
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2022

OR

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

For the transition period from _____ to _____

Commission File Number 000-08822

CAVCO INDUSTRIES INC.

(Exact name of registrant as specified in its charter)

Delaware

56-2405642

(State or other jurisdiction of incorporation or organization)

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

3636 North Central Ave, Ste 1200

Phoenix Arizona 85012

(Address of principal executive offices, including zip code)

(602) 256-6263

(Registrant's telephone number, including area code)

Not Applicable

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01	CVCO	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

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

As of July 29, 2022, 8,894,547 shares of the registrant's Common Stock, \$.01 par value, were outstanding.

CAVCO INDUSTRIES, INC.
FORM 10-Q
July 2, 2022

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PART 1. FINANCIAL INFORMATION
Item 1. Financial Statements

CAVCO INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)

	July 2, 2022	April 2, 2022
ASSETS	(Unaudited)	
Current assets		
Cash and cash equivalents	\$ 238,072	\$ 244,150
Restricted cash, current	14,555	14,849
Accounts receivable, net	108,128	96,052
Short-term investments	15,864	20,086
Current portion of consumer loans receivable, net	20,888	20,639
Current portion of commercial loans receivable, net	33,710	32,272
Current portion of commercial loans receivable from affiliates, net	145	372
Inventories	254,722	243,971
Prepaid expenses and other current assets	61,941	71,726
Total current assets	<u>748,025</u>	<u>744,117</u>
Restricted cash	335	335
Investments	36,815	34,933
Consumer loans receivable, net	28,699	29,245
Commercial loans receivable, net	36,811	33,708
Commercial loans receivable from affiliates, net	1,652	2,214
Property, plant and equipment, net	185,534	164,016
Goodwill	100,993	100,993
Other intangibles, net	27,951	28,459
Operating lease right-of-use assets	16,985	16,952
Total assets	<u>\$ 1,183,800</u>	<u>\$ 1,154,972</u>
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST, AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 44,897	\$ 43,082
Accrued expenses and other current liabilities	259,778	251,088
Total current liabilities	<u>304,675</u>	<u>294,170</u>
Operating lease liabilities	13,135	13,158
Other liabilities	10,695	10,836
Deferred income taxes	3,056	5,528
Redeemable noncontrolling interest	677	825
Stockholders' equity		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; No shares issued or outstanding	—	—
Common stock, \$0.01 par value; 40,000,000 shares authorized; Issued 9,298,235 and 9,292,278 shares, respectively	93	93
Treasury stock, at cost; 404,813 and 241,773 shares, respectively	(100,000)	(61,040)
Additional paid-in capital	263,626	263,049
Retained earnings	688,358	628,756
Accumulated other comprehensive loss	(515)	(403)
Total stockholders' equity	<u>851,562</u>	<u>830,455</u>
Total liabilities, redeemable noncontrolling interest and stockholders' equity	<u>\$ 1,183,800</u>	<u>\$ 1,154,972</u>

See accompanying Notes to Consolidated Financial Statements

CAVCO INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended	
	July 2, 2022	July 3, 2021
Net revenue	\$ 588,338	\$ 330,422
Cost of sales	443,614	256,409
Gross profit	144,724	74,013
Selling, general and administrative expenses	66,136	40,832
Income from operations	78,588	33,181
Interest expense	(161)	(164)
Other income, net	883	2,461
Income before income taxes	79,310	35,478
Income tax expense	(19,616)	(8,432)
Net income	59,694	27,046
Less: net income attributable to redeemable noncontrolling interest	92	—
Net income attributable to Cavco common stockholders	<u>\$ 59,602</u>	<u>\$ 27,046</u>
Comprehensive income		
Net income	\$ 59,694	\$ 27,046
Reclassification adjustment for securities sold	—	1
Applicable income taxes	—	—
Net change in unrealized position of investments held	(142)	(18)
Applicable income taxes	30	4
Comprehensive income	59,582	27,033
Less: comprehensive income attributable to redeemable noncontrolling interest	92	—
Comprehensive income attributable to Cavco common stockholders	<u>\$ 59,490</u>	<u>\$ 27,033</u>
Net income per share attributable to Cavco common stockholders		
Basic	<u>\$ 6.68</u>	<u>\$ 2.94</u>
Diluted	<u>\$ 6.63</u>	<u>\$ 2.92</u>
Weighted average shares outstanding		
Basic	<u>8,918,280</u>	<u>9,198,229</u>
Diluted	<u>8,988,929</u>	<u>9,276,529</u>

See accompanying Notes to Consolidated Financial Statements

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

	Three Months Ended	
	July 2, 2022	July 3, 2021
OPERATING ACTIVITIES		
Net income	\$ 59,694	\$ 27,046
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	3,946	1,576
Provision for credit losses	(167)	(239)
Deferred income taxes	(2,442)	(783)
Stock-based compensation expense	1,425	1,100
Non-cash interest income, net	(257)	(394)
Gain on sale or retirement of property, plant and equipment, net	(232)	(35)
Gain on investments and sale of loans, net	(288)	(5,579)
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable	(12,076)	(3,659)
Consumer loans receivable originated	(47,467)	(42,706)
Proceeds from sales of consumer loans	47,881	49,631
Principal payments received on consumer loans receivable	2,421	3,929
Inventories	(10,751)	(19,683)
Prepaid expenses and other current assets	7,359	2,801
Commercial loans receivable	(3,795)	(243)
Accounts payable and accrued expenses and other current liabilities	12,989	11,513
Net cash provided by operating activities	<u>58,240</u>	<u>24,275</u>
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(25,007)	(2,593)
Proceeds from sale of property, plant and equipment	283	38
Purchases of investments	(4,228)	(4,429)
Proceeds from sale of investments	4,553	3,368
Net cash used in investing activities	<u>(24,399)</u>	<u>(3,616)</u>
FINANCING ACTIVITIES		
Payments for taxes on exercises and releases of equity awards	(848)	—
Proceeds from exercise of stock options	—	136
Payments on finance leases and other secured financings	(165)	(444)
Payments for common stock repurchases	(38,960)	(12,842)
Distributions to noncontrolling interest	(240)	—
Net cash used in financing activities	<u>(40,213)</u>	<u>(13,150)</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(6,372)	7,509
Cash, cash equivalents and restricted cash at beginning of the fiscal year	259,334	339,307
Cash, cash equivalents and restricted cash at end of the period	<u>\$ 252,962</u>	<u>\$ 346,816</u>
Supplemental disclosures of cash flow information		
Cash paid for income taxes	<u>\$ 18,486</u>	<u>\$ 4,774</u>
Cash paid for interest	<u>\$ 71</u>	<u>\$ 100</u>
Supplemental disclosures of noncash activity		
Change in GNMA loans eligible for repurchase	<u>\$ (2,620)</u>	<u>\$ (6,607)</u>
Right-of-use assets recognized and operating lease obligations incurred	<u>\$ 1,159</u>	<u>\$ 708</u>

See accompanying Notes to Consolidated Financial Statements

CAVCO INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

In the opinion of management, these financial statements include all adjustments, including normal recurring adjustments, that are necessary to fairly state the results for the periods presented. Certain prior period amounts have been reclassified to conform to current period classification. We have evaluated subsequent events after the balance sheet date through the date of the filing of this report with the SEC, and there were no disclosable subsequent events. These Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the Notes to the Consolidated Financial Statements included in our 2022 Annual Report on Form 10-K for the year ended April 2, 2022, filed with the SEC ("Form 10-K").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Due to uncertainties, actual results could differ from the estimates and assumptions used in preparation of the consolidated financial statements. The Consolidated Statements of Comprehensive Income and Consolidated Statements of Cash Flows for the interim periods are not necessarily indicative of the results or cash flows for the full year. The Company operates on a 52-53 week fiscal year ending on the Saturday nearest to March 31st of each year. Each fiscal quarter consists of 13 weeks, with an occasional fourth quarter extending to 14 weeks, if necessary, for the fiscal year to end on the Saturday nearest to March 31st. The current fiscal year will end on April 1, 2023 and will include 52 weeks.

