

Beacon Roofing Supply (BECN)

\$33.97 (As of 02/10/20)

Price Target (6-12 Months): **\$36.00**

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:F

Value: C

Growth: F

Momentum: F

Summary

Beacon Roofing's shares have declined 6.2% over the past year. The trend is likely to continue, thanks to lower-than-expected earnings and net sales in first-quarter fiscal 2020. Also, the metrics declined 46.7% and 2.7%, respectively, from the prior-year period due to lower hurricane-related demand, increased depreciation expenses, higher fleet repairs and health care costs, as well as customer-specific event expenses. Estimates have moved south over the past seven days, depicting analysts' concern surrounding its prospects. Nonetheless, the company is advancing with cost-saving initiatives and the employee transition process to reduce operating costs. Its TRI-BUILT private label program is also noteworthy. Moreover, it remains confident about fiscal 2020 net sales and adjusted EBITDA growth.

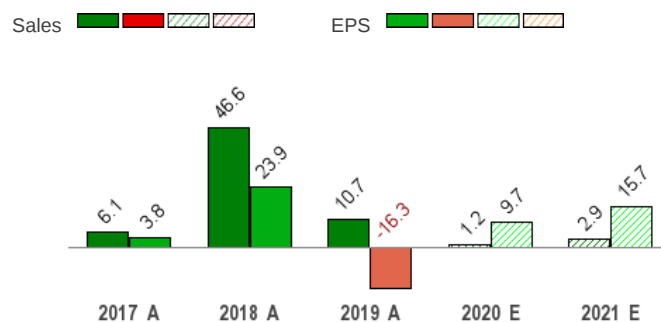
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.00 - \$26.50
20 Day Average Volume (sh)	533,839
Market Cap	\$2.3 B
YTD Price Change	6.2%
Beta	1.32
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Retail
Zacks Industry Rank	Top 35% (89 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-25.6%
Last Sales Surprise	-2.3%
EPS F1 Est- 4 week change	-4.1%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	18.6
P/E F1	13.7
PEG F1	1.3
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,724 E	1,474 E	2,027 E	2,155 E	7,398 E
2020	1,675 A	1,439 E	1,986 E	2,091 E	7,187 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	\$0.45 E	-\$0.39 E	\$1.21 E	\$1.41 E	\$2.87 E
2020	\$0.32 A	-\$0.34 E	\$1.11 E	\$1.29 E	\$2.48 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 02/10/2020. The reports text is as of 02/11/2020.

Overview

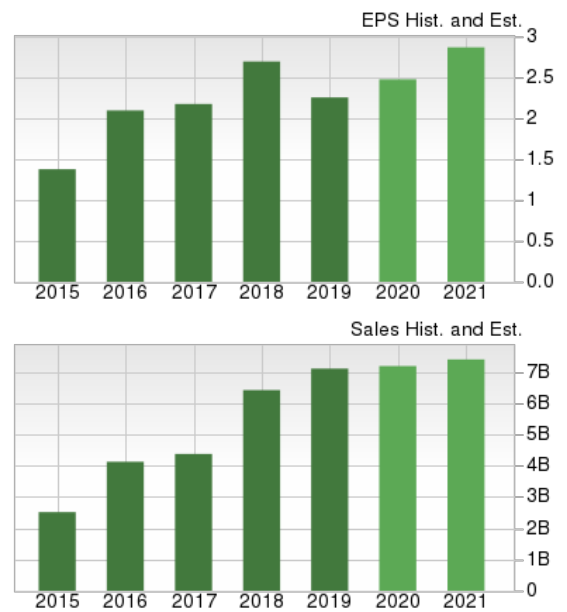
Beacon Roofing Supply is the largest distributor of residential and non-residential roofing materials in the United States and Canada. The company also distributes other complementary building products, including siding, windows, specialty exterior building products, insulation, and waterproofing systems 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 Dec 31, 2019, the company operated 530 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%.

On Jan 14, 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. Of these, it managed to reduce \$4 million of operating costs in the fiscal fourth quarter fiscal 2019. The company expects to achieve its target in the remainder of fiscal 2020.

Encouragingly, during the fourth-quarter fiscal 2019, its adjusted operating cost contracted 40 basis points (bps) year over year. The company believes that these initiatives will benefit the bottom line in future. Moreover, higher repair and remodel activity, and increased new construction will benefit the company in the latter half of fiscal 2020.

