

UNIVERSAL FOREST PRODUCTS INC

Form 10-Q

April 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 March 26, 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 March 26, 2016 |
|-------|----------------------------------|
|-------|----------------------------------|

|                            |            |
|----------------------------|------------|
| Common stock, no par value | 20,301,084 |
|----------------------------|------------|

UNIVERSAL FOREST PRODUCTS, INC.

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## UNIVERSAL FOREST PRODUCTS, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)

|                                                                                                                           | March 26,<br>2016  | December<br>26, 2015 | March 28,<br>2015  |
|---------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------|--------------------|
| <b>ASSETS</b>                                                                                                             |                    |                      |                    |
| <b>CURRENT ASSETS:</b>                                                                                                    |                    |                      |                    |
| Cash and cash equivalents                                                                                                 | \$43,065           | \$87,756             | \$22,888           |
| Restricted cash                                                                                                           | 1,139              | 586                  | 710                |
| Investments                                                                                                               | 6,737              | 6,743                | —                  |
| Accounts receivable, net                                                                                                  | 287,374            | 222,964              | 260,926            |
| Inventories:                                                                                                              |                    |                      |                    |
| Raw materials                                                                                                             | 176,983            | 168,548              | 221,360            |
| Finished goods                                                                                                            | 150,194            | 136,370              | 183,351            |
| Total inventories                                                                                                         | 327,177            | 304,918              | 404,711            |
| Refundable income taxes                                                                                                   | —                  | 7,784                | —                  |
| Deferred income taxes                                                                                                     | —                  | —                    | 6,267              |
| Other current assets                                                                                                      | 16,889             | 17,481               | 13,717             |
| <b>TOTAL CURRENT ASSETS</b>                                                                                               | <b>682,381</b>     | <b>648,232</b>       | <b>709,219</b>     |
| <b>DEFERRED INCOME TAXES</b>                                                                                              | <b>2,664</b>       | <b>1,312</b>         | <b>1,163</b>       |
| <b>OTHER ASSETS</b>                                                                                                       | <b>7,760</b>       | <b>8,298</b>         | <b>8,511</b>       |
| <b>GOODWILL</b>                                                                                                           | <b>181,280</b>     | <b>180,990</b>       | <b>184,064</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>14,718</b>      | <b>15,357</b>        | <b>6,709</b>       |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>                                                                                     |                    |                      |                    |
| Property, plant and equipment                                                                                             | 639,881            | 628,045              | 620,146            |
| Less accumulated depreciation and amortization                                                                            | (385,247)          | (376,895)            | (364,684)          |
| <b>PROPERTY, PLANT AND EQUIPMENT, NET</b>                                                                                 | <b>254,634</b>     | <b>251,150</b>       | <b>255,462</b>     |
| <b>TOTAL ASSETS</b>                                                                                                       | <b>\$1,145,777</b> | <b>\$1,107,679</b>   | <b>\$1,167,468</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                               |                    |                      |                    |
| <b>CURRENT LIABILITIES:</b>                                                                                               |                    |                      |                    |
| Cash overdraft                                                                                                            | \$—                | \$—                  | \$21,585           |
| Accounts payable                                                                                                          | 116,525            | 95,041               | 114,225            |
| Accrued liabilities:                                                                                                      |                    |                      |                    |
| Compensation and benefits                                                                                                 | 61,314             | 78,877               | 52,011             |
| Income taxes                                                                                                              | 7,182              | —                    | 4,218              |
| Other                                                                                                                     | 29,414             | 29,112               | 23,097             |
| Current portion of long-term debt                                                                                         | 886                | 1,145                | 21                 |
| <b>TOTAL CURRENT LIABILITIES</b>                                                                                          | <b>215,321</b>     | <b>204,175</b>       | <b>215,157</b>     |
| <b>LONG-TERM DEBT</b>                                                                                                     | <b>84,525</b>      | <b>84,750</b>        | <b>187,020</b>     |
| <b>DEFERRED INCOME TAXES</b>                                                                                              | <b>24,991</b>      | <b>23,838</b>        | <b>30,751</b>      |
| <b>OTHER LIABILITIES</b>                                                                                                  | <b>26,012</b>      | <b>28,507</b>        | <b>19,558</b>      |
| <b>TOTAL LIABILITIES</b>                                                                                                  | <b>350,849</b>     | <b>341,270</b>       | <b>452,486</b>     |
| <b>SHAREHOLDERS' EQUITY:</b>                                                                                              |                    |                      |                    |
| Controlling interest shareholders' equity:                                                                                |                    |                      |                    |
| 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, 20,301,084, 20,141,709, and 20,119,879. | 20,301             | 20,142               | 20,120             |

