



# Construction Partners Inc. (ROAD)

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Seidman Investment  
Portfolio Organization



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## Equity Research Report: Construction Partners Inc. (ROAD)

**Rating: Hold**

### Overview:

- **Description**—Looking into the rapidly growing leader based in the Southeastern United States, Construction Partners Inc., has more than what meets the eyes. Led by a talented and strategic management team, facing great organic growth, and strategic acquisitions.
- **Company Profile**—Since their inception in 2001, Construction Partners Inc., has scaled into one of the largest operators in the Southeastern United States. Construction Partners Inc. built a legacy in its project developments since 2001.
- **Management Team**—A strategic team with diverse backgrounds and expertise in the industry, Construction Partners Inc. has a management team that will continue the organic healthy growth of the company.
- **Recent News**—A company that tends to not be on the headlines of the news, Construction Partners Inc. has been a sleeping giant growing over the years such as the rapid growth of acquisitions and growth of their core plants to produce materials for contracts.
- **SWOT Analysis**—Evaluating Construction Partners Inc. strengths and weaknesses, as well as the opportunities and threats presented by the entire sector, is vital for forming an opinion.
- **Competitors**—Comparing Construction Partners Inc. to its competitors in the sector highlights how it looks against their competition in the sector and how it potentially looks in the future.
- **Growth Analysis**—Companies such as Construction Partners Inc. are here to stay, established for over 20 years since 2001 providing efficient and amazing services for public and private infrastructure projects and continuing their growth especially the next 4 years with opportunities growing.
- **Valuation**—Using a method based upon earnings per share growth analysis will show us a clearer image of the outlook of how profitable the business will become in the future.
- **Equity Rating**—After examining Construction Partners Inc fundamentals, market conditions, their competitors, and the future that is ahead for the industry, Construction Partners Inc. has received a rating as a **Hold**.

### Equity Research Report

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## Company Profile

Dating back about two decades, Construction Partners Inc was incepted in 2001 by acquiring C.W. Roberts Contracting, Inc. which has served public and private customers throughout central and northwest Florida since 1976. Since then, Construction Partners Inc. created a goal of acquiring companies that are established market leaders in the areas that they serve, leveraging standardized best practices, scale advantages, and local market knowledge to deliver excellence in construction products and services to infrastructure projects over a wide geographic footprint.

To help finance their growth strategy Construction Partners Inc. went public on, May 4th, 2018, under the ticker ROAD for \$12 per share. The company decided to go public to utilize the net proceeds to provide growth capital, to fund acquisitions, and for general corporate purposes, which may include the repayment of a debt from time to time.

To this day, Construction Partners Inc. covers over 28,500 miles of highway infrastructure in a high-growth region of the United States. Since 2001, Construction Partners Inc. augmented their internal growth with 24 acquisitions of complementary businesses throughout the Southeastern United States. Construction Partners Inc. operates in five different states, owns 45 HMA Plants, nine aggregate facilities, and one liquid asphalt terminal.

## Management Team

### **Charles E. Owens – President and Chief Executive Officer**

Charles Owens is a founder of Construction Partners and has been President and Chief Executive Officer since its inception. He has been a member of the Board of Directors since 2001. Prior experience includes being a President and Chief Executive Officer of Superfos Construction U.S. Inc, during his tenure he oversaw the successful acquisition and integration of more than 35 companies building one of the largest highway construction companies in the United States. Received a Bachelor of Business Administration degree from Troy University in Troy, Alabama.

