# Beacon Roofing Supply Reports First-Quarter Sales of $398 Million and EPS of $0.12

PEABODY, Mass., Feb 08, 2008 (BUSINESS WIRE) -- Beacon Roofing Supply, Inc. ("Beacon" or the "Company") (NASDAQ: BECN) announced results today for its fiscal 2008 first quarter (three months) ended December 31, 2007 ("2008").

Sales increased 4.8% to $398.4 million in 2008 from $380.2 million in the first quarter of fiscal 2007 ("2007"). This increase was due to $64.7 million in sales from companies acquired since last year's first quarter, including North Coast Commercial Roofing Systems ("North Coast") acquired at the start of last year's third quarter. The positive impact from the acquisitions was mostly offset by a decline of 12.2% in organic ("existing market") sales that was caused by declines of 18.9% and 15.2% in residential roofing and complementary product sales, respectively, with non-residential (commercial) roofing sales in existing markets down only 0.1%. There have been continued lower levels of residential construction activities in most markets this year and December's sales were also negatively impacted by harsher weather, especially in the Company's northern regions.

Gross profit in the first quarter was $91.7 million, unchanged from last year. The overall gross margin rate decreased to 23.0% from 24.1% last year. The existing market gross margin rate, however, increased to 24.3% in 2008 from 24.1% in 2007. There continues to be pressure on margins as a result of increased competitive conditions in the industry, although the year-over-year decrease in the overall gross margin was less than experienced over the prior few quarters. There was also a higher mix of non-residential roofing sales in the first quarter, which traditionally have lower gross margin rates, primarily from North Coast's product mix that is comprised of over 95% non-residential roofing products. These negative factors on gross margin were more than offset in existing markets by the benefit of higher vendor rebates and other favorable buying programs offered by some vendors.

Operating expenses increased $5.2 million, or 7.4%, due to the impact of the companies acquired since last year's first quarter, the new branches and a higher provision for bad debts. These factors were partially offset by lower payroll and related costs and other cost-saving steps implemented as a result of the industry slowdown. Operating expenses in the first quarter included $3.9 million for the amortization of intangible assets recorded under purchase accounting, compared to $2.7 million in 2007. As a percentage of net sales, overall operating expenses increased to 19.1% from 18.6%, mostly due to the impact of the lower existing market sales and the relatively fixed nature of the Company's expenses, partially offset by the lower operating costs as a percentage of sales at North Coast and the cost-saving steps.

Existing market operating expenses dropped $4.3 million but increased as a percentage of sales by 1.3% due to the lower existing market sales. The decline in existing market expenses was primarily due to expense reduction efforts, including reduced headcount, favorable insurance claims experience and allocation of expenses to acquired markets, partially offset by an increased bad debt provision and expenses at the new branches.

The Company realized operating income of $15.8 million in 2008 compared to $21.1 million in 2007. As a percentage of net sales, operating income was 4.0% compared to the prior-year rate of 5.5%. The existing market operating income was 4.4% of net sales compared to an operating income rate of 5.5% in 2007.

Interest expense increased $0.7 million, or 10.8%, due primarily to the additional borrowings associated with the acquisitions.

The Company's net income for the first quarter was $5.2 million compared to net income of $8.8 million in 2007, a decline of 40.5%. Diluted net income per share was $0.12 compared to $0.20 in 2007, a decline of 40.0%. Income tax expense was $3.5 million in the first quarter of 2008 compared to $5.9 million last year, an effective tax rate of 40.2% for both periods.

Earnings before interest, taxes, depreciation and amortization, and stock-based compensation or "Adjusted EBITDA," which is reconciled to net income in this press release, was $26.0 million in 2008 as compared to $29.2 million in 2007, a drop of 10.8%.

Cash flow from operations was $2.8 million in 2008 compared to $3.6 million in 2007. This decrease was primarily due to the lower net income, partially offset by higher non-cash charges for depreciation and amortization. Also impacting the decline in cash from operations were larger declines in accounts receivable and accounts payable and accrued expenses, along with larger increases in inventories and in prepaid expenses and other assets this year.

