SECTOR INSIGHTS

BUILDING PRODUCTS & SERVICES

2020 | BDO MERGERS & ACQUISITIONS | IN ASSOCIATION WITH THE CPA

COVID-19 IMPACT

BUSINESS RESILIENCE

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ACKNOWLEDGEMENTS:

BDO would like to thank the industry leaders who generously gave their time to provide views and comments used in the production of this report.

cpa construction products association

BUILDING PRODUCTS & SERVICES REVIEW

2019

Last year we predicted continued strong global M&A activity across the Building Products & Services sector in 2019. As it turned out that prediction proved true: competition for quality acquisition targets was so keen in places that key industry figures were heard to complain that they didn't get a look in.

Private equity firms, in particular, were driving up valuations by investing significant amounts of capital that they have been accumulating in recent years. Corporates have been consolidating in chosen markets and carving out non-core businesses, while agile owner-managed businesses have been adapting quickly to new challenges in a diverse and dynamic marketplace.

In the UK, a prime market for quality Building Products & Services companies, M&A was more recently buoyed by the end of uncertainty around Brexit, availability of debt and equity and the long-term visibility of new house building and committed infrastructure expenditure.

2020 AND THE IMPACT OF COVID-19

Just as the inertia in the market was lifting in the current year, COVID-19 hit hard, impacting people and business across the world. We live in uncertain times, and this year has already been and will continue to be hugely stressful for businesses and investors in the sector and beyond.

We have been publishing our annual Building Products & Services M&A review now for five years. When we originally planned this year's edition we decided to change tack with a greater collaboration with the Construction Products Association and to speak to a number of sector participants to explore some of the key themes that will shape the sector.

We completed this work just as the impact of COVID-19 was becoming more apparent. The more we thought about it and spoke to our clients and contacts, the less appropriate it felt to publish the document in that form. Business leaders simply have too many other things to deal with. Therefore we have decided to publish the document as our usual review of last year's M&A activity in the sector along with some views on the impact of COVID-19.

As the year progresses, and we hope the sector gets moving again, we will aim to publish the longer term themes as a series of separate articles. At the end of the year, we will try and bring all of that together in an updated publication.

At BDO we want to reassure you that we are ready to listen and advise you through this difficult period. We are passionate about the Building Products & Services sector and we want to help you through this. Moreover, once the COVID-19 pandemic has been brought under control, we want to help you emerge in a position of strength and respond to opportunities as they arise.

The underlying sector dynamics remain true. Business plans will respond to the benefits of technology, address the skills gap, demonstrate margin enhancements through operational efficiencies and reflect a world that needs to continue to build and invest.

Against an unprecedented backdrop, it is more important than ever to count on relevant advice. The BDO Building Products & Services M&A team has been one of the most active advisory houses in the sector. We have built a deep base of sector knowledge, experience and expertise alongside a global contact book that can help shareholders to achieve and maximise their strategic objectives.

If you would like to discuss any of the topics raised in this report or would like to discuss your issues, we would be delighted to speak with you. In the meantime, we hope you keep safe and well as we navigate through the rest of the year together.

JOHN STEPHAN and MITHUN PATEL
BDO Building Products & Services M&A

CONSTRUCTION PRODUCTS ASSOCIATION

THE OUTLOOK FOR THE SECTOR

PROFESSOR NOBLE FRANCIS
Economics Director
Construction Products Association

The major trends in UK construction during the last two years have revolved around the impacts of uncertainty on activity in the industry, offset by growth in areas such as house building outside the capital, warehouses and ports construction. However, the impacts of COVID-19 will clearly dominate our forecasts for construction this year and next.

CONSTRUCTION OUTPUT TO FALL BY **24.9%** IN 2020 AND RISE BY **25.5%** IN 2021

PRIVATE HOUSING STARTS TO FALL BY **60%** IN 2020 AND RISE BY **87%** IN 2021

INFRASTRUCTURE WORK TO FALL BY **8.9%** IN 2020 AND RISE BY **40.4%** IN 2021

The UK economy as a whole is facing unprecedented circumstances due to the impacts of COVID-19. The near-term effects on activity and employment for the construction sector are likely to be considerably greater than those faced during the financial crisis of 2008/09 and in a much shorter time span. The medium-term impact may affect office and site-based employment and productivity whilst in the long-term, there may be structural changes to the way the economy works and, in particular, the demand for office, retail and warehouses space.

The full impacts on the UK economy and, consequently, construction will only be clear after it is known to what extent, and for how long, social distancing restrictions are required. As a result, the CPA has developed three scenarios for the UK economy and construction industry.

The CPA main scenario is in line with the majority of macroeconomic forecasters and assumes that COVID-19 is a temporary issue primarily affecting economic activity in the first half of 2020 before warmer weather reduces its impact. This is represented by a 'V'-shape with a sharp recession followed by a recovery from June that is considerably slower than the initial decline. It anticipates construction output in 2020 falling by 25% with the largest falls in activity in private housing (-42%), commercial (-36%) and private housing RM&I (-35%). A recovery of 25.5% is forecast for 2021, albeit this growth is from a lower base so output in 2021 is still 6% lower than in 2019.

Private housing has suffered the greatest impact, with the majority of sites closed during April. While the construction sector has been urged back to work, social distancing is more difficult on housing developments, compared to civil engineering sites for example, which have been less affected. House builders are expected to take a cautious stance on near-term demand and house price growth once social distancing measures are relaxed in the second half of 2020.

The largest impact will be on starts, with activity focused on the build out of units already underway.

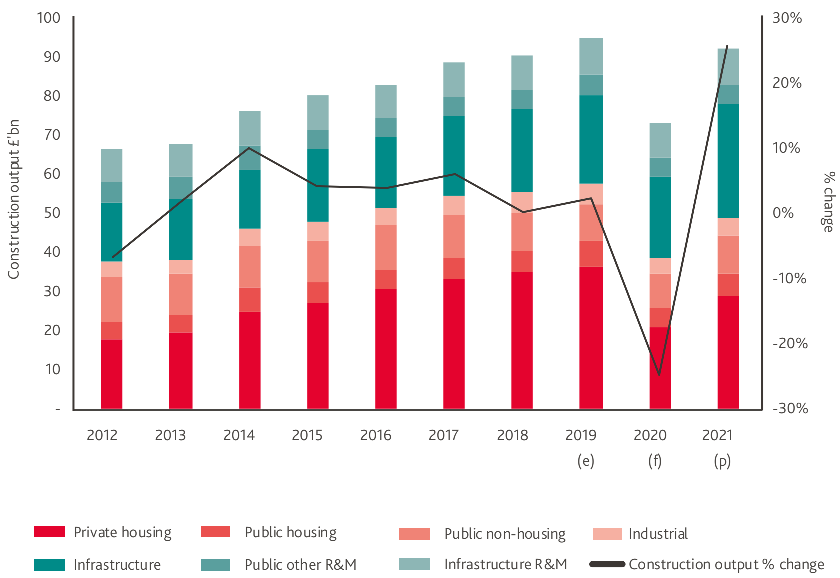
However, the housing deficit looms large, and given Government's ambition for 300,000 net additional homes per year by the mid-2020s, we would expect to see an extension of the current phase of Help to Buy beyond March 2021 to stimulate the housing market also increased grants for affordable housing. We expect to see the private housing market start to rebound month on month, with 36.5% growth in private housing in 2021.

The key problem with the sharp fall in housing demand will be for the supply chain that is highly reliant on cash flow. 86% of UK construction employment is in SMEs and 41% is self-employment so the majority of business models are based almost entirely on cash flow and few assets. This means a sharp fall in demand is likely to lead to a sharp rise in unemployment and business failures. This adds to the pressure that smaller contractors tend to experience. Main contractor margins are very low and are susceptible to significant cost rises and major project delays. If they suffer issues, then problems are likely to be forced down the supply chain on smaller firms in terms of payment and retentions.

On the plus side, the infrastructure sector has been less affected by COVID-19 and is expected to overtake private housing, growing by 40% in 2021 to become the largest contributor to construction output. Infrastructure activity in 2021 is expected to not only benefit from a greater ability to implement site operating procedures and social distancing on larger sites but also, vitally, from HS2 work following the notice to proceed. There will also be an increase in activity in the second year of five-year investment programmes in the water & sewerage, rail and roads subsectors, alongside the future promise of ongoing investment to rebalance the economy towards the North.

> "Since the 1990s we have been talking about construction business models and how they may change due to collaboration, digitalisation and offsite. But at any time when they may break through into the mainstream, an economic downturn comes, and firms revert back to cutting costs. Any changes in construction culture that change this will have to be greater than the business cycle."

TOTAL CONSTRUCTION OUTPUT BY SECTOR



CURRENT MARKET

THE IMPACT OF COVID-19 ON THE BUILDING PRODUCTS & SERVICES SECTOR

At the time of writing, to varying degrees around the world, governments are increasingly looking to strike the right balance between health and medical wellbeing with the economy. That means in many places construction sites that have remained closed for a number of weeks are opening up again with revised health and safety operating procedures to allow for appropriate social distancing on site. Construction is clearly seen as one of the priorities to getting economies back to business.

