

March 8th, 2018

**American Woodmark Corp:
(AMWD)**

George Brockmann

Sector: Consumer Discretionary

Industry: Home Furnishings

Current Price: 123.35

Target Price: 141.75

Company Description: American Woodmark Corporation (“American Woodmark” or the “Company”) manufactures and distributes kitchen cabinets and vanities for the remodeling and new home construction markets. American Woodmark was incorporated in 1980 by the four principal managers of the Boise Cascade Cabinet Division through a leveraged buyout of that division. American Woodmark was operated privately until 1986 when it became a public company through a registered public offering of its common stock.

**BUY/HOLD/SEL
L**

Current Price: \$123.35

Target Price: \$141.75

Market Cap: 2.159B

Beta: 1.45

Avg. Volume: 115,835

S&P Debt Rating: bbb-

Adj. ROE: 20.68%

Adj. ROIC: 19.73%

WACC Ke: 10.55%

WACC: 10.45%

EBIT Margin: 10.51%

EBITDA Margin: 12.32%

Equity Multiplier: 1.42

Cash/Total Assets: 35.31



Thesis: AMWD is one of the largest cabinet manufacturers in the Home Furnishings Industry, and has seen consistent growth over the past number of years in revenue, profit, and size. AMWD is extremely diversified inside their only product segment of Kitchen Cabinet Manufacturing with a wide variety of products to cater many different consumers, and with growing demand they will be able to attract more customers, especially with recent acquisition of RSI, who was a close competing cabinet manufacturer. Their opportunity for growth comes from the improved recovery of the housing market and the improved health of the consumer which will generate much higher demand for their services. The Monte Carlo simulation has shown that they have a much higher upside than a downside due to the projected increase in demand for their products. Based on the analysis AMWD appears to be in a position to increase their growth over last year.

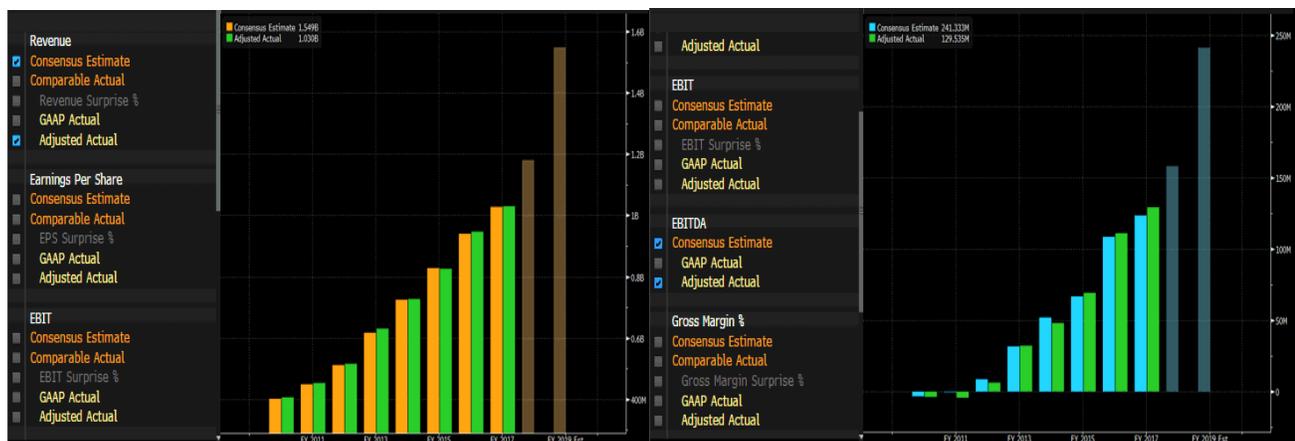
Catalysts:

- Short Term: Earnings Announcement on 3/9/17, and Cary Dunston became the Chairman of the board in August
- Mid Term: Further increase in revenue from integration of AMWD’s RSI acquisition, and growing health of consumer driving demand in the industry.
- Long Term: Further growth of the industry as a whole through continued recovery of the housing market from the 2008 market crisis.

