

INDUSTRY UPDATE

Engineering, Construction & Building Products Market Monitor





ENC&BP MARKET INSIGHTS

Total Construction Growth Led by Residential Construction

- Residential Construction done in the U.S. in 2020 saw Year-over-Year (“YoY”) growth of 20%+ in August, September, and October. While many other construction categories saw growth, Residential Construction is leading the post-COVID recovery with continued optimism heading into 2021.
- Total value of Public Construction has seen more muted growth, growing 3.1% YoY in October as project timelines and backlogs are pushed out due to the economic uncertainty caused by the COVID-19 pandemic.

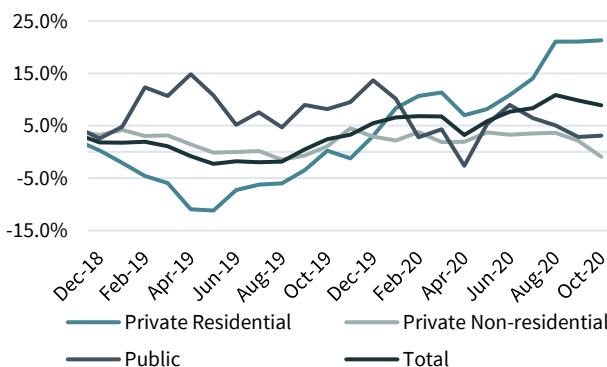
Supply Chain Disruptions and Uncertainty Lead to Increased Costs

- Construction Costs, most notably Materials Costs, have increased significantly, ending December up 7.7% YoY. The rise in costs is partly attributable to suppliers cutting production due to COVID-19 safety measures and uncertainty in the lumber market in early spring. A major recession never materialized, and demand increased in the following months causing a supply shortage, particularly in lumber.
- Additional supply chain delays and disruptions have directly impacted work schedules and project timelines resulting in overall increased Building Costs, which are up 3.7% YoY in December. Key drivers of this trend include continued trade uncertainty and new social distancing guidelines for employees.

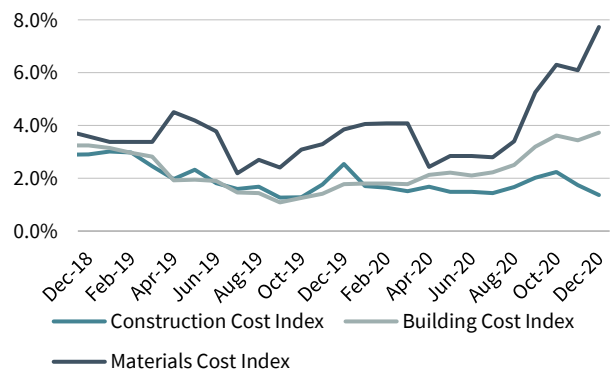
Building Products M&A Remains Active

- Q4 was a significant quarter for M&A for Companies operating in the Building Products Distribution sector, as three of the industry’s leaders and a Pacific Northwest leader announced acquisitions.
- The Building Products Distribution sector has experienced significant M&A over the past decade, as companies competing in the space sought: (i) economies of scale; (ii) geographic breadth and depth; (iii) end-to-end product suites, and (iv) branded products to control more aspects of the supply chain and capture additional margin benefits.
- In 2020, additional tailwinds included a surge in single family housing starts and remodeling activity in certain markets, has contributed to a favorable M&A environment as Building Products manufacturers and distributors have become increasingly attractive investments.

