

# BUILDING PRODUCTS/Q

## Industry Insights for Q4 2019

Despite continued trade tensions, geopolitical unrest, and weakness in global demand, the U.S. economy entered its 126th consecutive month of economic expansion – the longest in U.S. history.

Strong performance across numerous key market indicators, including a low interest rate environment and unemployment at the lowest levels in nearly 50 years (3.6% as of October 2019), is creating strong tailwinds for the building products sector. Strength in the housing market is evidenced by leading indicators, including an increase in home starts, rising homeownership, and robust home remodeling activity, all pointing to continued economic strength and market demand.

Demographic trends, particularly those driven by millennials will likely also fuel opportunities for the building products sector. In pursuit of better wages and conveniences of urban living, millennials are increasingly drawn to urban areas and are creating an increased need for multi-family units, where demand continues to outpace available supply.

With economic growth promoting activity across both residential and commercial construction, lack of housing inventory, affordability, and increasing construction & material costs create headwinds impeding higher growth. Access to skilled labor within a tight worker pool also remains one of the most consistent challenges.

M&A activity in 2019 was influenced by the cyclical nature of the sector. The market experienced a modest pull-back in 2019 with 131 M&A transactions, as compared to 184 deals in 2018.

We expect acquisitions to remain a key part of a successful growth strategy for companies operating in this sector. Middle market-sized deals continue to be an area of focus, with strategic buyers making a series of smaller acquisitions to consolidate a highly fragmented market. Particularly of interest are companies that offer emerging technologies such as integrated building solutions to provide an entrance into the intelligent building and Internet of Things (IoT) sector, as well as those technologies that drive cost and energy efficiencies. •

## Recent Deal Activity *Q3/Q4 2019*

*December 12, 2019* – Dallas, Texas-based **Arcosa, Inc.** (NYSE:ACA) acquired Houston, Texas-based **Cherry Industries, Inc.**, and affiliated entities. Cherry Industries, Inc. is a leading producer of natural and recycled aggregates. Arcosa management noted that the acquisition aligned their strategic plan, accelerating the growth of their high-value construction products segment and enhancing their geographic position within Texas. The announced transaction value was \$298 million, which implies revenue and EBITDA multiples of 1.7x and 8.0x, respectively.

*December 10, 2019* – Venice, Florida-based **PGT Innovations, Inc.** (NYSE:PGTI) acquired Tampa, Florida-based **NewSouth Window Solutions, LLC**. NewSouth Window Solutions is a manufacturer and installer of factory-direct, energy-efficient windows and doors, including both impact-resistant and non-impact residential products. PGT management noted that the acquisition will support PGT's diversification into growing segments in the window and door industry, by enabling the Company to enter into the direct-to-consumer channel. The announced transaction value was \$92 million.

*November 26, 2019* – Dallas, Texas-based **Eagle Materials Inc.** (NYSE:EXP) announced an agreement to acquire certain assets of Houston, Texas-based **Kosmos Cement Company**. The assets being sold consist of Kosmos' cement plant in Louisville, Kentucky, as well as related assets which include several distribution terminals and raw material reserves. Eagle Materials management noted that the acquisition is an exceptional geographic fit with their existing system of heartland-US cement assets. The announced transaction value was \$665 million.

*November 12, 2019* - Tampa, Florida-based **CertainTeed Gypsum & Ceiling USA**, a subsidiary of Courbevoie, France-based **Saint-Gobain** (ENXTPA:SGO) acquired Herndon, Virginia-based **Continental Building Products, Inc.** (NYSE:CBPX). Continental manufactures and sells gypsum wallboard and complementary finishing products in the eastern United States and Canada. CertainTeed management noted that the acquisition will enable Saint-Gobain to become a leading provider of gypsum wallboard and construction solutions across the United States and Canada. The announced transaction value was \$1.4 billion, which implies revenue and EBITDA multiples of 2.8x and 11.1x, respectively.

*November 6, 2019* – Horsley Park, Australia-based **Brickworks Limited (ASX:BKW)** announced the acquisition of certain assets of Canton, Ohio-based **The Belden Brick Company, LLC**. The assets consisted of those related to Belden's business in soft mud (machine-molded) bricks. The announced transaction value was \$48 million.

