



Building Products

QUARTERLY INDUSTRY UPDATE | Q1 2023





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Key Insights & Observations

Stout is pleased to present our Building Products Industry Update for Q1 2023. Through our team's active conversations with top industry participants and analysis of subsector performance, we have outlined key takeaways below, followed by a discussion of macroeconomic and subsector trends, recent M&A activity, and public company performance.

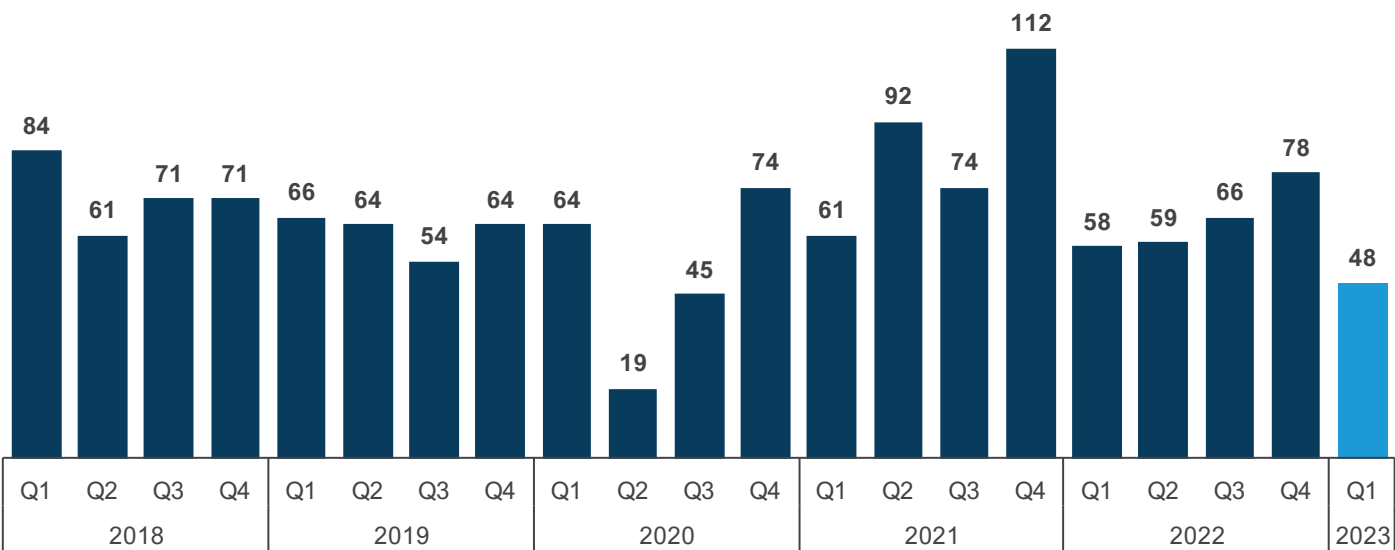
- ❖ There were 48 building products industry M&A transactions in Q1 2023, a ~17% decrease from Q1 2022. M&A activity for Q1 2023 remains slightly below historical averages due to a high interest rate environment and macroeconomic headwinds.
- ❖ Within building products, the outlook for M&A and the sector's long-term fundamentals remain positive. While the space anticipates continued uncertainty and challenges over the next several months, investors continue to seek pockets of opportunity, and top-quality assets are positioning themselves to come out of this period even stronger.
- ❖ Housing demand recovery coupled with building material pricing tailwinds look to drive growth, fuel private equity interest, and lead to portfolio shaping among the major strategic players as they continue to pursue investment opportunities.
- ❖ Multiples have begun to soften from all-time highs in 2021 and 2022. Operating performance and valuations vary significantly among various industry subsectors (services, value-added distribution, and manufacturing) as well as end markets served (residential, non-residential, and institutional) — nevertheless, well-positioned companies continue to trade at a premium.
- ❖ Heading into the first half of 2023, cautious optimism within residential and commercial building products prevails as companies and investors echo positive sentiment underpinned by the sector's strong long-term fundamentals.



