

2016 Post-Conference Report

Building & Infrastructure Conference

More than 125 attendees, representing 70+ leading building products companies, private equity firms and other professional services organizations

- **Keynote Speakers:** Rick Palacios, Jr., Director of Research, John Burns Real Estate Consulting, LLC
Todd Tomalak, Vice President, John Burns Real Estate Consulting, LLC
- **Two Expert Panels:** Panel 1 - Near Term M&A Outlook
Panel 2 - Growth Priorities & Challenges
- **Endnote Speaker:** John Manzella, Global Economic Analyst

Synopsis: As the measured recovery in residential and nonresidential construction end markets continues, investors continue to ask where we are in the cycle.

Keynote Address: *Housing and Remodeling Outlook: Providing Clarity for the Building Products Sector*



Rick Palacios
Vice President, Director of Research
John Burns Real Estate Consulting, LLC



Todd Tomalak
Vice President
John Burns Real Estate Consulting, LLC

Key Takeaways:

- Recovery in residential construction is well underway, with growth in the larger single-family construction end market offsetting declines in multifamily construction
 - Single-family housing starts experienced growth over the last year, but continued supply/demand constraints have kept growth at lower than expected rates
 - Multifamily housing starts experienced a decline from last year, driven by urban/luxury slowing, tighter lending and lower occupancy
- John Burns Real Estate Consulting (JBREC) forecast
 - 12.5 million total new homes will be built over the next 10 years
 - Residential construction is expected to experience slow and steady single-family growth offset by multifamily sluggishness
- Based on a slow recovery, JBREC does not believe housing permits will reach the consensus "normalized" level of 1.5 total million permits during this cycle
- Key drivers are demographics and demand/supply constraints
 - Demand headwinds – slow economic expansion, student debt, higher mortgage rates and flexibility of renting has enabled the millennial generation to postpone starting families until later ages
 - Supply constraints – new homes are as high as 40% premium, driven by rising land prices, regulatory costs and trade shortages; the difference between the number of median resales and median new homes is at an all-time high
- The four truths to remodeling
 - Residential remodel spending growth will outpace new residential construction spending through 2019 due to a drop in multifamily construction activity
 - Remodeling trade-up underway – as homes get older, renovation projects become staggered and further apart, resulting in slightly lower project numbers, but higher dollars spent per project
 - Relationship between existing home sales and remodeling growth will be less pronounced in 2017 due to homeowners staying in current homes and spending more on remodeling to trade-up in price point
 - Large opportunity for long-term capital in DIY after 2020 – those born in the 1980s and later will drive most future household formations, and are more likely to spend on DIY projects

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Panel 1: Near Term M&A Outlook



Dan Counsell
Mergers & Acquisitions
Kohler Co.



Tim Meyer
Co-Founder & Managing
Partner
Angeles Equity Partners



Michael Ranson
Partner
Blue Wolf Capital
Partners LLC



Jeff Corum
Managing Director
Lincoln International LLC

Moderator

Key Takeaways:

- Residential cycle is moving in the right direction; may be earlier in the cycle than first thought, which supports M&A activity
- Slow and steady recovery in housing activity has created an attractive environment for buyers and sellers
- Sellers who were on the sidelines now believe it is a good time to sell; has led to steady flow of sellers, which will continue through at least 2016
- In current environment, assets are trading for very high multiples, both in the public markets and in transactions
 - High multiples can be paid for the right deal
 - More strategic activity from sponsor-backed platforms
 - Companies with good growth opportunities and synergies are achieving highest valuations

Panel 2: Growth Priorities & Challenges



Patrick Lynch
Senior Vice President &
Chief Financial Officer
Interface, Inc.



Tim O'Keeffe
Chief Executive Officer
Symmons Industries



Margaret Whelan
Chief Executive Officer
Whelan Advisory, LLC



Robert Rourke
Managing Director
L.E.K. Consulting

Moderator

Key Takeaways:

- Those who invested wisely during the downturn are being rewarded
- Crucial to know your company's value chain
 - Understand your unique position with customers, end users and distributors
 - Identify and capitalize on the drivers
- Customer feedback can direct you to new adjacent markets; markets must be developed as part of a broader organizational strategy
- Profit expansion is expected across many sectors as additional volume provides operating leverage, and suppliers experience improving pricing power

Endnote Address: U.S. and Global Economic Trends and Critical Risks Ahead



John Manzella
Global Economic Analyst

Key Takeaways:

- A significant amount of volatility exists in the U.S. due to several factors including interest rate levels, the elections, Brexit and economic slowdowns in China and across Europe
 - As a result, real GDP is projected to grow around 2% over the next five years
- While drops in oil prices have incentivized consumers to spend more due to savings at the pump, the precipitous and volatile swings in oil have created high levels of uncertainty and uneasiness
- Unemployment is greatly understated in the U.S. as discouraged job seekers are no longer searching for jobs, which artificially lowers the unemployment rate
- Despite current headwinds, the U.S. remains the innovation hub of the world, demonstrated by highly successful businesses such as Google, Apple and Facebook
 - The U.S. should encourage and properly incentivize high-performing foreign students to receive degrees and work in the U.S.

Organizers



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