

Building Products & Services

Market Update – Fall 2024

 **FOURBRIDGES**
CAPITAL ADVISORS



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FourBridges Insights

Economic indicators shaping the building products market:

- Inflation is expected to moderate to 2.4% in 2024, and consumer confidence bounced back to 109 (1985=100) in October, showing some signs of renewed faith in the economy.
- Citing employment concerns becoming at least as important as taming inflation, the Fed continued it's easing by a total of 75bp through early November, which has improved the near-term outlook for the building products industry.

High interest rates and home prices persist:

- Mortgage rate relief remains elusive as 30-yr. rates remain just under 7%, slightly higher than the 6.6% rate in December 2023. However, analysts are forecasting sub-6% mortgage rates in 2H 2025 which could improve transaction activity in the housing market.
- Both single-family and multi-family construction continue to be challenged by increased borrowing costs and longer lead times.
- The national home price index continues to rise, but at a smaller clip (4.3% YoY as of August 31), as supply remains tight.

Turn toward growth in remodeling activity in 2025:

- Remodeling activity improved slightly to \$472B in Q3 but remains constrained.
- Expectations remain that remodeling activity will bottom out around \$454B in early 2025 and move upward from there as inflation moderates and home supply remains tight.

Improving M&A momentum:

- Buoyed by long-term trends and drastic undersupply, M&A activity has improved ~30% YoY, with private equity buyers pushing the pace.
- Sector strategies, particularly among financial buyers, are leading the way to expand product portfolios and service offerings in both residential and commercial markets.

Major Trends & Expectations

- With the election in the rear view, several effects on the building products and services markets come into focus but may cut both ways – tariffs could bring higher building costs but less regulation in homebuilding and greater tax incentives could increase supply and purchasing power, respectively.
- Home sales activity is expected to improve as interest rates decline in the coming months, which should bolster residential construction and renovation activity.
- Having already surpassed \$657B, the total addressable market (TAM) for residential services is still expected to grow aggressively, with labor markets being the governor.
- With increasing cash to deploy, strong market trends, and possibly lower cost of capital, financial buyers are expected to accelerate M&A activity in 2025.

Post-Election Pulse

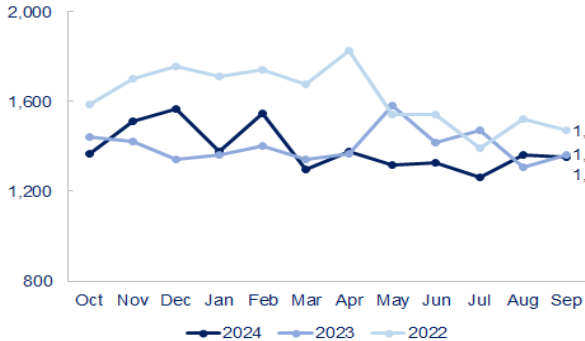
"I expect that a Trump economy will do better. People will start feeling better about the economy, and be willing to financially stretch themselves to buy homes despite elevated mortgage rates."
– Jim Tobin, NAHB CEO

"This is an exciting day for our industry ... ABC is optimistic about the future of America's construction industry and the opportunities to advance policies that protect free enterprise, reduce regulatory burdens and expand workforce development."
– Michael Bellman, Associated Builders and Contractors President and CEO

