

Building Products & Services Market Update

Q1 2023

FOURBRIDGES
CAPITAL ADVISORS



FourBridges Insights

Building product companies continue to temper 2023 expectations, driven primarily by a slowing economy and elevated mortgage rates, which chill affordability. Moderating material costs have helped, and may be settling in to new long-term averages. Consumer spending remains cautious, but despite headwinds, economists do not foresee a comparison to previous housing recessions. Long-term undersupply of housing, demand for renovations, and a resilient commercial market keep hopeful eyes on late '23.

Economic growth remains constrained:

- Consensus GDP is forecast at ~1% for 2023
- Jobs-worker gap still at ~4 million (target 2mm)
- CPI still hovering above 6%

Caution in the M&A market, but deals continue:

- Significant capital continues to fuel demand for quality deals
- Values are moderating but difficult to paint with a broad brush across all sectors
- Buyers continue to pursue long-term strategies as the pipeline of deals continues to remain strong

Housing conditions:

- Housing starts lag record '21 & '22
- Home prices have fallen in some areas, helping a slight rebound in sales volume
- New home sales continue an uptick since Nov. '22

Major Trends:

- Net migration to the Southeast continues at the expense of NY, IL & CA, in particular
- Supply shortages getting better but still an issue
- Non-res keeping things afloat in '22

Expectations:

- Optimism for the 2nd half of '23 with greater stability
- Pent-up M&A demand benefitting cash-heavy buyers

Market Pulse

"Ranging from the non-residential end market to residential, to even the heavy side, we're starting to see a pickup in activity ... So it may not happen in the next month or two, but people that have strong balance sheets and a vision are doing work now."

– Kathryn Thompson

Thompson Research Group

"Builders should monitor both weather and housing demand ... Be careful quoting long-term projects for late spring and early summer starts—the pricing environment could be much different. Until then, expect more ups and downs with offsets."

– Don Magruder

RoMac Building Supply

"Different place today than we were a year ago. Looking back historically, in a good place."

– Steve Swinney

Kodiak Building Partners

"It seems pretty clear when you look at the activity data, both home building and home buying, that we're rounding the bottom now."

