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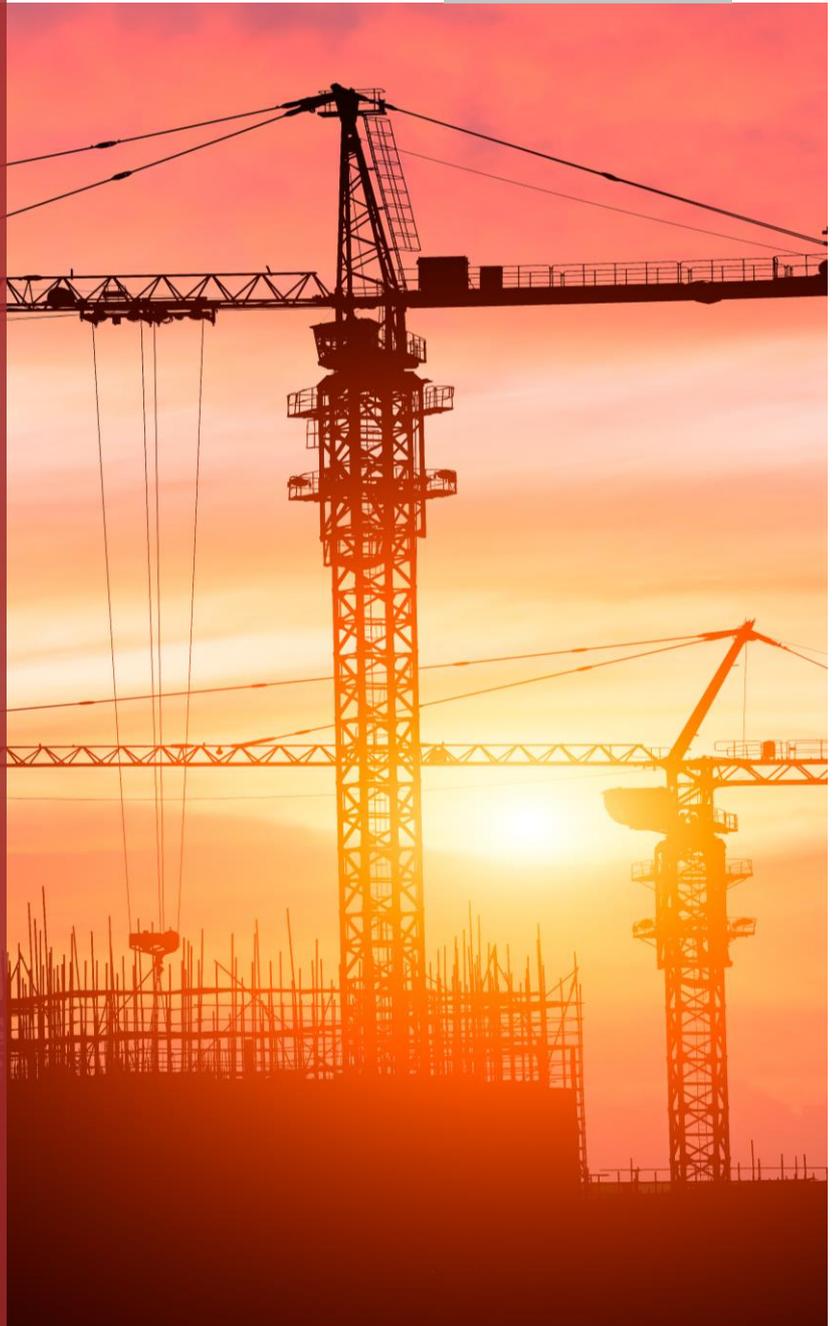
Summer 2020

Building Products

M&A has played a central role in the development and evolution of the global building products sector. Over recent years, we have seen further rounds of consolidation in certain segments such as heavyside materials and rationalisation of non-core activities in others such as lightside materials and distribution.

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Market commentary

Historically, mergers and acquisitions (M&A) have played a central role in the development and evolution of the global building products sector. Over recent years, we have seen further rounds of consolidation in certain segments (e.g. heavyside materials) and rationalisation of non-core activities in others (e.g. lightside materials and distribution).

