

LA-Z-BOY INC
Form 10-Q
February 19, 2019
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549-1004

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED JANUARY 26, 2019

COMMISSION FILE NUMBER 1-9656

LA-Z-BOY INCORPORATED

(Exact name of registrant as specified in its charter)

MICHIGAN

(State or other jurisdiction of incorporation or organization)

38-0751137

(I.R.S. Employer Identification No.)

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One La-Z-Boy Drive, Monroe, Michigan
(Address of principal executive offices)

48162-5138
(Zip Code)

Registrant's telephone number, including area code (734) 242-1444

None

(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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company 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 in Rule 12b-2 of the Exchange Act).

Yes No

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

Class	Outstanding at February 12, 2019
Common Shares, \$1.00 par value	46,659,480

Table of Contents

LA-Z-BOY INCORPORATED
FORM 10-Q THIRD QUARTER OF FISCAL 2019

TABLE OF CONTENTS

	Page Number(s)
<u>PART I Financial Information (Unaudited)</u>	3
<u>Item 1.</u>	
<u>Financial Statements</u>	3
<u>Consolidated Statement of Income</u>	4
<u>Consolidated Statement of Comprehensive Income</u>	5
<u>Consolidated Balance Sheet</u>	6
<u>Consolidated Statement of Cash Flows</u>	7
<u>Consolidated Statement of Changes in Equity</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Note 1. Basis of Presentation</u>	9
<u>Note 2. Acquisitions</u>	11
<u>Note 3. Restricted Cash</u>	15
<u>Note 4. Inventories</u>	15
<u>Note 5. Goodwill and Other Intangible Assets</u>	15
<u>Note 6. Investments</u>	16
<u>Note 7. Employee Benefits</u>	17
<u>Note 8. Product Warranties</u>	18
<u>Note 9. Stock-Based Compensation</u>	19
<u>Note 10. Accumulated Other Comprehensive Loss</u>	21
<u>Note 11. Revenue Recognition</u>	23
<u>Note 12. Segment Information</u>	25
<u>Note 13. Income Taxes</u>	27
<u>Note 14. Earnings per Share</u>	27
<u>Note 15. Fair Value Measurements</u>	28
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
<u>Cautionary Statement Concerning Forward-Looking Statements</u>	31
<u>Introduction</u>	32
<u>Results of Operations</u>	34
<u>Liquidity and Capital Resources</u>	40
<u>Critical Accounting Policies</u>	43
<u>Recent Accounting Pronouncements</u>	43
<u>Item 3.</u>	43
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 4.</u>	43
<u>Controls and Procedures</u>	43
<u>PART II Other Information</u>	44
<u>Item 1A.</u>	44
<u>Risk Factors</u>	44
<u>Item 2.</u>	45
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
<u>Item 6.</u>	45
<u>Exhibits</u>	45
<u>Signature Page</u>	46

Table of Contents**PART I FINANCIAL INFORMATION (UNAUDITED)****ITEM 1. FINANCIAL STATEMENTS**

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF INCOME

(Unaudited, amounts in thousands, except per share data)	Quarter Ended	
	1/26/19	1/27/18
Sales	\$ 467,582	\$ 413,638
Cost of sales	277,712	251,140
Gross profit	189,870	162,498
Selling, general and administrative expense	149,027	129,403
Operating income	40,843	33,095
Interest expense	(538)	(113)
Interest income	540	444
Other income (expense), net	(941)	(1,094)
Income before income taxes	39,904	32,332
Income tax expense	10,730	20,047
Net income	29,174	12,285
Net income attributable to noncontrolling interests	(443)	(176)
Net income attributable to La-Z-Boy Incorporated	\$ 28,731	\$ 12,109
Basic weighted average common shares	46,820	47,234
Basic net income attributable to La-Z-Boy Incorporated per share	\$ 0.61	\$ 0.26
Diluted weighted average common shares	47,091	47,757
Diluted net income attributable to La-Z-Boy Incorporated per share	\$ 0.61	\$ 0.25
Dividends declared per share	\$ 0.13	\$ 0.12

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF INCOME

(Unaudited, amounts in thousands, except per share data)	Nine Months Ended	
	1/26/19	1/27/18
Sales	\$ 1,291,610	\$ 1,163,922
Cost of sales	778,813	707,369
Gross profit	512,797	456,553
Selling, general and administrative expense	420,294	372,891
Operating income	92,503	83,662
Interest expense	(1,143)	(430)
Interest income	1,534	1,163
Other income (expense), net	(2,046)	(271)
Income before income taxes	90,848	84,124
Income tax expense	22,374	36,889
Net income	68,474	47,235
Net income attributable to noncontrolling interests	(1,428)	(579)
Net income attributable to La-Z-Boy Incorporated	\$ 67,046	\$ 46,656
Basic weighted average common shares	46,808	47,852
Basic net income attributable to La-Z-Boy Incorporated per share	\$ 1.43	\$ 0.97
Diluted weighted average common shares	47,212	48,325
Diluted net income attributable to La-Z-Boy Incorporated per share	\$ 1.42	\$ 0.96
Dividends declared per share	\$ 0.37	\$ 0.34

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents**LA-Z-BOY INCORPORATED****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(Unaudited, amounts in thousands)	Quarter Ended	
	1/26/19	1/27/18
Net income	\$ 29,174	\$ 12,285
Other comprehensive income		
Currency translation adjustment	1,469	3,585
Change in fair value of cash flow hedges, net of tax	70	445
Net unrealized gain on marketable securities, net of tax	90	109
Net pension amortization, net of tax	515	552
Total other comprehensive income	2,144	4,691
Total comprehensive income before allocation to noncontrolling interests	31,318	16,976
Comprehensive income attributable to noncontrolling interests	(1,112)	(865)
Comprehensive income attributable to La-Z-Boy Incorporated	\$ 30,206	\$ 16,111

(Unaudited, amounts in thousands)	Nine Months Ended	
	1/26/19	1/27/18
Net income	\$ 68,474	\$ 47,235
Other comprehensive income (loss)		
Currency translation adjustment	(1,552)	5,754
Change in fair value of cash flow hedges, net of tax	(108)	182
Net unrealized gain on marketable securities, net of tax	154	46
Net pension amortization, net of tax	1,548	1,586
Total other comprehensive income	42	7,568
Total comprehensive income before allocation to noncontrolling interests	68,516	54,803
Comprehensive income attributable to noncontrolling interests	(1,488)	(1,773)
Comprehensive income attributable to La-Z-Boy Incorporated	\$ 67,028	\$ 53,030

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Table of Contents

LA-Z-BOY INCORPORATED
CONSOLIDATED BALANCE SHEET

(Unaudited, amounts in thousands, except par value)	1/26/19	4/28/18
Current assets		
Cash and equivalents	\$ 101,579	\$ 134,515
Restricted cash	2,003	2,356
Receivables, net of allowance of \$2,762 at 1/26/19 and \$1,956 at 4/28/18	149,526	154,055
Inventories, net	219,211	184,841
Other current assets	75,086	42,451
Total current assets	547,405	518,218
Property, plant and equipment, net	195,680	180,882
Goodwill	184,717	75,254
Other intangible assets, net	30,274	18,190
Deferred income taxes long-term	21,231	21,265
Other long-term assets, net	82,149	79,158
Total assets	\$ 1,061,456	\$ 892,967
Current liabilities		
Short-term borrowings	\$ 20,000	\$
Current portion of long-term debt	205	223
Accounts payable	72,421	62,403
Accrued expenses and other current liabilities	176,277	118,721
Total current liabilities	268,903	181,347
Long-term debt	47	199
Other long-term liabilities	120,720	86,205
Contingencies and commitments		
Shareholders' equity		
Preferred shares 5,000 authorized; none issued		
Common shares, \$1 par value 150,000 authorized; 46,730 outstanding at 1/26/19 and 46,788 outstanding at 4/28/18	46,730	46,788
Capital in excess of par value	306,896	298,948
Retained earnings	330,491	291,644
Accumulated other comprehensive loss	(26,854)	(25,199)
Total La-Z-Boy Incorporated shareholders' equity	657,263	612,181
Noncontrolling interests	14,523	13,035
Total equity	671,786	625,216
Total liabilities and equity	\$ 1,061,456	\$ 892,967

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited, amounts in thousands)	Nine Months Ended	
	1/26/19	1/27/18
Cash flows from operating activities		
Net income	\$ 68,474	\$ 47,235
Adjustments to reconcile net income to cash provided by (used for) operating activities		
(Gain)/Loss on disposal of assets	41	(1,849)
Gain on conversion of investment		(2,204)
Change in deferred taxes	2,538	10,543
Provision for doubtful accounts	477	198
Depreciation and amortization	23,182	23,671
Equity-based compensation expense	8,174	7,929
Pension plan contributions	(7,000)	(2,000)
Change in receivables	1,152	5,057
Change in inventories	(18,950)	(9,142)
Change in other assets	(10,103)	(3,304)
Change in payables	4,954	12,529
Change in other liabilities	18,509	2,537
Net cash provided by operating activities	91,448	91,200
Cash flows from investing activities		
Proceeds from disposals of assets	447	620
Proceeds from property insurance	154	1,807
Capital expenditures	(35,766)	(24,138)
Purchases of investments	(14,956)	(24,124)
Proceeds from sales of investments	14,304	17,109
Acquisitions, net of cash acquired	(78,582)	(16,495)
Net cash used for investing activities	(114,399)	(45,221)
Cash flows from financing activities		
Net proceeds from credit facility	20,000	
Payments on debt	(169)	(203)
Payments for debt issuance costs		(220)
Stock issued for stock and employee benefit plans, net of shares withheld for taxes	4,012	1,418
Purchases of common stock	(16,726)	(46,074)
Dividends paid	(17,381)	(16,343)
Net cash used for financing activities	(10,264)	(61,422)
Effect of exchange rate changes on cash and equivalents	(74)	2,204
Change in cash, cash equivalents and restricted cash	(33,289)	(13,239)
Cash, cash equivalents and restricted cash at beginning of period	136,871	150,859
Cash, cash equivalents and restricted cash at end of period	\$ 103,582	\$ 137,620
Supplemental disclosure of non-cash investing activities		
Capital expenditures included in payables	\$ 2,827	\$ 3,926

