

UNIVERSAL FOREST PRODUCTS INC  
Form 10-Q  
July 29, 2015

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 June 27, 2015

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 June 27, 2015 |
| Common stock, no par value | 20,132,819                      |

UNIVERSAL FOREST PRODUCTS, INC.

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## UNIVERSAL FOREST PRODUCTS, INC.

## CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)

|   | June 27, 2015      | December 27,<br>2014 | June 28, 2014      |
|---|--------------------|----------------------|--------------------|
| <b>ASSETS</b>   |                    |                      |                    |
| <b>CURRENT ASSETS:</b>  |                    |                      |                    |
| Cash and cash equivalents   | \$24,756           | \$—                  | \$—                |
| Restricted cash   | 710                | 405                  | 720                |
| Accounts receivable, net  | 302,538            | 195,912              | 286,422            |
| Inventories:  |                    |                      |                    |
| Raw materials   | 182,286            | 183,770              | 158,646            |
| Finished goods  | 147,949            | 156,278              | 119,143            |
| Total inventories   | 330,235            | 340,048              | 277,789            |
| Refundable income taxes   | —                  | 11,934               | —                  |
| Deferred income taxes   | 6,252              | 6,284                | 6,862              |
| Other current assets  | 14,953             | 18,423               | 19,607             |
| <b>TOTAL CURRENT ASSETS</b>   | <b>679,444</b>     | <b>573,006</b>       | <b>591,400</b>     |
| <b>DEFERRED INCOME TAXES</b>  | <b>1,171</b>       | <b>1,079</b>         | <b>1,354</b>       |
| <b>OTHER ASSETS</b>   | <b>8,815</b>       | <b>9,565</b>         | <b>12,315</b>      |
| <b>GOODWILL</b>   | <b>173,158</b>     | <b>183,062</b>       | <b>160,146</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>17,007</b>      | <b>6,479</b>         | <b>6,871</b>       |
| <b>PROPERTY, PLANT AND EQUIPMENT:</b>   |                    |                      |                    |
| Property, plant and equipment   | 628,269            | 604,398              | 599,852            |
| Less accumulated depreciation and amortization  | (370,538)          | (356,129)            | (352,399)          |
| <b>PROPERTY, PLANT AND EQUIPMENT, NET</b>   | <b>257,731</b>     | <b>248,269</b>       | <b>247,453</b>     |
| <b>TOTAL ASSETS</b>   | <b>\$1,139,666</b> | <b>\$1,023,800</b>   | <b>\$1,021,879</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                    |                      |                    |
| <b>CURRENT LIABILITIES:</b>   |                    |                      |                    |
| Cash overdraft  | \$21,933           | \$621                | \$13,659           |
| Accounts payable  | 114,354            | 89,105               | 107,653            |
| Accrued liabilities:  |                    |                      |                    |
| Compensation and benefits   | 60,941             | 62,143               | 42,755             |
| Income taxes  | 8,894              | —                    | 9,010              |
| Other   | 27,234             | 23,591               | 31,321             |
| Current portion of long-term debt   | 893                | —                    | —                  |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>234,249</b>     | <b>175,460</b>       | <b>204,398</b>     |
| <b>LONG-TERM DEBT</b>   | <b>122,303</b>     | <b>98,645</b>        | <b>95,094</b>      |
| <b>DEFERRED INCOME TAXES</b>  | <b>31,178</b>      | <b>30,933</b>        | <b>26,827</b>      |
| <b>OTHER LIABILITIES</b>  | <b>19,124</b>      | <b>19,202</b>        | <b>15,825</b>      |
| <b>TOTAL LIABILITIES</b>  | <b>406,854</b>     | <b>324,240</b>       | <b>342,144</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, 20,132,819, 19,984,451, and 20,071,026. | 20,133             | 19,984               | 20,071             |
| Additional paid-in capital  | 168,862            | 162,483              | 160,189            |

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|   |                    |                    |                    |
|---|--------------------|--------------------|--------------------|
| Retained earnings                                 | 530,346            | 502,334            | 486,616            |
| Accumulated other comprehensive income            | 227                | 1,348              | 3,317              |
| Employee stock notes receivable                   | (277               | ) (455             | ) (530             |
| Total controlling interest shareholders' equity   | 719,291            | 685,694            | 669,663            |
| Noncontrolling interest                           | 13,521             | 13,866             | 10,072             |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 | <b>732,812</b>     | <b>699,560</b>     | <b>679,735</b>     |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>\$1,139,666</b> | <b>\$1,023,800</b> | <b>\$1,021,879</b> |

See notes to consolidated condensed financial statements.

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## UNIVERSAL FOREST PRODUCTS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF EARNINGS  
AND COMPREHENSIVE INCOME  
(Unaudited)

(in thousands, except per share data)

