

BEACON ROOFING SUPPLY INC

Form 10-Q

August 03, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND
EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2017

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the Transition Period from _____ to _____

Commission File Number 000-50924

BEACON ROOFING SUPPLY, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or Organization)

36-4173371
(I.R.S. Employer
Identification No.)

505 Huntmar Park Drive, Suite 300, Herndon, VA 20170

(Address of Principal Executive Offices) (Zip Code)

(571) 323-3939

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act:

Large accelerated filer

Accelerated filer

Non-accelerated filer (do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 1, 2017, 60,371,579 shares of common stock, par value \$0.01 per share, of the registrant were outstanding.

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BEACON ROOFING SUPPLY, INC.

FORM 10-Q

For the Quarter Ended June 30, 2017

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(Unaudited; In thousands, except share and per share amounts)

	June 30, 2017	September 30, 2016	June 30, 2016
Assets			
Current assets:			
Cash and cash equivalents	\$ 33,055	\$ 31,386	\$ 36,536
Accounts receivable, less allowance of \$13,253, \$14,812 and \$12,022 as of June 30, 2017, September 30, 2016 and June 30, 2016, respectively	670,977	626,965	640,101
Inventories, net	641,425	480,736	620,908
Prepaid expenses and other current assets	221,477	163,103	205,073
Total current assets	1,566,934	1,302,190	1,502,618
Property and equipment, net	156,951	148,569	153,389
Goodwill	1,256,014	1,197,565	1,200,206
Intangibles, net	442,962	464,024	477,250
Other assets, net	1,511	1,511	1,430
Total Assets	\$ 3,424,372	\$ 3,113,859	\$ 3,334,893
Liabilities and Stockholders Equity			
Current liabilities:			
Accounts payable	\$ 387,579	\$ 360,915	\$ 563,332
Accrued expenses	280,315	161,113	205,412
Current portions of long-term debt	13,762	14,811	12,605
Total current liabilities	681,656	536,839	781,349
Borrowings under revolving lines of credit, net	449,615	359,661	416,207
Long-term debt, net	721,685	722,929	721,630
Deferred income taxes, net	142,116	135,482	106,337
Long-term obligations under equipment financing and other, net	28,412	35,121	39,720
Total liabilities	2,023,484	1,790,032	2,065,243
Commitments and contingencies			
Stockholders equity:			
Common stock (voting); \$.01 par value; 100,000,000 shares authorized; 60,361,035 issued and outstanding as of June 30, 2017; 59,890,885 issued and outstanding as of September 30, 2016; 59,707,996 issued and outstanding at June 30, 2016	603	598	597

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Undesignated preferred stock; 5,000,000 shares authorized, none issued or outstanding			
Additional paid-in capital	714,608	694,564	686,943
Retained earnings	703,055	647,322	599,930
Accumulated other comprehensive loss	(17,378)	(18,657)	(17,820)
Total stockholders equity	1,400,888	1,323,827	1,269,650
Total Liabilities and Stockholders Equity	\$ 3,424,372	\$ 3,113,859	\$ 3,334,893

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**BEACON ROOFING SUPPLY, INC.****Consolidated Statements of Operations**

(Unaudited; In thousands, except share and per share amounts)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Net sales	\$ 1,213,894	\$ 1,152,726	\$ 3,086,802	\$ 2,952,743
Cost of products sold	916,140	870,651	2,333,504	2,241,716
Gross profit	297,754	282,075	753,298	711,027
Operating expense	212,883	203,696	624,526	601,921
Income from operations	84,871	78,379	128,772	109,106
Interest expense, financing costs, and other	13,397	12,226	39,239	41,508
Income before provision for income taxes	71,474	66,153	89,533	67,598
Provision for income taxes	26,815	25,027	33,800	25,073
Net income	\$ 44,659	\$ 41,126	\$ 55,733	\$ 42,525
Weighted-average common stock outstanding:				
Basic	60,311,923	59,615,121	60,131,546	59,293,500
Diluted	61,350,843	60,619,809	61,163,591	60,276,695
Net income per share:				
Basic	\$ 0.74	\$ 0.69	\$ 0.93	\$ 0.72
Diluted	\$ 0.73	\$ 0.68	\$ 0.91	\$ 0.71

