Homebuilders: Suppliers, Producers, and Construction

The Residential Homebuilders market is flashing a signal.

Ian McMillan, CMT
@the_chart_life

Here is a basic list of Residential Homebuilders, listed by size...

Do we see a theme?

$XHB $ITB $PKB

12:07 AM · Jul 17, 2020

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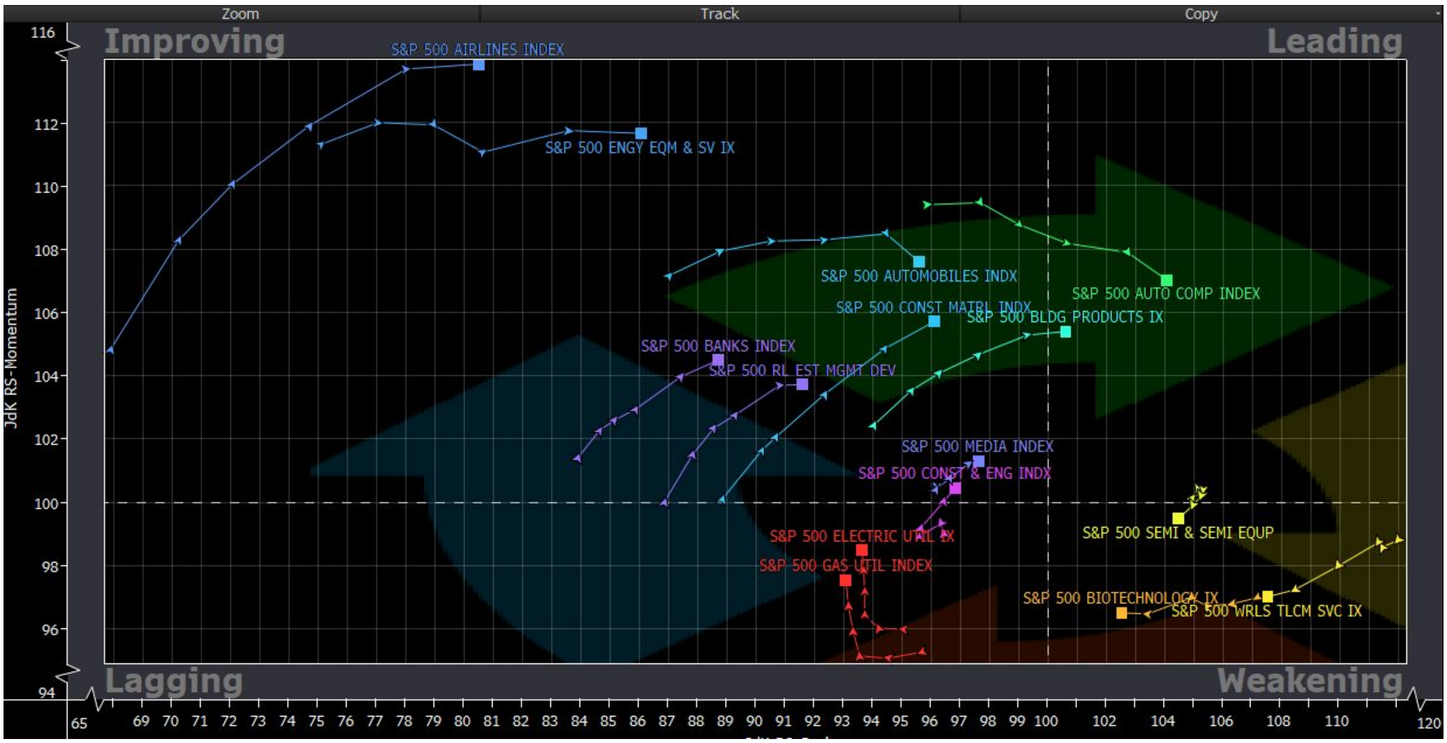
It's showing us that after a period of balanced supply and demand (represented as consolidation in the tape), there's now a growing imbalance that favors the latter (demand).

This is partly due to some general sector rotation away from growth/momentum and back into cyclical/value plays. We can see this on the relative rotation graph below showing the 6-week performance by industry; semis, biotech, and telecom are weakening while forward cyclicals such as autos, construction materials, and building products are beginning to lead.



But there's also a secular component that supports this broader trend as well. We're going to run through what these are and then Brandon will cover some of the names he's digging into to play this budding trend.

First, let's start with my general framework for analyzing the housing market.

On the **supply side** we have:

- New Inventory
- Existing Housing stock
- Vacancy Rates
- Absorption Rates

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On the **demand side** there's:

- ❖ Demographic
  - ➢ Household formation
  - ➢ Homeownership rates

- ❖ Mortgage rates
  - ➢ Mortgage / UST spread
  - ➢ Affordability

And measures of the general health, or the current balance between the two (S/D):

- ❖ Housing Market Index
  - ➢ Present/Future Sales
  - ➢ Buyer Traffic
- ❖ Monthly Supply Relative to Trend
- ❖ New Home Starts y/y%
- ❖ Purchase Applications

Let's run through these data points and see what type of picture we can put together.

Supply

US Monthly New Home Supply is below its long-term trendline (red-line) indicating a balanced it not tight market. This measure typically trends up well before a recession.

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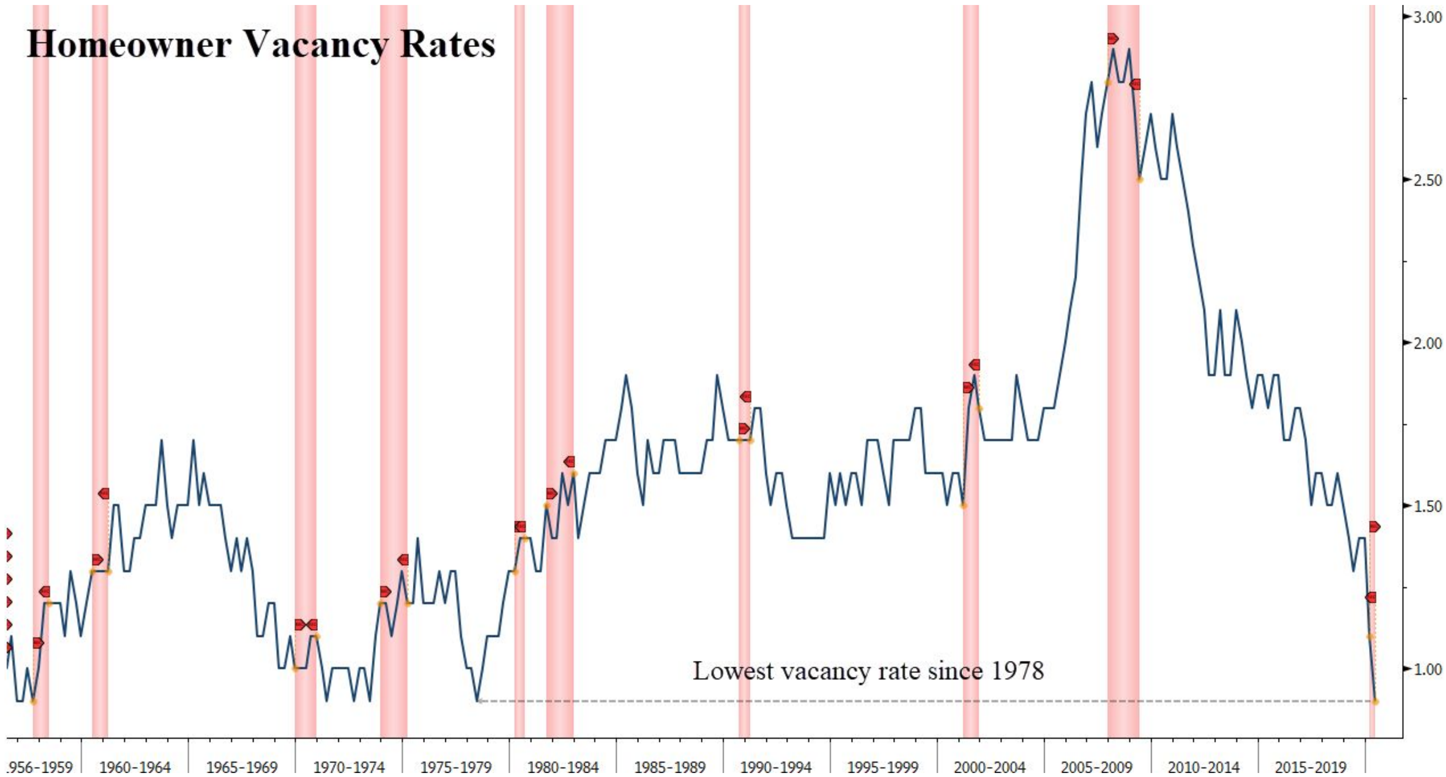
The Homeowner Vacancy Rate is a quarterly measure done by the Census Bureau that tracks the housing inventory that is currently vacant or for sale.

The measure hit its lowest level since 1978, showing that supply is becoming incredibly tight. A similar measure for apartment and home rentals hit 36-year lows this quarter.



It’s not only that the supply is tight but the existing housing stock itself has become quite old. This graph from BofA shows the median age of US housing is nearing 45-years old. That’s 22% higher than the previous cycle peak in 05’ and the oldest on record. This bodes well for home repair/refurbishing related businesses.

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Monthly new-home absorption rates saw an incredibly fast rebound from their March/April COVID shock. Not only that but they were strengthening at an accelerating pace over the last two years, indicating a growing positive demand and supply imbalance.

You can view the worksheet which breaks down absorption rates by builder and [region here](). The password is **housing** all lower case.