|   | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 27,<br>2015   | June 28,<br>2014 | June 27,<br>2015 | June 28,<br>2014 |
| NET SALES   | \$838,171          | \$772,752        | \$1,471,195      | \$1,326,751      |
| COST OF GOODS SOLD  | 725,728            | 675,764          | 1,279,170        | 1,163,750        |
| GROSS PROFIT  | 112,443            | 96,988           | 192,025          | 163,001          |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES                      | 68,431             | 58,989           | 130,136          | 112,899          |
| ANTI-DUMPING DUTY ASSESSMENT                                      | —                  | 1,600            | —                | 1,600            |
| NET GAIN ON DISPOSITION OF ASSETS AND IMPAIRMENT OF ASSETS        | (176)              | (324)            | (162)            | (848)            |
| EARNINGS FROM OPERATIONS  | 44,188             | 36,723           | 62,051           | 49,350           |
| INTEREST EXPENSE  | 1,382              | 1,103            | 2,555            | 2,169            |
| INTEREST INCOME   | (32)               | (339)            | (167)            | (629)            |
| EQUITY IN EARNINGS OF INVESTEE                                    | (112)              | (78)             | (195)            | (129)            |
| EARNINGS BEFORE INCOME TAXES                                      | 1,238              | 686              | 2,193            | 1,411            |
| INCOME TAXES  | 42,950             | 36,037           | 59,858           | 47,939           |
| NET EARNINGS  | 16,066             | 13,588           | 22,170           | 17,824           |
| LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST         | 26,884             | 22,449           | 37,688           | 30,115           |
| NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST                 | (908)              | (660)            | (1,550)          | (1,111)          |
| EARNINGS PER SHARE - BASIC  | \$25,976           | \$21,789         | \$36,138         | \$29,004         |
| EARNINGS PER SHARE - DILUTED                                      | \$1.29             | \$1.08           | \$1.79           | \$1.44           |
| NET EARNINGS  | \$1.28             | \$1.08           | \$1.79           | \$1.44           |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENT                           | 26,884             | 22,449           | 37,688           | 30,115           |
| COMPREHENSIVE INCOME  | (526)              | 511              | (1,529)          | (183)            |
| LESS COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST | 26,358             | 22,960           | 36,159           | 29,932           |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO CONTROLLING INTEREST         | (636)              | (719)            | (1,133)          | (1,077)          |
|   | \$25,722           | \$22,241         | \$35,026         | \$28,855         |

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 |                                  |                      |  |   |                            |            | Total |
|---|---|----------------------------------|----------------------|--|---|----------------------------|------------|-------|
|   | 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 |            |       |
| Balance at December 28,<br>2013                                     | \$ 19,948                                 | \$ 156,129                       | \$ 461,812           | \$ 3,466   | \$(732 )                                  | \$ 9,111                   | \$ 649,734 |       |
| Net earnings  |   |                                  | 29,004               |  |   | 1,111                      | 30,115     |       |
| Foreign currency translation<br>adjustment                          |   |                                  |                      | (149 )   |   | (34 )                      | (183 )     |       |
| Noncontrolling interest<br>associated with business<br>acquisitions |   |                                  |                      |  |   | 985                        | 985        |       |
| Distributions to<br>noncontrolling interest                         |   |                                  |                      |  |   | (1,101 )                   | (1,101 )   |       |
| Cash Dividends - \$0.210 per<br>share                               |   |                                  | (4,214 )             |  |   |                            | (4,214 )   |       |
| Issuance of 4,671 shares<br>under employee stock plans              | 5   | 196                              | 14                   |  |   |                            | 215        |       |
| Issuance of 78,136 shares<br>under stock grant programs             | 78  | 1,113                            |                      |  |   |                            | 1,191      |       |
| Issuance of 39,949 shares<br>under deferred compensation<br>plans   | 40  | (40 )                            |                      |  |   |                            | —          |       |
| Expense associated with<br>share-based compensation<br>arrangements |   | 932                              |                      |  |   |                            | 932        |       |
| Accrued expense under<br>deferred compensation plans                |   | 1,859                            |                      |  |   |                            | 1,859      |       |
| Payments received on<br>employee stock notes<br>receivable          |   |                                  |                      |  | 202                                       |                            | 202        |       |
| Balance at June 28, 2014  | \$ 20,071                                 | \$ 160,189                       | \$ 486,616           | \$ 3,317   | \$(530 )                                  | \$ 10,072                  | \$ 679,735 |       |
| Balance at December 27,<br>2014                                     | \$ 19,984                                 | \$ 162,483                       | \$ 502,334           | \$ 1,348   | \$(455 )                                  | \$ 13,866                  | \$ 699,560 |       |
| Net earnings  |   |                                  | 36,138               |  |   | 1,550                      | 37,688     |       |
| Foreign currency translation<br>adjustment                          |   |                                  |                      | (1,121 )   |   | (408 )                     | (1,529 )   |       |
| Noncontrolling interest<br>associated with business<br>acquisitions |   |                                  |                      |  |   | 1,019                      | 1,019      |       |
| Distributions to<br>noncontrolling interest                         |   |                                  |                      |  |   | (1,250 )                   | (1,250 )   |       |
| Purchases of noncontrolling<br>interest                             |   |                                  |                      |  |   | (1,256 )                   | (1,256 )   |       |

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|   |          |           |           |       |          |           |
|---|----------|-----------|-----------|-------|----------|-----------|
| Cash Dividends - \$0.400 per share                            |          |           | (8,050 )  |       |          | (8,050 )  |
| Issuance of 21,224 shares under employee stock plans          | 21       | 703       |           |       |          | 724       |
| Issuance of 75,149 shares under stock grant programs          | 75       | 1,780     |           |       |          | 1,855     |
| Issuance of 53,508 shares under deferred compensation plans   | 54       | (54 )     |           |       |          | —         |
| Repurchase of 1,513 shares                                    | (1 )     |           | (76 )     |       | 77       | —         |
| Tax benefits from non-qualified stock options exercised       |          | 121       |           |       |          | 121       |
| Expense associated with share-based compensation arrangements |          | 874       |           |       |          | 874       |
| Accrued expense under deferred compensation plans             |          | 2,955     |           |       |          | 2,955     |
| Payments received on employee stock notes receivable          |          |           |           |       | 101      | 101       |
| Balance at June 27, 2015                                      | \$20,133 | \$168,862 | \$530,346 | \$227 | \$(277 ) | \$13,521  |
|   |          |           |           |       |          | \$732,812 |

See notes to consolidated condensed financial statements.

