

Beacon Roofing Supply (BECN)

\$26.45 (As of 06/03/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: D

Summary

Beacon Roofing's shares have outperformed the industry over the past month. The trend is likely to continue, thanks to narrower year-over-year loss and improved net sales in second-quarter fiscal 2020. The improved results were mainly backed by strong sales (particularly until mid-March), stable margins and cost-control measures. Certain contractor conversion initiatives, national account sales and persistent support from the industry-leading digital platform also added to the positives. It is advancing with cost-saving initiatives and the employee transition process to reduce operating costs. However, the company witnessed significant disruptions post the coronavirus outbreak. April's daily sales declined nearly 20% from the prior-year period. Estimates for fiscal 2020 have moved south over the past 30 days.

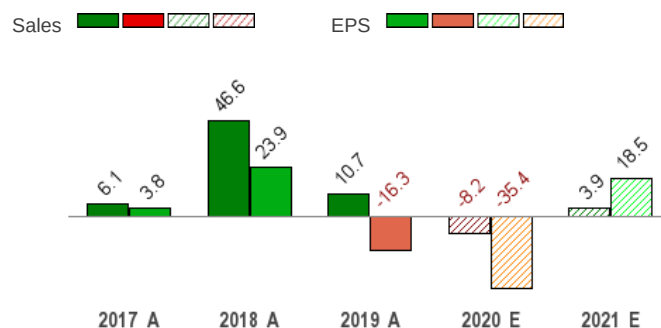
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$37.92 - \$11.67
20 Day Average Volume (sh)	508,253
Market Cap	\$1.8 B
YTD Price Change	-17.3%
Beta	1.78
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Retail
Zacks Industry Rank	Bottom 38% (156 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	-16.6%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	13.2
P/E F1	18.1
PEG F1	1.8
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,571 E	1,440 E	1,789 E	1,964 E	6,778 E
2020	1,675 A	1,458 A	1,604 E	1,797 E	6,523 E
2019	1,722 A	1,429 A	1,925 A	2,030 A	7,105 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.18 E	-\$0.31 E	\$0.72 E	\$0.94 E	\$1.73 E
2020	\$0.32 A	-\$0.27 A	\$0.36 E	\$0.64 E	\$1.46 E
2019	\$0.60 A	-\$0.45 A	\$0.92 A	\$1.04 A	\$2.26 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

Overview

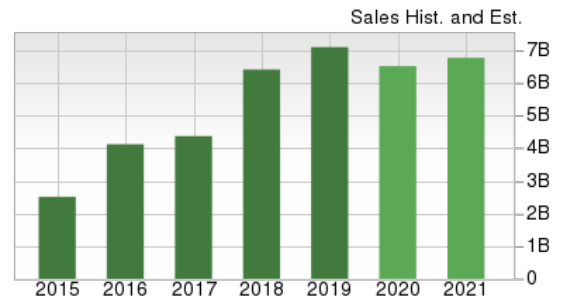
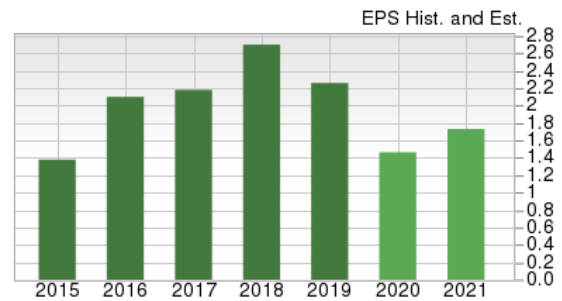
Beacon Roofing Supply is the largest distributor of residential and non-residential roofing materials in the United States and Canada. The company also distributes other complementary building products, including siding, windows, specialty exterior building products, insulation, and waterproofing systems for residential and non-residential building exteriors.

The company is one of the oldest and most recognized distributors in the industry. Beacon Roofing purchases products from a large number of manufacturers and then distributes these goods to its customers including contractors, home builders, retailers and building materials suppliers.

As of Mar 31, 2020, the company operated 528 branches across 50 states in the United States and six provinces in Canada, given a strong presence in the South, West and Pacific Northwest. The company's product portfolio includes Residential roofing products, Non-residential roofing products and Complementary building products.

In fiscal 2019, Residential roofing products comprised 43.3% Beacon Roofing's existing market net sales, Non-residential roofing products accounted for 24%, and Complementary building products (siding, windows, insulation and waterproofing, among others) contributed the remaining 32.7%.

On Jan 15, 2020, the company announced rebranding of 40 brands across the United States and Canada that sell exterior products. These exterior product branches will now be named Beacon Building Products. Its interior, insulation, weatherproofing and two-step branches will continue to operate under same brand names.



