

Beacon Roofing Supply (BECN)

\$34.82 (As of 01/07/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/23/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: B

Summary

Shares of Beacon Roofing have underperformed its industry over the past year. The dismal performance was mainly due to competitive pricing pressures, weather-related woes, raw-material cost inflation and strong competition. Moreover, general market softness along with volatile exchange rates added to this downside. Nonetheless, the company is advancing with cost-saving initiatives along with employee transition process to contribute to reduced operating costs. The company's TRI-BUILT private label program is also noteworthy. Owing to this, fiscal 2019 adjusted operating cost contracted 40 basis points year over year. Notably, the company believes that these efforts will benefit the bottom line going forward. Markedly, earning estimates for fiscal 2020 have moved north over the past 30 days, reflecting optimism surrounding the stock.

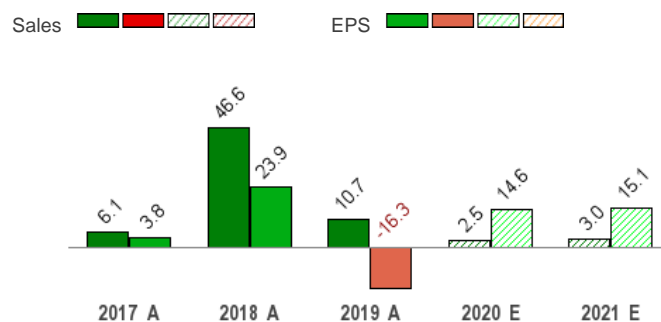
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$40.00 - \$26.50 |
| 20 Day Average Volume (sh) | 383,377 |
| Market Cap | \$2.4 B |
| YTD Price Change | 8.9% |
| Beta | 1.39 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Building Products - Retail |
| Zacks Industry Rank | Top 17% (43 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | -11.1% |
| Last Sales Surprise | -1.4% |
| EPS F1 Est- 4 week change | 1.5% |
| Expected Report Date | 02/06/2020 |
| Earnings ESP | -1.7% |
| P/E TTM | 16.5 |
| P/E F1 | 13.4 |
| PEG F1 | 1.3 |
| P/S TTM | 0.3 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 1,783 E | 1,506 E | 2,060 E | 2,164 E | 7,500 E |
| 2020 | 1,729 E | 1,466 E | 1,993 E | 2,094 E | 7,281 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 | \$0.53 E | -\$0.37 E | \$1.26 E | \$1.56 E | \$2.98 E |
| 2020 | \$0.44 E | -\$0.32 E | \$1.09 E | \$1.31 E | \$2.59 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 01/07/2020. The reports text is as of 01/08/2020.

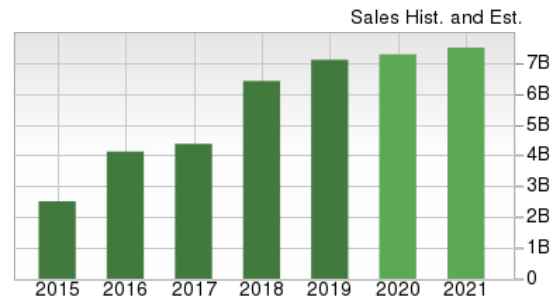
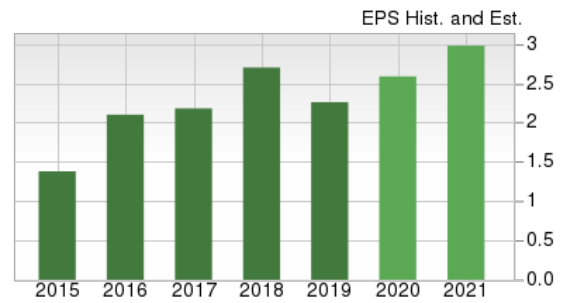
Overview

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 Sep 30, 2019, the company operated 529 branches across 50 states in the United States and six provinces in Canada, with a strong presence in the South, West and the 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%.



Reasons To Buy:

- ▲ **Cost-Reduction Initiatives:** Beacon Roofing is moving forward with the integration of the Allied Building Products acquisition. Notably, it gained approximately \$50 million synergies in fiscal 2018.

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. Of these, it managed to reduce \$4 million of operating costs in the fiscal fourth quarter.

Encouragingly, during the fiscal fourth quarter, its adjusted operating cost contracted 40 basis points year over year. The company believes that these initiatives will benefit the bottom line going forward.

- ▲ **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.

Although shares of Beacon Roofing have underperformed its industry over the past year, bottom-line estimates for fiscal 2020 have increased 1.6% over the past 30 days, depicting analysts' optimism surrounding the company's earnings growth potential.

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:

▼ **Dismal Bottom-Line Performance:** During the fourth quarter of fiscal 2019, Beacon Roofing's adjusted earnings decreased 2.8% on a year-over-year basis due to higher product and acquisition-related costs. On a further discouraging note, its earnings lagged the Zacks Consensus Estimate in seven of the trailing 10 quarters. Gross margin contracted 110 bps to 24.3% during the quarter. Operating income also fell 110 bps.