Robert Buck, the Company's Chairman & Chief Executive Officer, stated: "Our sales have not yet returned to the levels we had planned. The continuing decline of residential construction in most of our markets has had an adverse impact on both demand and profitability for our residential roofing and complementary building products. Harsh weather conditions this December compared to last December's mild weather also hurt sales in certain regions. Our commercial business, however, again performed much better than our residential business and helped to mitigate some of the negative residential impact. We were also encouraged by the achievement of a higher gross margin rate and lower expenses in our existing markets compared to last year's first quarter. We continue to look for expense reduction opportunities in light of the declining sales and have scaled back our capital spending until we see signs of a recovery in traditionally stronger periods of our fiscal year. We will adhere to the business fundamentals that are consistent with our long-term vision of growth for our Company."

There will be a conference call to discuss our first quarter results this morning at 10am EST. The dial-in number is 877-548-7915 (international dial-in number 719-325-4938). To assure timely access, participants should call in before 10:00 a.m.

Within two hours after the call, a webcast of the call will be available on the "Events & Presentations" page of the "Investor Relations" section of the Company's web site at http://www.beaconroofingsupply.com. A replay of the conference call will also be available at 888-203-1112 (participant passcode 8634734) (international dial-in number 719-457-0820 with same passcode) for a week following the call.

Beacon Roofing Supply, Inc. is a leading distributor of roofing materials and complementary building products operating 178 branches in 35 states in the United States and Eastern Canada.

SOURCE: Beacon Roofing Supply, Inc.

Forward-Looking Statements: This release contains information about management's view of the Company's future expectations, plans and prospects that constitute forward-looking statements for purposes of the safe harbor provisions under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including, but not limited to, those set forth in the "Risk Factors" section of the Company's latest Form 10-K. In addition, the forward-looking statements included in this press release represent the Company's views as of the date of this press release and these views could change. However, while the Company may elect to update these forward-looking statements at some point, the Company specifically disclaims any obligation to do so other than as required by federal securities laws. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this press release.

For more information: Dave Grace, CFO 978-535-7668 x14, dgrace@beaconroofingsupply.com

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BEACON ROOFING SUPPLY, INC
Condensed Consolidated Statements of Operations

| Unaudited (Dollars in thousands, except per share data) | Three Months Ended December 31, 2007 | % of Net Sales | December 31, 2006 | % of Net Sales |
|---|---|---|---|---|
| Net sales | $ 398,396 | 100.0 % | $ 380,209 | 100.0 % |
| Cost of products sold | 306,702 | 77.0 % | 288,475 | 75.9 % |
| Gross profit | 91,694 | 23.0 % | 91,734 | 24.1 % |
| Operating expenses | 75,917 | 19.1 % | 70,672 | 18.6 % |
| Income from operations | 15,777 | 4.0 % | 21,062 | 5.5 % |
| Interest expense | 7,009 | 1.8 % | 6,328 | 1.7 % |
| Income before income taxes | 8,768 | 2.2 % | 14,734 | 3.9 % |
| Income taxes | 3,527 | 0.9 % | 5,929 | 1.6 % |

| | | | | |
|---|---|---|---|---|
| Net income | $ 5,241 | 1.3 % | $ 8,805 | 2.3 % |

| | | | |
|---|---|---|---|
| Net income per share: | | | |
| | Basic | $ 0.12 | $ 0.20 |
| | Diluted | $ 0.12 | $ 0.20 |
| Weighted average shares used in computing net income per share: | | | |
| | Basic | 44,273,312 | 43,869,559 |
| | Diluted | 44,852,748 | 45,088,380 |

