

Beacon Roofing Supply

(NASD: BECN)

Group 4

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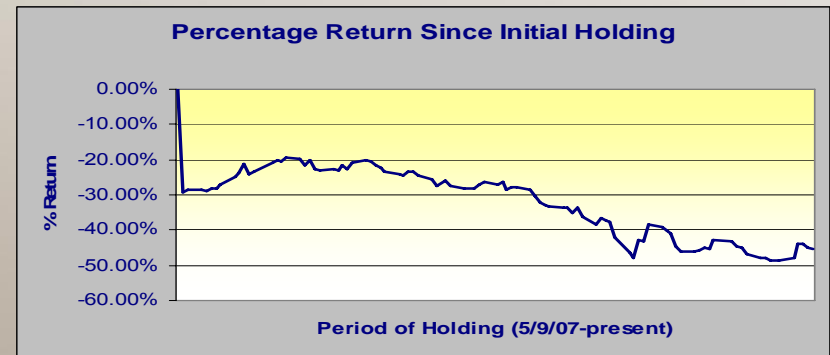
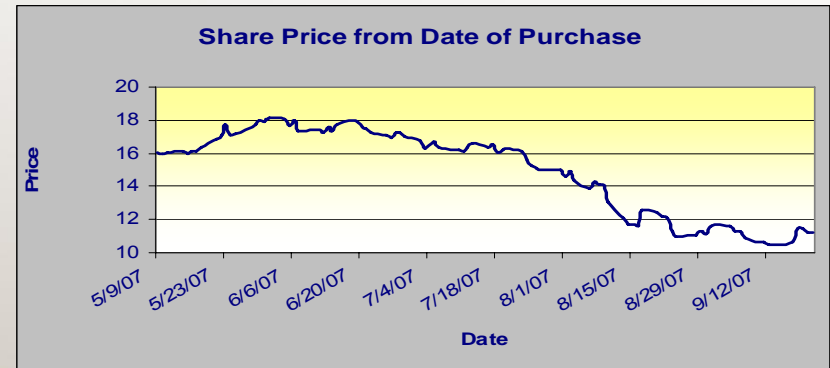


Beacon Roofing Supply, Inc.



Current Position

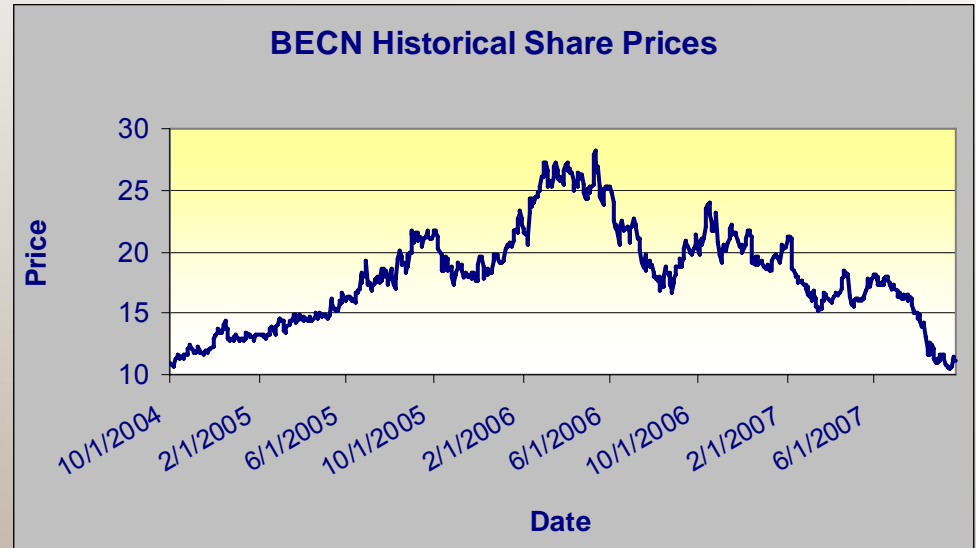
- Current Price: \$11.19
- Long 600 Shares
- Short 9 Oct \$20 Puts
- Short 1 Oct \$17.5 Call
- Overall position Delta: 1500
- Position value: \$16,785





Current Stock Information

- Share Price: \$11.19
- Shares Outstanding: 44.2 million
- Market Cap: \$495 million
- Enterprise Value: \$947 million
- 2008 Enterprise Multiple: 8.03





Investment Thesis

- We feel the stock is undervalued by 25% because roofing is non-discretionary, but is currently at a low point in the cycle with an expected turnaround occurring in 2010 fueling organic sales growth to reach 7%*
- 3 acquisitions last year will lead to sales growth of 10%**
- Organic sales growth expected to grow at 3% through new store openings and 2% industry growth, combined with acquisition growth of 10%, conservative estimates of 15% growth yearly in 08 and 09
- The housing market continues its decline based on existing home sales in 2007 decreasing by 12%, thus despite our valuation, we recommend a hold for the portfolio with an associated adjustment of the current option position

