



INDUSTRY INSIGHTS

Spotlight: Building Products & Services

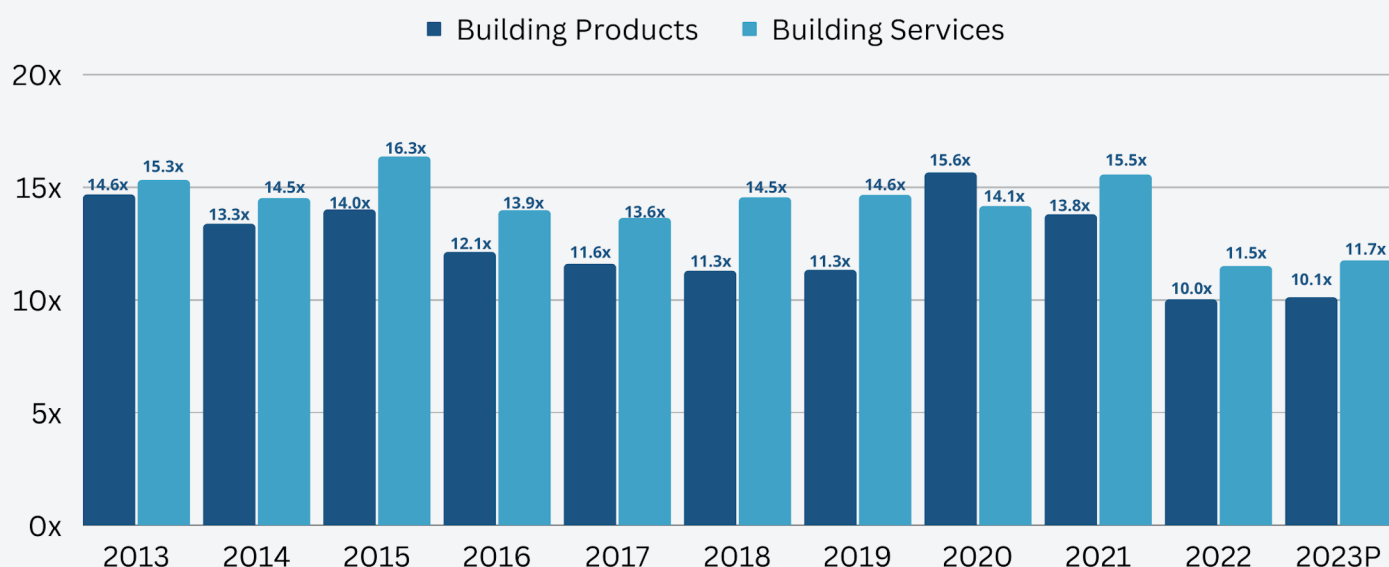
The building products and services industry is a crucial component of the construction and renovation sector, and it encompasses a wide range of products (e.g. materials, flooring, insulation, windows) and services (e.g. product installation, electrical, plumbing, HVAC, fire protection). The industry has experienced volatility in recent years, driven by factors such as COVID lockdowns, supply chain issues, and rising interest rates. In this report, we will be taking a closer look at the current trends, challenges, and opportunities in this sector.

VALUATIONS

Overall, valuations in the building products and services segments have softened since 2021 and have been impacted by softening demand and an uncertain outlook after record growth across the segments in late 2020, 2021, and the first half of 2022. Although housing inventory continues to lag behind, fundamentals around new construction have softened since summer 2022. Businesses more reliant on new construction (re: Builders) have been hit the hardest on valuation, while operators focused on remodel and renovation remain bullish of continued activity in 2023. The average EV/EBITDA valuation multiples for building services are currently trading at 11.55x, a 9.6% premium over building products companies, which are trading at 10.55x.

Over the historical period, January 2013 to February 2023, the industry has traded at ~13.5x EV/EBITDA, the industry is currently trading at 11.0x on average.

EV/EBITDA by Industry Grouping



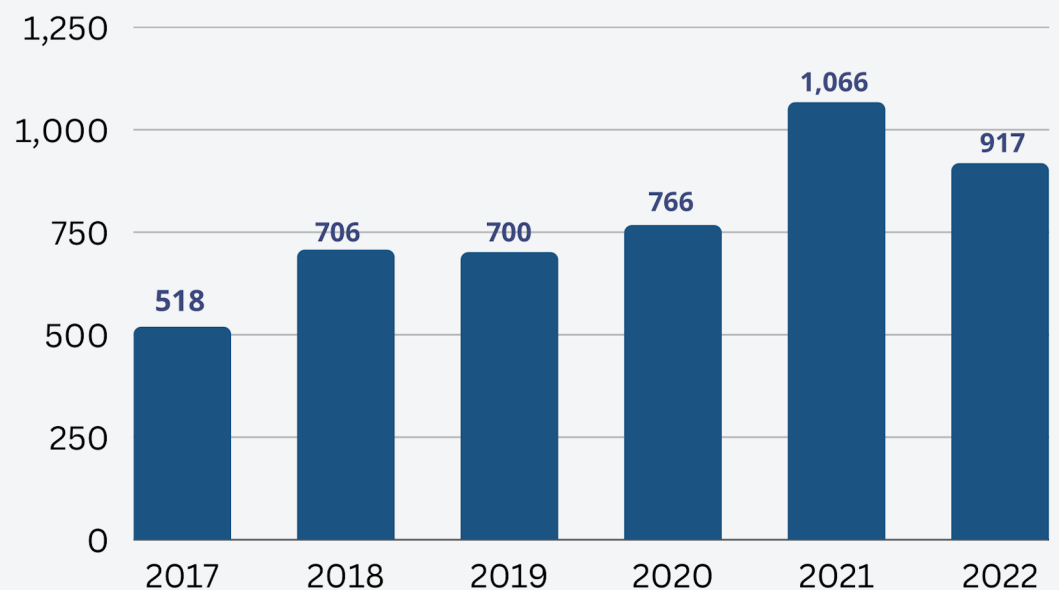
M&A TRANSACTION VOLUMES SOFTEN FROM RED HOT 2021

