

UFP Industries (UFPI)

\$50.38 (As of 06/08/20)

Price Target (6-12 Months): **\$43.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 05/28/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: B

Summary

Lower customer demand will likely impact UFP Industries' Industrial segment as is evident from the slowing down of its pre-break-up log purchases. Its international operations are also affected by the current COVID-19 disruptions. It expects sales in the Industrial segment to be impacted in the second quarter as well, particularly in Australia. Also, lower selling prices primarily owing to lower lumber pricing (particularly Southern Yellow Pine) and high labor costs are pressing concerns for UFP Industries. Although its ability to leverage fixed costs, increased unit sales, and improved total sales of higher-margin, value-added products will drive growth, we wait for better visibility. UFP Industries' shares have outperformed the industry in the year-to-date period. However, 2020 earnings estimates have declined 20.4% over the past 60 days.

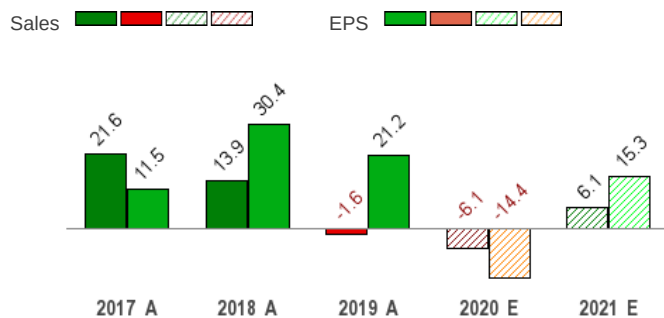
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.10 - \$29.17
20 Day Average Volume (sh)	296,850
Market Cap	\$3.1 B
YTD Price Change	5.6%
Beta	1.61
Dividend / Div Yld	\$0.50 / 1.0%
Industry	Building Products - Wood
Zacks Industry Rank	Top 13% (33 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-1.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/22/2020
Earnings ESP	0.0%
P/E TTM	16.9
P/E F1	20.2
PEG F1	4.1
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,049 E	1,150 E	1,168 E	1,032 E	4,399 E
2020	1,032 A	1,060 E	1,077 E	977 E	4,147 E
2019	1,015 A	1,240 A	1,163 A	998 A	4,416 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.62 E	\$0.77 E	\$0.83 E	\$0.56 E	\$2.87 E
2020	\$0.65 A	\$0.63 E	\$0.67 E	\$0.57 E	\$2.49 E
2019	\$0.58 A	\$0.88 A	\$0.84 A	\$0.61 A	\$2.91 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 06/08/2020. The reports text is as of 06/09/2020.

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.

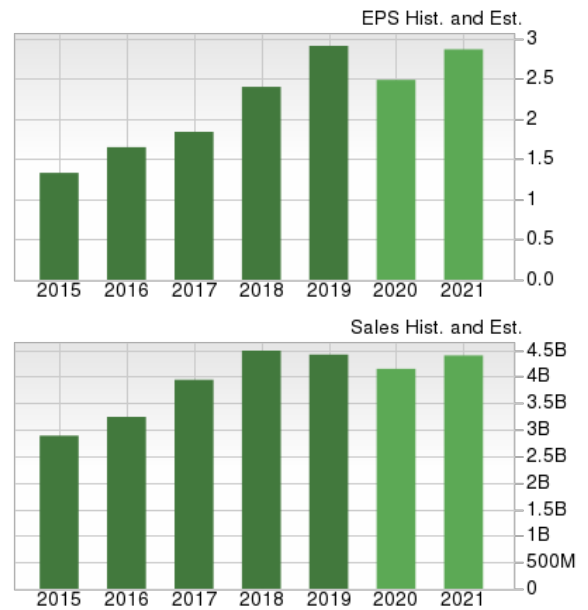
The company classifies its top-line results based on its end markets. A brief snapshot of the end market sales has been provided below:

UFP Retail (accounting for 31.9% of 2019 gross sales) includes Do-It-Yourself retailers, and distributors, pro-dealers and other retail customers.

