

INDUSTRY INSIGHTS

BUILDING PRODUCTS & MATERIALS

3Q 2018 M&A MARKET UPDATE



Inside This Issue...

This issue of the *Building Products & Materials* (BP&M) newsletter highlights the macroeconomic drivers supporting the momentum in mergers and acquisitions (M&A) activity in the sector and strong valuation multiples. Bolstered by the implementation of the new, corporation-friendly tax policy and the continued strength of the U.S. economy, M&A activity in the BP&M sector rebounded in the first half of 2018 after a slow second half of 2017. Industry participants expect strong M&A activity to continue through the remainder of 2018 driven by robust balance sheets and the continued availability of low-cost debt financing. In particular, optimism surrounding the non-residential construction market continues to strengthen as highlighted by the AIA Architecture Billings Index exceeding 50 in each month during 2018, and May 2018 setting an all-time record for non-residential construction put in place (\$754 billion). Investors will be watching residential housing starts closely through the remainder of the year to see if recent performance is a short-term anomaly or a long-term plateauing of residential construction activity.

Based on our own announced transactions and other potential deals in the pipeline, we expect strong momentum in M&A activity across the building products sector through the remainder of 2018. Strategic players are seeking to grow market share via acquisition and are looking to augment their brand portfolio and technological advantage while improving their supply channels and network. Meanwhile, a large number of private equity firms continue to seek opportunities for new platforms and bolt-on acquisitions for existing portfolio companies.

BDO Capital Advisors, LLC provides counsel in the areas of:

- Mergers & Acquisitions
- Capital Raising
- Board Advisory

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SELECT BDO CAPITAL BP&M TRANSACTIONS

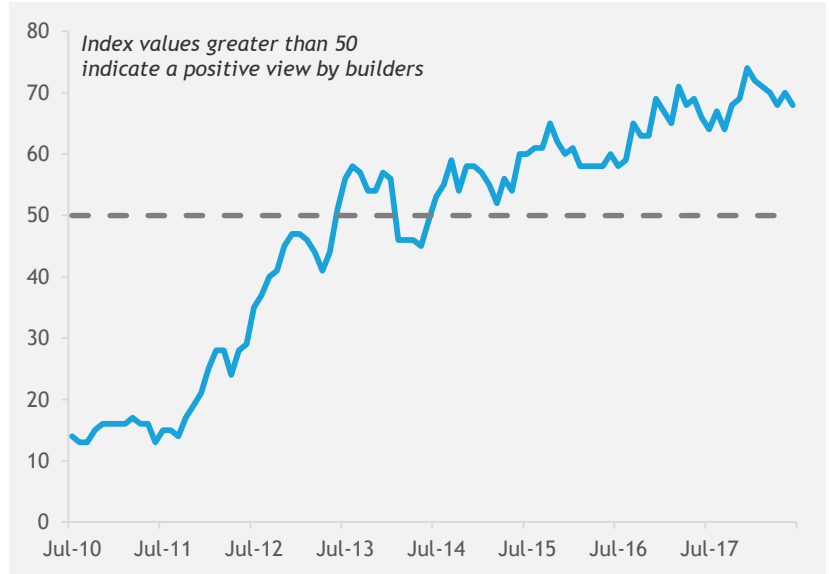
<p>Securus, Inc. dba HOLDRITE has been acquired by Reliance Worldwide Corporation</p> <p>Served as exclusive financial advisor to Securus, Inc. dba HOLDRITE</p>	<p>Smart LLC has been acquired by ACProducts, Inc. (acpi™), a portfolio company of American Industrial Partners</p> <p>Served as exclusive financial advisor to Smart LLC</p>	<p>The Bilco Company has been acquired by Tyman plc</p> <p>Served as exclusive financial advisor to The Bilco Company</p>	<p>ECR International, Inc. has been acquired by BDR Thermea, NV</p> <p>Provided a Fairness Opinion to ECR International, Inc.</p>	<p>INNCOM International, Inc. has been acquired by Honeywell International Inc.</p> <p>Served as exclusive financial advisor to INNCOM International, Inc.</p>
<p>Accumetric, LLC has been acquired by Soudal Holding NV</p> <p>Served as exclusive financial advisor to Accumetric, LLC</p>	<p>Morrison Supply Company has been acquired by Advent International Corporation</p> <p>Served as exclusive financial advisor to Morrison Supply Company</p>	<p>Geocel Holdings Corporation has been acquired by The Sherwin-Williams Company</p> <p>Served as exclusive financial advisor to Geocel Holdings Corporation</p>	<p>Wolseley plc's Irish operations including Tubbs and Tiles have been sold</p> <p>Served as exclusive financial advisor to Wolseley plc</p>	<p>Technocover Limited has been acquired by Lionweld Kennedy Flooring Limited, a subsidiary of Hill & Smith Holdings plc</p> <p>Served as exclusive financial advisor to Technocover Limited</p>

