

INDUSTRY INSIGHTS: BUILDING PRODUCTS & MATERIALS

Q2 2023 M&A Market Update

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INSIDE THIS ISSUE...

This issue of the Building Products & Materials (BP&M) newsletter describes the current state of the BP&M market and how high interest rates, high home prices, and investor concern around a potential recession in the U.S. have driven an unremarkable first quarter of M&A activity for the BP&M industry.

Would-be homeowners are delaying home purchases due to higher mortgage rates, leading to renovation and maintenance work taking priority for personal spending. Investors have rewarded assets with exposure to the repair & renovation market while expressing skepticism and increasing due diligence for companies focused on new residential construction.

Commercial construction starts remained strong through Q1 2023, setting a record in February for construction put in place. Commercial construction tailwinds are due in part to supply chain-related project delays during 2021 and 2022 that created a significant backlog of ongoing work. There is uncertainty around sustainability of the current level of activity once project backlogs return to a normalized level.

Private equity firms facing higher acquisition financing costs have become more selective on BP&M assets, avoiding businesses that have been heavily impacted by recent supply chain constraints and inflationary pressures since they have become increasingly difficult to forecast and value. Strategic buyers in the BP&M space, less impacted by rising interest rates, continue to pursue acquisitions as a path to deploy excess cash and expand market share or vertically integrate.

2022 U.S. BP&M M&A activity set records but slowed as the year ended given lingering concerns over inflation, the higher cost of capital, and the unknown severity of a potential economic recession. Despite current potential headwinds, we expect U.S. BP&M M&A to remain active as lower valuations have made BP&M acquisitions more attractive. For sellers, businesses experiencing growth and achieving above-average EBITDA margins will likely continue to be in demand and command premium valuations.

ONE OF THE MOST ACTIVE ADVISORY NETWORKS IN THE WORLD

Ranked #1 Global Financial Advisor in FactSet League Tables 2022



2,095
Deals in 2022




\$115 B
Deal Value




120
Countries

Select BDO Capital BP&M Transactions




Served as exclusive financial advisor to Tendon Systems LLC in its sale to Commercial Metals Company (NYSE: CMC)



Served as exclusive financial advisor to Dutchland, Inc. in its sale to Lindsay Precast, a portfolio company of MiddleGround Capital




Served as exclusive financial advisor to Synergi, LLC in its sale to Eureka Equity Partners



Served as exclusive financial advisor to Solatube International, Inc in its sale to Kingspan Light & Air, LLC, a division of Kingspan Group plc (ISE:KRX)



Served as exclusive financial advisor to Safe-Way Garage Doors, LLC in its sale to CW Industrial Partners, LLC



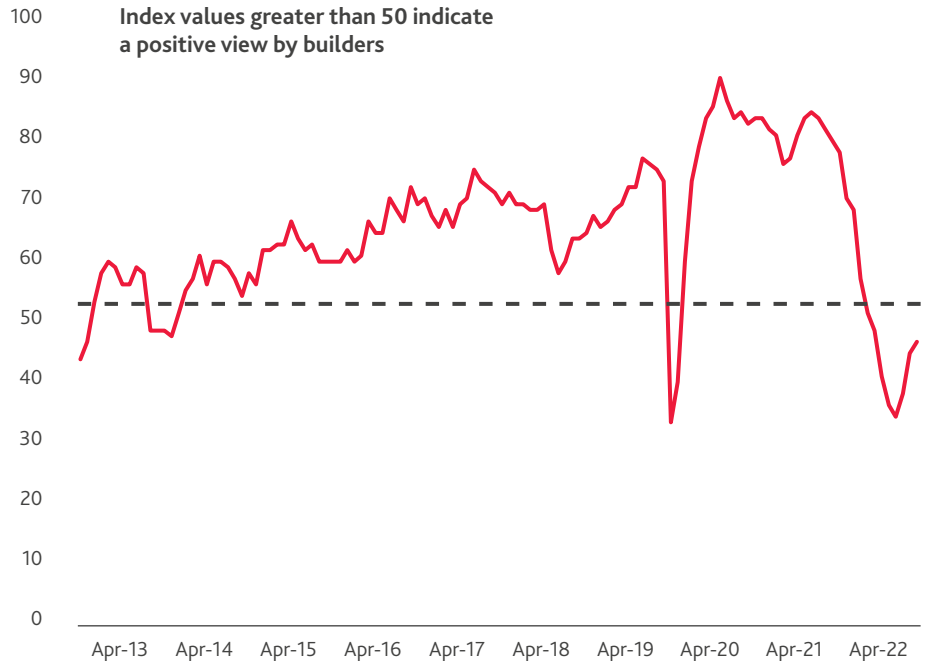
Served as exclusive financial advisor to Coastal Industries, Inc. in its sale to American Bath Group, LLC

