

Louisiana-Pacific (LPX)

\$29.61 (As of 12/30/19)

Price Target (6-12 Months): **\$31.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/27/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

Summary

Shares of Louisiana-Pacific have underperformed its industry in the past year. The downside was mainly attributed to lower OSB prices and volumes, higher costs and expenses, and softness across the business. Also, higher marketing investments associated with accelerating repair and remodel channel penetration along with product introductions have been denting its performance over the past few quarters. The company's earnings estimates for 2020 have moved south in the past 30 days, depicting analysts' concern over its prospects. Nonetheless, the company remains focused on improving business by growing the Siding unit and simultaneously reducing costs. Also, its consistent efforts to improve shareholder return through share repurchases and dividends bode well.

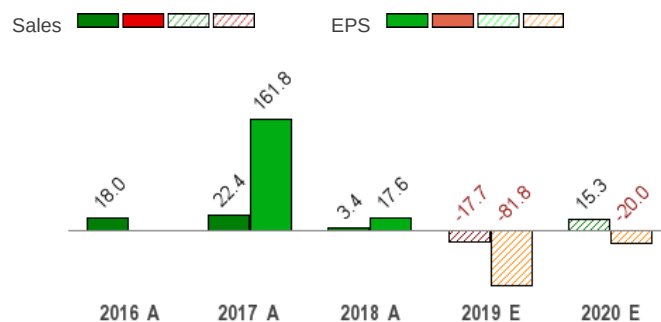
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.34 - \$20.71
20 Day Average Volume (sh)	1,246,051
Market Cap	\$3.5 B
YTD Price Change	33.3%
Beta	1.42
Dividend / Div Yld	\$0.54 / 1.8%
Industry	Building Products - Wood
Zacks Industry Rank	Bottom 20% (202 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-55.6%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	3.2%
Expected Report Date	02/12/2020
Earnings ESP	0.0%
P/E TTM	58.1
P/E F1	59.2
PEG F1	11.8
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					2,683 E
2019	582 A	588 A	603 A	552 E	2,327 E
2018	691 A	811 A	737 A	589 A	2,828 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.07 E	\$0.39 E	\$0.68 E	\$0.80 E	\$0.40 E
2019	\$0.13 A	\$0.11 A	\$0.08 A	\$0.18 E	\$0.50 E
2018	\$0.63 A	\$1.08 A	\$0.83 A	\$0.19 A	\$2.74 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 12/30/2019. The reports text and the analyst-provided sales and EPS estimates are as of 12/31/2019.

Overview

Louisiana-Pacific Corporation is a leading manufacturer of sustainable, quality engineered wood building materials, structural framing products as well as exterior siding for use in residential, industrial and light commercial construction. Currently, the company operates 20 moderns, strategically located facilities in the United States and Canada, two facilities in Chile and one facility in Brazil. It also operates facilities through a joint venture. The company's products are used primarily in new home construction, repair as well as remodeling and outdoor structures.

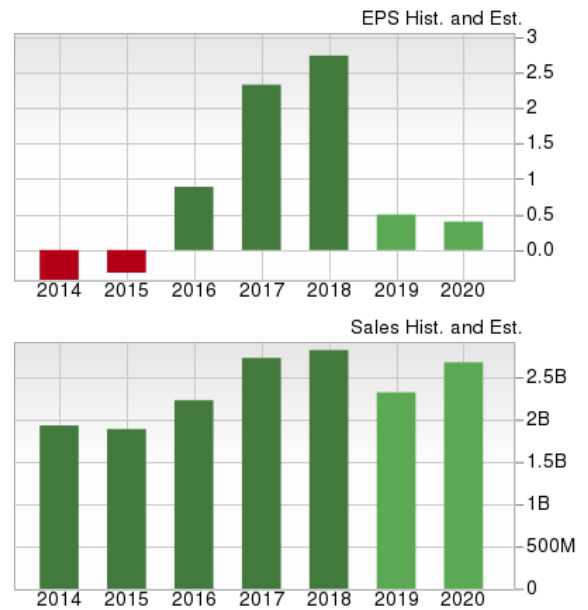
The company has four reportable segments — Siding (43% of total revenues in third-quarter 2019), North America Oriented Strand Board or OSB (32.7%), Engineered Wood Products or EWP (17.5%) and South America (6%). Notably, revenues from Other sources and Inter-segment sales accounted for 0.8% of its total net sales.