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|                                                           |             |             |             |
|-----------------------------------------------------------|-------------|-------------|-------------|
| Additional paid-in capital                                | 180,395     | 171,562     | 167,786     |
| Retained earnings                                         | 584,848     | 565,636     | 512,421     |
| Accumulated other comprehensive income                    | (3,946      | ) (4,585    | ) 491       |
| Employee stock notes receivable                           | —           | —           | (278 )      |
| Total controlling interest shareholders' equity           | 781,598     | 752,755     | 700,540     |
| Noncontrolling interest                                   | 13,330      | 13,654      | 14,442      |
| TOTAL SHAREHOLDERS' EQUITY                                | 794,928     | 766,409     | 714,982     |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY                | \$1,145,777 | \$1,107,679 | \$1,167,468 |
| See notes to consolidated condensed financial statements. |             |             |             |

## UNIVERSAL FOREST PRODUCTS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS  
AND COMPREHENSIVE INCOME  
(Unaudited)

(in thousands, except per share data)

|                                                                   | Three Months Ended |                |
|-------------------------------------------------------------------|--------------------|----------------|
|                                                                   | March 26, 2016     | March 28, 2015 |
| NET SALES                                                         | \$682,151          | \$633,025      |
| COST OF GOODS SOLD                                                | 579,412            | 553,443        |
| GROSS PROFIT                                                      | 102,739            | 79,582         |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES                      | 70,838             | 61,705         |
| NET LOSS (GAIN) ON DISPOSITION AND IMPAIRMENT OF ASSETS           | (10                | ) 14           |
| EARNINGS FROM OPERATIONS                                          | 31,911             | 17,863         |
| INTEREST EXPENSE                                                  | 1,076              | 1,173          |
| INTEREST INCOME                                                   | (104               | ) (135         |
| EQUITY IN EARNINGS OF INVESTEE                                    | (81                | ) (83          |
|                                                                   | 891                | 955            |
| EARNINGS BEFORE INCOME TAXES                                      | 31,020             | 16,908         |
| INCOME TAXES                                                      | 10,765             | 6,104          |
| NET EARNINGS                                                      | 20,255             | 10,804         |
| LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST         | (1,043             | ) (642         |
| NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST                 | \$19,212           | \$10,162       |
| EARNINGS PER SHARE - BASIC                                        | \$0.95             | \$0.51         |
| EARNINGS PER SHARE - DILUTED                                      | \$0.95             | \$0.51         |
| NET EARNINGS                                                      | 20,255             | 10,804         |
| OTHER COMPREHENSIVE GAIN (LOSS)                                   | 442                | (1,003         |
| COMPREHENSIVE INCOME                                              | 20,697             | 9,801          |
| LESS COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST | (846               | ) (498         |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO CONTROLLING INTEREST         | \$19,851           | \$9,303        |

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                                                        |                                           |                                  | 10,162               |                                                        |                                           | 642                        | 10,804    |
| Foreign currency translation<br>adjustment                          |                                           |                                  |                      | (857 )                                                 |                                           | (146 )                     | (1,003 )  |
| Noncontrolling interest associated<br>with business acquisitions    |                                           |                                  |                      |                                                        |                                           | 1,019                      | 1,019     |
| Distributions to noncontrolling<br>interest                         |                                           |                                  |                      |                                                        |                                           | (939 )                     | (939 )    |
| Issuance of 12,015 shares under<br>employee stock plans             | 12                                        | 457                              |                      |                                                        |                                           |                            | 469       |
| Issuance of 75,063 shares under<br>stock grant programs             | 75                                        | 1,782                            | 1                    |                                                        |                                           |                            | 1,858     |
| Issuance of 49,863 shares under<br>deferred compensation plans      | 50                                        | (50 )                            |                      |                                                        |                                           |                            | —         |
| Repurchase of 1,513 shares                                          | (1 )                                      |                                  | (76 )                |                                                        | 77                                        |                            | —         |
| Tax benefits from non-qualified<br>stock options exercised          |                                           | 66                               |                      |                                                        |                                           |                            | 66        |
| Expense associated with<br>share-based compensation<br>arrangements |                                           | 378                              |                      |                                                        |                                           |                            | 378       |
| Accrued expense under deferred<br>compensation plans                |                                           | 2,670                            |                      |                                                        |                                           |                            | 2,670     |
| Payments received on employee<br>stock notes receivable             |                                           |                                  |                      |                                                        | 100                                       |                            | 100       |
| Balance at March 28, 2015                                           | \$20,120                                  | \$167,786                        | \$512,421            | \$ 491                                                 | \$ (278 )                                 | \$ 14,442                  | \$714,982 |
| Balance at December 26, 2015                                        | 20,142                                    | 171,562                          | 565,636              | (4,585 )                                               | —                                         | 13,654                     | 766,409   |
| Net earnings                                                        |                                           |                                  | 19,212               |                                                        |                                           | 1,043                      | 20,255    |
| Foreign currency translation<br>adjustment                          |                                           |                                  |                      | 666                                                    |                                           | (197 )                     | 469       |
| Unrealized gain (loss) on<br>investment & foreign currency          |                                           |                                  |                      | (27 )                                                  |                                           |                            | (27 )     |
| Distributions to noncontrolling<br>interest                         |                                           |                                  |                      |                                                        |                                           | (1,170 )                   | (1,170 )  |
| Issuance of 1,850 shares under<br>employee stock plans              | 2                                         | 128                              |                      |                                                        |                                           |                            | 130       |
| Issuance of 114,739 shares under<br>stock grant programs            | 114                                       | 5,118                            |                      |                                                        |                                           |                            | 5,232     |
| Issuance of 42,786 shares under<br>deferred compensation plans      | 43                                        | (43 )                            |                      |                                                        |                                           |                            | —         |

