



## La-Z-Boy Reports Fiscal 2020 First-Quarter Results

08/20/19

MONROE, Mich., Aug. 20, 2019 (GLOBE NEWSWIRE) -- La-Z-Boy Incorporated (NYSE: LZB) today reported its operating results for the fiscal 2020 first quarter ended July 27, 2019.

### Fiscal 2020 first quarter versus Fiscal 2019 first quarter:

- Consolidated sales for the first quarter increased 7.5% to \$413.6 million
  - La-Z-Boy Furniture Galleries® stores:
    - Written same-store sales for the La-Z-Boy Furniture Galleries® network increased 4.7%
    - Delivered same-store sales for company-owned Retail segment increased 3.5%
  - Consolidated sales include the impact of Joybird and the nine Arizona La-Z-Boy Furniture Galleries® stores acquired in fiscal August 2018
- Consolidated operating margin:
  - GAAP: 5.7% versus 6.0%
  - Non-GAAP\*: 6.3% versus 6.1%
- Net income attributable to La-Z-Boy Incorporated per diluted share ("EPS"):
  - GAAP: \$0.38 versus \$0.39
  - Non-GAAP\*: \$0.42 versus \$0.39, with fiscal 2020 excluding \$0.02 for purchase accounting and a \$0.02 charge related to the company's recently announced supply chain optimization initiative
- Cash generated from operating activities was \$19.3 million; the company returned \$18.4 million to shareholders through share purchases and dividends

Kurt L. Darrow, Chairman, President and Chief Executive Officer of La-Z-Boy, said, "Our results for the quarter demonstrate the strength of the La-Z-Boy brand within today's challenging home furnishings environment, as well as the power of our world-class supply chain. Our company-owned Retail segment delivered strong sales momentum and also nearly doubled operating profit. The broader La-Z-Boy Furniture Galleries® network posted increases in first-quarter written same-store sales on a one-, two-, and three-year basis. In addition, our wholesale Upholstery segment turned in a GAAP operating margin of 9.0%, even with sales challenged for our England subsidiary and international businesses."

Consolidated sales in the first quarter of fiscal 2020 increased 7.5% to \$413.6 million, driven by strong Retail performance, including organic growth and sales from the Arizona-based La-Z-Boy Furniture Galleries® stores, acquired in August 2018, as well as sales from Joybird, acquired in fiscal August 2018. Consolidated GAAP operating margin was 5.7% versus 6.0% in the prior-year quarter. Non-GAAP operating margin increased to 6.3% in the current-year quarter versus 6.1% in last year's first quarter, reflecting improvement in our Upholstery and Retail segments, offset partially by the impact of the company's evolving business mix. Non-GAAP results exclude \$1.3 million of purchase accounting charges and a \$1.5 million charge for severance related to the company's supply chain optimization initiative announced earlier in August 2019.

For the quarter, sales in the company's Upholstery segment were flat at \$293.4 million, primarily reflecting challenges in the company's England subsidiary and the international businesses. GAAP operating margin improved to 9.0% from 8.1% in last year's first quarter, and non-GAAP operating margin increased to 9.5% versus 8.2% in last year's first quarter, excluding a \$1.5 million charge for severance related to the supply chain optimization initiative in fiscal 2020 Q1 and \$0.1 million of purchase accounting charges in fiscal 2019 Q1. Operating margin improved primarily due to lower commodity costs and supply chain efficiencies. In the Casegoods segment, sales decreased 4.4% to \$27.1 million and operating margin was 9.6% compared with 10.9% in the prior-year period, also reflecting challenging trends in the non-branded furniture environment.

Sales in the Retail segment increased 19.9% to \$143.0 million in the first quarter of fiscal 2020 on growth from the core-base stores, and \$18.9 million of sales from recent acquisitions, primarily the Arizona stores. GAAP operating margin for the Retail segment improved to 5.9% from 3.7% in last year's first quarter. Non-GAAP operating margin increased to 6.0% in the current-year quarter from 3.8% in last year's first quarter, and excluded purchase accounting charges in each period related to store acquisitions. Operating margin improvement was driven by leveraging fixed costs on higher sales volume. On the core base of 143 company-owned stores in last year's first quarter, strong execution at the store level, including a higher average ticket and improved conversion, fueled a delivered same-store sales increase of 3.5%.

