

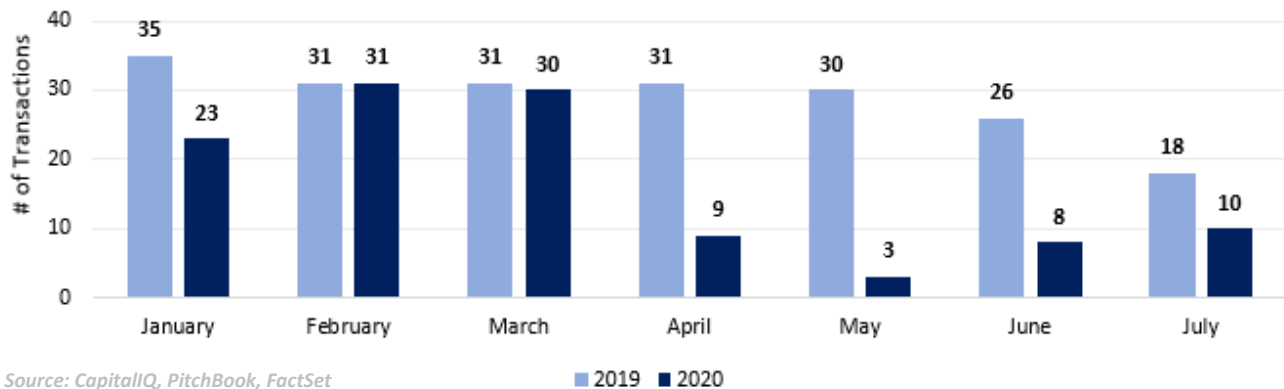
# BUILDING PRODUCTS INDUSTRY UPDATE

## FALL 2020

During the first half of 2020, COVID-19 created unprecedented disruption in the Building Products industry (industry includes companies that manufacture and/or distribute building systems and components) as lockdown measures and supply chain challenges significantly impacted industry demand and downstream markets. However, as lockdown measures ease and building products participants move towards a more normalized workload, industry demand and unemployment rates are displaying signs of a rebound.

Building Products M&A activity in Q1 2020 moderately trailed Q1 2019, but fell off significantly in Q2 as a result of the pandemic. Volume picked up in June and July as strategics began to revisit M&A activity after focusing on internal cash flow and liquidity preservation. While continuing uncertainties and the longer-term impact of COVID-19 has yet to manifest, industry participants must look to address new workforce protocols through implementation of innovative technologies and investment in remote or machine-controlled equipment during the upcoming months.

### Building Products Industry M&A Activity



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#### CARLETON MCKENNA & CO:

*We believe businesses are the economic engine of our society, and that business owners deserve and require a proactive advocate throughout life changing transactions.*

#### FIRM OVERVIEW:

Carleton McKenna & Co. is an independent investment banking firm providing M&A Advisory, Capital Raising, and Pre-Transition Advisory services. We deliver hands-on transaction execution, with clear, insightful strategy to drive extraordinary success.

We work with middle market closely-held businesses, multi-generational family businesses, portfolio companies of financial sponsor firms and divisions or subsidiaries of public companies focusing in manufacturing & specialty chemicals, consumer products, SaaS, healthcare and B2B services.

Our team is made up of finance and accounting experts, operators, c-suite and board professionals, lawyers, consultants, and marketing professionals. These diverse experiences and skills drive extraordinary results for our clients.



## BUILDING PRODUCTS INDUSTRY UPDATE—FALL 2020

### Producer Price Index—Commodities Construction Index Base Year 1982 = 100, Not Seasonally Adjusted

	September 2020	August 2020	September 2019	1 Month % Change	12 Month % Change
Asphalt Felts & Coatings	254.2	248.5	243.4	2.3%	4.4%
Concrete Products	280.9	278.3	274.3	0.9%	2.4%
Fabricated Structural Metal Products	238.7	237.4	238.2	0.5%	0.2%
Glass	151.1	151.2	150.0	-0.1%	0.7%
Hardware	227.9	227.8	224.0	0.0%	1.7%
Hardwood Lumber	205.8	202.3	208.8	1.7%	-1.4%
Iron and Steel	204.5	198.7	212.3	2.9%	-3.7%
Nonferrous Wire & Cable	253.4	248.2	244.3	2.1%	3.7%
Plumbing Fixtures & Brass Fittings	289.7	286.6	284.1	1.1%	2.0%
Plywood	264.0	239.4	193.6	10.3%	36.4%
Softwood Lumber	398.0	312.4	219.7	27.4%	81.2%

Source: St. Louis Federal Reserve, U.S. Bureau of Labor Statistics

According to the U.S. Bureau of Labor Statistics, select materials prices experienced significant increases. In particular as of September, softwood lumber, a key input in home construction, is experiencing growth of approximately 81% YoY and 27% MoM, primarily as a result of supply constraints.