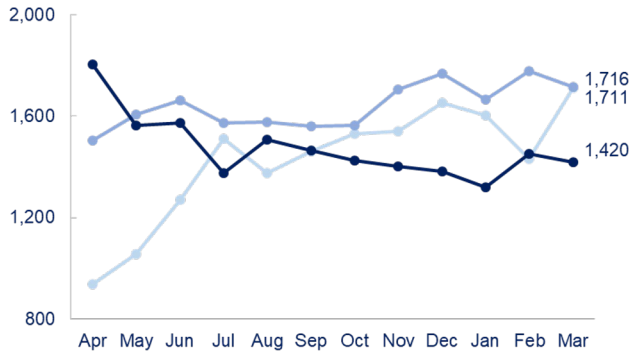
– Ellen Zentner

Chief U.S. Economist, Morgan Stanley

Market Indicators

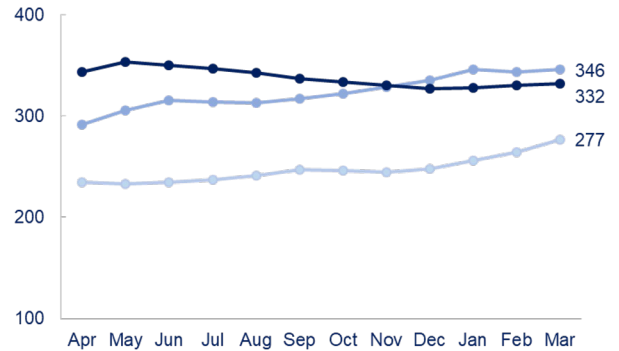
Housing Starts

(Thousands); US Census Bureau



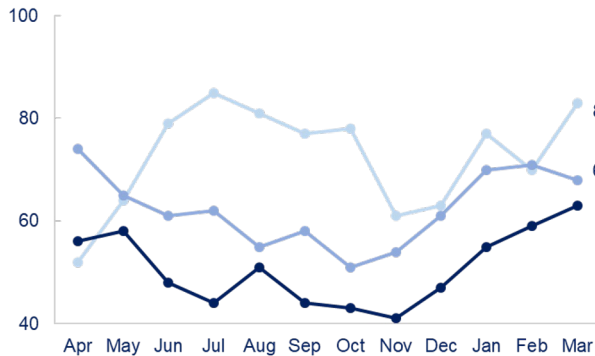
Construction Materials PPI

FRED



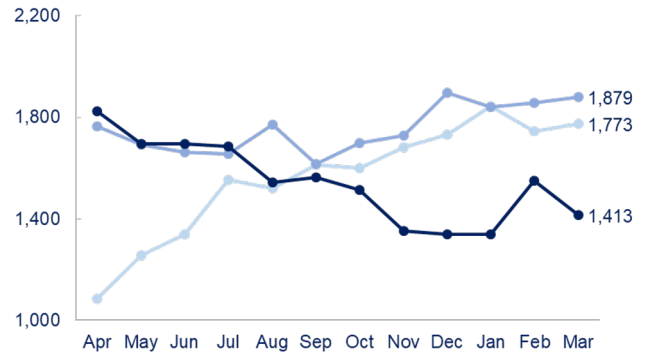
New Home Sales

(Thousands); US Census Bureau



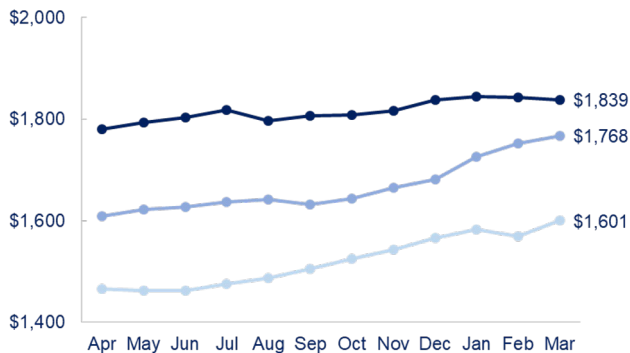
Building Permits

(Thousands); US Census Bureau



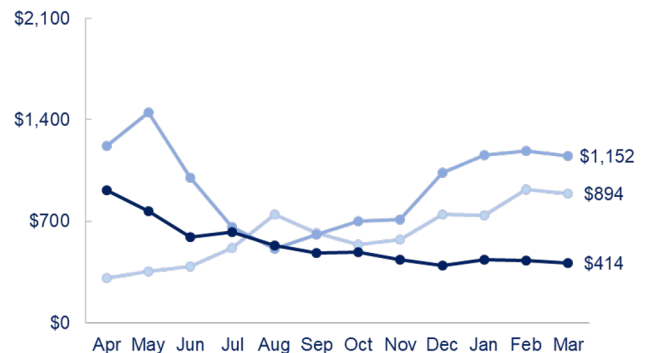
Construction Spending

(Millions); US Census Bureau; TradingEconomics Forecast



Lumber Composite Pricing

(Price Per Thousand Board Feet); NASDAQ



2020 2021 2022

Public Companies: Financial Performance

\$ in millions

\$ in millions		Financial				Performance			Valuation		
Company	Ticker	Market Cap	LTM Revenue	LTM Gross Profit	LTM EBITDA	Gross Margin	EBITDA Margin	LTM Rev Growth	EV / LTM Rev	EV / LTM EBITDA	Price / EPS
Residential Building Products											
American Woodmark	AMWD	\$ 866	\$ 2,087	\$ 331	\$ 213	15.8%	10.2%	5.4%	0.7x	6.4x	7.7x
Armstrong World Industries	AWI	3,306	1,233	449	387	36.4%	29.8%	17.8%	3.2x	10.0x	14.9x
Fortune Brands Home & Security	FBIN	7,711	4,723	1,933	1,076	40.9%	20.7%	11.8%	2.1x	9.1x	10.1x
Gibraltar Industries	ROCK	1,561	1,390	319	176	22.9%	10.2%	7.9%	1.2x	9.4x	14.3x
Griffon Corporation	GFF	1,666	2,906	1,005	508	34.6%	-2.2%	8.5%	1.1x	6.4x	6.8x
James Hardie Industries	ASX:JHX	9,528	3,828	1,336	n/a	34.9%	22.8%	16.6%	2.7x	n/a	n/a
Jeld-Wen	JELD	1,102	5,129	945	405	18.4%	5.7%	2.1%	0.5x	6.9x	6.8x
Masco	MAS	11,535	8,680	2,713	1,484	31.3%	16.7%	10.1%	1.7x	9.8x	13.3x
Masonite	DOOR	2,067	2,892	674	428	23.3%	14.5%	7.7%	1.0x	6.6x	9.4x
Owens Corning	OC	9,360	9,761	2,616	2,293	26.8%	23.1%	12.9%	1.2x	5.0x	7.5x
PGT Innovations	PGTI	1,515	1,492	571	245	38.2%	14.9%	7.8%	1.5x	9.0x	13.5x
