

AMERICAN WOODMARK CORP

Form 10-Q

March 12, 2018

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 January 31, 2018

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: 000-14798

American Woodmark Corporation

(Exact name of registrant as specified in its charter)

Virginia	54-1138147
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3102 Shawnee Drive, Winchester, Virginia	22601
(Address of principal executive offices)	(Zip Code)

(540) 665-9100  
(Registrant's telephone number, including area code)

Not Applicable

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

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 ☐

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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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
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Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
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Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of March 9, 2018, 17,503,330 shares of the Registrant's Common Stock were outstanding.

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AMERICAN WOODMARK CORPORATION

FORM 10-Q

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## AMERICAN WOODMARK CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

(Unaudited)

	January 31, 2018	April 30, 2017
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 139,624	\$ 176,978
Investments - certificates of deposit	8,000	51,750
Customer receivables, net	121,777	63,115
Inventories	108,003	42,859
Income tax receivable	27,353	—
Prepaid expenses and other	10,311	4,526
Total current assets	415,068	339,228
Property, plant and equipment, net	210,628	107,933
Investments - certificates of deposit	2,500	20,500
Customer relationship intangibles, net	270,194	—
Trademarks, net	9,722	—
Goodwill, net	765,743	—
Promotional displays, net	12,925	5,745
Deferred income taxes	—	18,047
Other assets	15,209	9,820
<b>TOTAL ASSETS</b>	<b>\$ 1,701,989</b>	<b>\$ 501,273</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable	\$ 65,052	\$ 41,312
Current maturities of long-term debt	14,864	1,598
Accrued compensation and related expenses	46,712	36,162
Accrued marketing expenses	18,767	8,655
Other accrued expenses	37,301	13,770
Total current liabilities	182,696	101,497
Long-term debt, less current maturities	881,585	15,279
Deferred income taxes	63,569	—
Defined benefit pension liabilities	6,306	28,032
Other long-term liabilities	5,187	4,016
Shareholders' equity		
Preferred stock, \$1.00 par value; 2,000,000 shares authorized, none issued	—	—
Common stock, no par value; 40,000,000 shares authorized; issued and outstanding shares: at January 31, 2018: 17,503,330;		
at April 30, 2017: 16,232,775	360,586	168,835
Retained earnings	241,727	224,031
Accumulated other comprehensive loss -		
Defined benefit pension plans	(39,667 )	(40,417 )
Total shareholders' equity	562,646	352,449
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,701,989</b>	<b>\$ 501,273</b>
See notes to condensed consolidated financial statements.		



AMERICAN WOODMARK CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except share and per share data)  
(Unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2018	2017	2018	2017
Net sales	\$292,791	\$249,285	\$844,387	\$771,511
Cost of sales and distribution	242,412	197,689	678,179	604,446
Gross Profit	50,379	51,596	166,208	167,065
Selling and marketing expenses	19,167	18,519	55,397	52,128
General and administrative expenses	23,492	11,476	41,442	33,083
Operating Income	7,720	21,601	69,369	81,854
Interest expense	4,498	447	4,603	776
Other income	(542)	(619)	(1,833)	(1,085)
Income Before Income Taxes	3,764	21,773	66,599	82,163
Income tax expense	1,768	7,220	22,567	28,312
Net Income	\$1,996	\$14,553	\$44,032	\$53,851
Weighted Average Shares Outstanding				
Basic	16,578,235	16,241,670	16,349,716	16,267,333
Diluted	16,690,760	16,381,223	16,461,509	16,400,842
Net earnings per share				
Basic	\$0.12	\$0.90	\$2.69	\$3.31
Diluted	\$0.12	\$0.89	\$2.67	\$3.28

See notes to condensed consolidated financial statements.

AMERICAN WOODMARK CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (in thousands)  
 (Unaudited)

	Three Months Ended January 31, 2018 2017		Nine Months Ended January 31, 2018 2017	
Net income	\$ 1,996	\$ 14,553	\$ 44,032	\$ 53,851
Other comprehensive income, net of tax:				
Change in pension benefits, net of deferred taxes of \$(138) and \$(173), and \$(450) and \$(518), for the three and nine months ended January 31, 2018 and 2017, respectively	262	270	750	810
Total Comprehensive Income	\$2,258	\$ 14,823	\$ 44,782	\$ 54,661

See notes to condensed consolidated financial statements.

AMERICAN WOODMARK CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(in thousands)  
(Unaudited)

	COMMON STOCK		RETAINED	ACCUMULATED OTHER COMPREHENSIVE	TOTAL SHAREHOLDERS'
(in thousands, except share data)	SHARES	AMOUNT	EARNINGS	LOSS	EQUITY
Balance, May 1, 2016	16,244,041	\$ 163,290	\$ 164,756	\$ (47,285 )	\$ 280,761
Net income	—	—	53,851	—	53,851
Other comprehensive loss, net of tax	—	—	—	810	810
Stock-based compensation	—	2,477	—	—	2,477
Exercise of stock-based compensation awards, net of amounts withheld for taxes	122,522	626	—	—	626
Stock repurchases	(178,118 )	(1,483 )	(11,924 )	—	(13,407 )
Employee benefit plan contributions	44,080	2,926	—	—	2,926
Balance, January 31, 2017	16,232,525	\$ 167,836	\$ 206,683	\$ (46,475 )	\$ 328,044
Balance, May 1, 2017	16,232,775	\$ 168,835	\$ 224,031	\$ (40,417 )	\$ 352,449
Net income	—	—	44,032	—	44,032
Other comprehensive loss, net of tax	—	—	—	750	750
Stock-based compensation	—	2,506	—	—	2,506
Exercise of stock-based compensation awards, net of amounts withheld for taxes	86,335	(1,494 )	—	—	(1,494 )
Stock issuance related to acquisition	1,457,568	189,849	—	—	189,849
Stock repurchases	(309,612 )	(2,664 )	(26,336 )	—	(29,000 )
Employee benefit plan contributions	36,264	3,554	—	—	3,554
Balance, January 31, 2018	17,503,330	\$ 360,586	\$ 241,727	\$ (39,667 )	\$ 562,646

See notes to condensed consolidated financial statements.



AMERICAN WOODMARK CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended		
	January 31,		
	2018		2017
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 44,032		\$ 53,851
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,662		13,719
Net loss on disposal of property, plant and equipment	266		286
Stock-based compensation expense	2,506		2,477
Deferred income taxes	13,839		10,173
Pension contributions in excess of expense	(20,526)	)	(27,706)
Contributions of employer stock to employee benefit plan	3,554		2,926
Other non-cash items	(546)	)	(429)
Changes in operating assets and liabilities:			
Customer receivables	(3,577)	)	(3,767)
Income taxes receivables	(8,652)	)	—
Inventories	235		(2,571)
Prepaid expenses and other assets	(6,639)	)	(1,983)
Accounts payable	(1,373)	)	(2,110)
Accrued compensation and related expenses	(4,495)	)	2,598
Other accrued expenses	8,595		4,200
Net cash provided by operating activities	48,881		51,664
<b>INVESTING ACTIVITIES</b>			
Payments to acquire property, plant and equipment	(31,198)	)	(13,654)

