

M&A Overview

2020

BUILDING MATERIALS
& DISTRIBUTION

Consolidation and Resistance

The Coronavirus pandemic has been nothing short of a violent shock to the global economy that left no industry unaffected. Maintaining the financial strength and resolve to persist through an unprecedented worldwide pandemic demands that companies become creative and use all the tools at their disposal to continue their growth. For firms in the industry looking to seize this period of economic rebound as a growth opportunity, one particularly effective tool is M&A. Economic downturn notwithstanding, the industry is well accustomed to M&A activity. Many firms strategically acquire related firms to diversify product mix, achieve top-line growth, or expand margins. Although the blockbuster-size, attention-grabbing headline deals are few and far between, small-sized M&A transactions have become a staple of the industry. This dynamic has continued to prove advantageous for smaller business owners, whose companies are highly sought after by larger firms looking for growth opportunities.

Data show that 2020 started with optimism: the total numbers of closed deals in the Building Materials & Distribution space were up year-over-year 11.8% and 43.8% in January and

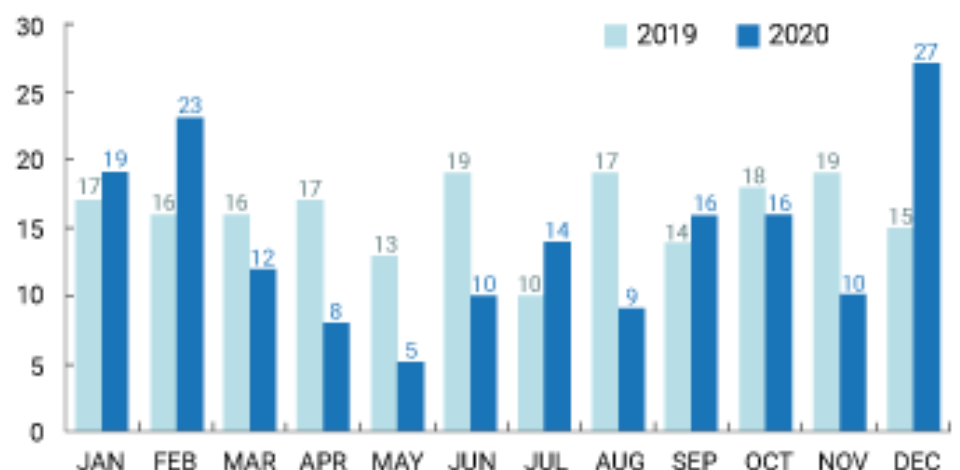
February of 2020, respectively. The year began with positive M&A activity and the promises of growth across the industry.

In March of 2020, the pandemic swept across the United States and immediately dealt a blow to economic activity and consumer confidence. Industry-wide activity gradually fell to a low in May before a brief summer rebound. The industry closed 2020 on the same optimistic high note with which it began: December marked the single most active month of 2020 for M&A transactions.

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M&A Activity: 2019-2020
Total Number of Deals Closed



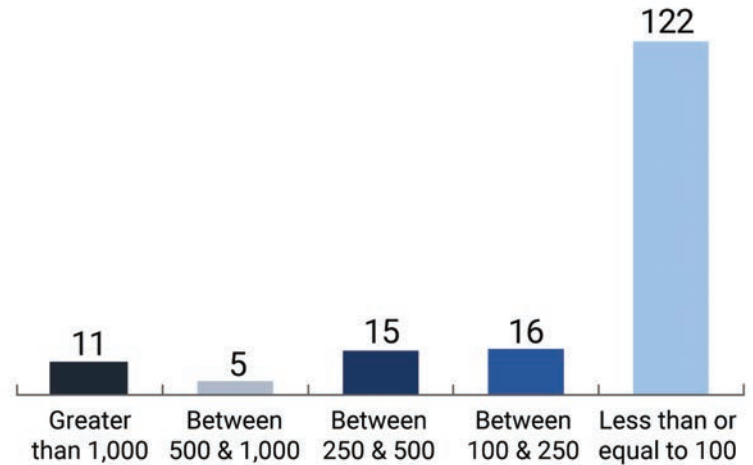
Valuation Trends

M&A TRANSACTIONS BY U.S. REGION



M&A TRANSACTIONS BY EMPLOYEE COUNT

The general increase in valuation multiples that was experienced globally through 2019 has been reversed in 2020, almost entirely due to the effect that COVID-19 has had on companies' ability to trade. The ongoing uncertainty caused by the pandemic is likely to continue to be reflected in the trading multiples until the long-term effects of the virus become more widely known. This trend is reflected in the high number of transactions involving smaller companies as reflected here by employee count.



