, 2016   | September<br>26, 2015 | %<br>Change | September<br>24, 2016 | September<br>26, 2015 | %<br>Change |
| Retail                | \$130,832               | \$115,665             | 13.1        | \$368,279             | \$330,380             | 11.5        |
| Industrial            | 28,277                  | 29,572                | (4.4 )      | 89,263                | 92,575                | (3.6 )      |
| Construction          | 113,645                 | 111,869               | 1.6         | 315,648               | 302,984               | 4.2         |
| Total Gross Sales     | 272,754                 | 257,106               | 6.1         | 773,190               | 725,939               | 6.5         |
| Sales Allowances      | (5,598 )                | (4,659 )              | 20.2        | (15,124 )             | (12,659 )             | 19.5        |
| Total Net Sales       | \$267,156               | \$252,447             | 5.8         | \$758,066             | \$713,280             | 6.3         |

Net sales attributable to the North reportable segment increased in the third quarter of 2016 compared to 2015 due to increases in sales to our retail and construction markets, offset by a decrease in sales to our industrial customers due to the same factors discussed under "Gross Sales".

Earnings from operations for the North reportable segment decreased in the third quarter of 2016 by \$2.3 million, or 13.8%, due to opportunistic buying and low lumber costs on products we sell with fixed selling prices in 2015 and an 11.0% increase in our SG&A expenses from 2015 to 2016.

Net sales attributable to the North reportable segment increased in the first nine months of 2016 compared to 2015 due to an increase in sales to our retail and construction markets, offset by a decrease in sales to our industrial customers due to the same factors discussed under "Gross Sales".

Earnings from operations for the North reportable segment increased in the first nine months of of 2016 by \$7.0 million, or 19.4%, due to the growth in our sales to retail and construction customers and margin improvements achieved due to a more favorable product sales mix and being more selective in the business we pursue as we focus on higher margin, value-added products. These improvements were offset by a 9.7% increase in our SG&A expenses from 2015 to 2016.

## South

| (in thousands)        | Net Sales               |                       |             |                       |                       |             |
|-----------------------|-------------------------|-----------------------|-------------|-----------------------|-----------------------|-------------|
|                       | South Segment by Market |                       |             |                       |                       |             |
|                       | Three Months Ended      |                       |             | Nine Months Ended     |                       |             |
| Market Classification | September<br>24, 2016   | September<br>26, 2015 | %<br>Change | September<br>24, 2016 | September<br>26, 2015 | %<br>Change |
| Retail                | \$74,617                | \$69,839              | 6.8 %       | \$238,599             | \$227,773             | 4.8 %       |
| Industrial            | 62,337                  | 59,824                | 4.2 %       | 187,586               | 190,852               | (1.7 )%     |
| Construction          | 40,310                  | 33,554                | 20.1 %      | 117,742               | 100,549               | 17.1 %      |
| Total Gross Sales     | 177,264                 | 163,217               | 8.6 %       | 543,927               | 519,174               | 4.8 %       |
| Sales Allowances      | (3,549 )                | (2,872 )              | 23.6 %      | (10,688 )             | (9,137 )              | 17.0 %      |
| Total Net Sales       | \$173,715               | \$160,345             | 8.3 %       | \$533,239             | \$510,037             | 4.5 %       |



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Net sales attributable to the South reportable segment increased in the third quarter of 2016 compared to 2015 due to an increase in sales in all markets; retail, industrial, and construction markets, primarily due to the same factors discussed under "Gross Sales". Sales to industrial customers increased due to an increase in demand of our top customers in this region.

Earnings from operations for the South reportable segment increased in the third quarter of 2016 by \$1.9 million, or 23.1%, due to the growth in our sales to retail and construction customers, margin improvements resulting from improvements in our sales mix of more higher margin, value-added products, and closure of certain under-performing operations. These margin improvements were offset somewhat by the impact of opportunistic buying and low lumber costs on products sold with fixed selling prices in 2015. The overall gross margin improvement was also offset by a 5.9% increase in our SG&A expenses from 2015 to 2016.

Net sales attributable to the South reportable segment increased in the first nine months of 2016 compared to 2015 due to an increase in sales to our retail and construction markets, offset by a decrease in sales to our industrial customers due to the same factors discussed under "Gross Sales".

Earnings from operations for the South reportable segment increased in the first nine months of of 2016 by \$13.8 million, or 62.5%, due to the growth in our sales to retail and construction customers, gross margin improvements due to the same factors discussed above, and the closure of certain under-performing operations. These improvements were offset by a 1.5% increase in our SG&A expenses from 2015 to 2016.

