

Building Products & Services

MARKET UPDATE Q2 2023



FOURBRIDGES
CAPITAL ADVISORS

Large Firm Experience, Business Owner Focus

Thinking of selling? We guide business owners through one of life's most important journeys.

FourBridges Insights

We anticipate that construction firms will slightly increase their market activity as a result of the ENR's adjusted Building Cost Index dropping to half of what it was in Q1. Short-term uncertainty gives way to positive long-term trends as firms prepare for a more robust 2024. Strategic buyers less impacted by interest rates and on the lookout for opportunities are expected to pace the deal environment as they expand their capabilities and market share. Pent-up infrastructure dollars lead the way in non-residential construction.

Limited economic growth & persistent inflation remain a near-term concern:

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

M&A market adjusting and bifurcated:

- Buyers & sellers still adjusting to “sustainable EBITDA” post 2021 & 2022 boom
- Lower middle market deals for quality assets driving volume where financing is not a significant roadblock
- Positive long-term outlook as underbuilt dynamic and infrastructure dollars fuel growth

Housing conditions:

- Annualized housing starts surged to 1.6M in May '23, a 21% increase from the previous month
- Single-family home prices have risen 10% since Q1
- Mortgage rates to go down to 6% by Q4, from the current peak of 6.7% as buyers settle into the “new normal”

Major Trends & Expectations

- Continued underdevelopment in single-family homes boosting long-term outlook
- Population continues to shift to friendlier geographies as well as secondary markets
- Large, unspent infrastructure dollars yet to be realized
- Remodeling activity to peak at a record high of \$492B in Q3 2023 as pent-up demand is still being realized
- Supply chain disruptions continue to ease and help rationalize prices
- Continuing bullish construction activity in the non-residential market

Market Pulse

“Key secular trends, including:

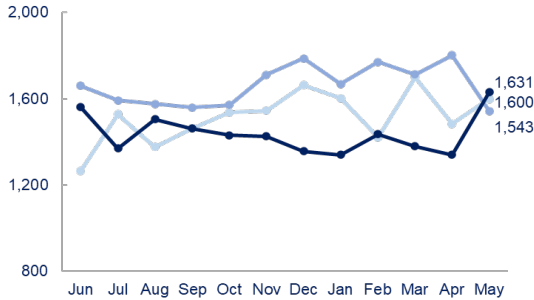
1. Reshoring/near shoring
2. Structural U.S. population shift to “smile states”
3. Meaningful increased investment in environmental matters
4. Passage of significant U.S. and state funding initiatives supporting a 5+ year runway for infrastructure and private construction projects

... form the building blocks for what we view as a U.S. construction “golden era.”

