

UFP Industries (UFPI)

\$48.59 (As of 02/03/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

Summary

UFP Industries' shares have outperformed the industry in the past year. The outperformance was mainly attributed to the benefits of new and value-added products, solid housing starts, and rising demand for repair and remodeling activities. Also, the company's buyout strategy and product innovation plan bode well. Meanwhile, the company's earnings estimates for 2020 have increased in the past 60 days. However, rapid lumber market swings and high labor costs are pressing concerns. Also, dependence on the housing market and significant influence of the federal government's actions could negatively impact the company's operations.

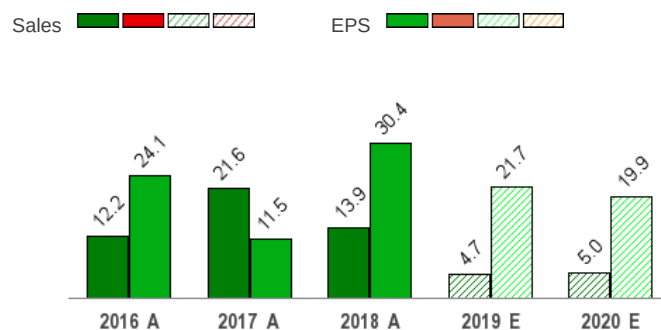
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.83 - \$29.00
20 Day Average Volume (sh)	281,684
Market Cap	\$3.0 B
YTD Price Change	1.9%
Beta	1.86
Dividend / Div Yld	\$0.40 / 0.8%
Industry	Building Products - Wood
Zacks Industry Rank	Top 10% (25 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.7%
Last Sales Surprise	-1.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/19/2020
Earnings ESP	0.0%
P/E TTM	17.3
P/E F1	13.9
PEG F1	2.8
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					4,935 E
2019	1,015 A	1,240 A	1,163 A		4,700 E
2018	994 A	1,294 A	1,213 A	988 A	4,489 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$3.50 E
2019	\$0.58 A	\$0.88 A	\$0.84 A	\$0.62 E	\$2.92 E
2018	\$0.45 A	\$0.71 A	\$0.66 A	\$0.51 A	\$2.40 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 02/03/2020. The reports text and the analyst-provided sales and EPS estimates are as of 02/04/2020.

Overview

Headquartered in Grand Rapids, MI, UFP Industries, Inc. is a holding company with its subsidiaries throughout North America, Europe, Asia, and Australia. The company supplies wood, wood composite and other products in retail, industrial, and construction market.

The company classifies its top-line results based on its end markets. A brief snapshot of the end market sales has been provided below:

UFP Retail (accounting for 36.9% of third-quarter 2019 gross sales) includes Do-It-Yourself retailers, and distributors, pro-dealers and other retail customers.

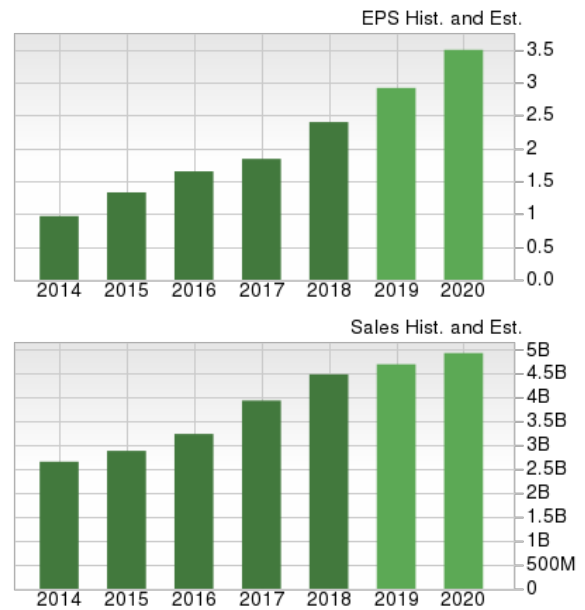
UFP Industrial (28.1%) consists of packaging, crating and other products for manufacturers.

UFP Construction (35%) comprises Residential Construction, Commercial Construction and Concrete Forming and Manufactured Housing sales.

Residential Construction includes builders of single and multifamily homes.

Commercial Construction and Concrete Forming includes non-residential construction and concrete forming.

Manufactured Housing includes manufactured housing and recreational vehicles business.