*October 8, 2019* – Winnipeg, Canada-based **Exchange Income Corporation** (TSX:EIF) announced the acquisition of Frederick, Maryland-based **Advanced Window, Inc.** Advanced Window is a full-service glazing company specializing in sales, consultation, design, engineering, installation and service of pre-glazed fenestration products. Exchange management noted that the acquisition will enable Exchange to provide the best value and comprehensive offering to their customers and will further their trajectory in the US market.

*October 1, 2019* – Gratz, Pennsylvania-based **MI Windows and Doors, LLC** announced the acquisition of Tacoma, Washington-based **Milgard Manufacturing Incorporated**. Milgard offers a full line of vinyl, wood, fiberglass, and aluminum windows and patio doors for builders, dealers, and homeowners. MI Windows management noted that the two companies align culturally and allow for geographic expansion of MI Windows' already popular product lines. The announced transaction value was \$725 million.

*September 27, 2019* – Irving, Texas-based **Lehigh Hanson, Inc.** entered into an agreement to acquire the Bath, Pennsylvania-based **Keystone Cement Plant** of Harleyville, South Carolina-based **Giant Cement Company, Inc.** Lehigh Hanson management noted that the Keystone Cement Plant is an excellent strategic fit and an important step in strengthening their cement footprint in the Northeast. The announced transaction value was \$151 million.

*August 23, 2019* – Wyomissing, Pennsylvania-based **Brickworks North America Corporation**, a subsidiary of Horsley-Park, Australia-based **Brickworks Limited (ASX:BKW)** completed the acquisition of Sioux City, Iowa-based **Sioux City Brick & Tile Company**. Sioux City Brick is a manufacturer of clay bricks and a distributor of related masonry products with a strong brand and leading market position in the Midwest. Brickworks management noted that the acquisition is a perfect fit with the existing operations and the ideal bolt-on opportunity to their 2018 acquisition of **Glen-Gery** - a company that offers a diverse portfolio of brick colors, sizes, and textures for commercial and residential applications in the US. The announced transaction value was \$32 million. •