## West

| (in thousands)        | Net Sales              |                    |          |                    |                    |          |
|-----------------------|------------------------|--------------------|----------|--------------------|--------------------|----------|
|                       | West Segment by Market |                    |          |                    |                    |          |
|                       | Three Months Ended     |                    |          | Nine Months Ended  |                    |          |
| Market Classification | September 24, 2016     | September 26, 2015 | Change % | September 24, 2016 | September 26, 2015 | Change % |
| Retail                | \$101,247              | \$83,970           | 20.6 %   | \$300,742          | \$254,051          | 18.4 %   |
| Industrial            | 127,236                | 128,735            | (1.2 )%  | 351,541            | 356,456            | (1.4 )%  |
| Construction          | 111,603                | 96,387             | 15.8 %   | 300,304            | 272,695            | 10.1 %   |
| Total Gross Sales     | 340,086                | 309,092            | 10.0 %   | 952,587            | 883,202            | 7.9 %    |
| Sales Allowances      | (4,105 )               | (3,685 )           | 11.4 %   | (12,399 )          | (10,705 )          | 15.8 %   |
| Total Net Sales       | \$335,981              | \$305,407          | 10.0 %   | \$940,188          | \$872,497          | 7.8 %    |

Net sales attributable to the West reportable segment increased in the third quarter of 2016 compared to 2015 due to an increase in sales to our retail and construction markets, offset by a decrease in sales to our industrial customers due to the same factors discussed under "Gross Sales".

Earnings from operations for the West reportable segment in the third quarter of 2016 remained flat compared to the same period in 2015 as increases in unit sales were offset by a gross margin decrease and a 12.5% increase in SG&A expenses.

Net sales attributable to the West reportable segment increased in the first nine months of 2016 compared to 2015 due to an increase in sales to our retail and construction markets, offset by a decrease in sales to our industrial customers due to the same factors discussed under "Gross Sales".

Earnings from operations for the West reportable segment increased in the first nine months of of 2016 by \$9.7 million, or 20.0%, due to the growth in our sales to retail and construction customers and margin improvements

primarily due to improvements in our sales mix of higher-margin value-added products. These improvements were offset by a 9.8% increase in SG&A expenses during the first nine months of 2016.



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## All Other

| (in thousands)        | Net Sales                   |           |         |                   |           |          |
|-----------------------|-----------------------------|-----------|---------|-------------------|-----------|----------|
|                       | All Other Segment by Market |           |         |                   |           |          |
|                       | Three Months Ended          |           |         | Nine Months Ended |           |          |
|                       | September                   | September | %       | September         | September | %        |
| Market Classification | 24, 2016                    | 26, 2015  | Change  | 24, 2016          | 26, 2015  | Change   |
| Retail                | \$33,049                    | \$26,548  | 24.5 %  | \$109,606         | \$93,622  | 17.1 %   |
| Industrial            | 15,907                      | 17,245    | (7.8 )% | 41,000            | 43,880    | (6.6 )%  |
| Construction          | 4                           | —         |         | 4                 | 1         | 300.0 %  |
| Total Gross Sales     | 48,960                      | 43,793    | 11.8 %  | 150,610           | 137,503   | 9.5 %    |
| Sales Allowances      | 853                         | 283       | 201.4 % | (1,194 )          | 153       | (880.4)% |
| Total Net Sales       | \$49,813                    | \$44,076  | 13.0 %  | \$149,416         | \$137,656 | 8.5 %    |

Net sales attributable to the All Other reportable segment increased in the third quarter of 2016 compared to 2015 due to a \$5.9 million increase in sales to our retail market by our Consumer Products reporting unit, offset by a \$0.6 million decrease in sales to our industrial customers by our Australian and Mexican subsidiaries.

Earnings from operations for the All Other reportable segment increased during the third quarter of 2016 by \$1.9 million compared to the same period of 2015. Margin improvements were achieved through effective timing of raw material purchases. SG&A expenses for the quarter increased by 11.0% primarily due to foreign currency transaction gains recorded by our Mexican subsidiary in 2015.

Net sales attributable to the All Other reportable segment increased in the first nine months of 2016 compared to 2015 due to a \$14.8 million increase in sales to our retail market by our Consumer Products operations, offset by a \$2.4 million decrease in sales to our industrial customers by our Australian and Mexican subsidiaries.

Earnings from operations for the All Other reportable segment increased in the first nine months of 2016 by \$8.6 million due to the growth in our sales to retail customers and margin improvements. Margin improvements were achieved through effective timing of raw material purchases.