BEACON ROOFING SUPPLY, INC
Condensed Consolidated Balance Sheets

Unaudited

| (Dollars in thousands) | December 31, 2007 | December 31, 2006 | September 30, 2007 |
|---|---|---|---|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 7,321 | $ 42,576 | $ 6,469 |
| Accounts receivable, net | 189,186 | 167,338 | 267,563 |
| Inventories | 173,020 | 165,036 | 165,848 |
| Prepaid expenses and other assets | 38,543 | 41,161 | 34,509 |
| Deferred income taxes | 15,394 | 11,238 | 13,196 |
| Total current assets | 423,464 | 427,349 | 487,585 |
| Property and equipment, net | 65,706 | 66,530 | 69,753 |
| Goodwill | 355,176 | 288,667 | 355,155 |
| Other assets, net | 89,804 | 65,676 | 94,167 |
| Total assets | $ 934,150 | $ 848,222 | $ 1,006,660 |
| Liabilities and stockholders' equity | | | |
| Current liabilities: | | | |
| Accounts payable | $ 106,667 | $ 98,024 | $ 183,257 |
| Accrued expenses | 55,728 | 63,906 | 54,020 |
| Current portion of long-term obligations | 34,112 | 6,564 | 34,773 |
| Total current liabilities | 196,507 | 168,494 | 272,050 |
| Senior notes payable and other obligations, net of current portion | 373,057 | 360,996 | 374,270 |
| Deferred income taxes | 36,499 | 18,801 | 36,490 |
| Stockholders' equity: | | | |
| Common stock | 443 | 439 | 443 |

| | | | |
|---|---|---|---|
| Additional paid-in capital | 212,932 | 204,842 | 211,567 |
| Retained earnings | 111,881 | 90,166 | 106,640 |
| Accumulated other comprehensive income | 2,831 | 4,484 | 5,200 |
| Total stockholders' equity | 328,087 | 299,931 | 323,850 |
| Total liabilities and stockholders' equity | $ 934,150 | $ 848,222 | $ 1,006,660 |

BEACON ROOFING SUPPLY, INC
Condensed Consolidated Statements of Cash Flows

| Unaudited (In thousands) | Three Months Ended December 31, 2007 | Three Months Ended December 31, 2006 |
|---|---|---|
| Operating activities: | | |
| Net income | $ 5,241 | $ 8,805 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,891 | 6,795 |
| Stock-based compensation | 1,365 | 1,330 |
| Unrealized gain on interest rate collars | - | (106 ) |
| Deferred income taxes | (552 ) | (516 ) |
| Changes in assets and liabilities, net of the adjustments of acquisitions: | | |
| Accounts receivable | 78,025 | 42,548 |
| Inventories | (7,340 ) | (1,192 ) |
| Prepaid expenses and other assets | (5,877 ) | (3,084 ) |
| Accounts payable and accrued expenses | (76,940 ) | (50,982 ) |
| Net cash provided by operating activities | 2,813 | 3,598 |
| Investing activities: | | |
| Purchases of property and equipment | (1,084 ) | (11,261 ) |
| Net cash used in investing activities | (1,084 ) | (11,261 ) |
| Financing activities: | | |
| Repayments under revolving lines of credit, net | (657 ) | (229,752 ) |
| Net borrowings (repayments) under senior notes payable and other | (971 ) | 281,265 |
| Proceeds from exercise of options | - | 79 |
| Payment of deferred financing costs | - | (2,954 ) |
| Net cash provided (used) by financing activities | (1,628 ) | 48,638 |
| Effect of exchange rate changes on cash | 751 | (246 ) |

| | | |
|---|---|---|
| Net increase in cash and cash equivalents | 852 | 40,729 |
| Cash and cash equivalents at beginning of period | 6,469 | 1,847 |
| Cash and cash equivalents at end of period | $ 7,321 | $ 42,576 |
| | | |
| Non-cash financing and investing activities: | | |
| Conversion of senior notes payable to new senior notes | $ - | $ 66,839 |

BEACON ROOFING SUPPLY, INC
Consolidated Sales by Product Line

Unaudited

| (dollars in millions) | For the Three Months Ended: December 31, 2007 Net Sales | Mix % | December 31, 2006 Net Sales | Mix % | Change | |
|---|---|---|---|---|---|---|
| Residential roofing products | $ 146.8 | 36.8% | $ 176.2 | 46.3% | $(29.4) | -16.7 % |
| Non-residential roofing products | 174.4 | 43.8% | 118.0 | 31.0% | 56.4 | 47.8 % |
| Complementary building products | 77.2 | 19.4% | 86.0 | 22.6% | (8.8) | -10.2 % |
| | $ 398.4 | 100.0% | $ 380.2 | 100.0% | $ 18.2 | 4.8 % |