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

LA-Z-BOY INCORPORATED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited, amounts in thousands)	Common Shares	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total
At April 29, 2017	\$ 48,472	\$ 289,632	\$ 284,698	\$ (32,883)	\$ 11,186	\$ 601,105
Net income			80,866		729	81,595
Other comprehensive income				7,684	1,120	8,804
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	311	4,046	(1,380)			2,977
Purchases of 1,995 shares of common stock	(1,995)	(4,204)	(50,531)			(56,730)
Stock option and restricted stock expense		9,474				9,474
Dividends paid			(22,009)			(22,009)
At April 28, 2018	46,788	298,948	291,644	(25,199)	13,035	625,216
Net income			67,046		1,428	68,474
Other comprehensive income (loss)				(18)	60	42
Stock issued for stock and employee benefit plans, net of cancellations and withholding tax	497	5,701	(2,186)			4,012
Purchases of 555 shares of common stock	(555)	(5,927)	(10,244)			(16,726)
Stock option and restricted stock expense		8,174				8,174
Cumulative effect adjustment for investments, net of tax			1,637	(1,637)		
Dividends paid			(17,381)			(17,381)
Dividends declared not paid			(25)			(25)
At January 26, 2019	\$ 46,730	\$ 306,896	\$ 330,491	\$ (26,854)	\$ 14,523	\$ 671,786

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

LA-Z-BOY INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Basis of Presentation

The accompanying consolidated financial statements include the consolidated accounts of La-Z-Boy Incorporated and our majority-owned subsidiaries. We derived the April 28, 2018, balance sheet from our audited financial statements. We prepared the interim financial information in conformity with generally accepted accounting principles, which we applied on a basis consistent with those reflected in our fiscal 2018 Annual Report on Form 10-K filed with the Securities and Exchange Commission, but the information does not include all of the disclosures required by generally accepted accounting principles. In management's opinion, the interim financial information includes all adjustments and accruals, consisting only of normal recurring adjustments (except as otherwise disclosed), that are necessary for a fair statement of results for the respective interim periods. The interim results reflected in the accompanying financial statements are not necessarily indicative of the results of operations that will occur for the full fiscal year ending April 27, 2019.

At January 26, 2019, we owned preferred shares of two privately-held companies, both of which are variable interest entities. We also hold a warrant to purchase common shares of one of these companies. We have not consolidated the results of either of these companies in our financial statements because we do not have the power to direct those activities that most significantly impact the economic performance of either of these companies and, therefore, are not the primary beneficiary.

Accounting pronouncements adopted in fiscal 2019

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting standard that requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new standard supersedes virtually all existing authoritative accounting guidance on revenue recognition and requires additional disclosures and greater use of estimates and judgments. During July 2015, the FASB deferred the effective date of the revenue recognition standard by one year, thus making the new accounting standard effective beginning with our fiscal 2019. We adopted the new standard in the first quarter of fiscal 2019 with modified retrospective application. We reviewed substantially all of our contracts and other revenue streams and determined that while the application of the new standard did not have a material change in the amount of or timing for recognizing revenue, it did have a significant impact on our financial statement disclosures related to disaggregated revenue, customer deposits, other receivables and contract liabilities, as well as the presentation of other receivables and deferred revenues (contract liabilities) on our consolidated balance sheet. See Note 11 for information on these disclosures.

In January 2016, the FASB issued a new accounting standard that requires equity investments to be measured at fair value with the fair value changes to be recognized through net income. This standard does not apply to investments that are accounted for using the equity method of accounting or that result in consolidation of the invested entity. As of April 28, 2018, we held equity investments subject to this new standard and recognized changes in the fair value of these equity investments through other comprehensive income (loss) as unrealized gains (losses). We adopted the new standard in the first quarter of fiscal 2019 and consequently reclassified \$2.1 million of net unrealized gains from accumulated other comprehensive income to retained earnings as a cumulative-effect adjustment during the first quarter of fiscal 2019. We also reclassified \$0.5 million of tax expense related to these investments from accumulated other comprehensive loss to retained earnings. We will recognize the tax impact for these investments in the consolidated statement of income as the unrealized gains (losses) become realized. See Note 6 for additional information on our current investments.

Table of Contents

In October 2016, the FASB issued a new accounting standard that requires entities to recognize the income tax consequences of an intra-entity transfer of assets other than inventory when the transfer occurs. We adopted this standard in the first quarter of fiscal 2019. Adoption of this standard did not impact our current practices because intra-entity transfers, as the standard defines them, did not occur in the first nine months of fiscal 2019.

In January 2017, the FASB issued a new accounting standard clarifying the definition of a business with the objective of adding guidance to entities evaluating whether a transaction should be accounted for as an acquisition. We adopted this standard in the first quarter of fiscal 2019. Adoption of this standard did not change the accounting treatment of acquisitions completed during fiscal 2019.

In January 2017, the FASB issued a new accounting standard simplifying the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. An entity should now perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. We are required to adopt this standard by our fiscal 2021, but the standard permits us to adopt it early. We have elected to adopt this standard in fiscal 2019, and we will perform our goodwill impairment test in the fourth quarter of fiscal 2019. We do not believe that adoption of this standard will have a material impact on our consolidated financial statements or disclosures.

In August 2018, the FASB issued a new accounting standard that aligns the accounting for implementation costs in hosting arrangements that are service contracts with accounting for implementation costs on internal-use software. The standard allows certain implementation costs in specified phases of the project to be capitalized and expensed over the term of the hosting arrangement. We are required to adopt this standard by our fiscal 2021, but the standard permits early adoption in any interim period. We elected to adopt this standard beginning with our second quarter of fiscal 2019. We have not capitalized any costs to date related to the implementation of hosting arrangements, but we anticipate capitalizing costs in the future. We do not expect the capitalization of these costs to have a material impact on our consolidated financial statements and related disclosures.

Accounting pronouncements not yet adopted

In February 2016, the FASB issued a new accounting standard requiring lessees to record all operating leases on their balance sheet. Under this standard, the lessee is required to record an asset for the right to use the underlying asset for the lease term and a corresponding liability for the contractual lease payments. This standard will be effective beginning with our fiscal 2020. We are currently reviewing our leases and gathering the necessary information to adopt this standard when it becomes effective. We anticipate that adopting this standard will have a material impact on our consolidated balance sheet as we have a significant number of operating leases.

In June 2016, the FASB issued a new accounting standard that amends current guidance on other-than-temporary impairments of available-for-sale debt securities. This new standard requires the use of an allowance to record estimated credit losses on these assets when the fair value is below the amortized cost of the asset. This standard also removes the evaluation of the length of time that a security has been in a loss position to avoid recording a credit loss. We are required to adopt this standard for our fiscal 2021 and apply it through a cumulative-effect adjustment to retained earnings. We do not believe that adoption of this standard will have a material impact on our consolidated financial statements based on the volume of available-for-sale debt securities that we currently hold.

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In August 2017, the FASB issued a new accounting standard designed to improve and simplify the financial reporting of hedging relationships to better portray the economic results of an entity's risk management

Table of Contents

activities in its financial statements. This standard is intended to better align the recognition and presentation of the effects of hedging instruments with the hedged item in the financial statements, and requires additional disclosures on hedging instruments. This standard will be effective for our fiscal 2020. As of January 26, 2019, we do not have any outstanding hedging relationships or instruments that would be affected by this standard.

The Tax Cut and Jobs Act of 2017 (the Tax Act) required corporations to adjust deferred taxes to reflect the reduction of the corporate income tax rate, leaving items within accumulated other comprehensive income stranded at the historical tax rate. In February 2018, the FASB issued a new accounting standard that allows corporations in their consolidated financial statements to reclassify these stranded income tax effects from accumulated other comprehensive income to retained earnings. This standard will be effective for our fiscal 2020, and companies are permitted to adopt it in any interim period. Companies are to apply the standard either in the period they adopt or retrospectively to each period that was affected by the Tax Act's change in the federal corporate tax rate. We are still assessing the impact this standard will have on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued a new accounting standard that modifies the disclosure requirements for fair value measurements. The standard removes certain disclosures for transfers between levels in the fair value hierarchy and the valuation processes for Level 3 measurements. The standard adds disclosure requirements for unrealized gains/losses included in other comprehensive income related to Level 3 fair value measurements, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. This standard will be effective for our fiscal 2021, with early adoption permitted. We do not believe these changes will have a significant impact on our financial statement disclosures.

In August 2018, the FASB issued a new accounting standard that modifies the disclosure requirements for defined benefit pension or other postretirement obligations. The standard removes certain disclosures that are no longer considered cost beneficial, clarifies the requirements of certain other disclosures, and adds new disclosure requirements. This standard will be effective for our fiscal 2022, with early adoption permitted. We maintain a defined benefit pension plan for eligible factory hourly employees at our La-Z-Boy operating unit. This plan is closed to new participants, and as of December 31, 2018, active participants no longer continue to earn service credit. We intend to terminate this defined benefit pension plan in the fourth quarter of fiscal 2019 through a combination of lump-sum payments to eligible participants who elect to receive them, and through the purchase of annuity contracts from one or more yet-to-be-identified highly rated insurance companies, as discussed in Note 7. Due to the planned termination of our defined benefit pension plan, we do not believe these accounting standard changes will have a significant impact on our financial statement disclosures, especially given the termination of our defined benefit pension plan which is a large portion of our postretirement disclosures.

Note 2: Acquisitions

Retail segment acquisitions

On August 15, 2018 and September 30, 2018, respectively, we acquired the assets of two independent operators of La-Z-Boy Furniture Galleries® stores: one that operated nine stores and two warehouses in Arizona and one that operated one store in Massachusetts, for an aggregate \$42.8 million, including \$38.9 million of cash, \$2.6 million of forgiveness of accounts receivable, and \$1.3 million of guaranteed future payments. We will pay the guaranteed future payments as they are due, with the last payment being completed in the second quarter of fiscal 2022. These acquisitions are an integral part of our ongoing strategy to grow our company-owned retail business and leverage our integrated retail model where we earn a combined profit on both the wholesale and retail sides of the business.

Table of Contents

Prior to our retail acquisitions, we licensed the exclusive right to own and operate La-Z-Boy Furniture Galleries® stores (and to use the associated trademarks and trade name) in those markets to the dealers whose assets we acquired, and we reacquired these rights when we purchased the dealers' other assets. The reacquired rights are indefinite-lived because our Retailer Agreements are perpetual agreements that have no specific expiration date and no renewal options. A Retailer Agreement remains in effect as long as the independent retailer is not in default under the terms of the agreement. The effective settlement of these arrangements resulted in no settlement gain or loss as the contractual terms were at market. We recorded an indefinite-lived intangible asset of \$6.6 million related to these reacquired rights. We also recognized \$32.0 million of goodwill in fiscal 2019 related primarily to synergies we expect from the integration of the acquired stores and future benefits of these synergies. For federal income tax purposes, we will amortize and appropriately deduct all of the indefinite-lived intangible assets and goodwill assets over 15 years.

