Report for Simpson Manufacturing (SSD)

**Date:** May 12, 2024

**Latest earnings report**: April 22nd, 2024

Percentage change in **Sales** from year ago for quarter: -0.7%

Percentage change in **Earnings** per Share from year ago for quarter: -13.7%

**Pre-tax Profit on sales trend?** 18.5% vs trend of 20.3%

**Return on equity trends?** ROA:12.7%, ROE 19.8%, ROIC 15.2%

**Debt/Equity?** 0.3

\*This company has a cashflow near its current debts. It is a cash cow.

**Current PE:** 22.1

**Where does it fall in my estimated High/low range of PE's?** Near the high end

**Club cost basis is for this stock:** $97.2155 Current price: $176.00.

**My SSG Sales and EPS 5 yr growth estimate:** Sales 6% per VL and EPS 6.5 based on preferred procedure.

**My SSG Total Return:** 8.8% Projected Average Return: 3.6%

* This is based on Value line however I do not believe a prediction for housing starts and interest rate were reflected into their 3–5-year estimates nor do I see how they could.

**What will drive future growth?** Mainly residential housing starts. During the conference call that stated they usually grow 250 basis over housing starts. A premium price. If housing starts return to normal levels, we should see EPS and Sales growth return as well.

**Recommend:** I recommend we **HOLD** this stock. We have had this stock in our portfolio for about a year and a half and it has almost doubled in price. Excellent returns so far. I think we should hold for another year giving interest rates and housing starts to recover. We could expect further growth to resume after that. Nothing is fundamentally wrong with this stock other than interest rates and housing starts.

**Additional Comments:**

“The Company’s business, financial condition and results of operations depends in large part on the level of United States housing starts and residential construction activity. Overall housing starts increased slightly during the first quarter of 2024 compared to the first quarter of 2023, with single family starts increasing significantly during the first quarter of 2024. The increase in single family starts was mostly offset by lower multi-family housing starts, which are more sensitive to interest rate increases and inflation. Lower housing starts in the United States could result in lower demand, which would affect the Company's sales and possibly operating profit.

Unlike lumber or other products that have a more direct correlation to United States housing starts, our products are used to a greater extent in areas that are subject to natural forces, such as seismic or wind events. Our products are generally used in a sequential progression that follows the construction process. Residential and commercial construction begins with the foundation, followed by the wall and the roof systems, and then the installation of our products, which flow into a project or a house according to these schedules.

In prior years, our sales were heavily seasonal with operating results varying from quarter to quarter depending on weather conditions that could delay construction starts. Our sales and income have historically been lower in the first and fourth quarters than in the second and third quarters of a fiscal year. Due to efforts in diversifying our global footprint with the acquisition of ETANCO and changing our path to market in the United States, sales from our product line, customer base and customer purchases are becoming less seasonal. Political and economic events such as rising energy costs, volatility in the steel market, stressed product transportation systems and increasing interest rates can also have an effect on our gross and operating profits as well. Changes in raw material cost could impact the amount of inventory on-hand, and negatively affect our gross profit and operating margins depending on the timing of raw material purchases or how much sales prices can be increased to offset any increases in raw material costs.”

**Excerpt from latest 10Q**