



Overview

M&A activity in the global Building Products industry declined to 46 transactions, from 70 during the prior quarter. This included a decline in transaction volume in North America from 21 completed deals to 15. Despite lower transaction volume, several indicators have led EdgePoint to develop a positive sector outlook and a projected increase in M&A volume. Economic activity, as measured by real GDP, increased by 1.9% during the quarter, representing the second largest quarterly increase since Q3 2015, signaling an increase in consumer purchases, residential investment, and government spending.

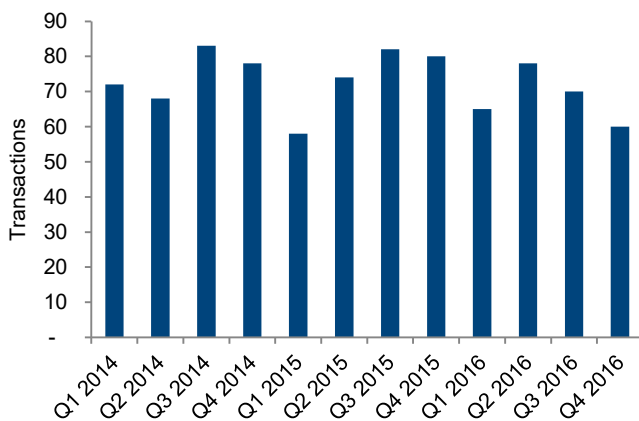
The number of housing starts in the U.S. in Q4 2016 increased by 5.8% over the prior quarter, and more importantly, housing starts in 2016 represented the seventh consecutive year of growth and finished just shy of the 50-year average, which has not been observed since 2007. Fueled by a growing economy, solid employment gains, and rising household formations, FMI Consulting analysts project an 8% CAGR in residential housing spending in the next three years. In addition, construction firms nationwide have a bullish outlook as President Trump has taken office, and are pre-

paring their businesses through expanding headcounts for the increased federal spending promised during his campaigning process.

Valuation levels for publicly traded building product distribution and retail companies, as measured by the median Total Enterprise Value / Last Twelve Months EBITDA, increased during the fourth quarter to 12.0x. In addition, private equity firms in the U.S. have more than \$540 billion of dry powder, with the majority held in 2012 to 2015 vintage funds where the general partners are aggressively looking to deploy the capital.

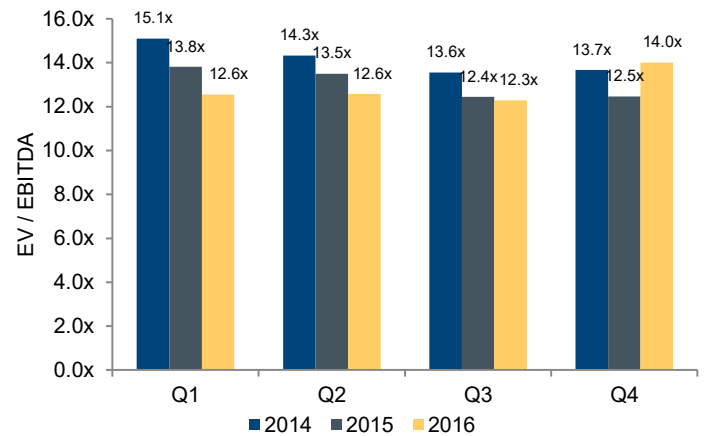
M&A activity during the fourth quarter was driven by motivated sellers at attractive valuations and strong acquisition appetites of strategic and financial buyers, particularly due to the abundance of debt and equity capital, low interest rates, and a favorable housing market. With strategic consolidation expected to continue and six new platform investments made by financial sponsors seeking add-on acquisition opportunities, EdgePoint believes that 2017 will be an opportune year for business owners that are looking to transition their companies to new owners.