## Building Products Supplier Trading Multiples

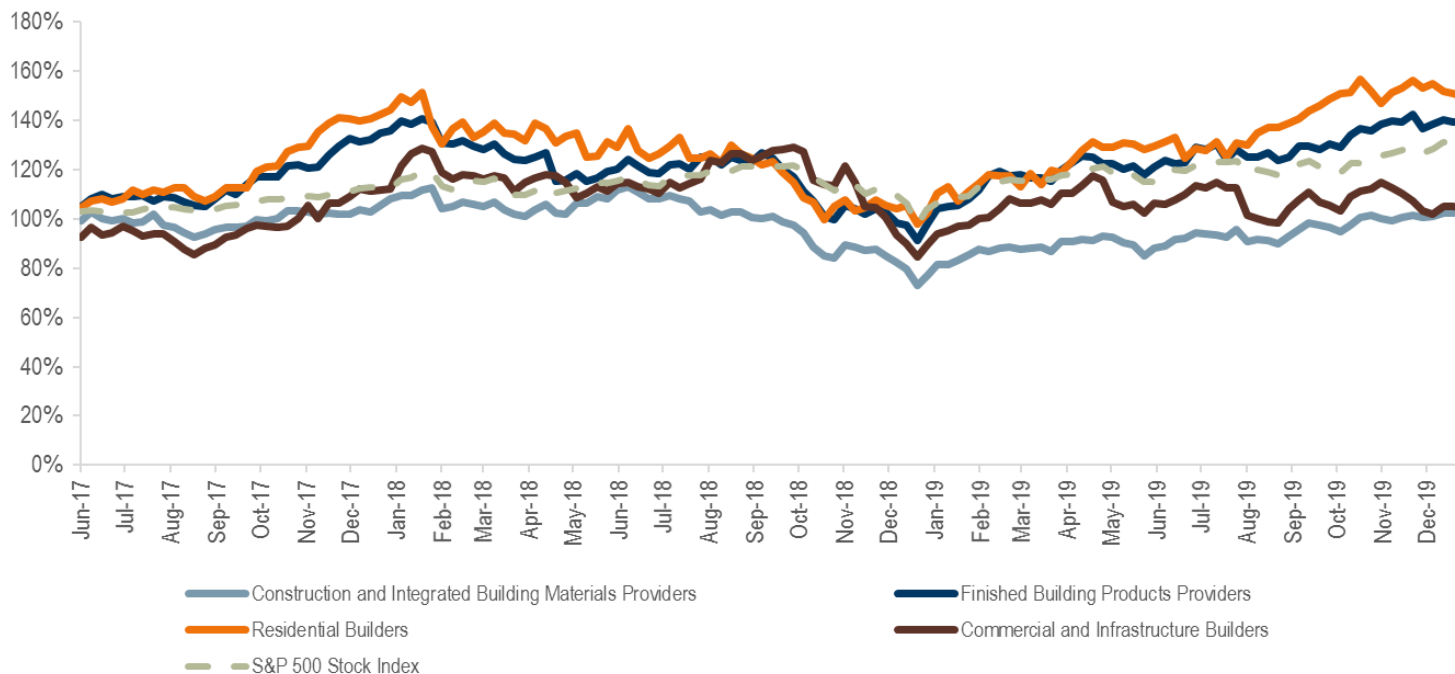
(\$ in millions)	12/31/19	Qtrly Price	Market	Total	LTM		Gross	EBITDA	Net Debt/	Enterprise Value/LTM	
Company	Stock Price	Change	Cap.	EV <sup>(1)</sup>	Revenue	EBITDA	Margin	Margin	EBITDA	Revenue	EBITDA
<b>Construction and Integrated Building Materials Providers</b>											
Eagle Materials Inc.	\$90.33	3%	\$3,797	\$4,778	\$1,403	\$379	23%	27%	2.6x	3.4x	12.6x
Gibraltar Industries, Inc.	50.47	13%	1,634	1,525	1,030	117	23%	11%	NM	1.5x	13.1x
Granite Construction Incorporated	27.31	(12%)	1,225	1,317	3,390	10	6%	0%	4.9x	0.4x	NM
Louisiana-Pacific Corporation	29.84	27%	3,515	3,616	2,362	209	14%	9%	0.4x	1.5x	17.3x
Martin Marietta Materials, Inc.	280.19	7%	17,420	20,794	4,354	1,214	26%	28%	2.8x	4.8x	17.1x
Nucor Corporation	55.93	13%	17,186	20,120	23,753	3,319	14%	14%	0.8x	0.8x	6.1x
PotlatchDeltic Corporation	43.32	7%	2,911	3,619	841	143	16%	17%	4.9x	4.3x	NM
United States Lime & Minerals, Inc.	91.79	22%	512	435	155	45	36%	29%	NM	2.8x	9.7x
Universal Forest Products, Inc.	48.20	24%	2,991	3,161	4,406	306	15%	7%	0.5x	0.7x	10.3x
Vulcan Materials Company	143.61	(1%)	19,045	22,159	4,831	1,232	26%	26%	2.5x	4.6x	18.0x
Weyerhaeuser Company	29.91	12%	22,339	28,938	6,642	1,202	18%	18%	5.5x	4.4x	24.1x
<b>Median<sup>(2)</sup></b>							<b>18%</b>	<b>17%</b>	<b>2.6x</b>	<b>2.8x</b>	<b>13.1x</b>
<b>Mean</b>							<b>20%</b>	<b>17%</b>	<b>2.8x</b>	<b>2.7x</b>	<b>14.2x</b>
<b>Finished Building Products Providers</b>											
American Woodmark Corporation	\$103.94	17%	\$1,776	\$2,436	\$1,647	\$237	21%	14%	2.8x	1.5x	10.3x
Armstrong World Industries, Inc.	93.17	(2%)	4,552	5,158	1,030	280	37%	27%	2.2x	5.0x	18.4x
Builders FirstSource, Inc.	25.22	24%	2,947	4,561	7,333	505	27%	7%	3.2x	0.6x	9.0x
Lennox International Inc.	243.14	5%	9,376	10,953	3,766	536	28%	14%	2.9x	2.9x	20.5x
Masco Corporation	48.01	17%	13,322	16,198	8,403	1,453	33%	17%	1.9x	1.9x	11.1x
Owens Corning	64.86	7%	7,094	10,496	7,192	1,300	23%	18%	2.6x	1.5x	8.1x
Quanex Building Products Corporation	17.19	(4%)	567	694	894	100	22%	11%	1.3x	0.8x	6.9x