Earnings Performance:

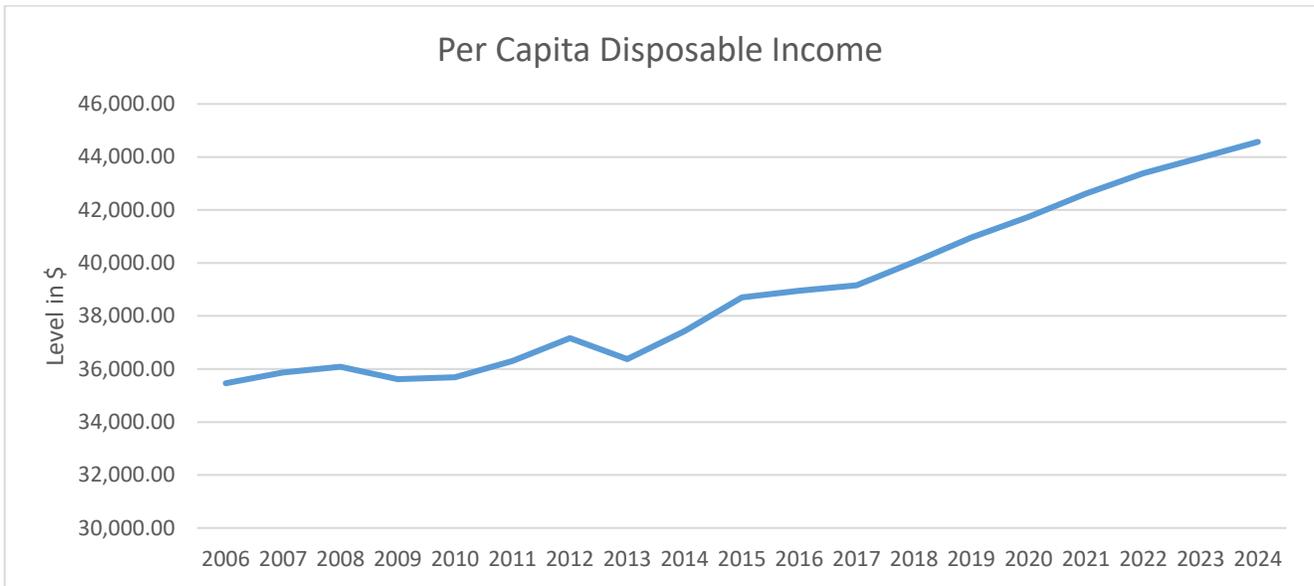
AMWD began fiscal 2018 with an all-time high in net sales, revenue, net income, EBITDA adj, and EPS. Revenue has grown by 8% since last year, gross profit by 21.2%, EBITDA by 12.5%, and EPS by 16.1%. Cash from operations also increased from 74.6-77.1 and free cash flow along with it from 45.9-55.3. AMWD's capital expenditures decreased from -28.7 to -21.8, however since the start of fiscal year 2018 it has increased to -32.1, meaning that while their revenues are increasing they are further putting that money back into the company. Their amount of short term debt has remained relatively the same, moving from 1.6 in 2016 to a current 1.7, however they have been paying off their long term debt and it has decreased from 22.1 in 2016 to 16.1 currently, which is likely a driving factor in the decrease in cash they have seen from 2016 to current day, respectively 174.5 to 139.6. AMWD has also beaten their competitors in their revenue growth rate reporting 8.8% growth compared to the competitor median 4.69%

AMWD has beaten EBITDA estimates since 2015, and has consistently grown since then as well, and it is estimated to continue to grow from the all-time high it is currently at. The stock price has also significantly increased in the last year, from a price of roughly \$87 to a high of \$140 and then eventually down to its current price of \$127, likely due to macro conditions in the consumer discretionary sector, however it has been increasing again recently. Free cash flow to firm and equity have also both increased since 2016.



Industry Outlook:

AMWD is a part of Home Furnishings Stores industry, and this industry is directly tied in with the health of the average consumer and of the housing market. In the industry itself revenue has consistently grown each year since 2008 as has private spending on home improvements, both of which are estimated to continue their growth into 2018 and continue from there. The health of the consumer is also set to improve as consumer confidence has been increasing and is estimated to continue to increase and this also proves true for Per Capita Disposable Income which has increased since 2013 and is projected to continue.