ECONOMIC INDICATORS – U.S. RESIDENTIAL

NAHB Housing Market Index (Builders Confidence)

Commentary

- ▶ Since reaching a recent low of 31 in Dec-22, the National Association of Home Builders (NAHB) Housing Market Index (HMI) has rebounded to 44 in Mar-23 as home builder sentiment has moderately improved in conjunction with decreased concerns of a severe recession.
- ▶ The HMI has remained below 50 since Aug-22 as home price affordability and rising interest rates have negatively impacted home builder sentiment.

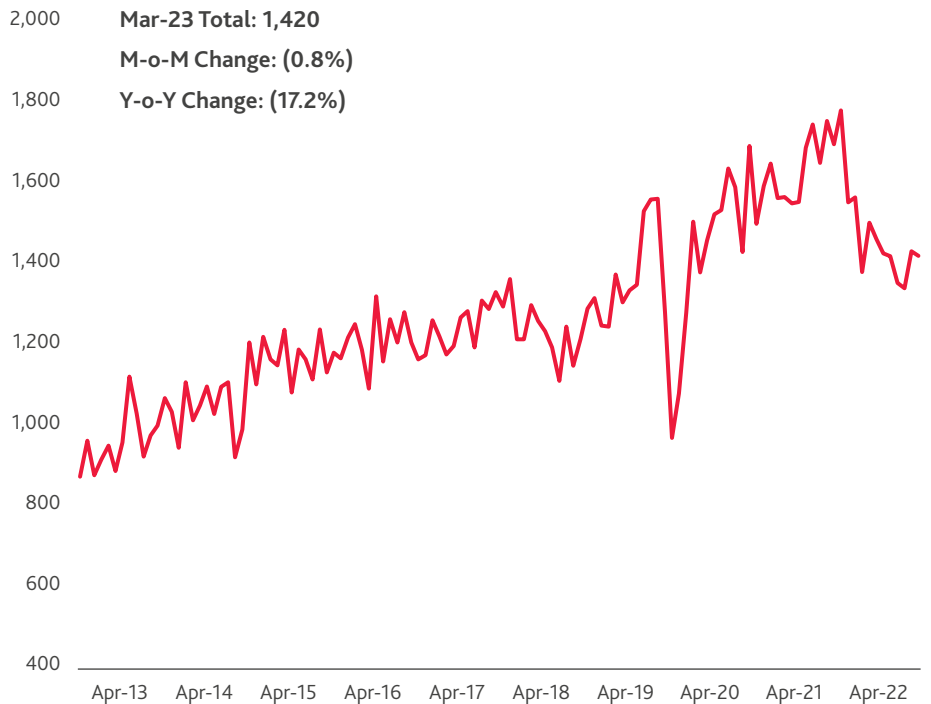


Seasonally Adjusted / Source: National Association of Home Builders

National Housing Starts ('000s of units)

Commentary

- ▶ After reaching a recent peak of 1,805k units in Apr-22, national housing starts have slowed over the last 12 months, reaching 1,420k units in Mar-23.
- ▶ Despite softening over the last 12 months, U.S. housing starts have exceeded one million units in every month since May-20.
- ▶ Industry participants will be keeping a close watch on housing starts through the remainder of 2023 to see if recent trends are a short-term setback or if they represent a long-term plateauing of residential construction in the U.S.