Notwithstanding the shock and disruption caused by COVID-19, we expect M&A activity in this market to remain dynamic with large groups continuing to evolve their strategies and emerging players seeking to accelerate growth and build scale. We believe the market fundamentals of the broader building products sector will remain highly attractive and as such we expect continued interest from the private equity (PE) community, who are increasingly drawn to resilience as a key attribute for new investments.

In an effort to slow the spread of the virus, governments around the world have implemented various short-term measures which have led to significant restrictions for the majority of businesses. The impact of these measures on those operating in the building products sector has been visible in Western markets since the middle of March, however the severity and operational impact of the restrictions varies significantly from country to country, and between sub-sectors.

In North America, for example, construction has to-date been deemed an 'essential activity' and has been permitted to continue, provided appropriate safety measures are implemented. Lower levels of activity have been experienced in April and May, but healthy backlogs and a favourable bidding environment provide a positive outlook for businesses.

Europe has been more significantly impacted, with nationwide shutdowns implemented across a number of Western European markets, including the UK, France and Ireland. In the UK, the Construction Products Association (CPA) have published scenarios for construction as part of their analysis of the market impact, with the main scenario including the relaxation of social distancing restrictions from mid-May and a recovery in construction activity from June. Overall, construction output is anticipated to fall by 25% in 2020. This is seen across all sectors, with private new housing and private new commercial hit the hardest. The least affected new work sectors are infrastructure and public non-housing. Groups active in these latter areas will likely, in most part, emerge from the crisis in good financial health and will be able to evidence impressive levels of resilience to prospective acquirers.

In 2021, construction output is expected to rebound significantly (+26%) according to the CPA. All sectors are expected to rise, with infrastructure seeing the largest increase of 40% due to HS2 works gaining notice to proceed. Private new housing is expected to see the second biggest increase of 36%, due to improving economic conditions and government stimulus through the extension of Help to Buy and incentives for affordable housing.

We believe there is room for positive surprises in M&A during Q3 and Q4 of 2020, with certain sub-sectors (e.g. those with particular links to public infrastructure spend) already showing signs of a sharp "V" shaped recovery. Those businesses experiencing more of a "U" shaped recovery will inevitably require more time to demonstrate a return to "normal" trading before entering into formal sale processes. Uncertainties around the broader medium-term economic outlook remain, but if we have learnt anything from the COVID-19 pandemic, it is that things can change much more quickly than expected.

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Market commentary

Builders merchants

Builders merchants and building products distributors constitute important routes to market. As well as acting as crucial supply chain managers, players in this segment are rapidly developing into wider service providers with the ability to source key building products and provide considerable advisory services to their customers. Builders merchants and distributors are increasingly widening their product portfolios in order to take full advantage of their market position. This means that traditional builders merchants will look to extend their offerings to related product areas including building chemicals, fittings and fixtures, and tools.

Equipment

The building equipment market is developing rapidly as end-users seek ever more automation in their equipment requirements. The market is seeing an increase in demand for equipment, which is more energy efficient, whilst also offers ever greater operational efficiencies and a reduction in labour costs. Many end-users are also seeking building equipment with integrated monitoring capabilities which allows them to track their utilisation to a much greater extent.

Flooring

The flooring market has seen significant M&A activity in recent years as major global groups have been extending their product portfolios and widening their geographic reach. The market is being driven by greater consumer awareness of flooring as part of interior decoration. It is also seeking the adoption of ever more resilient products which mitigate the effects of wear and tear and which see longer replacement cycles as well as broadening of product ranges with new colours, designs and dimensions all coming into play.



Heavyside

The heavyside market is being driven in particular by ever greater expenditure on infrastructure with the expansion and extension of highway and railway networks being a key priority across the world. As a result, the market for aggregates, cement, mortar, precast concrete products, ready-mix concrete, screed and structural adhesives is seeing strong growth. At the same time, there is an increasing focus on related segments of the market including flood and stormwater management, pipework and roofing.