After a red-hot 2021 for M&A in this industry, 2022 saw a correction toward a more “normal” M&A year. 2022 U.S. M&A volume was down ~14% from 2021; however, 2022 transaction activity was up ~22% in comparison to the average volume from 2017 through 2021. M&A volume in 2021 was extraordinary for a few reasons:

- (1) exceptional growth and margin driven by high demand,
- (2) COVID and related supply chain issues put a pause on M&A for many companies in 2020 who then transacted in 2021 & 2022 and
- (3) aggressive M&A roll-up activity from private equity groups in the building services segment.

On the building services side, HVAC, plumbing and other technical home and commercial services saw higher levels of M&A activity from private equity backed companies in 2021. In segments where there is aggressive buyer activity, auction processes yielded outlier valuations for many middle market sellers. We see this activity continuing through 2022; however, Q4 2022 saw the least activity of any quarter in 2022. We anticipate M&A activity to remain elevated for companies providing differentiated products and technologies (cost-efficient sustainable products) and groups with more favorable channels and customer profiles (remodel vs. new construction).

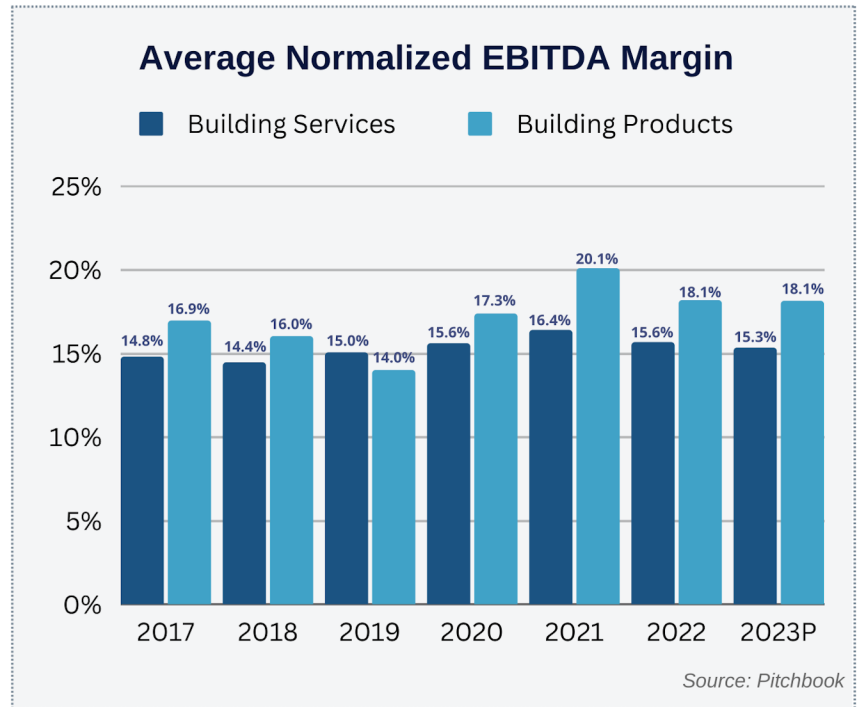
Annual Transaction Counts



Source: Pitchbook

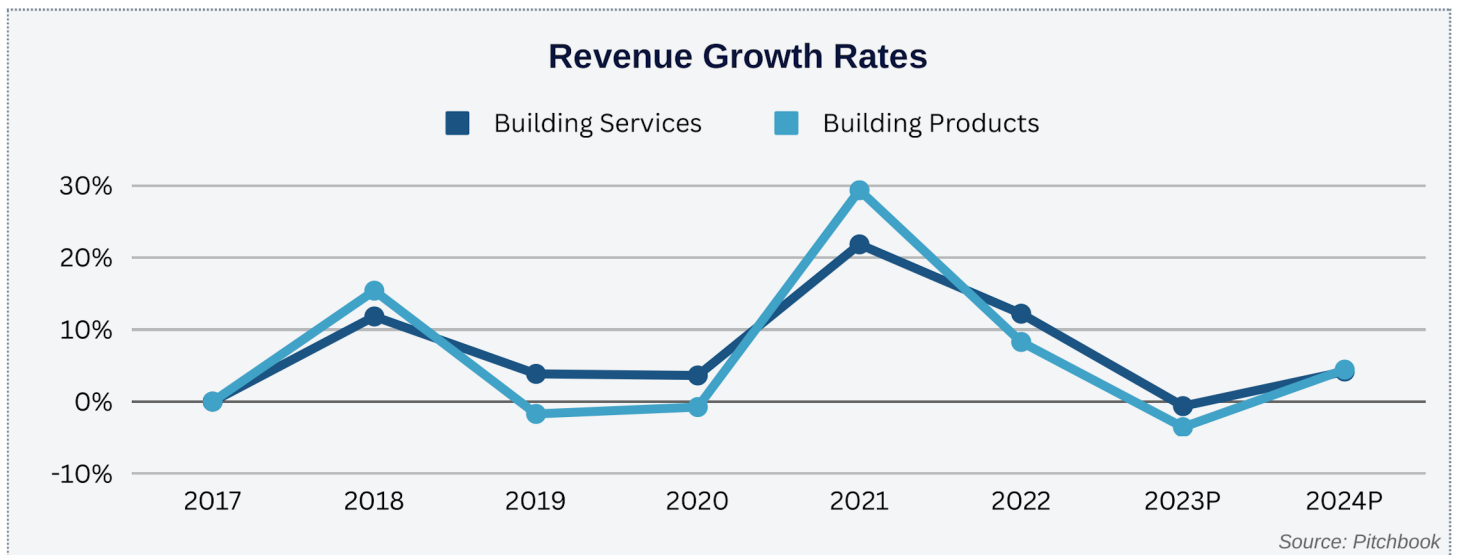
MARGINS MOVE CLOSER TO HISTORICAL LEVELS AS DEMAND SOFTENS

