



Universal Forest Products®

Report to Shareholders

2019



Universal Forest Products®

"Great companies foster a productive tension between continuity and change."

--James C. Collins

Dear Shareholders:

In our history, there have been few years as energizing, as regenerating, or as bold as 2019. And there have been few years as successful. In fact, 2019 was our most successful year, with record profits (and a record fourth quarter to close it out).

It also was the most transformational: After years of planning, we undertook the largest restructuring in our company's history, changing an organization that had developed over 65 years and had brought us success after success. But we knew it couldn't support our growth for the decades ahead, so we did something about it.

Today, we are UFP Industries, made of business units defined by our markets instead of the geographic regions we serve. And today, our people are specialists in their industries instead of their territories, opening doors of opportunity worldwide and changing the way we do business.

From the outside, it might have looked simply like a new name and a refreshed logo. From inside, it was big and complex. And the people of this company undertook this change like they do everything else – with hard work and determination. Unlike many corporate restructurings, our transformation wasn't designed to eliminate jobs. Instead, it positioned us for more growth and opened doors of opportunity for scores of our employees to lead new units and new efforts and to help us realize success in 2020 and beyond. In fact, in 2019, dozens of people were either promoted or earned exciting new assignments.

As is our custom, we went about change with respect for our history. For decades, Universal Forest Products was commonly called "UFP" in the industry and by our employees. We worked for "UFP," we were part of the "UFP family" and we answered phones with "UFP." Our new name, UFP Industries, is a nod to our past and a better reflection of who we are and what we

do. We're more than wood, more than lumber manufacturing, more than trusses and decks and crates. Today, we're defined by new materials, products and technologies that are instrumental to our growth and to our future.

Today, UFP Industries is a dynamic holding company with three major business segments: UFP Construction, UFP Industrial and UFP Retail. As we write this, we have approximately 150 facilities and 13,000 employees on four continents. And we're growing.

It's a long way from a single office in Alma, Michigan, with two employees and a few customers who bought lumber from us to build manufactured homes. But we still have that small-town culture built of a strong Midwest work ethic, a work-hard-play-hard attitude, a demand for respect for people at all levels in the organization, and a great pride in what we do and who we are.

Some of that has to do with the fact that many in leadership have been with the company for 35, 40 years and more (including us). These leaders have trained others well. As long-time employees begin to retire, we have a strong bench of new leaders who know our company and our business well, and who have opportunity to be part of a vibrant future led by a smart plan for growth, and a strong vision.

Someday two of them will be signing this letter and reporting annual results. But, for now, we have the honor of doing that as we complete our 65th year in business.

In 2019, UFP Industries had record results, including net earnings of \$180 million, up 21 percent over the previous year. EBITDA of \$317 million was up 19 percent, exceeding the company's unit sales increase of 6 percent. New product sales of \$540 million were up 13 percent over the previous year. Our net sales of \$4.42 billion reflected a 2 percent decline from 2018, attributable in part to lower lumber prices, which affect selling prices.

Here's how we did by market:

Retail: In this market, we saw \$1.64 billion in gross sales, down 1 percent from 2018 due to a 7 percent increase in unit sales and an 8 percent decrease in selling prices. We enjoyed solid unit sales growth both with our big box customers and our independent retailers. Deckorators®

decking and railing products, and notably Voyage and Vault decking, continue to grow interest and take market share. Other products, like ProWood® FR, a fire-retardant lumber product, and our Outdoor Essentials® line of products, including fencing and outdoor decorative accessories, saw solid growth in 2019. And we expect great things from additional product lines like UFP-Edge™ fascia and trim boards.

Industrial: Gross sales in Industrial were \$1.33 billion in 2019, up 2 percent over the previous year. Unit sales increased 7 percent; 5 percent came from acquisitions and 2 percent from organic growth. We are focusing these days more on designed, engineered and manufactured sales, and de-emphasizing commodity sales. Despite the lower growth rate, our overall profitability improved—again.

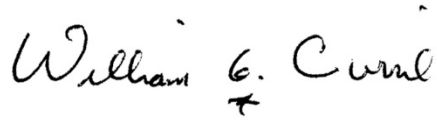
Construction: In Construction, we had \$1.52 billion in gross sales, down 5 percent from 2018 due to a 10 percent decrease in selling prices, and a 5 percent increase in unit sales. Unit sales to commercial and residential customers rose 11 percent and 5 percent, respectively. Manufactured housing sales were flat. Our backlog remained strong for site-built components, and we continued to add capacity in the markets we serve and promote value-added products. We are pleased with our results, but never content. We already have identified \$20 million in improvements we can make, and we are executing on strong paths to growth in each of our markets.

Our financial and organizational results tell only part of the UFP Industries story in 2019. The rest is best told by the UFP people who work hard to provide for their families: by the person who, never having attended college, worked his way up to become a vice president; by the satisfaction of a worker who figured out a better way to use her machine, resulting in significant cost-savings and recognition by her coworkers; and by the countless employees who don't just work together, but raise their families together, attend their children's baptisms, graduations and weddings, and simply enjoy each other. We are UFP Industries, a strong family made up of great people, clear strategies, and blood, sweat and tears—and a fire in the belly to be the best.

We're proud of what we've accomplished in 65 years. And while that magic number spells retirement for many, for UFP, it's just the beginning of a new phase of opportunity and success.

Thanks for joining us on our journey and for your faith in us. We're working hard to make sure you remain pleased you chose us as an investment for your hard-earned dollars.

Cordially,

Handwritten signature of William G. Currie in black ink.

William G. Currie
Chairman of the Board

Handwritten signature of Matthew J. Missad in black ink.

Matthew J. Missad
Chief Executive Officer

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SELECTED FINANCIAL DATA
(In thousands, except per share and statistics data)

	2019	2018	2017	2016	2015
Consolidated Statement of Earnings Data					
Net sales	\$ 4,416,009	\$ 4,489,180	\$ 3,941,182	\$ 3,240,493	\$ 2,887,071
Gross profit	685,518	592,894	542,826	474,590	399,904
Earnings before income taxes ⁽⁶⁾	240,674	197,853	176,007	160,671	131,002
Net earnings attributable to controlling interest	\$ 179,650	\$ 148,598	\$ 119,512	\$ 101,179	\$ 80,595
Diluted earnings per share	\$ 2.91	\$ 2.40	\$ 1.94	\$ 1.65	\$ 1.33
Dividends per share	\$ 0.400	\$ 0.360	\$ 0.320	\$ 0.290	\$ 0.273
Consolidated Balance Sheet Data					
Working capital ⁽¹⁾	\$ 739,030	\$ 685,108	\$ 560,241	\$ 484,661	\$ 444,057
Total assets	1,889,477	1,647,548	1,464,677	1,292,058	1,107,679
Total debt	163,683	202,278	146,003	111,693	85,895
Shareholders' equity	1,257,733	1,088,684	974,023	860,466	766,409
Statistics					
Gross profit as a percentage of net sales	15.5 %	13.2 %	13.8 %	14.6 %	13.9 %
Net earnings attributable to controlling interest as a percentage of net sales	4.1 %	3.3 %	3.0 %	3.1 %	2.8 %
Return on beginning equity ⁽²⁾	16.5 %	15.3 %	13.9 %	13.2 %	11.5 %
Current ratio ⁽⁴⁾	3.09	3.21	2.85	2.78	3.17
Debt to equity ratio ⁽⁵⁾	0.13	0.19	0.15	0.13	0.11
Book value per common share ⁽³⁾	\$ 20.48	\$ 17.88	\$ 15.92	\$ 14.10	\$ 12.68

(1) Current assets less current liabilities.

(2) Net earnings attributable to controlling interest divided by beginning shareholders' equity.

(3) Shareholders' equity divided by common stock outstanding.

(4) Current assets divided by current liabilities.

(5) Total debt divided by shareholders' equity.

(6) 2018 includes an approximately \$7 million gain on the sale of one of our facilities.

Acquisition growth is one of the primary contributing factors to material increases over the period from 2015 to 2019. Refer to Note C under the "Notes to the Consolidated Financial Statements" for further discussion on the Company's business combinations and impact on financials.

UNIVERSAL FOREST PRODUCTS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Universal Forest Products, Inc. is a holding company with subsidiaries throughout North America, Europe, Asia, and in Australia that supply wood, wood composite and other products to three robust markets: retail, industrial, and construction. The Company is headquartered in Grand Rapids, Mich. For more information about Universal Forest Products, Inc., or its affiliated operations, go to www.ufpi.com.

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 2019.

OVERVIEW

Our results for 2019 were impacted by the following:

- Our sales decreased almost 2% in 2019 due to an 8% decrease in overall selling prices (see "Historical Lumber Prices") offset by a 6% increase in our unit sales. Our unit sales increase was primarily driven by our organic growth in the retail and construction markets and acquiring businesses that serve the industrial market. Overall, businesses we acquired contributed 1% to our unit sales growth in 2019 (see Note C of the Notes to Consolidated Financial Statements) and we achieved 5% organic unit sales growth.
- The Home Improvement Research Institute reported a 4% increase in home improvement sales in 2019. Comparatively, our unit sales to the retail market increased organically by 7%.
- Our unit sales to the industrial market increased 7% in 2019 as businesses we acquired contributed 5% to unit sales growth and organic growth was 2%. Comparatively, the *Federal Reserve's Industrial Production Index* noted that national industrial production decreased almost 1% in the period from December 2018 to November 2019.
- National housing starts were up approximately 3% in 2019 compared to 2018. Comparatively, our unit sales to residential construction customers increased 5% in 2019.
- Production of HUD code manufactured homes declined 3% in the period from January through November 2019, compared to the same period of the prior year. Comparatively, our unit sales to the manufactured housing market were flat in 2019 compared to 2018. We estimate that 72% of our sales volume is for HUD homes, 25% is for modular homes, and 3% is for recreational vehicles.
- Earnings from operations increased 18% to \$244.9 million. Acquired businesses contributed approximately \$4.1 million to earnings from operations for the year. The remaining \$240.8 million, or 16.1%, increase was primarily

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due to an increase in gross profits driven by low lumber prices and opportunistic buying, organic unit sales growth combined with leveraging fixed costs, and favorable improvements in sales mix, among other factors.

- Our cash flow from operating activities increased by \$233 million due to a \$46 million increase in our net earnings and non-cash expenses and a \$187 million favorable change in our investment in working capital (See "Liquidity and Capital Resources"). The decline in working capital was primarily driven by opportunistic purchases of inventory during the fourth quarter of 2018, which was sold in the first six months of 2019. Lower lumber prices of Southern Yellow Pine in the fourth quarter of 2019 also contributed to the increase in cash flow from operating activities.
- We invested \$84.9 million in capital expenditures to support and grow our business and invested \$39.1 million in acquired businesses.
- We returned \$24.5 million to shareholders through dividends.
- Finally, our net cash surplus (interest bearing debt and cash overdraft less available cash) was \$4.7 million at the end of 2019, which when considered with our earnings before interest, taxes, depreciation and amortization, indicates a strong credit profile and abundant unused debt capacity available for future investments to grow the business.

HISTORICAL LUMBER PRICES

The following table presents the Random Lengths framing lumber composite price.

	Random Lengths Composite Average \$/MBF	
	2019	2018
January	\$ 331	\$ 449
February	370	496
March	365	505
April	354	496
May	346	554
June	329	572
July	356	525
August	346	449
September	364	443
October	360	375
November	373	339
December	371	338
Annual average	\$ 355	\$ 462
Annual percentage change	(23.2)%	12.1 %

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In addition, a Southern Yellow Pine ("SYP") composite price, which we prepare and use, is presented below. Our purchases of this species comprise approximately 64% of total lumber purchases, excluding plywood, for 2019 and 2018.

	Southern Yellow Pine Average \$/MBF	
	2019	2018
January	\$ 370	\$ 418
February	403	459
March	408	480
April	401	483
May	383	535
June	344	562
July	359	512
August	348	449
September	355	440
October	345	410
November	344	378
December	335	377
Annual quarter average	\$ 366	\$ 459
Annual percentage change	(20.3)%	12.5 %

IMPACT OF THE LUMBER MARKET ON OUR OPERATING RESULTS

We experience significant fluctuations in the cost of commodity lumber products from primary producers ("Lumber Market"). We generally price our products to pass lumber costs through to our customers so that our profitability is based on the value-added manufacturing, distribution, engineering, and other services we provide. As a result, our sales levels (and working capital requirements) are impacted by the lumber costs of our products. Lumber costs were 42.7% and 50.6% of our gross sales in 2019 and 2018, respectively.

Our gross margins are impacted by (1) the relative level of the Lumber Market (i.e. whether prices are higher or lower from comparative periods), and (2) the trend in the market price of lumber (i.e. whether the price of lumber is increasing or decreasing within a period or from period to period). Moreover, as explained below, our products are priced differently. Some of our products have fixed selling prices, while the selling prices of other products are indexed to the reported Lumber Market with a fixed dollar adder to cover conversion costs and profits. Consequently, the level and trend of the Lumber Market impact our products differently.

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

- Products with fixed selling prices. These products include value-added products such as decking 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 eventually 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

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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 profitability. In other words, for these products, our margins are exposed to changes in the trend of lumber prices. We believe our sales of these products are at their highest relative level in our second quarter, primarily due to treated lumber sold to the retail market.

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

- Products with significant inventory levels with low turnover rates, whose selling prices are indexed to the Lumber Market. In other words, the longer the period of time these products remain in inventory, the greater the exposure to changes in the price of lumber. This would include treated lumber, which comprises approximately 16% 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 our higher rate of inventory turnover of these products. 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 or including re-pricing triggers if lumber prices change in excess of an agreed upon percentage.

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 and operating margins are negatively impacted during periods of high lumber prices; conversely, we experience margin improvement when lumber prices are relatively low. As a result of this factor, we believe it is useful to compare our change in units shipped with our change in gross profits, operating profits, and selling, general, and administrative expenses as a method of evaluating our profitability and efficiency.

BUSINESS COMBINATIONS AND ASSET PURCHASES

We completed three business acquisitions during 2019 and seven during 2018. The annual historical sales attributable to acquisitions in 2019 and 2018 were approximately \$37 million and \$140 million, respectively. These business combinations were not significant to our operating results individually or in aggregate, and thus pro forma results for 2019 and 2018 are not presented.

See Notes to Consolidated Financial Statements, Note C, "Business Combinations" for additional information.

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RESULTS OF OPERATIONS

The following table presents, for the periods indicated, the components of our Consolidated Statements of Earnings as a percentage of net sales. Please see our 2018 10-K for discussion of our 2018 results of operations compared to 2017.

	Year Ended	
	December 28, 2019	December 29, 2018
Net sales	100.0 %	100.0 %
Cost of goods sold	84.5	86.8
Gross profit	15.5	13.2
Selling, general, and administrative expenses	10.0	8.8
Net gain on disposition and impairment of assets	—	(0.1)
Earnings from operations	5.5	4.6
Other expense, net	0.1	0.2
Earnings before income taxes	5.5	4.4
Income taxes	1.3	1.0
Net earnings	4.1	3.4
Less net earnings attributable to noncontrolling interest	(0.1)	(0.1)
Net earnings attributable to controlling interest	4.1 %	3.3 %

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

The following table presents, for the periods indicated, the components of our Consolidated Statements of Earnings as a percentage of sales, adjusted to restate 2019 sales and cost of goods sold to be based on 2018 lumber prices. The restated sales amounts were calculated by applying unit sales growth from 2019 to 2018 sales. By eliminating the “pass-through” impact of higher or lower lumber prices on sales and cost of goods sold from year to year, we believe this provides an enhanced view of our change in profitability and costs as a percentage of sales. The amount of the adjustment to 2019 sales was also applied to cost of goods sold so that gross profit remains unchanged.

	Adjusted for Lumber Market Change	
	Year Ended	
	December 28, 2019	December 29, 2018
Net sales	100.0 %	100.0 %
Cost of goods sold	85.6	86.8
Gross profit	14.4	13.2
Selling, general, and administrative expenses	9.2	8.8
Net gain on disposition and impairment of assets	—	(0.1)
Earnings from operations	5.1	4.6
Other expense, net	0.1	0.2
Earnings before income taxes	5.0	4.4
Income taxes	1.2	1.0
Net earnings	3.8	3.4
Less net earnings attributable to noncontrolling interest	(0.1)	(0.1)
Net earnings attributable to controlling interest	3.8 %	3.3 %

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The following table presents, for the periods included, our selling, general, and administrative (SG&A) costs as a percentage of gross profit. Given our strategies to enhance our capabilities and improve our value-added product offering and recognizing the higher relative level of SG&A costs these strategies require, we believe this ratio provides an enhanced view of our effectiveness in managing these costs and mitigates the impact of changing lumber prices.

