

INSIDER

INDUSTRIALS
BUILDING PRODUCTS

FEBRUARY 2024



BROWN GIBBONS
LANG & COMPANY

RIÓN

MERGERS AND
ACQUISITIONS

TABLE OF CONTENTS



1 INDUSTRY DEEP DIVE AND OUTLOOK



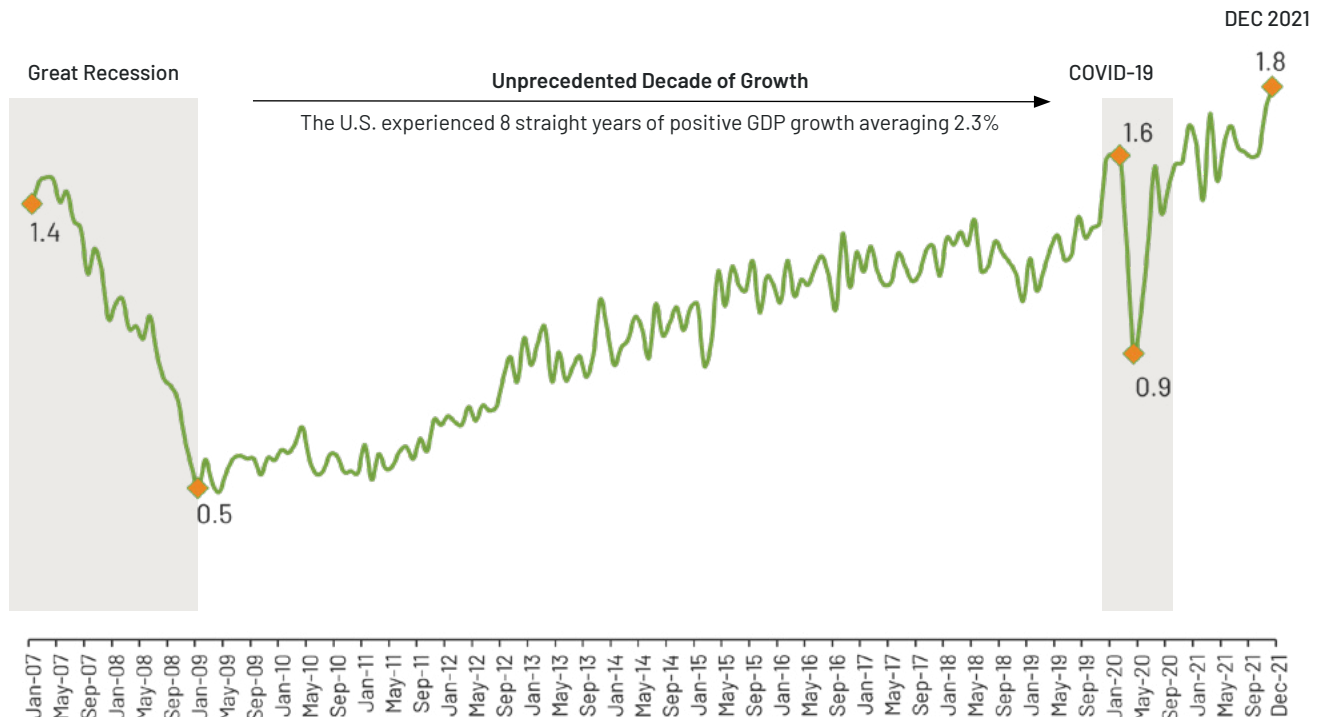
Coming off a decade-long bull run, 2022 and 2023 proved to be a period of more tempered demand, with a confluence of factors impacting the U.S. housing market and related M&A activity. Inside this edition, we examine those factors leading to the current state of the market while highlighting long-term demand drivers which we believe provide the foundation for a multi-year growth outlook in residential building products.

UNDERSTANDING HISTORICAL U.S. HOUSING STARTS

- Following a precipitous decline due to the Great Recession, the U.S. housing market began a historic decade-long bull run fueled by a growing economy and record low interest rates.
- 2010-2019 was a period of steady growth as consumers slowly re-entered the housing market. With the Federal Funds rate set at zero for the majority of the period, and never exceeding 2.5%, home buyers enjoyed consistently low mortgage rates and a growing economy.
- Although initial fears were that COVID-19 would thwart the housing market's rise, the pandemic actually served to accelerate the growth as consumers spent more time at home and benefited from growing disposable incomes.
- New home builds ended 2021 at 1.8 million annualized total starts. As many companies within the industry recorded record profits, the Federal Reserve contemplated enacting its first interest rate hike to combat surging inflation, an action that would ultimately send the housing market into a period of tempered growth and uncertainty.

