



## SPOT ON MANUFACTURING & DISTRIBUTION OF BUILDING MATERIALS

**Brian Livingston**, Oaklins' manufacture & distribution of building materials specialist, is pleased to share some industry perspectives in this edition of Spot On.

"Some say that uncertainty is the only certainty, an idea which appears particularly relevant these days.

In the UK and across Europe we are yet to see how Brexit will play out and the effect it may have on trade and business, including access to labor, resources, funding and the general economy. In the US, we witnessed the start of a Trump presidency in January 2017, which has been quoted as the third-largest source of uncertainty in 30 years by the Economic

Policy Uncertainty Index. Despite such unpredictability, growth globally has remained strong and longer-term forecasts are positive.

In this newsletter we will look into the market trends, valuation trends and M&A transactions in the building materials distribution sub-sector."

Oaklins has significant experience in building materials, completing 26 transactions worldwide between 2014 and the end of February 2018. Oaklins' relationships with a number of large building materials groups worldwide add real value to our clients.

## MARKET TRENDS

### Value chain



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## SPOTLIGHT



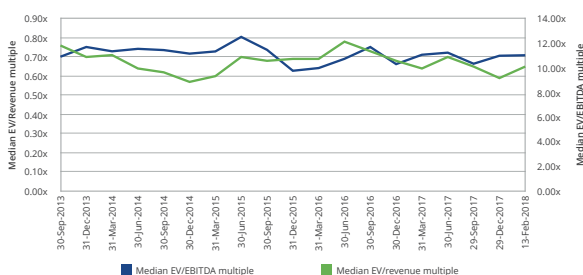
### Joe Sowton

Strategic Development  
Director, Grafton  
Group plc



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## VALUATION TRENDS



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## M&A TRANSACTIONS

Date	Target	Country	Target description	Bidder	Country	Valuation EV (US\$m)	EV/ Rev	EV/ EBITDA
19-Feb-2018	Leyland SDM Limited		Distributes a range of decorating and do-it-yourself (DIY) product	Grafton Group plc		115.4	1.7x	11.3x
15-Feb-2018	Bedrock International, LLC		Natural stone supplier in Kansas, Missouri, Oklahoma and Iowa	Architectural Surfaces Group		N/A	N/A	N/A
02-Feb-2018	ArmCom Distributing Company		A building products distributor in the Midwest, USA	Foundation Building Materials, Inc.		N/A	N/A	N/A
16-Jan-2018	Window Nation, Inc.		Distributes windows, doors, sidings and roofing products	Cortec Group Inc; Cortec Group Fund VI, L.P.		N/A	N/A	N/A

Distributes construction products

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# Market trends

The building materials distribution market is significantly affected by macroeconomic factors and driven by a number of trends, including:



### GDP growth

Global GDP is expected to grow 3.1% in 2018 and 2.9% in the period through to the end of 2020, driven primarily by growth in China at 6.4% in 2018 and 6.2% through to 2020 (worldbank.org)



### Demand for eco-friendly construction materials

Regulatory changes around energy and water usage are driving demand for green construction. It is estimated that in the US 40% of energy consumption is related to residential and commercial buildings (US Energy Information Administration)



### Growing global populations

In particular India, which is projected to experience a significant increase, surpassing that of China by 2022 (United Nations)



### Cost inflation

The IMF is forecasting global annual cost inflation of 3.3% to 2020



### Increasing urbanization

More than half of the global population already live in urban areas, with urban populations predicted to expand by 1.8% per year through to 2020 and at c. 1.5% in the longer term (Global Health Observatory). This is expected to result in strong demand for high-rise residential and commercial property

### Consider these macroeconomic factors:

- Timetric's Construction Intelligence Index is forecasting global construction output to increase by 4.1% in real terms in 2018
- Construction in emerging markets is forecast to become a US\$6.7 trillion industry by 2020, representing 55% of global construction output, according to a report by Global Construction Perspectives and Oxford Economics

*The building materials distribution market is significantly affected by macroeconomic factors and driven by a number of trends*

### Value chain



Building material distributors operate as the link between supply and demand but in recent years we have seen the lines between stages in the value chain blur. This is the result of a number of trends, three of which we have highlighted:



In a 2016 Harvard Business Review report on the relative digitalization of 22 industries, the construction industry was awarded the lowest rating across a number of categories. Among these were transactions and interactions, which measures how the industry interacts digitally with its customers and suppliers and includes the use of e-commerce and digital payments.