*Beacon Investor Presentation, Spring 2007

**Q3 Conference Call





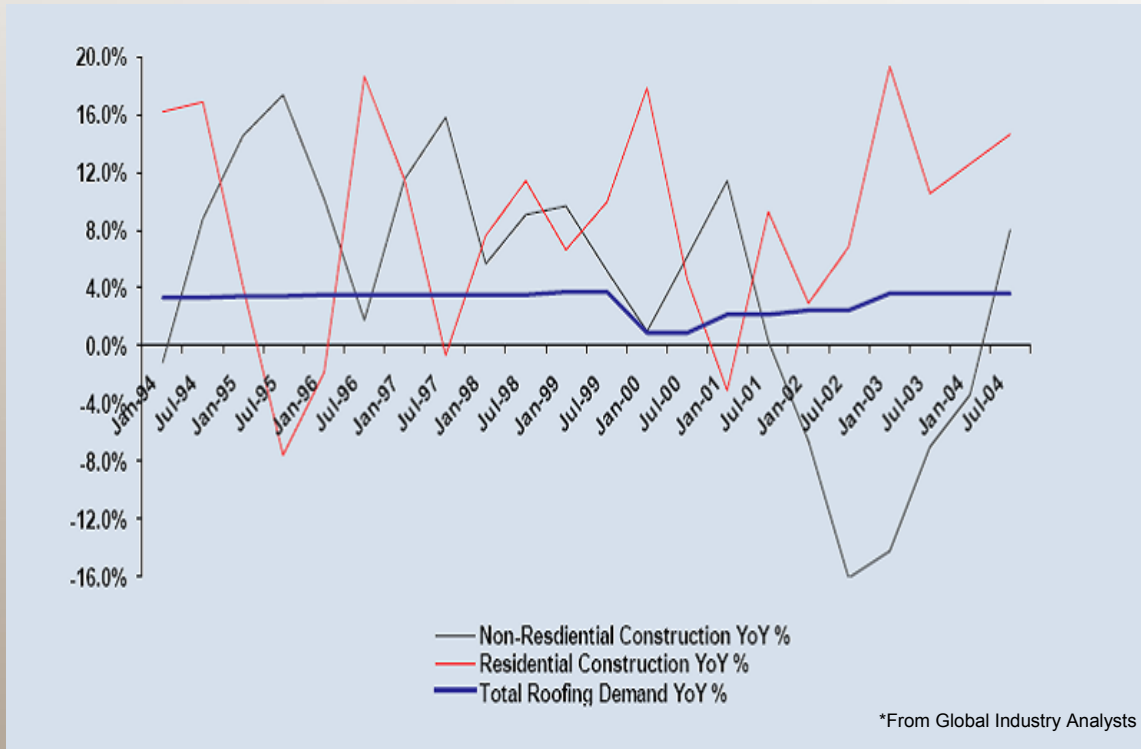
Company Overview

- Beacon Roofing Supply is one of the largest roofing material suppliers in the Northeast, Mid-Atlantic, Southwest, and Canada.
- Beacon has 155 branches that sell roofing materials to contractors, home builders, and other resellers.
- Beacon operates in both residential and commercial and supplies new housing and re-roofing projects.