U.S. HOUSING STARTS (SEASONALLY ADJUSTED), 2007 – 2021

Units in millions



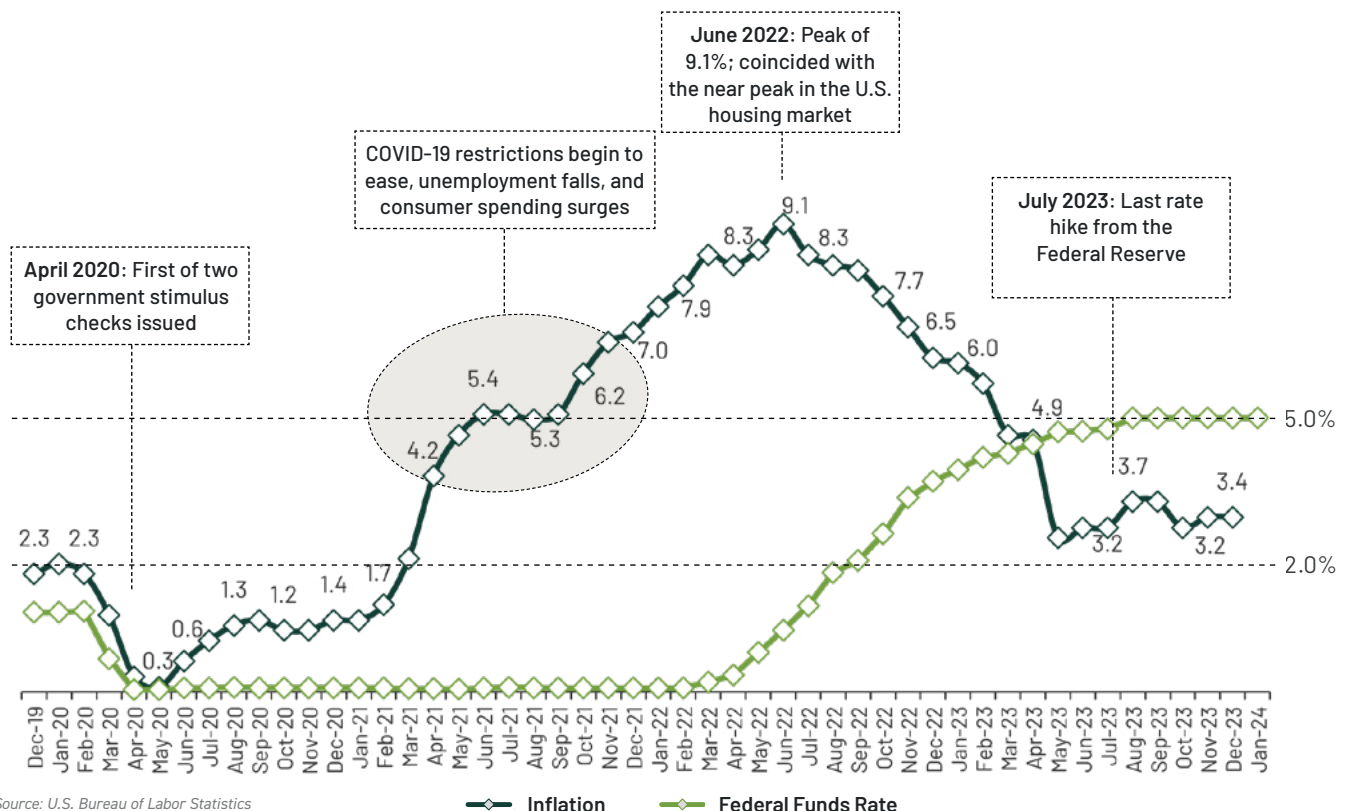
Source: U.S. Census

1 INDUSTRY DEEP DIVE AND OUTLOOK

AN UNPRECEDENTED SURGE IN INFLATION FOLLOWING COVID-19 LOCKDOWNS

- For many years, inflation remained stubbornly low, not reaching an annual rate of above 3.0% for the 8-year period between 2012 – 2020. That changed when COVID-19 sparked an unexpected surge in inflation that would force the Federal Reserve to enact a series of interest rate hikes.
- As unemployment spiked in March 2020 following government-mandated shutdowns, the U.S. government passed the CARES Act which among other things, sent every American earning below \$75,000 a \$1,200 stimulus check.
- Through the first few months of COVID-19 consumer spending remained low, but as government shutdowns began to lift and unemployment fell, consumers began to spend at rates that many companies were unprepared for.
- Manufacturers struggled to employ workers fast enough and were dealing with COVID-19 supply chain constraints. These dynamics led to demand that significantly outpaced supply and started to put upward pressure on prices.
- As consumer spending continued to grow, the Federal Reserve was forced to begin a series of interest rate hikes beginning in March of 2022 and continuing through the summer of 2023.
- Inflation has moderated to a much more reasonable 3.2% as of December 2023, improved but still above the Federal Reserve's 2.0% target. The Federal Reserve is currently monitoring the markets closely to determine its next move with current consensus being that they will begin to modestly bring down rates in 2024.

YEAR-OVER-YEAR INFLATION VS FEDERAL FUNDS RATE (%), 2019 – JAN 2024

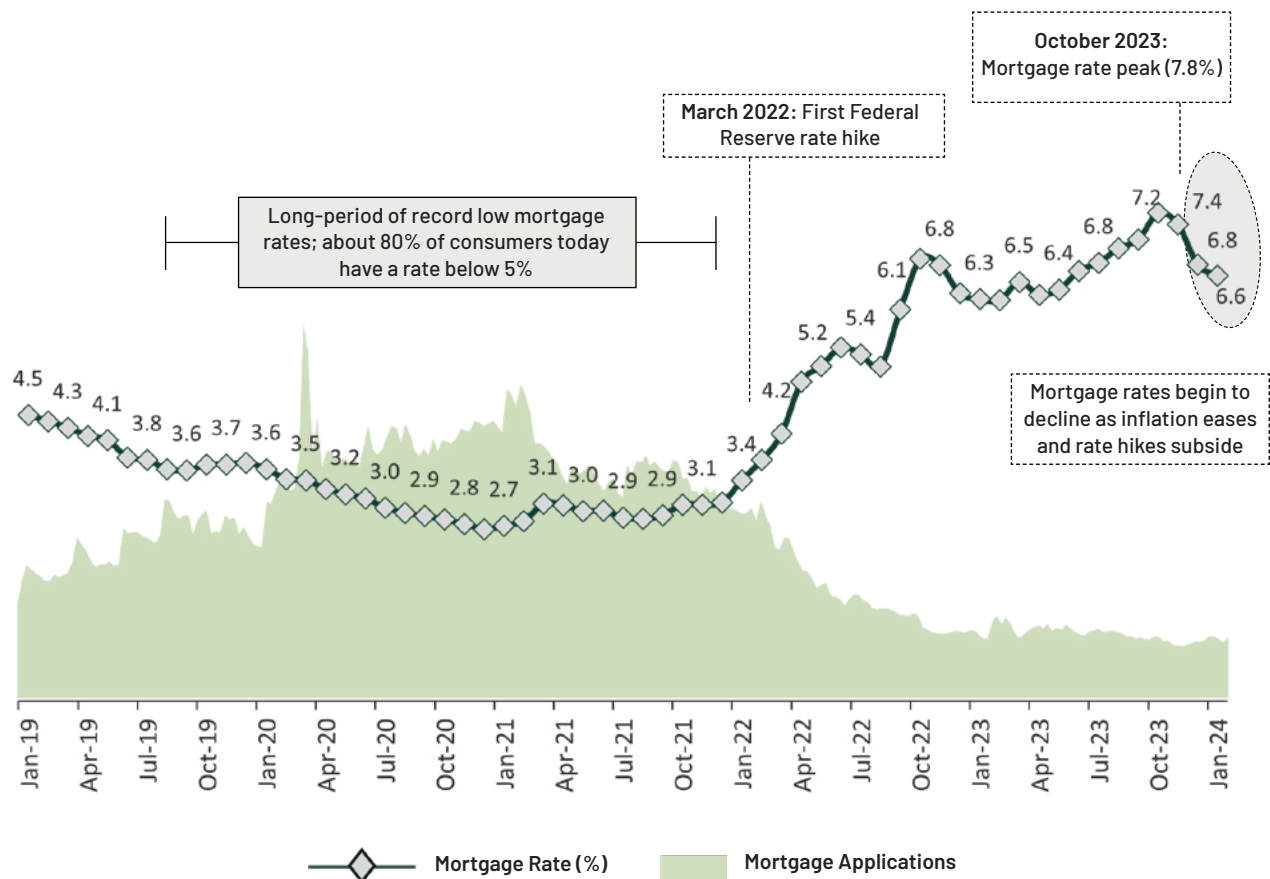


1 INDUSTRY DEEP DIVE AND OUTLOOK

MORTGAGE RATES RISE AFTER YEARS AT RECORD LOW LEVELS

- As inflation grew, mortgage rates followed suit and rose to a 20-year peak of 7.8% in October 2023, significantly hampering home price affordability and keeping many would-be home sellers on the sideline who locked in lower rates.
- At the current median home price of \$389,900 and assuming a 20% downpayment, a 1.0% increase in mortgage rates results in an increase of \$260 in monthly payments.
- The rapid rise in mortgage rates proved to be a major deterrent of would-be buyers and sellers, with many consumers opting to stay in their existing home versus selling to keep their low mortgage rate.
- As inflation has receded and the Federal Reserve has begun to signal a potential end to rate increases, mortgage rates have begun to fall, down a full percentage point from the record high experienced in October 2023.
- The drop in rates along with consumer optimism about the 2024 forecast have led many buyers to dip their toes back into the market which is expected to help alleviate a tight inventory supply.