At the same time, the building products supply chain will be needed to meet the demands for materials on site and the merchant operations, many of which have been trading mainly on-line, will start to open depots again. During the weeks of mobility restrictions and lockdowns many local builders have continued to work and buy materials. The many temporary hospitals and medical facilities around the world needed to deal with COVID-19 have also been delivered by the product manufacturers, supplier and installers within the sector.

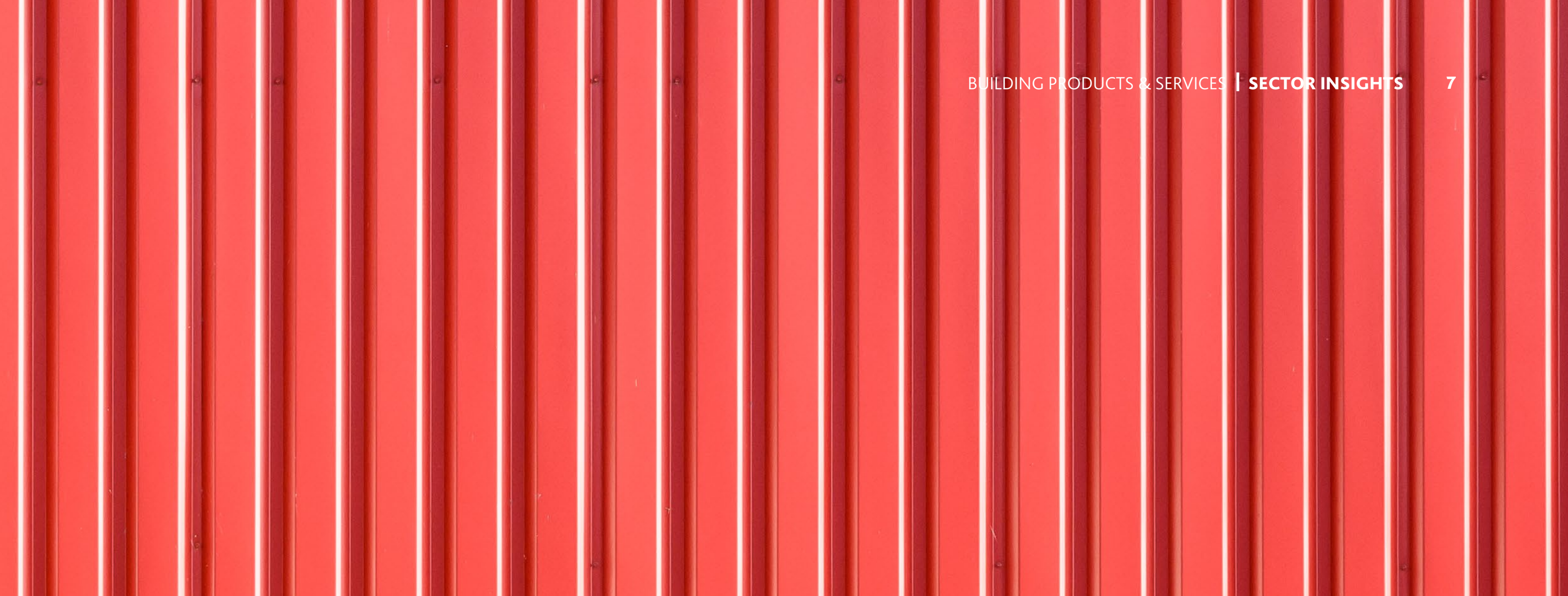
A NEED FOR MORE COLLABORATION

However, it is the opening up of the larger commercial sites that will provide a much needed uplift and hold the key to recovery in the sector. The adoption of robust operating procedures to allow for social distancing does come at a price in terms of higher costs and reduced output and productivity. What this in turn will need is a strong collaboration between all of the players in the supply chain, be it manufacturers, distributors, contractors, sub-contractors, consultants and clients.

Delays in projects are inevitable and that collaborative approach is needed to ensure a pragmatic treatment of penalties and payment terms to assist the various players in the chain with cash flow. In the UK the Government has introduced the Procurement Policy Notice (PPN) 02/20 to try and deal with this. It covers guidance for public bodies on the payment of suppliers to ensure continuity both during and after COVID-19. This is seen as crucial in ensuring suppliers that may be at risk can trade with normal payment terms.

The Construction Leadership Council has published its own guidance for all companies involved in the construction supply chain to avoid costly legal disputes. This working together across the public and private sector will be critical to long-term recovery for the sector. The Government, as the sector's largest client, is clearly important and influential in this.

In the UK and other economies, construction and housebuilding are a big driver of activity, output and jobs. Government investment and expenditure in the wider Building Products & Services sector will be a key lever in avoiding too deep a recession coming out of COVID-19. Infrastructure projects such as HS2 take on a greater importance.



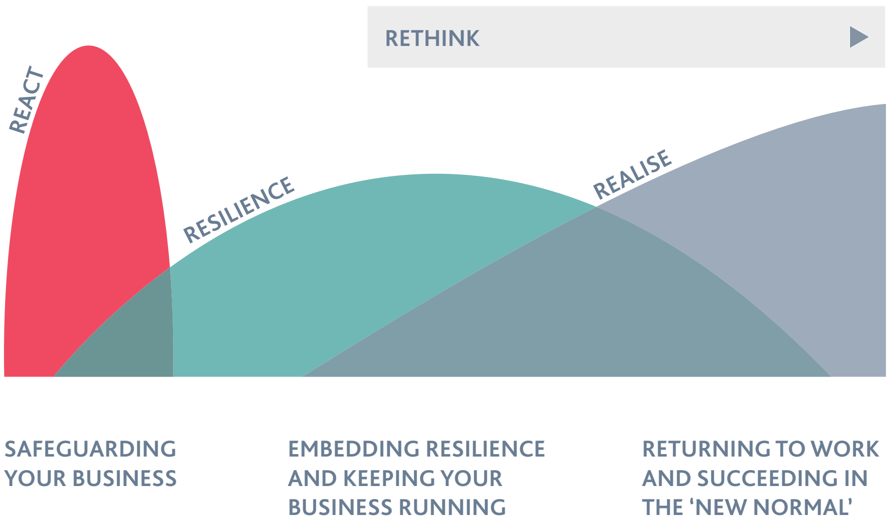
BDO VIEWPOINT

At BDO, we have framed our thinking on recovery for companies in our Rethink model with three phases.

All businesses have had to deal with the "react" phase of dealing with the emergency and accessing Government help measures around employee costs, tax deferral and accessing loans.

That is followed by the "resilience" phase of anticipating and responding to financial pressures whilst dealing with people, suppliers, operations, customers and IT.

As companies start to emerge from lockdown and return to work we move into the "realise" phase of sustainability of business and stakeholder relationships. This includes learning and scenario planning around business models and plans. We are using this as a structure to engage with and support our clients through these challenging times.



LONGER TERM THEMES

- SKILLS
- SUSTAINABILITY
- TECHNOLOGY
- DISTRIBUTION CHANNELS

BUSINESS RESILIENCE

BUSINESS MODEL RESILIENCE

We draw out seven key areas for business leaders in the sector to think about in terms of boosting the resilience of their business. We briefly touch on five of these and consider suppliers and customers in more detail.

PREMISES

Many manufacturing and distribution sites will have been closed in whole or part during the lockdowns with maybe no or emergency maintenance only. As sites reopen, there will be a heightened awareness around the need for effective maintenance strategies and a focus on the health and safety of employees. Operational capacity is likely to be impacted and will need a revised plan.

EMPLOYEES

Most companies will have had an extended period where many employees have been working from home or been on a period of furlough. Getting people back to work takes careful planning to ensure the business is not overwhelmed and to guarantee the safety of employees. Communication is critical to this.

FINANCIAL

The financial impact from COVID-19 will be significant for most companies in the sector. It will be vital to have a clear plan for a number of potential scenarios to assist in decision making and ensure sufficient cash headroom.

LEGAL & COMPLIANCE

Government's response to the crisis has proliferated a raft of new legislation designed to help keep businesses trading and protect the rights of employees. There are many legal and compliance impacts including contracts for goods and services, compliance with funder documentation, employee legislation and reporting. We have outlined in the previous section some of Government's protocols and guidance to ease cash payments and avoid costly disputes.

MANAGEMENT & LEADERSHIP

Management and leadership in such times is difficult. Leaders are tested by such events both in responding to the crisis and planning for the future. Decisions Management take now as they adapt and re-imagine their processes and routes to market will influence how successful their business is in the future, not just now. Get it right and organisations could leverage competitive advantage for years to come.

SUPPLIERS

The restrictions placed on business all over the world means that supply chains will inevitably be disrupted and affect the supply of raw materials and components. Building products are manufactured and assembled with components sourced globally. In the US for example, an estimated 70% of materials are sourced from China, Canada and Mexico. Lead times will increase and shortages are likely to be reflected in price increases.

Just-in-time lean manufacture with tighter levels of stock will be impacted by supply and differing international trade and border restrictions. Aftershocks can be expected as production levels increase again. This is likely to lead to a reassessment of supply chains aimed at shortening and simplifying them. Key to this will be understanding where products and components are sourced from to create greater transparency.