Siding segment consists of LP SmartSide trim and siding, LP CanExel prefinished siding, as well as LP Outdoor Building Solutions innovative products for premium outdoor buildings.

OSB segment manufactures and distributes OSB structural panel products including LP OSB, LP TechShield radiant barrier, LP TopNotch sub-flooring, LP Legac super tough, moisture-resistant sub-flooring and LP FlameBlock fire-rated sheathing.

EWP segment comprises LP SolidStart I-Joist (IJ), Laminated Veneer Lumber (LVL) and Laminated Strand Lumber (LSL) and other related products.

South America segment manufactures and distributes OSB and siding products in South America and certain export markets.



Reasons To Buy:

▲ **Business Transformation & Efficient Cost-Reduction Strategy:** Louisiana-Pacific is gradually transforming from a commodity producer to a more stable cash-generative business, by increasing revenues and EBITDA mix. The company remains focused on improving business by growing the Siding unit and simultaneously reducing cost. The company has been mainly focusing on three areas - increasing the efficiency of mills by improving productivity, run time and quality through OEE initiatives; applying best practices to its supply chain including procurement, logistics and working capital across \$1.1 billion of addressable spend; and optimizing infrastructure costs.

In a bid to reduce costs, Louisiana-Pacific lowered the cost structure of its facilities through Lean Six Sigma efforts, the sale or shutdown of underperforming mills and manufacturing facilities as well as investments in technology. The Lean Six Sigma efforts continue to produce excellent returns from cost-saving and efficiency projects. The company resorts to a strategy of curtailing production at selected facilities to meet customer demand and optimize portfolio as well as margins.

▲ **Enhancing Shareholders' Return:** Louisiana-Pacific has been consistently enhancing shareholders' return through share repurchases and dividends. In February 2019, the company announced a new \$600-million share repurchase authorization, with the first \$400 million to be purchased through an accelerated stock repurchase program. It also announced a 4% hike in quarterly dividend to 13.5 cents per share.

The company has committed to return over time to its shareholders at least 50% of cash flow from operations in excess of capital expenditures in order to sustain core business, as well as grow Siding and value-added OSB. During the first nine months 2019, the company repurchased shares of \$480 million, completed \$400 million accelerated share repurchase and paid \$50 million as dividends.

▲ **Focus on Siding Business Bodes Well:** The company has been making efforts to increase penetration of Siding products in repair/remodel and roll out SmartSide products. The company remains committed to grow strand Siding revenues in 2019 and beyond. Notably, the Siding unit, which is no longer producing OSB, generated 7.5% higher revenues during the third quarter. The company expects EBITDA margin to be at least 20% in the long term, backed by strength of the Siding segment. Also, it intends to continue investment in selling and marketing of said business in 2019 and beyond.

In the first nine months of 2019, SmartSide strand siding revenues grew 9.9% year over year, with volumes up nearly 7% and price realizations increasing 3%.

▲ **Strategic Investments:** On Jun 3, 2019, Louisiana-Pacific acquired a Green Bay, WI-based prefinished siding company, Prefinished Staining Product Incorporated ("PSP"). This buyout enabled the company to boost the Siding business and transform itself into a leading building solution provider. The acquisition allowed the company to utilize PSP's existing facilities, capability and expertise to enter the market, and drive growth of the Siding business as well as LP SmartSide brand.

In addition to this, on Sep 30, 2018, the company invested in a joint venture with Resolute Forest Products. Louisiana-Pacific is an exclusive distributor of the I-joists produced and the venture will jointly operate I-Joist facilities in Quebec. Its EWP segment is likely to be positioned well owing to the joint venture. Again, in May 2018, it made an investment of \$45 million in Entekra - a design, engineering and manufacturing company that provides off-site framing for residential and commercial construction. To address the shortage of skilled labor, efficient and innovative building techniques are required. Entekra's off-site framing solutions help it boost market demand and productivity for builders, reduce waste and improve quality of the construction process.