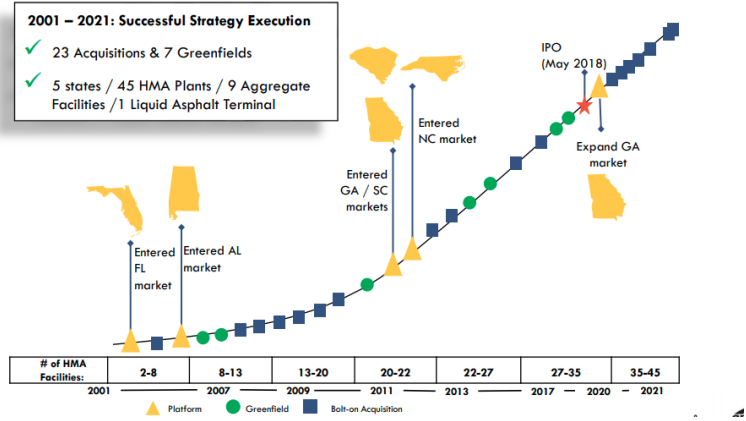
### **Alan Palmer – Executive Vice President and Chief Financial Officer**

Alan Palmer is a founder of Construction Partners and has been the company's Chief Financial Officer since 2006. Prior experience includes being Vice President and Financial Officer of Couch Construction and Superfos Construction U.S. Also, Alan Palmer has been principally involved in the acquisition and integration of approximately 50 companies alongside Charles Owens. A certified Public Accountant since 1975, received a Bachelor of Science degree in Accounting from Auburn University in Auburn, Alabama.

### **Jule Smith – Chief Operating Officer**

Jule Smith has more than 25 years of construction management experience. Joined and assumed the position of Chief Operating Officer since 2011. Prior experience includes serving as Chief Operating Officer of a Raleigh-based highway contractor and asphalt producer. Also, he held various positions within the Fred Smith Company.

## PROVEN STRATEGY

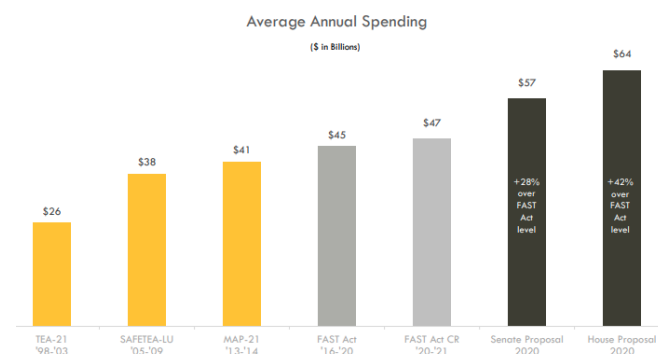


Received a Master of Business Administration and a Bachelor's in Arts in History from Wake Forest University.

## Recent News

### Construction Partners, Inc. to Participate in Two Virtual Investor Conferences

Members of the Construction Partners management team are scheduled to meet with investors at the Raymond James 42nd Annual Institutional Investors Conference on March 2, 2021, at 3:00 p.m. Eastern Time. In addition, they will participate in the Bank of America Securities Research Global Industrials Conference on March 17, 2021.



### Construction Partners, Inc. Announces Fiscal 2021 First Quarter Results

Construction Partners compares first quarter 2021 to first quarter 2020. The data presents an increase in revenue up 8.9% equating around \$190.9 million up, gross profits were up 28.8% equating around \$30.6 million up, net income up 34.4% equating around \$7.9 million up. Charles Owens, the CEO, announced, “We are pleased with our performance in the first quarter of fiscal 2021, and we are maintaining our previously announced outlook for the year. Consistent demand in both private and public markets, coupled with our disciplined approach in bidding and project management, effective utilization of crews and equipment, and vertical integration synergies, drove strong financial performance in the first quarter.” This shows Construction Partners Inc. takes and utilizes their business strategy very efficiently and effectively producing healthy growth compared to 2020 fiscal data.

### Transaction Adds Two Hot-Mix Asphalt Plants on East Coast

A recent transaction adds two dynamic markets in northeastern North Carolina and extends the geographic territory they added in the recent acquisition of Rose Brothers Paving Company. This shows that the attention of operators in the industry is caught by Construction Partners because they show a dynamic and growing organization, with even more positive opportunities for continued growth and success.