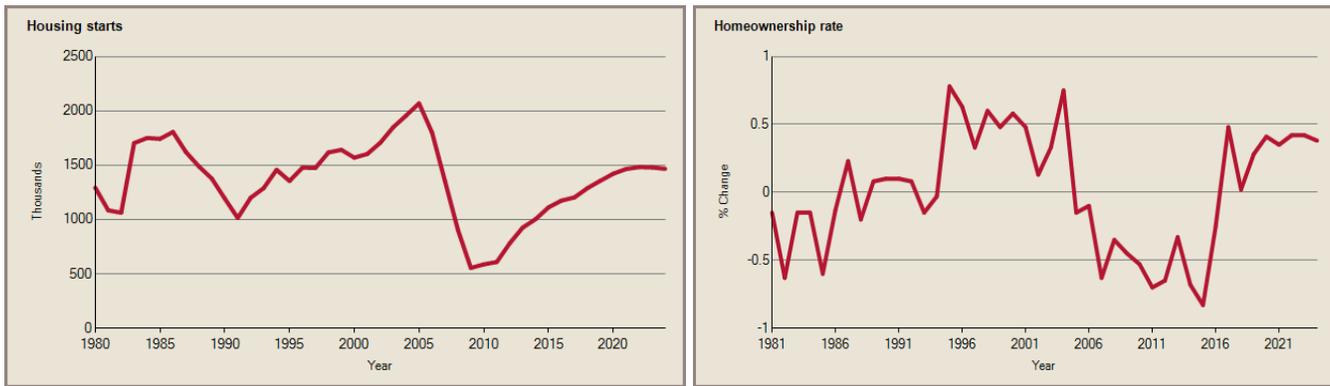


Source: IBIS World



Source: Bloomberg

The housing market itself has also been improving and looks to continue its growth, the home ownership rate has declined every year since the market crisis and in 2016 it declined at its lowest rate since and is projected to begin to increase. Housing Starts have also been increasing in the previous years and the growth is projected to continue. These factors driving industry growth all imply a coming increase in demand for the products of AMWD.



Source: IBIS World

Business Model:

AMWD has one reportable segment, it is labeled as Kitchen Cabinet Manufacturing. They offer 85 door designs with a targeted range of painted and stained finishes on maple, cherry and oak as well as engineered fronts under the Duraform™ mark. Their products are sold under the brand names of American Woodmark®, Simply Woodmark, Timberlake, Shenandoah Cabinetry, Shenandoah Value Series, and Waypoint Living Spaces. These products are sold on a national basis across the United States to the remodeling and new home construction markets. AMWD services these markets through three primary channels: home centers, builders, and independent dealers and distributors. They provide complete turnkey installation services to its direct builder customers via its network of seven service centers that are strategically located throughout the United States. AMWD distributes its products to each market channel directly from four assembly plants through a third party logistics network. The primary raw materials used include hard maple, soft maple, oak, and cherry lumber and plywood. Additional raw materials include paint, particleboard, medium density fiberboard, high density fiberboard, manufactured components and hardware. AMWD currently purchases paint from one supplier; however, other sources are available. Other raw materials are purchased from more than one source and are readily available. AMWD's main means for competition is its breadth and variety of product offerings, expanded service capabilities, geographic reach and affordable quality. AMWD's business has historically been subject to seasonal influences, with higher sales typically realized in the second and fourth fiscal quarters. General economic forces and changes in the customer mix have reduced seasonal fluctuations in revenue over the past few years. In recognition of the cyclicity of the housing industry, AMWD has a policy to operate with a minimal amount of financial leverage. They regularly maintain a debt to capital ratio of well below 20%, and working capital net of cash of less than 6% of net sales. At April 30, 2017, debt to capital was 4.2%, and working capital net of cash was 5.9% of net sales. During the fiscal year ended April 30, 2017, AMWD had two primary customers, The Home Depot and Lowe's Companies, Inc., which together accounted for approximately 37% of the Company's sales. AMWD also does not pay out dividends.

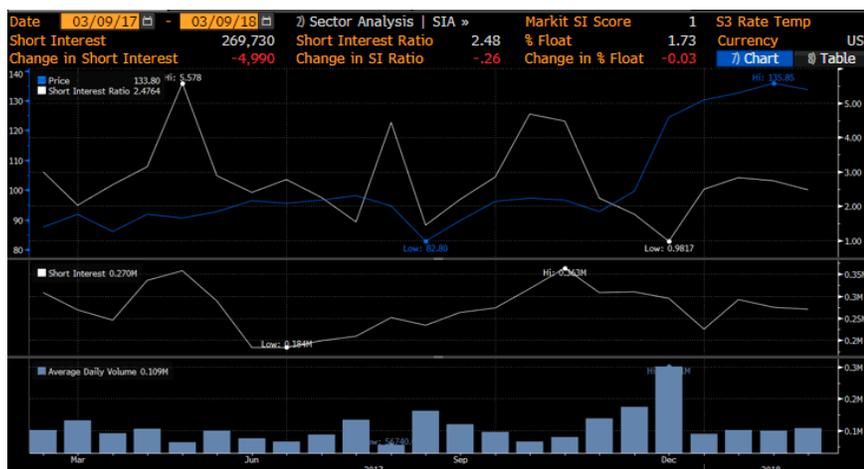
Segment Analysis:

AWMD only has one reportable segment labeled Kitchen Cabinet Manufacturing, however within this one segment they offer a large amount of product diversity by selling under different brands, styles, and product lines. AWMD currently offers framed stock cabinets in 514 different cabinet lines, ranging in price from relatively inexpensive to medium- priced styles. Their cabinets are offered in a broad range of sizes, construction and decorative options to achieve a broad range of design layouts. So as is to be expected Kitchen Cabinet Manufacturing segment makes up 100% of the revenue and sales for AWMD, and all of these measures have been increasing. Revenue, gross profit, EBITDA, operating income, and net income have all substantially increased in the segment in the past 3 years. The gross margin has also increased from 21.09-21.23.

11) By Measure		12) By Geography		13) By Segment					
In Millions of USD except Per Share		2014 Y		2015 Y		2016 Y		2017 Y	
12 Months Ending		04/30/2014		04/30/2015		04/30/2016		04/30/2017	
Revenue		726.5	100.0%	825.5	100.0%	947.0	100.0%	1,030.2	100.0%
Kitchen Cabinet Mfg		726.5	100.0%	825.5	100.0%	947.0	100.0%	1,030.2	100.0%
Gross Profit		124.2	100.0%	152.5	100.0%	199.7	100.0%	224.6	100.0%
Kitchen Cabinet Mfg		124.2	100.0%	152.5	100.0%	199.7	100.0%	224.6	100.0%
EBITDA		48.6	100.0%	69.2	100.0%	109.6	100.0%	126.9	100.0%
Kitchen Cabinet Mfg		48.6	100.0%	69.2	100.0%	109.6	100.0%	126.9	100.0%
Operating Income		34.1	100.0%	54.7	100.0%	93.2	100.0%	108.2	100.0%
Kitchen Cabinet Mfg		34.1	100.0%	54.7	100.0%	93.2	100.0%	108.2	100.0%

Management/Ownership:

AMWD is primarily owned by investment advisors with 77.51% of shares currently belonging to them, a decrease of 0.37% from last year. Individual owners hold 9.99% which is a .05% decrease, Hedge Fund Managers hold 6.62% with that also being a decrease of .04%. The majority holders of AMWD are BlackRock Investing with 11.1%, William F. Brandt Jr, former Chairmen, CEO, and Director, holds 9.94%, and Broad Run Investments with 8.28%. The short interest days to cover for THOR is currently decreasing after approaching roughly 2.9 and is now at 2.4. It had hit a high of 5.578 in May 2017 and then proceeded to its low of 0.9817 in December. Since this low both short interest and the price of the stock have increased until recently where the stock price began to decrease to its current price along with short interest. The volume of short interest has been decreasing since January.



54) Ownership Type (%)			
Ownership Type	03/05/17	Curr	Change
41) Investment Advisor	76.51	77.51	+1.00
42) Individual	12.06	9.99	-2.07
43) Hedge Fund Manager	5.93	6.62	+0.69
44) Pension Fund	2.26	1.53	-0.73
45) Sovereign Wealth Fund	0.86	1.29	+0.43
46) Holding Company	0.69	1.00	+0.31
47) Insurance Company	0.64	0.96	+0.32
48) Bank	0.37	0.54	+0.17
49) Brokerage	0.34	0.26	-0.08

CEO Cary Dunston joined AMWD in October 2006 as senior vice president of manufacturing and supply chain services, he was made president in 2014, was promoted to CEO in 2015, and in 2017 was named chairman of the board. He was also previously the vice president of global operations in company Diamond Innovations, and vice president of operations for BBA Fiberweb. Total average executive compensation has increased every year for the past six years.