The partnership combines Entekra's established engineering and automated framing proficiency with Louisiana-Pacific's market access to regional and national builders. Also, the partnership helps Louisiana-Pacific to leverage large-scale manufacturing capabilities and capital deployment necessary to scale the business.

Focus on improving business by growing the Siding segment, and simultaneously reducing costs across all businesses, as well as enhancing its shareholders' return bode well

Reasons To Sell:

▼ **Higher Raw Material Costs & Expenses:** Higher material costs have been concerns for all wood industry players. Wood fiber is the primary raw material used by Louisiana-Pacific, while the primary source of wood fiber is timber. The cost of different varieties of wood fiber is subject to volatility owing to governmental, economic or industry conditions. The recent imposition of tariff on imported lumber raises concern.

Along with wood fiber, the company uses a significant quantity of various resins in the manufacturing processes. Resin product costs are influenced by changes in the prices or availability of raw materials used to produce resins, primarily petroleum products as well as demand for and availability of resin products. In the first nine months of 2019, gross margin and adjusted EBITDA margin declined significantly from the prior-year period. The decline was mainly caused by increased raw material costs, lower volumes in EWP and the Dawson Creek mill conversion.

Also, increased marketing investments associated with accelerating repair and remodel channel penetration, along with new product introductions have been denting its performance over the last few quarters.

Notably, shares of Louisiana-Pacific have underperformed its industry in the past year. The company's earnings estimates for 2020 have moved south in the past 30 days, depicting analysts' concern over its prospects.

▼ **Product Concentrated Around OSB Segment:** The company has a high degree of product concentration in OSB. OSB accounted for about 54%, 54% and 51% of its North American sales in 2018, 2017 and 2016 respectively. Louisiana-Pacific expects OSB sales to continue to account for a substantial portion of its revenues and profits in the future. Increased concentration around one segment makes the company susceptible to commodity pricing and price volatility.

Since 2018, pricing pressure under OSB segment has been impacting the overall operating results of the company. The headwind continued in 2019 as well. In the first nine months of 2019, its adjusted earnings declined more than 90% from the year-ago level due to lower OSB pricing across North American operations, and higher costs and expenses. In fact, the segment's adjusted EBITDA was negative \$1 million against \$123 million reported a year ago. The downside was mainly due to decreased sales prices and volume. The effect is expected to continue in near future as well. Particularly in the third quarter, average selling price for OSB (lowest in the past four years) was down 35% and volume declined 14% year over year.

Importantly, management has removed all commodity OSB production from its Siding mills and reduced production at the Peace Valley facility in British Columbia.

▼ **Ongoing Headwinds in EWP Segment:** Over the past few months, Louisiana-Pacific is experiencing softer demand in all product lines due to market weakness. In the first nine months of 2019, EWP sales declined 8% year over year due to lower demand owing to overall housing market weakness and a decline in selling prices on increased pricing pressure. Also, adjusted EBITDA margin fell 100 bps to 7% in the said period. Lower selling prices for OSB and plywood negatively impacted its operating results.

▼ **Dependence on Housing Market:** Demand for the company's products has a strong relationship to the level of new home construction activity in North America, which historically has been characterized by significant cyclicity. The housing industry is cyclical and is affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits can affect consumer confidence and spending levels, which in turn can hurt the economy and the housing market.

Although strong economy and labor market strength provide the basis for solid demand, interest/mortgage rates' influence on the homebuilding industry is undeniable and uncertain. Meanwhile, high mortgage rates dilute the demand for new homes as mortgage loans become expensive. This lower purchasing power of the buyers and hurts volumes, revenues and profits of homebuilders. In that case, the demand for Louisiana-Pacific's products will likely get affected.

Total housing starts in the first nine months of 2019 were down year over year, with single-family starts declining 1.6%. The company believes that nearly 40% of SmartSide revenues are based on single-family housing. Given slower housing starts, the company now expects SmartSide Strand revenue growth of 10% in 2019 and 10-12% in the long term compared with 12-14% expected earlier.