We based the purchase price allocations on fair values at the dates of acquisition, and summarize them in the following table:

(Unaudited, amounts in thousands)	Second quarter fiscal 2019 acquisitions
Fair value of consideration:	
Cash	\$ 38,904
Forgiveness of accounts receivable	2,610
Guaranteed future payments	1,300
Total fair value of consideration	42,814
Amounts recognized for identifiable assets acquired and liabilities assumed:	
Inventory	10,491
Other current assets	4,194
Property, plant and equipment	929
Indefinite-lived reacquired rights	6,600
Other long-term assets	183
Customer deposits	(6,515)
Other current liabilities	(5,055)
Total identifiable net assets acquired	10,827
Goodwill	\$ 31,987

All acquired stores were included in our Retail segment results upon acquisition.

Corporate and Other acquisitions

On July 30, 2018, we completed our acquisition of Stitch Industries, Inc. (Joybird), an e-commerce retailer and manufacturer of upholstered furniture, for guaranteed cash payments of \$75 million, which was subject to a working capital adjustment of \$2.5 million which we received during the third quarter of fiscal 2019 from amounts placed in escrow at the time of the closing of the transaction. We acquired Joybird, a leading e-commerce retailer and manufacturer of upholstered furniture, to better position us for growth in the online selling environment and increase our visibility with millennial and Gen X consumers, while simultaneously leveraging our supply chain assets.

Table of Contents

The guaranteed payments include a closing date cash payment of \$37.5 million in purchase price consideration, \$7.5 million in prepaid compensation, and the assumption of \$5.0 million of liabilities that will be paid over the next two years. The remaining \$25 million will be paid in annual installments of \$5 million over the next five years. The merger agreement also includes two future earn-out opportunities based on Joybird's financial performance in fiscal 2021 and fiscal 2023.

The \$7.5 million of prepaid compensation relates to the retention of the four Joybird founders, now our employees, each of whom will forfeit proportional amounts if one or more of them resign in the two years following the acquisition. We are amortizing the \$7.5 million to selling, general & administrative expense over the two-year retention period on a straight-line basis. In addition to the guaranteed cash payments of \$75 million, we recorded a contingent consideration liability of \$7.5 million, which reflects the provisional fair value of the earn-out opportunities as of the date of acquisition, and a finite-lived intangible asset of \$6.4 million, which reflects the provisional fair value of the acquired Joybird® trade name, which we are amortizing to selling, general & administrative expense over its useful life of eight years on a straight-line basis. The undiscounted range of the contingent consideration is zero to \$65 million based on sales and profitability of Joybird in fiscal 2021 and fiscal 2023. Subsequent adjustments to the fair value of the contingent consideration will impact selling, general & administrative expense in our consolidated statement of income.

We recorded \$78.1 million of goodwill related to the Joybird acquisition, related primarily to synergies we expect from the integration of the acquisition and the anticipated future benefits of these synergies. The finite-lived intangible asset and goodwill asset for Joybird are not deductible for federal income tax purposes.

Table of Contents

When we acquired Joybird during the second quarter of fiscal 2019, we based the purchase price allocations on provisional fair values at the date of acquisition. During the third quarter of fiscal 2019, we obtained additional data and have revised certain of our estimates, resulting in the purchase price allocations shown below:

(Unaudited, amounts in thousands)	Second quarter fiscal 2019 acquisitions	
Fair value of consideration:		
Cash	\$	37,482
Guaranteed payment		22,489
Acquisition earn-out		7,500
Assumption of liability		5,000
Working capital adjustment		(2,486)
Total fair value of consideration		69,985
Amounts recognized for assets acquired and liabilities assumed:		
Inventory		5,258
Other current assets		3,258
Property, plant and equipment		2,057
Finite-lived tradename		6,400
Other long-term assets		3,175
Accounts payable		(8,222)
Customer deposits		(9,619)
Other current liabilities		(10,306)
Other long-term liabilities		(150)
Total identifiable net liabilities acquired		(8,149)
Goodwill	\$	78,134

We included the Joybird acquisition in our other business activities which we report as Corporate and Other results upon acquisition.

None of the above acquisitions were material to our financial position or our results of operations, and, therefore, pro-forma financial information is not presented. In accordance with Accounting Standard Codification Topic 805-10-25-15, the acquirer has a period of time, referred to as the measurement period, to finalize the accounting for a business combination. The measurement period provides companies with a reasonable period of time to determine, among other things, the identifiable assets acquired, liabilities assumed and consideration transferred for the acquisition, or other amount used in measuring goodwill. All of our provisional purchase accounting estimates shown above for both our Retail acquisitions and our acquisition of Joybird are based on the information and data available to us as of the time of the issuance of these financial statements, and are subject to change within the first 12 months of acquisition as we have access to additional data.

Table of Contents**Note 3: Restricted Cash**

We have restricted cash on deposit with a bank as collateral for certain letters of credit. All of our letters of credit have maturity dates within the next twelve months, but we expect to renew some of these letters of credit when they mature.

(Unaudited, amounts in thousands)	1/26/19		1/27/18	
Cash and cash equivalents	\$	101,579	\$	135,266
Restricted cash		2,003		2,354
Total cash, cash equivalents and restricted cash	\$	103,582	\$	137,620

Note 4: Inventories

A summary of inventories is as follows:

(Unaudited, amounts in thousands)	1/26/19		4/28/18	
Raw materials	\$	101,949	\$	86,214
Work in process		14,341		12,254
Finished goods		125,731		109,183
FIFO inventories		242,021		207,651
Excess of FIFO over LIFO		(22,810)		(22,810)
Total inventories	\$	219,211	\$	184,841

Note 5: Goodwill and Other Intangible Assets

We have goodwill in our Retail Segment related to our acquisitions of La-Z-Boy Furniture Galleries® stores. We also have goodwill in our Corporate and Other results related to our acquisition of Joybird. The remainder of our goodwill is related to our previous acquisition of the La-Z-Boy wholesale business in the United Kingdom and Ireland, which we recorded in our Upholstery reportable segment. The following is a roll-forward of goodwill for the nine months ended January 26, 2019:

(Unaudited, amounts in thousands)	Upholstery Segment		Retail Segment		Corporate and Other		Total Goodwill	
Balance at April 28, 2018	\$	12,967	\$	62,287	\$	78,134	\$	75,254
Acquisitions				31,987		78,134		110,121
Translation adjustment		(549)		(109)				(658)
Balance at January 26, 2019	\$	12,418	\$	94,165	\$	78,134	\$	184,717

Table of Contents

Our intangible assets include the indefinite-lived trade name for American Drew®, a brand in our Casegoods segment, and the finite-lived trade name for Joybird®, a brand within Corporate and Other. Indefinite-lived reacquired rights relate to our acquisition of La-Z-Boy Furniture Galleries® stores, and are recorded in our Retail segment. Other intangible assets are primarily acquired customer relationships from our acquisition of the La-Z-Boy wholesale business in the United Kingdom and Ireland, and are recorded in our Upholstery reportable segment. The following is a roll-forward of our intangible assets for the nine months ended January 26, 2019:

(Unaudited, amounts in thousands)	Indefinite-Lived Trade Names	Finite-Lived Trade Names	Indefinite- Lived Reacquired Rights	Other Intangible Assets	Total Other Intangible Assets
Balance at April 28, 2018	\$ 1,155	\$	\$ 13,645	\$ 3,390	\$ 18,190
Acquisitions		6,400	6,600		13,000
Amortization		(399)		(289)	(688)
Translation adjustment			(81)	(147)	(228)
Balance at January 26, 2019	\$ 1,155	\$ 6,001	\$ 20,164	\$ 2,954	\$ 30,274

Note 6: Investments

We have current and long-term investments intended to enhance returns on our cash as well as to fund future obligations of our non-qualified defined benefit retirement plan, our executive deferred compensation plan, and our performance compensation retirement plan. We also hold other investments consisting of cost-basis preferred shares of two privately-held companies. Our short-term investments are included in other current assets and our long-term investments are included in other long-term assets on our consolidated balance sheet.

The following summarizes our investments at January 26, 2019, and April 28, 2018:

(Unaudited, amounts in thousands)	1/26/19	4/28/18
Short-term investments:		
Marketable securities	\$ 14,580	\$ 12,926
Held-to-maturity investments	3,384	3,340
Total short-term investments	17,964	16,266
Long-term investments:		
Marketable securities	27,726	32,134
Cost basis investments	11,979	10,954
Total long-term investments	39,705	43,088
Total investments	\$ 57,669	\$ 59,354
Investments to enhance returns on cash	\$ 32,229	\$ 34,359
Investments to fund compensation/retirement plans	\$ 13,461	\$ 14,041
Other investments	\$ 11,979	\$ 10,954

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Table of Contents

The following is a summary of the unrealized gains, unrealized losses, and fair value by investment type at January 26, 2019, and April 28, 2018:

At January 26, 2019

(Unaudited, amounts in thousands)	Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Equity securities	\$	1,358	\$	(27)	\$ 18,314
Fixed income		44		(231)	33,702
Other		259		(13)	5,653
Total securities	\$	1,661	\$	(271)	\$ 57,669

At April 28, 2018

(Unaudited, amounts in thousands)	Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Equity securities	\$	2,142	\$	(39)	\$ 18,765
Fixed income		29		(418)	36,312
Other		72			4,277
Total securities	\$	2,243	\$	(457)	\$ 59,354

The following table summarizes sales of marketable securities:

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/26/19	1/27/18	1/26/19	1/27/18
Proceeds from sales	\$ 6,550	\$ 5,580	\$ 14,304	\$ 17,109
Gross realized gains	726	870	811	1,288
Gross realized losses	(261)	(284)	(327)	(512)

At January 26, 2019, the fair value of fixed income marketable securities, classified as available-for-sale securities, by contractual maturity was \$14.6 million within one year, \$16.9 million within two to five years, \$1.4 million within six to ten years, and \$0.8 million thereafter.

Note 7: Employee Benefits

Pension

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We maintain a defined benefit pension plan for eligible factory hourly employees at our La-Z-Boy operating units. We also maintain a non-qualified defined benefit retirement plan for certain former salaried employees. Net periodic pension costs for these plans were as follows:

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/26/19	1/27/18	1/26/19	1/27/18
Service cost	\$ 223	\$ 328	\$ 869	\$ 986
Interest cost	1,116	1,147	3,348	3,441
Expected return on plan assets	(1,136)	(1,204)	(3,408)	(3,612)
Net amortization	639	780	1,917	2,340
Net periodic pension cost	\$ 842	\$ 1,051	\$ 2,726	\$ 3,155

Table of Contents

The components of net periodic pension cost other than the service cost are included in other income (expense), net in our consolidated statement of income. Service cost is recorded in cost of sales in our consolidated statement of income.