- ▲ **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:** Recently, 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.

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 first quarter of fiscal 2020, Beacon Roofing's adjusted earnings decreased a whopping 46.7% on a year-over-year basis due to increased depreciation expenses, and high costs for fleet repairs and health care and customer-specific events. On a further discouraging note, its earnings lagged the Zacks Consensus Estimate in eight of the trailing 11 quarters. Gross margin contracted 80 bps to 24.5% during the fiscal first quarter. Adjusted EBITDA margin also contracted 150 bps to 5.6%.

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

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. 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. Also, in first-quarter fiscal 2020, the same increased 80 bps from a year ago.

Going ahead, increased prices might impact demand for these products, resulting in lower sales volumes. The company anticipates full-year fiscal 2020 demand to be flat with a year ago. Particularly in second-quarter fiscal 2020, lower hurricane-related demand will put pressure on top-line growth.

Shares of Beacon Roofing have broadly underperformed its industry over the past year. Bottom-line estimates for fiscal 2020 have decreased 1.6% over the past seven days, depicting analysts' concern surrounding the company's earnings growth potential.

▼ **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.

▼ **Lower ROE:** Beacon Roofing's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 8.6% compares unfavorably with the industry average of 11.2%, reflecting the fact that it is less efficient in using its shareholders' funds.

Last Earnings Report

Beacon Roofing Q1 Earnings Lag Estimates, Down Y/Y

Beacon Roofing Supply, Inc. reported lower-than-expected earnings and net sales in the first quarter of fiscal 2020. Also, its bottom line declined from the prior-year quarter's figure due to increased depreciation expenses along with high costs in the fleet repairs, health care and customer-specific event expenses.

Beacon Roofing reported adjusted earnings of 32 cents per share, which missed the Zacks Consensus Estimate of 43 cents by 25.6%. The reported figure declined 46.7% from 60 cents in the year-ago quarter.

Net sales of \$1,675 billion lagged the consensus mark of \$1,715 billion by 2.3%. The figure also declined 2.7% year over year. Lower hurricane-related demand impacted the results. Residential roofing product sales and complementary product sales declined 4.1% and 3.1%, respectively. However, non-residential roofing product sales inched up 0.2% year over year.

However, organic growth in regions, unaffected by hurricane, was flat year over year during the quarter.

Operating Highlights

Cost of goods sold (contributing 75.5% to net sales) totaled \$1,264.4 million, up 0.8% year over year. Gross margin expanded 20 basis points (bps) sequentially to 24.5% but contracted 80 bps year over year.

Adjusted EBITDA margin contracted 150 bps to 5.6%.

Segment Details

Sales in the Residential roofing product segment (contributing 41.9% to total first-quarter fiscal 2020 sales) fell 4.1% year over year to \$702.2 million. Sales in the Non-residential roofing product unit (25.1% to total sales) inched up 0.2% year over year to \$420.9 million.

Moreover, sales in the Complementary products (33% to total sales) declined 3.1% year over year to \$552 million. The decline was mainly due to modest volume declines in deflationary pricing in select categories, including steel studs, lumber and wallboard.

Cash Position

As of Dec 31, 2019, Beacon Roofing had cash and cash equivalents of \$43.7 million, up from \$18.4 million at 2018-end. Cash used in operations was reported at \$125.3 million compared with \$336.9 million reported a year ago.

Quarter Ending **12/2019**

Report Date	Feb 03, 2020
Sales Surprise	-2.30%
EPS Surprise	-25.58%
Quarterly EPS	0.32
Annual EPS (TTM)	1.83

Valuation

Beacon Roofing shares are up 6.2% in the year-to-date period, but down 6.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 7.2% and 4.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 28.6% and 20.5%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and 23.9% in the past year.