We operate in two segments: (1) factory-built housing, which includes wholesale and retail factory-built housing operations, and (2) financial services, which includes manufactured housing consumer finance and insurance. We design and build a wide variety of affordable manufactured homes, modular homes and park model RVs through 26 homebuilding production lines located throughout the United States, which are sold to a network of independent distributors, community owners and developers and through our 45 Company-owned retail stores. The financial services segment is comprised of a finance subsidiary, CountryPlace Acceptance Corp. ("CountryPlace"), and an insurance subsidiary, Standard Casualty Company ("Standard Casualty"). CountryPlace is an approved Federal National Mortgage Association and Federal Home Loan Mortgage Corporation seller/servicer and a Government National Mortgage Association ("GNMA") mortgage-backed securities issuer that offers conforming mortgages, non-conforming mortgages and home-only loans to purchasers of factory-built homes. Standard Casualty provides property and casualty insurance primarily to owners of manufactured homes.

On September 24, 2021, we acquired the business and certain assets and liabilities of The Commodore Corporation ("Commodore"), including its six manufacturing facilities and two wholly-owned retail locations. The results of operations are included in our Consolidated Financial Statements from the date of acquisition. See Note 19.

In addition to the below, for a description of significant accounting policies we used in the preparation of our Consolidated Financial Statements, please refer to Note 1 of the Notes to Consolidated Financial Statements included in the Form 10-K.

2. Revenue from Contracts with Customers

The following table summarizes customer contract revenues disaggregated by reportable segment and source (in thousands):

	Three Months Ended	
	July 2, 2022	July 3, 2021
Factory-built housing		
U.S. Housing and Urban Development code homes	\$ 507,183	\$ 262,390
Modular homes	34,338	26,617
Park model RVs	13,755	9,671
Other	17,321	13,605
	<u>572,597</u>	<u>312,283</u>
Financial services		
Insurance agency commissions received from third-party insurance companies	1,397	873
All other sources	14,344	17,266
	<u>15,741</u>	<u>18,139</u>
	<u>\$ 588,338</u>	<u>\$ 330,422</u>

3. Restricted Cash

Restricted cash consisted of the following (in thousands):

	July 2, 2022	April 2, 2022
Cash related to CountryPlace customer payments to be remitted to third parties	\$ 13,562	\$ 13,857
Other restricted cash	1,328	1,327
	<u>14,890</u>	<u>15,184</u>
Current portion	(14,555)	(14,849)
	<u>\$ 335</u>	<u>\$ 335</u>

Corresponding amounts for customer payments to be remitted to third parties are recorded in Accounts payable.

The following table provides a reconciliation of Cash and cash equivalents and Restricted cash reported within the Consolidated Balance Sheets to the combined amounts shown in the Consolidated Statements of Cash Flows (in thousands):

	July 2, 2022	July 3, 2021
Cash and cash equivalents	\$ 238,072	\$ 329,753
Restricted cash	14,890	17,063
	<u>\$ 252,962</u>	<u>\$ 346,816</u>

4. Investments

Investments consisted of the following (in thousands):

	July 2, 2022	April 2, 2022
Available-for-sale debt securities	\$ 17,278	\$ 17,760
Marketable equity securities	14,583	16,780
Non-marketable equity investments	20,818	20,479
	<u>52,679</u>	<u>55,019</u>
Less short-term investments	(15,864)	(20,086)
	<u>\$ 36,815</u>	<u>\$ 34,933</u>

Investments in marketable equity securities consist of investments in the common stock of industrial and other companies.

Our non-marketable equity investments include investments in community-based initiatives that buy and sell our homes and provide home-only financing to residents of certain manufactured home communities and other distribution operations.

The amortized cost and fair value of our investments in available-for-sale debt securities, by security type are shown in the table below (in thousands):

	July 2, 2022		April 2, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Residential mortgage-backed securities	\$ 1,574	\$ 1,504	\$ 1,668	\$ 1,613
State and political subdivision debt securities	7,480	7,232	10,100	9,906
Corporate debt securities	8,876	8,542	6,502	6,241
	<u>\$ 17,930</u>	<u>\$ 17,278</u>	<u>\$ 18,270</u>	<u>\$ 17,760</u>

The amortized cost and fair value of our investments in available-for-sale debt securities, by contractual maturity, are shown in the table below (in thousands). Expected maturities differ from contractual maturities as borrowers may have the right to call or prepay obligations, with or without penalties.

	July 2, 2022	
	Amortized Cost	Fair Value
Due in less than one year	\$ 1,295	\$ 1,281
Due after one year through five years	13,158	12,566
Due after five years through ten years	1,258	1,269
Due after ten years	645	658
Mortgage-backed securities	1,574	1,504
	<u>\$ 17,930</u>	<u>\$ 17,278</u>

There were no gross gains or losses realized on the sale of available-for-sale debt securities during the three months ended July 2, 2022 or July 3, 2021.

Net investment gains and losses on marketable equity securities were as follows (in thousands):

	Three Months Ended	
	July 2, 2022	July 3, 2021
Marketable equity securities		
Net (loss) gain recognized during the period	\$ (2,342)	\$ 1,696
Less: Net loss (gain) recognized on securities sold during the period	74	(136)
Unrealized (loss) gain recognized during the period on securities still held	<u>\$ (2,268)</u>	<u>\$ 1,560</u>

5. Inventories

Inventories consisted of the following (in thousands):

	July 2, 2022	April 2, 2022
Raw materials	\$ 97,935	\$ 95,929
Work in process	30,549	30,638
Finished goods	126,238	117,404
	<u>\$ 254,722</u>	<u>\$ 243,971</u>

6. Consumer Loans Receivable

The following table summarizes consumer loans receivable (in thousands):

	July 2, 2022	April 2, 2022
Loans held for investment, previously securitized	\$ 24,732	\$ 26,014
Loans held for investment	14,670	14,771
Loans held for sale	10,909	8,500
Construction advances	1,908	3,547
	<u>52,219</u>	<u>52,832</u>
Deferred financing fees and other, net	(727)	(833)
Allowance for loan losses	<u>(1,905)</u>	<u>(2,115)</u>
	49,587	49,884
Less current portion	<u>(20,888)</u>	<u>(20,639)</u>
	<u>\$ 28,699</u>	<u>\$ 29,245</u>

The following table represents changes in the estimated allowance for loan losses, including related additions and deductions to the allowance for loan losses (in thousands):

	Three Months Ended	
	July 2, 2022	July 3, 2021
Allowance for loan losses at beginning of period	\$ 2,115	\$ 3,188
Change in estimated loan losses, net	(210)	(267)
Charge-offs	(19)	(3)
Recoveries	19	—
Allowance for loan losses at end of period	<u>\$ 1,905</u>	<u>\$ 2,918</u>

The consumer loans held for investment had the following characteristics:

	July 2, 2022	April 2, 2022
Weighted average contractual interest rate	8.3 %	8.3 %
Weighted average effective interest rate	9.3 %	9.2 %
Weighted average months to maturity	151	151

The following table is a consolidated summary of the delinquency status of the outstanding consumer loans receivable (in thousands):

	July 2, 2022	April 2, 2022
Current	\$ 50,382	\$ 49,546
31 to 60 days	192	1,202
61 to 90 days	348	41
91+ days	1,297	2,043
	<u>\$ 52,219</u>	<u>\$ 52,832</u>

The following tables disaggregate the principal value of consumer loans receivable by credit quality indicator and fiscal year of origination (in thousands):

	July 2, 2022						
	2023	2022	2021	2020	2019	Prior	Total
Prime- FICO score 680 and greater	\$ 7,796	\$ 3,095	\$ 1,092	\$ 2,300	\$ 1,330	\$ 19,940	\$ 35,553
Near Prime- FICO score 620-679	335	727	1,389	1,240	1,962	9,304	14,957
Sub-Prime- FICO score less than 620	—	—	20	52	—	1,257	1,329
No FICO score	—	—	—	—	26	354	380
	<u>\$ 8,131</u>	<u>\$ 3,822</u>	<u>\$ 2,501</u>	<u>\$ 3,592</u>	<u>\$ 3,318</u>	<u>\$ 30,855</u>	<u>\$ 52,219</u>

	April 2, 2022						
	2022	2021	2020	2019	2018	Prior	Total
Prime- FICO score 680 and greater	\$ 8,155	\$ 1,615	\$ 2,371	\$ 1,339	\$ 853	\$ 20,485	\$ 34,818
Near Prime- FICO score 620-679	1,661	1,274	1,413	1,976	617	9,266	16,207
Sub-Prime- FICO score less than 620	45	20	52	—	—	1,318	1,435
No FICO score	—	—	—	26	—	346	372
	<u>\$ 9,861</u>	<u>\$ 2,909</u>	<u>\$ 3,836</u>	<u>\$ 3,341</u>	<u>\$ 1,470</u>	<u>\$ 31,415</u>	<u>\$ 52,832</u>

As of July 2, 2022 and April 2, 2022, 40% and 39% of the outstanding principal balance of the consumer loans receivable portfolio was concentrated in Texas, respectively, and 17% was concentrated in Florida in both periods. Other than Texas and Florida, no state had concentrations in excess of 10% of the principal balance of the consumer loans receivable as of July 2, 2022 or April 2, 2022.

Repossessed homes totaled approximately \$78,000 and \$499,000 as of July 2, 2022 and April 2, 2022, respectively, and are included in Prepaid expenses and other current assets on the Consolidated Balance Sheets. Foreclosure or similar proceedings in progress totaled approximately \$611,000 and \$1.1 million as of July 2, 2022 and April 2, 2022, respectively.

7. Commercial Loans Receivable

The commercial loans receivable balance consists of direct financing arrangements for the home product needs of our independent distributors, community owners and developers.

Commercial loans receivable (including from affiliates), net consisted of the following (in thousands):

	July 2, 2022	April 2, 2022
Loans receivable	\$ 73,489	\$ 69,693
Allowance for loan losses	(1,054)	(1,011)
Deferred financing fees, net	(117)	(116)
	72,318	68,566
Less current portion	(33,855)	(32,644)
	<u>\$ 38,463</u>	<u>\$ 35,922</u>

The commercial loans receivable balance had the following characteristics:

	July 2, 2022	April 2, 2022
Weighted average contractual interest rate	5.9 %	6.4 %
Weighted average months outstanding	9	9

The following table represents changes in the estimated allowance for loan losses (in thousands):

	Three Months Ended	
	July 2, 2022	July 3, 2021
Balance at beginning of period	\$ 1,011	\$ 816
Change in estimated loan losses, net	43	(31)
Balance at end of period	<u>\$ 1,054</u>	<u>\$ 785</u>

Loans with indicators of potential performance problems are placed on watch list status and are subject to additional monitoring and scrutiny. Nonperforming status includes loans accounted for on a non-accrual basis and accruing loans with principal payments 90 days or more past due. As of July 2, 2022 and April 2, 2022, there were no commercial loans considered watch list or nonperforming. The following table disaggregates the principal value of our commercial loans receivable by fiscal year of origination (in thousands):

	July 2, 2022						
	2023	2022	2021	2020	2019	Prior	Total
Performing	\$ 26,909	\$ 32,564	\$ 8,326	\$ 3,165	\$ 1,371	\$ 1,154	\$ 73,489

	April 2, 2022						
	2022	2021	2020	2019	2018	Prior	Total
Performing	\$ 52,592	\$ 10,181	\$ 4,031	\$ 1,391	\$ 1,498	\$ —	\$ 69,693

As of July 2, 2022, there were no commercial loans 90 days or more past due that were still accruing interest and we were not aware of any potential problem loans that would have a material effect on the commercial loans receivable balance.

As of July 2, 2022 and April 2, 2022, we had concentrations of our outstanding commercial loans receivable balance in New York of 20% and 25%, respectively. No other state had concentrations in excess of 10% of the principal balance of the commercial loans receivable as of July 2, 2022 or April 2, 2022.

One independent third-party and its affiliates comprised 14% of the net commercial loans receivable principal balance outstanding, all of which was secured, as of both July 2, 2022 and April 2, 2022.

8. Property, Plant and Equipment, net

Property, plant and equipment, net, consisted of the following (in thousands):

	July 2, 2022	April 2, 2022
Property, plant and equipment, at cost		
Land	\$ 36,096	\$ 32,154
Buildings and improvements	115,708	100,775
Machinery and equipment	49,911	48,638
Construction in progress	37,010	29,281
	238,725	210,848
Accumulated depreciation	(53,191)	(46,832)
	<u>\$ 185,534</u>	<u>\$ 164,016</u>

Depreciation expense for the three months ended July 2, 2022 and July 3, 2021 was \$3.4 million and \$1.4 million, respectively.

9. Goodwill and Other Intangibles

Goodwill and other intangibles, net, consisted of the following (in thousands):

	July 2, 2022			April 2, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Indefinite-lived						
Goodwill	\$ 100,993	\$ —	\$ 100,993	\$ 100,993	\$ —	\$ 100,993
Trademarks and trade names	15,680	—	15,680	15,680	—	15,680
State insurance licenses	1,100	—	1,100	1,100	—	1,100
	117,773	—	117,773	117,773	—	117,773
Finite-lived						
Customer relationships	19,500	(8,866)	10,634	19,500	(8,392)	11,108
Other	1,924	(1,387)	537	1,924	(1,353)	571
	<u>\$ 139,197</u>	<u>\$ (10,253)</u>	<u>\$ 128,944</u>	<u>\$ 139,197</u>	<u>\$ (9,745)</u>	<u>\$ 129,452</u>

Amortization expense recognized on intangible assets was \$508,000 and \$173,000 for the three months ended July 2, 2022 and July 3, 2021, respectively.

