

CONSTRUCTION M&A PULSE

SECOND HALF 2019



2H'19

INSIDE THIS ISSUE

What We're Discussing with Clients	PAGE 3
2H 2019 Market Summary & Outlook	PAGE 4
Macroeconomic Trends & Signals	PAGE 5
Construction M&A Activity	PAGES 6-7
Public Equity Market Valuations	PAGE 8

ABOUT PMCF

P&M Corporate Finance ("PMCF"), a US registered broker / dealer, is an investment bank focused exclusively on middle market transactions with professionals in Chicago, Detroit, Denver, and across the globe through Corporate Finance International™ affiliates. Offering a depth of advisory services, PMCF helps clients worldwide meet their sale, acquisition, financing, and strategic growth objectives. Additional information on PMCF can be found by visiting our website, www.pmcf.com.

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What We're Discussing with Clients



General Contractor Profitability

Historically high land costs, along with a tight labor market and increasing material prices, have squeezed contractor margins, leaving little to no room for execution errors. Further compounding this difficult situation, skilled project managers and operations personnel are in high demand with poaching between competitors a common occurrence. General contractors have bolstered their financial performance by increasing their exposure to higher-margin self-perform business. In some instances, this includes enhancing internal capabilities through acquiring sub-contractors, adjacent service providers, and specialty trade contractors. Savings have been found by concentrating wallet share across projects with a smaller set of subcontractors. And while large, developer-backed projects often come with tempting top-line figures, disciplined organizations carefully manage exposure to business that has high margin compression risk.



Adoption of Digital Technologies

Contractors are adopting new digital technologies and procedures to increase productivity, improve safety, and attract and retain skilled labor. Business intelligence platforms that provide real-time analytics, along with developments in smart project management, automation, and geolocation tools, are enabling firms to reevaluate supply chains, analyze operations, and create efficient, connected work sites.



Colorado Initiative 122 – Limits on Housing Growth

The proposed ballot measure would cap residential development at 1% annual growth in the Front Range of Colorado, with exceptions for senior and affordable housing. For reference, the last U.S. Census Bureau measurement (July 2019) pegged Denver's annual population growth at 1.6%. If the backing petitioners are able to collect the required signatures (~125k within six months), the proposal will appear on ballots in November 2020. Placing the proposal on the ballot is no small feat, but if the measure does pass, the limits would go into effect on January 1, 2021.

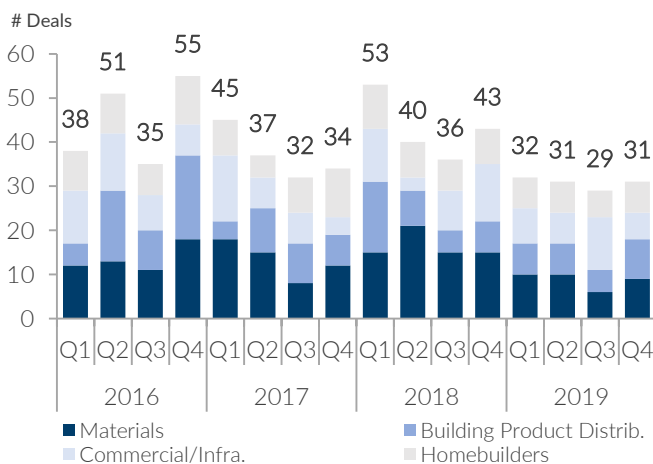
2H 2019 Market Summary & Outlook

2018 & 2019 M&A Market Dynamics - Construction

Overall M&A deal volume in the construction industry¹ declined roughly ~29% in 2019 compared to 2018. Although M&A activity has been slowing in the industry, competition remains robust for quality construction materials and building products distribution businesses. Within the contractor space, restoration, roofing, fire protection, paving as a service and residential plumbing companies have been particularly attractive. General Contractors, on the other hand, have traded infrequently due to challenged margins, the perception of key man risk, and higher bonding requirements.