- Kathryn Thompson
Thompson Research Group

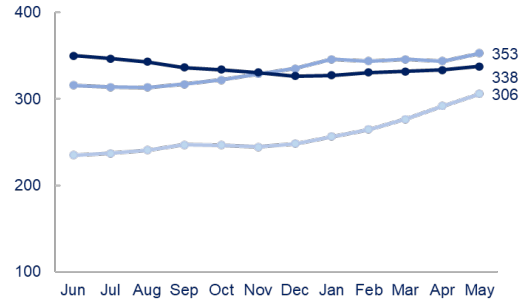
Housing Starts

Housing Starts in Thousands;
Source: US Census Bureau



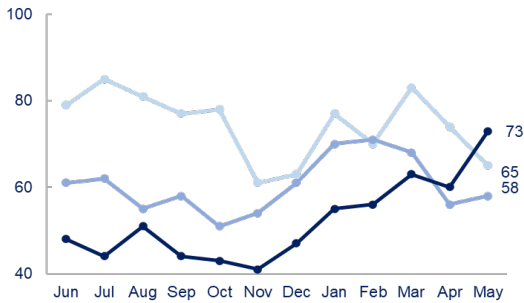
Construction Materials PPI

Construction Materials Prices in Thousands;
Source: FRED



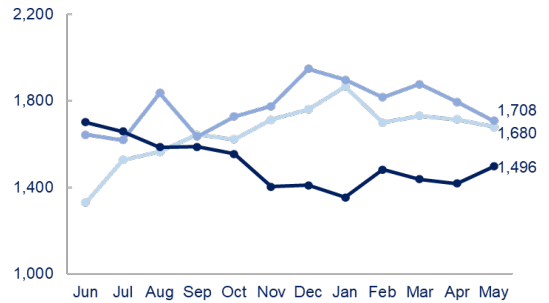
New Home Sales

New Home Sales in Thousands;
Source: US Census Bureau



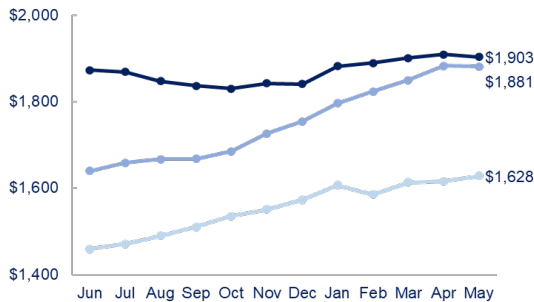
Building Permits

Building Permits in Thousands;
Source: US Census Bureau



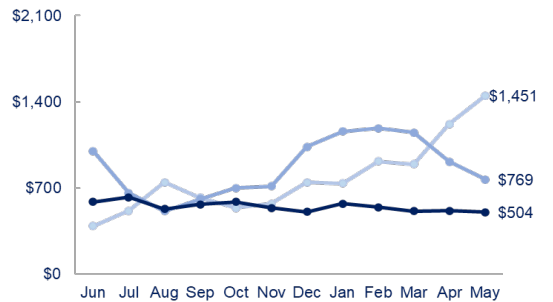
Construction Spending

Construction Spending in Millions;
Source: US Census Bureau, Trading Economics Forecast



