

CAVCO INDUSTRIES INC
Form 10-Q
February 07, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2016

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 000-08822

Cavco Industries, Inc.
(Exact name of registrant as specified in its charter)
Delaware 56-2405642
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1001 North Central Avenue, Suite 800
Phoenix, Arizona 85004
(Address of principal executive offices, including
zip code)
602-256-6263
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last year)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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As of February 3, 2017, 8,993,268 shares of Registrant's Common Stock, \$.01 par value, were outstanding.

CAVCO INDUSTRIES, INC.
FORM 10-Q
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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

CAVCO INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share amounts)

	December 31, 2016	April 2, 2016 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 119,745	\$97,766
Restricted cash, current	9,062	10,218
Accounts receivable, net	35,736	29,113
Short-term investments	12,169	10,140
Current portion of consumer loans receivable, net	31,138	21,918
Current portion of commercial loans receivable, net	6,495	3,557
Inventories	86,644	94,813
Prepaid expenses and other current assets	24,163	22,196
Deferred income taxes, current	9,415	8,998
Total current assets	334,567	298,719
Restricted cash	723	1,082
Investments	28,855	28,948
Consumer loans receivable, net	64,016	67,640
Commercial loans receivable, net	16,911	21,985
Property, plant and equipment, net	56,889	55,072
Goodwill and other intangibles, net	80,113	80,389
Total assets	\$ 582,074	\$553,835
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 16,576	\$18,513
Accrued liabilities	103,096	100,314
Current portion of securitized financings and other	6,094	6,262
Total current liabilities	125,766	125,089
Securitized financings and other	51,659	54,909
Deferred income taxes	20,670	20,611
Stockholders' equity:		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; No shares issued or outstanding	—	—
Common stock, \$.01 par value; 40,000,000 shares authorized; Outstanding 8,992,968 and 8,927,989 shares, respectively	90	89
Additional paid-in capital	244,270	241,662
Retained earnings	137,253	110,186
Accumulated other comprehensive income	2,366	1,289
Total stockholders' equity	383,979	353,226
Total liabilities and stockholders' equity	\$ 582,074	\$553,835
See accompanying Notes to Consolidated Financial Statements		

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CAVCO INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31,	December 26,	December 31,	December 26,
	2016	2015	2016	2015
Net revenue	\$202,310	\$ 181,427	\$575,799	\$ 535,059
Cost of sales	158,766	145,037	459,896	427,280
Gross profit	43,544	36,390	115,903	107,779
Selling, general and administrative expenses	26,003	23,728	76,119	72,958
Income from operations	17,541	12,662	39,784	34,821
Interest expense	(1,091)	(1,244)	(3,384)	(3,224)
Other income, net	829	587	2,407	1,530
Income before income taxes	17,279	12,005	38,807	33,127
Income tax expense	(4,996)	(3,907)	(11,740)	(11,574)
Net income	\$12,283	\$ 8,098	\$27,067	\$ 21,553
Comprehensive income:				
Net income	\$12,283	\$ 8,098	\$27,067	\$ 21,553
Unrealized gain (loss) on available-for-sale securities, net of tax	253	(37)	1,077	(742)
Comprehensive income	\$12,536	\$ 8,061	\$28,144	\$ 20,811
Net income per share:				
Basic	\$1.37	\$ 0.91	\$3.02	\$ 2.43
Diluted	\$1.35	\$ 0.89	\$2.98	\$ 2.38
Weighted average shares outstanding:				
Basic	8,992,456	8,903,742	8,970,008	8,881,822
Diluted	9,102,562	9,064,900	9,096,442	9,040,146

See accompanying Notes to Consolidated Financial Statements

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CAVCO INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended December 31, 2016		December 26, 2015	
OPERATING ACTIVITIES				
Net income	\$ 27,067		\$ 21,553	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	2,762		2,917	
Provision for credit losses	441		435	
Deferred income taxes	(1,001)	)	(887))
Stock-based compensation expense	1,743		1,512	
Non-cash interest income, net	(926)	)	(1,404))
Incremental tax benefits from option exercises	(2,349)	)	(751))
Gain on sale of property, plant and equipment, net	(256)	)	(17))
Gain on sale of loans and investments, net	(5,832)	)	(4,726))
Changes in operating assets and liabilities:				
Restricted cash	905		1,322	
Accounts receivable	(6,627)	)	2,477	
Consumer loans receivable originated	(86,838)	)	(77,012))
Principal payments on consumer loans receivable	8,786		7,698	
Proceeds from sales of consumer loans	77,260		79,304	
Inventories	8,169		(1,072))
Prepaid expenses and other current assets	29		(1,698))
Commercial loans receivable	2,134		(5,707))
	3,332		11,128	

