

Gibraltar Industries (ROCK)

\$41.86 (As of 05/25/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: D

Summary

Gibraltar has been banking on persistent strength across the business. It reported impressive first-quarter 2020 results, which benefited from organic growth in Renewable Energy & Conservation, improved solar tracker field performance, as well as favorable alignment of price to material costs. Also, improvement in Residential Products, lower interest expense and benefits from operational excellence initiatives added to the bliss. However, higher acquisition related cost has been hurting its performance to some extent.. Shares of Gibraltar have underperformed the industry so far this year. That said, it expects to deliver earnings growth and generate cash from operations in the remainder of 2020.

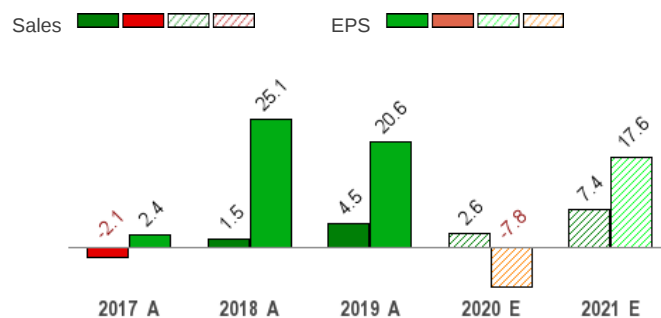
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$56.58 - \$30.60
20 Day Average Volume (sh)	214,711
Market Cap	\$1.3 B
YTD Price Change	-17.7%
Beta	1.36
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Building Products - Miscellaneous
Zacks Industry Rank	Bottom 24% (187 out of 248)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	27.0%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	-21.1%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	15.0
P/E F1	17.6
PEG F1	NA
P/S TTM	1.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	267 E	260 E	353 E	312 E	1,154 E
2020	249 A	227 E	305 E	293 E	1,074 E
2019	227 A	263 A	299 A	258 A	1,047 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.49 E	\$0.60 E	\$1.11 E	\$0.71 E	\$2.80 E
2020	\$0.47 A	\$0.40 E	\$0.83 E	\$0.68 E	\$2.38 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 05/25/2020. The reports text is as of 05/26/2020.

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.

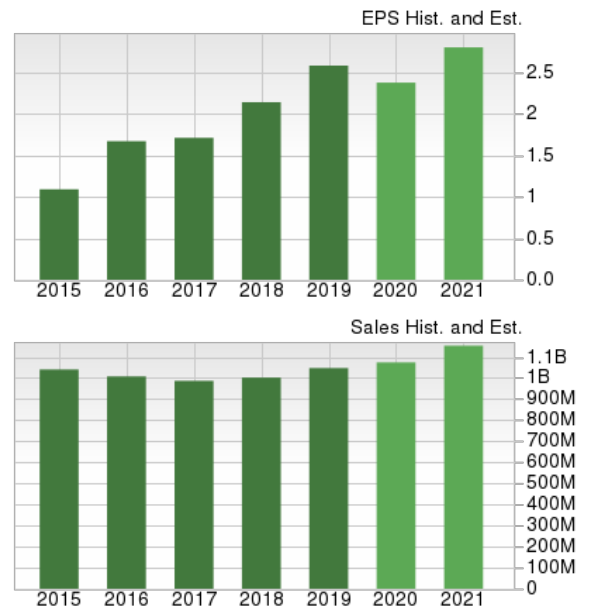
Gibraltar Industries has a leading presence in the industry due to its diversified product offering, through different market players like wholesalers, retail home centers, residential, commercial and transportation contractors, among others. Home Depot, other big box retailers and national building products wholesalers are some of its major customers. As of Mar 31, 2020, the company had 45 facilities in 19 states, Canada, China and Japan, including 33 manufacturing facilities and five distribution centers.