ECONOMIC INDICATORS - U.S. RESIDENTIAL

COMMENTARY

- After closing 2017 at its highest level (74) since 1999, the National Association of Home Builders (NAHB) Housing Market Index (HMI) remained strong through 1H18, and posted an index value of 68 in June 2018
- The HMI has exceeded 50 for 48 straight months, which is consistent with the ongoing recovery of the housing market
- Sustained strong performance through 1H18 indicates continued confidence in expected growth of the U.S. residential construction market through the remainder of 2018 despite short-term setbacks in housing starts (see below)

NAHB Housing Market Index (Builders Confidence)



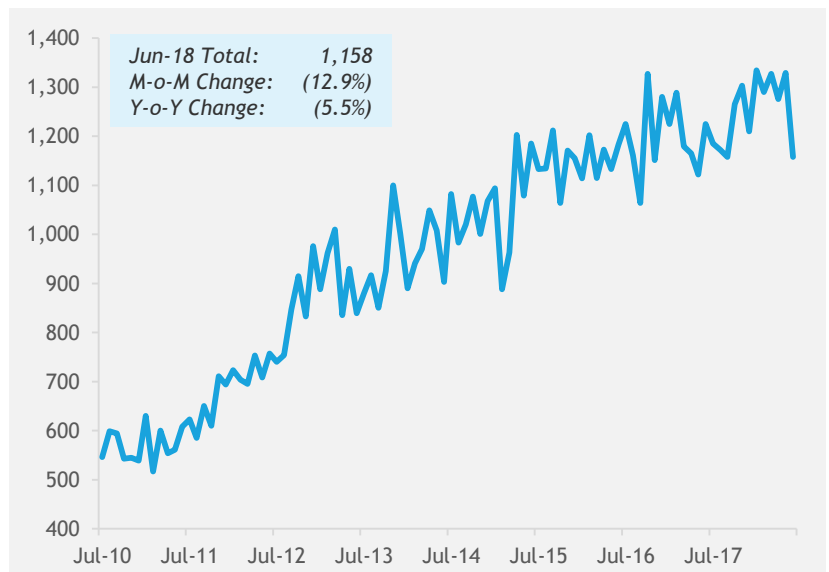
Seasonally Adjusted

Source: National Association of Home Builders

COMMENTARY

- After a strong start to the year, U.S. homebuilding fell to a nine-month low in June 2018 (1,158k units), driven by rising material costs and land & labor shortages
- Despite the drop in June 2018 performance, U.S. housing starts have remained above one million units for 39 consecutive months
- Industry participants will be keeping a close watch on housing starts through the remainder of 2018 to see if June 2018 is a short-term setback or if it represents a long-term plateauing of residential construction in the U.S.

National Housing Starts ('000s of units)



Seasonally Adjusted Annual Rate

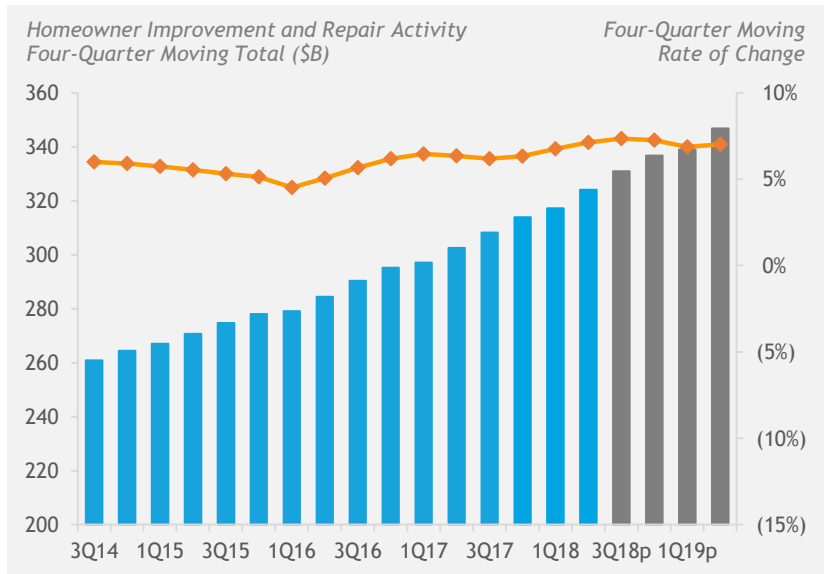
Source: United States Census Bureau

ECONOMIC INDICATORS - U.S. REMODELING

COMMENTARY

- According to the Leading Indicator of Remodeling Activity (LIRA), home improvement and repair spending increased 7.1% in 2Q18, to \$324 billion, and is expected to increase 7.4% in 3Q18
- \$324 billion marks the highest four-quarter moving total spend on homeowner improvement and repair ever, and is \$22 billion higher than 2Q17
- The LIRA has increased every quarter since 1Q10, pointing to continuous growth in the remodeling market since the Great Recession
- U.S. homeowner improvement and repair spending is projected to continue expanding in excess of 6.9% through 2Q19

