



Building Products

ANNUAL UPDATE | 2023

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Key Insights and Observations

Stout is pleased to present our Building Products Industry Update for full-year 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 219 building products industry M&A transactions in 2023, a ~16% decrease from 2022; however, activity for 2023 remains largely in line and consistent with the average quarterly activity in the pre-COVID period. There are several dynamics that have affected the broader industry in the near term: high interest rates, labor challenges, and high commodity prices. Those challenges are balanced by longer-term demographic trends which will drive growth in residential and recent positive non-residential spending (manufacturing, infrastructure, education, and hospitality).

Despite the challenging environment, deal activity continues, and business owners continue to solicit advice on timing and valuation for their businesses. While activity could remain below average for the next two quarters, there have been signs of increasing dealmaking, perhaps signaling a bridging of the valuation gap between buyers and sellers.

Equity markets regained ground in 2023 with building products outpacing the broader market amid a challenging economic backdrop, suggesting more optimism for the sector. Activity in the debt capital markets across the leveraged loan primary issuance and high-yield markets was more subdued in 2023 relative to historical averages, as rising interest rates have increased the cost of acquisition financing relative to recent years. Nonetheless, the overall debt capital markets are very receptive at the start of 2024 as debt investors are eager to put money to work.

Looking towards 2024, we anticipate consistent M&A activity in the middle-market fueled by the stabilization of macroeconomic and capital market challenges that dampened activities in 2023. Key factors contributing to these steady macro dynamics include plateauing and anticipated interest rate cuts, easing inflation, normalizing stocking levels, and reduced volatility in commodity prices. While 2024 is an election year, we do not foresee a significant effect on the M&A activities of middle-market firms. Stout will continue to monitor the wider macroeconomic, political, and geopolitical activity throughout the year.

Strategic players in the building products space that are less impacted by high rates continue to explore M&A opportunities to deploy excess cash and expand market share through acquisitions. Additionally, investors continue to reward assets exposed to the home repair and renovation market while expressing skepticism and increasing due diligence for companies focused on new construction.



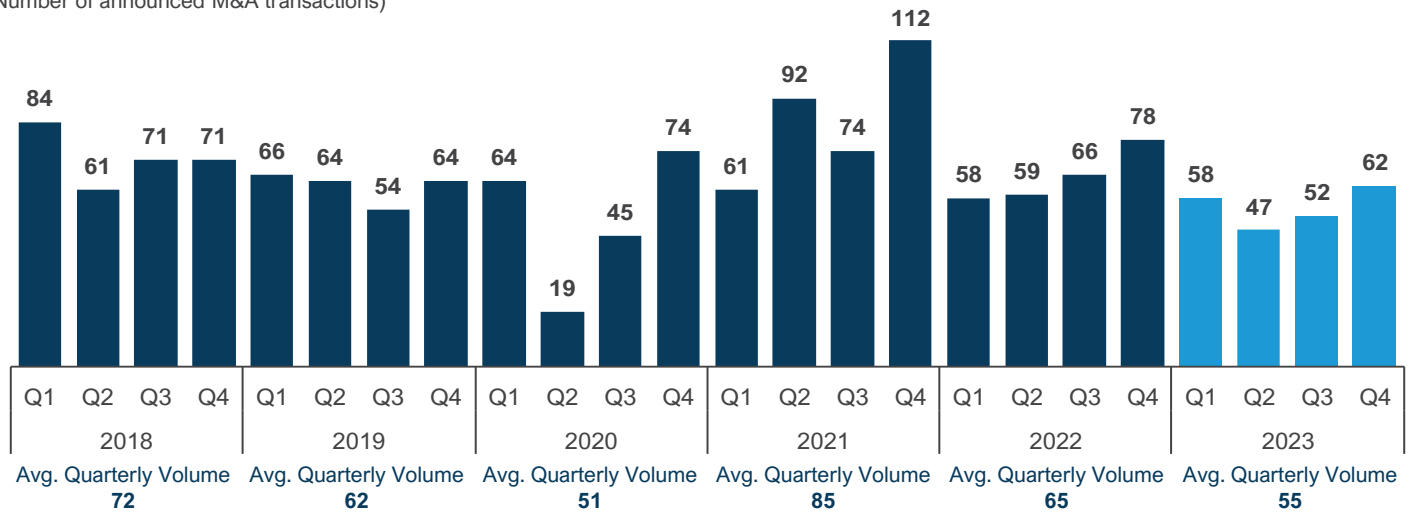
M&A Activity Trends

2023 KEY DRIVERS

- ❖ Deflated 2023 M&A activity was largely driven by market uncertainty, heightened interest rates and operating costs, prolonged impacts of destocking and supply chain dynamics, and the volatile geopolitical environment.