In the Corporate & Other segment, Joybird, an e-Commerce retailer and manufacturer, acquired in fiscal August 2018, contributed \$17.2 million in sales, but posted a larger operating loss than in the prior three quarters of ownership, due to seasonality and integration timing. The company continues to be optimistic about Joybird's prospects to add long-term value and expects it to be profitable by the back half of fiscal 2020, excluding purchase accounting adjustments.

GAAP EPS was \$0.38 for the fiscal 2020 first quarter versus \$0.39 in the prior-year quarter. The fiscal 2019 first-quarter results included a benefit of \$0.03 per share for currency changes. Non-GAAP EPS was \$0.42 versus \$0.39 in last year's first quarter, with the fiscal 2020 first quarter excluding \$0.02 per share for purchase accounting and a \$0.02 per share charge related to the company's recently announced supply chain optimization initiative.

### Balance Sheet and Cash Flow

For the first quarter, the company generated \$19.3 million in cash from operating activities, and ended the quarter with \$113.6 million in cash, cash equivalents, and restricted cash, and \$32.9 million in investments to enhance returns on cash. During the period, the company invested \$12.3 million in the business through capital expenditures, paid \$6.1 million in dividends, and spent \$12.3 million purchasing 0.4 million shares of stock in the open market under its existing authorized share purchase program, leaving 5.5 million shares of purchase availability in the program. Additionally, the company adopted the new leasing standard required by the FASB, which resulted in an increase in assets and liabilities of \$314 million.

## Outlook

Darrow concluded, "The home furnishings environment remains somewhat challenging amid tariff uncertainty and other geopolitical concerns. Against that backdrop, however, we continue to believe La-Z-Boy is competitively well positioned with a strong brand; multi-channel distribution, including a growing retail business; and a world-class supply chain, which we continue to work to optimize. Additionally, we are optimistic about the long-term growth prospects for Joybird as our eCommerce strategy and business continue to evolve. Our balance sheet remains healthy and we are making prudent investments to deliver long-term performance for all stakeholders."

*\*Non-GAAP amounts for the first quarter of fiscal 2020 exclude pre-tax purchase accounting charges totaling \$1.5 million, or \$0.02 per diluted share, with \$1.3 million included in operating income and \$0.2 million included in interest expense. Also excluded from our Non-GAAP results is a pre-tax charge of \$1.5 million, or \$0.02 per diluted share, related to the company's supply chain optimization initiative, including the closure of the company's Redlands, California upholstery manufacturing facility and relocation of its Newton, Mississippi leather cut-and-sew operations. Non-GAAP amounts for the first quarter of fiscal 2019 exclude pre-tax purchase accounting charges of \$0.1 million, all included in operating income, which did not impact EPS for the period.*

*Please refer to the accompanying "Reconciliation of GAAP to Non-GAAP Financial Measures" for detailed information on calculating Non-GAAP measures used in this press release and a reconciliation to the applicable GAAP measure.*

## Conference Call

La-Z-Boy will hold a conference call with the investment community on Wednesday, August 21, 2019, at 8:30 a.m. eastern time. The toll-free dial-in number is 844.602.0380; international callers may use 862.298.0970.

The call will be webcast live, with corresponding slides, and archived on the Internet. It will be available at <https://lazboy.gcs-web.com/>. A telephone replay will be available for a week following the call. This replay will be accessible to callers from the U.S. and Canada at 877.481.4010 and to international callers at 919.882.2331. Enter Replay Passcode: 52647. The webcast replay will be available for one year.

## Forward-looking Information

This news release contains, and oral statements made from time to time by representatives of La-Z-Boy may contain, "forward-looking statements." 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 bilateral and multilateral trade agreements impacting our business; (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<sup>®</sup> 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 2019 Annual Report on Form 10-K and other factors identified from time to time in our reports filed with the Securities and Exchange Commission (the "SEC"). 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.

## Additional Information

This news release is just one part of La-Z-Boy's financial disclosures and should be read in conjunction with other information filed with the Securities and Exchange Commission, which is available at: <https://lazboy.gcs-web.com/financial-information/sec-filings>. Investors and others wishing to be notified of future La-Z-Boy news releases, SEC filings and quarterly investor conference calls may sign up at: <https://lazboy.gcs-web.com/>.