## UNIVERSAL FOREST PRODUCTS, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)

|   | Six Months Ended |                   |
|---|------------------|-------------------|
|   | June 27,<br>2015 | June 28,<br>2014  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |                  |                   |
| Net earnings  | \$37,688         | \$30,115          |
| Adjustments to reconcile net earnings attributable to controlling interest: |                  |                   |
| Depreciation  | 18,406           | 15,644            |
| Amortization of intangibles   | 1,888            | 1,194             |
| Expense associated with share-based compensation arrangements               | 874              | 932               |
| Excess tax benefits from share-based compensation arrangements              | (33)             | )                 |
| Expense associated with stock grant plans                                   | 53               | 58                |
| Deferred income taxes (credit)  | 3                | 46                |
| Equity in earnings of investee  | (195)            | ) (129)           |
| Net gain on disposition and impairment of assets                            | (162)            | ) (931)           |
| Changes in:   |                  |                   |
| Accounts receivable   | (104,929)        | ) (105,695)       |
| Inventories   | 9,806            | 10,776            |
| Accounts payable and cash overdraft   | 45,798           | 47,343            |
| Accrued liabilities and other   | 27,625           | 23,451            |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                                   | <b>36,822</b>    | <b>22,804</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                |                  |                   |
| Purchases of property, plant and equipment                                  | (27,756)         | ) (20,100)        |
| Proceeds from sale of property, plant and equipment                         | 1,085            | 1,754             |
| Acquisitions, net of cash received  | (2,584)          | ) (7,135)         |
| Purchase of remaining noncontrolling interest in subsidiary                 | (1,256)          | )                 |
| Advances of notes receivable  | (3,083)          | ) (3,287)         |
| Collections on notes receivable   | 7,059            | 888               |
| Cash restricted as to use   | (305)            | )                 |
| Other, net  | (58)             | ) (135)           |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>                                   | <b>(26,898)</b>  | <b>) (28,015)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                |                  |                   |
| Borrowings under revolving credit facilities                                | 259,734          | 190,301           |
| Repayments under revolving credit facilities                                | (235,993)        | ) (179,907)       |
| Debt issuance costs   | (9)              | ) (9)             |
| Proceeds from issuance of common stock                                      | 724              | 201               |
| Distributions to noncontrolling interest                                    | (1,250)          | ) (1,101)         |
| Dividends paid to shareholders  | (8,050)          | ) (4,214)         |
| Repurchase of common stock  | (77)             | )                 |
| Excess tax benefits from share-based compensation arrangements              | 33               | —                 |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>                                   | <b>15,112</b>    | <b>5,271</b>      |
| Effect of exchange rate changes on cash                                     | (280)            | ) (60)            |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                              | <b>24,756</b>    | <b>—</b>          |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                         | <b>\$—</b>       | <b>\$—</b>        |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                             | <b>\$24,756</b>  | <b>\$—</b>        |
| <b>SUPPLEMENTAL INFORMATION:</b>  |                  |                   |
| Interest paid   | \$2,430          | \$2,155           |



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|   |       |       |
|---|-------|-------|
| Income taxes paid                                     | 1,375 | 6,532 |
| NON-CASH INVESTING ACTIVITIES                         |       |       |
| Other receivables exchanged for notes receivable      | —     | 2,768 |
| Notes receivable exchanged for property               | 389   | —     |
| NON-CASH FINANCING ACTIVITIES:                        |       |       |
| Common stock issued under deferred compensation plans | 2,728 | 2,122 |

See notes to consolidated condensed financial statements.

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## 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 27, 2014.

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 June 28, 2014 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)            | June 27, 2015<br>Quoted Prices<br>in Active<br>Markets<br>(Level 1) | June 28, 2014<br>Quoted Prices<br>in Active<br>Markets<br>(Level 1) |
|---------------------------|---|---|
| Money market funds        | \$6,162   | \$ 162  |
| Mutual funds:             |   |   |
| Domestic stock funds      | 250   | 629   |
| International stock funds | 71  | 215   |
| Target funds              | 240   | 778   |
| Bond funds                | 173   | 155   |
| Total mutual funds        | 734   | 1,777   |
|                           | 6,896   | 1,939   |

We maintain money market and/or mutual funds in our non-qualified deferred compensation plan and our wholly owned licensed captive insurance. These funds are valued at prices quoted in an active exchange market and are included in "Other Assets" and "Cash and Cash Equivalents", respectively. 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 2 or 3 assets or liabilities at June 27, 2015 or June 28, 2014.

### 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.

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## UNIVERSAL FOREST PRODUCTS, INC.

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 approximately \$59 million and \$55 million through the first six months of 2015 and 2014, 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):

|   | June 27, 2015 | December 27,<br>2014 | June 28, 2014 |
|---|---------------|----------------------|---------------|
| Cost and Earnings in Excess of Billings | \$4,842       | \$5,244              | \$6,380       |
| Billings in Excess of Cost and Earnings | 3,347         | 4,682                | 2,543         |

## D. EARNINGS PER SHARE

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

|   | Three Months Ended |               | Six Months Ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | June 27, 2015      | June 28, 2014 | June 27, 2015    | June 28, 2014 |
| Numerator:  |                    |               |                  |               |
| Net earnings attributable to controlling interest                       | \$25,976           | \$21,789      | \$36,138         | \$29,004      |
| Adjustment for earnings allocated to non-vested restricted common stock | (347)              | (209)         | (462)            | (266)         |
| Net earnings for calculating EPS  | \$25,629           | \$21,580      | \$35,676         | \$28,738      |
| Denominator:  |                    |               |                  |               |
| Weighted average shares outstanding                                     | 20,198             | 20,137        | 20,147           | 20,097        |
| Adjustment for non-vested restricted common stock                       | (270)              | (193)         | (258)            | (184)         |
| Shares for calculating basic EPS  | 19,928             | 19,944        | 19,889           | 19,913        |
| Effect of dilutive stock options  | 33                 | 20            | 33               | 21            |
| Shares for calculating diluted EPS                                      | 19,961             | 19,964        | 19,922           | 19,934        |
| Net earnings per share:   |                    |               |                  |               |
| Basic   | \$1.29             | \$1.08        | \$1.79           | \$1.44        |
| Diluted   | \$1.28             | \$1.08        | \$1.79           | \$1.44        |

No options were excluded from the computation of diluted EPS for the quarters ended June 27, 2015 or June 28, 2014.