Simpson Manufacturing Co., Inc.	80.41	18%	3,567	3,410	1,116	200	43%	18%	NM	3.1x	17.0x
Trex Company, Inc.	89.82	4%	5,275	5,184	721	188	41%	26%	NM	7.2x	NM
<b>Median<sup>(2)</sup></b>							<b>28%</b>	<b>17%</b>	<b>2.6x</b>	<b>1.9x</b>	<b>10.7x</b>
<b>Mean</b>							<b>31%</b>	<b>17%</b>	<b>2.4x</b>	<b>2.7x</b>	<b>12.7x</b>
<b>Residential Builders</b>											
Beazer Homes USA, Inc.	\$14.12	(3%)	\$428	\$1,500	\$2,088	\$73	15%	4%	14.6x	0.7x	20.4x
D.R. Horton, Inc.	\$52.27	2%	\$19,515	\$21,738	\$17,593	\$2,183	21%	12%	0.9x	1.2x	10.0x
Hovnanian Enterprises, Inc.	\$20.60	11%	\$124	\$1,832	\$2,017	\$37	13%	2%	42.9x	0.9x	NM
KB Home	\$33.80	1%	\$2,999	\$4,676	\$4,343	\$354	19%	8%	4.7x	1.1x	13.2x
Lennar Corporation	\$55.43	(4%)	\$17,367	\$26,926	\$21,747	\$2,494	20%	11%	3.8x	1.2x	10.8x
M/I Homes, Inc.	\$39.41	6%	\$1,120	\$1,954	\$2,481	\$197	19%	8%	4.2x	0.8x	9.9x
M.D.C. Holdings, Inc.	\$37.39	(12%)	\$2,365	\$3,206	\$3,071	\$291	20%	9%	2.9x	1.0x	11.0x
Meritage Homes Corporation	\$60.70	(13%)	\$2,352	\$3,240	\$3,539	\$323	19%	9%	2.8x	0.9x	10.0x
NVR, Inc.	\$3,808.96	5%	\$14,101	\$13,723	\$7,428	\$1,060	20%	14%	NM	1.8x	12.9x
PulteGroup, Inc.	\$38.52	6%	\$10,512	\$12,853	\$10,195	\$1,377	24%	14%	1.7x	1.3x	9.3x
Toll Brothers, Inc.	\$39.44	(1%)	\$5,531	\$8,213	\$7,224	\$793	20%	11%	3.3x	1.1x	10.4x
<b>Median<sup>(2)</sup></b>							<b>20%</b>	<b>9%</b>	<b>3.6x</b>	<b>1.1x</b>	<b>10.6x</b>
<b>Mean</b>							<b>19%</b>	<b>9%</b>	<b>8.2x</b>	<b>1.1x</b>	<b>11.8x</b>
<b>Commercial and Infrastructure Builders</b>											
EMCOR Group, Inc.	\$86.83	5%	\$4,891	\$5,035	\$9,000	\$540	15%	6%	0.3x	0.6x	9.3x
Fluor Corporation	\$18.42	3%	\$2,541	\$2,774	\$18,520	(\$119)	(1%)	(1%)	NM	0.1x	NM
Jacobs Engineering Group Inc.	\$89.64	2%	\$11,931	\$12,755	\$12,738	\$930	19%	7%	0.8x	1.0x	13.7x
Tutor Perini Corporation	\$12.72	(5%)	\$636	\$1,291	\$4,456	\$258	10%	6%	2.6x	0.3x	5.0x
<b>Median<sup>(2)</sup></b>							<b>13%</b>	<b>6%</b>	<b>0.8x</b>	<b>0.4x</b>	<b>9.3x</b>
<b>Mean</b>							<b>11%</b>	<b>5%</b>	<b>1.2x</b>	<b>0.5x</b>	<b>9.3x</b>