Leading Indicator of Remodeling Activity

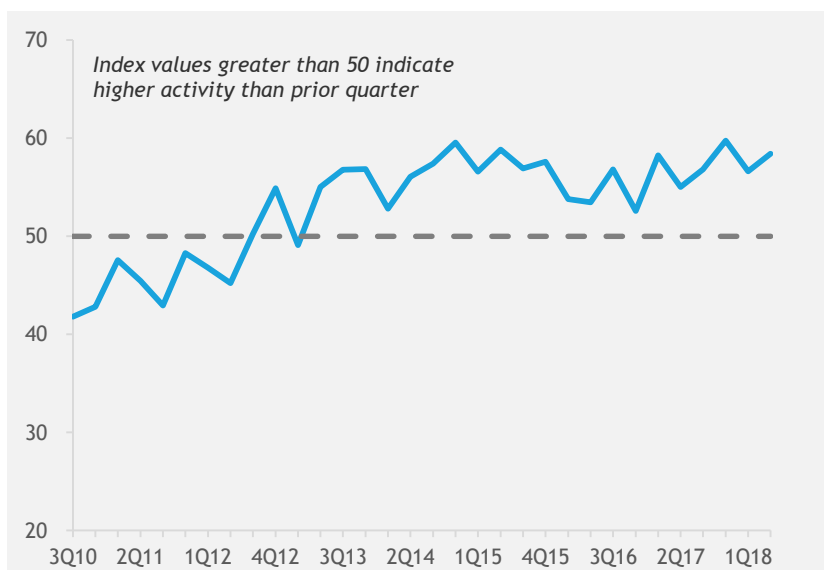


Historical data through 2015 are Joint Center for Housing Studies (JCHS) estimates based on American Housing Survey data. Historical estimates since 2015 are produced using the Leading Indicator of Remodeling Activity model until new AHS data becomes available. Projections (p) are produced by the LIRA.
Source: Joint Center for Housing Studies

COMMENTARY

- After posting an all-time high in 4Q17 (59.8), the Remodeling Market Index (RMI) continued its positive trend through 1H18, posting an index value of 58.4 in 2Q18, as a booming stock market and low unemployment continue to fuel consumers' investment in their homes
- The RMI has remained above 50 for 21 consecutive quarters, going back to 2Q13, illustrating the sustained strength and growth of the U.S. remodeling market

Remodeling Market Index



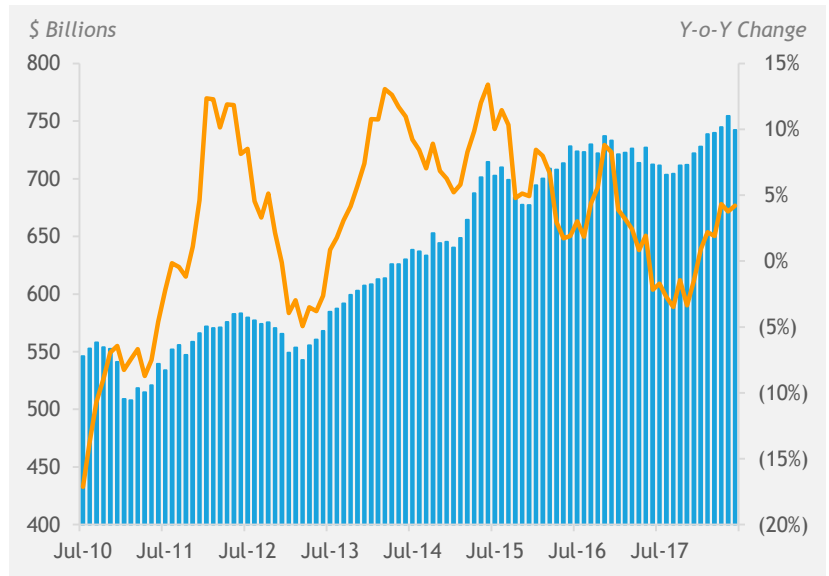
Seasonally Adjusted
Source: National Association of Home Builders

ECONOMIC INDICATORS - U.S. NON-RESIDENTIAL

COMMENTARY

- Non-residential construction put in place totaled \$742 billion in June 2018, representing a 4.2% increase over the same month a year ago
- With \$754 billion of non-residential construction put in place, May 2018 represented the highest monthly investment in the non-residential space ever recorded in the U.S.
- Every month in 2018 has experienced year-over-year growth in non-residential construction put in place compared to the corresponding month in 2017

