

UFP Industries (UFPI)

\$56.69 (As of 02/21/20)

Price Target (6-12 Months): **\$60.00**

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:B

Value: C

Growth: A

Momentum: F

Summary

UFP Industries' shares have outperformed the industry in the past year. The outperformance is likely to continue, given solid earnings in fourth-quarter 2019. The bottom line grew 19.6% from a year ago. Increased unit sales, its ability to leverage fixed costs, and improved sales of higher-margin, value-added products that comprise a greater portion of the company's product mix supported the growth. Notably, this marked the best fourth-quarter performance in UFP Industries' history. Encouragingly, it increased the frequency of dividend payments from semi-annual to quarterly and quarterly cash dividend by 25% in March. However, lower lumber pricing in the Industrial business, reduced selling prices and high labor costs are pressing concerns.

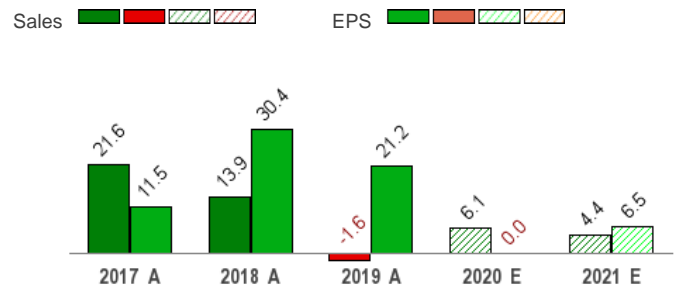
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$58.10 - \$29.00
20 Day Average Volume (sh)	322,225
Market Cap	\$3.5 B
YTD Price Change	18.9%
Beta	1.86
Dividend / Div Yld	\$0.25 / 0.7%
Industry	Building Products - Wood
Zacks Industry Rank	Bottom 39% (156 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.4%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	-8.4%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	19.5
P/E F1	17.7
PEG F1	3.5
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					4,891 E
2020	1,061 E	1,328 E	1,244 E	1,051 E	4,684 E
2019	1,015 A	1,240 A	1,163 A	998 A	4,416 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.75 E	\$1.18 E	\$0.96 E	\$0.70 E	\$3.10 E
2020	\$0.61 E	\$1.10 E	\$0.90 E	\$0.64 E	\$2.91 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 02/21/2020. The reports text is as of 02/24/2020.

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.

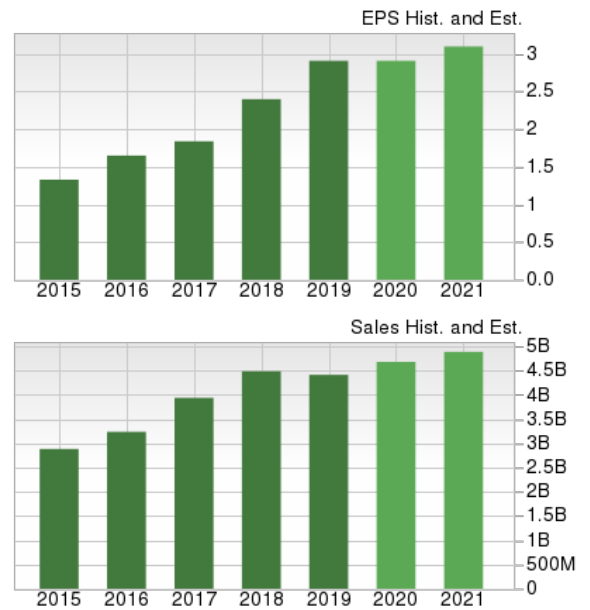
The company classifies its top-line results based on its end markets. A brief snapshot of the end market sales has been provided below:

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 Buy:

▲ **Acquisition Strategies to Drive Growth:** Acquisitions have been UFP Industries' preferred mode of solidifying its product portfolio and leveraging new business opportunities. 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% each to total unit sales growth in the second and third quarters of 2019. During the third and fourth quarters of 2019, acquisitions contributed 2% to unit sales growth in the Industrial business. The company plans more acquisition activities in 2020.

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 2019, new product sales grew 13% from the year-ago period.

New products continue to be an important top-line driver for UFP Industries, especially for the retail business. Retail unit sales improved 10%, 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.

Notably, these new products are expected to grow at faster pace in 2020. 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 is targeting \$475 million new product sales for 2020.