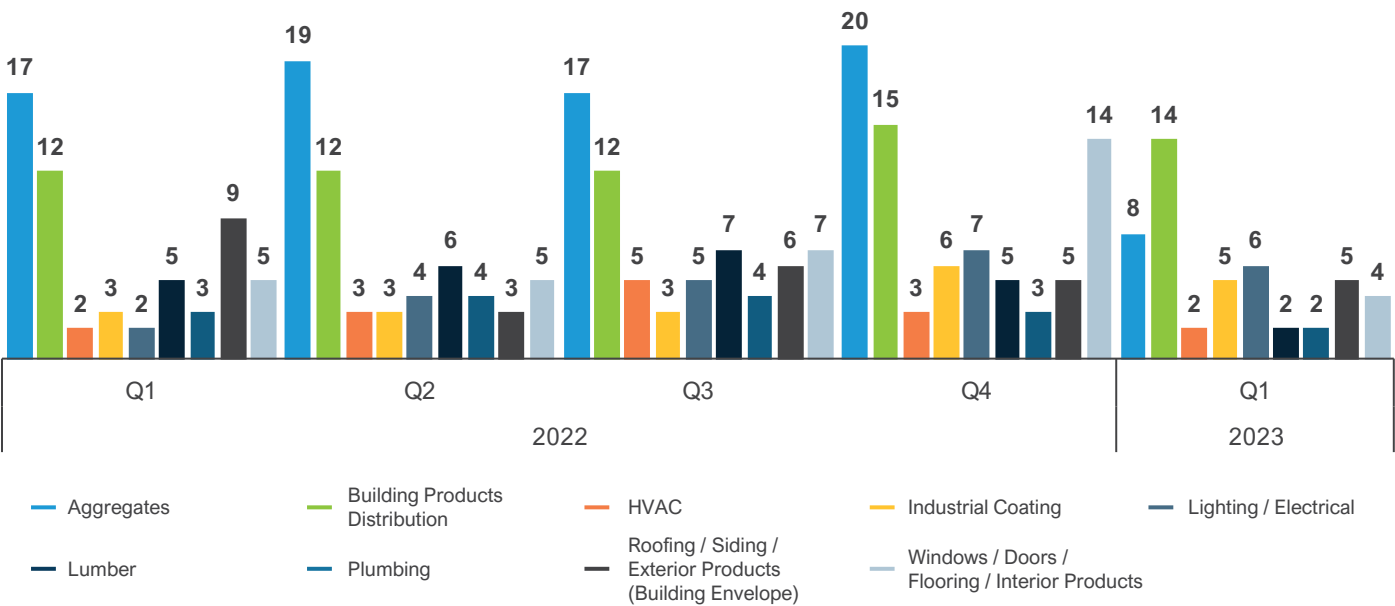
M&A Activity Trends

Quarterly Building Products M&A Transaction Volume

(Number of Announced M&A Transactions Per Quarter)



M&A Transaction Volume by Building Products Subsector



Source: CapIQ, Stout Proprietary Database

M&A Activity Trends (cont.)

INTERIOR PRODUCTS

M&A activity within the interior products segment decreased ~43% in 2022 compared to 2021, primarily driven by a softening in deal activity related to windows, doors, and flooring (~47% YoY decrease) and plumbing (~48% YoY decrease).

As momentum in the U.S. home interior renovation market picks up, it is anticipated to support an uptick in consolidation for 2023.

EXTERIOR PRODUCTS

M&A activity within the exterior products segment decreased ~29% in 2022 compared to 2021, primarily driven by a softening in deal activity related to roofing and siding (~23% YoY decrease) and coatings (~48% YoY decrease).

As available home inventory remains low, many would-be home buyers are instead opting to stay put and improve their current homes, which should support industry consolidation.

AGGREGATES

M&A activity within the aggregates segment increased ~20% in 2022 compared to 2021, primarily driven by robust construction backlogs and persistent building activity.

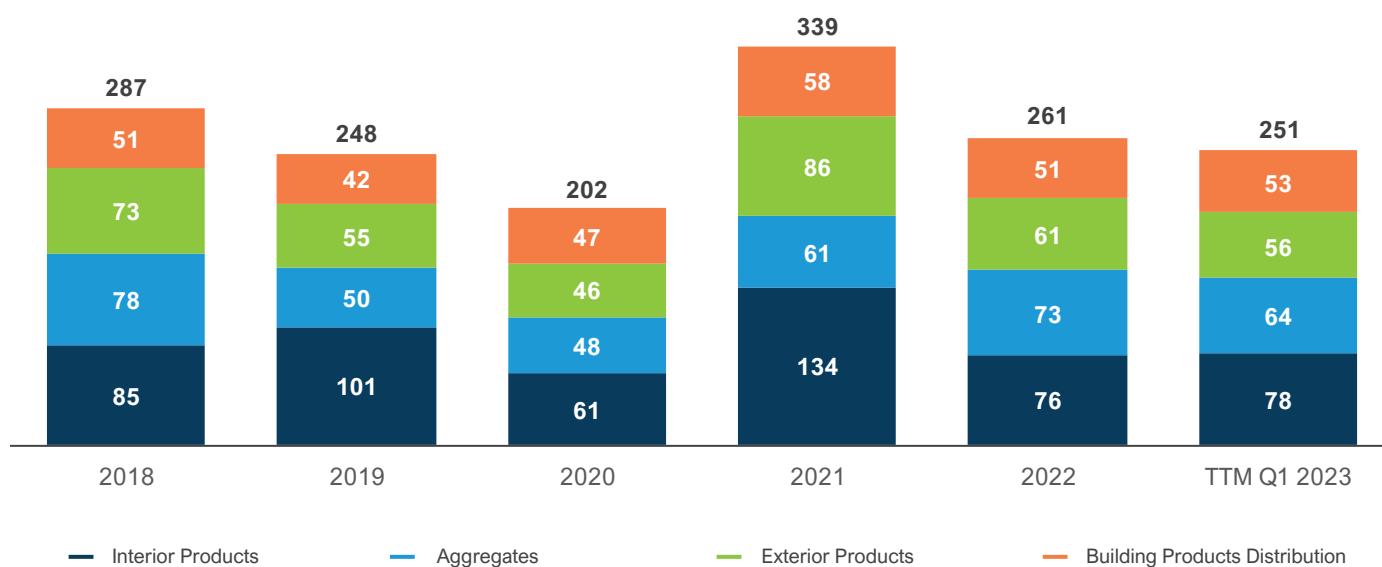
M&A activity showed no signs of weakness in 2022 as strategic buyers continued to drive transaction activity in search of quality assets that provide increased capacity and penetration in attractive geographies.

BUILDING PRODUCTS DISTRIBUTION

M&A activity within the building products distribution segment experienced a ~12% YoY decrease in 2022 but experienced a strong Q1 2023 with ~17% YoY growth.

Key strategic and sponsor-backed platforms in the building products distribution space have been particularly active in the start of 2023.

