





Private equity represents an important market for BDO with one in three of the transactions we advise on having private equity involvement.

With an established team of specialists in the Building Products & Services sector, we are dedicated to transacting in the mid-market. Rapid technological innovation, regulatory changes and evolution of supply chains and business models are creating opportunities to drive value. This is precipitating a growing level of interest and investment from private equity. M&A activity in the sector is expected to accelerate in 2018 and private equity has a major role to play.

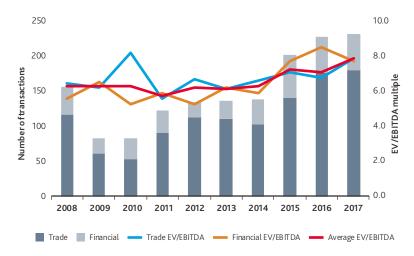
JOHN STEPHAN and MITHUN PATEL

Growing private equity interest in the Building Products & Services sector and success in bidding for quality assets.

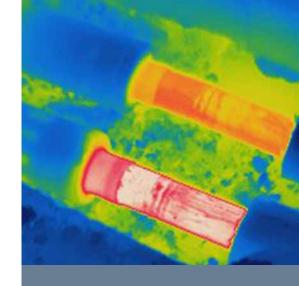
2017 was another healthy year of investment in the sector. Transaction multiples continue to be at near record highs, driven by competition from trade and private equity for a limited pool of available high quality assets. This sellers market presents opportunities for private equity to realise investments and maximise returns.

The "business as usual" approach is set to roll forward into 2018. Combined with unprecedented levels of available funds, this exciting mix could well act as a catalyst for continued momentum in deal activity in 2018 and private equity winning more auction processes.

Volume and size of trade and financial transactions in the sector (2008-2017)



Source: Mergermarket, Companies House, Market IQ and BDO Analysis



AVERAGE INVESTOR

FROM 2010-2017, COMPARED TO AN AVERAGE OF 7.4x FROM TRADE

SINCE 2010,

WERE MADE AS A

CTIONS IN BUILDING PRODUCTS

IN THE SECTOR

ACHIEVED

BETWEEN

BETWEEN 2010-2013

TECHNOLOGY AND INNOVATION PRESENT SIGNIFICANT OPPORTUNITIES FOR PRIVATE EQUITY TO INVEST, CREATE VALUE AND MAXIMISE RETURNS

The Building Products & Services sector has experienced rapid change in recent years due to a combination of product innovation, increased regulation and a shift in economic conditions.

The identification of key market trends has allowed private equity investors to harness the areas from which most value can be drawn.

The sector is still in its infancy with regards to technology adoption, offering a huge opportunity for private equity to help revolutionise and "professionalise" the industry.

The number of entrants and attractive money multiples being achieved by private equity is creating a halo effect. We are experiencing record levels of interest from houses who want to learn more about the sector and its appealing dynamics.

FACTORS DRIVING PRIVATE EQUITY INVOLVEMENT IN BUILDING PRODUCTS & SERVICES

TECHNOLOGY

The sector is catching up on the uptake of technology and automation. This is being driven by Building Information Modeling (BIM), Internet of Things (IoT), automation and online distribution channels. New technology is driving significant levels of investor interest.

GREEN CONSTRUCTION / REGULATION

Regulatory change is changing the dynamics of the sector, creating opportunities for forward thinking businesses that embrace innovation.

The HVAC sub-sector has experienced the greatest change in regulation in recent years, mirrored by the high levels of private equity and trade interest in the sector.

INFRASTRUCTURE

In times of economic uncertainty, infrastructure projects are a key driver of growth in the construction industry. According to CPA forecasts, construction on infrastructure projects is set to rise by 6.3% in 2018, and 11.1% in 2019.

OFF-SITE CONSTRUCTION

Cost saving, delivery speed, risk management and compliance with health and safety requirements are driving investor interest in companies with expertise in off-site construction. Products that are made in a factory are delivered direct to site rather than through the merchant channel.

EFFICIENCIES AND FRAGMENTED MARKET

A number of companies are smaller and less efficient but offer an attractive investment case due to a unique product, route to market, adoption of new technology or exposure to wider macro trends. There is a significant opportunity for private equity to implement operational improvements.

The sector is highly fragmented, creating the opportunity for strategic bolt-ons and market consolidation.

HOUSING CONSTRUCTION

The government continues to outline commitment to the sector and recognises the ongoing need to support the construction of affordable housing across the country. Developer friendly policies will continue to put a floor on housing construction levels and pressure for even greater construction growth will help to drive sales in the companies providing products and services to the sector.