Some critical suppliers may require financial support from larger customers or even acquisition to ensure supply. Single sourcing from geographically distant suppliers will be examined and it may be appropriate for a European manufacturer to identify alternative local suppliers to split their supply chain from lower cost economy suppliers. This may well have cost and margin implications. Technology and data analytics may well have a role to play in identifying and choosing suppliers along with greater levels of automation and robotics in production.

CUSTOMERS

Whilst communication with customers is always important, we anticipate the need for communication will be even stronger as we emerge from the crisis. Developing a suitable communication strategy to inform customers of your Return to Work is imperative; specifically addressing concerns regarding safety and actions taken will be an important component of all communications, both internal and external.

Routes to market will also come into more focus. Since March, e-commerce has been crucial to trading for many distribution businesses with depots and branches closed. It is no secret that the sector as a whole has lagged behind wider consumer retail in adopting and deploying e-commerce strategies. Partly this may have reflected buying habits of customers with a preference to visit premises for conversation while collecting products and supplies.

Of course e-commerce introduces greater transparency to pricing and makes it easier for customers to shop around more. This brings into greater focus the use of web based tools to personalise customer experience and retain engagement and customer loyalty, be-it online or in-store. Customer service will remain a key differentiator with factors such as availability of stock, delivery lead times, knowledge and dealing with any product issues post-delivery.

Value added services such as on-site storage for customers, technical advice and even testing and servicing of tools and machines will become differentiators for distributors and merchants. Over time we would expect Mergers & Acquisitions will play a part in adding niche capabilities to customer offerings.

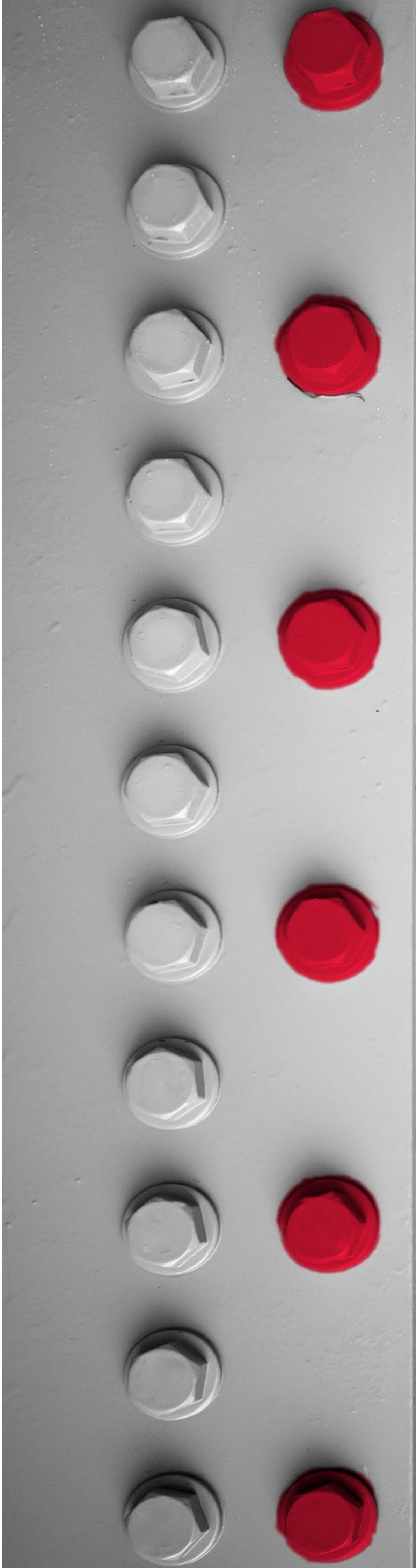
MARKET THEMES

KEY THEMES WILL STILL NEED TO BE ADDRESSED IN THE LONGER TERM

We will be addressing some of the key challenges facing the Building Products & Services sector through the coming year through a series of blogs and articles. Keep an eye on our web page for updates: www.bdo.co.uk/en-gb/industries/manufacturing/building-products

There are a number of key, underlying challenges and opportunities in the Building Products & Services sector that are unlikely to go away, and we have seen some of these issues and themes coming to the fore, and even accelerating in response to the impact of COVID-19.

Examples of this are the reliance on e-commerce as a route to market during the initial period when depots were forced to close. The mobility restrictions that may follow for migrant labour into countries will present additional challenges for many manufacturers and service providers. More effective adoption of BIM will be needed to address the productivity issues and greater collaboration is needed between players in the supply chain.



SKILLS

Finding the right skills for the job is a major ongoing issue in the Building Products & Services sector. The combined impact of Brexit and HS2 will create a strain on an already limited skilled workforce. In addition future mobility restrictions from COVID-19 on overseas workers may also present a challenge.

SUSTAINABILITY

Sustainability has become a key agenda item for companies right across the sector. The ongoing drive towards sustainability is inevitable, and businesses need to plan how their products and business models can adapt and evolve.

TECHNOLOGY

Digital technologies transform the sector but bring new challenges as well. Technological capabilities are a key theme of acquirers and core to the acquisition criteria of many investors. COVID-19 has highlighted the reliance on digital and the robustness of cybersecurity.

DISTRIBUTION CHANNELS

The sector's routes to market are changing, with traditional supply chains challenged by the advent of digitalisation. COVID-19 has been accelerating the trend towards online distribution models. Supply chains may also be revisited as a result of COVID-19 and concerns around accessibility of materials.

GRENFELL IMPACT

Grenfell continues to drive change in UK construction and focuses attention on building quality. For global groups in the sector, the ramifications will be wider than the UK.

BREXIT

Short-term uncertainty gives way to longer-term economic questions. But we expect M&A to pick up once the effects of COVID-19 are behind us.

INFRASTRUCTURE

British players look forward to the infrastructure fillip after years of uncertainty. Infrastructure spend is expected to be the engine that gets the economy going and helps Government manage recessionary fears.

PUBLIC SPENDING

Contractors would take less money in exchange for stability from the public sector. Uneven business pipelines create a big headache for many companies in the Building Products & Services sector.

GOVERNMENT SUPPORT

The Building Products & Services sector is essential to restarting the economy in the UK and in many other countries. Further government support and guidance for the sector such as PPN (02/20) is needed to help address key challenges and encourage collaboration among players in the supply chain.

M&A OUTLOOK

THE IMPACT ON M&A IN THE CURRENT MARKET

We came into the current year with a strong level of M&A across the sector with both strategic buyers and private equity completing transactions. The first impact of COVID-19 was seen in the capital markets with share prices falling by 20% or more in March. That was followed by deals going on hold as corporates and private equity alike moved their priority to their own operations and portfolios respectively. Even where some larger strategic buyers still had the resources and desire to follow through with an acquisition, mobility restrictions posed issues for post-merger integration.

Some businesses such as merchants saw a boost in sales in March as tradesmen stocked up on materials followed by a reduction as depots and construction sites were closed during the lockdown with sales largely switching to online and delivery. With construction sites reopening and demand reactivating through the supply chain we expect to see M&A coming back onto the agenda at some stage although the shape of it may be different.

VALUATIONS, DEAL STRUCTURE AND MECHANICS

Valuation will be an important aspect of restarting M&A. With stock market values falling but starting to recover will transaction multiples follow a similar trend? We suspect it will be very much case by case and if nothing has fundamentally changed pre and post COVID-19 then there may well be an argument for no major reduction in the multiple.

The other component of deal values is maintainable earnings and this is the area where we think could call for more creativity in approach. The reduced activity imposed by lockdowns will have an impact on short to medium-term earnings. One approach we are already seeing to this and expect to see more is the use of a deferred or earn-out element of the consideration to fill the gap between the previous earnings level and the current one. A recovery in earnings to former levels triggering a further payment in due course.

Another aspect of transactions will be completion mechanisms and the willingness to accept a locked-box based on a pre COVID-19 balance sheet may be less. We expect that the older style completions accounts with the ability to true up a deal post completion may feature more. We can also expect more due diligence focus beyond the financial into health & safety, insurance, contingency planning, cyber security and robustness of supply chain.

PRIVATE EQUITY, CORPORATE AND OWNER MANAGED BUSINESSES

The question will remain: how long will it take for earnings levels to recover? We suspect different players in the market to react differently. Private equity houses that own sector assets in some of their older vintage funds where they do not wish to deploy any fresh equity may well look to move these on and other private equity could well be the buyers of them with some additional equity to deploy. Where private equity houses have invested more recently in assets in the sector they may look to bolt on smaller acquisition opportunities to create more scale within the asset. Private equity has record levels of cash to deploy.

We are also seeing a number of larger corporates more actively reviewing their group for core and non-core assets. Some of the non-core will be perfectly good businesses but maybe more stable in nature than higher growth. When these businesses come to market they will attract interest from private equity looking to back a new strategy around the business. Some disposals will be driven by a sharper focus on future strategy and the more immediate ones may be driven by a desire to turn a multiple of earnings into immediate cash.

Owner managers and family shareholders may also be influenced by the current situation. For some who have nurtured and managed their businesses through a number of recessions and turbulent markets, this may be a trigger to de-risk and plan for a sale. In the UK, private owners will have been disheartened with the reduction of the lifetime limit of entrepreneur's relief, but succession will still be an issue and capital gains tax is still far more efficient than income tax.