## 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.

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UNIVERSAL FOREST PRODUCTS, INC.

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. During 2009, a subsidiary entered into a consent order with the State of Florida to conduct additional testing at our Auburndale, FL facility. We admitted no liability and the costs are not expected to be material.

On a consolidated basis, we have reserved approximately \$3.4 million on June 27, 2015 and \$3.2 million on June 28, 2014, representing the estimated costs to complete future remediation efforts. These amounts are included in Other Liabilities within the condensed balance sheet and have not been reduced by an insurance receivable.

In addition, on June 27, 2015, 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 June 27, 2015, we had outstanding purchase commitments on commenced capital projects of approximately \$5.8 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 residential and multi-family 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 owner that our 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 June 27, 2015 we had approximately \$0.5 million in outstanding payment and performance bonds, which expire during the next two years. In addition, approximately \$13.0 million in payment and performance bonds are outstanding for completed projects which are still under warranty.

On June 27, 2015, we had outstanding letters of credit totaling \$25.4 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 \$15.6 million for these types of insurance arrangements. We have reserves recorded on our balance sheet, in accrued liabilities, that reflect our expected future liabilities under these insurance arrangements.

We are required to provide irrevocable letters of credit in favor of the bond trustees for all of the industrial development revenue bonds that we have 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.

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 the 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

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## UNIVERSAL FOREST PRODUCTS, INC.

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 June 27, 2015.

We did not enter into any new guarantee arrangements during the second quarter of 2015 which would require us to recognize a liability on our balance sheet.

## F. BUSINESS COMBINATIONS

We completed the following acquisitions in fiscal 2015 and 2014 which were accounted for using the purchase method (in thousands):

| 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   | Western Division  | 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 \$2.3 million. |
| 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%)  | Other             | An Australian-based manufacturer and distributor of industrial wood specialty packaging products. Integra Packaging had annual sales of \$12.4 million.                        |
| Bigs Packaging and Lumber, LLC ("Bigs Packaging")        | November 13, 2014   | \$20,000 (asset purchase) + \$3,976 (earnout accrual) | \$15,031   | \$8,945   | Western Division  | A Texas-based manufacturer of industrial wood and packaging solutions. Bigs Packaging had annual sales of \$50.0 million.  |
| Packnet Ltd ("Packnet")                                  | November 24, 2014   | \$7,506 (80% asset purchase)                          | \$7,885 (The Company portion of Intangible Assets \$6,308 or 80%)  | \$1,498 (The Company portion of Net Tangible Assets \$1,198 or 80%) | Western Division  | A supplier of industrial packaging and services based in Eagan, MN. Packnet had annual sales of \$9.0 Million.   |
| High Level Components, LLC ("High Level")                | March 31, 2014  | \$2,944 (asset purchase)                              | \$—  | \$3,232   | North Division    | A building component manufacturer based in Locust, NC. High Level had annual sales of \$6.8 million.   |
| Upshur Forest Products, LLC ("Upshur")                   | March 28, 2014 (majority purchase interest)<br>June 25, 2015 (minority) | \$3,548 (asset purchase)                              | \$1,577  | \$1,971   | Western Division  | A sawmill located in Gilmer, TX. Upshur had annual sales of \$8.9 million.   |



interest)

|                                       |                   |                             |     |         |                   |   |
|---------------------------------------|-------------------|-----------------------------|-----|---------|-------------------|---|
| Container<br>Systems, Inc.<br>("CSI") | March 14,<br>2014 | \$2,417 (asset<br>purchase) | \$— | \$2,417 | South<br>Division | A manufacturer of crates<br>and containers for industrial<br>applications and the<br>moving-and-storage<br>industry, located in<br>Franklinton, NC. CSI had<br>annual sales of \$3.0 million. |
|---------------------------------------|-------------------|-----------------------------|-----|---------|-------------------|---|

The intangible assets for each acquisition, excluding Bigs Packaging, were finalized and allocated to their respective identifiable intangible asset and goodwill accounts during 2015. During the second quarter of 2015, we purchased the remaining non-controlling interest of Upshur