Market Indicators

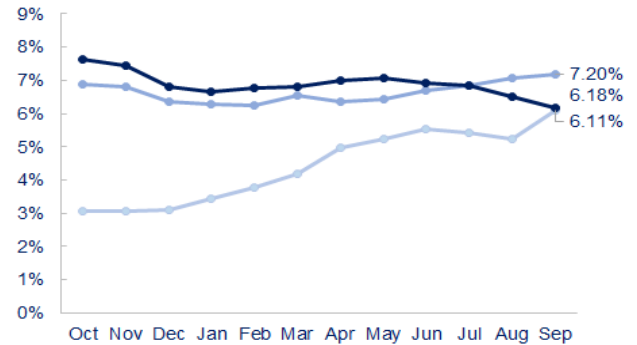
Housing Starts

Housing Starts in Thousands;
Source: US Census Bureau



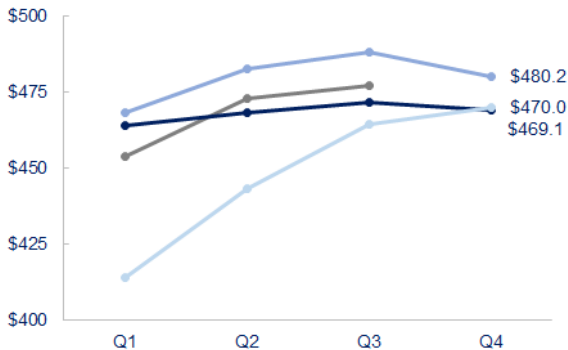
30-Year Fixed Mortgage Rate

30-year Fixed Mortgage Rate;
Source: FRED



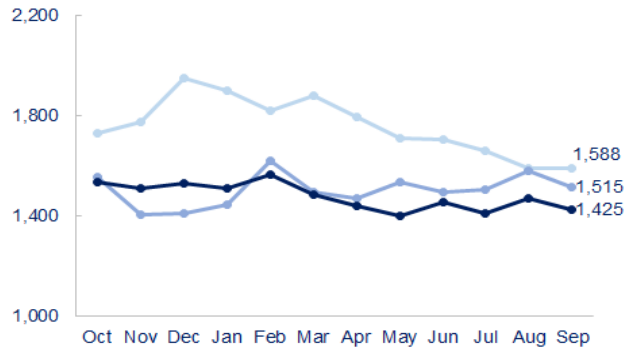
Remodeling Activity

Leading Indicator of Remodeling Activity in Billions; (Q4 2024 – Q3 2025 projected)
Source: Joint Center for Housing Studies, Harvard University



