

BUILDING INDUSTRY ADVISORS, LLC

MERGERS - ACQUISITIONS - EQUITY - DEBT

BIA Executive Insights

Analysis, strategy, and insights for decision makers in the building products industry.

January 2020

Barring Political Speed Bumps, the Road Ahead Looks Good for Dealer Success in 2020

By Michael Collins, Managing Director, BIA

There is no larger or more effective pulse point for the prevailing viewpoint in the building products industry than the International Builders' Show. During our meetings at IBS last week with builders, building product manufacturers, and building materials distributors, the prevailing tone we heard was one of strong optimism. Clearly, there is a mismatch between the view from the trenches and the gloomy outlook on the news and in recent political debates.

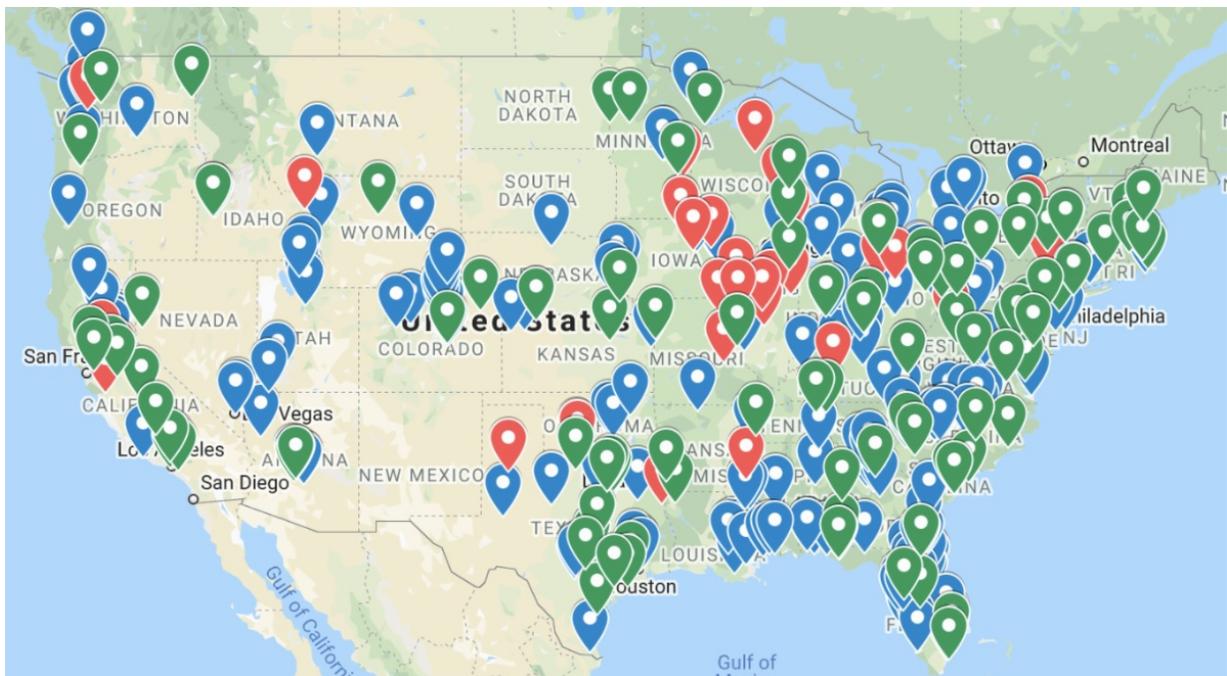


Industry participants applauded better weather this quarter and the fact that the market has adjusted to domestic commodity price decreases in 2019 and life in a tariff-driven trade dispute with China. Taken together, this means that the year-over-year comparables for most building products manufacturers and distributors will look very favorable throughout 2020. Indeed, most of the companies with whom we met at IBS are expecting 2020 to be stronger than last year. Some said that years that started this strong in the past have typically signaled a growth wave that lasted well into the following year.

For their part, buyers are loaded with cash, have created room on their credit facilities and--as pointed

out in the deal stats in this newsletter--they are still in the hunt for acquisitions. Many seek to widen or deepen their footprint while capital availability is still strong. Senior management in our industry is aging, a harbinger of massive levels of retirement over the next five years. This is a boon for mid-level managers, who will see their careers enter a steep arc. For business owners without a succession plan, however, this turnover underscores the need to locate a transaction partner that can carry the business into the next stage of success.