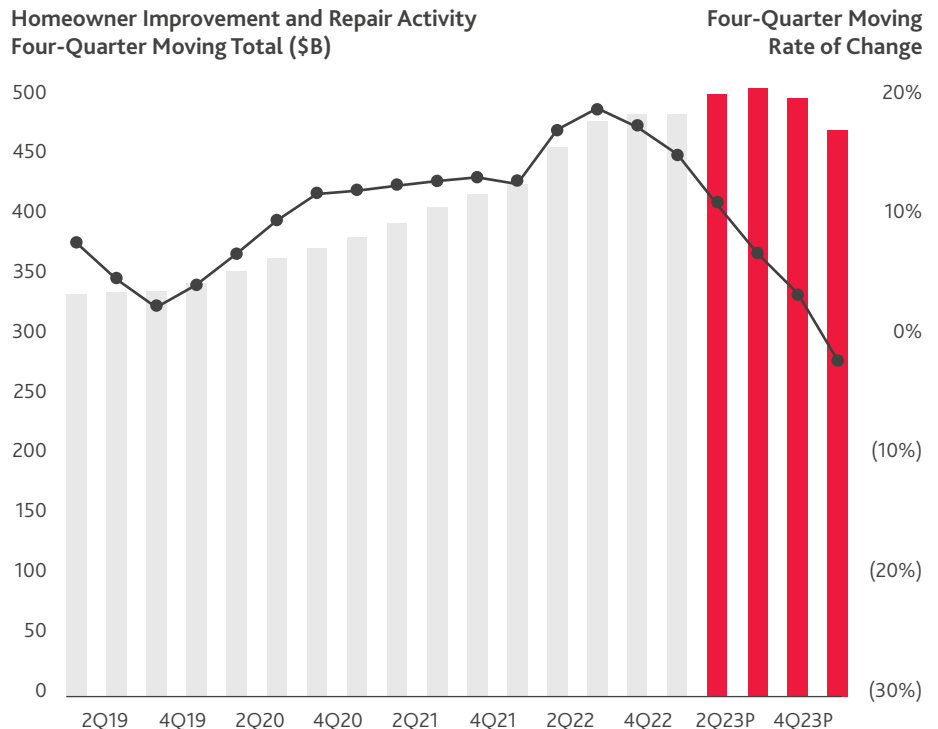
Seasonally Adjusted Annual Rate/ Source: United States Census Bureau

ECONOMIC INDICATORS – U.S. REMODELING

Leading Indicator of Remodeling Activity

Commentary

- ▶ According to the Leading Indicator of Remodeling Activity (LIRA), home improvement and repair spending remained flat from Q422 to Q123 at \$471 billion.
- ▶ Remodeling activity is expected to continue at record rates throughout the majority of 2023, with the four-quarter moving total projecting to peak at a record high of \$492 billion in Q323.
- ▶ A combination of reduced home sales coupled with general economic concerns are driving expectations for reduced remodeling activity at the end of 2023 and beginning of 2024.

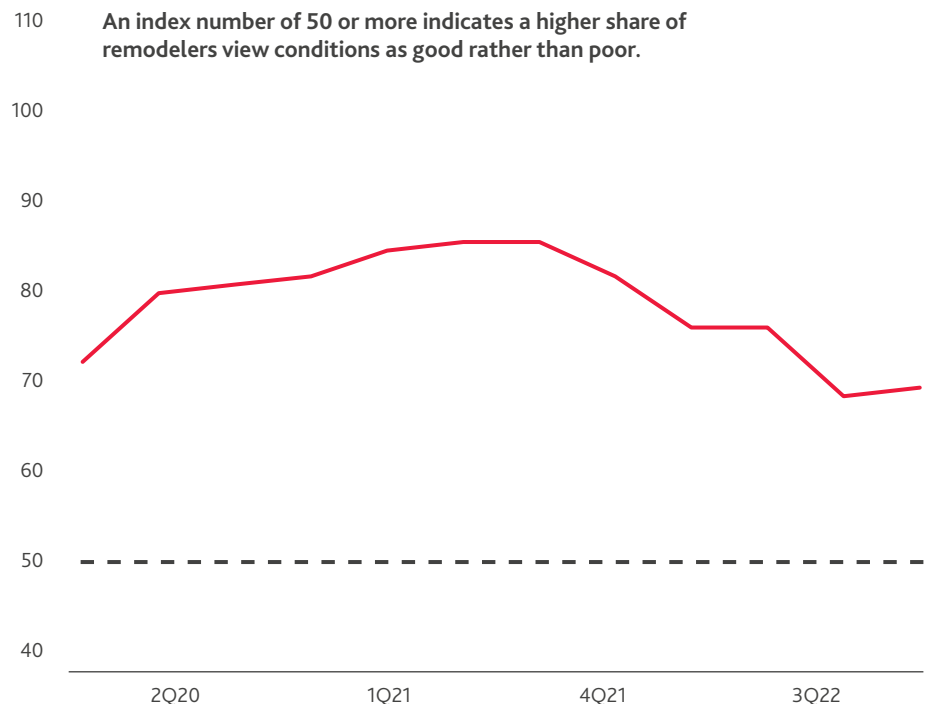


Historical data through 2021 are Joint Center for Housing Studies (JCHS) estimates based on American Housing Survey data. Historical estimates since 2021 are produced using the Leading Indicator of Remodeling Activity model until new AHS data becomes available. Projections (P) are produced by the LIRA. Source: Joint Center for Housing Studies

