

Gibraltar Industries (ROCK)

\$56.18 (As of 01/23/20)

Price Target (6-12 Months): **\$59.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: B

Summary

Shares of Gibraltar have outperformed the industry in the past year. The outperformance was mainly attributed to benefits from 80/20 simplification, interest savings on loan repayment and supply-chain initiatives. Also, the strengthening of solar, greenhouse, perimeter security and infrastructure businesses added to the positives. Moreover, solid contributions from acquisitions of SolarBos and Apeks Supercritical added to the upside. Meanwhile, earnings estimates for 2020 have remained stable in the past 60 days. However higher input cost inflation has been hurting the company's performance to some extent. Also, continued volatility in material costs, owing to tariff-related issues, are adding to the woes.

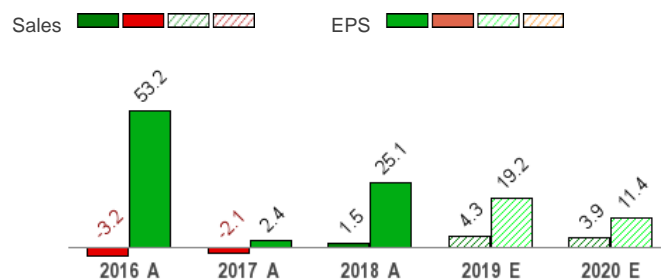
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$56.53 - \$33.93
20 Day Average Volume (sh)	182,937
Market Cap	\$1.8 B
YTD Price Change	11.4%
Beta	1.49
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Top 19% (48 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.2%
Last Sales Surprise	3.5%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	23.1
P/E F1	19.8
PEG F1	NA
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	235 E	274 E	312 E	265 E	1,086 E
2019	227 A	263 A	299 A	256 E	1,045 E
2018	215 A	266 A	280 A	241 A	1,002 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.38 E	\$0.80 E	\$1.02 E	\$0.64 E	\$2.84 E
2019	\$0.28 A	\$0.73 A	\$0.95 A	\$0.59 E	\$2.55 E
2018	\$0.26 A	\$0.71 A	\$0.71 A	\$0.47 A	\$2.14 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 01/23/2020. The reports text is as of 01/24/2020.

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.

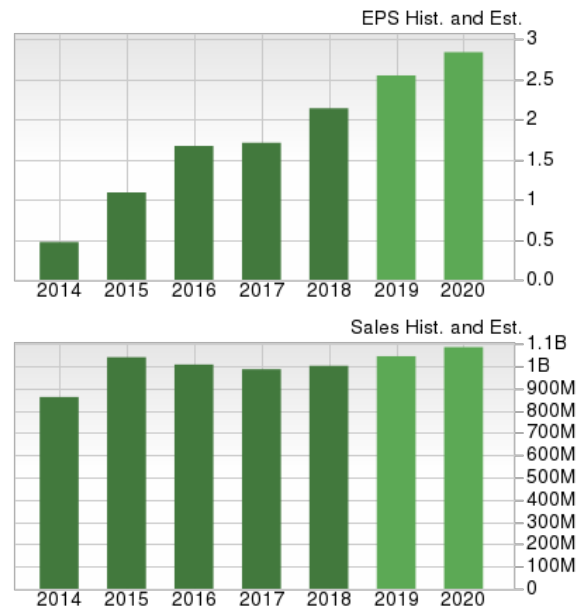
The company reports its results in three operating segments, which are discussed below:

Residential Products (accounting for 44.9% of third-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 (20%): 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 (35.2%): 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.

Notably, inter-segment sales constituted 0.1% of its total revenues.



Reasons To Buy:

▲ **Four-Pillar Value Creation Strategy:** Gibraltar is progressing well operationally as well as financially on the back of its four-pillar value creation strategy that comprises operational excellence, product innovation, portfolio management and acquisitions as a strategic accelerator.