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|                                                                     |          |           |           |             |      |           |           |
|---------------------------------------------------------------------|----------|-----------|-----------|-------------|------|-----------|-----------|
| Expense associated with<br>share-based compensation<br>arrangements | 432      |           |           |             |      |           | 432       |
| Accrued expense under deferred<br>compensation plans                | 3,198    |           |           |             |      |           | 3,198     |
| Balance at March 26, 2016                                           | \$20,301 | \$180,395 | \$584,848 | \$ (3,946 ) | \$ — | \$ 13,330 | \$794,928 |

See notes to consolidated condensed financial statements.

## UNIVERSAL FOREST PRODUCTS, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

|                                                                              | Three Months<br>Ended<br>March 26, March 28,<br>2016 2015 |                 |
|------------------------------------------------------------------------------|-----------------------------------------------------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                 |                                                           |                 |
| Net earnings                                                                 | \$20,255                                                  | \$10,804        |
| Adjustments to reconcile net earnings to net cash from operating activities: |                                                           |                 |
| Depreciation                                                                 | 9,492                                                     | 8,996           |
| Amortization of intangibles                                                  | 693                                                       | 983             |
| Expense associated with share-based compensation arrangements                | 432                                                       | 378             |
| Expense associated with stock grant plans                                    | 37                                                        | 27              |
| Deferred income tax credit                                                   | (156)                                                     | (193)           |
| Equity in earnings of investee                                               | (81)                                                      | (83)            |
| Net (gain) loss on disposition and impairment of assets                      | (10)                                                      | 14              |
| Changes in:                                                                  |                                                           |                 |
| Accounts receivable                                                          | (64,276)                                                  | (63,148)        |
| Inventories                                                                  | (22,159)                                                  | (64,422)        |
| Accounts payable and cash overdraft                                          | 21,498                                                    | 45,219          |
| Accrued liabilities and other                                                | 4,318                                                     | 10,880          |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                                 | <b>(29,957)</b>                                           | <b>(50,545)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                 |                                                           |                 |
| Purchases of property, plant and equipment                                   | (12,941)                                                  | (15,102)        |
| Proceeds from sale of property, plant and equipment                          | 132                                                       | 50              |
| Acquisitions, net of cash received                                           | —                                                         | (2,585)         |
| Advances of notes receivable                                                 | (1,259)                                                   | (1,273)         |
| Collections on notes receivable                                              | 1,408                                                     | 5,790           |
| Cash restricted as to use                                                    | (553)                                                     | (305)           |
| Other, net                                                                   | (173)                                                     | (16)            |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                 | <b>(13,386)</b>                                           | <b>(13,441)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                 |                                                           |                 |
| Borrowings under revolving credit facilities                                 | 1,235                                                     | 140,303         |
| Repayments under revolving credit facilities                                 | (1,495)                                                   | (52,718)        |
| Proceeds from issuance of common stock                                       | 130                                                       | 469             |
| Distributions to noncontrolling interest                                     | (1,170)                                                   | (939)           |
| Repurchase of common stock                                                   | —                                                         | (78)            |
| Other, net                                                                   | (5)                                                       | (9)             |
| <b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>                          | <b>(1,305)</b>                                            | <b>87,028</b>   |
| Effect of exchange rate changes on cash                                      | (43)                                                      | (154)           |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                               | <b>(44,691)</b>                                           | <b>22,888</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>\$43,065</b>                                           | <b>\$22,888</b> |
| <b>SUPPLEMENTAL INFORMATION:</b>                                             |                                                           |                 |
| Interest paid                                                                | \$355                                                     | \$374           |
| Income taxes refunded                                                        | (4,080)                                                   | (9,709)         |
| <b>NON-CASH INVESTING ACTIVITIES</b>                                         |                                                           |                 |
| Notes receivable exchanged for property                                      | —                                                         | 389             |