MORTGAGE RATES AND APPLICATIONS (%), 2019 – JAN 2024



Source: Freddie Mac

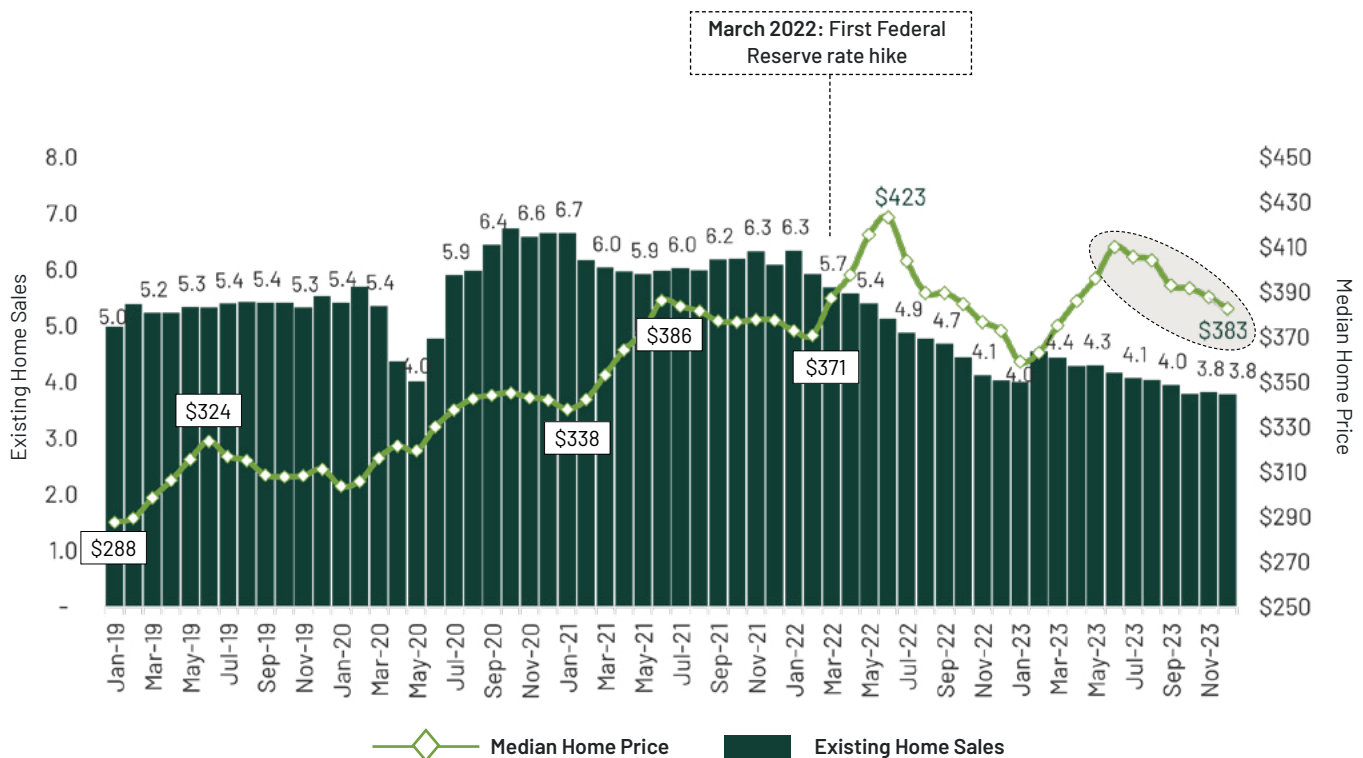
1 INDUSTRY DEEP DIVE AND OUTLOOK

LOW INVENTORY AND HIGH HOME PRICES

- Despite strong demand, inventory of existing homes for sale has plummeted as consumers who locked in record low mortgage rates were not willing to sell and incur a higher rate.
- In December 2023, existing-home sales fell to 3.78 million, a 13-year low.
- The dearth of supply also had the impact of keeping home prices stubbornly high, significantly hampering home price affordability for many first-time home buyers dealing with high mortgage rates and high prices.
- Creative steps have been taken to help entice consumers to purchase. Builders started "buying down" the mortgage on new builds, a practice in which they pay an upfront fee to lenders to help lower a consumer's mortgage rate for a period of the loan. The government has also stepped in with Fannie Mae ramping up its purchase of mortgages that don't have title insurance but instead, an attorney's opinion letter, a cheaper alternative that saves consumers around \$1,000 at closing.
- Many expect inventory to increase throughout 2024 as mortgage rates begin to fall and buyers with low mortgage rates begin to capitulate and no longer delay moving.

EXISTING HOME PRICES VS SALES, 2019-2023

Home sales in millions; \$ in thousands



Source: U.S. Census Bureau; Federal Reserve Bank of St. Louis

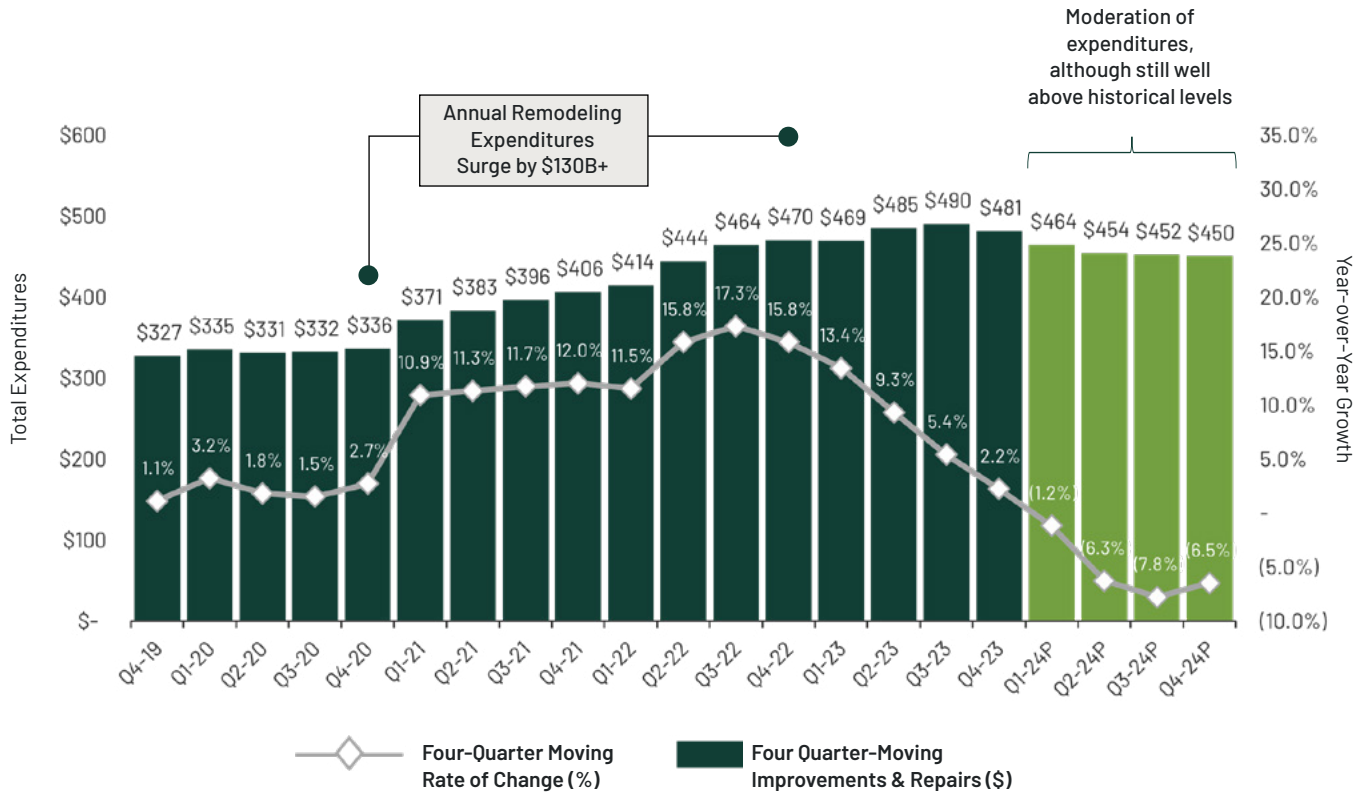
1 INDUSTRY DEEP DIVE AND OUTLOOK

REMODELING ACTIVITY SURGES AS CONSUMERS SPEND MORE TIME AT HOME

- Following COVID-19 lockdowns, consumers were forced to spend more time indoors, leading many to turn to home renovation projects as they awaited restrictions to ease. As a result, growth in repair and remodeling (R&R) activity began to surge in 2021.
- In addition to pandemic-fueled expenditures, homes built during the housing boom experienced between 2004 and 2006 began to enter their prime remodeling age. This confluence of factors fueled even higher spending, with R&R expenditures reaching a record \$490 billion in 2023 – up from \$336 billion in 2020.
- As many expected, growth began to slow as restrictions eased and pent-up demand began to moderate.
- Consumers are still indicating a strong desire to invest in their homes, with forecasted R&R expenditures of \$450 billion+ in 2024 representing a very healthy level of activity.
- Many consumers who would be buyers of new homes if it were not for current mortgage rates will likely turn to investments in their existing homes for the time being as a budget conscious alternative. This, in conjunction with high prices of existing homes, are expected to keep R&R activity strong into the foreseeable future.