Expected amortization for future fiscal years is as follows (in thousands):

Remainder of fiscal year	\$	1,504
2024		1,339
2025		1,300
2026		1,258
2027		1,185
2028		1,079
Thereafter		3,506

10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	July 2, 2022	April 2, 2022
Customer deposits	\$ 54,161	\$ 56,318
Salaries, wages and benefits	52,899	54,172
Estimated warranties	28,802	26,250
Unearned insurance premiums	26,207	24,917
Accrued volume rebates	22,532	18,641
Other	75,177	70,790
	<u>\$ 259,778</u>	<u>\$ 251,088</u>

11. Warranties

Activity in the liability for estimated warranties was as follows (in thousands):

	Three Months Ended	
	July 2, 2022	July 3, 2021
Balance at beginning of period	\$ 26,250	\$ 18,032
Charged to costs and expenses	15,004	9,125
Payments and deductions	(12,452)	(7,813)
Balance at end of period	<u>\$ 28,802</u>	<u>\$ 19,344</u>

12. Other Liabilities

The following table summarizes the non-current portion of our other liabilities (in thousands):

	July 2, 2022	April 2, 2022
Finance lease payables	\$ 6,298	\$ 6,316
Other secured financing	2,791	2,933
Mandatorily redeemable noncontrolling interest	2,371	2,371
	11,460	11,620
Less current portion included in Accrued expenses and other current liabilities	(765)	(784)
	<u>\$ 10,695</u>	<u>\$ 10,836</u>

13. Reinsurance and Insurance Loss Reserves

Certain of Standard Casualty's premiums and benefits are assumed from and ceded to other insurance companies under various reinsurance agreements. We remain obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

The effects of reinsurance on premiums written and earned were as follows (in thousands):

	Three Months Ended			
	July 2, 2022		July 3, 2021	
	Written	Earned	Written	Earned
Direct premiums	\$ 7,728	\$ 7,050	\$ 6,839	\$ 5,996
Assumed premiums—nonaffiliated	9,028	7,957	8,574	7,378
Ceded premiums—nonaffiliated	(4,229)	(4,229)	(3,647)	(3,647)
	<u>\$ 12,527</u>	<u>\$ 10,778</u>	<u>\$ 11,766</u>	<u>\$ 9,727</u>

Typical insurance policies written or assumed have a maximum coverage of \$300,000 per claim, of which we cede \$125,000 of the risk of loss per reinsurance. Therefore, our risk of loss is limited to \$175,000 per claim on typical policies, subject to the reinsurers meeting their obligations. After this limit, amounts are recoverable through reinsurance for catastrophic losses in excess of \$2 million per occurrence, up to a maximum of \$70 million in the aggregate for that occurrence.

Standard Casualty establishes reserves for claims and claims expense on reported and incurred but not reported ("IBNR") claims of non-reinsured losses. Reserves for claims are included in the Accrued expenses and other current liabilities line item on the Consolidated Balance Sheets and claims expenses are recorded in Cost of sales on the Consolidated Statements of Comprehensive Income. The following details the activity in the reserve for the three months ended July 2, 2022 and July 3, 2021 (in thousands):

	Three Months Ended	
	July 2, 2022	July 3, 2021
Balance at beginning of period	\$ 8,149	\$ 7,451
Net incurred losses during the year	8,777	7,975
Net claim payments during the year	(8,352)	(7,078)
Balance at end of period	<u>\$ 8,574</u>	<u>\$ 8,348</u>

14. Commitments and Contingencies

Repurchase Contingencies. We are contingently liable under terms of repurchase agreements with financial institutions providing inventory financing to independent distributors of our products. These arrangements, which are customary in the industry, provide for the repurchase of products sold to distributors in the event of default by the distributor.

The maximum amount for which the Company was liable under such agreements approximated \$167.2 million and \$141.0 million at July 2, 2022 and April 2, 2022, respectively, without reduction for the resale value of the homes. We had a reserve for repurchase commitments of \$4.4 million at July 2, 2022 and \$3.6 million at April 2, 2022, and there were no repurchases during either period.

Construction-Period Mortgages. We fund construction-period mortgages through periodic advances during home construction. At the time of initial funding, we commit to fully fund the loan contract in accordance with a predetermined schedule. The total loan contract amount, less cumulative advances, represents an off-balance sheet contingent commitment to fund future advances.

Loan contracts with off-balance sheet commitments are summarized below (in thousands):

	July 2, 2022	April 2, 2022
Construction loan contract amount	\$ 5,447	\$ 9,330
Cumulative advances	(1,908)	(3,547)
	<u>\$ 3,539</u>	<u>\$ 5,783</u>

Representations and Warranties of Mortgages Sold. We sell loans to Government-Sponsored Enterprises ("GSEs") and whole-loan purchasers and finance certain loans with long-term credit facilities secured by the respective loans. In connection with these activities, we provide to GSEs and whole-loan purchasers and lenders representations and warranties related to the loans sold or financed. Upon a breach of a representation, we may be required to repurchase the loan or to indemnify a party for incurred losses. We maintain a reserve for these contingent repurchase and indemnification obligations. This reserve of \$1.0 million as of July 2, 2022 and \$866,000 as of April 2, 2022, included in Accrued expenses and other current liabilities on the Consolidated Balance Sheets, reflects management's estimate of probable loss. There were no claim requests that resulted in the repurchase of a loan during the three months ended July 2, 2022.

Interest Rate Lock Commitments. In originating loans for sale, we issue interest rate lock commitments ("IRLCs") to prospective borrowers. These IRLCs bind us to fund the approved loan at the specified rate regardless of whether interest rates or market prices for similar loans have changed between the commitment date and the closing date. As of July 2, 2022, we had outstanding IRLCs with a notional amount of \$49.9 million and recognized a gain of \$40,000 in the fiscal 2023 first quarter and a gain of \$47,000 in the fiscal 2022 first quarter.

Forward Sales Commitments. We manage the risk profiles of a portion of the outstanding IRLCs and mortgage loans held for sale by entering into forward sales of mortgage-backed securities ("MBS") and whole loan sale commitments (collectively "Commitments"). As of July 2, 2022, we had \$10.2 million in outstanding Commitments and recognized a non-cash loss of \$262,000 in the fiscal 2023 first quarter and a non-cash loss of \$347,000 in the fiscal 2022 first quarter.

Legal Matters. On September 2, 2021, the SEC filed a civil complaint in the United States District Court, District of Arizona, naming the Company along with the Company's former Chairman, President & Chief Executive Officer ("CEO") and the Company's former Chief Financial Officer, alleging violations of the antifraud and internal accounting control provisions of the Securities Exchange Act of 1934 based on trading in the shares of another company directed by the former CEO that resulted in an unrealized gain of approximately \$260,000. In the prior year, the Company recorded an accrual relating to this loss contingency. The Company has reached a settlement in principle with the SEC staff regarding the pending litigation. The settlement is subject to SEC approval that is expected within the next 60 days. A related notice has been filed with the Court in that action. We do not believe that the settlement will have a material impact on our results of operations or financial position.

We are party to certain other lawsuits in the ordinary course of business. Based on management's present knowledge of the facts and (in certain cases) advice of outside counsel, management does not believe that loss contingencies arising from pending matters are likely to have a material adverse effect on our consolidated financial position, liquidity or results of operations after taking into account any existing reserves, which reserves are included in Accrued expenses and other current liabilities on the Consolidated Balance Sheets. However, future events or circumstances that may currently be unknown to management will determine whether the resolution of pending or threatened litigation or claims will ultimately have a material effect on our consolidated financial position, liquidity or results of operations in any future reporting periods.