## UNIVERSAL FOREST PRODUCTS, INC.

## 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.

Due to recent changes in management structure, we have revised our operating segments. Our operating segments currently consist of the North, South, Western, Alternative Materials, and International divisions. Prior year amounts have been reclassified to these segments. 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 June 27, 2015 |         |           |           |           |             |
|---------------------------------|----------------------------------|---------|-----------|-----------|-----------|-------------|
|                                 | North                            | South   | Western   | All Other | Corporate | Total       |
| Net sales to outside customers  | \$281,333                        | 185,497 | \$309,511 | \$61,830  | \$—       | \$838,171   |
| Intersegment net sales          | 14,510                           | 7,604   | 15,476    | 4,566     | —         | 42,156      |
| Segment operating profit        | 16,394                           | 7,997   | 18,272    | 2,997     | (1,472)   | 44,188      |
|                                 | Three Months Ended June 28, 2014 |         |           |           |           |             |
|                                 | North                            | South   | Western   | All Other | Corporate | Total       |
| Net sales to outside customers  | \$253,481                        | 172,464 | \$295,263 | \$51,544  | \$—       | \$772,752   |
| Intersegment net sales          | 10,208                           | 6,096   | 13,403    | 5,298     | —         | 35,005      |
| Segment operating profit        | 10,701                           | 6,730   | 17,643    | 2,217     | (568)     | 36,723      |
|                                 | Six Months Ended June 27, 2015   |         |           |           |           |             |
|                                 | North                            | South   | Western   | All Other | Corporate | Total       |
| Net sales to outside customers  | \$460,832                        | 349,692 | \$567,090 | \$93,581  | \$—       | \$1,471,195 |
| Intersegment net sales          | 24,319                           | 14,803  | 25,102    | 8,463     | —         | 72,687      |
| Segment operating profit (loss) | 19,105                           | 13,999  | 28,790    | 1,850     | (1,693)   | 62,051      |
|                                 | Six Months Ended June 28, 2014   |         |           |           |           |             |
|                                 | North                            | South   | Western   | All Other | Corporate | Total       |
| Net sales to outside customers  | \$410,116                        | 315,824 | \$520,663 | \$80,148  | \$—       | \$1,326,751 |
| Intersegment net sales          | 19,750                           | 10,911  | 24,445    | 9,142     | —         | 64,248      |
| Segment operating profit        | 11,925                           | 13,003  | 26,488    | 1,128     | (3,194)   | 49,350      |

## 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 37.4% in the second quarter of 2015 compared to 37.7% for same period of 2014. Our effective tax rate was 37.0% in the first six months of 2015 compared to 37.2% for the same period of 2014. The decrease is primarily due to a lower state effective income tax rate in 2015.

UNIVERSAL FOREST PRODUCTS, INC.

## 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 2015.

### OVERVIEW

Our results for the second quarter of 2015 were impacted by the following:

Our sales increased by 8.5% compared to the second quarter of 2014, which was comprised of a 10% increase in unit sales offset by a 1.5% decrease in selling prices due to the commodity lumber market (See Historical Lumber Prices). Our unit sales increase was driven by a combination of acquisition-related and organic growth in sales to the Industrial market and an increase in sales to the Retail market as a result of market share gains and improving demand.

Our operating profits increased by over 20%, and our operating profit as a percentage of net sales increased to 5.3% from 4.8%, comparing 2015 and 2014. These improvements were primarily due to our growth in sales to the Industrial market, continued improvements in profitability on sales to the Construction market, and our growth in sales to the Retail market.

### 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:

## UNIVERSAL FOREST PRODUCTS, INC.

|                                  | Random Lengths Composite<br>Average \$/MBF |       |
|----------------------------------|--|-------|
|                                  | 2015                                       | 2014  |
| January                          | \$375                                      | \$395 |
| February                         | 358  | 394   |
| March                            | 336  | 387   |
| April                            | 334  | 367   |
| May                              | 315  | 377   |
| June                             | 328  | 375   |
| Second quarter average           | \$326                                      | \$373 |
| Year-to-date average             | 341  | 383   |
| Second quarter percentage change | (12.6                                      | )%    |
| Year-to-date percentage change   | (11.0                                      | )%    |

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

|                                  | Random Lengths SYP<br>Average \$/MBF |       |
|----------------------------------|--------------------------------------|-------|
|                                  | 2015                                 | 2014  |
| January                          | \$408                                | \$375 |
| February                         | 399                                  | 398   |
| March                            | 393                                  | 406   |
| April                            | 400                                  | 392   |
| May                              | 368                                  | 402   |
| June                             | 354                                  | 406   |
| Second quarter average           | \$374                                | \$400 |
| Year-to-date average             | 387                                  | 397   |
| Second quarter percentage change | (6.5                                 | )%    |
| Year-to-date percentage change   | (2.5                                 | )%    |

## IMPACT OF THE LUMBER MARKET ON OUR OPERATING RESULTS

We generally price our products to pass lumber costs through to our customers so that our profitability is based on the value-added manufacturing, distribution, engineering, and other services we provide. As a result, our sales levels (and working capital requirements) are impacted by the lumber costs of our products. Lumber costs are a significant percentage of our cost of goods sold, comprising approximately 50%.

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.

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## UNIVERSAL FOREST PRODUCTS, INC.

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 suppliers for these sales commitments. Also, the time period and quantity limitations generally allow us to re-price our products for changes in lumber costs from our suppliers.

Products with selling prices indexed to the reported Lumber Market with a fixed dollar "adder" to cover conversion costs and profits. These products primarily include treated lumber, remanufactured lumber, and trusses sold to the manufactured housing industry. For these products, we estimate the customers' needs and we carry anticipated levels of inventory. Because lumber costs are incurred in advance of final sale prices, subsequent increases or decreases in the market price of lumber impact our gross margins. For these products, our margins are exposed to changes in the trend of lumber prices. As a result of the decline in the housing market and our sales to residential and commercial builders, a greater percentage of our sales fall into this general pricing category. Consequently, we believe our profitability may be impacted to a much greater extent 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 15% of our total sales. This exposure is less significant with remanufactured lumber, trusses sold to the manufactured housing market, and other similar products, due to the higher rate of inventory turnover. We attempt to mitigate the risk associated with treated lumber through vendor consignment inventory programs. (Please refer to the "Risk Factors" section of our annual report on form 10-K, filed with the United States Securities and Exchange Commission.)

Products with fixed selling prices sold under long-term supply arrangements, particularly those involving multi-family construction projects. We attempt to mitigate this risk through our purchasing practices by locking in costs.

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

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

As is apparent from the preceding example, the level of lumber prices does not impact our overall profits, but does impact our margins. Gross margins are negatively impacted during periods of high lumber prices; conversely, we experience margin improvement when lumber prices are relatively low.