Heating, Ventilation & Air Conditioning

The heating, ventilation and air conditioning (HVAC) equipment market is seeing rapid developments at present. The market is characterised by increased demand for automation and energy efficiency, as well as pollution control. HVAC equipment is requiring ever deeper integration with wider building control systems therefore product developments are seeing new technologies based on ever improved fluid mechanics, heat transfer capabilities and thermodynamics. De-gasification and de-carbonisation are themes which will continue to shape the longer-term future of heating systems.

Lightside

The lightside building products market is characterised by considerable consolidation which is being driven by large groups seeking to enhance their portfolios of products. Whether they be manufacturers or distributors, this strategy provides them with considerable cross-selling opportunities, as one-stop-shop suppliers. As a result, some groups are also looking for ways to expand their offerings in a way that brings greater connectivity and cross-selling opportunities between different products groups.

Windows & Doors

The windows and doors market regularly sees M&A activity as large groups look to expand their product ranges and incorporate new developments involving aluminium and composite products. The market benefits consistently from commercial property overhauls, new housebuilding, private refurbishments and the renovation of public sector housing. At the same time, the players in the sector are having to mitigate several challenges including cost management as raw materials prices increase, the overall maturity of the market and the modest take-up of new products, and the increasing adoption of ever more stringent building regulations.



M&A activity

Large global groups in the building products sector are looking to take advantage of the strong fundamentals in the industry in order to make acquisitions which bring economies of scale, provide them with international expansion opportunities or access to new sales channels and customers. They are also keen to differentiate and diversify their own product offerings in order to compete more effectively with their peers and gain a greater share of customer spend. Equally, some large groups look to make acquisitions in order to mitigate the effects of their own lower rates of organic growth.

The ongoing corporate appetite for bolt-on acquisitions is also driven by the fact that there are strong margin enhancement opportunities in the building products sector, whilst acquisitive groups having strong balance sheets and can make multiple acquisitions in order to satisfy their demand. The end result is that there is increasing competition for any acquisition targets which demonstrate strong innovation and access to growth end markets, which is in turn keeping valuations of businesses high.

The fragmented nature of the sector means that large groups have considerable opportunities to make acquisitions, although the modest rate at which targets become available means that it is fundamentally a sellers' market. This in turn has allowed potential vendors of businesses to be much more selective with regard to the potential buyers which they interact with. The scarcity of high-quality acquisition targets in fact means that potential buyers can no longer benefit from finding uninformed vendors who might sell at a low price. The result of this is that valuations from both PE and trade buyers are typically in the range of six to eight times earnings before interest, tax, depreciation and amortisation (EBITDA).

Large scale M&A activity in the sector has seen multiple transactions across

the heavyside market in recent years, with international players such as CRH plc, HeidelbergCement AG, LafargeHolcim Ltd, Martin Marietta Inc and Vulcan Materials Co very much involved.

The Irish group CRH plc has one of the most active groups in terms of acquisitions in the heavyside sector. The group's significant acquisition involved the €6.5bn "package" of assets disposed of by Lafarge SA and Holcim AG in 2015, as required by the competition authorities to clear their merger. CRH has more recently been on an active buying spree with the acquisitions of Connolly Key Joint Pty Ltd, an Australian manufacturer of concrete jointing products; David Hill Concrete Inc, a US manufacturer of ready-mix concrete; Filoform BV, a Dutch manufacturer of underground cable protection products; Granite Precasting & Concrete Inc, a US manufacturer of precast concrete products; Hopkins Concrete Ltd, a UK manufacturer of aggregates and ready-mix concrete; Minimix Concrete Ltd, a UK manufacturer of ready-mix concrete; six concrete plants of Pomponio Srl of Romania; Suntree Technologies Inc, a US manufacturer of storm water treatment products; US Mix Co, a US manufacturer of precast concrete products; and Windsor Rock Products Inc, a US manufacturer of aggregates. CRH has been a very active participant in M&A during previous recessions and expectations are that this will be very much the case in the aftermath of COVID-19.