### Remodeling Market Index (RMI)



Source: NAHB Remodeling Market Index

The Remodeling Market Index (RMI) is based on a quarterly survey of National Association of Home Builders (NAHB) remodeler members that provide insight on current market conditions as well as future indicators for the remodeling market. The RMI survey asks remodelers to rate their sentiment towards five aspects of the remodeling market as “Good”, “Fair”, or “Poor”. The five aspects include: **1) current market for large remodeling projects; 2) current market for moderately sized remodeling projects; 3) current market for small remodeling projects; 4) current rate of leads and inquiries; and 5) current backlog for remodeling projects.** Each question is measured on a scale of 0 to 100, where an index number of 50+ indicates that a higher share of remodelers view conditions as good rather than poor.

The RMI posted a reading of 82 in Q3 2020, carrying on the momentum of a substantial rebound in Q2. Current market conditions were highest amongst the Small Remodeling Project subcomponent (index score of 90), followed by the Moderately-Sized Remodeling Project subcomponent (index score of 86).

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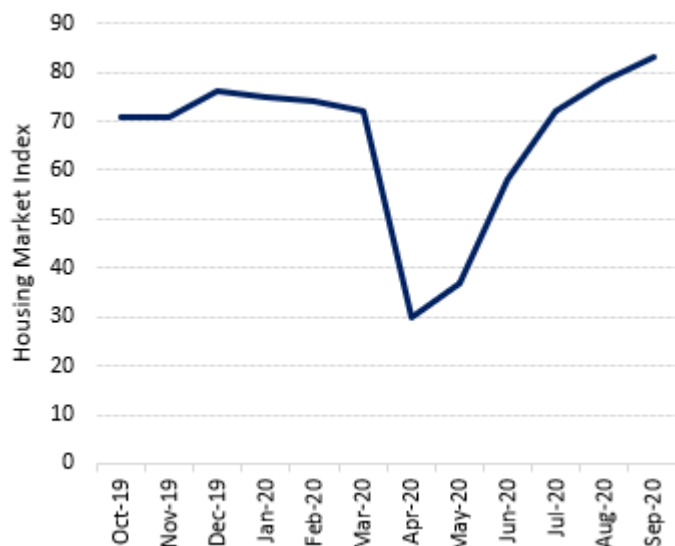
## Public Company Trading & Operating Data

Company	Market Cap	Enterprise Value	LTM			EV/LTM	
			Revenue	EBITDA	Margin	Revenue	EBITDA
<b>Plumbing/HVAC</b>							
AAON, Inc.	\$3,117.9	\$3,047.3	\$520.4	\$124.6	23.9%	5.9x	24.5x
A.O. Smith Corporation	8,461.3	8,101.1	2,811.7	485.6	17.3%	2.9x	14.8x
Lennox International Inc.	11,237.9	12,391.0	3,605.1	526.3	14.6%	3.4x	19.8x
Masco Corporation	14,931.9	16,740.9	6,967.0	1,375.0	19.7%	2.4x	11.7x
<b>Mean</b>	<b>\$9,437.3</b>	<b>\$10,070.1</b>	<b>\$3,476.1</b>	<b>\$627.9</b>	<b>18.9%</b>	<b>3.7x</b>	<b>17.7x</b>
<b>Decking/Siding/Drywall</b>							
Trex Company	\$8,721.1	\$8,739.2	\$817.3	\$237.3	29.0%	10.7x	35.6x
<b>Mean</b>	<b>\$8,721.1</b>	<b>\$8,739.2</b>	<b>\$817.3</b>	<b>\$237.3</b>	<b>29.0%</b>	<b>10.7x</b>	<b>35.6x</b>
<b>Building Systems</b>							
Apogee Enterprises	\$634.8	\$839.1	\$1,387.4	\$101.3	7.3%	0.7x	7.0x
Armstrong World Industries	2,945.8	3,559.7	945.1	284.7	30.1%	3.8x	10.9x
Cornerstone Building Brands	1,025.8	4,529.0	7,428.2	563.0	7.6%	1.0x	5.6x
Owens Corning	7,586.1	10,230.1	6,822.0	1,268.0	18.6%	1.5x	7.5x
<b>Mean</b>	<b>\$3,048.1</b>	<b>\$4,789.5</b>	<b>\$4,145.7</b>	<b>\$554.3</b>	<b>15.9%</b>	<b>1.8x</b>	<b>7.8x</b>
<b>Window/Door</b>							
Masonite International Corp	\$2,266.5	\$2,909.2	\$2,169.8	\$316.9	14.6%	1.3x	8.1x
Quanex Building Products	619.0	780.7	836.5	99.6	11.9%	0.9x	7.1x
<b>Mean</b>	<b>\$1,442.8</b>	<b>\$1,845.0</b>	<b>\$1,503.2</b>	<b>\$208.3</b>	<b>13.3%</b>	<b>1.1x</b>	<b>7.6x</b>
<b>Lumber/Wood/Products</b>							
Boise Cascade Co.	\$1,714.3	\$1,754.8	\$5,104.3	\$354.1	6.9%	0.3x	4.7x
Louisiana-Pacific Corp.	3,526.4	3,497.4	2,465.0	489.0	19.8%	1.4x	6.6x
Universal Forest Products	3,264.3	3,305.3	4,758.3	381.5	8.0%	0.7x	8.0x
<b>Mean</b>	<b>\$2,835.0</b>	<b>\$2,852.5</b>	<b>\$4,109.2</b>	<b>\$408.2</b>	<b>11.6%</b>	<b>0.8x</b>	<b>6.4x</b>
<b>Building Product Distribution</b>							
Beacon Roofing Supply	\$2,339.8	\$5,532.0	\$6,927.0	\$441.2	6.4%	0.8x	10.0x
Builders FirstSource	3,983.2	5,530.0	7,791.7	520.7	6.7%	0.7x	8.9x
GMS	1,046.2	2,102.3	3,196.7	283.4	8.9%	0.7x	6.2x
HD Supply Holdings	6,819.8	9,075.8	5,976.0	780.0	13.1%	1.5x	9.8x
Watsco	8,214.6	8,663.2	4,972.5	399.4	8.0%	1.7x	17.5x
<b>Mean</b>	<b>\$4,480.7</b>	<b>\$6,180.7</b>	<b>\$5,772.8</b>	<b>\$484.9</b>	<b>8.6%</b>	<b>1.1x</b>	<b>10.5x</b>