Management	Position	Total Compensations Growth	Stock Price Growth During Tenure
Dunston, S.	Chairman, CEO & President	16.31% per annum over 6y	11.26% per annum over 6y
Culbreth, M.	CFO, Principal Accounting Officer, Senior VP &	89.69% per annum over 4y	18.89% per annum over 4y
Campbell, Roger	Senior Vice President of Sales & Marketing	7.39% per annum over 4y	18.89% per annum over 4y
Adams, Robert	Senior Vice President of Value Stream Operation	-1.77% per annum over 2y	15.16% per annum over 2y
Eanes, Glenn	Vice President and Treasurer		
Dunnigan, Kevin	Assistant Treasurer		

Capital Allocation Comparison:

AMWD has a Total Debt to Total Asset ratio of 3.37%, which is extremely low compared to the competitor median of 29.15% and AMWD runs with very low levels of debt in general and Carey Dunston, CEO, stated that “In recognition of the cyclicity of the housing industry, the Company’s policy is to operate with a minimum amount of financial leverage.”, and they have also decreased their debt by 28.85% in the last year compared to a industry average decrease of 4.12%. AMWD carries a Cash and Cash Equivalent amount that is equal to the median of the competitors with 176.98 million and their Operating Margin is 10.76% compared to the competitor median 9.36%. AMWD has a WACC that of 13.31% that is higher than the competitors average of 10.66%, however they also have a ROIC/WACC of 1.27 which is higher than the competitor median of 1.16. So although their WACC is higher than average, the ROIC they are seeing is also above average so the WACC does not have any negative implications.

Name	Ticker	Mkt Cap	Debt/Assets:Y	CR&E:Y	OPM:Y	PM:Y	WACC	ROIC/WACC Ratio	WACC Cost of Debt (After Tax)
Median		1.95B	29.15%	176.82M	9.36%	6.10%	10.66%	1.16	2.87%
100) AMERICAN WOODMARK C	AMWD US	2.11B	3.37%	176.98M	10.76%	7.08%	13.31%	1.27	2.93%
101) MASCO CORP	MAS US	12.99B	56.21%	1.19B	15.37%	8.02%	9.97%	2.05	2.66%
102) FORTUNE BRANDS HOME	FBHS US	9.42B	27.35%	323.00M	13.86%	9.07%	10.67%	1.05	2.81%
103) MASONITE INTERNATIONAL	DOOR US	1.80B	37.24%	176.67M	7.97%	5.01%	10.29%	1.05	3.57%
104) QUANEX BUILDING PRO	NX US	605.06M	30.94%	17.45M	4.77%	2.68%	10.66%	0.55	3.77%
105) KIMBALL INTERNATIONAL	KBAL US	654.86M	0.07%	62.88M	7.71%	5.13%	10.89%	1.58	2.62%

Profitability Comparison:

Over the past 5 years AMWD has seen consistent growth in revenue, gross profit, EBITDA, Net Income, and EPS. Although the revenue growth rate has decreased since 14.7% in 2015-2016, the

2016-2017 growth rate was 8.8% and this was solely because net sales did not increase as much as previously however with their recent acquisition of RSI, sales will likely increase past this 8.8%.

11) Adj Highlights	12) GAAP Highlights	13) Earnings	14) Enterprise Value	15) Multiples	16) Per Share	17) Stock Value		
In Millions of USD		2014 Y	2015 Y	2016 Y	2017 Y	Current/LTM	2018 Y Est	2019 Y Est
12 Months Ending		04/30/2014	04/30/2015	04/30/2016	04/30/2017	10/31/2017	04/30/2018	04/30/2019
Market Capitalization		464.4	815.2	1,183.2	1,491.8	2,222.9		
- Cash & Equivalents		135.7	185.0	200.2	228.7	220.0		
+ Preferred & Other		0.0	0.0	0.0	0.0	0.0		
+ Total Debt		21.6	23.0	23.7	16.9	17.8		
Enterprise Value		350.3	653.2	1,006.7	1,279.9	2,020.7		
Revenue, Adj		726.5	825.5	947.0	1,030.2	1,059.6	1,181.3	1,549.0
Growth %, YoY		15.2	13.6	14.7	8.8	7.9	14.7	31.1
Gross Profit, Adj		124.2	152.5	199.7	224.6	225.0	260.5	373.3
Margin %		17.1	18.5	21.1	21.8	21.2	22.0	24.1
EBITDA, Adj		48.3	69.1	111.2	129.5	132.6	158.3	241.3
Margin %		6.6	8.4	11.7	12.6	12.5	13.4	15.6
Net Income, Adj		20.2	35.4	59.5	72.9	75.4	84.6	118.8
Margin %		2.8	4.3	6.3	7.1	7.1	7.2	7.7
EPS, Adj		1.30	2.21	3.62	4.44	4.61	5.09	6.83
Growth %, YoY		90.3	70.2	64.0	22.8	16.1	14.6	34.0
Cash from Operations		40.5	58.7	74.6	77.1	78.8		
Capital Expenditures		-7.9	-20.0	-28.7	-21.8	-32.1	-25.0	-30.0
Free Cash Flow		32.6	38.7	45.9	55.3	46.7	72.3	105.0