A RISE IN STRESSED AND DISTRESSED M&A

The other feature that we expect to see in the sector is a rise in stressed or distressed driven M&A. We saw it in the previous recession where groups looked to exit loss making operations to financial buyers with the capital, skills and desire to effect a turnaround. Stress of course can be caused not just by a fall in revenues but by a recovery when the working capital needs place an even greater strain as Government support is withdrawn. Additional debt facilities may be an answer for some but new equity may be needed for others.

LOOKING TO THE LONGER TERM

In the longer term, we believe the trends and themes we have outlined will continue to shape the sector and drive M&A. This will range from the desire to have greater security of critical supply of materials and components through ownership, to acquiring technology, routes to market and skills. It may help accelerate some trends such as off-site manufacture with the restrictions on constructions sites. We expect to see some sub-sectors seeing earlier consolidation to secure some of these aspects or to achieve greater scale. One way or another, M&A will remain an important feature of the Building Products & Services sector.

GLOBAL M&A ACTIVITY

2019 REVIEW

Despite tariffs, trade wars and exchange rate jitters, M&A in the Building Products & Services sector saw another year of growth in 2019. The number of transactions increased for the sixth year in a row, rising more than 13% to 928 deals in 2019.

MORE THAN **4,200** SECTOR TRANSACTIONS IN THE LAST SEVEN YEARS

The increase was driven by rises in transaction activity in all the main regions of the world, with the Americas seeing almost 20% more deals in 2019 than 2018, European activity rising by close to 6% and the rest of the world seeing a boost of nearly 53%.

Global growth is unlikely to be maintained through 2020, with COVID-19 impacting on all markets and the US election plus Brexit introducing significant uncertainty to the sector's two most important M&A geographies.

But the long-term outlook remains positive, not least because of the amount of investment cash that is seeking a home.

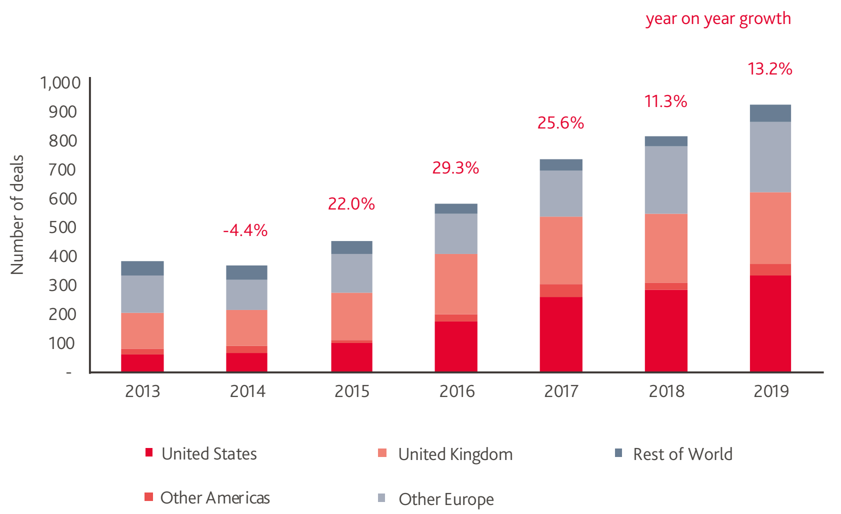
Cross-border deals remain a key dynamic of the market, accounting for around a quarter of the total for the last four years, following a period in the first half of the last decade when it was closer to a third. There is no reason to suspect this proportion will change greatly in future.

Another regular feature is that the UK and the US remain by far the most active regions for Building Products & Services M&A. Between them, these two markets accounted for nearly two thirds of deals over the last seven years.

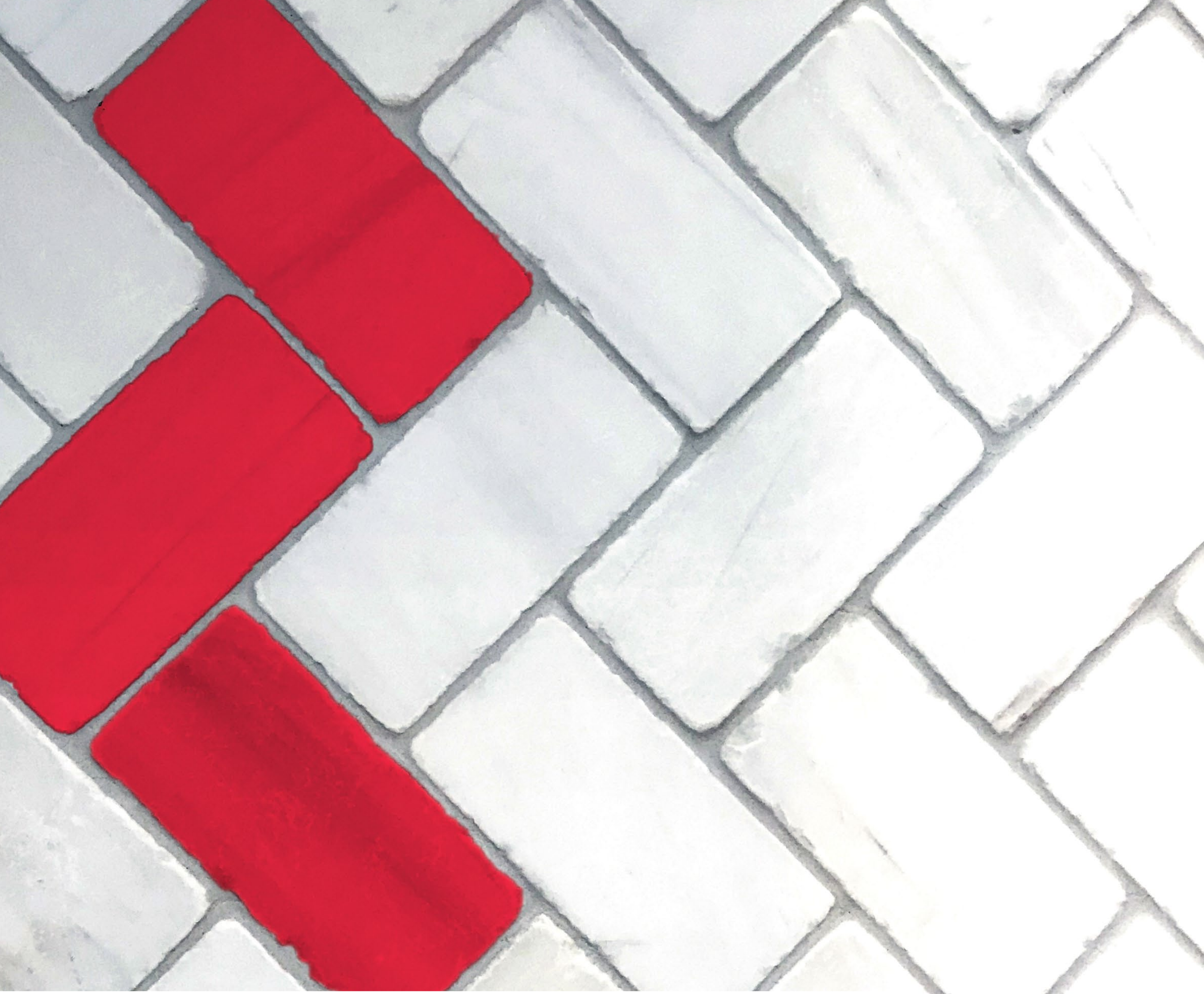
Historically, the UK has achieved even higher deal rates than the US, although in 2019 the roles were reversed as the world's wealthiest economy boasted the most Building Products & Services transactions.

Elsewhere, volumes have remained stable across much of Europe, including Germany, France and the Netherlands. Outside Europe, Canada is notable for having seen considerable growth in transactions over the last seven years.

NUMBER OF TRANSACTIONS BY GEOGRAPHY



Source: Experian MarketIQ



CROSS-BORDER DEALFLOW

YEAR	CROSS-BORDER DEALS	% TOTAL
2019	225	24%
2018	206	25%
2017	188	26%
2016	143	25%
2015	136	30%
2014	116	31%
2013	128	33%

Source: Experian MarketIQ

GLOBAL M&A ACTIVITY

INTERNATIONAL PERSPECTIVES

BDO's Building Products & Services team delivered 80 transactions across the globe in 2019. Each regional market is different, and experiences specific dynamics affecting local trade and M&A. Clearly the outlook is uncertain, as all global regions are affected by the COVID-19 outbreak, which will have far-reaching consequences in the sector and beyond.

UNITED STATES

"The U.S. Building Products & Services sector delivered an impressive 17% year-on-year increase in M&A transaction volume last year, as both corporate and private equity acquirers sought to deploy abundant capital reserves against a relatively stable economic backdrop.

Last year's headwinds, including rising labour and material input costs resulting from tariffs and a tight labour market, now seem like a walk in the park compared to the economic threat posed by the fast spreading COVID-19, which is front and center on investors' minds across all sectors. While the full economic toll of the outbreak will not be clear for months, we've already begun to witness a tightening of credit standards and heightened risk aversion impacting live deal processes.

With the risk of recession rising in 2020, M&A activity will likely remain subdued as companies take a "wait-and-see" approach over the coming months with a preference for deleveraging and balance sheet management in anticipation of a slowdown."