UFP Industrial (30.6%) consists of packaging, crating and other products for manufacturers.

UFP Construction (37.5%) 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 Sell:

- ▼ **Coronavirus-Related Woes to Impact Industrial Business:** Due to uncertainties surrounding the impact of coronavirus, UFP Industries' Industrial segment experienced a decline in customer demand in March. COVID-19 has been adversely impacting the segment's demand, as is evident from the slowing down of its pre-break-up log purchases.

Its international operations are also affected by the current market scenario. The company anticipates sales in the Industrial segment to be impacted in the second quarter as well, particularly in Australia.

- ▼ **Dependence on Housing Market:** 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.

Although the U.S. housing market significantly improved until March, coronavirus-related woes and imminent recession are anticipated to dent the same in the near term.

- ▼ **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. During first-quarter 2020, the Random Lengths Composite Index was up 8% from the prior year and Southern Yellow Pine Index rose 5%.

- ▼ **Influence of Federal Government Actions:** 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.
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Coronavirus-related woes, dependence on the housing market and rapid lumber market swings mar prospects

Risks

- **Acquisition Strategies to Drive Growth:** Acquisitions have been UFP Industries' preferred mode of solidifying its product portfolio and leveraging new business opportunities. On Mar 13, it acquired the operating assets of Quest Design & Fabrication and Quest Architectural Millwork. Quest designs fabricates and installs millwork and case goods for a number of commercial uses that include builder's sales centers, design studios, hospitality, corporate offices and healthcare.

Again on Sep 16, 2019, one of its affiliates acquired Hartford, WI-based Pallet USA, LLC. Also, on Aug 14, 2019, it acquired Bonner, MT-based Northwest Painting, Inc. These buyouts are expected to expand its value-added offerings, and market presence in Midwest and Northwest.

Overall, acquisitions contributed 1% to total unit sales growth in first-quarter 2020. The company plans more acquisitions in 2020 despite COVID-19 impacts on the business.

- **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 2019, new product sales grew 13% from the year-ago period. Further, in first-quarter 2020, the same grew 7% year over year, which remains in line with its previous target of \$450 million for the year.

New products continue to be an important top-line driver for UFP Industries, especially for the retail business. Retail unit sales improved 9% in the first quarter, backed by new product growth and market share gains. The company has launched UFP-Edge Timeless that features nickel gap smooth shiplap in a variety of colors. It 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.

Meanwhile, for 2020, it has removed \$126 million of 2019 sales from the new products category, although it will continue to sell these products.

The company believes that it will achieve the previously stated long-term target for unit sales, although at a slower pace for the rest of 2020 due to COVID-19 impacts on operations. Also, the company anticipates offering high-quality products to its customers, having started new development and testing facilities.

- **Stable Balance Sheet:** UFP Industries has been maintaining a strong liquidity position to navigate through the current environment. The company ended the first quarter with \$392 million liquidity, including \$32 million cash and cash equivalents, and \$360 million of available capacity on the \$375-million revolving credit facility. Its current cash level, which increased sequentially, is sufficient to meet the short-term obligation of \$2.8 million. Encouragingly, its liquidity increased to \$433 million at April-end.

Total long-term debt (including lease liabilities) of \$225 million was slightly down from \$226 million at 2019-end. Its debt to total capital at March-end was 15.2%, down from 15.4% as of Dec 31, 2019.

The company's times interest earned ratio stands at 31.3, better than 28.7 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 current income.

- **Rewarding Shareholders:** UFP Industries follows a consistent policy of rewarding its shareholders handsomely. On Feb 3, 2020, it announced changes in the frequency of dividend payments from semi-annual to quarterly. Also, it raised quarterly cash dividend by 25% to 12.5 cents a share, payable on Jun 15 to its shareholders of record on Jun 1.

It paid nearly \$8 million dividend at a quarterly rate on Mar 28, 2020. Also, it has used roughly \$29 million for repurchasing common shares during the first quarter, at average price of \$38.62 per share.