We intend to terminate our defined benefit pension plan for eligible factory hourly employees in our La-Z-Boy operating unit in the fourth quarter of fiscal 2019. The plan was previously closed to new participants, and as of December 31, 2018, active participants no longer continue to earn service credit. In connection with the termination, we anticipate making \$9 - \$11 million in additional contributions to the plan using operating cash on-hand. We expect to settle any future obligations under the plan through a combination of lump-sum payments to eligible participants who elect to receive them, and through the purchase of annuity contracts from one or more yet-to-be-identified highly rated insurance companies in the fourth quarter of fiscal 2019. We estimate that we will record an approximate \$33 - \$38 million total non-cash charge, net of tax, associated with the plan termination during the fourth quarter of fiscal 2019.

Employee Vacation Policy Changes

We enacted changes to our employee vacation policies that became effective on January 1, 2019. Our new vacation policies enhanced the amount of vacation time earned by our employees. Additionally, under these vacation policies, our salary and office hourly employees now accrue vacation in the current calendar year for use in the current calendar year, and any vacation time earned but not used will be forfeited at the end of each calendar year. These changes reduced our salary and office hourly vacation liability and resulted in a one-time non-cash gain of \$5.1 million in our consolidated statement of income in the third quarter of fiscal 2019. Of the total \$5.1 million gain recorded, \$1.3 million was recorded in cost of sales with the remainder recorded in selling, general, and administrative expense. Our factory hourly vacation policies were only changed to enhance the amount of vacation time earned by our employees, with no change to accrual methodologies, and resulted in \$0.3 million incremental expense in the third quarter of fiscal 2019, recorded in cost of sales.

Note 8: Product Warranties

We accrue an estimated liability for product warranties when we recognize revenue on the sale of warranted products. We estimate future warranty claims on new sales based on our historical claims experience and also provide for any additional anticipated future costs on previously sold products. We incorporate repair costs into our liability estimates, including materials, labor and overhead amounts necessary to perform repairs and any costs associated with delivering repaired product to our customers. Over 80% of our warranty liability relates to our Upholstery reportable segment as we generally warrant our products against defects for one year on fabric and leather, from one to ten years on cushions and padding, and provide a limited lifetime warranty on certain mechanisms and frames. Our Upholstery segment warranties cover labor costs relating to our parts for one year. We provide a limited lifetime warranty against defects on a majority of the products sold by Joybird, part of our Corporate and Other results. For all our manufacturer warranties, the warranty period begins when the consumer receives our product. We use considerable judgment in making our estimates, and we record differences between our actual and estimated costs when the differences are known.

Table of Contents

A reconciliation of the changes in our product warranty liability is as follows:

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/26/19	1/27/18	1/26/19	1/27/18
Balance as of the beginning of the period	\$ 25,197	\$ 21,606	\$ 21,205	\$ 21,870
Acquisitions			4,100	
Accruals during the period	5,660	4,654	16,270	14,155
Settlements during the period	(5,560)	(4,954)	(16,278)	(14,719)
Balance as of the end of the period	\$ 25,297	\$ 21,306	\$ 25,297	\$ 21,306

As of January 26, 2019, and April 28, 2018, we included \$16.7 million and \$12.7 million, respectively, of our product warranty liability in accrued expenses and other current liabilities on our consolidated balance sheet, and included the remainder in other long-term liabilities. We recorded accruals during the periods presented in the table above, primarily to reflect charges that relate to warranties issued during the respective periods. The acquired warranty liability reflects our provisional estimate of the acquired warranty liabilities of Joybird on the acquisition date. See Note 2 for further information on our acquisition of Joybird.

Note 9: Stock-Based Compensation

The table below summarizes the total stock-based compensation expense we recognized for all outstanding grants in our consolidated statement of income:

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/26/19	1/27/18	1/26/19	1/27/18
Equity-based awards expense	\$ 2,495	\$ 1,519	\$ 8,174	\$ 7,929
Liability-based awards expense	144	386	10	694
Total stock-based compensation expense	\$ 2,639	\$ 1,905	\$ 8,184	\$ 8,623

Stock Options. We granted 423,273 stock options to employees during the first quarter of fiscal 2019, and we have stock options outstanding from previous grants. We account for stock options as equity-based awards because when they are exercised, they will be settled in common shares. We recognize compensation expense for stock options over the vesting period equal to the fair value on the date our compensation committee approved the awards. The vesting period for our stock options ranges from one to four years, with accelerated vesting upon retirement. The vesting date for retirement-eligible employees is the later of the date they meet the criteria for retirement or the end of the fiscal year in which the grant was made. We accelerate the expense for options granted to retirement-eligible employees over the vesting period, with expense recognized from the grant date through their retirement eligibility date or over the ten months following the grant date, whichever period is longer. We estimate forfeiture rates based on our employees' forfeiture history and believe they will approximate future results. We estimate the fair value of the employee stock options at the date of grant using the Black-Scholes option-pricing model, which requires management to make certain assumptions. We estimate expected volatility based on the historical volatility of our common shares. We base the average expected life on the contractual term of the stock option and expected employee

exercise trends. We base the risk-free rate on U.S. Treasury issues with a term equal to the expected life assumed at the date of the grant.

Table of Contents

We calculated the fair value of stock options granted during the first quarter of fiscal 2019 using the following assumptions:

(Unaudited)	Fiscal 2019 grant	
Risk-free interest rate	2.82%	
Dividend rate	1.45%	
Expected life in years	5.00	
Stock price volatility	33.07%	
Fair value per share	\$ 9.65	

Stock Appreciation Rights (SARs). We have not granted any SARs to employees since fiscal 2014, but we have SARs outstanding from the fiscal 2013 and fiscal 2014 grants. All outstanding SARs are fully vested and have a term of ten years. SARs will be paid in cash upon exercise and, accordingly, we account for SARs as liability-based awards that we re-measure to fair value at the end of each reporting period.

In fiscal 2013 and fiscal 2014, we granted SARs as described in our Annual Report on Form 10-K for the fiscal year ended April 27, 2013, and April 26, 2014, respectively. As of January 26, 2019, we had 7,149 and 17,918 SARs outstanding for the fiscal 2013 and fiscal 2014 awards, respectively. These awards have exceeded their expected life and are being re-measured to fair value based on their intrinsic value, which is the market value of our common stock on the last day of the reporting period less the exercise price, until the earlier of the exercise date or the contractual term date. At January 26, 2019, the intrinsic value per share of the fiscal 2013 and fiscal 2014 awards were \$17.03 and \$9.94, respectively.

Restricted Stock. We granted 109,426 shares of restricted stock to employees during the first nine months of fiscal 2019. We also have shares of restricted stock outstanding from previous grants. We issue restricted stock at no cost to the employees, and the shares are held in an escrow account until the vesting period ends. If a recipient's employment ends during the escrow period (other than through death or disability), the shares are returned at no cost to the company. We account for restricted stock awards as equity-based awards because when they vest, they will be settled in common shares. The weighted-average fair value of the restricted stock awarded in the first nine months of fiscal 2019 was \$32.78 per share, the market value of our common shares on the date of grant. We estimate forfeiture rates based on our employees' forfeiture history and believe they will approximate future results. We recognize compensation expense for restricted stock over the vesting period equal to the fair value on the grant date of the award. Restricted stock awards vest at 25% per year, beginning one year from the grant date over a term of four years.

Restricted Stock Units. During the second quarter of fiscal 2019, we granted 21,240 restricted stock units to our non-employee directors. Each director's restricted stock units vest when he or she leaves the board. We account for these restricted stock units as equity-based awards because when they vest, they will be settled in shares of our common stock. We measure and recognize compensation expense for these awards based on the market price of our common shares on the date of grant, which was \$33.15.

Performance Shares. During the first quarter of fiscal 2019, we granted 146,107 performance-based shares. We also have performance-based share awards outstanding from previous grants. Payout of these grants depends on our financial performance (80%) and a market-based condition based on the total return our shareholders receive on their investment in our stock relative to returns earned through investments in other public companies (20%). The performance share opportunity ranges from 50% of the employee's target award if minimum performance requirements are met to a maximum of 200% of the target award based on the

Table of Contents

attainment of certain financial and shareholder-return goals over a specific performance period, which is generally three fiscal years.

We account for performance-based shares as equity-based awards because when they vest, they will be settled in common shares. We estimate forfeiture rates based on our employees' forfeiture history and believe they will approximate future results. For shares that vest based on our results relative to the performance goals, we expense as compensation cost the fair value of the shares as of the day we granted the awards recognized over the performance period, taking into account the probability that we will satisfy the performance goals. The fair value of each share of the awards we granted in fiscal 2019 that vest based on attaining performance goals was \$31.71, the market value of our common shares on the date we granted the awards less the dividends we expect to pay before the shares vest. For shares that vest based on market conditions, we use a Monte Carlo valuation model to estimate each share's fair value as of the date of grant. The Monte Carlo valuation model uses multiple simulations to evaluate our probability of achieving various stock price levels to determine our expected performance ranking relative to our peer group. Similar to the way in which we expense awards of stock options, we expense compensation cost, net of estimated forfeitures, over the vesting period regardless of whether the market condition is ultimately satisfied. Based on the Monte Carlo model, the fair value as of the grant date of the fiscal 2019 grant of shares that vest based on market conditions was \$46.39.