Remodeling Market Index

Commentary

- ▶ Since NAHB & Westlake Royal reworked the methodology of the Remodeling Market Index (RMI) in 2020, the index has highlighted the strength in the U.S. remodeling market over the last three years.
- ▶ The RMI index reached a peak of 87 throughout the second half of 2021, and has remained significantly above 50 every quarter since Q220.
- ▶ Remodeling continues to outperform the broader residential construction market as homeowners continue to invest in home improvements.



Not Seasonally Adjusted / Source: National Association of Home Builders

ECONOMIC INDICATORS – U.S. NON-RESIDENTIAL

Non-Residential Construction Put in Place

Commentary

- ▶ Non-residential construction put in place totaled \$982 billion in Feb-23, representing a 16.8% increase over the same month a year ago and a new monthly record in the U.S.
- ▶ Coming off a strong 2022, the first few months of 2023 indicate continuing bullish construction activity in the non-residential market as companies reorient back to in-person business.
- ▶ Non-residential construction put in place has continued unabated in the U.S. as improving labor and supply chain dynamics have enabled construction companies to execute on existing projects more efficiently and economically.

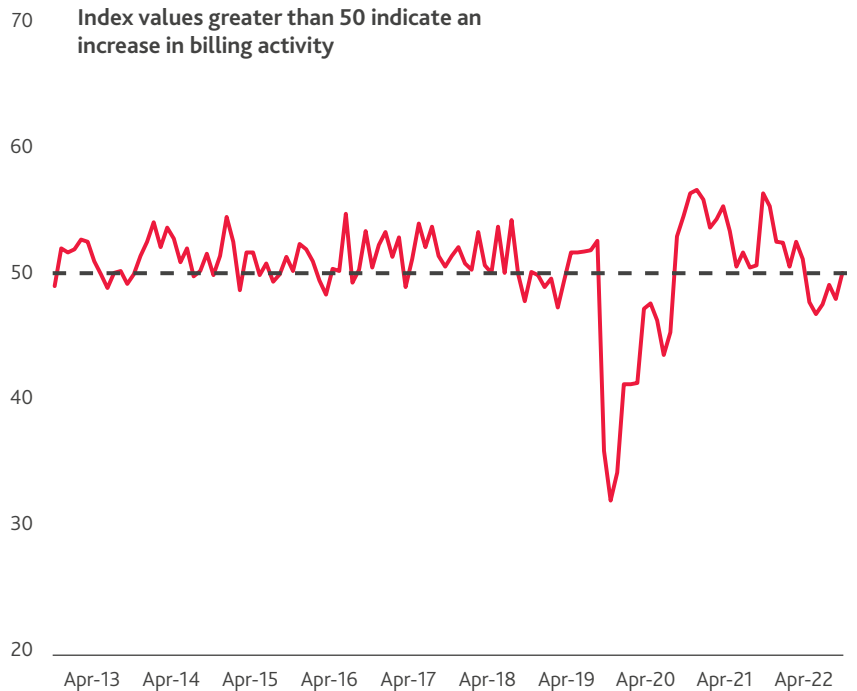


Seasonally Adjusted Annual Rate / Source: United States Census Bureau

AIA Architectural Billings Index

Commentary

- ▶ The American Institute of Architects' (AIA's) monthly Architecture Billings Index (ABI) is a leading economic indicator for non-residential construction activity, with a lead time of approximately 9–12 months.
- ▶ Following a strong first nine months of 2022 for the index, Q422 saw monthly readings below 50 as firm billings declined across all regions of the country.
- ▶ The index improved in Mar-23 to 50.4, the first month since Sep-22 that showed a month-over-month increase in billing activity; however, industry participants remained concerned about clients committing to new projects due to lingering uncertainty about interest rates and inflation.