Proceeds from sales of property, plant and equipment	14		37	
Acquisition of business, net of cash acquired	(57,200)	)	—	
Purchases of certificates of deposit	(25,000)	)	(57,250)	)
Maturities of certificates of deposit	86,750		23,000	
Investment in promotional displays	(1,721)	)	(3,867)	)
Net cash used by investing activities	(28,355)	)	(51,734)	)
FINANCING ACTIVITIES				
Payments of long-term debt	(21,397)	)	(1,290)	)
Proceeds from long-term debt	734		2,687	
Proceeds from issuance of common stock	1,286		2,359	
Repurchase of common stock	(29,000)	)	(13,407)	)
Notes receivable, net	—		208	
Withholding of employee taxes related to stock-based compensation	(2,779)	)	(1,734)	)
Debt issuance cost	(6,724)	)	—	
Net cash used by financing activities	(57,880)	)	(11,177)	)
Net decrease in cash and cash equivalents	(37,354)	)	(11,247)	)
Cash and cash equivalents, beginning of period	176,978		174,463	
Cash and cash equivalents, end of period	\$ 139,624		\$ 163,216	

Supplemental cash flow information:

Non-cash investing and financing activities:

Long-term debt related to funding acquisition	\$ 300,000	\$—
Stock issuance in connection with acquisition	\$ 189,849	\$—
Property, plant and equipment	\$4,687	\$—
Net other assets and liabilities related to acquisition	\$6,154	\$—

Cash paid during the period for:

Interest	\$272	\$435
Income taxes	\$17,920	\$19,966

See notes to condensed consolidated financial statements.

AMERICAN WOODMARK CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note A--Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended January 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2018. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2017 filed with the U.S. Securities and Exchange Commission ("SEC"). On December 29, 2017, the Company successfully completed the acquisition of RSI Home Products, Inc. and subsidiaries ("RSI"). As a result of the RSI acquisition, the financial results of the Company for the three- and nine-month periods ended January 31, 2018 include the results of operation of RSI and its subsidiaries since the date of acquisition.

**Inventory:** Inventories are stated at lower of cost or market. Inventory costs are determined by the last-in, first-out (LIFO) method and for certain subsidiaries by the first-in, first-out (FIFO) method.

The LIFO cost reserve is determined in the aggregate for inventory and is applied as a reduction to inventories determined on the FIFO method. FIFO inventory cost approximates replacement cost.

**Use of Estimates:** The preparation of consolidated financial statements in conformity with U.S. GAAP requires management 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 consolidated financial statements and the reported amounts of revenues and expenses during each reporting period. Examples of estimates include the allocation of fair value to assets acquired and liabilities assumed in acquisitions, pension obligations, useful lives of property and equipment and recoverability of goodwill and other intangible assets. Actual results could differ from those estimates.

**Goodwill and Other Intangible Assets:** Goodwill represents the excess of purchase price over the net amount of identifiable assets acquired and liabilities assumed in a business combination measured at fair value. The Company does not amortize goodwill but evaluates for impairment annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

When testing goodwill for impairment, an entity has the option first to assess qualitative factors to determine whether events and circumstances indicate that it is more likely than not that goodwill is impaired. If after such assessment an entity concludes that the asset is not impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the asset using a quantitative impairment test, and if impaired, the associated assets must be written down to fair value. There were no impairment charges related to goodwill for the three- and nine-month periods ended January 31, 2018 and 2017.

The Company amortizes the cost of other intangible assets over their estimated useful lives, which range up to six years, unless such lives are deemed indefinite. There were no impairment charges related to other intangible assets for the three- and nine-month periods ended January 31, 2018 and 2017.

Note B--New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers: Topic 606." ASU 2014-09 supersedes the revenue recognition requirements in "Accounting Standard Codification 605 - Revenue Recognition" and most industry-specific guidance. The standard requires that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date." ASU 2015-14 defers the effective date of ASU 2014-09 by one year to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that period. The Company does not expect the adoption of ASU 2014-09 and ASU 2015-14 to have a material

impact on results of operations, cash flows and financial position. The Company is continuing to evaluate the impact of ASU 2014-09 primarily to determine the transition method to utilize at adoption and the additional disclosures required.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." ASU 2016-02 requires lessees to recognize most leases on-balance sheet, which will increase reported assets and liabilities. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 supersedes "Topic 840 - Leases." ASU 2016-02 is effective for public companies for annual and interim periods in fiscal years beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method for all entities. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." ASU 2017-07 requires an employer to disaggregate the service cost component from the other components of net benefit (income) cost. The other components of net benefit (income) cost are required to be presented in the income statement separately from the service cost component and outside of operating income. The amendments also allow only the service cost component of net benefit (income) cost to be eligible for capitalization. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017. The amendments in this ASU should be applied (1) retrospectively for the presentation of the service cost component and the other components of net periodic pension (income) cost and net periodic postretirement benefit (income) cost on the income statement, and (2) prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension (income) cost and net periodic postretirement benefit (income) cost in assets. The Company believes this guidance will not have a material impact on its results of operations, cash flows and financial position.

In February 2018, the FASB issued ASU No. 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." ASU 2018-02 allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments in this ASU are effective for annual and interim periods in fiscal years beginning after December 15, 2018. The Company is currently assessing the impact that ASU 2018-02 will have on its consolidated financial statements.

#### Note C-- Acquisition of RSI Home Products, Inc. (the "RSI Acquisition")

On November 30, 2017, American Woodmark, Alliance Merger Sub, Inc. ("Merger Sub"), RSI Home Products, Inc. ("RSI") and Ronald M. Simon, as the RSI stockholder representative, entered into a merger agreement (the "merger agreement"), pursuant to which the parties agreed to merge Merger Sub with and into RSI pursuant to the terms and subject to the conditions set forth in the Merger Agreement, with RSI continuing as the surviving corporation and as a wholly owned subsidiary of American Woodmark. On December 29, 2017 (the "Acquisition Date"), the Company consummated the RSI Acquisition pursuant to the terms of the Merger Agreement. As a result of the merger of Merger Sub with and into RSI, Merger Sub's separate corporate existence ceased, and RSI continued as the surviving corporation and a wholly owned subsidiary of American Woodmark. RSI is a leading manufacturer of kitchen and bath cabinetry and home organization products. The acquisition is expected to enable the Company to make further progress in implementing its business strategy of increasing operational efficiency to drive enhanced profitability, leveraging differentiated service platforms to grow revenue, and continuing to deepen relationships within its existing customer base.

In connection with the RSI Acquisition, on December 29, 2017, the Company entered into a credit agreement (the "Credit Agreement") with a syndicate of lenders and Wells Fargo Bank, National Association ("Wells Fargo"), as

administrative agent, providing for a \$100 million, 5-year revolving loan facility with a \$25 million sub-facility for the issuance of letters of credit (the "Revolving Facility"), a \$250 million, 5-year initial term loan facility (the "Initial Term Loan") and a \$250 million delayed draw term loan facility (the "Delayed Draw Term Loan" and, together with the Revolving Facility and the Initial Term Loan, the "Credit Facilities") (See Note M--Loans Payable and Long-Term Debt for further details). American Woodmark used the full proceeds of the Initial Term Loan and approximately \$50 million in loans under the Revolving Facility, together with cash on its balance sheet, to fund the cash portion of the RSI Acquisition consideration and its transaction fees and expenses.