The primary notes of caution that were sounded at the show related to the ongoing impeachment trial and the upcoming election as potential speed bumps for the currently strong market. If the impeachment trial drags on too close to the election or if any other significant election issues arise, market participants may tap the brakes. Otherwise, the path seems to be clear for a prosperous 2020.



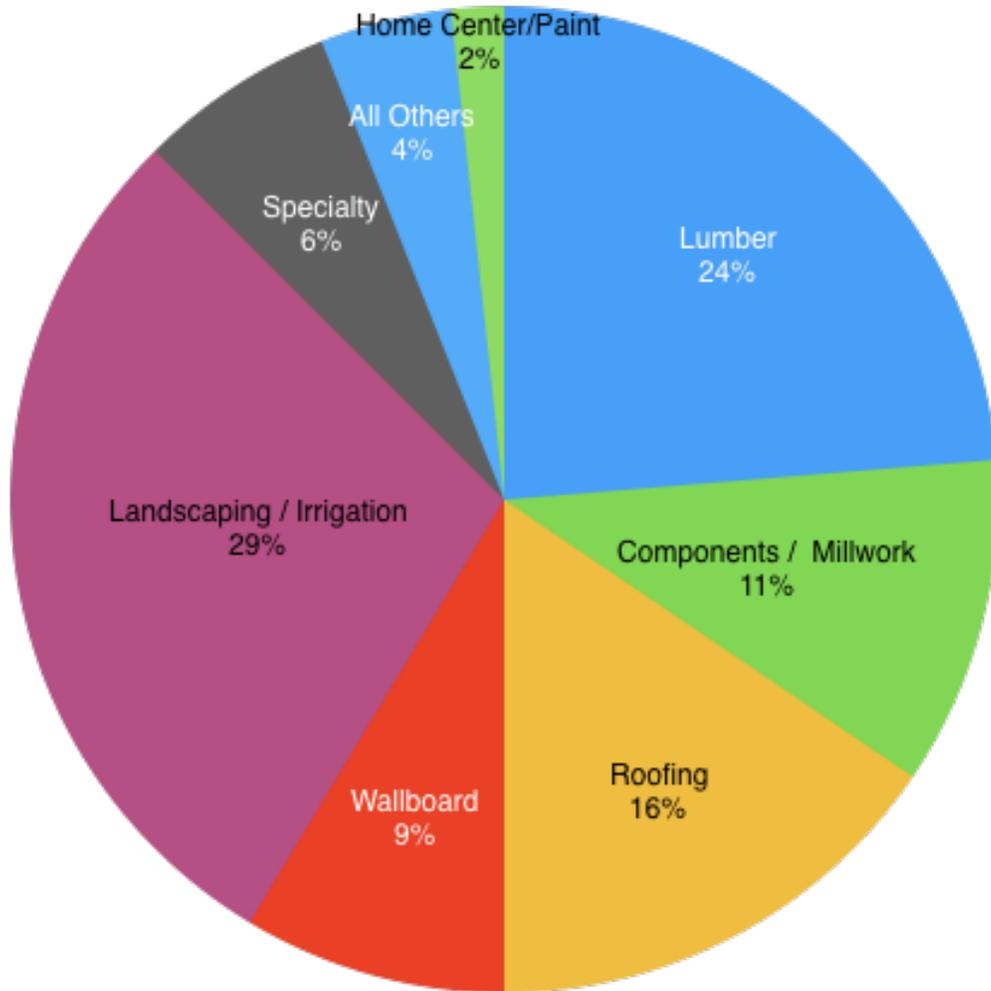
A Year's Worth of Deals, Openings and Closures: What the Numbers Tell Us

The differing strategies of America's building material dealers show up in stark relief when you examine LBM's openings, closures, and acquisitions in 2019. There were slightly more deals but significantly fewer branches changing hands last year compared with 2018. Also, the number of greenfield openings rose sharply, and there were big shifts in the types of dealers involved. With the help of data from Craig Webb of Webb Analytics, here's my analysis of what happened in 2019 and its implications for you today.