Reasons To Buy:

- ▲ **Cost-Reduction Initiatives:** Beacon Roofing is moving forward with the integration of the Allied Building Products acquisition. Regarding the specific synergy components, Beacon Roofing began consolidating procurement programs to secure the best supply arrangement from vendors on a market-by-market basis. It is also progressing on employee transitions process. The cost savings related to these decisions is just beginning to positively contribute to a reduction in operating costs.

During third-quarter fiscal 2019, the company announced fixed cost structure actions to reduce operating costs by \$25 million, in order to focus on growth and debt reduction. The company expects to achieve its target in fiscal 2020.

Encouragingly, adjusted EBITDA margin in the fiscal second quarter expanded 80 basis points (bps) year over year. The company believes that these initiatives will benefit the bottom line in future.

During fiscal second-quarter conference call, the company noted that adjusted operating costs have declined in mid- to high-single digits in April (compared to fiscal second quarter's average monthly rate).

- ▲ **Focus on Productivity Enhancement & Digital Platform:** Beacon Roofing remains focused on investing for its employees with additional tools and training that are enhancing productivity for consistently expanding product breadth and depth, including TRI-BUILT private label offering. The company is also targeting new customer subsets, including building bonds with national accounts, large retailers and 2-step customers.

The company will also gain from the successful execution of technology initiative in the growing e-commerce platform. Beacon Roofing expects strong demand environment and no incremental inflation in fiscal 2020. It remains on track with the long-term target of generating \$1 billion annual digital sales. The company continues to enhance the platform and add capabilities based on customer feedback. Given the lower cost to service, digital sales are generally accretive to gross margin.

- ▲ **Strategic Review of the Business:** Last year, the company undertook strategic review decision. Under this, the company integrated 40 brands across the United States and Canada that sell exterior products under Beacon Building Products. The new name reflects its ability to supply customers with a broad range of residential and commercial building products, and a unique service offering across North America.

The company is focused on improving sales and operating performance at exterior and interior branches, and intends to enhance overall customer experience with increased scope and scale of business. With this strategic action, its customers are likely to benefit from the industry's best e-commerce platform, a new OTC (On-Time and Complete) Delivery Network and a newly-designed website. Markedly, the OTC Network is developed to support in-store and online customers with enhanced product availability, delivery tracking and notification.

- ▲ **Enough Liquidity to Overcome Coronavirus Woes:** Beacon Roofing has been maintaining a strong liquidity position to navigate through the current challenging environment due to the COVID-19 pandemic. The company ended the fiscal second quarter with solid liquidity, including \$781.2 million cash and cash equivalents, along with \$197.5 million of available capacity on the asset-based revolving credit facility. Its current cash level is sufficient to meet the short-term obligation of \$13 million.

Long-term debt obligations totaled \$3.5 billion, up from \$2.7 billion at fiscal first quarter-end. Although total debt to total capital at quarter-end increased to 62.6% from 54.9% at fiscal 2019-end, the company has no significant debt maturity until 2023.

Beacon Roofing will gain from higher contribution from the Allied Building Products acquisition, favorable price/cost relationship, and focus on productivity enhancement & digital platform

Reasons To Sell:

▼ **Coronavirus Woes to Put Pressure on Near-Term Results:** Owing to COVID-19 impact on the global economy, Beacon Roofing suspended its fiscal 2020 guidance. Despite being declared an essential business in all markets served, the company witnessed significant disruptions post the declaration of the coronavirus outbreak as pandemic in mid-March. The company is vulnerable to such economic environments as most of the work is outdoor and based on repair and remodeling activity. About 70-75% of overall sales and more than 80% of the roofing business is R&R based, and largely non discretionary.

Coronavirus woes, high costs and expenses, competitive pricing pressures, weather-related crises, and strong competition remain headwinds.

The impact of COVID-19 was severe in 10 markets wherein infected cases were high. Its sales in those markets declined 40-50% year over year in April. The other 46 markets recorded mid- to high-single-digit sales declines during April. Notably, these areas represent approximately 70% of its overall sales. In April, daily sales declined nearly 20% from the prior-year period.

▼ **Higher Cost & Expenses:** Over the last few quarters, Beacon Roofing has been posting dismal earnings. During second-quarter fiscal 2020, it generated adjusted loss of 27 cents per share. Also, its fiscal first-quarter adjusted earnings declined a whopping 46.7% on a year-over-year basis. Despite undertaking various cost-saving initiatives, the company witnessed increased depreciation expenses, and high costs for fleet repairs, health care and customer-specific events. Also, increase in amortization expense, merit increases, higher health insurance costs, and volume-driven payroll increase impacted the company's bottom line. Notably, its earnings lagged the Zacks Consensus Estimate in eight of the trailing 12 quarters.

