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## **BIA Executive Insights**

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

**May 2020**

### **These Lessons from Leaders Can Help You Prosper During the Pandemic--and Beyond**

*By Michael Collins, Managing Director, BIA*

Like the vendor's name suggests, we have Zoom'd from personal visits and cell-phone calls to videoconferences and webinars. Time I used to spend in the car or on planes has been rerouted in part to hearing experts speak online. I have collected dozens of pages of notes from those talks. Here is some of my favorite advice on how best to get through this pandemic-triggered recession and emerge stronger than ever.



**Over-Communicate and Be Transparent.** The old days of giving orders without explaining won't work today. Employees will not only appreciate knowing what is being done to ensure the health of employees and customers, but what is being done to safeguard the ongoing health of the business.

**Name a Social Distancing Enforcer.** The pandemic will be with us at least until a vaccine is developed, so you can expect social distancing to remain SOP at least through this winter and into 2021. To help promote safe practices, companies should consider appointing a "social distancing czar" in each location or each work area to make sure guidelines are honored. Consider having fun with it, but make sure this person represents management's desire--and authority--to be a stickler about protecting the team's health.

**Make Employees Aware of their Mental Health Benefits.** Everyone responds to stressful situations differently. We never know if a given employee is dealing with the additional stress of caring for an elderly parent while also trying to juggle work

commitments and see to the home schooling of their children. All of this coming at once can take its toll on an employee's mental well-being. The counseling resources available under an Employee Assistance Program (EAP) can provide employees with much needed and completely confidential help and encouragement.

**Invest in Sales Training.** Online learning tools are perfect for this environment and can be completed in the time that the sales team previously spent traveling between customer meetings. It is critical that employees of all ages are adept at the new videoconferencing and screen-sharing technologies.

**Update OSRs' LinkedIn Profiles.** Since sales professionals will be able to make far fewer face-to-face sales calls, their online presence must be top-notch. This includes their LinkedIn profile. All sales professionals should take a fresh look at what they've posted to ensure it would make a customer want to deal with them. While your sales reps may be proud of that picture of them holding a trophy bass they caught last summer, a professional head-and-shoulders shot that matches those of others at the company would be more appropriate.

**Share the Pain of the Transition.** Ask vendors and suppliers for longer terms, lower price break point schedules on purchases, consignment of vendor managed inventory, etc. Consider rolling furloughs, voluntary furloughs, pay cuts, reduction in hours, and other measures. Enlist customer help in implementing safer ways to operate, such as curbside service.

**Marry the Mission, Date the Model.** Once you decide your mission--meeting customer needs, for instance--stick to it. What can change over time is the model you use to fulfill

that mission. And in a time like this, your business model may deserve a top-to-bottom reconsideration in order for the mission to be completed under current circumstances.

<b>Dealer/Distributor LTM Scorecard</b>							
All \$ in 000's      All companies' fiscal years end 12/31 except for GMS, which ends 4/30, and Beacon, which ends 9/30							
	<b>BMC</b>	<b>BFS</b>	<b>Beacon</b>	<b>GMS</b>	<b>Foundation</b>	<b>BlueLinx</b>	<b>Huttig</b>
<b>Revenue</b>	\$3,722,067	\$7,436,152	\$7,088,045	\$3,250,606	\$2,163,916	\$2,660,637	\$817,600
<b>Rev Change YOY</b>	1.3%	-2.9%	0.9%	9.4%	3.3%	-13.2%	-2.6%
<b>Gross Profit</b>	\$972,310	\$2,000,267	-\$1,719,096	\$1,068,547	\$665,807	\$364,079	\$165,500
<b>GM % margin</b>	26.1%	26.9%	-24.3%	32.9%	30.8%	13.7%	20.2%
<b>EBIT (Operating Income)</b>	\$159,090	\$381,362	\$3,096	\$169,153	\$92,754	\$39,177	\$7,000
<b>EBIT % Margin</b>	4.3%	5.1%	0.0%	5.2%	4.3%	1.5%	0.9%
<b>Net Income</b>	\$111,524	\$194,868	-\$87,683	\$81,462	\$51,133	-\$11,724	-\$27,000
<b>Net Income % margin</b>	3.0%	2.6%	-1.2%	2.5%	2.4%	-0.4%	-3.3%
<b>Adjusted EBITDA</b>	\$259,433	-\$512,200	\$460,037	\$304,663	\$179,653	\$83,698	\$9,100
<b>EBITDA % margin</b>	7.0%	-6.9%	6.5%	9.4%	8.3%	3.1%	1.1%