LEADING INDICATOR OF REMODELING ACTIVITY (LIRA), 2019-2024P

\$ in billions



Source: Joint Center for Housing Studies – Harvard University

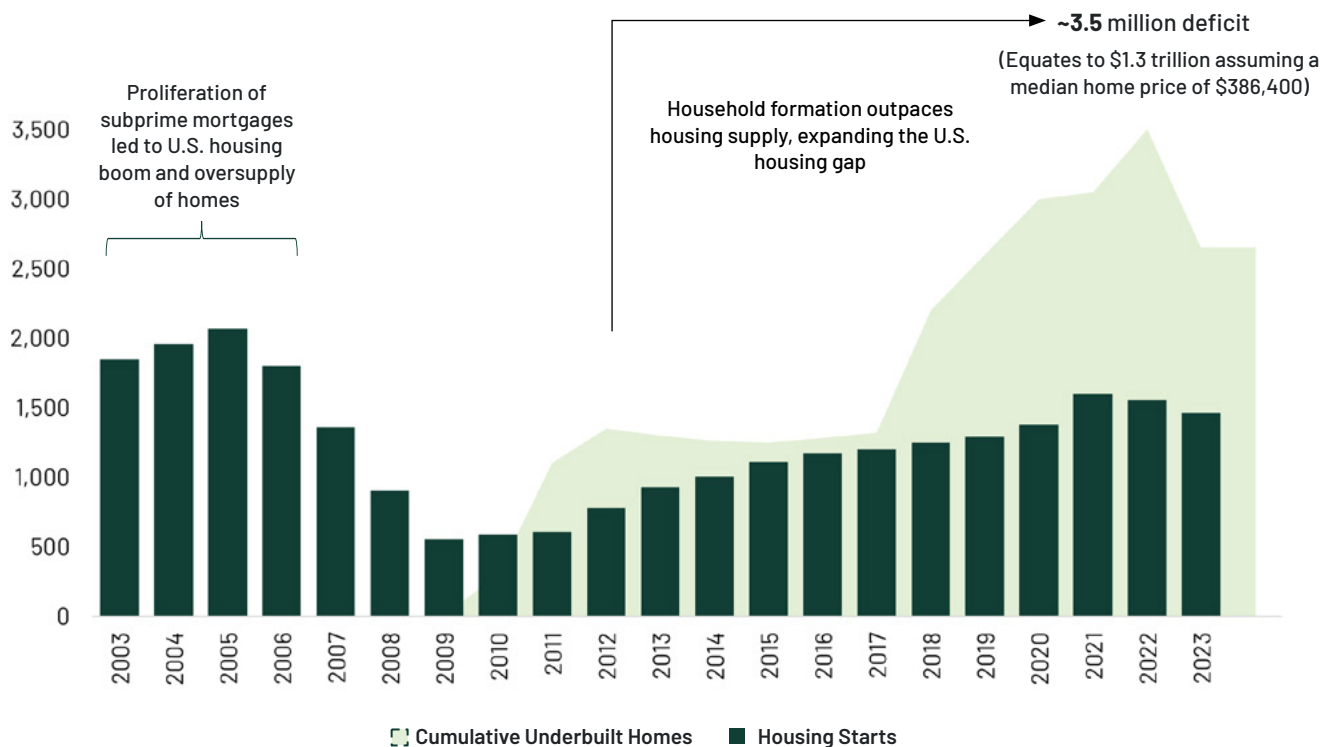
1 INDUSTRY DEEP DIVE AND OUTLOOK

NEW BUILDS CRITICAL TO ADDRESS U.S. HOUSING SHORTAGE

- The U.S. has faced a housing shortage for over a decade, with the issue accelerating in recent years as housing starts slowed and inventory levels depleted amidst continued growth in U.S. households.
- The deficit peaked at 3.5 million homes and still sits at an astounding 2.3 million homes.
- Strong growth in the multi-family market in 2022 and 2023 helped curb the gap in the short term, but the long-term need for affordable housing persists.
- Between 2012 and 2022 U.S. household formation grew 15.6 million with housing starts lagging at 13.3 million.
- As existing inventory remains tight, new builds will need to fill the gap, with consumers choosing smaller homes with fewer upgrades to increase affordability.
- In Q3 2023, the median square footage for a new home completed registered at 2,218 square feet, down 3.9% from a year earlier and the third straight quarter of decline.

U.S. HOUSING STARTS VERSUS HOUSING DEFICIT

Units in millions



Source: Source: FRED, Builders FirstSource

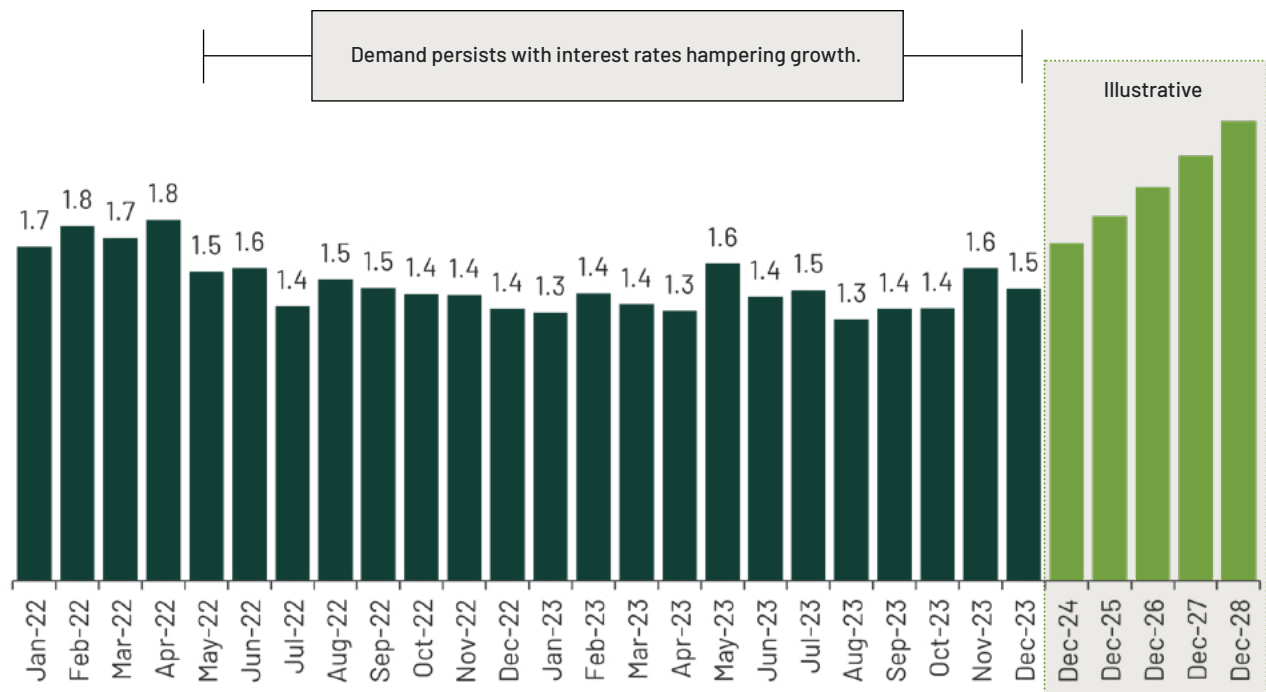
1 INDUSTRY DEEP DIVE AND OUTLOOK

2024 OUTLOOK

- As we move into 2024, BGL's outlook for the U.S. housing market is one of optimism. Our long-term bullish view on the market is driven by:
 - An unprecedented deficit of affordable housing that will need to be filled in part by accelerating the pace of new home builds.
 - Easing inflation and the cessation of interest rate hikes putting downward pressure on mortgage rates.
 - Moderation of home price growth improving the affordability for many first-time home buyers.
 - Improved inventory levels as sellers return to the market.
 - Millennials, the largest generation in history, entering their prime home buying years.
 - Builders continuing to offer smaller and more affordable housing solutions.

