Beacon Roofing Supply, Inc.

# Beacon Roofing Supply Reports Third-Quarter and Nine-Month Fiscal 2007 Results

PEABODY, Mass., Aug 08, 2007 (BUSINESS WIRE) --

Beacon Roofing Supply, Inc. ("Beacon" or the "Company") (NASDAQ: BECN) announced results today for its fiscal 2007 third quarter and nine months ended June 30, 2007.

Third Quarter

Sales increased 19.1% to $484.9 million in 2007 from $407.1 million in the third quarter of last year that ended June 30, 2006. This increase was due primarily to the acquisitions completed since last year's third quarter, including North Coast Commercial Roofing Systems ("North Coast") acquired at the start of this year's third quarter. The positive impact from the acquisitions was partially offset by a decline of 2.1% in internal ("existing market") sales that was caused by an 8.1% decline in residential roofing sales. There have been continued lower levels of new home construction activities in most markets and flat-to-declining prices. In addition, there has been a significant slowdown in reconstruction and reroofing activities in the markets that experienced damages from Hurricanes Katrina and Rita. Non-residential roofing and complementary product sales in existing markets increased 5.2% and 1.7%, respectively. There have been continued high levels of commercial construction activities in most of our markets. In addition, eight new branches were opened in existing markets since June 30, 2006.

Existing markets include new branches opened in existing markets, but exclude branches acquired in the four quarters prior to the start of the reporting period. In addition to the 2007 acquisition of North Coast, Beacon made several major acquisitions during the fiscal year ended September 30, 2006, including the October 2005 purchase of Shelter Distribution, Inc. ("Shelter"), which currently operates 57 branches. Shelter is included in existing markets for the third-quarter comparisons but in acquired markets for the nine months. In the third quarter of 2007, Beacon opened two new branches.

Gross profit in the third quarter increased 7.5% to $107.8 million from $100.3 million a year ago, while the gross margin rate decreased to 22.2% from 24.6% last year. The existing market gross margin rate declined to 23.4% in 2007 from 24.6% in 2006. The declines in the gross margin rates were caused primarily by an increase in competitive conditions due to the business slowdown in the industry. The overall gross margin rate was also impacted by a lower gross margin rate in acquired markets, primarily North Coast, compared to existing markets. North Coast currently sells mostly non-residential roofing products, which traditionally have lower gross margin rates.

Operating expenses increased $13.4 million, or 19.7%, due to the impact of the companies acquired since last year's third quarter and the eight new branches, partially offset by cost-saving steps implemented as a result of the existing market sales slowdown. Operating expenses in 2007 included $4.4 million for the amortization of intangible assets recorded under purchase accounting compared to $2.5 million in 2006. Stock-based compensation (option) expense increased $0.5 million. As a percentage of net sales, overall operating expenses remained unchanged at 16.7%, mostly due to lower operating costs as a percentage of sales at North Coast offset by the impact of the lower existing market sales and the relatively fixed nature of the Company's expenses.

Existing market operating expenses remained approximately the same in amount but increased as a percentage of sales by 0.3% due primarily to the eight new branches and lower existing market sales, partially offset by expense reduction efforts. Depreciation and amortization expense increased $0.4 million in 2007 from 2006.

The Company realized operating income of $26.7 million in 2007 compared to $32.5 million in 2006, reflecting the lower gross margin rate and higher expenses. As a percentage of net sales, operating income was 5.5% compared to the prior-year rate of 8.0%. The existing market operating income was 6.4% of net sales compared to an operating income rate of 8.0% in 2006.

Interest expense increased $2.6 million due primarily to the additional borrowings associated with the acquisitions. In addition, the Company refinanced its credit facilities in the first quarter of 2007, which also increased the debt level while providing additional funds for future acquisitions and working capital requirements. The new credit facility also provides the Company with lower interest rates than the prior credit facilities.

The Company's net income for the third quarter was $11.5 million compared to net income of $17.1 million in 2006. Diluted net income per share was $0.26 compared to $0.38 in 2006. Income tax expense was $7.7 million in the third quarter of 2007, an effective tax rate of 40.2%, compared to $10.6 million last year, an effective tax rate of 38.3%.