In turn, the German group HeidelbergCement AG has been undertaking a number of disposals and acquisitions. The latter include Alex Fraser Group Ltd., an Australian manufacturer of asphalt; the Aisemont, Engis and Moha limestone businesses of the Belgian group Carmeuse SA; and Giant Cement Holding Inc, a US manufacturer of aggregates, cement and concrete.

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M&A activity

Meanwhile, the Swiss group LafargeHolcim Ltd has been a prominent player following the merger of Holcim AG and Lafarge SA to create the group. The group has undertaken a number of disposals, particularly in Asia, and has also subsequently made numerous acquisitions. The group acquired Alfons Greten Betonwerk GmbH, a German manufacturer of cement and concrete; Kendall Group Ltd, a UK manufacturer of aggregates and ready-mix concrete; Metro Mix LLC, a US manufacturer of ready-mix concrete; the sand extraction division of Sibelco Australia Ltd; Somaco Grup Prefabricate Srl, a Romanian manufacturer of precast concrete products; and Tarrant Concrete Co Inc, a US manufacturer of ready-mix concrete.

At the same time, newcomers such as the UK group Breedon Group plc are using the opportunity to undertake further consolidation of the market. The group has acquired multiple businesses including Lagan Group Holdings Ltd, a UK manufacturer of aggregates, asphalt, bitumen, bricks, cement, concrete products, ready-mix concrete and tiles; Roadway Civil Engineering & Surfacing Ltd, a UK manufacturer of asphalt production and provider of contract surfacing services; Staffs Concrete Ltd, a UK manufacturer of ready-mix concrete; and an asphalt plant and four quarries from the Irish group CRH plc. Breedon is also in the process of seeking to acquire the UK operations of Cemex SAB de CV which manufacture aggregates, asphalt, quarry products and ready-mix concrete. The transaction is subject to a review by the UK Competition and Markets Authority.

Another player building up its market presence and benefitting from the corporate reorganisation in the heavyside sector is the UK group Sigmaroc plc. The group acquired Ronez Ltd, a UK manufacturer of aggregates, asphalt, ready-mixed concrete and precast concrete products, from LafargeHolcim Ltd. The group also

acquired Carrieres du Hainaut SA, a Belgian manufacturer of limestone products; CCP Building Products Ltd, a UK manufacturer of aggregates, paving and precast concrete products; GDH Holdings Ltd, a UK manufacturer of asphalt and concrete; Poundfield Products Group Ltd, a UK manufacturer of precast concrete products; and Topcrete Ltd, a UK manufacturer of precast concrete products.

Another regular buyer in the building products sector is Compagnie de Saint-Gobain SA which acquired Continental Building Products Inc, a US manufacturer of gypsum wall boards. The group's others acquisitions include Farecla Products Ltd, a UK manufacturer of surface finishing products; HKO Isolier und Textiltechnik GmbH, a German manufacturer of heat protection and thermal insulation products; the North American ceilings division of the Dutch group Hunter Douglas NV; the Mexican plasterboard division of the German group Knauf GmbH; Kuwait Insulating Material Manufacturing Co, a Kuwaiti manufacturer of insulation products; Logli Massimo SpA, an Italian manufacturer of glass panel systems; Norton Industries Inc, a US manufacturer of ceiling and wall products; Q-Bot Ltd, a UK manufacturer of access and survey robots; the Roofspace room-in-roof division of the UK group SIG plc; and OWA Sonex Ltda, a Brazilian manufacturer of acoustic ceiling products. SIG RoofSpace Solutions, the UK-based offsite manufacturer of panelized room-in-roof system.

Meanwhile, a serial buyer in the US building products sector is Cornerstone Building Brands Inc. The group has acquired Ply Gem Holdings Inc, a US manufacturer of doors, fencing, gutters, mouldings, shutters and windows. Ply Gem had itself previously been a consolidator in the market and the transaction provided an exit for the US PE firms Clayton Dubilier & Rice and Golden Gate Capital.

