

Masonite International: From Reality, Not From Models

May 22, 2022 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

After accumulating some amount of experience analyzing companies, I came to conclusion that in the equity markets it is much more important to know what not to do, instead of knowing what to do.

During 2020, besides the fact that market was overwhelmed by covid narrative, there was a positive side to all the chaos. A lot of noise, and non-sense, and conflicts of interest, and lies were washed away. And the exercise of plain common sense, without the need for too much of sophistication, was enough to achieve good results.

While restaurants and hotels are closed, supermarkets were doing fine. While airlines and travel companies suffered, consumer goods packaging was in demand. While banks became questionable, home improvement retailers such as Home Depot, Lows and Tractor Supply Company were doing well because people stayed at home and went to purchase appropriate products.

Plain common sense, nothing more.

While many retail companies declined last week, certain companies reported strong results.

For example, Masonite International (not a retail company) [reported](#) "exceptional start to 2022", with "strong first quarter net sales and earnings growth".

Masonite International is a global designer, manufacturer, marketer, and distributor of interior and exterior doors for the new construction and repair,

renovation, and remodeling sectors of the residential and non-residential building construction markets.

Company had \$2.6 bil in sales and Adjusted EBITDA of \$413 mil in last fiscal year. According to company's guidance and recent investment presentation, it aims to achieve \$4 bil in sales and 20% Adjusted EBITDA margin in FY 2025.

Company currently has a market capitalization of \$1,930 million an Enterprise Value of \$2,612 million and is currently valued at an EV/EBITDA multiple of x6.33 (Adjusted EBITDA for FY 2021).

Company's objectives for FY 2025 can bring Adjusted EBITDA to about \$800 mil.

Using our valuation assumptions and applying an EV/EBITDA valuation of multiple of x8.5 we believe that shares of Masonite International could be valued at \$245 per share in three years.

This would provide an upside of about 187% or approximately 62% percent annual return.

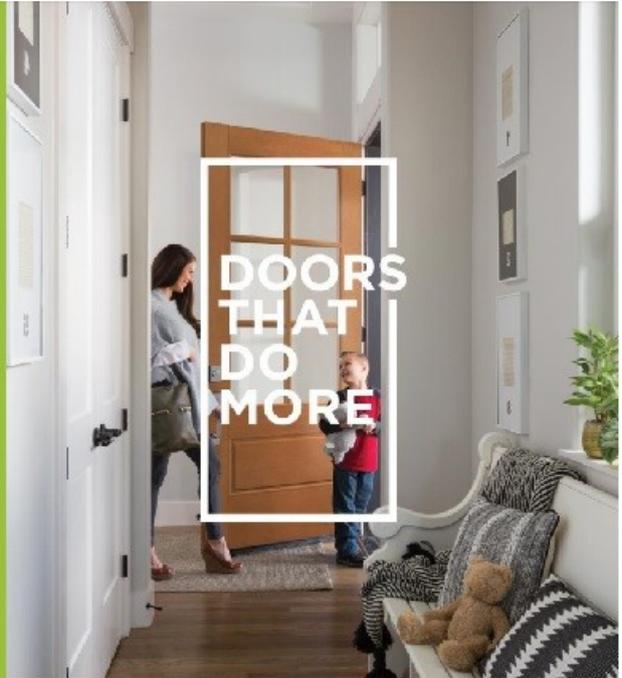
Even assuming a less aggressive annual growth in Adjusted EBITDA of 5% percent only can still provide an almost 100% percent upside potential over next three years.

We also think that given current [story structure](#) of company and its shares, it can become a buyout target, strategic acquisition target or activist investors target.

 MASONITE.

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