Note 10: Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the quarter ended January 26, 2019, and January 27, 2018, is as follows:

(Unaudited, amounts in thousands)	Translation adjustment	Change in fair value of cash flow hedge	Unrealized gain on marketable securities	Net pension amortization and net actuarial loss	Accumulated other comprehensive loss
Balance at October 27, 2018	\$ (24)	\$ (24)	\$ (197)	\$ (28,084)	\$ (28,329)
Changes before reclassifications	800		72		1,385
Amounts reclassified to net income		93	48	687	315
Tax effect		(23)	(30)	(172)	(225)
Other comprehensive income attributable to La-Z-Boy Incorporated	800	70	90	515	1,475
Balance at January 26, 2019	\$ 776	\$ 46	\$ (107)	\$ (27,569)	\$ (26,854)

Table of Contents

(Unaudited, amounts in thousands)	Translation adjustment	Change in fair value of cash flow hedge	Unrealized gain on marketable securities	Net pension amortization and net actuarial loss	Accumulated other comprehensive loss
Balance at October 28, 2017	\$ 737	\$ (189)	\$ 1,689	\$ (32,748)	\$ (30,511)
Changes before reclassifications	2,896	495	671		4,062
Amounts reclassified to net income		22	(585)	835	272
Tax effect		(72)	23	(283)	(332)
Other comprehensive income attributable to La-Z-Boy Incorporated	2,896	445	109	552	4,002
Balance at January 27, 2018	\$ 3,633	\$ 256	\$ 1,798	\$ (32,196)	\$ (26,509)

The activity in accumulated other comprehensive loss for the nine months ended January 26, 2019, and January 27, 2018, is as follows:

(Unaudited, amounts in thousands)	Translation adjustment	Change in fair value of cash flow hedge	Unrealized gain (loss) on marketable securities	Net pension amortization and net actuarial loss	Accumulated other comprehensive loss
Balance at April 28, 2018	\$ 2,388	\$ 154	\$ 1,376	\$ (29,117)	\$ (25,199)
Changes before reclassifications	(1,612)	(369)	175		(1,293)
Cumulative effect adjustment for investments (1)			(1,637)		(1,637)
Amounts reclassified to net income		225	29	2,059	1,800
Tax effect		36	(50)	(511)	(525)
Other comprehensive income (loss) attributable to La-Z-Boy Incorporated	(1,612)	(108)	(1,483)	1,548	(1,655)
Balance at January 26, 2019	\$ 776	\$ 46	\$ (107)	\$ (27,569)	\$ (26,854)

(1) The cumulative effect adjustment for investments is composed of \$2.1 million of unrealized gains on equity investments offset by \$0.5 million of tax expense. We reclassified the net \$1.6 million of cumulative effect adjustment from accumulated other comprehensive loss to retained earnings as a result of adopting Accounting Standards Update 2016-01 (see Note 1 for further information).

Table of Contents

(Unaudited, amounts in thousands)	Translation adjustment	Change in fair value of cash flow hedge	Unrealized gain on marketable securities	Net pension amortization and net actuarial loss	Accumulated other comprehensive loss
Balance at April 29, 2017	\$ (927)	\$ 74	\$ 1,752	\$ (33,782)	\$ (32,883)
Changes before reclassifications	4,560	256	1,409		6,225
Amounts reclassified to net income		(164)	(1,425)	2,506	917
Tax effect		90	62	(920)	(768)
Other comprehensive income attributable to La-Z-Boy Incorporated	4,560	182	46	1,586	6,374
Balance at January 27, 2018	\$ 3,633	\$ 256	\$ 1,798	\$ (32,196)	\$ (26,509)

We reclassified the unrealized gain/(loss) on marketable securities from accumulated other comprehensive loss to net income through other income (expense), net in our consolidated statement of income, reclassified the change in fair value of cash flow hedges to net income through cost of sales, and reclassified the net pension amortization to net income through other income (expense), net.

The components of non-controlling interest for the quarter and nine months ended January 26, 2019, and January 27, 2018, were as follows:

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/26/19	1/27/18	1/26/19	1/27/18
Balance as of the beginning of the period	\$ 13,411	\$ 12,094	\$ 13,035	\$ 11,186
Net income	443	176	1,428	579
Other comprehensive income	669	689	60	1,194
Balance as of the end of the period	\$ 14,523	\$ 12,959	\$ 14,523	\$ 12,959

Note 11: Revenue Recognition

We implemented Accounting Standard Update No. 2014-09, Revenue from Contracts with Customers (Accounting Standards Codification Topic 606, ASC 606), in the first quarter of fiscal 2019 using the modified-retrospective approach, which required us to apply the new guidance retrospectively to revenue transactions completed on or after the effective date. Adopting this new standard did not have a material impact on our consolidated financial statements except for our enhanced presentation and disclosures. As of the beginning of our fiscal 2019, we had identified and implemented all changes required by the new standard, including those related to our accounting policies, controls, and disclosures.

Our revenue is primarily derived from product sales. We report product sales net of discounts and recognize them when control (rights and obligations associated with the product) passes to the customer. For sales to furniture retailers or distributors, control typically transfers when we ship product. In cases where we sell directly to the end consumer, control of the product is generally transferred upon delivery.

For shipping and handling activities, we have elected to apply the accounting policy election permitted in ASC 606-10-25-18B, which allows an entity to account for shipping and handling activities as fulfillment activities (rather than as a promised good or service) when the activities are performed even if those activities are

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Table of Contents

performed after the control of the good has been transferred. We expense shipping and handling costs at the time we recognize revenue in accordance with this election.

For sales tax, we elected to apply the accounting policy election permitted in ASC 606-10-32-2A, which allows an entity to exclude from the measurement of the transaction price all taxes imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer, including sales, use, excise, value-added, and franchise taxes (collectively referred to as sales taxes). This allows us to present revenue net of these certain types of taxes.

The following table disaggregates our revenue by product category by segment for the quarter ended January 26, 2019:

(Unaudited, amounts in thousands)	Upholstery	Casegoods	Retail	Corporate and Other	Total
Motion Upholstery Furniture	\$ 212,631	\$	\$ 100,232	\$	\$ 312,863
Stationary Upholstery Furniture	94,551	3,844	27,652	24,096	150,143
Bedroom Furniture		7,447	1,586	1,296	10,329
Dining Room Furniture		5,733	3,097	610	9,440
Occasional Furniture	391	12,292	5,959	338	18,980
Other (a)	26,875	(1,251)	20,891	(3,491)	43,024
Total	\$ 334,448	\$ 28,065	\$ 159,417	\$ 22,849	544,779
			Eliminations		(77,197)
			Consolidated Net Sales		\$ 467,582

(a) Primarily includes revenue for delivery, advertising, royalties, parts, accessories, after-treatment products, tariff surcharges, discounts & allowances, rebates and other sales incentives

The following table disaggregates our revenue by product category by segment for the nine months ended January 26, 2019:

(Unaudited, amounts in thousands)	Upholstery	Casegoods	Retail	Corporate and Other	Total
Motion Upholstery Furniture	\$ 602,458	\$	\$ 260,924	\$	\$ 863,382
Stationary Upholstery Furniture	272,087	12,215	76,517	47,791	408,610
Bedroom Furniture		24,045	3,891	3,756	31,692
Dining Room Furniture		18,068	7,293	1,429	26,790
Occasional Furniture	1,202	38,003	15,000	828	55,033
Other (b)	69,192	(4,503)	54,706	(4,712)	114,683
Total	\$ 944,939	\$ 87,828	\$ 418,331	\$ 49,092	1,500,190
			Eliminations		(208,580)
			Consolidated Net Sales		\$ 1,291,610

(b) Primarily includes revenue for delivery, advertising, royalties, parts, accessories, after-treatment products, tariff surcharges, discounts & allowances, rebates and other sales incentives

Motion Upholstery Furniture Includes gross revenue for upholstered furniture, such as recliners, sofas, loveseats, chairs, sectionals and modulars that have a mechanism that allows the back of the product to recline or the product's footrest to extend. This gross revenue includes sales to La-Z-Boy Furniture Galleries® stores

Table of Contents

(including company-owned stores), operators of La-Z-Boy Comfort Studio® locations, England Custom Comfort Center locations, other major dealers, independent retailers, and the end consumer.

Stationary Upholstery Furniture Includes gross revenue for upholstered furniture, such as sofas, loveseats, chairs, sectionals, modulars, and ottomans that do not have a mechanism. This gross revenue includes sales to La-Z-Boy Furniture Galleries® stores (including company-owned stores), operators of La-Z-Boy Comfort Studio® locations, England Custom Comfort Center locations, other major dealers, independent retailers, and the end consumer.

Bedroom Furniture Includes gross revenue for casegoods furniture typically found in a bedroom, such as beds, chests, dressers, nightstands and benches. This gross revenue includes sales to La-Z-Boy Furniture Galleries® stores (including company-owned stores), independent retailers, and the end consumer.

Dining Room Furniture Includes gross revenue for casegoods furniture typically found in a dining room, such as dining tables, dining chairs, storage units and stools. This gross revenue includes sales to La-Z-Boy Furniture Galleries® stores (including company-owned stores), independent retailers, and the end consumer.

Occasional Furniture Includes gross revenue for casegoods furniture found throughout the home, such as cocktail tables, chairsides, sofa tables, end tables, and entertainment centers. This gross revenue includes sales to La-Z-Boy Furniture Galleries® stores (including company-owned stores), independent retailers, and the end consumer.

Our consolidated balance sheet includes current assets of \$19.5 million that we reported as other receivables. These other receivables represent the remaining consideration to which we are entitled prior to fulfilling our performance obligation. At the beginning of fiscal 2019, we had \$12.1 million of other receivables.

We receive deposits from end consumers before we recognize revenue, resulting in customer deposits, and in some cases we have the unconditional right to collect the remaining portion of the order price before we fulfill our performance obligation, resulting in deferred revenue (collectively, the contract liabilities). At the beginning of fiscal 2019, we had \$31.3 million of customer deposits and \$12.1 million of deferred revenues. At January 26, 2019, we included \$47.2 million of customer deposits and \$19.5 million of deferred revenues in accrued expenses and other current liabilities on our consolidated balance sheet. During the nine months ended January 26, 2019, we recognized \$41.5 million of revenue that was recorded as a contract liability at the beginning of fiscal 2019. There was no revenue recognized for the quarter ended January 26, 2019, related to the contract liability at the beginning of fiscal 2019 because virtually all open orders from this period had been delivered prior to the third quarter of fiscal 2019.

We have elected the practical expedient permitted in ASC 606-10-32-18, which allows an entity to recognize the promised amount of consideration without adjusting for the effects of a significant financing component if the contract has a duration of one year or less. As our contracts typically are less than one year in length and do not have significant financing components, we have not adjusted consideration.

Note 12: Segment Information

Our reportable operating segments are the Upholstery segment, the Casegoods segment and the Retail segment.

Upholstery Segment. Our Upholstery reportable segment is our largest business segment and consists primarily of two operating segments: La-Z-Boy, our largest operating segment, and the operating segment for our England subsidiary. The Upholstery segment also includes our international wholesale businesses. We aggregate these operating segments into one reportable segment because they are economically similar and

Table of Contents

because they meet the other aggregation criteria for determining reportable segments. Our Upholstery segment manufactures and imports upholstered furniture such as recliners and motion furniture, sofas, loveseats, chairs, sectionals, modulars, ottomans and sleeper sofas. The Upholstery segment sells directly to La-Z-Boy Furniture Galleries® stores, operators of La-Z-Boy Comfort Studio® locations and England Custom Comfort Center locations, major dealers, and a wide cross-section of other independent retailers.