Adoption of e-commerce technologies provides manufacturers with the opportunity to adopt a direct-to-consumer route to market, potentially improving margins and expanding their access to end users. By cutting out the distributor, the building materials industry is beginning to experience the e-commerce effect that many other industries have suffered. As an example, since the early 2000s consumer goods manufacturers have sought to leverage their strong brands and e-commerce platforms, impacting distributor sales and margins.

In mitigation, Boston Consultancy Group research shows that building materials companies, covering both manufacturers and distributors, are all at different stages in their digital transformation, with distributors thought to be at a more advanced stage.

It is important for distributors to remain ahead of the digitalization curve in the sector. This is the focus of an exclusive article written by Joe Sowton, Group Strategic Development Director of Grafton Group plc, shared on page 5.



A growing need for distributors is the ability to add value for both manufacturers and customers.

### Distributors can add value to manufacturers by providing:

- geographic reach
- access to a fragmented customer base
- specialist understanding of product and market
- ongoing and complete customer touch
- transactional savings

### Distributors can add value to customers by providing:

- a comprehensive product range
- provision of technical knowledge
- a local presence and flexible delivery
- installation services
- 'on-site' stores
- additional services

The value added to a distributor's customers is just as important for a manufacturer, as distributors are in effect an extension of the manufacturers' own business operations. In recent years, we have seen an increase in the number of distributors providing specialist value-add services.

Ahlsell AB (publ), a Nordic distributor of installation products, tools and supplies, is a good example of a distributor providing a significant range of value-add services. These services seek to reduce costs for customers and follow a trend of increased outsourcing of purchasing by customers. Its range of value-add services includes:

- flexible storage solutions
- on-site service points at customers' worksites
- insurance services
- automatic replenishment
- prepared installation packages
- rentals of special equipment



## Own-label products

Distributors leveraging own-label products is not a new trend, however, the opportunity they represent has grown in importance in recent years as the negative perceptions of own-label products (cheap, lower quality) have fallen away. Providing own-label products allows a

distributor to move vertically through the value chain, similar to how e-commerce does so for manufacturers. We have identified a number of distributors where own-label products have been an important driver for growth, including:



**Ferguson plc**, a Switzerland-based distributor of plumbing and heating products

“We will systematically build upon and extend our portfolio of private label brands which in 2016/17 represented 6.7% of group revenue.”



**Ahlsell AB (publ)**, a Sweden-based distributor of installation products, tools and supplies

“Examples of overall group initiatives are Ahlsell's focus on ... the development of private label products.”



**SIG plc**, a UK-based distributor of specialist building products

A key priority noted in its latest annual report is “growing own-label.”



Beacon

**Beacon Roofing Supply, Inc.**, a US-based distributor of residential and non-residential roofing and complementary building products

The FT reported its acquisition of Allied Building Products Corp. leaves the group well-positioned to leverage Allied's private-label business.

Headquartered in Dublin, Ireland, Grafton Group plc is an international distributor of building materials listed on the LSE, with a market capitalization of US\$2.7bn<sup>1</sup>. With operations in Ireland, the UK, Netherlands and Belgium, Grafton is looking to expand both organically and through acquisitions, with some of its strategy focused on entering and gaining market leading positions in new territories.

We spoke to Joe Sowton, Group Strategic Development Director, to obtain his insight on the role of digitalization in the building materials market and customer-centric business model innovations.

### Digitalization in our industry

**"The construction industry has traditionally been slow to adopt new technologies. However, at Grafton we have identified digitalization as a significant growth opportunity, specifically e-commerce and building information modeling (BIM).**

Selco Builders Warehouse, which won National Builders' Merchant of the Year 2016 & 2017, is a great example of how e-commerce can help improve business performance.

Around 54% of the company's customers own a smartphone and over 20% of e-commerce shopping sessions are undertaken on a mobile phone or tablet. Focusing on making our website adaptable to this technology has allowed the group to increase the number of total and unique visitors to the Selco website, by 61% and 46% respectively, within just two months of launching.