PATRICK BISCEGLIA
Managing Director, United States

UNITED KINGDOM

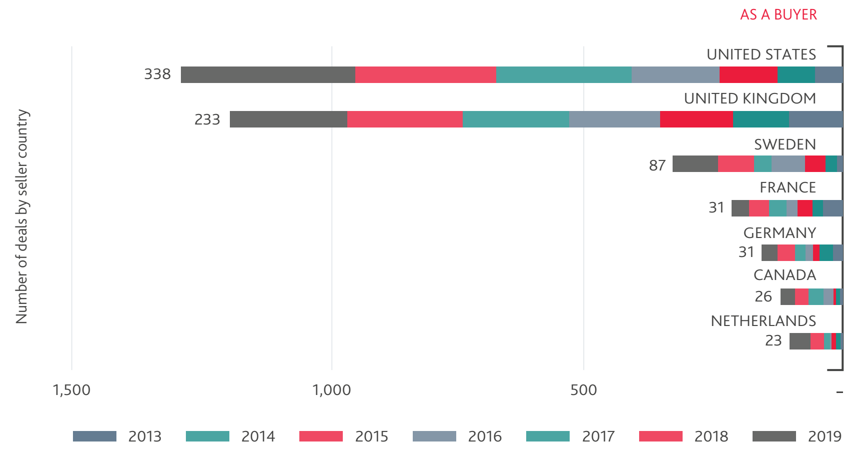
"The UK Building Products & Services sector experienced a strong year for deals, perhaps surprising given prevailing uncertainty surrounding Brexit and the anticipated general election. Merchants, plant hire and the security and access sub-sectors all saw a good deal of market consolidation.

Up until the outbreak of COVID-19 locally, we were seeing high levels of international interest for UK businesses, with buyers keen to acquire quality operations, access to know-how and skills. Multiples in the sector were maintaining high levels.

While COVID-19 is likely to stilt the M&A market in the short term, the underlying growth drivers in the market remain very strong and we see a number of hotbeds for future deal activity, notably infrastructure services."

MITHUN PATEL
M&A Director, United Kingdom

MOST ACTIVE COUNTRY ANALYSIS



SWEDEN

"In Sweden, the Building Products & Services sector saw a strong uptick in deal volumes, with 56 deals completing, representing an increase of 40%.

The HVAC market was the strongest contributor to growth, representing 21.4% of all deals. We expect to see some levelling out in the Nordic HVAC industry in coming years, although the market is still highly fragmented and there is continued room for consolidation.

We expect the Nordic M&A market as a whole to continue to grow in terms of value, partly due to a larger PE presence. However, we are experiencing some growing concerns about politics in major markets as well as fears over a potential recession now increasingly stemming from the Coronavirus."

CLAES NORDEBÄCK
M&A Partner, Sweden

FRANCE

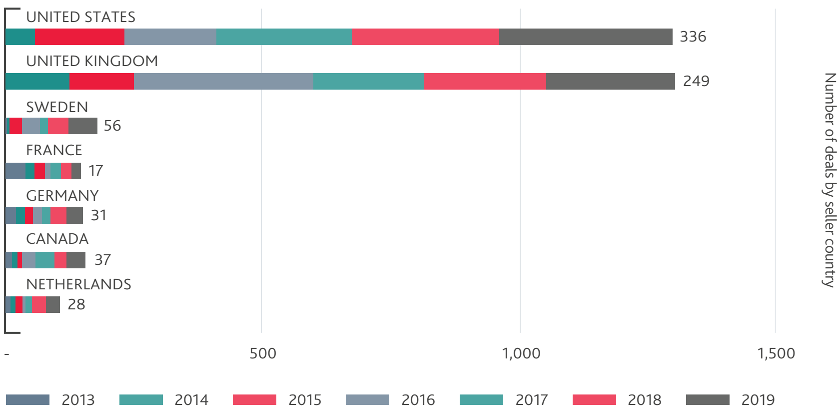
"Deal volumes in 2019 were stable across much of Europe, including France, which saw a slight decline. 2019 marked the beginning of a downward trend for building in France, underpinned by a change in housing policy and GDP slowdown.

Despite the more subdued environment, buyouts remain a strong feature of the market in France, and accounted for 41% of all deals in the year, with private equity keen to put their money to work in an assured sector.

Businesses operating in the infrastructure and civil engineering market achieved fantastic results in 2019, and will continue to benefit from large projects in the pipeline for the next two years, including Olympics and Grand Paris."

PASCAL MARLIER
Advisory Partner, France

AS A SELLER



Source: Experian MarketIQ

GLOBAL M&A ACTIVITY

INTERNATIONAL PERSPECTIVES

Visit BDO's COVID-19 Hub for all the latest guidance and advice from our global teams helping businesses navigate this challenging time.

www.bdo.global/en-gb/microsites/covid-19-crisis-hub/main-homepage

GERMANY

"Buoyed by the continuing high levels of historic construction output (+8.7% expected for 2019), the number of building products transactions involving German targets was stable in 2019, comparing favorably to a more subdued climate for M&A deals overall.

There was a notable increase in building automation/smart controls/electrics/lighting deals as corporates sought to expand technological know-how or develop their product portfolio while private equity houses were active supporting succession-driven buy-outs.

We expect ongoing deal activity to be driven by trends to digitisation in design, construction and installation (IoT and connected buildings), automation and energy efficiency."

JANE EVANS
M&A Senior Manager, Germany

CANADA

"Canadian M&A activity within the Building Products & Services sector hit an all-time high in 2019, with 37 completed transactions.

Demonstrating the continued importance of cross-border activity, 57% of the volume had an international component with buyers from both the US and Europe playing a key role. Within the category, building materials was the most active sub-sector, with almost a third of the deals.

Looking forward, uncertainty looks to play a role in 2020. Key factors like the US election and its potential impact on the ratification of the North American Free Trade Agreement as well as the impact of the COVID-19 virus will almost certainly have an influence on the deal environment."

RYAN FARKAS
M&A Managing Director, Canada

NETHERLANDS

"Building activity in The Netherlands has come under pressure recently, fueled by the nitrogen debate, which is pressuring businesses to play their part in decreasing nitrogen levels in the atmosphere. The Construction sector in general is a key contributor to nitrogen levels, and therefore interest in the take-over of more general construction companies is much lower than before, and is expected to remain low, especially for companies that don't have any interesting focus or specialisation.

There is a broad interest however for (technical) servicing, maintenance (for large property owners and housing association) and installation companies, where a few consolidators are buying many smaller players creating several national coverage companies. Also, private equity seems to be eyeing such recurring revenue and contracted sectors, creating a favorable outlook for this sub-sector especially."

JOOST COOPMANS
M&A Partner, Netherlands

BUSINESS VOICES

"Our immediate priority has been to effectively manage our business through the COVID-19 epidemic and ensure the safety and well-being of our colleagues and customers

Social distancing and responsible working practices have been widely implemented throughout our business and we are fortunate to be in a strong financial position to cope with this unprecedented situation affecting every industry.

We are having to think differently about how we conduct our business in future throughout our Group. Many 'non-customer facing' colleagues are now working from home and nonessential meetings and M&A deals had to be put on hold for the time being, however we expect to be well placed to pick up where we left off as soon as the world gets back to normal."

JOE SOWTON
Group Strategic Development Director, Grafton plc
(construction products distributor)

UK M&A ACTIVITY

2019 UK REVIEW

UK Building Products & Services sector M&A transaction volumes maintained their upward trend from 2018 to 2019. The increase, of nine deals or less than 4% of the volume in 2018, is welcome given that the short-term outlook is complex.

UK DEALS WERE UP **3.5%** TO 264 IN 2019

MORE THAN **1,000** SECTOR DEALS IN THE UK IN THE LAST SEVEN YEARS

2019 saw UK deal volumes that were higher than at any time in the last decade. Inevitably, 2020 will be different: with a tough outlook for the economy as a whole, we expect to see a significant reduction in M&A activity this year.

Although construction is unlikely to be as badly affected by the pandemic as some other sectors, such as travel and transport, it is likely Government resources (not just in the UK but in other affected countries) will be diverted away from other priorities while the disease is being brought under control.

More widely, it also remains to be seen how badly the global economy will be affected by manufacturing slowdowns resulting from quarantine measures. This is uncharted territory not just for the Building Products & Services sector in the UK but also for global markets in general.

In the medium term however, once the immediate effects of COVID-19 are behind us, we believe that the UK's strong Building Products & Services ecosystem will be ripe for further consolidation. The Government is heavily committed to supporting the sector and has ambitious infrastructure plans that could drive significant company growth.

Looking back at 2019, manufacturers attracted the most M&A attention, as has traditionally been the case, accounting for 43% of all deals. Services was the next-biggest deal pool, accounting for 31% of transactions and reflecting a trend that has been prevalent for the last five years.

In 2019, HVAC & plumbing overtook building materials as the most active sub-sector for deals, accounting for 14.5% of all transactions. Building materials made up 13.8% of all deals, followed by security & access with an 11.0% share.

Other popular sub-sectors in 2019 were plant hire, which saw a 41% increase in transactions in the year, and merchants & distributors, which saw a near-doubling in deal volumes. The only sub-sector to see a drop in deal volumes in 2019 was electrics & lighting, albeit this followed a two-year spike in activity in 2017-2018.