Non-Residential Construction Put in Place



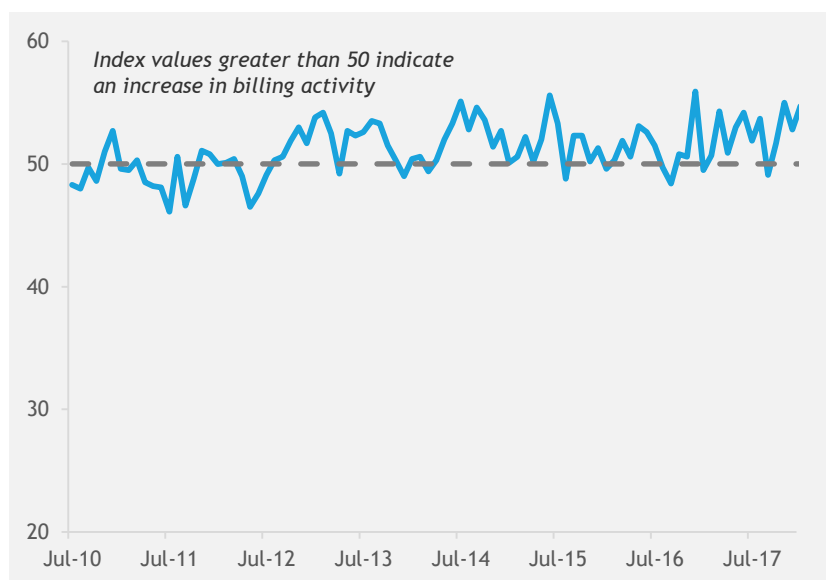
Seasonally Adjusted Annual Rate

Source: United States Census Bureau

COMMENTARY

- The American Institute of Architects' (AIA's) monthly Architecture Billings Index (ABI) is a leading economic indicator for non-residential construction activity, with a lead time of approximately 9-12 months
- Despite month-to-month volatility, the ABI averaged 52.3 through 1H18, which is slightly higher than the average through 1H17 (52.1)
- The ABI has exceeded 50 in every month during 2018, indicating the expectation of continued growth in non-residential construction activity through the remainder of the year

AIA Architectural Billings Index



Source: The American Institute of Architects

SECTOR M&A ACTIVITY

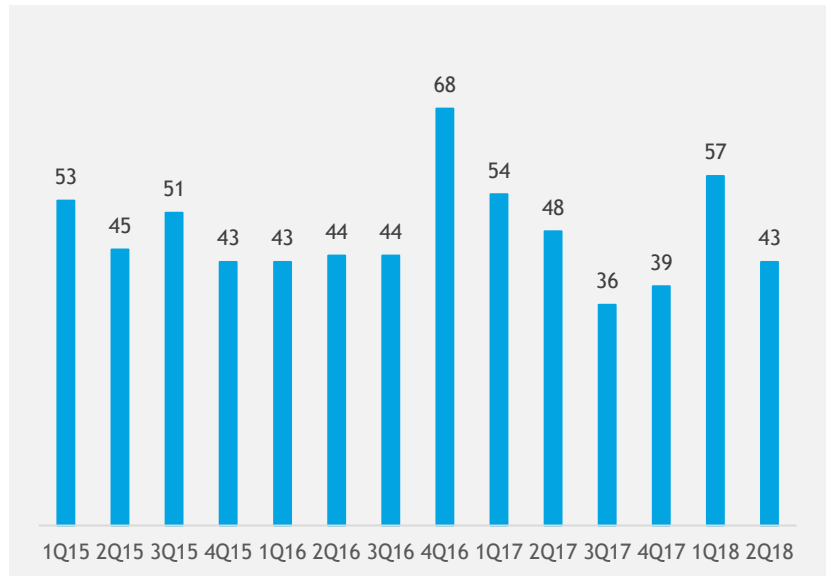
COMMENTARY

- After a slow second half of 2017, BP&M M&A activity has recovered in the first half of 2018, with the number of announced transactions (100) increasing 33.3% compared to the second half of 2017 (75)
- M&A activity in the BP&M industry is expected to remain strong throughout 2018, driven by low interest rates, positive industry fundamentals and an abundance of debt and equity capital accessible by private equity and strategic acquirers
- Corporation-friendly tax reform is expected to continue bolstering M&A activity across the BP&M industry in 2018

COMMENTARY

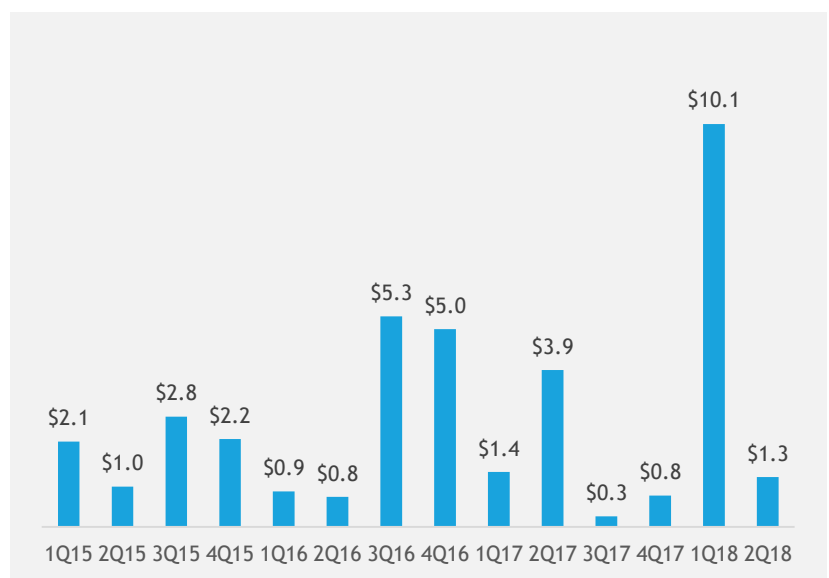
- Total reported deal value has increased more than 110% in the first half of 2018 compared to the first half of 2017, driven primarily by two blockbuster deals in 1Q18
- Gebr. Knauf KG's \$6.6 billion acquisition of USG Corporation (NYSE:USG) was the largest announced deal in 1H18 and was one of two announced deals with a reported value over \$1.0 billion, the other being Clayton, Dubilier & Rice's \$2.3 billion acquisition of Ply Gem Holdings, Inc.
- Median announced transaction value in 1H18 was \$123 million, as the majority of deals occurred in the middle market