Last Earnings Report

UFP Industries Q1 Earnings Meet Estimates, Margins Up

UFP Industries, Inc. reported first-quarter 2020 results, wherein earnings met the Zacks Consensus Estimate, while revenues missed the same.

The company noted that the majority of its employees are deemed essential critical infrastructure workers and continue to serve customers. The company has reduced operations and temporarily furloughed a few employees.

On Feb 3, 2020, it announced changes in the frequency of dividend payments from semi-annual to quarterly. It raised quarterly cash dividend by 25% to 12.5 cents a share, in line with the previous quarter. The dividend is payable on Jun 15 to shareholders of record on Jun 1.

Quarter Ending 03/2020

Report Date	Apr 22, 2020
Sales Surprise	-1.68%
EPS Surprise	0.00%
Quarterly EPS	0.65
Annual EPS (TTM)	2.98

Earnings & Net Sales Discussion

The company reported earnings of 65 cents per share, up 12% from 58 cents reported in the year-ago period.

Net sales of \$1.03 billion missed the consensus mark of \$1.05 billion by 1.7% but grew 2% on a year-over-year basis. Lower lumber prices resulted in 3% year-over-year decline of gross sales.

End-Market Sales Discussion

UFP Industries classifies top-line results on the basis of end-markets served. Its end-market sales sum up to total gross sales. Gross sales during the reported quarter came in at \$1.05 billion, up 1.9% from the year-ago period.

UFP Retail: The segment reported sales of \$365 million during the quarter, up 6.3% year over year. Retail unit sales were up 9% from the year-ago quarter, backed by 26% growth in Home and Décor, 14% rise in both UFP-Edge and ProWood, as well as 8% improvement in Fence, Lawn and Garden. However, lower selling prices partially offset the same by 3%.

UFP Industrial: The Industrial segment's sales totaled \$258.6 million, reflecting a decline of 6.6% from the year-ago period. During the quarter, unit sales remained flat year over year, while the segment's overall sales declined due to lower lumber prices.

UFP Construction: Sales in the segment were \$384.9 million, up 4.3% year over year. A 6% improvement in unit sales was partially offset by a 2% decrease in selling prices. Unit sales in Concrete Forming, Factory Built, Commercial and Site Built grew 15%, 12%, 3% and 1%, respectively, during the quarter.

International sales were \$36.3 million, down 0.8% year over year.

Operating Highlights

Gross margin of 16.5% improved 130 basis points (bps) year over year. Selling, general and administrative expenses — accounting for 10.9% of net sales — increased 50 bps year over year. Operating margin in the quarter improved 90 bps to 5.7%. EBITDA totaled \$77.1 million, reflecting an increase of 16.9% year over year.

Balance Sheet & Cash Flow

At the end of the first quarter, cash and cash equivalents were \$32.1 million, significantly up from \$17.1 million in the comparable prior-year period.

In the quarter under review, net cash used in operating activities totaled \$46.2 million compared with \$55.8 million a year ago.

During the first quarter, the company repurchased nearly 750,000 shares of its common stock at an average price of \$38.62.

Valuation

UFP Industries shares are up 5.6% in the year-to-date period and 40.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are down 7.7% and 4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 15.6% and 10%, respectively.

The S&P 500 index is up 0.2% in the year-to-date period and 11.9% in the past year.

The stock is currently trading at 18.99X forward 12-month earnings, which compares to 48.15X for the Zacks sub-industry, 20.36X for the Zacks sector and 23.35X 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 14.79X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$43 price target reflects 16.22X 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 F12M	Current	18.99	48.15	20.36	23.35
	5-Year High	23.11	48.15	20.36	23.35
	5-Year Low	8.89	17.09	10.75	15.23
	5-Year Median	14.79	24.03	15.88	17.49
P/S F12M	Current	0.73	3.1	1.97	3.63
	5-Year High	0.74	3.19	2.12	3.63
	5-Year Low	0.33	1.4	1.17	2.53
	5-Year Median	0.5	2.68	1.61	3.02
EV/EBITDA TTM	Current	9.99	22.48	18.02	11.97
	5-Year High	11.45	22.92	21.2	12.85
	5-Year Low	6	9.91	12.4	8.25
	5-Year Median	9.53	15.75	17.88	10.81