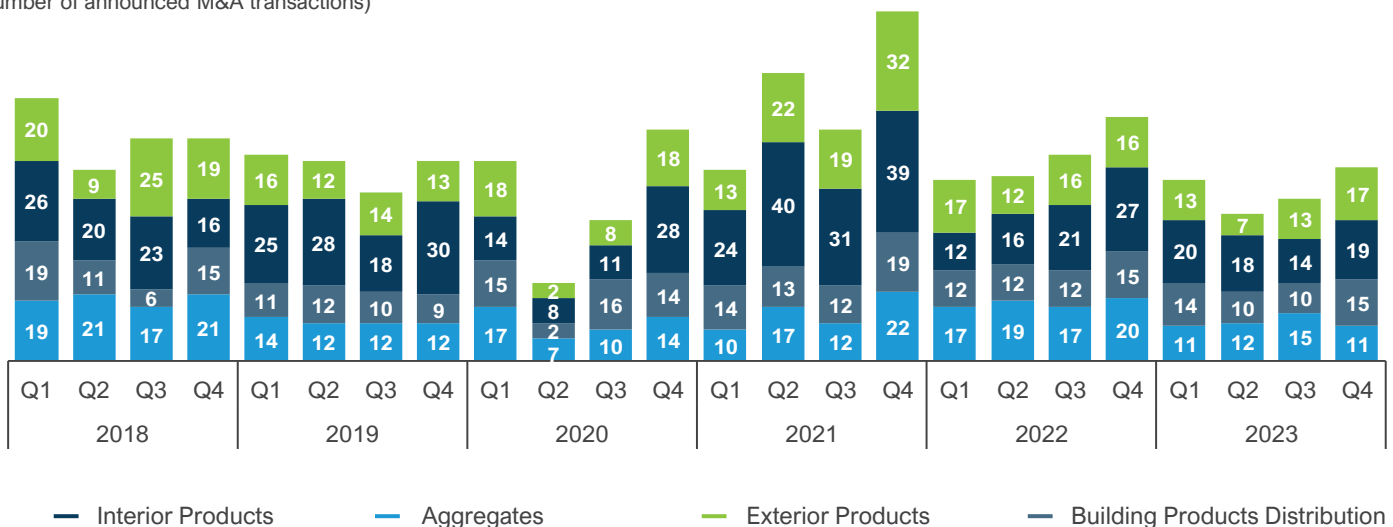
Quarterly Building Products M&A Transaction Volume

(Number of announced M&A transactions)



M&A Transaction Volume by Building Products Subsector

(Number of announced M&A transactions)



— Interior Products — Aggregates — Exterior Products — Building Products Distribution

Sources: CapIQ, Stout Proprietary Database

M&A Activity Trends (cont.)

INTERIOR PRODUCTS

- ❖ M&A activity within the interior products segment decreased ~7% in 2023 compared to 2022, primarily driven by softening in deal activity related to lighting and electrical (~28% decrease) and plumbing (~14% decrease) offset by an uptick in HVAC (~8% increase).
- ❖ We anticipate renovation and maintenance will drive the interior products segment as homeowners continue to delay home purchases due to higher interest rates.

AGGREGATES

- ❖ M&A activity within the aggregates segment decreased ~33% in 2023 compared to 2022, driven by overall aggregate production leveling off.
- ❖ M&A activity continued to soften in 2023, but robust construction backlogs have provided healthy near-term visibility for sector players, fueling optimism in the space.

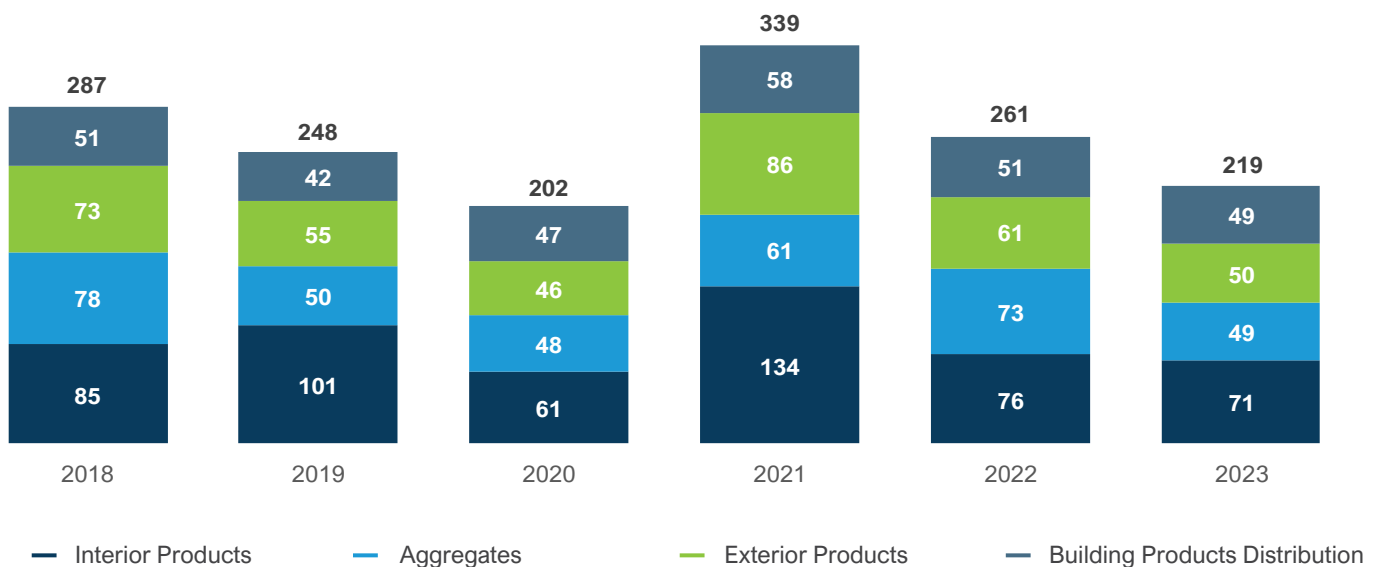
EXTERIOR PRODUCTS

- ❖ M&A activity within the exterior products segment decreased ~18% in 2023 compared to 2022, primarily driven by a softening in YoY deal activity in lumber (~39% decrease) offset by a ramp in roofing and siding (~50% increase).
- ❖ The home improvement products market is projected to grow at a CAGR of 4.2% through 2025, driven by exterior remodeling.⁽¹⁾

BUILDING PRODUCTS DISTRIBUTION

- ❖ M&A activity within the building products distribution segment decreased ~4% in 2023 compared to 2022, largely driven by moderate Q2 2023 deal activity.
- ❖ Over the next 12 months, multiples look to expand as material prices and the supply chain constraints continue to stabilize.