Quanex Building Products	NX	714	1,216	265	149	21.8%	11.8%	6.9%	0.7x	5.9x	8.6x
Simpson Manufacturing	SSD	4,720	2,116	941	533	44.5%	24.4%	16.8%	2.4x	9.5x	13.6x
The Sherwin-Williams	SHW	58,845	22,149	9,325	3,804	42.1%	16.0%	9.5%	3.2x	18.7x	26.3x
Trex	TREX	5,445	1,106	404	313	36.5%	26.3%	18.2%	5.1x	18.2x	27.1x
Westlake	WLK	14,944	15,794	4,073	4,188	25.8%	26.3%	15.1%	1.1x	4.3x	6.6x
Average		\$ 8,430	\$ 5,406	\$ 1,744	\$ 1,080	30.9%	16.9%	10.9%	1.8x	9.0x	12.4x
Median		\$ 4,013	\$ 2,899	\$ 943	\$ 428	32.9%	16.3%	9.8%	1.3x	9.0x	10.1x

Commercial Building Products

Aeon	AAON	\$ 5,231	\$ 864	\$ 238	\$ 163	26.7%	18.3%	12.6%	6.1x	32.6x	52.1x
Kingspan Group	DUB:KRX	12,575	8,770	2,330	1,069	26.6%	11.8%	7.7%	1.6x	13.5x	19.0x
Lennox International	LII	8,996	4,718	1,285	742	27.2%	15.5%	10.7%	2.3x	14.4x	17.9x
Valmont Industries	VMI	6,890	4,345	1,126	550	25.9%	11.7%	6.9%	1.8x	14.1x	23.1x
Average		\$ 10,898	\$ 4,674	\$ 1,245	\$ 631	31.2%	17.9%	11.2%	3.0x	18.6x	28.0x
Median		\$ 6,890	\$ 4,532	\$ 1,205	\$ 646	27.2%	16.3%	10.7%	2.0x	14.2x	21.1x

Diversified Building Products

Beacon Roofing Supply	BECN	\$ 4,025	\$ 8,430	\$ 2,236	\$ 969	26.5%	10.2%	6.4%	0.8x	6.6x	7.8x
BlueLinx Holdings	BXC	639	4,531	833	478	18.7%	10.4%	6.9%	0.2x	2.0x	2.1x
Builders Firstsource	BLDR	14,514	22,726	7,744	4,372	34.1%	18.8%	13.5%	0.8x	4.1x	4.7x
Ferguson (UK)	LON:FERG	28,003	30,011	9,123	3,283	30.4%	10.7%	7.2%	1.1x	10.0x	12.7x
The Home Depot	HD	302,498	157,403	52,778	27,014	33.5%	17.2%	11.0%	2.2x	13.0x	17.7x
Watco	WSO	11,353	7,274	2,030	863	27.9%	11.9%	10.0%	1.6x	13.4x	20.1x
WESCO International	WCC	8,097	21,420	4,661	1,678	21.8%	7.5%	4.0%	0.6x	8.0x	9.4x
Average		\$ 34,615	\$ 35,971	\$ 11,344	\$ 5,522	27.6%	13.3%	8.8%	1.0x	8.2x	10.7x
Median		\$ 9,947	\$ 21,420	\$ 4,661	\$ 1,678	27.2%	11.8%	8.9%	0.8x	8.0x	9.4x