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

Residential Products (accounting for 44.1% of 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 (20.3%): 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 (35.6%): 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:

▲ **Strong Quarterly Performance:** Gibraltar has impressed investors with better-than-expected results in the past several months. Its earnings surpassed analysts' expectation in nine of the trailing 12 quarters. Net sales also topped the same in six of the last 10 quarters. In first-quarter 2020, the company's earnings and sales gained 67.9% and 9.7%, following an increase of 31.9% and 7.1%, respectively, in 2019. Solid contribution from the Renewable Energy and Conservation segment boosted the company's 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 first-quarter net sales increased 17.5% on an organic basis. Apeks Supercritical, Thermo Energy Solutions and Delta Separations acquisitions contributed 22.8% to top-line growth. The uptick can be attributed to core business strength driven by participation gains, volume leverage, productivity improvements and favorable price/material cost alignment. Segment backlog grew 58% year over year owing to healthy market dynamics, participation gains and the recent acquisitions. Adjusted operating margins expanded 450 basis points (bps). Notably, it remains on track to deliver targeted returns in three years.

▲ **Enough Liquidity to Tide Over Coronavirus Woes:** Gibraltar has been maintaining a strong liquidity position to navigate through the current environment. The company ended the first quarter with \$480 million liquidity, including \$86 million cash and cash equivalents, and \$394.1 million of available capacity on a five-year, \$400-million revolving credit facility. Its current cash level is sufficient to meet the long-term obligation of \$25 million.

Meanwhile, no borrowings were outstanding under the revolving credit facility at quarter-end and 2019-end. It can request lenders for an additional financing up to \$700 million within the facility or enter into a term loan of up to \$300 million, subject to conditions set forth in the Senior Credit Agreement.

The debt to total capital at March-end increased to 3.6% from 2.8% at 2019-end. Nonetheless, the company's times interest earned ratio stands at 948.3, significantly up from 39.4 at 2019-end. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet debt obligations based on the current income.

Reasons To Sell:

- ▼ **Coronavirus Impacts on Business:** Owing to persistent economic uncertainty owing to coronavirus-led shutdowns, Gibraltar revoked its previously announced 2020 guidance. Although Gibraltar's businesses were deemed essential, it witnessed a pronounced pause in the processing market when government issued stay-at-home orders.

The Residential business saw a modest decrease in demand. The direct-to-homeowner market, wherein it sells gutter protection and awning systems, slowed down significantly due to the pandemic.

In the Industrial business, it has been witnessing persistent softness in demand for core products and a pause on shipments to automotive customers.

- ▼ **Higher Costs:** Incremental costs related to the recent acquisitions have also weighed on its bottom-line. In the first quarter, selling, general and administrative expenses — as a percentage of sales — increased 190 bps year over year, largely due to \$1.3 million of acquisition-related costs.

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. However, the company has been incurring incremental costs for design refinements and field enhancements of the said solution.

- ▼ **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. During the first quarter, its Renewable Energy and Conservation segment's operating margin was somewhat impacted by the inclusion of the expected modest losses from acquisitions, and seasonally low volumes and lower-margin products.

- ▼ **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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Higher costs and coronavirus woes will continue to hurt Gibraltar Industries' performance in the upcoming quarters.

Last Earnings Report

Gibraltar Q1 Earnings Top Estimates, Increases Y/Y

Gibraltar Industries, Inc. reported better-than-expected results in first-quarter 2020. The company's earnings and sales not only topped analysts' expectations but also improved year over year on continued strength across the business, particularly in the Renewable Energy & Conservation unit.

Owing to persistent economic uncertainty, Gibraltar revoked its previously announced 2020 guidance. However, the company expects to deliver earnings growth and generate cash from operations in the rest of 2020.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	-0.72%
EPS Surprise	27.03%
Quarterly EPS	0.47
Annual EPS (TTM)	2.77

Inside the Headlines

Gibraltar reported adjusted earnings of 47 cents per share, which topped the Zacks Consensus Estimate of 37 cents by 27%. The bottom line increased an impressive 67.9% year over year, supported by organic growth in Renewable Energy & Conservation, improved solar tracker field performance, as well as favorable alignment of price to material costs. Also, improvement in Residential Products, lower interest expense and benefits from operational excellence initiatives added to the positives.