Our online stores help customers in a variety of ways by checking local branch stock, providing click and collect and making an increased number of products available to our customers. A typical warehouse can keep only a finite amount of stock,

whereas the e-commerce platform enables us to offer an increased number of SKUs for immediate dispatch to customers, enhancing both customer service and efficiency.

In addition to e-commerce, we see a significant opportunity in relation to BIM, a 3D modeling process for planning, designing and managing construction projects. By interacting with cloud-based BIM systems, potential customers can order their modeled items easily and quickly for delivery or collection with a much greater degree of accuracy. Governments throughout the world are implementing BIM as a mandatory process, with the UK, the US, Australia, South Korea and a selection of Nordic countries already requiring its use. There is an interesting opportunity for the first-movers in the industry to gain a significant competitive advantage.



**Joe Sowton, Group Strategic Development Director, Grafton Group plc**

Joe has been with Grafton Group since 1998 and leads the M&A team, appointed Group Strategic Development Director in 2013. Grafton has successfully completed over 170 acquisitions over that time and recently expanded into the Netherlands, where the group owns the market's leading specialist tools, fixings and ironmongery business. Grafton announced its purchase of London's leading decorators merchant, Leyland SDM, in February 2018.



Grafton Group plc

<sup>1</sup> <http://www.graftonplc.com/investors/share-price-centre.aspx>

## Customer-centric business model innovations

In late 2015 Grafton acquired Isero, the leading specialist distributor of tools, ironmongery and fixings in the Netherlands. As part of providing alternative customer-centric routes to market, Isero has been working with construction project leads to deploy warehouse containers to sites, reducing customer time and cost in sourcing supplies, and utilizing smartphone apps to record sales and replenish stock. A similar model and technology is now also being deployed with vendor-managed maintenance vans, with early trials showing encouraging results.

By finding new ways to bring the “shop” to the customer the business is able to truly focus on what the customer needs.

See more on our [YouTube channel](#).

## Closing comments

The digitalization of the construction industry and route to market innovation is continuing to present opportunities for market participants. As the business model continues to evolve, we here at Grafton are constantly innovating in our aim to ‘Be Brilliant for Our Customers’. Our strategy is to expand not only through organic growth but also through acquisitions. Where opportunities exist to achieve good returns on our capital, we are always interested in meeting with high calibre management teams of omni-channel building material distributors worldwide."