Construction Spending: YoY Growth



Materials and Construction Costs: YoY Growth

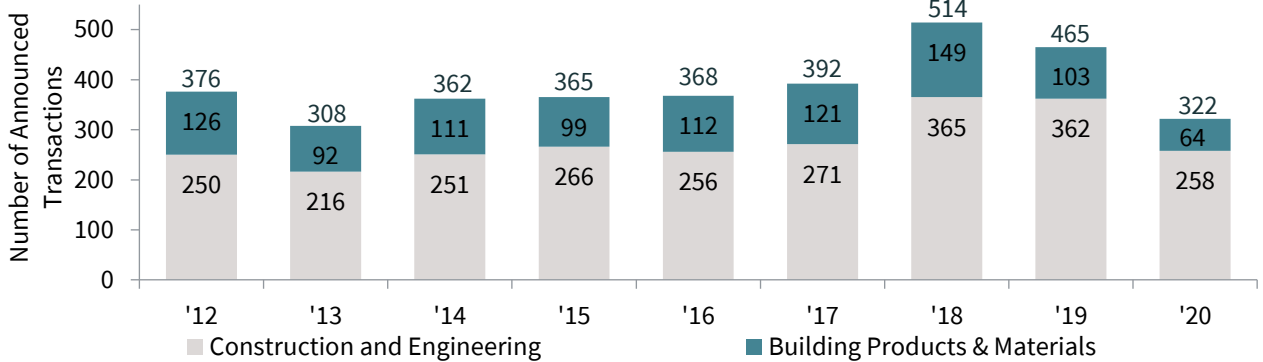




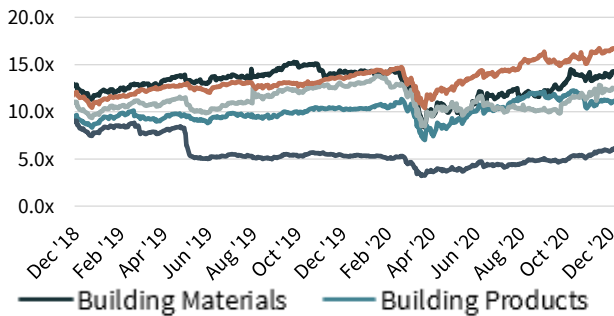
ENC&BP MIDDLE MARKET M&A ACTIVITY

M&A Activity and Market Trends

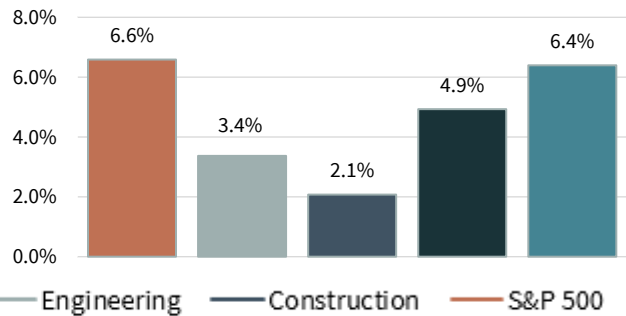
U.S. ENC&BP Middle Market M&A Activity⁽¹⁾



Public Market Valuations (EV/EBITDA)



Next Twelve Months: Estimated Growth



Commentary

- While total M&A activity in the ENC&BP space decreased approximately 31% in 2020 as compared to 2019, activity is expected to rebound in 2021. Several factors are expected to influence M&A activity including: the continued strong performance of the ENC&BP economy, future tax uncertainty with the new Administration in Washington, and a build up of dry powder on investor’s balance sheets caused by the cash preservation strategies adopted by many during the pandemic.
- Though valuations plummeted in early spring due to COVID-19 impacts, the markets quickly recovered and companies in all CEPMB sectors now trade at Enterprise Value / EBITDA (EV/EBITDA) multiples consistent with where they were a year ago. Construction and Building Products valuations have risen with the S&P 500 and now trade at average multiples of 6.3x and 11.6x, respectively, an increase of 17% and 12%, respectively, from where they traded last December. Both Engineering and Building Materials have recovered to December 2019 levels, down 2% and 5% with average multiples of 12.3x and 14.0x, respectively.
- Over the Next Twelve Months (“NTM”), revenue growth for the S&P 500 is predicted to be 6.6%. This is trailed slightly by Building Products and Building Materials, where sales are expected to grow 6.4% and 4.9%, respectively. NTM sales growth for the Construction sector lags behind with expected growth of 2.1%.

(1) Middle market M&A includes transactions with EV < \$1000mm, and transactions with undisclosed EV.

(2) YTD as of December 30, 2020

Source: S&P CapitalIQ, U.S. Small Business Administration, PitchBook Data, Company Press Releases, and Meridian Research



MANOR HARDWARE ACQUIRED BY SOUTHERNCARLSON

Meridian Capital LLC (“Meridian”), a Seattle-based middle market corporate finance and M&A advisory firm is pleased to announce the successful acquisition of one of its clients, Manor Hardware, Inc. (“Manor” or the “Company”) by SouthernCarlson, Inc. (“SouthernCarlson”), a division of Kyocera Corporation.