Nine Months

Nine-month sales increased 7.7% to $1.15 billion in 2007 from $1.07 billion in 2006, reflecting the positive impact from the acquisitions, partially offset by a decline of 4.6% in existing market sales, with especially large decreases in residential roofing and complementary building product sales. The existing market sales decline in the nine months can be attributed to the same factors mentioned above for the third-quarter decline along with harsher winter conditions in some of our markets and five fewer business days in the first quarter of 2007. When calculated on a per business day basis, nine-month existing market sales declined 2.1% in 2007 from 2006.

Nine-month gross profit increased 1.5% to $265.7 million in 2007 from $261.8 million in 2006. Gross margin declined from 24.5% to 23.1%, while gross margin in existing markets declined from 24.4% to 23.6%. These declines were due primarily to an increase in competitive conditions, an increased mix of non-residential roofing sales, and the inclusion of North Coast's lower gross margin rate in the overall gross profit beginning in this year's third quarter.

Nine-month operating expenses increased $31.0 million, or 16.2%, reflecting an increase of $32.4 million from the acquired companies, partially offset by a decrease of $1.4 million, or 1.1%, in existing markets. Amortization of intangible assets recorded under purchase accounting increased $3.3 million. Stock option expense increased $1.8 million. The existing market decrease was primarily due to lower payroll and related costs, lower transportation costs, and lower other general & administrative expenses associated with the sales decline and cost-saving steps. Depreciation and amortization expense increased $0.9 million.

As a percentage of net sales, operating expenses increased to 19.3% from 17.9% due primarily to the lower sales and a higher expense rate from the acquired companies, including an increase of $3.4 million in amortization of intangible assets recorded under purchase accounting. The operating expense rate in existing markets increased to 16.9% from 16.3% due to the lower sales, partially offset by cost-saving measures.

Nine-month operating income decreased 38.4% to $43.5 million in 2007 from $70.5 million in 2006. As a percentage of net sales, operating income declined to 3.8% from 6.6%, reflecting the lower gross margin rate and higher expense rate. Existing market operating margin fell to 6.6% from 8.2%.

Nine-month interest expense increased $7.0 million to $20.1 million in 2007 due primarily to the additional borrowings associated with the acquisitions. Income tax expense of $9.4 million was recorded in the nine months of 2007 compared to $22.7 million in 2006. The Company's effective tax rate is 40.2% for 2007 compared to a rate of 39.5% for 2006.

The nine-month net income was $14.0 million in 2007, down from $34.7 million in 2006, a decrease of 59.8%. Diluted net income per share for the nine months was $0.31 in 2007 compared to $0.79 per share in 2006, a decline of 60.8%.

Cash flow from operations was $52.3 million in the nine months of 2007 compared to $65.8 million in 2006. This decrease was primarily due to the lower net income, partially offset by higher non-cash charges for depreciation and amortization and stock option expenses. Also impacting the decline in cash from operations was a larger increase in accounts receivable and lower increase in accounts payable and accrued expenses, mostly offset by a lower inventory build-up this year. These changes in assets and liabilities exclude the effects of businesses acquired.

Robert Buck, the Company's President & Chief Executive Officer, stated: "Although we are dissatisfied with our performance compared to last year's strong results, we are encouraged that our performance appears stronger than the results recently reported by public companies in the new residential construction industry. The continuing decline of new residential construction in most of our markets has had an adverse impact on demand for our residential roofing products so far this fiscal year, as have the significant and continuing slowdowns in the markets affected by Hurricanes Katrina and Rita and the severe winter conditions in some of our markets during the second quarter. Our performance in the face of these market conditions, however, highlights that a substantial portion of our business is devoted to re-roofing, which is largely a non-discretionary expenditure."

"In addition, our commercial roofing and complementary products can enable us to achieve more stable performance when one of our markets is experiencing a cyclical decline," said Mr. Buck. "Also adding to our ability to achieve long-term growth is our geographic diversity. We expect to continue to pursue acquisitions that add new geography and strengthen our product diversity, as typified by our third-quarter acquisition of North Coast, which added both new geography and strengthened our position as a leader in the commercial roofing supply industry. Although we anticipate continued downward pressure on our sales and margins in the near term, we continue to be optimistic about our long-term goals and the value we can achieve for our shareholders."