## Background Information

La-Z-Boy Incorporated is one of the world's leading residential furniture producers, marketing furniture for every room of the home. The La-Z-Boy Upholstery segment companies are England and La-Z-Boy. The Casegoods segment consists of three brands: American Drew<sup>®</sup>, Hammary<sup>®</sup>, and Kincaid<sup>®</sup>. The company-owned Retail segment includes 155 of the 352 La-Z-Boy Furniture Galleries<sup>®</sup> stores. Joybird is an e-commerce retailer and manufacturer of upholstered furniture.

The corporation's branded distribution network is dedicated to selling La-Z-Boy Incorporated products and brands, and includes 352 stand-alone La-Z-Boy Furniture Galleries<sup>®</sup> stores and 554 independent Comfort Studio<sup>®</sup> locations, in addition to in-store gallery programs for the company's Kincaid and England operating units. Additional information is available at <http://www.la-z-boy.com/>.

## Non-GAAP Financial Measures

In addition to the financial measures prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), this press release also includes Non-GAAP financial measures. Management uses these Non-GAAP financial measures when assessing our ongoing performance. This press release contains references to Non-GAAP operating income, Non-GAAP operating margin, Non-GAAP income before income taxes, Non-GAAP net income attributable to La-Z-Boy Incorporated and Non-GAAP net income attributable to La-Z-Boy Incorporated per diluted share, each of which exclude purchase accounting charges and charges for our supply chain optimization initiative. The purchase accounting charges may include the amortization of intangible assets, incremental expense upon the sale of inventory acquired at fair value, amortization of employee retention agreements, fair value adjustments of future cash payments recorded as interest expense, and adjustments to the fair value of contingent consideration. The charges for our supply chain optimization initiative may include severance costs, accelerated depreciation expense, costs to relocate equipment and inventory, as well as other costs related to the closure and relocation of certain manufacturing operations. These Non-GAAP financial measures are not meant to be considered superior to or a substitute for La-Z-Boy Incorporated's results of operations prepared in accordance with GAAP and may not be comparable to similarly titled measures reported by other companies. Reconciliations of such Non-GAAP financial measures to the most directly comparable GAAP financial measures are set forth in the accompanying tables.

Management believes that presenting certain Non-GAAP financial measures excluding purchase accounting charges and charges for the company's supply chain optimization initiative will help investors understand the long-term profitability trends of our business and compare our profitability to prior and future periods and to our peers. Management excludes purchase accounting charges because the amount and timing of such charges are significantly impacted by the timing, size, number and nature of the acquisitions consummated. While the company has a history of acquisition activity, it does not acquire businesses on a predictable cycle, and the impact of purchase accounting charges is unique to each acquisition and can vary significantly from acquisition to acquisition. Similarly, the charges related to the company's supply chain optimization initiative are dependent on the timing, size, number and nature of the operations being moved or closed, and the charges may not be incurred on a predictable cycle. Management believes that exclusion of these charges facilitates more consistent comparisons of the company's operating results over time. Where applicable, the accompanying "Reconciliation of GAAP to Non-GAAP Financial Measures" tables present the excluded items net of tax calculated using the effective tax rate from operations for the period in which the adjustment is presented.

**LA-Z-BOY INCORPORATED**  
**CONSOLIDATED STATEMENT OF INCOME**

<i>(Unaudited, amounts in thousands, except per share data)</i>	<b>Quarter Ended</b>	
	<b>7/27/19</b>	<b>7/28/18</b>
Sales	\$ 413,633	\$ 384,695
Cost of sales	245,921	236,173
Gross profit	167,712	148,522
Selling, general and administrative expense	144,290	125,362
Operating income	23,422	23,160
Interest expense	(318 )	(104 )
Interest income	727	602
Other income (expense), net	(760 )	892
Income before income taxes	23,071	24,550
Income tax expense	5,083	5,599
Net income	17,988	18,951
Net (income) loss attributable to noncontrolling interests	81	(648 )
Net income attributable to La-Z-Boy Incorporated	\$ 18,069	\$ 18,303
Basic weighted average common shares	46,820	46,716
Basic net income attributable to La-Z-Boy Incorporated per share	\$ 0.39	\$ 0.39
Diluted weighted average common shares	47,125	47,161
Diluted net income attributable to La-Z-Boy Incorporated per share	\$ 0.38	\$ 0.39