M&A Volume by End Market



Note: Interior Products includes windows, doors, flooring, plumbing, lighting and electrical, and HVAC

Note: Exterior Products includes roofing, siding, lumber, and industrial coatings

Source: CapIQ, Stout Proprietary Database

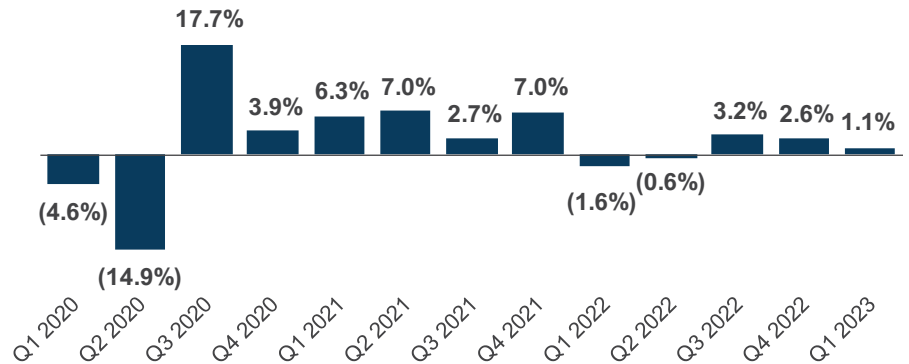
Macroeconomic Update

While the U.S. economy is still growing based on Q1 GDP results, growth came in lower than growth rates in the second half of 2022, suggesting a slowdown.

- ❖ U.S. GDP growth increased for a third consecutive quarter in Q1 2023, following a decline in Q1 and Q2 2022 that stemmed largely from a surge in imports and a moderate pace of consumption.
- ❖ In Q1 2023, rising sentiment for lower-income consumers has been offset by declines among those with higher incomes. While consumers have noted the easing of inflation among durable goods and cars, they still expect high inflation to persist, at least in the short term.
- ❖ Despite supply headwinds, labor shortages, and an uncertain economic environment, the manufacturing industry continues to surpass growth expectations.

Real U.S. Quarterly GDP Growth

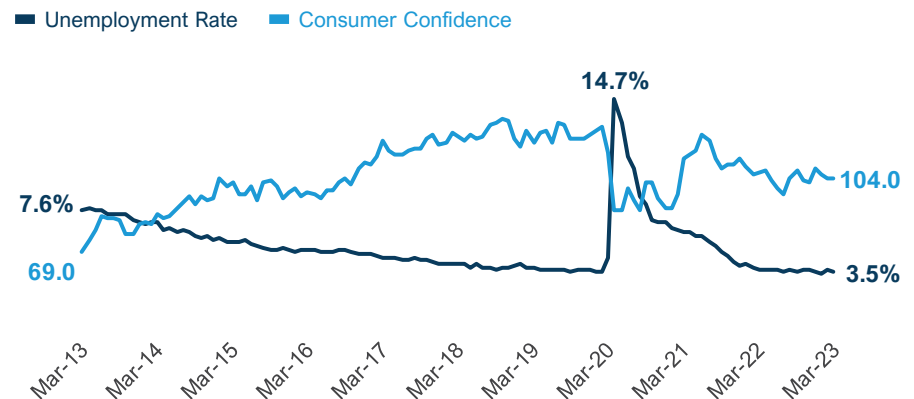
(Quarterly percentage change)



Source: U.S. Bureau of Economic Analysis

U.S. Unemployment Rate & Consumer Confidence

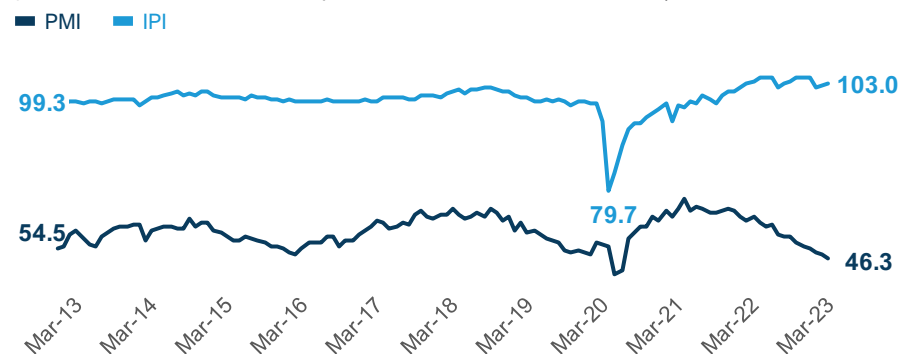
(Percentage of unemployed persons in U.S. labor force; index of consumer sentiment)



Source: University of Michigan Consumer Confidence Report, U.S. Bureau of Labor Statistics

Purchasing Manager's Index & Industrial Production Index

(PMI reflects health of manufacturing and services sectors from 0 – 100 (>50 represents expansion); (IPI measures levels of industrial production indexed to 100.0 in 2017)