M&A Volume by End Market



Note: Interior Products includes windows, doors, flooring, plumbing, lighting and electrical, and HVAC; Exterior Products includes roofing, siding, lumber, and industrial coatings

Sources: CapIQ, Stout Proprietary Database, Home Improvement Research Institute⁽¹⁾

Macroeconomic Update

RECENT MACROECONOMIC PERFORMANCE

Despite market uncertainty, the global economy has exhibited resilience, with many macroeconomic indicators stabilizing. The unemployment rate remains low at 3.7%, with consumer confidence above long-term averages. Real U.S. GDP growth slowed in Q4 2023 following a strong Q3; however, YoY growth for 2023 outperformed expectations of many economists, with modest GDP growth expected for 2024.

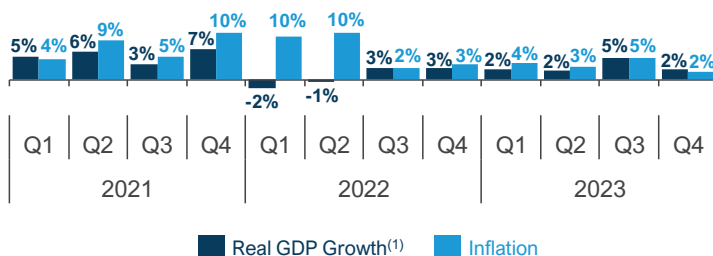
Inflation has shown signs of cooling, largely as a result of the Federal Reserve raising interest rates throughout 2023, resulting in the federal funds rate reaching 5.3% by year-end – the highest seen in 15 years. This strategy, aimed at economic stabilization, has slowed the pace of inflation, a signal that the Fed may be nearing the end of its rate-hike cycle.

INDUSTRY TRENDS

The manufacturing sector concluded 2023 in contraction territory, with the PMI registering 47.4 as of December, marking 14 months of economic contraction driven primarily by macroeconomic uncertainty, as well as softness in order volumes and demand for certain segments. Despite the challenging environment, optimism among manufacturers was up meaningfully in December, and looking ahead to 2024, experts expect the PMI to break back into growth territory by the end of Q1.

Real GDP Growth and Inflation

(Annualized quarterly percentage change)

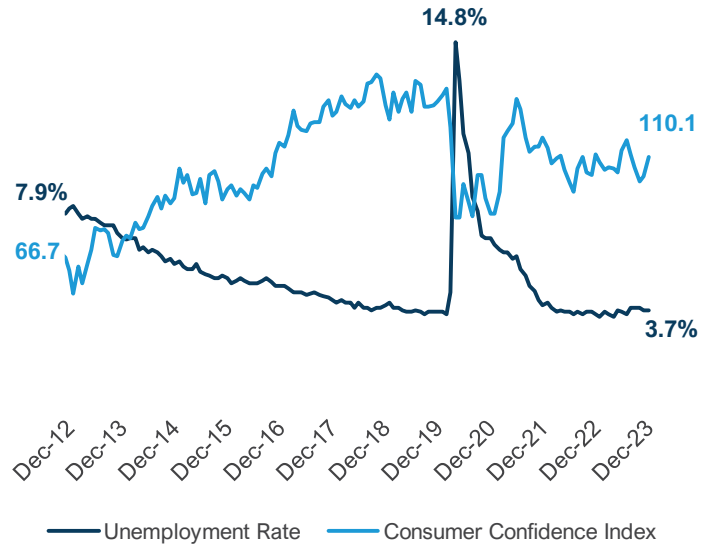


Note: Q4 2023 real GDP growth is based on Federal Reserve Bank of Atlanta's GDPNow estimate⁽¹⁾

Sources: FRED Economic Data, Bureau of Labor Statistics; University of Michigan Consumer Confidence Report, Institute for Supply Management, Federal Reserve Bank of New York

Unemployment and Consumer Confidence

(Percentage of unemployed persons in the U.S. labor force)
(Index of consumer sentiment; long-term average = 100)



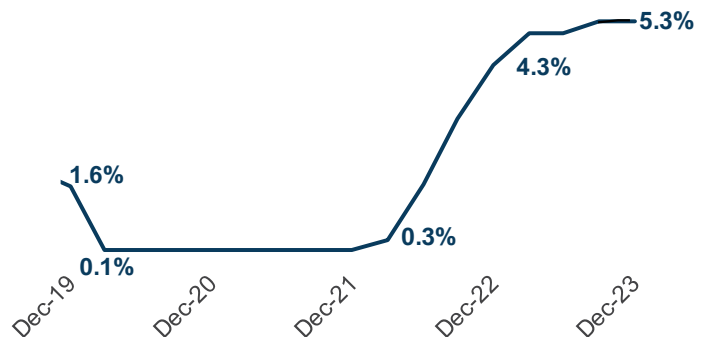
Purchasing Manager's Index

(Measures economic health of manufacturing sector 0 – 100)



Effective Federal Funds Rate

(Volume-weighted median of overnight federal funds transactions)