	SG&A as a Percentage of Gross Profit	
	Year Ended	
	December 28, 2019	December 29, 2018
Gross profit	685,518	592,894
Selling, general, and administrative expenses	439,047	392,235
SG&A as percentage of gross profit	64.0%	66.2%

GROSS SALES

We primarily 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, customized interior fixtures used in a variety of retail stores, commercial and other structures, and specialty wood packaging, components and other packing materials for various industries. Our strategic long-term sales objectives include:

- Maximizing unit sales growth while achieving return on investment goals
- Diversifying our end market sales mix by increasing sales of specialty wood and protective packaging to industrial users, increasing our penetration of the concrete forming market, increasing our sales of engineered wood components for custom home, multi-family, military and light commercial construction, increasing our market share with independent retailers, and increasing our sales of customized interior fixtures, casework and millwork used in a variety of commercial markets.
- Expanding geographically in our core businesses, domestically and internationally.
- Increasing sales of "value-added" products, which primarily consist of fencing, decking, lattice, and other specialty products sold to the retail market, specialty wood packaging, engineered wood components, customized interior fixtures, casework and millwork, 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, preservative treated lumber is not presently included in the value-added sales, unless it has been processed in another manner.

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.

	Value-Added	Commodity-Based
2019	69.1 %	30.9 %
2018	64.4 %	35.6 %

- Developing new products and expanding our product offering. New product sales are presented by market in the table below (in thousands).

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<u>Market Classification</u>	<u>New Product Sales by Market</u>		
	<u>Twelve Months Ended</u>		
	<u>December 28,</u> <u>2019</u>	<u>%</u> <u>Change</u>	<u>December 29,</u> <u>2018</u>
Retail	\$ 361,954	14.5	\$ 316,017
Industrial	97,765	11.0	88,063
Construction	80,067	6.5	75,173
Total New Product Sales	<u>539,786</u>	12.6	<u>479,253</u>

Note: Certain prior year product reclassifications resulted in a decrease and increase in new product sales in 2018.

Our annual goal for 2019 was to achieve new product sales of \$525 million. The definition we use for a new product includes sales of products developed and launched in a previous year that are continuing to increase each year. We remove new products from the reporting above in the year following when growth in sales has stopped.

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

<u>Market Classification</u>	<u>Year Ended</u>		
	<u>December 28,</u> <u>2019</u>	<u>%</u> <u>Change</u>	<u>December 29,</u> <u>2018</u>
	Retail	\$ 1,638,885	(1.2)
Industrial	1,329,245	1.7	1,307,350
Construction	<u>1,524,053</u>	(4.7)	<u>1,598,896</u>
Total Gross Sales	4,492,183	(1.6)	4,565,749
Sales Allowances	<u>(76,174)</u>	(0.5)	<u>(76,569)</u>
Total Net Sales	<u>\$ 4,416,009</u>	(1.6)	<u>\$ 4,489,180</u>

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

The following table presents estimates, for the periods indicated, of our percentage change in gross sales which were attributable to changes in overall selling prices versus changes in units shipped.

	<u>% Change</u>				
	<u>in Sales</u>	<u>in Selling</u> <u>Prices</u>	<u>in Units</u>	<u>Acquisition</u> <u>Unit</u> <u>Change</u>	<u>Organic</u> <u>Unit</u> <u>Change</u>
2019 versus 2018	(1.6)%	(7.9)%	6.3 %	1.5 %	4.8 %
2018 versus 2017	14.0 %	8.0 %	6.0 %	3.0 %	3.0 %

Retail:

Gross sales to the retail market decreased 1% in 2019 compared to 2018 due to a 7% increase in unit sales and an 8% decrease in selling prices. Within this market, sales to our big box customers increased 5% while our sales to other retailers decreased 10%. Comparatively, our large retail customers reported year over year store sales growth of approximately 3% during the first nine months of 2019, the latest information available to us. New products and market share gains we achieved, including our Deckorators product category with one of our big box customers, contributed to our 7% organic unit sales growth.

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See Notes to Consolidated Financial Statements, Note C, "Business Combinations" for additional information concerning acquired businesses.

Industrial:

Gross sales to the industrial market increased 2% in 2019 compared to 2018, resulting from a 7% increase in overall unit sales offset by a 5% decrease in selling prices. Businesses we acquired contributed 5% to our growth in unit sales. Our organic unit sales growth of 2% was primarily due to adding \$15 million of sales to new customers in 2019 (net of customers that we sold to in the prior year that we did not sell to this year) and \$26 million of sales added from selling to additional locations of existing customers.

See Notes to Consolidated Financial Statements, Note C, "Business Combinations" for additional information concerning acquired businesses.

Construction:

Gross sales to the construction market decreased 5% in 2019 compared to 2018, due to a 10% decrease in selling prices offset by a unit sales increase of 5%. Unit sales increased due to a 5% increase in units shipped to residential construction customers and an 11% increase in unit sales to commercial construction customers, while unit sales to manufactured housing customers remained flat. Comparatively, the *United States Census Bureau* reported year over year national housing starts increased 3% and the commercial construction market was flat compared to last year. The *National Association of Home Builders* reported industry production of HUD-code homes decreased 3%.

COST OF GOODS SOLD AND GROSS PROFIT

Our gross profit percentage increased from 13.2% in 2018 to 15.5% in 2019 due, in part, to the low lumber prices in 2019, which we believe contributed 110 basis points of the 230 basis-point increase. We believe the remaining 120 basis point increase reflects improvements we have made in our business and profitability. The improvement in our profitability is also evident when comparing our increase in gross profits compared with our increase in units shipped. Our gross profit dollars increased by nearly \$93 million, or 15.6%, which exceeds our 6% increase in unit sales. Factors contributing to our improved profitability include a more favorable sales mix of value added products, including new products, the impact of lower lumber costs on products we sell with fixed prices, and organic growth combined with leveraging fixed manufacturing costs. Gross profit increases by market area are as follows:

- A \$32 million, or 20%, increase in our gross profit on sales to the retail market, primarily driven by a 7% increase in unit sales and an increase in value-added and new product sales, which include sales of our Deckorators branded products.
- A \$43 million, or 22%, increase in our gross profit on sales to the industrial market, primarily driven by a 7% increase in unit sales, favorable changes in product mix, and lower lumber costs in 2019 as most products sold to this market have fixed selling prices for a period of time.
- An \$8 million, or 3%, increase in gross profit on sales to the construction market, primarily driven by unit growth in the residential construction market and the impact of lower lumber costs on products we sell with fixed selling prices. These factors were offset by \$13 million of losses incurred on a small number of construction projects.
- The remaining \$10 million increase in our gross profit was due to a variety of factors including favorable labor and overhead cost variances in certain areas of our business.

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SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses increased by approximately \$46.8 million, or 11.9%, in 2019 compared to 2018, while we reported a 6% increase in unit sales. Acquired businesses contributed \$7.2 million to our increase. The remaining increase in SG&A was primarily due to:

- A \$21 million increase in our annual bonus expense to almost \$69 million in 2019 due to an increase in our bonus rate and an increase in operating profit. Our bonus rate is tied to return on investment, which increased in 2019.
- An \$8.1 million increase in compensation and benefit costs resulting primarily from annual raises and hiring additional personnel to support sales growth.
- A \$3.5 million increase in sales and other incentive compensation.
- A \$3 million increase in marketing costs mostly related to our Deckorators branded product.
- A variety of other smaller increases.

INTEREST, NET

Net interest costs were lower in 2019 compared to 2018, due to a lower outstanding balance on our revolving line of credit throughout 2019 and a decrease in variable borrowing rates.

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 24.2% in 2019 compared to 23.0% in 2018. The increase was primarily due to recording certain discrete tax benefits in 2018 related to state income taxes, which lowered the effective tax rate last year.

SEGMENT REPORTING

The following tables present, for the periods indicated, our net sales and earnings from operations by reportable segment (in thousands).

	Net Sales		
	December 28, 2019	December 29, 2018	% Change 2019 vs 2018
North	\$ 1,302,067	\$ 1,279,459	1.8 %
South	936,964	1,024,747	(8.6)
West	1,548,098	1,599,274	(3.2)
All Other	628,880	585,700	7.4
Total	\$ 4,416,009	\$ 4,489,180	(1.6)%

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	Earnings from Operations		
	December 28, 2019	December 29, 2018	% Change 2019 vs 2018
North	\$ 95,728	\$ 66,239	44.5 %
South	64,517	60,049	7.4
West	118,444	103,357	14.6
All Other	8,913	6,779	31.5
Corporate ¹	(42,696)	(29,161)	(46.4)
Total	\$ 244,906	\$ 207,263	18.2 %

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

North

Market Classification	Net Sales of North Segment by Market		
	Twelve Months Ended		
	December 28, 2019	December 29, 2018	% Change 2019 vs 2018
Retail	\$ 557,491	\$ 541,105	3.0 %
Industrial	247,985	215,882	14.9
Construction	522,223	550,200	(5.1)
Total Gross Sales	1,327,699	1,307,187	1.6 %
Sales Allowances	(25,632)	(27,728)	7.6
Total Net Sales	\$ 1,302,067	\$ 1,279,459	1.8 %

In spite of lower lumber prices, net sales attributable to the North segment increased by \$22.6 million, or 1.8%, due primarily to the following factors:

- An increase in unit sales to retail customers due to organic growth with existing customers.
- An increase in unit sales to industrial customers due to acquired operations, which contributed \$21 million of growth, new customer growth, and selling to more locations of existing customers.
- These increases were offset by a decline in sales to our manufactured housing customers.

Earnings from operations of the North segment increased in 2019 by \$29.4 million, or 44.5%, due to:

- An increase in gross profit of \$43.2 million, primarily consisting of increases of \$11.8 million, \$11.7 million, and \$12 million in our retail, industrial, and construction market gross profits, respectively, and \$7.7 million of favorable labor and overhead cost variances. These changes in gross profits are primarily due to the same factors discussed "Cost of Goods Sold and Gross Profits".
- A \$13.8 million increase in SG&A expenses compared to last year. The change in SG&A expenses was primarily due to the same factors discussed under "Selling, General, and Administrative Expenses".

In addition, earnings from operations of acquired operations was \$1.9 million in 2019.

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South

<u>Market Classification</u>	Net Sales of South Segment by Market		
	Twelve Months Ended		
	December 28, 2019	December 29, 2018	% Change 2019 vs 2018
Retail	\$ 390,031	\$ 440,701	(11.5)%
Industrial	384,894	390,533	(1.4)
Construction	180,742	213,000	(15.1)
Total Gross Sales	955,667	1,044,234	(8.5)%
Sales Allowances	(18,703)	(19,487)	4.0
Total Net Sales	\$ 936,964	\$ 1,024,747	(8.6)%

Net sales attributable to the South segment decreased by \$88 million, or 8.6%, in 2019, primarily due to:

- Lower lumber prices decreased our selling prices of products sold to the retail, industrial, and construction markets, which primarily consist of or are manufactured from lumber.
- An increase in unit sales to the industrial market due to acquired operations, which contributed \$37 million of growth, offset by a decline in demand of existing customers.

Earnings from operations of the South segment increased in 2019 compared to 2018. Excluding the gain from the sale of our Medley, Florida, plant in 2018, our earnings from operations increased \$11.2 million due to:

- An increase in gross profits of \$20.7 million, comprised of increases of \$5.4 million, \$15.1 million, and \$3.3 million in our retail, industrial, and construction market gross profits, respectively, offset by \$3.1 million of unfavorable labor and overhead cost variances. These changes in gross profits are primarily due to the same factors discussed "Cost of Goods Sold and Gross Profits".
- A \$9.7 million increase in SG&A expenses compared to last year. The change in SG&A expenses was primarily due to the same factors discussed under "Selling, General, and Administrative Expenses".

West

<u>Market Classification</u>	Net Sales of West Segment by Market		
	Twelve Months Ended		
	December 28, 2019	December 29, 2018	% Change 2019 vs 2018
Retail	\$ 471,104	\$ 477,134	(1.3)%
Industrial	553,495	561,701	(1.5)
Construction	545,744	582,697	(6.3)
Total Gross Sales	1,570,343	1,621,532	(3.2)%
Sales Allowances	(22,245)	(22,258)	0.1
Total Net Sales	\$ 1,548,098	\$ 1,599,274	(3.2)%

Net sales of the West reportable segment decreased by \$51.2 million, or 3.2%, in 2019, primarily due to:

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- Lower lumber prices decreased our selling prices.
- An increase in unit sales to the retail market due to acquired operations, which contributed \$6 million of growth, and an increase in demand of existing customers.
- An increase in unit sales to the industrial market due to organic growth of value-added products with existing customers.
- An increase in unit sales to the construction market due to new customers in our Texas region.

Earnings from operations of the West segment increased in 2019 by \$15.1 million, or 14.6%, due to:

- An increase in gross profit of \$26.3 million, comprised of increases of \$4.8 million and \$16.4 million to the retail and industrial markets, respectively, and \$5.1 million of favorable labor and overhead cost variances. These changes in gross profits are primarily due to the same factors discussed "Cost of Goods Sold and Gross Profits".
- An \$11.2 million increase in SG&A expenses compared to last year. The change in SG&A expenses was primarily due to the same factors discussed under "Selling, General, and Administrative Expenses".

All Other

<u>Market Classification</u>	<u>Net Sales of All Other Segment by Market</u>		
	<u>Twelve Months Ended</u>		
	<u>December 28,</u>	<u>December 29,</u>	<u>% Change</u>
	<u>2019</u>	<u>2018</u>	<u>2019 vs 2018</u>
Retail	\$ 220,259	\$ 200,562	9.8 %
Industrial	142,871	139,237	2.6
Construction	275,156	252,999	8.8
Total Gross Sales	638,286	592,798	7.7 %
Sales Allowances	(9,406)	(7,098)	(32.5)
Total Net Sales	\$ 628,880	\$ 585,700	7.4 %

Note that prior years have been restated to reflect the reclassification of captive insurance external revenue from the sales allowances line item into the industrial market. In addition, we reclassified idX from industrial to the construction market to better align idX's core business, design, manufacture, distribution and installation of customized interior fixtures for a variety of retail and commercial structures, with the commercial construction market. The reclassification was recorded retrospectively.

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

Net sales of all other segments increased \$43.2 million, or 7.4%, in 2019 primarily due to:

- An increase in sales to the retail market primarily due to a market share gain our Alternative Materials segment achieved with our Deckorators branded product with one of our big box customers.
- Our sales to the construction market increased primarily due to our idX business unit.

Earnings from operations for the All Other reportable segment increased in 2019 by \$2.1 million, or 31.5%, due to an increase in gross profit of \$5.7 million, offset by a \$3.6 million increase in SG&A expenses compared to last year.

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OFF-BALANCE SHEET COMMITMENTS AND CONTRACTUAL OBLIGATIONS

We have no significant off-balance sheet commitments other than operating leases. The following table summarizes our contractual obligations as of December 28, 2019 (in thousands).

Contractual Obligation	Payments Due by Period				Total
	Less than 1 Year	1 – 3 Years	3 – 5 Years	After 5 Years	
Long-term debt and capital lease obligations	\$ 2,752	\$ 38,705	\$ 43,953	\$ 78,273	\$ 163,683
Estimated interest on long-term debt and capital lease obligations	6,376	12,534	9,641	14,346	42,897
Operating leases	17,633	27,698	18,282	29,115	92,728
Capital project purchase obligations	33,806	—	—	—	33,806
Total	\$ 60,567	\$ 78,937	\$ 71,876	\$ 121,734	\$ 333,114

As of December 28, 2019, we also had \$37.3 million in outstanding letters of credit issued during the normal course of business, as required by some vendor contracts.

LIQUIDITY AND CAPITAL RESOURCES

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

	December 28, 2019	December 29, 2018
Cash from operating activities	349,291	116,685
Cash used in investing activities	(142,037)	(121,232)
Cash from (used in) financing activities	(67,268)	4,393
Effect of exchange rate changes on cash	482	(464)
Net change in cash and cash equivalents	140,468	(618)
Cash, cash equivalents, and restricted cash, beginning of year	28,198	28,816
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 168,666</u>	<u>\$ 28,198</u>

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 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 these financial ratios are among many other important factors to maintaining a strong credit profile, which in turn helps ensure timely access to capital when needed.

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

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Due to the seasonality of our business and the effects of the Lumber Market, we believe our cash cycle (days sales are outstanding plus days supply of inventory less days payables are outstanding) is a good indicator of our working capital management. As indicated in the table below, our cash cycle increased to 56 days in 2019 from 54 days in 2018.

	Twelve Months Ended	
	December 28, 2019	December 29, 2018
Days of sales outstanding	33	32
Days supply of inventory	44	43
Days payables outstanding	(21)	(21)
Days in cash cycle	56	54

The increase in our days' supply of inventory was primarily due to opportunistic lumber purchases in the fourth quarter of 2018 of product that was sold in the first six months of 2019 and contributed to our improved profitability.

Our cash flows from operating activities in 2019 was \$349.3 million, which was comprised of net earnings of \$182.4 million, \$77 million of non-cash expenses, and an \$89.8 million decrease in working capital since the end of December 2018. Comparatively, cash generated from operating activities was approximately \$116.7 million in 2018, which was comprised of net earnings of \$152.4 million, \$61.1 million of non-cash expenses, and a \$96.8 million increase in working capital since the end of 2017. The trends in working capital discussed above were primarily due to opportunistic purchases of lumber purchases in the fourth quarter of 2018 as well as higher lumber prices in 2018 which declined in 2019. Non-cash expenses increased primarily due to depreciation and deferred income taxes.