At the closing of the RSI Acquisition, American Woodmark assumed approximately \$589 million (including accrued interest) of RSI's indebtedness consisting largely of RSI's 6½% Senior Secured Second Lien Notes due 2023 (the "RSI Notes"). (See Note M--Loans Payable and Long-Term Debt).

Preliminary Allocation of Purchase Price to Assets Acquired and Liabilities Assumed

As consideration for the RSI Acquisition, American Woodmark paid total accounting consideration of \$553.2 million including (i) cash consideration of \$363.3 million, net of cash acquired, and (ii) 1,457,568 newly issued shares of American Woodmark common stock valued at \$189.8 million based on \$130.25 per share, which was the closing stock price on the Acquisition Date. The consideration paid is subject to a working capital adjustment by which the consideration will be adjusted upward or downward depending on whether the amount of working capital delivered at the Acquisition Date exceeds or is less than a target amount. The working capital adjustment has not yet been finalized and the accounting consideration does not reflect any adjustment to the estimated working capital reflected in the consideration paid at the Acquisition Date.

The Company accounted for the acquisition of RSI as a business combination, which requires the Company to record the assets acquired and liabilities assumed at fair value. The amount by which the purchase price exceeds the fair value of net assets acquired is recorded as goodwill. The Company has commenced the appraisals necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and the amount of goodwill to be recognized as of the Acquisition Date. The amounts recorded for certain assets and liabilities are preliminary in nature and are subject to adjustment as additional information is obtained about the facts and circumstances that existed as of the Acquisition Date. The final determination of the fair values of certain assets and liabilities will be completed within the measurement period of up to one year from the Acquisition Date permitted under GAAP. The final values may also result in changes to depreciation and amortization expense related to certain assets such as buildings, equipment and intangible assets. Any potential adjustments made could be material in relation to the preliminary values presented in the table below.

The following table summarizes the allocation of the preliminary purchase price as of the Acquisition Date, which is based on the accounting consideration of \$553.2 million, to the estimated fair value of assets acquired and liabilities assumed (in thousands):

Goodwill	\$765,743
Customer relationship intangibles	274,000
Property, plant and equipment	87,064
Inventories	66,293
Customer receivables	54,649
Income taxes receivable	18,450
Trademarks	10,000
Prepaid expenses and other	4,571
Leasehold interests	151
Total identifiable assets and goodwill acquired	1,280,921
Debt	602,313
Deferred income taxes	67,478
Accrued expenses	29,777
Accounts payable	25,113
Notes payable	2,988
Income taxes payable	49
Total liabilities assumed	727,718
Total accounting consideration	\$553,203

The fair value of the assets acquired and liabilities assumed were preliminarily determined using income, market and cost valuation methodologies. The fair value of debt acquired was determined using Level 1 inputs as quoted prices in active markets for identical liabilities were available. The fair value measurements were estimated using significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in Accounting

Standards Codification (ASC) 820. The income approach was primarily used to value the customer relationship intangibles and trademarks. The income approach determines value for an asset or liability based on the present value of cash flows projected to be generated over the remaining economic life of the asset or liability being measured. Both the amount and the duration of the cash flows are considered from a market participant perspective. Our estimates of market participant net cash flows considered historical and projected product pricing, operational performance including company specific synergies, product life cycles, material and labor pricing, and other relevant customer, contractual and market factors. The net cash flows are discounted to present value

using a discount rate that reflects the relative risk of achieving the cash flow and the time value of money. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets or liabilities. The cost approach estimates value by determining the current cost of replacing an asset with another of equivalent economic utility. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation. The cost and market approaches were used to value inventory, while the cost approach was the primary approach used to value property, plant and equipment.

The preliminary purchase price allocation resulted in the recognition of \$765.7 million of goodwill, which is not expected to be amortizable for tax purposes. The goodwill recognized is attributable to expected revenue synergies generated by the integration of the Company's products with RSI's, cost synergies resulting from purchasing and manufacturing activities, and intangible assets that do not qualify for separate recognition, such as the assembled workforce of RSI.

Customer receivables were recorded at the contractual amounts due of \$54.7 million, less an allowance for doubtful accounts of \$0.1 million, which approximates their fair value.

Determining the fair value of assets acquired and liabilities assumed requires the exercise of significant judgment, including the amount and timing of expected future cash flows, long-term growth rates and discount rates. The cash flows employed in the valuation are based on the Company's best estimates of future sales, earnings and cash flows after considering factors such as general market conditions, expected future customer orders, contracts with suppliers, labor costs, changes in working capital, long term business plans and recent operating performance. Use of different estimates and judgments could yield different results.

#### Impact to Financial Results for the Nine Months Ended January 31, 2018

RSI's financial results have been included in our consolidated financial results for the period from the Acquisition Date to January 31, 2018. As a result, our consolidated financial results for the nine months ended January 31, 2018 do not reflect a full nine months of RSI results. From December 29, 2017 to January 31, 2018, RSI generated net sales of approximately \$38.6 million and an operating loss of approximately \$4.9 million, inclusive of intangible amortization and adjustments to account for the acquisition, including a \$6.3 million charge to cost of sales as a result of the step up of inventory as of the Acquisition Date to fair value.

The Company incurred approximately \$10.2 million of transaction costs associated with the RSI Acquisition during the nine months ended January 31, 2018 that the Company expensed as incurred. These costs are included in general and administrative expenses on the Consolidated Statements of Income.

#### Supplemental Pro Forma Financial Information (unaudited)

The following table presents summarized unaudited pro forma financial information as if RSI had been included in the Company's financial results for the entire nine months ended January 31, 2018 and 2017:

	Nine months ended January 31,	
(in thousands)	2018	2017
Net Sales	\$1,207,775	\$1,213,604
Net Income (1)	\$45,812	\$71,945
Net earnings per share - basic	\$2.60	\$4.06
Net earnings per share - diluted	\$2.58	\$4.03

(1) Includes stock compensation expense of \$17.5 million and \$2.6 million for the nine months ended January 31, 2018 and 2017, respectively, calculated under the intrinsic value method in measuring stock-based liability awards related to stock-based grants made by RSI prior to the RSI Acquisition.

The unaudited supplemental pro forma financial data above assumes the RSI Acquisition occurred on May 1, 2016 and has been calculated after applying the Company's accounting policies and adjusting the historical results of RSI with pro forma adjustments, net of a statutory tax rate of 34.4% and 40.4% for the nine months ended January 31, 2018 and 2017, respectively. Significant pro forma adjustments include the recognition of additional amortization expense related to acquired intangible

assets (net of historical amortization expense of RSI), additional interest expense related to the Initial Term Loan used to finance the acquisition, and elimination of the inventory fair value step-up expense and transaction related expenses which are non-recurring in nature. These adjustments assume the application of fair value adjustments to intangibles and that the \$300.0 million borrowed under the Credit Agreement occurred on May 1, 2016 and are as follows: amortization expense, net of tax, of \$20.0 million and \$20.5 million for the nine months ended January 31, 2018 and 2017, respectively; interest expense, net of tax, (including amortization expense related to \$6.7 million of debt issuance costs, which are being amortized over a period of 5 years) of \$3.0 million and \$3.3 million for the nine months ended January 31, 2018 and 2017, respectively. The following amounts have been excluded: inventory fair value step-up expense, net of tax, of \$4.1 million for the nine months ended January 31, 2018; and transaction expenses add-back, net of tax, of \$6.9 million and \$0.5 million for the nine months ended January 31, 2018 and 2017.