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Accounts payable and accrued liabilities			
Net cash provided by operating activities	28,799		35,072
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(4,343)	)	(2,447)
Purchase of certain assets and liabilities of Fairmont Homes and Chariot Eagle	—		(28,121)
Proceeds from sale of property, plant and equipment	296		54
Purchases of investments	(7,625)	)	(9,956)
Proceeds from sale of investments	8,011		7,737
Net cash used in investing activities	(3,661)	)	(32,733)
FINANCING ACTIVITIES			
(Payments) Proceeds from exercise of stock options	(1,483)	)	951
Incremental tax benefits from exercise of stock options	2,349		751
Proceeds from secured financings and other	2,269		1,093
Payments on securitized financings	(6,294)	)	(5,567)
Net cash used in financing activities	(3,159)	)	(2,772)
Net increase (decrease) in cash and cash equivalents	21,979		(433)
Cash and cash equivalents at beginning of the period	97,766		96,597
Cash and cash equivalents at end of the period	\$ 119,745		\$ 96,164
Supplemental disclosures of cash flow information:			
Cash paid during the year for income taxes	\$ 11,595		\$ 10,553
	\$ 2,605		\$ 2,845

Cash paid during the
year for interest

See accompanying Notes to Consolidated Financial Statements

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CAVCO INDUSTRIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements of Cavco Industries, Inc., and its subsidiaries (collectively, the "Company" or "Cavco"), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for Quarterly Reports on Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations.

In the opinion of management, these statements include all of the normal recurring adjustments necessary to fairly state the Company's Consolidated Financial Statements. Certain prior period amounts have been reclassified to conform to current period classification. The Company has evaluated subsequent events after the balance sheet date through the date of the filing of this report with the SEC; there were no disclosable subsequent events. These Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended April 2, 2016, filed with the SEC on June 21, 2016.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying Notes. Actual results could differ from those estimates. The Consolidated Statements of Comprehensive Income and Consolidated Statements of Cash Flows for the interim periods are not necessarily indicative of the results or cash flows for the full year. The Company operates on a 52-53 week fiscal year ending on the Saturday nearest to March 31 of each year. Each fiscal quarter consists of 13 weeks, with an occasional fourth quarter extending to 14 weeks, if necessary, for the fiscal year to end on the Saturday nearest to March 31. The Company's current fiscal year will end on April 1, 2017.

The Company operates principally in two segments: (1) factory-built housing, which includes wholesale and retail systems-built housing operations, and (2) financial services, which includes manufactured housing consumer finance and insurance. The Company designs and builds a wide variety of affordable modular homes, manufactured homes and park model RVs in 19 factories located throughout the United States, which are sold to a network of independent retailers, through the Company's 43 Company-owned retail stores and to community owners and developers. Our financial services group is comprised of a mortgage subsidiary, CountryPlace Acceptance Corp. ("CountryPlace"), and an insurance subsidiary, Standard Casualty Co. ("Standard Casualty"). CountryPlace is an approved Federal National Mortgage Association ("FNMA" or "Fannie Mae") and Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") seller/servicer, and a Government National Mortgage Association ("GNMA" or "Ginnie Mae") mortgage backed securities issuer which offers conforming mortgages, non-conforming mortgages and chattel loans to purchasers of factory-built and site-built homes. Standard Casualty provides property and casualty insurance to owners of manufactured homes.