Our cash used in investing activities during 2019 was \$142 million, which was comprised primarily of purchases of property, plant, and equipment totaling \$84.9 million, business acquisitions totaling \$39.1 million, and investments in life insurance contracts totaling \$15.2 million. The decrease in our capital expenditures in 2019 was primarily due to extended lead times with contractors and equipment suppliers on capital projects. Consequently, our outstanding purchase commitments on existing capital projects totaled approximately \$34 million on December 28, 2019. Our capital expenditures primarily consist of "maintenance" capital expenditures totaling approximately \$54.2 million, as well as "expansionary and efficiency" capital expenditures tied to initiatives including adding capacity in South Florida to replace the Medley plant we sold last year, expanding our capacity to produce new and valued value-added products, and automation. We also purchased real estate and equipment for geographic expansion. The sale and purchase of investments totaling \$9.8 million and \$13.3 million, respectively, are due to investment activity in our captive insurance subsidiary.

In 2018, investments in business acquisitions and purchases of property, plant, and equipment were \$54 million and \$95.9 million, respectively, and proceeds from the sale of property, plant and equipment were \$38.4 million, primarily due to the sale of the Medley, FL, plant for \$36 million. Outstanding purchase commitments on existing capital projects totaled approximately \$14.3 million on December 29, 2018.

Cash flows from financing activities primarily consisted of \$422.1 million of borrowings under the revolving credit facilities (See Notes to Consolidated Financial Statements "Debt"), repayments under these facilities of approximately \$460.1 million, and \$24.5 million in dividend payments. We paid semi-annual dividends in June and December of 2019 at a semi-annual rate of \$0.20 per share. Comparatively in 2018, cash flows from financing activities primarily consisted of \$75 million in proceeds from the issuance of Senior A and B Notes, net borrowings under our revolving credit facility of approximately \$16.1 million, \$22.1 million in dividend payments at a semi-annual rate of \$0.18 per share, and \$24.6 million of stock repurchases at an average price of \$28.62 per share.

On November 1, 2018, we entered into a five-year, \$375 million unsecured revolving credit facility with a syndicate of U.S. and Canadian banks led by JPMorgan Chase Bank, N.A., as administrative agent and Wells Fargo Bank, N.A., as syndication agent. The facilities include up to \$40 million which may be advanced in the form of letters of credit, and up

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to \$100 million (U.S. dollar equivalent) which may be advanced in Canadian dollars, Australian dollars, pounds Sterling, Euros and such other foreign currencies as may subsequently be agreed upon among the parties. This facility replaced our \$295 million unsecured revolving credit facility.

On December 28, 2019, we had \$4 million outstanding on our \$375 million revolving credit facility. The revolving credit facility also supports letters of credit totaling approximately \$9.8 million on December 28, 2019. As a result, we have approximately \$361 million in remaining availability on our revolver. Additionally, we have \$150 million in availability under a "shelf agreement" for long term debt with a current lender. Financial covenants on the unsecured revolving credit facility and unsecured notes include minimum interest tests and a maximum leverage ratio. The 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 December 28, 2019.

ENVIRONMENTAL CONSIDERATIONS AND REGULATIONS

See Notes to Consolidated Financial Statements, Note L, "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. Following is a summary of our more significant accounting policies that require the use of estimates and judgments in preparing the financial statements.

GOODWILL

We evaluate goodwill for indicators of impairment when events or circumstances indicate that this risk may be present. Our judgments regarding the existence of impairment are based on market conditions, operational performance and estimated future cash flows. Determining whether an impairment has occurred requires the valuation of the respective reporting unit, which the Company has consistently estimated using primarily a weighted average between income and market approach. The Company believes this approach is the most appropriate and accurate method to measure the fair value of our intangible assets. We use the discounted cash flow analysis with the following assumption: a business is worth today what it can generate in future cash flows; cash received today is worth more than an equal amount of cash received in the future; and future cash flows can be reasonably estimated. The discounted cash flow analysis is based on the present value of projected cash flows and residual values.

As our annual testing date of September 28, 2019, the fair values exceed the carrying values for each of the Company's reporting units.

If the carrying value of goodwill is considered impaired, an impairment charge is recorded to adjust it to its fair value. Changes in forecasted operations and changes in discount rates can materially affect these estimates. In addition, we test goodwill annually for impairment or more frequently if changes in circumstances or the occurrence of other events suggest impairments exist. The test for impairment requires us to make several estimates about fair value, most of which are based on projected future cash flows and market valuation multiples. Changes in these estimates may result in the recognition of an impairment loss.

For 2019, there were no indicators for impairment for any of the reporting units, but we continue to monitor the results of the idX reporting unit. They have performed below expectations through year-end; however, management believes the long-term projection for idX is still reasonable and attainable. While the risk of impairment exists, management does not

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feel an impairment is necessary. Should the Company's future analysis indicate a significant change in any of the triggering events for this reporting unit, it could result in impairment of the carrying value of goodwill to its implied fair value. There can be no assurance that the Company's future goodwill impairment testing will not result in a charge to earnings. The goodwill and identifiable intangibles of the idX reporting unit total \$10.3 million and \$4.5 million, respectively, on September 28, 2019.

REVENUE RECOGNITION

Revenue for product sales is recognized at the time the performance obligation is satisfied, which is primarily when the goods are delivered to the carrier, Free On Board (FOB) shipping point. 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.

Performance on construction contracts is reflected in operations using percentage-of-completion accounting, under either the 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 per the contract. Revisions in earnings estimates on the construction contracts are recorded in the accounting period in which the basis for such revisions becomes known. Projected losses on individual contracts are charged to operations in their entirety when such losses become apparent.

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

FORWARD OUTLOOK

GOALS

The Company's goal is to achieve long-term unit sales growth that exceeds positive U.S. GDP growth by 4 percent to 6 percent, including business acquisitions.

Our general long-term objectives also include:

- Achieving sales growth primarily through new product introduction, international business expansion, and gaining additional market share, particularly in our core retail, industrial and commercial construction markets;
- Identifying new growth opportunities in businesses with adjacencies to our core businesses, primarily through strategic business acquisitions;
- Increasing our profitability through cost reductions, productivity improvements as volume improves, and a more favorable mix of value-added products resulting in growth in earnings from operations in excess of our unit sales growth; and
- Earning a return on invested capital in excess of our weighted average cost of capital.

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Under our new structure starting January 1, 2020, the Company will be re-organized around the markets it serves (retail, construction, and industrial) rather than geography. We believe this change in segmentation will, among other factors, allow for a more specialized and consistent sales approach among all Universal operations, more efficient use of resources and capital, and quicker introduction of new products and services, which will enhance our ability to achieve the long term objectives noted above.

RETAIL MARKET

The Home Improvement Research Institute (“HIRI”) anticipates growth in home improvement spending and has forecasted a 2.7% compounded annual growth rate through 2023.

We continue to compete for market share for certain retail customers and face intense pricing pressure from other suppliers to this market.

Our long-term goal is to achieve sales growth by:

- Increasing our market share of value-added products, including our Deckorators product line.
- Developing new products.
- Adding new products and customers through strategic business acquisitions or alliances.
- Increasing our emphasis on product innovation and product differentiation in order to counter commoditization trends and influences.

INDUSTRIAL MARKET

Our goal is to increase our sales of wood, wood alternative, and other packaging products to a wide variety of industrial and OEM users. We believe the vast amount of hardwood and softwood lumber consumed for industrial applications, combined with the highly fragmented nature of this market, provides us with growth opportunities as a result of our competitive advantages in manufacturing, purchasing, and material utilization. In addition, purchasers of packaging products with a wide geographic footprint increasingly desire to reduce the number of suppliers they buy from, which provides an opportunity to gain market share due to our national presence. We plan to continue to obtain market share by expanding our manufacturing capacity, enhancing our capabilities and product offerings, and improving our ability to serve large regional and national customers in targeted markets. We plan to pursue acquisition opportunities that meet our strategic criteria and help us meet these objectives.

CONSTRUCTION MARKET

The *National Association of Home Builders* forecasts a 13.8% increase in manufactured home shipments in 2020 followed by an 11.2% increase in 2021. We currently supply approximately 40% of the trusses used in manufactured housing and we will strive to maintain our market share of trusses produced for this market.

The *Mortgage Bankers Association of America* forecasts a 3.3% increase in national housing starts to an estimated 1.3 million starts in 2020. The *National Association of Home Builders* forecasts starts of 1.3 million, a 1.6% increase from 2019. We believe we are well-positioned to capture our share of any increase that may occur in housing starts in the regions we operate, which is primarily Texas, Colorado, the Southeast, and the Northeast. However, due to our conservative approach to adding capacity to serve this market and focus on managing potential channel conflicts with certain customers, our growth may trail the market in future years.

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GROSS PROFIT

We believe the following factors may impact our gross profits and margins in the future:

- End market demand and our ability to grow and leverage fixed costs.
- Our ability to maintain market share and gross margins on products sold to our largest customers. We believe our level of service, geographic diversity, and quality of products provides an added value to our customers. However, if our customers are unwilling to pay for these advantages, our sales and gross margins may be reduced.
- Sales mix of value-added and commodity products.
- Fluctuations in the relative level of the Lumber Market and trends in the market price of lumber. (See "Impact of the Lumber Market on our Operating Results.")
- Fuel and transportation costs.
- Rising labor and benefit costs.
- Our ability to continue to achieve productivity improvements as our unit sales increase and planned cost reductions through continuous improvement activities, automation, and other initiatives.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

In recent years, selling, general and administrative (SG&A) expenses have increased as we have added personnel needed to take advantage of growth opportunities and execute our initiatives intended to increase our sales of new products and improve our sales mix of value-added products. We anticipate our trend of increases in these costs will continue in 2020; however, our objective is to reduce these costs on a per unit basis and as a percentage of gross profits as we grow through the improved productivity of our people and as a result of fixed costs. In addition, bonus and other incentive expenses for all salaried and sales employees is based on our profitability and the effective management of our assets and will continue to fluctuate based on our results.

On a long-term basis, we expect that our SG&A expenses will primarily be impacted by:

- Our growth in sales to the industrial market and the construction market. Our sales to these markets require a higher ratio of SG&A costs due, in part, to product design and engineering requirements.
- Sales of new products and value-added products to the retail market, which generally require higher development, marketing, advertising, and other selling costs.
- Our incentive compensation programs which are tied to gross profits, pre-bonus earnings from operations and return on investment.
- Our growth and success in achieving continuous improvement objectives designed to improve our productivity and leverage our fixed costs.

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LIQUIDITY AND CAPITAL RESOURCES

Our cash cycle will continue to be impacted in the future by our mix of sales by market. Sales to the residential and commercial construction and industrial markets require a greater investment in working capital (inventory and accounts receivable) than our sales to the retail and manufactured housing markets. Additionally, our investment in trade receivables and inventory will continue to be impacted by the level of lumber prices.

Additionally, management expects to spend approximately \$100 million on capital expenditures, incur depreciation of approximately \$65 million, and incur amortization and other non-cash expenses of approximately \$11 million in 2020.

On December 28, 2019, we had outstanding purchase commitments on capital projects of approximately \$34 million. We intend to fund capital expenditures and purchase commitments through our operating cash flows and availability under our revolving credit facility which is considered sufficient to meet these commitments and working capital needs.

In January 2020, our Board approved a plan to increase the frequency of our dividend payments from semi-annually to quarterly and increased the pro-rata rate by 25%. Our dividend rates are reviewed and approved at each of our January, April, July, and October board meetings and payments are made in March, June, September, and December of each year.

We have a share repurchase program approved by our Board of Directors, and as of December 28, 2019, we have authorization to buy back approximately 1.9 million shares. In the past, we have repurchased shares in order to offset the effect of issuances resulting from our employee benefit plans and at opportune times when our stock price falls to predetermined levels.

Management's Report on Internal Control Over Financial Reporting

The management of Universal Forest Products, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system was designed to provide reasonable assurance to us and the Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We assessed the effectiveness of our internal control over financial reporting as of December 28, 2019, based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) ("COSO"). Based on that evaluation, management has concluded that as of December 28, 2019, our internal control over financial reporting was effective.

The effectiveness of the Company's internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which follows our report.

Universal Forest Products, Inc.

February 26, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Universal Forest Products, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Universal Forest Products, Inc. and subsidiaries (the “Company”) as of December 28, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 28, 2019, of the Company and our report dated February 26, 2020, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Grand Rapids, Michigan
February 26, 2020

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Universal Forest Products, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Universal Forest Products, Inc. and subsidiaries (the "Company") as of December 28, 2019 and December 29, 2018, the related consolidated statements of earnings and comprehensive income, shareholders' equity, and cash flows, for each of the three years in the period ended December 28, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 28, 2019 and December 29, 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 28, 2019, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 28, 2019, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

Critical audit matters are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Deloitte & Touche LLP

Grand Rapids, Michigan
February 26, 2020

We have served as the Company's auditor since 2014.

UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	<u>December 28,</u> <u>2019</u>	<u>December 29,</u> <u>2018</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 168,336	\$ 27,316
Restricted cash	330	882
Investments	18,527	14,755
Accounts receivable, net	364,027	343,450
Inventories:		
Raw materials	236,283	271,871
Finished goods	250,591	284,349
Total inventories	486,874	556,220
Refundable income taxes	13,272	14,130
Other current assets	41,706	38,525
TOTAL CURRENT ASSETS	1,093,072	995,278
DEFERRED INCOME TAXES	2,763	2,668
RESTRICTED INVESTMENTS	16,214	13,267
RIGHT OF USE ASSETS	80,167	—
OTHER ASSETS	24,884	8,662
GOODWILL	229,536	224,117
INDEFINITE-LIVED INTANGIBLE ASSETS	7,354	7,360
OTHER INTANGIBLE ASSETS, NET	48,313	41,486
PROPERTY, PLANT AND EQUIPMENT:		
Land and improvements	125,097	120,324
Building and improvements	253,589	239,906
Machinery and equipment	467,963	419,115
Furniture and fixtures	16,972	16,960
Construction in progress	21,342	18,340
PROPERTY, PLANT AND EQUIPMENT, GROSS	884,963	814,645
Less accumulated depreciation and amortization	(497,789)	(459,935)
PROPERTY, PLANT AND EQUIPMENT, NET	387,174	354,710
TOTAL ASSETS	\$ 1,889,477	\$ 1,647,548
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Cash overdraft	\$ —	\$ 27,367
Accounts payable	142,479	136,901
Accrued liabilities:		
Compensation and benefits	141,892	104,109
Other	51,572	41,645
Current portion of lease liability	15,283	—
Current portion of long-term debt	2,816	148
TOTAL CURRENT LIABILITIES	354,042	310,170
LONG-TERM DEBT	160,867	202,130
LEASE LIABILITY	64,884	—
DEFERRED INCOME TAXES	22,880	15,687
OTHER LIABILITIES	29,071	30,877
TOTAL LIABILITIES	631,744	558,864
SHAREHOLDERS' EQUITY:		
Controlling interest shareholders' equity:		
Preferred stock, no par value; shares authorized 1,000,000; issued and outstanding, none	\$ —	\$ —
Common stock, \$1 par value; shares authorized 80,000,000; issued and outstanding, 61,408,589 and 60,883,749	61,409	60,884
Additional paid-in capital	192,173	178,540
Retained earnings	995,022	839,917
Accumulated other comprehensive income	(4,889)	(5,938)
Total controlling interest shareholders' equity	1,243,715	1,073,403
Noncontrolling interest	14,018	15,281
TOTAL SHAREHOLDERS' EQUITY	1,257,733	1,088,684
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,889,477	\$ 1,647,548

See notes to consolidated financial statements.

UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME

(in thousands, except per share data)

	Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
NET SALES	\$ 4,416,009	\$ 4,489,180	\$ 3,941,182
COST OF GOODS SOLD	3,730,491	3,896,286	3,398,356
GROSS PROFIT	685,518	592,894	542,826
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	439,047	392,235	362,220
NET (GAIN) LOSS ON DISPOSITION OF ASSETS AND IMPAIRMENT OF ASSETS	1,565	(6,604)	(863)
EARNINGS FROM OPERATIONS	244,906	207,263	181,469
INTEREST EXPENSE	8,700	8,893	6,218
INTEREST INCOME	(1,945)	(1,371)	(731)
UNREALIZED LOSS (GAIN) ON INVESTMENTS AND OTHER	(2,523)	1,888	(25)
	4,232	9,410	5,462
EARNINGS BEFORE INCOME TAXES	240,674	197,853	176,007
INCOME TAXES	58,270	45,441	51,967
NET EARNINGS	182,404	152,412	124,040
LESS NET EARNINGS ATTRIBUTABLE TO NONCONTROLLING INTEREST	(2,754)	(3,814)	(4,528)
NET EARNINGS ATTRIBUTABLE TO CONTROLLING INTEREST	\$ 179,650	\$ 148,598	\$ 119,512
EARNINGS PER SHARE - BASIC	\$ 2.91	\$ 2.41	\$ 1.95
EARNINGS PER SHARE - DILUTED	\$ 2.91	\$ 2.40	\$ 1.94
OTHER COMPREHENSIVE INCOME:			
NET EARNINGS	182,404	152,412	124,040
OTHER COMPREHENSIVE GAIN (LOSS)	1,513	(5,076)	6,130
COMPREHENSIVE INCOME	183,917	147,336	130,170
LESS COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST	(3,218)	(3,873)	(4,884)
COMPREHENSIVE INCOME ATTRIBUTABLE TO CONTROLLING INTEREST	\$ 180,699	\$ 143,463	\$ 125,286

See notes to consolidated financial statements.

UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except share and per share data)

	Controlling Interest Shareholders' Equity					Total
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Noncontrolling Interest	
Balance at December 31, 2016	\$ 61,026	\$ 144,649	\$ 649,135	\$ (5,630)	\$ 11,286	\$ 860,466
Net earnings			119,512		4,528	124,040
Foreign currency translation adjustment				5,070	356	5,426
Unrealized gain (loss) on investment & foreign currency				704		704
Distributions to noncontrolling interest					(4,032)	(4,032)
Additional purchase of noncontrolling interest					2,409	2,409
Cash dividends - \$0.150 & \$0.170 per share - semiannually			(19,607)			(19,607)
Issuance of 23,691 shares under employee stock plans	24	637				661
Issuance of 428,622 shares under stock grant programs	429	5,769				6,198
Issuance of 159,108 shares under deferred compensation plans	159	(159)				—
Repurchase of 445,740 shares	(446)	297	(12,828)			(12,977)
Expense associated with share-based compensation arrangements		3,618				3,618
Accrued expense under deferred compensation plans		7,117				7,117
Balance at December 30, 2017	\$ 61,192	\$ 161,928	\$ 736,212	\$ 144	\$ 14,547	\$ 974,023
Net earnings			148,598		3,814	152,412
Foreign currency translation adjustment				(4,973)	59	(4,914)
Unrealized gain (loss) on investment & foreign currency			947	(1,109)		(162)
Distributions to noncontrolling interest					(3,139)	(3,139)
Cash dividends - \$0.180 per share - semiannually			(22,072)			(22,072)
Issuance of 37,794 shares under employee stock plans	38	988				1,026
Issuance of 348,208 shares under stock grant programs	348	4,827				5,175
Issuance of 166,528 shares under deferred compensation plans	167	(167)				—
Repurchase of 860,669 shares	(861)		(23,768)			(24,629)
Expense associated with share-based compensation arrangements		3,379				3,379
Accrued expense under deferred compensation plans		7,585				7,585
Balance at December 29, 2018	\$ 60,884	\$ 178,540	\$ 839,917	\$ (5,938)	\$ 15,281	\$ 1,088,684
Net earnings			179,650		2,754	182,404
Foreign currency translation adjustment				568	464	1,032
Unrealized gain on debt securities				481		481
Distributions to noncontrolling interest					(2,143)	(2,143)
Additional purchase of noncontrolling interest		(4,737)			(2,338)	(7,075)
Cash dividends - \$0.200 per share - semiannually			(24,549)			(24,549)
Issuance of 33,647 shares under employee stock plans	34	1,059				1,093
Issuance of 309,628 shares under stock grant programs	310	5,654	4			5,968
Issuance of 181,565 shares under deferred compensation plans	181	(181)				—
Expense associated with share-based compensation arrangements		3,843				3,843
Accrued expense under deferred compensation plans		7,995				7,995
Balance at December 28, 2019	\$ 61,409	\$ 192,173	\$ 995,022	\$ (4,889)	\$ 14,018	\$ 1,257,733

See notes to consolidated financial statements

UNIVERSAL FOREST PRODUCTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 182,404	\$ 152,412	\$ 124,040
Adjustments to reconcile net earnings to net cash from operating activities:			
Depreciation	60,494	54,949	48,536
Amortization of intangibles	6,325	6,393	4,860
Expense associated with share-based and grant compensation arrangements	4,007	3,574	3,805
Deferred income taxes credits	7,176	857	(8,629)
Unrealized (gain) loss on investments	(2,523)	1,888	(25)
Net (gain) loss on disposition of assets and impairment of assets	1,565	(6,604)	(863)
Changes in:			
Accounts receivable	(16,872)	(8,512)	(30,787)
Inventories	73,120	(84,304)	(49,262)
Accounts payable and cash overdraft	(24,132)	(5,213)	21,159
Accrued liabilities and other	57,727	1,245	23,749
NET CASH PROVIDED BY OPERATING ACTIVITIES	349,291	116,685	136,583
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(84,933)	(95,862)	(71,116)
Proceeds from sale of property, plant and equipment	1,777	38,373	2,919
Acquisitions and purchases of non-controlling interest, net of cash received	(39,122)	(54,017)	(60,587)
Investment in life insurance contracts	(15,253)	—	—
Purchases of investments	(13,352)	(13,338)	(13,518)
Proceeds from sale of investments	9,828	3,678	5,103
Other	(982)	(66)	(460)
NET CASH USED IN INVESTING ACTIVITIES	(142,037)	(121,232)	(137,659)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under revolving credit facilities	422,057	732,370	758,287
Repayments under revolving credit facilities	(460,537)	(748,496)	(722,725)
Borrowings of debt	—	927	8,525
Repayment of debt	(3,136)	(5,540)	(13,347)
Issuance of long-term debt	—	75,000	—
Proceeds from issuance of common stock	1,093	1,026	660
Dividends paid to shareholders	(24,549)	(22,072)	(19,607)
Distributions to noncontrolling interest	(2,216)	(3,139)	(4,032)
Repurchase of common stock	—	(24,629)	(12,977)
Other	20	(1,054)	(31)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(67,268)	4,393	(5,247)
Effect of exchange rate changes on cash	482	(464)	650
NET CHANGE IN CASH AND CASH EQUIVALENTS	140,468	(618)	(5,673)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, BEGINNING OF YEAR	28,198	28,816	34,489
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, END OF PERIOD	\$ 168,666	\$ 28,198	\$ 28,816
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:			
Cash and cash equivalents, beginning of period	\$ 27,316	\$ 28,339	\$ 34,091
Restricted cash, beginning of period	882	477	398
Cash, cash equivalents, and restricted cash, beginning of period	<u>\$ 28,198</u>	<u>\$ 28,816</u>	<u>\$ 34,489</u>
Cash and cash equivalents, end of period	\$ 168,336	\$ 27,316	\$ 28,339
Restricted cash, end of period	330	882	477
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 168,666</u>	<u>\$ 28,198</u>	<u>\$ 28,816</u>
SUPPLEMENTAL INFORMATION:			
Interest paid	\$ 8,763	\$ 8,860	\$ 6,020
Income taxes paid	50,224	51,578	56,663
NON-CASH FINANCING ACTIVITIES:			
Common stock issued under deferred compensation plans	\$ 6,229	\$ 5,837	\$ 5,116

See notes to consolidated financial statements

UNIVERSAL FOREST PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

OPERATIONS

We primarily 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, customized interior fixtures used in a variety of retail stores, commercial and other structures, and specialty wood packaging, components and other packing materials for various industries.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include our accounts and those of our wholly-owned and majority-owned subsidiaries and partnerships. In addition, we consolidate any entity which we own 50% or more and exercise control. Intercompany transactions and balances have been eliminated.

NONCONTROLLING INTEREST IN SUBSIDIARIES

Noncontrolling interest in results of operations of consolidated subsidiaries represents the noncontrolling shareholders' share of the income or loss of various consolidated subsidiaries. The noncontrolling interest reflects the original investment by these noncontrolling shareholders combined with their proportional share of the earnings or losses of these subsidiaries, net of distributions paid.

FISCAL YEAR

Our fiscal year is a 52 or 53 week period, ending on the last Saturday of December. Unless otherwise stated, references to 2019, 2018, and 2017 relate to the fiscal years ended December 28, 2019, December 29, 2018, and December 30, 2017, respectively. Fiscal years 2019, 2018, and 2017 were comprised of 52 weeks.

FAIR VALUE DISCLOSURES OF FINANCIAL INSTRUMENTS

We follow ASC Topic 820, *Fair Value Measurements and Disclosures*, which provides a consistent definition of fair value, focuses on exit price, prioritizes the use of market-based inputs over entity-specific inputs for measuring fair value and establishes a three-tier hierarchy for fair value measurements. This topic requires fair value measurements to be classified and disclosed in one of the following three categories:

- Level 1 — Financial instruments with unadjusted, quoted prices listed on active market exchanges.
- Level 2 — Financial instruments lacking unadjusted, quoted prices from active market exchanges, including over-the-counter traded financial instruments. Financial instrument values are determined using prices for recently traded financial instruments with similar underlying terms and direct or indirect observational inputs, such as interest rates and yield curves at commonly quoted intervals.
- Level 3 — Financial instruments not actively traded on a market exchange and there is little, if any, market activity. Values are determined using significant unobservable inputs or valuation techniques.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and highly liquid investments purchased with an original maturity of three months or less.

INVESTMENTS

Investments are deemed to be "available for sale" and are, accordingly, carried at fair value being the quoted market value.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which amends ASC 825-10, Financial Instruments – Overall, this ASU changes the treatment for available-for-sale equity investments by recognizing unrealized fair value changes directly in net income and no longer in other comprehensive income. For public entities, the amendment is effective for fiscal years beginning after December 15, 2017. The ASU was adopted during fiscal 2018 with a cumulative-effect adjustment to retained earnings of \$0.9 million at the beginning of 2018. The available-for-sale equity securities balance at December 28, 2019, and December 29, 2018 was \$14.7 million and \$11.0 million, respectively. The adoption of ASU No. 2016-01 resulted in an unrealized gain recorded as a non-operating income of \$2.5 million in 2019, and an unrealized loss of \$1.9 million recorded in non-operating expense in 2018.

ACCOUNTS RECEIVABLE AND ALLOWANCES

We perform periodic credit evaluations of our customers and generally do not require collateral. Accounts receivable are due under a range of terms we offer to our customers. Discounts are offered, in most instances, as an incentive for early payment.

We base our allowances related to receivables on historical credit and collections experience, and the specific identification of other potential problems, including the general economic climate. Actual collections can differ, requiring adjustments to the allowances. Individual accounts receivable balances are evaluated on a monthly basis, and those balances considered uncollectible are charged to the allowance.

The following table presents the activity in our accounts receivable allowances (in thousands):

	<u>Beginning Balance</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Deductions*</u>	<u>Ending Balance</u>
Year Ended December 28, 2019:				
Allowance for possible losses on accounts receivable	\$ 2,601	\$ 39,481	\$ (37,642)	\$ 4,440
Year Ended December 29, 2018:				
Allowance for possible losses on accounts receivable	\$ 2,424	\$ 38,963	\$ (38,786)	\$ 2,601
Year Ended December 30, 2017:				
Allowance for possible losses on accounts receivable	\$ 2,845	\$ 28,102	\$ (28,523)	\$ 2,424

* Includes accounts charged off, discounts given to customers and actual customer returns and allowances.

We record estimated sales returns, discounts, and other applicable adjustments as a reduction of net sales in the same period revenue is recognized.

Accounts receivable retainage amounts related to long term construction contracts totaled \$7.4 million and \$5.5 million as of December 28, 2019 and December 29, 2018, respectively. All amounts are expected to be collected within 18 months. Concentration of accounts receivable related to our largest customer totaled \$42.8 million and \$44.5 million as of December 28, 2019 and December 29, 2018, respectively.

In June 2016, the FASB issued ASU 2016-13, Financial Instrument-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13), which changes the current incurred loss model to a forward looking expected credit loss model for most financial assets, such as trade and other receivables, loans and other instruments. The ASU is effective for fiscal years beginning December 15, 2019, with early adoption permitted. Entities are required to apply the provisions of the standard through a cumulative-effect adjustment to retained earnings as of effective date. The Company evaluated the impact of the standard on its consolidated statements, particularly over accounts receivable, and

does not expect the standard to have a material impact on its consolidated financial statements and disclosures, accounting processes, and internal controls.

INVENTORIES

Inventories are stated at the lower of cost or market. The cost of inventories includes raw materials, direct labor, and manufacturing overhead. Cost is determined on a weighted average basis. Raw materials consist primarily of unfinished wood products expected to be manufactured or treated prior to sale, while finished goods represent various manufactured and treated wood products ready for sale. We have inventory on consignment at customer locations valued at \$20.2 million as of December 28, 2019 and \$16.8 million as of December 29, 2018.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are stated at cost. Expenditures for renewals and betterments are capitalized, and maintenance and repairs are expensed as incurred. Amortization of assets held under capital leases is included in depreciation and amortized over the shorter of the estimated useful life of the asset or the lease term. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets as follows:

Land improvements	5 to 15 years
Buildings and improvements	10 to 32 years
Machinery, equipment and office furniture	2 to 20 years

Software costs are included in machinery and equipment on the balance sheet with gross amounts and accumulated amortization totaling \$6.1 million and \$5.2 million as of December 28, 2019, and \$7.3 million and \$5.7 million as of December 29, 2018, respectively.

LONG-LIVED ASSETS

In accordance with ASC 360, *Property, Plant, and Equipment* (“ASC 360”), when an indicator of potential impairment exists, we evaluate the recoverability of our long-lived assets by determining whether unamortized balances could be recovered through undiscounted future operating cash flows over the remaining lives of the assets. If the sum of the expected future cash flows was less than the carrying value of the assets, an impairment loss would be recognized for the excess of the carrying value over the fair value.

GOODWILL

Goodwill represents the excess of the purchase price over the fair value of net tangible and identifiable intangible assets of acquired businesses. Goodwill and intangible assets deemed to have indefinite lives are not amortized and are subject to impairment tests at least annually in accordance with ASC 350, *Intangibles-Goodwill and Other*. We review the carrying amounts of goodwill and other non-amortizable intangibles by reporting unit to determine if such assets may be impaired. As the carrying amount of these assets are recoverable based upon a discounted cash flow and market approach analysis, no impairment was recognized.

Our annual testing date for evaluating goodwill and indefinite-lived intangible asset impairment is the first day of the Company’s fourth fiscal quarter for all reporting units. Additionally, the Company reviews various triggering events throughout the year to ensure that a mid-year impairment analysis is not required.

FOREIGN CURRENCY

Our foreign operations use the local currency as their functional currency. Accordingly, assets and liabilities are translated at exchange rates as of the balance sheet date and revenues and expenses are translated using weighted average rates, with translation adjustments included as a separate component of shareholders’ equity. Gains and losses arising from re-measuring foreign currency transactions are included in earnings.

INSURANCE RESERVES

Our wholly-owned insurance company, Ardellis Insurance Ltd. (“Ardellis”), was incorporated on April 21, 2001 under the laws of Bermuda and is licensed as a Class 3A insurer under the Insurance Act 1978 of Bermuda. On April 14, 2017 the U.S. Branch of Ardellis Insurance Ltd. was granted its Certificate of Authority to transact property and casualty insurance lines as an admitted carrier in the State of Michigan.

We are primarily self-insured for certain employee health benefits, and have self-funded retentions for general liability, automobile liability, property and workers’ compensation. We are fully self-insured for environmental liabilities. The general liability, automobile liability, property, workers’ compensation, and certain environmental liabilities are managed through Ardellis; the related assets and liabilities of which are included in the consolidated financial statements as of December 28, 2019 and December 29, 2018. Our policy is to accrue amounts equal to actuarially determined or internally computed liabilities. The actuarial and internal valuations are based on historical information along with certain assumptions about future events. Changes in assumptions for such matters as legal actions, medical cost trends, and changes in claims experience could cause these estimates to change in the future.

In addition to providing coverage for the Company, Ardellis provides Excess Loss Insurance (primarily medical and prescription drug) to certain third parties. As of December 28, 2019, Ardellis had 42 such contracts in place. Reserves associated with these contracts were \$5.7 million at December 28, 2019 and \$4.9 million at December 29, 2018 and are accrued based on third party actuarial valuations of the expected future liabilities.

INCOME TAXES

Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates. Valuation allowances are established when necessary to reduce deferred income tax assets to the amounts expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred income tax assets and liabilities.

REVENUE RECOGNITION

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

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

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

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

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

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

Our construction contracts are generally entered into with a fixed price and completion of the projects and performance obligations 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. Invoices are issued routinely throughout the projects' life and payments are primarily due 45-60 days after invoice date. During the year, we update our estimated costs to complete our projects using current labor and commodity costs and recognize losses to the extent that they exist.

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

(in thousands)	December 28, 2019	December 29, 2018	% Change
Market Classification			
FOB Shipping Point Revenue	\$ 4,348,757	\$ 4,440,098	-2.1%
Construction Contract Revenue	143,426	125,651	14.1%
Total Gross Sales	4,492,183	4,565,749	-1.6%
Sales Allowances	(76,174)	(76,569)	-0.5%
Total Net Sales	<u>\$ 4,416,009</u>	<u>\$ 4,489,180</u>	<u>-1.6%</u>

In 2019, \$100.5 million and \$42.9 million of our construction contract revenue was attributable to our North and West segments, respectively. Construction contract revenue is primarily made up of site-built and framing customers.