Source: Institute for Supply Management, St. Louis Fed

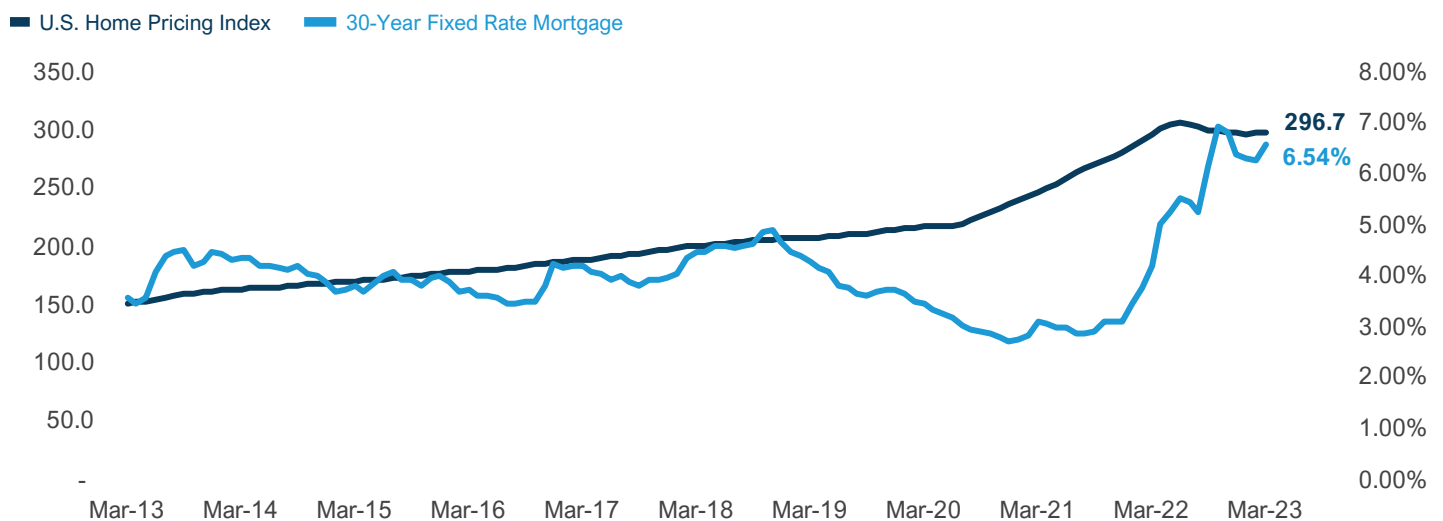
Residential Housing Market

RESIDENTIAL HOUSING MARKET & INTEREST RATE ENVIRONMENT

In 2022, mortgage rates climbed much more rapidly than expected, reaching over 7.0% in September after starting the year below 3.5%. The rapid rise in mortgage rates led to a substantial slowdown in demand, as potential homebuyers could no longer afford monthly mortgage payments. This increase caused many to rethink their buying decisions and created housing affordability issues across the United States.

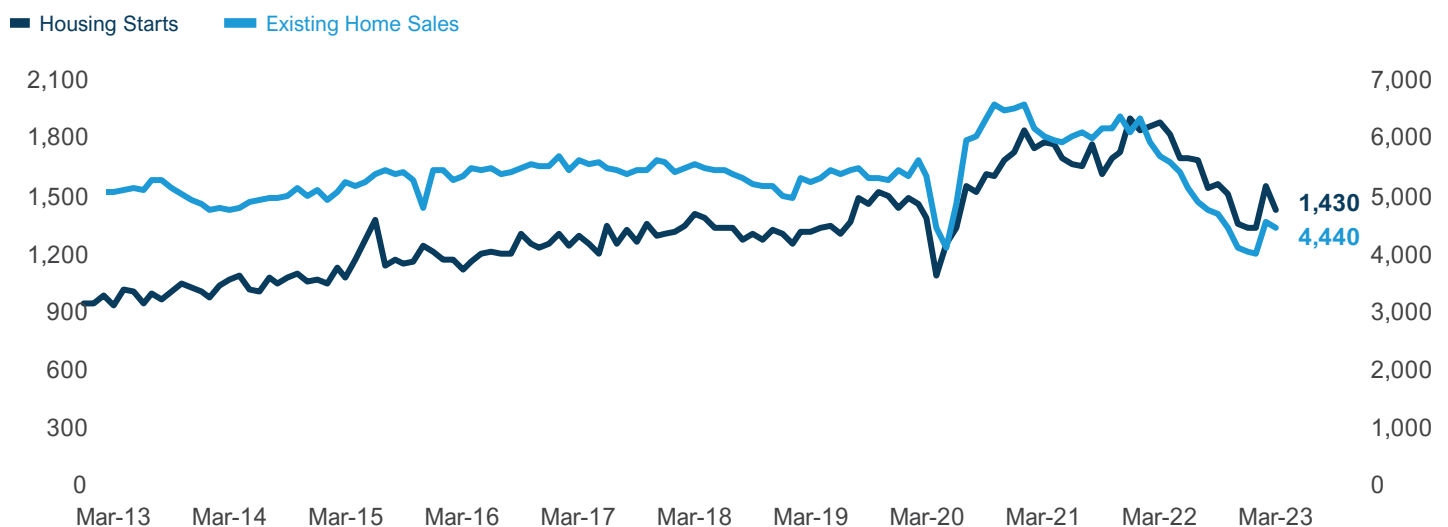
Despite these increases, the pent-up demand, use of builder incentives, and some easing in mortgage rates have brought consumers back to the market. Housing starts and construction put in place will continue to remain strong with a favorable long-term outlook due to the slow number of completions, lack of housing supply, and high demand / need for housing.