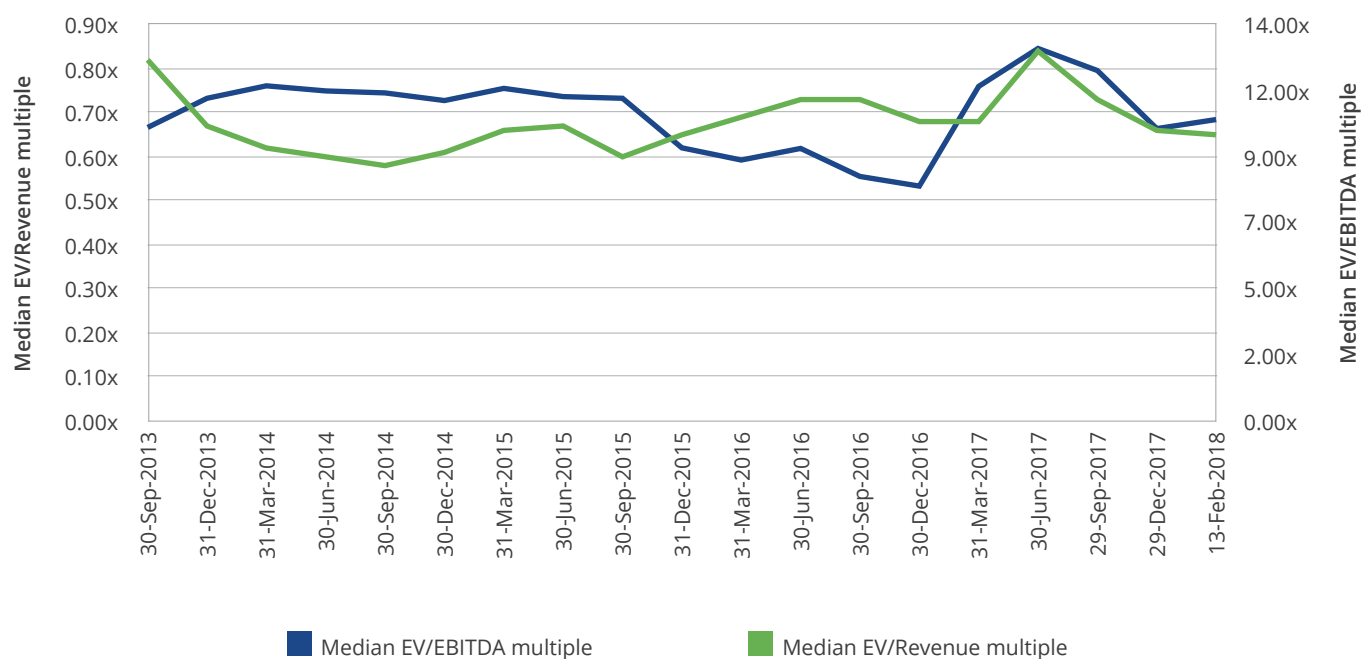
# Selected public company valuations

## A selection of public listed companies

Distributors	Head office location	Enterprise value (US\$m)	Enterprise value			
			LTM sales	NTM sales	LTM EBITDA	NTM EBITDA
Advan Co., Ltd.	Japan	463.9	2.5x	n/d	7.7x	n/d
Ahlsell AB (publ)	Sweden	3,562.2	1.1x	1.0x	11.4x	10.2x
Beacon Roofing Supply, Inc.	US	5,594.4	1.2x	0.8x	14.6x	8.6x
BMC Stock Holdings, Inc.	US	1,633.6	0.5x	0.4x	8.8x	7.5x
Ferguson plc	Switzerland	18,591.4	0.9x	0.8x	11.4x	10.4x
GMS Inc.	US	1,893.1	0.8x	0.7x	9.9x	8.4x
Grafton Group plc	Ireland	2,747.7	0.8x	0.7x	10.7x	9.5x
Hafary Holdings Limited	Singapore	165.0	1.9x	n/d	10.0x	n/d
HD Supply Holdings, Inc.	US	8,393.8	1.1x	1.6x	9.4x	10.9x
Samse SA	France	952.8	0.6x	0.6x	9.3x	8.8x
SIG plc	UK	1,444.8	0.4x	0.4x	NM	8.5x
Travis Perkins plc	UK	5,536.6	0.6x	0.6x	9.7x	8.0x