Casegoods Segment. Our Casegoods segment consists of one operating segment that sells furniture under three brands: American Drew®, Hammary®, and Kincaid®. The Casegoods segment is an importer, marketer, and distributor of casegoods (wood) furniture such as bedroom sets, dining room sets, entertainment centers and occasional pieces, and also manufactures some coordinated upholstered furniture. The Casegoods segment sells directly to major dealers, as well as La-Z-Boy Furniture Galleries® stores, and a wide cross-section of other independent retailers.

Retail Segment. Our Retail segment consists of one operating segment comprised of our 155 company-owned La-Z-Boy Furniture Galleries® stores. The Retail segment sells primarily upholstered furniture, in addition to some casegoods and other accessories, to end consumers through these stores.

Corporate & Other. Corporate & Other includes the shared costs for corporate functions, including human resources, information technology, finance and legal, in addition to revenue generated through royalty agreements with companies licensed to use the La-Z-Boy® brand name on various products. We consider our corporate functions to be other business activities and have aggregated them with our other insignificant operating segments including our global trading company in Hong Kong and Joybird, an e-commerce retailer that manufactures upholstered furniture such as sofas, loveseats, chairs, ottomans, sleeper sofas and beds, and also imports casegoods (wood) furniture such as occasional tables and other accessories. Joybird sells to the end consumer exclusively online through its website, www.joybird.com. None of the operating segments included in Corporate & Other meet the requirements of reportable segments.

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/26/19	1/27/18	1/26/19	1/27/18
Sales				
Upholstery segment:				
Sales to external customers	\$ 265,487	\$ 262,874	\$ 759,569	\$ 739,429
Intersegment sales	68,961	58,084	185,370	160,697
Upholstery segment sales	334,448	320,958	944,939	900,126
Casegoods segment:				
Sales to external customers	23,129	23,887	73,774	68,821
Intersegment sales	4,936	3,328	14,054	11,969
Casegoods segment sales	28,065	27,215	87,828	80,790
Retail segment sales	159,417	125,815	418,331	353,068
Corporate and Other:				
Sales to external customers	19,549	1,062	39,936	2,604
Intersegment sales	3,300	2,818	9,156	6,839
Corporate and Other sales	22,849	3,880	49,092	9,443

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Eliminations		(77,197)		(64,230)		(208,580)		(179,505)
Consolidated sales	\$	467,582	\$	413,638	\$	1,291,610	\$	1,163,922

Table of Contents

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/26/19	1/27/18	1/26/19	1/27/18
Operating Income (Loss)				
Upholstery segment	\$ 34,566	\$ 31,699	\$ 90,602	\$ 88,422
Casegoods segment	3,332	2,792	10,173	8,833
Retail segment	14,158	7,076	25,179	12,746
Corporate and Other	(11,213)	(8,472)	(33,451)	(26,339)
Consolidated operating income	40,843	33,095	92,503	83,662
Interest expense	(538)	(113)	(1,143)	(430)
Interest income	540	444	1,534	1,163
Other income (expense), net	(941)	(1,094)	(2,046)	(271)
Income before income taxes	\$ 39,904	\$ 32,332	\$ 90,848	\$ 84,124

Note 13: Income Taxes

Our effective tax rate was 26.9% for the third quarter and 24.6% for the first nine months of fiscal 2019, as compared with 62.0% and 43.9% in the third quarter and first nine months of fiscal 2018, respectively. Our effective tax rate varies from the 21% federal statutory rate primarily due to state taxes. Absent discrete adjustments, our effective tax rate in the third quarter and first nine months of fiscal 2019 would have been 26.7% and 25.6%, respectively. Our fiscal 2018 effective tax rate was higher primarily due to the phasing in of the lower corporate income tax rate resulting in a blended federal rate of 30.4%, as compared to 21% for fiscal 2019, and the revaluation of deferred taxes at the lower corporate income tax rate in fiscal 2018.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted into law. Most of its provisions are effective for tax years beginning on or after January 1, 2018. Because we are a fiscal year U.S. taxpayer, the majority of the provisions, such as elimination of the domestic manufacturing deduction, new taxes on certain foreign-sourced income and new limitations on certain business deductions, began applying to us in fiscal 2019. In December of 2017, the SEC staff issued SAB 118, which provides that companies that have not completed their accounting for the effects of the Tax Act but can determine a reasonable estimate of those effects should include in their financial statements a provisional amount based on their reasonable estimate. The guidance in SAB 118 also allows companies to adjust the provisional amounts during a one year measurement period similar to the measurement period used when accounting for business combinations. During the third quarter of fiscal 2019, we finalized the provisional estimates of \$0.2 million we previously recorded as of the prior year end related to the transition tax, with no material change.

Note 14: Earnings per Share

Certain share-based compensation awards that entitle their holders to receive non-forfeitable dividends prior to vesting are considered participating securities. Prior to fiscal 2019, we granted restricted stock awards that contained non-forfeitable rights to dividends on unvested shares, and we are required to include these participating securities in calculating our basic earnings per common share, using the two-class method. The restricted stock awards we granted in fiscal 2019 do not have non-forfeitable rights to dividends and therefore are not considered participating securities. The dividends on the restricted stock awards granted in fiscal 2019 are and will continue to be held in escrow until the stock awards vest at which time we will pay any accumulated dividends.

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Table of Contents

The following is a reconciliation of the numerators and denominators we used in our computations of basic and diluted earnings per share:

(Unaudited, amounts in thousands)	Quarter Ended		Nine Months Ended	
	1/26/19	1/27/18	1/26/19	1/27/18
Numerator (basic and diluted):				
Net income attributable to La-Z-Boy Incorporated	\$ 28,731	\$ 12,109	\$ 67,046	\$ 46,656
Income allocated to participating securities	(92)	(62)	(231)	(234)
Net income available to common shareholders	\$ 28,639	\$ 12,047	\$ 66,815	\$ 46,422
Denominator:				
Basic weighted average common shares outstanding	46,820	47,234	46,808	47,852
Add:				
Contingent common shares	131	178	135	176
Stock option dilution	140	345	269	297
Diluted weighted average common shares outstanding	47,091	47,757	47,212	48,325

The values for contingent common shares set forth above reflect the dilutive effect of common shares that we would have issued to employees under the terms of performance-based share awards if the relevant performance period for the award had been the reporting period.

We had outstanding options to purchase 0.4 million shares for the quarter and nine months ended January 26, 2019, with a weighted average exercise price of \$33.15. We excluded the effect of these options from our diluted share calculation since the weighted average exercise price of the options was higher than the average market price and including the options effect would have been anti-dilutive. We did not exclude any outstanding options from the diluted share calculation for the quarter and nine months ended January 27, 2018.

Note 15: Fair Value Measurements

Accounting standards require that we put financial assets and liabilities into one of three categories based on the inputs we use to value them:

- **Level 1** Financial assets and liabilities the values of which are based on unadjusted quoted market prices for identical assets and liabilities in an active market that we have the ability to access.

- **Level 2** Financial assets and liabilities the values of which are based on quoted prices in markets that are not active or on model inputs that are observable for substantially the full term of the asset or liability.

- **Level 3** Financial assets and liabilities the values of which are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

Accounting standards require that in making fair value measurements, we use observable market data when available. When inputs used to measure fair value fall within different levels of the hierarchy, we categorize the

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Table of Contents

fair value measurement as being in the lowest level that is significant to the measurement. We recognize transfers between levels of the fair value hierarchy at the end of the reporting period in which they occur.

In addition to assets and liabilities that we record at fair value on a recurring basis, we are required to record assets and liabilities at fair value on a non-recurring basis. We measure non-financial assets such as other intangible assets, goodwill, and other long-lived assets at fair value when there is an indicator of impairment, and we record them at fair value only when we recognize an impairment loss.

The following table presents the fair value hierarchy for those assets and liabilities we measured at fair value on a recurring basis at January 26, 2019, and April 28, 2018. There were no transfers into or out of Level 1, Level 2, or Level 3 for any of the periods presented.

At January 26, 2019

(Unaudited, amounts in thousands)	Fair Value Measurements		
	Level 1	Level 2	Level 3
Assets			
Marketable securities	\$ 163	\$ 34,852	\$ -
Held-to-maturity investments	3,384		
Cost basis investments			11,979
Total assets	\$ 3,547	\$ 34,852	\$ 11,979
Liabilities			
Contingent consideration liability	\$ -	\$ -	\$ 7,500

At April 28, 2018

(Unaudited, amounts in thousands)	Fair Value Measurements		
	Level 1	Level 2	Level 3
Assets			
Marketable securities	\$ 1,141	\$ 37,173	\$ -
Held-to-maturity investments	3,340		
Cost basis investment			10,954
Total assets	\$ 4,481	\$ 37,173	\$ 10,954
Liabilities			
Contingent consideration liability	\$ -	\$ -	\$ 344

At January 26, 2019, and April 28, 2018, we held marketable securities intended to enhance returns on our cash and to fund future obligations of our non-qualified defined benefit retirement plan, as well as marketable securities to fund future obligations of our executive deferred compensation plan and our performance compensation retirement plan. We also held other fixed income and cost basis investments.

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The fair value measurements for our Level 1 and Level 2 securities are based on quoted prices in active markets, as well as through broker quotes and independent valuation providers, multiplied by the number of shares owned exclusive of any transaction costs. At January 26, 2019, our Level 3 investments included preferred shares of two privately-held companies, and a warrant to purchase common shares of one of these privately-held companies. The fair value for our Level 3 investments is not readily available so we estimate the fair value as costs minus impairment, if any, plus or minus adjustments resulting from observable price changes in orderly transactions for identical or similar investments with the same issuer. Our Level 3 liability includes our contingent consideration liabilities on recent acquisitions. We estimated the provisional fair value of the \$7.5 million contingent consideration liability for the acquisition of Joybird (see Note 2 for more information). The fair value of contingent consideration is based on future revenues and earnings in fiscal 2021 and fiscal

Table of Contents

2023. The fair value was determined using a variation of the income approach, known as the real options method, whereby revenue and earnings were simulated over the earn-out periods in a risk-neutral framework using Geometric Brownian Motion. For each simulation path, the potential earn-out payments were calculated based on management's probability estimates for achievement of the revenue and earnings milestones and then were discounted to the valuation date using a discount rate of 4.7% for the fiscal 2021 milestone and 5.1% for the fiscal 2023 milestone. We estimated the fair value of the remainder of our Level 3 contingent consideration liabilities using the present value of the probability-weighted future cash flows.