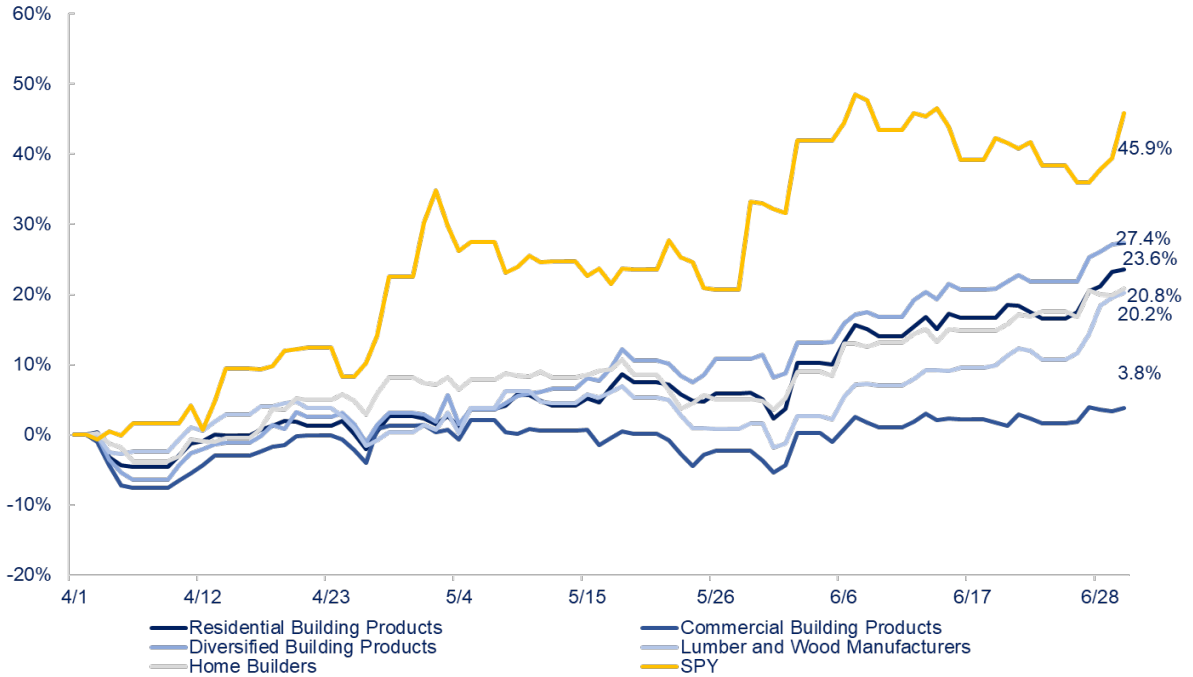
Lumber Composite Pricing

Lumber Composite Price Per Thousand Board Feet;
Source: NASDAQ

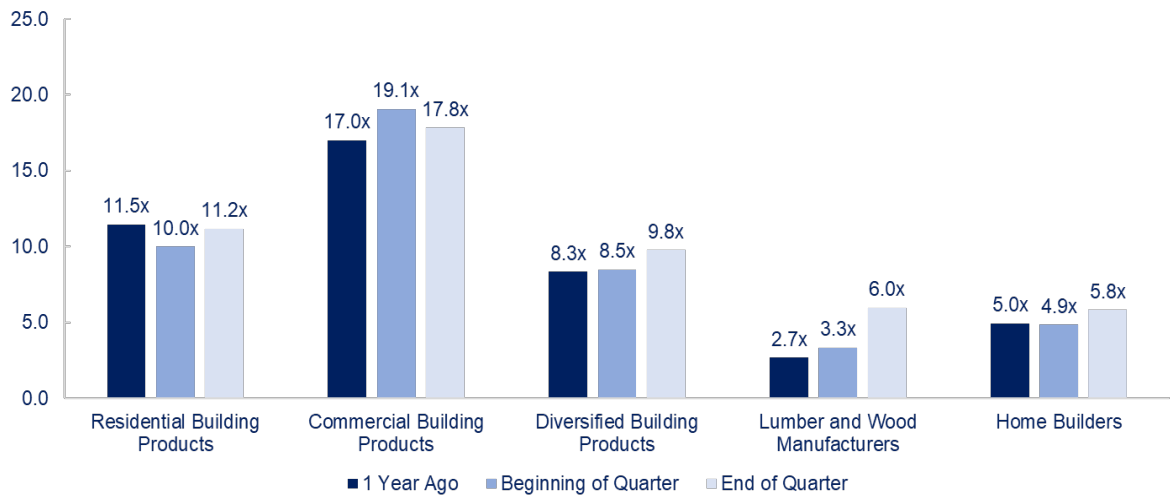


2021 2022 2023

Stock Price Performance vs. S&P 500 By Industry Segment



Market Enterprise Value (EV) / EBITDA By Industry Segment



Source: Pitchbook (as of 06/30/23)

Public Companies:

Financial Performance (as of June 30, 2023)

