

SECTOR SNAPSHOT



BUILDING PRODUCTS & MERCHANTS M&A ACTIVITY AND VALUATIONS FOR 2020



Deal volumes bounce back in H2

Building products and merchants deal volumes in the UK decreased by approximately 8% in 2020 compared to 2019. The optimism created by the election of a majority government in December 2019 rapidly deteriorated as the global pandemic took grip towards the end of the first quarter.

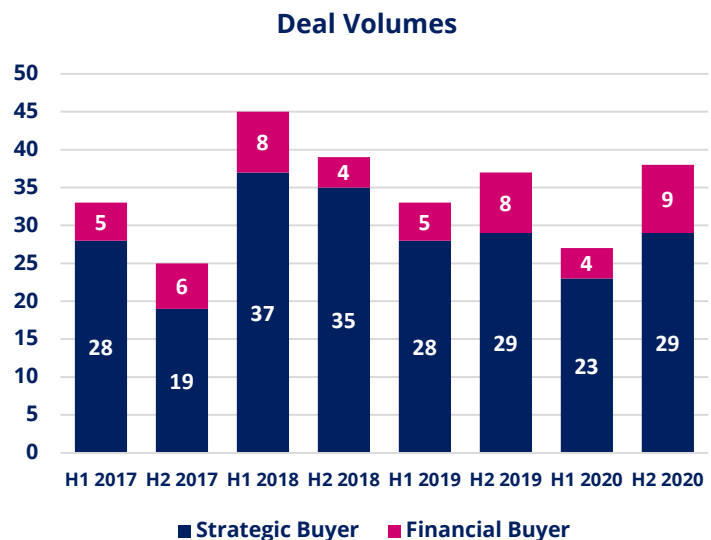
The national lockdown imposed in March 2020 immediately placed a number of transactions on hold as buyers and investors looked to preserve cash and focus on their own businesses amidst the economic uncertainty. Nevertheless, activity in the sector recovered swiftly in the Summer and Autumn which translated into increased completed deals in H2 2020, returning to typical pre-pandemic levels. During the year, the housing market performed strongly and home owners drove demand for building products and services through home improvements. The market dynamics and outlook for infrastructure, construction and the UK housing industry remain strong, with demand for housing continuing to outstrip supply as the industry strives to achieve the government target of 300,000 new homes a year.

Building Products & Builders Merchants M&A: Deal volume

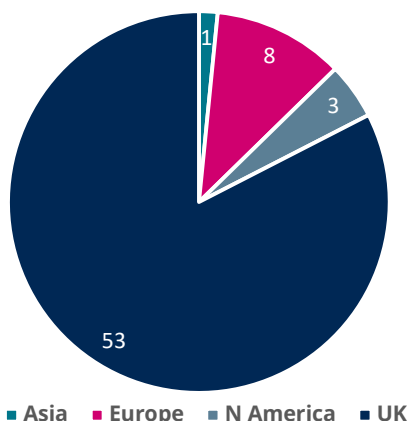
Deal volumes in the first three months of 2020 were in line with previous quarters, partly due to deals carried over from 2019. The impact of Covid-19 was seen from April onwards with a dramatic reduction in deals, with none completing in April 2020. This led to 27 building products and merchants completions in H1 2020 compared to an average of 35 per half-year since H1 2017. Deal activity has steadily recovered in H2, bettering the historical average with there being 38 completions.

Financial buyers remain actively involved in the building products and merchants sector, comprising 20% of the buyers during 2020, which is marginally higher than the average of c. 17% of buyers from 2017 to 2019. The consolidation of the merchants market under private equity influence is a key driver of deal activity.

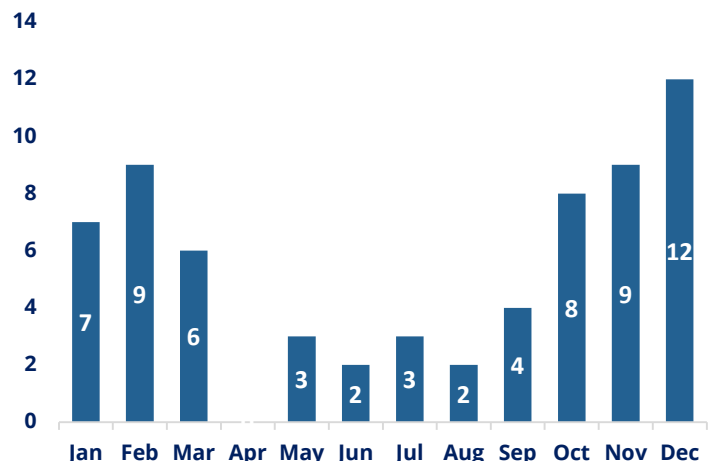
There was no significant change in the proportion of UK vs International buyers, with 18% of deals in 2020 having an overseas buyer which matches the three-year average.



Buyer Locations 2020



Monthly Deal Volumes H2 2020



Notable Deals

Building Products

Breedon acquired certain assets and operations of Cemex UK for £178m, which was cleared by the Competition and Markets Authority in September 2020, representing an EV/EBITDA multiple of 7.7x.



At the start of the year private equity firm Endless acquired integrated forestry and sawmilling business BSW Timber to drive its growth strategy which included the acquisition of the building and supply solutions division of SCA Wood UK.



Grafton Group Plc acquired Stairbox, a manufacturer and distributor of bespoke wooden staircases for £44m representing a circa 7x EV/EBITDA multiple.



Builders Merchants

Travis Perkins disposed of its wholesale heating and plumbing business, Primaflow F&P in a £46m deal with Newbury Investments in January 2020 and sold Tile Giant in October 2020. The divestments are part of Travis Perkins strategy to simplify its business, to focus on its core offering and to reduce net debt.