The unaudited supplemental pro forma financial information does not reflect the realization of any expected ongoing cost or revenue synergies relating to the integration of the two companies. Further, the pro forma data should not be considered indicative of the results that would have occurred if the RSI Acquisition, related financing, and associated issuance of Senior Notes (defined herein) and repurchase or redemption of the RSI Notes had been actually consummated on May 1, 2016, nor are they indicative of future results (See Note R--Subsequent Events).

#### Note D--Net Earnings Per Share

The following table sets forth the computation of basic and diluted net earnings per share:

	Three Months Ended January 31, 2018		Nine Months Ended January 31, 2017	
(in thousands, except per share amounts)				
Numerator used in basic and diluted net earnings per common share:				
Net income	\$ 1,996	\$ 14,553	\$ 44,032	\$ 53,851
Denominator:				
Denominator for basic net earnings per common share - weighted-average shares	16,578	16,242	16,350	16,267
Effect of dilutive securities:				
Stock options and restricted stock units	113	140	112	134
Denominator for diluted net earnings per common share - weighted-average shares and assumed conversions	16,691	16,381	16,462	16,401
Net earnings per share				
Basic	\$0.12	\$0.90	\$2.69	\$3.31
Diluted	\$0.12	\$0.89	\$2.67	\$3.28

The Company repurchased a total of 58,371 and 38,318 shares of its common stock during the three-month periods ended January 31, 2018 and 2017, respectively, and 309,612 and 178,118 shares of its common stock during the nine-month periods ended January 31, 2018 and 2017, respectively. There were no potentially dilutive securities for the three- and nine-month periods ended January 31, 2018 and 2017, which were excluded from the calculation of net earnings per diluted share.

#### Note E--Stock-Based Compensation

The Company has various stock-based compensation plans. During the quarter ended January 31, 2018, the Company did not grant any stock-based compensation awards to employees or non-employee directors. During the nine-months

ended January 31, 2018, the Board of Directors of the Company approved grants of service-based RSUs and performance-based RSUs to key employees and non-employee directors. The employee performance-based RSUs totaled 33,080 units and the employee and non-employee director service-based RSUs totaled 22,250 units. The performance-based RSUs entitle the recipients to receive one share of the Company's common stock per unit granted if applicable performance conditions are met and the recipient remains continuously employed with the Company until the units vest. The service-based RSUs entitle the recipients to receive one share of the Company's common stock per unit granted if they remain continuously employed with the Company (or, for

non-employee directors, serving on the Board of Directors) until the units vest. All of the Company's RSUs granted to employees cliff-vest three years from the grant date.

For the three- and nine-month periods ended January 31, 2018 and 2017, stock-based compensation expense was allocated as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
(in thousands)	2018	2017	2018	2017
Cost of sales and distribution	\$256	\$160	\$777	\$468
Selling and marketing (income) expenses	183	253	385	755
General and administrative expenses	458	414	1,344	1,254
Stock-based compensation expense	\$897	\$827	\$2,506	\$2,477

During the nine months ended January 31, 2018, the Company also approved grants of 4,496 cash-settled performance-based restricted stock tracking units ("RSTUs") and 2,519 cash-settled service-based RSTUs for more junior level employees. Each performance-based RSTU entitles the recipient to receive a payment in cash equal to the fair market value of a share of the Company's common stock as of the payment date if applicable performance conditions are met and the recipient remains continuously employed with the Company until the units vest. The service-based RSTUs entitle the recipients to receive a payment in cash equal to the fair market value of a share of the Company's common stock as of the payment date if they remain continuously employed with the Company until the units vest. All of the RSTUs cliff-vest three years from the grant date. Since the RSTUs will be settled in cash, the grant date fair value of these awards is recorded as a liability until the date of payment. The fair value of each cash-settled RSTU award is remeasured at the end of each reporting period and the liability is adjusted, and related expense recorded, based on the new fair value. The Company recognized expense of approximately \$0.6 million and \$0.1 million for the three-month periods ended January 31, 2018 and 2017, respectively, and approximately \$1.0 million and \$0.3 million for the nine-month periods ended January 31, 2018 and 2017, respectively. A liability for payment of the RSTUs is included in the Company's balance sheets in the amount of \$1.6 million and \$1.5 million as of January 31, 2018 and April 30, 2017, respectively.

#### Note F--Customer Receivables

The components of customer receivables were:

	January 31, 2018	April 30, 2017
(in thousands)		
Gross customer receivables	\$127,339	\$66,373
Less:		
Allowance for doubtful accounts	(280)	(148)
Allowance for returns and discounts	(5,282)	(3,110)
Net customer receivables	\$121,777	\$63,115

#### Note G--Inventories

The components of inventories were:



	January 31, 2018	April 30, 2017
(in thousands)		
Raw materials	\$49,503	\$18,230
Work-in-process	40,330	18,704
Finished goods	31,617	19,372
Total FIFO inventories	121,450	56,306
Reserve to adjust inventories to LIFO value	(13,447 )	(13,447 )
Total inventories	\$108,003	\$42,859

Interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Since these items are estimated, interim results are subject to the final year-end LIFO inventory valuation.

#### Note H--Property, Plant and Equipment

The components of property, plant and equipment were:

	January 31, 2018	April 30, 2017
(in thousands)		
Land	\$4,751	\$3,581
Buildings and improvements	93,902	81,172
Buildings and improvements - capital leases	11,203	11,202
Machinery and equipment	268,063	187,836
Machinery and equipment - capital leases	29,918	29,378
Construction in progress	28,600	10,838
	436,437	324,007
Less accumulated amortization and depreciation	(225,809 )	(216,074 )
Total	\$210,628	\$107,933

Amortization and depreciation expense on property, plant and equipment amounted to \$12.9 million and \$10.5 million for the nine months ended January 31, 2018 and 2017, respectively. Accumulated amortization on capital leases included in the above table amounted to \$30.0 million and \$29.7 million as of January 31, 2018 and April 30, 2017, respectively.

#### Note I--Intangibles

The components of intangible assets were:

(in thousands)	Weighted Average Amortization Period	Amortization Method	Cost	Accumulated Amortization	Net Carrying Amount
Customer relationships	6 years	Straight-line	\$274,000	\$ 3,806	\$270,194
Trademarks	3 years	Straight-line	10,000	278	9,722
Intangible assets, net				\$ 4,084	\$279,916

Amortization expense for the nine months ended January 31, 2018 was \$4.1 million. Based on the carrying amounts of amortizable intangible assets noted above, estimated amortization expense for the next five 12-month periods beginning in January 31, 2018 is \$49.0 million, \$49.0 million, \$48.7 million, \$45.7 million and \$45.7 million, respectively.