15. Stockholders' Equity and Redeemable Noncontrolling Interest

The following table represents changes in stockholders' equity attributable to Cavco's stockholders and redeemable noncontrolling interest during the three months ended July 2, 2022 (dollars in thousands):

	Equity Attributable to Cavco Stockholders							Redeemable Noncontrolling Interest
	Common Stock		Treasury Stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total	
	Shares	Amount						
Balance, April 2, 2022	9,292,278	\$ 93	\$ (61,040)	\$ 263,049	\$ 628,756	\$ (403)	\$ 830,455	\$ 825
Net income	—	—	—	—	59,602	—	59,602	92
Other comprehensive loss, net	—	—	—	—	—	(112)	(112)	—
Issuance of common stock under stock incentive plans	5,957	—	—	(848)	—	—	(848)	—
Stock-based compensation	—	—	—	1,425	—	—	1,425	—
Common stock repurchases	—	—	(38,960)	—	—	—	(38,960)	—
Distributions	—	—	—	—	—	—	—	(240)
Balance, July 2, 2022	<u>9,298,235</u>	<u>\$ 93</u>	<u>\$ (100,000)</u>	<u>\$ 263,626</u>	<u>\$ 688,358</u>	<u>\$ (515)</u>	<u>\$ 851,562</u>	<u>\$ 677</u>

The following table represents changes in stockholders' equity attributable to Cavco's stockholders and redeemable noncontrolling interest during the three months ended July 3, 2021 (dollars in thousands):

	Equity Attributable to Cavco Stockholders							Redeemable Noncontrolling Interest
	Common Stock		Treasury Stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total	
	Shares	Amount						
Balance, April 3, 2021	9,241,256	\$ 92	\$ (1,441)	\$ 253,835	\$ 431,057	\$ 97	\$ 683,640	\$ —
Net income	—	—	—	—	27,046	—	27,046	—
Other comprehensive loss, net	—	—	—	—	—	(13)	(13)	—
Issuance of common stock under stock incentive plans	4,465	—	—	136	—	—	136	—
Stock-based compensation	—	—	—	1,100	—	—	1,100	—
Common stock repurchases	—	—	(12,842)	—	—	—	(12,842)	—
Balance, July 3, 2021	<u>9,245,721</u>	<u>\$ 92</u>	<u>\$ (14,283)</u>	<u>\$ 255,071</u>	<u>\$ 458,103</u>	<u>\$ 84</u>	<u>\$ 699,067</u>	<u>\$ —</u>

16. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (dollars in thousands, except per share amounts):

	Three Months Ended	
	July 2, 2022	July 3, 2021
Net income attributable to Cavco common stockholders	\$ 59,602	\$ 27,046
Weighted average shares outstanding		
Basic	8,918,280	9,198,229
Effect of dilutive securities	70,649	78,300
Diluted	8,988,929	9,276,529
Net income per share attributable to Cavco common stockholders		
Basic	\$ 6.68	\$ 2.94
Diluted	\$ 6.63	\$ 2.92
Anti-dilutive common stock equivalents excluded	1,617	8,366

17. Fair Value Measurements

The book value and estimated fair value of our financial instruments were as follows (in thousands):

	July 2, 2022		April 2, 2022	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
Available-for-sale debt securities	\$ 17,278	\$ 17,278	\$ 17,760	\$ 17,760
Marketable equity securities	14,583	14,583	16,780	16,780
Non-marketable equity investments	20,818	20,818	20,479	20,479
Consumer loans receivable	49,587	52,208	49,884	53,354
Commercial loans receivable	72,318	69,509	68,566	65,942
Other secured financing	(2,791)	(2,781)	(2,933)	(3,119)

See Note 19, Fair Value Measurements, and the Fair Value of Financial Instruments caption in Note 1, Summary of Significant Accounting Policies, in the Form 10-K for more information on the methodologies we use in determining fair value.

Mortgage Servicing. Mortgage Servicing Rights ("MSRs") are the rights to receive a portion of the interest coupon and fees collected from the mortgagors for performing specified mortgage servicing activities. MSRs are recorded at fair value in Prepaid expenses and other current assets on the Consolidated Balance Sheets.

	July 2, 2022	April 2, 2022
Number of loans serviced with MSRs	4,216	4,346
Weighted average servicing fee (basis points)	34.70	34.76
Capitalized servicing multiple	101.5 %	85.07 %
Capitalized servicing rate (basis points)	35.22	29.57
Serviced portfolio with MSRs (in thousands)	\$ 543,871	\$ 560,178
MSRs (in thousands)	\$ 1,915	\$ 1,656

18. Related Party Transactions

We have non-marketable equity investments in other distribution operations outside of Company-owned retail stores. In the ordinary course of business, we sell homes and lend to certain of these operations through our commercial lending programs. For the three months ended July 2, 2022 and July 3, 2021, the total amount of sales to related parties was \$17.2 million and \$14.8 million, respectively. As of July 2, 2022, receivables from related parties included \$5.3 million of accounts receivable and \$1.8 million of commercial loans outstanding. As of April 2, 2022, receivables from related parties included \$3.3 million of accounts receivable and \$2.6 million of commercial loans outstanding.

19. Acquisitions

On July 4, 2021, we obtained an additional 20% ownership interest in Craftsman Homes, LLC and Craftsman Homes Development, LLC (“the Entities”) which gave us a controlling interest. Accordingly, we now consolidate the Entities and the results of operations have been included in the accompanying Consolidated Financial Statements since the date of acquisition.

On September 24, 2021, we purchased certain manufactured housing assets and assumed certain liabilities of Commodore, including its six manufacturing facilities and two wholly-owned retail locations. In addition to manufacturing, Commodore also participates in commercial lending operations with its dealers. The transaction was accounted for as a business combination and the results of operations have been included in the accompanying Consolidated Financial Statements since the date of acquisition.

Pro Forma Impact of Acquisitions (unaudited). The following table presents supplemental pro forma information as if the acquisitions occurred on April 4, 2021 (in thousands, except per share data):

	Three Months Ended
	July 3, 2021
Net revenue	\$ 411,752
Net income attributable to Cavco common stockholders	28,022
Diluted net income per share	3.02

20. Business Segment Information

We operate principally in two segments: (1) factory-built housing, which includes wholesale and retail factory-built housing operations and (2) financial services, which includes manufactured housing consumer finance and insurance. The following table provides selected financial data by segment (in thousands):

	Three Months Ended	
	July 2, 2022	July 3, 2021
Net revenue		
Factory-built housing	\$ 572,597	\$ 312,283
Financial services	15,741	18,139
	<u>\$ 588,338</u>	<u>\$ 330,422</u>
Income (loss) before income taxes		
Factory-built housing	\$ 79,772	\$ 33,559
Financial services	(462)	1,919
	<u>\$ 79,310</u>	<u>\$ 35,478</u>

	July 2, 2022	April 2, 2022
Total assets:		
Factory-built housing	\$ 962,704	\$ 929,535
Financial services	221,096	225,437
	<u>\$ 1,183,800</u>	<u>\$ 1,154,972</u>

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

Forward-Looking Statements

Statements in this Report on Form 10-Q include "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are often characterized by the use of words such as "believes," "estimates," "expects," "projects," "may," "will," "intends," "plans," or "anticipates," or by discussions of strategy, plans or intentions. Forward-looking statements are typically included, for example, in discussions regarding the manufactured housing and site-built housing industries; our financial performance and operating results; our liquidity and financial resources; our outlook with respect to the Company and the manufactured housing business in general; the expected effect of certain risks and uncertainties on our business, financial condition and results of operations; economic conditions and consumer confidence; increasing interest rates; inflation; potential acquisitions, strategic investments and other expansions; the sufficiency of our liquidity; operational and legal risks; how we may be affected by the COVID-19 pandemic ("COVID-19") or any other pandemic or outbreak; labor shortages and the pricing and availability of raw materials; governmental regulations and legal proceedings; the availability of favorable consumer and wholesale manufactured home financing; and the ultimate outcome of our commitments and contingencies. Forward-looking statements contained in this Report on Form 10-Q ("Report") speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. We do not intend to publicly update or revise any forward-looking statement contained in this Report or in any document incorporated herein by reference to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time, except as required by law.