National Home Prices & Interest Rates



Source: St. Louis Fed

Housing Starts & Existing Home Sales



Source: CapIQ

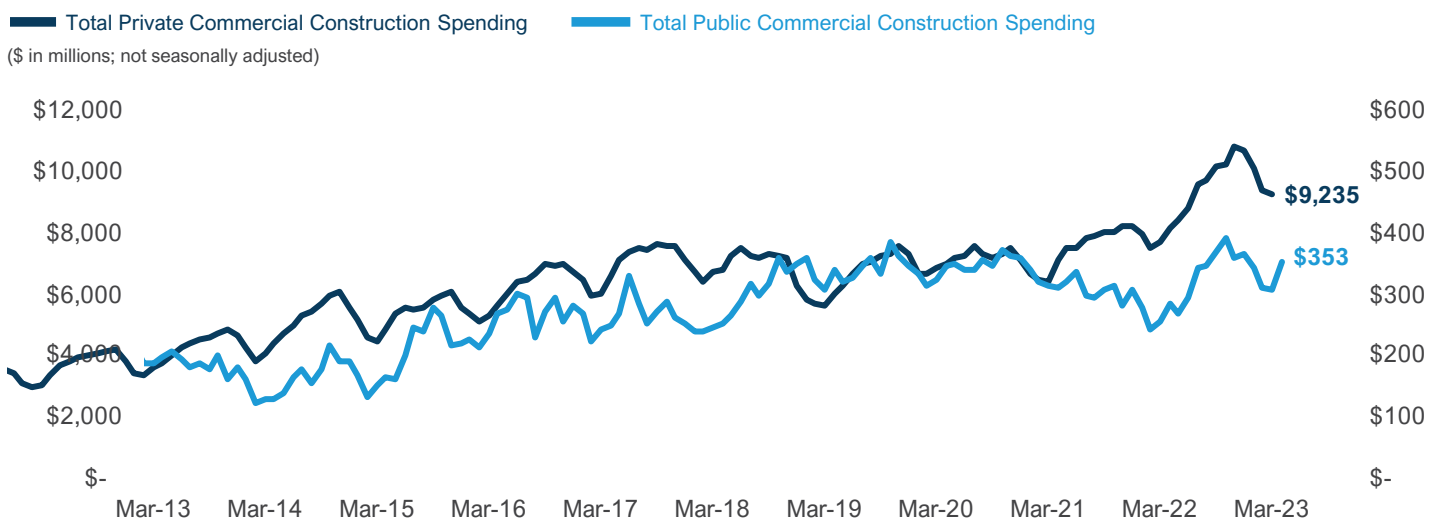
Non-Residential Construction

COMMERCIAL ACTIVITY TENDS TO LAG RESIDENTIAL

While residential activity slowed meaningfully in the second half of 2022, commercial activity has yet to show material deceleration. However, history suggests that commercial construction lags changes in residential by roughly a year, partially because commercial projects take longer to both plan and complete. As a result, a commercial slowdown looks to take shape in 2H 2023.

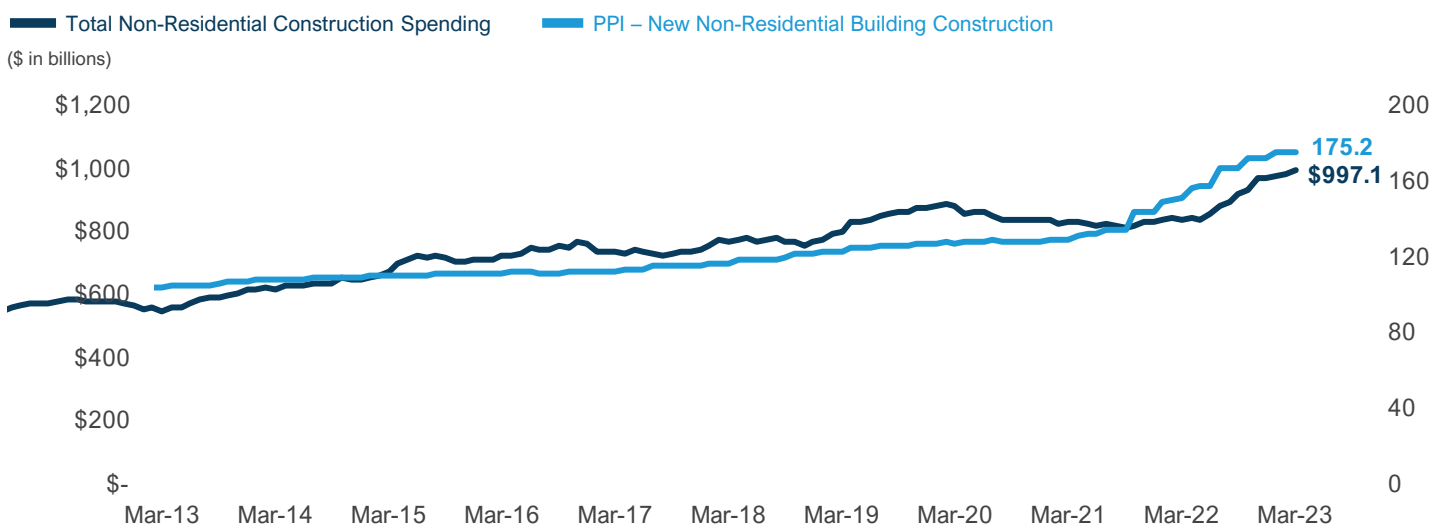
Despite a small slowdown, construction backlogs remain healthy, with sector optimism supported by the demand visibility provided by the Infrastructure Investment and Jobs Act.

Private & Public Non-Residential Construction Spending



Source: St. Louis Fed

Non-Residential Construction Spending & PPI



Source: St. Louis Fed

Building Materials

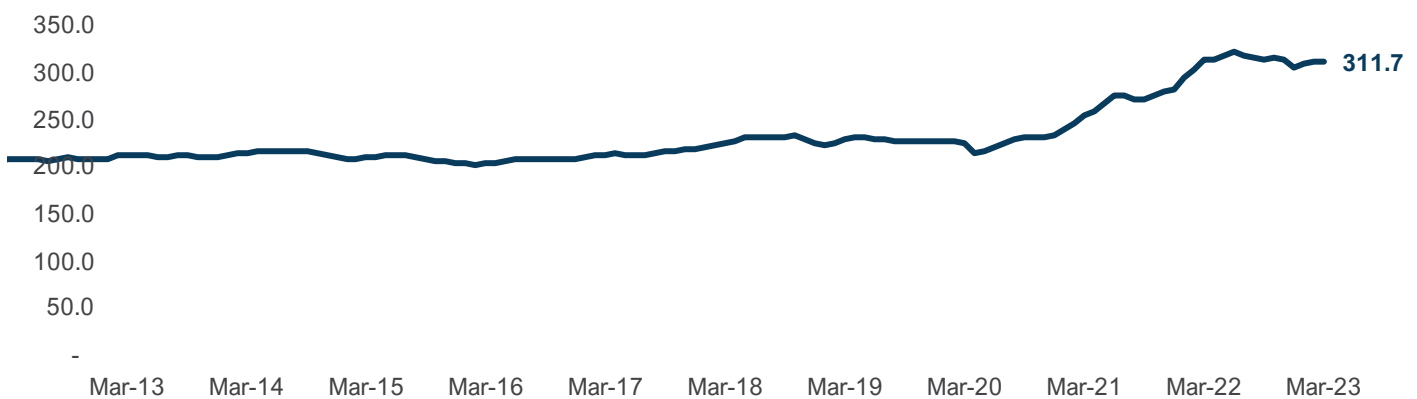
COMMODITY PRICING TRENDS

The recent descent in the prices of commodities that are key inputs to residential and non-residential construction presents a tailwind to the current acceleration in building activity, and the medium-term outlook remains strong as prices should stabilize over time.