Founded in 1975, Manor evolved from a general hardware supply store into a full-service construction supply and tool repair operation with multiple locations across Washington State. The Company offers a wide breadth of hardware and construction products tailored to support multi-family, single-family, and commercial construction contractors.

Manor Hardware



- Acquired by -



A Division of



Rob Duncan, President of Manor, shared, “Going through a transaction process can be an incredibly daunting effort when you haven’t done it before. From beginning to end, the Meridian Capital team served as an exceptional partner to us in helping position Manor to the market and navigate the challenges and uncertainties of the deal. They continually kept our priorities and best interests as their own. I’m excited about this next chapter for Manor and the opportunity it provides for our customers and our employees.”

Rob Allen, SouthernCarlson’s head of Corporate Development, commented, “The Pacific Northwest is a strategic focus for us and we look forward to working with Manor’s in-house experts to broaden our guaranteed take-off program for multi-family builders across the country.”

Brian Murphy, President and Managing Director at Meridian stated, “We’re very happy with the outcome for Bob, Rob, and the entire Manor team. Over the past five decades they have built a customer-first business and established a leadership position within the Northwest. The acquisition represents an exciting outcome for Manor and provides SouthernCarlson with an ideal platform for growth in the region.”



RECENT TRANSACTION SPOTLIGHTS

Bain Capital Private Equity to acquire US LBM Holdings, Inc. (“US LBM”)

Announced November 13, 2020

- Bain Capital Private Equity Group (“Bain Capital”) has announced the signing of a definitive agreement to acquire a majority stake in US LBM, a leading distributor of specialty building materials in the United States. Kelso & Company, another private equity firm, has been partnered with US LBM since 2015.
- Founded in 2009 and headquartered in Buffalo Grove, Illinois, US LBM has grown to over 250 locations and 37 divisions, operating under a model that combines the advantages of its national scale and core team of industry experts with a local go-to-market strategy.
- Stephen Thomas, Managing Director at Bain Capital, said that US LBM is poised for continued growth and expansion while “maintaining the company’s unique culture, people-first mindset and commitment to superior customer service.”
- The transaction is expected to close in December 2020.

American Securities LLC to acquire Foundation Building Materials, Inc. (NYSE:FBM)

Announced November 15, 2020

- American Securities LLC (“American Securities”) announced the signing of a definitive agreement to acquire all outstanding shares in Foundation Building Materials, Inc. (“FBM”), one of the largest specialty building products distributors in North America.
- The FBM shares will be acquired for \$19.25 per share in an all-cash transaction valued at approximately \$1.37 billion. The transaction represents a premium of approximately 27% to the closing price of FBM common stock on the last trading day prior to the announcement, and an Enterprise Value to trailing twelve month EBITDA multiple of 7.3x.
- American Securities was interested in acquiring FBM’s strong national brand and reputation as “the distributor of choice for leading building product suppliers.” FBM will aim to further its global presence alongside their new partner.
- The transaction is expected to close in the first quarter of 2021, subject to customary closing conditions and regulatory approvals.

The Home Depot, Inc. (NYSE:HD) to acquire HD Supply Holdings, Inc. (NYSE:HDS)

Announced November 16, 2020

- The Home Depot, Inc. (“Home Depot”), the world’s largest home improvement retailer, announced it has entered into a definitive agreement to acquire all outstanding shares of HD Supply Holdings, Inc. (“HD Supply”), a leading national distributor of maintenance, repair and operations (“MRO”) products.
- Home depot will acquire the HD supply common stock in an all-cash tender offer for \$56 per share, for a total enterprise value of approximately \$8 billion. The transaction represents an Enterprise Value to trailing twelve month EBITDA multiple of 11.9x.
- This acquisition is expected to position Home Depot as a premier provider in the highly fragmented \$55 billion MRO marketplace. Craig Menear, CEO of Home Depot, cited HD Supply’s robust product offering, valued-added service capabilities, and MRO-specific distribution network in the U.S. and Canada as primary factors in the acquisition.
- The transaction is expected to be completed during the Home Depot’s fiscal fourth quarter, which ends on January 31, 2021, and is subject to customary closing conditions and regulatory approvals.