## Note J--Product Warranty

The Company estimates outstanding warranty costs based on the historical relationship between warranty claims and revenues. The warranty accrual is reviewed monthly to verify that it properly reflects the remaining obligation based on the anticipated expenditures over the balance of the obligation period. Adjustments are made when actual warranty claim experience differs from estimates. Warranty claims are generally made within two months of the original shipment date.

The following is a reconciliation of the Company's warranty liability, which is included in other accrued expenses on the balance sheet:

	Nine Months Ended January 31,	
(in thousands)	2018	2017
Beginning balance at May 1	\$3,262	\$2,926
Acquisition	119	—
Accrual	14,943	13,460
Settlements	(14,760)	(13,376)

Ending balance at January 31 \$3,564 \$3,010

## Note K--Pension Benefits

Effective April 30, 2012, the Company froze all future benefit accruals under the Company's hourly and salary defined-benefit pension plans.

Net periodic pension (benefit) cost consisted of the following for the three- and nine-month periods ended January 31, 2018 and 2017:

	Three Months Ended January 31,		Nine Months Ended January 31,	
(in thousands)	2018	2017	2018	2017
Interest cost	\$1,431	\$1,443	\$4,295	\$4,329
Expected return on plan assets	(2,234)	(2,019)	(6,702)	(6,059)
Recognized net actuarial loss	401	442	1,201	1,328

Net periodic pension benefit \$(402) \$(134) \$(1,206) \$(402)

The Company contributed a total of \$19.3 million to its pension plans in the first nine months of fiscal 2018, which represents both required and discretionary funding, and does not expect to contribute any additional funds during the remainder of fiscal 2018. On August 24, 2017, the Board of Directors of the Company approved up to \$13.6 million of discretionary funding which is included in the total contributions for the year. The Company made contributions of \$27.3 million to its pension plans in fiscal 2017.

## Note L--Fair Value Measurements

The Company utilizes the hierarchy of fair value measurements to classify certain of its assets and liabilities based upon the following definitions:

Level 1- Investments with quoted prices in active markets for identical assets or liabilities.

Level 2- Investments with observable inputs other than Level 1 prices, such as: quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3- Investments with unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's financial instruments include cash and cash equivalents valued at cost, which approximates fair value, due to the short-term maturities of these instruments. Money market funds, mutual funds and certificates of deposits are carried at fair value in the financial statements. For these investments, the fair value was estimated based on quoted prices categorized as a Level 1 valuation. The Company's mutual fund investment assets represent contributions made and invested on behalf of the Company's executive officers in a supplementary employee retirement plan.

The fair values of the Company's RSI Notes were determined using Level 2 inputs based the conditional call and tender offer described further in Note R, which approximates the carrying value recorded in connection with the RSI Acquisition. The carrying values of the Credit Facilities approximated fair value because the interest rates vary with market interest rates.

The following table summarizes the fair values of assets that are recorded in the Company's unaudited condensed consolidated financial statements as of January 31, 2018 and April 30, 2017 at fair value on a recurring basis (in thousands):

	Fair Value Measurements As of January 31, 2018		
	Level 1	Level 2	Level 3
ASSETS:			
Certificates of deposit	\$ 10,500	\$ —	\$ —
Mutual funds	1,092	—	—
Total assets at fair value	\$ 11,592	\$ —	\$ —

	As of April 30, 2017		
	Level 1	Level 2	Level 3
ASSETS:			
Money market funds	\$ 50,146	\$ —	\$ —
Mutual funds	1,038	—	—
Certificates of deposit	72,250	—	—
Total assets at fair value	\$ 123,434	\$ —	\$ —

There were no transfers between Level 1, Level 2 or Level 3 for assets measured at fair value on a recurring basis.

#### Note M--Loans Payable and Long-Term Debt

##### The Credit Facilities

On December 29, 2017, the Company entered into the Credit Agreement, which provides for the Revolving Facility, the Initial Term Loan and the Delayed Draw Term Loan. Also on December 29, 2017, the Company borrowed the entire \$250 million available under the Initial Term Loan and approximately \$50 million under the Revolving Facility to fund, in part, the cash portion of the RSI Acquisition consideration and the Company's transaction fees and expenses related to the RSI Acquisition. In connection with its entry into the Credit Agreement, the Company terminated its

prior \$35 million revolving credit facility with Wells Fargo. As of January 31, 2018, \$250 million and \$30 million remained outstanding on the Initial Term Loan and the Revolving Facility, respectively, and no amounts were outstanding under the Delayed Draw Term Loan. The Initial Term Loan is scheduled to mature as follows: \$12.5 million by January 31, 2019; \$18.8 million by January 31, 2020; \$25.0 million by January 31, 2021; \$25.0 million by January 31, 2022; and \$168.7 million by December 29, 2022. The Credit Facilities mature on December 29, 2022. The Company is required to repay any aggregate outstanding amounts under the Initial Term Loan and the Delayed Draw Term Loan in certain specified quarterly installments beginning on April 30, 2018.

Amounts outstanding under the Credit Facilities bear interest based on a fluctuating rate measured by reference to either, at the Company's option, a base rate plus an applicable margin or LIBOR plus an applicable margin, with the applicable margin being determined by reference to the Company's then-current "Total Funded Debt to EBITDA Ratio." The Company will also incur a quarterly commitment fee on the average daily unused portion of the Revolving Facility during the applicable quarter at a rate per annum also determined by reference to the Company's then-current "Total Funded Debt to EBITDA Ratio." In addition, a letter of credit fee will accrue on the face amount of any outstanding letters of credit at a per annum rate equal to the applicable margin on LIBOR loans, payable quarterly in arrears.

The Credit Agreement includes negative covenants restricting the ability of the Company and certain of its subsidiaries to incur additional indebtedness, create additional liens on its assets, make certain investments, dispose of its assets or engage in a merger or other similar transaction or engage in transactions with affiliates, subject, in each case, to the various exceptions and conditions described in the Credit Agreement. The negative covenants further restrict the Company's ability to make certain restricted payments, including the payment of dividends, in certain limited circumstances.

As of January 31, 2018, the Company's obligations under the Credit Agreement were guaranteed by the Company's subsidiaries (other than RSI and its subsidiaries) and the obligations of the Company and its subsidiaries (other than RSI and its subsidiaries) were secured by a pledge of substantially all of their respective personal property.

#### The RSI Notes

On December 29, 2017, as a result of the closing of the RSI Acquisition, the Company assumed, through its acquisition of all of the equity interests of RSI, the RSI Notes. As of December 29, 2017, the RSI Notes had a fair value of \$602.3 million. As of January 31, 2018, the entire \$575 million aggregate principal amount of the RSI Notes remained outstanding.

As of January 31, 2018, the RSI Notes (i) accrued interest at a rate equal to 6.5% per annum, payable in cash in arrears on March 15 and September 15 of each year, (ii) were scheduled to mature on March 15, 2023, (iii) were guaranteed by each of RSI's domestic subsidiaries, and (iv) were secured by a second lien on substantially all of the assets of RSI and its domestic subsidiaries. As of January 31, 2018, the indenture governing the RSI Notes contained certain customary covenants, including covenants that limited or restricted RSI's ability to incur debt, pay dividends, repurchase or make other distributions in respect of its capital stock, make other restricted payments, create liens, dispose of assets or engage in transactions with affiliates, subject, in each case to the exceptions and conditions described in the indenture. As of January 31, 2018, RSI was in compliance with the covenants under the indenture governing the RSI Notes. See Note R--Subsequent Events for information concerning the refinancing of the RSI Notes.