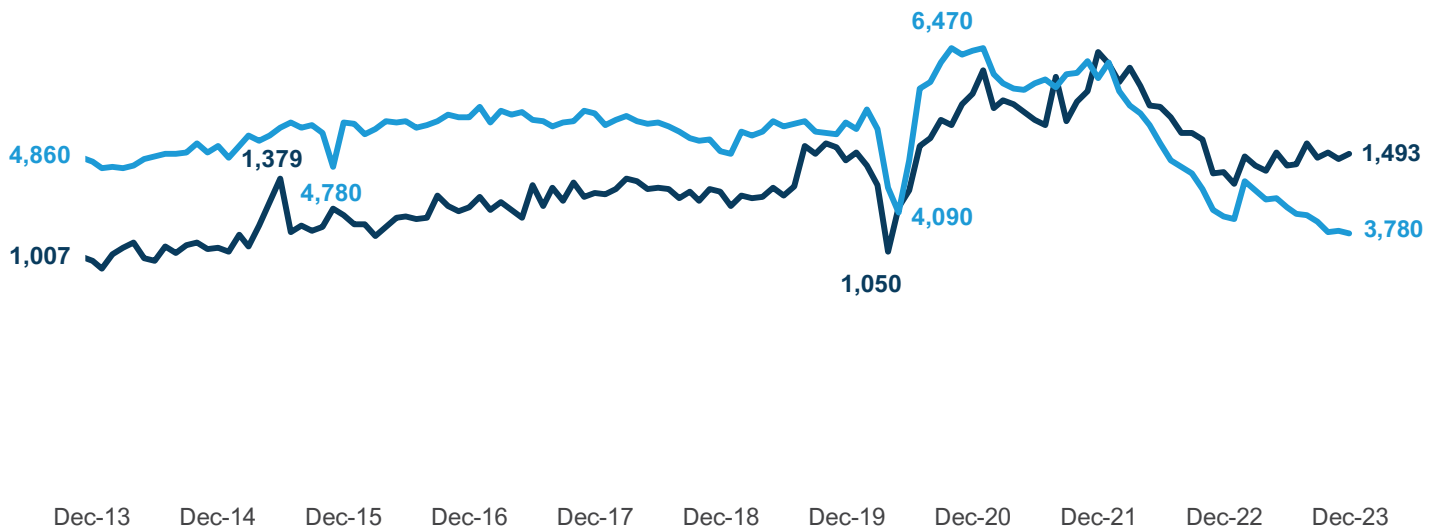
Residential Housing Market

RESIDENTIAL HOUSING MARKET AND INTEREST RATE ENVIRONMENT

The slowdown in existing home sales and new housing construction is the effect of elevated interest rates, which are at their highest levels since the early 2000s. Multi-family and single-family housing construction are down 14% and 6%, respectively, year-over-year. Cooling inflation data and the Federal Reserve's decision to hold rates at its November meeting suggest an increasing likelihood of rate cuts in 2024, providing optimism in the space.

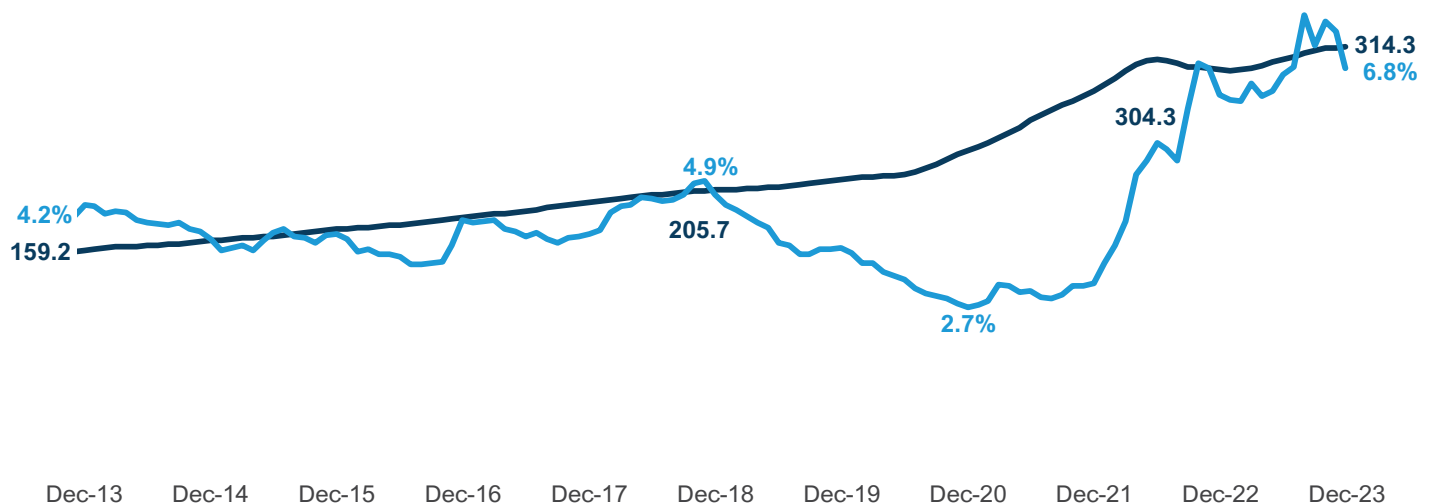
New Housing Construction and Existing Home Sales

