

### Deal volumes bounce back

Building products and builders merchants deal volumes in the UK increased by approximately 11% in H1 2021 compared to H2 2020, representing the highest six months of deal activity since H1 2018, when there were also 45 transactions. The uptick in deals was a result of continued commercial and consumer demand within the construction and repair, maintenance and improvements sectors plus completion of deals that were put on hold during 2020. The threat of a rise in capital gains tax in March 2021 also prompted vendors to bring forward exit plans. Volatility in materials prices and supply chain issues impacted deal flow in the latter part of H1 as sellers and buyers tried to establish the sustainable trading levels of acquisition targets.

### Building Products & Builders Merchants M&A: Deal volume

The close of H2 2020 saw the building products and merchants sector experience a surge in completed deals as the sector recovered swiftly to pre-pandemic levels. December 2020 saw the highest monthly number of transactions during H2 2020, with continued deal activity seen in January and March 2021. Overall, deal activity increased in H1 2021, with 45 building products and merchants completions, compared to an average of 37 per half-year since H1 2018.

Financial buyers remain actively involved in the building products and merchants sector, comprising 18% of the buyers during H1 2021, which is slightly above the average of 16% of buyers from 2018 to 2020. The consolidation of the merchants' market under private equity influence is a key driver of deal activity.

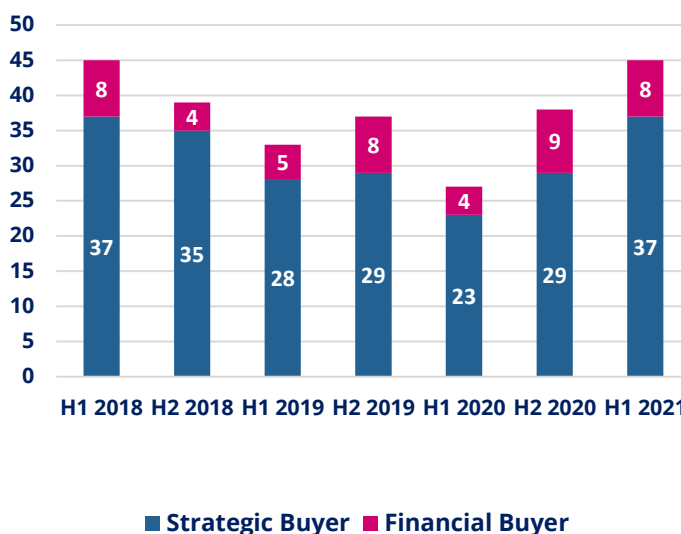
The sector offers private equity opportunities to modernise traditional family businesses, to enhance performance and to consolidate fragmented markets.

Carve-outs from corporates that are evaluating their group companies have also been a strong feature of dealmaking, particularly for private equity.

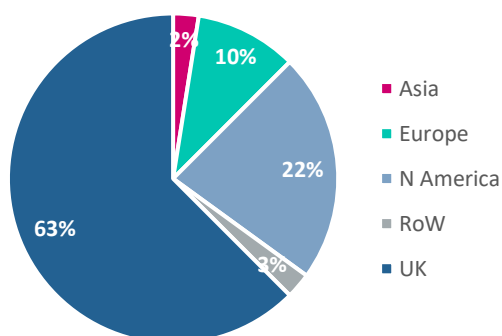
There was a significant change in the proportion of UK vs International buyers, with 37% of deals in H1 2021 having an overseas buyer which is 19% greater than during 2020. Fears that the overseas buyers would shun UK businesses post-Brexit proved to be unfounded with considerable levels of inbound interest.

Exchange rates continued to favour US buyers who made up the largest source of overseas buyers.