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M&A activity

Cornerstone has also acquired the patio door and vinyl window divisions of the US group Andersen Corp; Environmental Materials LLC, a US manufacturer of stone veneer; and Kleary Masonry Inc, a US manufacturer of stone veneer.

Another acquisitive US group is Masonite International Corp which acquired DW3 Group Ltd, a UK manufacturer of composite doors. The group also acquired the US wood door division of Assa Abloy AB and Bridgewater Wholesalers Inc, a US manufacturer and distributor of wood doors.

Elsewhere in the building products sector, the Swedish group Assa Abloy AB is a regular buyer in the building controls and security products segment. The group's acquisitions include AM Group Pty Ltd, an Australian manufacturer of roller shutters; Biosite Systems Ltd, UK manufacturer of biometric access control equipment in a transaction which provided an exit for the UK PE firm Mobeus Equity Partners; the identity solutions division of De La Rue plc; Exidor Ltd, a UK manufacturer of door controls and emergency exit equipment which was formerly part of Chamberlin plc; KEYper Systems Inc, a US manufacturer of key storage equipment; LifeSafety

Power Inc, a US manufacturer of access control power equipment; and Spence Doors Pty Ltd, an Australian manufacturer of access equipment and doors.

Another expansive European group is the UK group Victoria plc which has been expanding its presence in the flooring and tiling sectors. The group has acquired Ceramica Solani SAU, a Spanish manufacturer of ceramic and porcelain tiles.

Further M&A activity in the flooring sector has seen the US group Mohawk Industries Inc undertake multiple acquisitions. The group has acquired Eliane Revestimentos Ceramicos SA, a Brazilian manufacturer of ceramic coatings; Godfrey Hirst Pty Ltd, an Australian manufacturer of carpets and hard surface products; and Koninklijke Peitsman BV, a Belgian distributor of flooring adhesives and sealants.

Also on the acquisition hunt is the Irish group Grafton Group plc which acquired Polvo BV, a Dutch distribution of building products. The group had previously acquired LSDM Ltd, a UK builders merchant and distributor of building products. It also sold its Plumbase division to the UK group Edmundson Electrical Ltd.



Appetite from private equity

PE investors are highly attracted to the building products sector because of the strong performance of players in the industry, the attractive end market dynamics (linked to long term growth in infrastructure spending) and the differentiated product offerings. They also appreciate the strong market position of many of these companies, as well as the fact that their products are associated with high levels of cash conversion.

PE firms also regularly establish new platform investments in the sector which are often the subject of ongoing buy-and-build strategies. Thanks to the increasing firepower within the PE market, investors can look at bringing together multiple players in the sector to create an enlarged entity, which in time will itself be an attractive acquisition target for the large global groups. An example of this includes the investment in Stark AS by the US PE firm Lone Star. Stark is a Danish distributor of building products in

the Nordic region which subsequently followed-up with the acquisition of Compagnie de St Gobain SA's German building products distribution division. The group then also acquired XL-Byg Jens Schultz AS, a Danish distributor of building products. Lone Star also acquired Imerys Toiture SA, the French roofing manufacturing division of Imerys SA of Switzerland. The transaction allowed Imerys to deleverage its balance sheet and the target has subsequently been renamed Edilians SA.

PE interest in the sector also saw the US PE firm Ares acquire AZEK Co LLC, a US manufacturer of decking products. The group then acquired Return Polymers Inc, a US manufacturer of recycled PVC decking products; Versatex Building Products LLC, a US manufacturer of PVC building products; and WES LLC, a US manufacturer of railing products.



Appetite from private equity

US PE activity has also seen Leonard Green & Partners acquire SRS Distribution Inc, a US distributor of roofing products. The transaction provided an exit for the US private equity firm Berkshire Partners LLC.

Trading of businesses between different PE firms is a common event in the building products sector demonstrated by Belgian PE firm Cobepa who acquired Gerflor SA, a French manufacturer of vinyl flooring and wallcoverings. The business was acquired from the UK PE firm Intermediate Capital and the transaction will allow Gerflor to reinforce its market presence and widen its geographic reach.

