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BIA Executive Insights

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

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Consumers Are Holding Open the Window of Opportunity for You

By Michael Collins, Managing Director, BIA

Don't stop now, folks. This party isn't over yet.

Fifty-nine percent of Americans in a [recent Gallup poll](#) said they were better off financially than a year ago. That's the highest number since 1999. Even better, 74% predict they'll be better off financially a year from now. You have to go back to 1977 to find such an upbeat mood.



Given that consumer spending drives 70% of the U.S. economy, Gallup's numbers should quiet economists' pronouncements that we're long overdue for a recession. Yes, the current growth streak stands at 127 consecutive months—the longest such rise since record-keeping began in 1854. And yes, the average expansion since 1945 has been half as long as the one we're in now. Nevertheless, barring a disaster, our economic engine appears likely to keep humming well into the future.

This is good news for building product suppliers, even if you're only beginning the sale process. Investors

often prefer to acquire companies just as a recession is ending, because that gives them all of the coming economic cycle. But the current wave began more than 10 years ago. Plenty of investors who missed the start have concluded they could jump in along the way and still earn great returns.

What makes the current cycle different? First, our economy of late has bubbled more than boiled. The Gross Domestic Product (GDP) has never grown more than 3% in any year of the current cycle, whereas it did that in every previous expansion since World War II. It's hard to spot today any signs of the "irrational exuberance" that former Federal Reserve chairman Alan Greenspan warned about prior to the Great Recession of 2007-2009.

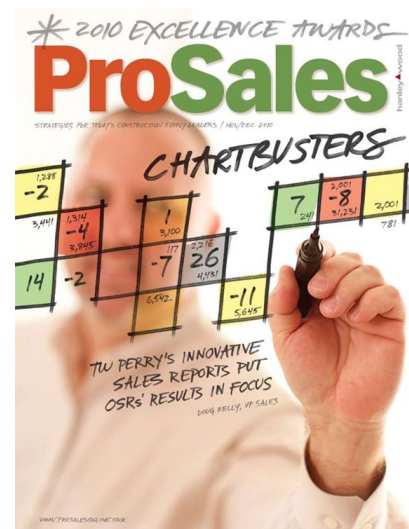
Second, we're not seeing in the LBM segment the kind of growth for growth's sake that created giants like ProBuild and Stock Building Supply—companies that expanded faster than their ability to leverage their growth into strong, viable businesses. The recent jump in openings of greenfield yards suggests big dealers today have become so choosy regarding what they'll buy that they sometimes choose, instead, to start from scratch. To gain their interest in your business, you can't be sloppy in presenting your case.

Eventually, the economists will be proved right: GDP will decline two quarters in a row, and America will have another recession. But the economy isn't a metronome in which you can know precisely when we'll move from boom to bust. The signs point to slow but continuing increases in Americans' wallets and in the economy overall. If you're thinking of making a change in your business, you still have time to locate an optimal transaction partner.

It's Finally Easier to Micro-Measure, and the Gains for Dealers Could Be Huge

By Craig Webb, president, Webb Analytics

In November 2010, when I was editor-in-chief of *ProSales*, our cover (at right) showed Doug Kelly of TW Perry with an award-winning idea: A spreadsheet that showed an OSR's sales to its customer based on the type of product sold, with each sales box color-coded to show whether the gross margin the customer paid was above or below the TW Perry branch's average for that product. (You can read about it [here](#).)



Two and a half years later, *ProSales* celebrated Safrit's Building Supply as its 2013 Dealer of the Year.

During my research, I learned that owner Leonard Safrit had written a mathematical equation in which he could determine what it cost his North Carolina company to serve that customer through deliveries, credit arrangements, pursuit of late payments, and related costs. By employing this formula to identify good deals and—perhaps more important—avoid making bad deals, Safrit said he could add three points to his bottom line.

“How in the world can you sell Customer A, who requires you to go to the jobsite 30 times and builds 200 miles from the store, and Contractor B, who lives across the street and requires you to go to the site three times, for the same amount of money?” Safrit asked in [my story about him](#). “We’re doing it all the time, and that’s the stupidest thing in the world.”

I still use Kelly’s and Safrit’s innovations in my speeches, and seven to 10 years after the stories came out I still get wide-eyed looks from audience members who suddenly realize what their data can tell them.

Why such surprise? I think there are two big reasons why.

The first is that a lot of construction supply companies focus on increasing sales and expanding market share before they worry about boosting efficiency. Higher revenues can cover up a lot of sins.