Higher expenses associated with repair and remodel channel penetration and product introduction along with increased raw material costs mar prospects

Last Earnings Report

Louisiana-Pacific (LPX) Q3 Earnings & Revenues Miss Estimates

Louisiana-Pacific Corporation reported weaker-than-expected third-quarter 2019 results. Both the top and bottom lines lagged the Zacks Consensus Estimate, and declined year over year. The downside was mainly due to lower oriented strand board (OSB) pricing across North American operations.

Adjusted earnings of 8 cents per share lagged the consensus mark of 18 cents by 55.6%. The bottom line also declined 90.4% from the year-ago figure of 83 cents. The downside can be attributed to lower sales, and higher costs and expenses.

During the quarter, the company reported net sales of \$603 million, which missed the consensus estimate of \$604 million by 0.2%, and year-ago figure of \$737 million by 18.2%. Lower OSB prices (down 35%) and volumes (down 14%) negatively impacted its performance.

Quarter Ending 09/2019

Report Date	Nov 05, 2019
Sales Surprise	-0.17%
EPS Surprise	-55.56%
Quarterly EPS	0.08
Annual EPS (TTM)	0.51

Segmental Analysis

Siding: The segment's sales came in at \$259 million during the quarter, up 7.5% from the prior-year figure of \$241 million. Adjusted EBITDA, however, decreased 21.7% to \$46 million.

OSB: Sales deteriorated 43.6% to \$197 million. The company's adjusted EBITDA was negative \$1 million against \$123 million reported a year ago. Decrease in selling price negatively impacted its overall results.

Engineered Wood Products (EWP): Sales fell 4.5% year over year to \$105 million in the quarter. Adjusted EBITDA declined 40% to \$6 million.

South America: Sales at South America of \$36 million increased 2.9% year over year. However, adjusted EBITDA of \$7 million fell 22.2%.

Operating Highlights

Gross profit totaled \$75 million, declining 64.8% year over year. Selling, general and administrative expenses, as a percentage of revenues, increased 270 basis points.

Adjusted EBITDA from continuing operations was \$49 million in the quarter, down 74.6% from prior-year quarter. Adjusted EBITDA margin also contracted significantly to 8.1% from 26.2%.

Financials

As of Sep 30, 2019, Louisiana-Pacific had cash and cash equivalents of \$304 million compared with \$878 million at the end of 2018. Long-term debt (excluding current portion) of \$348 million was slightly above the 2018-end level of \$347 million.

At the end of the third quarter, net cash provided by operations was \$59 million compared with \$151 million a year ago.

2019 View & Strategic Update

Based on current plans and expectations, as well as certain costs that are likely to impact results, Louisiana-Pacific lowered its full-year 2019 guidance for capital expenditure. The company now expects capital expenditure to be less than \$160 million compared with \$160-\$170 million estimated earlier.

Louisiana-Pacific maintains its SmartSide Strand revenue growth target of 10% for 2019 and 10-12% for the long term.

Within 2021, the company expects EBITDA to grow approximately \$75 million, aided by overall equipment effectiveness and supply chain optimization of \$28 million in the first nine months of 2019.

Valuation

Louisiana-Pacific's shares are up 33.3% in the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and sector are up 41.5% and 39.3%, respectively.

The S&P 500 index is up 28% in the past year.

The stock is currently trading at 18X forward 12-month price to earnings, which compares to 29.08X for the Zacks sub-industry, 15.69X for the Zacks sector and 18.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 188.8X, with a 5-year median of 15.11X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$31 price target reflects 18.9X forward 12-month earnings.

The table below shows summary valuation data for LPX

Valuation Multiples - LPX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	18	29.08	15.69	18.77
	5-Year High	188.8	29.32	18.83	19.34
	5-Year Low	N/A	16.33	10.63	15.17
	5-Year Median	15.11	23.85	16.1	17.44
P/S F12M	Current	1.3	3.08	1.88	3.41
	5-Year High	1.71	3.23	2.23	3.41
	5-Year Low	0.89	1.42	1.25	2.54
	5-Year Median	1.18	2.64	1.63	3
EV/EBITDA TTM	Current	19.89	18.24	18.97	12.01
	5-Year High	103.4	23.04	22.53	12.86
	5-Year Low	3.11	10.21	14.4	8.49
	5-Year Median	9.54	15.52	19.4	10.65