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**BEACON ROOFING SUPPLY, INC.****Consolidated Statements of Comprehensive Income**

(Unaudited; In thousands)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 44,659	\$ 41,126	\$ 55,733	\$ 42,525
Other comprehensive income:				
Foreign currency translation adjustment	1,730	365	891	2,122
Total other comprehensive income	1,730	365	891	2,122
Comprehensive income	\$ 46,389	\$ 41,491	\$ 56,624	\$ 44,647

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents**BEACON ROOFING SUPPLY, INC.****Consolidated Statements of Cash Flows**

(Unaudited; In thousands)

	Nine Months Ended June 30,	
	2017	2016
Operating Activities		
Net income	\$ 55,733	\$ 42,525
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	86,238	73,027
Stock-based compensation	11,227	14,070
Certain interest expense and other financing costs	3,989	5,113
Gain on sale of fixed assets	(726)	(838)
Deferred income taxes	6,625	1,460
Other, net		(359)
Changes in operating assets and liabilities, net of the effects of businesses acquired:		
Accounts receivable	(28,309)	(43,060)
Inventories	(141,942)	(96,363)
Prepaid expenses and other assets	(55,973)	(56,764)
Accounts payable and accrued expenses	137,290	135,548
Net cash provided by operating activities	74,152	74,359
Investing Activities		
Purchases of property and equipment	(31,882)	(21,553)
Acquisition of businesses, net	(128,533)	(1,018,658)
Proceeds from the sale of assets	1,839	969
Net cash used in investing activities	(158,576)	(1,039,242)
Financing Activities		
Borrowings under revolving lines of credit	1,721,927	1,409,128
Repayments under revolving lines of credit	(1,633,570)	(1,006,076)
Borrowings under term loan		450,000
Repayments under term loan	(3,375)	(189,000)
Borrowings under Senior Notes		300,000
Borrowings under equipment financing facilities and other	2,111	
Repayments under equipment financing facilities and other	(9,870)	(3,847)
Payment of deferred financing costs		(27,813)
Proceeds from issuance of common stock	9,994	20,213
Taxes paid related to net share settlement of equity awards	(1,172)	

Excess tax benefit from stock-based compensation		4,024
Net cash provided by financing activities	86,045	956,629
Effect of exchange rate changes on cash and cash equivalents	48	(871)
Net increase (decrease) in cash and cash equivalents	1,669	(9,125)
Cash and cash equivalents, beginning of period	31,386	45,661
Cash and cash equivalents, end of period	\$ 33,055	\$ 36,536

Supplemental cash flow information

Cash paid during the period for:		
Interest	\$ 49,656	\$ 40,812
Income taxes, net of tax refunds	37,814	867

During the nine month period ended June 30, 2016, the Company issued Common Stock with a value of \$302 million and replacement awards with a value of \$5 million in connection with the acquisition of Roofing Supply Group, LLC, which are accounted for as a non-cash investing activity.

See accompanying Notes to Condensed Consolidated Financial Statements

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BEACON ROOFING SUPPLY, INC.

Notes to Condensed Consolidated Financial Statements

(Unaudited; In thousands, except share and per share data or otherwise indicated)

1. Company Overview

Beacon Roofing Supply, Inc. (the Company) was incorporated in the state of Delaware on August 22, 1997 and is the largest publicly traded distributor of residential and non-residential roofing materials and complementary building products in the United States and Canada. The Company operates its business under regional and local trade names and as of June 30, 2017 the Company serviced customers in 48 states within the United States and 6 provinces in Canada. The Company's current material subsidiaries are Beacon Sales Acquisition, Inc., Beacon Canada, Inc. and Beacon Roofing Supply Canada Company.

2. Summary of Significant Accounting Policies

Basis of Presentation

Beacon Roofing Supply, Inc. (the Company) prepared the condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the requirements of the Securities and Exchange Commission (SEC). As permitted under those rules, certain footnotes or other financial information have been condensed or omitted. The balance sheet as of June 30, 2016 has been presented for a better understanding of the impact of seasonal fluctuations on the Company's financial condition.

In management's opinion, the financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of the Company's financial position and operating results. The results for the three and nine-month periods ended June 30, 2017 are not necessarily indicative of the results to be expected for the twelve months ending September 30, 2017 (fiscal year 2017 or 2017).