Announced M&A Transactions: U.S. BP&M Industry



Source: S&P Capital IQ

Total M&A Transaction Value (\$B): U.S. BP&M Industry



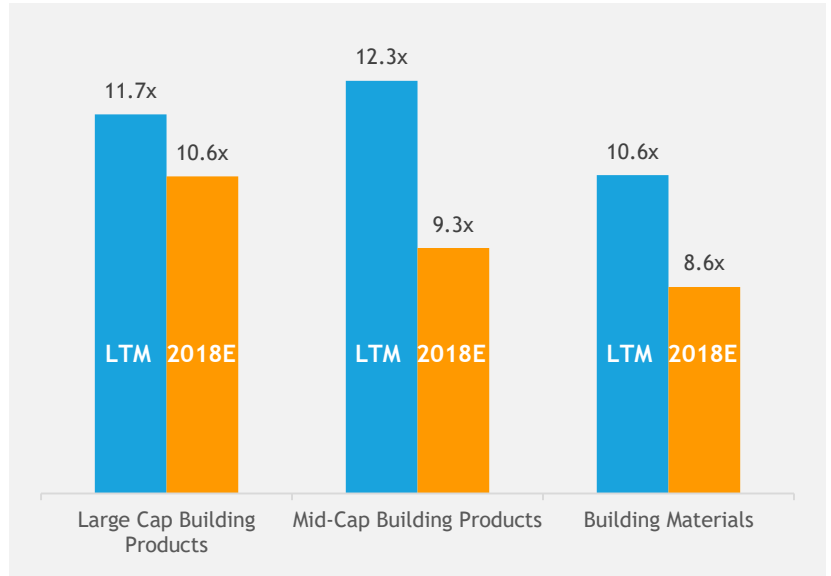
Source: S&P Capital IQ

SECTOR VALUATION TRENDS

COMMENTARY

- Public company multiples suggest that investors expect continued sales and EBITDA growth in 2018
- Average company trading at 84% of 52-week high

Median U.S. BP&M TEV/EBITDA Multiples

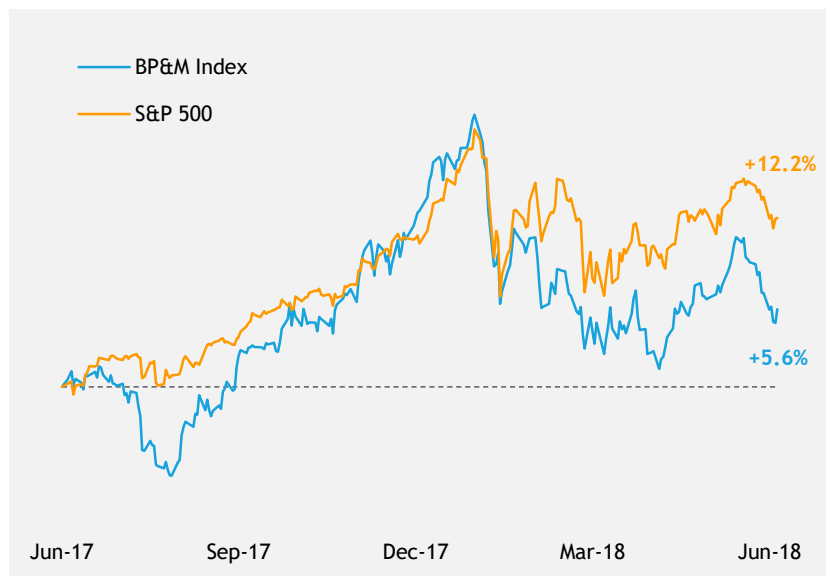


Note: Constituents include large cap building products manufacturers, mid-cap building products manufacturers and building materials manufacturers highlighted on page 8 herein; multiples as of 6/30/18
Source: S&P Capital IQ

COMMENTARY

- BP&M stocks experienced a decline in momentum during 1H18 due to questions surrounding the future outlook of the residential housing market combined with concerns about how a tightening labor market and a potential trade war might impact industry participants
- The building products and materials index increased 5.6% over the last 12 months relative to the overall S&P 500, which gained 12.2%
- Trex Company, Inc. was the best performing stock in the BP&M index, increasing 85.0% over the last twelve months

BP&M Equity Market Performance v. S&P 500 Index



Note: BP&M Index represented by large cap building products manufacturers, mid-cap building products manufacturers and building materials manufacturers highlighted on page 8 herein
Source: S&P Capital IQ