Reasons To Buy:

▲ **Acquisition Strategies to Drive Growth:** Acquisitions have been UFP Industries' preferred mode of solidifying its product portfolio and leveraging new business opportunities. On Oct 22, 2018, the company closed the acquisition of Pak-Rite, a mixed materials packaging and manufacturing company, in its industrial market. Overall, acquisitions contributed 1% each to total unit sales growth in the second and third quarters of 2019. Notably, during the third quarter, acquisitions contributed 2% to unit sales growth in the Industrial business.

Prior to this, the company acquired Spinner Wood Products and Great Northern Lumber in January 2018, Expert Packaging and Fontana Wood Products in April 2018, and North American Container Corporation in June 2018. These buyouts are anticipated to collectively generate additional revenues, going forward. Notably, during the third quarter, the company acquired Hartford, WI-based Pallet USA and Bonner, MT-based Northwest Painting, Inc. to expand its value-added offerings and market presence in Midwest and Northwest. In addition to adding meaningful businesses to its portfolio, the company believes in disposing of non-core assets. Aiming operational efficiency and best use of its resources, the company divested its Medley, FL-based property in January 2018.

▲ **Solid Product Innovation:** UFP Industries anticipates gaining from the existing product portfolio, initiatives to better production efficiency and solid growth opportunities in the industrial market. Also, its efforts to introduce new products will be a boon.

In the second and third-quarters of 2019, new product sales grew 8% and 7%, respectively, from the year-ago period. Recently, it has launched UFP-Edge Timeless that features nickel gap smooth shiplap in a variety of colors. The company remains confident of the expansion of its portfolio of Cavalry Blue, UFP-Edge products, Deckorators brand products and professional installations. Its ProWood FR and Outdoor Essentials products also raise hopes.

Over the long term, UFP Industries aims to grow sales roughly 4-6% above positive GDP growth. New product sales are anticipated to constitute at least 10% of total sales while earnings before interest, tax, depreciation and amortization growth will exceed unit-sales growth. Also, the company anticipates offering high-quality products to its customers, having started new development and testing facilities.

▲ **Rewarding Shareholders:** UFP Industries follows a consistent policy of rewarding its shareholders handsomely. It paid more than \$12 million dividend at a semi-annual rate on Sep 30, 2019, reflecting a 11% increase from the prior year. Also, it has used roughly \$25 million for repurchasing common shares during 2018, at average price of almost \$29 per share.

Shares of UFP Industries have gained 74.9%, comparing favorably with the industry's 33.4% rally over the past one year, backed by the above-mentioned tailwinds. Notably, estimates for 2020 have increased 2.9% over the past seven days. UFP Industries stands to benefit from improving U.S. construction market, and solid demand for repair and remodeling activities. Also, buyout gains and shareholder reward will work in its favor.

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Reasons To Sell:

▼ **Rapid Lumber Market Swings:** One of the major cost components of goods sold is the cost of lumber products. UFP Industries has no control over the costs and selling prices of lumber products, which are dependent on factors like government policies, environmental regulations, weather conditions, economic conditions and natural disasters.

An unusual rise in the cost of lumber products sold by primary producers will increase the cost of inventory and limit margins on fixed-priced lumber products while a decrease in costs will lead to lower profits by selling products indexed to the current lumber market.

The lumber market swings had a negative impact on various operations, which are primarily focused on variable price products. In fact, overall lumber prices were down 25% in the third quarter and southern yellow pine prices were fairly stable until September 2019. Also, in the second quarter of 2019, overall lumber prices and southern yellow pine prices were down nearly 37% and 29%, respectively.

▼ **Dependence on Housing Market & Influence of Federal Government Actions:** UFP Industries' businesses are directly influenced by the U.S. housing market. Any untoward situation will bring about an unfavorable impact on the company's operations. 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 could affect consumer confidence and spending levels, which in turn could hurt both the economy and the housing market.

UFP Industries is exposed to risks arising from higher costs and expenses, along with rapid lumber market swings

Last Earnings Report

UFP Industries Q3 Earnings Beat, Margin Up

Universal Forest Products, Inc., now known as UFP Industries, reported mixed results in third-quarter 2019, wherein earnings surpassed the Zacks Consensus Estimate but revenues missed the same. This marked the third straight quarter of earnings beat, while the second consecutive quarter of lagging revenue estimates.