\$ in millions		Financial				Performance			Valuation		
Company	Ticker	Market Cap	LTM Revenue	LTM Gross Profit	LTM EBITDA	Gross Margin	EBITDA Margin	Profit Margin	EV / LTM Rev	EV / LTM EBITDA	Price / EPS
Residential Building Products											
American Woodmark	AMWD	\$ 1,274	\$ 2,066	\$ 358	\$ 232	17.3%	11.2%	6.2%	0.8x	7.4x	10.0x
Armstrong World Industries	AWI	3,377	1,261	459	397	36.4%	29.8%	17.7%	3.2x	10.0x	15.0x
Fortune Brands Innovations	FBIN	9,336	3,846	1,662	953	31.9%	16.3%	14.2%	3.0x	12.1x	13.8x
Gibraltar Industries	ROCK	1,994	1,365	331	179	24.2%	11.0%	8.2%	1.5x	11.4x	17.9x
Griffon Corporation	GFF	2,110	2,837	1,021	474	36.0%	16.7%	6.9%	1.3x	7.7x	10.8x
James Hardie Industries	ASX:JHX	11,725	3,777	1,312	948	34.7%	24.5%	16.0%	3.4x	13.4x	19.9x
Jeld-Wen	JELD	1,507	5,181	974	437	18.8%	6.1%	2.4%	0.6x	7.4x	8.4x
Masco	MAS	13,111	8,458	2,678	1,291	31.7%	14.9%	9.8%	1.9x	12.6x	15.7x
Masonite	DOOR	2,310	2,891	660	407	22.8%	13.5%	6.8%	1.2x	8.3x	11.6x
Owens Corning	OC	12,479	9,746	2,586	2,232	26.5%	24.0%	12.5%	1.5x	6.7x	10.3x
PGT Innovations	PGTI	1,758	1,510	585	253	38.8%	15.4%	8.2%	1.6x	9.7x	14.4x
Quanex Building Products	NX	889	1,167	259	143	22.2%	11.8%	6.8%	0.9x	7.2x	11.3x
Simpson Manufacturing	SSD	5,943	2,157	957	529	44.4%	24.0%	16.0%	2.9x	11.9x	17.7x
The Sherwin-Williams	SHW	69,287	22,593	9,693	4,019	42.9%	16.5%	9.7%	3.6x	20.4x	29.3x
Trex	TREX	7,238	1,006	364	276	36.2%	25.3%	16.9%	7.6x	27.6x	42.4x
Westlake	WLK	15,379	15,094	3,580	3,709	23.7%	24.4%	13.4%	1.2x	5.0x	8.1x
Average		\$ 9,982	\$ 5,310	\$ 1,717	\$ 1,030	30.5%	17.8%	10.7%	2.3x	11.2x	16.0x
Median		\$ 4,660	\$ 2,864	\$ 966	\$ 455	31.8%	16.4%	9.8%	1.6x	9.9x	14.1x
Commercial Building Products											
Aeon	AAON	\$ 5,160	\$ 936	\$ 269	\$ 187	27.6%	19.2%	13.6%	5.6x	28.1x	43.3x
Kingspan Group	DUB:KRX	12,107	8,770	2,330	1,069	26.6%	11.8%	7.7%	1.6x	13.1x	18.3x
Lennox International	LII	11,600	4,754	1,323	771	27.8%	16.0%	10.9%	2.8x	17.4x	22.4x
Valmont Industries	VMI	6,282	4,427	1,186	570	26.8%	11.9%	7.0%	1.6x	12.7x	20.3x
Average		\$ 12,520	\$ 4,722	\$ 1,277	\$ 649	31.2%	18.0%	11.0%	2.9x	17.8x	26.1x
Median		\$ 7,238	\$ 4,591	\$ 1,254	\$ 670	27.8%	16.5%	10.7%	2.2x	15.3x	21.3x
Diversified Building Products											
Beacon Roofing Supply	BECN	\$ 5,558	\$ 8,475	\$ 2,238	\$ 942	26.4%	9.9%	6.0%	0.9x	8.4x	11.6x
BlueLinx Holdings	BXC	859	4,026	675	322	17.1%	7.7%	4.8%	0.3x	3.4x	4.5x
Builders Firstsource	BLDR	20,835	20,929	7,283	4,001	34.8%	18.6%	13.2%	1.2x	6.1x	7.5x
Ferguson (UK)	LON:FERG	32,773	29,867	9,058	3,216	30.3%	10.1%	7.0%	1.3x	11.6x	15.3x
The Home Depot	HD	316,775	155,752	52,190	26,702	33.5%	17.1%	10.9%	2.3x	13.7x	18.9x
Watsco	WSO	13,688	7,301	2,028	858	27.8%	11.7%	9.9%	1.9x	16.4x	24.4x
WESCO International	WCC	9,382	22,010	4,821	1,722	21.9%	7.5%	4.0%	0.7x	8.8x	10.8x
Average		\$ 37,468	\$ 35,480	\$ 11,185	\$ 5,395	27.7%	13.1%	8.6%	1.2x	9.8x	13.3x
Median		\$ 11,854	\$ 20,929	\$ 4,821	\$ 1,722	27.8%	11.8%	8.8%	1.2x	8.8x	11.6x
Lumber and Wood Manufacturers											
Boise Cascade	BCC	\$ 3,595	\$ 7,605	\$ 1,632	\$ 993	21.5%	13.1%	8.7%	0.4x	3.1x	5.5x
Canfor	TSE:CFP	2,195	4,982	1,268	554	25.4%	8.6%	4.4%	0.4x	3.2x	13.4x
Louisiana-Pacific	LPX	5,586	3,271	979	833	29.9%	23.2%	16.4%	1.8x	7.0x	10.4x
UFP Industries	UFPI	5,882	8,960	1,669	978	18.6%	10.8%	7.4%	0.6x	5.9x	9.2x
West Fraser Timber Company	TSE:WFG	7,621	8,218	3,008	1,584	36.6%	20.2%	10.6%	0.9x	4.6x	9.7x
Western Forest Products	TSE:WEF	253	1,018	136	51	13.3%	4.5%	0.6%	0.3x	5.6x	27.4x
Weyerhaeuser Company	WY	24,768	8,953	2,524	2,368	28.2%	24.7%	15.9%	3.2x	12.3x	17.4x
Average		\$ 36,589	\$ 6,144	\$ 1,602	\$ 1,052	26.0%	13.9%	8.9%	1.1x	6.0x	13.3x
Median		\$ 8,501	\$ 7,605	\$ 1,632	\$ 978	27.7%	12.4%	8.8%	0.6x	5.6x	10.4x
Home Builders											
D.R. Horton	DHI	\$ 42,427	\$ 45,388	\$ 10,323	\$ 7,604	28.9%	20.8%	16.0%	1.1x	4.9x	6.1x
NVR	NVR	21,954	20,167	2,876	2,310	26.3%	21.0%	16.6%	1.7x	7.8x	11.7x
PulteGroup	PHM	17,939	19,027	4,834	3,426	29.7%	21.7%	16.7%	1.0x	4.5x	5.4x
Taylor Morrison Home	TMHC	5,514	7,031	2,092	1,477	25.6%	17.7%	13.2%	0.8x	4.3x	4.1x
Meritage Homes	MTH	5,264	5,481	1,803	1,314	27.0%	19.0%	14.7%	0.7x	3.5x	4.4x
MDC Holdings	MDC	3,424	3,461	1,310	892	21.2%	12.1%	11.4%	0.6x	3.6x	4.3x
Lennar	LEN	35,916	36,617	7,202	6,757	18.8%	16.7%	14.1%	0.9x	4.7x	6.0x
Toll Brothers	TOL	8,987	11,202	2,521	1,747	25.2%	18.8%	12.9%	0.9x	5.4x	5.5x
Skyline Champion	SKY	3,757	3,021	869	591	31.4%	20.9%	15.8%	1.3x	6.1x	10.0x
KB Home	KBH	4,555	6,111	1,690	1,107	24.3%	15.8%	12.6%	0.7x	4.6x	4.4x
Average		\$ 14,974	\$ 15,751	\$ 3,552	\$ 2,723	25.9%	18.4%	14.4%	1.0x	5.0x	6.2x
Median		\$ 7,251	\$ 9,117	\$ 2,307	\$ 1,612	26.0%	18.9%	14.4%	0.9x	4.7x	5.4x