This was also seen in the case of Danish PE firm Kirkbi and the French PE firm PAI Partners who acquired Armacell International SA, a Luxembourg manufacturer of technical foam. The transaction provided an exit for the US PE firm Blackstone.

PAI Partners also acquired Stella Holding SA, a French manufacturer of blinds, gates, grilles and shutters. The transaction will see Stella expand the reach of its four brands, Eveno, La Toulousaine, Profalux, and Sofermi and provided an exit for UK PE firm Intermediate Capital.

Also in Europe, the German industrial investor Serafin acquired RCR Industrial Flooring Sarl, a Luxembourg manufacturer and installer of industrial flooring. The transaction provided an exit for UK PE firm Columna Capital.

Meanwhile, Europe has also been a hot-bed for new PE investments in the building products sector including the US PE firm Blackstone acquiring the European Distribution division of CRH plc. The transaction allowed CRH to focus on its core activities and deleverage its balance sheet.

Another significant transaction saw the US PE firm CVC Capital Partners acquire Ahlsell AB, a Swedish distributor of building products and tools. The transaction will see the group continue with its international acquisitions strategy.

The Netherlands has also seen considerable activity, with the UK PE firm Equistone Partners acquiring Boal Holding BV, a Dutch manufacturer of greenhouses. At the same time, Dutch PE firm Broadview acquired Formica Corp, the US manufacturer of decorative laminates and surfaces, from the New Zealand group Fletcher Building Ltd. Also, the UK PE firm Equistone Partners acquired Heras BV, the Dutch manufacturer of

fencing and perimeter protection products from CRH plc. Furthermore, the Dutch PE firm Parcom Capital acquired Outdoor Life Products BV, a Dutch manufacturer of garden timber products, in a transaction which provided an exit for Dutch PE firm NPM Capital.

Elsewhere in Europe, the German industrial investor Aurelius acquired the ceiling tiles and grids division of the US group Armstrong World Industries Inc. The transaction resulted from Knauf GmbH having to sell the business in order to achieve approval from the European Commission to acquire Armstrong World Industries Inc's wider European and Pacific Rim operations. The Italian PE firm InvestIndustrial is also active player with new investments in the building products sector. It acquired Neolith SA, a Spanish manufacturer of high-end kitchens. InvestIndustrial also acquired Jacuzzi Brands LLC, a US manufacturer of bath and plumbing products in a transaction which provided an exit for US PE firms Apollo Global Management, Ares and Clearlake Capital Group.

Meanwhile, the UK PE firm Cairngorm Capital has become a serial consolidator in the UK builders merchants and building products distribution sector. The firm has acquired Arnold Laver & Co Ltd, Building Supplies Online Ltd, Chandlers Building Supplies Ltd, Fairalls Ltd, Grant & Stone Ltd, North Yorkshire Timber Ltd, Parker Building Supplies Ltd, Rembrand Timber Ltd, Sussex Turnery and Moulding Co Ltd and Thornbridge Sawmills Ltd, all of which are UK builders merchants and distributors of building products.

Also in the UK, the UK PE firm Inflexion Private Equity acquired Marley Ltd from the Belgian group Etex Group SA. Marley is a manufacturer of roofing products. At the same time, UK PE firm Hilco acquired the UK windows and doors division of Masco Corp.

We expect there to be continued opportunities for PE as large trade groups continue to re-shape their portfolios to align with re-calibrated strategies. An increase in the level of corporate carve-outs is likely to be another consequence of COVID-19 as groups seek to ensure strategic focus and the most efficient allocation of corporate capital. This will likely represent a fertile area of opportunity for PE going forward.

Transactions

 Ventilación Inteligente sold to  Sell-side Undisclosed	 Arrangement and syndication of a corporate financing with a volume of EUR 66.5m     Refinance €66.5m	 acquired  from  Buy-side Undisclosed	 sold to  Open to extraordinary. Sell-side €80m	 sold to  Sell-side €58.5m
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