#### Other RSI Debt

On December 29, 2017, the Company also assumed, through its acquisition of all of the equity interests of RSI, \$2.8 million of subordinated promissory notes payable to certain current and former RSI employees. The promissory notes each have a term of 5 years, bear interest at rates ranging from 1.01% to 2.12% per annum, may be prepaid by RSI at any time without penalty and are due in annual installments of principal and interest on their respective anniversary dates. The notes were issued in exchange for the cancellation of vested stock options of RSI either upon the termination of the applicable employee or immediately prior to the expiration of such options. As of January 31, 2018, the aggregate outstanding balance on the notes was \$2.8 million, with payments due through June 30, 2022.

#### Note O--Income Taxes

The effective income tax rate for the three- and nine-month periods ended January 31, 2018 was 47.0% and 33.9%, respectively, compared with 33.2% and 34.5%, respectively, in the comparable periods in the prior fiscal year. The increase in the effective tax rate for the third quarter of fiscal 2018 as compared to the third quarter of fiscal 2017 was primarily due to transaction costs incurred due to the RSI Acquisition and an expected reduction in the amount of domestic production deduction expected for the year due to such acquisition in the quarter, partially offset by the overall benefit from the reduction in the tax rate enacted in connection with the Tax Cuts and Jobs Act of 2017 (H.R. 1) (the "Tax Act"). The Company recorded a net tax benefit of \$1.2 million in the third quarter of fiscal 2018 in connection with the Tax Act enacted in December 2017. The decrease in the effective tax rate for the first nine months of fiscal 2018 as compared to the first nine months of fiscal 2017 was primarily due to the net benefit of \$1.2 million from tax rate reduction enacted in connection with the Tax Act and an increase of \$0.5 million in tax benefits from stock-based compensation transactions. As is discussed in Note C--Acquisition of RSI Home Products, Inc., a deferred tax liability of approximately \$67.8 million was recorded as a result of the RSI Acquisition.

Tax Cuts and Jobs Act of 2017

On December 22, 2017, the Tax Act was signed into law. The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering the U.S. corporate federal income tax rate from 35% to 21% effective January 1, 2018. As a result, a proportional federal rate of 30.4% is applicable in the current fiscal year. The key impacts of the Tax Act for the three months ended January 31, 2018 were the re-measurement of deferred tax balances to the new corporate tax rate and the reduction of corporate federal tax rate applicable in the calculation of current tax expense from 35% to 30.4% in the current fiscal year. The Company is required to re-measure, through income tax expense, its deferred tax assets and liabilities using the enacted rate at which the items are expected to be recovered or settled.

Due to the complexities associated with understanding and applying various aspects of the new law and quantifying or estimating amounts upon which calculations required to account for new law are based, the U.S. Securities and Exchange Commission ("SEC") recognized that it may be difficult for many companies to complete the determination of all accounting effects of the new law within the available timeframe for issuing their financial statements for the period of enactment. As a result, the SEC provided guidance under SAB 118, permitting corporations to record and report specific items impacted by the new law on the basis of reasonable estimates if final amounts have not been determined and designate them as provisional amounts, or to continue to account for specific items under the previous law if it is not possible to develop reasonable estimates within the timeframe for issuance of the financial statements. In subsequent reporting periods, as the accounting for those items is finalized, companies are expected to record the appropriate adjustments to the initial accounting, removing the provisional designation on an item in the period that the accounting for that item is completed. A measurement period of no more than one year from the date of enactment of the new law is provided under the SEC guidance to complete all such adjustments.

While the Company has not yet completed the assessment of the effects of the Tax Act, we are able to determine reasonable estimates for the impacts of the key items specified above, thus we reported provisional amounts for these items. The Company is still analyzing the impact of the provisions of the law on our deferred tax balances and refining our calculations which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount determined and recorded for the re-measurement of our deferred tax balances resulted in a net reduction in deferred assets of \$1.6 million. While we have made a reasonable estimate of the impact of the federal corporate tax rate reduction, that estimate could change as we complete our analysis of all impacts of the Tax Act.

We were unable to determine a reasonable estimate of the impact, if any, of the effect on our existing deferred tax assets related to executive compensation. We have continued to apply our existing accounting under ASC 740 for this matter.

#### Note P--Concentration of Risks

Financial instruments that potentially subject the Company to concentrations of risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with major financial institutions and such balances may, at times, exceed Federal Deposit Insurance Corporation insurance limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash.

Credit is extended to customers based on an evaluation of each customer's financial condition and generally collateral is not required. The Company's customers operate in the new home construction and home remodeling markets.

The Company maintains an allowance for bad debt based upon management's evaluation and judgment of potential net loss. The allowance is estimated based upon historical experience, the effects of current developments and

economic conditions and of each customer's current and anticipated financial condition. Estimates and assumptions are periodically reviewed and updated. Any resulting adjustments to the allowance are reflected in current operating results.

At January 31, 2018, the Company's two largest customers, Customers A and B, represented 31.3% and 22.0% of the Company's gross customer receivables, respectively. At April 30, 2017, Customers A and B represented 8.2% and 20.7% of the Company's gross customer receivables, respectively.

The following table summarizes the percentage of sales to the Company's two largest customers for the nine months ended January 31, 2018 and 2017:

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PERCENT  
OF  
GROSS  
SALES  
Nine  
Months  
Ended  
January  
31,  
2018 2017

Customer A 21.8 20.2

Customer B 14.4 15.9

#### Note Q--Other Information

The Company is involved in suits and claims in the normal course of business, including without limitation product liability and general liability claims, and claims pending before the Equal Employment Opportunity Commission. On at least a quarterly basis, the Company consults with its legal counsel to ascertain the reasonable likelihood that such claims may result in a loss. As required by FASB Accounting Standards Codification Topic 450, "Contingencies" (ASC 450), the Company categorizes the various suits and claims into three categories according to their likelihood for resulting in potential loss: those that are probable, those that are reasonably possible, and those that are deemed to be remote. Where losses are deemed to be probable and estimable, accruals are made. Where losses are deemed to be reasonably possible, a range of loss estimates is determined and considered for disclosure. In determining these loss range estimates, the Company considers known values of similar claims and consults with outside counsel.

The Company believes that the aggregate range of loss stemming from the various suits and asserted and unasserted claims that were deemed to be either probable or reasonably possible was not material as of January 31, 2018.

#### Note R--Subsequent Events

On February 12, 2018, the Company issued \$350 million in aggregate principal amount of 4.875% Senior Notes due 2026 (the "Senior Notes"). The Senior Notes will mature on March 15, 2026. Interest on the Senior Notes is payable semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2018. The Senior Notes are, and will be, fully and unconditionally guaranteed by each of the Company's current and future wholly-owned domestic subsidiaries that guarantee the Company's obligations under the Credit Agreement. The indenture governing the Senior Notes restricts the ability of the Company and the Company's "restricted subsidiaries" to, as applicable, (i) incur additional indebtedness or issue certain preferred shares, (ii) create liens, (iii) pay dividends, redeem or repurchase stock or make other distributions or restricted payments, (iv) make certain investments, (v) create restrictions on the ability of the "restricted subsidiaries" to pay dividends to the Company or make other intercompany transfers, (vi) transfer or sell assets, (vii) merge or consolidate with a third party and (viii) enter into certain transactions with affiliates of the Company, subject, in each case, to certain qualifications and exceptions as described in the indenture.