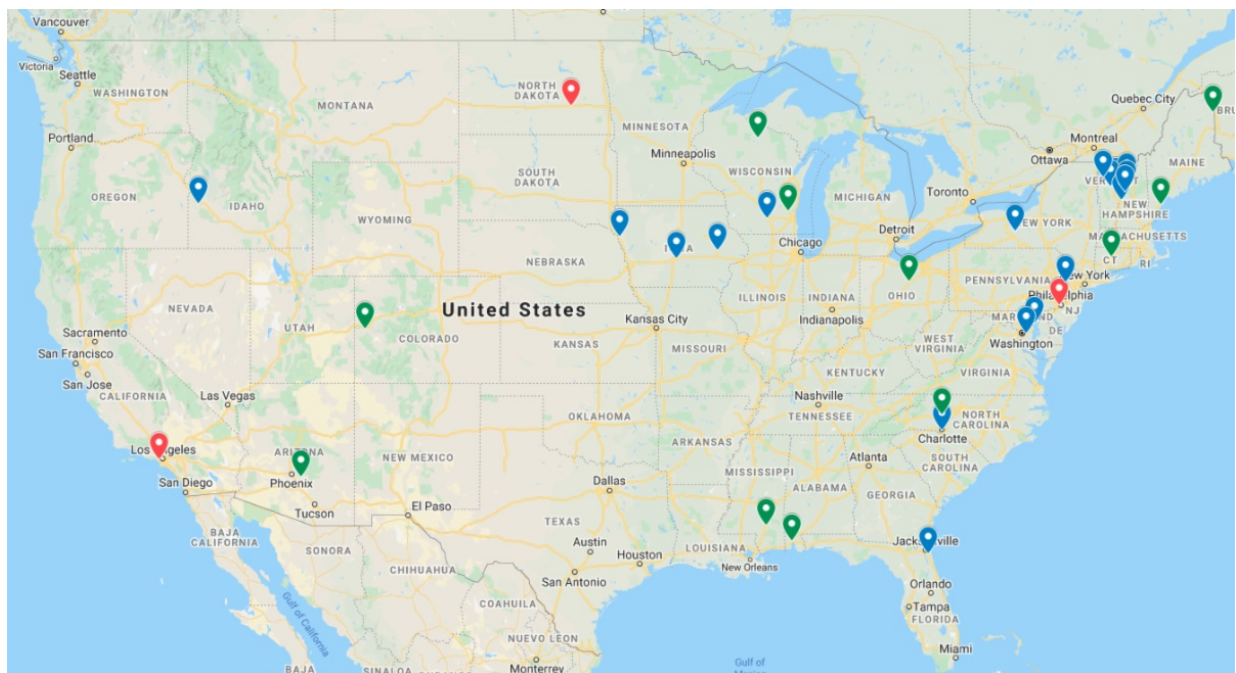
The second reason is that it historically has taken a lot of time to tease out and compile the data, often drawing it from various systems and dumping the results into a new spreadsheet. TW Perry’s innovation was possible, in part, because Kelly could rely on the Maryland-based company’s ERP system to pull most of the numbers. Safrit’s formula, on the other hand, required he dive not just into his ERP database but also collect numbers from his dispatch and delivery system and other sources.

As a result, unless the dealer has a penchant for numbers and for efficiency, as well as decent technology, the construction operation probably relies on the simplest aggregated numbers: total sales, overall cost of goods sold, average gross margin, total operating costs, and net profit. A dealer might have made some back-of-the-envelope calculations about average delivery cost, but the cost to serve and profit reaped from any particular customer remains locked away in the database.

I believe this status quo will change during this decade. Computational power keeps growing, as does technology’s ability to convert data into useful charts. Systems are more affordable. And the new generations of dealers moving into executive roles are much more accustomed to working with computers.

Most housing economists predict that the number of starts will remain static in 2020 and the next few years, and remodeling numbers are likely to see only a few percentage points in annual growth. The combined opinion of a slew of product experts at Do it Best's recent spring market indicated that prices for most major products won't change much this year. All this means it's unlikely that you can expect this year to grow your way to bigger profits, and certainly not to bigger profit margins. Your success will depend in part on how well you know the true cost of serving each customer.

I heard of one dealer recently who, after a lot of digging, discovered his best customer for sales was also his operation's biggest drain on profit. Let's hope those surprises occur less often in coming years.



Vermont Yards--and One Notable Florida Firm-- Loom Large in Early 2020 Deal Action

Last year, my colleague at Webb Analytics didn't report a single acquisition, opening, or closure in Vermont. So far this year, seven locations in the Green Mountain State have changed hands, giving Vermont the unlikely title of this year's LBM dealmaking hotspot.

The action came in two acquisitions. In January, **rk Miles** bought the **Allen Lumber** facilities in Barr, Montpelier, Johnsbury, and Waitsfield, VT. Then this month, **Bethel Mills** announced it had purchased **Fogg's Hardware and Building Supply**, which has yards in Fairlee and Norwich, VT, as well as Woodsville, NH. And on the same day, Bethel Mills also acquired **Oakes Bros.** in Bradford, VT.