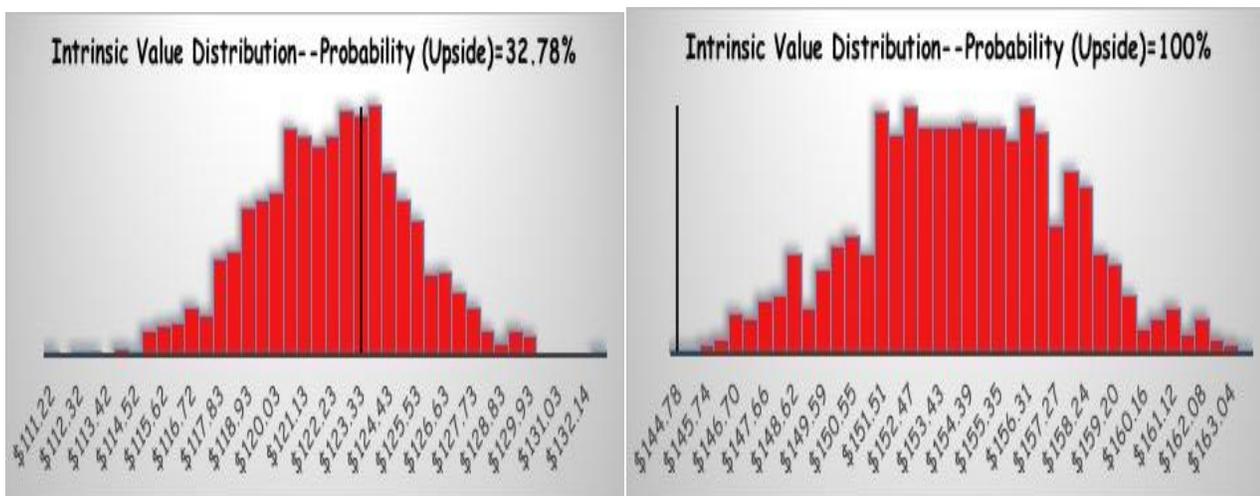
AMWD's adjusted revenue growth rate is 8.79% and net income growth rate is 21.25%, the adj. revenue growth rate is notably higher than the median of the competitors and the NI growth is aligned with the median. AMWD's ROE is also higher than the median with a respective 23.03% to 19.31%. This is also true for their ROA, ROIC, and Adj. EBITA Margin which are all higher than the competitor median. This all implies that AMWD is seeing higher levels of returns on their operations than their competitors. A supporting factor of their strong performance is that AMWD's Asset Turnover Ratio and Inventory Turnover are both double or greater than the competitor median. This is alongside the fact that their Cash Conversion Cycle is half that of the median, these figures support the strong performance and growth AMWD is showing in the aforementioned figures.

Name	Ticker	Rev Gr Adj YoY:Y	NI / Profit - 1 Yr Gr:Y	ROE:Y	ROA:Y	ROIC:Y	Asst TO:Y	EBITDA Mrgn Adj:Y	Inv turnover:Y	Cash onversion Cycle:Y
Median		4.69%	21.25%	19.31%	10.27%	16.21%	1.36	10.18%	7.45	48.82
100) AMERICAN WOODMARK CORP	AMWD US	8.79%	21.25%	23.03%	15.07%	21.34%	2.13	11.19%	19.61	22.47
101) FORTUNE BRANDS HOME & SEC	FBHS US	5.99%	14.38%	19.31%	9.01%	12.40%	0.99	14.46%	6.03	54.62
102) MASCO CORP	MAS US	3.90%	8.55%	--	11.54%	28.61%	1.44	15.52%	6.68	43.03
103) MASONITE INTERNATIONAL CO	DOOR US	2.99%	53.86%	14.86%	6.45%	10.08%	1.29	9.17%	7.07	76.04
104) QUANEX BUILDING PRODUCTS	NX US	-6.64%	--	5.99%	2.99%	4.14%	1.12	6.89%	7.82	56.16
105) KIMBALL INTERNATIONAL-B	KBAL US	5.48%	77.28%	21.06%	11.69%	20.02%	2.28	7.84%	11.31	25.46