	2017-01	2017-02	2017-03	2017-04	2017-05	2017-06	2017-07	2017-08	2017-09	2017-10	2017-11	2017-12
U.S. AVERAGE	5.3%	4.8%	5.8%	6.9%	3.9%	4.1%	4.1%	2.6%	1.1%	4.3%	5.7%	3.3%
PUBLIC BUILDERS	3.8%	3.4%	4.8%	4.3%	3.0%	2.9%	2.9%	1.6%	0.6%	3.4%	5.6%	3.0%
DR HORTON	4.2%	4.3%	4.9%	4.3%	3.2%	3.7%	2.4%	1.2%	1.0%	3.1%	5.7%	1.7%
LENNAR	2.7%	2.5%	4.9%	4.1%	3.4%	3.3%	3.6%	1.4%	-0.7%	3.2%	6.2%	3.0%
PULTE GROUP	4.8%	5.5%	5.9%	5.6%	4.2%	3.4%	3.6%	1.8%	0.3%	2.4%	4.5%	2.4%
NVR	8.8%	4.4%	7.2%	7.7%	2.6%	-1.3%	-1.1%	-2.2%	-1.2%	2.5%	0.2%	3.4%
KB HOME	4.5%	3.5%	6.0%	4.7%	4.9%	5.1%	5.6%	4.6%	3.1%	6.6%	6.8%	3.4%
TAYLOR MORRISON	1.7%	2.6%	4.0%	2.7%	0.3%	2.0%	3.6%	2.7%	1.9%	3.4%	7.6%	3.5%
TOLL BROTHERS	0.8%	0.3%	2.8%	3.3%	1.7%	-1.1%	-0.3%	-0.2%	2.2%	2.8%	2.3%	2.3%
MERITAGE HOMES	1.9%	2.5%	4.9%	4.4%	-0.3%	1.2%	1.8%	0.8%	0.6%	2.9%	6.9%	3.5%
CENTURY COMMUNITIES	4.5%	4.5%	1.8%	0.9%	1.1%	3.7%	2.7%	4.1%	1.5%	2.9%	6.3%	6.2%
MDC	2.6%	0.2%	2.2%	3.6%	1.4%	1.6%	4.0%	8.3%	6.5%	7.7%	11.5%	12.9%
LGI HOMES	5.7%	6.0%	6.0%	5.5%	3.3%	3.5%	0.5%	-0.3%	-1.1%	2.0%	5.1%	0.6%
BEAZER HOMES	5.9%	5.1%	4.3%	4.3%	7.0%	5.1%	1.8%	2.2%	0.9%	3.9%	5.3%	2.9%
M/I HOMES	2.8%	3.7%	6.2%	7.4%	6.5%	4.9%	4.5%	0.0%	-2.0%	2.9%	4.3%	0.2%
TRI POINTE GROUP	8.9%	5.2%	6.8%	3.3%	6.5%	5.5%	6.4%	5.4%	1.8%	8.0%	9.5%	5.5%
HOVNANIAN	0.9%	-0.6%	3.2%	1.1%	-0.9%	0.3%	2.6%	-0.5%	-1.9%	0.6%	5.8%	3.2%
GREEN BRICK PARTNERS	-2.1%	1.6%	-2.7%	2.1%	3.3%	-0.6%	-2.2%	-5.2%	-9.0%	-2.7%	-0.7%	-0.4%
THE NEW HOME COMPANY	3.7%	-0.5%	7.7%	0.2%	-0.8%	4.6%	14.9%	6.9%	0.1%	7.0%	7.8%	3.5%

	2018-01	2018-02	2018-03	2018-04	2018-05	2018-06	2018-07	2018-08	2018-09	2018-10	2018-11	2018-12	2019-01	2019-02	2019-03
U.S. AVERAGE	3.5%	3.0%	4.1%	1.9%	2.3%	3.0%	0.0%	-2.0%	-3.2%	-8.9%	-10.8%	-10.5%	-8.8%	-5.9%	-1.7%
PUBLIC BUILDERS	2.8%	2.6%	3.2%	0.9%	0.0%	1.2%	-1.0%	-3.1%	-4.7%	-10.7%	-12.5%	-12.3%	-10.5%	-8.3%	-4.3%
DR HORTON	2.1%	1.5%	3.4%	1.2%	0.5%	1.5%	-1.2%	-1.6%	-4.5%	-8.6%	-10.4%	-9.5%	-8.0%	-6.5%	-3.3%
LENNAR	3.5%	3.0%	2.1%	0.6%	-0.7%	0.5%	-2.3%	-3.0%	-4.0%	-11.5%	-14.2%	-13.0%	-12.1%	-10.2%	-4.5%
PULTE GROUP	1.9%	1.9%	4.5%	1.5%	1.6%	2.5%	-0.8%	-2.5%	-3.4%	-8.3%	-9.9%	-10.2%	-8.3%	-6.1%	-4.0%
NVR	-0.7%	1.5%	1.3%	0.5%	4.0%	7.7%	4.8%	2.0%	0.9%	-4.4%	-3.7%	-6.0%	0.7%	3.7%	2.7%
KB HOME	2.1%	3.1%	3.2%	0.0%	-2.5%	-1.4%	-0.1%	-4.6%	-5.5%	-14.9%	-16.5%	-16.7%	-15.2%	-12.7%	-7.2%
TAYLOR MORRISON	4.8%	2.8%	3.3%	1.7%	0.0%	0.1%	-3.6%	-6.2%	-7.7%	-13.8%	-15.9%	-14.8%	-14.8%	-11.9%	-6.6%
TOLL BROTHERS	2.8%	3.4%	0.3%	-2.6%	-3.4%	-1.0%	-4.3%	-9.0%	-13.4%	-16.6%	-18.0%	-19.0%	-16.2%	-14.2%	-8.3%
MERITAGE HOMES	3.8%	3.0%	3.8%	1.8%	1.7%	1.9%	-2.0%	-5.0%	-5.3%	-10.1%	-11.4%	-12.1%	-10.6%	-7.2%	-4.4%
CENTURY COMMUNITIES	2.9%	3.2%	7.2%	4.1%	4.9%	5.2%	4.9%	-3.3%	-4.4%	-9.4%	-11.4%	-13.5%	-8.3%	-6.0%	-4.1%
MDC	7.6%	8.6%	8.8%	5.5%	-0.9%	1.6%	5.9%	-3.0%	-3.7%	-12.7%	-14.4%	-18.5%	-15.0%	-11.0%	-8.5%
LGI HOMES	0.2%	-1.1%	0.2%	-1.0%	-0.4%	-0.6%	-1.3%	-1.7%	-4.3%	-8.6%	-11.7%	-10.2%	-8.3%	-5.6%	-1.1%
BEAZER HOMES	2.7%	3.6%	5.1%	1.4%	-1.6%	0.5%	1.0%	-2.9%	-4.2%	-11.5%	-11.2%	-11.5%	-11.0%	-8.8%	-5.2%
M/I HOMES	2.4%	2.7%	5.8%	1.6%	2.0%	1.4%	-0.5%	-0.1%	0.8%	-4.7%	-7.4%	-5.0%	-2.1%	-2.4%	-1.1%
TRI POINTE GROUP	4.0%	2.9%	0.5%	-3.3%	-8.2%	-6.0%	-5.0%	-9.7%	-11.3%	-24.2%	-24.4%	-24.9%	-23.9%	-20.2%	-9.9%
HOVNANIAN	5.2%	4.4%	1.9%	1.4%	1.0%	0.9%	-5.3%	-5.9%	-6.6%	-12.9%	-15.6%	-14.0%	-13.1%	-10.8%	-3.7%
GREEN BRICK PARTNERS	1.1%	1.7%	8.6%	2.9%	0.7%	3.4%	-2.0%	-0.9%	-2.3%	-9.3%	-12.4%	-13.2%	-9.8%	-7.7%	-10.5%
THE NEW HOME COMPANY	5.4%	1.3%	-11.4%	-12.7%	-9.5%	-11.1%	-15.4%	-18.2%	-22.3%	-35.1%	-40.1%	-40.3%	-35.5%	-29.3%	-10.9%

	2019-04	2019-05	2019-06	2019-07	2019-08	2019-09	2019-10	2019-11	2019-12	2020-01	2020-02	2020-03	2020-04	2020-05	2020-06
U.S. AVERAGE	0.5%	1.8%	1.9%	5.9%	12.5%	14.0%	17.1%	19.4%	21.2%	27.8%	28.6%	-0.9%	-15.8%	5.4%	22.7%
PUBLIC BUILDERS	-2.1%	0.4%	1.1%	4.5%	12.0%	13.0%	17.1%	19.4%	21.3%	27.4%	28.7%	-3.0%	-17.4%	3.5%	21.5%
DR HORTON	-1.0%	1.0%	2.3%	6.8%	14.1%	16.2%	16.6%	17.6%	18.8%	24.1%	26.5%	-0.3%	-11.0%	9.5%	24.9%
LENNAR	-3.4%	-0.6%	0.2%	3.2%	9.5%	10.9%	16.3%	20.3%	23.2%	29.5%	30.9%	-2.6%	-16.9%	3.1%	21.9%
PULTE GROUP	-1.7%	0.0%	1.0%	3.8%	10.7%	12.3%	16.0%	17.3%	19.8%	27.0%	28.1%	2.9%	-16.2%	4.3%	22.1%
NVR	6.0%	4.7%	0.7%	6.1%	15.3%	15.0%	15.5%	11.2%	11.8%	15.6%	19.1%	-4.7%	-21.9%	0.6%	18.1%
KB HOME	-2.8%	-0.3%	1.3%	2.6%	9.7%	8.7%	19.7%	22.8%	26.5%	33.8%	33.6%	-6.4%	-25.3%	-2.4%	18.4%
TAYLOR MORRISON	-4.4%	-0.2%	0.6%	5.3%	12.9%	14.3%	21.3%	23.9%	25.9%	33.4%	33.9%	-1.9%	-18.3%	1.6%	22.1%
TOLL BROTHERS	-6.1%	-2.4%	-4.4%	-1.5%	8.7%	9.8%	15.8%	17.2%	22.5%	29.4%	32.1%	-7.9%	-27.7%	-8.2%	14.4%
MERITAGE HOMES	-0.9%	2.4%	3.9%	8.7%	17.5%	16.8%	19.8%	21.1%	23.5%	31.4%	30.1%	-3.6%	-16.1%	6.0%	21.9%
CENTURY COMMUNITIES	-5.9%	-3.4%	-0.1%	3.0%	8.8%	7.4%	11.7%	17.5%	17.1%	21.7%	25.5%	-3.6%	-14.3%	2.3%	17.2%
MDC	-6.5%	1.1%	3.5%	0.9%	12.5%	9.3%	19.3%	29.8%	32.5%	36.8%	32.9%	6.2%	-30.6%	-6.4%	16.5%
LGI HOMES	1.7%	1.9%	4.9%	8.6%	13.2%	15.0%	15.2%	19.3%	19.2%	23.5%	22.6%	-3.3%	-13.6%	9.5%	24.2%
BEAZER HOMES	-2.3%	0.4%	1.0%	4.4%	13.0%	13.1%	17.9%	17.4%	19.4%	28.6%	29.7%	-3.4%	-20.9%	2.1%	21.7%
M/I HOMES	2.1%	1.9%	3.5%	6.8%	13.2%	16.3%	17.7%	21.0%	20.9%	21.6%	22.5%	-0.1%	-8.3%	13.1%	26.5%
TRI POINTE GROUP	-2.2%	0.9%	-1.7%	0.0%	10.1%	10.0%	24.3%	28.8%	31.3%	41.2%	41.7%	-7.4%	-33.4%	-12.0%	14.8%
HOVNANIAN	-3.8%	-1.9%	0.9%	7.6%	16.6%	18.4%	19.0%	19.5%	18.5%	26.3%	25.7%	-7.5%	-20.2%	2.0%	17.7%
GREEN BRICK PARTNERS	-11.6%	-2.3%	-3.9%	-1.0%	1.0%	4.2%	9.3%	18.5%	12.9%	17.2%	20.6%	0.0%	-5.6%	10.6%	25.5%
THE NEW HOME COMPANY	-5.5%	-11.1%	-11.3%	-7.5%	1.6%	12.5%	25.6%	35.7%	42.6%	48.5%	44.7%	-11.3%	-33.9%	-11.4%	12.1%