Weather-related woes, higher costs and competitive pricing have been pressurizing Beacon Roofing's margins over the last few quarters. As a distributor of residential roofing supplies, the company is sensitive to asphalt prices, which are highly volatile and often linked to oil prices. This is because oil is a significant input in asphalt production. Going ahead, increased prices might impact demand for these products, resulting in lower sales volumes.

▼ **Pricing Pressure & Stiff Competition:** The commercial roofing market has been experiencing heightened competitive pricing pressures, of late. Moreover, even though repair remodel represents the majority product demand for Beacon Roofing, the timing of these replacement decisions can vary due to economic factors and weather conditions. Beacon Roofing belongs to a highly competitive industry. The maintenance, repair & operations (MRO) supply market is highly fragmented, with many smaller local players competing directly on price. Furthermore, general market softness, volatile exchange rates and uncertainty regarding weather conditions remain matters of concern.

▼ **Financial Results are Prone to Seasonal Fluctuations:** Beacon Roofing's business can be significantly impacted by inclement weather conditions, as a large portion of its work is done outdoors. Financial results of the company are also prone to seasonal fluctuations due to the same. Consequently, extended periods of adverse weather impact the company's earnings during the winter. Historically, the company generates lower earnings and substantially low sales during the second quarter.

Last Earnings Report

Beacon Roofing Q2 Loss In Line, Margins Increase Y/Y

Beacon Roofing Supply, Inc. reported second-quarter fiscal 2020 results, wherein the bottom line met the Zacks Consensus Estimate and improved from the prior-year quarter. The improved results were mainly backed by strong sales (particularly until mid-March), stable margins and cost-control measures.

Despite being declared an essential business in all markets served, the company witnessed significant disruption post the declaration of the coronavirus outbreak as pandemic in mid-March. In April, daily sales declined nearly 20% from the prior-year period.

Nonetheless, it is looking for opportunities to improve productivity and enhance customer service through its industry-leading digital platform. Also, the company has implemented various cost-saving actions in response to the COVID-19 outbreak.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	0.80%
EPS Surprise	0.00%
Quarterly EPS	-0.27
Annual EPS (TTM)	2.01

Quarter in Detail

Beacon Roofing reported adjusted loss of 27 cents per share, narrower than the year-ago loss of 45 cents per share.

Net sales of \$1.46 billion marginally surpassed the consensus mark of \$1.45 billion. The figure also grew 2.1% year over year, backed by certain contractor conversion initiatives, national account sales and continued support from industry-leading digital platform. However, these positives were partially offset by comparatively lower hurricane-related demand.

Residential roofing product sales and complementary product sales declined 1.3% and 0.4%, respectively. However, non-residential roofing product sales improved 2.6% year over year.

Daily sales were up 0.5% year over year. The metric was up 5% year over year before the COVID-19 outbreak in mid-March. Non-residential roofing daily sales grew 10.8% from the prior year.

Operating Highlights

Cost of goods sold (contributing 76.5% to net sales) totaled \$1,116.1 million, up 2% year over year. Gross margin expanded 10 basis points (bps) to 23.5%.

Adjusted EBITDA surged 42% year over year and margin grew 80 bps to 2.7%, reflecting strong operating cost-control measures.

Segment Details

Sales in the Residential roofing product segment (contributing 40.5% to total sales) fell 1.3% year over year to \$591.2 million. That in Complementary products (35.3%) slipped 0.4% year over year to \$514.3 million. Nonetheless, sales in the Non-residential roofing product unit (24.2%) increased 12.6% year over year to \$353 million.

Cash Position

As of Mar 31, 2020, Beacon Roofing had cash and cash equivalents of \$781.2 million, significantly up from \$72.3 million at fiscal 2019-end. Long-term debt was \$2.5 billion, almost in line with the last reported quarter and the year-ago figure.

Cash used in operations was reported at \$150.8 million in the first six months of fiscal 2020 compared with \$242.1 million a year ago.

Valuation

Beacon Roofing's shares are down 17.3% in the year-to-date period and 23.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 12.7% and 10.2%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector is up 29.1% and 24.6%, respectively.

The S&P 500 index is down 4.4% in the year-to-date period and 9.2% in the past year.

The stock is currently trading at 10.97X forward 12-month earnings, which compares to 20.24X for the Zacks sub-industry, 28.44X for the Zacks sector and 20.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.35X and as low as 4.55X, with a 5-year median of 17.23X with the market. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$28 price target reflects 17.03X forward 12-months earnings.

The table below shows summary valuation data for BECN.

