

Gibraltar Industries (ROCK)

\$46.30 (As of 04/30/20)

Price Target (6-12 Months): **\$53.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 03/04/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

Summary

Shares of Gibraltar have outperformed the industry in the year-to-date period. The uptrend is likely to continue as the company reported robust fourth-quarter 2019 results. Its results benefited from solid contribution from the Renewable Energy and Conservation segment. Moreover, the company is gaining from 80/20 simplification, interest savings on loan repayment and supply-chain initiatives. Further, strengthening of solar, greenhouse, perimeter security and infrastructure businesses remain catalysts. Of late, earnings estimates for current year have witnessed upward revisions. However higher input cost inflation has been hurting the company's performance to some extent. Moreover, continued volatility in material costs, owing to tariff-related issues, are adding to woes.

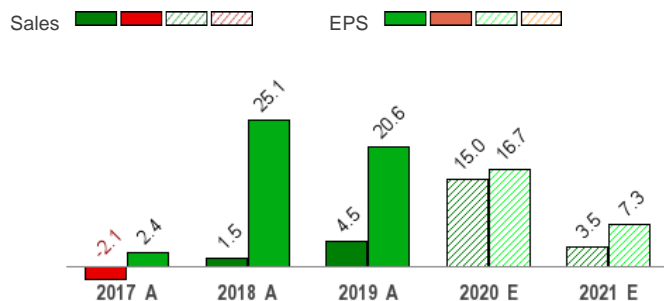
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$56.58 - \$30.60
20 Day Average Volume (sh)	173,454
Market Cap	\$1.5 B
YTD Price Change	-8.2%
Beta	1.37
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Bottom 26% (188 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.1%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/06/2020
Earnings ESP	0.0%
P/E TTM	18.0
P/E F1	15.4
PEG F1	NA
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,246 E
2020	251 E	301 E	350 E	302 E	1,204 E
2019	227 A	263 A	299 A	258 A	1,047 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.23 E
2020	\$0.37 E	\$0.82 E	\$1.10 E	\$0.72 E	\$3.01 E
2019	\$0.28 A	\$0.73 A	\$0.95 A	\$0.62 A	\$2.58 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 04/30/2020. The reports text is as of 05/01/2020.

Overview

Gibraltar Industries Inc. manufactures and distributes products to the industrial and buildings market. The products range from ventilation and expanded metal to mail storage solutions and rain dispersion products and solutions.

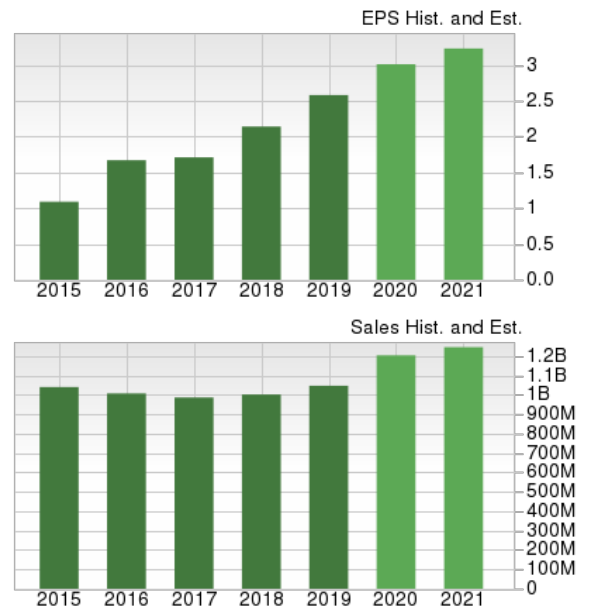
Gibraltar Industries has a leading presence in the industry due to its diversified product offering, through different market players like wholesalers, retail home centers, residential, commercial and transportation contractors, among others. Home Depot, other big box retailers and national building products wholesalers are some of its major customers.

The company reports its results in three operating segments, which are discussed below:

Residential Products (accounting for 39.2% of fourth-quarter 2019 total revenues): This segment deals with a range of products including rain dispersion, roof and ventilation products, both single and cluster units, trims and flashings for single and multifamily residences, mail storage and low rise commercial buildings. These products are offered for residential housing.

Industrial and Infrastructure Products (17.6%): In the segment, Gibraltar Industries offers products including bridge bearings and roadway expansion joints, bar grating and expanded and perforated metals. These products are sold to end markets including transportation infrastructure, discrete and process manufacturing and energy.

Renewable Energy and Conservation (43.2%): The segment focuses on installation, manufacture and design of solar racking systems and specialized greenhouse structures. Services and products offered under this segment are directly available to end users through various distribution networks.