#### BUSINESS COMBINATIONS

We completed two business acquisitions during the first six months of 2015 and five during all of 2014. Each of the acquisitions was accounted for using the purchase method. The annual revenue attributable to the two acquisitions completed in 2015 is approximately \$14.7 million. These business combinations were not significant to our operating results individually or in aggregate and thus pro forma results for 2015 and 2014 are not presented.

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

## UNIVERSAL FOREST PRODUCTS, INC.

## RESULTS OF OPERATIONS

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

|   | Three Months Ended |                  | Six months Ended |                  |   |
|---|--------------------|------------------|------------------|------------------|---|
|   | June 27,<br>2015   | June 28,<br>2014 | June 27,<br>2015 | June 28,<br>2014 |   |
| Net sales   | 100.0              | % 100.0          | % 100.0          | % 100.0          | % |
| Cost of goods sold  | 86.6               | 87.5             | 87.0             | 87.7             |   |
| Gross profit  | 13.4               | 12.6             | 13.0             | 12.3             |   |
| Selling, general, and administrative expenses             | 8.2                | 7.7              | 8.8              | 8.5              |   |
| Anti-dumping duty assessments                             | —                  | 0.2              | —                | 0.1              |   |
| Net gain on disposition and impairment of assets          | —                  | —                | —                | (0.1)            | ) |
| Earnings from operations                                  | 5.3                | 4.8              | 4.2              | 3.7              |   |
| Other expense (income), net                               | 0.2                | 0.1              | 0.2              | 0.1              |   |
| Earnings before income taxes                              | 5.1                | 4.7              | 4.0              | 3.6              |   |
| Income taxes  | 2.0                | 1.8              | 1.5              | 1.4              |   |
| Net earnings  | 3.2                | 2.9              | 2.6              | 2.3              |   |
| Less net earnings attributable to noncontrolling interest | (0.1)              | ) (0.1)          | ) (0.1)          | ) (0.1)          | ) |
| Net earnings attributable to controlling interest         | 3.1                | % 2.8            | % 2.5            | % 2.2            | % |

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 20% 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 \$73.2 million in the second quarter of 2015 compared to \$60.0 million during the second quarter of 2014. New product sales year-to-date for 2015 and 2014 were \$120.3 million and \$95.4 million, respectively.

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.





## UNIVERSAL FOREST PRODUCTS, INC.

| (in thousands)        | Three Months Ended |                  |          | Six Months Ended |                  |          |
|-----------------------|--------------------|------------------|----------|------------------|------------------|----------|
|                       | June 27,<br>2015   | June 28,<br>2014 | % Change | June 27,<br>2015 | June 28,<br>2014 | % Change |
| Market Classification |                    |                  |          |                  |                  |          |
| Retail                | \$376,219          | \$347,371        | 8.3      | \$606,104        | \$548,355        | 10.5     |
| Industrial            | 240,067            | 205,334          | 16.9     | 451,228          | 376,985          | 19.7     |
| Construction          | 234,555            | 231,507          | 1.3      | 435,278          | 421,069          | 3.4      |
| Total Gross Sales     | 850,841            | 784,212          | 8.5      | 1,492,610        | 1,346,409        | 10.9     |
| Sales Allowances      | (12,670)           | (11,460)         | 10.6     | (21,415)         | (19,658)         | 8.9      |
| Total Net Sales       | \$838,171          | \$772,752        | 8.5      | \$1,471,195      | \$1,326,751      | 10.9     |

During 2015, certain customers were reclassified to a different market. Prior year information has been restated to reflect these changes.

Gross sales in the second quarter of 2015 increased 8.5% compared to the same period of 2014, due to a 10% increase in unit sales offset by a 1.5% decline in selling prices. Businesses we acquired since the second quarter of 2014 contributed \$26.8 million, or 3%, to our gross sales.

Gross sales in the first six months of 2015 increased 10.9% compared to the same period of 2014, due to an 11% increase in unit sales as overall selling prices remained flat. Businesses we acquired since the second quarter of 2014 contributed \$50.5 million, or 4%, to our gross sales.

Changes in our gross sales by market are discussed below.

## Retail:

Gross sales to the retail market increased over 8% in the second quarter of 2015 compared to the same period of 2014, due to an increase in unit sales as selling prices remained stable. Within this market, sales to our big box customers increased nearly 12% while our sales to other retailers increased approximately 3%. 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 big box customers and increased our sales of new products with these customers.

Gross sales to the retail building materials market increased by almost 11% in the first six months of 2015 compared to the same period of 2014, due to an increase in unit sales as selling prices remained flat. Within this market, sales to our big box customers increased almost 13% while our sales to other retailers increased approximately 8% due to the same factors discussed above.

## Industrial:

Gross sales to the industrial market increased approximately 17% in the second quarter of 2015 compared to the same period of 2014, resulting from a 17% increase in unit sales as selling prices remained flat. Businesses we acquired since the second quarter of 2014 contributed 11% to our sales growth. The remaining 6% organic growth was due to a combination of adding new customers and gaining market share with existing customers.

Gross sales to the industrial market increased 20% in the first six months of 2015 compared to the same period of 2014, due to a 19% increase in unit sales and 1% increase in selling prices. Businesses we acquired since the second quarter of 2014 contributed 12% to our unit growth. The remaining 7% organic growth was primarily due to the same factors discussed above.