The first pillar, i.e. operational excellence, focuses on reducing complexity, adjusting costs and simplifying its product offering through 80/20 initiatives. Focusing on the best as well as biggest opportunities, (the "80") along with eradicating complexity related to less profitable opportunities (the "20") is benefiting the company to drive organic growth by developing new and innovative products, while simultaneously focusing on selling and marketing efforts. Moreover, the company has completed major part of the strategy and expects to realize benefits from simplification projects in the near term. Markedly, in the third quarter, the company's adjusted operating income improved 120 basis points (bps), which was driven by operational execution and volume leverage, as well as favorable product and vertical market mix.

Product innovation is the second strategic pillar. Through this pillar, the company remains focused on products with patent protection, developed internally or through acquired product lines, which helps it to drive the top line. Notably, innovative products (patented products) accounted for 11.1% of total third-quarter net sales, up from 10.4% in the comparable period of 2018. In order to develop these innovative products, the company is using trade-focused selling and marketing techniques, as well as leveraging its core competencies of engineering, manufacturing and installation. Also, it is focused on higher-margin businesses with strong organic growth opportunities, which are likely to increase its profitability in the future.

Portfolio management, the third pillar, involves the evaluation of its product lines, customers and end markets, with the objective of allocating leadership time and financial resources to the highest-potential platforms and businesses.

Lastly, the fourth pillar of the strategy is acquisitions, which is key part of Gibraltar's transformation. The company remains committed to acquire those companies that have a significant long-term value. The company generally seeks to acquire assets that have attractive end markets, with unique value propositions and patented products or technologies. Notably, on Aug 23, 2018, the company acquired privately-held SolarBos, a provider of electrical balance of systems products for the solar renewable energy market in the United States. Also, on Aug 30, 2019, it acquired Apeks Supercritical, which holds a leading position in extraction processing with a strong leadership team, patented technology, and leading-edge clean extraction technology in the United States. The acquisition strengthens Gibraltar's position in the United States solar renewable energy market.

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 third-quarter net sales increased 18.6% from the prior-year period to \$116.8 million. The uptick can be attributed to strong demand for its commercial greenhouse growing solutions and contributions from the acquisitions of SolarBos (completed in the year-ago quarter) and of Apeks Supercritical (in the third quarter).

▲ **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 through the balance of 2019 and in 2020, benefiting Gibraltar's Residential Products segment.

The company expects modest level of growth in this segment in 2019, driven by sustained levels of repair and remodeling activity. It also expects more favorable comparisons as the seasonal normal roofing activity should continue into 2019. Earnings estimates for 2020 have remained stable over the past 60 days. This reflects analysts' optimism surrounding the company's earnings growth potential.

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.

Reasons To Sell:

▼ **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.

Rising costs and lower volumes, if not checked, will continue to hurt Gibraltar Industries' performance in the upcoming quarters.

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.

Last Earnings Report

Gibraltar's Q3 Earnings Beat Estimates

Gibraltar Industries' third-quarter 2019 earnings and sales not only topped analysts' expectation but also rose year over year on solid growth across its business.

The company's adjusted earnings of 95 cents per share beat the Zacks Consensus Estimate of 87 cents by 9.2%. The bottom line also increased 33.8% year over year on increased profitability in Renewable Energy & Conservation and Industrial and Infrastructure Product segments along with excellent operational actions and lower interest expenses..

Also, net sales of \$299.2 million beat the consensus mark of \$289 million by 3.5%. On a year-over-year basis, the top line increased 6.8% out of which 4.3% came from growth in Renewables & Conservation business (fully organic) and the remaining 2.5% resulted from acquisitions of SolarBOS and Apeks Supercritical. Revenues from Residential Products and Industrial & Infrastructure Products were almost flat year over year.

Markedly, the company's backlog was \$241 million (as of Sep 30, 2019), up 45% year over year. The uptick was mainly driven by three businesses — Renewable Energy, Conservation and Infrastructure.

Segmental Details

Residential Products: Net sales in the segment inched up 0.4% year over year to \$126.3 million during the quarter. Modest increase in volumes was partly offset by market price.

