

UNIVERSAL FOREST PRODUCTS INC
Form 10-K
February 27, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 29, 2018.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934. For the transition period of ____ to ____.

Commission File No.: 0 22684

UNIVERSAL FOREST PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

Michigan (State or other jurisdiction of incorporation or organization)	38 1465835 (I.R.S. Employer Identification No.)
2801 East Beltline, N.E., Grand Rapids, Michigan (Address of principal executive offices)	49525 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title Of Each Class Common Stock, \$1 par value	Name of Each Exchange on Which Registered The NASDAQ Global Select Market
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Emerging growth company

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

The aggregate market value of the common stock held by non-affiliates of the registrant (i.e. excluding shares held by executive officers, directors, and control persons as defined in Rule 405, 17 CFR 230.405) on June 30, 2018 was \$2,136,389,121 computed at the closing price of \$36.62 on that date.

As of February 2, 2019, 60,890,762 shares of the registrant's common stock, \$1 par value, were outstanding.

Documents incorporated by reference:

- (1) Certain portions of the registrant's Annual Report to Shareholders for the fiscal year ended December 29, 2018 are incorporated by reference into Part I and II of this Report.
- (2) Certain portions of the registrant's Proxy Statement for its 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

Exhibit Index located on page E 1.

ANNUAL REPORT ON FORM 10 K

DECEMBER 29, 2018

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PART I

Item 1. Business.

General Development of the Business.

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

Information relating to current developments in our business is incorporated by reference from our Annual Report to Shareholders for the fiscal year ended December 29, 2018 ("2018 Annual Report") under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations." Selected portions of the 2018 Annual Report are filed as Exhibit 13 with this Form 10 K Report.

Financial Information About Segments.

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.

Our operating segments that are stand-alone reportable segments consist of our Northern, Southern, and Western divisions. Our operating segments that are aggregated into the All Other reportable segment are the Alternative Materials, International, idX, and Corporate business units.

Narrative Description of Business.

We design, manufacture and market wood and wood-alternative products for national home centers and other retailers, structural lumber and other products for the manufactured housing industry, engineered wood components for residential and commercial construction, specialty wood packaging, components and packing materials for various industries, and customized interior fixtures used in a variety of retail and commercial structures. Our locations generally serve customers in multiple markets. Each of our markets, Retail, Industrial and Construction, are discussed in the paragraphs that follow.

Retail. The customers comprising this market are national home center retailers, retail-oriented regional lumberyards and contractor-oriented lumberyards. Generally, terms of sale are established for annual or bi-annual periods, and orders are placed with our regional facilities in accordance with established terms. One customer, The Home Depot, accounted for approximately 19% of our total sales in fiscal 2018 and 2017, and 20% in 2016.

We currently supply customers in this market from many of our locations. These regional facilities are able to supply mixed truckloads of products which can be delivered to customers with rapid turnaround from receipt of an order. Freight costs are a factor in the ability to competitively service this market, especially with treated wood products because of their heavier weight. The close proximity of our regional facilities to the various outlets of these customers is a factor when negotiating annual sales programs.

The products offered to customers in this market include dimensional lumber (both preserved and unpreserved) and various "value-added products," some of which are sold under our trademarks. In addition to our conventional lumber products, we offer a large portfolio of outdoor living products, including wood and wood composite decking and related accessories and decorative lawn and garden products. Products sold to this market include those sold under the following trademarks: ProWood, Deckorators, and UFP-Edge. We also sell engineered wood components to retail

lumber yards, which include roof trusses, wall panels and engineered floor systems (see "Construction Market" below).

We are not aware of any competitor that currently manufactures, treats and distributes a full line of both value-added and commodity products on a national basis. We face competition on individual products from several different producers, but

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the majority of these competitors tend to be regional in their efforts and/or do not offer a full line of outdoor lumber products. We believe the breadth of our product offering, geographic dispersion, close proximity of our plants to core customers, purchasing and manufacturing expertise, and service capabilities provide competitive advantages in this market.

Industrial Market. We define our industrial market as manufacturers and agricultural customers who use pallets, specialty crates, wooden boxes, and other containers used for packaging, shipping and material handling purposes, as well as various other products, used in a variety of different applications. Many of the products sold to this market may be produced from the by-product of other manufactured products, thereby allowing us to increase our raw material yields while expanding our business. Competition is fragmented and includes virtually every supplier of lumber convenient to the customer. We service this market with our dedicated local sales teams and through national sales support efforts.