**LA-Z-BOY INCORPORATED**  
**CONSOLIDATED BALANCE SHEET**

<i>(Unaudited, amounts in thousands, except par value)</i>	<b>7/27/19</b>	<b>4/27/19</b>
Current assets		
Cash and equivalents	\$ 111,622	\$ 129,819
Restricted cash	1,970	1,968
Receivables, net of allowance of \$2,177 at 7/27/19 and \$2,180 at 4/27/19	134,379	143,288
Inventories, net	197,701	196,899
Other current assets	85,631	69,144
Total current assets	531,303	541,118
Property, plant and equipment, net	204,789	200,523
Goodwill	184,675	185,867
Other intangible assets, net	29,595	29,907
Deferred income taxes – long-term	21,906	20,670
Right of use lease asset	312,433	—

Other long-term assets, net	77,449	81,705
Total assets	\$ 1,362,150	\$ 1,059,790
Current liabilities		
Current portion of long-term debt	\$ —	\$ 180
Accounts payable	62,935	65,365
Lease liability, short-term	64,158	—
Accrued expenses and other current liabilities	168,757	173,091
Total current liabilities	295,850	238,636
Long-term debt	—	19
Lease liability, long-term	262,264	—
Other long-term liabilities	105,898	124,159
Shareholders' equity		
Preferred shares – 5,000 authorized; none issued	—	—
Common shares, \$1 par value – 150,000 authorized; 46,690 outstanding at 7/27/19 and 46,955 outstanding at 4/27/19	46,690	46,955
Capital in excess of par value	311,207	313,168
Retained earnings	329,096	325,847
Accumulated other comprehensive loss	(3,728 )	(3,462 )
Total La-Z-Boy Incorporated shareholders' equity	683,265	682,508
Noncontrolling interests	14,873	14,468
Total equity	698,138	696,976
Total liabilities and equity	\$ 1,362,150	\$ 1,059,790

**LA-Z-BOY INCORPORATED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

<i>(Unaudited, amounts in thousands)</i>	<b>Quarter Ended</b>	
	<b>7/27/19</b>	<b>7/28/18</b>
Cash flows from operating activities		
Net income	\$ 17,988	\$ 18,951
Adjustments to reconcile net income to cash provided by (used for) operating activities		
Gain on disposal of assets	(536 )	—
Change in deferred taxes	(677 )	(183 )
Provision for doubtful accounts	116	279
Depreciation and amortization	7,298	7,541
Equity-based compensation expense	1,675	2,040
Change in receivables	8,535	14,236
Change in inventories	(527 )	(11,092 )
Change in other assets	7,305	463
Change in payables	(1,391 )	2,491
Change in other liabilities	(20,446 )	(2,572 )
Net cash provided by operating activities	19,340	32,154
Cash flows from investing activities		
Proceeds from disposals of assets	22	61
Proceeds from insurance	642	58
Capital expenditures	(12,299 )	(15,873 )
Purchases of investments	(5,288 )	(4,190 )
Proceeds from sales of investments	4,060	4,762
Acquisitions, net of cash acquired	(5,438 )	—
Net cash used for investing activities	(18,301 )	(15,182 )
Cash flows from financing activities		
Payments on debt and finance lease liabilities	(47 )	(59 )
Stock issued for stock and employee benefit plans, net of shares withheld for taxes	(1,417 )	(2,009 )
Purchases of common stock	(12,313 )	(7,944 )
Dividends paid	(6,112 )	(5,625 )
Net cash used for financing activities	(19,889 )	(15,637 )
Effect of exchange rate changes on cash and equivalents	655	(1,601 )
Change in cash, cash equivalents and restricted cash	(18,195 )	(266 )
Cash, cash equivalents and restricted cash at beginning of period	131,787	136,871

Cash, cash equivalents and restricted cash at end of period	\$ 113,592	\$ 136,605
Supplemental disclosure of non-cash investing activities		
Capital expenditures included in payables	\$ 2,416	\$ 4,122