U.S. HOUSING STARTS, 2022 - TODAY

Units in millions



Source: U.S. Census

LENNAR®

Underlying this environment is a general chronic supply shortage of homes, especially affordable homes across the country as well as a growing pent-up demand for housing that is and has been held back by materially higher interest rates. There's been a very short supply of affordable products and a very strong demand for that affordable product.

STUART A. MILLER
Co-CEO & Executive Chairman

Lennar Corporation – FQ4 2023 Earnings Call,
December 2023

MASONITE

We remain confident that other macroeconomic realities such as the underbuilt and aging housing stock and significantly improved levels of home equity will ultimately drive a resurgence of demand in both new construction and RRR.

HOWARD CARL HECKES
President, CEO & Director

Masonite International Corporation – FQ3 2023 Earnings Call,
November 2023



We recognize that the current housing market is being constrained by affordability challenges. The current conditions have added to the pent-up need for additional housing. We expect that once interest rates stop increasing and return to normal levels, this pent-up demand will provide significant tailwinds for our business.

JEFFREY T. JACKSON
President, CEO & Director

PGT Innovations – FQ3 2023 Earnings Call,
November 2023

MASCO

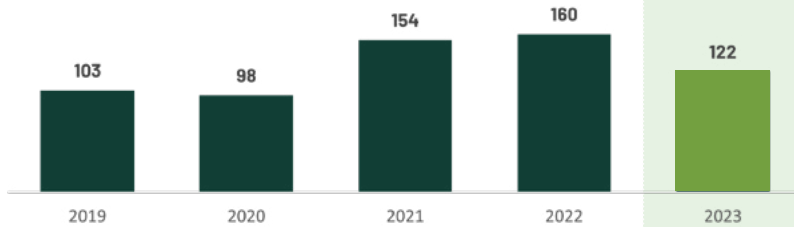
As we look over the longer term, our repair and remodel markets are strong and supportive of long-term growth. These include high home equity levels, the age of housing stock, and homeowners staying in their homes longer. We remain committed to investing in our brands, capabilities, and people to drive strong growth when market conditions improve.

KEITH J. ALLMAN
President, CEO & Director

Masco Corporation – FQ3 2023 Earnings Call,
October 2023

3 M&A ACTIVITY

HISTORICAL U.S. M&A ACTIVITY IN BUILDING PRODUCTS



Source: U.S. completed deals, PitchBook

M&A Activity in the U.S. building products market slowed in 2023 as many corporate buyers focused inward on operating performance and integrating acquisitions from previous years while private equity investors sought greater clarity on the macroeconomic environment.

NOTABLE 2023 DEALS



TARGET



BUYER

CLOSED:
Pending
TERMS:
\$3.1B / 10.7X
EBITDA

Manufactures premium windows, doors, and garage doors and is the largest producer of impact-rated windows and doors in the U.S.



TARGET



BUYER

CLOSED:
Dec-23
TERMS:
Undisclosed

Distributor and manufacturer of flooring products including hardwood flooring, luxury vinyl plank, and installation accessories. Galleher is the largest floor covering distributor in the western U.S. and the third largest flooring distributor in the U.S.



TARGET



BUYER

CLOSED:
Nov-23
TERMS:
Undisclosed

Leading manufacturer of impact-rated aluminum windows and doors with a strong presence in Southern Florida.



TARGET



BUYER

CLOSED:
Aug-23
TERMS:
Undisclosed

Manufacturer of premium vinyl fencing, railing, and decking products serving the outdoor living market across North America.



TARGET



BUYER

CLOSED:
Jun-23
TERMS:
\$4.3B /
12.7X EBITDA

Manufacturer of security, plumbing, and builders' hardware products for the North American residential segment. Products include locksets, faucets, and builders' hardware.



TARGET



BUYER

CLOSED:
Apr-23
TERMS:
EV \$1.3B /
11.9X EBITDA

Manufacturer of custom-fabricated thermoplastic single-ply roofing systems with multiple manufacturing locations across the U.S.

INDUSTRY METRICS

FENESTRATION PRODUCTS

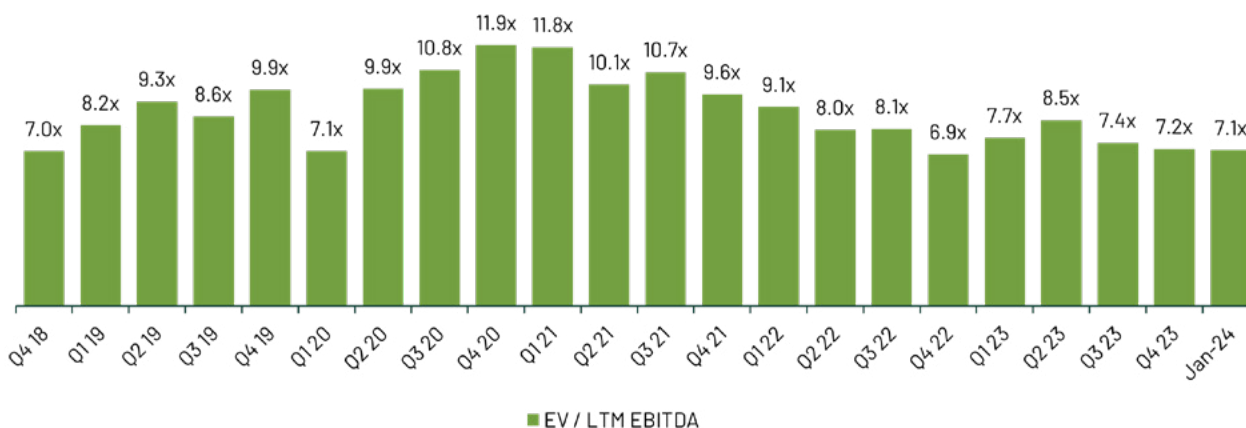
PUBLIC COMPANY INDEX PERFORMANCE

— Fenestration Products — S&P 500

	Fenestration Products	S&P 500
1-YEAR	47.33%	22.62%
3-YEAR	-1.02%	25.85%
5-YEAR	68.14%	79.01%