There will be a conference call this morning at 10:00 a.m. EDT to discuss these results. The conference call dial-in number is 800-811-7286 (international dial-in number 913-981-4902). To assure timely access, participants should call in before 10:00

a.m.

Within two hours after the call, a replay of the conference call will be available at 888-203-1112 (participant passcode 8735774) (international dial-in number 719-457-0820 with same passcode) for a week following the call. Within two days following the call, a recording will be available on the "Events & Presentations" page of the "Investor Relations" section of the Company's web site at http://ir.beaconroofingsupply.com.

Beacon Roofing Supply, Inc. is a leading distributor of roofing materials and complementary building products operating 178 branches in 34 states in the United States and Eastern Canada.

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.

BEACON ROOFING SUPPLY, INC.
Condensed Consolidated Statements of Operations

| (Dollars in thousands, except per share data) | Third Quarter Ended | | | |
|---|---|---|---|---|
| | June 30, 2007 | % of Net Sales | June 30, 2006 | % of Net Sales |
| Net sales | $ 484,870 | 100.0% | $ 407,102 | 100.0% |
| Cost of products sold | 377,036 | 77.8% | 306,794 | 75.4% |
| Gross profit | 107,834 | 22.2% | 100,308 | 24.6% |
| Operating expenses | 81,183 | 16.7% | 67,829 | 16.7% |
| Income from operations | 26,651 | 5.5% | 32,479 | 8.0% |
| Interest expense | 7,401 | 1.5% | 4,845 | 1.2% |
| Income before income taxes | 19,250 | 4.0% | 27,634 | 6.8% |
| Income taxes | 7,745 | 1.6% | 10,580 | 2.6% |
| Net income | $ 11,505 | 2.4% | 17,054 | 4.2% |
| Net income per share: | | | | |
| Basic | $ 0.26 | | $ 0.39 | |
| Diluted | $ 0.26 | | $ 0.38 | |

| | | |
|---|---|---|
| Weighted average shares used in computing net income per share: | | |
| Basic | 44,263,602 | 43,799,489 |
| Diluted | 45,017,314 | 45,003,474 |

| (Dollars in thousands, except per share data) | Nine Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2007 (a) | % of Net Sales | June 30, 2006 | % of Net Sales |
| Net sales | $ 1,152,024 | 100.0% | $ 1,069,384 | 100.0% |
| Cost of products sold | 886,288 | 77.0% | 807,609 | 75.5% |
| Gross profit | 265,736 | 23.1% | 261,775 | 24.5% |
| Operating expenses | 222,249 | 19.3% | 191,228 | 17.9% |
| Income from operations | 43,487 | 3.8% | 70,547 | 6.6% |
| Interest expense | 20,110 | 1.8% | 13,157 | 1.2% |
| Income before income taxes | 23,377 | 2.0% | 57,390 | 5.4% |
| Income taxes | 9,406 | 0.8% | 22,651 | 2.1% |
| Net income | 13,971 | 1.2% | 34,739 | 3.2% |
| Net income per share: | | | | |
| Basic | $ 0.32 | | $ 0.82 | |
| Diluted | $ 0.31 | | $ 0.79 | |
| Weighted average shares used in computing net income per share: | | | | |
| Basic | 44,020,089 | | 42,598,829 | |
| Diluted | 44,938,812 | | 43,900,509 | |

(a) The first nine months of fiscal year 2007 had five fewer business days as compared to the first nine months of fiscal year 2006.
Note: Certain additions and subtractions of the percentages of net sales may not foot due to rounding. All share and per share data reflect the June 2006 three-for-two stock split.

