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BIA Executive Insights

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

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Why the Confusing Economic Data? In These Times, Bad and Good News Can Coexist

By Michael Collins, Managing Director, BIA

Today, our nation is united by the desire to defeat COVID-19 and return to a strong economy. However, we remain a multifaceted collection of citizens and situations in which trends aren't always consistent. For example, how can we record the worst unemployment rates since the Great Depression and simultaneously



enjoy strong demand for new homes and DIY projects? The reason why, in essence, is that the pandemic's economic impact varies widely. Perhaps a quarter of the population is in dire straits, but the majority is doing fine financially. It's these people who have driven the housing industry's growth. That drive is so strong, you could say construction's gains are being achieved with an economy that has one arm tied behind its back.

I bring this up because it's easy to see distressing headlines and want to apply them to housing industry forecasts. In a normal world, this would make sense--lots of unemployed

people typically means lots of trouble for new construction and remodeling. But during life with COVID, people's desire to move to the suburbs and fix up or expand their existing homes is overcoming the usual downturn you'd see from high jobless rates.

The robust, often record-setting sales that dealers nationwide are ringing up have shocked many construction supply CEOs. It was only a few months ago, when the shutdown orders were first issued, that they were writing contingency plans for what to do if sales dropped 25%, 50%, 75%, or even 100%. You can see the same head-snapping response among potential investors as they found themselves rewriting their valuations of companies and markets.

Now that potential buyers and sellers are getting their heads around the new reality, what matters most hasn't changed. Great leadership and a solid business plan still command attention; the difference now is that investors are seeing examples in real time. And I believe there's also an increased understanding by investors that, because it's an essential business, construction supply occupies an attractive niche in the economy. It can grow, even during a pandemic.

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



Between COVID and a Sales Boom, LBM Execs Need to Watch for Signs of Staff Burnout

By Craig Webb, President, Webb Analytics

Nobody ever said running a construction supply company was easy, but just about everyone will concede that working in LBM this year has been an even tougher challenge. One telling sign is the increasing concern I'm hearing about potential staff burnout.

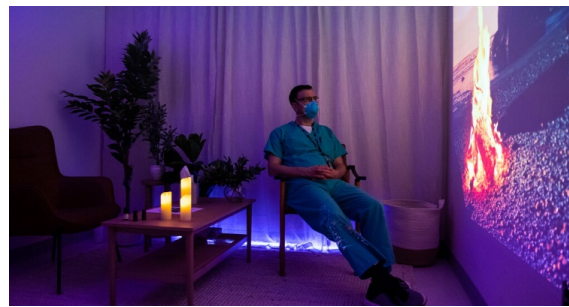
Blame several factors for the fear and fatigue that employees feel these days. COVID-19 certainly ranks as the most public problem, given its potential to force much of the team into quarantine suddenly and simultaneously. There's also the extra stress caused by the unexpected boom in DIY and pro sales, compounded by the frantic search for pressure-treated lumber and other goods in short supply. Then there are family issues: kids who can't go to school and are too antsy to learn at home, plus financial worries that might arise if an LBM worker's partner was laid off.

The combined pressures might be a bit more tolerable if staff could take a break. But the way things are going, demand probably won't let up until Thanksgiving. That's a long time in active duty.

Given such a scenario, investors would be well advised to explore how a prospect's management is treating its staff. For instance:

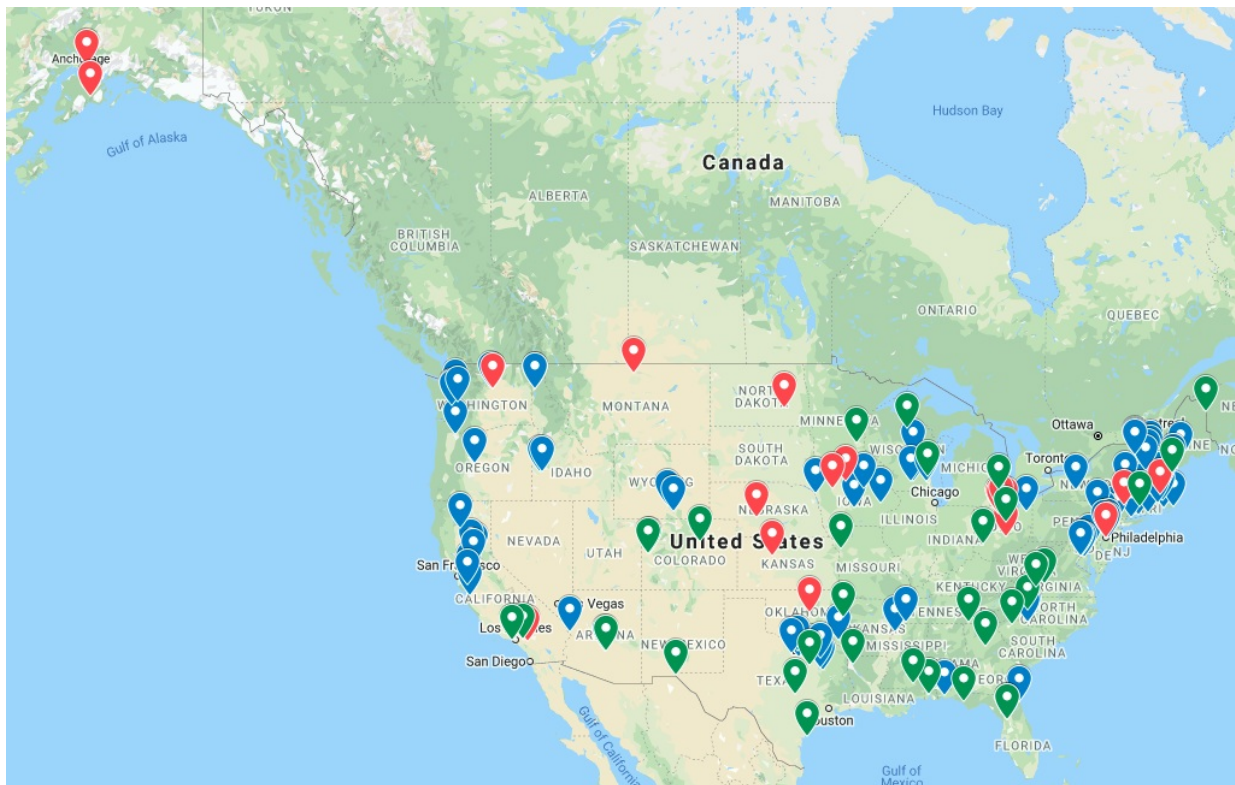
- * How do executives show employees that they are **paying attention** to the workers' physical health given how easily coronavirus can spread?
- * What **signs of appreciation**--as big as pay raises and as small as regularly saying "thank you"--are executives bestowing on their teams?
- * How frequently do leaders **inform employees** about what's happening inside and outside the company? How well do they explain and advocate necessary behaviors?
- * **How flexible** are executives with regard to working hours?
- * How much attention to leaders pay to challenges staff members are having in **adjusting to the New Normal**, such as making sales calls via videoconference rather than in person?
- * Are executives using devices such as **surveys and focus groups** to solicit input from staff who might not otherwise speak their mind?

Lumberyards could learn a lesson from hospitals on how to handle stress. New York's Mount Sinai hospital has created "recharge rooms" (example shown here) where staff can take a break from COVID



care. The rooms combine plants with soothing music, aromatherapy, and images of campfires, trees, and water to reduce heart rates and stress hormones. "Fifteen minutes in a recharge space across 146 experiences resulted in on average 65% reduction in stress," Mount Sinai [reports](#).

Melissa Swift, a senior partner at management consultant Korn Ferry, warns that the heightened state of agitation "could morph into a serious cultural problem for leaders." Short-term moves like layoffs, salary cuts, and other measures can aggravate cultural issues that had largely been dormant. "So task one for long-haul planning," Swift [says](#), "is actually to take a really searching look at short-term engagement issues before they become permanent."



SRS, Nation's Best, ACS Figure Heavily in July's LBM Openings-Closures-Deals Action

SRS Distribution led all construction supply companies in July, both in terms of deals and

greenfield openings. The roofing specialist purchased **A.L.L. Roofing Materials**, which has branches in San Jose and Salinas, CA., as well as Lake Havasu, AZ. In addition, SRS announced the greenfield openings of six branches: Conyers, GA; Waxahachie and El Paso, TX; Grand Junction, CO; Bossier City, LA; and Shelby Township, MI.

July also saw two other active buyers make purchases, **Nation's Best Holdings** acquired **Hall's Hardware** of Milton, FL. The deal marks the first Nation's Best branch on Florida's Gulf Coast. And **American Construction Source** continued to beef up its operations in Northern California by buying **Weaver Lumber** of Redding.

So far this year, there have been 102 locations involved in deals, 32 greenfield facilities opened, and 22 locations that closed. Those 156 transactions compare with 206 that took place in January through July 26 of last year. More than three dozen of this year's locations were part of one deal--**Lansing Building Products'** acquisition of **Harvey Building Products**. Lansing's acquisition of Massachusetts-based Harvey contributed to New England being the regional leader in deals, with 44 locations in the six-state area involved in deals, opening and closures.