PUBLICLY TRADED COMPANIES: EXAMINING TRENDS IN MULTIPLES

M&A, whether executed by public or private companies, generally follows the broader market trends in valuation multiples for specific industries. The Building Materials & Distribution industry experienced an acute dip in valuation multiples following the onset of the COVID-19 pandemic in the U.S. before making a slow and gradual rebound. Trading

multiples remain relatively constant moving into 2021, ending the year on a slight uptick. These trends make it potentially attractive for public companies to arbitrage by buying private companies at less than these multiples.

Total Company Value / EBITDA
(Publicly Traded Companies)



Total Company Value / Revenue
(Publicly Traded Companies)



Source: Capital IQ

Buyer Trends

MOST ACQUISITIVE FIRMS

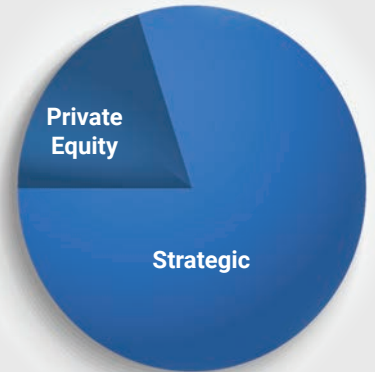
The industry has seen a few major players driving consolidation across the broader sector. Many of the most acquisitive companies in the space are the larger, dominant national brands in the U.S.

The most active buyers in the space were large companies in the industry making strategic acquisitions. Each buying company has exhibited specific trends: Nation's Best Holdings has focused primarily on retailers and storefronts that sell construction and building supplies. Conversely, SRS Distribution, Inc. has moved towards acquiring construction supply wholesalers and value-add distributors.

PRIVATE EQUITY ACTIVITY

The biggest headline from financial or private equity buyers this year was Bain Capital's majority investment in U.S. LBM Holdings, Inc. Acquisitive private equity firms through 2020 have tended to focus on specialty manufacturing. While acquisitions have been made across the full breadth of sub-industries, many of the PE firms targeted manufacturers for niche products. These acquisitions have included centerless grinding machine manufacturers, manufacturers of safety cutting tools, coated abrasive manufacturers, ready-mix concrete manufacturers, and others.

20% of buyers in the Building Materials and Distribution space were conducted by financial buyers. **80% of buyers** were strategic companies in the industry.



Buyer Spotlights

U.S. LBM HOLDINGS, INC.

U.S. LBM, one of the largest building products distributors in the U.S., had a busy 2020. The company made four acquisitions through year end, all of which specialize in the sale, distribution and supply of building materials to retail/professional clients. The company is expanding its geographical imprint across the U.S. It combines the scale and operational advantages of a national platform with a local go-to-market strategy.

Acquisitions: Jennings Builders Supply & Hardware, Zeeland Lumber and Supply Company, Maner Builders Supply, and The Ridgefield Supply Company.

SRS DISTRIBUTION, INC.

SRS is one of the nation's largest roofing distributors. Given the specialized sub-industry of this company, it comes as no surprise that all four of the acquisitions made by SRS in 2020 were roofing wholesalers, distributors, or manufacturers. Acquisitions spanned multiple states (Ohio, California, Iowa, etc.). The company has a strong history of M&A activity prior to 2020, and is keeping up with this trend.

Acquisitions: RSI Building Products, Old Reliable Wholesale Company, A.L.L. Roofing Materials, and Gannon Roofing Supply.

Heritage Capital Group, the author of this report, acted as financial advisor to the owners of Maner in the sale of their business to U.S. LBM.

[Click here for transaction details](#)

MANER
Builders Supply Co.



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HERITAGE CAPITAL GROUP

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- Reorganizing

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DON WIGGINS

CEO of Heritage Capital Group
Head of Oaklins' Distribution Practice
T: +1 904 354 9600
dwiggins@HeritageCapitalGroup.com

Don is CEO of Heritage Capital Group and leads Oaklins' global distribution practice. He has advised many clients in the sale of their business. Clients have included Maner Builders Supply, Coastal Construction, Chancey Metal Products, Atlantic Quality Parts, Custom Wholesale Floors, Zambetti Steel, and more. For over 30 years, Don has provided strategic advice, valuation and related services to the building materials and distribution sector.



HeritageCapitalGroup.com

JACKSONVILLE OFFICE

+1 904 354 9600

SAVANNAH OFFICE

+1 912 200 9597

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