BUSINESS VOICES

"M&A will continue to provide good opportunities for expansion, both geographically and into new product markets."

MEGHA KAPOOR
Managing Director,
Serafin Group (industrial group with assets in flooring products)

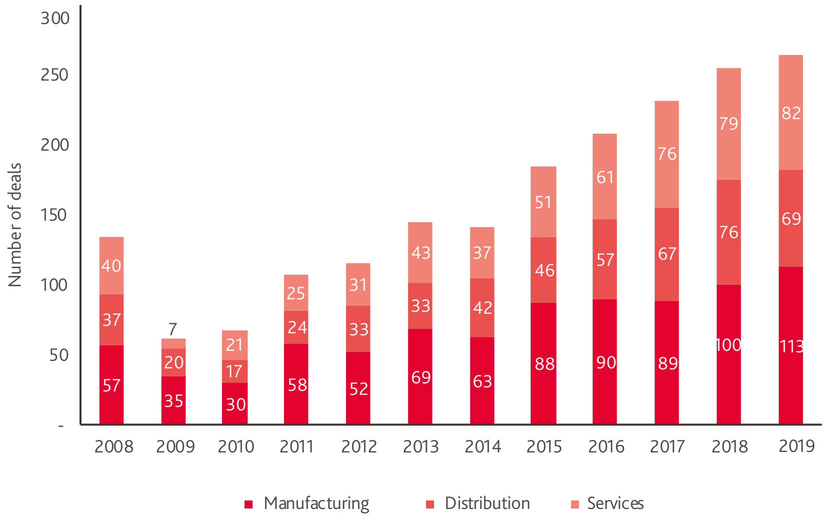
BDO VIEWPOINT

The UK is likely to remain one of the world's largest markets for Building Products & Services sector M&A for the foreseeable future, but alongside the sizeable opportunities for growth there are a number of complicating factors in the market.

At BDO, we understand the dynamics facing businesses across the different sub-sectors and are here to advise you, whether you are an owner-managed business, a private equity owned business, a corporate or an investor.

Our Building Products & Services team was established to work with leading businesses and firms who, like us, believe strongly in the opportunities available in the sector.

NUMBER OF TRANSACTIONS BY TYPE



Source: Experian MarketIQ, BDO analysis

PRIVATE EQUITY

PRIVATE EQUITY HIGHLY ACTIVE IN THE SECTOR

Building Products & Services remains an important hunting ground for private equity investors, with buy-outs accounting for between a fifth and a quarter of all UK deals in the last four years.

PRIVATE EQUITY REPRESENTED **22%** OF UK DEALS IN 2019

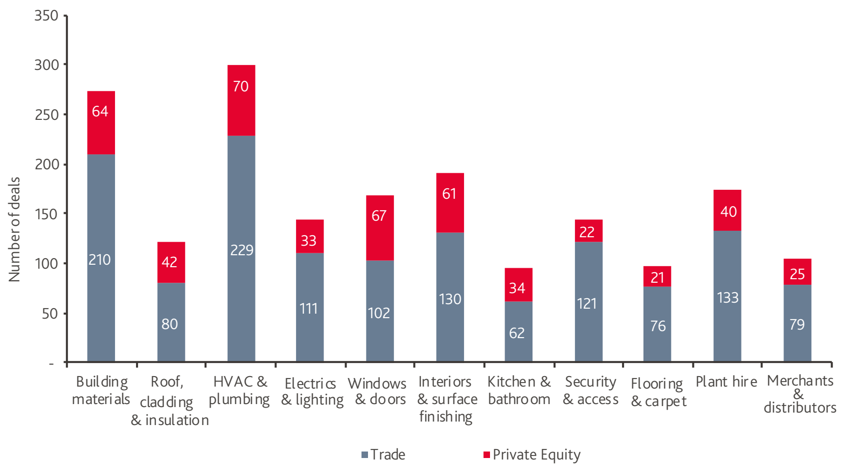
Private equity's favourite sub-sectors since 2008 have been HVAC & plumbing and building materials, followed by windows & doors, where they have been responsible for practically 40% of all deals in the sub-sector. The attraction for private equity investors is that many of the businesses in the sector offer opportunities for growth through consolidation and value creation.

In traditional, family-run businesses there is the potential to create growth by introducing more professional teams and processes, or by investing in automation and other forms of innovation. Despite this, there are still some sub-sectors where private equity investment remains scarce.

In security & access, for instance, only 22 of 143 deals since 2008 have involved non-trade investors. The electrics & lighting and flooring & carpet sub-sectors have also attracted relatively little private equity interest.

Nevertheless, a common sentiment across the Building Products & Services sector is that private equity is here to stay and will play a valuable role in helping the market evolve.

TRADE AND PRIVATE EQUITY TRANSACTIONS SINCE 2008



Source: Experian MarketIQ, BDO analysis

BUSINESS VOICES

“M&A is a powerful tool to accelerate development. Good advice and choosing the right partners is critical.”

CATHAL TURLEY
Investment Director
H2 Equity Partners
(private equity investor)

BDO VIEWPOINT

Private equity can add value and reshape industries.

It has an important place in the evolution of a business and can drive huge benefits.

Currently, private equity has record levels of dry powder which it needs to deploy in the market.

At BDO, we are close to private equity investors, and maintain regular dialogue to understand strategy and requirements.

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.

VALUATIONS

PRIVATE EQUITY INTEREST HAS DRIVEN UP VALUATIONS

The interest of private equity in the sector is a key factor upholding deal values.

The average multiple paid across the sector stands at 6.8x EV/EBITDA. The disparity in the average multiples paid by trade, at 6.7x EV/EBITDA and private equity, at 7.2x, illustrates the high levels of competition from private equity players seeking prime targets.

Although some players are concerned that private equity cash could drive up valuations and crowd out other investors, there seems to be little evidence for this in practice: when financial transaction valuations hit a peak four years ago the average valuation was still not far above trade levels.

And on the other hand, there is widespread recognition that private equity brings more than just cash to the table.

By adding seasoned professionals to the sector's management mix, and investing for innovation and growth, private equity is helping the sector to mature – and that can only be a good thing.

AVERAGE SECTOR MULTIPLE FOR DEALS IN 2019

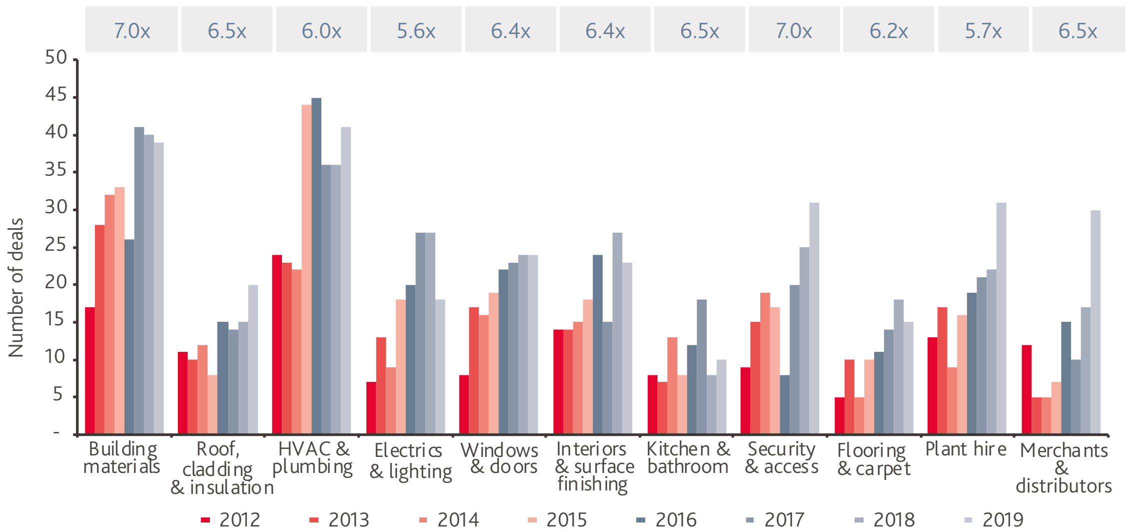
6.7X EV/EBITDA FOR TRADE

7.2X EV/EBITDA FOR PRIVATE EQUITY

AVERAGE LISTED SECTOR MULTIPLE

9.4X EV/EBITDA (MARCH 2020)

