Siena Market Line
3st week of December 2015

PGT, Inc.

NasdaqGM:PGTI

Analyst: Daniel Bacchi
Sector: Industrials

BUY

Price Target: $21.43

Key Statistics as of 12/10/2015

Market Price:	$11.35
Industry:	Building Products
Market Cap:	$569.73M
52-Week Range:	$8.28 – 16.15
Beta:	1.20

Thesis Points:

- Growth in the Florida construction market will play a large part in continued growth for the corporation
- Recent acquisition demonstrates the commitment towards becoming the market leader for windows in Florida

Company Description:

"We are the leading U.S. manufacturer and supplier of residential impact-resistant windows and doors and pioneered the U.S. impact-resistant window and door industry. Our impact-resistant products, which are marketed under the WinGuard ®, PremierVue ™, PGT Architectural Systems and PGT Commercial Storefront System brand names, combine heavy-duty aluminum or vinyl frames with laminated glass to provide protection from hurricane-force winds and wind-borne debris by maintaining their structural integrity and preventing penetration by impacting objects. Impact-resistant windows and doors satisfy stringent building codes in hurricane-prone coastal states and provide an attractive alternative to shutters and other "active" forms of hurricane protection that require installation and removal before and after each storm. Combining the impact resistance of WinGuard, PremierVue ™, PGT Architectural Systems, and PGT Commercial Storefront System with our insulating glass creates energy efficient windows that can significantly reduce cooling and heating costs. We also manufacture non-impact resistant products in both aluminum and vinyl frames including our SpectraGuard ™ line of products. Our current market share in Florida, which is the largest U.S. impact-resistant window and door market, is significantly greater than that of any of our competitors." (Form 10-K, March 19, 2015)

Thesis

PGT, Inc. (PGTI) has had great growth in the past year, both on the top and bottom line. Management has identified the improved new construction housing market as the primary catalyst for the sales growth. In addition to the growth, net margin has improved as well, related to economies of scale, reducing SG&A costs. The recent acquisitions have allowed PGT, Inc. to focus on costs and less on competing with other players in the market. The reduced competition and high cost of entry into the market have allowed PGT, Inc. to maintain higher margins; therefore PGT, Inc. is a recommended buy.

Industry Outlook

PGT, Inc. operates in the Building Products Industry, their key market area and the locations of their manufacturing, support and storage facilities are in Florida which makes up 88% of generated sales. Their main product lines are impact resistant windows and doors. A valuable product in an area that experiences tropical storms and hurricanes.

Exhibit 1

	Manufacturing	Support	Storage
	(in square feet)		
Owned:			
Main Plant and Corporate Office, North Venice, FL	348,000	15,000	—
Glass tempering and laminating, North Venice, FL	80,000	—	—
New glass facility, North Venice, FL	96,000	—	—
Insulated Glass, North Venice, FL	42,000	—	—
PGT Wellness Center, North Venice, FL	—	3,600	—
Leased:			
James Street Storage, Venice, FL	15,000	—	—
Center Court, Venice, FL	19,600	15,400	—
Endeavor Court, Nokomis, FL	—	2,300	—
Endeavor Court, Nokomis, FL	—	6,100	—
Technology Park, Nokomis, FL	—	1,800	—
Sarasota Warehouse, Bradenton, FL	—	—	48,000
Plant and Administrative Offices, Miami, FL	90,000	17,000	—
Total square feet	690,600	61,200	48,000

The outlook for construction market in Florida is strong, suggesting continued organic growth for PGT, Inc. Year over years new mandates are required by the government in the Florida requiring the installation of impact resistant windows to help combat damage to houses. Coupled with new housing construction, this situation is very favorable for the corporation. In early December, Time Equities announced they would be redeveloping a property south of downtown West Palm Beach. (source: Developer Plans Hundreds of Condos, Retail in West Palm Beach) This is an example of the growth expected in Florida as a result of recent economic conditions nationwide. The author of the article noted that the redevelopment plan is coming in the middle of a West Palm Beach development boom, citing several other construction plans that are under way or in the works. Coupled with codes that require impact resistant glass (source: Will Florida Codes Changes Boost Window Prices?) and PGT's saturation in the market it is not unexpected to see growth in the near future for PGT, Inc.

Porter's Five Forces

The bargaining power of suppliers is low, PGT, Inc. maintains a diverse supply chain sourcing its raw materials from numerous suppliers. The cost of switching supplies would not materially affect the company's operations. But the effects of costs of some of their raw materials, namely aluminum and polyvinyl butyral, could have a dramatic effect on costs.