Adjusted EBITDA margin declined 90 bps and 80 bps in the fiscal fourth quarter and 2019, respectively. Weather-related woes, higher costs and competitive pricing have been pressurizing Beacon Roofing's margins over the last few quarters.

Notably, raw material prices are increasing across a wide range of key items, including asphalt, steel and gypsum as well as for inbound flatbed rates and for outbound costs, including diesel and other delivery expenses. 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. Also, shingle prices have been volatile in recent years, partly due to volatility in asphalt prices.

During fiscal 2019, cost of goods sold or COGS (as a percentage of net sales) grew 40 bps year over year. Going ahead, increased prices might impact demand for these products, resulting in lower sales volumes. The company anticipates demand in the first half of fiscal 2020 to be hurt from these headwinds.

▼ **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.

Owing to continued weather-related woes in the fiscal second and third quarters and the above-mentioned headwinds, the company is delaying to issue its 2020 sales and EBITDA guidance.

Competitive pricing pressures, weather-related woes, raw-material cost inflation and strong competition remain headwinds

Last Earnings Report

Beacon Roofing Q4 Earnings& Net Sales Lag Estimates

Beacon Roofing Supply, Inc. reported lower-than-expected earnings and net sales in the fourth quarter of fiscal 2019. Also, its bottom line declined from the prior-year period due to higher product and acquisition-related costs.

Beacon Roofing reported adjusted earnings of \$1.04 per share, missing the Zacks Consensus Estimate of \$1.17 by 11.1%. The reported figure declined 2.8% from \$1.07 per share a year ago.

Net sales of \$2.03 billion lagged the consensus mark of \$2.06 billion by 1.4%. Nonetheless, the said figure grew 4.9% year over year. The improvement was backed by 3.2% organic sales improvement, driven by residential roofing organic growth of 11.5%.

Segment & Operating Details

Sales in the Residential roofing product segment (accounting for 44.9% of total net sales) increased 12.7% to \$912.2 million and that of Non-residential roofing product unit (24.9%) was up 2.4% from a year ago to \$505.2 million. However, Complementary products' (30.2%) sales were down 3.2% year over year to \$612.6 million.

Existing market sales increased 4.8% from the prior-year quarter, attributed to 13.2% growth in residential roofing. Also, the metric climbed 3.2% year over year on the basis of business day.

Cost of goods sold (accounting for 75.7% of net sales) totaled \$1,536.5 million, increasing 1.1% year over year. Gross margin contracted 110 basis points (bps) to 24.3%.

Operating expenses remained on par with the prior-year figure. However, operating income fell 110 bps. Adjusted EBITDA margin contracted 90 bps to 8.3%.

Cash Position

As of Sep 30, 2019, Beacon Roofing had cash and cash equivalents of \$72.3 million, down from \$129.9 million at 2018-end. Cash provided by operations was \$212.7 million compared with \$539.4 million reported a year ago.

Fiscal 2019 Highlights

Beacon Roofing's adjusted earnings of \$2.26 per share increased 16.3% year over year and surpassed analysts' expectation by 2.7%. Also, revenues of \$7.11 billion in fiscal 2019 were up 10.7% year over year. However, net sales lagged the consensus mark by 0.5%.

Adjusted EBITDA margin in fiscal 2019 contracted 80 bps from a year ago.

Quarter Ending 09/2019

| Report Date | Nov 25, 2019 |
|------------------|--------------|
| Sales Surprise | -1.38% |
| EPS Surprise | -11.11% |
| Quarterly EPS | 1.04 |
| Annual EPS (TTM) | 2.11 |

Valuation

Beacon Roofing shares are up 3.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 22.3% and 19.9% in the past year, respectively.

The S&P 500 index is up 24.7% in the past year.

The stock is currently trading at 12.82X forward 12-month price to earnings, which compares to 19.67X for the Zacks sub-industry, 25.34X for the Zacks sector and 18.74X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.35X and as low as 6.5X, with a 5-year median of 18.2X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$37 price target reflects 13.6X 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 F 12M | Current | 12.82 | 19.67 | 25.34 | 18.74 |
| | 5-Year High | 25.35 | 21.61 | 26.13 | 19.34 |
| | 5-Year Low | 6.5 | 16.02 | 18.99 | 15.17 |
| | 5-Year Median | 18.2 | 19.2 | 22.91 | 17.44 |
| EV/EBITDA TTM | Current | 8.25 | 11.9 | 15.28 | 11.99 |
| | 5-Year High | 19.8 | 12.43 | 15.3 | 12.86 |
| | 5-Year Low | 8.1 | 8.95 | 10.27 | 8.48 |
| | 5-Year Median | 12.32 | 10.79 | 12.32 | 10.67 |
| P/B TTM | Current | 1.28 | 105.9 | 5.17 | 4.42 |
| | 5-Year High | 2.87 | 148.8 | 5.82 | 4.45 |
| | 5-Year Low | 0.91 | 8.39 | 3.58 | 2.85 |
| | 5-Year Median | 1.92 | 20.17 | 4.79 | 3.6 |