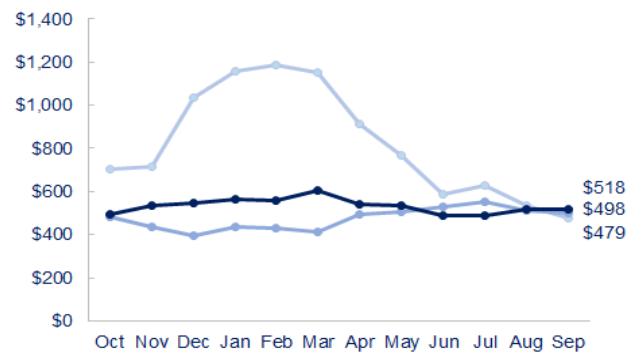
Building Permits

Building Permits in Thousands;
Source: US Census Bureau



Lumber Composite Pricing

Lumber Composite Price Per Thousand Board Feet;
Source: NASDAQ

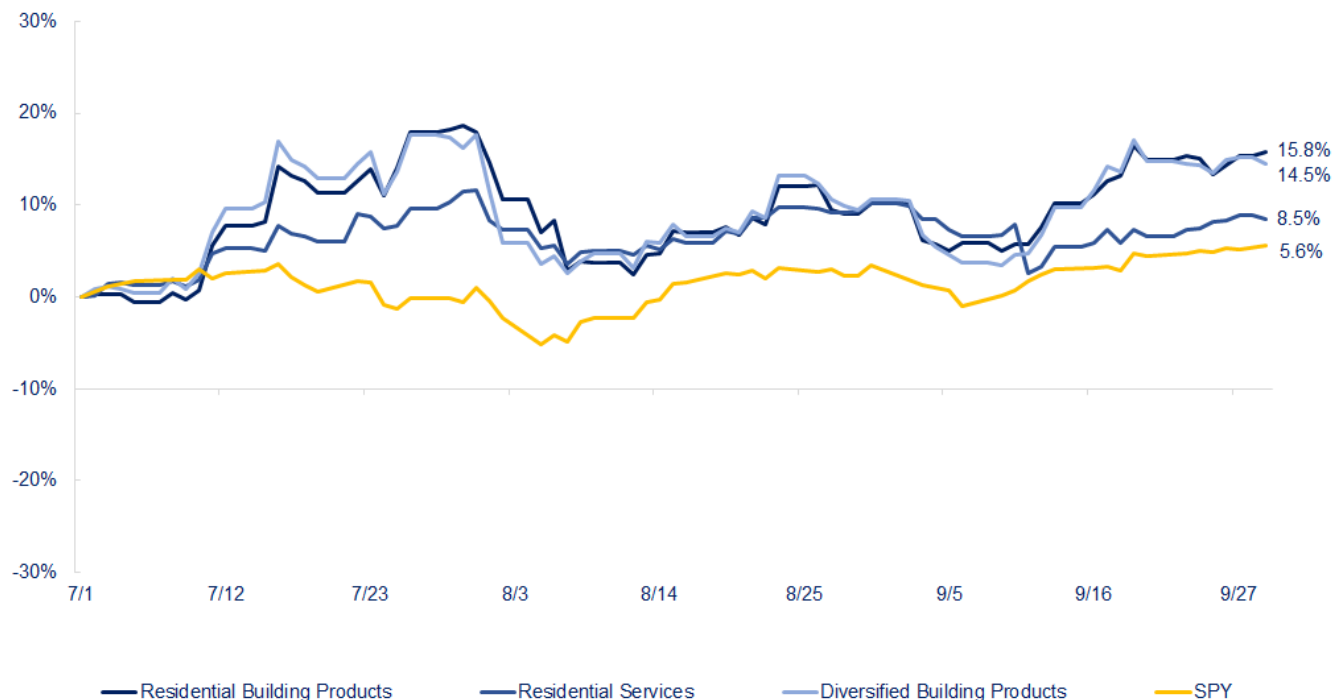


2022 2023 2024 2025E

Public Companies: Market Performance

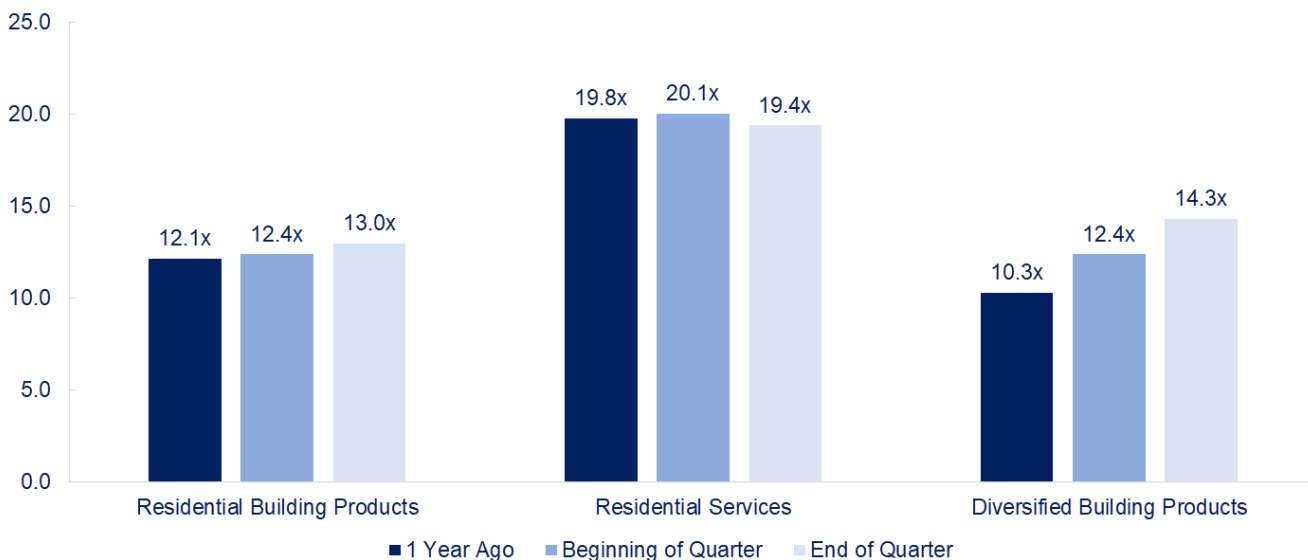
Stock Price Performance vs. S&P 500

By Industry Segment



Market Enterprise Value (EV) / EBITDA

By Industry Segment



Source: Pitchbook (as of 9/30/24)