PUBLIC COMPANY TRADING STATISTICS

USD millions, except per share data

	Stock Price	% of 52 Week High	Market Cap	Enterprise Value	Gross Margin	EBITDA Margin	2-Yr Rev Growth	Enterprise Value/		Enterprise Value/	
	6/30/18							LTM Revenue	LTM EBITDA	2018E Revenue	2018E EBITDA
<u>Large Cap Building Products Manufacturers</u>											
Daikin Industries, Ltd.	119.72	93.0%	35,011	37,028	34.9%	15.3%	18.6%	1.8 x	11.7 x	1.7 x	11.5 x
Compagnie de Saint-Gobain S.A.	44.65	74.5%	24,583	31,979	25.5%	10.2%	13.9%	0.7 x	6.6 x	0.7 x	6.1 x
Masco Corporation	37.42	80.6%	11,619	14,492	33.7%	16.5%	8.1%	1.9 x	11.3 x	1.7 x	10.0 x
Kingspan Group plc	50.03	97.5%	8,997	9,611	28.7%	12.1%	46.2%	2.2 x	18.5 x	1.9 x	16.6 x
Lennox International Inc.	200.15	89.7%	8,255	9,487	29.3%	14.9%	11.0%	2.4 x	16.5 x	2.4 x	15.0 x
Fortune Brands Home & Security, Inc.	53.69	72.9%	7,835	9,480	36.7%	16.0%	13.0%	1.8 x	11.1 x	1.7 x	10.3 x
James Hardie Industries plc	16.78	93.8%	7,407	7,986	35.6%	23.8%	18.9%	4.0 x	17.0 x	3.1 x	13.3 x
Owens Corning	63.37	65.7%	7,015	10,685	24.5%	17.1%	22.7%	1.6 x	9.5 x	1.5 x	7.5 x
USG Corporation	43.12	99.4%	6,014	6,769	20.0%	16.4%	(16.0%)	2.1 x	12.8 x	2.0 x	10.6 x
Mean		85.2%			29.9%	15.8%	15.1%	2.1 x	12.8 x	1.8 x	11.2 x
Median		89.7%			29.3%	16.0%	13.9%	1.9 x	11.7 x	1.7 x	10.6 x
<u>Mid-Cap Building Products Manufacturers</u>											
Trex Company, Inc.	62.59	93.8%	3,684	3,766	43.1%	28.2%	31.0%	6.4 x	22.6 x	5.8 x	20.0 x
Armstrong World Industries, Inc.	63.20	97.2%	3,277	4,002	36.3%	35.9%	(63.1%)	4.4 x	12.4 x	4.2 x	11.3 x
Simpson Manufacturing Co., Inc.	62.19	92.4%	2,881	2,747	45.4%	18.3%	22.6%	2.7 x	15.0 x	2.6 x	12.7 x
Masonite International Corporation	71.85	89.9%	1,982	2,584	20.2%	12.0%	7.1%	1.3 x	10.5 x	1.2 x	9.0 x
AAON, Inc.	33.25	82.6%	1,741	1,718	27.2%	19.5%	13.9%	4.1 x	21.1 x	3.7 x	21.5 x
American Woodmark Corporation	91.55	61.7%	1,602	2,330	20.9%	13.4%	32.0%	1.9 x	13.9 x	1.4 x	8.8 x
NCI Building Systems, Inc.	21.00	89.9%	1,389	1,765	23.3%	8.8%	13.2%	1.0 x	10.9 x	0.9 x	8.9 x
Gibraltar Industries, Inc.	37.50	92.1%	1,190	1,200	23.7%	12.1%	(7.3%)	1.2 x	9.9 x	1.2 x	9.3 x
Griffon Corporation	17.80	72.7%	755	1,605	26.8%	7.7%	(15.1%)	0.9 x	12.3 x	0.8 x	9.7 x
Quanex Building Products Corporation	17.95	73.0%	630	847	21.9%	10.8%	7.6%	1.0 x	9.0 x	0.9 x	8.2 x
Systemair AB	9.93	58.6%	516	713	33.1%	7.6%	9.4%	0.9 x	11.5 x	0.8 x	8.9 x
Mean		82.2%			29.2%	15.8%	4.7%	2.3 x	13.6 x	2.1 x	11.7 x
Median		89.9%			26.8%	12.1%	9.4%	1.3 x	12.3 x	1.2 x	9.3 x
<u>Building Materials Manufacturers</u>											
CRH plc	35.41	91.7%	29,613	37,018	33.0%	12.7%	18.0%	1.3 x	9.9 x	1.2 x	9.0 x
LafargeHolcim Ltd	48.70	80.6%	29,081	46,789	29.8%	7.0%	(0.1%)	1.8 x	25.4 x	1.7 x	7.6 x
Weyerhaeuser Company	36.46	95.0%	27,601	33,442	27.1%	27.3%	2.7%	4.5 x	16.6 x	4.4 x	14.9 x
Vulcan Materials Company	129.06	91.4%	17,060	19,997	25.3%	24.5%	11.6%	5.1 x	20.6 x	4.6 x	16.6 x
HeidelbergCement AG	84.38	75.3%	16,742	29,942	60.7%	17.7%	37.5%	1.5 x	8.5 x	1.5 x	7.7 x
Martin Marietta Materials, Inc.	223.33	92.5%	14,059	15,668	25.4%	26.3%	9.3%	4.3 x	16.2 x	3.5 x	13.0 x
CEMEX, S.A.B. de C.V.	0.66	71.0%	10,029	21,129	34.2%	17.2%	5.0%	1.6 x	9.4 x	1.5 x	7.8 x
West Fraser Timber Co. Ltd.	68.80	92.3%	5,241	5,705	40.4%	22.1%	28.2%	1.4 x	6.4 x	1.3 x	5.7 x
Eagle Materials Inc.	104.97	85.7%	5,039	5,651	24.4%	32.8%	21.3%	4.1 x	12.4 x	3.7 x	10.6 x
Louisiana-Pacific Corporation	27.22	87.3%	3,952	3,432	32.0%	25.1%	46.2%	1.2 x	4.9 x	1.2 x	4.9 x
Summit Materials, Inc.	26.25	77.1%	2,927	4,596	33.2%	20.6%	33.8%	2.3 x	11.3 x	2.3 x	9.2 x
Titan Cement Company S.A.	25.32	83.5%	1,981	2,915	28.9%	18.0%	9.3%	1.7 x	9.5 x	1.6 x	8.3 x
Mean		85.3%			32.9%	21.0%	18.6%	2.6 x	12.6 x	2.4 x	9.6 x
Median		86.5%			30.9%	21.4%	14.8%	1.7 x	10.6 x	1.7 x	8.6 x