## Construction:

Gross sales to the construction market increased over 1% in the second quarter of 2015 compared to 2014. The increase was due to a 5% increase in unit sales, offset by a 4% decrease in our selling prices. By comparison, production of HUD-code homes in April and May 2015 were up 4.4% compared to 2014, modular home production remained flat, and national housing starts increased approximately 5.4% in the period from March 2015 through May 2015 (our sales trail housing starts by about a month) compared to the same period of 2014. Our increase in unit sales was primarily driven by a 2% increase in unit sales to the manufactured housing market, a 15% increase in unit sales to the commercial construction market resulting from market share gains, and a 3% increase in unit sales to the residential construction market.

## UNIVERSAL FOREST PRODUCTS, INC.

Gross sales to the construction market increased over 3% in the first six months of 2015 compared to the same period of 2014, due to a 5% increase in unit sales, offset by a 2% decrease in selling prices. Our increase in unit sales was primarily due to the same reasons discussed above.

## Value-Added and Commodity-Based Sales:

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

|                 | Three Months Ended |                  | Six Months Ended |                  |   |
|-----------------|--------------------|------------------|------------------|------------------|---|
|                 | June 27,<br>2015   | June 28,<br>2014 | June 27,<br>2015 | June 28,<br>2014 |   |
| Value-Added     | 59.4               | % 59.3           | % 58.7           | % 58.6           | % |
| Commodity-Based | 40.6               | % 40.7           | % 41.3           | % 41.4           | % |

## COST OF GOODS SOLD AND GROSS PROFIT

Our gross profit percentage increased to 13.4% from 12.6% comparing the second quarter of 2015 to the same period of 2014. Additionally, our gross profit dollars increased by \$15.5 million, or 15.9%, which compares favorably with our 10% increase in unit sales. The improvement in our profitability in the second quarter of 2015 is attributable to the following factors:

Over \$3.0 million of our gross profit increase reflects our efforts to be more selective in the business that we take on sales to the residential construction market and our growth in sales to the commercial and construction market added over \$1.0 million to our gross profits.

Nearly \$3.4 million of our gross profit increase is attributable to our growth in sales to the retail market, due to market share gains and improving demand. Furthermore, operating leverage on our sales growth along with effective inventory positioning helped us withstand the adverse impact of a falling lumber market.

Almost \$10 million of our gross profit improvement was due to growth and a more favorable product mix on sales to the industrial market.

Our gross profit percentage increased to 13.0% from 12.3% comparing the first six months of 2015 to the same period of 2014. Our gross profit dollars increased by 17.8%, which compares favorably to our 11% increase in unit sales. This improvement is primarily due to the same factors discussed above.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses increased by approximately \$9.4 million, or 16%, in the second quarter of 2015 compared to the same period of 2014, while we reported a 10% increase in unit sales. The increase in SG&A was primarily due to a \$3.4 million, or 12%, increase in compensation and benefit costs primarily due to having more personnel, a \$3.1 million increase in incentive compensation resulting from an improvement in our profitability, and several other smaller increases driven in some cases by our sales growth. Businesses we acquired since the second quarter of 2014 added approximately \$2 million to our SG&A costs, which is included in the amounts discussed above.

Selling, general and administrative ("SG&A") expenses increased by approximately \$17.2 million, or 15.3%, in the first six months of 2015 compared to the same period of 2014, while we reported an 11% increase in unit sales. SG&A expenses were impacted in the first six months of 2015 by the same factors discussed above.

INTEREST, NET

Net interest costs were higher in the second quarter of 2015 compared to the same period of 2014, due to additional interest expense resulting from higher debt levels in 2015.

INCOME TAXES

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## UNIVERSAL FOREST PRODUCTS, INC.

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 37.4% in the second quarter of 2015 compared to 37.7% for same period of 2014. Our effective tax rate was 37.0% in the first six months of 2015 compared to 37.2% for the same period of 2014. The decrease is primarily due to a lower state effective income tax rate in 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<br>Three Months Ended |                  |           |             | Segment Operating Profit<br>Three Months Ended |                  |           |             |        |   |
|------------------------|---------------------------------|------------------|-----------|-------------|--|------------------|-----------|-------------|--------|---|
|                        | June 27,<br>2015                | June 28,<br>2014 | \$ Change | %<br>Change | June 27,<br>2015                               | June 28,<br>2014 | \$ Change | %<br>Change |        |   |
| North                  | \$281,333                       | \$253,481        | \$27,852  | 11.0        | %  | \$16,394         | \$10,701  | \$5,693     | 53.2   | % |
| South                  | 185,497                         | 172,464          | 13,033    | 7.6         | %  | 7,997            | 6,730     | 1,267       | 18.8   | % |
| Western                | 309,511                         | 295,263          | 14,248    | 4.8         | %  | 18,272           | 17,643    | 629         | 3.6    | % |
| All Other              | 61,830                          | 51,544           | 10,286    | 20.0        | %  | 2,997            | 2,217     | 780         | 35.2   | % |
| Corporate <sup>1</sup> | —                               | —                | —         |             |  | (1,472)          | (568)     | (904)       | 159.2  | % |
| Total                  | \$838,171                       | \$772,752        | \$65,419  | 8.5         | %  | \$44,188         | \$36,723  | \$7,465     | 20.3   | % |
| (in thousands)         | Net Sales<br>Six Months Ended   |                  |           |             | Segment Operating Profit<br>Six Months Ended   |                  |           |             |        |   |
|                        | June 27,<br>2015                | June 28,<br>2014 | \$ Change | %<br>Change | June 27,<br>2015                               | June 28,<br>2014 | \$ Change | %<br>Change |        |   |
| North                  | \$460,832                       | \$410,116        | \$50,716  | 12.4        | %  | \$19,105         | \$11,925  | \$7,180     | 60.2   | % |
| South                  | 349,692                         | 315,824          | 33,868    | 10.7        | %  | 13,999           | 13,003    | 996         | 7.7    | % |
| Western                | 567,090                         | 520,663          | 46,427    | 8.9         | %  | 28,790           | 26,488    | 2,302       | 8.7    | % |
| All Other              | 93,581                          | 80,148           | 13,433    | 16.8        | %  | 1,850            | 1,128     | 722         | 64.0   | % |
| Corporate <sup>1</sup> | —                               | —                | —         |             |  | (1,693)          | (3,194)   | 1,501       | (47.0) | % |
| Total                  | \$1,471,195                     | \$1,326,751      | \$144,444 | 10.9        | %  | \$62,051         | \$49,350  | \$12,701    | 25.7   | % |

<sup>1</sup>Corporate primarily represents over (under) allocated administrative costs.