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. 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 Mar 15, 2020 to its shareholders of record on Mar 1, 2020.

It paid more than \$24 million dividend at a semi-annual rate on Dec 31, 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 77.2%, comparing favorably with the industry's 28.3% rally over the past year, backed by the above-mentioned tailwinds. 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. During fourth-quarter 2019, the Random Lengths Composite Index was up 4.8% from the prior year, while the Southern Yellow Pine Index was down 12%. In fact, overall lumber prices were down 25% in the third-quarter 2019 and southern yellow pine prices were fairly stable until September 2019. Also, in the second-quarter 2019, overall lumber prices and southern yellow pine prices were down nearly 37% and 29%, respectively.

This trend continued in 2020, with the current Composite Index up 7.7% and the Southern Yellow Pine Index down 17% from a year ago. Estimates for 2020 have declined 9.3% over the past seven days, reflecting analysts' concern over the company's earnings growth potential.

▼ **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 Q4 Earnings Top Estimates, Margins Up

UFP Industries, Inc. reported strong earnings in fourth-quarter 2019 on the back of increased unit sales, its ability to leverage fixed costs, and improved sales of higher-margin, value-added products that comprise a greater portion of its product mix. The company's bottom line not only surpassed the Zacks Consensus Estimate but also increased year over year. Notably, this was the best fourth-quarter performance in the company's history.

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 Mar 15, 2020 to its shareholders of record on Mar 1, 2020.

Quarter Ending **12/2019**

Report Date	Feb 19, 2020
Sales Surprise	-0.08%
EPS Surprise	3.39%
Quarterly EPS	0.61
Annual EPS (TTM)	2.91

Earnings & Net sales Discussion

The company's earnings of 61 cents per share topped the consensus estimate of 59 cents by 3.4%. Also, the reported figure increased 19.6% from 54 cents reported in the year-ago period.

Net sales of \$998 million marginally missed the consensus mark of \$998.8 million but grew 1% on a year-over-year basis from \$988.2 million. Lower lumber prices reduced gross sales by 5%.

End-Market Sales Discussion

UFP Industries classifies top-line results on the basis of end-markets served. Investors should note that UFP Industries' end-market sales sum up to total gross sales. Gross sales during the reported quarter came in at \$1,012 million, up 1% from the year-ago period.

UFP Retail: The segment's sales increased 7% year over year to \$323.3 million during the quarter. Retail unit sales were up 10% on the back of new product growth and market share gains. However, lower selling prices partially offset the same by 3%.

UFP Industrial: The Industrial segment's sales totaled \$309.7 million, reflecting a decline of 4% from the year-ago period. During the quarter, unit sales increased 2%, offset by 6% lower lumber pricing. The unit sales growth was attributed to acquisitions.

UFP Construction: Sales in the segment were \$379 million, up 1% year over year. A 5% improvement in unit sales was partially offset by 4% decrease in selling prices. Unit sales in commercial, manufactured housing and residential customers grew 9%, 4%, and 3%, respectively, during the quarter.

Operating Highlights

Cost of goods sold, as a percentage of net sales, contracted 190 basis points (bps) from the year-ago quarter to 84.2%. Gross margin of 15.8% improved 190 bps year over year.

Selling, general and administrative expenses, accounting for 10.5% of net sales, increased 120 bps year over year. Operating margin in the quarter improved 60 bps to 5.2%. EBITDA totaled \$70.9, reflecting an increase of 12% year over year.

Balance Sheet & Cash Flow

At the end of 2019, cash and cash equivalents were \$168.3 million, significantly up from \$27.3 million at 2018-end.

In 2019, net cash from operating activities totaled \$349.3 million against net cash used in operating activities of \$1167 million a year ago.

2019 Highlights

UFP Industries reported adjusted earnings of \$2.91 per share, surpassing the consensus estimate of \$2.89 and increasing 20.7% from the year-ago figure of \$2.41. However, net sales of \$4.42 billion declined almost 2% due to 8% lower lumber prices.

New product sales were \$540 million in the year, up 13% from 2018. For 2020, it has removed \$126 million of 2019 sales from its new products classification, despite continuing to sell those products.

Valuation

UFP Industries shares are up 18.9% in the year-to-date period and 77.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 6.1% and 3.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 28.3% and 25.6%, respectively.

The S&P 500 index is up 3.8% in the year-to-date period and 21.1% in the past year.