■ New Housing Construction ■ Existing Home Sales



National Home Prices and Interest Rates

■ U.S. Home Pricing Index ■ 30-Year Fixed Rate Mortgage



Sources: CapIQ, NAHB, St. Louis Fed

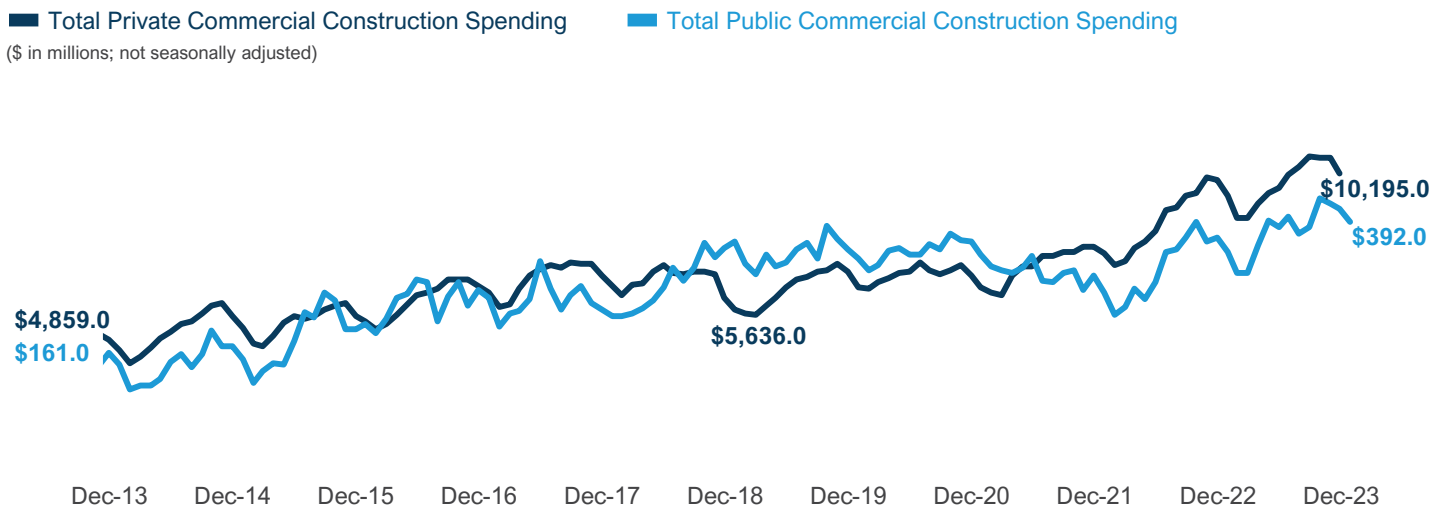
Non-Residential Construction

COMMERCIAL ACTIVITY REBOUNDED IN SELECTIVE SEGMENTS

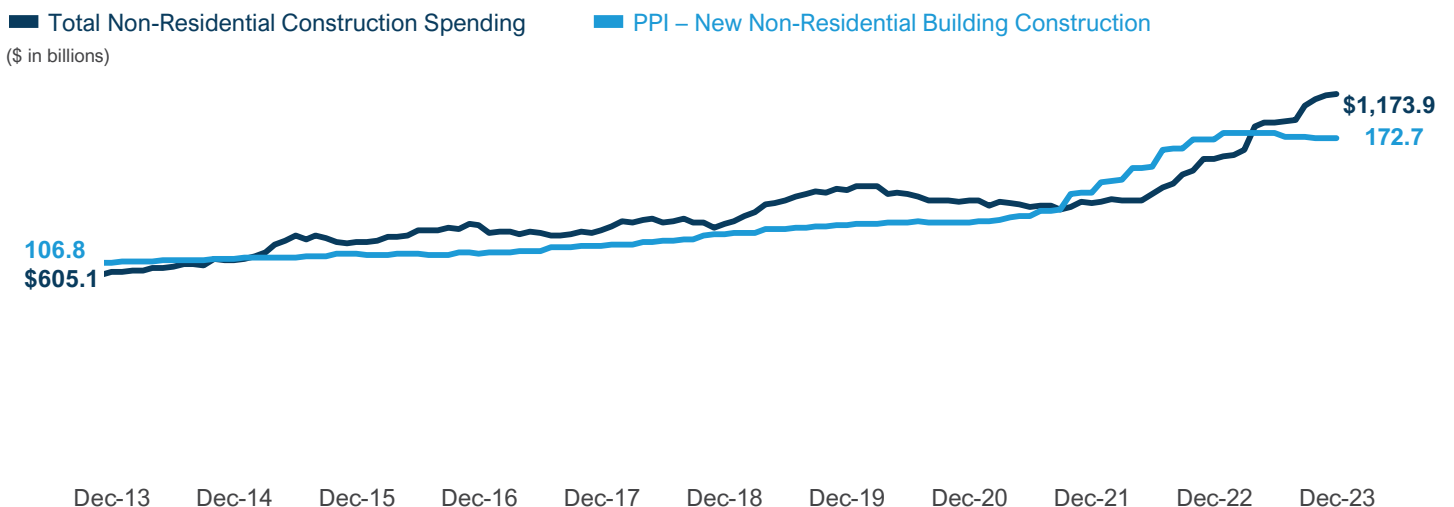
Although spending on non-residential buildings increased by more than 17% in 2023, once adjusted for inflation, real increases were much lower. Companies continue to invest heavily in new buildings and renovations, particularly in manufacturing and hospitality. This surge in manufacturing construction and renovation is primarily driven by reshoring efforts and the continued need for efficient logistics and distribution systems to serve e-commerce. With inflation leveling off, there is increasing optimism among industry participants regarding the future for non-residential building projects.

Non-residential construction got off to a strong start in the first half of 2023 and has begun to stabilize to a moderate pace going into 2024. The resurgence of travel since the pandemic drives construction in the tourism space, while construction related to infrastructure enhancements is driven by decades of underinvestment and recent legislation, such as the Infrastructure Investment and Jobs Act.