Recent Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements intended to provide users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a company's contracts with customers. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of the new revenue standard. Accordingly, the updated standard is effective for us beginning with the first quarter of the Company's fiscal year 2019, with early application permitted in fiscal year 2018. The standard allows for either "full retrospective" adoption, meaning the standard is applied to all of the periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company is currently evaluating the effect ASU 2014-09 will have on the Company's Consolidated Financial Statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation- Stock Compensation (Topic 718) ("ASU 2016-09"). ASU 2016-09 will be effective beginning with the first quarter of the Company's fiscal year 2018, with early adoption permitted. The amendment simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Upon adoption, the Company will record any excess tax benefits or deficiencies from its equity awards in its Consolidated Statements of Comprehensive Income in the reporting periods in which exercise or settlement occurs. As a result, subsequent to adoption the Company's income tax expense and effective tax rate will be impacted by fluctuations in stock price between the grant dates and exercise or settlement dates of equity awards.

In May 2015, the FASB issued ASU 2015-09, Financial Services—Insurance—Disclosures about Short-Duration Contracts ("ASU 2015-09"), which would require additional disclosures in annual and interim reporting periods by insurance entities related to liabilities for claims and claim adjustment expenses, and changes in assumptions or methodologies for calculating such liabilities. The Company does not believe that these disclosures will be material to the consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). ASU 2015-17 will be effective beginning with the Company's fiscal year 2019 annual report and interim periods thereafter, with early adoption permitted. In this update, entities are required to present all deferred tax liabilities and assets as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. The standard can be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. As this standard impacts presentation only, the adoption of ASU 2015-17 is not expected to have an impact on the Company's financial condition, results of operations or cash flows. In January 2016, the FASB issued ASU 2016-01, Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 will be effective beginning with the first quarter of the Company's fiscal year 2019. The amendments require certain equity investments to be measured at fair value, with changes in the fair value recognized through net income. The Company is currently evaluating the effect ASU 2016-01 will have on the Company's Consolidated Financial Statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 will be effective beginning with the first quarter of the Company's fiscal year 2020, with early adoption permitted. The amendments require the recognition of lease assets and lease liabilities on the balance sheet for most leases, but recognize expenses in the income statement in a manner similar to current accounting treatment. In addition, disclosures of key information about leasing arrangements are required. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. The Company is currently evaluating the effect ASU 2016-02 will have on the Company's Consolidated Financial Statements and disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). ASU 2016-13 changes the impairment model for most financial assets and certain other instruments, which requires a new forward-looking impairment model based on expected losses rather than incurred losses. The guidance also requires increased disclosures. ASU 2016-01 will be effective beginning with the first quarter of the Company's fiscal year 2021. The Company is currently evaluating the effect ASU 2016-13 will have on the Company's Consolidated Financial Statements and disclosures.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force ("ASU 2016-18")), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective beginning with the first quarter of the Company's fiscal year 2019. The adoption of ASU 2016-18 is not expected to have a material impact on the consolidated financial statements and will only change the presentation of the Consolidated Statement of Cash Flows.

From time to time, new accounting pronouncements are issued by the FASB and other regulatory bodies that are adopted by the Company as of the specified effective dates. Unless otherwise discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's Consolidated Financial Statements upon adoption.

For a description of other significant accounting policies used by the Company in the preparation of its Consolidated Financial Statements, please refer to Note 1 of the Notes to Consolidated Financial Statements in the Form 10-K.

2. Restricted Cash

Restricted cash consists of the following (in thousands):

	December 31, 2016	April 2, 2016
Cash related to CountryPlace customer payments to be remitted to third parties	\$ 7,781	\$8,419
Cash related to CountryPlace customer payments on securitized loans to be remitted to bondholders	1,138	1,747
Cash related to workers' compensation insurance held in trust	353	728
Other restricted cash	513	406
	\$ 9,785	\$11,300

Corresponding amounts are recorded in accounts payable and accrued liabilities for customer payments, deposits and other restricted cash.

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3. Investments

Investments consist of the following (in thousands):

	December 31, 2016	April 2, 2016
Available-for-sale investment securities	\$ 25,236	\$24,247
Non-marketable equity investments	15,788	14,841
	\$ 41,024	\$39,088

The following tables summarize the Company's available-for-sale investment securities, gross unrealized gains and losses and fair value, aggregated by investment category (in thousands):

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government debt securities	\$650	\$	—\$ (1)	\$ 649
Residential mortgage-backed securities	5,859	5	(90)	5,774
State and political subdivision debt securities	7,209	139	(120)	7,228
Corporate debt securities	1,703	3	(29)	1,677