## SWOT Analysis

### Strengths

- **Successful Record of Executing and Integrating Acquisitions:** Successfully identifying, executing, and integrating acquisitions. 23 acquisitions since 2001 total with prior experiences from the elite management team for dealing with acquisitions which allow them to expand service offerings and geographic reach.
- **Leading Market Positions in Strategic Geographic Footprint:** The 45 hot mix asphalt (HMA) plants are strategically located across Alabama, Florida, Georgia, and North Carolina and are near interstate highways with dense road systems. The region's temperature climate allows project execution for most of the year.

- **Scale Advantages:** The HMA plants, equipment fleet, experienced personnel, and bonding capacity provides scale advantages over their competitors, and the ability to internally source HMA provides project execution and bidding advantages.

## Weaknesses

- **Heavy Reliance from State DOTs:** The largest customers are the state Department of Transportation (DOTs), Alabama and the North Carolina DOTs accounted for a significant portion of revenues. Any losses from jobs from DOTs especially from Alabama and North Carolina would raise potentially a hefty toll on the company.
- **Restrictive Expansion:** Dedicating the company to the only service in the Southeastern portion of the United States is very restrictive due to setting up all facilities in that geographic location with little potential for breaking out and expanding to the rest in near future.

## Opportunities

- **New Administration:** According to the new administration ran by President Biden, the President put a lot of emphasis on expanding, redeveloping, and creating new infrastructure for America's frail infrastructure system. The next 4 years are guaranteed to be very beneficial especially in the Southeastern part of America where there is a dense amount of the population remain which means more projects, more funding, and greater opportunity for the company.
- **Federal Funding Update:** From 2005 to 2020 we have seen the federal funding increase from \$38 billion to \$64 billion in funding for new and improved infrastructure needs for the United States. The consistent raising in funds shows the need for constant improvement in infrastructure to help fix America's broken and frail system.

## Threats

- **Federal Laws and State Laws Regulating:** Every state tends to have different regulations and any missteps can result in a suspension or being disbarred from government contracting, which could result in having a material adverse effect on the business. Differences such as wages, permits, and working conditions must be researched carefully due to the multi-state operations.
- **Material Shortages:** Since the awful pandemic hit our country and deeply impacting our economy it has driven a material shortage that is expected to last throughout 2021 as well. The driving factors to this shortage are the backlog, revenue expectations, and contractor confidence. The rising prices in materials will make it difficult for the inputs of materials into projects driving the bidding cost higher.

## Competitors

Ticker	Last Price	MKT Cap	P/E (TTM)	PEG	FCF
ROAD	\$28.94	\$1.50B	37.40	6.40	\$67.94M
EXP	\$125.38	\$5.26B	15.11	1.25	\$527.49M
LPX	\$47.61	\$5.07B	10.67	4.15	\$582M
EME	\$97.37	\$5.35B	40.57	1.07	\$684.6M
Ticker	Total Revenue in Millions (TTM)	EPS (TTM)	Price to Sales	Dividend Yield	Institutional Ownership
ROAD	\$804.2	0.82	1.87	N/A	103.71%
EXP	\$1,508.2	8.30	1.86	0.32%	95.63%
LPX	\$2,310	4.46	1.86	1.34%	96.33%
EME	\$8,919.5	2.40	0.61	0.52%	97.46%

*As of February 27, 2021*

Comparing the stock price between all the companies Construction Partners Inc. holds the cheapest price however has the smallest market cap of \$1.50 billion. This is a strength because as small as it is with stock price and market cap it is very beneficial to get on the ground floor of this company because compared to the competition the average stock price is \$90.12 and the average market cap is sitting above \$5 billion which are very expensive compared to Construction Partners.

The price-to-earnings ratio compared to all the companies are relatively high. Construction Partners holding the second highest which is a weakness, however with the organic growth it produces, and constant acquires of other competition, this is worth the price. Construction Partners is on the more expensive end according to their PEG of 6.40. To evaluate the PEG ratio anything under a 1 is considered undervalued. However, in some cases such as this one a PEG ratio that is higher could be technically a good thing if you are getting a good rate of return and the company having a very bright future ahead of them. Comparing to their public competition. In this case, we are willing to pay 6.40 for every 1 unit of growth.