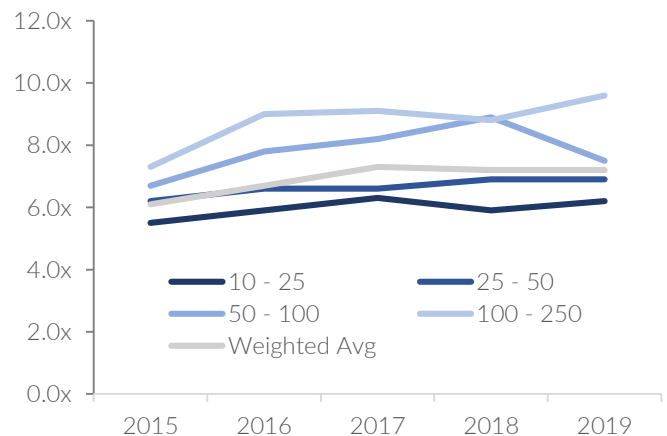
Due to the privately-held nature of the construction industry, transactions typically do not disclose financial terms. As a result, all available private equity transaction multiples, across industries, are used here as a proxy for demand for assets of various sizes, over time. These multiples are an average and are not indicative of what a business would potentially fetch in the market. In fact, the market values different sectors of the broader construction industry quite differently. The data does support the argument that the shift in volume towards smaller deals has reduced the premium larger companies receive compared to smaller companies. For example, the premium paid for companies valued between \$100mm - \$250mm over those valued between \$10mm - \$25mm fell from 2.9x EBITDA in 2018 to 2.1x EBITDA in 2019.

U.S. CONSTRUCTION DEALS BY SECTOR



Note: Transactions include publicly disclosed acquisitions of majority stake
Source: Capital IQ

U.S. PRIVATE EQUITY M&A MULTIPLES BY TEV RANGE



Source: GF Data

Sector Spotlight - Restoration

Within the construction industry, restoration businesses have been highly sought after in recent times. Restoration companies offer construction services for properties impacted by damage from a fire, flood, mold, weather, and natural disasters. In 2019, more than 20 M&A transactions were announced by strategic and private equity acquirers.

With the majority of business funded by insurance claims, this sector of the industry is relatively resistant to economic cycles. Given expectations around a slowdown in the near to mid-term future, restoration offerings de-risk portfolios. Additionally, many investors believe climate change will increase the incidence of natural disasters and severe weather patterns, driving greater demand for restoration services.

¹: Includes construction materials, building products distribution, commercial & infrastructure contractors, and homebuilders

ACTIVE ACQUIRER SPOTLIGHT

Overview:

- Ownership: Private
- Headquarters: Phoenix, AZ
- Operations: 13+ States



Business Description:

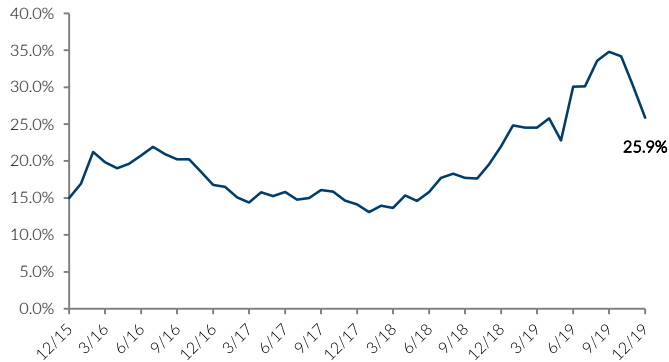
- Provides roofing and exterior restoration
- Active consolidator of existing contractors strategically located in weather-damage prone regions

Select Recent Acquisitions:

- AVCO Roofing (TX)
- NRC Roofing and Restoration (IL)
- Built Strong Exteriors (MN)
- Prime Time Roofing (CO)
- Mile High Restoration (CO)
- Next Generation Roofing Contractors (FL)

Macroeconomic Trends & Signals

WSJ RECESSION PROBABILITY (NTM)



Source: Wall Street Journal Survey of Economists

A survey of economists conducted by the Wall Street Journal in December 2019 indicated a 26% chance of recession in the U.S. within the next twelve months.