Driven by high demand and scarcity due to supply chain issues, 2021 was an extraordinary year for margins across building products and services, seeing the highest margins for both segments over the last 6 years. Outside of 2019, the building products group has been able to achieve a slightly higher EBITDA Margin (17.0% on average) as compared to the building services group (15.3% on average). 2022 saw margins erode slightly but remain elevated as costs started to fall in 2H 2022. Analyst 2023 forecasts across the spectrum are foreseeing stabilization in margins after the drop from 2021 to 2022.



After 2021 saw record growth with both building products and services exceeding 20% across the Companies we analyzed, 2022 was still a very strong year for both segments. 2022 saw building services growth of 12.2% and building products growth of 8.3%. Traditionally, the building services segment has seen less exposure to cyclicalities given additional exposure to restoration and remodel which has played out in the last few years and expects to be more stable in the near future. With consumer balance sheet headwinds, higher cost of capital across all segments and an overall weakening economy, 2023 is expected to be a flat or slightly down year on average; however, if you look across the industry there are certain segments (re: HVAC products & services) estimating stronger years than 2022.

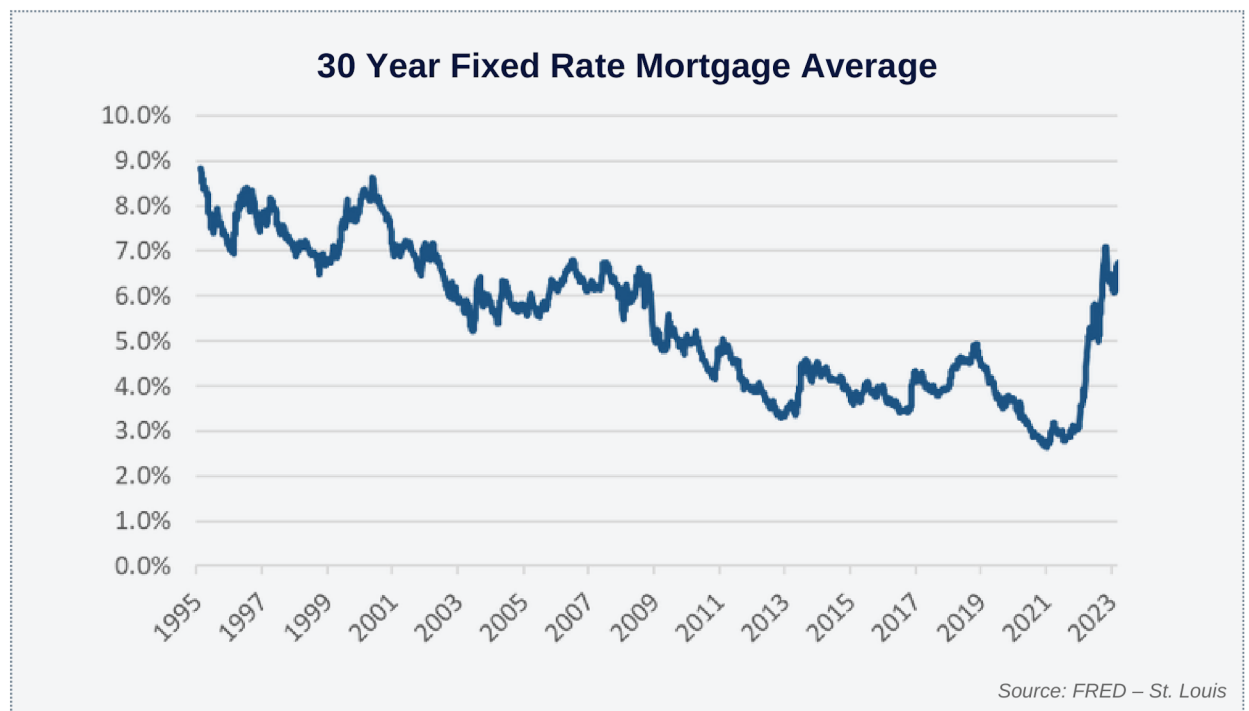
On the flip side, we are seeing sharper declines in certain segments including: distributors, lumber, structural building products and other products more exposed to new construction. Although it is still early to tell given the fluctuations in the market, analysts are predicting the market to rebound in 2024. In the M&A world, inflation—and more recently deflationary trends (see: lumber)—are drawing more attention to analysis of volumes versus revenue trends and where cost-pass throughs are delayed.