NON-CASH FINANCING ACTIVITIES:

|                                                           |       |       |
|-----------------------------------------------------------|-------|-------|
| Common stock issued under deferred compensation plans     | 2,955 | 2,526 |
| 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 March 28, 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)            | March 26, 2016                                           |                                                           |          | March 28, 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        | \$65                                                     | 3,142                                                     | \$3,207  | \$62                                                     | —                                                         | \$62   |
| Fixed income funds        | 1,174                                                    | 1,983                                                     | 3,157    | —                                                        | —                                                         | —      |
| Equity securities         | 3,233                                                    | —                                                         | 3,233    | —                                                        | —                                                         | —      |
| Mutual funds:             |                                                          |                                                           |          |                                                          |                                                           |        |
| Domestic stock funds      | 598                                                      | —                                                         | 598      | 244                                                      | —                                                         | 244    |
| International stock funds | 62                                                       | —                                                         | 62       | 70                                                       | —                                                         | 70     |
| Target funds              | 216                                                      | —                                                         | 216      | 238                                                      | —                                                         | 238    |
| Bond funds                | 192                                                      | —                                                         | 192      | 172                                                      | —                                                         | 172    |
| Total mutual funds        | 1,068                                                    | —                                                         | 1,068    | 724                                                      | —                                                         | 724    |
| Assets at fair value      | \$5,540                                                  | \$ 5,125                                                  | \$10,665 | \$786                                                    | \$                                                        | —\$786 |

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 March 26, 2016 or March 28, 2015.

## UNIVERSAL FOREST PRODUCTS, INC.

In accordance with our investment policy, our wholly-owned captive, Ardellis Insurance Ltd. ("Ardellis"), maintains an investment portfolio, totaling \$6.7 million as of March 26, 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 | \$3,131 | \$ 26                   | \$3,157       |
| Equity       | 3,357   | (124 )                  | 3,233         |
| Mutual Funds | 346     | 1                       | 347           |
| Total        | \$6,834 | \$ (97 )                | \$6,737       |

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 loss was \$(97,000). Carrying amounts above are recorded in the investments line item within the balance sheet as of March 26, 2016. During 2016, Ardellis reported a net realized loss of \$(41,000), 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 was \$32.5 million and \$25.8 million during the first quarter 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):

|                                         | March<br>26,<br>2016 | December<br>26, 2015 | March<br>28,<br>2015 |
|-----------------------------------------|----------------------|----------------------|----------------------|
| Cost and Earnings in Excess of Billings | \$5,621              | \$ 3,624             | \$4,314              |
| Billings in Excess of Cost and Earnings | 3,700                | 4,978                | 3,710                |

#### D.EARNINGS PER SHARE

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

## UNIVERSAL FOREST PRODUCTS, INC.

|                                                                         | Three Months<br>Ended |                   |
|-------------------------------------------------------------------------|-----------------------|-------------------|
|                                                                         | March<br>26, 2016     | March<br>28, 2015 |
| Numerator:                                                              |                       |                   |
| Net earnings attributable to controlling interest                       | \$19,212              | \$10,162          |
| Adjustment for earnings allocated to non-vested restricted common stock | (274 )                | (123 )            |
| Net earnings for calculating EPS                                        | \$18,938              | \$10,039          |
| Denominator:                                                            |                       |                   |
| Weighted average shares outstanding                                     | 20,281                | 20,092            |
| Adjustment for non-vested restricted common stock                       | (290 )                | (244 )            |
| Shares for calculating basic EPS                                        | 19,991                | 19,848            |
| Effect of dilutive stock options                                        | 29                    | 29                |
| Shares for calculating diluted EPS                                      | 20,020                | 19,877            |
| Net earnings per share:                                                 |                       |                   |
| Basic                                                                   | \$0.95                | \$0.51            |
| Diluted                                                                 | \$0.95                | \$0.51            |

No options were excluded from the computation of diluted EPS for the quarters ended March 26, 2016 or March 28, 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 \$3.5 million on March 26, 2016 and March 28, 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 March 26, 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. 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 of 2016, one of the two former employees pled guilty to 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;

UNIVERSAL FOREST PRODUCTS, INC.

however, because of the duration and unique nature of this proceeding, any potential, adverse financial implications to the Company are uncertain.

As of March 26, 2016 and March 28, 2015, we have an accrual balance of \$1.6 million, related to anti-dumping duty assessments imposed on steel nails imported from China.