Also on February 12, 2018, the Company borrowed the entire \$250 million available under the Delayed Draw Term Loan. In connection with these borrowings, RSI and its domestic subsidiaries became guarantors of the Company's obligations under the Credit Agreement and pledged substantially all of their respective personal property as security for their obligations under such guarantee.

The Company utilized the proceeds from the issuance of the Senior Notes and borrowings under the Delayed Draw Term Loan, together with cash on hand, to (A) fund (i) the redemption of \$115 million in aggregate principal amount of the RSI Notes on February 26, 2018 pursuant to a conditional call announced on January 25, 2018, (ii) the purchase of approximately \$449.1 million in aggregate principal amount of the RSI Notes on February 12, 2018 pursuant to a tender offer that commenced on January 29, 2018 and (iii) the redemption of approximately \$10.9 million in aggregate principal amount of the RSI Notes on February 28, 2018 pursuant to a make-whole call, and (B) repay \$30 million of the amount borrowed under the Revolving Facility in connection with the closing of the RSI Acquisition. As a result of these redemptions and the tender offer, none of the RSI Notes remain outstanding.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes, both of which are included in Part I, Item 1 of this report. The Company's critical accounting policies are included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2017.

### Forward-Looking Statements

This report contains statements concerning the Company's expectations, plans, objectives, future financial performance, and other statements that are not historical facts. These statements may be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. In most cases, the reader can identify forward-looking statements by words such as "anticipate," "estimate," "forecast," "expect," "believe," "should," "could," "would," "plan," "may," "intend," "estimate," "prospect," "goal," "will," "predict," "potential" or other similar words. Forward-looking statements contained in this report, including elsewhere in "Management's Discussion and Analysis of Financial Condition and Results of Operations," are based on current expectations and our actual results may differ materially from those projected in any forward-looking statements. In addition, the Company participates in an industry that is subject to rapidly changing conditions and there are numerous factors that could cause the Company to experience a decline in sales and/or earnings or deterioration in financial condition. Factors that could cause actual results to differ materially from those in forward-looking statements made in this report include but are not limited to:

- the loss of or a reduction in business from one or more of our key customers;
- negative developments in the U.S. housing market or general economy and the impact of such developments on our and our customers' business, operations and access to financing;
- competition from other manufacturers and the impact of such competition on pricing and promotional levels;
- an inability to develop new products or respond to changing consumer preferences and purchasing practices;
- a failure to effectively manage manufacturing operations, alignment and capacity or an inability to maintain the quality of our products;
- the impairment of goodwill, other intangible assets or our long-lived assets;
- an inability to obtain raw materials in a timely manner or fluctuations in raw material and energy costs;
- information systems interruptions or intrusions or the unauthorized release of confidential information concerning customers, employees or other third parties;
- the cost of compliance with, or liabilities related to, environmental or other governmental regulations or changes in governmental or industry regulatory standards, especially with respect to health and safety and the environment;
- a failure to attract and retain certain members of management or other key employees or other negative labor developments, including increases in the cost of labor;
- risks associated with the implementation of our growth strategy;
- risks related to sourcing and selling products internationally and doing business globally;
- unexpected costs resulting from a failure to maintain acceptable quality standards;
- changes in tax laws or the interpretations of existing tax laws;
- the occurrence of significant natural disasters, including earthquakes, fires, floods, and hurricanes or tropical storms;
- the unavailability of adequate capital for our business to grow and compete;
- increased buying power of large customers and the impact on our ability to maintain or raise prices;
- the effect of the RSI Acquisition on our ability to retain customers, maintain relationships with suppliers and hire and retain key personnel;
- our ability to successfully integrate RSI into our business and operations and the risk that the anticipated economic benefits, costs savings and other synergies in connection with the RSI Acquisition are not fully realized or take longer to realize than expected; and
- limitations on operating our business as a result of covenant restrictions under our indebtedness, and our ability to pay amounts due under the Credit Facilities, the Senior Notes and our other indebtedness.

Additional information concerning factors that could cause actual results to differ materially from those in forward-looking statements is contained in this report, including elsewhere in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Item 1A, "Risk Factors," and also in the Company's most recent Annual Report on Form 10-K for the fiscal year ended April 30, 2017, filed with the SEC, including under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 7A, "Quantitative and Qualitative Disclosures about Market Risk." While the Company believes that these risks are

manageable and will not adversely impact the long-term performance of the Company, these risks could, under certain circumstances, have a material adverse impact on its operating results and financial condition.

Any forward-looking statement that the Company makes speaks only as of the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statements or cautionary factors as a result of new information, future events or otherwise, except as required by law.

Overview

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American Woodmark Corporation manufactures and distributes kitchen, bath and home organization products for the remodeling and new home construction markets. Its products are sold on a national basis directly to home centers, builders and distributors and through a network of independent dealers. At January 31, 2018, the Company operated eighteen manufacturing facilities in the United States and Mexico and seven primary service centers located throughout the United States.

On December 29, 2017, the Company completed the acquisition of RSI, a leading manufacturer of kitchen and bath cabinetry and home organization products, for consideration consisting of 1,457,568 newly issued shares of American Woodmark common stock, \$363.3 million in net cash (subject to certain customary postclosing working capital, indebtedness and seller expense true ups), and the assumption of approximately \$589 million of RSI debt, including accrued interest. We refer to this acquisition as the “RSI Acquisition.”

The three-month period ended January 31, 2018 was the Company’s third quarter of its fiscal year that ends on April 30, 2018 (“fiscal 2018”). During the third quarter of fiscal 2018, the Company continued to experience improving market conditions from the housing market downturn that began in 2007.

The Company’s remodeling-based business was impacted by the following trends during the third quarter of the Company’s fiscal 2018:

- Residential investment as a percentage of gross domestic product as tracked by the U.S. Department of Commerce for the fourth calendar quarter of 2017 was flat at 3.5% compared with the same period in the prior year;

- The median price per existing home sold rose during the fourth calendar quarter of 2017 compared to the same period one year ago by 5.6% according to data provided by the National Association of Realtors, and existing home sales increased 0.42% during the fourth calendar quarter of 2017 compared to the same period in the prior year;

- The unemployment rate improved to 4.1% as of January 2018 compared to 4.8% as of January 2017 according to data provided by the U.S. Department of Labor;

- Mortgage interest rates remained low with a thirty-year fixed mortgage rate of approximately 4.03% in January 2018, a decrease of approximately 12 basis points compared to the same period in the prior year, according to Freddie Mac; and

- Consumer sentiment as tracked by Thomson Reuters/University of Michigan decreased from 98.5 in January 2017 to 95.7 in January 2018.

The Company believes there is no single indicator that directly correlates with cabinet remodeling market activity. For this reason, the Company considers other factors in addition to those discussed above as indicators of overall market activity including credit availability, housing affordability and sales reported by the Kitchen Cabinet Manufacturers Association (“KCMA”), a trade organization that issues the aggregate sales that have been reported by its members including the largest cabinet manufacturers in the United States. Based on the totality of factors listed above, the Company believes that the cabinet remodeling market increased in the low single digits during the third quarter of fiscal 2018.