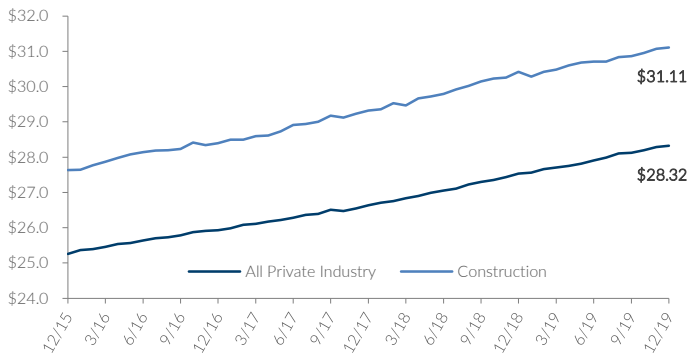
U.S. UNEMPLOYMENT RATE



Source: Federal Reserve Bank of St. Louis

The U.S. unemployment rate dropped to 3.5% in December 2019, with figures hovering around 2.5% in some key Rocky Mountain geographies.

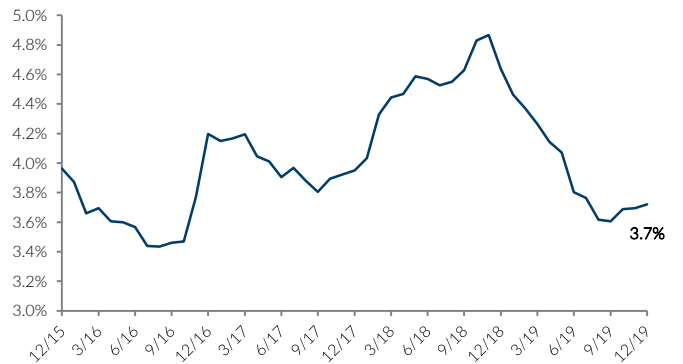
U.S. REAL HOURLY WAGE



Source: Federal Reserve Bank of St. Louis

Construction employees continue to command wages at a premium to the national average as overall wage growth continues at a modest pace.

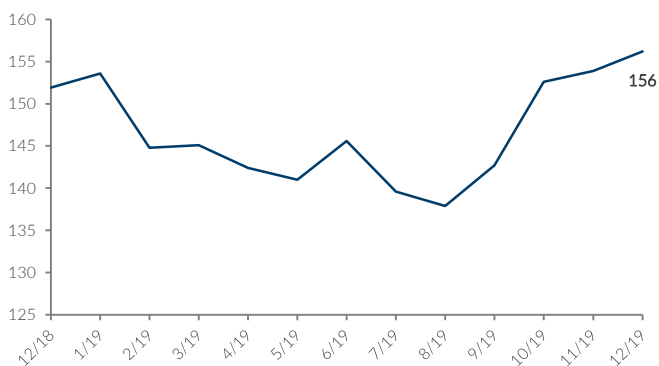
AVERAGE 30-YEAR FIXED MORTGAGE RATE



Source: Federal Reserve Bank of St. Louis

Historically low interest rates and affordable financing continue to enable residential and commercial construction projects.

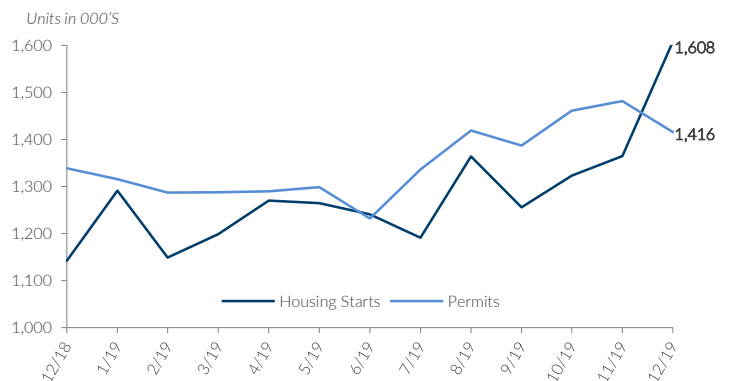
DODGE MOMENTUM INDEX (NON-RESI PLANNING)



Source: Dodge Data & Analytics

The Momentum Index is a monthly measure of the initial report for non-residential building projects in planning. The December 2019 read suggests that any setback in 2020 is likely to be modest in nature.

U.S. HOUSING STARTS (SAAR)



Source: Federal Reserve Bank of St. Louis

Housing starts in December 2019 reached a 13-year high. Combined with low interest rates and unemployment figures, this data point suggests a continued recovery in the housing market.