Examining the free cash flow between all the companies, Construction Partners holds the least in this evaluation, which is nothing to worry about because it has the smallest market cap between its competition. When it comes to the future and Construction Partners grows to a higher market cap matching the competition, more analysis will need to be done to reevaluate the free cash flow to see if it is perming as well as their competition.

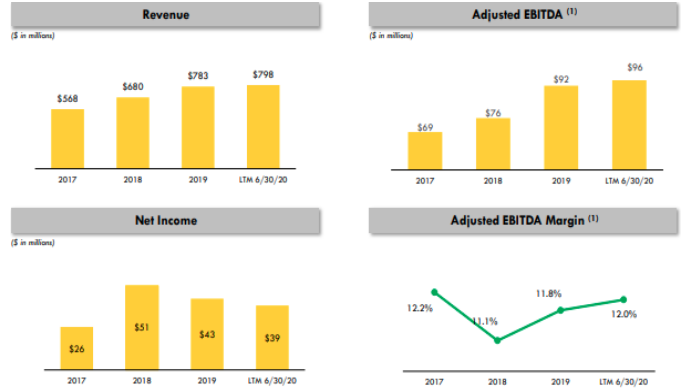
In terms of total revenue Construction Partners holds the smallest amount lagging greatly behind its competition. Again, due to its smaller market cap, all numbers will remain smaller compared to the competition. Looking at the earnings per share ratios between the companies Construction Partners holds the lowest at \$0.82 earnings per share where the highest held by Eagle Materials at \$8.30 earnings per share. The price to sales ratio is very similar mostly around 1.86, meaning that Construction Partners Inc. has a market cap 1.86x the amount of their revenue.

2001	Acquired C.W. Roberts Contracting
2002	Acquired Granger Asphalt Paving
	Acquired Wiregrass Construction Company Inc
2007	Acquired Lambert Materials
2008	Acquired Shelby Contracting
	Acquired Chilton Paving
2009	Acquired Bullard Excavating
2010	Acquired Hewitt Contracting
2011	Acquired Everett Dykes Grassing Co
	Acquired Fred Smith Company
	Acquired Lewis Construction
2014	Acquired Jackson Paving & Construction
2017	Acquired Allstate Materials/Allstate Coosa, LLC.
2018	Acquired The Scruggs Company
2019	Acquired Lynch Paving & Construction Co., Inc.
	Acquired Jim's Asphalt / J&D Enterprises
	Acquired Mancil's Tractor Service
2020	Acquired Riley Paving, Inc.
	Acquired Rose Brothers Paving Company, Inc.
	Acquired Gelder & Associates
	Acquired R.P.C Contracting, Inc.



Comparing the dividend yields, Construction Partners does not offer a dividend yield whereas all the competition offers a low dividend yield to attract investors. Construction Partners made it clear that they will not offer a dividend yield in the foreseeable future due to the company wanting to primarily focus on expanding, growing organically, and strategically outperforming the competition in the future. A very positive growth catalyst is that the company should not offer a dividend yield and focus on the growth because the share price increasing when they continue their route to success continues and will grow with the company.

Finally, the institutional ownership is very high, showing that there is great potential for all these companies, Construction Partners holding the highest at 103.71% which is over the highest of 100%. This is due to institutional investors shorting the stock and there are more outstanding shares than are currently out. This is very concerning that it is being heavily shorted as this, however, this could drive the price down which makes it a more valuable play to get into whereas the competition will continue keeping high share prices and the institutional investor ownership rate around 96% on average for rest of them.



## Growth Analysis



Since the IPO dating back on May 4, 2018, at \$12 a share, it has gained over 138% in value of share price. In the same period, Construction Partners has outperformed all competitors. When comparing Louisiana-Pacific Corporation (Cyan) to Construction Partners (Blue), Louisiana-Pacific Corporation came close, but is shy of around 75% which is extraordinary and shows the potential and represents how Construction Powers outperforms, is more strategic, and will continue this growth to beat out competitors. The next competitor Emcor Group Inc (Orange) fell shy from performing as well as Construction Partners by 110%. The least performing competitor, Eagle Material (Yellow), underperformed Construction Partners by 122%. Overall, Construction Partners shows a great return rate, outpacing their competitors, outperforming the indexes, and consistently growing.