In addition, on March 26, 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 March 26, 2016, we had outstanding purchase commitments on commenced capital projects of approximately \$21.1 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 the products and installation services are completed in accordance with our contractual obligations. We have agreed to indemnify the surety for claims made against the bonds. As of March 26, 2016 we had approximately \$1.7 million in outstanding payment and performance bonds, which expire during the next year. In addition, approximately \$7.6 million in payment and performance bonds are outstanding for completed projects which are still under warranty.

On March 26, 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 of the industrial development revenue bonds that have been issued. These letters of credit guarantee principal and interest payments to the bondholders. We currently have irrevocable letters of credit outstanding totaling approximately \$9.8 million related to our outstanding industrial development revenue bonds. These letters of credit have varying terms but may be renewed at the option of the issuing banks.

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

We did not enter into any new guarantee arrangements during the first quarter of 2016 which would require us to recognize a liability on our balance sheet.

F.BUSINESS COMBINATIONS

We completed the following acquisitions in fiscal 2015 (in thousands) and there have been no acquisitions in 2016:

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## UNIVERSAL FOREST PRODUCTS, INC.

| Company Name                                             | Acquisition Date | Purchase Price                  | Intangible Assets                                                  | Net Tangible Assets                                                | Operating Segment | Business Description                                                                                                                                                                   |
|----------------------------------------------------------|------------------|---------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Rapid Wood Mfg., LLC ("Rapid Wood")                      | February 2, 2015 | \$1,638 (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 Packaging Proprietary, Ltd ("Integra Packaging") | January 16, 2015 | \$1,102 (51.94% stock purchase) | \$1,406 (The Company portion of Intangible Assets \$730 or 51.94%) | \$715 (The Company portion of Net Tangible Assets \$372 or 51.94%) | All Other         | An Australian-based manufacturer and distributor of industrial wood specialty packaging products. Integra Packaging had annual sales of \$7.6 million in 2015.                         |

The intangible assets for each acquisition were finalized and allocated to their respective identifiable intangible asset and goodwill accounts during 2015.

## 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 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.

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 have been included in the "All Other" column of the table below. The "Corporate" column includes unallocated administrative costs and certain incentive compensation expense.

|                                 | Three Months Ended March 26, 2016 |         |           |           |           |           |
|---------------------------------|-----------------------------------|---------|-----------|-----------|-----------|-----------|
|                                 | North                             | South   | West      | All Other | Corporate | Total     |
| Net sales to outside customers  | \$202,725                         | 165,099 | \$277,588 | \$36,739  | \$ —      | \$682,151 |
| Intersegment net sales          | 13,114                            | 9,190   | 22,256    | 5,450     | —         | 50,010    |
| Segment operating profit (loss) | 9,289                             | 12,136  | 17,320    | 2,561     | (9,395)   | 31,911    |



## UNIVERSAL FOREST PRODUCTS, INC.

|                                | Three Months Ended March 28, 2015 |         |           |           |           |           |
|--------------------------------|-----------------------------------|---------|-----------|-----------|-----------|-----------|
|                                | North                             | South   | West      | All Other | Corporate | Total     |
| Net sales to outside customers | \$179,499                         | 164,195 | \$257,579 | \$31,752  | \$ —      | \$633,025 |
| Intersegment net sales         | 9,809                             | 7,199   | 9,627     | 3,896     | —         | 30,531    |
| Segment operating profit       | 2,710                             | 6,002   | 10,519    | (1,146 )  | (222 )    | 17,863    |

## 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 34.7% in the first quarter of 2016 compared to 36.1% for same period of 2015.

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 robust markets: retail, construction and industrial. Founded in 1955, the Company is headquartered in Grand Rapids, Mich., with affiliates throughout North America 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 year-to-date 2016 results.

## OVERVIEW

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

Our gross sales increased by 8% compared to the first quarter of 2015, which was comprised of a 13% increase in unit sales offset by a 5% decrease in selling prices due to the commodity lumber market (See Historical Lumber Prices). Our unit sales increased to all of our markets, but we experienced our greatest growth in unit sales to our Retail and Construction markets, which both benefited from more favorable weather in 2016 compared to 2015.

- Our operating profits increased by nearly 79%, and our operating profit as a percentage of net sales increased to 4.7% from 2.8%, comparing the first quarter of 2016 and 2015, respectively. These improvements primarily resulted from a combination of organic unit sales growth and leveraging fixed costs, favorable improvements

in product sales mix, and opportunistic buying resulting in lower lumber costs relative to our selling prices in certain product lines. In addition, we estimate that approximately 20 basis points of our improvement in operating profit as a percentage of sales was due to the lower level of lumber prices in 2016. See "Impact of the Lumber Market on Our Operating Results".