Source: Capital IQ

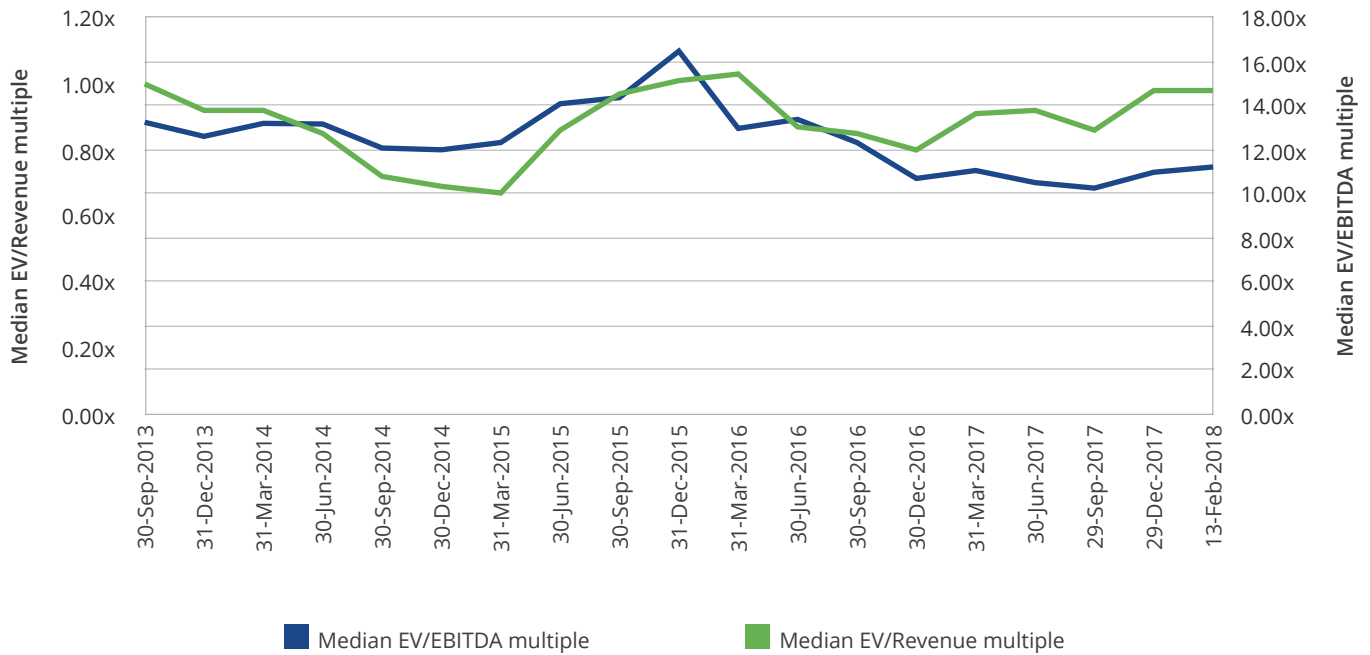
### EMEA historical multiples



Source: Capital IQ

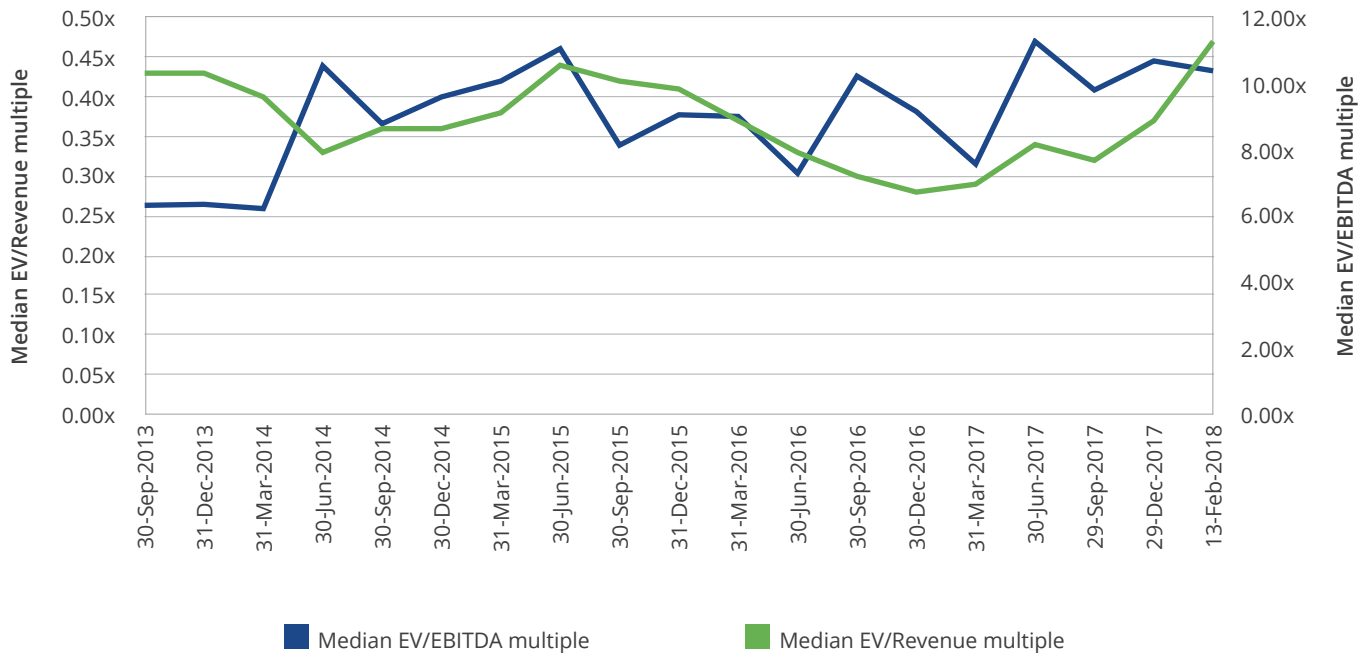
# Selected public company valuations

## Americas historical multiples



Source: Capital IQ

## Asia-Pacific historical multiples

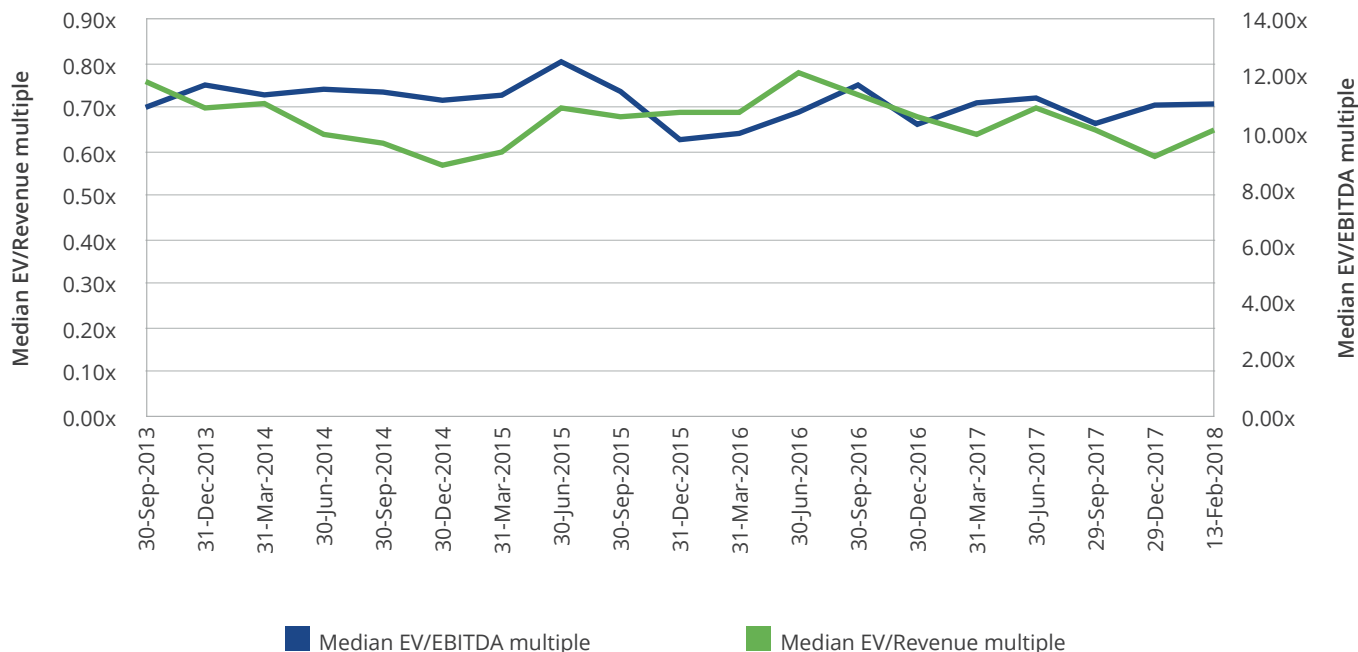


Source: Capital IQ



# Selected public company valuations

Global historical multiples



Source: Capital IQ



**Brian Livingston**, Manufacturing & Distribution of Building Materials Specialist, Oaklins

"As shown in the above graphs, valuations of the selected building materials distribution companies globally have fluctuated over the past five years. The median EV/Revenue multiple over the period is 0.7x the last twelve months' revenue, with EV/EBITDA multiples over this period being 11.1x the last twelve months' EBITDA. Private companies are typically valued at a discount to larger public companies depending on the sector growth and market size.

Oaklins, with its ability to bring international buyers to help drive a competitive process, can help companies achieve a premium value on exit."

















## Recent M&A activity

A selection of private transactions in the manufacture & distribution of building materials sector