BEACON ROOFING SUPPLY, INC.
Condensed Consolidated Balance Sheets

| (Dollars in thousands) | June 30, 2007 | June 30, 2006 | September 30, 2006 |
|---|---|---|---|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | $7,232 | $1,129 | $1,847 |
| Accounts receivable, net | 263,688 | 189,791 | 210,676 |
| Inventories | 192,735 | 181,484 | 164,285 |
| Prepaid expenses and other assets | 40,452 | 39,034 | 38,133 |
| Deferred income taxes | 13,578 | 11,324 | 10,704 |
| Total current assets | 517,685 | 422,762 | 425,645 |
| Property and equipment, net | 74,010 | 57,950 | 59,291 |
| Goodwill | 353,781 | 270,034 | 289,282 |
| Other assets, net | 98,310 | 58,735 | 65,672 |
| Total assets | $1,043,786 | $809,481 | $839,890 |
| Liabilities and stockholders' equity | | | |
| Current liabilities: | | | |
| Accounts payable | 198,115 | 154,177 | 154,878 |
| Accrued expenses | 79,373 | 78,676 | 58,719 |
| Current portion of long-term obligations | 6,654 | 28,271 | 6,657 |
| Total current liabilities | 284,142 | 261,124 | 220,254 |
| Borrowings under revolving lines of credit | 44,571 | 199,288 | 229,752 |
| Senior notes payable and other obligations, net of current portion | 367,771 | 53,226 | 79,892 |
| Deferred income taxes | 32,651 | 20,661 | 18,823 |
| Stockholders' equity: | | | |
| Common stock | 443 | 441 | 439 |
| Additional paid-in capital | 210,333 | 201,993 | 203,433 |

| | | | |
|---|---|---|---|
| Treasury stock | - | - | - |
| Retained earnings | 95,332 | 66,789 | 81,361 |
| Accumulated other comprehensive income | 8,543 | 5,959 | 5,936 |
| Total stockholders' equity | 314,651 | 275,182 | 291,169 |
| Total liabilities and stockholders' equity | $1,043,786 | $809,481 | $839,890 |

BEACON ROOFING SUPPLY, INC.
Condensed Consolidated Statements of Cash Flows

| (In thousands) | Nine Months Ended June 30, 2007 | Nine Months Ended June 30, 2006 |
|---|---|---|
| Operating activities: | | |
| Net income | $ 13,971 | $ 34,739 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 23,321 | 17,143 |
| Stock-based compensation | 3,943 | 2,166 |
| Unrealized (gain) loss on interest rate collars | - | (709) |
| Deferred income taxes | (1,183) | 92 |
| Changes in assets and liabilities, net of the effects of acquisitions: | | |
| Accounts receivable | (19,626) | (4,481) |
| Inventories | (13,875) | (35,359) |
| Prepaid expenses and other assets | 2,756 | 293 |
| Accounts payable and accrued expenses | 43,030 | 51,871 |
| Net cash provided by operating activities | 52,337 | 65,755 |
| Investing activities: | | |
| Purchases of property and equipment | (21,470) | (16,103) |
| Acquisition of businesses, net of cash acquired | (120,154) | (285,701) |
| Net cash used in investing activities | (141,624) | (301,804) |
| Financing activities: | | |
| Borrowings (repayments) under revolving lines of credit | (185,181) | 135,305 |
| Borrowings under senior notes & other | 279,742 | 52,031 |
| Net proceeds from sale of common stock | - | 51,576 |
| Proceeds from exercise of options | 1,115 | 1,500 |
| Deferred financing costs | (3,047) | (2,228) |
| Income tax benefit from stock-based compensation deductions in excess of the associated recognized compensation cost | 2,040 | 5,264 |

| | | |
|---|---|---|
| Net cash provided by financing activities | 94,669 | 243,448 |
| Effect of exchange rate changes on cash | 3 | (163) |
| Net increase in cash and cash equivalents | 5,385 | 7,236 |
| Cash and cash equivalents (overdraft) at beginning of period | 1,847 | (6,107) |
| Cash and cash equivalents (overdraft) at end of period | $ 7,232 | $ 1,129 |
| Non-cash financing and investing activities: | | |
| Conversion of senior notes payable to new senior notes | $ 66,839 | $ 25,160 |

BEACON ROOFING SUPPLY, INC.
Consolidated Sales by Product Line

| | For the Third Quarter Ended: | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2007 | | June 30, 2006 | | | |
| (dollars in millions) | Net Sales | Mix % | Net Sales | Mix % | Change | |
| Residential roofing products | $197.1 | 40.6% | $201.3 | 49.4% | $(4.2) | -2.1% |
| Non-residential roofing products | 195.8 | 40.4% | 119.0 | 29.2% | 76.8 | 64.5% |
| Complementary building products | 92.0 | 19.0% | 86.8 | 21.3% | 5.2 | 6.0% |
| | $484.9 | 100.0% | $407.1 | 100.0% | $77.8 | 19.1% |