## 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):

|  | Nine Months Ended |           |
|--|-------------------|-----------|
|  | September         | September |
|  | 24, 2016          | 26, 2015  |
| Cash from operating activities           | \$136,377         | \$121,409 |
| Cash used in investing activities        | (200,462 )        | (40,106 ) |
| Cash from (used in) financing activities | 13,981            | (24,926 ) |

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|  |          |          |   |
|--|----------|----------|---|
| Effect of exchange rate changes on cash        | (969     | ) (1,004 | ) |
| Net change in cash and cash equivalents        | (51,073  | ) 55,373 |   |
| Cash and cash equivalents, beginning of period | 87,756   | —        |   |
| Cash and cash equivalents, end of period       | \$36,683 | \$55,373 |   |

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## UNIVERSAL FOREST PRODUCTS, INC.

In general, we financed 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 quarter 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 47 days in the first nine months of 2016 from 54 days in the first nine months of 2015.

|                           | Nine Months<br>Ended<br>September<br>24, 2016 |    | September<br>26, 2015 |   |
|---------------------------|---|----|-----------------------|---|
| Days of sales outstanding | \$31  | \$ | 32                    |   |
| Days supply of inventory  | 37  |    | 43                    |   |
| Days payables outstanding | (21)  | )  | (21                   | ) |
| Days in cash cycle        | 47  |    | 54                    |   |

Improvements in our days supply of inventory in 2016 was due, in part, to strong customer demand, particularly in our retail market which typically requires a greater investment in inventory than our other markets, as well as certain improvements in inventory management. During the first nine months of 2015 we carried higher levels of safety stock inventory due to inclement weather early in the year and expected industry transportation challenges. Each of our operating segments achieved significant improvements in their days supply of inventory. Our North, West, and South segments improved their days supply of inventory by 11%, 13%, and 20%, respectively, through the first nine months of 2016.

In the first nine months of 2016, our cash flows from operating activities was \$136.4 million, which was comprised of net earnings of \$83.3 million, \$32.3 million of non-cash expenses, and a \$20.8 million decrease in working capital since the end of December 2015.

Acquisitions comprised most of our cash used in investing activities during the first nine months of 2016 and totaled \$66.6 million, as well as \$92.8 million paid to retire all of idX's debt and certain other obligations on the acquisition date. Purchases of property, plant, and equipment of approximately \$35.7 million contributed to our cash used in investing activities during the first nine months of 2016. We currently plan to spend \$65 to \$70 million for the year in 2016 on these and similar capital items, which is a reduction from previous plans as a result of pursuing acquisition opportunities. Outstanding purchase commitments on existing capital projects totaled approximately \$22.3 million on September 24, 2016. We intend to fund capital expenditures and purchase commitments through our operating cash

flows for the balance of the year.

Cash flows from financing activities primarily consisted of net borrowings under our revolving credit facility of approximately \$25 million, which was used to fund part of the purchase price for idX Holdings, Inc. Additionally, \$8.5 million was spent for dividends paid in June at \$0.42 per share, and \$3.2 million was distributed to our partners that own a non-controlling interest in certain of our subsidiaries.

On September 24, 2016, we had \$25.3 million outstanding on our \$295 million revolving credit facility. The revolving credit facility also supports letters of credit totaling approximately \$9.8 million on September 24, 2016; as a result, we have approximately \$260 million in remaining availability on our revolver after considering letters of credit. Additionally, we have \$150 million in availability under a "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

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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 September 24, 2016.

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 26, 2015.

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 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 have entered into forward foreign exchange rate contracts in 2016 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.

- 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 September 24, 2016 (the "Evaluation Date"), have concluded that, as of such date, our disclosure controls and procedures were effective.
- (a)
  - (b)

Changes in Internal Controls. During the quarter ended September 24, 2016, 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.

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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)       |
|--------------------------------|-----|-----|-----|-----------|
| June 26 - July 30, 2016        |     |     |     | 2,869,603 |
| July 31 - August 27, 2016      |     |     |     | 2,869,603 |
| August 28 - September 24, 2016 |     |     |     | 2,869,603 |

(a) Total number of shares purchased.

(a) Average price paid per share.

(b) Total number of shares purchased as part of publicly announced plans or programs.

(c) 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 shares that may be repurchased under the program is approximately 3 million shares.

Item 5. Other Information.

None.

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:

10 Material Contracts

- (o) Amended and restated agreement and plan of merger by and among Universal Forest Products, Inc., UFP Apply Merger Sub, Inc., idX Holdings, Inc., dated September 7, 2016.

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.

\*Indicates a compensatory arrangement.



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: October 27, 2016 By: /s/ Matthew J. Missad  
Matthew J. Missad,  
Chief Executive Officer  
and Principal Executive  
Officer

Date: October 27, 2016 By: /s/ Michael R. Cole  
Michael R. Cole,  
Chief Financial Officer,  
Principal Financial  
Officer and  
Principal Accounting  
Officer

UNIVERSAL FOREST PRODUCTS, INC.

EXHIBIT INDEX

Exhibit  
No. Description

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