Private and Public Non-Residential Construction Spending



Non-Residential Construction Spending and Producer Price Index



Source: St. Louis Fed

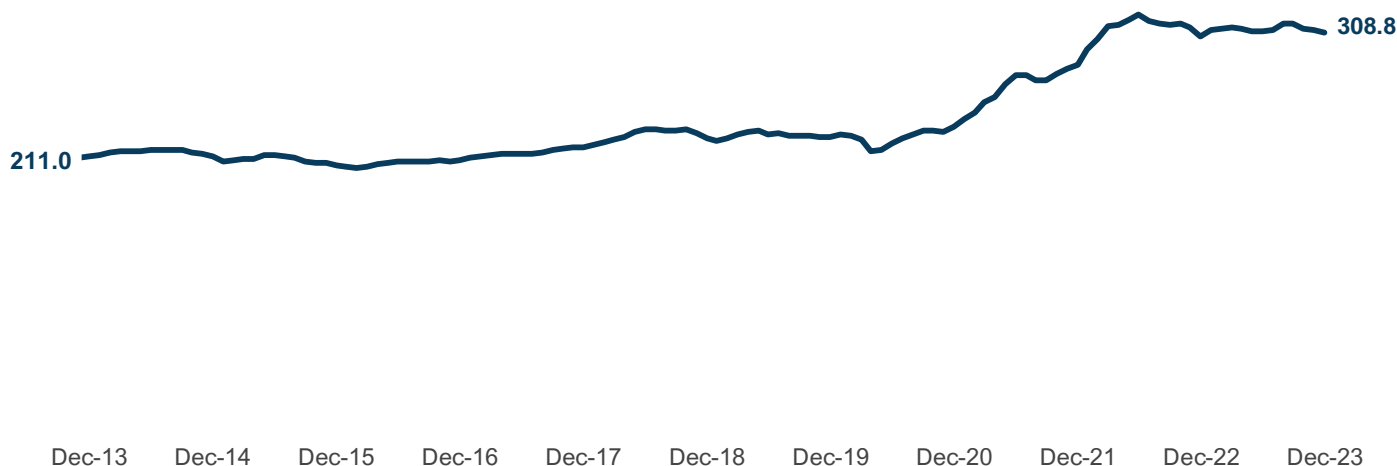
Building Materials

COMMODITY PRICE TRENDS

The Producer Price Index (PPI) for residential construction is showing signs of stabilization going into 2024, and remains elevated compared to pre-COVID levels. We see the majority of building products commodities showing PPI increases and consistency. Lumber and wood products increased by 9.27% YoY, and concrete products have increased by 7.34% YoY. These increases can be attributed to the current optimistic outlook on inputs to residential construction.

Energy specific commodities such as natural gas and crude petroleum remain outliers and show substantial YoY decreases of 60.45% and 10.76%. These decreases can be explained by the significant demand shock in 2022 followed by persistent downside factors such as ongoing conflicts and uncertainty surrounding energy prices.

PPI – Net Inputs to Residential Construction



PPI – Commodity Index Percent Change (Dec-23)

Commodity	1 Month % Change	12 Month % Change
Lumber and Wood Products	(1.67)%	9.27%
Steel Mill Products	3.32%	(2.01)%
Concrete Products	0.07%	7.34%
Iron and Steel Scrap	0.61%	19.81%
Plumbing Fixtures and Fittings	0.24%	1.51%
Domestic Crude Petroleum	(13.22)%	(10.76)%
Natural Gas	1.47%	(60.45)%
Fabricated Structural Metal Products	1.62%	2.46%
Nonferrous Wire and Cable	0.36%	(4.62)%
Precast Concrete Slabs, Tiles, Roofs, and Floors	0.00%	2.84%

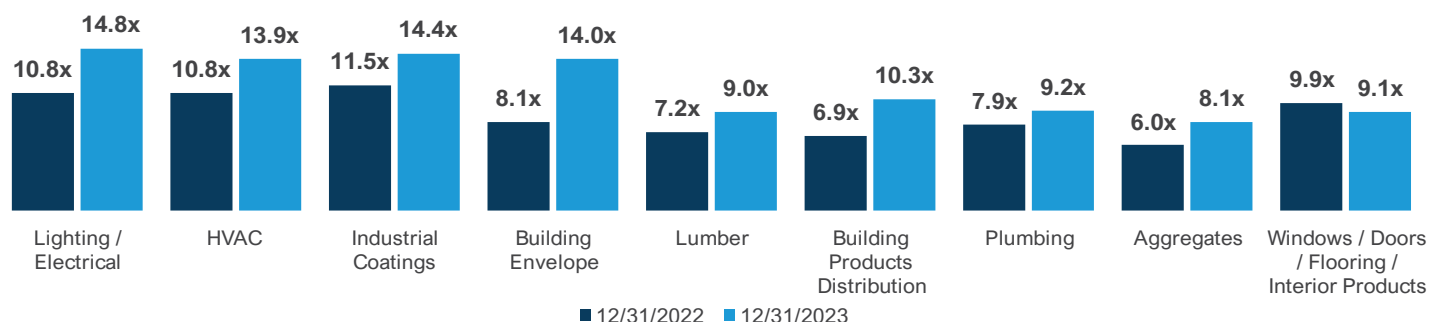
Sources: St. Louis Fed, CapIQ

Building Products Market Trends

VALUATION METRICS

In 2023, the S&P 500 increased 24.2%, representing a strong rebound from 2022. The increased valuation was driven by corporate earnings surpassing expectations, inflation easing, and interest rate visibility increasing. Within the building products industry, multiples for eight of the nine subsectors were up in 2023, with the building envelope subsector boasting the highest YoY multiple growth.