(1) EV (Enterprise Value) is defined as market capitalization plus net debt, preferred equity and minority interest.

(2) Median and mean values exclude all non-meaningful values.

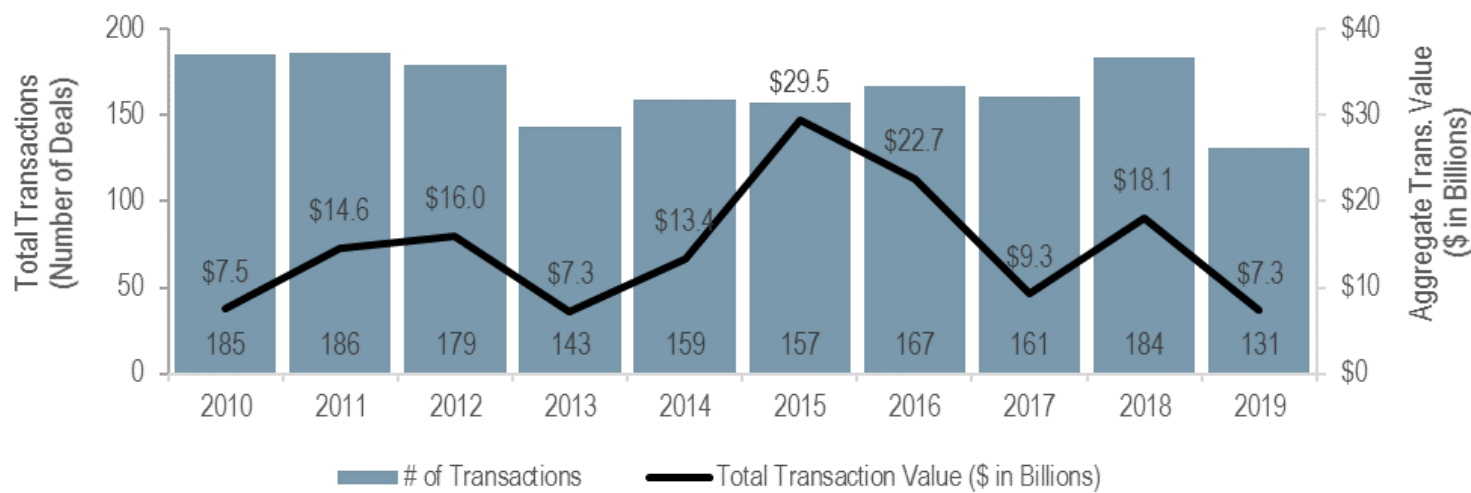
Source: Capital IQ (as of December 31, 2019)

## AmherstPartners Building Products Supplier Index



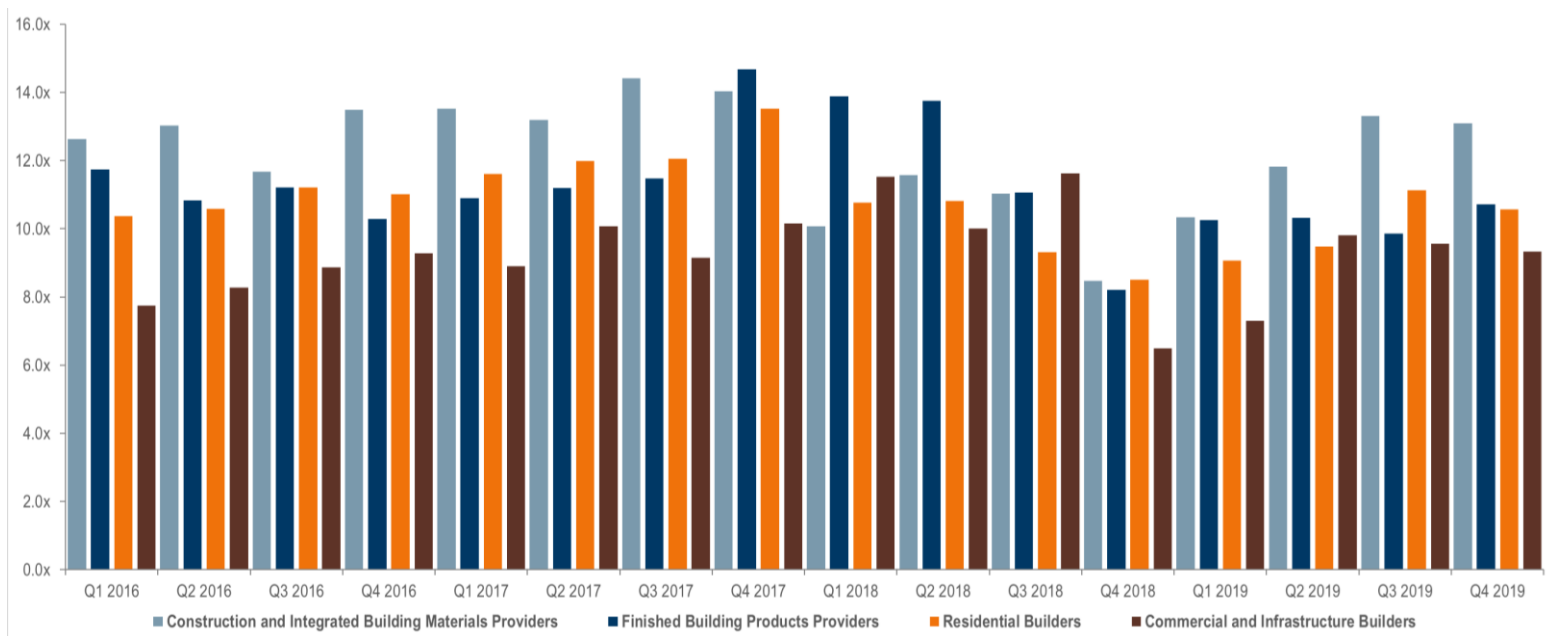
Source: Capital IQ (as of December 31, 2019)