UNPRECEDENTED LEVELS OF PRIVATE EQUITY INTEREST AND INCREASING SUCCESS AGAINST TRADE IN BIDDING FOR QUALITY ASSETS

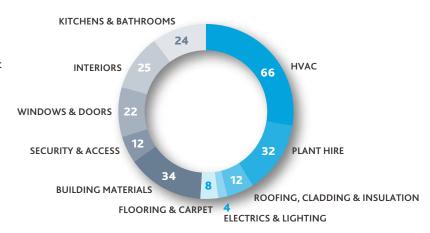
ACTIVE BUILDING PRODUCTS & SERVICES INVESTORS



SUB-SECTORS RIPE FOR CONSOLIDATION AND TECHNOLOGICAL ADVANCEMENT ARE ATTRACTING STRONG INTEREST

THE HVAC SUB-SECTOR IS A HOTBED FOR PRIVATE EQUITY INVESTMENT

Volume of private equity investment by sub-sector (2010-2017)



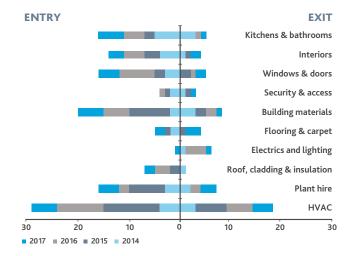
PRIVATE EQUITY ATTRACTED BY RETURNS IN THE SECTOR THROUGH CONSOLIDATION AND PROFESSIONALISATION

Building Products & Services companies are now firmly on the radar of private equity houses. As the level of interest grows, private equity is alive to the returns being made by attractive companies operating in the sector.

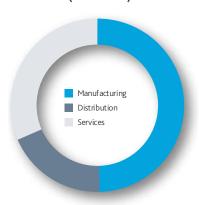
In a highly fragmented sector with attractive market dynamics, there remain a number of high growth privately owned businesses that can offer significant growth opportunities.

The number of investments into the sector continue to outstrip exits as private equity harnesses its expertise to professionalise and add value to achieve attractive returns for their investors.

Volume of entries and exits by sub-sector (2014-2017)



Volume of transactions by position in value chain (2010-2017)



Source: BDO Analysis

OPPORTUNITIES THROUGHOUT THE SUPPLY CHAIN

Manufacturers continue to be attractive to investors due to high margins, innovative products, use of technology and in particular, IP. Technology is driving the evolution of business models, creating opportunity for dynamic businesses to capitalise.

Typically building product distributors have limited or poor online presence which makes for an interesting growth opportunity. Distribution assets continue to be sought by investors seeking a regional roll-out model or to realise synergies with existing portfolio companies.

Service providers benefit from recurring revenues, and the highly fragmented nature of the sector presents numerous investment opportunities. Investment returns can be significant through undertaking added value bolt-on acquisitions, such as technology to monitor deployment and systems. Historically unloved by private equity due to being labour intensive, we anticipate interest levels to grow significantly as the use of technology improves operational performance.

MONEY MULTIPLES ACHIEVED HAVE INCREASED ACROSS THE SECTOR SINCE THOSE EXPERIENCED BETWEEN 2010 AND 2013

The realisation of attractive money multiples has created a greater appetite for the sector. This has seen record levels of private equity entrants into the sector in the last two years.

Fragmented sub-sectors where bolt-ons are in greater numbers have experienced high exit multiples, driven by greater scale and the diversity of product and service offering. Plant hire and security & access sub-sectors are particularly active so attract higher exit multiples.

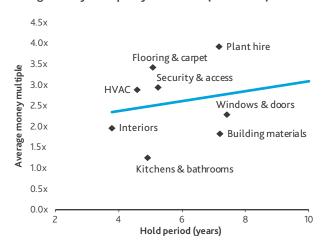
The number of active buyers creates competitive M&A processes, leading to private equity often having to price at a strategic premium to be successful in bidding for assets. Despite this, favorable macroeconomic conditions still present attractive returns.

Sub-sectors such as HVAC and security & access, alongside products such as lighting, are leading the way in the sector for adoption of technology. As other sub-sectors follow, we anticipate even greater transaction volume and exit multiples.

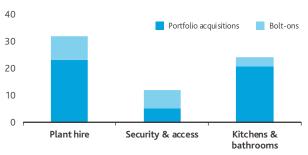
The UK market is different in a number of ways from its international counterparts. There are a number of highly active international trade buyers who are willing to pay a strategic multiple, creating a compelling exit thesis.