Our industrial market also includes the results of operations of idX Holdings, Inc. ("idX"). idX is a designer, manufacturer and installer of highly customized interior fixtures that are used in retail and commercial structures representing several end markets. We acquired idX on September 16, 2016.

Construction Market. Our construction market is made up of customers in three submarkets - manufactured housing, residential construction and commercial construction.

The customers comprising the manufactured housing market are producers of mobile, modular and prefabricated homes and recreational vehicles (RV). Products sold to customers in this market consist primarily of roof trusses, lumber cut and shaped to the customer's specification, plywood, oriented strand board and dimensional lumber, all intended for use in the construction of manufactured housing. Sales are made by personnel located at each regional facility based on customer orders. Our principal competitive advantages include our product knowledge, the strength of our engineering support services, the close proximity of our regional facilities to our customers, our purchasing and manufacturing expertise and our ability to provide national sales programs to certain customers. These factors have enabled us to accumulate significant market share in the products we supply. We also distribute products such as siding, electrical and plumbing products to manufactured housing and RV customers.

The customers comprising the residential construction market are primarily large-volume, multi-tract builders and smaller volume custom builders. We also supply builders engaged in multi-family and commercial construction. In addition, we supply wood forms and related products to set or form concrete for various structures including large parking garages, stadiums and bridges. Generally, terms of sale and pricing are determined based on contracts we entered into with our customers.

We currently supply customers in these markets from manufacturing facilities located in many different states. These facilities manufacture various engineered wood components used to frame residential or light commercial projects, including roof and floor trusses, wall panels, I-joists and lumber packages. Freight costs are a factor in the ability to competitively service this market due to the space requirements of these products on each truckload. We also provide framing services for customers in certain regional markets, in which we erect the wood structure. We believe that providing a comprehensive turn-key package, including installation, provides a competitive advantage.

Competition in this market is primarily fragmented, but we do compete with a small number of national and regional retail contractor yards who also manufacture components and provide framing services, as well as regional manufacturers of components. We believe our primary competitive advantages relate to the engineering and design capabilities of our regional staff, purchasing and manufacturing expertise, product quality, timeliness of delivery, and financial strength.

Suppliers. We are one of the largest domestic buyers of solid sawn softwood lumber from primary producers (lumber mills). We use primarily southern yellow pine in our pressure-treating operations and site-built component plants in

the Southeastern United States, which we obtain from mills located throughout the states comprising the Sunbelt. Other species we use include "spruce-pine-fir" from various provinces in Canada; hemlock, douglas fir and cedar from the Pacific Northwest; inland species of pine, plantation grown radiata and southern yellow pines from South America; and European spruce. Our annual purchases of lumber are approximately \$1.7 billion and consist of the following species and their respective percent of total lumber purchases: southern yellow pine (58%), spruce-pine-fir (21%), and douglas fir (4%),

while the remaining 17% of lumber purchases were various other species. Additionally, we purchase approximately \$0.6 billion in plywood, oriented strand board (OSB), and a variety of other wood-based products on an annual basis. There are numerous primary producers for all varieties we use, and we are not dependent on any particular source of supply. Our financial resources and size, in combination with our strong sales network and ability to remanufacture lumber, enable us to purchase a large percentage of a primary producer's output (as opposed to only those dimensions or grades in immediate need), thereby lowering our average cost of raw materials and allowing us to obtain programs such as consigned inventory. We believe this represents a competitive advantage.

Intellectual Property. We own several patents and have several patents pending on technologies related to our business. In addition, we own numerous registered trademarks and claim common law trademark rights to several others. As we develop proprietary brands, we may pursue registration or other formal protection. While we believe our patent and trademark rights are valuable, the loss of a patent or any trademark would not be likely to have a material adverse impact on our competitive position.

Backlog. Due to the nature of our retail and industrial businesses, backlog information is not meaningful. The maximum time between receipt of a firm order and shipment does not usually exceed a few days. Therefore, we would not normally have a backlog of unfilled orders in a material amount. The relationships with our major customers are such that we are either the exclusive supplier of certain products and/or certain geographic areas, or the designated source for a specified portion of the customer's requirements. In such cases, either we are able to forecast the customer's requirements or the customer may provide an estimate of its future needs. In neither case, however, will we receive firm orders until just prior to the anticipated delivery dates for the products in question.

