Big Implications

What Beacon Roofing's purchase of Allied says about market conditions today

When it comes to the largest companies in LBM, there's always speculation as to whether anyone is left at the top of the pyramid with the desire and financial wherewithal to acquire a billion-dollar company. When the answer is no, companies like US LBM seek the largest capital provider in our country: the publicly traded equity markets. When the answer is yes, we have megadeals that rock the industry, as was the case in August when Beacon Roofing acquired Allied Building Products.

Key takeaways from the deal include the fact that private equity fund Clayton, Dubilier & Rice (CD&R) made a hefty, $500 million bet on roofing—its second one in two years—by backing Beacon in this transaction. Clearly, CD&R's 2015 sale of Roofing Supply Group to Beacon can't be regarded anymore as a peak deal. Also, Beacon paid a significant premium for Allied, emphasizing synergies in citing a purchase price that was stated at 8.7 times but that, in normal deal tracking, was 5 full turns higher on EBITDA. A frothy deal, to be sure, but also a sign of confidence in our market by some of the smartest players around.

There's some question of whether this and similar big deals have left us in a suboptimal time to go to market. In our experience, large strategic buyers are seldom all in heavy acquisition mode at the same time. The good news, though, is that our industry has attracted so many strategic and quasi-strategic buyers that someone is always buying. Take note, too, that private equity firms have $500 billion in investable funds and continue to show growing interest in the LBM segment.

And then there's the third branch of the buyer market in the form of small and regional players. Individually, they might do one or two acquisitions over several decades. Collectively, they account for half of all LBM. The appetite of these smaller buyers appears to be unaffected by the megadeals.

Having all these dynamic buyers in the LBM segment means there's seldom a bad time to approach the market. If anything, it's better to come to market while we're still demonstrably far away from the next soft patch. In the past year, we've encountered a number of interested sellers who've decided to wait two to three years to come to market. These groups will likely find that they've waited until a time that won't be optimal. The market will be softening, and lenders will be less aggressive in backing building products acquisitions. Factoring all of this in, the timing for going to market remains excellent.

The other big news of late came in the form of Hurricane Harvey, which caused $100 billion in damage, including damage to 200,000 homes, and Hurricane Irma, which caused multibillion-dollar damage of its own.

I had the opportunity to talk with numerous dealers after Harvey, and all of them made their employees' safety their primary concern. Each dealer knew exactly how many employees sustained damage to their homes and the extent of it. Good for them.

Dealers whose locations weren't affected but who were near the damaged areas found ways to contribute, stepping in to fulfill orders on behalf of flooded dealers and making shipments directly to customers. In this way, customers receive products they urgently need and both dealers can earn money from the transactions. Such collaboration is one of the hallmarks of the LBM industry.

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