

2017 Post-Conference Report

Building & Infrastructure Conference

100 attendees, from 40+ leading building products companies, private equity firms and other professional services organizations

- **Keynote Speaker:** John Burns, Chief Executive Officer, John Burns Real Estate Consulting, LLC
- **Two Expert Panels:** Panel 1 - Near Term M&A Outlook
Panel 2 - Growth Priorities & Challenges
- **Endnote Speaker:** Todd Tomalak, Vice President, John Burns Real Estate Consulting, LLC

Keynote Address: *US New Home Construction – Supply Challenges*



John Burns
Chief Executive Officer
John Burns Real Estate Consulting, LLC

Key Takeaways:

- In the latest housing recovery, multifamily construction activity recovered quickly but has begun to taper off, while single-family activity continues to recover at a slower pace
- Historically, housing expansions have lasted 3-5 years; however, the expansion before the Great Recession lasted 15 years, and the current recovery is now in year 7
- Labor shortages continue to rise across the construction market, increasing construction costs and constraining the overall supply of housing
 - Community growth has been low and inventories remain low across the country
 - Builders have pushed new home prices to a 30% premium over resale
- Housing and construction-related trends and decisions must be reviewed at a regional level
 - Currently, most regions are performing well, valued fairly and operating at normal or low risk levels with significant strength on the west coast, in Texas and in the southeast
- Long-term demographics support 12.5 million more households over 10 years with a surge in older renters producing the need for different types of communities, such as suburban communities that have the feel of urban communities ("surban" communities)

Organizers



Jeff Corum
Managing Director
Lincoln International LLC



Eric Malchow
President NA,
Managing Director
Lincoln International LLC



Chris Kenney
Managing Director
L.E.K. Consulting



Robert Rourke
Managing Director
L.E.K. Consulting



Panel 1: Near Term M&A Outlook



Michael Brady
EVP and
Chief Business
Development
Officer
Summit Materials



John Brignola
Managing Partner
LBC Credit Partners



Paul Drobniitch
Director of
Corporate
Development
ABC Supply Co., Inc.



Todd Golditch
Principal
Platinum Equity

Key Takeaways:

- Investors have come to expect "slow and steady" growth in many areas of the construction market
 - Moderate growth expectations have mitigated perceived risk and provided more stability to the housing industry
- Purchase prices remain high in M&A transactions
 - Drivers include leverage availability, substantial levels of equity capital, competition among potential acquirers and a scarcity of high quality assets
- Increasing M&A activity in the space has improved private sellers' knowledge and sophistication
- Cost flexibility and management have become key characteristics that investors review when evaluating acquisitions

Panel 2: Growth Priorities & Challenges



Jay Gould
President and Chief
Executive Officer
Interface, Inc.



Ben Johansen
President and Chief
Executive Officer
*Kyocera Senco
Industrial Tools*



Bob Rowan
President and Chief
Executive Officer
*Jacuzzi Group
Worldwide*

Moderator
Robert Rourke
Managing Director
L.E.K. Consulting

Key Takeaways:

- Significant growth opportunities exist for companies across the construction industry
 - Critical to evaluate opportunities based on specific markets and geographies
- Companies are increasingly investing additional resources in growing their core offering
 - Many businesses are aligning their strategies to be "narrow and deep" rather than attempting to focus on too many initiatives
- Growth expectations for 2017 were high at the start of the year
 - While the first half of the year began below expectations due to political uncertainty related to the new administration, activity has picked up substantially in the second half of the year
- Labor shortages continue to hamper growth within the marketplace; however, investing in innovation and automation will help reduce labor requirements

Endnote Address: US Residential Remodeling Outlook - Important Changes Ahead



Todd Tomalak
Vice President
John Burns Real Estate Consulting, LLC

Key Takeaways:

- Repair & remodel construction activity is expected to maintain impressive growth levels
 - Key drivers of R&R activity include income growth, faster home price appreciation and the increasing amount of first time home buyers
 - Income growth is the most important metric for R&R activity, as ~75% of all remodels are cash funded; we're beginning to observe income growth despite a low inflation environment
- 2018 forecast: homeowner spending on big project and small project remodel types will both increase by over 10% in 2018 after experiencing growth in 2017 of 9.5% for big project spend and 4.8% for small project spend
- Increasing use of home equity lines of credit ("HELOC") drive trade-ups to higher price-point items
 - Refinance-funded remodels will increase remodel spend, but not change the volume of remodel projects
- The age of a home and the age of its residents play vital roles in determining the type of remodel projects undertaken
 - Older homes are mostly owned by older individuals, aged 65 and over, who are more likely to spend on systems to maintain the status quo of a home
 - Many older homes are also renovated by households age 35 and younger, a demographic that is increasingly spending on big ticket discretionary projects

Harnessing deep industry expertise to create strategic solutions

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. We are uncompromising in our approach to helping clients consistently make better decisions, deliver improved business performance and create greater shareholder returns. Founded in 1983, L.E.K. employs more than 1,200 professionals across the Americas, Asia-Pacific and Europe.