## 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   |
| First quarter average | \$316                                               | \$356 |

First quarter percentage change (11.2)%

In addition, a Southern Yellow Pine ("SYP") composite price, which we prepare and use, is presented below. Our purchases of this species comprises approximately 41% and 43% of total lumber purchases through the first three 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   |
| First quarter average | \$360                                      | \$400 |

First quarter percentage change (10.0)%

## IMPACT OF THE LUMBER MARKET ON OUR OPERATING RESULTS

We generally price our products to pass lumber costs through to our customers so that our profitability is based on the value-added manufacturing, distribution, engineering, and other services we provide. As a result, our sales levels (and working capital requirements) are impacted by the lumber costs of our products. Our material costs as a percentage of sales were 66.8% and 70.2% as of March 26, 2016, and March 28, 2015, respectively, and lumber comprises approximately 60% of material costs.

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 building materials customers, as well as trusses, wall panels and other components sold to the residential 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

## UNIVERSAL FOREST PRODUCTS, INC.

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 "add" 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 18% 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.

## BUSINESS COMBINATIONS

We completed no business acquisitions during the first three months of 2016 and two during all of 2015. The annual revenue attributable to the two acquisitions completed in 2015 is approximately \$11.1 million. These business combinations were not significant to our operating results individually or in aggregate and thus pro forma results for 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.

## UNIVERSAL FOREST PRODUCTS, INC.

|                                                           | Three months<br>Ended |                   |
|-----------------------------------------------------------|-----------------------|-------------------|
|                                                           | March 26,<br>2016     | March 28,<br>2015 |
| Net sales                                                 | 100.0 %               | 100.0 %           |
| Cost of goods sold                                        | 84.9                  | 87.4              |
| Gross profit                                              | 15.1                  | 12.6              |
| Selling, general, and administrative expenses             | 10.4                  | 9.7               |
| Net gain on disposition and impairment of assets          | —                     | —                 |
| Earnings from operations                                  | 4.7                   | 2.8               |
| Other expense (income), net                               | 0.1                   | 0.2               |
| Earnings before income taxes                              | 4.5                   | 2.7               |
| Income taxes                                              | 1.6                   | 1.0               |
| Net earnings                                              | 3.0                   | 1.7               |
| Less net earnings attributable to noncontrolling interest | (0.2 )                | (0.1 )            |
| Net earnings attributable to controlling interest         | 2.8                   | % 1.6 %           |

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 market, increasing our sales of engineered wood components 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 chemical preservatives a value-added process, treated lumber, which comprises approximately 18% of our total sales, is not presently included in the value-added sales totals.

Developing new products and expanding our product offering for existing customers. New product sales were \$67.5 million in the first quarter of 2016 compared to \$51.0 million during the first quarter of 2015. 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 |                   |             |
|-----------------------|--------------------|-------------------|-------------|
| Market Classification | March 26,<br>2016  | March 28,<br>2015 | %<br>Change |
| Retail                | \$270,743          | \$231,447         | 17.0        |

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|                   |           |           |        |
|-------------------|-----------|-----------|--------|
| Industrial        | 204,245   | 210,016   | (2.7 ) |
| Construction      | 218,876   | 200,306   | 9.3    |
| Total Gross Sales | 693,864   | 641,769   | 8.1    |
| Sales Allowances  | (11,713 ) | (8,744 )  | 34.0   |
| Total Net Sales   | \$682,151 | \$633,025 | 7.8    |

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

UNIVERSAL FOREST PRODUCTS, INC.

Gross sales in the first quarter of 2016 increased 8% compared to the same period of 2015, due to a 13% increase in unit sales offset by a 5% decline in selling prices.

Changes in our gross sales by market are discussed below.

Retail:

Gross sales to the retail market increased 17% in the first quarter of 2016 compared to the same period of 2015, due to a 19% increase in unit sales offset by a 2% decrease in selling prices. Within this market, sales to our big box customers increased 20% and sales to other retailers increased 13%. 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.

Industrial:

Gross sales to the industrial market decreased approximately 3% in the first quarter of 2016 compared to the same period of 2015, resulting from a 5% increase in unit sales offset by an 8% decrease in selling prices. The 5% increase in unit sales consists of organic growth and was achieved by adding new customers and gaining market share with existing customers. We believe that demand of our existing customers has softened in 2016. In addition, we are more selective being in the business that we pursue by being more focused on value-added products.

Construction:

Gross sales to the construction market increased over 9% in the first quarter of 2016 compared to 2015. The increase was due to a 15% increase in unit sales, offset by a 6% decrease in our selling prices. Our increase in unit sales was driven by a 17% increase to commercial construction customers, a 22% increase to residential construction customers, and a 6% increase to manufactured housing customers. By comparison (and based upon various industry publications):

• Non-residential construction activity was up 11.2%.