The following table presents the balances of percentage-of-completion accounts on December 28, 2019 and December 29, 2018 which are included in other current assets and other accrued liabilities, respectively (in thousands):

	December 28, 2019	December 29, 2018
Cost and Earnings in Excess of Billings	\$ 4,690	\$ 6,945
Billings in Excess of Cost and Earnings	6,622	3,245

SHIPPING AND HANDLING OF PRODUCT

Shipping and handling costs that are charged to and reimbursed by the customer are recognized as revenue. Costs incurred related to the shipment and handling of products are classified in cost of goods sold.

EARNINGS PER SHARE

The computation of earnings per share (“EPS”) is as follows (in thousands), which incorporate the retroactive effect of the Company’s 3 for 1 stock split:

	<u>December 28, 2019</u>	<u>December 29, 2018</u>	<u>December 30, 2017</u>
Numerator:			
Net earnings attributable to controlling interest	\$ 179,650	\$ 148,598	\$ 119,512
Adjustment for earnings allocated to non-vested restricted common stock	(4,496)	(3,396)	(2,225)
Net earnings for calculating EPS	<u>\$ 175,154</u>	<u>\$ 145,202</u>	<u>\$ 117,287</u>
Denominator:			
Weighted average shares outstanding	61,649	61,762	61,416
Adjustment for non-vested restricted common stock	(1,543)	(1,411)	(1,143)
Shares for calculating basic EPS	<u>60,106</u>	<u>60,351</u>	<u>60,273</u>
Effect of dilutive restricted common stock	24	82	90
Shares for calculating diluted EPS	<u>60,130</u>	<u>60,433</u>	<u>60,363</u>
Net earnings per share:			
Basic	\$ 2.91	\$ 2.41	\$ 1.95
Diluted	\$ 2.91	\$ 2.40	\$ 1.94

No options were excluded from the computation of diluted EPS for 2019, 2018, or 2017.

USE OF ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. We believe our estimates to be reasonable; however, actual results could differ from these estimates.

B. FAIR VALUE

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

(in thousands)	December 28, 2019				December 29, 2018			
	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Prices with Unobservable Inputs (Level 3)	Total
Money market funds	\$ 162,626	\$ 562	\$ —	\$ 163,188	\$ 56	\$ 5,267	—	\$ 5,323
Fixed income funds	234	15,495	—	15,729	3,387	9,738	—	13,125
Equity securities	9,734	—	—	9,734	7,262	—	—	7,262
Alternative investments	—	—	1,941	1,941	—	—	1,756	1,756
Mutual funds:								—
Domestic stock funds	3,308	—	—	3,308	2,846	—	—	2,846
International stock funds	1,741	—	—	1,741	937	—	—	937
Target funds	281	—	—	281	237	—	—	237
Bond funds	850	—	—	850	796	—	—	796
Alternative funds	1,747	—	—	1,747	1,318	—	—	1,318
Total mutual funds	7,927	—	—	7,927	6,134	—	—	6,134
Total	\$ 180,521	\$ 16,057	1,941	\$ 198,519	\$ 16,839	\$ 15,005	1,756	\$ 33,600
Assets at fair value	\$ 180,521	\$ 16,057	1,941	\$ 198,519	\$ 16,839	\$ 15,005	1,756	\$ 33,600

From the assets measured at fair value as of December 28, 2019, listed in the table above, \$162.6 million of money market funds are held in Cash and Cash Equivalents, \$18.5 million of mutual funds, equity securities, and alternative investments are held in Investments, \$1.1 million of money market and mutual funds are held in Other Assets for our deferred compensation plan, and \$15.7 million of fixed income funds and \$0.6 million of money market funds are held in Restricted Investments.

We maintain money market, mutual funds, bonds, and/or stocks in our non-qualified deferred compensation plan and our wholly owned licensed captive insurance company, and assets held in financial institutions. These funds are valued at prices quoted in an active exchange market and are included in "Cash and Cash Equivalents", "Investments", "Other Assets", and "Restricted Investments." We have elected not to apply the fair value option under ASC 825, *Financial Instruments*, to any of our financial instruments except for those expressly required by U.S. GAAP.

During 2018, we purchased a private real estate income trust which is valued as a Level 3 asset and is categorized as an "Alternative Investment."

In accordance with our investment policy, our wholly-owned company, Ardellis Insurance Ltd. ("Ardellis"), maintains an investment portfolio, totaling \$34.3 million as of December 28, 2019, consisting of domestic and international stocks, alternative investments, and fixed income bonds.

Ardellis' available for sale investment portfolio, including funds held with the State of Michigan, consists of the following (in thousands):

	December 28, 2019			December 29, 2018		
	Cost	Unrealized Gain/(Loss)	Fair Value	Cost	Unrealized Gain/(Loss)	Fair Value
Fixed Income	\$ 15,376	\$ 353	\$ 15,729	\$ 13,301	\$ (176)	\$ 13,125
Equity	7,958	1,776	9,734	7,141	121	7,262
Mutual Funds	6,568	284	6,852	5,815	(567)	5,248
Alternative Investments	1,811	130	1,941	1,722	34	1,756
Total	\$ 31,713	\$ 2,543	\$ 34,256	\$ 27,979	\$ (588)	\$ 27,391

Our fixed income investments consist of a blend of US Government and Agency bonds and investment grade corporate bonds with varying maturities. Our equity investments consist of small, mid, and large cap growth and value funds, as well as international equity. Our alternative investments consist of the private real estate income trust which is valued as a Level 3 asset. The net pre-tax unrealized gain was \$2.5 million for the year ended December 28, 2019. Carrying amounts above are recorded in the investments and restricted investments line items within the balance sheet as of December 28, 2019.

C. BUSINESS COMBINATIONS

We completed the following business combinations in fiscal 2019 and 2018, which were accounted for using the purchase method (in thousands).

Company Name	Acquisition Date	Purchase Price	Intangible Assets	Net Tangible Assets	Operating Segment
Pallet USA, LLC ("Pallet USA")	September 16, 2019	\$12,422 cash paid for 100% asset purchase	\$ 7,464	\$ 4,958	North
	A manufacturer and recycler of wood pallet and crating products in the Midwest. Pallet USA had annual sales of approximately \$18 million. The acquisition of Pallet USA allows us to expand our capacity to manufacture wood-based industrial packaging products and offer new services to customers in the Midwest.				
Northwest Painting, Inc. ("Northwest")	August 12, 2019	\$17,809 cash paid for 100% asset purchase and estimated earnout	\$ 8,089	\$ 9,720	West
	A supplier of pre-painted building materials, including composite lap siding, soffit, panels and trim to the Western U.S. Northwest had annual sales of approximately \$14 million. The acquisition of Northwest will expand our capacity to produce coated siding and trim for customers in the Northwest and Mountain West regions.				
Wolverine Wood Products, Inc. ("Wolverine")	May 1, 2019	\$7,168 cash paid for 100% asset purchase and estimated earnout	\$ 6,180	\$ 988	North
	A manufacturer of wood panel components for furniture, store fixtures and case goods. Wolverine had annual sales of approximately \$5 million. The acquisition of Wolverine allows us to expand capacity to produce value-added wood components for customers in the Midwest.				
Pak-Rite, LTD ("Pak-Rite")	October 22, 2018	\$15,115 cash paid for 100% asset purchase	\$ 8,592	\$ 6,523	North
	A designer and manufacturer of packaging for high-value products, such as medical, aerospace and automation equipment. Pak-Rite had annual sales of approximately \$15 million. The acquisition of Pak-Rite allows us to grow our portfolio of packaging products and customer markets, and expand our presence in this region.				

Company Name	Acquisition Date	Purchase Price	Intangible Assets	Net Tangible Assets	Operating Segment
The Pallet Place, LLC ("Pallet Place")	July 31, 2018	\$1,016 cash paid for 100% asset purchase	\$ 250	\$ 766	West
	A manufacturer and distributor of total packaging solutions in timber, crates, skids, and pallets. Pallet Place had annual sales of approximately \$5 million. The acquisition of Pallet Place allows us to increase our industrial business and creates operating leverage by consolidating with another regional operation.				
North American Container Corporation ("NACC")	June 1, 2018	\$25,866 cash paid for 100% asset purchase and estimated earnout	\$ 9,496	\$ 16,370	South
	A manufacturer of structural packaging products, including steel, corrugated and hardwood packaging. NACC had annual sales of approximately \$71 million. The acquisition of NACC allows us to enhance our presence in this region, expand our product offering, and serve customers more cost effectively.				
Fontana Wood Products ("Fontana")	April 9, 2018	\$3,890 cash paid for 100% asset purchase	\$ 2,235	\$ 1,655	West
	A manufacturer and distributor of lumber and trusses in the Southern California region. Fontana had annual sales of approximately \$12 million. The acquisition of Fontana allows us to expand our manufactured housing business and creates operating leverage by consolidating with another regional operation.				
Expert Packaging ("Expert")	April 3, 2018	\$1,347 cash paid for 100% asset purchase	\$ 1,287	\$ 60	All Other
	A manufacturer and distributor of total packaging solutions in timber, crates, pallets, and skids. Expert had annual sales of approximately \$3.6 million. The acquisition of Expert allows us to make progress on our goal of becoming a global provider of packaging solutions.				
Spinner Wood Products, LLC ("Spinner")	January 23, 2018	\$2,942 cash paid for 100% asset purchase	\$ 850	\$ 2,092	West
	A manufacturer and distributor of agricultural bin and various industrial packaging. Spinner had annual sales of approximately \$8 million. The acquisition of Spinner allows us to expand our industrial packaging product offering and creates operating leverage by consolidating with other regional operations.				
Great Northern Lumber, LLC	January 15, 2018	\$5,784 cash paid for 100% asset purchase	\$ 50	\$ 5,734	North
	A manufacturer of industrial products as well as serving the concrete forming market in the Chicago area. Great Northern Lumber had annual sales of approximately \$25 million. The acquisition of Great Northern Lumber enables us to expand our concrete forming product offering and regional coverage.				

The intangible assets for each acquisition were finalized and allocated to their respective identifiable intangible asset and goodwill accounts during 2019, except for our Wolverine, Northwest, and Pallet USA acquisitions. In aggregate, acquisitions not consolidated with other operations contributed approximately \$70.3 million in revenue and \$4.1 million in operating profit during 2019.

At December 28, 2019, the amounts assigned to major intangible classes for the business combinations mentioned above are as follows (in thousands):

	Non-Compete Agreements	Customer Relationships	Tradename	Goodwill	Intangibles - Tax Deductible
Pallet USA	\$ —	\$ 1,400 *	\$ 1,898 *	\$ 4,166 *	\$ 7,464
Northwest	—	4,500 *	1,000 *	2,589 *	8,089
Wolverine	—	3,232 *	864 *	2,084 *	6,180
Pak-Rite	30	3,750	1,060	3,752	8,592
Pallet Place	—	250	—	—	250
NACC	—	2,810	770	5,916	9,496
Fontana	—	2,235	—	—	2,235
Expert Packaging	221	809	257	—	—
Spinner	850	—	—	—	850
Great Northern Lumber	50	—	—	—	50

*(estimate)

The business combinations mentioned above were not significant to our operating results individually or in aggregate, and thus pro forma results for 2019 and 2018 are not presented.

D. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the net carrying amount of goodwill by reporting segment for the years ended December 28, 2019 and December 29, 2018, are as follows (in thousands):

	North	South	West	All Other	Total
Balance as of December 30, 2017	51,127	46,738	87,730	27,049	212,644
2018 Acquisitions	4,292	8,996	—	—	13,288
Foreign Exchange, Net	(365)	—	—	(1,450)	(1,815)
Balance as of December 29, 2018	55,054	55,734	87,730	25,599	224,117
2019 Acquisitions	5,710	(3,080)	2,589	—	5,219
Foreign Exchange, Net	182	—	—	18	200
Balance as of December 28, 2019	<u>\$ 60,946</u>	<u>\$ 52,654</u>	<u>\$ 90,319</u>	<u>\$ 25,617</u>	<u>\$ 229,536</u>

Indefinite-lived intangible assets totaled \$7.4 million as of December 28, 2019 and December 29, 2018 related to the iDX, International, and Consumer Products reporting units which is included in the All Other reportable segment.

The following amounts were included in other amortizable intangible assets, net as of December 28, 2019 and December 29, 2018 (in thousands):

	2019			2018		
	Assets	Accumulated Amortization	Net Value	Assets	Accumulated Amortization	Net Value
Non-competite agreements	\$ 5,092	\$ (2,262)	\$ 2,830	\$ 10,232	\$ (5,517)	\$ 4,715
Customer relationships	48,084	(10,079)	38,005	40,307	(6,843)	33,464
Licensing agreements	4,589	(4,368)	221	4,589	(3,909)	680
Patents	914	(421)	493	792	(284)	508
Tradename	7,966	(1,202)	6,764	2,879	(760)	2,119
Total	<u>\$ 66,645</u>	<u>\$ (18,332)</u>	<u>\$ 48,313</u>	<u>\$ 58,799</u>	<u>\$ (17,313)</u>	<u>\$ 41,486</u>

Amortization is computed principally by the straight-line method over the estimated useful lives of the intangible assets as follows:

<u>Intangible Asset Type</u>	<u>Estimated Useful Life</u>	<u>Weighted Average Amortization Period</u>
Non-compete agreements	3 to 15 years	9.7 years
Customer relationship	5 to 15 years	10.5 years
Licensing agreements	10 years	10 years
Tradenname (amortizable)	3 to 15 years	11.5 years

Amortization expense of intangibles totaled \$6.3 million, \$6.4 million and \$4.9 million in 2019, 2018 and 2017, respectively. The estimated amortization expense for intangibles for each of the five succeeding fiscal years is as follows (in thousands):

2020	\$ 6,095
2021	5,572
2022	5,243
2023	4,497
2024	3,772
Thereafter	23,134
Total	\$ 48,313

E. DEBT

On June 14, 2018, we entered into an unsecured Note Purchase Agreement (the "Agreement") under which we issued our 4.20% Series 2018 C Senior Notes, due June 14, 2028, in the aggregate principal amount of \$40 million and our 4.27% Series 2018 D Senior Notes, due June 14, 2030, in the aggregate principal amount of \$35 million. Proceeds from the sale of the Series C Senior Notes and Series D Senior Notes were used to pay down our revolving credit facility.

On December 17, 2012, we entered into an unsecured Note Purchase Agreement (the "Agreement") under which we issued our 3.89% Series 2012 A Senior Notes, due December 17, 2022, in the aggregate principal amount of \$35 million and our 3.98% Series 2012 B Senior Notes, due December 17, 2024, in the aggregate principal amount of \$40 million. Proceeds from the sale of the Series A Senior Notes and Series B Senior Notes were used to repay amounts due on our existing Series 2002-A Senior Notes, Tranche B totaling \$40 million and our revolving credit facility.

On November 1, 2018, we entered into a five-year, \$375 million unsecured revolving credit facility with a syndicate of U.S. banks led by JPMorgan Chase Bank, N.A., as administrative agent and Wells Fargo Bank, N.A., as syndication agent. The facilities include up to \$40 million which may be advanced in the form of letters of credit, and up to \$100 million (U.S. dollar equivalent) which may be advanced in Canadian dollars, Australian dollars, pounds Sterling, Euros and such other foreign currencies as may subsequently be agreed upon among the parties. This facility replaced our \$295 million unsecured revolving credit facility. Cash borrowings are charged interest based upon an index selected by the Company, plus a margin that is determined based upon the index selected and upon the financial performance of the Company and certain of its subsidiaries. The Company is charged a facility fee on the entire amount of the lending commitment, at a per annum rate ranging from 12.5 to 30.0 basis points, also determined based upon the Company's performance. The facility fee is payable quarterly in arrears.

Outstanding letters of credit extended on our behalf on December 28, 2019 and December 29, 2018 aggregated \$37.3 million and \$30.3 million; respectively, which includes approximately \$9.8 million related to industrial development revenue bonds. The Company had an outstanding balance of \$4.0 million and \$42.5 million, which includes foreign subsidiary borrowings, on its revolver at December 28, 2019, and December 29, 2018, respectively. After considering letters of credit, the Company had \$361.2 million and \$322.7 million in remaining availability on its revolver on December 28, 2019, and December 29, 2018, respectively. Additionally, we have \$150 million in availability under a "shelf agreement" for long term debt with a current lender. Letters of credit have one year terms and include an automatic renewal clause. The letters of credit related to industrial development revenue bonds are charged an annual interest rate of 112.5

basis points, based upon our financial performance. The letters of credit related to workers' compensation are charged an annual interest rate of 75 basis points.