Source: S&P Capital IQ

NOTABLE M&A TRANSACTIONS

Announced			
Date	Target	Acquirer	Target Business Description
6/27/2018	The ReWall Company, LLC	Continuus Material Recovery, LLC	Manufactures and supplies building materials
6/14/2018	Ready Mix Concrete Operations of Grupo	CRH plc	Manufactures and distributes cement
6/4/2018	Graham Manufacturing Corporation	Masonite International Corporation	Designs, manufactures, and supplies architectural flush wood doors for construction projects
6/4/2018	The Maiman Company	Masonite International Corporation	Manufactures and supplies architectural wood doors for architects, specifiers, designers, distributors, and end-users
5/31/2018	Plasterform, Inc.	Armstrong World Industries, Inc.	Manufactures architectural cast ceilings, walls, facades, columns, and moldings
5/29/2018	VERSATEX Building Products, LLC	The AZEK Company LLC	Manufactures and distributes PVC trim boards and other products for remodeling, new construction, and fabrication applications
5/23/2018	Design Cabinets and Furniture Inc.	Ninth Street Capital Partners, LLC	Designs, builds, and installs new construction, remodeled custom kitchens, bath cabinetry, theaters, and libraries
5/22/2018	Mark Twain Redi-Mix, Inc.	Eastern Missouri Concrete, LLC	Operates as a concrete contractor company to residential and commercial markets
5/17/2018	Clarus Glassboards LLC	The Riverside Company	Designs, fabricates, manufactures, and installs glass dry erase boards and architectural systems
5/17/2018	IMERYS Toiture SA	Lone Star Funds	Manufactures roofing products including tiles
5/14/2018	Senneca Holdings, Inc.	Kohlberg & Company, L.L.C.	Manufactures and distributes doors, including traffic, corrosion resistant, strip, cold storage, fire, and sliding doors
5/14/2018	Heartland Steel Processing, LLC	Steel Dynamics, Inc.	Manufactures flat roll steel products by processing hot roll coils into cold roll, pickle, and oil and galvanized products
5/10/2018	U.S. Concrete & Quarries Business of Boral Limited	Brannan Sand and Gravel Company, LLC	Manufactures concrete
5/9/2018	Metal Window Corp.	Arcadia Incorporated	Manufactures aluminum framed windows, swinging doors, and sliding doors
5/9/2018	Pioneer Industries, Inc.	ASSA ABLOY AB	Manufactures metal doors, window frames, and wind resistant assemblies
5/8/2018	Superior Ready Mix, Inc.	Summit Materials, Inc.	Operates as a ready-mix concrete company
5/8/2018	Day Concrete & Block Co.	Summit Materials, Inc.	Manufactures ready-mix concrete, concrete blocks, sack cement, and concrete waste material
5/3/2018	CornellCookson, Inc.	Clopay Building Products Company, Inc.	Engages in the manufacture and sale of rolling doors and grilles
4/17/2018	Wasco Products, Inc.	VELUX America Inc.	Designs, manufactures and supplies standard and custom skylights
3/26/2018	USG Corporation	Gebr. Knauf KG.	Manufactures and sells building materials worldwide
3/19/2018	Miracle Sealants Company, LLC	Rust-Oleum Corporation	Manufactures sealers, cleaners, polishes, and related products for tile and natural stone
3/19/2018	Thermo-Tech Windows and Doors LLC	Harvey Industries, Inc.	Manufactures and markets vinyl windows and doors
3/19/2018	Nationwide Industries Inc.	Harbour Group	Manufactures hardware products for OEMs, distributors, and installers in the fence and gate, cable railing, and patio markets