Public Companies:

Financial Performance (as of Sep 30, 2024)

\$ in millions

\$ 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	\$ 1,498	\$ 1,808	\$ 361	\$ 222	20.0%	12.1%	6.8%	1.1x	8.7x	12.0x
Armstrong World Industries	AWI	5,809	1,351	535	467	39.6%	33.4%	19.0%	4.8x	13.8x	22.5x
Fortune Brands Innovations	FBIN	11,361	4,772	2,064	975	43.2%	18.6%	10.8%	2.9x	14.4x	20.7x
Gibraltar Industries	ROCK	2,151	1,365	369	204	27.0%	13.6%	9.5%	1.5x	9.8x	16.6x
Griffon Corporation	GFF	3,560	2,605	1,002	497	38.5%	19.1%	9.5%	2.0x	10.3x	14.5x
James Hardie Industries	ASX:JHX	17,383	3,974	1,612	1,122	40.6%	24.2%	17.9%	4.6x	16.2x	24.8x
Jeld-Wen	JELD	1,358	4,043	778	346	19.2%	5.0%	-0.1%	0.6x	7.2x	10.9x
Masco	MAS	18,761	7,878	2,868	1,321	36.4%	16.8%	11.2%	2.7x	16.3x	21.3x
Owens Corning	OC	15,746	9,872	2,889	2,573	29.3%	21.6%	14.1%	2.2x	8.4x	11.3x
Quanex Building Products	NX	918	1,081	269	152	24.8%	12.9%	7.7%	0.9x	6.2x	11.0x
Simpson Manufacturing	SSD	8,163	2,209	1,027	532	46.5%	23.9%	15.8%	3.8x	15.7x	24.3x
The Sherwin-Williams	SHW	97,784	23,008	11,059	4,674	48.1%	18.7%	11.6%	4.8x	23.5x	34.7x
Trex	TREX	7,242	1,250	539	402	43.2%	32.3%	22.1%	5.9x	18.2x	27.6x
Westlake	WLK	19,381	12,123	1,915	n/a	15.8%	13.5%	7.0%	1.8x	n/a	n/a
Average		\$ 15,080	\$ 5,524	\$ 1,949	\$ 1,037	33.7%	19.0%	11.6%	2.8x	13.0x	19.4x
Median		\$ 7,702	\$ 3,290	\$ 1,014	\$ 497	37.4%	18.6%	11.0%	2.5x	13.8x	20.7x

Residential Services

Chemed	CHE	\$ 9,173	\$ 2,332	\$ 840	\$ 490	36.0%	18.7%	14.8%	3.9x	18.6x	26.6x
FirstService	FSV	8,225	4,652	1,508	434	32.4%	8.4%	4.2%	2.1x	22.1x	42.5x
Installed Building Products	IBP	6,980	2,684	974	546	34.1%	17.9%	11.0%	2.8x	13.9x	22.4x
Rollins	ROL	24,578	3,232	1,700	763	52.6%	23.3%	14.4%	7.8x	33.2x	52.6x
Rentokil Initial	RTO	12,330	6,811	n/a	1,763	n/a	21.3%	10.9%	2.4x	9.3x	18.3x
Average		\$ 18,130	\$ 3,942	\$ 1,256	\$ 799	36.8%	19.0%	11.9%	3.8x	19.4x	32.5x
Median		\$ 8,699	\$ 3,232	\$ 1,241	\$ 546	36.0%	18.7%	11.3%	2.8x	18.6x	26.6x