Construction M&A Activity

KEY DEAL HIGHLIGHTS

REGIONAL

Market Expansion

SRS Distribution Inc. acquires Roofers Supply

SRS Distribution Inc. completed the acquisition of Roofers Supply, Inc. on October 18, 2019 for an undisclosed amount. The transaction will bolster SRS Distribution's presence in Utah through Roofers Supply's established network of six branches across the state. Roofers Supply is a distributor of residential and commercial roofing products and accessories.

Market Expansion

CSG acquires Concrete Equipment & Supply

Construction Supply Group closed its acquisition of Concrete Equipment & Supply on November 1, 2019 – transaction terms were not disclosed. The transaction marks CSG's operational expansion into Colorado and New Mexico. CSG is a leader in the distribution of specialty construction materials, accessories and tools, primarily for professional concrete and masonry contractors in the United States and Canada.

Market Expansion

Taylor Morrison acquires William Lyon Homes

The companies jointly announced their combination on November 6, 2019 in a cash and stock transaction that valued William Lyon at approximately \$2.4 billion. The combined entity constitutes the nation's fifth largest homebuilder on an LTM homes delivered-basis. William Lyon Homes is one of the largest Western U.S. regional homebuilders and is primarily engaged in the design, construction, marketing and sale of single-family detached and attached homes in California, Arizona, Nevada, Colorado, Washington, Oregon and Texas. Taylor Morrison is a leading national homebuilder and developer based in Scottsdale, Arizona.

Portfolio Expansion

Oldcastle acquires Torrent Resources

Oldcastle Infrastructure, a CRH Company, completed its acquisition of Torrent Resources on November 13, 2019 in a transaction that valued the company at approximately \$110 million. The deal affords Oldcastle's customers the benefits of expanded capabilities. Torrent Resources operates as a contractor providing full-service water drainage solutions in New Mexico, Nevada, California and Arizona. Oldcastle Infrastructure is a leading provider of building materials, products, and services for infrastructure projects nationwide.

NATIONAL

Portfolio & Market Expansion

Brickworks acquires assets of Redland Brick

Brickworks Limited, through its U.S. subsidiary, announced its acquisition of the assets of Redland Brick Inc. for \$48 million on November 6, 2019. The purchase will support Brickwork's growth strategy in North America through the addition of four modern manufacturing sites in the Northeast and several well-established premium brick brands. Brickworks Ltd. is one of Australia's largest brickmakers, it entered the North American market in 2018 with the acquisition of Glen-Gery.

ESOP Conversion

Dixie Plywood and Lumber Co.

Dixie Plywood and Lumber Company completed its transition to an ESOP-owned company on November 11, 2019. The conversion transferred 100% ownership of the company to employees with no change in management. Dixie Plywood, headquartered in Savannah, Georgia, is one of the largest independent wholesale distributors of building materials in the U.S.

Platform Acquisition

3 Rivers Capital acquires Aptus Group USA

3 Rivers Capital ("3RC") completed the acquisition of Aptus Group USA on December 20, 2019. The acquisition will serve as a new platform for 3RC. Terms of the transaction were not disclosed. Aptus is one of the largest bridge and bridge-attached utilities contractors in the United States. 3 Rivers Capital is a Pittsburgh-based lower middle market private equity group with a heavy focus on industrial businesses.

Market and Portfolio Expansion

Arcosa acquires Cherry Industries

Arcosa, Inc. completed the acquisition of Cherry Industries, Inc. for approximately \$300 million on January 6, 2020. The deal expands Arcosa's aggregate and specialty materials locations in Texas from 19 to 31 and provides a new product line in recycled aggregates. Arcosa, headquartered in Dallas, is a provider of infrastructure-related products and solutions.

Sources: Company Press Releases

Construction M&A Activity

SELECT CONSTRUCTION TRANSACTIONS

Homebuilders

Announced		
Date	Target	Buyer
Jan-20	Garrett Walker Homes, LLC	Landsea Homes of Arizona LLC
Nov-19	William Lyon Homes	Taylor Morrison Home Corporation
Nov-19	Elite Homes, Inc.	Arbor Homes, LLC
Oct-19	Reuter Walton Construction, Inc	UNDISCLOSED
Sep-19	The Luxury Custom Homebuilding Division Of Richard Atack Construction	Perkinson Homes, Inc.
Sep-19	Sabal Homes LLC	Toll Brothers, Inc.