The way Construction Partners have been producing such great results is by utilizing their competitive advantages including their scale with HMA plants strategically located across our footprint, vertical integrations by HMA manufacturing and construction services, geographic synergies of crews and equipment, use of technology with integrated processes and standardized IT systems, and relative market share that are primarily local competitors which they have a home-based workforce that understands the local market.

The management team is highly sophisticated and turned companies into big successes with their expertise in the industry, acquisition work, and organic growth with expansion. They show strong leadership and made bold and very likely claims with their use of organic growth and constant acquire of competition locally they will build up a titan of a business eating market share from the competition until they can acquire their neck-to-neck competition.

<b>SCALE</b>	HMA plants strategically located across our footprint	45 markets More than 2,400 employees
<b>Vertical Integration</b>	HMA Manufacturing & Construction Services	Internally source a portion of our aggregate, RAP, and liquid asphalt Turnkey construction service capabilities
<b>Geographic Synergies</b>	Geographic Synergies of Crews & Equipment	Flexibility to deploy crews and equipment across our footprint Better utilization enhances profitability
<b>Use of Technology</b>	Integrated Processes	Standardized IT systems Improved bidding, job execution and financial controls
<b>Relative Market Share</b>	Primarily Local Competitors	Majority of competitors are local companies CPI has a home-based workforce that understands the local market

## Valuation

Using an earnings per share growth evaluation analysis, a bull and bear case can be calculated. To breakdown the earnings per share growth for the next five years we projected \$0.78 revenue per share and the projected market cap is around \$579.6 million for 2020. For 2021, we see a projected revenue per share of \$0.98 and a market cap projection of \$724.5 million. For 2022, we see projected earnings per share of \$1.22 and a market cap of \$905.6 million. For 2023, we see projected earnings per share of \$1.52 and a market cap of \$1.13 billion. For 2024, the projected earnings per share are \$1.90 and a market cap of \$1.41 billion. Finally, the 2025 projected earnings per share of \$2.38 a share and a market cap of \$1.77 billion.

Case	Market Value (in Millions)	Stock Price	Upside (Downside)
<b>Bull</b>	<b>\$1,768.75</b>	<b>\$34.15</b>	<b>18.00%</b>
<b>Base</b>	<b>\$1,527.80</b>	<b>\$29.49</b>	<b>1.93%</b>
<b>Bear</b>	<b>\$1,249.61</b>	<b>\$24.21</b>	<b>(16.63%)</b>

The inputs for this valuation have the 10-year bond rate at 1.44%, company growth at 25%, and shares out at 51.8 million. The current market cap is sitting at \$1.5 billion which exceeds its projected market cap for the next 4 years which shows that the institutional investors see a lot of potentials for this company to be trading at such a premium. The projected bull/bear case we generated shows a high result of 18% growth over the next 5 years and a market cap of \$1.77 billion. The low-end case is projected to be -16.63% and a market cap of \$1.25 billion.

## Equity Rating

**For the following reasons Construction Partners Inc. Is Issued a Buy Rating:**

- Strong and a very strategic leadership with executives that have extensive and knowledgeable experience in the very competitive industry. The diverse background and the experience in many acquisition and merger deals give them the competitive edge to expand efficiently and effectively.
- The consistent acquisitions the company showed in 2020, one of the worst years since 2008 and overall drag on the market shows how fearless and brave Construction Partners Inc. is and know how to strategically maneuver during difficult times.



- Basing the company on acquisitive growth as a business model shows a very consistent growth for earnings per share for the next five-year valuation which is highly respectable. However, if the company starts to spread past its geological location to more of a nationwide type of company and score bigger projects private and public this will drive the attention from media, growth valuation, share price, and valuation of the company.

## Resources

- [Construction Partners Inc Investor Relations](#)
- [CapitalIQ](#)
- [Yahoo Finance](#)
- [CNN Money](#)
- [Chase YouInvest Research Tools](#)

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