Sensitivity Forecast:

AMWD's stock price value is very sensitive to revenue and operating cost, it is also sensitive to capital expenditures but to a lesser extent. From 2016 to the end of 2017 AMWD experienced a revenue growth of 8.8%. AMWD has a operating expense to net sales of 11.3%, compared to a competitor median of 18.67%. The bear and bull case valuation are evaluated using a Monte Carlo simulation with different assumptions.

The base case, or the most probable scenario, had a target price of \$141.75 with a target 1 year return of 14.5% and has a intrinsic value probability upside of 100%. Under the bear case, there is a 32.78% intrinsic value probability upside which created a target price of 130.02. This is the result of making the assumption that revenue and sales was going to decrease despite estimates that it would increase. I also made the assumption that operating expenses would increase due to complications with implementing their acquisition of RSI Home Products. In this scenario AMWD could still be considered a buy as the target price is still marginally higher then the current stock price however, the expected return would be low and the money would be better invested elsewhere. The bull case displayed an intrinsic value distribution probability of 100% and created a target price of \$163.41. This was a result of making the assumption that revenues would increase more then was estimated and operating expense did not change and a 1 year return of 31.7% would be generated. Based on current industry trends, the probability of this scenario occurring is much higher as demand in the industry is set to increase along with revenue and sales for AMWD. This is reasonable because marginal increase in revenues year over year have resulted in large growth in the stock price. From 2015 to 2016 revenue grew 14.7% and the price of the stock increased by 68.94%, and from 2016 to present day revenue has grown by 2.7% and the price of the stock has increased by 39.4%. Since AMWD is highly sensitive to revenue and the industry they are in is set to grow, it shows that bull case is much more likely then the bear case.



Summary:

In conclusion, AMWD is a buy at its current price. This is due to the fact that they are one of the top companies in an industry that is currently seeing a high percentage of growth. AMWD's product diversity and recent acquisition of close competing cabinet manufacturer RSI give them the ability to meet the demands of more consumers once the industry growth continues. The upside is much greater than the downside, and the downside would not necessarily result in negative returns, just a return that could have been greater if the money was invested elsewhere. The company's 1 year target price is \$141.75 with a 1 year target return of 14.5% based on analysis and current price. AMWD appears to be well positioned to approach or break its 52-week high.

American Woodmark Corporation (AMWD)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Al Capone

Current Price:

\$123.80

Intrinsic Value

\$153.66

3/9/2018

Dividend Yield:

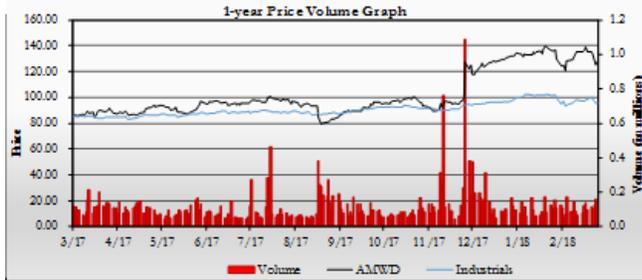
0.0%

Target Price

\$141.75

Target 1 year Return: 14.5%

Probability of Price Increase: 100%



Description	
American Woodmark Corporation manufactures and distributes kitchen cabinets and vanities for the remodeling and home construction markets in the United States.	
General Information	
Sector	Industrials
Industry	Building Products
Last Guidance	February 12, 2018
Next earnings date	March 9, 2018
Market Assumptions	
Estimated Equity Risk Premium	2.19%
Effective Tax rate	27%

Market Data	
Market Capitalization	\$21,669.1
Daily volume (mil)	0.19
Shares outstanding (mil)	17.50
Diluted shares outstanding (mil)	16.33
% shares held by institutions	109%
% shares held by investments Managers	62%
% shares held by hedge funds	8%
% shares held by insiders	10.92%
Short interest	1.54%
Days to cover short interest	2.27
52-week high	\$145.44
52-week low	\$78.75
Volatility	37.90%