Reasons To Buy:

▲ **Better-than-Expected Top and Bottom Line Performance:** Shares of Gibraltar have outperformed the industry in the six months. The company has impressed investors with better-than-expected earnings for the second straight quarter. In fourth-quarter 2019, the company's earnings and sales gained 31.9% and 7.1%, following an increase of 33.8% and 6.8%, respectively, in third-quarter 2019. Solid contribution from the Renewable Energy and Conservation segment boosted the company's fourth-quarter results.

Increased infrastructure spending in the United States, and the four-pillar value creation strategy will likely boost Gibraltar's revenues and profitability in the quarters ahead.

▲ **Three-Pillar Value Creation Strategy:** Gibraltar is progressing well operationally as well as financially on the back of its growth strategy. Over the past 12 months, the company has migrated from a Four-Pillar strategy to a Three-Pillar Strategy, with the operating foundation focused on three core tenets: Business Systems, Portfolio Management and Organizational Development.

The first pillar, i.e. Business Systems combines two of its previous strategic pillars - namely operational excellence and product innovation. The pillar primarily reviews Gibraltar's monthly business performance, implementation of key investments, IT operating and digital systems performance, as well as new product and services innovation.

The second strategic pillar comprises Portfolio Management and Acquisitions. Through this pillar, the company remains focused on optimizing the business portfolio, and ensures sustainable investment of human and financial capital to provide profitable growth, while expanding customer relations and market reach. On Feb 13, it acquired the assets of California-based Delta Separations ("Delta") — a privately-held ethanol-based extraction systems manufacturer and training and laboratory design and operations consultative partner — for \$50 million. Again on Jan 15, it acquired Canada-based Thermo Energy Systems ("Thermo") for approximately \$7 million. Thermo is a privately held provider of commercial greenhouse solutions in North America that supports the biologically grown organic food market. In 2019, the company completed four acquisitions that led to strengthening of its position.

Lastly, the third pillar of the strategy is Organizational Development. The Organizational Development primarily focuses on talent development, design and structure of organization.

In a nutshell, these above-mentioned strategies have helped the company to generate strong financial results, make more efficient use of capital and deliver higher shareholder returns.

▲ **Strong Renewable/Conservation Markets Potential:** The company remains encouraged by the long-term market growth prospects of both Renewable Energy and Conservation businesses. U.S. solar growth has remained undeterred by the solar panel tariffs. A study by the Solar Energy Industries Association and GTM Research reveals that solar energy has become a cost-effective option for most part of the United States, despite the tariffs being levied on imported PV panels that worried the industry.

Meanwhile, on the Conservation front, the company remains optimistic about the legal cannabis market, which is expected to grow to \$57 billion worldwide over the next ten years (per a report by Arcview Market Research). Gibraltar's Conservation business has been witnessing robust growth given the cannabis market and the momentum is expected to continue in the coming period. Strong demand from both domestic renewable energy and conservation markets, along with continued traction of innovative products are likely to fuel growth of the company.

Notably, the segment's fourth-quarter net sales increased 26.4% year over year (21.4% on an organic basis) to \$111.4 million. The Apeks Supercritical acquisition contributed 5% to the top line. The uptick can be attributed to solid demand for its commercial greenhouse growing solutions, including design, structures system integration, field project management and general contracting services.

▲ **Solid Economy & Homebuilding Market:** The U.S. housing market started building up strength since the beginning of 2019, after a torrid second-half 2018, backed by declining mortgage rates, solid job market and a moderate rise in home prices. All these point toward continually strong demand in 2020, benefiting Gibraltar's Residential Products segment.

Risks

- **Rising Costs & Declining Volumes:** Higher input cost inflation has been hurting the company's performance to some extent. The steel and aluminum tariffs announced earlier in 2018 continued to impact its material costs. Although the company has been working to recover higher commodity cost through price increases, it expects continued volatility in material costs owing to tariff-related issues. Rising cost, if not checked, might weigh over Gibraltar's bottom-line performance in the quarters ahead.

Gibraltar has been investing in new products and pursuing innovation of the existing ones in order to better serve customers. To this end, it has introduced single-axis solar tracker solutions that provide flexibility to adapt to a variety of site conditions and potentially reduces the costs associated with civil work on projects. In first-half 2019, its gross margin contracted 280 basis points (bps) due to unfavorable alignment of material costs to customer selling prices, low volume and incremental costs incurred for planned field improvements for its new tracker solution.

Also, the company incurred incremental costs for design refinements and field enhancements of the said solution. Resultantly, operating margin in Gibraltar's Residential Products unit contracted 130 bps to 16.2%. The downside was mainly caused by material cost alignment and an unfavorable product mix, offset by benefits from restructuring and 80/20 simplification initiatives.