	2017-01	2017-02	2017-03	2017-04	2017-05	2017-06	2017-07	2017-08	2017-09	2017-10	2017-11	2017-12
Dallas-Fort Worth-Arlington, T	5.1%	10.2%	1.4%	1.9%	2.4%	-0.5%	-7.8%	-12.4%	-10.0%	-7.4%	-4.9%	-7.7%
Houston-The Woodlands-Sug	4.3%	3.0%	0.0%	-4.4%	-0.5%	-0.6%	-9.9%	-5.4%	-8.5%	-1.2%	3.2%	-7.7%
Atlanta-Sandy Springs-Roswe	0.6%	-3.5%	0.5%	3.1%	0.5%	2.8%	2.2%	9.0%	4.2%	4.7%	4.3%	4.7%
Phoenix-Mesa-Scottsdale, AZ	-2.8%	2.9%	0.4%	1.1%	-4.2%	2.4%	7.3%	7.9%	5.7%	0.0%	19.8%	16.2%
Austin-Round Rock, TX	1.9%	7.7%	2.0%	-1.6%	-6.8%	-15.0%	-14.4%	-11.4%	-7.3%	-9.1%	-5.7%	-13.5%
Orlando-Kissimmee-Sanford,	4.0%	2.5%	12.7%	17.5%	8.0%	13.6%	12.9%	11.3%	13.2%	32.2%	26.1%	8.6%
Washington-Arlington-Alexan	26.7%	17.5%	14.0%	10.6%	6.1%	-2.9%	-3.8%	-7.8%	0.0%	4.2%	-3.6%	-0.6%
San Antonio-New Braunfels,	9.6%	13.8%	16.8%	13.6%	8.0%	7.3%	-0.6%	-7.4%	-6.1%	-2.2%	-4.5%	-8.4%
Charlotte-Concord-Gastonia,	9.5%	6.1%	6.2%	1.1%	0.0%	7.3%	9.4%	9.4%	11.8%	1.1%	7.6%	15.0%
Tampa-St. Petersburg-Clearw	10.6%	6.6%	8.5%	13.7%	15.7%	14.5%	14.3%	6.9%	6.3%	6.3%	11.7%	5.8%
Denver-Aurora-Lakewood, CO	-6.9%	-6.3%	-1.1%	-3.2%	-11.2%	-18.0%	-6.5%	6.4%	15.5%	0.0%	14.6%	27.8%
Nashville-Davidson-Murfreesb	3.0%	0.0%	11.4%	18.3%	4.6%	3.1%	-7.6%	-9.6%	-14.7%	-16.0%	-21.6%	-3.7%
Las Vegas-Henderson-Paradi	8.9%	9.9%	-0.7%	9.0%	34.4%	19.4%	7.0%	26.3%	19.7%	23.6%	10.3%	26.6%
Raleigh, NC	8.2%	5.7%	13.3%	13.6%	20.6%	21.9%	10.5%	-4.5%	4.9%	6.0%	8.6%	6.8%
Miami-Fort Lauderdale-West	-16.5%	-11.3%	1.2%	-5.9%	-13.7%	-19.9%	-16.7%	-23.6%	-33.3%	-23.4%	-11.2%	-6.7%
Riverside-San Bernardino-On	22.4%	11.9%	18.9%	6.5%	7.1%	10.9%	13.0%	4.5%	5.0%	5.6%	7.5%	5.9%
New York-Newark-Jersey City	-7.0%	-13.7%	-9.9%	-6.8%	-19.0%	-24.9%	-14.7%	-12.0%	-3.9%	-9.9%	-4.0%	-1.5%
Jacksonville, FL	12.8%	2.2%	-2.3%	12.6%	8.9%	5.5%	3.1%	3.9%	-4.0%	5.8%	13.9%	-8.3%
Seattle-Tacoma-Bellevue, WA	20.2%	1.5%	7.7%	5.3%	13.8%	5.4%	1.9%	7.4%	-4.8%	11.1%	19.7%	5.7%
Los Angeles-Long Beach-Ana	-2.0%	-10.0%	1.2%	-2.3%	-0.3%	-4.5%	4.6%	-1.1%	-4.8%	-1.5%	2.9%	-0.4%
Minneapolis-St. Paul-Bloomin	12.0%	6.7%	17.0%	4.5%	21.0%	-3.2%	12.0%	-3.2%	-2.2%	1.2%	5.3%	-6.0%
Philadelphia-Camden-Wilmin	11.1%	-2.4%	1.4%	-7.6%	-5.0%	-8.7%	-2.4%	12.7%	9.0%	8.8%	-4.9%	-2.5%
Chicago-Naperville-Elgin, IL-I	-1.0%	3.1%	-7.7%	-5.4%	-3.7%	-13.5%	-6.8%	-16.3%	-20.2%	-10.5%	3.3%	-10.7%
North Port-Sarasota-Bradento	-5.0%	10.4%	3.8%	3.4%	2.4%	4.6%	12.3%	4.3%	-6.5%	1.4%	1.0%	-3.0%
Sacramento-Roseville-Arden-	-4.0%	0.0%	0.0%	-0.3%	-5.6%	13.8%	8.0%	-1.6%	10.0%	11.5%	15.2%	0.8%

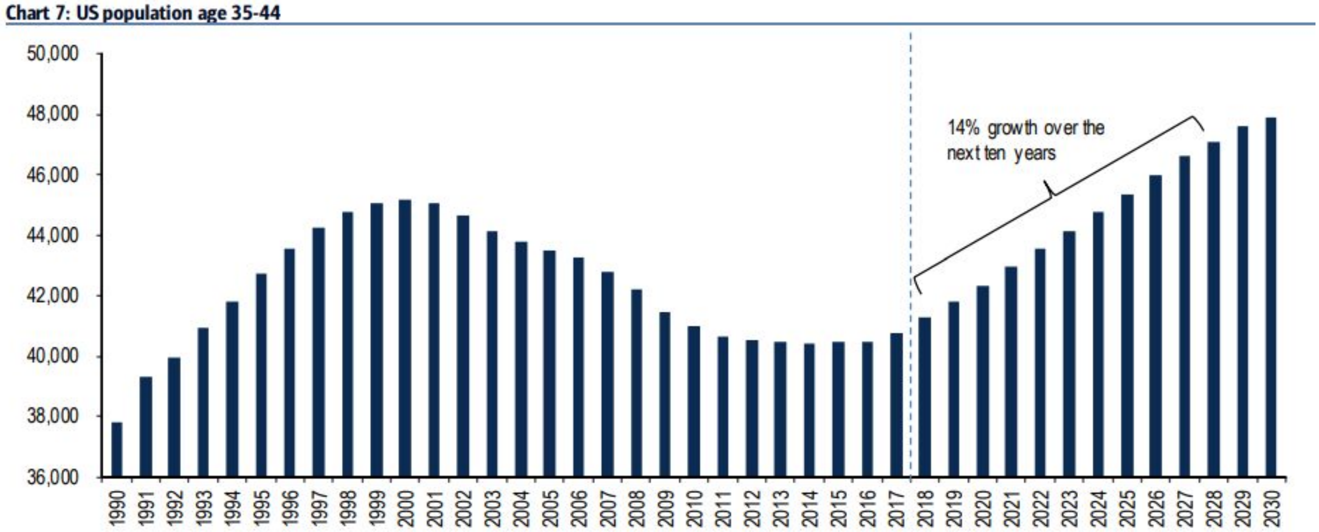
	2018-01	2018-02	2018-03	2018-04	2018-05	2018-06	2018-07	2018-08	2018-09	2018-10	2018-11	2018-12	2019-01	2019-02	2019-03
Dallas-Fort Worth-Arlington, T	-6.3%	-9.7%	4.2%	-4.2%	-5.2%	-1.0%	-5.3%	-9.1%	-11.7%	-13.6%	-14.9%	-12.3%	-14.4%	-9.2%	-8.9%
Houston-The Woodlands-Sug	-2.3%	-0.6%	2.2%	9.2%	1.6%	1.2%	1.8%	-0.6%	0.0%	-2.5%	-9.8%	-1.3%	0.0%	-3.5%	1.1%
Atlanta-Sandy Springs-Roswe	9.3%	12.2%	12.2%	1.5%	10.0%	7.7%	2.2%	-11.9%	-9.7%	-14.4%	-11.3%	-12.4%	-12.2%	-14.7%	-20.9%
Phoenix-Mesa-Scottsdale, AZ	11.7%	7.2%	10.9%	7.0%	9.5%	9.0%	-4.2%	-3.1%	-4.1%	-3.0%	-3.0%	-3.9%	-7.5%	-2.2%	2.3%
Austin-Round Rock, TX	-12.4%	-12.9%	1.4%	2.6%	3.1%	8.5%	5.8%	8.5%	7.9%	0.0%	-0.6%	6.0%	4.9%	13.7%	7.1%
Orlando-Kissimmee-Sanford,	19.6%	20.3%	3.2%	0.8%	-0.4%	-8.0%	-7.9%	-8.0%	-6.3%	-13.2%	-11.0%	-3.5%	-8.8%	-14.0%	-8.2%
Washington-Arlington-Alexan	-3.2%	-4.3%	-4.2%	-1.0%	-2.6%	4.1%	-1.1%	-1.2%	-1.8%	-8.6%	-3.8%	-9.6%	-3.4%	3.3%	3.9%
San Antonio-New Braunfels,	-10.7%	-17.5%	-15.2%	-17.7%	-13.9%	-3.1%	0.0%	0.6%	4.1%	4.5%	0.0%	-7.5%	-6.6%	-0.6%	12.7%
Charlotte-Concord-Gastonia,	9.7%	11.4%	11.1%	19.0%	22.2%	6.8%	4.5%	-1.5%	-6.3%	-3.8%	-15.7%	-17.1%	-4.4%	4.6%	7.1%
Tampa-St. Petersburg-Clearw	4.0%	5.1%	7.4%	6.0%	6.8%	1.9%	-5.8%	7.4%	7.0%	-10.0%	-12.6%	-8.2%	-3.9%	-8.3%	-0.4%
Denver-Aurora-Lakewood, CO	15.3%	7.6%	15.6%	19.0%	0.0%	19.7%	19.2%	-4.9%	-4.8%	-15.0%	-17.7%	-26.2%	-20.6%	-15.0%	-18.8%
Nashville-Davidson-Murfreesb	-11.2%	-7.8%	-7.1%	-10.8%	-11.5%	-6.6%	1.9%	7.3%	-2.8%	-10.9%	6.7%	-6.5%	-1.3%	0.0%	10.4%
Las Vegas-Henderson-Paradi	13.2%	20.5%	29.7%	9.8%	-6.7%	1.0%	29.6%	11.0%	7.0%	-4.2%	2.8%	-7.4%	-4.8%	-6.9%	-8.9%
Raleigh, NC	0.0%	-1.8%	2.1%	0.0%	-0.5%	3.2%	3.9%	4.8%	-7.1%	-17.4%	-12.8%	-9.8%	-0.6%	2.4%	-2.6%
Miami-Fort Lauderdale-West	-5.7%	2.3%	-11.9%	-10.7%	6.5%	10.2%	-4.2%	5.2%	9.8%	3.1%	2.9%	-3.8%	-7.9%	-12.5%	-0.5%
Riverside-San Bernardino-On	9.7%	6.3%	7.5%	0.0%	-6.6%	-5.7%	-4.1%	-7.9%	-7.4%	-26.8%	-33.2%	-28.1%	-36.5%	-35.1%	-18.4%
New York-Newark-Jersey City	6.8%	7.9%	-1.4%	-8.7%	-1.4%	-4.4%	-12.7%	-20.8%	-24.8%	-26.6%	-23.6%	-20.0%	-20.4%	-11.0%	-5.6%
Jacksonville, FL	-16.6%	-7.0%	-8.1%	-16.7%	-9.6%	3.1%	2.5%	13.4%	10.0%	0.6%	-7.4%	13.0%	15.3%	8.7%	-0.5%
Seattle-Tacoma-Bellevue, WA	5.9%	6.9%	-8.9%	-4.6%	-11.1%	-19.8%	-16.7%	-26.4%	-28.1%	-41.3%	-38.0%	-30.7%	-35.0%	-32.3%	-11.2%
Los Angeles-Long Beach-Ana	10.9%	1.5%	-17.0%	-27.0%	-26.2%	-19.7%	-18.9%	-23.8%	-27.1%	-44.5%	-51.0%	-49.8%	-43.3%	-36.1%	-11.9%
Minneapolis-St. Paul-Bloomin	-1.1%	-1.1%	2.6%	-6.1%	-13.2%	7.7%	4.3%	10.9%	4.6%	6.0%	2.5%	9.0%	3.3%	9.6%	5.0%
Philadelphia-Camden-Wilmin	-7.7%	-1.7%	1.4%	1.5%	9.8%	28.7%	23.6%	6.0%	5.0%	4.9%	-1.7%	0.0%	4.2%	12.7%	5.6%
Chicago-Naperville-Elgin, IL-I	-5.2%	-10.0%	1.9%	-1.0%	1.0%	0.0%	-5.2%	9.2%	3.6%	-2.4%	-17.0%	-14.1%	-7.6%	-8.9%	-0.9%
North Port-Sarasota-Bradento	11.0%	4.7%	9.0%	4.2%	0.5%	4.4%	-0.5%	-9.2%	-2.7%	-5.7%	-10.8%	-9.9%	-17.2%	-15.7%	-12.0%
Sacramento-Roseville-Arden-	3.0%	1.8%	-4.5%	-16.3%	-1.8%	-1.1%	-4.1%	-22.4%	-29.1%	-27.2%	-24.8%	-23.0%	-17.2%	-6.4%	4.4%