Commercial and Infrastructure

Announced		
Date	Target	Buyer
Dec-19	Aptus Group USA, LLC	3 Rivers Capital, LLC
Dec-19	A. Epstein and Sons International, Inc.	One Technologies, LLC
Nov-19	Torrent Resources, Inc.	Oldcastle Infrastructure, Inc.
Sep-19	The Hallen Construction Company, Inc.	Quanta Services, Inc.
Aug-19	Mako Steel, Inc.	New State Capital Partners LLC
Jul-19	Conti LLC	ENGIE North America Inc.

Building Products Distribution

Announced		
Date	Target	Buyer
Nov-19	Premier Building Supply, LLC	Installed Building Products, Inc.
Nov-19	Banner Solutions	Tailwind Capital Group, LLC
Nov-19	H2H Commercial, LLC	Professional Builders Supply, LLC
Oct-19	Roofers Supply, Inc.	SRS Distribution Inc.
Oct-19	Forge Lumber LLC	US LBM Holdings, Inc.
Sep-19	Triman Industries Inc.	AE Industrial Partners, LP

Construction Materials

Announced		
Date	Target	Buyer
Dec-19	Cherry Industries, Inc.	Arcosa, Inc.
Nov-19	Concrete Equipment & Supply	Construction Supply Group
Nov-19	Assets of Redland Brick Inc.	Brickworks Limited
Nov-19	Any Old Stone, LLC	Construction Resources, Inc.
Oct-19	Rappahannock Concrete Corporation	Vulcan Materials Company
Oct-19	Elliott Stone Company, Inc.	Polycor Inc.