The bargaining power of customers is low, PGT, Inc. maintains a current market share greater than any of the other competitors in the market. Their customer base is made of approximately 1,100 different distributors. The quality of their product is unrivaled in the market and switching to another supplier could present issues down the road that could have negative implications to the customer, demonstrating an intangible cost to switching.

The intensity of existing rivalry is medium, PGT, Inc. fights for the same distributors as other manufacturers. The importance of relationships with the distributors is paramount to maintaining an edge over competition. PGT, Inc. also has built strong relationships with installation experts by offering educational courses that build confidence in their products giving them an edge to other competitors in the market.

The threat of substitutes is low, government regulations requiring impact resistant glass in residential housing construction allows very minimal opportunity for substitutes to thrive. The quality of PGT, Inc. glass

windows is not rivaled by other products, therefore the threat of substitutes, specifically PGT, Inc., is low.
The threat of new competition is low, the capital required to start a manufacturing business is intense. The technology is constantly evolving, requiring continual research and development. PGT, Inc. ensures continual technological advancements by completing in-house R&D and testing.

Acquisition

This November, PGT, Inc. announced the acquisition of WinDoor, Inc. This acquisition lies in line with PGT's strategy of acquiring "brands and products that generate revenue and leverage [their] core capabilities." This acquisition comes 18 months after they acquired CGI Windows and Doors Holding, Inc.
The acquisition is expected to enhance the leadership position PGT, Inc. already maintains in the industry, and to broaden the product offerings. Financially, WinDoor, Inc. already maintains higher margins, adding this corporation will not only add WinDoor's higher margins but will serve to increase the margins as the economies of scale becomes present for the acquisition.
The acquisition is expected to close in Q1 of 2016. PGT, Inc. will acquire WinDoor, Inc. with $350M in debt. The debt is expected to be used to pay for WinDoor and other purposes. The acquisition will be earnings accretive within 12 to 18 months, depending on cost of capital. Relaying the opportunity that WinDoor, Inc. will provide to PGT, Inc. in the short term and into the long term.

Competitive Advantage

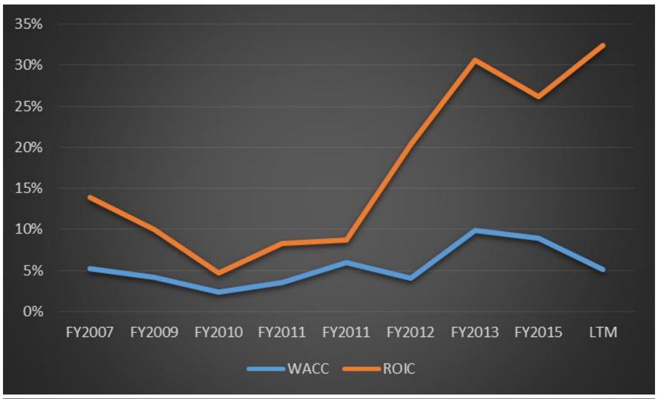
There is no one competitive advantage that PGT, Inc. sticks to. Instead they managed to have diversified their advantage across the board. Besides offering a product line that boasts quality and innovation, PGT, Inc. has managed to vertically integrate into the market. Another key advantage of PGT, Inc. is their educational course that serve to train all the players in the industry, giving PGT, Inc. a step above other manufacturers.
PGT, Inc. relies heavily on the names of their subsidiaries and their own to generate sales. PGT, Inc. boasts the fact that they pioneered the impact-resistant market. They also have zero reported impact failures, furthering the brand name as number one in the industry.

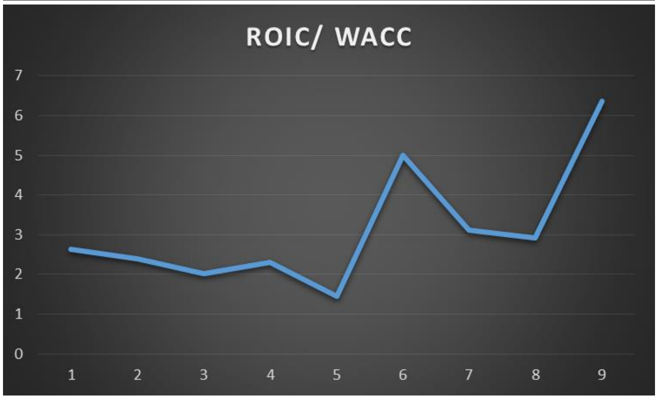
They have vertically integrated with in-glass cutting, tempering and laminating that has not only managed to reduce costs but also lower lead-time. They are always looking for opportunities to further vertical integration into the market and consistently look to improve manufacturing efficiencies.
PGT, Inc. boasts training more than 40,000 customers, installers, architects and building code officials. This helps maintain relationships and gives their products an advantage over other products as their product is first to name whenever possible.
Overall no one real reason exists for PGT, Inc.'s growth and competitiveness. The diversified advantages help PGT, Inc. maintain their stake in the industry.