Among other activities:

- * A brand-new company, **Vaquero Windows & Doors**, opened in Rockport, TX.
- * **Porter's Building Centers** plans to open a store in Smithville, MO, by the end of August,
- * **Bud Blakley Lumber** in Chandler, OK, closed July 2.

These lumberyards recently started using auction pages to sell themselves:

- * **Walker Lumber** in Minong, WI, is for sale. For an asking price of \$1.55 million, you get an operation with gross revenue of \$2.13 million and store and lumberyard inventory worth \$800,000. The real estate isn't included.
- * **Gastineau Hardware & Lumber** in Ellington, MO, is for sale for \$2 million, including \$400,000 in inventory, \$850,000 in real estate, and \$75,000 in FF&E. It has annual gross revenue of \$1.6 million.



A Distribution Expert Poses This Question: How Many Trucks Does a Distributor Really Need?

John Gunderson was in the distribution management business (including a stint at HD Supply) for 20 years before becoming VP of analytics and e-business at *Modern Distribution Management*. For years, he never questioned the notion that being in the distribution business meant you needed to own the vehicles that carried goods and sales reps to job sites. Now he does.

In a [recent column](#), Gunderson suggests dealers look hard at how many vehicles they actually need and whether there are alternatives to ownership. He pushes hardest against owning small vehicles. The ones used for delivery often can be replaced by calling Uber-type companies, he says. And if a sales rep has a company car, "you have probably been paying for that vehicle to sit in a driveway for the past four or five months," Gunderson adds. High-speed Internet service might be a better investment for OSRs these days, he suggests.

You probably still need bigger vehicles, especially specialized rigs, Gunderson says, but he notes this type of delivery service also is becoming commoditized. He doesn't name particular companies, but one of them, Ottawa-based [GoFor](#), has been growing markedly

in Canada and also operates in Texas and North Carolina.

"I encourage you to take a good hard look at your delivery plan," Gunderson says. "The COVID-19 disruption is just accelerating the move from DIY delivery to more outsourced delivery, making it a critical time to look at possible changes."



Did You Miss Out the First Time PPP Money Was Awarded? Soon, You May Get a New Opportunity

Second chances like the federal government's Paycheck Protection Program (PPP) rarely come around. But if Congress overcomes its partisan differences, building materials who didn't benefit from the PPP earlier this year might get another opportunity.

Roughly \$100 billion in PPP funds authorized this spring never was distributed. That amount, and perhaps billions more, have a good chance of being part of the next economic stimulus package now being debated in Washington.

PPP officially is a loan program, but if you keep your workers on the payroll through a certain date, the loan is forgiven. For LBM operations, this has hardly been a challenge, as sales have risen at most dealers due to a robust new-home market and a surge in DIY and remodeling projects. The result? PPP is pretty close to free money.

The Small Business Administration (SBA) already has disbursed a total of \$521 billion in PPP funds to roughly 4.9 million companies. Roughly 4.2 million of those firms got less than \$150,000. They haven't been identified, so we don't know how many home centers, hardware stores, lumberyards, and other building material dealers are in that group. But SBA did identify roughly 660,000 companies that received more than \$150,000. According to research by Webb Analytics, 3,345 LBM dealer-related operations received between \$150,000 and the upper limit of \$10 million.

Qualifying terms for the next round of PPP remain to be hashed out by Congress and the White House; some press reports have said the money might be limited to companies with 300 employees or less, as opposed to 500 the first time. But the program once again is expected to be managed by the SBA and processed by local banks nationwide. Thus, if you haven't received PPP money previously and want to take a shot this time around, it's in your interest to start talking with a local bank that works with the SBA.



Here's a Member of the Scout Team for a Potential Innovation in Delivery

Imagine it's 2030 at your favorite construction supplier. A builder just called requesting a hot run: for drywall screws, perhaps, or a new drill. Time to dispatch the robot!

We're still a ways off, but companies like Amazon are giving us a sense today of what's to come. Earlier this month, Amazon announced that it had expanded tests of its Scout delivery system to Atlanta and the Nashville suburb of Franklin, TN, building on work it already has been doing in Snohomish County, WA, and around Irvine, CA.

The Scout is about the size of a cooler and travels at a walking pace. It can navigate around obstacles and people as it heads to its destination.

Clearly, this device isn't ready for the lumberyard; in fact, during the test phase, it will "initially be accompanied by an Amazon Scout Ambassador," the company [says](#). Still, one can imagine how these vehicles will get bigger, more robust, and faster. By that point, the hot run may shift from headache to just another service.

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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