Consolidated Sales by Product Line for Existing Markets(a)

| | For the Third Quarter Ended: | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2007 | | June 30, 2006 | | | |
| (dollars in millions) | Net Sales | Mix % | Net Sales | Mix % | Change | |
| Residential roofing products | $184.9 | 46.4% | $201.3 | 49.4% | $(16.4) | -8.1% |
| Non-residential roofing products | 125.2 | 31.4% | 119.0 | 29.2% | 6.2 | 5.2% |
| Complementary building products | 88.3 | 22.2% | 86.8 | 21.3% | 1.5 | 1.7% |
| | $398.4 | 100.0% | $407.1 | 100.0% | $(8.7) | -2.1% |

Note: Some additions and subtractions may not foot due to rounding.

(a)Excludes branches acquired during the four quarters prior to the start of the third quarter of fiscal 2007.

BEACON ROOFING SUPPLY, INC.
Consolidated Sales by Product Line

| | For the Nine Months Ended: | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2007 (a) | | June 30, 2006 | | | |
| (dollars in millions) | Net Sales | Mix % | Net Sales | Mix % | Change | |
| Residential roofing products | $510.4 | 44.3% | $516.9 | 48.3% | $(6.5) | -1.3% |
| Non-residential roofing products | 398.5 | 34.6% | 316.8 | 29.6% | 81.7 | 25.8% |
| Complementary building products | 243.1 | 21.1% | 235.7 | 22.0% | 7.4 | 3.1% |
| | $1,152.0 | 100.0% | $1,069.4 | 100.0% | $82.6 | 7.7% |

Consolidated Sales by Product Line for Existing Markets*

| | For the Nine Months Ended: | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2007 (a) | | June 30, 2006 | | | |
| (dollars in millions) | Net Sales | Mix % | Net Sales | Mix % | Change | |
| Residential roofing products | $297.7 | 42.1% | $320.2 | 43.2% | $(22.5) | -7.0% |
| Non-residential roofing products | 257.5 | 36.4% | 251.4 | 33.9% | 6.1 | 2.4% |
| Complementary building products | 152.1 | 21.5% | 169.9 | 22.9% | (17.8) | -10.5% |
| | $707.3 | 100.0% | $741.5 | 100.0% | $(34.2) | -4.6% |

Existing Market Sales By Business Day (b) during the Nine Months Ended:

| | June 30, 2007 | | June 30, 2006 | | | |
|---|---|---|---|---|---|---|
| (dollars in millions) | Net Sales | Mix % | Net Sales | Mix % | Change | |
| Residential roofing products | $1.575 | 42.1% | $1.651 | 43.2% | $(0.076) | -4.6% |
| Non-residential roofing products | 1.362 | 36.4% | 1.296 | 33.9% | 0.066 | 5.1% |
| Complementary | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| building products | 0.805 | 21.5% | 0.876 | 22.9% | (0.071) | -8.1% |
| | $3.742 | 100.0% | $3.823 | 100.0% | $(0.081) | -2.1% |

Note: Some additions and subtractions may not foot due to rounding.

*Excludes branches, such as Shelter branches, acquired during fiscal 2006.

(a) The first nine months of fiscal year 2007 had five fewer business days as compared to the first nine months of fiscal year 2006.

(b) Calculated by dividing the total nine-month existing market sales above by the number of business days in the respective nine months. This table is being presented since there was a significant difference in the number of business days between this year and last year's first nine months and we therefore believe this information may be useful to investors.

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

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | $11,505 | $17,054 | $13,971 | $34,739 |
| Interest expense, net | 7,401 | 4,845 | 20,110 | 13,157 |
| Income taxes | 7,745 | 10,580 | 9,406 | 22,651 |
| Depreciation and amortization | 9,443 | 6,327 | 23,321 | 17,143 |
| Stock-based compensation | 1,338 | 833 | 3,943 | 2,166 |
| Adjusted EBITDA (1) | $37,432 | $39,639 | $70,751 | $89,856 |

(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.

BECN-F

SOURCE: Beacon Roofing Supply, Inc.

Beacon Roofing Supply, Inc.
Dave Grace, 978-535-7668 x14
CFO
dgrace@beaconroofingsupply.com