Forward-looking statements involve risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements, many of which are beyond our control. To the extent that our assumptions and expectations differ from actual results, our ability to meet such forward-looking statements, including the ability to generate positive cash flow from operations, may be significantly hindered. Factors that could affect our results and cause them to materially differ from those contained in the forward-looking statements include, without limitation, those discussed under Risk Factors in Part I, Item 1A of our 2022 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("Form 10-K").

Introduction

The following should be read in conjunction with Cavco Industries, Inc. and its subsidiaries' (collectively, "we," "us," "our," the "Company" or "Cavco") Consolidated Financial Statements and the related Notes that appear in Item 1 of this Report. References to "Note" or "Notes" pertain to the Notes to our Consolidated Financial Statements.

Company Overview

Headquartered in Phoenix, Arizona, we design and produce factory-built housing products primarily distributed through a network of independent and Company-owned retailers, planned community operators and residential developers. We are one of the largest producers of manufactured homes in the United States, based on reported wholesale shipments. Our products are marketed under a variety of brand names including Cavco, Fleetwood, Palm Harbor, Nationwide, Fairmont, Friendship, Chariot Eagle, Destiny, Commodore, Colony, Pennwest, R-Anell, Manorwood and MidCountry. We are also a leading producer of park model RVs, vacation cabins and factory-built commercial structures. Our finance subsidiary, CountryPlace Acceptance Corp. ("CountryPlace"), is an approved Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") seller/servicer and a Government National Mortgage Association ("Ginnie Mae") mortgage-backed securities issuer that offers conforming mortgages, non-conforming mortgages and home-only loans to purchasers of factory-built homes. Our insurance subsidiary, Standard Casualty Company ("Standard Casualty"), provides property and casualty insurance to owners of manufactured homes.

We operate 26 homebuilding production lines in Millersburg and Woodburn, Oregon; Riverside, California; Nampa, Idaho; Phoenix and Goodyear, Arizona; Austin, Fort Worth, Seguin and Waco, Texas; Montevideo, Minnesota; Dorchester, Wisconsin; Nappanee and Goshen, Indiana; Lafayette, Tennessee; Douglas and Moultrie, Georgia; Shipperville and Emlenton, Pennsylvania; Martinsville and Rocky Mount, Virginia; Cherryville, North Carolina; and Ocala and Plant City, Florida. The majority of the homes produced are sold to, and distributed by, independently owned and controlled retail operations located throughout the United States and Canada. In addition, our homes are sold through 45 Company-owned U.S. retail locations.

Included in the above figures are two recent acquisitions. On July 4, 2021, we purchased an additional 20% ownership in Craftsman Homes, LLC and Craftsman Homes Development, LLC (collectively known as "Craftsman") in addition to our existing 50% ownership, making us controlling owner. Craftsman is a manufactured home retailer with four locations in Nevada selling Company and other manufacturer branded homes. They also provide general construction to setup the customer's property and assist with multi-home developments and multi-family dwellings. The transaction was accounted for as a business combination achieved in stages and the results of operations have been included in the accompanying Consolidated Financial Statements since the date of the acquisition of the additional 20% interest, with a reduction for the earnings attributable to the noncontrolling shareholder.

On September 24, 2021, we purchased certain manufactured housing assets and assumed certain liabilities of The Commodore Corporation ("Commodore"), including its six manufacturing facilities and two wholly-owned retail locations. In addition to manufacturing, Commodore also participates in commercial lending operations with its dealers. The transaction was accounted for as a business combination and the results of operations have been included in the accompanying Consolidated Financial Statements since the date of acquisition.

Company and Industry Outlook

According to data reported by the Manufactured Housing Institute, industry home shipments increased 13.4% for the first 5 months of calendar year 2022 compared to the same period last year.

The industry offers solutions to the affordable housing crisis and these shipment numbers reflect the industry's ability to produce in the current environment. The average price per square foot for a manufactured home is usually lower than a site-built home. Also, based on the comparatively low cost associated with manufactured home ownership, our products have traditionally competed with rental housing's monthly payment affordability.

The two largest manufactured housing consumer demographics, young adults and those who are age 55 and older, are both growing. "First-time" and "move-up" buyers of affordable homes are historically among the largest segments of new manufactured home purchasers. Included in this group are lower-income households that are particularly affected by periods of low employment rates and underemployment. Consumer confidence is especially important among manufactured home buyers interested in our products for seasonal or retirement living.

We employ a concerted effort to identify niche market opportunities where our diverse product lines and custom building capabilities provide us with a competitive advantage. We are focused on building quality, energy efficient homes for the modern home buyer. Our green building initiatives involve the creation of an energy efficient envelope, including higher utilization of renewable materials and provide lower utility costs. We also build homes designed to use alternative energy sources, such as solar.

We maintain a conservative cost structure in an effort to build added value into our homes and we work diligently to maintain a solid financial position. Our balance sheet strength, including the position in cash and cash equivalents, helps avoid liquidity problems and enables us to act effectively as market opportunities or challenges present themselves.

We continue to make certain commercial loan programs available to members of our wholesale distribution chain. Under direct commercial loan arrangements, we provide funds for financed home purchases by distributors, community owners and developers (see Note 7 to the Consolidated Financial Statements). Our involvement in commercial loans helps to increase the availability of manufactured home financing to distributors, community owners and developers and provides additional opportunities for product exposure to potential home buyers. While these initiatives support our ongoing efforts to expand product distribution, they also expose us to risks associated with the creditworthiness of this customer base and our inventory financing partners.

The lack of an efficient secondary market for manufactured home-only loans and the limited number of institutions providing such loans results in higher borrowing costs for home-only loans and continues to constrain industry growth. We work independently and with other industry participants to develop secondary market opportunities for manufactured home-only loan and non-conforming mortgage portfolios and expand lending availability in the industry. Additionally, we continue to invest in community-based lending initiatives that provide home-only financing to residents of certain manufactured home communities. We also develop and invest in home-only lending programs to grow sales of homes through traditional distribution points. We believe that growing our investment and participation in home-only lending may provide additional sales growth opportunities for our factory-built housing operations and reduce our exposure to the actions of independent lenders.

Home order rates have moderated from the extreme highs we saw during the summer of 2020 to the summer of 2021. However, our backlogs at July 2, 2022 were \$1.0 billion, consistent with the sequential prior quarter of \$1.1 billion and up \$206 million, or 26.3%, compared to \$792 million at July 3, 2021. The year over year increase includes \$231 million attributable to Commodore. Backlogs exclude home orders that have been paused or canceled at the request of the customer.