## North

Net sales attributable to the North reportable segment increased in the second quarter and first six months of 2015 compared to 2014 due to an increase in sales to retail and residential construction customers.

Earnings from operations increased in the second quarter and first six months of 2015 compared to 2014, primarily due to an increase in overall unit sales, improved profitability on our sales to the construction market, as well as improved profitability in our Great Lakes region on its sales to the retail market.

## South

Net sales to the South reportable segment increased in the second quarter and first six months of 2015 compared to 2014, primarily due to an increase in sales to the retail and industrial markets.

Earnings from operations for the South reportable segment increased in the second quarter and first six months of 2015 compared to 2014, primarily due to an increase in overall unit sales as well as improved profitability in our Southeast region on its sales to the retail and industrial markets.

Western

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## UNIVERSAL FOREST PRODUCTS, INC.

Net sales to the Western reportable segment increased in the second quarter and first six months of 2015 compared to 2014 primarily due to an increase in sales to the retail and industrial markets, which were offset by a decrease in sales to manufactured housing customers within the construction market. The growth in sales to the industrial market was primarily due to acquisitions we completed since the second quarter of 2014.

Earnings from operations for the Western reportable segment increased in the second quarter and first six months of 2015 compared to 2014 primarily due to the increase in unit sales and improved profitability in our West Central region on its sales to the industrial market.

## All Other

Net sales for all other segments increased in the second quarter and first six months of 2015 compared to 2014, primarily due to an increase in sales to the retail market by our Consumer Products reporting unit and our increase in sales to the industrial market by our Australian and Mexican reporting units.

Earnings from operations for all other segments increased in the second quarter and first six months of 2015 compared to 2014, primarily due to our Universal 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):

|  | Six Months Ended |               |
|--|------------------|---------------|
|  | June 27, 2015    | June 28, 2014 |
| Cash from operating activities                 | \$36,822         | \$22,804      |
| Cash from investing activities                 | (26,898)         | (28,015)      |
| Cash from financing activities                 | 15,112           | 5,271         |
| Effect of exchange rate changes on cash        | (280)            | (60)          |
| Net change in cash and cash equivalents        | 24,756           | —             |
| Cash and cash equivalents, beginning of period | —                | —             |
| Cash and cash equivalents, end of period       | \$24,756         | \$—           |

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 January 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 December 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 increased to 56 days in the first six months of 2015 from 52 days in the first six months of 2014. We carried higher levels of safety stock inventory in 2015 due to weather and industry transportation challenges.

UNIVERSAL FOREST PRODUCTS, INC.

Cash from operating activities was \$36.8 million in the first six months of 2015, which was comprised of net earnings of \$37.7 million and \$20.8 million of non-cash expenses, offset by a \$21.7 million increase in working capital since the end of 2014 due to the seasonality of our business.

Purchases of property, plants, and equipment comprised most of our cash used in investing activities during the first six months of 2015 and totaled \$27.8 million. We currently plan to spend up to \$45 million in 2015. Outstanding purchase commitments on existing capital projects totaled approximately \$5.8 million on June 27, 2015. We intend to fund capital expenditures and purchase commitments through our operating cash flows for the balance of the year. Additionally, we collected \$4 million of outstanding notes receivables, net of advances, during the first six months of 2015. Finally, cash flows used in investing activities included \$2.6 million used to acquire new businesses and \$1.3 million used to acquire the remaining non-controlling interest of Upshur Forest Products, LLC from our partners. See Notes to Unaudited Consolidated Condensed Financial Statements, Note F "Business Combinations".

Cash flows from financing activities primarily consisted of net borrowings under our revolving credit facility to support seasonal working capital requirements and dividends paid in June totaling \$0.40 per share.

On June 27, 2015, we had \$37.6 million outstanding on our \$295 million revolving credit facility. The revolving credit facility also supports letters of credit totaling approximately \$9.8 million on June 27, 2015. 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 June 27, 2015.

## 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 27, 2014.

### 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.

Evaluation of Disclosure Controls and Procedures. With the participation of management, our chief executive (a) officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in

UNIVERSAL FOREST PRODUCTS, INC.

Exchange Act Rules 13a – 15e and 15d – 15e) as of the quarter ended June 27, 2015 (the “Evaluation Date”), have concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Controls. During the quarter ended June 27, 2015, there were no changes in our internal (b) 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)       |
|---------------------------------------|-----|-----|-----|-----------|
| March 29 – May 2, 2015 <sup>(1)</sup> |     |     |     | 2,881,703 |
| May 3 – 30, 2015                      |     |     |     | 2,881,703 |
| May 31 – June 27, 2015                |     |     |     | 2,881,703 |

(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 (1) 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: July 29, 2015

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

Date: July 29, 2015

By: /s/ Michael R. Cole  
Michael R. Cole,  
Chief Financial Officer,  
Principal Financial Officer and  
Principal Accounting Officer

UNIVERSAL FOREST PRODUCTS, INC.

EXHIBIT INDEX

| Exhibit No. | Description   |
|-------------|---|
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