## M&A Activity



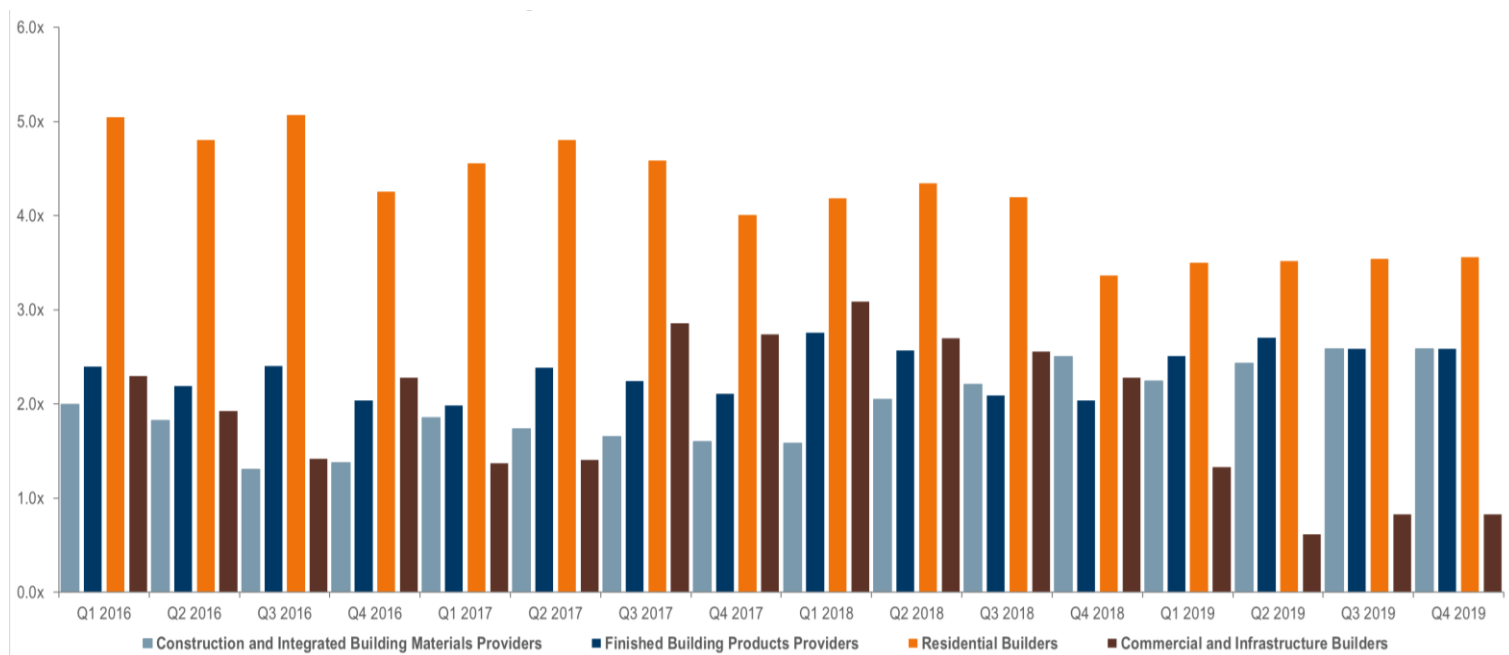
Source: Capital IQ (as of December 31, 2019)

## Building Products Indices – Median Enterprise Value/LTM EBITDA



Source: Capital IQ (as of December 31, 2019)

## Building Products Indices – Median Net Debt/LTM EBITDA



Source: Capital IQ (as of December 31, 2019)

## BUILDING PRODUCTS/Q

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- Restructuring Advisory
- Management Consulting

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