L.E.K.'s Building Products & Materials Practice

Participants in the residential and commercial building products industry are routinely faced with increasing competition, pricing and margin pressure, labor shortages, and uncertainty surrounding construction cycles. These issues impact stakeholders throughout the value chain (e.g., manufacturers, distributors, contractors, etc.) and across segments (e.g., flooring, windows and doors, roofing, plumbing, etc.). L.E.K. has deep industry expertise helping leaders within the building products sector navigate these dynamic and critical issues, capitalize on trends, and focus on high-potential growth initiatives to realize significant value.

We are a leading adviser to the building products & materials sector, with more than 3,000 projects completed around the world. In the U.S., our building products team has been involved in more than 300 projects during the past five years, including some of the most significant M&A activity in the industry. Our practice leaders in each region have deep local experience as well as understanding of the commercial and operational dynamics of industrial companies. Our extensive knowledge of builders, contractors and channels and our unparalleled access enable us to develop credible and relevant market insights that lead to actionable results.

Clients turn to L.E.K. for expertise that covers the full spectrum of building and construction products and materials, including building materials, building products, distribution, and engineering and construction services. We are uniquely positioned to advise clients based on

our experience and understanding of contractors' views on construction markets, which we gather through an annual survey of more than 750 residential and commercial contractors. We maintain proprietary views on the drivers, and forecast for residential and commercial construction markets, and on where we are in the cycle and stage of the recovery for these markets.

Our expertise in deal-support engagements in the building products segments has been acknowledged and endorsed by leading independent industry associations and publications — including ACQ Global Awards and International M&A Awards. We host the only annual building and construction conference focused on M&A and growth issues within the industry.

Customer Success Stories

- A Fortune 500 building materials manufacturer faced a daunting task selling its new premium offering in a price-driven, commoditized market. L.E.K. identified the right customers and channel, and created financial models for the launch. With our help, the company is forecasting significant profits for the product.
- L.E.K. assisted a leading, diversified building products manufacturer in understanding the drivers of profitable growth in each of its markets; how the client's business units were positioned against these drivers; and what strategic options the company could pursue in current and adjacent markets. The client executed on the strategy and experienced approximately 300% stock price appreciation in 18 months.

- A leading global cement producer was evaluating opportunities for optimizing U.S. logistics in light of changes to demand levels. L.E.K. identified the drivers of increasing costs and determined appropriate organizational changes, thereby improving cost controls to lock in savings that were equal to 10% of the existing cost base.
- When changes in market fundamentals resulted in increasing prices, one of our clients saw this as a potential opportunity to enter a new market, realize attractive margins and diversify. L.E.K. performed a detailed market assessment and identified broad growth opportunities, led by a robust forecast of specific end-market segments. Based on our research, the company pursued and completed the acquisition of a leading supplier with an advantaged reserves position.
- L.E.K. performed a six-month strategic review involving extensive collaboration among a global construction contractor's team of senior business managers, supplemented by our rigorous analysis and insights from customers, competitors and industry specialists. The review highlighted key areas where a concerted program of initiatives, together with aligned internal changes, could deliver significant improvements to the group's business and profitability. The group's financial results significantly improved within 18 months, marked by increases in revenue (14%), operating profit (more than double), and share price (400%).