Source: S&P Capital IQ

NOTABLE M&A TRANSACTIONS

Announced			
Date	Target	Acquirer	Target Business Description
3/7/2018	Ashland Products Inc.	Amesbury Group Inc.	Manufactures residential window and door hardware
3/5/2018	Golden Spread Redi-Mix, Inc.	U.S. Concrete, Inc.	Produces ready mixed concrete and construction aggregates
3/2/2018	Glasshouse	United Subcontractors, Inc.	Fabricates and installs architectural glass products
3/2/2018	United Subcontractors, Inc.	TopBuild Corp.	Provides insulation, specialty, and shell construction services for residential and commercial projects
3/1/2018	Block USA Inc.	CRH plc	Produces and distributes grey concrete masonry and architectural color units
3/1/2018	Suwannee American Cement Co.	CRH plc	Offers cement products
2/28/2018	Ox Engineered Products, LLC	Wind Point Partners	Manufactures structural sheathing and thermal insulation building products
2/14/2018	Aurora Systems Inc.	Allegion plc	Designs and manufactures sliding doors and interior storefront assemblies for projects
2/14/2018	Mertens Construction Company, Inc.	Summit Materials, Inc.	Manufactures aggregates, limestone, road rocks, and other construction materials
2/14/2018	Metro Readymix, LLC	Summit Materials, Inc.	Processes and markets concrete
2/14/2018	Lehigh White Cement Company	CEMEX, Inc.; Aalborg Cement Company Inc.	Produces, imports and markets white Portland and masonry cements
1/31/2018	Atrium Corporation	Clayton, Dubilier & Rice, Inc.	Manufactures and sells residential aluminum and vinyl windows and doors
1/31/2018	Ply Gem Holdings, Inc	Clayton, Dubilier & Rice, Inc.	Manufactures and sells residential and commercial building products including siding, fencing, windows, and doors
1/30/2018	DW3 Products Group Ltd	Masonite International Corporation	Manufactures high quality premium door solutions and window systems
1/18/2018	Arizona Polymer Flooring, Inc.	ICP Construction, Inc.	Manufactures flooring products and concrete coating systems
1/17/2018	Janus International Group, LLC	Clearlake Capital Group, L.P.	Designs, manufactures and installs steel roll-up doors and building components
1/16/2018	Energy Labs Inc.	Vertiv Group Corporation	Manufactures air handling units, air cooled units, evaporative cooled rooftop DX units, and energy recovery systems
1/10/2018	ADO Products Inc.	TopBuild Corp.	Manufactures and markets protective wear and insulation and ventilation products
1/10/2018	On Time Ready Mix Inc.	U.S. Concrete, Inc.	Manufactures concrete for residential and commercial construction
1/8/2018	Mercury Plastics, Inc.	Masco Corporation	Designs, manufactures, and markets custom thermoplastic extrusions, extruded plastic profiles, and specialized fabrications
1/8/2018	L.D. Kichler Co., Inc.	Masco Corporation	Provides indoor and outdoor lightings, ceiling fans, landscape lightings, lamps and mirrors, and home accessories
1/2/2018	Technical Glass Products, Inc.	Allegion plc	Manufactures advanced fire-rated entrance, aluminum fire frames, and wall systems

Source: S&P Capital IQ

BDO CAPITAL ADVISORS

One of the Most Active Advisory Networks in the World

6th Most Active Middle-Market Advisor

1,200 DEALS IN 2017

\$55B TRANSACTION VALUE

100 COUNTRIES



BDO's global M&A and Transaction Services teams completed 1,200 deals in 2017, generating a combined value of USD \$54.5 billion. This represents a growth in value of 53 percent when compared to the results in 2016. BDO also performed strongly in the 2017 financial advisor league tables:

- ▶ **Top 5 mid-market M&A advisor in the world**
Global small-cap table (deals up to USD \$50M), Thomson Reuters rankings
- ▶ **Top 10 mid-market M&A advisor in the world**
Global mid-cap table (deals up to USD \$500M), Thomson Reuters rankings
- ▶ **Private Equity - 5th most active advisor for PE deals in the world**
PitchBook 2017 Global League Tables
- ▶ **Buyouts - 6th most active advisor for buyout deals in the world**
PitchBook 2017 Global League Tables



BDO Capital offers a sophisticated array of investment banking services and global capabilities combined with senior level attention, responsiveness and quality service to best serve the middle market.

MERGERS & ACQUISITIONS

- ▶ Private Company Sales
- ▶ Public Company Sales
- ▶ Corporate Divestitures
- ▶ Leveraged Recapitalizations / Private Equity
- ▶ Buy-Side Advisory

CAPITAL RAISING

- ▶ Equity
- ▶ Subordinated Debt / Mezzanine
- ▶ Senior Debt
- ▶ Private Investments in Public Equity

BOARD ADVISORY

- ▶ Fairness Opinions
- ▶ Valuation Advisory
- ▶ Share Repurchase Programs
- ▶ Dividend Recapitalizations



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