Lumber: As new home construction has slowed, price pressures have eased, and stockpiles have been replenished. After significant supply setbacks in Canada caused by forest fires and flooding in mid-2022, producers have rebuilt stock levels. Prices are expected to decline further in the short-term given the soft outlook for homebuilders.

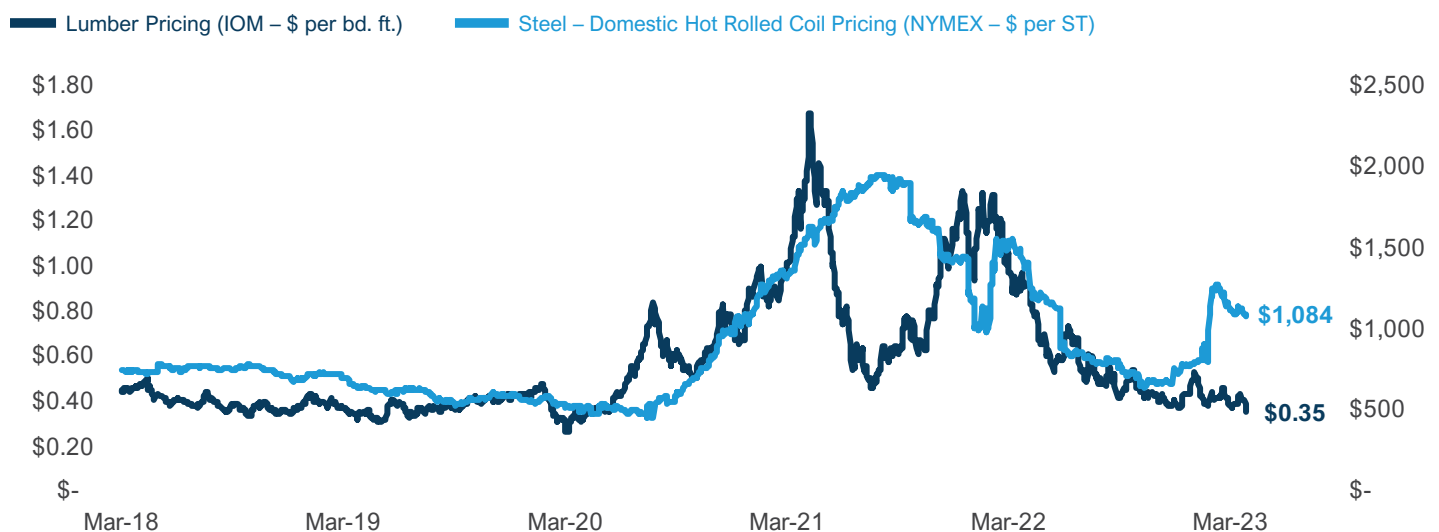
Steel: Steel prices continued to fall in late 2022, reflecting underlying weakness in demand and the recent slowdown of new investment in infrastructure. Public investment programs such as the Investment Infrastructure and Jobs Act will help to boost demand in the coming years.