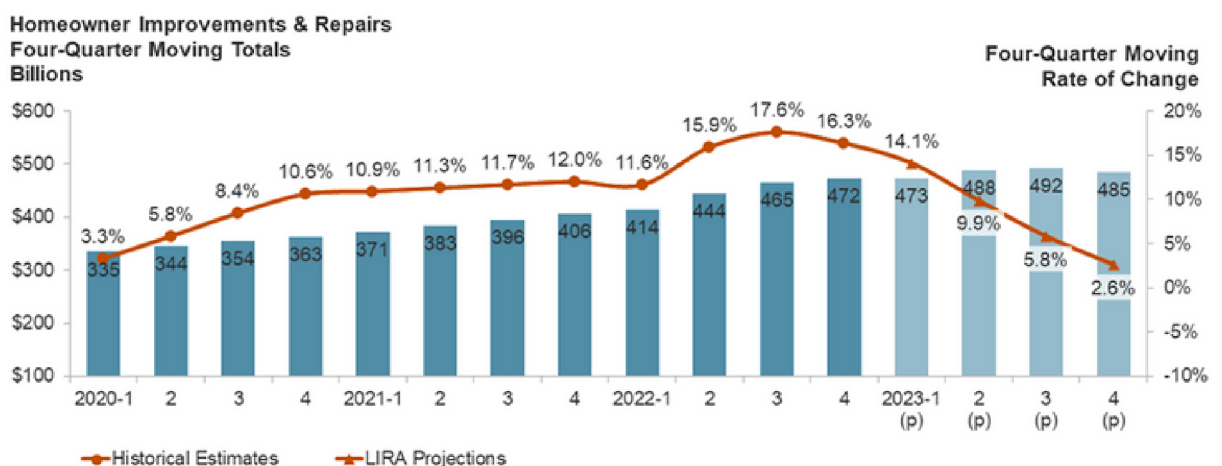
TRENDS TO WATCH

REMODEL VS. NEW BUILD

In a climate of rising interest rates, current effective fed funds rate of 4.58% (compared to an effective rate of ~0% almost three years ago), homeowners are turning toward remodeling instead of buying. As seen below, the rise of the average 30-year fixed rate mortgage closely coincided with the rise remodeling activity of 2022. Moving forward the mortgage rates are expected to stay consistent and potentially drop, which should in turn cause a slow-down in remodeling activity. Although remodel growth estimates have tempered, leading indicators are estimating approximately 8% growth in 2023 versus 2022.



