

# Building Products August 2021

## Executive Summary

Operators in the industry include retail building materials such as lumber, hardwood, cabinets, floor coverings, roofing materials and other building goods. Rising disposable income has ignited consumer spending. The industry was able to post impressive growth in 2020, despite the economic uncertainty brought on by the COVID-19 (coronavirus) pandemic. Thus, industry revenue has increased at an annualized rate of 3.0% to \$124.1 billion over the five years to 2021, including an increase of 1.9% in 2021. Further, industry profit has increased during the period as well.

## Key Industry Takeaways

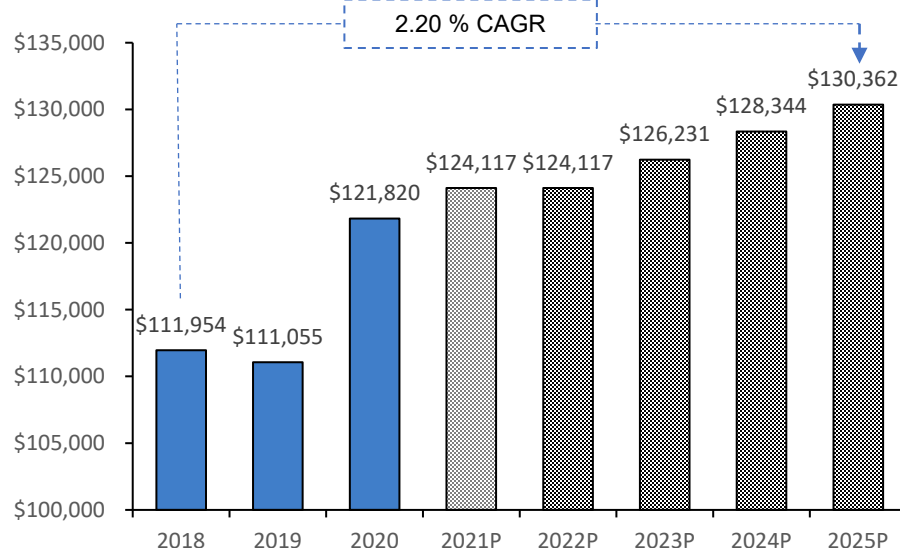
- Housing and construction markets have been able to quickly recover from the temporary interruption in operations that came as a result of the coronavirus pandemic and are expected to strengthen over the five years to 2026. Revenue is forecasted to increase an annualized 2.2% to \$130.3 billion over the five years to 2026.
- Industry operators compete with big-box retailers that offer consumers a one-stop shopping experience. To contend with powerhouses such as Lowe's and Home Depot, industry operators have had to remain price competitive, despite an increased price of sawmill lumber.
- The Consumer Confidence Index measures consumers' level of optimism toward economic conditions such as the unemployment rate, economic growth and inflation. When perceptions are positive, households are more likely to spend on big-ticket projects. The Consumer Confidence Index is expected to decrease in 2021, posing a potential threat to the industry.
- Despite the COVID-19 outbreak, industry revenue has increased an estimated 9.7% in 2020 alone.
- Increasing concerns over the environment and sustainable infrastructure in the U.S. will likely change dynamics in lumber and building materials industry over the next five years.

## Lumber & Building Quick Glance

\$124.1b	Industry Revenue in 2020
5.0%	Profit Margin in 2020
38,577	Lumber and Building Materials businesses
1.2%	Expected YOY employment growth to 2026
29.3%	Share of revenue coming from households
38.6%	Revenue from Lumber/other structural materials

## Sector Growth & Outlook

### Lumber & Building Revenue (\$m)



### Sector Outlook

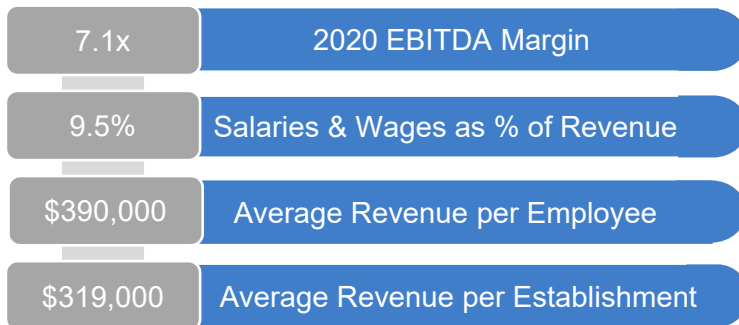
The industry is expected to grow in the coming years as a resurgence in consumption levels and trade activity will bolster volume. Small regional operators will likely combine operations to benefit from economies of scale and maintain profit margins in their competition against big-box home improvement retailers. In addition to intense price competition, lumber and building material stores are expected to continue to experience stiff competition within the Home Improvement Store industry as they increasingly target professional contractors.