PPI – Net Inputs to Residential Construction



Source: St. Louis Fed

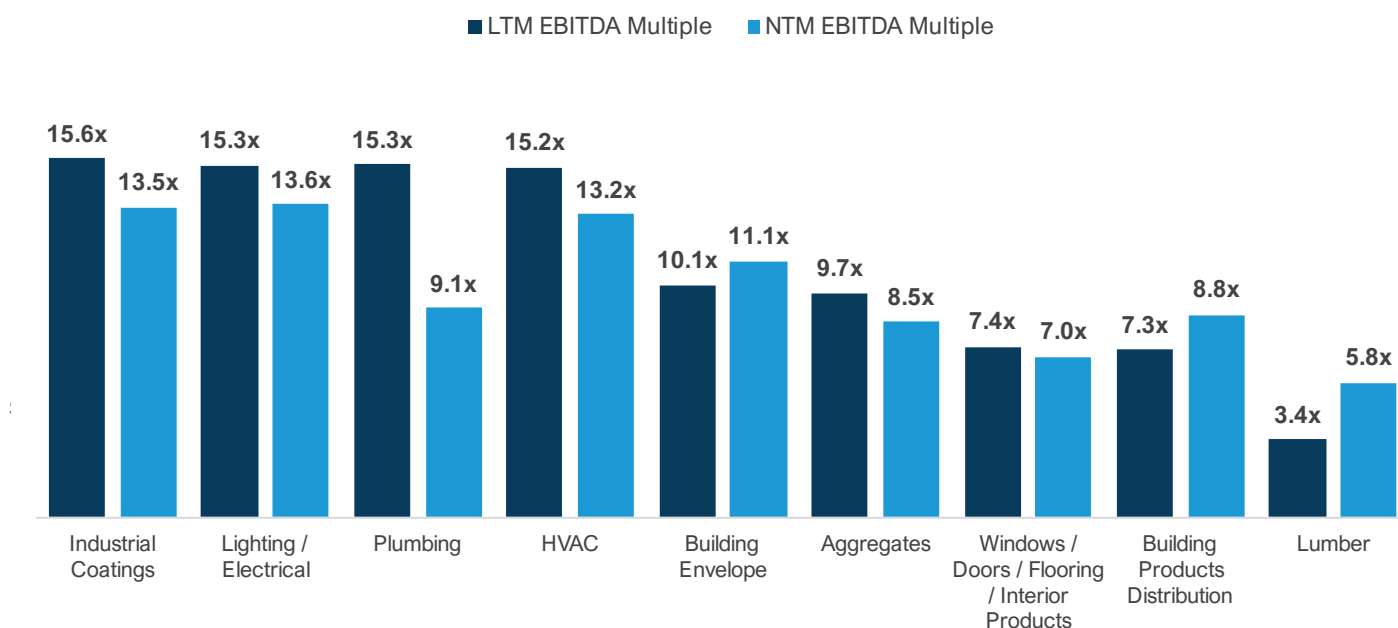
Commodity Pricing



Source: CapIQ

Building Products Market Trends

Subsector Average EBITDA Multiples



Source: S&P Capital IQ

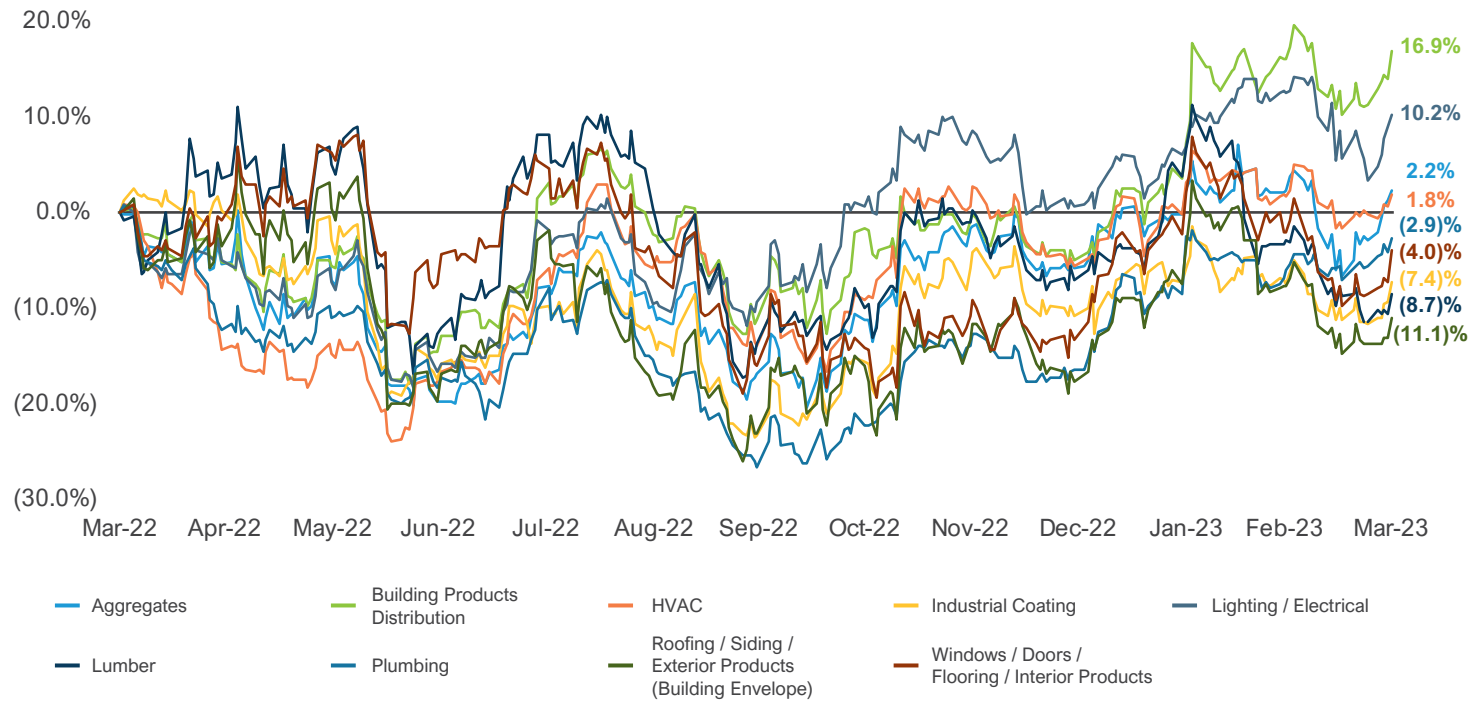
RECENT BUILDING PRODUCTS INDUSTRY TRANSACTION HIGHLIGHTS

Date	Target (Ownership)	Subsector	Acquiror (Ownership)
Apr-23	Engler, Meier & Justus	BP Distribution	Gypsum Management & Supply (NYSE: GMS)
Feb-23	Duro-Last	Roofing / Siding / Exterior Products	Holcim (SWX: HOLN)
Aug-22	Quality Aluminum Products (Blackford Capital)	Roofing / Siding / Exterior Products	Gibraltar Industries, Inc. (NasdaqGS:ROCK)
Jun-22	Coastal Plywood Company	Lumber	Boise Cascade Company (NYSE: BCC)
May-22	Kaycan	Roofing / Siding / Exterior Products	Compagnie de Saint-Gobain S.A. (ENXTPA: SGO)
Mar-22	Huttig Building Products (Mill Road Capital)	Lumber	Woodgrain
Feb-22	Cornerstone Building Brands (Golden Gate Capital)	Roofing / Siding / Exterior Products	Clayton, Dubilier, & Rice
Feb-22	Oldcastle BuildingEnvelope (CRH plc)	Aggregates	KPS Capital Partners
Jan-22	Associated Materials	Roofing / Siding / Exterior Products	Strategic Value Partners
Jan-22	Trussway Manufacturing	Roofing / Siding / Exterior Products	Builders FirstSource (NYSE: BLDR)