Net sales increased 9.7% year over year to \$249.4 million, owing to 2.8% organic growth driven by its Renewable Energy & Conservation segment. Acquisitions of Thermo Energy Solutions, Delta Separations and Apeks Supercritical contributed 6.9% to top-line growth.

However, the metric lagged the consensus mark of \$251 million by 0.7%.

The company's backlog was \$258 million (at quarter-end), up 39% year over year, owing to increased participation in Renewable Energy and Conservation, as well as Infrastructure end markets.

Segmental Details

Residential Products: Net sales in the segment slipped marginally from the year-ago period to \$103.4 million during the quarter. The decline was mainly due to additional product line simplification initiatives undertaken by Gibraltar and low demand for products sold directly to homeowners. However, solid growth in its core roofing-related products and postal businesses supported the top line.

Adjusted operating margins improved 170 basis points (bps) to 13.5%. Strong execution, improved material cost alignment and 80/20 simplification initiatives aided the margins.

Industrial and Infrastructure Products: Sales in the segment decreased 9.8% year over year to \$49.5 million. Strong performance of the infrastructure business driven by solid market activity, participation gains, modest price increases and continued backlog growth was more than offset by lower demand for core industrial products due to delay in purchases amid a declining steel price environment.

Adjusted operating margins expanded 60 bps to 8.1%, 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 40.3% year over year (17.5% on an organic basis) to \$96.5 million. Apeks Supercritical, Thermo Energy Solutions and Delta Separations acquisitions contributed 22.8% to top-line growth. The uptick can be attributed to core business strength driven by participation gains, volume leverage, productivity improvements and favorable price/material cost alignment. Segment backlog grew 58% year over year owing to healthy market dynamics, participation gains and the recent acquisitions.

Adjusted operating margins of 7% in the segment were up 450 bps. The company remains on track to deliver targeted returns in three years.

Costs and Margins

Selling, general and administrative expenses increased 23.6% year over year to \$41.2 million. As a percentage of sales, the metric increased 190 bps year over year. Adjusted operating margin of 7.6% expanded 180 bps year over year.

Balance Sheet & Cash Flow

As of Mar 31, 2020, Gibraltar had cash and cash equivalents worth \$86 million compared with \$191.4 million at the end of 2019. The company used \$43 million cash in operations, up from \$37.5 million in the year-ago period.

Coronavirus Impacts

Gibraltar's core residential building products businesses — including ventilation, building accessories and postal — are experiencing slow demand since first quarter-end. Moreover, home improvement and industrial businesses have been most impacted by coronavirus-led shutdowns. The company experienced continued strength in renewables and conservation, and infrastructure businesses, steady demand in the core Residential Products segment, as well as slow demand in the Industrial unit.

Valuation

Gibraltar's shares are down 17.7% in the year-to-date period but up 12.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 11.3% and 16.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 7.3% but sector is down 0.4%.

The S&P 500 index is down 8.1% in the year-to-date period but up 4.6% in the past year.

The stock is currently trading at 16.31X forward 12-month earnings, which compares to 18.75X for the Zacks sub-industry, 17.91X for the Zacks sector and 21.5X 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 18.52X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44 price target reflects 17.32X 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	16.31	18.75	17.91	21.5
	5-Year High	32.24	18.75	17.93	21.5
	5-Year Low	10.29	7.15	10.75	15.23
	5-Year Median	18.52	13.83	15.88	17.49
P/S F12M	Current	1.22	1.21	1.71	3.33
	5-Year High	1.67	3.59	2.12	3.44
	5-Year Low	0.48	0.69	1.17	2.53
	5-Year Median	1.11	0.9	1.6	3.01
EV/EBITDA TTM	Current	9.67	17.9	16.08	10.93
	5-Year High	15.33	30.62	21.19	12.86
	5-Year Low	6.64	13.62	12.39	8.26
	5-Year Median	10.8	23.22	17.89	10.79