<b>Cash on hand</b>	<b>BMC</b>	<b>BFS</b>	<b>Beacon</b>	<b>Foundation</b>	<b>BlueLinx</b>	<b>Huttig</b>
<b>3/31/20</b>	\$282,815	\$163,872	\$781,172	\$141,235	\$12,558	\$400
<b>12/31/19</b>	\$165,496	\$14,096	\$43,749	\$17,766	\$11,643	\$2,200
<b>Difference</b>	70.9%	1,062.5%	1,685.6%	695.0%	7.9%	-81.8%

## Public Companies' Reports Show How They Did, But Also How They're Preparing for Trouble

*By Craig Webb, President, Webb Analytics*

The just-ended Q1 earnings season has provided a particularly good opportunity to see what some of America's biggest building material dealers and distributors are doing in response to the coronavirus as well as how they were faring before COVID-19 struck. As the charts above show, Q1 at several big dealers was as much about amassing cash for the expected months of trouble ahead as it was a time to take advantage of fairly robust sales.

The amount of cash on hand at Beacon Roofing Supply swelled more than 16 times by March 31 from where it was on Dec. 31. At Builders FirstSource, the amount of cash on hand was more than 10 times bigger, Foundation Building Materials' cash supplies increased nearly 7 times, and the cash at BMC grew 70.9%. Only the distributors among the publicly traded companies failed to bulk up on cash, as both have been challenged lately, BlueLinx by debt and Huttig by a shift in business focus. (We omitted GMS' numbers because its next quarterly reports will cover the three months ended April 30.)

The dealers took similar steps to conserve cash. At Beacon, a 32-hour work week was imposed, staff was furloughed, executives took salary cuts, inventory was reduced, travel was restricted, and capital expenditures were slashed. All of that came during a time in which April's sales were down 20% compared with the same month in 2019.

BMC cut its headcount by 400 while placing 550 associates on temporary furlough. It also stopped its share repurchase program. On the other hand, it still plans to do acquisitions. Likewise, BFS is "resizing" locations, cutting capital expenditures, and reducing board and senior management pay.



## Even With the Pandemic, 2020's Deals, Openings and Closures Top 2019's YTD Performance

One might think the COVID-19 pandemic would have frozen all deals, openings, and closures in LBM. The truth is that, compared with the first five months in 2019, conditions actually are warmer.

So far this year, there have been 90 locations involved in deals, 16 greenfield facilities opened, and 13 locations that closed. Those 119 transactions compare with 95 that took place in January through May of last year. Granted, 38 of those locations this year were part of one deal--Lansing Building Products' acquisition of Harvey Building Products--but lots of other companies were active in their own, more modest ways. Here's a roundup of what has happened since just after the Lansing deal broke in mid-March.

- \* **Central Network Retail Group** bought **H&M Lumber** , West Helena, AR. CNRG plans to rename the store and make it part of its **Home Hardware Center** chain.
- \* **Zuern Building Products** acquired **Window Design Center** , which has branches in Madison and Delafield, WI.
- \* **S.J. Neathawk Lumber** opened a new branch in Montvale, VA.
- \* **Kesley (IA) Lumber** was purchased by local resident Jacob Ackerman.
- \* **The Lester Group** opened in Christiansburg, VA, a new branch of its **New River Building Supply** stores.
- \* **Heritage Landscape Supply Group** , a division of **SRS Distribution** , launched a new, consumer-oriented store called **HLS Outdoor** in the Minneapolis suburb of Brooklyn Park, MN.
- \* **84 Lumber** is on track to open a components plant in Mansfield, OH.
- \* **Bear Paw Lumber** in Havre, MT, closed.
- \* **Builders FirstSource** in April closed yards in Algona and Storm Lake, IA.
- \* **Granville (OH) Lumber** went out of business.
- \* **Williams Lumber & Home Centers** shuttered its store in Hyde Park, N.Y.
- \* **Trio Home Center** of Ellis, KS, closed.
- \* **B.L. Ogilvie & Sons** in Weston, MA, closed.
- \* **Chino (CA) Lumber** closed.