	2019-04	2019-05	2019-06	2019-07	2019-08	2019-09	2019-10	2019-11	2019-12	2020-01	2020-02	2020-03	2020-04	2020-05	2020-06
Dallas-Fort Worth-Arlington, T	-1.0%	6.9%	3.1%	9.0%	26.3%	26.5%	23.7%	25.0%	18.5%	24.6%	22.0%	-2.9%	-12.2%	11.1%	26.9%
Houston-The Woodlands-Sug	-4.2%	1.1%	9.3%	18.7%	22.8%	20.7%	12.0%	18.4%	15.7%	15.0%	18.3%	-5.3%	-3.3%	25.7%	27.7%
Atlanta-Sandy Springs-Roswe	-20.8%	-16.7%	-15.4%	-3.9%	-5.8%	-6.3%	-5.8%	3.4%	1.9%	17.0%	29.3%	1.8%	-3.1%	12.1%	28.5%
Phoenix-Mesa-Scottsdale, AZ	3.8%	6.4%	12.2%	22.4%	27.6%	29.6%	35.6%	20.5%	23.1%	43.3%	36.6%	-3.5%	-21.9%	-8.2%	12.1%
Austin-Round Rock, TX	18.0%	10.7%	21.5%	20.8%	20.2%	15.8%	27.8%	20.9%	17.5%	22.8%	23.2%	6.6%	-0.4%	20.6%	25.0%
Orlando-Kissimmee-Sanford,	-4.0%	4.9%	3.9%	8.5%	15.6%	15.3%	12.9%	14.2%	25.0%	30.3%	36.4%	14.5%	-11.2%	5.9%	20.8%
Washington-Arlington-Alexan	16.8%	19.9%	6.8%	20.2%	31.3%	14.2%	13.2%	14.9%	12.5%	20.8%	30.6%	5.7%	-27.4%	-7.2%	18.6%
San Antonio-New Braunfels,	23.8%	19.0%	10.2%	16.3%	11.3%	5.7%	3.3%	-1.8%	10.6%	17.0%	12.4%	-14.6%	-10.3%	14.0%	21.0%
Charlotte-Concord-Gastonia,	1.9%	0.9%	-1.0%	-3.4%	7.2%	13.0%	17.9%	32.1%	20.0%	26.8%	28.9%	-1.3%	-17.1%	-0.9%	19.3%
Tampa-St. Petersburg-Clearw	-5.7%	-8.1%	3.7%	12.8%	3.7%	15.1%	33.1%	38.9%	42.9%	35.2%	34.6%	8.2%	3.2%	22.6%	36.4%
Denver-Aurora-Lakewood, CO	-18.8%	7.8%	-5.2%	-5.9%	21.1%	11.3%	22.2%	51.7%	39.6%	37.8%	35.3%	-5.3%	-27.4%	4.0%	25.7%
Nashville-Davidson-Murfreesb	5.8%	6.8%	3.8%	3.7%	5.6%	19.9%	35.1%	14.7%	9.7%	35.6%	38.6%	-10.9%	-16.9%	11.6%	38.3%
Las Vegas-Henderson-Paradi	-11.4%	-2.6%	4.6%	-8.5%	-1.6%	-11.1%	9.4%	9.1%	21.0%	29.1%	31.6%	-15.3%	-62.6%	-35.9%	3.8%
Raleigh, NC	9.8%	0.5%	-8.7%	-2.7%	15.3%	17.1%	10.9%	11.9%	19.2%	29.8%	35.5%	1.1%	-17.8%	25.9%	47.2%
Miami-Fort Lauderdale-West	-10.5%	-5.3%	-2.3%	2.4%	-2.0%	-5.2%	1.5%	-4.5%	4.0%	17.7%	20.3%	-16.7%	-9.5%	-3.2%	12.7%
Riverside-San Bernardino-On	2.9%	4.5%	-10.4%	-6.2%	4.3%	2.8%	31.3%	46.8%	32.0%	55.5%	72.5%	-14.0%	-41.6%	-18.8%	24.7%
New York-Newark-Jersey City	-5.1%	-4.9%	-6.2%	-11.7%	2.5%	8.9%	2.7%	-15.5%	-4.6%	5.3%	-1.7%	-40.4%	-56.9%	-37.5%	-18.0%
Jacksonville, FL	8.4%	9.5%	9.6%	-0.5%	-6.1%	2.7%	9.3%	5.7%	0.0%	11.8%	23.0%	26.2%	9.8%	18.8%	19.0%
Seattle-Tacoma-Bellevue, WA	-15.4%	-10.7%	-6.3%	2.2%	18.8%	19.0%	40.4%	43.9%	32.2%	27.3%	36.7%	12.6%	-7.5%	-23.2%	33.8%
Los Angeles-Long Beach-Ana	-7.6%	-11.6%	-18.6%	-17.9%	-2.8%	8.0%	49.7%	50.8%	53.5%	68.6%	67.4%	-7.8%	-38.7%	-27.9%	-4.7%
Minneapolis-St. Paul-Bloomin	15.7%	16.2%	9.2%	-4.1%	-8.8%	9.9%	5.7%	7.3%	15.3%	15.8%	15.5%	-5.6%	-13.6%	0.8%	18.7%
Philadelphia-Camden-Wilmin	5.2%	0.7%	-4.7%	-6.6%	0.7%	8.7%	2.3%	4.4%	18.3%	11.2%	11.3%	-22.7%	-28.2%	-17.1%	-0.7%
Chicago-Naperville-Elgin, IL-I	-1.0%	-9.4%	-4.2%	12.1%	0.0%	22.1%	18.1%	24.4%	41.8%	35.3%	18.3%	-7.3%	-10.7%	30.2%	52.2%
North Port-Sarasota-Bradento	-13.4%	-4.6%	-3.3%	0.0%	15.2%	17.6%	-2.0%	16.7%	32.0%	31.8%	35.1%	4.7%	13.4%	22.1%	31.7%
Sacramento-Roseville-Arden-	11.6%	-4.3%	-0.7%	-4.2%	24.2%	12.8%	23.2%	8.5%	7.1%	20.7%	34.8%	-15.8%	-35.5%	-13.1%	-4.1%

Demand

The US demographic trends are incredibly favorable to the housing market over the coming decade. BofA notes that the "population of 35-44 year-olds is expected to grow 14% over the next ten years."

