

Mossberg's Investor Digest

Best Idea Profile:

PGT, Inc. (NASDAQ:PGTI)

DESCRIPTION:

PGT, Inc. manufactures and supplies products to the residential impact-resistant windows and doors market, as well as non-impact resistant products in aluminum and vinyl frames. As such it caters to residential new construction and repair and remodeling end markets. Its WinGuard units are in 3.5 million installations with no reported impact failures. It distributes through approximately 1,200 window distributors, building supply distributors, and window replacement dealers. More than three-quarters of its products deliver into storm-sensitive Florida. Founded in 1980, PGT is headquartered in North Venice, Florida, and employs 1,700.

KEY INVESTMENT CONSIDERATIONS:

Impactful Acquisition – The acquisition of CGI Windows and Doors, Inc., which is expected to be accretive in 2015, increases the company's position as a leader in the impact resistant window and door industry. The combination strengthens its ability to compete against national suppliers by diversifying product offering and geographic markets, and by increasing its reach to the high end segment of the impact resistant market. CGI adds a separate and distinct competitor from PGT's other offerings, and should result in synergies of approximately \$4 to \$5 million by 2016.

Market Conditions Improving – PGT is poised to benefit from improvements in the housing market, particularly as growth in single-family housing starts in Florida is expected to be higher than the U.S. as a whole. The company targets hurricane-prone coastal states that have increasingly stringent building codes and protocols, and it has significantly greater market share than any competitor in the core Florida market. New construction sales, which represented more than a third of total sales in the third quarter, grew 47% over the prior year's third quarter. The repair and remodeling market is improving as well. Improving conditions are allowing the company to pass on some of the rising costs of aluminum and administration. With the company able to grab market share in a rising market, it is poised to excel. As management says, "we're investing and we are investing a lot and making sure that we're ready for that growth..."

Financial Strength – The company appears to be growing efficiently. Inventory turns are improving, indicating it has been able to keep inventory levels in check as the company is expanding. Free cash flow in the third quarter was \$4.3 million. Ending cash balance for the quarter was \$43.7 million. And compared with its

publicly traded peer, it leads in revenue growth and margins over the last 12 months.

Expansion of glass producing capacity allows the company to make its own glass internally, which provides expanded margins and more control. PGT hired 170 people in the third quarter alone to start up this new facility, yet they expect to continue to improve their industry-leading margins. The CEO recently confirmed that the company could hit a 20% EBITDA margin by the end of 2015.

Strong Barriers to Entry – PGT has entrenched relationships with multiple national homebuilders, dealers, and architects. Its expertise in the product, as well as the daunting regulatory approval process, gives it a significant competitive advantage over potential newcomers. The company has a wide network of customers, with the largest accounting for only 3% of sales.

VALUATION:

This Florida-based company is an excellent way to play the recovery in housing starts and repairs. Its focus and dominance in impact-resistant products should provide investors with a direct window into construction improvements.

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Investment Data (as of 12/12/14)

Recent Price	\$9.01
52-Week Range	\$7.34 - \$12.61
Fiscal Year End	Dec 28
Dividend	NA
Yield	NA
Shares Outstanding	47.6 M
Average Trading Volume (3 mos)	421k
Market Capitalization	\$429.2 M
Cash	\$43.7 M
Long-term Debt	\$195.4 M
Enterprise Value (EV)	\$582.7 M
Book Value	\$1.51
TTM Revenue	\$283.7 M
P/ Revenue	1.5x
TTM EPS	\$0.38
P/ EPS	23.8
TTM EBITDA	\$42.6 M
EV/ EBITDA	13.7x

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