Valuation Multiples - BECN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.08	20.25	32.69	22.29
	5-Year High	25.35	21.5	32.69	22.29
	5-Year Low	4.55	16.02	19.07	15.23
	5-Year Median	16.89	18.95	23.31	17.49
P/S F12M	Current	0.27	1.58	1.1	3.47
	5-Year High	0.85	1.58	1.21	3.47
	5-Year Low	0.11	1.06	0.81	2.53
	5-Year Median	0.55	1.28	0.94	3.02
EV/EBITDA TTM	Current	7.39	13.55	17.14	11.4
	5-Year High	20.06	13.56	17.14	12.86
	5-Year Low	6.04	8.45	10.97	8.26
	5-Year Median	11.34	10.77	12.67	10.81

As of 06/03/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (156 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Gibraltar Industries, Inc. (ROCK)	Neutral	4
Simpson Manufacturing Company, Inc. (SSD)	Neutral	4
Tecnoglass Inc. (TGLS)	Neutral	3
Armstrong World Industries, Inc. (AWI)	Underperform	4
Builders FirstSource, Inc. (BLDR)	Underperform	4
BMC Stock Holdings, Inc. (BMCH)	Underperform	5
GMS Inc. (GMS)	Underperform	5
Owens Corning Inc (OC)	Underperform	5

Industry Comparison Industry: Building Products - Retail				Industry Peers		
	BECN	X Industry	S&P 500	BLDR	BMCH	OC
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	3	-	-	4	5	5
VGM Score	A	-	-	B	A	D
Market Cap	1.82 B	1.79 B	22.50 B	2.59 B	1.79 B	5.95 B
# of Analysts	7	6	14	6	6	8
Dividend Yield	0.00%	0.00%	1.88%	0.00%	0.00%	1.74%
Value Score	A	-	-	B	B	D
Cash/Price	0.46	0.07	0.06	0.07	0.16	0.04
EV/EBITDA	11.54	8.71	12.98	8.01	8.71	7.69
PEG Ratio	1.80	1.35	3.05	NA	NA	5.30
Price/Book (P/B)	1.07	1.49	3.11	3.11	1.78	1.69
Price/Cash Flow (P/CF)	3.97	8.31	12.18	7.38	9.28	6.27
P/E (F1)	18.42	21.13	22.19	21.78	24.40	22.35
Price/Sales (P/S)	0.26	0.42	2.40	0.35	0.48	0.84
Earnings Yield	5.52%	4.73%	4.31%	4.58%	4.12%	4.48%
Debt/Equity	2.06	1.23	0.76	1.85	0.61	0.95
Cash Flow (\$/share)	6.66	2.88	7.01	3.01	2.88	8.80
Growth Score	A	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	9.47%	14.18%	10.87%	55.52%	33.08%	16.50%
Proj. EPS Growth (F1/F0)	-35.21%	-25.53%	-10.74%	-51.11%	-42.37%	-45.62%
Curr. Cash Flow Growth	11.78%	0.60%	5.48%	7.81%	-0.49%	-2.64%
Hist. Cash Flow Growth (3-5 yrs)	40.23%	10.93%	8.55%	62.81%	45.68%	13.33%
Current Ratio	2.71	2.23	1.29	1.87	2.72	1.63
Debt/Capital	62.56%	58.13%	44.75%	64.96%	37.85%	48.66%
Net Margin	-1.24%	2.57%	10.59%	2.62%	3.00%	-7.84%
Return on Equity	9.42%	14.85%	16.29%	31.26%	12.43%	11.93%
Sales/Assets	1.07	1.83	0.55	2.23	1.94	0.72
Proj. Sales Growth (F1/F0)	-8.19%	-4.19%	-2.65%	-6.25%	-4.19%	-12.85%
Momentum Score	D	-	-	A	A	C
Daily Price Chg	2.40%	0.65%	2.42%	-1.07%	0.64%	2.62%
1 Week Price Chg	8.22%	6.67%	4.60%	8.50%	7.92%	8.40%
4 Week Price Chg	25.35%	25.35%	13.40%	37.26%	25.74%	34.17%
12 Week Price Chg	22.80%	17.90%	12.78%	16.43%	34.88%	25.76%
52 Week Price Chg	-23.91%	0.27%	0.89%	50.44%	27.36%	6.51%
20 Day Average Volume	508,253	465,787	2,528,787	1,188,691	465,787	1,224,324
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	2.51%	0.00%
(F1) EPS Est 4 week change	-16.61%	1.29%	-0.14%	1.83%	4.39%	0.00%
(F1) EPS Est 12 week change	-41.41%	-39.04%	-16.00%	-55.02%	-50.35%	-51.33%
(Q1) EPS Est Mthly Chg	-42.96%	-5.71%	-0.02%	-11.01%	-21.95%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	D
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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