Lumber and Wood Manufacturers

Boise Cascade	BCC	\$ 2,516	\$ 8,387	\$ 1,915	\$ 1,258	22.8%	15.0%	10.3%	0.2x	1.6x	2.9x
Canfor	TSE:CFP	1,978	5,700	2,020	1,270	35.4%	20.2%	14.5%	0.2x	1.0x	2.9x
Louisiana-Pacific	LPX	4,228	3,854	1,498	1,309	38.9%	33.3%	23.9%	1.1x	3.3x	4.5x
UFP Industries	UFPI	4,820	9,627	1,789	1,073	18.6%	11.0%	7.6%	0.5x	4.3x	6.9x
West Fraser Timber Company	TSE:WFG	6,712	9,701	4,559	3,122	47.0%	32.8%	20.6%	0.6x	1.9x	3.5x
Western Forest Products	TSE:WFP	269	1,108	195	105	17.6%	9.3%	4.4%	0.2x	2.6x	5.6x
Weyerhaeuser Company	WY	22,385	10,184	3,620	3,466	35.5%	29.8%	22.1%	2.5x	7.5x	10.0x
Average		\$ 34,118	\$ 6,937	\$ 2,228	\$ 1,657	29.5%	17.8%	12.2%	0.8x	3.2x	5.2x
Median		\$ 7,404	\$ 8,387	\$ 1,915	\$ 1,270	27.8%	14.2%	10.1%	0.5x	2.6x	4.5x

Home Builders

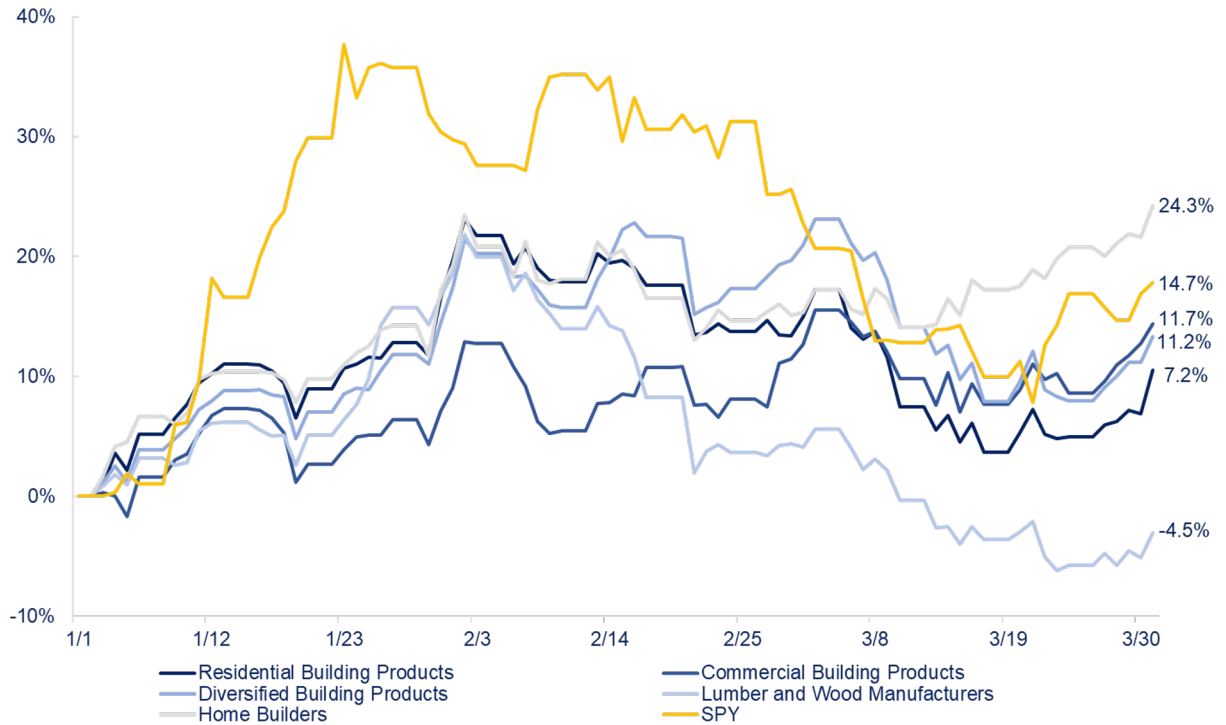
D.R. Horton	DHI	\$ 34,338	\$ 37,485	\$ 10,323	\$ 7,604	30.6%	22.6%	17.4%	1.1x	4.9x	6.1x
NVR	NVR	19,553	18,038	2,876	2,310	27.3%	21.9%	17.2%	1.7x	7.8x	11.7x
PulteGroup	PHM	13,764	15,433	4,834	3,426	29.8%	21.6%	16.9%	1.0x	4.5x	5.4x
Taylor Morrison	TMHC	4,447	6,306	2,092	1,477	25.4%	17.6%	13.2%	0.8x	4.3x	4.1x
Meritage Homes	MTH	4,332	4,644	1,803	1,314	28.6%	20.9%	16.0%	0.7x	3.5x	4.4x
MDC Holdings	MDC	2,835	3,255	1,310	892	22.9%	13.5%	12.2%	0.6x	3.6x	4.3x
Lennar	LEN	30,463	31,848	7,202	6,757	21.4%	18.1%	15.4%	0.9x	4.7x	6.0x
Toll Brothers	TOL	6,924	9,489	2,521	1,747	24.6%	17.9%	12.3%	0.9x	5.4x	5.5x
Skyline Champion	SKY	4,309	3,609	869	591	31.5%	21.5%	16.1%	1.3x	6.1x	10.0x
KB Home	KBH	3,590	5,126	1,690	1,107	24.5%	16.0%	12.6%	0.7x	4.6x	4.4x
Average		\$ 12,455	\$ 13,523	\$ 3,552	\$ 2,723	26.7%	19.1%	14.9%	1.0x	5.0x	6.2x
Median		\$ 5,685	\$ 7,897	\$ 2,307	\$ 1,612	26.4%	19.5%	15.7%	0.9x	4.7x	5.4x