As of 01/07/2019

Industry Analysis Zacks Industry Rank: Top 17% (43 out of 254)



Top Peers

| | |
|---|------------|
| Builders FirstSource, Inc. (BLDR) | Outperform |
| Armstrong World Industries, Inc. (AWI) | Neutral |
| BMC Stock Holdings, Inc. (BMCH) | Neutral |
| GMS Inc. (GMS) | Neutral |
| Owens Corning Inc (OC) | Neutral |
| Gibraltar Industries, Inc. (ROCK) | Neutral |
| Simpson Manufacturing Company, Inc. (SSD) | Neutral |
| Tecnoglass Inc. (TGLS) | Neutral |

| Industry Comparison Industry: Building Products - Retail | | | | Industry Peers | | |
|--|--------------|------------|-----------|-----------------|--------------|------------|
| | BECN Neutral | X Industry | S&P 500 | BLDR Outperform | BMCH Neutral | OC Neutral |
| VGM Score | A | - | - | B | A | A |
| Market Cap | 2.39 B | 1.96 B | 23.82 B | 3.00 B | 1.96 B | 7.05 B |
| # of Analysts | 9 | 5.5 | 13 | 4 | 6 | 7 |
| Dividend Yield | 0.00% | 0.00% | 1.8% | 0.00% | 0.00% | 1.48% |
| Value Score | A | - | - | B | A | B |
| Cash/Price | 0.03 | 0.03 | 0.04 | 0.01 | 0.09 | 0.00 |
| EV/EBITDA | 12.38 | 9.45 | 13.92 | 9.14 | 9.06 | 8.25 |
| PEG Ratio | 1.33 | 1.31 | 2.00 | NA | NA | 1.57 |
| Price/Book (P/B) | 1.28 | 1.77 | 3.32 | 3.85 | 2.04 | 1.56 |
| Price/Cash Flow (P/CF) | 5.23 | 9.71 | 13.58 | 9.19 | 10.23 | 7.21 |
| P/E (F1) | 13.63 | 14.31 | 18.86 | 11.89 | 14.44 | 12.63 |
| Price/Sales (P/S) | 0.34 | 0.48 | 2.63 | 0.41 | 0.54 | 0.98 |
| Earnings Yield | 7.44% | 7.00% | 5.30% | 8.41% | 6.92% | 7.91% |
| Debt/Equity | 1.39 | 1.44 | 0.72 | 1.73 | 0.48 | 0.73 |
| Cash Flow (\$/share) | 6.66 | 1.77 | 6.94 | 2.82 | 2.87 | 8.99 |
| Growth Score | B | - | - | A | A | C |
| Hist. EPS Growth (3-5 yrs) | 17.95% | 17.10% | 10.56% | 77.74% | 38.06% | 23.82% |
| Proj. EPS Growth (F1/F0) | 14.46% | 7.90% | 7.49% | 6.86% | 8.65% | 11.88% |
| Curr. Cash Flow Growth | 11.78% | 25.90% | 14.83% | 31.45% | 38.09% | 13.12% |
| Hist. Cash Flow Growth (3-5 yrs) | 40.23% | 12.62% | 9.00% | 64.23% | 54.67% | 12.19% |
| Current Ratio | 1.75 | 1.98 | 1.23 | 1.66 | 2.32 | 1.69 |
| Debt/Capital | 53.29% | 59.97% | 42.92% | 63.42% | 32.60% | 42.36% |
| Net Margin | -0.15% | 2.78% | 11.08% | 3.17% | 3.28% | 6.99% |
| Return on Equity | 9.55% | 12.03% | 17.16% | 37.03% | 13.87% | 12.14% |
| Sales/Assets | 1.11 | 1.89 | 0.55 | 2.31 | 2.05 | 0.72 |
| Proj. Sales Growth (F1/F0) | 2.48% | 3.62% | 4.15% | 4.81% | 5.81% | 2.14% |
| Momentum Score | B | - | - | F | D | B |
| Daily Price Chg | 6.48% | 0.00% | -0.22% | 0.72% | 0.88% | 0.20% |
| 1 Week Price Chg | 1.48% | -0.52% | -0.30% | -0.90% | -1.14% | -1.01% |
| 4 Week Price Chg | 19.57% | 0.63% | 2.11% | 1.01% | 0.00% | -0.37% |
| 12 Week Price Chg | 8.86% | 2.98% | 5.70% | 20.39% | 12.12% | 3.02% |
| 52 Week Price Chg | 3.11% | 22.84% | 22.84% | 105.92% | 74.48% | 46.20% |
| 20 Day Average Volume | 383,377 | 383,377 | 1,570,747 | 980,333 | 272,956 | 798,474 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | 1.47% | 0.02% | 0.00% | -0.66% | 0.69% | -0.14% |
| (F1) EPS Est 12 week change | -12.32% | 0.29% | -0.53% | 10.94% | 4.46% | -4.17% |
| (Q1) EPS Est Mthly Chg | 0.00% | 0.00% | 0.00% | 0.00% | -1.75% | 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 | B |
| Momentum Score | B |
| 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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