Subsector Average NTM EBITDA Multiples



SELECT RECENT BUILDING PRODUCTS INDUSTRY TRANSACTIONS

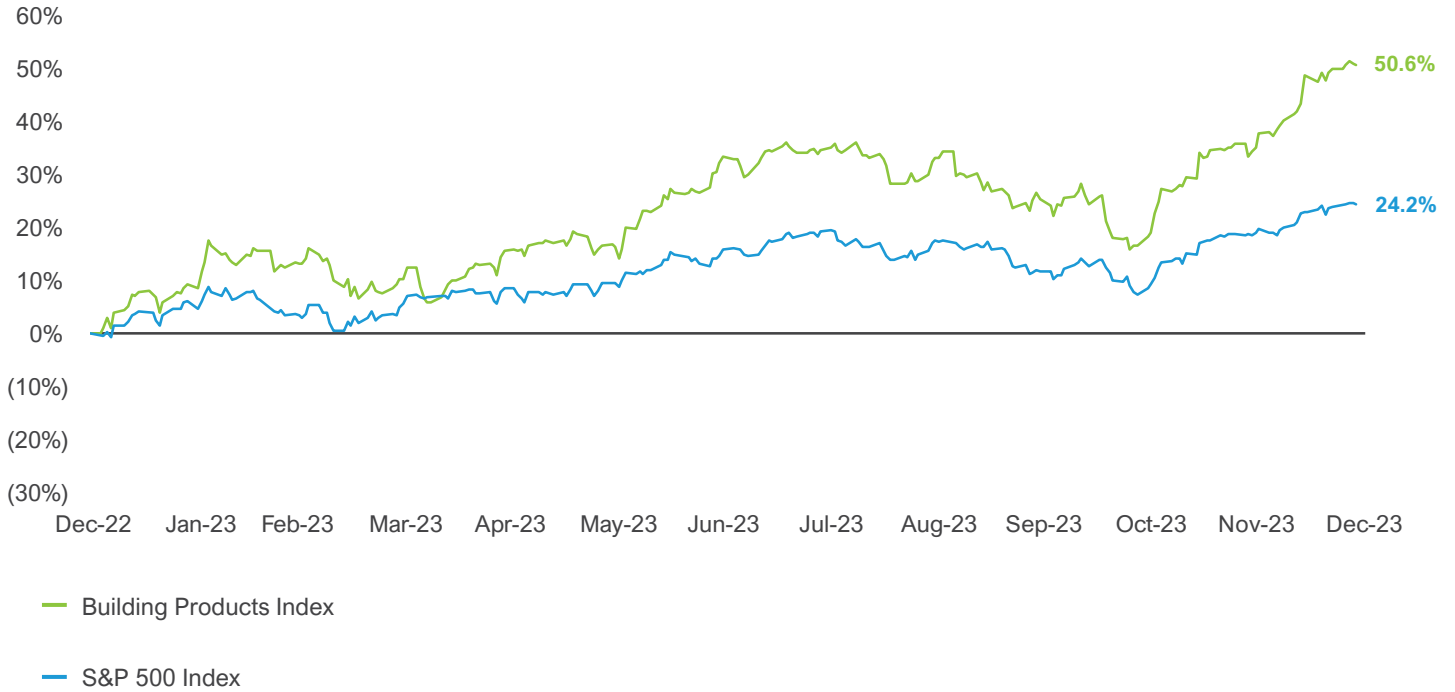
Date	Target (Ownership)	Subsector	Acquiror (Ownership)
Dec-23	J.D. Johnson	HVAC	F.W. Webb Company
Nov-23	Martin Marietta Materials	BP Distribution	CRH Americas Materials
Nov-23	H&H Roofing Supply	Building Envelope	Beacon Roofing (Nasdaq:BECN)
Oct-23	Fleetwood Aluminum	Windows / Flooring / Interior Products	Masonite (NYSE:DOOR)
Sep-23	Argos U.S.A	Industrial Coatings	Summit Materials (NYSE:SUM)
Sep-23	Athabasca Minerals (TSXV:AMI)	Aggregates	JMAC Energy Services
Aug-23	Heating & Cooling Products	HVAC	Smiths Group (LSE:SMIN)
Aug-23	Bradley Corporation	Plumbing	Watts Water Technologies
Jul-23	Specialty Products and Insulation	BP Distribution	TopBuild (NYSE:BLD)
Jul-23	Chase Corporation (NYSEAM:CCF)	BP Distribution	KKR & Co. (NYSE:KKR)
Jul-23	Barry G Lawrence	Industrial Coatings	Tyman (LSE:TYMN)
Jun-23	Building Products of Canada	Building Envelope	Saint-Gobain (ENXTPA:SGO)
May-23	Arconic (NYSE:ARNC)	Building Envelope	Apollo (NYSE:APO)
Apr-23	Engler, Meier & Justus	BP Distribution	Gypsum Management & Supply (NYSE:GMS)
Feb-23	Duro-Last	Building Envelope	Holcim (SWX:HOLN)