Long-term debt obligations are summarized as follows on December 28, 2019 and December 29, 2018 (amounts in thousands):

	<u>2019</u>	<u>2018</u>
Series 2018 Senior Notes C, due on June 14, 2028, interest payable semi-annually at 4.20%	\$ 40,000	\$ 40,000
Series 2018 Senior Notes D, due on June 14, 2030, interest payable semi-annually at 4.27%	35,000	35,000
Series 2012 Senior Notes Tranche A, due on December 17, 2022, interest payable semi-annually at 3.89%	35,000	35,000
Series 2012 Senior Notes Tranche B, due on December 17, 2024, interest payable semi-annually at 3.98%	40,000	40,000
Revolving credit facility totaling \$375 million due on November 1, 2023, interest payable monthly at a floating rate (2.54% on December 28, 2019 and 3.39% on December 29, 2018)	—	39,010
Foreign subsidiary borrowings under revolving credit facility, due on November 1, 2023, interest payable monthly at a floating rate (1.88% on December 28, 2019 and 2.94% on December 29, 2018)	3,976	3,480
Series 1999 Industrial Development Revenue Bonds, due on August 1, 2029, interest payable monthly at a floating rate (1.14% on December 28, 2019 and 1.94% on December 29, 2018)	3,300	3,300
Series 2000 Industrial Development Revenue Bonds, due on October 1, 2020, interest payable monthly at a floating rate (1.57% on December 28, 2019 and 2.00% on December 29, 2018)	2,700	2,700
Series 2002 Industrial Development Revenue Bonds, due on December 1, 2022, interest payable monthly at a floating rate (1.79% on December 28, 2019 and 1.99% on December 29, 2018)	3,700	3,700
Capital leases and foreign affiliate debt	174	311
	<u>163,850</u>	<u>202,501</u>
Less current portion	(2,816)	(148)
Less debt issuance costs	(167)	(223)
Long-term portion	<u>\$ 160,867</u>	<u>\$ 202,130</u>

Financial covenants on the unsecured revolving credit facility and unsecured notes include minimum interest coverage 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 among other industry standard covenants. We were within all of our lending requirements on December 28, 2019 and December 29, 2018.

On December 28, 2019, the principal maturities of long-term debt and capital lease obligations are as follows (in thousands):

2020	\$ 2,816
2021	58
2022	38,700
2023	3,976
2024	40,000
Thereafter	78,300
Total	<u>\$ 163,850</u>

On December 28, 2019, the estimated fair value of our long-term debt, including the current portion, was \$170.8 million, which was \$7.0 million more than the carrying value. The estimated fair value is based on rates anticipated to be available to us for debt with similar terms and maturities. We consider the valuations of our long-term debt, including the current

portion, to be Level 2 liabilities which rely on quoted prices in markets that are not active or observable inputs over the full term of the liability.

F. LEASES

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-02, "Leases (Topic 842)" (ASU 2016-02). Under ASU 2016-02, an entity will be required to recognize assets and liabilities for the rights and obligations created by leases on the entity's balance sheet for both finance and operating leases. For leases with a term of 12 months or less, an entity can elect to not recognize lease assets and lease liabilities and expense the lease over a straight-line basis for the term of the lease. ASU 2016-02 requires new disclosures that depict the amount, timing, and uncertainty of cash flows pertaining to an entity's leases. Companies are required to adopt the new standard for annual and interim periods beginning after December 15, 2018. Early adoption of ASU 2016-02 is permitted. The FASB decided to amend certain aspects of its new leasing standard in an attempt to provide a relief from implementation costs. Specifically, entities may elect not to restate their comparative periods in the period of adoption when transitioning to the new standard.

Upon adoption of ASC 842 on December 30, 2018, the Company recognized right-of-use assets and lease liabilities of approximately \$69 million. As a result of the adoption of ASC 842, there was no cumulative effect adjustment to beginning retained earnings.

We elected the package of practical expedients whereby we are not required to 1) reassess whether any expired or existing contracts contain leases, 2) reassess the lease classification of existing leases, and 3) reassess initial direct costs for any existing leases. Additionally, we did not elect the hindsight practical expedient to determine the reasonably certain lease term for existing leases. We did elect to account for lease and related non-lease components as a single lease component. We elected to not recognize leases with an original term of 12 months or less as they are not significant to our consolidated balance sheet and income statement. We have assessed and updated our business processes, systems, and controls to ensure compliance with the new accounting and disclosure requirements in accordance with the new standard.

We determine if an arrangement is a lease at inception. We lease certain real estate under non-cancelable operating lease agreements with typical original terms ranging from one to ten years. We are required to pay real estate taxes and other occupancy costs under certain leases, which are variable in nature and not included in the right of use asset or lease liability. Certain leases carry renewal options of five to fifteen years. We believe that future leases will likely have similar terms. We also lease motor vehicles, equipment, and an aircraft under operating lease agreements for periods of one to ten years. We do not typically enter into leases with residual value guarantees. There were no restrictions or covenants imposed by any lease agreements.

We believe finance leases have no significant impact to our consolidated balance sheet and income statement as of December 28, 2019.

As of December 28, 2019, we have no leases that have not yet commenced that would significantly impact the rights, obligations, and financial position of the Company.

There were no lease transactions between related parties as of December 28, 2019.

The rates implicit in our leases are primarily not readily available. To determine the discount rate used to present value the lease payments, the Company utilized the 7-year treasury note rate plus a blend of rate spreads associated with our revolver and 10-12-year senior notes along with estimated spreads based on current market conditions. We feel the determined rate is a reasonable representation of our lease population.

Lease costs under non-cancelable operating leases on December 28, 2019 are as follows (in thousands):

	Operating Leases
Operating lease cost	\$ 20,771
Short-term lease cost	110
Variable lease cost	1,484
Sublease income	(676)
Total lease cost	<u>\$ 21,689</u>

The amounts paid for operating leases, included in the measurement of lease liabilities, were \$20 million for year ended December 28, 2019. In addition, right-of-use assets obtained in exchange for new operating leases liabilities were approximately \$33.4 million for year ended December 29, 2019.

Future minimum payments under non-cancelable operating leases on December 28, 2019 are as follows (in thousands):

	Operating Leases
2020	\$ 17,633
2021	15,074
2022	12,624
2023	10,434
2024	7,848
Thereafter	29,115
Total minimum lease payments	<u>\$ 92,728</u>
Less present value discount	(12,561)
Total lease liability	<u>\$ 80,167</u>

Rent expense was approximately \$29.9 million, \$28.1 million, and \$24.2 million in 2019, 2018, and 2017, respectively.

During the first quarter of 2018, the Company completed a sale and leaseback transaction related to one facility in Medley, Florida. The sale price for the property was approximately \$36 million and created a \$7 million pre-tax gain, which was entirely recognized in 2018. The Company leased back the facility for two years as it executes its long-term plan for Florida and the Southeast region.

As of December 28, 2019, the weighted average lease term for operating leases is 7.29 years. Similarly, the weighted average discount rate for operating leases is 3.10%.

G. DEFERRED COMPENSATION

We have a program whereby certain executives irrevocably elected to defer receipt of certain compensation in 1985 through 1988. Deferred compensation payments to these executives will commence upon their retirement. We purchased life insurance on these executives, payable to us in amounts which, if assumptions made as to mortality experience, policy dividends, and other factors are realized, will accumulate cash values adequate to reimburse us for all payments for insurance and deferred compensation obligations. In the event cash values are not sufficient to fund such obligations, the program allows us to reduce benefit payments to such amounts as may be funded by accumulated cash values. Premiums payments, deferred compensation obligations, and accrued interest payments were funded through policy and premium loans provided by the insurer. The deferred compensation liabilities and related cash surrender value of life insurance policies totaled \$2.0 million on December 29, 2018 and December 30, 2017 and are included in "Other Liabilities" and "Other Assets," respectively. During 2019, the Company settled with the program participants and paid out the remaining cash value due to them, with the exception of two participants who chose to take the settlement payment over a five-year period. The deferred compensation liability related to the remaining participant payouts on the balance sheet as of

December 28, 2019, was \$0.3 million. Also, during 2019, the Company increased its investment in life insurance contracts by \$15.3 million to \$16.6 million by extinguishing the previously mentioned policy and premium loans.

We also maintain a non-qualified deferred compensation plan (the "Plan") for the benefit of senior management employees who may elect to defer a portion of their annual bonus payments and salaries. The Plan provides investment options similar to our 401(k) plan, including our stock. The investment in our stock is funded by the issuance of shares to a Rabbi trust, and may only be distributed in kind. Assets held by the Plan totaled approximately \$1.1 million and \$1 million on December 28, 2019 and December 29, 2018, respectively, and are included in "Other Assets." Related liabilities totaled \$33.1 million and \$27.8 million on December 28, 2019 and December 29, 2018, respectively, and are included in "Other Liabilities" and "Shareholders' Equity." Assets associated with the Plan are recorded at fair market value. The related liabilities are recorded at fair market value, with the exception of obligations associated with investments in our stock which are recorded at the market value on the date of deferral.

H. COMMON STOCK

We maintain and administer our shareholder approved Employee Stock Purchase Plan ("Stock Purchase Plan"). The Stock Purchase Plan allows eligible employees to purchase shares of our stock at a share price equal to 85% of fair market value on the purchase date. We have expensed the fair value of the compensation associated with these awards, which approximates the discount. The amount of expense is nominal.

We maintain and administer our shareholder approved Directors' Retainer Stock Plan ("Stock Retainer Plan"). The Stock Retainer Plan allows eligible members of the Board of Directors to defer the cash portion of their retainer and committee fees and receive shares of our stock at the time of or following their retirement, disability or death. The number of shares to be received is equal to the amount of the cash portion of their retainer and committee fees deferred multiplied by 110%, divided by the fair market value of a share of our stock at the time of deferral. The number of shares is increased by the amount of dividends paid on the Company's common stock. We recognized expense for this plan of \$1.8 million in 2019, \$1.7 million in 2018, and \$1.7 million in 2017. Effective January 1, 2017, this plan was amended to allow directors to defer payment of the annual retainer paid in the form of our common stock. The number of shares to be received for their portion of the retainer that is deferred is equal to the amount of shares plus the number of shares attributable to cash dividends payable on those deferred shares.

Finally, we maintain and administer our shareholder approved Long Term Stock Incentive Plan (the "LTSIP"). The LTSIP provides for the grant of stock options, stock appreciation rights, restricted stock, performance shares and other stock-based awards.

On October 18, 2017, the Board of Directors approved a three-for-one split of the Company's outstanding shares of common stock effected as a stock dividend. On November 14, 2017, shareholders of record as of October 31, 2017, received two additional shares for each share held on the record date.

There is no unrecognized compensation expense remaining for stock options in 2019, 2018, and 2017.

Below is a summary of common stock issuances for 2019 and 2018:

	December 28, 2019	
	Common Stock	Average Share Price
Share Issuance Activity		
Shares issued under the employee stock purchase plan	34	\$ 32.47
Shares issued under the employee stock gift program	4	35.68
Shares issued under the director retainer stock program	5	38.44
Shares issued under the long term stock incentive plan	211	30.83
Shares issued under the executive stock match grants	109	31.57
Forfeitures	(19)	-
Total shares issued under stock grant programs	310	\$ 31.25
Shares issued under the deferred compensation plans	181	\$ 34.31
Total	525	\$ 32.35

	December 29, 2018	
	Common Stock	Average Share Price
Share Issuance Activity		
Shares issued under the employee stock purchase plan	38	\$ 35.58
Shares issued under the employee stock gift program	3	33.56
Shares issued under the director retainer stock program	101	17.17
Shares issued under the long term stock incentive plan	164	35.16
Shares issued under the executive stock match grants	94	32.94
Forfeitures	(14)	-
Total shares issued under stock grant programs	348	\$ 29.37
Shares issued under the deferred compensation plans	167	\$ 36.98
Total	553	\$ 31.78

A summary of the nonvested restricted stock awards granted under the LTSIP is as follows:

	Restricted Awards	Weighted- Average Grant Date Fair Value	Unrecognized Compensation Expense (in millions)	Weighted- Average Period to Recognize Expense
Nonvested at December 31, 2016	791,532	19.32	4.8	1.51 years
Granted	388,248	32.03		
Vested	(141,111)	12.71		
Forfeited	(5,043)	30.14		
Nonvested at December 30, 2017	1,033,626	24.24	7.1	1.31 years
Granted	247,068	36.52		
Vested	(107,865)	18.11		
Forfeited	(12,750)	24.19		
Nonvested at December 29, 2018	1,160,079	23.32	7.6	1.12 years
Granted	318,496	32.60		
Vested	(224,894)	23.42		
Forfeited	(50,786)	24.18		
Nonvested at December 28, 2019	1,202,895	\$ 29.68	\$ 7.9	0.86 years

Under the Stock Purchase Plan and LTSIP, we recognized share-based compensation expense of \$4.0 million, \$3.6 million, and \$3.6 million and the related total income tax benefits of \$0.8 million, \$0.7 million, and \$1.0 million in 2019, 2018 and 2017, respectively.

In 2019, 2018 and 2017, cash received from share issuances under our plans was \$1.1 million, \$1.0 million and \$0.7 million, respectively.

On November 14, 2001, the Board of Directors approved a share repurchase program (which succeeded a previous program) allowing us to repurchase up to 2.5 million shares of our common stock. On October 14, 2010, our Board authorized an additional 2 million shares to be repurchased under our existing share repurchase program. We repurchased no shares in 2019 and 860,669 shares under this program in 2018. As of December 28, 2019, the cumulative total authorized shares available for repurchase is approximately 1.9 million shares.

I. RETIREMENT PLANS

We have a profit sharing and 401(k) plan for the benefit of substantially all of our employees, excluding the employees of certain wholly-owned subsidiaries. Amounts contributed to the plan are made at the discretion of the Board of Directors. We matched 25% of employee contributions in 2019, 2018, and 2017, on a discretionary basis, totaling \$6.5 million, \$3.4 million, and \$4.8 million respectively. For years 2019 and 2017, hourly employee contributions included additional matched contributions of \$2.6 million and \$1.9 million for 2019 and 2017, respectively, based on meeting certain performance goals during those years. The basis for matching contributions may not exceed the lesser of 6% of the employee's annual compensation or the IRS limitation.

The Company maintains a retirement plan for certain officers of the Company, excluding the Company's CEO, (who have at least 20 years of service with the Company and at least 10 years of service as an officer) whereby we will pay, upon retirement, benefits totaling 150% of the officer's highest base salary in the three years immediately preceding separation from service plus health care benefits for a specified period of time if certain eligibility requirements are met. Approximately \$10.6 million and \$9.1 million are accrued in "Other Liabilities" for this plan at December 28, 2019 and December 29, 2018, respectively.

J. INCOME TAXES

Income tax provisions for the years ended December 28, 2019, December 29, 2018, and December 30, 2017 are summarized as follows (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Currently Payable:			
Federal	\$ 35,267	\$ 31,492	\$ 44,413
State and local	10,071	7,544	8,579
Foreign	5,834	5,527	6,240
	<u>51,172</u>	<u>44,563</u>	<u>59,232</u>
Net Deferred:			
Federal	6,895	2,965	(7,681)
State and local	805	(522)	(864)
Foreign	(602)	(1,565)	1,280
	<u>7,098</u>	<u>878</u>	<u>(7,265)</u>
	<u>\$ 58,270</u>	<u>\$ 45,441</u>	<u>\$ 51,967</u>

The components of earnings before income taxes consist of the following:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
U.S.	\$ 220,532	\$ 180,261	\$ 151,395
Foreign	20,142	17,592	24,612
Total	<u>\$ 240,674</u>	<u>\$ 197,853</u>	<u>\$ 176,007</u>

The effective income tax rates are different from the statutory federal income tax rates for the following reasons:

	2019	2018	2017
Statutory federal income tax rate	21.0 %	21.0 %	35.0 %
State and local taxes (net of federal benefits)	3.9	3.8	3.0
Effect of noncontrolling owned interest in earnings of partnerships	(0.1)	(0.1)	(0.2)
Manufacturing deduction	n/a	n/a	(2.5)
Tax credits, including foreign tax credit	(1.3)	(1.6)	(2.0)
Change in uncertain tax positions reserve	(0.1)	0.1	0.4
Other permanent differences	0.5	0.6	(0.1)
Other, net	0.3	(0.7)	(0.6)
Impact of Tax Act and reduction of corporate tax rate (a)	n/a	(0.1)	(3.5)
Effective income tax rate	<u>24.2 %</u>	<u>23.0 %</u>	<u>29.5 %</u>

- (a) On December 22, 2017, the U.S government enacted comprehensive tax legislation commonly referred to as the Tax Cut and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to reducing the U.S. federal corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. Shortly after the Tax Act was enacted, the SEC issued accounting guidance, which provided a one-year measurement period during which a company may complete its accounting for the impacts of the Tax Act. As a result of the U.S. federal corporate rate reduction, the Company recorded a tax benefit of \$6.1 million for the period ending December 30, 2017, and an additional tax benefit of \$0.3 million for the period ending December 29, 2018.