Roofing Demand



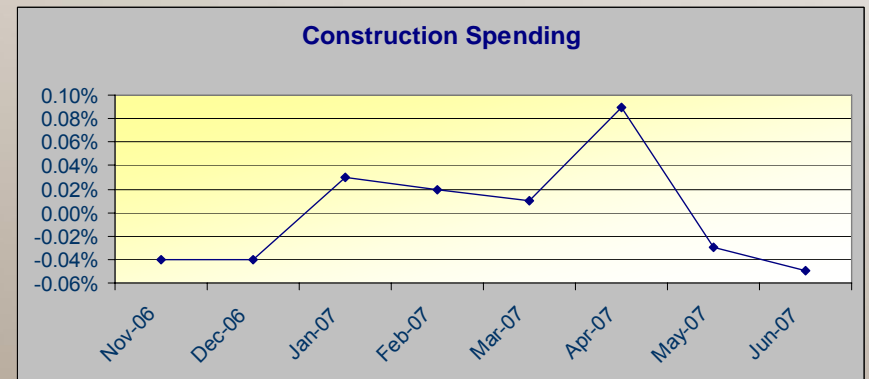
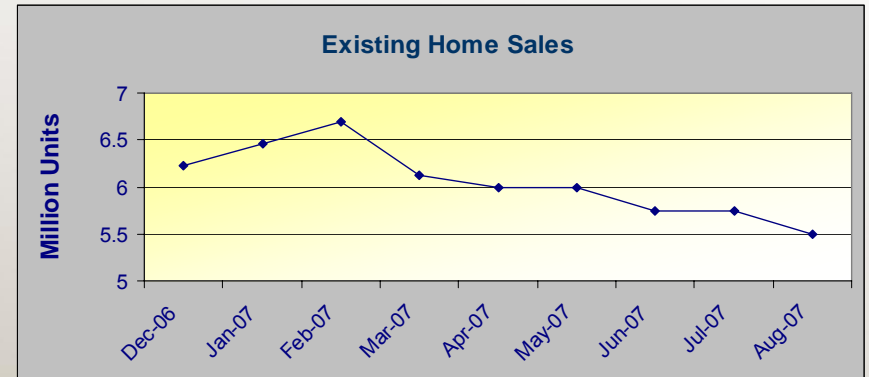
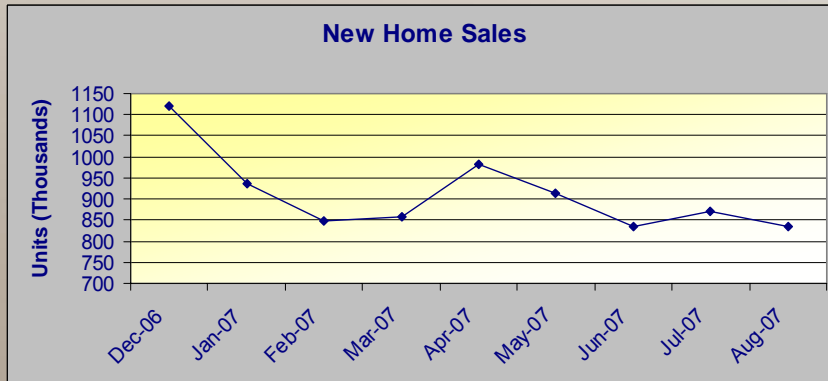
- Roofing demand remains stable through housing cycles
- Residential currently at low point in residential cycle with turnaround in 2010
- Not completely levered to new housing, re-roofing will increase as new houses decrease





Market Outlook

- Overall, the housing market continues to decrease in new home sales, existing home sales and construction spending



Data from Bloomberg 9/22/07





Assumptions

- Sales Growth Breakdown: $\geq 16\%$
 - 3% for new branch openings (“organic growth”)
 - 2% for industry growth (source: Beacon Investor Presentation, Spring 2007)
 - 12% conservative estimate due to acquisitions
- D&A growth: 18% due to increased acquisitions/assets
- Interest expense growth: 12% due to increased credit facilities in order to fund acquisitions





DCF Valuation

(in millions)

PV of Cash Flows	288
Terminal Value	398
Terminal Growth Rate	3%
PV of Terminal Value	364
Sum of PVs	685
PV of Total Firm	1083
Less debt	445
PV Equity	638
Shares Outstanding	44.2
Intrinsic Value per share	\$14.43

Enterprise Value

Market Cap <i>(in millions)</i>	\$	495
Debt	\$	445
-Cash	\$	7
TEV	\$	947

- 2008E Operating Income: \$82M
- WACC: 9.32%
- Intrinsic Value per share: \$14.43



Relative Valuation



Comparable Information <i>(in millions)</i>			
	BECN	BXC	NCS
2008 EBITDA	118	76	181
Enterprise Value	947	901	1410
EV/EBITDA	8.03	11.8	7.79
Forward P/E	10.55	31.44	13.45

EV/EDITDA Relative Valuation	
2008 EBITDA	118
Industry EV/EBITDA	9.8
Implied Firm Value	1155
Less Debt	445
Plus Cash	\$7
Shares Outstanding	44
Intrinsic Value Per Share	\$16.23

Forward P/E Relative Valuation	
2008 Net Income	47
Shares Outstanding	44
Expected EPS	1.06
Industry P/E	22.4
Intrinsic Value Per Share	\$23.79

- The comparable companies we chose to use to value BECN were NCI Building Systems (NCS) and Bluelinx Holdings (BXC)
- The EV/EBITDA multiple of 9.8 is reasonable and showed that BECN is undervalued by 45%
- We felt that a 20 P/E ratio was pretty high, and that the P/E should not be used to value BECN





Mentor Recommendation

- Mentor: Adam Hall (Fall 2006)
- He currently feels Beacon is undervalued, but trading fairly due to housing market
- “Beacon is still profitable amidst an awful market- a testament to management being able to contain costs”
- Recommend rolling out put position to prevent being assigned on October puts
- **Hold stock**





Position Recommendation

Option Position

Buy 9 Oct \$20 puts at \$8.70

Sell 9 Jan 08 \$15 puts at \$4.00

Net debit \$4.70

- Locks in a \$4,230 loss
- Allows us to purchase 900 shares at \$15, also allowing us to collect time premium from short Jan options

Stock Position

Hold

Intrinsic value: \$14.43

Risks

Illiquid options have unusually large spreads- difficult to adjust

Stock will continue to slide if housing market continues to weaken



Thank You
Questions?



Beacon Roofing Supply, Inc.