Chart 7: US population age 35-44



In thousands
Source: Euromonitor

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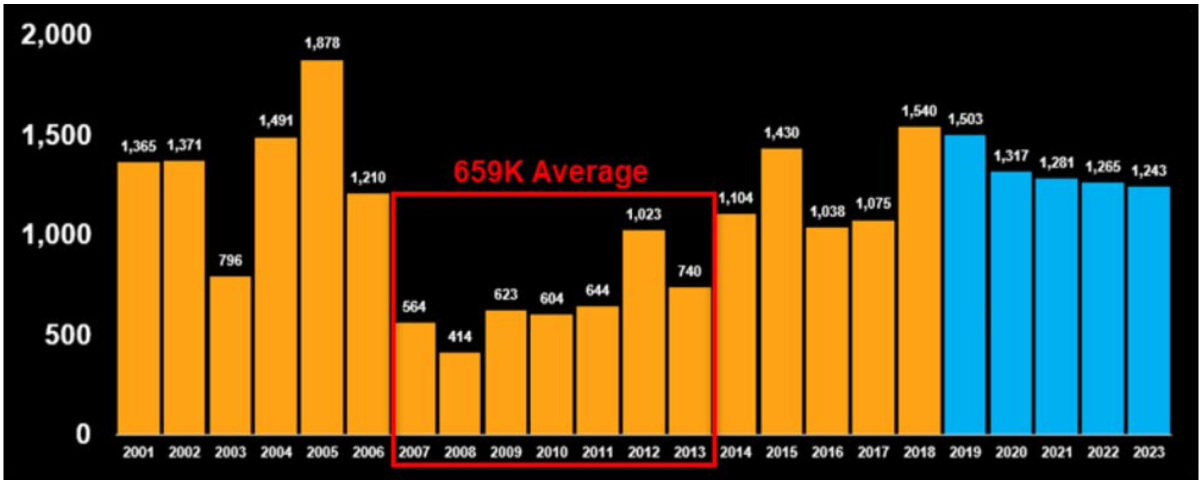
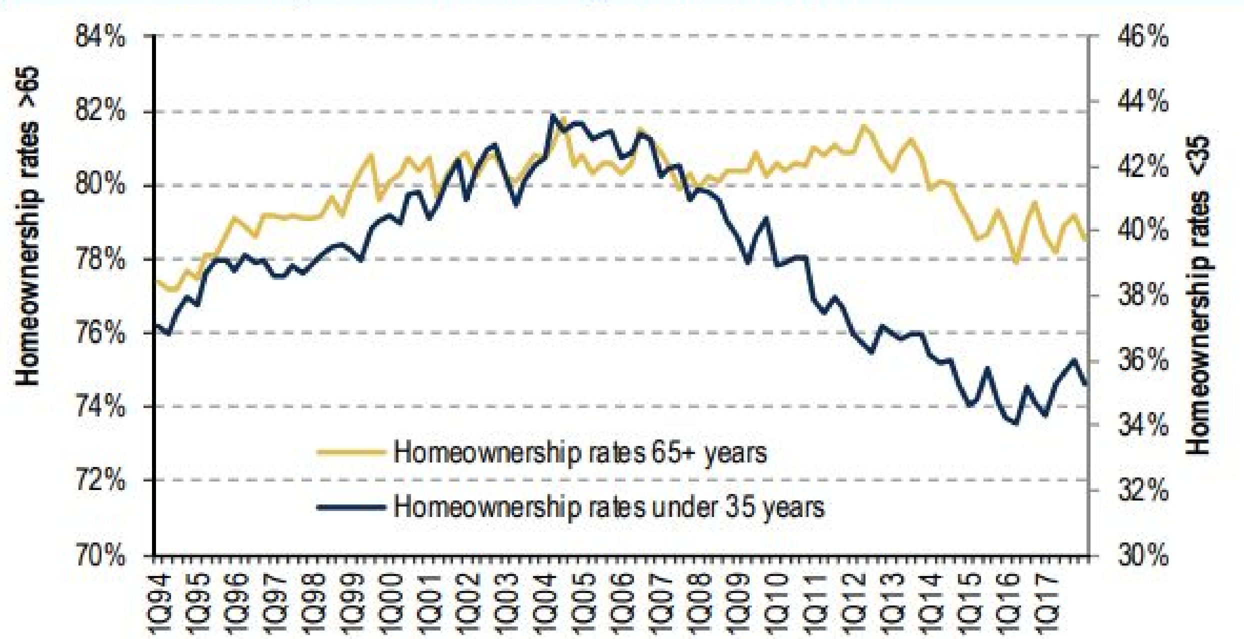
Bloomberg Intelligence estimates this demographic tailwind will drive average household formation to back above 1 million annually. BI writes:

> "Taking into account expected population growth and current headship rates (which we believe is a conservative approach), total household formation should average more than 1.3 million annually over the next five years, which represents a more normalized pace of growth."



The driving demand force is maturing millennials who are getting married and starting families. And looking at historical homeownership rates disaggregated by age group, millennials have a lot of catching up to do to their boomer parents.

Chart 6: Homeownership rates for Millennials appear to have bottomed



Source: US Census Bureau

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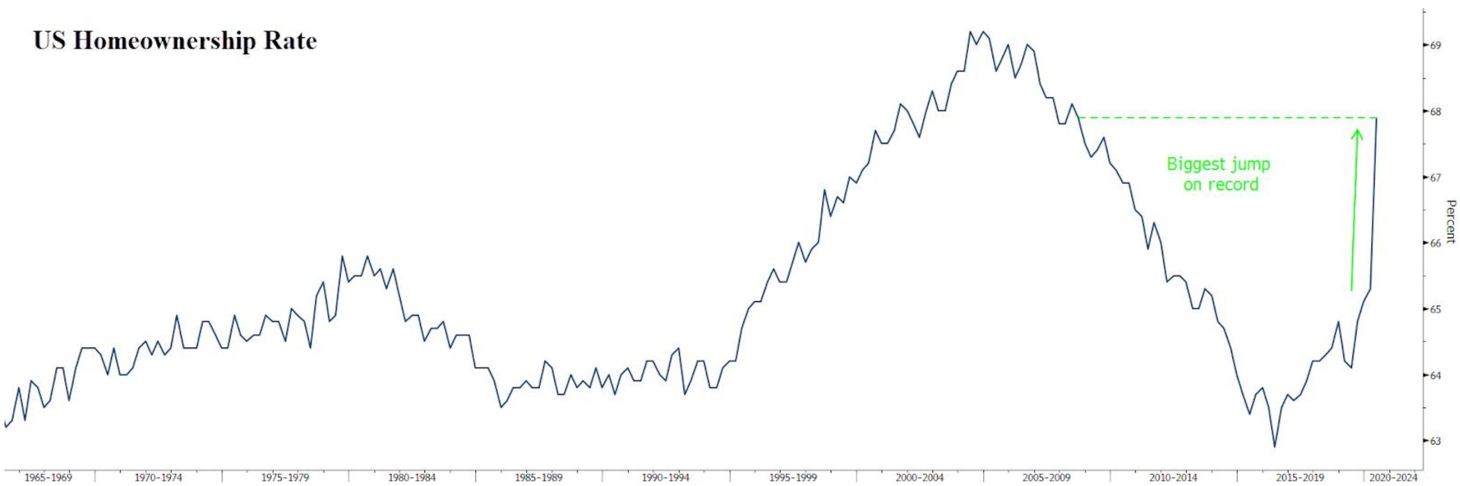
It's this secular force — and the record low mortgage rates which we'll discuss in a second — that's behind the recent jump in the homeownership rate. The largest spike on record.



The second leg of demand is mortgage rates and affordability.

Interest rates are the fulcrum of the global economy. They underpin the valuation of all global assets. The housing market being no different. Falling interest rates lead to falling mortgage rates which bring down the monthly payments on mortgages, thus making housing more affordable.

The chart below tracks the 30-year fixed mortgage rate (blue line) and the 30-year Treasury Bond (orange line). The red line tracks the spread between the two. When we see the spread elevated, like it is now, it typically precedes a large move lower in mortgage rates as they tend to follow treasury yields with a lag.

So not only are mortgage rates at all-time record lows. If history is any guide, they're about to move even lower.