Several unnamed lumberyards are using auction pages to sell themselves:

- \* A dealer for sale in New York State reports \$5.2 million in annual gross revenue and \$580,000 in cash flow. It's asking \$1.8 million, including \$725,000 in furnishings, fixtures, and equipment (FF&E) and \$430,000 on roughly 10 acres of real estate.
- \* A nearly 70-year-old lumberyard in Brush, CO , has \$4.06 million in gross revenue and cash flow of \$397,000. It's asking \$1.995 million, including \$600,000 in inventory,

\$275,000 in FF&E, and \$1 million for 2.6 acres of real estate.

\* In Upper Darby, PA , the real estate appears to be a main attraction in the sale notice for a company with cash flow of \$2.5 million. Its \$2 million asking price includes \$1.5 million in real estate and \$100,000 in FF&E.

\* Another company in western Montana has annual gross revenue of \$170,000 and an asking price of \$850,000.

\* In Clare, MI, a lumberyard with \$1.5 million in gross revenue is for sale. No asking price was disclosed.

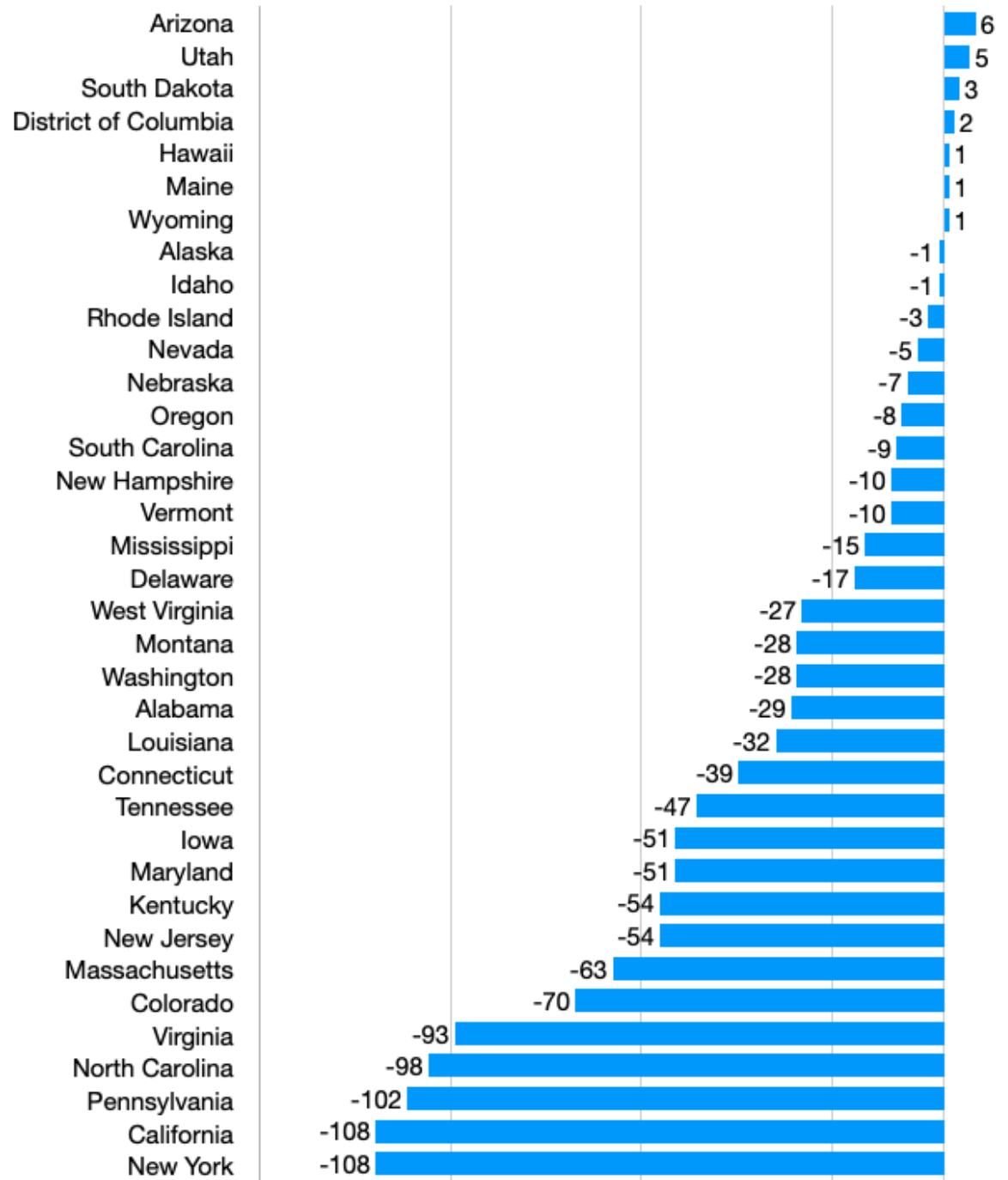
\* In northeastern Missouri , a 74-year-old company with just under \$4 million in revenue, cash flow of \$271,200 and EBITDA of \$214,450 is on sale for \$999,000. That price includes \$550,946 in inventory and \$298,054 in FF&E.