- **Seasonal Influence on the Business:** Gibraltar's business has been historically subjected to seasonal influences, with higher sales typically realized in the second and third quarters.
 - **Dependence on Government Funding:** Gibraltar Industries prepares complex designing components for elevated highways and bridges. Construction of these projects involves long gestation periods and hence, is generally funded by the government authorities. As a result, demand in the company's construction market is highly dependent on government funding. Moreover, the company is exposed to customer concentration risks as it derives a large portion of its sales from only a handful of customers. Moreover, Gibraltar Industries does not have long-term contracts with its clients. This leads to a possibility of termination of the purchase, leading to a severe loss.
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Last Earnings Report

Gibraltar Q4 Earnings Beat Estimate

Gibraltar Industries reported fourth-quarter 2019 results. The company's earnings and sales not only topped analysts' expectations but also rose year over year on solid contribution from the Renewable Energy and Conservation segment.

The company's adjusted earnings of 62 cents per share beat the Zacks Consensus Estimate of 59 cents by 5.1%. The bottom line also increased 31.9% year over year on higher organic growth in Renewable Energy & Conservation, lower interest expense, and benefits from operational excellence initiatives.

Net sales of \$258.1 million beat the consensus mark of \$256 million by 0.8%. On a year-over-year basis, the top line increased 7.1%, out of which 5.3% was organic, led by the Renewables & Conservation business. Meanwhile, the acquisition of Apeks Supercritical contributed 1.8% to revenue growth.

Markedly, the company's backlog was \$218 million (as of Dec 31, 2019), up 35% year over year, as it increased participation in Renewable Energy and Conservation, as well as Infrastructure and Residential end markets.

Segmental Details

Residential Products: Net sales in the segment declined 1.1% year over year to \$101.2 million during the quarter. A modest increase in volumes was partly offset by market price.

Adjusted operating margins contracted 30 basis points (bps) to 13.1%. The downside was mainly caused by unfavorable product mix, which was offset by improved material cost alignment and 80/20 simplification initiatives.

Industrial and Infrastructure Products: Sales in the segment decreased 9.9% year over year to \$45.5 million. The drop was due to lower pricing and demand for core Industrial products. Notably, customers delayed purchases to optimize their inventory in a declining steel price environment.

Adjusted operating margins expanded 30 bps to 7%, backed by a more favorable mix of higher margin products and solid execution of 80/20 profit improvement efforts.

Renewable Energy and Conservation: Quarterly net sales in the segment rose 26.4% year over year (21.4% on an organic basis) to \$111.4 million. The Apeks Supercritical acquisition contributed 5% to top-line growth. The uptick can be attributed to solid demand for its commercial greenhouse growing solutions, including design, structures system integration, field project management and general contracting services. Meanwhile, segment backlog grew 51% year over year owing to healthy market dynamics.

Adjusted operating margins of 15.2% were up 360 bps on better operating execution, volume leverage, and favorable product and vertical market mix.

Costs and Margins

Selling, general and administrative expenses increased 25.1% year over year to \$45.2 million. As a percentage of sales, the metric increased 230 bps year over year. Adjusted operating income grew 25.1% in the quarter and margin of 10.2% expanded 150 bps year over year.

Balance Sheet and Cash Flow

As of Dec 31, 2019, Gibraltar had cash and cash equivalents worth \$191.4 million compared with \$297 million at the end of 2018.

In 2019, the company provided \$129.9 million cash from operating activities compared with \$97.5 million in the year-ago period.

2019 Highlights

Adjusted earnings of \$2.58 per share advanced 20.6% from \$2.14 earned in 2018. Revenues of 1.05 billion grew 4.5% from a year ago, buoyed by higher contribution from the Renewable Energy & Conservation segment. Adjusted operating margin also grew 40 bps to 10.5% in the year.

2020 Guidance

Gibraltar expects consolidated revenues in the range of \$1,210-\$1,230 million. The company projects adjusted earnings in the range of \$2.95-\$3.12 per share. Adjusted operating income is expected in the range of \$133-\$141 million. Adjusted operating margin is expected in the range of 11-11.4%.

Quarter Ending **12/2019**

Report Date	Feb 28, 2020
Sales Surprise	0.79%
EPS Surprise	5.08%
Quarterly EPS	0.62
Annual EPS (TTM)	2.58

Valuation

Gibraltar shares are down 8.2% year-to-date but up 15.6% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 14.6% and 20.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector is down 1% and 9.4%, respectively.

The S&P 500 index is down 9.6% in the year-to-date period and 0.4% in the past year.

The stock is currently trading at 15.02X forward 12-month earnings, which compares to 17.38X for the Zacks sub-industry, 16.11X for the Zacks sector and 20.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.24X and as low as 10.29X, with a 5-year median of 18.64X. Our Outperform recommendation indicates that the stock will perform better-than the market. Our \$53 price target reflects 17.2X forward 12-month earnings.

The table below shows summary valuation data for ROCK.