Date	Target	Country	Target description	Bidder	Country	Valuation		
						EV (US\$m)	EV/Rev	EV/EBITDA
19-Feb-2018	Leyland SDM Limited		Distributes a range of decorating and do-it-yourself (DIY) products	Grafton Group plc		115.4	1.7x	11.3x
15-Feb-2018	Bedrock International, LLC		Natural stone supplier in Kansas, Missouri, Oklahoma and Iowa	Architectural Surfaces Group		N/A	N/A	N/A
02-Feb-2018	ArmCom Distributing Company		A building products distributor in the Midwest, USA	Foundation Building Materials, Inc.		N/A	N/A	N/A
16-Jan-2018	Window Nation, Inc.		Distributes windows, doors, sidings and roofing products	Cortec Group Inc; Cortec Group Fund VI, L.P.		N/A	N/A	N/A
03-Jan-2018	A.H. Harris & Sons, Inc.		Distributes construction supplies for residential, commercial, industrial, and heavy and highway construction markets	HD Supply Construction Supply, Ltd.		380.0	1.0x	N/A
04-Dec-2017	Etablissement Renard Pere Et Fils - Sarl		Building products merchant based in France	Alexandre Favier du Noyer - Entrepreneur		N/A	N/A	N/A
20-Nov-2017	Permaroof Uk Ltd		Importer and distributor of Firestone EPDM membranes and accessories for the roofing industry	Management buy-out		N/A	N/A	N/A
13-Nov-2017	Paesen Bouw-Expo N.V.		Distributes bricks, cement, roofing, insulation and other building materials	Van Pelt Bouwmaterialen N.V.		N/A	N/A	N/A
10-Nov-2017	Beltrami NV		Imports and distributes natural stone tiles and slabs	Brachot-Hermant nv		N/A	N/A	N/A
10-Nov-2017	Construmart		Distributes construction materials and home improvement products in Chile and South America	Administradora de Fondos de Inversión		101.2	N/A	N/A
08-Nov-2017	IPCOM n.v.		Distributes insulation materials, thermal, acoustic and fire protection applications in Europe	Alpha Group		N/A	N/A	N/A

## Recent M&A activity























A selection of private transactions in the manufacture & distribution of building materials sector (continued)

Date	Target	Country	Target description	Bidder	Country	Valuation		
						EV (US\$m)	EV/Rev	EV/EBITDA
07-Nov-2017	Sonas Bathrooms		Supplies bathroom products to retail bathroom showrooms and builders' merchants	MML Growth Capital Partners Ireland Limited		N/A	N/A	N/A
02-Nov-2017	Sotetsu Kosan Co., Ltd.		Supplier of gravel and concrete products, as well as other civil engineering building materials	Towa Arcs Co., Ltd.		N/A	N/A	N/A
03-Oct-2017	The Bolt Supply House, Ltd.		Supplier of fasteners and industrial-related products	Lawson Products, Inc.		32.0	0.9x	N/A
28-Aug-2017	Hansin Timber Specialist and Trading Pte. Ltd.		Distributes and installs timber products	Keong Hong Holdings Limited		3.1	N/A	N/A
30-Jun-2017	Pinnacle Door & Hardware, Inc.		Distributes wooden doors, metal doors and hardware products	The Cook & Boardman Group, LLC		N/A	N/A	N/A
31-Jan-2017	Ridout Lumber Company		Distributes lumber and building material in several US states	US LBM Holdings, Inc.		77.1	N/A	N/A
24-Jan-2017	Marubeni Cement & Construction Materials Co., Ltd.		Distributes cement, clinker, GBFS, calcium silicate board, natural gypsum and fly ash worldwide	Taiheiyo Cement Sales Corporation		N/A	N/A	N/A

Source: Capital IQ

# Recent M&A activity

## A selection of recent Oaklins M&A transactions

<p>The Asamer family</p> <p>has acquired 100% of the shares in</p>  <p>M&amp;A BUY-SIDE</p> <p>Construction &amp; Engineering Services</p>	<p>CVC Capital Partners</p> <p>has acquired</p>  <p>US\$900m M&amp;A BUY-SIDE</p> <p>Construction &amp; Engineering Services/Other Industries/Private Equity</p>	<p>eurobond</p> <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Construction &amp; Engineering Services</p>	<p>EUROCLAD</p> <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Construction &amp; Engineering Services</p>
 <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Construction &amp; Engineering Services</p>	 <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Construction &amp; Engineering Services/Logistics</p>	<p>JE BERKOWITZ, LP ARCHITECTURAL GLASS SINCE 1920</p> <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Construction &amp; Engineering Services/Industrial Machinery &amp; Components</p>	 <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Construction &amp; Engineering Services/Consumer &amp; Retail/Industrial Machinery &amp; Components</p>
 <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Construction &amp; Engineering Services</p>	 <p>has been acquired by</p> <p>a private individual</p> <p>M&amp;A SELL-SIDE</p> <p>Construction &amp; Engineering Services</p>	 <p>has acquired</p>  <p>US\$6m M&amp;A BUY-SIDE</p> <p>Construction &amp; Engineering Services/Private Equity</p>	 <p>has acquired</p>  <p>US\$44m M&amp;A BUY-SIDE</p> <p>Construction &amp; Engineering Services/Consumer &amp; Retail</p>
 <p>has been acquired by</p>  <p>US\$1.1bn M&amp;A SELL-SIDE</p> <p>Construction &amp; Engineering Services</p>	 <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Construction &amp; Engineering Services/Industrial Machinery &amp; Components</p>	 <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Construction &amp; Engineering Services</p>	 <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Construction &amp; Engineering Services/Industrial Machinery &amp; Components</p>