As of 12/30/2019

Industry Analysis Zacks Industry Rank: Bottom 20% (202 out of 253)



Top Peers

Floor & Decor Holdings, Inc. (FND)	Neutral
JELD-WEN Holding, Inc. (JELD)	Neutral
Norbord Inc. (OSB)	Neutral
Potlatch Corporation (PCH)	Neutral
Rayonier Inc. (RYN)	Neutral
Universal Forest Products, Inc. (UFPI)	Neutral
Armstrong Flooring, Inc. (AFI)	Underperform
Weyerhaeuser Company (WY)	Underperform

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	LPX Neutral	X Industry	S&P 500	FND Neutral	OSB Neutral	WY Underperform
VGM Score	B	-	-	B	A	D
Market Cap	3.48 B	2.92 B	23.75 B	5.08 B	2.20 B	22.30 B
# of Analysts		3	13			
Dividend Yield	1.82%	0.83%	1.79%	0.00%	2.24%	4.54%
Value Score	B	-	-	D	A	D
Cash/Price	0.09	0.03	0.04	0.02	0.00	0.01
EV/EBITDA	5.39	12.95	13.92	33.07	4.48	16.97
PEG Ratio	11.85	1.93	2.12	1.93	NA	NA
Price/Book (P/B)	3.02	2.69	3.32	7.02	3.13	2.59
Price/Cash Flow (P/CF)	8.08	11.36	13.73	32.91	4.11	16.28
P/E (F1)	59.26	45.52	19.56	45.52	NA	73.60
Price/Sales (P/S)	1.47	1.47	2.67	2.60	1.18	3.36
Earnings Yield	1.35%	1.58%	5.10%	2.19%	-0.86%	1.37%
Debt/Equity	0.31	0.58	0.72	1.27	0.97	0.72
Cash Flow (\$/share)	3.66	2.88	6.94	1.53	6.53	1.84
Growth Score	C	-	-	A	D	D
Hist. EPS Growth (3-5 yrs)	37.83%	6.86%	10.53%	NA	-29.20%	-6.03%
Proj. EPS Growth (F1/F0)	-85.31%	-46.89%	6.30%	13.77%	-104.75%	-65.54%
Curr. Cash Flow Growth	11.42%	11.42%	14.83%	40.84%	9.70%	-1.15%
Hist. Cash Flow Growth (3-5 yrs)	18.58%	13.20%	9.00%	NA	NA	4.11%
Current Ratio	3.52	1.80	1.23	1.31	1.80	1.55
Debt/Capital	24.47%	37.90%	42.99%	55.97%	49.35%	41.70%
Net Margin	2.67%	2.67%	11.08%	6.81%	-3.12%	-2.33%
Return on Equity	4.93%	4.36%	17.10%	17.58%	0.91%	3.78%
Sales/Assets	1.08	1.08	0.55	1.08	0.93	0.39
Proj. Sales Growth (F1/F0)	-17.72%	-7.90%	2.86%	19.61%	-24.58%	-12.57%
Momentum Score	A	-	-	C	A	A
Daily Price Chg	-1.07%	-0.42%	-0.43%	-0.53%	-0.74%	-0.17%
1 Week Price Chg	1.05%	0.16%	0.13%	-1.10%	1.12%	-0.56%
4 Week Price Chg	2.03%	3.20%	2.78%	8.14%	-2.47%	2.46%
12 Week Price Chg	22.66%	13.32%	8.67%	5.21%	18.37%	10.81%
52 Week Price Chg	33.26%	37.03%	27.07%	93.98%	1.05%	36.92%
20 Day Average Volume	1,246,051	397,906	1,731,328	942,693	161,189	3,162,115
(F1) EPS Est 1 week change	1.26%	0.00%	0.00%	0.00%	10.00%	0.83%
(F1) EPS Est 4 week change	3.21%	0.00%	0.00%	0.15%	10.00%	0.83%
(F1) EPS Est 12 week change	-44.61%	-14.54%	0.14%	-0.41%	-147.37%	-28.97%
(Q1) EPS Est Mthly Chg	10.00%	0.00%	0.00%	0.94%	125.00%	5.00%

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	B
Growth Score	C
Momentum Score	A
VGM Score	B

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.