PUBLIC COMPANY EV / LTM EBITDA VALUATION TRENDS



Source: S&P Capital IQ

BGL COMPOSITE INDEX

Epwin Group

JELD-WEN

MASONITE



Quanex
building products

INDUSTRY METRICS

KITCHEN & BATH

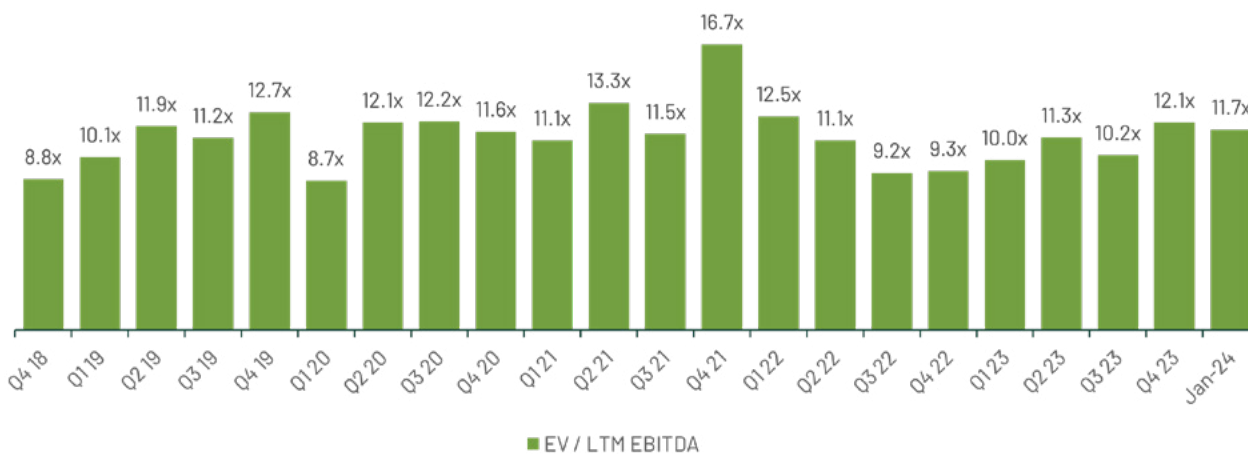
PUBLIC COMPANY INDEX PERFORMANCE

— Kitchen & Bath — S&P 500

	Kitchen & Bath	S&P 500
1-YEAR	38.09%	22.62%
3-YEAR	4.95%	25.85%
5-YEAR	94.49%	79.01%



PUBLIC COMPANY EV / LTM EBITDA VALUATION TRENDS



Source: S&P Capital IQ

BGL COMPOSITE INDEX

**American
Woodmark**

**FORTUNE
BRANDS**

MASCO

INDUSTRY METRICS

BUILDING ENVELOPE SOLUTIONS

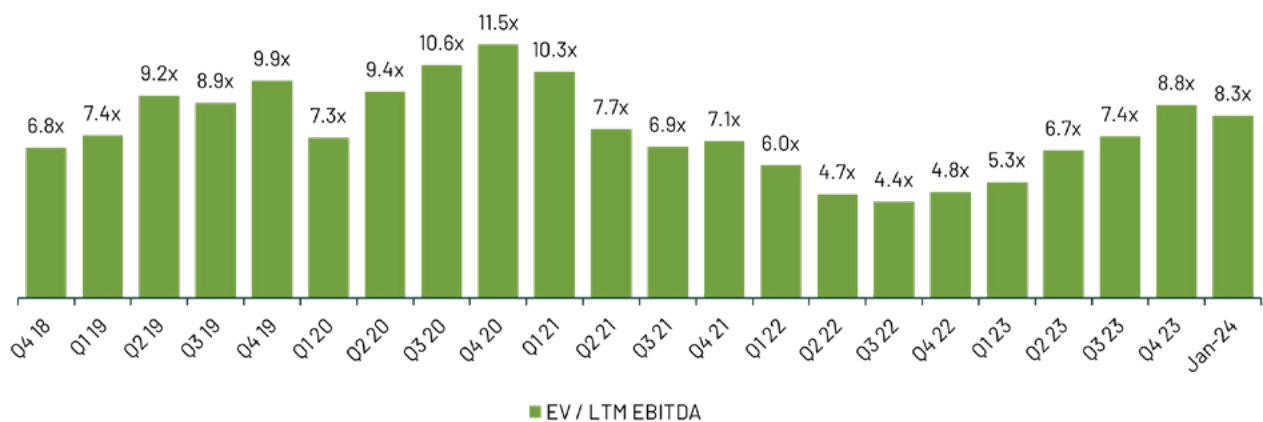
PUBLIC COMPANY INDEX PERFORMANCE

— Building Envelope Solutions — S&P 500

	Building Envelope Solutions	S&P 500
1-YEAR	30.57%	22.62%
3-YEAR	32.35%	25.85%
5-YEAR	114.65%	79.01%



PUBLIC COMPANY EV / LTM EBITDA VALUATION TRENDS



Source: S&P Capital IQ

BGL COMPOSITE INDEX



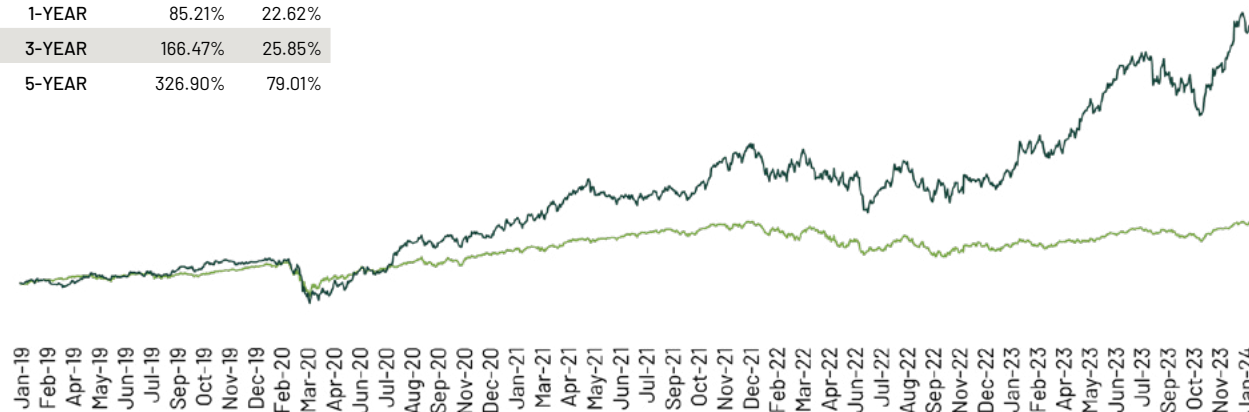
INDUSTRY METRICS

BUILDING PRODUCTS DISTRIBUTORS

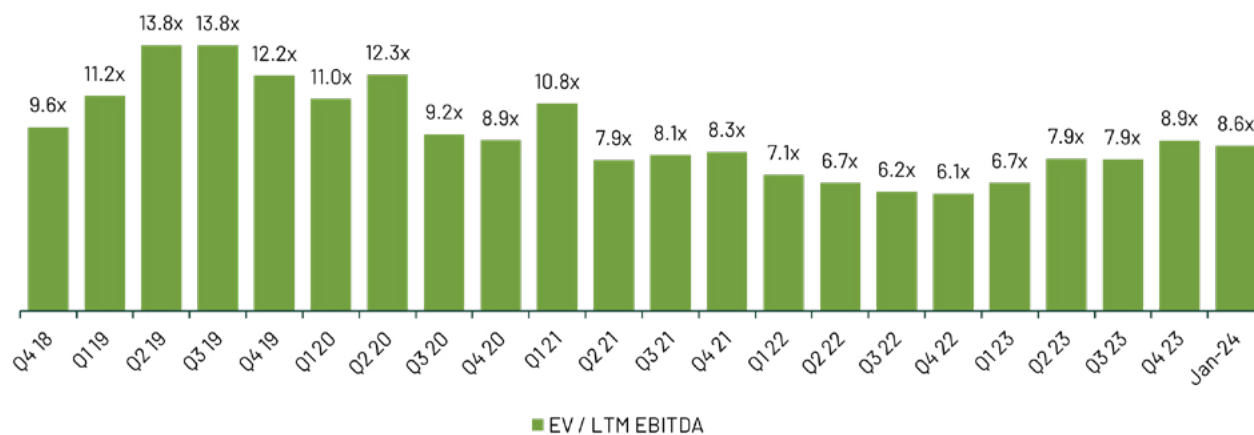
PUBLIC COMPANY INDEX PERFORMANCE

— Building Products Distributors — S&P 500

	Building Products Distributors	S&P 500
1-YEAR	85.21%	22.62%
3-YEAR	166.47%	25.85%
5-YEAR	326.90%	79.01%