Leading Indicator of Remodeling Activity – Fourth Quarter 2022

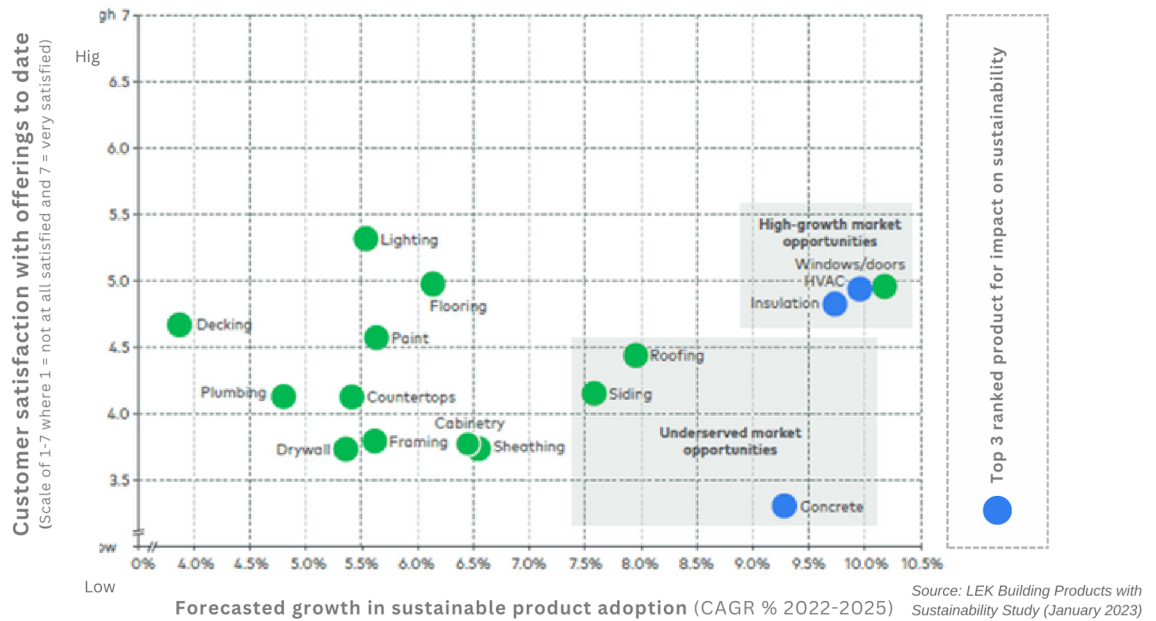


Notes: Improvements include remodels, replacements, additions, and structural alterations that increase the value of homes. Routine maintenance and repairs preserve the current quality of homes. Historical estimates since 2021 are produced using the LIRA model until American Housing Survey benchmark data become available.

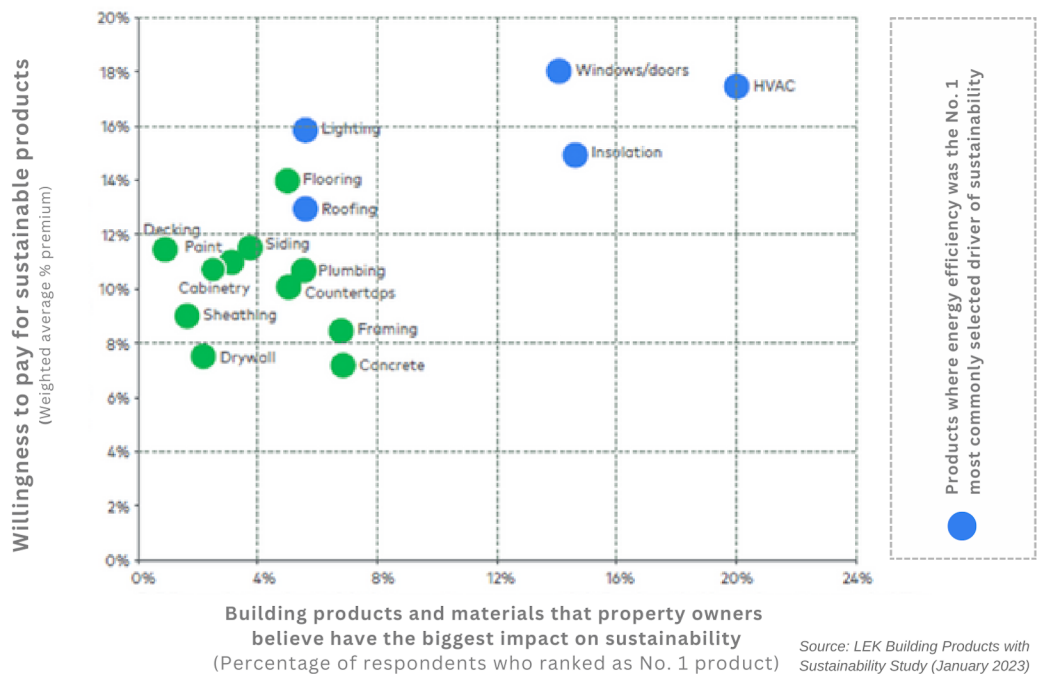
SUSTAINABILITY

As consumers and regulatory officials become increasingly aware of the environmental impact of building products, manufacturers are under pressure to develop eco-friendly alternatives. New regulations and consumer demand for products made from recycled materials and those with low carbon emissions are increasing.

Forecasted Product Adoption and Sustainable Product Satisfaction



Property owner willingness to pay for sustainable products



The sustainability picture isn't static. Industry professionals say they expect certain products, such as HVAC, insulation, and concrete, to adopt sustainable alternatives faster than others. Roofing products and lighting are also areas where energy efficiency was found to be the highest priority in regards to sustainability. The key to the growth and adoption of many of these evolving, sustainable and cost-effective technologies is education in the market to both builders and other professionals, who are installing these products and including within the plans.