## MEET OAKLINS, THE WORLD'S MOST EXPERIENCED MID-MARKET M&A ADVISOR

700   
professionals

60   
offices

40   
countries

5,000+   
transactions

15   
sectors

### Oaklins offers a comprehensive range of services

- M&A advisory (buy and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

### Oaklins industry specialists

Manufacturing & distribution of building materials is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in this sector, with a large contact network of the most relevant market operators worldwide. This results in the best possible merger, acquisition and divestment opportunities for companies engaged in the manufacturing & distribution of building materials.

If acquisitions or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you. Please find our contact details below.



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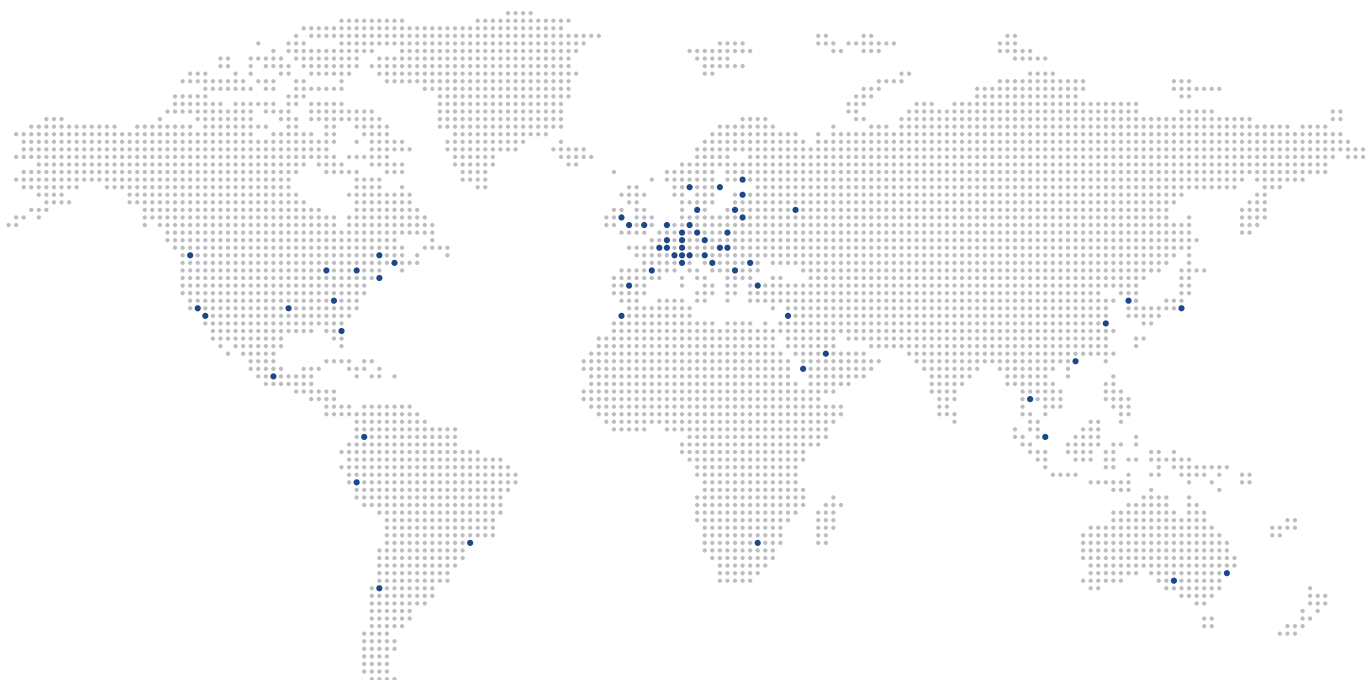
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