Average money multiple by sub-sector (2013-2017)

HAS BEEN ACHIEVED

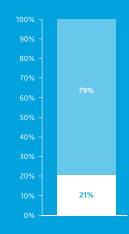


Volume of bolt-ons by sub-sector (2013-2017)



Source: BDO Analysis

INCREASING AVERAGE HOLD PERIOD AND VALUE CREATION THROUGH STRATEGIC BOLT-ONS

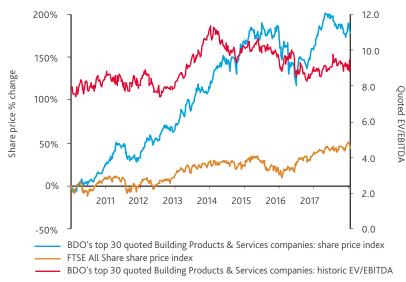


SINCE 2010, 21% OF ALL TRANSACTIONS IN THE BUILDING PRODUCTS SECTOR WERE MADE AS A BOLT-ON INVESTMENT



ATTRACTIVE EXIT OPPORTUNITIES ACROSS SUB-SECTORS

BDO listed Building Products and Services index



Source: Capital IQ and BDO Analysis

companies have significantly outperformed the wider FTSE All Share Index since 2010, highlighting the strength of the sector in recent years. Quoted company historic EV/EBITDA multiples continue to remain at significantly higher levels than comparables for unquoted transactions.

Listed Building Products & Services

When exiting a portfolio company, this provides an opportunity for multiple arbitrage on exit, and for listed acquirers to obtain multiple arbitrage on their acquisition due to the strength of their current trading multiple.

It should be noted that historic quoted EV/EBITDA multiples include a number of plant hire companies which trade on approximately 5x-6x EBITDA, therefore supressing the sector average.

SUMMARY OF PRIVATE EQUITY EXIT ANALYSIS SINCE 2010

52% OF EXITS HAVE BEEN TO **TRADE BUYERS**

13% OF EXITS TO
TRADE HAVE BEEN TO
ACQUIRERS BASED IN THE
UNITED STATES

THE HVAC SECTOR
HAS EXPERIENCED THE
HIGHEST LEVEL OF EXITS

FIVE BUILDING PRODUCTS
& SERVICES COMPANIES
WITH PRIVATE EQUITY
BACKING HAVE FLOATED
SINCE 2010

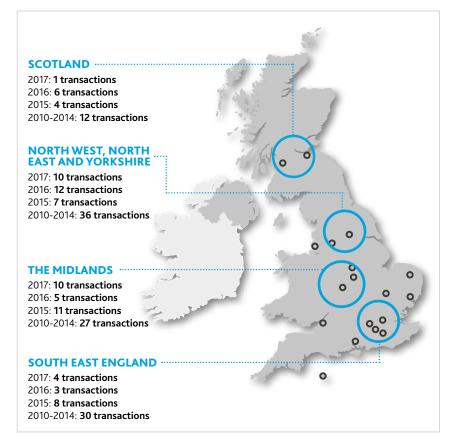
33% OF EXITS HAVE BEEN A SECONDARY BUYOUT TRANSACTION

There has been a high number of private equity acquisitions in the Building Products & Services sector compared to exits since 2010. In the coming years we anticipate this profile to change, with international trade and IPO becoming more attractive exit routes in order to achieve the greatest money multiple.

This is supported by international trade acquirers (especially in the United States and China) being willing to pay a strategic premium. Trade acquirers in the UK remain highly active, but the sector is currently experiencing stronger interest internationally.

Secondary buyout transactions are growing in popularity as the companies having been "professionalised" under prior private equity ownership. The operational challenges with some companies in the sector has historically been a concern to some houses. This widens the prospective buyer pool to include private equity that traditionally have less of a "hands on" investment strategy.