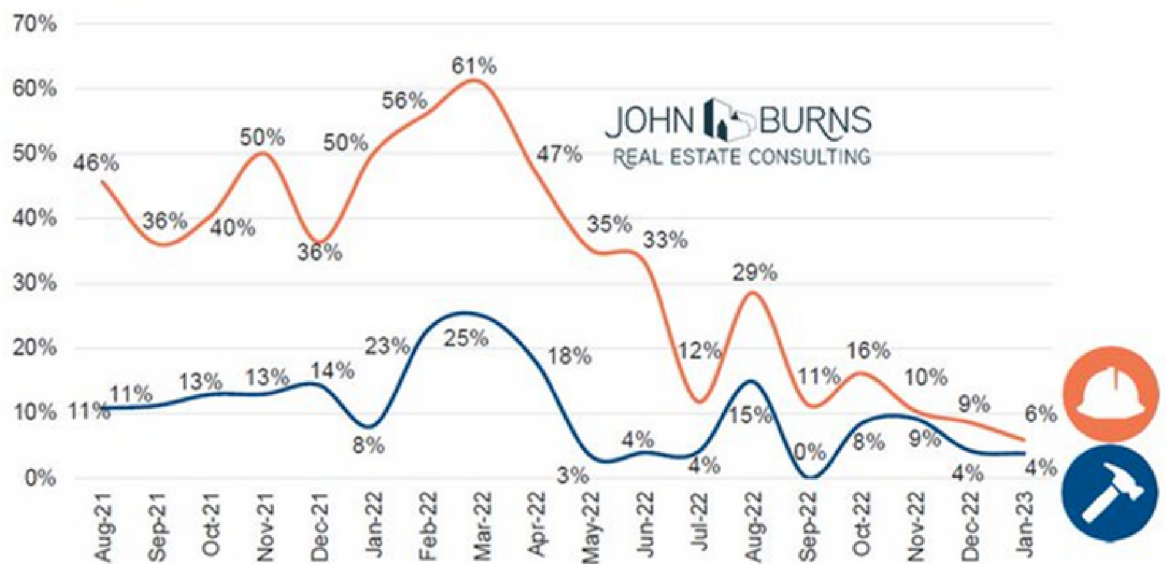
PRO SEGMENT AT RETAILERS IS STRONGER THAN DIY

In late 2022, home improvement retailers are seeing big ticket transactions (over \$1,000) are up versus overall comparable transactions being down over the same period. This is indicative of the Pro segment retaining its strength through the end of 2022 for this channel. On the flip side, building materials dealers are seeing softer conditions from the pro segment pro remodelers has been seeing softening since 4Q2022:

Building Materials Dealers Feel the Freeze: Customer Traffic Weaken Further in January

% Rating Customer Traffic Strong at Building Materials Dealers' Yards or Facilities

% rated Strong — Pro — DIY



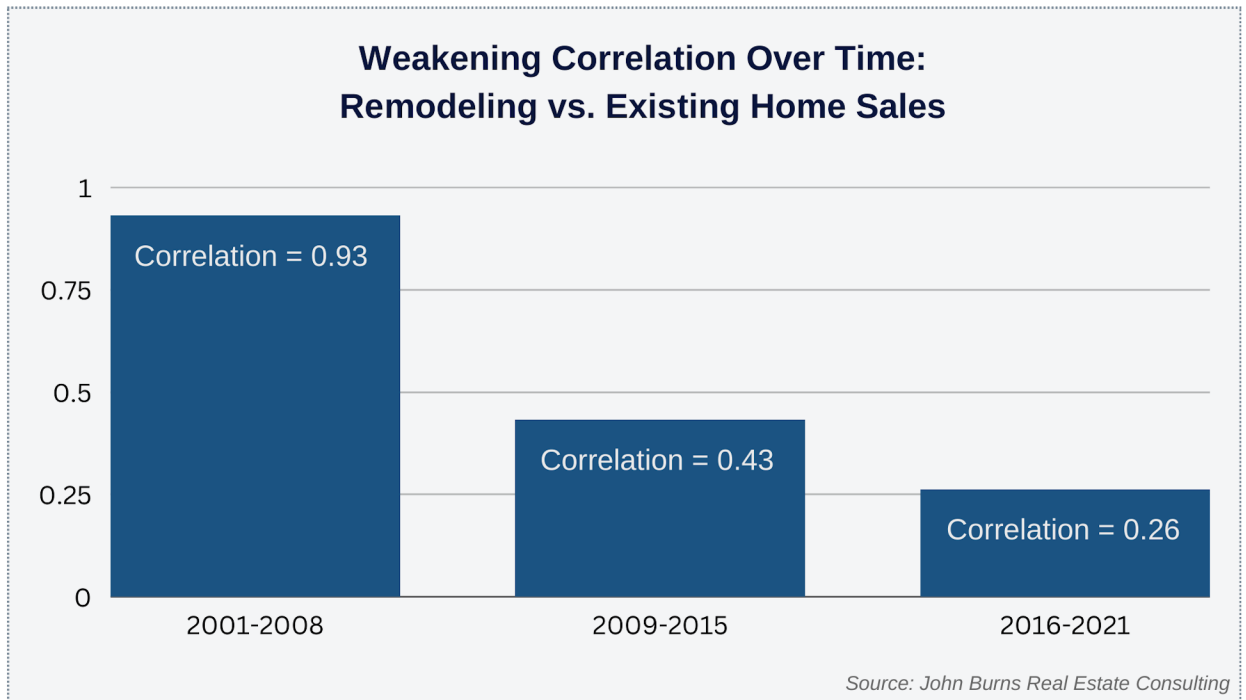
Source: John Burns Real Estate Consulting, LLC (Data: Jan-23, Pub: Feb-23)
As seen in Burns Building Products Dealer Survey

VOLUMES ARE NORMALIZING TO 2019

Price and mix have offset volume declines for industry revenue in 2022. Major retailers have seen that strong 2Q21 through 4Q22 sales and margin growth have been driven by ticket, while transactions are starting to normalize back toward 2019 levels. There have been shifts away from discretionary home improvement projects like kitchen and bath remodel activities versus less discretionary projects like roof and siding remodel projects. Price sensitivity is also returning to consumers where consumers are buying fewer items because prices are higher. Price sensitivity is also driving customers increasingly down in terms of product quality/price point to stay in budget.