Financials

PGT, Inc. is a financially aggressive corporation. They use debt quite often, for acquisitions and growth opportunities. Year over year they have been able to create value. Looking at ROIC/WACC it is apparent that the management is able to manage this corporation with value creation in mind.

Exhibit 2





The second graph in Exhibit 2 shows that ROIC/WACC has ridden above 1 for many years, indicating value creation. ROIC/WACC has grown significantly, indicative of the synergistic benefits associated with their acquisitions. The value creation that PGT, Inc. has been able to maintain is impressive and will only increase further as they research and develop new products, continue their strategy and further maintain their advantages in the market.

Valuation

The valuation of PGT, Inc. is computed by a pro forma using a discounted cash flow model and a main focus on invested capital. At the end of the report is attached a brief overview of assumptions and results of the pro forma.

When valuing PGT, Inc. an aggressive approach has been applied. A 6% market premium was applied to account for their small cap status. A fast decay from the LTM revenue growth was used to forecast the revenues into the continuing period where a 3% terminal growth was applied.

I assumed that all other forecast variables, such as operating costs, beta, capital structure, etc. will reflect the company's historical values. Indicative of "what will the company be if they do not change?" Cash will be reinvested into the business reflected of their commitment to growing their business into the future. R&D and rent expense were both capitalized straight-line over 10 years.

The intrinsic value was computed as $20.92 and the 1 year return will net $21.43.

Summary

A qualitative and quantitative analysis has led me to believe that PGT, Inc. will become a cash cow. Value creation into the future is apparent, and the effectiveness of the management to capture the increasing market share in both Construction and Aerospace and Defense will play a large part in their ability to continue the growth of the corporation. I recommend at BUY at the current price of $11.35.

Other Sources:

- PGT, Inc. , 10-K
- Capital IQ
- Bloomberg
- SEC
- ir.pgtindustries.com

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PGT, Inc.	PGTI	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	1-y Return: 88.79%	BULLISH
		Daniel Bacchi	$11.35	$20.92	$21.43	0%		

General Info

Sector	Industrials
Industry	Building Products
Last Guidance	December 9, 2015
Next earnings date	February 24, 2016

Market Data

Enterprise value	$690.20
Market Capitalization	$55.45
Daily volume	0.01
Shares outstanding	48.65
Diluted shares outstanding	50.20
% shares held by institutions	6.72%
% shares held by insiders	3.15%
Short interest	5.49%
Days to cover short interest	6.60
52 week high	$16.15
52-week low	$8.28
5y Beta	1.20
6-month volatility	56.83%

Peers	Market Cap.
Apogee Enterprises, Inc.	$1,323.86
Builders FirstSource, Inc.	$1,328.70
Masco Corporation	$9,858.63
Continental Building Products, Inc.	$759.60
Quanex Building Products Corporation	$594.56
Patrick Industries Inc.	$625.08
Beacon Roofing Supply, Inc.	$2,442.89
Gibraltar Industries, Inc.	$787.80
Armstrong World Industries, Inc.	$2,556.89

Current Capital Structure

Total debt/Common Equity (LTM)	0.33
Cost of Borrowing (LTM)	5.56%
Estimated Cost of new Borrowing	6.36%
Altman's Z	2.73
Estimated Debt Rating	CCC
Current levered Beta	0.72
LTM WACC	5.08%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2015
Hershberger, Rodney	Co-Founder, Chairman of the Board, Chief E	$892,620	$1,021,422	$0
Jackson, Jeffrey	President and Chief Operation Officer	$644,700	$711,693	$0
West, Bradley	Chief Financial Officer	$0	$0	$0
Ferrucci, Mario	Vice President, General Counsel and Secretary	$343,205	$355,227	$0
LaPinska, Deborah	Vice President of Human Resources	$311,279	$321,841	$0
Mikesell, Danielle	Vice President of Marketing, R&D and Custo	$0	$0	$0

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"
Last Quarter	0.60%	-17.26%	-23.53%	7.23%
Last Quarter-1	-1.15%	-0.99%	0.00%	0.36%
Last Quarter -2	4.36%	12.95%	27.27%	6.68%
Last Quarter -3	2.49%	-4.36%	-11.11%	3.93%
Last Quarter -4	1.56%	-4.43%	-7.69%	2.71%
Standard error	0.9%	4.8%	8.5%	3.07%
Standard Error of Revenues prediction	0.9%			
Imputed Standard Error of Op. Cost prediction	4.7%			
Imputed Standard Error of Non Op. Cost predictio	7.0%			

Industry Outlook (Porter's Five Forces)

Bargaining Power of Suppliers (100th Percentile), Bargaining Power of Customers (71th Percentile), Intensity of Existing Rivalry (0th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (100th Percentile), and Overall (90th Percentile).