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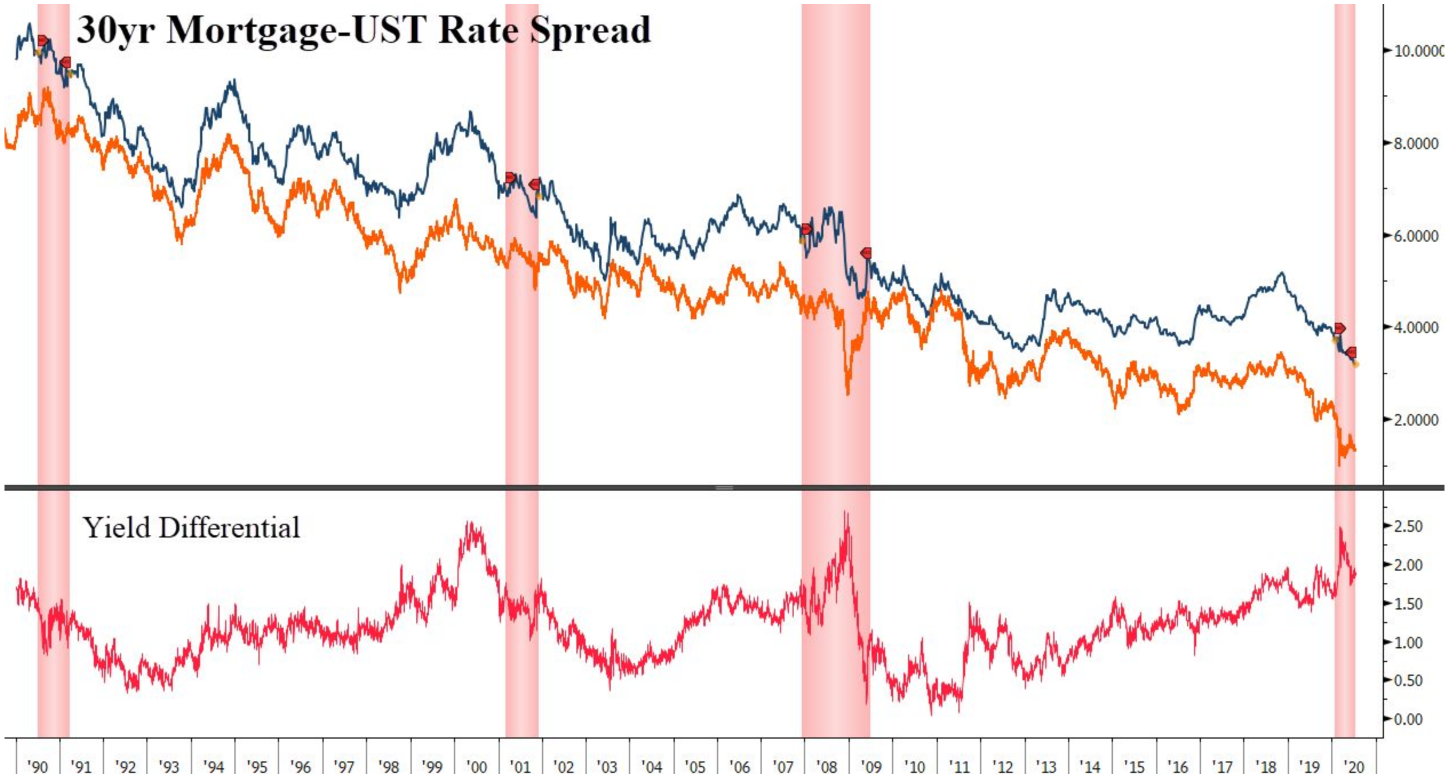
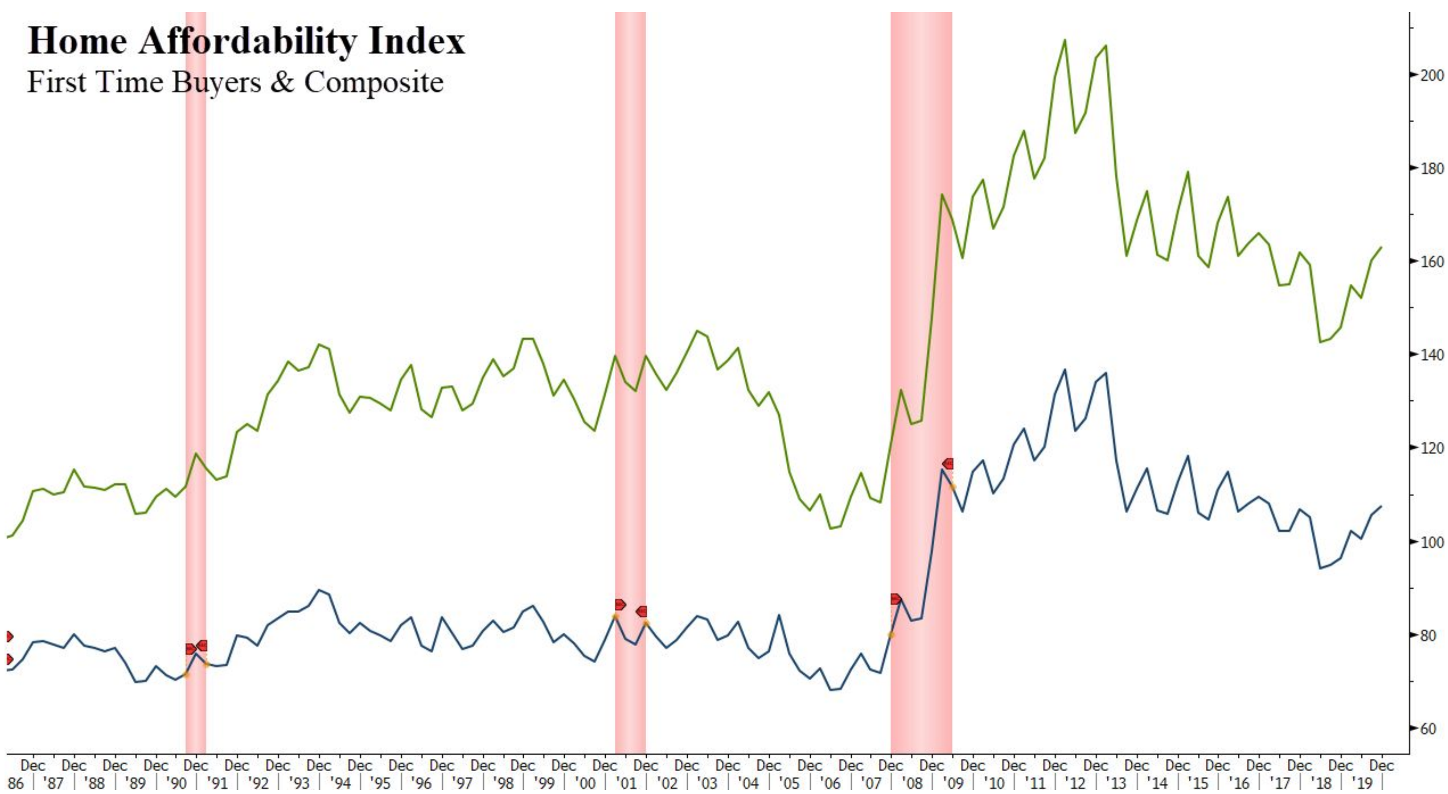


Falling mortgage costs and rising median incomes are making the average US home more affordable. The Home Affordability Index below shows that US housing is becoming more reasonable and is significantly more so relative to its long-term trend (a higher number means greater affordability).



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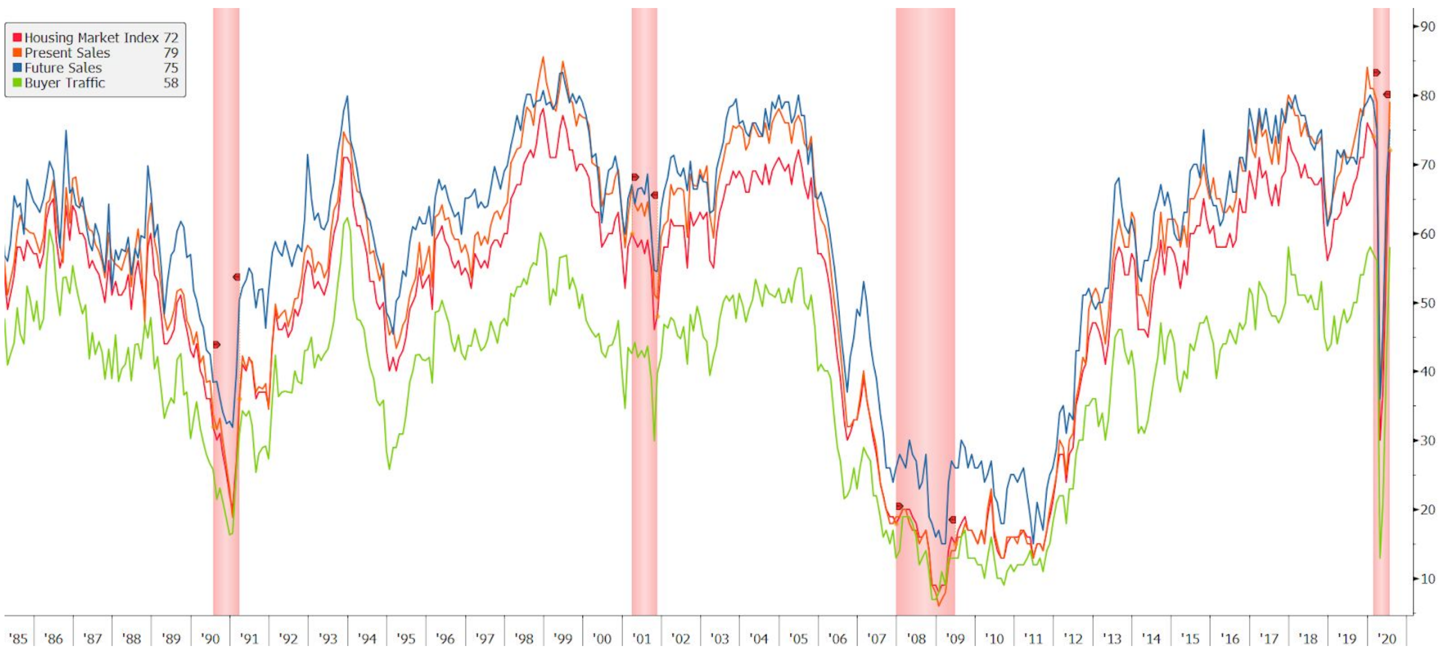
To summarize,we have:

- ➢ A tight monthly supply of new homes that's below its long-term average
- ➢ Vacancy rates that just hit their lowest levels in over 40-years
- ➢ An aging housing stock that is the oldest on record
- ➢ Absorption rates that have been picking up at an accelerating pace over the last 2-years
- ➢ A strong demographic tailwind from coming of age millennials that have a large homeownership gap to close with their boomer predecessors
- ➢ Record low mortgage rates plus a historically wide mortgage-UST spread indicating they're likely to move lower still
- ➢ The average home is now more affordable than it has been historically

The above is why we've seen the housing market put in an incredibly sharp V-shaped recovery from the COVID induced meltdown.



This is a long-term trend that's set to accelerate over the coming years. Over the short-term, there are a few risks to the thesis which could or could not playout. The primary one being a lackluster follow-up policy response to COVID in the form of a neutered second CARES Act and no broad extension of eviction moratoriums. It being an election year and all, I view that as a lower probability outcome. But we'll see...

This trend bodes well for not just home builders but the product companies that supply them as well as the retail companies focused on home improvement and furnishing.

This is also a very positive input into the overall macro outlook. Most US citizens have the majority of their wealth in their homes (home equity). An improving supply and demand picture means we're

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likely to see rising prices in many regions — crowded and expensive coastal metros in highly regulated states being the exception. This means rising home equity and a subsequent positive wealth effect which can feedback into greater overall economic demand.

It's still early days with this trend but there will be plenty of corollary trades and investments to be made off this theme.

Now here's Brandon to cover some of the names we're looking at.

Your Macro Operator,

Alex

Industry #1: Lumber & Wood Production

There are five companies in the lumber and wood production industry:

- Boise Cascade (BCC)
- Enviva Partners, LP (EVA)
- Jewett-Cameron Trading (JCTCF)
- Norbord, Inc. (OSB.CA)
- UFP Industries, Inc. (UFPI)

Here's what their daily charts look like (via FinViz.com) …

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They're all in an uptrend. That's a good sign if we want to be on the right side of an industry bet. Out of those five companies, three are close to breaking out to all-time highs on the monthly chart: BCC, EVA and UFPI (see below):

We want to focus on those with the strongest tapes, so we're going with those that are making or nearing new all-time highs.

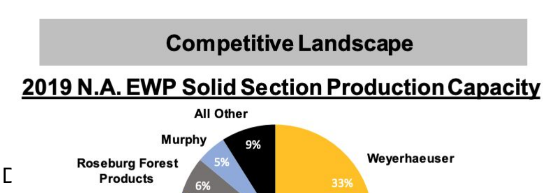
Company 1: Boise Cascade Company (BCC)

Business Description: Boise Cascade Company manufactures wood products and distributes building materials in the United States and Canada. It operates in two segments, Wood Products and Building Materials Distribution. - TIKR.com

Financial Data:

- **Market Cap:** $1.7B
- **Enterprise Value:** $2.05B
- **Gross Margins:** 15%
- **EV/Sales:** 0.44x
- **EV/EBITDA:** 9.60x
- **EV/FCF:** 15.60x
- **Net Debt/EBITDA:** 1.07x

Bull Thesis: BCC is the #2 leading engineered wood products (EWP) and plywood producer in North America. They're also one of the largest wholesale building product distributors (BMD) in North America. Their BMD segment accounts for 77% of their revenues and 55% of EBITDA. Together, the company generates nearly $5B in annual sales and $233M in EBITDA.



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The company produces durable free-cash-flow and sports a strong balance sheet (1.07x net debt/EBITDA).