• National housing starts increased approximately 12.1% in the period from December 2015 through February 2016 (our sales trail housing starts by about a month) compared to the same period of 2015.

• Production of HUD-code homes in January and February 2016 were up 22.7% compared to 2015.

• Modular home production was flat.

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<br>Ended |                   |
|-----------------|-----------------------|-------------------|
|                 | March 26,<br>2016     | March 28,<br>2015 |
| Value-Added     | 61.0%                 | 57.6%             |
| Commodity-Based | 39.0%                 | 42.4%             |

COST OF GOODS SOLD AND GROSS PROFIT

Our gross margin increased to 15.1% from 12.6% comparing the first quarter of 2016 to the same period of 2015. Our gross profit dollars increased by \$23.2 million, or 29.1%, which compares favorably to our 13% increase in unit sales. The improvement in our profitability in the first quarter of 2016 was attributable to the following factors:

- \$2.4 million of our gross profit increase was on sales to our residential construction customers. Our organic growth in sales to the commercial construction market added almost \$1.5 million to our gross profits.

- \$10.7 million of our gross profit increase is attributable to our organic unit sales growth to the retail market along with improvements in product sales mix.

- \$10.8 million of our gross profit improvement was due to margin improvements on our sales to the industrial market due to improvements in product sales mix and lower lumber costs from opportunistic buying relative to our selling prices.

## UNIVERSAL FOREST PRODUCTS, INC.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses increased by approximately \$9.1 million, or 14.8%, in the first quarter of 2016 compared to the same period of 2015, while we reported a 13% increase in unit sales. The increase in SG&A was primarily due to a \$1.2 million increase in compensation and benefit costs primarily due to having more personnel, a \$5.2 million increase in incentive and bonus compensation resulting from an improvement in our profitability, a \$1.3 million increase in bad debt expense, and several other smaller increases driven, in part, by our unit sales growth.

## INTEREST, NET

Net interest costs were lower in the first quarter of 2016 compared to the same period of 2015, due to less interest expense resulting from lower debt levels in 2016.

## 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 34.7% in the first quarter of 2016 compared to 36.1% for same period of 2015.

## 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       |                   |              |             |
|                        | March<br>26, 2016  | March<br>28, 2015 | \$<br>Change | %<br>Change | March<br>26, 2016        | March<br>28, 2015 | \$<br>Change | %<br>Change |
| North                  | \$202,725          | \$179,499         | \$23,226     | 12.9 %      | \$9,289                  | \$2,710           | \$6,579      | 242.8 %     |
| South                  | 165,099            | 164,195           | 904          | 0.6 %       | 12,136                   | 6,002             | 6,134        | 102.2 %     |
| West                   | 277,588            | 257,579           | 20,009       | 7.8 %       | 17,320                   | 10,519            | 6,801        | 64.7 %      |
| All Other              | 36,739             | 31,752            | 4,987        | 15.7 %      | 2,561                    | (1,146)           | 3,707        | 323.5 %     |
| Corporate <sup>1</sup> | —                  | —                 | —            |             | (9,395)                  | (222)             | (9,173)      | (4,132)%    |
| Total                  | \$682,151          | \$633,025         | \$49,126     | 7.8 %       | \$31,911                 | \$17,863          | \$14,048     | 78.6 %      |

<sup>1</sup>Corporate primarily represents over (under) allocated administrative costs and certain incentive compensation expense.

## North

Net sales attributable to the North reportable segment increased in the first quarter of 2016 compared to 2015 due to an increase in unit sales to retail and residential construction customers.

Earnings from operations increased in the first quarter of 2016 compared to 2015, primarily due to an increase in overall unit sales and improved profitability on our sales to the retail and construction markets. Although sales decreased slightly to the industrial market, we experienced an increase in gross margin due to a more favorable product sales mix and a decline in lumber costs.

## South

Net sales attributable to the South reportable segment increased in the first quarter of 2016 compared to 2015, primarily due to an increase in unit sales to our retail and manufactured housing customers.

Earnings from operations for the South reportable segment increased in the first quarter of 2016 compared to 2015, primarily due to an increase in overall unit sales as well as improved profitability in certain South segment regions. Similar to the North segment, sales to the industrial customers declined slightly, however, we experienced an increase in gross margin due to a more favorable product sales mix and a decline in lumber costs.

## UNIVERSAL FOREST PRODUCTS, INC.

## West

Net sales attributable to the West reportable segment increased in the first quarter of 2016 compared to 2015 primarily due to an increase in sales to the retail and construction markets.