Valuation Multiples - ROCK					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.02	17.38	16.11	20.71
	5-Year High	32.24	17.47	17.94	20.71
	5-Year Low	10.29	7.15	10.76	15.19
	5-Year Median	18.64	13.76	15.88	17.44
P/S F12M	Current	1.23	1.17	1.64	3.28
	5-Year High	1.67	3.59	2.12	3.44
	5-Year Low	0.48	0.69	1.17	2.54
	5-Year Median	1.1	0.9	1.6	3.01
EV/EBITDA TTM	Current	10.44	20.56	16.4	10.66
	5-Year High	15.33	30.62	21.2	12.87
	5-Year Low	6.64	14.74	12.49	8.27
	5-Year Median	10.83	23.27	17.97	10.78

As of 04/30/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (188 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Armstrong World Industries, Inc. (AWI)	Neutral	3
TopBuild Corp. (BLD)	Neutral	3
Builders FirstSource, Inc. (BLDR)	Neutral	3
Caesarstone Ltd. (CSTE)	Neutral	4
Masco Corporation (MAS)	Neutral	3
Quanex Building Products Corporation (NX)	Neutral	3
PGT, Inc. (PGTI)	Neutral	3
Simpson Manufacturing Company, Inc. (SSD)	Neutral	4

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	ROCK	X Industry	S&P 500	BECN	OC	SSD
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	4	4
VGM Score	A	-	-	F	A	C
Market Cap	1.50 B	960.85 M	20.61 B	1.51 B	4.68 B	3.20 B
# of Analysts	2	3	14	9	8	2
Dividend Yield	0.00%	0.00%	2.11%	0.00%	2.21%	1.28%
Value Score	B	-	-	B	A	F
Cash/Price	0.13	0.13	0.06	0.04	0.04	0.09
EV/EBITDA	12.41	6.97	11.87	10.71	6.48	13.71
PEG Ratio	NA	2.24	2.47	NA	1.30	NA
Price/Book (P/B)	2.22	1.25	2.67	0.82	1.01	3.58
Price/Cash Flow (P/CF)	14.33	7.62	10.66	3.30	4.93	18.54
P/E (F1)	15.38	17.79	19.01	13.24	11.13	30.94
Price/Sales (P/S)	1.43	0.99	2.10	0.21	0.66	2.76
Earnings Yield	6.50%	5.34%	5.05%	7.55%	8.97%	3.23%
Debt/Equity	0.03	0.47	0.72	1.47	0.67	0.03
Cash Flow (\$/share)	3.23	2.52	7.01	6.66	8.80	3.89
Growth Score	A	-	-	F	A	A
Hist. EPS Growth (3-5 yrs)	29.86%	20.63%	10.88%	13.35%	20.63%	21.79%
Proj. EPS Growth (F1/F0)	16.67%	-11.88%	-7.32%	-26.50%	-14.21%	-21.81%
Curr. Cash Flow Growth	15.67%	-0.35%	5.92%	11.78%	-2.64%	-4.69%
Hist. Cash Flow Growth (3-5 yrs)	21.12%	15.08%	8.55%	40.23%	13.33%	13.26%
Current Ratio	1.91	1.82	1.23	2.01	1.55	4.03
Debt/Capital	2.84%	36.49%	43.84%	54.77%	40.08%	3.04%
Net Margin	6.21%	3.12%	11.08%	-0.47%	-7.84%	12.76%
Return on Equity	13.14%	11.50%	16.44%	8.60%	11.26%	16.85%
Sales/Assets	1.12	1.05	0.54	1.10	0.71	1.07
Proj. Sales Growth (F1/F0)	14.99%	-3.07%	-1.42%	-6.14%	-6.15%	-14.37%
Momentum Score	A	-	-	F	F	D
Daily Price Chg	-5.86%	-1.11%	-2.39%	-3.93%	-3.26%	-3.80%
1 Week Price Chg	-1.44%	-1.46%	-1.74%	-3.86%	-7.27%	-5.33%
4 Week Price Chg	16.39%	14.74%	17.07%	46.86%	18.05%	14.55%
12 Week Price Chg	-15.08%	-23.97%	-18.53%	-37.13%	-30.85%	-16.85%
52 Week Price Chg	15.63%	-11.55%	-9.82%	-41.81%	-15.28%	11.21%
20 Day Average Volume	173,454	203,315	2,641,413	615,962	1,396,038	296,598
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-5.20%	-4.74%	-9.34%
(F1) EPS Est 4 week change	0.00%	-14.46%	-6.62%	-26.32%	-16.73%	-31.67%
(F1) EPS Est 12 week change	5.99%	-29.69%	-13.28%	-34.60%	-24.19%	-33.43%
(Q1) EPS Est Mthly Chg	0.00%	-25.00%	-11.97%	-33.92%	-36.28%	-45.19%

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	A
Momentum Score	A
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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