Diversified Building Products

Beacon Roofing Supply	BECN	\$ 5,467	\$ 9,471	\$ 2,422	\$ 964	25.6%	9.1%	4.9%	1.0x	9.4x	11.8x
BlueLinx Holdings	BXC	929	3,080	508	n/a	16.8%	4.1%	2.8%	0.3x	n/a	n/a
Builders Firstsource	BLDR	23,890	17,033	5,809	2,652	34.1%	15.0%	10.1%	1.7x	10.6x	13.9x
Ferguson	LON:FERG	40,032	29,635	9,053	3,006	30.5%	10.0%	6.7%	1.5x	15.0x	20.3x
The Home Depot	HD	402,769	152,089	51,095	24,578	33.6%	16.2%	9.9%	3.1x	19.0x	26.9x
Watsco	WSO	18,202	7,434	1,992	798	26.8%	10.7%	8.7%	2.4x	22.8x	37.1x
Wesco International	WCC	8,693	21,948	4,729	1,499	21.5%	6.9%	3.0%	0.6x	9.2x	13.2x
Average		\$ 44,533	\$ 34,384	\$ 10,801	\$ 5,583	31.7%	13.9%	8.4%	1.5x	14.3x	20.5x
Median		\$ 12,330	\$ 17,033	\$ 4,729	\$ 2,075	33.0%	15.0%	9.9%	1.5x	12.8x	17.1x

Source: Pitchbook (as of 12/31/23)

Notable M&A Transactions:

Q4 2023

Target	Acquirer	Description
		Provider of pest control and plumbing services to residential and commercial customers
		Provider of electrical services to commercial and residential customers
		Provider of construction supplies to commercial and industrial customers
		Provider of water, fire, storm, and construction recovery to residential and commercial customers
		Distributor of roofing products to residential and commercial customers
		Manufacturer of anchors serving wholesalers, home centers, and industrial distributors
		Provider of custom roof / floor trusses and other building materials to residential and commercial customers
		Supplier of building materials to residential and commercial customers
		Distributor of drywall and other building materials to residential customers

FourBridges Experience:

Select Building Products & Service Experience

 <p>has been acquired by</p>  <p>a portfolio company of</p> 	<p>Junior's Building Materials is a distributor of building materials primarily for regional residential homebuilders based in Ringgold, GA.</p> <p>FourBridges served as exclusive financial advisor to Junior's in a sale to US LBM, a portfolio company of Bain Capital.</p>
 <p>has been acquired by</p>  <p>a portfolio company of</p> 	<p>Southern Lighting Gallery ("SLG") is a provider of commercial and residential lighting fixtures based in Augusta, GA.</p> <p>FourBridges served as exclusive financial advisor to SLG in a sale to Saylite, a portfolio company of CORE Industrial Partners.</p>
 <p>has been acquired by</p>  <p>a portfolio company of</p> 	<p>RestorePro Reconstruction is a provider of restoration services to commercial and residential customers based in Raleigh, NC.</p> <p>FourBridges served as exclusive financial advisor to RestorePro Reconstruction in a sale to Fleet Response, a portfolio company of Trinity Hunt Partners.</p>
 <p>has been acquired by</p> 	<p>Cannon Roofing is a specialty roofing contractor serving commercial and industrial customers based in Spartanburg, SC.</p> <p>FourBridges served as exclusive financial advisor to Cannon Roofing in a sale to Envest Private Equity.</p>

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 it's 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



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
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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

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University of Georgia

John Kirkland, CFA, CPA
Associate



Experience
Willamette Management Associates
PricewaterhouseCoopers

Education
University of Tennessee

Brian Eischeid
Associate



Experience
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PricewaterhouseCoopers, LLP

Education
University of Tennessee

Associate and Analyst

Andrew Ball
Associate



Experience
ACA Group
Northwestern Mutual

Education
University of Louisiana at Lafayette, MBA
Lee University

Wes Young
Analyst



Experience
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ProNvest

Education
University of Georgia