On December 29, 2018 and December 30, 2017, we estimate that backlog orders associated with our customized interior fixture businesses approximated \$75.4 million and \$60.0 million, respectively. With respect to the former, we expect that these orders will be primarily filled within the next fiscal year; however, it is possible that some orders could be canceled.

On December 29, 2018 and December 30, 2017, we estimate that backlog orders associated with our construction businesses approximated \$95.1 million and \$81.7 million, respectively. With respect to the former, we expect that these orders will be primarily filled within the next fiscal year; however, it is possible that some orders could be canceled.

Environmental. Information required for environmental disclosures is incorporated by reference from Note M of the Consolidated Financial Statements presented under Item 8 herein.

Seasonality. Information required for seasonality disclosures is incorporated by reference from Item 1A. Risk Factors under the caption "Seasonality and weather conditions could adversely affect us."

Employees. On December 29, 2018, we had approximately 12,000 employees.

Available Information.

Our Internet address is www.ufpi.com. Through our Internet website under "Financial Information" in the Investor Relations section, we make available free of charge, as soon as reasonably practical after such information has been filed with the SEC, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act. Also available through our Internet website under "Corporate Governance" in the Investor Relations section is our Code of Ethics for Senior Financial Officers.

Reports to Security Holders.

Not applicable.

Enforceability of Civil Liabilities Against Foreign Persons.

Not applicable.

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Item 1A. Risk Factors.

We are subject to regional, national and global economic conditions. A decline in economic conditions throughout the United States could reduce demand for our products.

We may be impacted by a decline in the value of the U.S. dollar. We purchase a variety of raw materials and finished goods from sources around the world and export certain products. The impact of a change in U.S. dollar exchange rates would impact our import purchases and export sales, which totaled \$190.8 million and \$147.1 million, respectively, in 2018. In addition, many of our industrial customers export their products.

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 and 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, cost of materials, and gross profits. Our products are generally priced to the customer based on a quoted, fixed selling price or "indexed" to the Lumber Market with a fixed dollar adder to cover conversion costs and profit. The impact on our profitability from changes in lumber prices is discussed in the "Historical Lumber Prices" and "Impact of the Lumber Market on Our Operating Results" captions of our Management's Discussion and Analysis of Financial Condition and Results of Operations section under Item 7 of this Form 10 K. Our lumber costs as a percentage of gross sales were 50.6%, 49.1%, and 48.4% in 2018, 2017, and 2016, respectively.

Our growth may be limited by the markets we serve, including our construction market which is highly cyclical. Our sales growth is dependent, in part, upon the growth of the markets we serve. If our markets do not achieve anticipated growth, or if we fail to maintain our market share, financial results could be impaired.

A significant portion of our sales are concentrated with one customer. Our sales to The Home Depot comprised 19% of our total sales in 2018 and 2017, and 20% in 2016.

Economic and credit market conditions impact our ability to collect a greater percentage of our receivables. Economic and credit conditions may impact our bad debt expense. We continue to monitor our customers' credit profiles carefully and make changes in our terms when necessary in response to this risk. Bad debt expense as a percentage of sales was 0.03%, 0.03%, and 0.06% in 2018, 2017, and 2016, respectively.

We may be impacted by vertical integration strategies. In certain markets and product lines, our customers or vendors could pursue vertical integration strategies that could have an adverse effect on our sales. We strive to add value and be a low-cost producer while maintaining competitive pricing in each of our markets to mitigate this risk.

We may be impacted by excess capacity among suppliers. There is excess capacity among suppliers of certain products in some of the markets we serve. Our selling prices and gross margins have been and are likely to continue to be impacted by this excess capacity.

Our growth may be limited by our ability to make successful acquisitions. A key component of our growth strategy is to complete business combinations. Business combinations involve inherent risks, including assimilation and successfully managing growth. While we conduct extensive due diligence and have taken steps to ensure successful assimilation, factors beyond our control could influence the results of these acquisitions.