Adjusted operating margins contracted 130 basis points (bps) to 16.2%. The downside was mainly caused by material cost alignment and unfavorable product mix, which was offset by benefits from restructuring and 80/20 simplification initiatives.

Industrial and Infrastructure Products: Sales in the segment increased nearly 1% year over year to \$56.2 million. The rise was supported by higher volume in its infrastructure business. However, it was partially offset by lower volumes in the Industrial business, wherein lower steel prices affected the company's core products.

Adjusted operating margins expanded 180 bps to 10.2%, backed by a more favorable mix of higher margin products, increased 80/20 focus on more profitable product lines and customers as well as consistent efforts to reduce operating costs.

Renewable Energy and Conservation: Quarterly net sales in the segment rose 18.6% year over year (11.3% on an organic basis) to \$116.8 million. The uptick can be attributed to strong demand for its commercial greenhouse growing solutions and contribution from the acquisitions of SolarBos (made in the year-ago quarter) and of Apeks Supercritical (in the third quarter). Meanwhile, segment backlog grew 72% year over year on strong end-market activity and enhanced new business bidding activities.

Adjusted operating margins of 17.8% were up 270 bps on better operating execution, volume leverage as well as favorable product and vertical market mix.

Costs and Margins

Gross margin came in at 25.6%, up 50 bps year over year.

Selling, general and administrative expenses increased 10.5% year over year to \$45.2 million. As a percentage of sales, the metric increased 50 bps year over year. Adjusted operating margin of 13.3% expanded 120 bps year over year.

Balance Sheet and Cash Flow

As of Sep 30 2019, Gibraltar had cash and cash equivalents worth \$137.6 million compared with \$297 million at the end of 2018.

In the first nine months of 2019, the company provided \$72.5 million cash from operating activities compared with \$38.2 million in the year-ago period.

Guidance

Gibraltar narrowed its revenues and earnings guidance for 2019 to the upper end of the previously stated range. Gibraltar now expects 2019 consolidated revenues in the range of \$1,040-\$1,050 million. The company projects adjusted earnings in the range of \$2.48-\$2.55 per share compared with \$2.40-\$2.55 expected earlier. Adjusted operating income is expected in the range of \$110-\$113 million compared with prior projection of \$110-\$117 million. Adjusted operating margin is expected in the range of 10.6-10.8% compared with 10.6-11.1% expected earlier.

For fourth-quarter 2019, Gibraltar anticipates revenues in the range of \$251-\$261 million that indicates a rise from \$240.9 million reported in the year-ago quarter. Adjusted earnings are projected in the band of 52-59 cents per share, which suggests a rise from 47 cents reported in the year-ago quarter.

Quarter Ending **09/2019**

Report Date	Oct 25, 2019
Sales Surprise	3.45%
EPS Surprise	9.20%
Quarterly EPS	0.95
Annual EPS (TTM)	2.43

Recent News

Gibraltar Buys Thermo Energy, Fortifies Commercial Greenhouse - Jan 19, 2020

Gibraltar Industries, Inc. announces the acquisition of Canada-based Thermo Energy Systems, which will enable it to penetrate into the biologically-grown organic food market. Courtesy of its best-in-class execution, experience and domain knowledge, Thermo Energy is expected to contribute annual revenues of approximately \$75 million. The acquisition is expected to be accretive for 2020.

Valuation

Gibraltar shares are up 60% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and sector are up 35% and 34%, respectively.

The S&P 500 index is up 23.9% in the past year.