Source: Pitchbook; Data as of 3/31/23

Public Companies: Market Performance

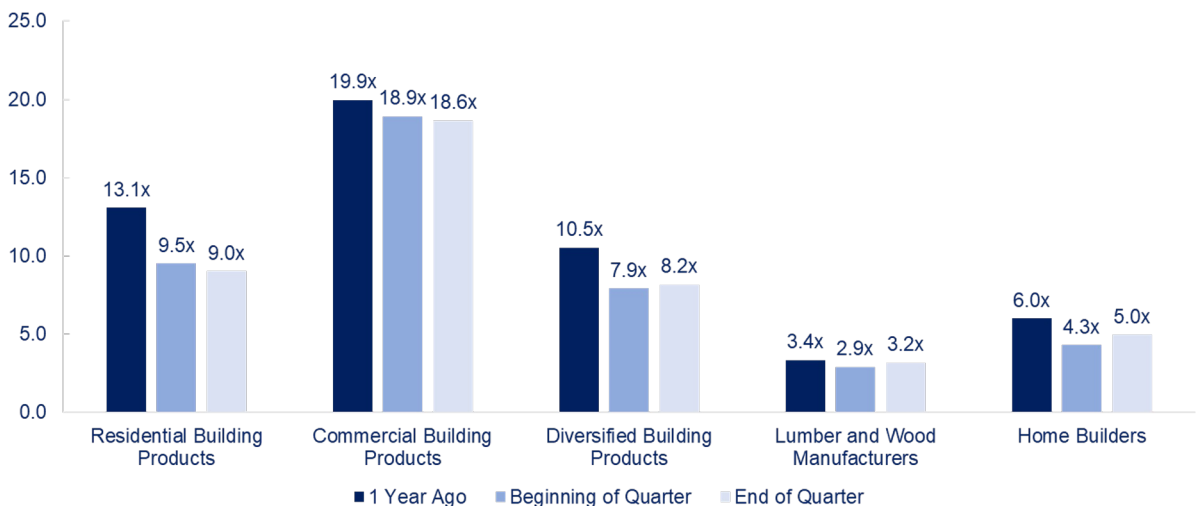
Stock Price Performance vs. S&P 500

By Industry Segment



Market Enterprise Value (EV) / EBITDA

By Industry Segment



Source: Pitchbook; Data as of 3/31/23

Notable M&A Transactions:

Q1 2023

Target	Acquirer	Description	Financial Data
		Distributors of decking, roofing, and other building products <i>[separate acquisitions; both on 3/31]</i> .	N/A
		Provider of lamination wrapping services intended for original equipment manufacturers.	N/A
		Distributor of plumbing, heating, kitchen and bath products to builders and contractors.	N/A
		Distributor of roofing, siding, windows, doors and other residential and commercial products.	N/A
		Distributor of concrete and masonry accessories and waterproofing products to commercial, residential, and industrial contractors.	N/A
		Manufacturer of construction trusses for the residential, multi-family, and commercial industries.	EV: \$83.0M
		Distributor of residential and commercial building products.	N/A
		Manufacturer of engineered components for exterior door systems for the residential home market.	N/A
		Distributor of residential and commercial building products.	EV: \$375.0M Rev: \$270.0M EV/Rev: 1.4x

FourBridges Experience:

Select Building Products & Service Experience

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Junior's Building Materials is a **distributor of building materials** primarily for regional residential homebuilders based in Ringgold, GA. FourBridges served as exclusive financial advisor to Junior's in a sale to US LBM, a portfolio company of Bain Capital.



Southern Lighting Gallery ("SLG") is a **provider of commercial and residential lighting fixtures** based in Augusta, GA. FourBridges served as exclusive financial advisor to SLG in a sale to Saylite, a portfolio company of CORE Industrial Partners.

Total Building Supplies



Total Building Supplies is a **distributor of building supplies and tools** based in Atlanta, GA. FourBridges served as exclusive financial advisor to Total Building Supplies in a sale to Ram Tool Construction Supply, a distributor of specialty construction supplies based in Birmingham, AL.



Greenscapes is a **distributor and manufacturer of lawn and garden products** based in Calhoun, GA. FourBridges served as exclusive financial advisor to Greenscapes in a sale to Hanes Companies, a division of Leggett & Platt (NYSE: LEG).

Large firm experience, business owner focus

FourBridges is an independent investment banking firm that focuses on serving the lower middle-market. Founded in 2008 and headquartered in Chattanooga, TN, FBCA guides business owners through life-changing transactions and complex decisions when its time to transition ownership. FBCA has a long history of advising family-owned, entrepreneurial owned and private equity backed companies in the building products industry.

Financial advisory services grounded in real operating experience

- Team members have held **C-suite positions** in private companies and been through transactions as part of management
- Deep understanding of the issues/decisions stakeholders face in a transaction
- **CFO backgrounds** allow for granular understanding of small businesses, how to present financials, and how to address issues

Experience at large national firms



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To discuss material in this report or trends in the building products industry, please reach out to the team members below:

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Managing Directors

- C-suite experience in operating companies
- Combined 90+ years of corporate finance and M&A experience
- Cohesive team with long track record of working together to achieve successful client outcomes

Andy Stockett
Managing Director



Experience
CFO, Gordon Biersch Restaurant Group
Partner, Mid-Atlantic Holdings
SVP, Raymond James Capital Markets
Board member, Rynel Ltd.

Education
University of Chicago, MBA
Vanderbilt University

Chris Rowe, CFA
Managing Director



Experience
CFO, Edge Flooring
Decosimo Corporate Finance
PricewaterhouseCoopers
Philip Morris Germany

Education
University of SC, International MBA
Vanderbilt University

Ralph Montgomery
Managing Director



Experience
Loring Advisory Group
SunTrust Robinson Humphrey
Houlihan Lokey Howard & Zukin

Education
University of North Carolina, MBA
James Madison University

Vice Presidents & Associates

- Combined 25+ years of corporate finance, M&A, and valuation experience
- Combined 10+ years of experience at FourBridges

Andrew Allred
Vice President



Experience
Jamestown LP
Croft & Bender

Education
University of Georgia

Clay Stockett
Vice President



Experience
Farmland Partners Inc. (NYSE: FPI)
Regions Capital Markets
Raymond James
Investment Banking

Education
University of North Carolina

John Kirkland, CFA, CPA
Associate



Experience
Willamette Management Associates
PricewaterhouseCoopers

Education
University of Tennessee