Transactions by Quarter



Source: CapIQ

Valuation Metrics by Quarter



Source: CapIQ

Reported M&A Activity

Despite the decline in M&A transaction volume in the fourth quarter for the Building Products industry, numerous strategic acquirers were active in an effort to expand their product lines, capabilities, and geographic reach. Ferguson Enterprises, Inc., a subsidiary of Wolseley plc and leading supplier of commercial and residential products, was highly acquisitive, completing three transactions. These included the purchase of The Plumbing Source, Clawfoot Supply LLC, and Ramapo Wholesalers to expand its plumbing, heating, ventilation, and air conditioning equipment product line as well as its bath, kitchen, and home product retail business. GCP Applied Technologies expanded its flooring products portfolio with its \$47 million acquisition of Halex Corporation. Beacon Roofing Supply acquired BJ Supply of Bristol, PA to complement its pres-

ence in the Philadelphia and surrounding markets. Gypsum Management and Supply, Inc. acquired United Building Materials, Inc. to expand its specialty product position in the Ohio market.

Transaction activity for financial sponsors was strong as well with six noteworthy platform investments of Building Product distribution companies made during Q4 2016. This included MCM Capital Partners acquiring Torsion Group Corp., Dunes Point Capital, LLC acquiring the assets of Floors Inc. and Malibu Acceptance Corp., H.I.G. Capital, LLC acquiring Empire Today, LLC, The Sterling Group acquiring Brock White Company, LLC and Border Construction Specialties, LLC., The Carlyle Group LP acquiring Cupire Padesa, SL., and Lorraine Capital, LLC acquiring Regional Brands, Inc.


Noteworthy Transactions | Q4 2016

M&A Closed Date	Target/Issuer	Buyers/Investors	Business Description	Price (\$USDmm)	Target Country
10/4/2016	United Building Materials, Inc. and United Construction Products, Inc.	GMS Inc. (NYSE:GMS)	Distributes building materials	ND	United States
10/10/2016	Ramapo Wholesalers Inc.	Ferguson Enterprises, Inc.	Distributes plumbing and heating, ventilation, and air conditioning equipment	ND	United States
10/14/2016	Hawkeye Building Distributors Limited	Guardian Building Products Inc.	Supplies aluminum and steel siding and accessories	ND	United States
10/24/2016	The Plumbing Source, Inc.	Ferguson Enterprises, Inc.	Distributes plumbing supplies	ND	United States
11/1/2016	B.R. Johnson, Inc.	Regional Brands, Inc. (OTCPK:RGBD); Lorraine Capital LLC	Distributes windows, doors, and hardware	\$15.4	United States
11/1/2016	Brock White Company, LLC and Border Construction Specialties, LLC	The Sterling Group, L.P.	Distribute construction materials, accessories, and tools	ND	United States
11/10/2016	Trumbull Vinyl Products, Inc.	ABC Supply Co., Inc.	Operates an exterior home and building supply store	ND	United States
11/17/2016	Empire Today, LLC	H.I.G. Capital, LLC	Operates as a shop-at-home company that provides installed flooring products	ND	United States
12/2/2016	E.S. Windows, LLC	C.I. Energia Solar S.A. E.S. Windows	Distributes architectural glass, windows, and aluminum products	\$12.99	United States
12/5/2016	Metro Roofing Supplies, Inc.	SRS Distribution, Inc.	Distributes building materials	ND	United States
12/6/2016	Delta Door and Hardware, LLC	The Cook & Boardman Group, LLC	Distributes and installs commercial doors, frames, and hardware	ND	United States
12/16/2016	BJ Building Material Supply Company	Beacon Roofing Supply, Inc. (NasdaqGS:BEEN)	Provides building materials and services to builders and contractors	ND	United States
12/19/2016	EHLP, LLC	SiteOne Landscape Supply, Inc. (NYSE:SITE)	Distributes nurseries, hardscapes, and landscape supplies	ND	United States
12/23/2016	Floors, Inc. and Malibu Acceptance Corp.	Dunes Point Capital, LLC	Fuller service designer, installer, and retailer of flooring products	ND	United States

Source: CapIQ

Representative EdgePoint Transactions

Buy-Side Advisory




A Private Equity Group has acquired Babin Building Centers

Sell-Side Advisory



Waco Scaffolding & Equipment Co. has sold to Longroad Asset Management

Sell-Side Advisory



Warehouse Cabinets has sold to Babin Building Solutions

Sell-Side Advisory



Waco Scaffolding & Equipment Co. has sold to Safeway Services LLC.



EdgePoint is an independent, advisory-focused, investment banking firm serving the middle market.