Key housing building materials include wood, wood products, steel, gypsum wallboard, windows, doors fiberglass insulation, carpet, vinyl, fasteners, plumbing materials, aluminum, appliances and electrical items. Fluctuations in the cost of materials and labor may affect gross margins from home sales to the extent that costs cannot be efficiently matched to the home sales price. Pricing and availability of certain raw materials have recently been volatile due to a number of factors in the current environment. We continue to monitor and react to inflation in these materials by maintaining a focus on our product pricing in response to higher materials costs, but such product pricing increases may lag behind the escalation of such costs. From time to time and to varying degrees, we may experience shortages in the availability of materials and/or labor in the markets served. Availability of these inputs has not caused significant production halts in the current period, but we have experienced periodic shutdowns in other periods and shortages of primary building materials have caused production inefficiencies as we have needed to change processes in response to the delay in materials. These shortages may also result in extended order backlogs, delays in the delivery of homes and reduced gross margins from home sales.

While it is difficult to predict the future of housing demand, employee availability, supply chain and Company performance and operations, maintaining an appropriately sized and well-trained workforce is key to increasing production to meet increased demand, and we face challenges in overcoming labor-related difficulties in the current environment to increase home production. We continually review the wage rates of our production employees and have established other monetary incentive and benefit programs, with a goal of providing competitive compensation. We are also working to more extensively use web-based recruiting tools, update our recruitment brochures and improve the appearance and appeal of our manufacturing facilities to improve the recruitment and retention of qualified production employees and reduce annualized turnover rates. We believe our ability to recruit the workforce we need to help meet the overall need for affordable housing continues to improve.

In the financial services segment, we continue to assist customers in need by servicing existing loans and insurance policies and complying with state and federal regulations regarding loan forbearance, home foreclosures and policy cancellations. Certain loans serviced for investors expose us to cash flow deficits if customers do not make contractual monthly payments of principal and interest in a timely manner. For certain loans serviced for Ginnie Mae and Freddie Mac, and home-only loans serviced for certain other investors, we must remit scheduled monthly principal and/or interest payments and principal curtailments regardless of whether monthly mortgage payments are collected from borrowers. Ginnie Mae permits cash obligations on loans in forbearance from COVID-19 to be offset by other incoming cash flows from loans such as loan pre-payments. Monthly collections of principal and interest from borrowers have exceeded scheduled principal and interest payments owed to investors; however, mandatory extended forbearance under the Coronavirus Aid, Relief and Economic Security Act and certain other regulations related to COVID-19 could negatively impact cash obligations in the future.

Results of Operations

Net Revenue

	Three Months Ended		Change	
	July 2, 2022	July 3, 2021		
(\$ in thousands, except revenue per home sold)				
Factory-built housing	\$ 572,597	\$ 312,283	\$ 260,314	83.4 %
Financial services	15,741	18,139	(2,398)	(13.2)%
	<u>\$ 588,338</u>	<u>\$ 330,422</u>	<u>\$ 257,916</u>	<u>78.1 %</u>
Factory-built homes sold				
by Company-owned retail sales centers	873	723	150	20.7 %
to independent retailers, builders, communities and developers	4,473	2,977	1,496	50.3 %
	<u>5,346</u>	<u>3,700</u>	<u>1,646</u>	<u>44.5 %</u>
Net factory-built housing revenue per home sold	\$ 107,108	\$ 84,401	\$ 22,707	26.9 %

In the factory-built housing segment, the increase in Net revenue was primarily due to an increase in the average sales price and the number of units sold. The higher home prices were driven by product price increases. Home sales volume increased from the addition of Commodore, which provided \$101 million in Net revenue for the three months ended July 2, 2022, and higher factory capacity utilization.

Net factory-built housing revenue per home sold is a volatile metric dependent upon several factors. A primary factor is the price disparity between sales of homes to independent distributors, builders, communities and developers and sales of homes to consumers by Company-owned retail stores. Wholesale sales prices are primarily comprised of the home and the cost to ship the home from a homebuilding facility to the home-site. Retail home prices include these items and retail markup, as well as items that are largely subject to home buyer discretion, including, but not limited to, installation, utility connections, site improvements, landscaping and additional services. Our homes are constructed in one or more floor sections ("modules") which are then installed on the customer's site. Changes in the number of modules per home, the selection of different home types/models and optional home upgrades create changes in product mix, also causing fluctuations in this metric. The table below presents the mix of modules and homes sold for the three months ended July 2, 2022 and July 3, 2021:

	Three Months Ended					
	July 2, 2022		July 3, 2021		Change	
	Modules	Homes	Modules	Homes	Modules	Homes
HUD code homes	8,515	4,854	5,652	3,276	50.7 %	48.2 %
Modular homes	486	251	468	226	3.8 %	11.1 %
Park model RVs	241	241	198	198	21.7 %	21.7 %
	<u>9,242</u>	<u>5,346</u>	<u>6,318</u>	<u>3,700</u>	46.3 %	44.5 %

Financial services segment revenue decreased primarily due to lower interest income earned on the acquired consumer loan portfolios that continue to amortize, unrealized losses on marketable equity securities in the insurance subsidiary's portfolio and lower volume of home loan sales, partially offset by more insurance policies in force. For the three months ended July 2, 2022 and July 3, 2021, we recognized unrealized losses on marketable equity securities of \$1.2 million and unrealized gains of \$0.4 million, respectively.

Gross Profit

(\$ in thousands)	Three Months Ended			
	July 2, 2022	July 3, 2021	Change	
Factory-built housing	\$ 139,586	\$ 66,273	\$ 73,313	110.6 %
Financial services	5,138	7,740	(2,602)	(33.6)%
	<u>\$ 144,724</u>	<u>\$ 74,013</u>	<u>\$ 70,711</u>	95.5 %

Gross profit as % of Net revenue				
Consolidated	24.6 %	22.4 %	N/A	2.2 %
Factory-built housing	24.4 %	21.2 %	N/A	3.2 %
Financial services	32.6 %	42.7 %	N/A	(10.1)%

Factory-built housing gross profit increased for the three months ended July 2, 2022 primarily due to higher average sales prices, increased home sales volume and streamlining of our HUD code product offering across our network, partially offset by higher materials costs per unit. We continue to monitor and react to inflation in building material prices by maintaining a focus on our product pricing; however, product price increases may lag behind the escalation of building material costs.

For the three months ended July 2, 2022, Financial services gross profit decreased primarily due to higher weather related claims and unrealized losses on marketable equity securities compared to unrealized gains in the prior year period.

Selling, General and Administrative Expenses

(\$ in thousands)	Three Months Ended		Change	
	July 2, 2022	July 3, 2021		
Factory-built housing	\$ 60,923	\$ 35,497	\$ 25,426	71.6 %
Financial services	5,213	5,335	(122)	(2.3)%
	<u>\$ 66,136</u>	<u>\$ 40,832</u>	<u>\$ 25,304</u>	<u>62.0 %</u>
Selling, general and administrative expenses as % of Net revenue	11.2 %	12.4 %	N/A	(1.2)%

For the three months ended July 2, 2022, Selling, general and administrative expenses related to factory-built housing increased between periods primarily from the addition of Commodore, higher salary and incentive-based compensation expense and expenses incurred in engaging third-party consultants in relation to claiming the non-recurring energy efficient home net tax credits which were recognized in the second half of fiscal 2022.

As a percentage of Net revenue, Selling, general and administrative expenses improved 120 basis points from better utilization of fixed costs on higher sales.

Other Components of Net Income

(\$ in thousands)	Three Months Ended		Change	
	July 2, 2022	July 3, 2021		
Interest expense	\$ 161	\$ 164	\$ (3)	(1.8)%
Other income, net	883	2,461	(1,578)	(64.1)%
Income tax expense	19,616	8,432	11,184	132.6 %
Effective tax rate	24.7 %	23.8 %	N/A	0.9 %

Interest expense consists primarily of interest related to finance leases.