Source: Pitchbook (as of 06/30/23)

Notable M&A Transactions

Q2 2023

Target	Acquirer	Description	Financial Data
	 	Distributor of roofing products intended to serve the Reno market	N/A
		Manufacturer of residential roofing shingles and wood fiber insulation panels based in Lasalle, Canada	EV: \$981.1M LTM Rev: \$333.9M EV/LTM Rev: 2.9x
		Distributor of building materials catering to contractors as well as retail clients	N/A
	  AMERICAN SECURITIES	Supplier of building materials intended to serve the building contractors in Indiana	N/A
	 	Distributors of industrial and oil field products intended for customers throughout North and West Texas	N/A
		Distributor of building materials intended to offer wood products to customers	N/A
Exterior Solutions		Distributor of building materials intended to fulfill client's design need by providing cost-effective products	N/A
		Distributor of roofing products to clients across Florida, United States	N/A
		Distributor of building materials catering to residential, commercial and multifamily construction	N/A

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, Tennessee, FourBridges guides business owners through life-changing transactions and complex decisions when its time to transition ownership. FourBridges 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 actual 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



HOULIHAN LOKEY



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RAYMOND JAMES



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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 President & Associates

- Combined 25+ years of corporate finance, M&A, and valuation experience
- Combined 8+ years of experience at FourBridges

Andrew Allred *Vice President*

Experience

- Jamestown LP
- Croft & Bender

Education

- University of Georgia

John Kirkland, CFA, CPA *Associate*

Experience

- Willamette Management Associates
- PricewaterhouseCoopers

Education

- University of Tennessee

Brian Eischeid *Associate*

Experience

- I3 Verticals, LLC
- PricewaterhouseCoopers, LLP

Education

- University of Tennessee

Senior Analyst and Analysts

Andrew Ball *Senior Analyst*

Experience

- ACA Group
- Northwestern Mutual

Education

- University of Louisiana at Lafayette, MBA
- Lee University

Wes Young *Analyst*

Experience

- Benjamin F. Edwards & Co.
- ProNvest

Education

- University of Georgia