Temporary differences which give rise to deferred income tax assets and (liabilities) on December 28, 2019 and December 29, 2018 are as follows (in thousands):

	2019	2018
Employee benefits	\$ 22,420	\$ 20,914
Lease liability	20,255	—
Net operating loss carryforwards	6,411	6,520
Foreign subsidiary capital loss carryforward	519	504
Other tax credits	620	586
Inventory	993	1,090
Reserves on receivables	1,266	802
Accrued expenses	2,318	1,593
Other, net	3,159	2,785
Gross deferred income tax assets	57,961	34,794
Valuation allowance	(2,447)	(2,707)
Deferred income tax assets	55,514	32,087
Depreciation	(34,001)	(24,881)
Intangibles	(21,375)	(20,225)
Right of use assets	(20,255)	—
Other, net	—	—
Deferred income tax liabilities	(75,631)	(45,106)
Net deferred income tax liability	<u>\$ (20,117)</u>	<u>\$ (13,019)</u>

As of December 28, 2019, the company had federal, state and foreign net operating loss carryforwards of \$6.4 million and state tax credit carryforwards of \$0.6 million, which will expire at various dates.

The NOL and credit carryforwards expire as follows:

	Net Operating Losses			Tax Credits	
	U.S.	State	Foreign	U.S.	State
2019 - 2023	\$ —	\$ 173	\$ —	\$ —	\$ 620
2024 - 2028	—	285	1,279	—	—
2029 - 2033	2,124	748	213	—	—
2034 - 2038	28	854	—	—	—
Thereafter	—	243	464	—	—
Total	\$ 2,152	\$ 2,303	\$ 1,956	\$ —	\$ 620

As of December 28, 2019, we believe that it is more likely than not that the benefit from certain state and foreign NOL carryforwards as well as certain state tax credit carryforwards will not be realized. In recognition of this risk, we have provided a valuation allowance against various NOL and tax credit carryforwards. Furthermore, there is a valuation allowance of \$0.5 million against a capital loss carryforward we have for a wholly-owned subsidiary, UFP Canada, Inc. Based upon the business activity and the nature of the assets of this subsidiary, our ability to realize a future benefit from this carryforward is doubtful. The capital loss has an unlimited carryforward and therefore will not expire unless there is a change in control of the subsidiary.

The Company early adopted FASB ASU No. 2018-02, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The adoption of this update resulted in a reclassification between accumulative other comprehensive income and accumulated earnings in 2018.

K. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

ASC 740, *Income Taxes* (“ASC 740”) clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, and disclosure requirements.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2019	2018	2017
Gross unrecognized tax benefits beginning of year	\$ 4,378	\$ 4,000	\$ 3,381
Increase in tax positions for prior years	(129)	(366)	4
Increase in tax positions due to acquisitions	—	—	—
Increase in tax positions for current year	768	1,326	1,107
Settlements with taxing authorities	—	—	(2)
Lapse in statute of limitations	(851)	(582)	(490)
Gross unrecognized tax benefits end of year	\$ 4,166	\$ 4,378	\$ 4,000

Our effective tax rate would have been affected by the unrecognized tax benefits had this amount been recognized as a reduction to income tax expense.

We recognized interest and penalties for unrecognized tax benefits in our provision for income taxes. The liability for unrecognized tax benefits included accrued interest and penalties of \$0.5 million, \$0.5 million, and \$0.7 million at December 28, 2019, December 29, 2018, and December 30, 2017, respectively.

We file income tax returns in the United States and in various state, local and foreign jurisdictions. The federal and a majority of state and foreign jurisdictions are no longer subject to income tax examinations for years before 2016. A number of routine state and local examinations are currently ongoing. Due to the potential for resolution of state examinations, and the expiration of various statutes of limitation, and new positions that may be taken, it is reasonably possible that the amounts of unrecognized tax benefits could change in the next twelve months is \$0.9 million.

L. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

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

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

On a consolidated basis, we have reserved approximately \$2.0 million and \$2.1 million on December 28, 2019 and December 29, 2018, respectively, representing the estimated costs to complete future remediation efforts. These amounts have not been reduced by an insurance receivable.

In addition, on December 28, 2019, 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 December 28, 2019, we had outstanding purchase commitments on commenced capital projects of approximately \$33.8 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 effect on our consolidated financial statements.

As part of our operations, we supply building materials and labor to site-built construction projects or we jointly bid on contracts with framing companies for such projects. In some instances we are required to post payment and performance bonds to insure the project owner that the products and installation services are completed in accordance with our contractual obligations. We have agreed to indemnify the surety for claims made against the bonds. As of December 28, 2019, we had approximately \$10.8 million in outstanding payment and performance bonds for open projects. We had approximately \$9.2 million in payment and performance bonds outstanding for completed projects which are still under warranty.

On December 28, 2019, we had outstanding letters of credit totaling \$37.3 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 \$27.5 million for these types of insurance arrangements. We have reserves recorded on our balance sheet, in accrued liabilities, that reflect our expected future liabilities under these insurance arrangements.

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

Certain wholly owned domestic subsidiaries have guaranteed the indebtedness of Universal Forest Products, Inc. in certain debt agreements, including the Series 2012 Senior Notes, the Series 2018 Senior Notes, and our revolving credit facility.

The maximum exposure of these guarantees is limited to the indebtedness outstanding under these debt arrangements and this exposure will expire concurrent with the expiration of the debt agreements.

We did not enter into any new guarantee arrangements during 2019 which would require us to recognize a liability on our balance sheet.

M. SEGMENT REPORTING

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

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

With respect to the facilities in the north, south, and west segments, these facilities generally supply the three markets the Company serves nationally - Retail, Industrial, and Construction. Also, substantially all of our facilities support customers in the immediate geographical region surrounding the facility. One customer, The Home Depot, accounted for approximately 19% of our total sales in fiscal 2019, 2018 and 2017.

Our Alternative Materials, International, and idX 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.

	2019					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	\$ 1,302,067	\$ 936,964	\$ 1,548,098	\$ 628,880	\$ —	\$ 4,416,009
Intersegment net sales	57,675	81,875	52,601	225,913	—	418,064
Interest expense (income)	(36)	—	108	(1,949)	10,577	8,700
Amortization expense	1,217	1,200	2,049	1,859	—	6,325
Depreciation expense	13,624	9,310	17,062	10,254	10,244	60,494
Segment earnings from operations	95,728	64,517	118,444	8,913	(42,696)	244,906
Segment assets	396,010	249,053	485,674	513,081	245,659	1,889,477
Capital expenditures	21,292	18,051	19,682	23,576	2,332	84,933

	2018					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	\$ 1,279,459	\$ 1,024,747	\$ 1,599,274	\$ 585,700	\$ —	\$ 4,489,180
Intersegment net sales	56,682	76,297	56,004	235,905	—	424,888
Interest expense	58	(6)	197	(1,486)	10,130	8,893
Amortization expense	830	1,292	1,998	2,273	—	6,393
Depreciation expense	12,062	8,244	14,836	10,341	9,466	54,949
Segment earnings from operations	66,239	60,049	103,357	6,779	(29,161)	207,263
Segment assets	386,483	266,503	496,939	395,727	101,896	1,647,548
Capital expenditures	17,820	9,185	26,024	39,168	3,665	95,862

	2017					
	North	South	West	All Other	Corporate	Total
Net sales to outside customers	\$ 1,133,656	\$ 837,370	\$ 1,417,924	\$ 552,232	\$ —	\$ 3,941,182
Intersegment net sales	67,161	74,566	83,245	167,568	—	392,540
Interest expense	4	160	293	(473)	6,234	6,218
Amortization expense	559	607	1,723	1,971	—	4,860
Depreciation expense	10,511	6,880	14,116	8,586	8,443	48,536
Segment earnings from operations	61,326	46,646	82,465	17,296	(26,264)	181,469
Segment assets	351,270	240,661	462,311	356,264	54,171	1,464,677
Capital expenditures	23,026	12,286	23,212	9,865	2,727	71,116

Beginning on January 1, 2020, the Company will be re-organized around the markets it serves rather than geography. The business segments will primarily align with the following markets: UFP Retail, UFP Construction and UFP Industrial. We believe this change in segmentation will, among other factors, allow for a more specialized and consistent approach among all UFP operations, more efficient use of resources and capital, and quicker introduction of new products and services.

Information regarding principal geographic areas was as follows (in thousands):

	2019		2018		2017	
	Net Sales	Long-Lived Tangible Assets	Net Sales	Long-Lived Tangible Assets	Net Sales	Long-Lived Tangible Assets
United States	\$ 4,308,618	\$ 469,605	\$ 4,382,356	\$ 342,326	\$ 3,821,366	\$ 313,976
Foreign	107,391	36,878	106,824	34,312	119,816	30,380
Total	<u>\$ 4,416,009</u>	<u>\$ 506,483</u>	<u>\$ 4,489,180</u>	<u>\$ 376,638</u>	<u>\$ 3,941,182</u>	<u>\$ 344,356</u>

Sales generated in Canada and Mexico are primarily to customers in the United States of America.

The following table presents, for the periods indicated, our gross sales (in thousands) by major product classification.

	Year Ended		
	December 28, 2019	December 29, 2018	December 30, 2017
Value-Added Sales			
Trusses – residential, modular and manufactured housing	\$ 438,621	\$ 421,996	\$ 368,591
Fencing	180,772	180,783	187,905
Decking and railing – composite, wood and other	310,311	261,778	244,910
Turn-key framing and installed sales	159,307	151,397	149,520
Industrial packaging and components	676,214	591,314	471,262
Engineered wood products (eg. LVL; i-joist)	86,954	83,222	76,507
In-store fixtures	274,580	252,341	260,174
Manufactured brite and other lumber	68,725	92,255	109,582
Wall panels	64,357	69,889	61,226
Outdoor DIY products (eg. stakes; landscape ties)	124,586	128,711	110,327
Construction and building materials (eg. door packages; drywall)	320,603	314,965	265,048
Lattice – plastic and wood	70,448	62,598	48,736
Manufactured brite and other panels	79,122	94,469	81,143
Siding, trim and moulding	111,230	107,873	85,016
Hardware	16,069	16,742	21,218
Manufactured treated lumber	92,277	96,450	69,844
Other	30,160	11,946	10,632
Total Value-Added Sales	\$ 3,104,336	\$ 2,938,729	\$ 2,621,641
Commodity-Based Sales			
Non-manufactured brite and other lumber	594,534	700,143	545,430
Non-manufactured treated lumber	525,030	585,628	523,245
Non-manufactured brite and other panels	205,678	278,898	265,909
Non-manufactured treated panels	39,340	42,958	36,913
Other	23,266	19,393	13,065
Total Commodity-Based Sales	\$ 1,387,848	\$ 1,627,020	\$ 1,384,562
Total Gross Sales	\$ 4,492,184	\$ 4,565,749	\$ 4,006,203
Sales Allowances	(76,175)	(76,569)	(65,021)
Total Net Sales	\$ 4,416,009	\$ 4,489,180	\$ 3,941,182

Note that the prior year information has been restated due to reclassification of certain products.

N. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth selected financial information for all of the quarters, consisting of 13 weeks during the years ended December 28, 2019 and December 29, 2018, respectively, (in thousands, except per share data):

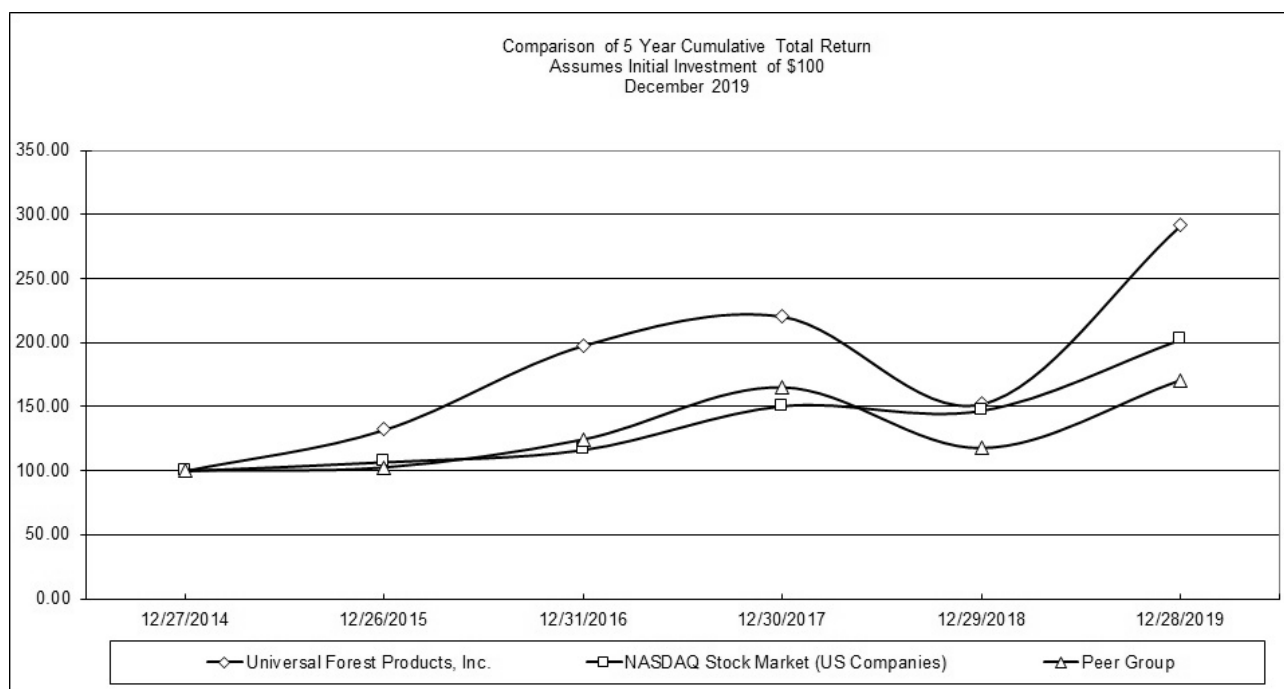
	First		Second		Third		Fourth	
	2019	2018	2019	2018	2019	2018	2019	2018
Net sales	\$ 1,015,125	\$ 993,857	\$ 1,239,817	\$ 1,294,440	\$ 1,163,026	\$ 1,212,702	\$ 998,041	\$ 988,181
Gross profit	154,267	130,889	186,726	165,689	187,270	158,673	157,255	137,643
Net earnings	36,002	33,582	55,145	45,130	52,581	42,068	38,676	31,632
Net earnings attributable to controlling interest	35,540	32,833	54,515	44,044	51,859	41,219	37,736	30,502
Basic earnings per share	0.58	0.53	0.88	0.71	0.84	0.67	0.61	0.50
Diluted earnings per share	0.58	0.53	0.88	0.71	0.84	0.66	0.61	0.50

MARKET INFORMATION FOR OUR COMMON STOCK

Our common stock trades on The Nasdaq Stock Market (“NASDAQ”) under the symbol UFPI.

STOCK PERFORMANCE GRAPH

The following graph depicts the cumulative total return on our common stock compared to the cumulative total return on the indices for The Nasdaq Stock Market (all U.S. companies) and an industry peer group we selected. The graph assumes an investment of \$100 on December 28, 2013, and reinvestment of dividends in all cases.



The companies included in our self-determined industry peer group are as follows:

American Woodmark Corporation

BlueLinx Holdings, Inc.

BMC Stock Holdings, Inc.

Boise Cascade, LLC

Builders FirstSource, Inc.

Cornerstone Building Brands

Gibraltar Industries, Inc.

Greif, Inc.

Louisiana-Pacific Corporation

Masco Corporation

Simpson Manufacturing Company, Inc.

Sonoco Products Company

Trex Company, Inc.

Westrock Company

The returns of each company included in the self-determined peer group are weighted according to each respective company's stock market capitalization at the beginning of each period presented in the graph above. In determining the members of our peer group, we considered companies who selected UFPI as a member of their peer group, and looked for similarly sized companies or companies that are a good fit with the markets we serve.

Directors and Executive Officers

BOARD OF DIRECTORS

William G. Currie
Chairman of the Board
Universal Forest Products, Inc.

Matthew J. Missad
Chief Executive Officer
Universal Forest Products, Inc.

Thomas W. Rhodes
President and Chief Executive Officer
TWR Enterprises, Inc.

Bruce A. Merino

Mary E. Tuuk
President and Chief Executive Officer
Grand Rapids Symphony

Brian C. Walker
Partner-Strategic Leadership
Huron Capital

Michael G. Wooldridge
Partner
Varnum, LLP

Joan A. Budden
President
Priority Health

Benjamin McLean
Chief Executive Officer
Ruan Transportation Management Systems, Inc.

EXECUTIVE OFFICERS

Matthew J. Missad
Chief Executive Officer

Patrick M. Webster
President and Chief Operating Officer

Michael R. Cole
Chief Financial Officer and Treasurer

Allen T. Peters
President and Chief Operating Officer
UFP Retail, LLC

Patrick Benton
President
UFP Construction, LLC

Scott A. Worthington
President
UFP Industrial, LLC

Chad C. Uhlig Eastin
Executive Vice President
ProWood

Scott T. Bravata
Vice President of Accounting

David A. Tutas
Chief Compliance Officer

Shareholder Information

ANNUAL MEETING

The annual meeting of Universal Forest Products, Inc. will be held at 8:30 a.m. on April 22, 2020, at 2880 East Beltline Lane NE, Grand Rapids, MI 49525.