Source: S&P Capital IQ

Building Products Performance

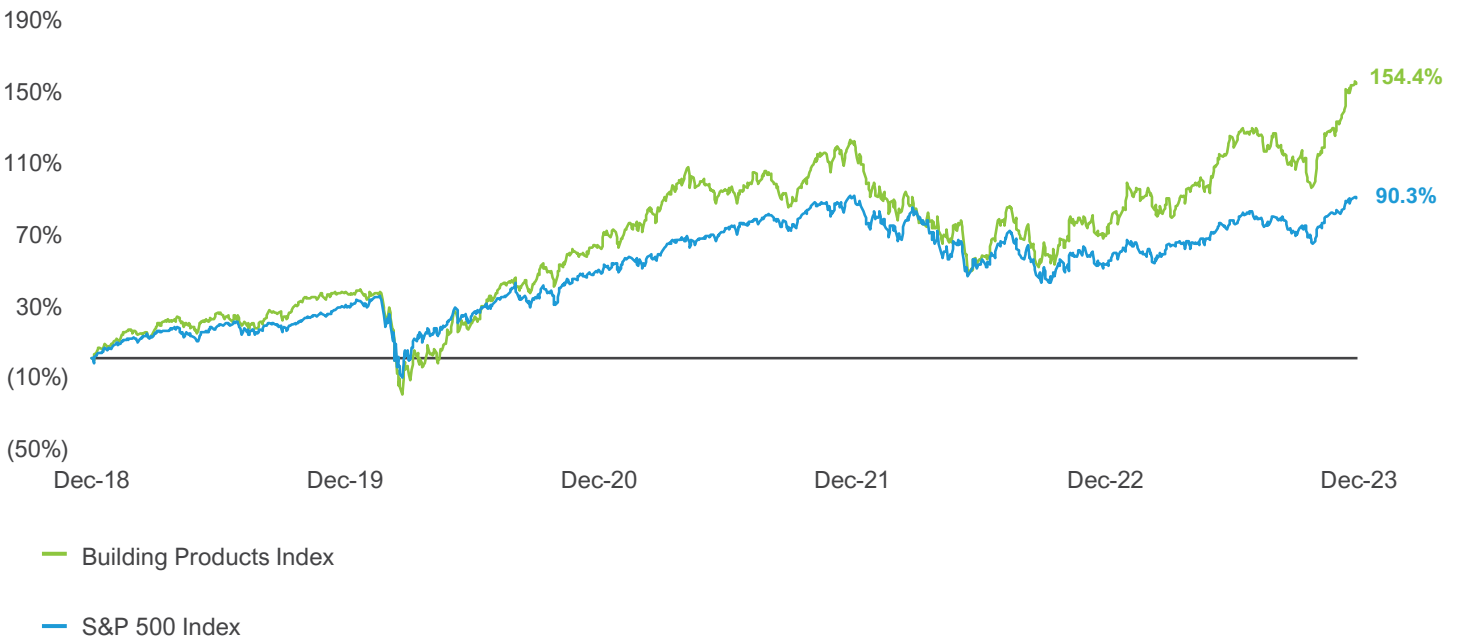
LTM Stock Price Performance

(Indexed to 0.0 as of 12/31/2022)



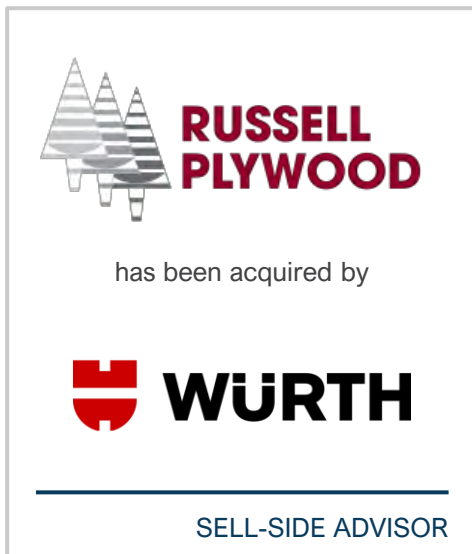
Stock Price Performance (Over the Past Five Years)

(Indexed to 0.0 as of 12/31/2018)



Source: S&P Capital IQ

Recent Stout Transaction Spotlight



Stout Advises Russell Plywood on Sale to Würth Baer Supply Company

CLIENT PROFILE

- ❖ Founded in 1953 and headquartered in Reading, PA, Russell Plywood is a premier distributor of hardwood plywood, high-pressure laminate, melamine, lumber, and other specialty products in the Northeastern U.S. market, renowned for its quality products and services.
- ❖ Russell Plywood's products have numerous attractive repair and remodel applications, such as cabinetry, flooring, counter tops, fixtures, among a variety of others, and are provided to thousands of customers annually.

BUYER PROFILE

- ❖ Founded in 1950 and headquartered in Vernon, IL, Würth Baer Supply Company is one of the nation's leading specialty wholesale distributors to the woodworking industry, offering an extensive inventory of decorative and functional hardware and fittings, tools, shop supplies, surfacing materials, and board and panel products.
- ❖ Würth Baer Supply Company is a member of the Würth Group of Germany, the world's largest fastener distributor, with over 400 companies in 85 countries.

PROCESS SUMMARY & OUTCOME

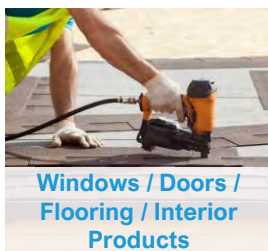
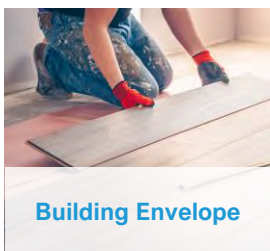
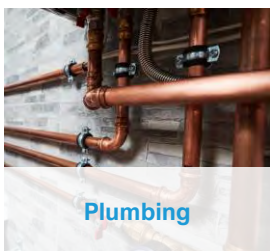
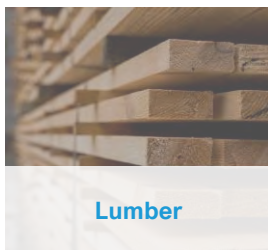
- ❖ Stout served as exclusive financial advisor to Russell Plywood in a highly targeted process, leading to a successful closing in January 2024.
- ❖ Stout's full press release can be found [here](#).

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



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RECENT / CURRENT STOUT TRANSACTIONS



RUSSELL PLYWOOD

has been acquired by



WÜRTH

SELL-SIDE ADVISOR

Project Slate

SELL-SIDE ADVISOR

Project Highlander

SELL-SIDE ADVISOR



ABOUT STOUT INVESTMENT BANKING

Stout's Investment Banking group provides mergers and acquisitions (M&A) advisory, capital market financing, and other financial advisory services to portfolio companies of private equity firms, closely held or family-owned businesses, and divisions of large corporate parents. Learn more about our [Investment Banking services](#).

Stout is a trade name for Stout Risius Ross, LLC, Stout Advisors SA, Stout Bluepeak Asia Ltd, Stout GmbH, MB e Associati S.r.l., Stout Park Ltd, and Stout Capital, LLC, a FINRA-registered broker-dealer and SIPC member firm. The term "Stout" refers to one or more of these legally separate and independent advisory practices. Please see www.stout.com/about to learn more.