The stock is currently trading at 17.77X forward 12-month earnings, which compares to 31.99X for the Zacks sub-industry, 16.3X for the Zacks sector and 19.09X 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 14.89X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$60 price target reflects 18.8X 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	17.77	31.99	16.3	19.09
	5-Year High	23.11	31.99	18.86	19.34
	5-Year Low	8.89	17.17	10.71	15.18
	5-Year Median	14.89	24.12	16	17.47
P/S F12M	Current	0.74	3.27	1.97	3.51
	5-Year High	0.74	3.27	2.23	3.51
	5-Year Low	0.33	1.4	1.25	2.54
	5-Year Median	0.49	2.64	1.65	3
EV/EBITDA TTM	Current	10.85	18.92	19.58	12
	5-Year High	11.4	23.23	22.6	12.87
	5-Year Low	7.14	10.07	14.43	8.48
	5-Year Median	9.56	15.39	19.38	10.77

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (156 out of 255)



Top Peers

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

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	UFPI Neutral	X Industry	S&P 500	BCC Neutral	LPX Outperform	TREX Neutral
VGM Score	B	-	-	A	C	C
Market Cap	3.48 B	2.76 B	24.03 B	1.60 B	3.81 B	6.20 B
# of Analysts	1	3	13	1	4	7
Dividend Yield	0.71%	0.84%	1.76%	0.98%	1.71%	0.00%
Value Score	C	-	-	A	B	F
Cash/Price	0.03	0.02	0.04	0.20	0.05	0.02
EV/EBITDA	13.27	20.84	14.08	9.19	36.79	31.55
PEG Ratio	3.46	1.88	2.08	NA	NA	3.62
Price/Book (P/B)	2.77	2.77	3.29	2.18	3.84	14.64
Price/Cash Flow (P/CF)	14.12	21.56	13.42	6.66	23.76	40.06
P/E (F1)	17.32	18.92	19.00	18.92	18.83	36.20
Price/Sales (P/S)	0.79	2.25	2.64	0.35	1.65	8.61
Earnings Yield	5.64%	2.77%	5.26%	5.27%	5.30%	2.77%
Debt/Equity	0.13	0.61	0.70	0.72	0.39	0.08
Cash Flow (\$/share)	4.01	1.70	7.03	6.15	1.43	2.65
Growth Score	A	-	-	A	C	A
Hist. EPS Growth (3-5 yrs)	23.06%	6.86%	10.84%	6.86%	13.59%	33.97%
Proj. EPS Growth (F1/F0)	10.14%	22.57%	7.09%	18.96%	387.84%	22.57%
Curr. Cash Flow Growth	19.96%	-26.01%	6.72%	52.14%	-67.52%	41.62%
Hist. Cash Flow Growth (3-5 yrs)	22.02%	9.89%	8.25%	22.11%	32.59%	19.33%
Current Ratio	3.09	1.70	1.22	2.53	2.54	3.52
Debt/Capital	11.34%	38.76%	42.37%	41.71%	28.45%	7.77%
Net Margin	4.07%	0.68%	11.56%	-0.13%	-0.22%	18.65%
Return on Equity	14.94%	3.79%	16.80%	8.10%	3.79%	35.80%
Sales/Assets	2.37	1.02	0.55	2.72	1.15	1.37
Proj. Sales Growth (F1/F0)	6.06%	6.07%	3.90%	NA	15.11%	15.16%
Momentum Score	F	-	-	F	D	C
Daily Price Chg	-0.53%	0.00%	-0.83%	0.69%	0.15%	-0.51%
1 Week Price Chg	1.10%	4.46%	1.65%	4.30%	7.35%	1.54%
4 Week Price Chg	15.15%	4.03%	-0.37%	7.09%	9.33%	7.62%
12 Week Price Chg	13.27%	13.27%	3.74%	2.76%	13.72%	21.35%
52 Week Price Chg	74.38%	19.17%	14.14%	40.53%	28.17%	40.52%
20 Day Average Volume	322,225	322,225	1,992,841	200,466	1,267,487	413,382
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-8.43%	0.00%	-0.02%	0.00%	3.44%	0.00%
(F1) EPS Est 12 week change	-5.74%	0.00%	-0.17%	2.61%	4.03%	0.10%
(Q1) EPS Est Mthly Chg	NA%	-30.77%	-0.48%	NA	-28.21%	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	C
Growth Score	A
Momentum Score	F
VGM Score	B

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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