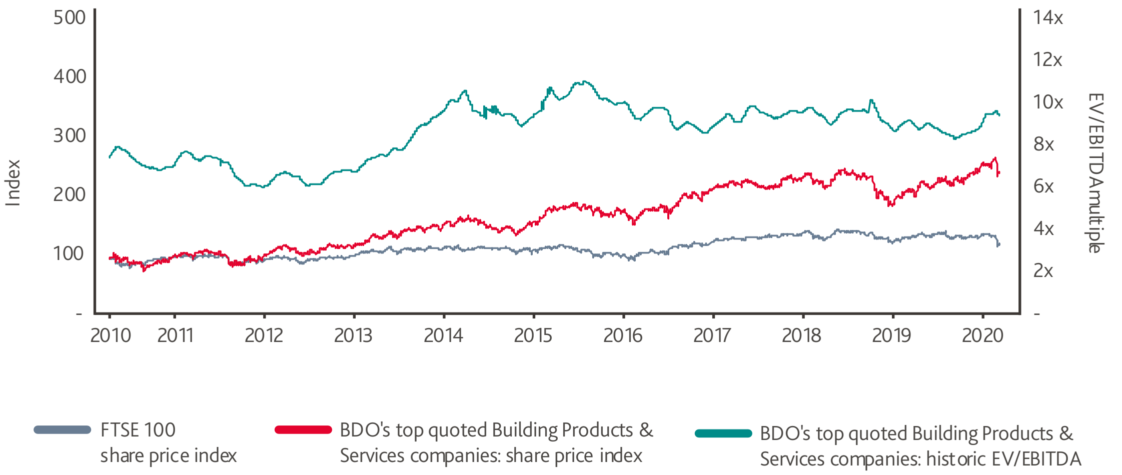
TRANSACTION VOLUMES AND EV/EBITDA MULTIPLES BY SUB-SECTOR



Source: Experian MarketIQ, BDO analysis

SHARE PRICE PERFORMANCE IN THE BUILDING PRODUCTS & SERVICES SECTOR

Data 5th March 2020



Source: S&P Capital IQ, BDO analysis

SUB-SECTOR FOCUS

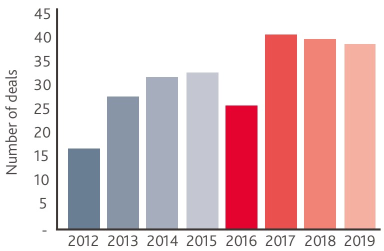
SUB-SECTOR ANALYSIS

It was a positive UK deal volume picture for most Building Products & Services sub-sectors in 2019. Only three out of eleven sub-sectors saw the number of deals dropping between 2018 and 2019. And eight out of eleven had deal volumes that were above the average for the last five years.

Only one sub-sector, electrics & lighting, saw a year-on-year decline and also failed to beat its five-year average although this follows a two year spike in deal activity in 2017 and 2018.

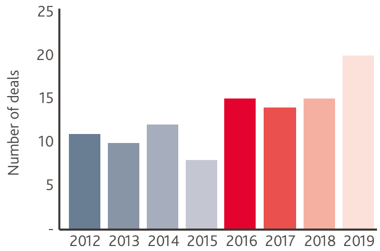
BUILDING MATERIALS

Deal volumes and valuations remain strong.
Average EV/EBITDA multiple **7.0x** 2012 – 2019



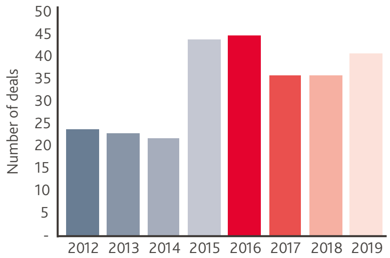
ROOF, CLADDING & INSULATION

2019 deal volumes increased by a third.
Average EV/EBITDA multiple **6.5x** 2012 – 2019



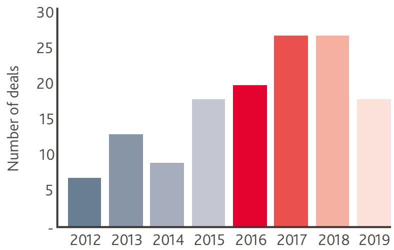
HVAC & PLUMBING

2019 deal volumes increased by 14%, to become the most active sub-sector for M&A.
Average EV/EBITDA multiple **6.0x** 2012 – 2019



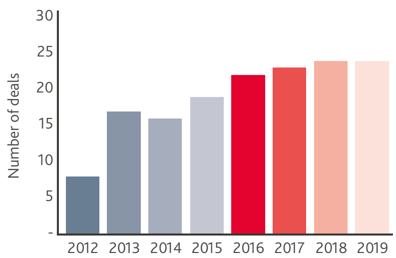
ELECTRICS & LIGHTING

2019 deal volumes declined, albeit following 2 strong years.
Average EV/EBITDA multiple **5.6x** 2012 – 2019



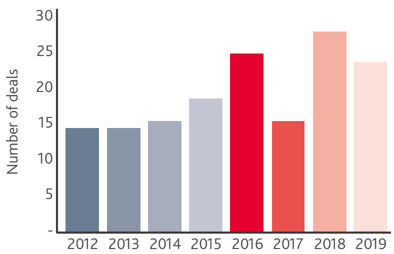
WINDOWS & DOORS

Stable volumes in 2019, a good deal of manufacturer consolidation.
Average EV/EBITDA multiple **6.4x** 2012 – 2019



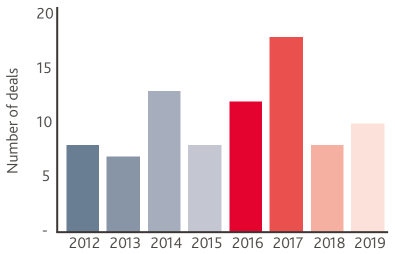
INTERIORS & SURFACE FINISHING

More buy-outs than trade transactions in 2019.
Average EV/EBITDA multiple **6.4x** 2012 – 2019



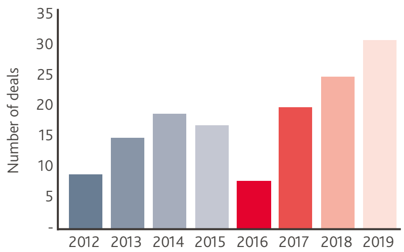
KITCHEN & BATHROOM

Increase in deal volumes in 2019.
Average EV/EBITDA multiple **6.5x**
2012 – 2019



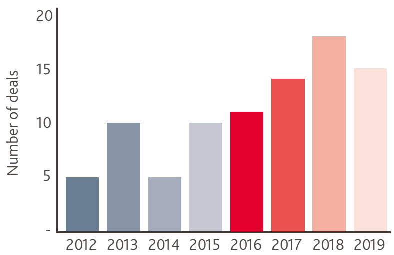
SECURITY & ACCESS

24% increase in 2019 deal volumes, strong valuation multiples.
Average EV/EBITDA multiple **7.0x**
2012 – 2019



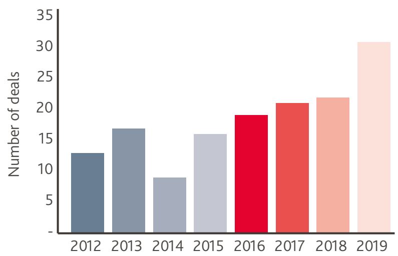
FLOORING & CARPET

Minor dip in 2019 deal volume.
Average EV/EBITDA multiple **6.2x**
2012 – 2019



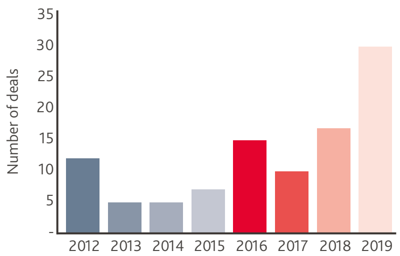
PLANT HIRE

41% increase in 2019 deal volumes as market consolidates.
Average EV/EBITDA multiple **5.7x**
2012 – 2019



MERCHANTS & DISTRIBUTORS

Impressive hike in 2019 deal volumes with half of deals representing buy-outs or private equity consolidation.
Average EV/EBITDA multiple **6.5x**
2012 – 2019



BDO VIEWPOINT

Our UK team has mapped more 2,500 Building Product & Services companies within the UK, analysing historical financial trends, profitability by sub-sector and high growth companies.

Previously, we have published sub-sector publications (including HVAC, Plant hire and Windows & doors) alongside five further annual publications, plus specialist brochures on corporate carve-outs and private equity, all providing insight into M&A activity, active companies, valuations and market drivers.

Source: Experian MarketIQ, BDO analysis

BDO ADVISORY SERVICES

DELIVERING SERVICE THAT EXCEEDS EXPECTATIONS

The BDO brand is about exceptional client service delivered by empowered people. Nothing is more important to us than our clients.

Our aim is to be the market leader for service delivery in our profession, with a brand that stands for quality and service and consistently aims to exceed client expectations.

FULL SPECTRUM OF ADVISORY SERVICES WITH AN INTERNATIONAL FIRM ACROSS 167 TERRITORIES AND ACCESS TO KEY FINANCIAL MARKETS

2,000 Corporate Finance professionals globally | integrated capabilities encompassing tax, pensions and technical accounting | Sector focused M&A teams.

We are global leaders in the M&A market, focused on maximising value for our clients | We are proud of our broad and deep sector experience which drives demonstratable results.

SELL SIDE

- Corporate strategy
- Full support through sales processes
- Preparation for sale
- Modelling.

BUY SIDE

- Identification of suitable targets
- Full buy-side support from bid to structuring
- Management advice
- Refinancing
- Modelling.

CAPITAL MARKETS ADVISORY

- Takeovers
- Listing rules
- Buy and sell side advisory.

STRATEGIC ADVISORY

- Reorganisation/share buy-back
- Investment/partial cash-out
- Growth capital/fundraising.

DEBT ADVISORY

- Refinancing
- Restructuring
- Stapled debt.