Consolidated Sales by Product Line for Existing Markets(a)

| (dollars in millions) | For the Three Months Ended: December 31, 2007 Net Sales | Mix % | December 31, 2006 Net Sales | Mix % | Change | |
|---|---|---|---|---|---|---|
| Residential roofing products | $ 142.9 | 42.8% | $ 176.2 | 46.3% | $(33.3) | -18.9 % |
| Non-residential roofing products | 117.9 | 35.3% | 118.0 | 31.0% | (0.1) | -0.1 % |
| Complementary building products | 72.9 | 21.8% | 86.0 | 22.6% | (13.1) | -15.2 % |
| | $ 333.7 | 100.0% | $ 380.2 | 100.0% | $(46.5) | -12.2 % |

Note: Some totals may not foot due to rounding.
(a)Excludes branches, such as North Coast branches, acquired during fiscal 2007.

Earnings Before Interest, Taxes, Depreciation and Amortization and Stock-Based Compensation ("Adjusted EBITDA")
Unaudited
(Dollars in thousands, except per share data)

| | Three Months Ended December 31, | |
|---|---|---|
| | 2007 | 2006 |
| Net income | $ 5,241 | $ 8,805 |
| Interest expense | 7,009 | 6,328 |
| Income taxes | 3,527 | 5,929 |
| Depreciation and amortization | 8,891 | 6,795 |
| Stock-based compensation | 1,365 | 1,330 |
| Adjusted EBITDA (1) | $26,033 | $29,187 |

(1) Adjusted EBITDA is defined as net income plus interest expense (net of interest income), income taxes, depreciation and amortization and stock-based compensation (i.e. stock option expense). EBITDA is a measure commonly used in the distribution industry, and we present Adjusted EBITDA to enhance your understanding of our operating performance. Adjusted EBITDA is used in our bank covenants and we use Adjusted EBITDA as an internal performance measurement and as one criterion for evaluating our performance relative to that of our peers. We believe that Adjusted EBITDA is an operating performance measure that provides investors and analysts with a measure of operating results unaffected by differences in capital structures, capital investment cycles, and ages of related assets among otherwise comparable companies. Further, we believe that Adjusted EBITDA is a useful measure because it improves comparability of results of operations, since purchase accounting used for acquisitions can render depreciation and amortization non-comparable between periods. Management uses these supplemental measures to evaluate performance period over period and to analyze the underlying trends in the Company's business and to establish operational goals and forecasts that are used in allocating resources. We expect to compute our non-GAAP financial measures using the same consistent method from quarter to quarter and year to year. While we believe Adjusted EBITDA is a useful measure for investors, it is not a measurement presented in accordance with United States generally accepted accounting principles, or GAAP. You should not consider Adjusted EBITDA in isolation or as a substitute for net income, cash flows from operations, or any other items calculated in accordance with GAAP. In addition, Adjusted EBITDA has inherent material limitations as a performance measure. It does not include interest expense and, because we have borrowed money, interest expense is a necessary element of our costs. In addition, Adjusted EBITDA does not include depreciation and amortization expense. Because we have capital and intangible assets, depreciation and amortization expense is a necessary element of our costs. Adjusted EBITDA also does not include stock-based compensation, which is a necessary element of our costs since we provide stock options to key members of management as an important incentive to maximize overall company performance and as a benefit. Moreover, Adjusted EBITDA does not include taxes, and payment of taxes is a necessary element of our operations. Accordingly, since Adjusted EBITDA excludes these items, it has material limitations as a performance measure. The Company's management separately monitors capital expenditures, which impact depreciation expense, as well as amortization expense, interest expense, and income tax expense. Because not all companies use identical calculations, our presentation of Adjusted EBITDA may not be comparable to other similarly titled measures of other companies.

SOURCE: Beacon Roofing Supply

Beacon Roofing Supply, Inc.
Dave Grace, 978-535-7668 x14
CFO

dgrace@beaconroofingsupply.com