Past Earning Surprises		
Quarter ending	Revenue	EBITDA
10/31/2016	-3.45%	-2.11%
1/31/2017	7.15%	-515.73%
4/30/2017	-2.10%	-6.89%
7/31/2017	-0.71%	-6.40%
10/31/2017	-2.08%	7.41%
Mean	-0.24%	-104.74%
Standard error	1.0%	1.8%

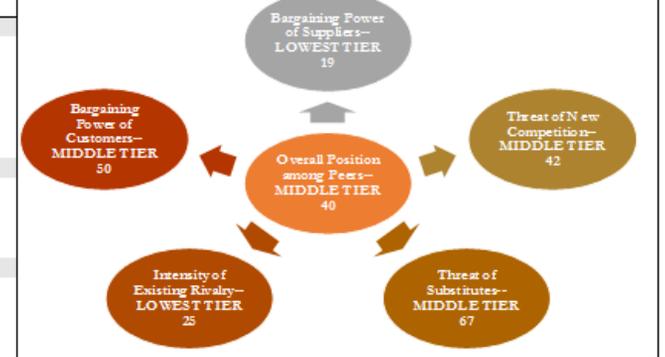
Market and Credit Scores	
Recommendation (STARS) Value	-0
Recommendation (STARS) Description	-0
Quality Ranking Value	-E
Quality Ranking Description	-Lower
Short Score	-1
Market Signal Probability of Default % (Non-Rating)	-0.273%
Credit Model Score (Non-Rating)	-bbb-

Industry and Segment Information	
LTM Revenues by Geographic Segments	LTM Revenues by Business Segments
United States-100%	Manufactures and Distributes Kitchen Cabinets and Van
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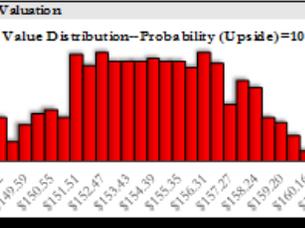
Management	Position	Total Compensation Growth	Stock Price Growth During Tenure
Dunston, S.	Chairman, CEO & President	16.31% per annum over 6y	11.26% per annum over 6y
Culbreth, M.	CFO, Principal Accounting Officer, Senior VP &	89.69% per annum over 4y	18.89% per annum over 4y
Campbell, Roger	Senior Vice President of Sales & Marketing	7.39% per annum over 4y	18.89% per annum over 4y
Adams, Robert	Senior Vice President of Value Stream Operation	-1.77% per annum over 2y	15.16% per annum over 2y
Emes, Glenn	Vice President and Treasurer		
Dunnigan, Kevin	Assistant Treasurer		

Profitability	AMWD (LTM)	AMWD Historical	Peers' Median (LTM)
Return on Capital (GAAP)	30.6%	49.88%	18.18%
Operating Margin	6%	4.28%	10.82%
Revenue / Capital (GAAP)	4.90	11.63	1.68
ROE (GAAP)	24.4%	18.2%	-36.9%
Net margin	7.4%	4.3%	6.3%
Revenue / Book Value (GAAP)	3.31	4.25	-5.88
Invested Funds	AMWD (LTM)	AMWD Historical	Peers' Median (LTM)
Cash / Capital	54.3%	68.6%	20.7%
NWC / Capital	3.0%	0.3%	9.0%
Operating Assets / Capital	42.7%	31.1%	44.2%
Goodwill / Capital	0.0%	0.0%	26.1%
Capital Structure	AMWD (LTM)	AMWD Historical	Peers' Median (LTM)
Total Debt / Market Capitalization	0.15	0.23	0.47
Cost of Debt	3.1%	2.7%	11.2%
CGFS Rating (F-score, Z-score, and default Probability)	AAA		
WACC	3.5%	4.8%	22.2%

Peers	
--	Kimball International, Inc.
--	Masco Corporation
--	Fortune Brands Home & Security, Inc.
--	Quonex Building Products Corporation
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Forecast Assumptions	
Revenue Growth CAGR	6%
Average Operating Margin	5%
Average Net Margin	3%
Growth in Capital CAGR	7%
Growth in Claims CAGR	-3%
Average Return on Capital	9%
Average Return on Equity	10%
Average Cost of Capital	4%
Average Cost of Equity	5%



Sensitivity Attribution Analysis	
Revenue	37.9%
Operating costs	46.3%
Capital expenditures	15.4%
Discount Rate	0.4%