Brickability plc, a construction materials distributor, made four acquisitions during 2020. These included the acquisition of McCann Roofing Products for £2.75m, U Plastics Limited for £6m, Bathroom Barn Limited for £0.65m and McCann Limited in December 2020 for £1.75m. EV/EBITDA multiples for these smaller deals were between 3x to 4.5x.



Huws Gray, backed by Inflexion Private Equity, made a number of acquisitions during 2020. These included the acquisition of AC Roof Trusses in mid-Wales in March, Leeds-based Millford Building Supplies in October and Bradford-based Uriah Woodhead & Son and its sister branch, Nelson of Keighley, in December.



Private equity's appetite for driving consolidation in the sector continued with Cairngorm-backed Grant & Stone acquiring 3Counties Timber & Building Supplies. Subsequently, Grant & Stone's M&A activity has accelerated in the first half of 2021.



MKM Building Supplies, backed by Bain Capital also drove private equity backed consolidation with the acquisition of DTC Merchants in October 2020.



Valuation Metrics

Plc valuations decreased rapidly in March 2020 across all of the companies profiled in our index below. However, valuation multiples steadily recovered in the summer months before rebounding strongly in the late summer. Overall, the average of the EV/EBITDA multiples of the companies profiled below increased by 16% from January 2020 to December 2020, illustrating the strength and resilience of the building products and merchants sector during the Covid-19 pandemic.

EV/EBITDA Plc Multiples for Building Products and Building Merchants Businesses



EV/EBITDA Movement from Jan-20 to Dec-20		
Breedon Group plc	▲	20.6%
LafargeHolcim Ltd	▲	1.7%
Ibstock plc	▲	26.2%
Compagnie de Saint-Gobain S.A.	▲	21.3%
Epwin Group PLC	▲	17.6%
Kingspan Group plc	▲	15.1%
Marshalls plc	▲	34.7%
Renew Holdings plc	▼	-4.6%
Genuit Group plc	▲	46.1%
Travis Perkins plc	▼	-42.5%
Grafton Group plc	▲	43.2%

Private company EV/ EBITDA multiples were typically between 6x and 7x for Building Products and 5x to 6.5x for Builders Merchants.

Building Products Overview

- The building products market was quick to bounce back from the initial shock of March 2020. Market dynamics within the UK housing market remain positive and this is forecast to continue into 2021 as the industry aims to keep pace with the governments' target of 300,000 new homes per year.
- HS2 and investment in UK infrastructure and green initiatives are major positive forces influencing the sector's outlook.
- Whilst the construction industry was halted during the first national lockdown during March 2020, it has been able to operate effectively under Covid-19 secure procedures which has had a subsequent positive impacts on the building products sector, in turn driving the recovery of M&A activity in the sector.
- Make UK's quarterly outlook shows the increasing levels of confidence in Q4 with investment heading in the right direction, although still below pre-pandemic levels.
- IHS Markit's Purchasing Managers Index (PMI) for the construction sector recovered after a sharp decrease in Q2 2020, driven from demand in house building, the RMI market and other commercial projects.
- Indeed, in certain sub-sectors, a key issue has been manufacturers' ability to meet demand despite price increases.

Industrial KPIs	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	Trend
Confidence	5.8	5.5	6.6	4.8	5.5	5.9	
Output	4	11	2	-56	-36	-5	
UK Orders	-6	-5	-3	-52	-36	-5	
Export Orders	6	10	-2	-52	-34	-5	
Employment	6	6	3	-22	-29	-14	
Investment	-1	3	20	-26	-32	-11	
PMI	50.7	49.6	50.0	32.6	53.3	54.1	

Brick Production in the UK



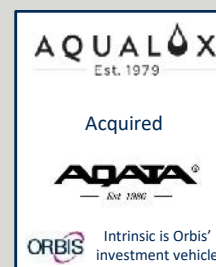
Builders Merchants Overview

- One of the biggest impacts on both builders merchants and products businesses during 2020 has been the acceleration of the digitalisation of the sector. Customers (both trade and domestic) are increasingly using online channels to select new products and to make repeat orders more efficient. With branches shut during the first lockdown, customer behaviours were forced to change leading to increased adoption of ordering products digitally.
- Specialist eCommerce provider for the building supplies sector, eCommonSense conducted research that found that 40% to 60% of products are now bought online depending on product category.
- Digitalisation of business models driven by the pandemic has highlighted the ability to streamline cost bases, make ordering more efficient, increase ranges and maximise profit margins through online sales channels. However, this requires investment and new patterns of thinking and engaging with the customer – traditional firms that do not adapt will be left behind.
- The digitalisation of the marketplace has been coupled with the increased sector presence of Amazon, with approximately 15% of all contractors and tradespeople using Amazon in the past 12 months. This creates some tension in the supply chain, with manufacturers seeing an opportunity to sell direct to the customer and a threat to merchants who see their traditional supply chains being disrupted.
- These trends have been developing for several years but have pushed on rapidly in the last twelve months and will particularly affect regional and local players who have historically relied on customer relationships, service and convenience.

Orbis Deals

Orbis advised long-term client Stuart Turner, the internationally recognised manufacturer of water boosting pumps and systems, on its acquisition of pressurisation and HVAC specialist Mikrofill Systems Ltd. This is the ninth acquisition that Orbis have supported Stuart Turner on in addition to advising the shareholders in their deal with private equity firm LDC in 2017.

Orbis continued our history of investing in the Building Products sector with the acquisition of shower products business Aqualux and the subsequent bolt-on of Aqata.



Sources: S&P CAPIQ, FAME, ONS, IHS Markit, Make UK, eCommonSense, Orbis

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