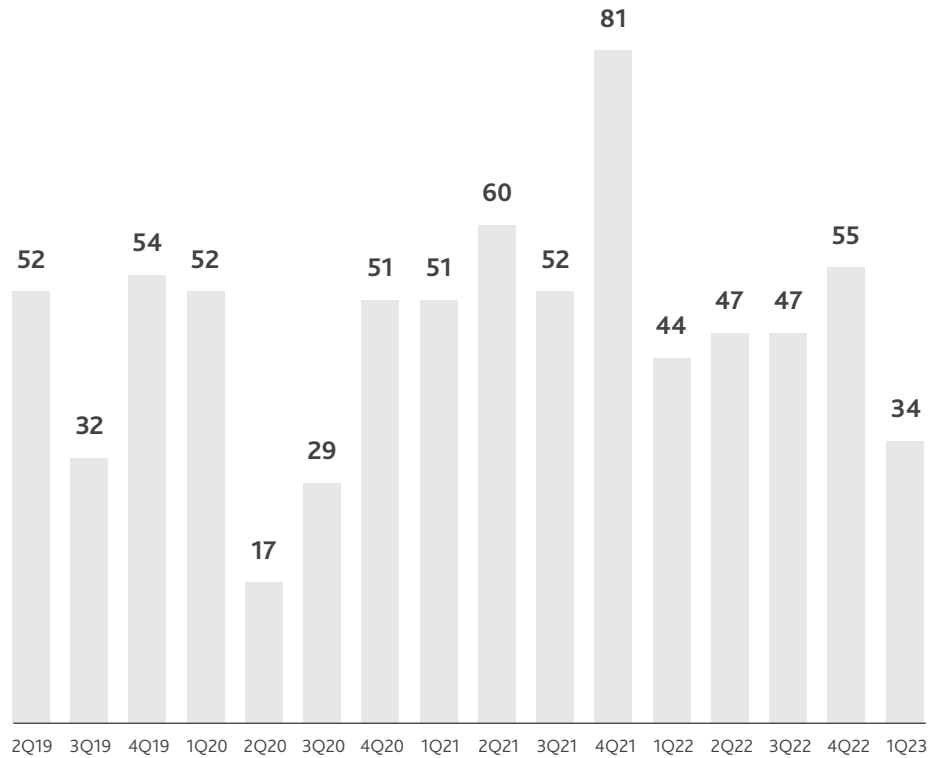
Source: The American Institute of Architects

SECTOR M&A ACTIVITY

Announced M&A Transactions: U.S. BP&M Industry

Commentary

- ▶ BP&M M&A announcements declined in Q123, reaching the lowest since Q320.
- ▶ As Fed interest rate hikes have accumulated over the past year, debt financing has become a significant hurdle for traditional LBO deals.
- ▶ BP&M M&A activity indicates additional caution and scrutiny from investors in the sector due to the potential impact from rising interest rates, concerns surrounding inflation, and fears of a pending recession.