PRIVATE EQUITY INTEREST IN BUILDING PRODUCTS ACROSS THE UK



THE UK CURRENTLY **LAGS BEHIND THE REST OF EUROPE IN**

TERMS OF INNOVATION, HIGHLIGHTING ITS POTENTIAL AS AN ATTRACTIVE INVESTMENT **GEOGRAPHY**

DIVERSE SPREAD OF COMPANIES

AND INVESTMENT THROUGHOUT THE **COUNTRY**

HIGHLY FRAGMENTED MARKET WITH ATTRACTIVE CONSOLIDATION **OPPORTUNITIES AT** A REASONABLE PRICE **ACROSS ALL SUB-SECTORS**

LARGE CONSTRUCTION PROJECTS SUCH AS HS2, CROSSRAIL AND THAMESLINK HAVE DRIVEN **REGIONAL SURGES IN** PRIVATE EQUITY INTEREST FOR THE SECTOR



INVESTING AND EXITING ACROSS SUB-SECTORS

I INVESTMENT

E EXIT

ROOF, CLADDING & INSULATION

I Avonside - Core Capital

E JDP - Key Capital Partners

BUILDING MATERIALS

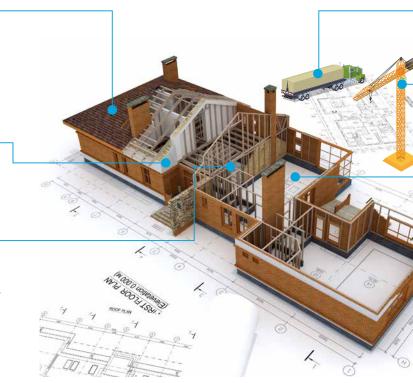
Tufwell Glass - Chelverton Asset Management

E Forterra - Loan Star

HEATING, VENTILATION & AIR CONDITIONING (HVAC)

I Adey - LDC

E Nuaire - Electra Private Equity



KITCHEN & BATHROOM

I Aqualisa - LDC

E Rixonway Kitchens - August Equity

INTERIORS -

I Neville Johnson - Capital Partners

E Domus - Alcuin Capital Partners

WINDOWS & DOORS -

I CMS Window Systems - LDC

E DW3 Products Group - NorthEdge Capital



MERCHANT / DISTRIBUTOR

- Construction Materials Online Key Capital Partners
- E MKM Building Supplies 3i and LDC

PLANT HIRE

- Readypower Engineering Primary Capital
- E Watkins Hire Baird Capital

FLOORING & CARPET

- Carpet and Flooring Endless
- **E** Brintons Carpets The Carlyle Group

SECURITY & ACCESS

- I Youngman Group Black Diamond Capital Partners
- E Kee Safety Dunedin

ELECTRICS & LIGHTING

- I ML Accessories Ardian
- **E** LAUK Lighting Next Wave Partners



A DEDICATED TEAM: SECTOR INSIGHT AND THOUGHT LEADERSHIP

EXPERTS IN THE SECTOR

Our Building Products & Services team was established to work with leading mid-market privately owned businesses and private equity who, like us, believe strongly in the opportunities available in the sector.

Our team has mapped over 2,000 building product and services companies within the UK, analysing historical financial trends, profitability by sub-sector and high growth companies. Previously, we have published sector dedicated publications (including HVAC, Plant Hire and Windows & Doors) and three further annual publications, analysing and providing insight into M&A activity, active companies, valuations and market drivers.

With deep expertise in the sector we understand company strategy, market and commercial drivers and have advised private equity and portfolio companies at all stages of the investment life cycle.



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BDO UK

GLOBAL CORPORATE FINANCE

WITH A TOTAL \$54.5bn

PRIVATE OF OUR DEALS ARE

TOP 4 ADVISER

IN THE GLOBAL LEAGUE TABLES

AN AWARD WINNING **CORPORATE FINANCE BUSINESS**

100 COUNTRIES PROVIDING DEDICATED CORPORATE FINANCE SERVICES

POWERFUL GLOBAL M&A CAPABILITY AND TRACK RECORD -SIGNIFICANT CROSS **BORDER EXPERIENCE**

STRONG PERSONAL **RELATIONSHIPS** NETWORK TO FACILITATE CROSS BORDER **TRANSACTION**



O COMPLETED DEALS IN 2017

WITH A TOTAL £18.5bn

PRIVATE SOF OUR DEALS ARE CROSS INVOLVEMENT SOF OUR DEAL SOF OUR DEALS ARE DEALS ARE

ONE OF UK'S MOST ACTIVE ADVISERS

AN AWARD WINNING **CORPORATE FINANCE BUSINESS**

CORPORATE FINANCE **PROFESSIONALS** IN THE UK

 $^{\circ}$ 3rd most active financial adviser in the UK – Experian (eague tables 2017 $^{\circ}$ 4th leading DD provider in the UK – Mergermarket league tables 2017



^{*4}th most active financial adviser – Thomson Reuters 2017 4th leading DD provider – Mergermarket 2017

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