The three-month periods ended June 30, 2017 and 2016 each had 64 business days and the nine-month periods ended June 30, 2017 and June 30, 2016 had 189 and 190 business days, respectively.

These interim Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto contained in the Company's fiscal year 2016 (2016) Annual Report on Form 10-K for the year ended September 30, 2016.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Significant items subject to such estimates include inventories, purchase price allocations, recoverability of goodwill and intangibles, and income taxes. Actual amounts could differ from those estimates.

Recent Accounting Pronouncements Adopted

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs* to simplify the presentation of debt issuance costs. This

guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the associated debt liability, consistent with the required presentation for debt discounts. This new standard is effective for financial statements issued for annual and interim reporting periods beginning after December 15, 2015 and early adoption is permitted. The Company elected to early adopt this new guidance effective October 1, 2015 and applied the new guidance retrospectively to all prior periods presented in the financial statements. The adoption of this standard changed the Company's previous practice of presenting debt issuance costs as an asset and resulted in the reduction of total assets and total liabilities in an amount equal to the balance of unamortized debt issuance costs at each balance sheet date presented. Debt issuance costs that are now presented as a direct reduction from the carrying amount of the associated debt liability amounted to \$21.7 million as of June 30, 2017, \$25.2 million as of September 30, 2016, and \$28.1 million as of June 30, 2016.

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In September 2015, the FASB issued ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*. This guidance eliminates the requirement to restate prior period financial statements for measurement period adjustments related to business combinations. It requires that the cumulative impact of a measurement period adjustment, including the impact on prior periods, be recognized in the reporting period in which the adjustment is identified. In addition, the portion of the adjustment recorded in the current period that would have been recognized in prior periods had the adjustment been identified at that time must be presented, by line item, either on the face of the income statement or in the accompanying notes. This new standard is effective for annual and interim reporting periods beginning after December 15, 2015 and early adoption is permitted. The Company elected to early adopt this new guidance effective January 1, 2016 and the impact on the financial statements and related disclosures through the quarter ended June 30, 2017 was immaterial.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. This guidance requires entities to present deferred tax assets and deferred tax liabilities as noncurrent in a classified balance sheet. This new standard is effective for annual and interim reporting periods beginning after December 15, 2016 and early adoption is permitted. Entities are permitted to apply this guidance either prospectively or retrospectively. The Company adopted the guidance as of March 31, 2016 and applied it retrospectively to all prior periods. As a result, the Company reclassified its current deferred tax balances of \$31.9 million to non-current deferred taxes as of September 30, 2015.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers, and will replace most existing revenue recognition guidance when it becomes effective. This new standard is effective for public business entities for annual and interim reporting periods beginning after December 15, 2017, and early adoption is permitted for annual reporting periods beginning after December 15, 2006. The standard permits the use of either the full retrospective or modified retrospective adoption methods. The Company is continuing to perform a detailed evaluation, using a five-step model specified in the guidance, to assess the impacts of the new standard and expects to apply the guidance using the modified retrospective method. Based on the Company's knowledge of its revenue transactions, the Company does not expect the adoption of this new guidance to have a material impact on its financial statements, but does expect that it will result in additional revenue recognition disclosures.

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The guidance updates management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and provide related footnote disclosures. For each reporting period, management is required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from when the financial statements are issued. This new standard is effective for the annual reporting period ending after December 15, 2016 as well as all annual and interim reporting periods thereafter, and early adoption is permitted. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, *Inventory: Simplifying the Measurement of Inventory*. This guidance applies to inventory valued at first-in, first-out (FIFO) or average cost and requires inventory to be measured at the lower of cost and net realizable value, rather than at the lower of cost or market. This new standard is effective on a prospective basis for annual and interim reporting periods beginning after December 15, 2016. The Company does not expect the adoption of this new guidance to have a material impact on its financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This guidance will replace most existing accounting for lease guidance when it becomes effective. This new standard is effective using the modified retrospective approach for annual and interim reporting periods beginning after December 15, 2018 and early adoption is permitted. The guidance will require the Company to record a right of use asset and a lease liability for most of the Company's leases, including those currently treated as operating leases. The Company is in the process of evaluating the impact of the standard and has decided that it will use the practical expedients outlined in the transition guidance. The scope of the overall impact on the Company's financial statements and related disclosures is still being quantified.