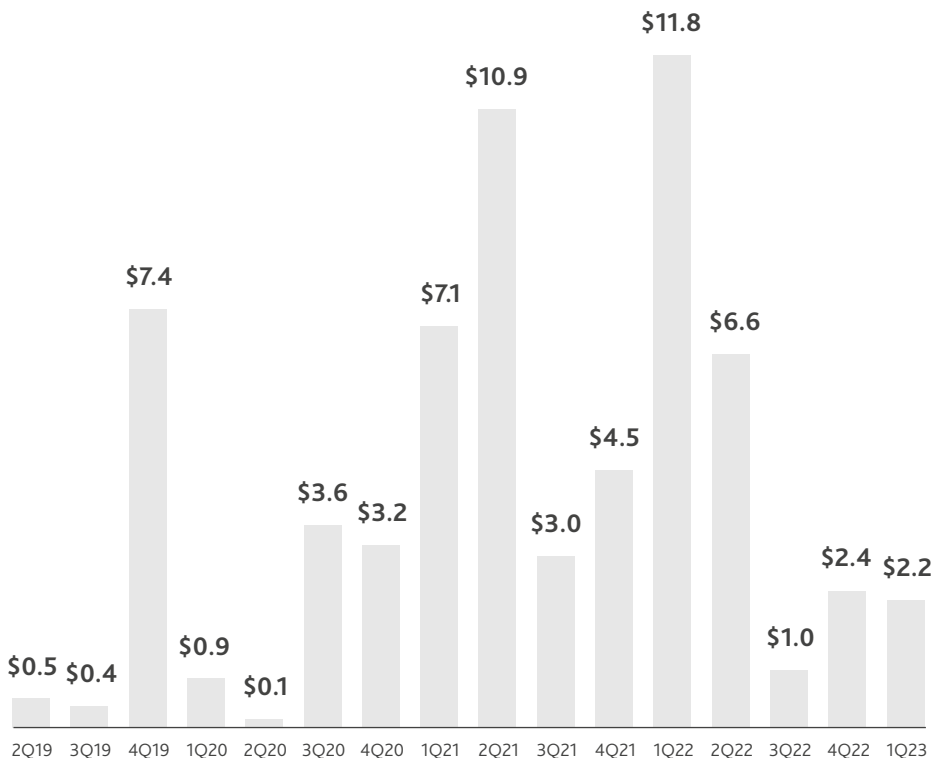


Source: S&P Capital IQ

Total M&A Transaction Value (\$B): U.S. BP&M Industry

Commentary

- ▶ Total reported deal value of \$2.1B in Q123, a slight decline from Q422.
- ▶ The continued decline in larger M&A deals reflects a broader market response to interest rate hikes and a generally cautious sentiment.
- ▶ The largest announced acquisition in the BP&M industry in Q123 was the \$1.3B acquisition of Duro-Last by Holcim (SWX:HOLN).



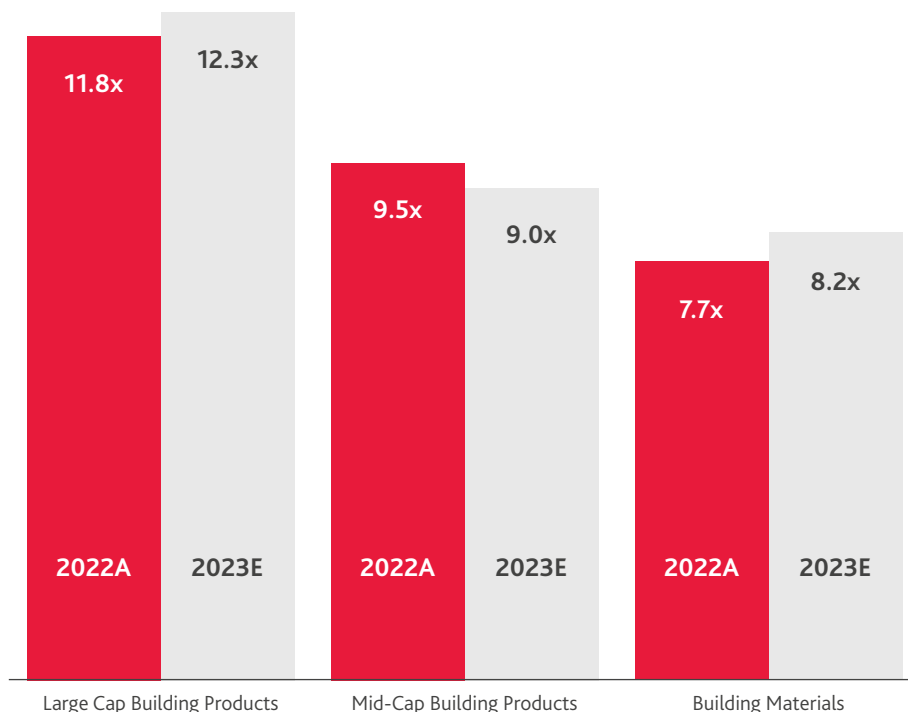
Source: S&P Capital IQ

SECTOR VALUATION TRENDS

Median U.S. BP&M TEV/ EBITDA Multiples

Commentary

- ▶ Public company multiples suggest that investors expect stagnant or declining EBITDA in 2023 across Large Cap Building Products companies and Building Materials companies, with modest growth in EBITDA expected for Mid-Cap Building Products Companies.
- ▶ Average company trading at 94% of its 52-week high.



Note: Constituents include large cap building products manufacturers, mid-cap building products manufacturers and building materials manufacturers; multiples as of 3/31/23
Source: S&P Capital IQ

BP&M Equity Market Performance v. S&P 500 Index

Commentary

- ▶ BP&M stocks broke away from the broader market in Q422 and retained outperformance into Q123.
- ▶ The building products and materials index decreased (1.7%) over the twelve months ending March 31st compared with a (9.3%) decline for the broader S&P 500.
- ▶ AAON, Inc. was the best performing stock in the BP&M index, increasing 73.5% over the last twelve months.



Note: BP&M Index represented by large cap building products manufacturers, mid-cap building products manufacturers and building materials manufacturers
Source: S&P Capital IQ

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*Services provided with the assistance of BDO USA, LLP

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