# Building Products Overview

## Market Snapshot

- Professional contractors dominate the market for the industry, accounting for an estimated 49.0% of revenue in 2021.
- The Southeast region houses most industry establishment, accounting for 24.8% of locations in 2021, in line with its share of the US population.
- The Mid-Atlantic, West and Great Lakes regions also account for 15.6%, 14.9%, and 13.8% of establishments, respectively, in 2021.

### Benchmarking



## Market Trends

- Housing starts are expected to experience continued growth in 2021, leading to sustained demand.
- Several industry operators have been unable to cope with competition from big-box retailers.
- The pandemic has had a net negative overall impact on construction pricing with pockets of cost inflation raising concerns. The increases in lumber and rebar pricing were key contributors to the 12.1% February year-over-year rise in the Federal Reserve's Producer Price Index for Construction Materials. From May to July the Index has risen 3.98%.
- Inspired by the Leadership in Energy and Environmental Design (LEED) certification movement, environmentally conscious consumers are beginning to demand that developers use sustainable building materials during the construction and renovation of residential and commercial buildings, which could potentially decrease demand for lumber and other industry products while simultaneously increasing demand for greener alternatives.

Sale Date	Target Business Description	Deal Value	EBITDA	Revenue	DV / Revenue	DV / EBITDA
06/07/2021	Wood Cabinet Manufacturer	\$149,000	\$65,209	\$549,580	0.27x	2.3x
01/12/2021	Precast Concrete Manufacturer	\$8,100,000	\$2,211,965	\$12,585,938	0.64x	3.7x
12/31/2020	Countertop and Cabinet Fabricator	\$770,000	\$276,283	\$894,302	0.86x	2.8x
12/31/2020	Residential Design, Manufacture	\$1,600,000	\$533,009	\$2,430,857	0.66x	3.0x
10/31/2020	Wood Window Frame Manufacturing	\$945,000	\$50,724	\$3,067,215	0.31x	18.6x
08/31/2020	Residential Cabinet Manufacturer	\$490,500	\$153,522	\$714,175	0.69x	3.2x
06/30/2020	Precast Concrete Manufacturer	\$2,339,000	\$373,909	\$7,190,209	0.33x	6.3x
06/05/2020	Custom Wood Cabinetry	\$375,000	\$83,861	\$704,453	0.53x	4.5x
05/01/2020	Commercial Counter Top Manufacturer	\$836,000	\$841,630	\$3,238,573	0.26x	1.0x
	Median	\$836,000	\$276,283	\$2,430,857	0.53x	3.20x

Fundamentals										
TTM										
NTM Estimates										
Ticker	Company	Close Price	Market Cap	Enterprise Value	Total Revenue	EBITDA	Basic EPS	Total Revenue	EBITDA	Normalized EPS
<b>Peer Group</b>										
MLM	Martin Marietta	384.35	23,974.73	27,230.03	4,861.30	1,472.90	12.32	5,081.53	1,597.93	12.94
VMC	Vulcan Materials Company	187.95	24,936.88	27,307.78	4,914.40	1,207.96	5.05	5,317.19	1,501.75	5.64
EXP	Eagle Materials	157.16	6,582.19	7,323.57	1,671.42	486.06	8.13	1,855.25	647.95	9.35
OC	Owens Corning	98.60	10,168.61	12,608.61	7,983.00	1,802.00	8.88	8,552.95	1,929.50	9.10
AWI	Armstrong World Industries	106.11	5,051.16	5,651.06	1,016.90	260.30	3.49	1,145.08	399.60	4.64
TREX	Trex	110.87	12,788.27	12,871.06	1,016.91	287.68	1.69	1,231.58	385.25	2.22