The following table is a reconciliation of our Level 3 assets and liabilities recorded at fair value using significant unobservable inputs:

(Unaudited, amounts in thousands)	Level 3	
Assets		
Balance at April 28, 2018	\$	10,954
Purchases		1,025
Balance at January 26, 2019	\$	11,979
Liabilities		
Balance at April 28, 2018	\$	344
Acquisitions		7,500
Write-off		(326)
Translation adjustment		(18)
Balance at January 26, 2019	\$	7,500

Our asset leveling presented above does not include certain marketable securities investments that are measured at fair value using net asset value per share under the practical expedient methodology. These investments are still included in the total fair value column of the table in our investment footnote (see Note 6). The fair value of the investments measured using net asset value at January 26, 2019, and April 28, 2018, was \$7.3 million and \$6.7 million, respectively.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We have prepared this Management's Discussion and Analysis as an aid to understanding our financial results. It should be read in conjunction with the accompanying Consolidated Financial Statements and related Notes to Consolidated Financial Statements. After a cautionary note about forward-looking statements, we begin with an introduction to our key businesses and then provide discussions of our results of operations, liquidity and capital resources, and critical accounting policies.

Cautionary Statement Concerning Forward-Looking Statements

La-Z-Boy Incorporated and its subsidiaries (individually and collectively, we, our or the Company) make forward-looking statements in this report, and its representatives may make oral forward-looking statements from time to time. Generally, forward-looking statements include information concerning possible or assumed future actions, events or results of operations. More specifically, forward-looking statements may include information regarding:

- future income, margins and cash flows
- future sales
- adequacy and cost of financial resources
- future economic performance
- industry and importing trends
- management plans and strategic initiatives

Forward-looking statements also include those preceded or followed by the words anticipates, believes, estimates, hopes, plans, could, i and expects or similar expressions. With respect to all forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Actual results could differ materially from those we anticipate or project due to a number of factors, including: (a) changes in consumer confidence and demographics; (b) the possibility of a recession; (c) changes in the real estate and credit markets and their effects on our customers, consumers and suppliers; (d) international political unrest, terrorism or war; (e) volatility in energy and other commodities prices; (f) the impact of logistics on imports and exports; (g) tax rate, interest rate, and currency exchange rate changes; (h) changes in the stock market impacting our profitability and our effective tax rate; (i) operating factors, such as supply, labor or distribution disruptions (e.g. port strikes); (j) changes in legislation, including the tax code, or changes in the domestic or international regulatory environment or trade policies, including new or increased duties, tariffs, retaliatory tariffs, trade limitations and termination or renegotiation of the North American Free Trade Agreement; (k) adoption of new accounting principles; (l) fires, severe weather or other natural events such as hurricanes, earthquakes, flooding, tornadoes and tsunamis; (m) our ability to procure, transport or import, or material increases to the cost of transporting or importing, fabric rolls, leather hides or cut-and-sewn fabric and leather sets domestically or abroad; (n) information technology conversions or system failures and our ability to recover from a system failure; (o) effects of our brand awareness and marketing programs; (p) the discovery of defects in our products resulting in delays in manufacturing, recall campaigns, reputational damage, or increased warranty costs; (q) litigation arising out of alleged defects in our products; (r) unusual or significant litigation; (s) our ability to locate new La-Z-Boy Furniture Galleries® stores (or store owners) and negotiate favorable lease terms for new or existing locations; (t) the ability to increase volume through our e-commerce initiatives; (u) the impact of potential goodwill or intangible asset impairments; and (v) those matters discussed in Item 1A of our fiscal 2018 Annual Report on Form 10-K and other factors identified from time-to-time in our reports filed with the Securities and Exchange Commission. We undertake no obligation to update or revise any forward-looking statements, whether to reflect new information or new developments or for any other reason.

Table of Contents

Introduction

Our Business

We are the leading global producer of reclining chairs and the second largest manufacturer/distributor of residential furniture in the United States. The La-Z-Boy Furniture Galleries® stores retail network is the third largest retailer of single-branded furniture in the United States. We manufacture, market, import, export, distribute and retail upholstery furniture products under the La-Z-Boy®, England, Kincaid®, and Joybird® tradenames. In addition, we import, distribute and retail accessories and casegoods (wood) furniture products. We have seven major manufacturing locations and six regional distribution centers in the United States and two facilities in Mexico to support our speed-to-market and customization strategy. We operate a wholesale sales office that is responsible for distribution of our product in the United Kingdom and Ireland. We also participate in two joint ventures in Thailand that support our international businesses: one that operates a manufacturing facility and another that operates a wholesale sales office. We operate a global trading company in Hong Kong which helps us manage our Asian supply chain by establishing and maintaining relationships with our Asian suppliers, as well as identifying efficiencies and savings opportunities. We also have contracts with several suppliers in Asia to produce products that support our pure import model for casegoods.

We sell our products to furniture retailers or distributors in the United States, Canada, and approximately 60 other countries, including the United Kingdom, China, Australia and New Zealand, directly to consumers through stores that we own and operate and through our websites, la-z-boy.com and joybird.com. The centerpiece of our retail distribution strategy is our network of 352 La-Z-Boy Furniture Galleries® stores and 541 La-Z-Boy Comfort Studio® locations, each dedicated to marketing our La-Z-Boy branded products. We consider this dedicated space to be proprietary. We own 155 of the La-Z-Boy Furniture Galleries® stores. The remainder of the La-Z-Boy Furniture Galleries® stores, as well as all 541 La-Z-Boy Comfort Studio® locations, are independently owned and operated. La-Z-Boy Furniture Galleries® stores help consumers furnish their homes by combining the style, comfort, and quality of La-Z-Boy furniture with our available design services. La-Z-Boy Comfort Studio® locations are defined spaces within larger independent retailers that are dedicated to displaying and selling La-Z-Boy branded products. In total, we have approximately 7.8 million square feet of proprietary floor space dedicated to selling La-Z-Boy branded products in North America. We also have approximately 2.5 million square feet of floor space outside of the United States and Canada dedicated to selling La-Z-Boy branded products. Our other brands, England, American Drew, Hammary, and Kincaid enjoy distribution through many of the same outlets, with approximately half of Hammary's sales originating through the La-Z-Boy Furniture Galleries® store network. Kincaid and England have their own dedicated proprietary in-store programs with 579 outlets and approximately 1.8 million square feet of proprietary floor space. In total, our proprietary floor space includes approximately 12.1 million square feet worldwide. Joybird, which we acquired in the second quarter of fiscal 2019, sells product exclusively online and has a limited amount of proprietary retail floor space it uses as a showroom to develop its brand.

Our goal is to deliver value to our shareholders over the long term through executing our strategic initiatives. The foundation of our strategic initiatives is driving profitable sales growth in all areas of our business.

We drive growth in the following ways:

- *Our branded distribution channels, which include the La-Z-Boy Furniture Galleries® store network and the La-Z-Boy Comfort Studio® locations, our store-within-a-store format.* We expect this initiative to generate growth in our Retail segment through an increased company-owned store count and in our wholesale Upholstery segment as our proprietary distribution network expands. We are not only focused on growing the number of locations, but also on upgrading existing store locations to our new concept designs.

Table of Contents

- *Our company-owned retail business.* We are growing this business by acquiring existing La-Z-Boy Furniture Galleries® stores and opening new La-Z-Boy Furniture Galleries® stores, primarily in markets that can be serviced through our regional distribution centers, where we see opportunity for growth, or where we believe we have opportunities for further market penetration.
- *Our unique multi-channel distribution network.* In addition to our branded distribution channels, over 2,000 other dealers sell La-Z-Boy products, providing us the benefit of multi-channel distribution. These outlets include some of the best known names in the industry, including Art Van, Nebraska Furniture Mart, and Slumberland. Our other brands, England, American Drew, Hammary, and Kincaid, enjoy distribution through many of the same outlets. We believe there is significant growth potential for our brands through these retail channels.
- *Our innovative and on-trend product including stationary upholstered furniture featured in our Live Life Comfortably® marketing campaign.* While we are known for our iconic recliners, they account for less than half of our sales in dollars, and we believe we have the potential to expand sales of our other products. To stimulate growth, we are focusing on expanding our digital marketing and e-commerce capabilities to build traffic across our multiple digital and physical properties. We are driving change throughout our digital platforms to improve the user experience, with a specific focus on the ease by which customers browse through our broad assortment, customize products to their liking, find stores to make a purchase, or purchase at la-z-boy.com.
- *Our innovative products, including stain-resistant iClean™ fabrics and our power products, some of which include dual mechanisms and articulating headrests.* Our newest innovation, duo®, is a revolutionary product line that features the look of stationary furniture with the power to recline at the push of a button. We are committed to innovation throughout our business, and to support these efforts we opened our new state-of-the-art Innovation Center in January 2019 at our Dayton, Tennessee campus.
- *Our multi-faceted online strategy to participate in and leverage the growth of online furniture sales.* In July 2018 we purchased Joybird, a leading e-commerce retailer and manufacturer of upholstered furniture, which positions us for growth in the ever-changing online selling environment and allows us to better reach millennial and Gen X consumers and leverage our supply chain assets. In addition, we continue to increase online sales of La-Z-Boy furniture through la-z-boy.com and other digital players, such as Wayfair and Amazon.

Our reportable operating segments are the Upholstery segment, the Casegoods segment and the Retail segment.

- *Upholstery Segment.* Our Upholstery reportable segment is our largest business segment and consists primarily of two operating segments: La-Z-Boy, our largest operating segment, and the operating segment for our England subsidiary. The Upholstery segment also includes our international wholesale businesses. We aggregate these operating segments into one reportable segment because they are economically similar and because they meet the other aggregation criteria for determining reportable segments. Our Upholstery segment manufactures and imports upholstered furniture such as recliners and motion furniture, sofas, loveseats, chairs, sectionals, modulars, ottomans and sleeper sofas. The Upholstery segment sells directly to La-Z-Boy Furniture Galleries® stores, operators of La-Z-Boy Comfort Studio® locations and England Custom Comfort Center locations, major dealers, and a wide cross-section of other independent retailers.

- *Casegoods Segment.* Our Casegoods segment consists of one operating segment that sells furniture under three brands: American Drew®, Hammary®, and Kincaid®. The Casegoods segment is an importer, marketer, and distributor of casegoods (wood) furniture such as bedroom sets, dining room sets, entertainment centers and occasional pieces, and also manufactures some coordinated upholstered furniture. The Casegoods segment sells directly to major dealers, as well as La-Z-Boy Furniture Galleries® stores, and a wide cross-section of other independent retailers.