Source: CapitalIQ

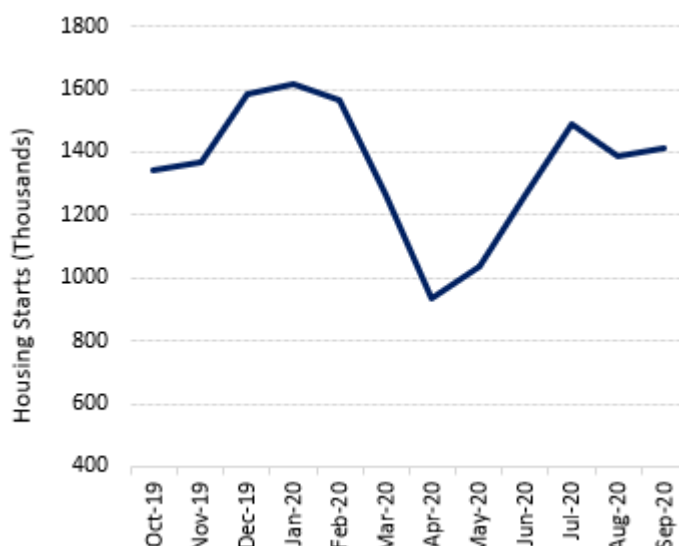
## Construction Market Dynamics—Downstream Demand

### NAHB National Home Market Index



Source: NAHB and Wells Fargo

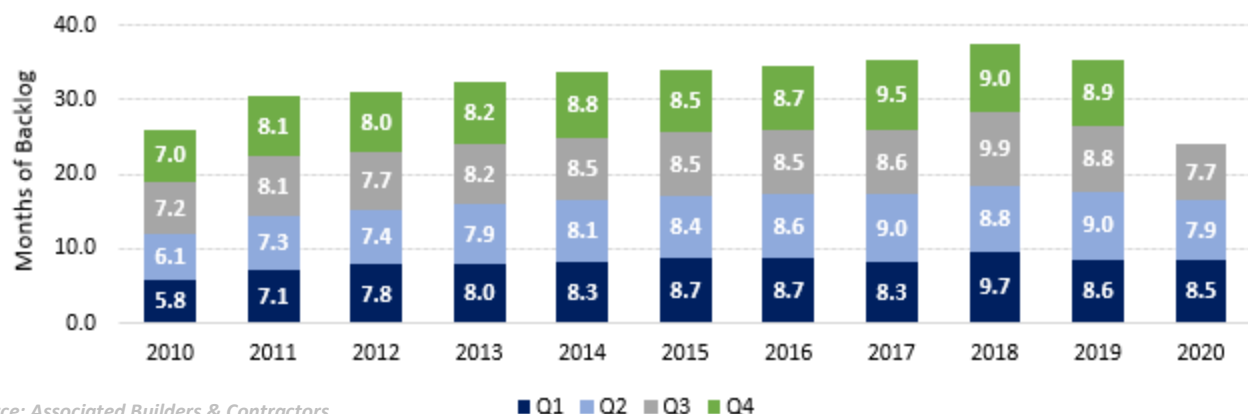
### U.S. Housing Starts



Source: U.S. Census Bureau

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### Construction Backlog Indicator (CBI)—National Backlog Average by Quarter



Source: Associated Builders & Contractors

The Associated Builders and Contractors (ABC) Construction Backlog Indicator (CBI) is a forward-looking national economic indicator that reflects the amount of work that will be performed by commercial and industrial contractors in the coming months. Backlog dropped to 7.7 months in Q3 2020, declining YoY and dropping further below 5-year averages.

