



INDUSTRY OVERVIEW

- ▶ Demand in the Building Products industry has been fueled by operators seeking innovative and cost-efficient solutions to reduce labor and streamline construction processes. Continued strength in Nonresidential Construction and Nonbuilding Structures has driven industry growth, supported by heightened demand for office infrastructure and expanding municipal economies. Despite a historically tight labor market, the Construction industry added 21,000 new jobs in June representing an increase of 3.1% in employment year-over-year (YOY), according to ABC.¹
- ▶ Continuing off of momentum in May, new construction starts advanced 9% in June as the Dodge Construction Index reached its highest level in 2019 with much of the expansion attributed to a 16% increase for nonresidential building.² As strong macroeconomic tailwinds persist across the U.S. economy through Q3 2019, the backlog of construction projects remains high amid uncertainties in global trade. Operators in the Building Products industry are expected to remain acquisitive to advance manufacturing capacity and combat commodity deflation.

BUYER BREAKDOWN

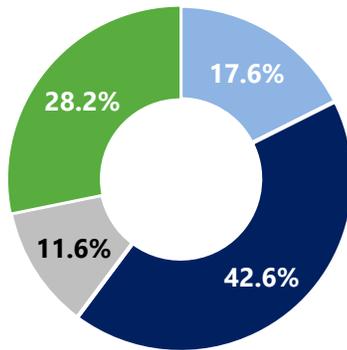
- ▶ Deal activity in the Building Products industry has remained robust with 216 transactions announced or completed year-to-date (YTD), an increase from YTD levels in 2018. Financial buyers (39.8%) have taken an increased interest in the space, with sponsor-owned acquisitions making up 28.2% of transactions.

STRATEGIC

- Public
- Private

FINANCIAL

- Direct
- Add-on



Source: Capital IQ, FactSet, and Capstone Headwaters Research

SEGMENT HIGHLIGHT: DATA CENTERS

- ▶ Nonresidential construction has recently been propelled by the growing demand of the Office Building industry which grew 31% in June, largely driven by increased investment in data center construction, according to Dodge Data & Analytics. The demand for cloud-based services, Internet of Things (IoT) applications, and disaster recovery centers has created a healthy pipeline of construction projects in the Data Center industry, which is expected to exceed \$30 billion in market value by 2024, according to Research and Markets.³ There were several notable projects in June including: Microsoft's Iowa data center (\$418 million); a data center in Papillion, NE (\$280 million); and a data center in Manassas, VA (\$258 million).

Large scale data centers requiring complex physical infrastructure and computing power have experienced rapid expansion as an increasing number of companies turn to big data analytics and cloud computing. Building Products operators are benefitting from green retrofitting as data centers seek more environmentally friendly facilities to reduce energy consumption. As technology firms look to expand their information technology platforms and computing capabilities, the demand for physical data center infrastructure is forecasted to remain robust.

CONSTRUCTION INPUT PRICING

- ▶ Overall construction input prices decreased by 1.3% month-over-month and have fallen by the same amount YOY. Uncertainty in the global economy and international trade frictions have contributed to decline in prices for several commodities. Despite economic headwinds, inputs such as concrete products (+3.4%) and plumbing fixture fittings and trim (+4.5%) have experienced YOY growth.

Commodity	June 2019	1 Month % Change	12 Month % Change
Softwood Lumber	210.4	-3.4%	-23.1%
Plumbing Fixture	281.2	0.0%	4.5%
Nonferrous Wire & Cable	249.9	-0.9%	-1.5%
Concrete Products	273.2	0.7%	3.4%
Plywood	206.4	-1.4%	-15.1%
Iron & Steel	222.3	-3.0%	-8.3%

Source: Bureau of Labor Statistics

SELECT TRANSACTIONS

- ▶ **Kyocera Corporation to acquire SouthernCarlson, Inc. (May 2019, \$815.3 Million at 1.5x Revenue)** – Kyocera (TSE:6971) has agreed to acquire SouthernCarlson for an enterprise value of \$815.3 million at 1.5x revenue. SouthernCarlson is a leading provider of construction fasteners, tools, packaging, and facility supplies with over 150 locations across North America. Through the acquisition, Japan-based Kyocera will expand its product offerings in the North American Residential, Manufacturing, and Industrial Tool & Fastener markets.
- ▶ **Parker Hannifin Corporation to acquire LORD Corporation (April 2019, \$3.68 Billion at 16.5x EBITDA)** – Parker Hannifin (NYSE:PH), a global leader in motion and control technologies, has agreed to acquire LORD Corporation for an enterprise value of \$3.68 billion, equivalent to 16.5x EBITDA. Founded in 1924, LORD offers adhesives, coatings, and specialty materials to the Building & Construction, Oil & Gas, Automotive, and Transportation Industries. LORD operates 17 manufacturing and 15 research & development facilities worldwide with approximately \$1.1 billion in annual sales.⁴ Parker expects to realize nearly \$125 million in pre-tax run rate cost synergies by 2023 and accretion of organic growth and EBITDA.



BUILT FOR THE MIDDLE MARKET



UNITED STATES

160+ professionals
17 offices

INTERNATIONAL

450+ professionals
60 offices in 40 countries

CITATIONS

1. Associated Builders and Contractors, "Construction Job Growth Steady in June," <http://www.abc.org/News-Media/News-Releases/entryid/16569/construction-job-growth-steady-in-june-says-abc>, accessed July 30, 2019.
2. Dodge Data & Analytics, "June Construction Starts Climb 9 Percent," <https://www.construction.com/news/june-construction-starts-climb-9-percent-july-2019>, accessed July 31, 2019.
3. Business Wire, "Global Data Center Construction Market is Projected to Reach \$30 Billion by 2024 – Many Companies are Increasing Their Market Presence by Securing New Contracts and by Tapping New Markets – ResearchAndMarkets.com," <https://www.businesswire.com/news/home/20190729005379/en/Global-Data-Center-Construction-Market-Projected-Reach>, accessed July 31, 2019.
4. LORD, "Parker to Acquire LORD Corporation in Strategic Transaction that Significantly Expands Engineered Materials Business," <https://www.lord.com/our-company/newsroom/parker-to-acquire-lord-corporation>, accessed July 31, 2019.

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