The stock is currently trading at 12.94X forward 12-month price to earnings, which compares to 20.89X for the Zacks sub-industry, 25.73X for the Zacks sector and 19.27X 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 \$36 price target reflects 13.69X 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	12.94	20.89	25.73	19.27
	5-Year High	25.35	21.61	26.2	19.34
	5-Year Low	6.5	16.02	19.07	15.18
	5-Year Median	18.2	19.2	23	17.47
EV/EBITDA TTM	Current	9.1	12.51	15.71	11.36
	5-Year High	12.85	12.51	15.71	12.85
	5-Year Low	8.47	8.95	10.79	8.47
	5-Year Median	10.7	10.79	12.39	10.7
P/B TTM	Current	1.27	113.41	5.37	4.32
	5-Year High	2.87	148.8	5.86	4.42
	5-Year Low	0.91	9.05	3.6	2.85
	5-Year Median	1.92	20.8	4.85	3.62

As of 02/10/2020

Industry Analysis Zacks Industry Rank: Top 35% (89 out of 255)



Top Peers

Armstrong World Industries, Inc. (AWI)	Neutral
Builders FirstSource, Inc. (BLDR)	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 Neutral	BMCH Neutral	OC Neutral
VGM Score	F	-	-	A	A	A
Market Cap	2.34 B	2.02 B	24.17 B	2.91 B	2.02 B	6.71 B
# of Analysts	8	5.5	13	5	6	7
Dividend Yield	0.00%	0.00%	1.77%	0.00%	0.00%	1.56%
Value Score	C	-	-	B	A	A
Cash/Price	0.02	0.03	0.04	0.02	0.09	0.01
EV/EBITDA	12.63	9.46	13.89	8.94	9.31	7.97
PEG Ratio	1.36	1.29	2.05	NA	NA	1.47
Price/Book (P/B)	1.27	1.53	3.27	3.73	2.11	1.48
Price/Cash Flow (P/CF)	5.10	9.72	13.60	8.90	10.55	6.86
P/E (F1)	13.98	14.27	19.00	11.46	14.84	12.00
Price/Sales (P/S)	0.33	0.48	2.66	0.40	0.56	0.93
Earnings Yield	7.30%	7.02%	5.26%	8.72%	6.74%	8.33%
Debt/Equity	1.47	1.49	0.71	1.73	0.48	0.73
Cash Flow (\$/share)	6.66	1.77	6.89	2.82	2.87	8.99
Growth Score	F	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	13.35%	14.07%	10.85%	77.74%	38.06%	23.82%
Proj. EPS Growth (F1/F0)	9.79%	7.88%	7.22%	7.42%	8.81%	11.96%
Curr. Cash Flow Growth	11.78%	17.66%	8.88%	31.45%	38.09%	13.12%
Hist. Cash Flow Growth (3-5 yrs)	40.23%	12.59%	8.36%	64.23%	54.67%	12.19%
Current Ratio	2.01	2.11	1.22	1.66	2.32	1.69
Debt/Capital	54.77%	59.97%	42.90%	63.42%	32.60%	42.36%
Net Margin	-0.47%	2.78%	11.81%	3.17%	3.28%	6.99%
Return on Equity	8.60%	11.24%	16.98%	37.03%	13.87%	12.14%
Sales/Assets	1.10	1.89	0.54	2.31	2.05	0.72
Proj. Sales Growth (F1/F0)	1.16%	3.85%	4.06%	4.81%	5.81%	1.97%
Momentum Score	F	-	-	D	F	C
Daily Price Chg	0.32%	0.00%	0.45%	2.39%	1.27%	0.19%
1 Week Price Chg	2.27%	0.00%	2.47%	-1.09%	2.35%	1.75%
4 Week Price Chg	-2.05%	-2.05%	0.95%	-6.27%	0.50%	-5.23%
12 Week Price Chg	-1.45%	0.00%	5.05%	-0.91%	4.09%	-8.22%
52 Week Price Chg	-3.08%	19.41%	16.18%	92.41%	81.57%	16.29%
20 Day Average Volume	533,839	324,052	1,999,386	987,696	297,494	1,209,306
(F1) EPS Est 1 week change	-2.73%	0.00%	0.00%	0.52%	0.35%	0.00%
(F1) EPS Est 4 week change	-4.08%	0.00%	0.00%	0.52%	0.35%	0.07%
(F1) EPS Est 12 week change	-15.80%	-0.10%	-0.18%	1.81%	0.18%	-0.36%
(Q1) EPS Est Mthly Chg	-4.65%	-0.09%	0.00%	0.00%	0.00%	-1.10%

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	C
Growth Score	F
Momentum Score	F
VGM Score	F

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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