Earnings from operations for the West reportable segment increased in the first quarter of 2016 compared to 2015 primarily due to an increase in unit sales and improved profitability in our Far West and Texas regions.

## All Other

Net sales for all other segments increased in the first quarter of 2016 compared to 2015, primarily due to an increase in sales to the retail market by our Alternative Materials reporting unit.

Earnings from operations for all other segments increased in the first quarter of 2016 compared to 2015, primarily due to improved profitability in our Mexico and Consumer Products operations.

## OFF-BALANCE SHEET TRANSACTIONS

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

## LIQUIDITY AND CAPITAL RESOURCES

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

|                                                | Three Months Ended |                |
|------------------------------------------------|--------------------|----------------|
|                                                | March 26, 2016     | March 28, 2015 |
| Cash used in operating activities              | \$(29,957)         | \$(50,545)     |
| Cash used in investing activities              | (13,386 )          | (13,441 )      |
| Cash from (used in) financing activities       | (1,305 )           | 87,028         |
| Effect of exchange rate changes on cash        | (43 )              | (154 )         |
| Net change in cash and cash equivalents        | (44,691 )          | 22,888         |
| Cash and cash equivalents, beginning of period | 87,756             | —              |
| Cash and cash equivalents, end of period       | \$43,065           | \$22,888       |

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 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.

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. Our cash cycle decreased to 54 days in the first three months of 2016 from 65 days in the first three months of 2015. We carried higher levels of safety stock inventory in 2015 due to inclement weather and expected industry transportation challenges. Improvements in our days supply of inventory in 2016 was due, in part, to strong customer demand and certain improvements in inventory management.

UNIVERSAL FOREST PRODUCTS, INC.

Cash used in operating activities was \$30.0 million in the first three months of 2016, which was comprised of net earnings of \$20.2 million and \$10.4 million of non-cash expenses, offset by a \$60.6 million seasonal increase in working capital since the end of 2015.

Purchases of property, plant, and equipment comprised most of our cash used in investing activities during the first three months of 2016 and totaled \$12.9 million. We currently plan to spend up to \$75 million in 2016 on these and similar capital items. Outstanding purchase commitments on existing capital projects totaled approximately \$21.1 million on March 26, 2016. We intend to fund capital expenditures and purchase commitments through our operating cash flows for the balance of the year. Additionally, we collected \$1.4 million and advanced \$1.3 million of outstanding notes receivables.

The Company continues to evaluate businesses to acquire that are complimentary to our existing Retail, Industrial, and Construction businesses, as well as new businesses that offer attractive growth and return on investment opportunities. Our current objective is to deploy approximately \$100 million to \$200 million of capital in 2016 to fund acquisitions. While a variety of factors beyond our control impact our ability to achieve this goal, we are actively evaluating and considering a number of targeted acquisition opportunities.

Cash flows from financing activities primarily consisted of \$1.2 million of distributions to our partners that own a non-controlling interest in certain of our subsidiaries.

On March 26, 2016, we had no outstanding balance on our \$295 million revolving credit facility. The revolving credit facility also supports letters of credit totaling approximately \$9.8 million on March 26, 2016. Additionally, we have \$150 million in availability after considering letters of credit. Financial covenants on the unsecured revolving credit facility and unsecured notes include minimum interest tests and a maximum leverage ratio. The agreements also restrict the amount of additional indebtedness we may incur and the amount of assets which may be sold. We were in compliance with all our covenant requirements on March 26, 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.")

Item 4. Controls and Procedures.

UNIVERSAL FOREST PRODUCTS, INC.

(a) Evaluation of Disclosure Controls and Procedures. With the participation of management, our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a – 15e and 15d – 15e) as of the quarter ended March 26, 2016 (the “Evaluation Date”), have concluded that, as of such date, our disclosure controls and procedures were effective.

(b) Changes in Internal Controls. During the quarter ended March 26, 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.

UNIVERSAL FOREST PRODUCTS, INC.

PART II. OTHER INFORMATION

Item 1A. Risk Factors.

None.

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

(a) None.

(b) None.

(c) Issuer purchases of equity securities.

| Fiscal Month                   | (a) | (b) | (c) | (d)       |
|--------------------------------|-----|-----|-----|-----------|
| December 27 - January 30, 2016 |     |     |     | 2,869,603 |
| January 31 - February 27, 2016 |     |     |     | 2,869,603 |
| February 28 - March 26, 2016   |     |     |     | 2,869,603 |

(a) Total number of shares purchased.

(b) Average price paid per share.

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

(d) Maximum number of shares that may yet be purchased under the plans or programs.

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

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

Date: April 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<br>No. | Description |
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