SHAREHOLDER INFORMATION

Shares of the Company's stock are traded under the symbol UFPI on the NASDAQ Stock Market. The Company's 10-K report, filed with the Securities and Exchange Commission, will be provided free of charge to any shareholder upon written request. For more information contact:

Investor Relations Department
Universal Forest Products, Inc.
2801 East Beltline NE
Grand Rapids, MI 49525
Telephone: (616) 364-6161
Web: www.ufpi.com

SECURITIES COUNSEL

Varnum, LLP
Grand Rapids, MI

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
Grand Rapids, MI

TRANSFER AGENT/SHAREHOLDER INQUIRIES

American Stock Transfer & Trust Company serves as the transfer agent for the Corporation. Inquiries relating to stock transfers, changes of ownership, lost or stolen stock certificates, changes of address, and dividend payments should be addressed to:

American Stock Transfer & Trust Co.
6201 15th Ave
Brooklyn, NY 11219
Telephone: (800) 937-5449

UNIVERSAL FOREST PRODUCTS®, INC., CORPORATE HEADQUARTERS

2801 East Beltline NE
Grand Rapids, MI 49525
Telephone: (616) 364-6161
Facsimile: (616) 364-5558

UNIVERSAL FOREST PRODUCTS®, INC., AND ITS AFFILIATES

Locations:

Adairsville, GA	Hamilton, OH	Riverside, CA
Aiea, HI	Harrisonville, MO	Rockwell, NC
Ashburn, GA	Hartford, WI	Rowesville, SC
Athena, OR	Hendersonville, NC	Saginaw, TX
Auburn, NY	Hillsboro, TX	Saint Bernard De Lacolle, Quebec
Auburndale, FL	Hudson, NY	Salina, KS
Aurora, CO	Huntsville, TX	Salisbury, NC
Bangalore, India	Janesville, WI	San Antonio, TX
Belchertown, MA	Jefferson, GA	Santee, NC
Belle Glade, FL	Jeffersonville, IN	Sauk Rapids, MN
Berlin, NJ	Kansas City, MO	Schertz, TX
Blanchester, OH	Kearneysville, WV	Selma, AL
Blue Island, IL	Kyle, TX	Shanghai, China
Boise, ID	Lafayette, CO	Sharon, TN
Bonner, MT	Langdon, ND	Shawnee, OK
Burlington, IA	Lansing, MI	Shipperville, PA
Burlington, NC	Lawrenceburg, TN	Sidney, NY
Cabo San Lucas, Mexico	Liberty, NC	Silsbee, TX
Cameron, SC	Lockhart, FL	Snohomish, WA
Captiva, FL	Locust, NC	St. Louis, MO
Cedar Hill, TX	Lodi, OH	Stanfield, NC
Chaffee, NY	London, United Kingdom	Stockertown, PA
Chandler, AZ	Magna, UT	Tampa, FL
Chateauguay, Quebec	Maricopa County, AZ	Thomaston, GA
Chesapeake, VA	Marietta, GA	Thornton, CA
Chicago, IL	Martin, TN	Tokyo, Japan
Chino, CA	McMinnville, OR	Union City, GA
Church Hill, TN	Medley, FL	Vaughan, Ontario
Clinton, NC	Memphis, TN	Vesper, WI
Columbia, MD	Mexico City, Mexico	Warrens, WI
Comal County, TX	Miami, FL	Washington, NC
Conway, SC	Milwaukee, WI	Wenatchee, WA
Cordele, GA	Minneota, MN	White Bear Lake, MN
Dallas, TX	Morristown, TN	White City, OR
Dayton, OH	Moultrie, GA	White Pigeon, MI
Delano, PA	Naches, WA	Windsor, CO
Eagan, MN	Nampa, ID	Winthrop, ME
Earth City, MO	Nappanee, IN	Woodburn, OR
Eatonton, GA	Naugatuck, CT	Wujiang City, Jiangsu Province
Edina, MN	New Delhi, India	Yakima, WA
Edwardsburg, MI	New Hartford, NY	Yeerongpilly, Australia
Elizabeth City, NC	New London, NC	
Elkhart, IN	New Windsor, MD	
Elkwood, VA	New York, NY	
Emlenton, PA	Newnan, GA	
Erskine Park, AUS	Norton Shores, MI	
Fernley, NV	Ogden, TX	
Fisherville, VA	Ontario, CA	
Folkston, GA	Ooltewah, TN	
Fort Worth, TX	Orangeburg, SC	
Franklinton, NC	Parker, PA	
Fredericksburg, VA	Pearisburg, VA	
Gainesville, GA	Peru, IL	
Georgetown, DE	Pitts, GA	
Gilmer, TX	Plainville, MA	
Gordon, PA	Poulsbo, WA	
Grand Rapids, MI	Prairie du Chien, WI	
Grandview, TX	Puerto Rico	
Granger, IN	Puyallup, WA	
Haleyville, AL	Ranson, WV	

EXHIBIT 21

LIST OF REGISTRANT'S SUBSIDIARIES AND AFFILIATES

11032 Tidewater Trail, LLC	Delaware	UFP Folkston, LLC	Michigan
234 Springs Rd., LLC	Delaware	UFP Franklinton, LLC	Michigan
2875 Needmore Rd. LLC	Delaware	UFP Gainesville, LLC	Michigan
621 Hall St., LLC	Delaware	UFP Gear, LLC	Michigan
Aljoma Holding Company, LLC	Michigan	UFP Global Holdings Limited	England/Wales
Aljoma Lumber, Inc.	Florida	UFP Gordon, LLC	Michigan
Ardellis Insurance Ltd.	Bermuda	UFP Grand Rapids, LLC	Michigan
Caliper Building Systems, LLC	Michigan	UFP Grandview, LLC	Michigan
Deckorators, Inc.	Michigan	UFP Granger, LLC	Michigan
Eovations, LLC	Michigan	UFP Great Lakes, LLC	Michigan
Forestal Universal SA de CV	Mexico	UFP Gulf, LLC	Michigan
Horizon Terra, Incorporated	Indiana	UFP Haleyville, LLC	Michigan
Idaho Western, Inc.	Idaho	UFP Hamilton, LLC	Michigan
idX (China) Display Co., Ltd.	China	UFP Harrisonville, LLC	Michigan
idX (India) Display Private Limited	India	UFP Hartford, LLC	Wisconsin
idX Amsterdam B.V.	Netherlands	UFP Hillsboro, LLC	Michigan
idX Asia Fixtures Ltd	Hong Kong	UFP Industrial, LLC	Michigan
idX Asia Trading Ltd	Hong Kong	UFP International Employment Services, LLC	Michigan
idX Chicago, LLC	Delaware	UFP International, LLC	Michigan
idX Corporation	Delaware	UFP Janesville, LLC	Michigan
idX Corporation London Ltd.	England/Wales	UFP Kyle, LLC	Michigan
idX Dallas, LLC	Delaware	UFP Lafayette, LLC	Michigan
idX Dayton, LLC	Delaware	UFP Lansing, LLC	Michigan
idX Holdings, Inc.	Delaware	UFP Magna, LLC	Michigan
idX Impressions, LLC	Delaware	UFP McMinville, LLC	Michigan
idX Los Angeles, LLC	Delaware	UFP Mexico Embalaje y Distribution, S. de R.L. de C. V.	Mexico
idX Mexico, S. de R.L. de C.V.	Mexico	UFP Mexico Investment, LLC	Michigan
idX Shanghai Trading Company Ltd.	China	UFP Mid-Atlantic, LLC	Michigan
Integra International Pty Ltd	Australia	UFP Milwaukee, LLC	Michigan
Integra Packaging Pty Ltd	Australia	UFP Minneota, LLC	Michigan
Landura, LLC	Texas	UFP Morristown, LLC	Michigan
Metaworld Technologies, LLC	Michigan	UFP Moultrie, LLC	Michigan
Mid-Atlantic Framing, LLC	Michigan	UFP Mountain West, LLC	Michigan
Norpal S. de R.L. de C.V.	Mexico	UFP NAC, LLC	Michigan
North Atlantic Framing, LLC	Michigan	UFP Nappanee, LLC	Michigan
Pinelli Lumber, Inc.	Texas	UFP New London, LLC	Michigan
Pinelli Universal Chile S.A.	Mexico	UFP New Waverly, LLC	Michigan
Pinelli Universal TKT, S de R.L. de C.V.	Mexico	UFP New Windsor, LLC	Michigan
Pinelli Universal, S de R.L. de C.V.	Mexico	UFP New York, LLC	Michigan
PR Distribution, LLC	Puerto Rico	UFP North Atlantic, LLC	Michigan
Shawnlee Construction LLC	Michigan	UFP Northeast, LLC	Michigan
Shepardville Construction, LLC	Michigan	UFP Orlando, LLC	Michigan
Store Fixtures Canada Holdings, Inc.	Delaware	UFP Packaging, LLC	Michigan
The Ubeeco Group Pty Ltd	Australia	UFP Palm Beach, LLC	Michigan
The UBEECO Group Pty Ltd.	Australia	UFP Parker, LLC	Michigan
Tibasa Universal Forest Products S. de R.L. de C.V.	Mexico	UFP Purchasing, Inc.	Michigan
Tresstar, LLC	Michigan	UFP Ranson, LLC	Michigan
Triangle Systems, Inc.	Delaware	UFP Real Estate, LLC	Michigan
U.F.P. Mexico Holdings, S. de R.L. de CV	Mexico	UFP Retail, LLC	Michigan
UFP Albuquerque, LLC	Michigan	UFP Riverside, LLC	Michigan
UFP Altoona, LLC	Michigan	UFP RMS, LLC	Michigan
UFP Ashburn, LLC	Michigan	UFP Rockwell, LLC	Michigan
UFP Atlantic Division, LLC	Michigan	UFP Saginaw, LLC	Michigan
UFP Atlantic, LLC	Michigan	UFP Salisbury, LLC	Michigan
UFP Auburndale, LLC	Michigan	UFP San Antonio, LLC	Michigan
UFP Aurora, LLC	Michigan	UFP Sauk Rapids, LLC	Michigan
UFP Australia Pty Ltd	Australia	UFP Schertz, LLC	Michigan

UFP Australia Real Estate Pty Ltd	Australia	UFP Shawnee, LLC	Michigan
UFP Barnesville, LLC	Michigan	UFP Southeast, LLC	Michigan
UFP Belchertown, LLC	Michigan	UFP Southwest, LLC	Michigan
UFP Berlin, LLC	Michigan	UFP Stockertown, LLC	Michigan
UFP Biscoe, LLC	Michigan	UFP Tampa, LLC	Michigan
UFP Blanchester, LLC	Michigan	UFP Thomaston, LLC	Michigan
UFP Bonner LLC	Michigan	UFP Thornton, LLC	Michigan
UFP Caldwell, LLC	Michigan	UFP Transportation, Inc.	Michigan
UFP Cameron, LLC	Michigan	UFP Union City, LLC	Michigan
UFP Canada, Inc.	Canada	UFP Ventures II, Inc.	Michigan
UFP Central Plains, LLC	Michigan	UFP Warranty Corporation	Michigan
UFP Chandler, LLC	Michigan	UFP Warrens, LLC	Michigan
UFP Chicago, LLC	Michigan	UFP Washington, LLC	Michigan
UFP Concrete Forming Solutions, Inc.	Michigan	UFP Western Division, Inc.	Michigan
UFP Construction, LLC	Michigan	UFP White Bear Lake, LLC	Michigan
UFP Dallas, LLC	Michigan	UFP Windsor, LLC	Michigan
UFP de Mexico S.A. de C.V.	Mexico	UFP Woodburn, LLC	Michigan
UFP Distribution, LLC	Michigan	United Lumber & Reman, LLC	Alabama
UFP Eagan, LLC	Michigan	Universal Forest Products Texas, LLC	Michigan
UFP East Central, LLC	Michigan	Universal Forest Products, Inc.	Michigan
UFP Eastern Division, Inc.	Michigan	Universal Showcase ULC	Alberta

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement Nos. 33-81128, 333-60630, 333-150345, 333-156596, and 33-84632 on Form S-8 of our reports dated February 26, 2020, relating to the consolidated financial statements of Universal Forest Products, Inc. and subsidiaries (the “Company”), and the effectiveness of the Company’s internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the year ended December 28, 2019.

/s/ Deloitte & Touche LLP

Grand Rapids, Michigan

February 26, 2020

Universal Forest Products, Inc.

Certification

I, Matthew J. Missad, certify that:

1. I have reviewed this report on Form 10-K of Universal Forest Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2020

/s/ Matthew J. Missad
 Matthew J. Missad
 Chief Executive Officer and
 Principal Executive Officer

Universal Forest Products, Inc.

Certification

I, Michael R. Cole, certify that:

1. I have reviewed this report on Form 10-K of Universal Forest Products, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2020

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

**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):

I, Matthew J. Missad, Chief Executive Officer of Universal Forest Products, Inc., certify, to the best of my knowledge and belief, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) that:

(1) The report on Form 10-K for the year ended December 29, 2018, which this statement accompanies, fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in this report on Form 10-K for the period ended December 28, 2019 fairly presents, in all material respects, the financial condition and results of operations of Universal Forest Products, Inc.

UNIVERSAL FOREST PRODUCTS, INC.

Date: February 26, 2020

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

The signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Universal Forest Products, Inc. and will be retained by Universal Forest Products, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**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):

I, Michael R. Cole, Chief Financial Officer of Universal Forest Products, Inc., certify, to the best of my knowledge and belief, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350) that:

(1) The report on Form 10-K for the period ended December 29, 2018, which this statement accompanies, fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in this report on Form 10-K for the period ended December 28, 2019 fairly presents, in all material respects, the financial condition and results of operations of Universal Forest Products, Inc.

UNIVERSAL FOREST PRODUCTS, INC.

Date: February 26, 2020

By: /s/ Michael R. Cole

Michael R. Cole

Its: Chief Financial Officer,
Principal Financial Officer and
Principal Accounting Officer

The signed original of this written statement required by Section 906, or any other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Universal Forest Products, Inc. and will be retained by Universal Forest Products, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF
THE SECURITIES EXCHANGE ACT OF 1934**

The following is a brief description of the common stock of Universal Forest Products, Inc. (the "Company"). This summary does not purport to be complete in all respects and is subject to and qualified in its entirety by reference to the Company's Restated and Amended Articles of Incorporation (the "Articles of Incorporation") and Amended Bylaws (the "Bylaws"), each of which are filed as exhibits to the Annual Report on Form 10-K of which this Exhibit 4(b) is a part.

Authorized Capital Stock

The Company's authorized capital stock consists of 80,000,000 shares of common stock and 1,000,000 shares of preferred stock. As of December 28, 2019, there were no shares of preferred stock outstanding.

Dividend and Liquidation Rights

Subject to the prior rights of the holders of shares of preferred stock that may be issued and outstanding, if any, the holders of common stock are entitled to receive:

- dividends when, as, and if declared by the Company's Board of Directors out of funds legally available for the payment of dividends; and
- in the event of dissolution of the Company, to share ratably in all assets remaining after payment of liabilities and satisfaction of the liquidation preferences, if any, of then outstanding shares of preferred stock, as provided in the Articles of Incorporation.

Voting Rights

Each holder of common stock is entitled to one vote for each share held of record on all matters presented to a vote at a shareholders meeting, including the election of directors. Holders of common stock have no cumulative voting rights.

The Company's Articles of Incorporation provide that the Company's Board of Directors be divided into three classes of nearly equal size, with the classes to hold office for staggered terms of three years each.

The vote required for the election of a director shall, except in a contested election, be the affirmative vote of a majority of the votes cast in the election of a nominee. For this purpose, a "majority of the votes cast" means that the number of votes cast "for" a director's election exceeds the number of votes cast "against" that director's election. Abstentions and broker non-votes are not counted as votes cast either "for" or "against" a director's election. In a contested election, directors are elected by a plurality of the votes cast at the meeting of shareholders.

An election is considered contested if there are more nominees for election than positions on the Board of Directors to be filled by election at that meeting.

Listing

The Company's common stock is currently traded on the Nasdaq Global Select Market under the symbol "ufpi."

Applicable Anti-Takeover Provisions

The Company's Articles of Incorporation and Bylaws contain provisions that could also have an anti-takeover effect. Some of the provisions also may make it difficult for shareholders to replace incumbent directors with new directors who may be willing to entertain changes that shareholders may believe will lead to improvements in the combined company's business.

Other

All of the outstanding shares of the Company's common stock are fully paid and non-assessable. Holders of common stock have no preemptive rights to purchase or subscribe for any additional shares of common stock or other securities, and there are no conversion rights or redemption or sinking fund provisions with respect to the Company's common stock.

The transfer agent for the Company's common stock is American Stock Transfer & Trust Co., 6201 15th Avenue, Brooklyn, NY 11219.