\* A building supply store in eastern South Dakota with gross revenue of \$986,194 and cash flow of \$207,146 is on sale for \$495,000. That price includes \$100,000 in inventory, \$85,000 in FF&E, and \$250,000 in real estate.

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



**Change in Establishment Counts for “Other Building Material Dealers,” 2012 to 2017. Source: Economic Census**



Ohio

-120

## Early Numbers from 2017 Economic Census Suggest Dealer Losses Vary Widely by State

The Economic Census is our most comprehensive source of data on construction supply companies, but it reveals its numbers slowly. For instance, to date we have numbers for only 36 states plus the District of Columbia regarding how many establishments in the "Other Building Material Dealers" category there were in 2017. While not every state's number is available, it's clear there were big differences between the states regarding how the number of establishments changed in each jurisdiction between the 2012 and 2017 Economic Censuses. As the chart above shows, five states plus the District of Columbia actually added locations, while elsewhere the count dropped by between one and 120 locations. The 13 missing states should be added by late fall.

Keep in mind that the "Other Building Material Dealers" count includes not only lumberyards, roofing and drywall companies but also any other construction supply firm that isn't a home center, hardware store, or paint store. Thus, the category includes K+B outlets, flooring companies, and similar firms. It probably will take until 2021 before we get a more accurate picture of pro-oriented LBM operations. That's when the Census Bureau will release numbers on lumberyards alone, as well as give counts for how many establishments sell particular building products, like lumber, windows, and doors.



Earlier this year, we were pleased to represent Medallion Industries in its sale to Kodiak Building Partners. The transaction was indicative of a growing, industry-wide interest in value-added window and door distributors. Given the complexity of building codes, energy efficiency requirements, and the myriad product

configurations that are available, customers of such distributors rely heavily on proactive guidance from their supplier. In this way, they are able to identify an optimal solution for the end customer. Kodiak benefited from an outstanding management team, a highly knowledgeable staff, and the long-term attractiveness of the Pacific Northwest market. Our clients were pleased with Kodiak's deep experience in the building products industry and the highly professional team that Kodiak put forth to complete the acquisition.

## **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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