STRENGTH IN REMODEL ACTIVITY IN 2023

Many operators have been shifting their focus toward remodel products and market channels as they are seeing weakness in new and existing home sales. Overall, the correlation between remodel activity and existing home sales has weakened over the last 20 years, where the drop in home sales will not impact remodel activity as previously seen. This further supports the bullishness seen from operators in the remodel segment.



DIGITIZATION

The building products industry is seeing a rise in digital solutions such as BIM (Building Information Modeling) and virtual reality (VR) technology. These solutions are helping to streamline the construction process and increase efficiency.

SMART BUILDING TECHNOLOGY

With the rise of the Internet of Things (IoT), building services are becoming more sophisticated and interconnected. Smart building technology is becoming increasingly popular, allowing building owners to remotely monitor and control various systems, leading to increased efficiency and cost savings.

OUTSOURCING

Building owners are increasingly outsourcing building services to specialist companies, as this allows them to focus on their core business and saves them time and money.

BUILDING PRODUCTS & SERVICES PUBLIC COMPANIES

Company Name	Ticker	Market Capitalization	Enterprise Value	TTM Revenue	Adj. EBITDA	Gross Margin %	Adj. EBITDA %	Revenue (3 Yr CAGR)	EBITDA (3 Yr CAGR)	EV / Revenue	EV / Adj. EBITDA
<i>(\$ in millions as of 3/8/2023)</i>											
Building Services - Retail											
Home Depot	NYS: HD	\$ 297,083	\$ 344,690	\$ 157,291	\$ 27,435	33.5%	8.0%	12.3%	13.9%	2.2x	12.6x
Lowe's	NYS: LOW	120,885	157,147	95,953	12,533	33.4%	8.0%	10.2%	23.8%	1.6x	10.5x
Building Products & Services - Plumbing											
RWC Global	ASX: RWC	1,884	2,523	1,252	189	37.8%	7.5%	16.8%	0.7%	2.0x	13.4x
Mueller Water Products	NYS: MWA	2,141	2,489	1,290	191	28.7%	7.7%	9.3%	-2.2%	1.8x	13.0x
Masco	NYS: MAS	11,564	14,795	8,680	1,494	31.3%	10.1%	9.0%	6.4%	1.7x	9.9x
Richelieu Hardware	TSE: RCH	1,571	1,752	1,391	224	28.1%	12.8%	20.1%	32.0%	1.3x	7.8x
Toto	TKS: 5332	5,595	5,112	5,268	762	36.4%	14.9%	4.7%	9.2%	1.0x	6.7x
Tyman	LON: TYMN	569	781	908	152	32.1%	19.5%	3.4%	1.5%	0.9x	5.1x
Villeroy & Boch	ETR: VIB3	586	383	1,070	150	42.9%	39.2%	6.2%	17.7%	0.4x	2.6x
Building Products & Services - HVAC											
Acuity Brands	NYS: AYI	6,413	6,703	4,078	648	41.8%	9.7%	4.5%	4.8%	1.6x	10.3x
Daikin Industries	TKS: 6367	51,164	52,306	28,861	4,097	33.2%	7.8%	14.0%	9.8%	1.8x	12.8x
Trane Technologies	NYS: TT	43,859	47,491	15,992	2,913	31.0%	6.1%	6.9%	9.9%	3.0x	16.8x
Johnson Controls	NYS: JCI	44,680	54,115	25,505	3,550	33.5%	6.6%	1.9%	7.4%	2.1x	15.2x
Schneider Electric	PAR: SU	91,496	105,054	35,145	7,804	40.6%	7.4%	5.5%	12.5%	3.0x	13.5x
Aeon	NAS: AAOON	4,926	4,992	889	162	26.7%	3.3%	23.7%	16.4%	5.6x	30.8x
Carrier Corporation	NYS: CARR	39,568	45,737	20,421	3,117	26.8%	6.8%	3.1%	-0.2%	2.2x	14.7x
Lennox International	NYS: LII	9,150	10,839	4,718	742	27.2%	6.8%	7.4%	14.5%	2.3x	14.6x
Building Services - Home Services											
Rollins	NYS: ROL	17,245	17,486	2,696	593	51.5%	3.4%	10.2%	17.8%	6.5x	29.5x
Rentokil Initial	LON: RTO	15,651	17,325	4,066	944	80.2%	5.4%	7.2%	11.8%	4.3x	18.4x
TopBuild	NYS: BLD	6,431	7,868	5,009	941	29.7%	12.0%	24.0%	37.9%	1.6x	8.4x