Table of Contents

- *Retail Segment.* Our Retail segment consists of one operating segment comprising of our 155 company-owned La-Z-Boy Furniture Galleries® stores. The Retail segment primarily sells upholstered furniture, in addition to some casegoods and other accessories, to the end consumer through these stores.
- *Corporate & Other.* Corporate & Other includes the shared costs for corporate functions, including human resources, information technology, finance and legal, in addition to revenue generated through royalty agreements with companies licensed to use the La-Z-Boy® brand name on various products. We consider our corporate functions to be other business activities and have aggregated them with our other insignificant operating segments including our global trading company in Hong Kong and Joybird, an e-commerce retailer that manufactures and sells upholstered furniture such as sofas, loveseats, chairs, ottomans, sleeper sofas and beds, and also imports and sells casegoods (wood) furniture such as occasional tables and other accessories. Joybird sells to end consumers exclusively online through its website, www.joybird.com. None of the operating segments included in Corporate & Other meet the requirements of reportable segments at this time.

Results of Operations**Fiscal 2019 Third Quarter and Nine Months Compared with Fiscal 2018 Comparable Periods***La-Z-Boy Incorporated*

(Unaudited, amounts in thousands, except percentages)	Quarter Ended 1/26/19	Quarter Ended 1/27/18	% Change	Nine Months Ended 1/26/19	Nine Months Ended 1/27/18	% Change
Sales	\$ 467,582	\$ 413,638	13.0%	\$ 1,291,610	\$ 1,163,922	11.0%
Operating income	40,843	33,095	23.4%	92,503	83,662	10.6%
Operating margin	8.7%	8.0%		7.2%	7.2%	

Sales

Consolidated sales increased \$53.9 million and \$127.7 million in the third quarter and first nine months of fiscal 2019, respectively, compared with the same periods a year ago, due to growth in our core businesses and sales from our recent acquisitions. Sales in our Upholstery segment increased due to higher selling prices, favorable changes in our product mix, and higher tariff surcharges on Chinese imported parts. Sales in our Casegoods segment increased due to higher volume. In our Retail segment, sales increased due to our acquired stores and delivered same-store sales increases. Sales also benefitted from the acquisition of the Joybird ecommerce business reflected in Corporate & Other.

Operating Margin

Operating margin increased 70 basis points in the third quarter of fiscal 2019 compared with the same period a year ago. Operating margin for the first nine months of fiscal 2019 was flat with the prior-year period.

- Gross margin increased 130 basis points and 50 basis points in the third quarter and first nine months of fiscal 2019, respectively, compared with the same periods a year ago.
- Our consolidated gross margin increased 160 basis points and 90 basis points in the third quarter and first nine months of fiscal 2019, respectively, due to changes in our consolidated sales mix. This benefit was driven by the growth of our Retail segment and the acquisition of Joybird, which have a higher gross margin than our Upholstery and Casegoods reportable segments.

Table of Contents

- Our Upholstery segment's gross margin declined in the third quarter and first nine months of fiscal 2019 primarily due to inflationary pressures in our supply chain, as well as changes in our product mix, offset somewhat by higher selling prices and a one-time benefit due to changes in our employee vacation policies.
- Our Casegoods segment's gross margin improved in the third quarter and first nine months of fiscal 2019 primarily due to increased volume and a shift in product mix to newer, higher-margin collections.
- Our Retail segment's gross margin improved in the third quarter and first nine months of fiscal 2019 primarily due to the benefit of acquired stores, which have gross margins that are slightly higher than our average store, as well as higher design services and custom sales.
- Selling, general, and administrative (SG&A) expenses as a percentage of sales increased 60 basis points and 50 basis points in the third quarter and first nine months of fiscal 2019, respectively, compared with the same periods a year ago.
- Our consolidated SG&A expenses as a percentage of sales increased 270 basis points and 180 basis points in the third quarter and first nine months of fiscal 2019, respectively, due to changes in our consolidated sales mix. This increase was driven by the growth of our Retail segment and the acquisition of Joybird, which have a higher level of SG&A expense as a percentage of sales than our Upholstery and Casegoods reportable segments.
- Incentive compensation costs as a percentage of sales were 120 basis points and 50 basis points higher during the third quarter and first nine months of fiscal 2019, respectively, compared with the same periods a year ago.
- The increase in the fiscal 2019 periods was primarily due to our improved financial performance against certain performance metrics during fiscal 2019.
- Additionally, the increase in the third quarter was partly due to a change in the vesting provisions of certain equity awards granted to our retirement-eligible employees, which resulted in our recognizing the expense over the full fiscal year 2019, compared with fully recognizing the expense in the first quarter of fiscal 2018.
- Partly offsetting these cost increases was lower expense in the fiscal 2019 periods for certain stock-based compensation awards that are accounted for as liabilities. During the third quarter and first nine months of fiscal 2018, our share price increased more than in the respective fiscal 2019 periods.
- During the third quarter of fiscal 2019 we enacted changes to our employee vacation policies and reduced our salary vacation liability by \$3.8 million. This change provided a one-time benefit to SG&A expense as a percentage of sales of 80 basis points and 30 basis points in the third quarter and first nine months of fiscal 2019, respectively, compared to the prior-year periods.

- The fiscal 2019 SG&A expense was lower by 100 basis points and 30 basis points in the third quarter and first nine months of fiscal 2019, respectively, when compared with the prior-year periods, because fiscal 2018 included a charge for a legal settlement.
- Additionally, consolidated SG&A expense as a percentage of sales in the fiscal 2019 periods benefitted from the leverage of fixed costs on higher sales volume.

We discuss each segment's results in the following section.

Table of Contents*Upholstery Segment*

(Unaudited, amounts in thousands, except percentages)	Quarter Ended 1/26/19	Quarter Ended 1/27/18	% Change	Nine Months Ended 1/26/19	Nine Months Ended 1/27/18	% Change
Sales	\$ 334,448	\$ 320,958	4.2%	\$ 944,939	\$ 900,126	5.0%
Operating income	34,566	31,699	9.0%	90,602	88,422	2.5%
Operating margin	10.3%	9.9%		9.6%	9.8%	

Sales

The Upholstery segment's sales increased \$13.5 million, or 4.2%, and \$44.8 million, or 5.0%, in the third quarter and first nine months of fiscal 2019, respectively, compared with the same periods a year ago. Price increases we took over the last year in response to inflationary pressure on raw materials resulted in a 2.0% and a 1.5% increase in sales in the third quarter and first nine months of fiscal 2019, respectively, compared with the same periods a year ago, and higher tariff surcharges on Chinese imported parts increased sales by 2.0% and 1.0% in the same periods, respectively. Additionally, changes in product mix resulted in a 1.2% and a 2.1% increase in sales in the third quarter and first nine months of fiscal 2019, respectively, compared with the same periods a year ago, primarily due to higher sales of our duo® product. Partly offsetting these items was lower unit volume that drove a 0.8% reduction in sales in the third quarter of fiscal 2019 compared to the prior-year third quarter. Overall unit volume for the first nine months of fiscal 2019 was flat with the first nine months of fiscal 2018.

Operating Margin

Operating margin improved 40 basis points in the third quarter of fiscal 2019 but declined 20 basis points in the first nine months of fiscal 2019, compared with the same periods a year ago.

- Gross margin declined 70 basis points and 80 basis points in the third quarter and first nine months of fiscal 2019, respectively, compared with the same periods a year ago.
- We experienced inflationary pressures in our supply chain, including procurement, manufacturing operations and logistics, which decreased the segment's gross margin by 110 basis points and 100 basis points in the third quarter and first nine months of fiscal 2019, respectively.
- A shift in product mix resulted in a 110 basis point and a 60 basis point reduction in the segment's gross margin for the third quarter and first nine months of fiscal 2019, respectively.
- Partially offsetting these items were selling price increases, which provided a 140 basis point and a 100 basis point benefit to gross margin in the third quarter and first nine months of fiscal 2019, respectively.

- Changes to our employee vacation policies provided a one-time benefit to the segment's gross margin of 30 basis points and 10 basis points in the third quarter and first nine months of fiscal 2019, respectively.
- Changes in raw material prices provided a 40 basis point benefit to the segment's gross margin in the third quarter of fiscal 2019, but lowered the segment's gross margin by 30 basis points for the first nine months of fiscal 2019.

Table of Contents

- SG&A expense as a percentage of sales was 110 basis points and 60 basis points lower in the third quarter and first nine months of fiscal 2019, respectively, compared with the same periods a year ago.
- Changes to our employee vacation policies provided a one-time benefit to the segment's SG&A expense as a percentage of sales of 40 basis points and 20 basis points, respectively, in the third quarter and first nine months of fiscal 2019, respectively.
- The fiscal 2019 SG&A expense was lower by 130 basis points and 50 basis points in the third quarter and first nine months of fiscal 2019, respectively, when compared with the prior-year periods, because the fiscal 2018 periods included a charge for a legal settlement.
- These above benefits were partly offset by 80 basis points and 40 basis points of higher incentive compensation expense in the third quarter and first nine months of fiscal 2019, respectively, when compared with the prior year periods, because of the segment's improved financial performance against certain performance metrics in fiscal 2019 compared with fiscal 2018.

Casegoods Segment

(Unaudited, amounts in thousands, except percentages)	Quarter Ended 1/26/19	Quarter Ended 1/27/18	% Change	Nine Months Ended 1/26/19	Nine Months Ended 1/27/18	% Change
Sales	\$ 28,065	\$ 27,215	3.1%	\$ 87,828	\$ 80,790	8.7%
Operating income	3,332	2,792	19.3%	10,173	8,833	15.2%
Operating margin	11.9%	10.3%		11.6%	10.9%	

Sales

The Casegoods segment's sales increased \$0.9 million and \$7.0 million in the third quarter and first nine months of fiscal 2019, respectively, compared with the same periods a year ago, primarily due to higher volume achieved through improved product styling, expanding floor space with existing retailers, and a reliable in-stock position.

Operating Margin

Operating margin increased 160 basis points and 70 basis points in the third quarter and first nine months of fiscal 2019, respectively, compared with the same periods a year ago.

- Gross margin increased 110 basis points and 20 basis points in the third quarter and first nine months of fiscal 2019, respectively, compared with the same periods a year ago. The improvement was primarily due to increased volume and a shift in product mix to newer, higher-margin collections.
- SG&A expense as a percentage of sales improved 50 basis points in both the third quarter and first nine months of fiscal 2019 compared with the same periods a year ago, primarily due to changes to our employee vacation policies, which provided a one-time benefit to the segment's SG&A as a percentage of sales of 70 basis points and 20 basis points, respectively, in the third quarter and first nine months of fiscal 2019, respectively.

Table of Contents

Retail Segment

(Unaudited, amounts in thousands, except percentages)	Quarter		% Change	Nine Months		
	Ended 1/26/19	Ended 1/27/18		Ended 1/26/19	Ended 1/27/18	
Sales	\$ 159,417	\$ 125,815	26.7%	\$ 418,331	\$ 353,068	18.5