PUBLIC COMPANY EV / LTM EBITDA VALUATION TRENDS



Source: S&P Capital IQ

BGL COMPOSITE INDEX



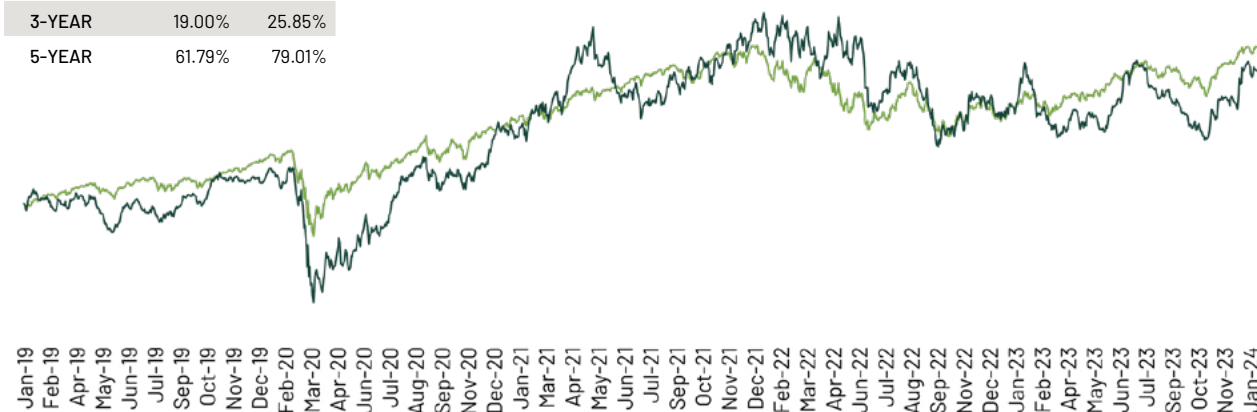
INDUSTRY METRICS

LUMBER & WOOD PROCESSORS

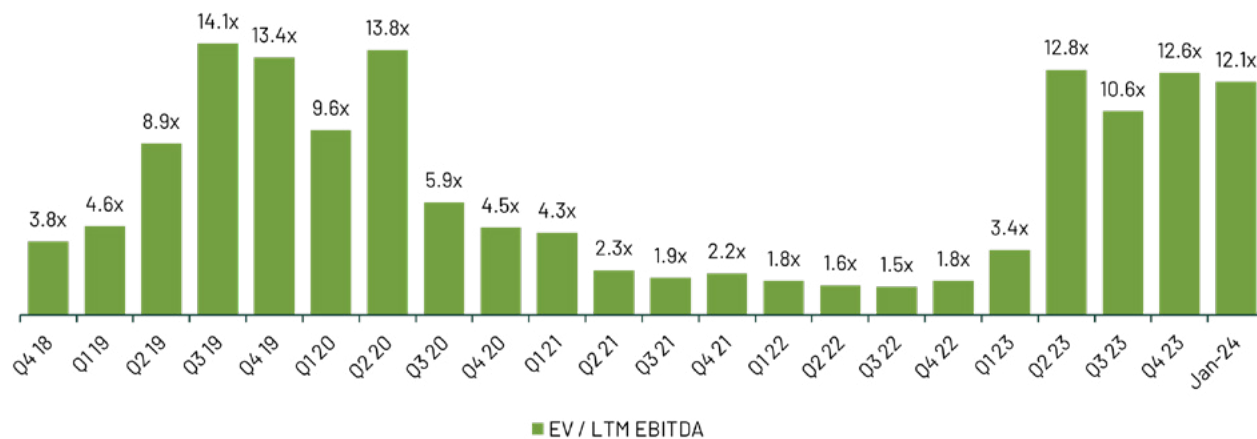
PUBLIC COMPANY INDEX PERFORMANCE

— Lumber & Wood Manufacturers — S&P 500

	Lumber & Wood Manufacturers	S&P 500
1-YEAR	11.81%	22.62%
3-YEAR	19.00%	25.85%
5-YEAR	61.79%	79.01%



PUBLIC COMPANY EV / LTM EBITDA VALUATION TRENDS

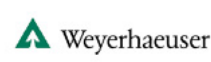


Source: S&P Capital IQ

BGL COMPOSITE INDEX



Boise Cascade



INDUSTRY METRICS

AGGREGATES AND CONCRETE PRODUCTS

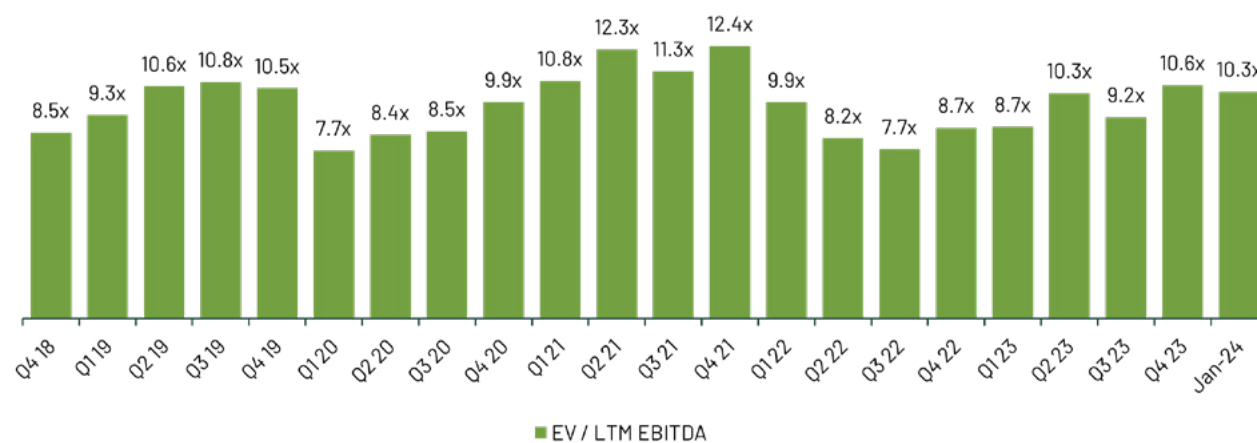
PUBLIC COMPANY INDEX PERFORMANCE

— Aggregates And Concrete Products — S&P 500

	Aggregates and Concrete Products	S&P 500
1-YEAR	38.18%	22.62%
3-YEAR	42.91%	25.85%
5-YEAR	111.19%	79.01%