Sources: Capital IQ, company websites and PMCF proprietary research

Public Equity Market Valuations

Company Name	Market Cap.	Enterprise Value	TTM Revenue	TTM Gross Margin	TTM EBITDA Margin	Net Debt/ EBITDA	EV/ Revenue	EV/EBITDA ⁽¹⁾	
								H2 '19	H2 '18
<i>\$ in Millions</i>									
Homebuilders									
D.R. Horton, Inc.	\$ 19,456	\$ 21,679	\$ 18,095	21.0%	12.7%	1.0x	1.2x	9.9x	7.0x
Lennar Corporation	17,301	26,861	22,260	20.3%	11.6%	3.2x	1.2x	10.7x	12.4x
Toll Brothers, Inc.	5,480	8,162	7,224	20.2%	11.0%	3.3x	1.1x	10.0x	8.0x
KB Home	3,029	4,706	4,553	19.1%	8.8%	3.2x	1.1x	13.4x	8.7x
M.D.C. Holdings, Inc.	2,389	3,231	3,293	20.2%	9.9%	2.3x	1.1x	10.9x	8.5x
Meritage Homes Corporation	2,340	3,229	3,667	19.3%	9.3%	2.1x	0.9x	9.7x	8.7x
TRI Pointe Group, Inc.	2,169	3,530	3,083	20.9%	10.3%	3.2x	1.1x	11.3x	7.4x
LGI Homes, Inc.	1,621	2,341	1,658	24.2%	12.3%	3.5x	1.4x	11.5x	8.0x
Century Communities, Inc.	857	2,096	2,536	18.0%	6.6%	6.7x	0.9x	13.4x	9.0x
Beazer Homes USA, Inc.	423	1,495	2,104	15.0%	3.5%	6.4x	0.7x	20.2x	13.7x
Median					20.2%	3.2x	1.1x	11.1x	8.6x
Mean					19.8%	3.5x	1.1x	12.1x	9.1x
Commercial and Infrastructure									
Fluor Corporation	\$ 2,646	\$ 2,879	\$ 18,520	(1.0%)	(0.6%)	(0.9x)	0.2x	NM	5.9x
Granite Construction Incorporated	1,258	1,350	3,390	5.5%	0.3%	4.9x	0.4x	NM	7.9x
Primoris Services Corporation	1,082	1,647	3,194	10.8%	7.5%	2.3x	0.5x	5.6x	7.0x
Construction Partners, Inc.	874	843	804	15.0%	11.1%	0.2x	1.1x	9.6x	5.9x
Tutor Perini Corporation	647	1,301	4,456	10.4%	5.8%	2.6x	0.3x	4.1x	7.1x
Sterling Construction Company, Inc.	390	406	1,035	9.9%	4.4%	0.3x	0.4x	5.2x	4.8x
Median					10.1%	1.3x	0.4x	5.4x	6.4x
Mean					8.4%	1.6x	0.5x	6.1x	6.4x
Building Products Distribution									
W.W. Grainger, Inc.	\$ 18,235	\$ 20,551	\$ 11,486	38.3%	14.1%	1.1x	1.8x	12.1x	11.4x
HD Supply Holdings, Inc.	6,522	9,120	6,207	39.1%	13.3%	3.1x	1.5x	9.7x	10.9x
MSC Industrial Direct Co., Inc.	4,346	4,761	3,356	42.4%	14.5%	0.9x	1.4x	9.6x	9.2x
WESCO International, Inc.	2,482	3,972	8,359	18.9%	4.9%	3.3x	0.5x	8.3x	8.5x
Beacon Roofing Supply, Inc.	2,193	5,119	7,059	24.2%	6.0%	7.4x	0.7x	11.3x	11.0x
BMC Stock Holdings, Inc.	1,915	2,236	3,596	26.3%	6.8%	1.3x	0.6x	8.2x	5.9x
GMS Inc.	1,142	2,337	3,213	32.7%	9.0%	4.1x	0.7x	7.4x	7.5x
Foundation Building Materials, Inc.	832	1,516	2,156	30.2%	8.3%	3.8x	0.7x	7.4x	7.3x
BlueLinx Holdings Inc.	133	873	2,696	12.7%	1.5%	7.6x	0.3x	13.1x	8.9x
Median					28.3%	3.6x	0.7x	8.2x	8.0x
Mean					29.1%	3.5x	0.8x	8.7x	8.2x
Construction Materials									
Vulcan Materials Company	\$ 19,058	\$ 22,172	\$ 4,929	25.5%	25.1%	2.3x	4.6x	17.0x	15.3x
Martin Marietta Materials, Inc.	17,478	20,852	4,422	26.8%	28.4%	2.2x	4.8x	15.9x	12.9x
Eagle Materials Inc.	3,774	4,755	1,420	22.8%	26.8%	2.3x	3.4x	11.1x	7.5x
Summit Materials, Inc.	2,683	4,466	2,222	31.3%	19.7%	3.7x	2.1x	10.1x	7.9x
U.S. Concrete, Inc.	682	1,459	1,480	19.9%	11.0%	4.6x	1.0x	8.0x	8.0x
United States Lime & Minerals, Inc.	505	428	158	26.3%	29.1%	0.0x	2.8x	9.2x	8.2x
Median					25.9%	2.3x	3.1x	10.6x	8.1x
Mean					25.4%	2.5x	3.1x	11.9x	10.0x

Market capitalizations and total enterprise values as of December 31, 2019; income statement and balance sheet data as of last period reported

(1) Multiple of EBITDA based on EBITDA inclusive of equity income from affiliates

Currency conversions assume historical rate

Source: Capital IQ

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MANUFACTURING DEAL OF THE YEAR

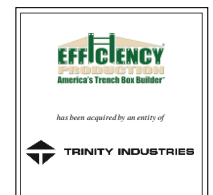


2019 M&A ADVISORS AWARD FINALIST
BOUTIQUE INVESTMENT BANK OF THE YEAR

PMCF | INVESTMENT BANKING



2017 M&A ATLAS AWARD WINNER
CORPORATE DEAL OF THE YEAR



2017 M&A ADVISORS AWARD WINNER
INDUSTRIALS DEAL OF THE YEAR



THE M&A ADVISOR INTERNATIONAL M&A AWARDS
CROSS BORDER M&A DEAL OF THE YEAR
(\$50MM - \$100MM)

AND

CROSS BORDER CORPORATE AND STRATEGIC
ACQUISITION DEAL OF THE YEAR
(\$10MM - \$25MM)



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