As of 06/08/2020

Industry Analysis Zacks Industry Rank: Top 13% (33 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Potlatch Corporation (PCH)	Outperform	1
JELDWEN Holding, Inc. (JELD)	Neutral	3
LouisianaPacific Corporation (LPX)	Neutral	2
Norbord Inc. (OSB)	Neutral	2
Trex Company, Inc. (TREX)	Neutral	3
Weyerhaeuser Company (WY)	Neutral	3
Boise Cascade, L.L.C. (BCC)	Underperform	3
FloorDecor Holdings, Inc. (FND)	Underperform	3

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	UFPI	X Industry	S&P 500	BCC	LPX	TREX
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	2	3
VGM Score	C	-	-	C	D	D
Market Cap	3.11 B	2.58 B	23.56 B	1.48 B	3.03 B	6.97 B
# of Analysts	3	3	14	2	4	9
Dividend Yield	0.99%	0.66%	1.8%	1.06%	2.15%	0.00%
Value Score	C	-	-	C	C	F
Cash/Price	0.02	0.05	0.06	0.14	0.16	0.00
EV/EBITDA	10.39	17.73	13.19	8.27	30.00	34.34
PEG Ratio	4.00	4.75	3.18	4.75	NA	NA
Price/Book (P/B)	2.45	2.50	3.19	2.09	3.07	15.43
Price/Cash Flow (P/CF)	12.55	17.48	12.52	8.96	18.85	44.26
P/E (F1)	19.98	47.31	23.31	25.84	46.10	48.51
Price/Sales (P/S)	0.70	1.31	2.51	0.31	1.31	9.10
Earnings Yield	4.94%	1.50%	4.15%	3.88%	2.15%	2.06%
Debt/Equity	0.18	0.74	0.76	0.74	0.74	0.07
Cash Flow (\$/share)	4.01	1.88	7.01	4.22	1.43	2.72
Growth Score	C	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	21.76%	5.00%	10.87%	12.40%	3.55%	31.82%
Proj. EPS Growth (F1/F0)	-14.55%	-23.08%	-10.76%	-29.90%	58.11%	0.54%
Curr. Cash Flow Growth	19.96%	-31.17%	5.48%	-31.17%	-67.52%	1.83%
Hist. Cash Flow Growth (3-5 yrs)	21.03%	19.60%	8.55%	4.35%	32.59%	22.86%
Current Ratio	3.22	2.27	1.29	2.52	4.56	2.75
Debt/Capital	15.06%	42.99%	44.75%	42.44%	42.99%	6.70%
Net Margin	4.16%	1.71%	10.59%	1.71%	0.04%	20.31%
Return on Equity	14.91%	5.60%	16.26%	13.44%	5.91%	36.67%
Sales/Assets	2.36	1.13	0.55	2.74	1.14	1.32
Proj. Sales Growth (F1/F0)	-6.09%	-5.83%	-2.62%	0.00%	-13.68%	-1.52%
Momentum Score	B	-	-	F	D	B
Daily Price Chg	-0.38%	0.85%	1.55%	-0.26%	-0.33%	-3.59%
1 Week Price Chg	10.58%	11.05%	7.51%	11.52%	14.61%	4.02%
4 Week Price Chg	18.26%	26.90%	15.61%	23.65%	27.16%	2.59%
12 Week Price Chg	48.70%	53.33%	38.10%	56.66%	61.88%	88.34%
52 Week Price Chg	40.84%	4.88%	3.66%	58.50%	12.23%	74.23%
20 Day Average Volume	296,850	388,453	2,648,536	235,503	1,475,827	833,391
(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%	0.00%	0.00%	-23.90%	27.17%	-1.28%
(F1) EPS Est 12 week change	-26.50%	-67.27%	-15.97%	-42.55%	-67.27%	-15.57%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	NA	75.00%	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	C
Momentum Score	B
VGM Score	C

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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