Valuation: If we assume low (5%) average annual revenue growth over the next five years, and an average EBITDA margin of 5%, we end 2024 with $286M in EBITDA. Stick a 13x multiple on that (industry average) and you get roughly $3.7B in EV. Add cash and subtract debt and you're left with $3.4B in shareholder value ($87/share).

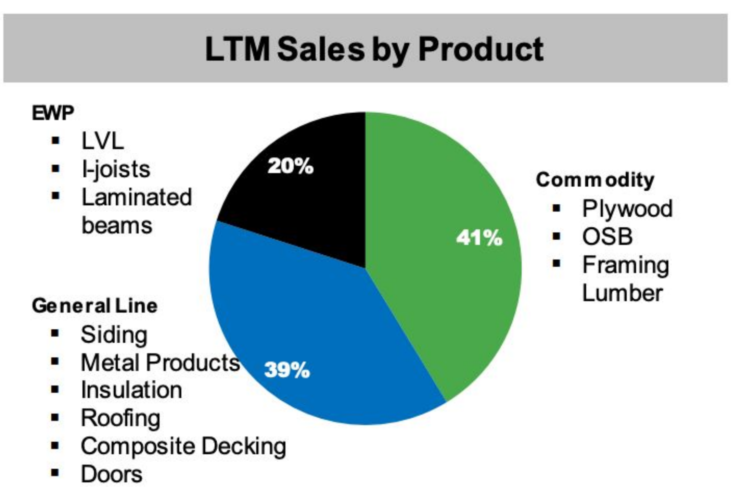
Wood Products Segment: The company splits its wood product production in two categories: EWP and plywood. BCC produces more plywood products (59%) compared to its EWP products (41%). Over 75% of their EWP product is used in-house at their wholesale building products distributor.

Wood products is a higher margin operation, generating roughly 9% EBITDA margins. As noted earlier, it brings in much less revenue, but a significant portion of total EBITDA.

Revenues haven't moved much in the last four years. BCC's wood products segment sold $1.28B in product in 2016. They sold $1.275B in 2019. During that same time EBITDA margins increased 300bps.

Building Materials Distribution (BMD) Segment: BCC's BMD segment generates over 75% of their total sales and 55% of their EBITDA. If we're looking to catch the homebuilding wave -- this is our segment to watch. The company sells a **wide selection** of homebuilding products, including:

- Siding
- Composite decking
- Doors
- Metal products
- Insulation
- Roofing



The segment sells mainly to retail lumber yards and home improvement stores (Home Depot, Lowes, etc.).

Revenues grew roughly 7%/year over the last four years. That said, there's not much room for EBITDA margin expansion. The company only expanded BMD EBITDA margin 50 bps.

Risks:

- Construction stalls

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- Customers change from BCC as main supplier
- EWP no longer favorite construction material

Latest Investor Presentation: June 2020

Company 2: Enviva Partners, LP (EVA)

Business Description: Enviva Partners, LP produces and sells utility-grade wood pellets. The company's products are used as a substitute for coal in dedicated and co-fired power generation, and combined heat and power plants. It serves power generators primarily in the United Kingdom, Europe, and Japan. **-** TIKR.com

FInancial Data:

- **Market Cap:** $1.55B
- **Enterprise Value:** $2.1B
- **Gross Margin:** 20%
- **Net Debt/EBITDA:** 5.43x
- **EV/EBITDA:** 11.36x
- **P/Distributable CF:** 8.74x

Bull Thesis: Enviva Partners LP (EVA) is the world's largest supplier of utility-grade wood pellets to major power generators. With coal consumption declining by over 50% since 2012, wood pellet consumption has taken its place, doubling since 2012. Wood pellets play an important role in the race for an ecologically sustainable economy. The bull thesis is simple. There's a global supply shortage of wood pellets to meet the world's forecasted 2024 demand.

EVA is well-positioned to capture that supply shortage and reap massive profits. The company has long-term, take-or-pay contracts through 2025. On top of that, the company has roughly 11.4 years of contracts on backlog worth over $10B. The company currently sports a $1B market cap. That's 0.1x their estimated backlog value. **We believe the company will payout its cash flow to allow for a consistent 11% ROI.**

Strong Competitive Advantages: EVA benefits from many competitive advantages as the world's largest supplier of wood pellets. These advantages include:

- Raw Material Cost Advantages: The raw material supply market is large and fragmented. There's many sellers and few buyers. This is great for EVA because as the world's largest supplier, they buy **a lot** of raw material (pulp). This means they likely have pricing/negotiating power with their pulp suppliers.

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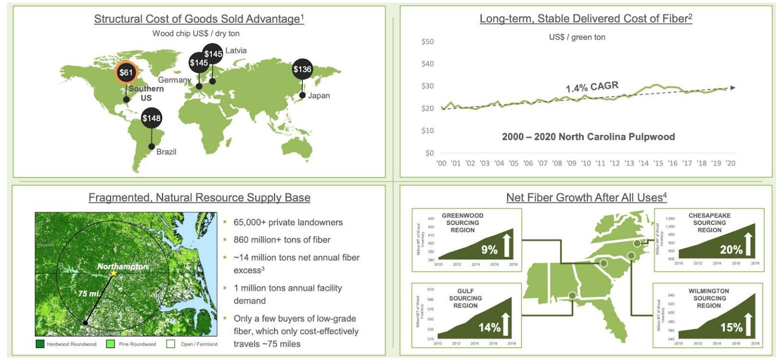
- <u>Production Supply Advantage:</u> EVA is usually the only supplier source for their end customers. This makes them price makers, not takers. The reason is simple: why would you risk going to another supplier if you *know* you can get *everything you need* at the *highest quantity possible* from EVA?



- <u>NIMBYism Advantage:</u> EVA's production facilities are strategically placed near their wholly-owned/fully-contracted port assets. This allows for low-cost last-mile logistics to each port. EVA's competitors can't match the logistical advantage because you can't build a port on top of another port.

- <u>Geographic Cost Advantage:</u> Situated on the Mid-Atlantic of the US, EVA recognizes supreme cost advantages when it comes to their raw materials. It costs the company roughly $61/ton to make their wood pellets. The average cost for its global competitors: **$143/ton**. That's 2.3x as expensive as EVA.

Long-Term Take-or-Pay Contracts & Balance Sheet: EVA has long-term contracts with its major utility customers. These contracts can reach as long as 20 years. What we do know is the company has roughly 11 years worth of contracts on its backlog for roughly $10B in revenue. Some of their contracts go out to 2044!

The company employs a 50/50 equity-to-debt capitalization. This puts them around 3.5 - 4.5x leveraged on EBITDA. While it seems high, what we *really* care about is payout coverage. Remember, it's an MLP. That's how we get paid. EVA seems confident they can maintain a 1.2x annual payout coverage over the next 3-5 years. That should leave the company with a little wiggle room should revenues and margins contract.

Valuation: EVA trades roughly 9x its distributable cash flow. We think the company can maintain an 11% annualized return on its cash-flow at the current price. Of course, if the stock breaks out and runs, that distributable cash flow yield will decrease. But its offset by the capital gains in the share price.

EVA smells like a "Heads I win, tails I don't lose much" secular play.

Latest Investor Presentation: [May 2020]

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Industry #2: Building Products & Equipment

There are 32 companies in the Building Products & Equipment industry in the United States. Like lumber, a few companies show signs of long-term breakouts into new all-time highs.

Out of those 32, we narrowed our list down to four names:

- Beacon Roofing Supply (BECN)

- Masonite International (DOOR)

- Installed Building Products (IBP)

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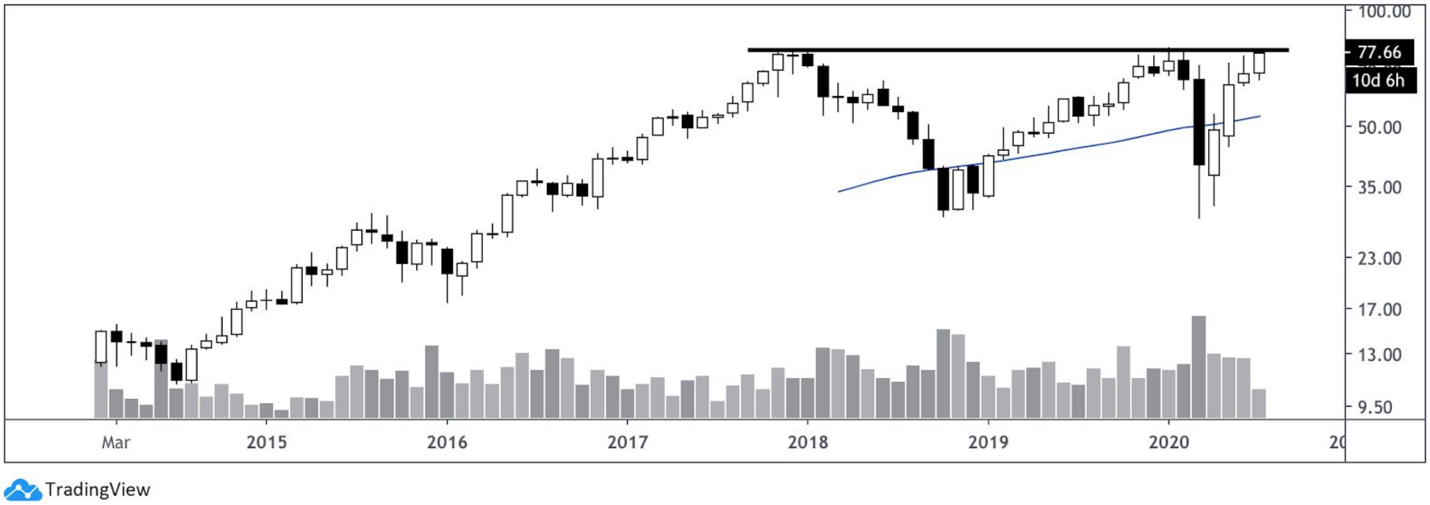
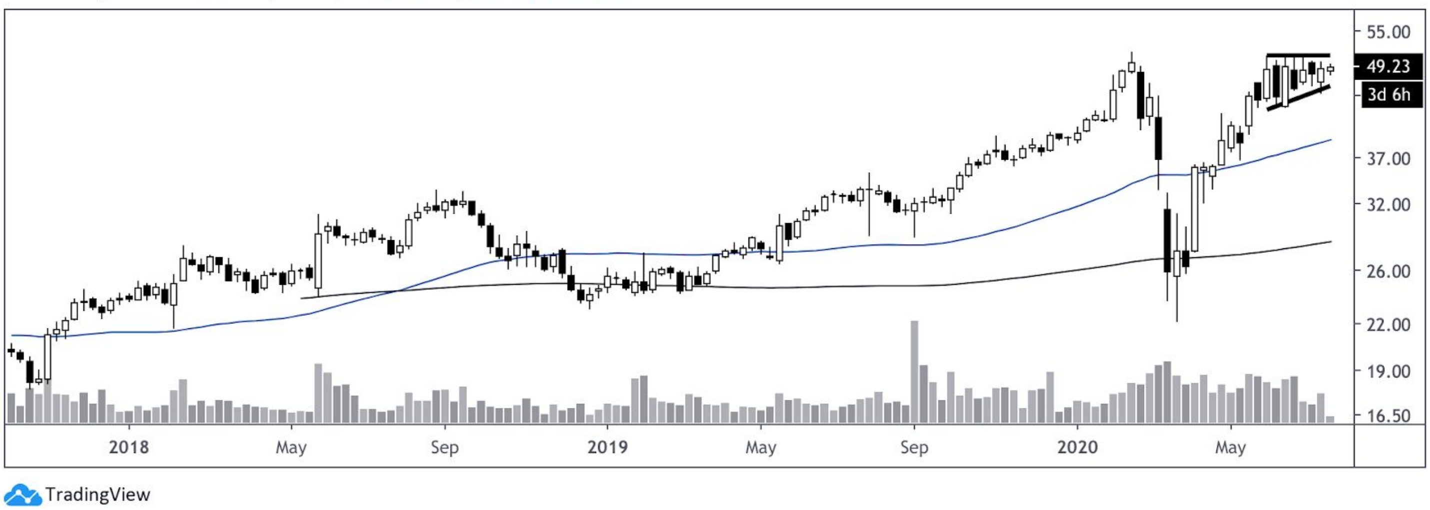
rockvuecap published on TradingView.com, July 21, 2020 10:46:37 EDT
BATS:IBP, 1M 77.66 ▼ −0.03 (−0.03%) O:68.80 H:78.72 L:66.03 C:77.66