Building Products Subsector Performance

Subsector Indices — LTM Stock Price Performance

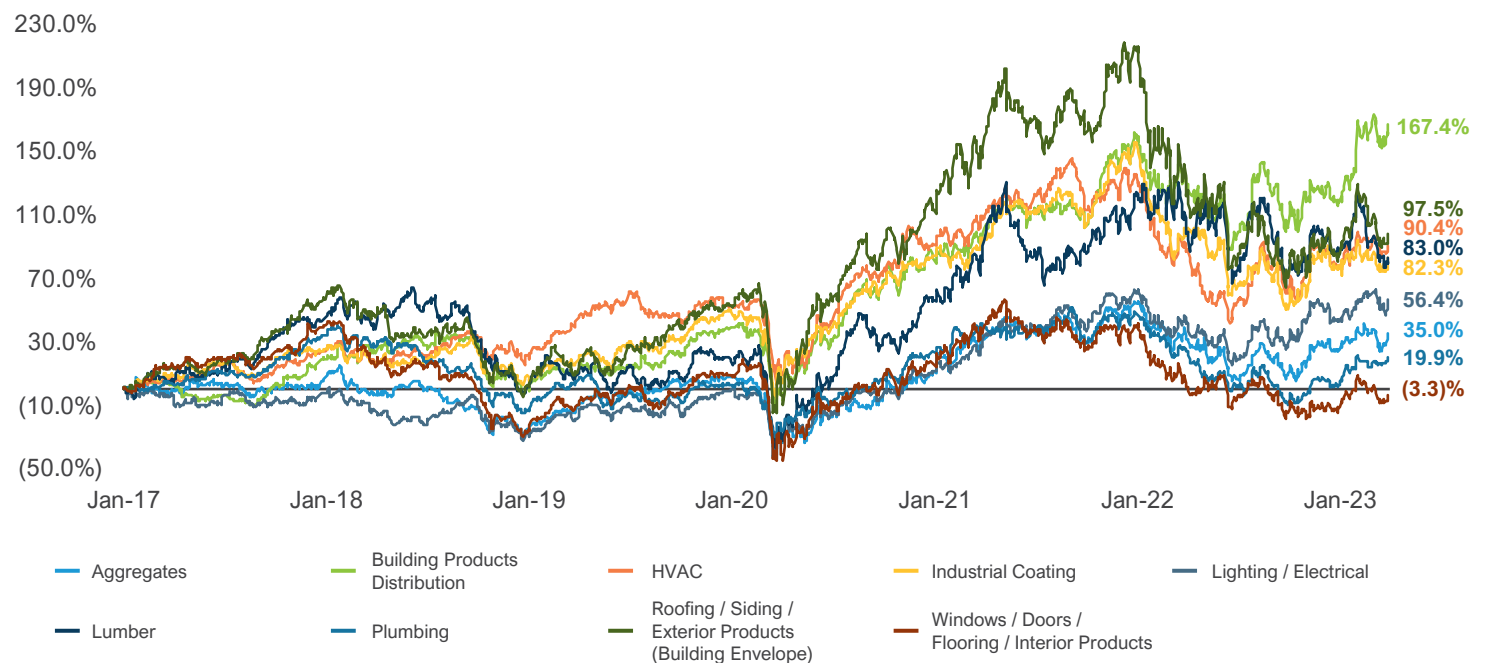
(Indexed to 0.0 as of 3/31/2022)



Source: S&P Capital IQ

Subsector Indices — Stock Price Performance (Jan-17 – Mar-23)

(Indexed to 0.0 as of 1/1/2017)



Source: S&P Capital IQ

Recent Stout Transaction Spotlight



Stout Advises EMJ on Sale to GMS

CLIENT PROFILE

- ❖ Founded in 1962 and headquartered in Westmont, IL, EMJ is a leading distributor of drywall, acoustical ceilings, and related interior construction products to the greater Chicago market and exterior insulation finishing system (EIFS) related products in the Southeastern United States.
- ❖ EMJ currently operates under multiple brand names, including Westmont Interior Supply House and Contractors Acoustical Supply in Chicago.

BUYER PROFILE

- ❖ Founded in 1971, GMS is publicly listed on the New York Stock Exchange and operates a network of approximately 300 distribution yards with extensive product offerings of wallboard, ceilings, steel framing, and complementary construction products.
- ❖ In addition, GMS operates approximately 100 tool sales, rental, and service centers, providing a comprehensive selection of building products and solutions for its residential and commercial contractor customer base across the United States and Canada.

PROCESS SUMMARY & OUTCOME

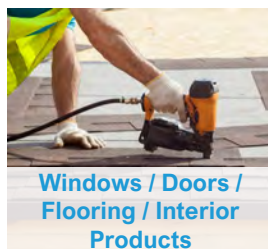
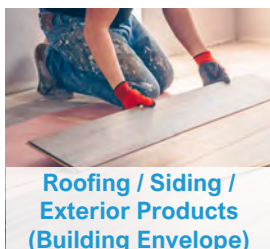
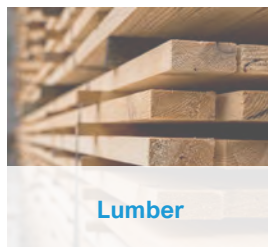
- ❖ Stout served as exclusive financial advisor to EMJ in a highly targeted process, leading to a successful closing in April 2023.
- ❖ Stout's full press release can be found [here](#).

Practice Overview

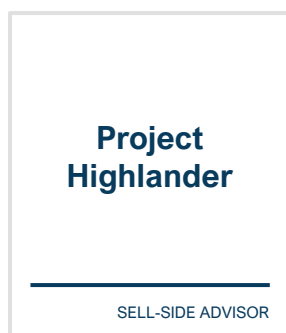
ABOUT

The Stout Building Products group leverages deep advisory experience as well as dedicated coverage and expertise across a range of key building products subsectors. The team leverages strong, long-standing relationships with the key strategic consolidators and highly active financial sponsors in the space, which enables us to provide superior outcomes for our clients.

FOCUS AREAS



RECENT / CURRENT STOUT TRANSACTIONS



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