Despite being hurt by rising labor costs and significant fluctuations in the lumber market, the company managed to generate strong earnings on the back of solid new and value-added products growth.

The company's earnings of 84 cents per share topped the consensus estimate of 78 cents by 7.7%. Also, the reported figure increased 27.3% from 66 cents reported in the year-ago period.

Net sales of \$1.16 billion marginally missed the consensus mark of \$1.18 billion and declined 4.1% on a year-over-year basis from \$1.21 billion. Lower lumber prices and 11% reduction in selling prices adversely impacted gross sales.

In a bid to expand value-added offerings and market presence in Midwest and Northwest, the company acquired Hartford, Wisconsin-based Pallet USA and Bonner, and Montana-based Northwest Painting, Inc. during the third quarter.

End-Market Sales Discussion

UFP Industries classifies top-line results on the basis of end-markets served. Investors should note that its end-market sales sum up to total gross sales.

Gross sales during the reported quarter came in at \$1,184 million, down 4% from the year-ago period. Unit sales grew 7% year over year, of which organic sales accounted for 6% and acquisitions contributed 1%.

New product sales were up 7% year over year to \$142.9 million. Mix of value-added sales, relative to commodity sales, surged 67.6% from the year-ago period.

UFP Retail (36.9% of gross sales): Retail segment sales fell 1% year over year to \$437 million during the quarter. Selling prices also dropped 11% from the prior-year quarter, offsetting the 10% increase in unit sales. The increase in unit sales was mainly attributable to strong organic growth, driven by sales of Deckorators decking and deck accessories.

UFP Industrial (28.1%): The segment's sales totaled \$332.5 million, reflecting a decline of 6% from the year-ago period. During the quarter, unit sales increased 4% from a year ago, partially offset by 10% lower pricing. Moreover, acquisitions and organic growth contributed 2% each to unit sales growth.

UFP Construction (35%): Sales in the segment came in at \$414.4 million, down 5% year over year. A 13% decline in selling prices offset the 8% positive impact of unit sales. Unit sales in commercial, residential and manufactured housing markets rose 15%, 6%, and 1%, respectively, from the prior-year quarter.

Operating Highlights

Cost of goods sold, as a percentage of net sales, decreased 300 basis points (bps) to 83.9% from 86.9% in the year-ago quarter. Gross margin of 13.1% improved 300 bps to 16.1%.

Selling, general and administrative expenses, accounting for 10% of net sales, increased 160 bps year over year. Operating profit in the quarter improved 24% from the year-ago quarter to \$70.5 million. EBITDA totaled \$89.7 million, reflecting an increase of 23% year over year.

Balance Sheet & Cash Flow

At the end of the third quarter, cash and cash equivalents were \$64.5 million, up from \$26.3 million in the comparable year-ago period. Long-term debt and capital lease obligations totaled \$162.9 million, down from \$186.5 million in the year-ago period.

In the first nine months of 2019, net cash provided by operating activities totaled \$198.1 million versus net cash provided in operating activities of \$60 million in the comparable year-ago period.

Quarter Ending 09/2019

Report Date	Oct 23, 2019
Sales Surprise	-1.54%
EPS Surprise	7.69%
Quarterly EPS	0.84
Annual EPS (TTM)	2.81

Valuation

UFP Industries' shares are up 27% in the past six months period and 60.8% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 19% and 18% in the last six months period, respectively. Over the past year, stocks in the Zacks sub-industry and sector are up by 18.1% and 26.1%, respectively.

The S&P 500 Index was up 14.9% in the past six months period and 17.7% in the past year.

The stock is currently trading at 13.92X forward 12-month price to earnings, which compares to 28.35X for the Zacks sub-industry, 15.8X for the Zacks sector and 18.61X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.11X and as low as 8.89X, with a 5-year median of 14.93X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$51 price target reflects 17.18X forward 12-month earnings.