BDO

Helping you succeed

WHAT OUR CLIENTS SAY

“BDO was instrumental in ensuring the successful sale of the business. There were a number of challenges during the process and BDO managed the issues effectively and assisted us in negotiating the best deal and outcome for us the shareholders.

Being able to utilise BDO's international network was key and the team identified a number of suitable and relevant international buyers that we were not familiar with. The level of sector knowledge and knowledge of prospective buyers' strategy was highly impressive. Having access to M&A experts who understood our sector was invaluable.

I would have no hesitation in recommending BDO to anyone who is considering the sale of their business.”

DORON ROSENFIELD
Shareholder and Managing Director,
ML Accessories, on sale of ML Accessories to SLV

“The team provided valuable support across multiple elements of the sale process which ensured that we secured a great result for LDC and the wider shareholders whilst finding the right partner for the business and management going forward.”

COLIN BENNETT
Investment Director,
LDC, on secondary buyout of CMS Window Systems by Maven Capital Partners

“BDO provided a first class service and gave us comfort that they had the right messaging and right bidders involved.”

DANIEL BOLZ
Corporate Development Director
SIG, on proposed sale of Building Solutions to Kingspan Group

BDO DEAL SNAPSHOTS

DELIVERING QUALITY ADVICE WHERE IT MATTERS

Within the Building Products & Services sector, here are just a few of the recent corporate finance deals where we have gone the extra mile to secure a successful outcome for our clients.

BDO IN THE SECTOR

80 SECTOR TRANSACTIONS IN 2019

MORE THAN **250** SECTOR TRANSACTIONS IN THE LAST NINE YEARS

MORE THAN **60** INTERNATIONAL M&A DEALS IN THE LAST THREE YEARS

SALE OF SUNDBY TRAPPER A/S TO LYNX EQUITY LIMITED

Manufacturer of specialised steel staircases

ACQUISITION OF TH MANTENIMIENTO BY ACIERTA ASISTENCIA

Provider of technical building services

ACQUISITION OF BLUE POINT TOOL BY FICODIS

Manufacturer & supplier of tools

ACQUISITION OF AUGER SITE INVESTIGATIONS BY SDIPTECH

Remedial building services

ACQUISITION OF FACELIFT (GB) BY AFI-UPLIFT

Access equipment hire

ACQUISITION OF HELLA INFRA MARKET BY ACCEL PARTNERS

Construction procurement software

SALE OF REESTHOUT TO DELI HOLDING

Door manufacturer

SALE OF WINDOW WIDGETS BY MASONITE TO MANAGEMENT

Glazing ancillaries supplier

ACQUISITION OF BST GROUP BY IK INVESTMENT PARTNERS

Provider of active fire protection solutions

ACQUISITION OF BPD HOLDINGS BY WIENERBERGER

Roofing accessories manufacturer

ACQUISITION OF DURA SUPREME CABINETRY BY GHK CAPITAL PARTNERS

Manufacturer of kitchen cabinets

ACQUISITION OF SWISS TOOLS GROUP BY CROSS EQUITY PARTNERS

Tool systems provider

ACQUISITION OF AIRCANO, VENTEC AND MILEN BY INSTALCO

Ventilation manufacturers

ACQUISITION OF 4 BUSINESSES BY INSTALCO

Electrical, heating, plumbing and roofing systems & services providers

ACQUISITION OF 3-PHASE ELECTRICAL BY SPARK POWER SERVICES

Full service electrical contractor

SALE OF THE PACE COMPANIES TO ATERIAN INVESTMENT PARTNERS

Full-service plumbing, fire protection and HVAC provider

ACQUISITION OF WE RENT IT BY H&E EQUIPMENT SERVICES

Construction equipment rental

IPO OF MADER GROUP

Plant equipment maintenance services

SALE OF TECSEDO TO RE PANELS BACKED BY THE RIVERSIDE COMPANY

Manufacturer of panels for overhead doors

SALE OF SCRIGNO GROUP TO CLESSIDRA CAPITAL PARTNERS

Manufacturer of frames for sliding doors and windows

SALE OF A MAJORITY INTEREST IN SÄLZER TO SCHÜCO

Manufacturer of high security products for buildings

SALE OF TERRAFIX TO LEGGETT & PLATT

Geosynthetic construction materials distributor

SALE OF TUTARIUS TO HEMMINK

'True Tools' importer

SHARE BUY-BACK OF CARMAC

Groundworks contractor

SALE OF CMS WINDOW SYSTEMS BY LDC TO MAVEN CAPITAL PARTNERS

Manufacturer of windows and doors

SALE OF PRAESIDIAD'S UK WIRE BUSINESS TO HAMPTON STEEL

Manufacturer of steel perimeter security systems for the agricultural sector

ACQUISITION OF VJ TECHNOLOGY BY PRIMARY CAPITAL FROM SIG PLC

Technical fixings, fasteners and consumables distributor

SALE OF BATHSTORE TO HOMEBASE

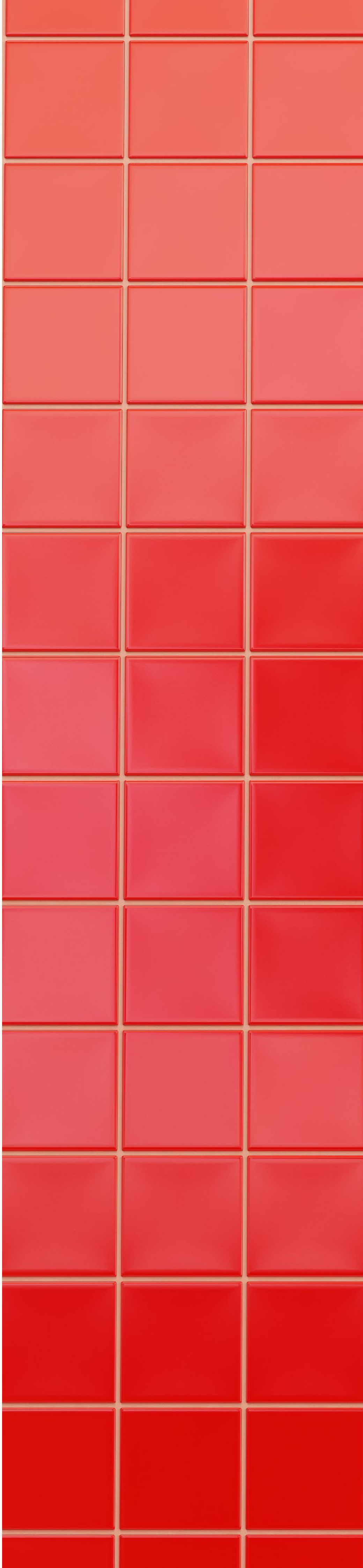
Specialist bathroom retailer

SALE OF ML ACCESSORIES TO SLV

Lighting products designer and distributor

PROPOSED SALE OF SIG BUILDING SOLUTIONS TO KINGSPAN GROUP

Manufacturer & distributor of building envelope solutions



EXPERTS IN THE SECTOR

DELIVERING SECTOR INSIGHT AND THOUGHT LEADERSHIP

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

Contact us to discuss your business, market challenges and strategic requirements.

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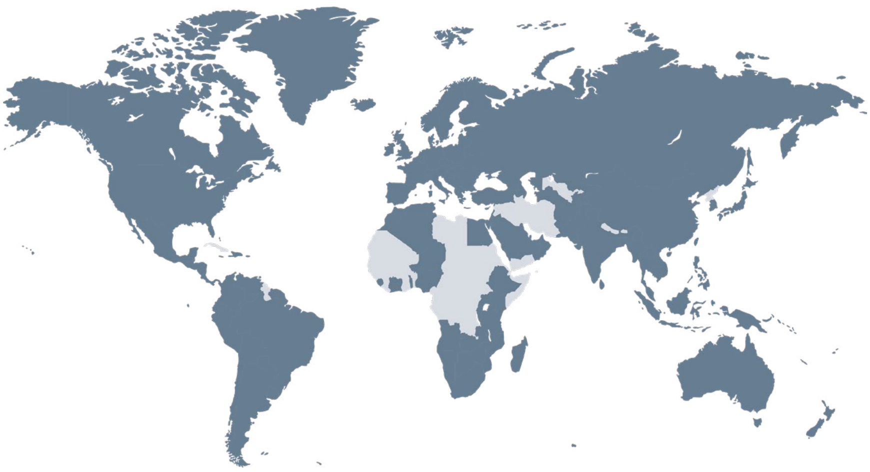

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BDO GLOBAL CORPORATE FINANCE

1,530 COMPLETED DEALS IN 2019

WITH A TOTAL DEAL VALUE OF **$73.2bn**

33% PRIVATE EQUITY DEAL INVOLVEMENT

25% OF OUR DEALS ARE CROSS BORDER

ONE OF THE MOST ACTIVE ADVISERS GLOBALLY*

2,500 CORPORATE FINANCE PROFESSIONALS

100 COUNTRIES PROVIDING DEDICATED CORPORATE FINANCE SERVICES

*4th leading Financial Due Diligence provider globally – Mergermarket global accountant league tables 2019
5th leading Financial Due Diligence provider in Europe – Mergermarket European accountant league tables 2019

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