FirstService	TSE: FSV	6,140	7,189	3,746	352	31.5%	4.9%	15.9%	14.4%	1.9x	20.4x
IBP	NYS: IBP	3,239	3,956	2,670	439	31.0%	11.1%	20.9%	30.7%	1.5x	9.0x
Frontdoor	NAS: FTDR	2,255	2,590	1,662	214	42.7%	8.3%	6.8%	-10.9%	1.6x	12.1x
BrightView	NYS: BV	588	2,073	2,839	294	24.0%	14.2%	5.0%	-1.5%	0.7x	7.1x
Building Services - Distribution											
Builders Firstsource	NYS: BLDR	11,895	15,304	22,726	4,377	34.1%	28.6%	46.1%	103.9%	0.7x	3.5x
BlueLinx Holdings	NYS: BXC	784	1,098	4,450	478	18.7%	43.5%	19.1%	88.4%	0.2x	2.3x
Gypsum Management & Supply	NYS: GMS	2,458	3,646	5,314	666	32.3%	18.3%	17.8%	29.0%	0.7x	5.5x
Building Products - Glass											
Assa Abloy	STO: ASSA B	26,932	29,840	11,907	2,267	39.7%	7.6%	8.7%	8.3%	2.5x	13.2x
Apogee Enterprises	NAS: APOG	1,013	1,243	1,425	166	24.6%	13.3%	0.7%	3.5%	0.9x	7.5x
Jeld-Wen	NYS: JELD	1,152	2,859	5,129	422	18.4%	14.8%	6.1%	0.6%	0.6x	6.8x
Masonite	NYS: DOOR	1,987	2,743	2,892	446	23.3%	16.3%	9.9%	16.3%	0.9x	6.2x
PGT Innovations	NYS: PGTI	1,321	2,043	1,492	254	38.2%	12.4%	26.0%	25.6%	1.4x	8.1x
Saint Gobain	PAR: SGO	30,824	39,777	53,829	7,630	25.8%	19.2%	4.1%	9.9%	0.7x	5.2x
Building Products - Surfaces											
Fortune Brands Home & Security	NYS: FBIN	7,791	9,918	4,723	952	40.9%	9.6%	-6.4%	1.1%	2.1x	10.4x
Caesarstone	NAS: CSTE	161	260	702	58	24.5%	22.2%	8.2%	-6.8%	0.4x	4.5x
Mohawk Industries	NYS: MHK	6,453	9,012	11,737	1,557	25.1%	17.3%	5.6%	62.4%	0.8x	5.8x
Interface	NAS: TILE	522	1,028	1,298	176	33.7%	17.1%	-1.1%	-3.7%	0.8x	5.8x
The Dixie Group	NAS: DXYN	13	134	304	(14)	17.7%	-10.6%	-6.8%	0.4x	-9.5x	
Tarkett	PAR: TKTT	832	1,533	3,532	247	17.0%	16.1%	3.9%	-5.7%	0.4x	6.2x
American Woodmark Corporation	NAS: AMWD	901	1,404	2,087	220	15.8%	15.6%	8.0%	-3.8%	0.7x	6.4x
Building Products - Outdoor											
The AZEK Company	NYS: AZEK	3,584	4,085	1,312	494	28.1%	12.1%	16.8%	43.7%	3.1x	8.3x
Trex	NYS: TREX	5,673	5,914	1,106	313	36.5%	5.3%	14.1%	14.3%	5.3x	18.9x
Building Products - Roofing											
Owens Corning	NYS: OC	8,945	11,088	9,761	2,267	26.8%	20.4%	10.9%	22.0%	1.1x	4.9x
James Hardie Industries	ASX: JHX	9,188	10,147	3,828	1,020	34.9%	10.1%	14.4%	25.8%	2.7x	9.9x
Kingspan	DUB: KRK	12,624	14,568	8,770	1,050	26.6%	7.2%	21.4%	17.1%	1.7x	13.9x
Carlisle Companies	NYS: CSL	13,493	15,728	6,592	1,563	32.7%	9.9%	13.7%	21.8%	2.4x	10.1x
Rockwool	CSE: ROCK A	4,999	5,025	4,108	632	56.9%	12.6%	12.3%	2.9%	1.2x	8.0x
Beacon Roofing Supply	NAS: BECN	4,206	6,968	8,430	910	26.5%	13.1%	12.0%	33.4%	0.8x	7.7x
Building Products - Lumber											
Louisiana-Pacific	NYS: LPX	4,165	4,191	3,854	1,389	38.9%	33.1%	18.6%	88.0%	1.1x	3.0x
Armstrong World Industries	NYS: AWI	3,407	3,988	1,233	385	36.4%	9.7%	5.9%	-1.5%	3.2x	10.4x
Canfor	TSE: CFP	2,099	1,852	5,700	1,368	35.4%	73.9%	16.8%	173.6%	0.3x	1.4x
West Fraser	TSE: WFG	6,280	5,654	9,701	3,212	47.0%	56.8%	38.2%	142.0%	0.6x	1.8x
Boise Cascade	NYS: BCC	2,644	2,169	8,387	1,258	22.8%	58.0%	21.8%	80.3%	0.3x	1.7x

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MKB Stormwater
Innovation



Advised Mativ (NYSE: MATV) on the sale of the Filtrex, Inc. install division to Absolute Reclamation Services



Advised Surface Crafters on the sale of its business to Interior Logic Group



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