The table below shows summary valuation data for UFPI

Valuation Multiples - UFPI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	13.92	28.35	15.8	18.61
	5-Year High	23.11	29.32	18.83	19.34
	5-Year Low	8.89	16.33	10.63	15.18
	5-Year Median	14.93	23.85	15.93	17.46
P/S F12M	Current	0.66	3.06	1.89	3.45
	5-Year High	0.69	3.23	2.23	3.45
	5-Year Low	0.33	1.42	1.25	2.54
	5-Year Median	0.49	2.67	1.64	3
EV/EBITDA TTM	Current	10.07	18.16	18.97	11.95
	5-Year High	11.4	23.34	22.54	12.85
	5-Year Low	7.15	10.21	14.41	8.49
	5-Year Median	9.57	15.56	19.37	10.66

As of 02/03/2020

Industry Analysis Zacks Industry Rank: Top 10% (25 out of 254)



Top Peers

Louisiana-Pacific Corporation (LPX)	Outperform
Floor & Decor Holdings, Inc. (FND)	Neutral
JELD-WEN Holding, Inc. (JELD)	Neutral
Norbord Inc. (OSB)	Neutral
Potlatch Corporation (PCH)	Neutral
Trex Company, Inc. (TREX)	Neutral
Weyerhaeuser Company (WY)	Neutral
Boise Cascade, L.L.C. (BCC)	Underperform

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	UFPI Neutral	X Industry	S&P 500	BCC Underperform	LPX Outperform	TREX Neutral
VGM Score	A	-	-	A	C	D
Market Cap	2.98 B	2.86 B	23.66 B	1.44 B	3.66 B	5.75 B
# of Analysts	1	2.5	13	1	4	7
Dividend Yield	0.82%	0.82%	1.82%	1.08%	1.73%	0.00%
Value Score	B	-	-	A	A	F
Cash/Price	0.03	0.03	0.04	0.22	0.08	0.02
EV/EBITDA	11.65	13.90	13.87	8.42	5.67	29.19
PEG Ratio	2.80	1.60	1.97	NA	NA	3.35
Price/Book (P/B)	2.43	2.58	3.24	1.97	3.18	13.56
Price/Cash Flow (P/CF)	14.58	12.74	13.40	6.02	8.51	37.12
P/E (F1)	13.99	17.87	18.48	17.10	17.87	33.54
Price/Sales (P/S)	0.68	1.55	2.60	0.31	1.55	7.97
Earnings Yield	7.20%	4.30%	5.40%	5.83%	5.61%	2.99%
Debt/Equity	0.18	0.58	0.72	0.72	0.31	0.08
Cash Flow (\$/share)	3.33	2.88	6.92	6.15	3.66	2.65
Growth Score	A	-	-	A	D	A
Hist. EPS Growth (3-5 yrs)	23.06%	6.86%	10.80%	6.86%	37.83%	33.97%
Proj. EPS Growth (F1/F0)	19.86%	28.27%	7.46%	18.96%	315.48%	22.57%
Curr. Cash Flow Growth	23.39%	11.42%	10.59%	52.14%	11.42%	41.62%
Hist. Cash Flow Growth (3-5 yrs)	22.02%	13.20%	8.55%	22.11%	18.58%	19.33%
Current Ratio	2.83	1.80	1.21	2.53	3.52	3.52
Debt/Capital	15.34%	37.90%	42.91%	41.71%	24.47%	7.77%
Net Margin	3.91%	2.67%	11.76%	-0.13%	2.67%	18.65%
Return on Equity	14.91%	4.64%	17.24%	8.10%	4.93%	35.80%
Sales/Assets	2.45	1.08	0.55	2.72	1.08	1.37
Proj. Sales Growth (F1/F0)	%	7.69%	4.22%	NA	15.30%	15.16%
Momentum Score	B	-	-	C	D	F
Daily Price Chg	1.44%	0.85%	0.67%	2.27%	1.63%	0.25%
1 Week Price Chg	-2.26%	-2.59%	-2.60%	-2.92%	-1.26%	0.85%
4 Week Price Chg	2.75%	-0.51%	-0.76%	3.29%	2.87%	8.43%
12 Week Price Chg	-2.82%	1.41%	2.84%	-3.01%	5.69%	13.01%
52 Week Price Chg	57.61%	21.11%	13.93%	34.03%	28.79%	38.33%
20 Day Average Volume	281,684	352,123	1,915,782	242,736	1,028,035	415,396
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.16%	0.00%	6.13%	6.08%	0.00%
(F1) EPS Est 12 week change	2.94%	0.11%	-0.13%	-2.48%	0.58%	0.21%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	NA	0.00%	0.00%

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	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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