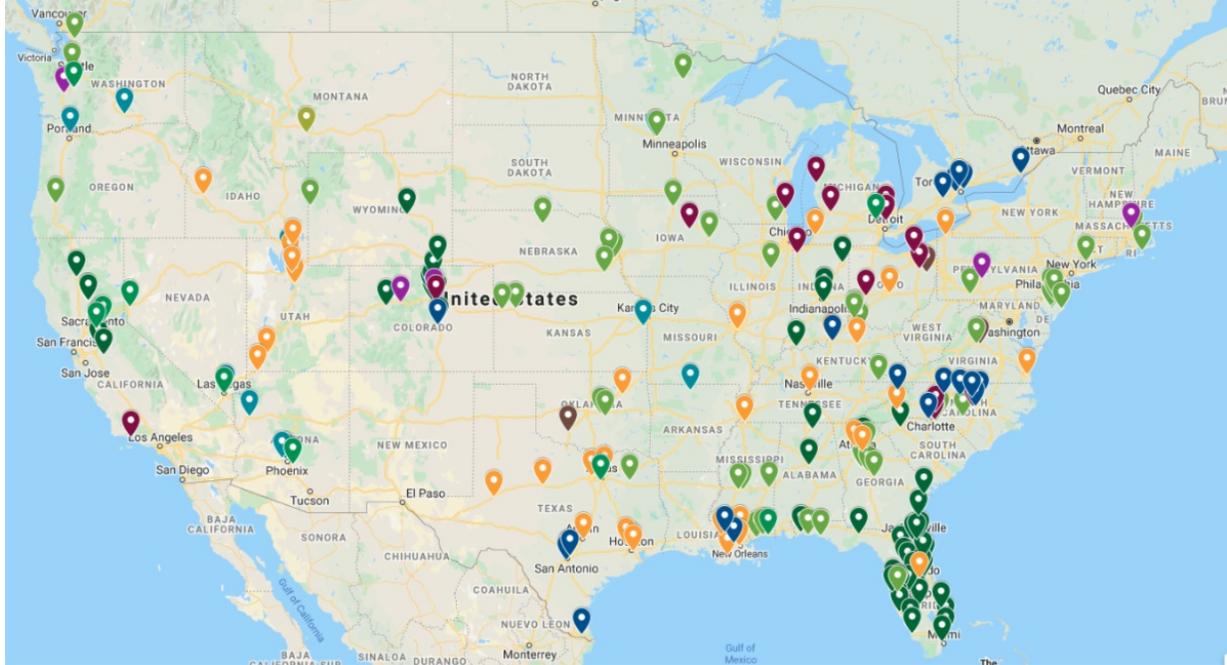
Let's start with the basics:

	<u>2019</u>	<u>2018</u>
Total number of branches that opened, closed, or were acquired	373	409
Number of deals	83	74
Total number of branches acquired	232	300
Greenfield openings of branches	102	71
Facilities closed	39	38

Next, of the 232 facilities purchased, here's a rough breakdown of the types of operations involved (the numbers add up to 101% due to rounding):



Turn those acquired facilities into pins on a map and the national picture looks like this:



-  Landscaping/Irrigation (67)
-  Lumber (55)
-  Roofing (36)
-  Wallboard (20)
-  Components/Truss (15)
-  Specialty (15)
-  Windows/Doors/Millwork (10)
-  Concrete (5)
-  Other (5)
-  Home Center/Paint (4)

The huge share for landscaping/irrigation companies is the result of SRS Distribution's decision early last year to get into the business. By the end of 2019, it had gone from zero to 67 facilities, most prominently in Florida and Colorado.

Meanwhile, lumberyards' share of the total dropped to 24% in 2019 from 42% the year before. This largely was due to the fact that 2018's total included the 67 yards acquired by American Construction Source—including 43 from Meek's and 21 from Arrow Building Center. Last year, the biggest single lumber-related purchase was Carter Lumber's takeover of six DuBell Lumber yards and one DuBell truss plant after that company had gone bankrupt.

This map shows all the wood products-related locations affected by openings, closures or acquisitions in 2019. Lumberyards are marked here in green, truss/components plants in purple, and

millwork/door/window operations in gold:

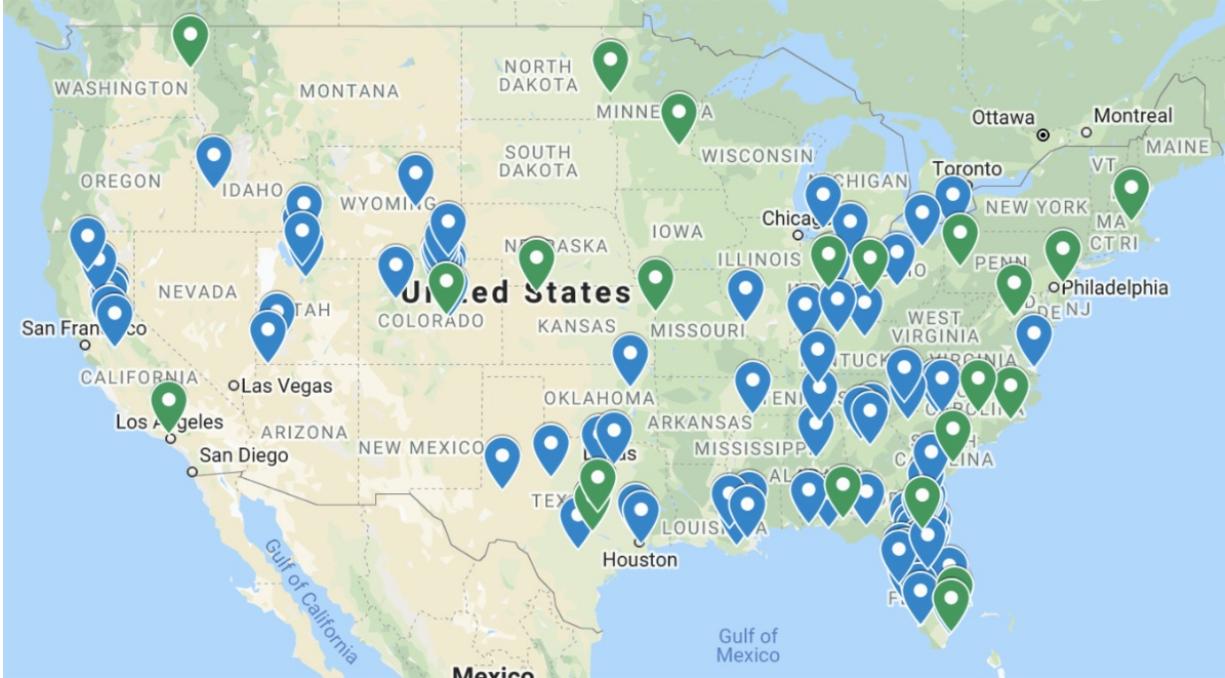


A total of 48 companies made acquisitions in 2019. Fifteen of them completed 51 of the 83 deals and accounted for 61% of the facilities acquired. Here are the companies that undertook at least two purchases:

Dealmakers with at Least Two Deals

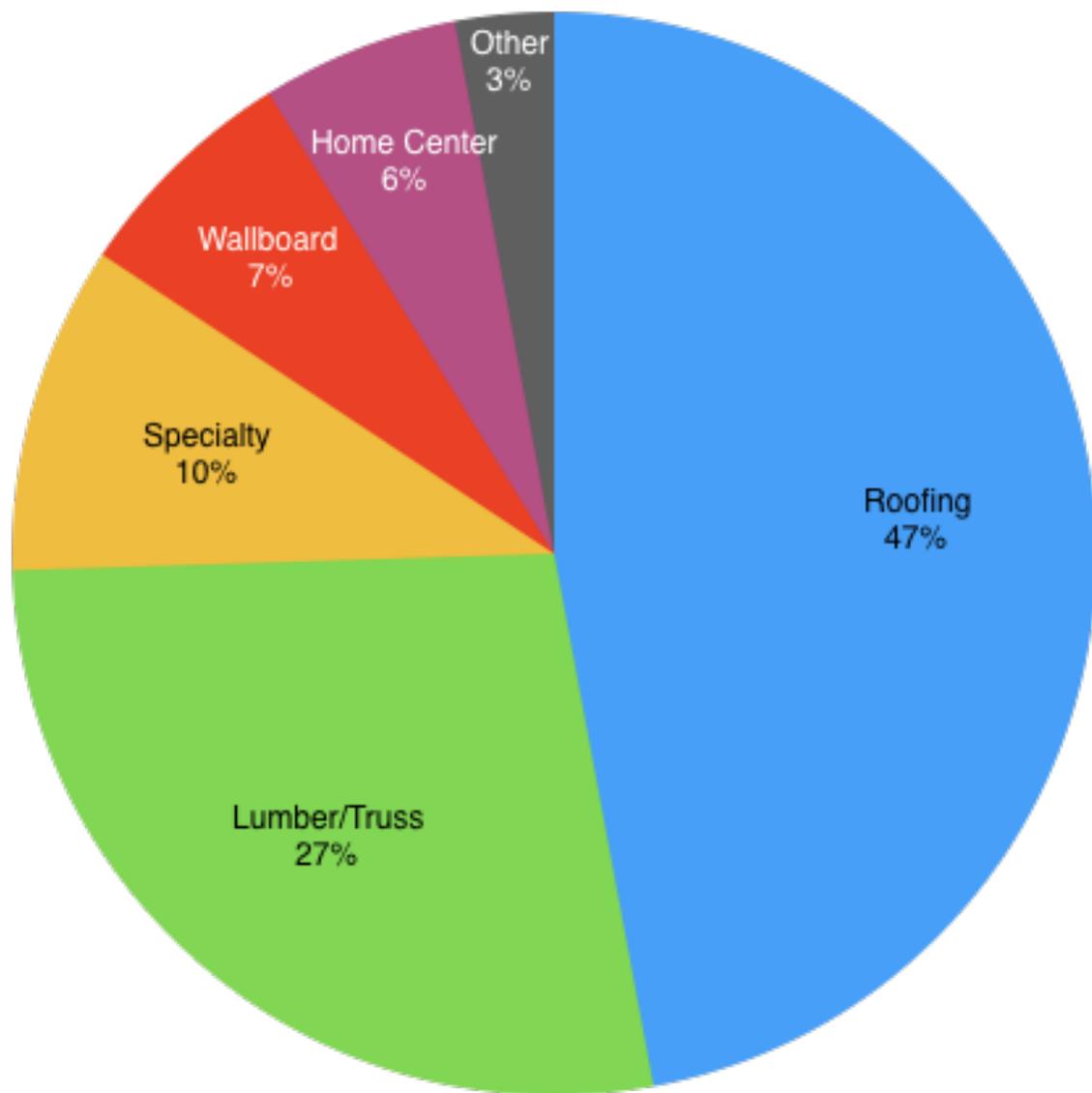
	# of Deals	Share of Deals	Branches Involved
SRS Distribution	10	12.0%	102
BMC	6	7.2%	11
Building Industry Partners	5	6.0%	7
Foundation Building Materials	4	4.8%	7
ABC Supply/L&W	3	3.6%	9
Kodiak Building Partners	3	3.6%	6
GMS	3	3.6%	6
US LBM	3	3.6%	10
Builders FirstSource	2	2.4%	4
Construction Supply Group	2	2.4%	6
Griffin Lumber	2	2.4%	3
Higginbotham Bros.	2	2.4%	3
Fulcrum	2	2.4%	2
Spahn & Rose	2	2.4%	2
Richards Building Supply	2	2.4%	3
Subtotal	51	61.4%	181
All other deals	32	38.6%	51
Total Deals	83	100.0%	232

SRS not only did the most deals, it did the four biggest ones, acquiring Florida Irrigation Supply (41 branches), Travis Roofing Supply (21), CPS Distributors (13), and Normac (8). This map shows all of SRS' activities. Purchases are in blue and greenfield openings are, naturally, in green:



After SRS, the rankings for most acquisitive companies changed in 2019 vs. 2018. ABC Supply and its L&W Supply subsidiary together did 11 deals in 2018, last year, just three. In contrast, BMC was true to its word that it was back in the buying game, jumping from one purchase in 2018 to six last year.

You can get a sense of the big dealers' varying strategies by comparing deals with greenfield openings. Here's the breakdown of the 102 facilities that held grand openings in 2019:



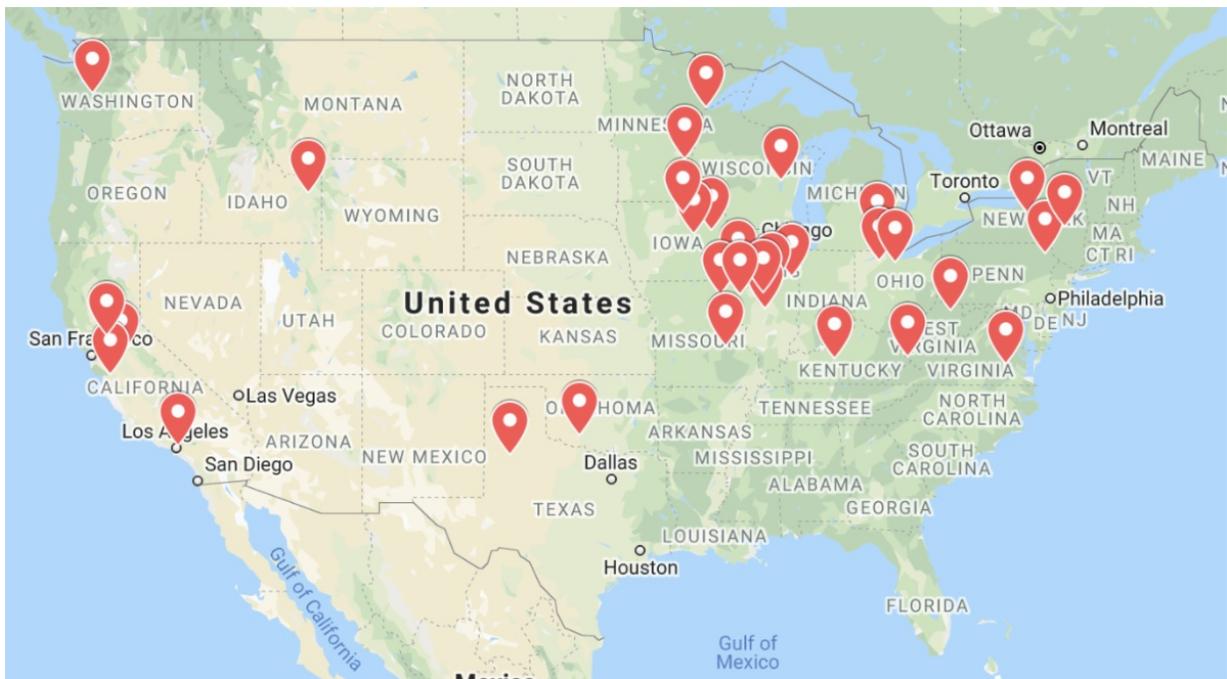
Beacon Roofing Supply—which did two deals in 2018, zero last year, and declared recently that it was finished for now with acquisitions—opened five new facilities in 2019. ABC opened 16 branches and SRS 21, perhaps suggesting that we’re nearing an end in the number of independent roofing dealers worth buying. And US LBM’s Universal Supply operation opened two new facilities.

Which states saw the most action? Counting only facilities involved in deals or that were greenfield openings, these states led the way:

<u>State</u>	<u>Deals</u>	<u>Openings</u>
Florida	38	10
Texas	18	12
Colorado	16	2
California	15	9
North Carolina	15	2
Georgia	11	1
Ohio	7	5

Last year's list of active states included Missouri, Minnesota, Maine, and South Dakota, which together saw 92 facilities change status. This year, those four states had a total of just 12 facilities on the list.

And finally we come to closures. The total number was virtually the same: 39 last year against 38 in 2018. Lumberyards accounted for 33 of the 39 shutdowns, and seven of them were at Alexander Lumber, which decided to shutter some rural yards and focus on serving bigger communities. Here's where those 32 lumberyards were located:



One final note: It's likely that news of other openings, closures, and deals will trickle in during this year, particularly involving smaller and more rural facilities. These actions will expand the overall numbers, but

they're unlikely to shift their general direction. Let us know if you see any empty parts of these map where you know something has happened.

[Webb Analytics](#) have these and many more details on deals, openings, and closures available by subscription. To get a sense of dealmaking activity under way right now, [email me](#) or call me at 312.854.8036.

Is there something that you would like to see covered in a future issue of BIA Executive Insights? [Write to us](#) with your request.



Join Me and Several of LBM's Key Deal Makers For My 2020 ProSales 100 Conference Panel

One of my favorite tasks every year is to invite several of the nation's most important deal-oriented LBM dealers to join me in a discussion on M&A trends at the ProSales 100 Conference. The 2020 event will take place Feb. 26-28 at Live! by Loews in Arlington, TX, and I'm pleased to report that the 2020 lineup is looking as strong as ever.

This year, we expect to have on the stage L.T. Gibson of US LBM, David Flitman of BMC, and Chris Costello of Timberline Enterprises. The conference also will feature an executive panel with Peter Jackson of Builders First Source and Walter Foxworth of Foxworth-Galbraith, and sessions on timber construction, the economy, automated transportation, business analytics, digital channels, and the supply chain. Sign up at <http://prosales100conf.com>.

We Can Answer Your Most Pressing M&A Questions

- * How do the most active buyers in today's market value my company?**
- * What parts of the business should I change to improve its valuation?**
- * When is the right time to sell?**

These are questions that are commonly asked by the owners of building products manufacturers and distributors. Our work in selling and raising capital for companies puts us in a unique position to help answer these important questions. Regardless of when you might decide to approach the market, please contact me to have a confidential discussion about your company and ways to maximize its value for the owners.

Michael Collins

mcollins@buildingia.com

Work 312-854-8036

Cell 312-282-5462