Proforma Assumptions

Convergence Assumptions

All base year ratios linearly converge towards the Company ratios over an explicit period of 10 years

General Assumptions

Money market rate (as of today)	0.41%
Risk-Free rate (long term estimate)	3.00%
Annual increase (decrease) in interest rates	0.1%
Marginal Tax Rate	37.5%
Country Risk Premium	6.0%

Forecast Year	Revenue Growth Forecast	Revenue ($) Forecast
LTM		$381.52
FY2016	25.0%	$479.03
FY2017	15.0%	$552.65
FY2018	9.0%	$610.67
FY2019	6.0%	$653.71
FY2020	4.5%	$692.04
FY2021	3.8%	$730.02
FY2022	3.4%	$770.17
FY2023	3.2%	$814.04
FY2024	3.1%	$862.68
FY2025	3.0%	$916.89
Continuing Period	3.0%	$977.14

Items' Forecast Assumptions

	Base year (LTM)	Convergence period (Company)	Adjustment per year
Operating Cash/Rev.	0.00%	0.00%	0.0%
NWV/Rev.	12.87%	12.87%	0.0%
NPPE/Rev.	18.18%	18.18%	0.0%
Dpr/NPPE	8.53%	8.53%	0.0%
NOPAT MARGIN	9.82%	9.82%	0.0%
Op. Exp./Rev.	83.81%	83.81%	0.0%
SBC/Rev.	0.42%	0.42%	0.0%
Rent Exp./Rev.	0.42%	0.42%	0.0%
R&D/Rev.	0.47%	0.47%	0.0%
E&D/Rev.	0.00%	0.00%	0.0%
SG&A/Rev.	16.32%	16.32%	0.0%
ROIC	32%	32.38%	0.00%
EV/Rev.	2.01x	1.20x	-0.08x
EV/EBITA	13.53x	9.75x	-0.38x
Debt/Equity	33%	52%	1.9%
Unlevered beta	0.59	0.59	0.00
Dividends/REV	0%	0%	0.0%

Other Assumptions

Tobin's Q	80%
Excess cash reinvestment	Cost of capital
Other claims on the firm's assets	$0.00

Capitalization

100% of all rent expenses are capitalized and amortized 'straightline' over 10 years
100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years
E&P expenses are not capitalized
SG&A expenses are not capitalized

Valuation Focus

DCF Valuation	100%
Relative valuation	0%
Distress Valuation	0%

Monte Carlo Simulation Assumptions

Revenue Growth deviation	Normal (0%, 1%)
Operating expense deviation	Normal (0%, 1%)
Continuing Period growth	Triangular (6.79%, 6%, 7.21%)
Country risk premium	Triangular (2.91%, 3%, 3.09%)
Intrinsic value σ(ε)	$0.09
1-year target price σ(ε)	$0.10

Valuation

Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	Net Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share
LTM	32.4%	5.1%	$170.03	$1,179.17	$207.58	48.65	$20.83
FY2016	34.5%	5.2%	$184.27	$1,195.66	$211.37	48.65	$21.28
FY2017	29.9%	5.3%	$229.29	$1,249.18	$214.22	48.65	$22.06
FY2018	26.5%	16.1%	$279.09	$1,439.53	$216.47	48.65	$25.66
FY2019	23.3%	8.0%	$332.18	$1,542.90	$218.15	48.65	$27.35
FY2020	20.7%	7.6%	$388.61	$1,648.05	$219.63	48.65	$29.00
FY2021	18.6%	7.5%	$448.54	$1,759.73	$221.11	48.65	$30.72
FY2022	17.0%	7.5%	$512.30	$1,879.90	$222.66	48.65	$32.55
FY2023	15.7%	7.6%	$580.29	$2,009.94	$224.37	48.65	$34.49
FY2024	14.7%	7.7%	$653.01	$2,151.11	$226.25	48.65	$36.57
FY2025	13.9%	7.7%	$731.00	$2,304.66	$228.36	48.65	$38.80
Continuing Period	32.4%	7.8%	$296.41				

Monte Carlo Simulation Results

The 3σ(ε)-adjusted intrinsic value is $20.92; the 3σ(ε)-adjusted target price is $21.43; and the analysts' median target price is $14.14

Sensitivity Analysis

Revenue growth variations account for 95.9% of total variance
Risk premium's variations account for 2.5% of total variance
Operating expenses' variations account for 1.4% of total variance
Continuing period growth variations account for 0.2% of total variance