The Company’s remodeling sales, which consist of our dealer channel sales and home center retail sales, increased 33% during the third quarter and 10% during the first nine months of fiscal 2018 compared to the same prior-year periods. Our dealer channel grew by 3% during the third quarter and 11% during the first nine months of fiscal 2018, respectively, when compared to the comparable prior-year periods as management believes that the Company has improved market share in this channel. Our home center retailer channel grew by 42% during the third quarter and 9% during the first nine months of fiscal 2018, respectively, when compared to the comparable prior-year periods. Much of this growth is attributed to the one month of results from the Company’s acquisition of RSI which accounted for 31% of our remodeling sales during the third quarter of fiscal 2018. Otherwise, excluding the impact of RSI sales, management believes the Company has maintained share within the home center retail channel.

Regarding new construction markets, the Company believes that fluctuations in single-family housing starts are the best indicator of cabinet activity. Assuming a sixty to ninety day lag between housing starts and the installation of cabinetry, single-family housing starts rose approximately 8% during the third quarter of the Company's fiscal 2018 over the comparable prior year period. Completions over the third fiscal quarter only averaged an increase of 3%.

Sales in the new construction channel increased 7% in the third quarter, 4% of which was attributable to one month of results from the Company's acquisition of RSI, and more than 9% during the first nine months of fiscal 2018 when compared with the same periods of fiscal 2017. The Company believes it under indexed the market due to an increase in first time home buyers.

The Company's total net sales rose 17% during the third quarter and 9% during the first nine months of fiscal 2018 compared to the same prior-year periods, which management believes was driven primarily by a rise in overall market activity plus one month of sales from the Company's acquisition of RSI.

The Company earned net income of \$2.0 million for the third quarter of fiscal 2018, compared with \$14.6 million in the third quarter of its prior fiscal year, and earned net income of \$44.0 million for the first nine months of fiscal 2018, compared with \$53.9 million in the same period of the prior year.

As of January 31, 2018, the Company had total net deferred tax liabilities of \$63.6 million, compared to net deferred tax assets of \$18.0 million at April 30, 2017. The reduction in total net deferred tax assets from April 30, 2017 to January 31, 2018 is mainly due to the preliminary deferred tax liability of \$67.8 million from RSI Acquisition, pension contributions, and stock based compensation transactions over the period. The Company regularly considers the need for a valuation allowance against its deferred tax assets. Deferred tax assets are reduced by a valuation allowance when, after considering all positive and negative evidence, it is determined that it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. The Company has recorded a valuation allowance related to deferred tax assets for certain state investment tax credit ("ITC") carryforwards. These credits expire in various years beginning in fiscal 2020. The Company believes based on positive evidence of the housing industry improvement along with five consecutive years of profitability that the Company will more likely than not realize all other remaining deferred tax assets.

#### Results of Operations

(in thousands)	Three Months Ended January 31,			Nine Months Ended January 31,		
	2018	2017	Percent Change	2018	2017	Percent Change
Net sales	\$292,791	\$249,285	17 %	\$844,387	\$771,511	9 %
Gross profit	50,379	51,596	(2 )	166,208	167,065	(1 )
Selling and marketing expenses	19,167	18,519	3	55,397	52,128	6
General and administrative expenses	23,492	11,476	105	41,442	33,083	25

**Net Sales.** Net sales were \$292.8 million for the third quarter of fiscal 2018, an increase of 17% compared with the third quarter of fiscal 2017. For the first nine months of fiscal 2018, net sales were \$844.4 million, reflecting a 9% increase compared with the same period of fiscal 2017. The increase in net sales during the third quarter and first nine months of fiscal 2018 was driven by one month of sales from the Company's acquisition of RSI of \$38.6 million and organic growth of 2% in the third quarter and 4% in the first nine months of fiscal 2018.

**Gross Profit.** Gross profit margin for the third quarter of fiscal 2018 was 17.2%, compared with 20.7% for the same period of fiscal 2017. Gross profit margin was 19.7% for the first nine months of fiscal 2018, compared with 21.7% in the first nine months of fiscal 2017. Gross profit in the third quarter was unfavorably impacted by higher transportation costs, raw material inflation, and operating inefficiency and \$6.3 million, or 216 bps, of inventory step-up amortization. Gross profit for the first nine months of the current fiscal year was unfavorably impacted by higher transportation costs, raw material inflation, and healthcare costs and \$6.3 million, or 75 bps, of inventory step-up amortization.

**Selling and Marketing Expenses.** Selling and marketing expenses were 6.5% of net sales in the third quarter of fiscal 2018, compared with 7.4% of net sales for the same period in fiscal 2017. For the first nine months of fiscal 2018, selling and marketing expenses were 6.6% of net sales, compared with 6.8% of net sales for the same period of fiscal 2017. Selling and marketing expenses as a percentage of net sales decreased during the third quarter and first nine

months of fiscal 2018 as a result of lower personnel costs and product launch costs.

**General and Administrative Expenses.** General and administrative expenses were 8.0% of net sales in the third quarter of fiscal 2018, compared with 4.6% of net sales in the third quarter of fiscal 2017, and 4.9% of net sales in the first nine months of fiscal 2018 compared with 4.3% of net sales in the same period in fiscal 2017. The increase in general and administrative expenses as a percentage of net sales during the third quarter and first nine months of fiscal 2018 was driven by RSI Acquisition related costs of \$10.2 million and amortization of intangibles of \$4.1 million, partially offset by lower incentive costs.

Use of Non-GAAP Financial Measures. Management considers a measurement that is not in accordance with U.S. generally accepted accounting principles a useful measurement of the operational profitability of the Company. Management deems adjusted EBITDA as a useful measure of performance of its core operations and helpful in evaluating comparative results period over period. Some investment professionals also utilize such a measurement as an indicator of the value of profits and cash that are generated strictly from operating activities, putting aside working capital and certain other balance sheet changes. For this measurement, management increases net income for significant non-operating and non-cash expense items to arrive at an amount known as “Earnings Before Interest, Taxes, Depreciation and Amortization” (EBITDA). Further, management defines adjusted EBITDA as EBITDA adjusted to exclude such items as: restructuring charges, stock based compensation, corporate business development expense and loss on disposal of property, plant and equipment. The reader is cautioned that the values for EBITDA and adjusted EBITDA should not be compared to other entities unknowingly. EBITDA and adjusted EBITDA should not be considered alternatives to net income or cash flows from operating activities as an indicator of operating performance or as a measure of liquidity. The reader should refer to the determination of net income and cash flows from operating activities in accordance with U.S. generally accepted accounting principles disclosed in the Condensed Consolidated Statements of Income, Condensed Consolidated Statements of Comprehensive Income and Condensed Consolidated Statements of Cash Flows.

EBITDA and adjusted EBITDA as used by management are calculated as follows:

Reconciliation of Adjusted  
Non-GAAP Financial Measures to  
the GAAP Equivalents

Three	Nine
Months	Months
Ended	Ended
January	January
31,	31,

(in thousands)