Other income, net primarily consists of realized and unrealized gains and losses on corporate investments, interest income related to commercial loan receivable balances, interest income earned on cash balances and gains and losses from the sale of property, plant and equipment. Other income, net declined from a \$1.1 million unrealized loss on corporate marketable investments and lower interest income on reduced cash balances.

Liquidity and Capital Resources

We believe that cash and cash equivalents at July 2, 2022, together with cash flow from operations, will be sufficient to fund our operations, cover our obligations and provide for growth for the next 12 months and into the foreseeable future. We maintain cash in U.S. Treasury and other money market funds, some of which are in excess of federally insured limits. We expect to continue to evaluate potential acquisitions of, or strategic investments in, businesses that are complementary to the Company, as well as other expansion opportunities. Such transactions may require the use of cash and have other impacts on our liquidity and capital resources. Because of our sufficient cash position, we have not historically sought external sources of liquidity, with the exception of certain credit facilities for our home-only lending programs. Regardless, depending on our operating results and strategic opportunities, we may choose to seek additional or alternative sources of financing in the future. There can be no assurance that such financing would be available on satisfactory terms, if at all. If this financing were not available, it could be necessary for us to reevaluate our long-term operating plans to make more efficient use of our existing capital resources at such time. The exact nature of any changes to our plans that would be considered depends on various factors, such as conditions in the factory-built housing industry and general economic conditions outside of our control.

State insurance regulations restrict the amount of dividends that can be paid to stockholders of insurance companies. As a result, the assets owned by our insurance subsidiary are generally not available to satisfy the claims of Cavco or its legal subsidiaries. We believe that stockholders' equity at the insurance subsidiary remains sufficient and do not believe that the ability to pay ordinary dividends to Cavco at anticipated levels will be restricted per state regulations.

The following is a summary of the Company's cash flows for the three months ended July 2, 2022 and July 3, 2021, respectively:

(in thousands)	Three Months Ended		\$ Change
	July 2, 2022	July 3, 2021	
Cash, cash equivalents and restricted cash at beginning of the fiscal year	\$ 259,334	\$ 339,307	\$ (79,973)
Net cash provided by operating activities	58,240	24,275	33,965
Net cash used in investing activities	(24,399)	(3,616)	(20,783)
Net cash used in financing activities	(40,213)	(13,150)	(27,063)
Cash, cash equivalents and restricted cash at end of the period	\$ 252,962	\$ 346,816	\$ (93,854)

Net cash provided by operating activities increased primarily from higher net income adjusted for non-cash items. This increase was partially offset by increased lending in our Financial Services segment, as well as under our commercial loan programs. Consumer loan originations increased \$4.8 million to \$47.5 million for the three months ended July 2, 2022 from \$42.7 million for the three months ended July 3, 2021.

Net cash used in investing activities consists of buying and selling debt and marketable equity securities in our Financial Services segment, purchases of property, plant and equipment and funding strategic growth acquisitions. Greater cash used in the current period reflects the purchase of plant facilities in Hamlet, North Carolina.

Net cash used in financing activities for the current period was primarily for the repurchase of common stock.

See Note 14 to the Consolidated Financial Statements for a discussion of our off-balance sheet commitments, which discussion is incorporated herein by reference.

Obligations and Commitments. There were no material changes to the obligations and commitments as set forth in our Annual Report on Form 10-K.

Critical Accounting Estimates

Except as described in Note 1 to the Consolidated Financial Statements, there have been no other significant changes to our critical accounting estimates during the three months ended July 2, 2022, as compared to those disclosed in Part II, Item 7 of our Form 10-K, under the heading "Critical Accounting Estimates," which provides a discussion of the critical accounting estimates that management believes affect its more significant judgments and estimates used in the preparation of the Company's Consolidated Financial Statements.

Other Matters

Impact of Inflation. At the end of the period, inflation was the highest in the U.S. in over 30 years. Our ability to maintain certain levels of gross margin can be adversely impacted by sudden increases in specific costs, such as the increases in materials and labor. In addition, measures used by the Federal Reserve to combat inflation, such as increases in interest rates, could also have an impact on the ability of home buyers to obtain affordable financing. We can give no assurance that inflation will not affect our future profitability and financial position.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes from the quantitative and qualitative disclosures about market risk previously disclosed in the Form 10-K.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its President and Chief Executive Officer and its Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, the Company's President and Chief Executive Officer and its Chief Financial Officer concluded that, as of July 2, 2022, its disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended July 2, 2022 which has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See the information under the "Legal Matters" caption in Note 14 to the Consolidated Financial Statements, which is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this Report, you should carefully consider the factors discussed in Part I, Item 1A, *Risk Factors*, in the Form 10-K, which could materially affect our business, financial condition or future results. The risks described in this Report and in the Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

As announced on October 29, 2020 in a current report on Form 8-K, the Company's Board of Directors approved a \$100 million stock repurchase program to purchase its outstanding common stock. The program was completed during the first quarter of fiscal year 2023. The repurchase program was funded using our available cash. The following table sets forth repurchases of our common stock during the current quarter:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program (in thousands)
April 3, 2022 to May 7, 2022	163,040	\$ 238.96	163,040	\$ —
May 8, 2022 to June 4, 2022	—	—	—	—
June 5, 2022 to July 2, 2022	—	—	—	—
	<u>163,040</u>	<u>\$ 238.96</u>	<u>163,040</u>	<u>\$ —</u>

As announced on May 26, 2022 in a current report on Form 8-K, the Company's Board of Directors approved another \$100 million stock repurchase program with the same terms and conditions as the previous plan. There have been no repurchases made under this program.

Item 5. Other Information

There is no other information required to be disclosed under this item which was not previously disclosed.

Item 6. Exhibits

<u>Exhibit</u>	
<u>No.</u>	<u>Exhibit</u>
31.1	(1) Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Rule 13a-14(a)/15d-14(a)
31.2	(1) Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Rule 13a-14(a)/15d-14(a)
32	(2) Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

All other items required under Part II are omitted because they are not applicable.

(1) Filed herewith.

(2) Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Cavco Industries, Inc.

Registrant

Signature	Title	Date
<u>/s/ William C. Boor</u> William C. Boor	Director, President and Chief Executive Officer (Principal Executive Officer)	August 5, 2022
<u>/s/ Allison K. Aden</u> Allison K. Aden	Executive Vice President, Chief Financial Officer & Treasurer (Principal Financial Officer)	August 5, 2022

Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, William C. Boor, certify that:

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

Dated: August 5, 2022

By: /s/ William C. Boor
William C. Boor
President and Chief Executive Officer
(Principal Executive Officer)

Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Allison K. Aden, certify that:

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

Dated: August 5, 2022

By: /s/ Allison K. Aden
Allison K. Aden
Executive Vice President, Chief Financial
Officer & Treasurer
(Principal Financial Officer)

Certification Pursuant to 18 U.S.C. 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Cavco Industries, Inc. (the "Registrant") on Form 10-Q for the period ending July 2, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, William C. Boor and Allison K. Aden, President and Chief Executive Officer and Executive Vice President, Chief Financial Officer & Treasurer, respectively, of the Registrant, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

August 5, 2022

/s/ William C. Boor

William C. Boor

President and Chief Executive Officer
(Principal Executive Officer)

/s/ Allison K. Aden

Allison K. Aden

Executive Vice President, Chief Financial Officer
& Treasurer
(Principal Financial Officer)