We may be adversely affected by the impact of environmental and safety regulations. We are subject to the requirements of federal, state, and local environmental and occupational health and safety laws and regulations. There can be no assurance that we are at all times in complete compliance with all of these requirements. We have made and will continue to make capital and other expenditures to comply with environmental regulations. If additional laws and

regulations are enacted, which restrict our ability to manufacture and market our products, including our treated lumber products, it could adversely affect our sales and profits. Changes in the interpretation of existing laws could also adversely impact our financial results.

The current version of federal health care legislation may significantly increase our costs. The federal health care legislation enacted in 2010 and future regulations called for under the legislation may have a significant cost implication for our company. Our health care costs totaled approximately \$69.2 million, \$58.9 million, and \$52.7 million in 2018, 2017, and 2016, respectively.

Seasonality and weather conditions could adversely affect us. Some aspects of our business are seasonal in nature and results of operations vary from quarter to quarter. In addition, the majority of our products sold to the Retail and Construction markets are used or installed in outdoor construction applications; therefore, short-term sales volume, productivity and gross profits can be negatively affected by adverse weather conditions, particularly in our first and fourth quarters.

Inbound and outbound transportation costs represent a significant part of our cost structure. An increase in fuel and other operating expenses will significantly increase our costs. While we attempt to pass these costs along to our customers, there can be no assurance that they would agree to these price increases. Our total inbound and outbound transportation costs were approximately 9.3%, 9.0%, and 9.6% of sales in 2018, 2017, and 2016, respectively.

New alternatives may be developed to replace traditional treated wood products. The manufacturers of wood preservatives continue to develop new preservatives. While we believe treated products are reasonably priced relative to alternative products such as composites or vinyl, new alternatives may impact the sales of treated wood products. In addition, new preservatives could increase our cost of treating products in the future. See Footnote N “Segment Reporting” within the Notes to Consolidated Financial Statements for our sales by product category.

Cybersecurity breaches could interfere with operations. We rely upon information technology systems and network products and the secure operation of these systems and products. Despite security measures, these systems and products may be vulnerable to physical damage, hackers, computer viruses, or breaches due to errors or malfeasance by employees, vendors, or customers. We have experienced such events in the past and, although past events were immaterial, future events may occur and may be material.

We may be impacted by new tariffs and duties on U.S. imports and foreign export sales. Instability of established free trade agreements may lead to raw material and finished goods price volatility. An increase in foreign tariffs on U.S. goods could curtail our export sales to other countries which was approximately \$147.1 million in 2018. Increased tariffs and duties on U.S. imports will increase pricing by adding duty cost, where the duty is sustainable in light of overall unit price, or otherwise constrain supply by eliminating historical production sources by country or commodity type with unsustainable duties. Our purchases that are impacted by foreign tariffs were approximately \$337.9 million in 2018. UFP’s U.S. import of Canadian Softwood Lumber was approximately \$283.7 million in 2018, which is the primary imported commodity. In addition, there is a risk that U.S. tariffs on imports and countering tariffs on U.S. exports could trigger broader international trade conflicts that could adversely impact our business.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Our corporate headquarters building is located in suburban Grand Rapids, Michigan. We currently have approximately 178 facilities and parcels of land located throughout the United States, Canada, Mexico, Europe, Asia, and Australia. Depending upon function and location, these facilities typically utilize office, manufacturing, and indoor and outdoor storage space. Of these facilities, approximately 7 facilities are closed and are currently listed for sale or are being leased.

We own all of our properties, free from any significant mortgage or other encumbrance, except for approximately 84 facilities and parcels of land which are leased. We believe all of these operating facilities are adequate in capacity and condition to service our existing markets.

Item 3. Legal Proceedings.

Information regarding our legal proceedings is set forth in Note M of our Consolidated Financial Statements which are presented under Item 8 of this Form 10 K and are incorporated herein by reference.

Item 4. Mine Safety Disclosures.

Not applicable.

Additional Item: Executive Officers of the Registrant.

The following table lists the names, ages, and positions of our executive officers as of February 1, 2019. Executive officers are elected annually by the Board of Directors at the first meeting of the Board following the annual meeting of shareholders.

Name	Age	Position
Matthew J. Missad	58	Chief Executive Officer
Patrick M. Webster	59	President and Chief Operating Officer
Michael R. Cole	52	Chief Financial Officer and Treasurer
Allen T. Peters	51	President, UFP Western Division
Patrick Benton	49	President, UFP Northern Division
Jonathan West	48	President, UFP Southern Division