As of 05/22/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (187 out of 248)



Top Peers

Company (Ticker)	Rec	Rank
Armstrong World Industries, Inc. (AWI)	Neutral	4
TopBuild Corp. (BLD)	Neutral	4
Caesarstone Ltd. (CSTE)	Neutral	3
Masco Corporation (MAS)	Neutral	3
Quanex Building Products Corporation (NX)	Neutral	3
PGT, Inc. (PGTI)	Neutral	3
Simpson Manufacturing Company, Inc. (SSD)	Neutral	4
Builders FirstSource, Inc. (BLDR)	Underperform	5

Industry Comparison Industry: Building Products - Miscellaneous				Industry Peers		
	ROCK	X Industry	S&P 500	BECN	OC	SSD
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	5	5	4
VGM Score	D	-	-	A	C	D
Market Cap	1.34 B	1.04 B	20.16 B	1.57 B	5.22 B	3.27 B
# of Analysts	2	2.5	14	7	8	2
Dividend Yield	0.00%	0.00%	2.11%	0.00%	1.98%	1.22%
Value Score	C	-	-	B	D	F
Cash/Price	0.07	0.12	0.07	0.55	0.05	0.10
EV/EBITDA	12.01	7.83	12.07	10.94	7.07	14.39
PEG Ratio	NA	3.19	2.72	NA	4.65	NA
Price/Book (P/B)	1.99	1.72	2.77	0.92	1.48	3.89
Price/Cash Flow (P/CF)	12.84	8.70	10.95	3.42	5.51	19.35
P/E (F1)	18.34	22.02	20.22	15.54	19.62	32.30
Price/Sales (P/S)	1.26	1.07	2.12	0.22	0.74	2.82
Earnings Yield	5.73%	4.34%	4.71%	6.42%	5.10%	3.10%
Debt/Equity	0.04	0.35	0.76	2.06	0.95	0.21
Cash Flow (\$/share)	3.23	2.52	6.96	6.66	8.80	3.89
Growth Score	D	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	26.31%	20.32%	10.87%	9.47%	16.50%	22.04%
Proj. EPS Growth (F1/F0)	-7.95%	-20.60%	-10.31%	-35.21%	-45.62%	-21.81%
Curr. Cash Flow Growth	15.67%	-0.35%	5.46%	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	1.64	1.87	1.29	2.71	1.63	4.62
Debt/Capital	3.56%	36.28%	44.54%	62.56%	48.66%	17.30%
Net Margin	6.62%	2.76%	10.54%	-1.24%	-7.84%	12.76%
Return on Equity	13.74%	11.84%	16.27%	9.42%	11.93%	17.03%
Sales/Assets	1.11	1.07	0.54	1.07	0.72	1.04
Proj. Sales Growth (F1/F0)	2.56%	-5.73%	-2.49%	-8.19%	-12.85%	-14.37%
Momentum Score	D	-	-	D	B	C
Daily Price Chg	-0.86%	0.37%	0.12%	1.84%	2.76%	0.53%
1 Week Price Chg	-11.05%	-5.40%	-4.56%	-4.40%	-5.52%	-7.83%
4 Week Price Chg	-5.68%	8.53%	5.28%	26.25%	31.35%	28.15%
12 Week Price Chg	-14.80%	-13.70%	-8.60%	-21.85%	-12.68%	-5.32%
52 Week Price Chg	12.40%	-5.10%	-6.15%	-36.70%	-1.14%	21.04%
20 Day Average Volume	214,711	210,306	2,645,192	572,192	1,273,827	275,593
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-21.10%	-7.82%	-3.80%	-24.52%	-39.62%	-9.34%
(F1) EPS Est 12 week change	-16.37%	-37.01%	-16.57%	-41.17%	-51.33%	-31.67%
(Q1) EPS Est Mthly Chg	-51.83%	-26.52%	-7.64%	-53.49%	-97.53%	35.71%

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	D
Momentum Score	D
VGM Score	D

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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