● Advanced Drainage Systems (WMS)

rockvuecap published on TradingView.com, July 21, 2020 10:47:09 EDT
BATS:WMS, 1W 49.23 ▲ +0.65 (+1.34%) O:48.60 H:49.74 L:48.03 C:49.23



Those were the four best chart patterns we could find in the industry with equally as attractive fundamentals. Out of our top four, we're choosing two of our favorites: IBP and WMS.

Let's break 'em down.

Company 1: Installed Building Products (IBP)

Business Description: Installed Building Products, Inc., together with its subsidiaries, engages in the installation of insulation, waterproofing, fire-stopping, fireproofing, garage doors, rain gutters, window blinds, shower doors, closet shelving and mirrors, and other products in the continental United States. It offers a range of insulation materials, such as fiberglass and cellulose, and spray foam insulation materials. - TIKR.com

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Financial Data:

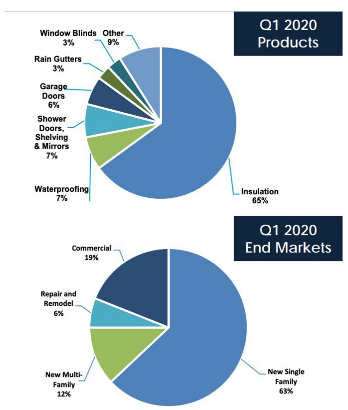
- **Market Cap:** $2.3B
- **Enterprise Value:** $2.7B
- **Gross Margin:** 29%
- **EBIT Margin:** 8%
- **Net Debt/EBITDA:** 2x
- **P/Norm. E:** 25x

Thesis: IBP is one of the largest insulation installers in the US. They have a footprint in all 48 continental states (+ DC) with over 180 branch locations. The company's grown through 150+ tuck-in acquisitions. They buy profitable businesses in growing markets. IBP keeps the trade name and management in place while reducing costs on the back-end through their corporate structure. Insiders also own ~43% of the company.

With multiple ways to win, double-digit ROC and a modest valuation, we think IBP is well positioned to capture a rise in residential homebuilding.

Diverse Businesses: You can split IBP's business segments into two categories:

- Insulation
- Everything else



Insulation generated 65% of the company's sales. Second-place drew waterproofing (7%) and shower doors, shelving and mirror (7%). Geographically, the company focuses mainly on single-family residential (63% of their end market total).

The great thing about IBP is that they offer **everything** a homebuilder needs. From insulation to shelving, rain gutters to window blinds. This collection of services diversifies the company's revenue streams, provides cross-selling opportunities within each service and dampens the risk of service-specific downturns.

Non-Insulation Market Opportunities: IBP's *just now* tapping into its non-insulation market opportunities. Take a look at these examples:

- 3% market share in garage door maintenance & repair
- 5% market share in gutters
- 5% market share in blinds
- 9% market share in shower shelves

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IBP is a logical choice for smaller, mom-and-pop operators. With a footprint in every state, regional service companies receive access to a national branch of help, customer support and cross-selling opportunities in different geographical markets.

Consistent Top & Bottom-line Growth: The company's grown revenue a SaaS-like 25% annually since 2014. During that time they've maintained gross margins around 29% and reduced SG&A 100bps. That type of revenue growth doesn't sound sustainable over the next 5-10 years. But anything in the low double-digits gives us a margin of safety at the current stock price.

Valuation: Let's assume IBP averages 9% revenue growth over the next five years (in-line with historical estimates), they'd end 2024 with $2.33B in revenue. Let's also assume they expand EBITDA margins another 200+bps over that timeframe (reaching 14%). 14% margins on $2.33B in revenue gets us $325M in EBITDA. If we attach a 12x multiple on that figure, we get $3.9B in EV. Add back cash and subtract debt and we're left with $3.5B in shareholder value ($116/share).

Risks: There's a few risks with IBP. First, the company has a negative core operating growth profile (COGP) of -6.15%. This means the company loses $0.065 for every $1 in incremental revenue growth. Accounts receivables explain the negative COGP. The company holds 17% of their revenues in A/R -- a sizable drag on value-creating growth.

Along with A/R issues, the company's grown their cash conversion cycle from 31 days to 50 days. If the trend continues, it would drain *even more* cash as the company grows.

Latest Investor Presentation: May 8, 2020

Company 2: Beacon Roofing Supply (BECN)

Business Description: Beacon Roofing Supply, Inc. (BECN) distributes residential and commercial roofing materials, and other complementary building materials to contractors, home builders, retailers, and building materials suppliers. - TIKR.com

Financial Data:

- **Market Cap:** $1.92B
- **Enterprise Value:** $5.5B
- **Gross Margin:** 24%
- **Operating Cushion:** 6.3%
- **Net Debt / EBITDA:** 5.58x
- **P/Norm. E:** 18.51x

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Thesis: BECN is the largest publicly-traded supplier of roofing materials in North America. Roofs are necessities. Food, water and **shelter.** How many people live with broken or damaged roofs? Not that many. And those that do, they don't live long. BECN goes against the cyclical nature of its industry. Roof repair is a durable business with solid margins and long-term tailwinds. An increase in residential single-family home markets will spur significant revenue, profit and share price growth.

Three End Markets: BECN operates in three markets:

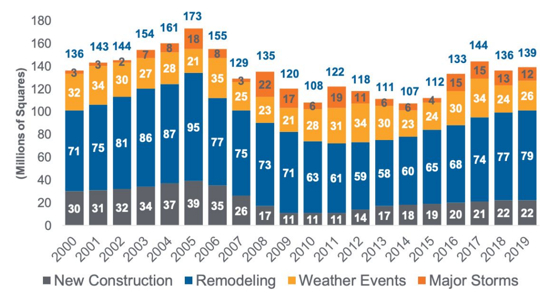
- Roofing products: $26B market
- Exterior complementary: $30B market
- Interior products: >$15B market

BCEN is the second-largest distributor (commanding 20% market share) in roofing products and 4th largest in interior products.

For our purposes we'll focus on the **roofing products** market.

Roofing products is a fantastic business (remember when Kuppy said these were better businesses than homebuilders?). You don't *need* new housing starts to increase growth. In fact, you have a few ways to sell more roof repairs:

- Weather damage
- Remodeling
- Major Storms (Hurricanes, etc.)



Take a look at the US Asphalt Shingle demand over the last two decades. Notice anything? New construction accounted for a **small percentage** of the overall shingle demand. It's also important to note that we haven't peaked in shingle demand (going back to 2005).

Looking closer we can see the main drivers of re-roofing are leaks, weather damage, and age (image below). These are all non-correlated with the general housing market. In other words, it doesn't matter if the housing market is "running hot" or cold. If your roof needs repair you get it done.

Re-roofing/repair represents 80% of total demand. Moreover, 94% of that demand is non-discretionary (a must-have, not a nice-to-have).

BECN's New Growth Strategy: Tuck-in acquisitions were BECN's MO since going public 15 years ago. That's changed. Going forward the company wants to push *organic* sales growth. Sell more of their own product instead of buying up smaller mom-and-pop shops. Organic growth is one of a three-step mission for the company going forward.

So far, organic growth is moving up. Here's CEO Julian Francis' Q2 commentary (emphasis mine):

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> *"In terms of organic growth in the quarter, we produced daily sales improvements of 0.5% versus last year, and we're on a much stronger mid-single-digit rate before we started to experience impacts of the pandemic mid-March.* ***I should also point out that we achieved those growth rates with a roughly 3 percentage point headwind from last year's hurricane demand*** *in our mid-Atlantic and Southeast regions."*

The second step involves improving their worst-performing branches. Here's Francis' update:

"We have made progress on our gross margins during the past 2 quarters. During our fiscal first quarter, we were able to deliver sequential gross margin gains. And now with the stronger second quarter gross margin performance, we have produced year-over-year margin expansion."

Finally, the company wants to increase its digital sales channel. Of course COVID sped up the necessity for this step. But so far, online sales are growing dramatically. Here's Francis' take (emphasis mine):

With respect to digital, in Q2, ***our sales trends transacted through e-commerce were up 50% over the prior year period.*** *While our focus on increased sales activity is critical regardless of how customers want to interact with us, we established our digital platform as a strategic initiative, and we are seeing improvement and continued growth.*

Valuation: The company trades roughly 18.5x normalized earnings. Revenue growth tops out around 15% CAGR since 2004. Let's assume they generate a modest 4% annual growth rate over the next five years. That gives us $8.57B in 2024 revenues. Given the shift to digital and a greater emphasis on increased profitability per-branch, I think BECN reaches 7% EBITDA margins (currently 6.4%). Again, modest improvement -- nothing crazy.

A 7% EBITDA margin on 2024 revenue gets us roughly $618M in 2024 EBITDA. If we take an industry average multiple (12x) we get $7.4B in EV. Subtract net debt and we have ~$4.4B in shareholder value ($63/share).

Risks:

- Heavily leveraged (paying it down)
- Dry-up in roof remodel/repair demand

Your Value Operator,

Brandon

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