Those eight locations account for just under a quarter of the 34 changes that we know about this year.

Outside of Vermont, arguably the most significant acquisition was the **PulteGroup's** purchase of **Innovative Construction Group** of Jacksonville, FL. ICG has developed a reputation as a leader in the off-site fabrication of building materials for the tract builder. Its sales rose 35% in 2019 to reach \$72.8 million. Pulte plans to let ICG continue to operate as an independent company.

"We see the potential for our Jacksonville operations to benefit through faster cycle times, precision structural components and savings on lumber and other materials," PulteGroup president Ryan Marshall said in a [press statement](#). "ICG can also serve as a model to intelligently integrate the use of off-site production with our existing trade partners."

In other action so far this year:

- **SRS Distribution** bought **Gannon Roofing**, with locations in Des Moines, Cedar Rapids, and Sioux City, IA.
- **Sunpro** acquired **Stone Lumber** in Nampa, ID.
- **GMS** entered Connecticut by buying **Trowel Trades** of Colchester.
- **Foundation Building Materials** acquired **Insulation Distributors** of Dundalk and Capitol Heights, MD.
- **Wilcox Lumber** in Naples, NY, sold to a local man, Jeremy Fields.
- **Builders FirstSource** increased its bet on the Charlotte market by acquiring **Bianchi & Co.** of the Queen City.
- **Builders General Supply** bought **Direct Millwork** in Washington, NJ.
- **ABC Supply** added to its Madison, WI, locations by taking over **Midwest Wholesale Materials**. It also opened a new facility in Mesa, AZ.
- **SRS Distribution's Advanced Building Products** division opened stores in Hattiesburg, MS, and Mobile AL, while SRS' **Superior Distribution** division started up in Statesville, NC.
- Operations opened this year included **Pukall Lumber**, Minocqua, WI; **US LBM's Universal Supply** in Newington, CT; and **CPS Distributors** (a unit of **SRS Distribution's Heritage Landscape Supply Group**) in Grand Junction, CO.
- We know of four openings to come this year: an **84 Lumber** components plant in Mansfield, OH; **County Truss** in Easton, ME; and lumberyard facilities for **Zuern Building Products** in Slinger, WI, and **Hancock Lumber** in Saco, ME.
- Among the closures were **West Supply** in Upper Darby, PA, and a **Builders FirstSource** facility in Jamestown, ND. In addition, **Fisher Lumber & Hardware** of Santa Monica, CA, said last year it planned to shut down around mid-August.
- Aside from the LBM deals, there also has been one transaction involving a distributor: **Carolina Atlantic Roofing Supply** bought the **Seven D Wholesale** facilities in Pelham, AL; Freeport, FL;

We're still collecting data on 2019 deals, by the way. If you'd like a summary of what happened last year, [contact me](#).

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



Coming Feb. 28: Join Key Deal Makers and Me at 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>.



An Argument for Capitalism--and for Charitable Giving--from One of LBM's Leading Lights

The charity group World Vision last month gave Kodiak Building Partners chairman Paul Hylbert its Lifetime Achievement Award for his services to Storehouse, a World Vision initiative that collects donated building materials for distribution to disaster victims and other needy Americans. He's shown in the photo above holding his award, flanked by several Kodiak executives. Hylbert used his time on the podium to comment on how capitalism and charity connect. Here's what he said:

Much has been written and said recently apologizing for capitalism and questioning the purpose of a business organization. With little time here to comment, I would like to make a couple of remarks, since I do have the pulpit and the floor.

The purpose of a business enterprise is to maximize long term shareholder value. But to do so, several critical elements need to be successfully addressed:

- Assemble a talented team of people and support them fully so that they can provide customers with outstanding service.
- Develop mutually profitable partnerships with suppliers so they see your firm as an effective way to move their products and services through the channel to the ultimate customer.
- Develop partnerships with your capital providers so that they will continue to invest and lend. And that means profitability, without which money will stop flowing.

- Provide support to the communities in which you do business, in time, products and money. Give back, do well by doing good.

And news flash for the Corporate Apologists: this isn't at all new! Businesses have been giving back for well over 100 years, recognizing that's in their enlightened self-interest to serve all stakeholders, customers, team members/associates, suppliers and communities in which we operate, for the long term benefit of shareholders.

So I'm proud to be a businessman, a capitalist, I'm proud to be a part of the Kodiak team, which tries to walk the above talk every day, and I'm proud to be a supporter of the Storehouse and World Vision, whose good works have been serving families in need in America and all over the world for decades.

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.

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