**LA-Z-BOY INCORPORATED  
SEGMENT INFORMATION**

<i>(Unaudited, amounts in thousands)</i>	Quarter Ended	
	7/27/19	7/28/18
<b>Sales</b>		
Upholstery segment:		
Sales to external customers	\$ 230,767	\$ 240,054
Intersegment sales	62,649	53,344
Upholstery segment sales	293,416	293,398
Casegoods segment:		
Sales to external customers	22,006	24,403
Intersegment sales	5,129	3,983
Casegoods segment sales	27,135	28,386
Retail segment sales	142,996	119,228
Corporate and Other:		
Sales to external customers	17,864	1,010
Intersegment sales	2,688	2,855
Corporate and Other sales	20,552	3,865
Eliminations	(70,466	) (60,182
Consolidated sales	\$ 413,633	\$ 384,695
<b>Operating Income (Loss)</b>		
Upholstery segment	\$ 26,267	\$ 23,884
Casegoods segment	2,597	3,080
Retail segment	8,477	4,458
Corporate and Other	(13,919	) (8,262
Consolidated operating income	23,422	23,160

**LA-Z-BOY INCORPORATED  
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES**

<i>(Amounts in thousands, except per share data)</i>	Quarter Ended	
	7/27/2019	7/28/2018
GAAP gross profit	\$ 167,712	\$ 148,522
Add back: Purchase accounting charges – incremental expense upon the sale of inventory acquired at fair value	117	42
Add back: Supply chain optimization initiative	1,508	—
Non-GAAP gross profit	\$ 169,337	\$ 148,564
GAAP SG&A	\$ 144,290	\$ 125,362
Less: Purchase accounting charges – amortization of intangible assets and retention agreements	(1,192	) (104
Non-GAAP SG&A	\$ 143,098	\$ 125,258
GAAP operating income	\$ 23,422	\$ 23,160
Add back: Purchase accounting charges	1,309	146
Add back: Supply chain optimization initiative	1,508	—
Non-GAAP operating income	\$ 26,239	\$ 23,306
GAAP income before income taxes	\$ 23,071	\$ 24,550

Add back: Purchase accounting charges recorded as part of gross profit, SG&A, and interest expense	1,502	146
Add back: Supply chain optimization initiative	1,508	—
Non-GAAP income before income taxes	\$ 26,081	\$ 24,696
GAAP net income attributable to La-Z-Boy Incorporated	\$ 18,069	\$ 18,303
Add back: Purchase accounting charges recorded as part of gross profit, SG&A, and interest expense	1,502	146
Less: Tax effect of purchase accounting	(330)	(33)
Add back: Supply chain optimization initiative	1,508	—
Less: Tax effect of supply chain optimization initiative	(332)	—
Non-GAAP net income attributable to La-Z-Boy Incorporated	\$ 20,417	\$ 18,416
GAAP net income attributable to La-Z-Boy Incorporated per diluted share	\$ 0.38	\$ 0.39
Add back: Purchase accounting charges, net of tax, per share	0.02	—
Add back: Supply chain optimization initiative, net of tax, per share	0.02	—
Non-GAAP net income attributable to La-Z-Boy Incorporated per diluted share	\$ 0.42	\$ 0.39

**LA-Z-BOY INCORPORATED  
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES  
SEGMENT INFORMATION**

<i>(Amounts in thousands)</i>	Quarter Ended			
	7/27/2019	% of sales	7/28/2018	% of sales
GAAP operating income (loss)				
Upholstery segment	\$ 26,267	9.0 %	\$ 23,884	8.1 %
Casegoods segment	2,597	9.6 %	3,080	10.9 %
Retail segment	8,477	5.9 %	4,458	3.7 %
Corporate and Other	(13,919)	N/M	(8,262)	N/M
GAAP Consolidated operating income	\$ 23,422	5.7 %	23,160	6.0 %
Purchase accounting and supply chain optimization initiative affecting operating income				
Upholstery segment	\$ 1,563		\$ 104	
Casegoods segment	—		—	
Retail segment	117		42	
Corporate and Other	1,137		—	
Consolidated Non-GAAP charges affecting operating income	\$ 2,817		\$ 146	
Non-GAAP operating income (loss)				
Upholstery segment	\$ 27,830	9.5 %	\$ 23,988	8.2 %
Casegoods segment	2,597	9.6 %	3,080	10.9 %
Retail segment	8,594	6.0 %	4,500	3.8 %
Corporate and Other	(12,782)	N/M	(8,262)	N/M
Non-GAAP Consolidated operating income	\$ 26,239	6.3 %	\$ 23,306	6.1 %

N/M – Not Meaningful

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Source: La-Z-Boy Incorporated