L.E.K. Consulting is a registered trademark of L.E.K. Consulting LLC. All other products and brands mentioned in this document are properties of their respective owners. © 2017 L.E.K. Consulting LLC

L.E.K. Capabilities

L.E.K. combines strategic acumen with the extensive industry insight to help clients enhance business performance and gain market share via our service offerings – strategy, marketing & sales, strategy activation and transaction support services. We also address the unique requirements of the Industrials sector, including:

- Growth Strategy
- Pricing Strategy
- Mergers & Acquisitions
- M&A Integration
- Strategy Execution
- Sales Force Effectiveness
- Network Optimization
- Manufacturing and Plant Strategy
- Channel Optimization and Marketing Strategy
- Performance Improvement

Learn More

For more information on our services, or for copies of our most recent Building & Construction Executive Insights reports, please contact:

Chris Kenney

Managing Director
T: +1 312-913-6409
Email: c.kenney@lek.com

Lucas Pain

Managing Director
T: +1 312-913-6415
Email: l.pain@lek.com

Rob Rourke

Managing Director
T: +1 312-913-6416
Email: r.rourke@lek.com

lek.com



Firm Snapshot

Lincoln International is the first and only truly international, integrated, independent mid-market investment bank.

International

- 19 offices in key global economies
- Each office is connected in its region
- 40% of transactions are cross-border

Integrated

- Global culture and brand
- Global industry groups and deal teams
- Global partnership, shared economics

Independent

- Owned and operated by our partners
- No conflicts of interest
- Long-term relationships based on trust

Mid-Market

- Mid-market is the focus of the entire organization
- Not a mid-market group of a larger entity
- Senior bankers are very "hands-on"

We focus on the following services:

- M&A Advisory
- Debt Advisory
- Special Situations & Restructuring Advisory
- Joint Ventures & Partnering
- Valuations & Opinions

Global Building & Infrastructure Group

Lincoln International recognizes the importance of understanding a client's industry, value drivers, growth opportunities and challenges. With over 30 completed advisory assignments within the building and infrastructure industry since 2015, our professionals have developed an expertise in the sector that is highly valued by our clients.

Our dedicated Global Building & Infrastructure Group consists of highly experienced senior bankers. These officers have spent the majority of their careers developing deep professional relationships and specific knowledge of the building and infrastructure industry, particularly in our key areas of focus listed below.
































































With officers in each of our global offices working together within the building and infrastructure space, Lincoln International provides key senior-level experience, insights and contacts in support of clients on a worldwide basis for every transaction.

Representative Areas of Focus

- Building Materials
- Distribution
- Exterior Products
- Flooring
- Interior Products
- Kitchen and Bath
- Pipe Products
- Plastic Products
- Roofing
- Steel Products
- Window & Door
- Wood Products






www.lincolninternational.com/industries/building-and-infrastructure

Select Building & Infrastructure Transactions









 has sold  to  	 has been sold to  	 has sold  to  	 has been sold to  	 has sold  to  	 has been sold to  
 has sold  to  	 has acquired  Senior Secured Credit Facilities 	 has sold  to  	 has sold  to  	 has sold  to  	 has agreed to sell  to  
 have sold  to  	 has sold  to  	 has sold  to  	 has been sold to  	 have sold  to  	 has received financing for the acquisition of   

Lincoln International's Global Building & Infrastructure Team




Americas

-  Jeff Corum
Managing Director
jcorum@lincolninternational.com
-  Carl Gatenio
Director
cgatenio@lincolninternational.com
-  Scott Molinaro
Vice President
smolinaro@lincolninternational.com
-  James Sinclair
Managing Director
jsinclair@lincolninternational.com
-  Luiz Recchia
Managing Director
lrecchia@lincolninternational.com

Europe

-  Phillip McCreanor
Managing Director
pmccreanor@lincolninternational.com
-  Julian Tunnicliffe
Managing Director
jtunnicliffe@lincolninternational.com
-  Jean-René Hartpence
Managing Director
jr.hartpence@lincolninternational.fr
-  Guillaume Suizdak
Managing Director
g.suizdak@lincolninternational.fr
-  Richard Floto
Managing Director
r.floto@lincolninternational.de
-  Anna Klein
Director
a.klein@lincolninternational.ru
-  Eric Wijs
Managing Director
e.wijs@lincolninternational.nl
-  Filippo Lardera
Managing Director
f.lardera@lincolninternational.it

Asia

-  Gaurav Marathe
Managing Director
gmarathe@lincolninternational.com
-  Tetsuya Fujii
Managing Director
tfujii@lincolninternational.com
-  Joe Chang
Managing Director
jchang@lincolninternational.com

Amsterdam | Beijing | Chicago | Dallas | Frankfurt | London | Los Angeles | Madrid | Milan | Moscow | Mumbai | Munich | New York | Paris | San Francisco | São Paulo | Tokyo | Vienna | Zurich