The stock is currently trading at 19.85X forward 12-month price to earnings, which compares to 14.05X for the Zacks sub-industry, 16.23X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 32.24X and as low as 13.93X, with a 5-year median of 18.93X. Our neutral recommendation indicates that the stock will perform in-line with the market. Our \$59 price target reflects 20.84X 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 F 12M	Current	19.85	14.05	16.23	19.13
	5-Year High	32.24	17.91	18.83	19.34
	5-Year Low	13.93	7.19	10.63	15.17
	5-Year Median	18.93	14.04	16.23	17.44
P/S F12M	Current	1.67	1.22	1.94	3.56
	5-Year High	1.67	3.63	2.23	3.56
	5-Year Low	0.48	0.69	1.25	2.54
	5-Year Median	1.08	0.87	1.63	3
EV/EBITDA TTM	Current	13.24	22.37	19.57	12.38
	5-Year High	15.33	30.09	22.86	12.86
	5-Year Low	8.03	17.59	14.6	8.48
	5-Year Median	10.84	23.43	19.37	10.69

As of 01/23/2020

Industry Analysis Zacks Industry Rank: Top 19% (48 out of 255)



Top Peers

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

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	ROCK Neutral	X Industry	S&P 500	BECN Neutral	OC Neutral	SSD Neutral
VGM Score	A	-	-	A	B	B
Market Cap	1.81 B	1.11 B	24.46 B	2.48 B	7.32 B	3.79 B
# of Analysts	2	3	13	9	7	2
Dividend Yield	0.00%	0.00%	1.75%	0.00%	1.43%	1.08%
Value Score	C	-	-	A	A	C
Cash/Price	0.08	0.09	0.04	0.03	0.00	0.05
EV/EBITDA	15.09	9.86	14.11	12.59	8.46	16.58
PEG Ratio	NA	1.44	2.04	1.37	1.60	NA
Price/Book (P/B)	2.76	1.85	3.40	1.33	1.62	4.36
Price/Cash Flow (P/CF)	19.98	9.89	13.66	5.41	7.48	21.75
P/E (F1)	19.78	18.40	19.10	14.07	13.09	24.34
Price/Sales (P/S)	1.76	1.27	2.67	0.35	1.02	3.40
Earnings Yield	5.06%	5.43%	5.23%	7.11%	7.64%	4.11%
Debt/Equity	0.03	0.60	0.72	1.39	0.73	0.03
Cash Flow (\$/share)	2.81	2.50	6.94	6.66	8.99	3.93
Growth Score	A	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	34.49%	22.67%	10.60%	17.95%	23.82%	21.37%
Proj. EPS Growth (F1/F0)	11.37%	14.47%	7.59%	13.27%	11.96%	19.15%
Curr. Cash Flow Growth	17.08%	13.50%	13.90%	11.78%	13.12%	40.71%
Hist. Cash Flow Growth (3-5 yrs)	13.23%	13.23%	9.00%	40.23%	12.19%	18.17%
Current Ratio	1.81	1.75	1.22	1.75	1.69	3.83
Debt/Capital	3.02%	39.39%	42.99%	53.29%	42.36%	3.01%
Net Margin	6.20%	5.51%	11.35%	-0.15%	6.99%	10.89%
Return on Equity	12.74%	12.44%	17.10%	9.55%	12.14%	14.76%
Sales/Assets	1.08	1.06	0.55	1.11	0.72	1.06
Proj. Sales Growth (F1/F0)	3.88%	3.80%	4.03%	2.18%	1.97%	6.94%
Momentum Score	B	-	-	F	F	B
Daily Price Chg	2.03%	0.00%	0.26%	-0.46%	-0.91%	1.06%
1 Week Price Chg	4.97%	2.18%	2.29%	3.28%	1.11%	1.79%
4 Week Price Chg	10.05%	0.94%	2.24%	14.40%	3.08%	6.63%
12 Week Price Chg	5.54%	5.22%	7.79%	16.06%	9.77%	3.55%
52 Week Price Chg	58.66%	28.99%	21.61%	3.61%	41.92%	41.84%
20 Day Average Volume	182,937	182,937	1,536,379	376,878	1,028,947	192,075
(F1) EPS Est 1 week change	0.35%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.35%	0.00%	0.00%	-0.51%	0.58%	0.00%
(F1) EPS Est 12 week change	4.80%	-0.52%	-0.23%	-13.22%	-1.18%	8.82%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.16%	-1.10%	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	C
Growth Score	A
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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