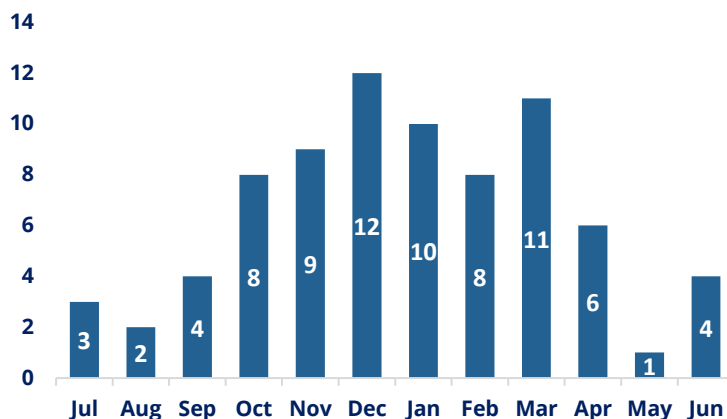
Deal Volumes



Buyer Locations H1 2021



Monthly Deal Volumes in the 12 Months  
June 2021



## Notable Deals

### Building Products

Polypipe were extremely busy in Q1, announcing its acquisition of Nu-Heat (Holdings) Limited in February 2021 for £27m, representing an EV/EBITDA multiple of 8.7x. The deal enabled PE firm Bestport, who invested in 2017, to exit Nu-Heat. In the same month Polypipe acquired heating business Adey from LDC for £210m and infrastructure and civils products manufacturer Plura Innovations.



FM Mattsson Mora Group, a Swedish designer and manufacturer of bathroom products, acquired Aqualla Brassware Ltd in February 2021, for an enterprise value of £11.9m.



Buildings products manufacturer Epwin Group plc announced the acquisition of the trade and related assets of SBS (Cumbria) Ltd, a building plastics distributor, in a £3.8m deal during January 2021. This represented an EV/EBITDA multiple of 4.0x.



### Builders Merchants & Distributors

Travis Perkins disposed of its plumbing and heating business in a £325m deal with investment firm H.I.G Capital, LLC in May 2021. The sale is a result of Travis Perkins' strategy to streamline the business which has also seen the sale of Primaflow in 2018 and the demerger of Wickes in April 2021.



Brickability plc acquired a majority stake in Taylor Maxwell for £63m in June 2021, representing an EV/EBITDA multiple of 6.1x. The transaction supports Brickability's growth strategy by expanding both its product range and customer base. Following the acquisition Brickability are on track to achieve £500m in annual revenues.



Online specialist CMO Group acquired Total Tiles, its second acquisition since Key Capital Partners invested in CMO in 2017.



Ferguson plc announced in January 2021 that it had entered into an agreement to sell Wolseley UK, its UK based plumbing and heating distribution business for £308m to Clayton, Dubilier & Rice, a global private investment firm.



Private equity driven consolidation continued apace: Cairngorm Capital Partners' Grant & Stone acquired 4 businesses in the period, while another Cairngorm portfolio business, National Timber Group continued its acquisitive growth by buying Hymor Timber. Inflexion-backed Huws Gray acquired two more businesses in H1 2021.

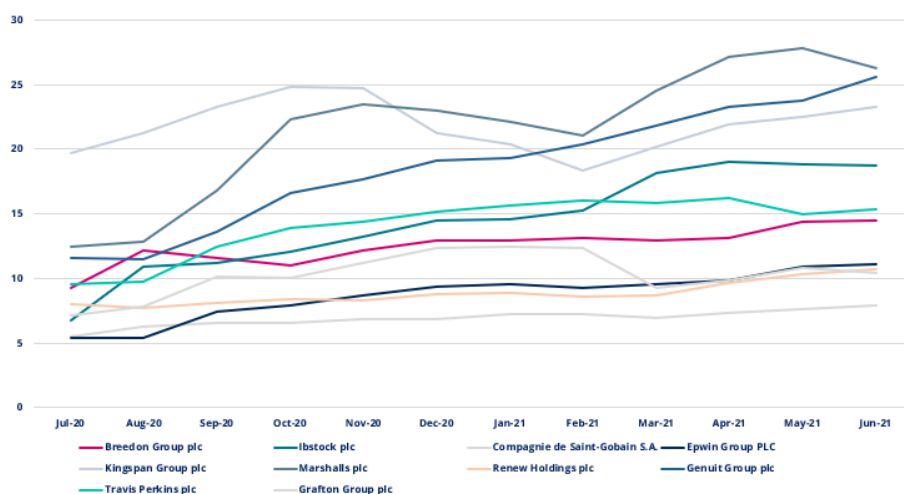


## Valuation Metrics

Listed company valuations gradually increased in July 2020 across all of the companies profiled in our index below. As a collective, the average of the EV/EBITDA multiples of the companies profiled below increased by 18% from January 2021 to June 2021. The vaccine rollout and return to a semblance of normality fuelled confidence in the sectors' short to medium outlook, with the longer-term picture underpinned by favourable dynamics in the infrastructure and house building markets. The average EV/EBITDA multiple for our index was 16x as at June 2021 compared to 9.5x in June 2020.