### Recent Notable Transactions



Foundation Building Materials  
Acquires



**September 1, 2020**

Foundation Building Materials, Inc. (NYSE: FBM), one of the largest specialty distributors of wallboard, suspended ceilings systems, metal framing, and complementary products in North America, acquired Marriott Drywall Materials, Inc. Marriott is an independent distributor of drywall and accessories, steel framing, insulation, tools, and fasteners, and has a 22-year track record serving the Greater Milwaukee, Wisconsin area. Terms of the transaction were not disclosed.



Acquires



**August 31, 2020**

Installed Building Products, Inc. (NYSE: IBP), an industry-leading installer of insulation and complementary building products, announced today the acquisition of Storm Master Gutters. Founded in 1977, Storm Master is headquartered in Cherry Hill, New Jersey and primarily provides gutter installation services to residential and multi-family customers throughout New Jersey, Pennsylvania, Delaware, Maryland, Massachusetts, Virginia, New York, West Virginia, and Tennessee. The company generates approximately \$20 million of revenues.



Acquires



**July 27, 2020**

Armstrong World Industries (NYSE:AWI) has acquired leading manufacturer of custom felt ceiling and wall solutions, Turf Design, for an enterprise value of \$118 million, equivalent to 4.7x revenue. Turf Design operates an 8,000 square foot innovation center and a 75,000 square foot fabrication facility. The acquisition bolsters Armstrong's design and manufacturing capabilities and expands its architectural specialties and wall solutions offerings.

Source: PitchBook

### Private Equity Interest in Building Products Related Industries

Financial buyers (typically private equity sponsors) remain highly active across the Building Products industry. Although strategic buyers account for the majority of transactions, financial buyers should not be overlooked when considering an exit. Across the U.S., private equity groups are looking to put meaningful capital to work and are aggressively seeking middle-market transactions in building products manufacturers, distributors, and service providers.

According to reported private equity transactions, financial buyers are willing to pay on average between 4.5x and 6.5x EBITDA multiples for the right platform acquisition across the following sub-categories:

TEV Range	TEV	Revenues	TTM Rev. Growth %	EBITDA Margin %	TEV/Revenue	TEV/EBITDA
<b>Residential Building Construction</b>						
\$10 - \$100	\$34.1	\$47.3	16%	17%	0.8x	4.8x
Average	\$34.1	\$47.3	16%	17%	0.8x	4.8x
<b>Foundation, Structure, and Building Exterior Contractors</b>						
\$10 - \$50	\$30.1	\$55.7	13%	13%	0.6x	5.2x
\$50 - \$250	\$92.2	\$130.4	16%	17%	0.9x	5.5x
Average	\$58.7	\$90.2	14%	15%	0.8x	5.3x
<b>Building Equipment Contractors</b>						
\$10 - \$25	\$15.0	\$20.1	27%	18%	0.9x	5.3x
\$25 - \$50	\$36.5	\$43.8	14%	21%	1.2x	5.9x
\$50 - \$100	\$71.8	\$71.7	24%	16%	1.4x	8.4x
\$100 - \$250	\$168.3	\$178.4	4%	12%	1.2x	9.5x
Average	\$40.2	\$45.5	21%	18%	1.1x	6.2x
<b>Building Finishing Contractors</b>						
\$10 - \$50	\$23.8	\$45.8	9%	12%	0.5x	4.6x
\$50 - \$250	\$79.8	\$82.7	13%	19%	1.8x	8.5x
Average	\$48.7	\$62.2	11%	15%	1.1x	6.3x
<b>Veneer, Plywood, and Engineered Wood Product Manufacturing</b>						
\$25 - \$100	\$44.6	\$44.8	8%	18%	1.0x	5.5x
Average	\$44.6	\$44.8	8%	18%	1.0x	5.5x
<b>Millwork</b>						
\$10 - \$25	\$18.6	\$32.7	11%	12%	0.7x	5.7x
\$25 - \$250	\$62.8	\$118.5	28%	15%	0.8x	5.6x
Average	\$40.7	\$75.6	20%	14%	0.8x	5.6x

\$ in millions

Source: GF Data; 2012 to Present