PUBLIC COMPANY EV / LTM EBITDA VALUATION TRENDS



Source: S&P Capital IQ

BGL COMPOSITE INDEX



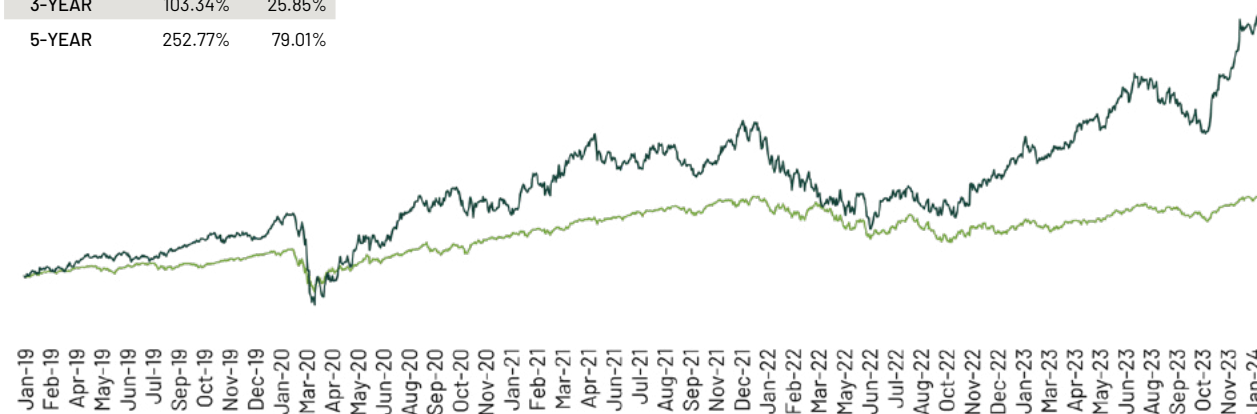
INDUSTRY METRICS

HOMEBUILDERS

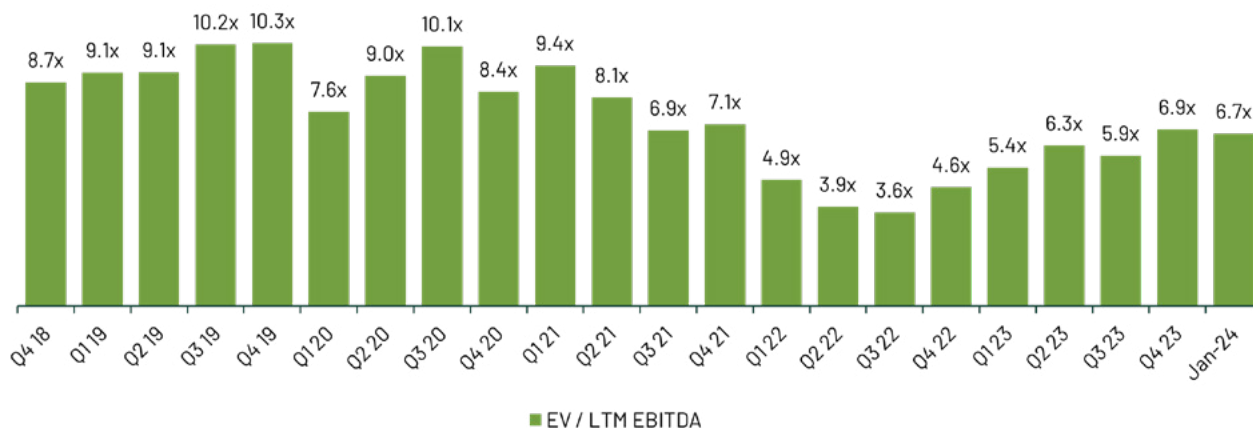
PUBLIC COMPANY INDEX PERFORMANCE

— Homebuilders — S&P 500

	Homebuilders	S&P 500
1-YEAR	65.94%	22.62%
3-YEAR	103.34%	25.85%
5-YEAR	252.77%	79.01%



PUBLIC COMPANY EV / LTM EBITDA VALUATION TRENDS



Source: S&P Capital IQ

BGL COMPOSITE INDEX

D.R. HORTON
America's Builder

LENNAR

NVR

PULTE
GROUP






















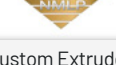





















Toll Brothers

BGL BUILDING PRODUCTS GROUP

BGL is an independent investment banking and financial advisory firm serving the global middle market since 1989. The firm comprises of 80+ bankers with investment banking offices in Chicago, Cleveland, New York, and Los Angeles, and international reach via Global M&A Partners.

BGL has a long history of serving family/entrepreneurially-owned, private equity-backed, and publicly traded companies within the Building Products market and supports its M&A advisory efforts with focused proprietary industry publications and regular attendance at industry trade shows.

BGL SELECT RELEVANT BUILDING PRODUCTS M&A TRANSACTIONS

 <p>— received a growth investment from —</p> <p>1130 Partners</p>	 <p>— acquired by —</p>  <p>Fairness Opinion</p>	 <p>— acquired by —</p>  <p>a portfolio company of</p> 	 <p>a portfolio company of</p> <p>— acquired by —</p>  <p>— acquired by —</p> 	 <p>a portfolio company of</p> <p>— acquired by —</p>  <p>— acquired by —</p> 	 <p>a portfolio company of</p> <p>— acquired by —</p>  <p>— acquired by —</p> 
Large-Opening, Impact-Rated Panoramic Door Systems	Luxury, Steel, Aluminum, and Wood Windows and Doors	Vinyl and Aluminum Fence and Railing	Vinyl Extrusions (Windows)	Vinyl Extrusions (Windows)	Vinyl Extrusions (Patio Doors)
 <p>a portfolio company of</p>  <p>— acquired by —</p> 	 <p>— acquired by —</p>  <p>a portfolio company of</p> 	 <p>Solutions for your Environment</p> <p>— acquired by —</p>  <p>NEW MOUNTAIN CAPITAL</p>	 <p>a portfolio company of</p>  <p>— acquired by —</p>  <p>an affiliate of</p> 	 <p>a portfolio company of</p>  <p>— acquired by —</p> 	 <p>— acquired by —</p> 
Mulch, Soil, Bark, and Landscape Supplies	Componentized Metal Building Systems	Mulch, Engineered Wood, and Clay-Based Soil, Water, and Vegetation Management Products	Custom Extruded Aluminum Profiles	Wood Sealers, Water Proofer, Release Coatings, and Specialty Paints	Transaction Windows
 <p>a portfolio company of</p>  <p>— acquired by —</p>	 <p>a portfolio company of</p>  <p>— acquired by —</p> 	 <p>a portfolio company of</p>  <p>— acquired by —</p>  <p>a subsidiary of</p> 	 <p>— acquired by —</p>  <p>a portfolio company of</p> 	 <p>— acquired by —</p> 	 <p>a wholly-owned subsidiary of</p>  <p>— acquired by —</p> 
Mulch, Soil, Bark, and Landscape Supplies	Masonry, Hardscape, and Sitescape Product and Supplies	Galvanized Steel Pipe, Duct, and Fittings	Low-Pressure Polyurethane Foams, Adhesives, Sealants, and Delivery Systems	Window Manufacturing Equipment, Spacer Systems, and Software	Warm Edge Spacer Products

Please contact one of BGL's dedicated industry bankers if you would like to discuss the report and trends impacting the Building Products market.



ANDREW K. PETRYK
Head of Industrials
216.920.6613
apetryk@bglco.com



DANIEL J. MACDONALD
Vice President
Building Products
216.920.6616
dmacdonald@bglco.com



BROWN GIBBONS
LANG & COMPANY

CHICAGO

One Magnificent Mile
980 N. Michigan Avenue
Suite 1800
Chicago, IL 60611
p. 312.658.160

CLEVELAND

One Cleveland Center
1375 East 9th Street
Suite 2500
Cleveland, OH 44114
p. 216.920.6613

LOS ANGELES

Hudson Pacific Properties Building
11601 Wilshire Blvd.
5th Floor
Los Angeles, CA 90025
p. 310.266.5367

NEW YORK

489 5th Avenue
23rd Floor
New York, NY 10017
p. 917.688.2780

SECURITIES TRANSACTIONS ARE CONDUCTED THROUGH BROWN, GIBBONS, LANG & COMPANY SECURITIES, LLC, AN AFFILIATE OF BROWN GIBBONS LANG & COMPANY LLC AND A REGISTERED BROKER-DEALER AND MEMBER OF FINRA AND SIPC.

© 2024 BROWN GIBBONS LANG & COMPANY. ALL RIGHTS RESERVED.

RIÓN MERGERS AND
ACQUISITIONS