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

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



EV/EBITDA Movement from Jan-21 to Jun-21		
Breedon Group plc	▲	12.1%
Ibstock plc	▲	28.6%
Compagnie de Saint-Gobain S.A.	▲	9.8%
Epwin Group PLC	▲	16.4%
Kingspan Group plc	▲	14.6%
Marshall's plc	▲	18.6%
Renew Holdings plc	▲	21.2%
Genuit Group plc	▲	32.4%
Travis Perkins plc	▼	-1.4%
Grafton Group plc	▼	-15.9%
Brickability Group PLC	▲	57.4%

## Building Products Overview

- The building products sector bounced back strongly from the first lockdown and gathered pace through the summer of 2020 into 2021.
- Demand within the UK housing market and parts of the commercial property sector are far greater than supply, driving growth for both residential and non-residential building markets for the foreseeable future.
- Government incentives to support first time buyers and the temporary reduction in Stamp Duty fueled the housing market during H1 2021 with a knock-on effect to its supply chain.
- As a result, Confidence and Output rebounded strongly from lows in 2020, while orders surged. Confidence fed through into strong levels of recruitment and investment, both of which were in negative territory during 2020.
- Amid the positive trading conditions and optimism for the future, businesses within the sector have been grappling with supply chain issues and sharp increases in materials costs. In addition, shortages of labour (particularly of drivers) are pushing up costs.
- Many businesses have managed to pass increasing costs on to their customers, but it has highlighted the need for high quality reporting and understanding of profitability by product and by customer. Businesses that do not have quality data and reporting have struggled to demonstrate their underlying performance which has hampered some deals, while both parties try to evaluate the future performance of the target business.

Industrial KPIs	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	Trend
Confidence	5.8	5.5	6.6	4.8	5.5	5.9	6.5	7.2	
Output	4	11	2	-56	-36	-5	9	36	
UK Orders	-6	-5	-3	-52	-36	-5	6	27	
Export Orders	6	10	-2	-52	-34	-5	-0.08	22	
Employment	6	6	3	-22	-29	-14	-6	20	
Investment	-1	3	20	-26	-32	-11	-6	17	
PMI	50.7	49.6	50.0	32.6	53.3	54.1	63.1	66.3	
GBP/USD	1.2	1.3	1.3	1.2	1.3	1.3	1.4	1.4	
GBP/EUR	1.1	1.2	1.2	1.1	1.1	1.1	1.1	1.2	
Brent Crude (\$/Barrel)	62.0	62.4	45.8	28.5	36.5	37.3	60.8	68.8	

## Builders Merchants Overview

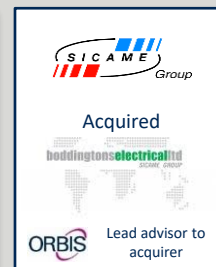
- Builders merchants traded at record levels in H1 2021 despite supply chain issues, staffing pressures and materials price increases hampering their ability to meet demand.
- The Builders Merchant Building Index (BMBI) reported H1 2021 growth of 49.2% against H1 2020, as well as growth of 13.5% when compared to the same timeframe for 2019.
- Heavy Building Materials were up 40.4% against the first half of 2020, while also up 6.8% against the same period of 2019. Timber & Joinery, driven by the surge in Timber spending, was up 74.0% and 28.9% respectively, with Landscaping up 58.6% against 2020 and 41.9% against 2019.
- H1 2021 plumbing and heating product sales were up 35.2% on June 2020.
- Post-Brexit impacts on builders merchants include supply chain disruptions and material shortages. The IHS Markit's Purchasing Managers Index (PMI) indicated in July 2021 that two-thirds of businesses stated they had to wait longer for deliveries of materials due to Brexit complications, delays at ports and driver shortages.
- The pandemic has accelerated a shift in consumer and business spending habits towards e-commerce, due to its accessibility and ease. Online specialists such as CMO Group have prospered and omni-channel models have become the norm as traditional branch based merchants blend the efficiency and reach of online sales with in person service levels.
- The general expectation is that demand will slow somewhat, partly driven by consumers' ability to spend money on holidays and entertainment rather than lockdown enforced DIY projects, partly by the end of the stamp duty holiday, but the underlying market forces remain strong and the outlook for the sector is positive.

### 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.

Working on behalf of French multinational Sicame Group, Orbis identified Boddingtons Electrical as an ideal strategic fit and advised Sicame on the transaction.

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, BMBI, Orbis.

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