SMALL & MID-CAP COMPANY VALUATIONS

Construction Firms

(\$U.S. in millions)

Company Name	Market Cap	Enterprise Value	TTM Data				NTM Est. Growth		EV Multiple				
			Sales	EBITDA	Margin	EBITDA Margin	Sales	EBITDA	TTM Sales	TTM EBITDA	NTM Sales	NTM EBITDA	NTM EBIT
Quanta Services, Inc.	\$9,806	\$11,078	\$11,403	\$896	14.4%	7.9%	2.4%	22.6%	1.0x	12.4x	0.9x	10.1x	14.8x
EMCOR Group, Inc.	5,000	4,856	8,920	584	15.4%	6.5%	(1.3%)	(4.1%)	0.5x	8.3x	0.6x	8.7x	10.7x
MasTec, Inc.	4,922	6,192	6,393	688	15.8%	10.8%	15.7%	25.3%	1.0x	9.0x	0.8x	7.2x	11.6x
Comfort Systems USA, Inc.	1,914	2,164	2,877	245	18.9%	8.5%	(4.7%)	(13.7%)	0.8x	8.8x	0.8x	10.2x	13.8x
Dycom Industries, Inc.	2,362	2,970	3,186	300	17.5%	9.4%	1.8%	11.3%	0.9x	9.9x	0.9x	8.9x	19.6x
Primoris Services Corporation	1,332	1,671	3,384	240	10.7%	7.1%	2.4%	2.0%	0.5x	7.0x	0.5x	6.8x	10.4x
Granite Construction Incorporated	1,219	1,300	3,390	10	5.5%	0.3%	2.5%	2233.0%	0.4x	NM	0.4x	5.6x	11.2x
MYR Group Inc.	986	1,061	2,210	126	12.1%	5.7%	4.1%	0.2%	0.5x	8.4x	0.5x	8.4x	13.1x
Great Lakes Dredge & Dock Corporation	841	1,001	726	149	23.8%	20.5%	5.1%	1.2%	1.4x	6.7x	1.3x	6.6x	9.4x
Sterling Construction Company, Inc.	527	875	1,427	121	12.5%	8.5%	0.4%	5.1%	0.6x	7.2x	0.6x	6.9x	9.5x
Matrix Service Company	295	247	946	23	8.9%	2.5%	(3.9%)	51.6%	0.3x	10.5x	0.3x	7.0x	14.5x
Orion Group Holdings, Inc.	160	245	740	48	11.1%	6.5%	(3.9%)	(1.3%)	0.3x	5.1x	0.3x	5.1x	13.7x
Median	\$1,486	\$3,032	\$194	13.4%	7.5%	2.1%	3.5%	0.6x	8.4x	0.6x	7.1x	12.4x	
Mean	\$2,805	\$3,800	\$286	13.9%	7.8%	1.7%	194.4%	0.7x	8.5x	0.7x	7.6x	12.7x	

Engineering Firms

Jacobs Engineering Group Inc.	\$13,938	\$15,376	\$13,567	\$1,047	19.1%	7.7%	3.4%	7.1%	1.1x	14.7x	1.1x	13.7x	14.9x
Teledyne Technologies Incorporated	14,196	14,669	3,111	618	39.0%	19.9%	2.9%	5.4%	4.7x	23.7x	4.6x	22.5x	27.7x
AECOM	7,311	8,699	13,240	753	5.4%	5.7%	(0.1%)	NM	0.7x	11.5x	0.7x	10.8x	12.6x
Tetra Tech, Inc.	6,215	6,626	2,349	268	19.0%	11.4%	3.5%	6.0%	2.8x	24.7x	2.7x	23.3x	25.8x
CACI International Inc	6,281	8,241	5,816	609	35.0%	10.5%	7.7%	9.3%	1.4x	13.5x	1.3x	12.4x	15.4x
Stantec Inc.	3,684	4,513	2,795	332	52.7%	11.9%	6.1%	37.1%	1.6x	13.6x	1.5x	9.9x	16.4x
KBR, Inc.	4,229	4,875	5,753	378	11.6%	6.6%	2.3%	NM	0.8x	12.9x	0.8x	9.4x	12.6x
Fluor Corporation	2,215	2,001	13,452	(51)	0.8%	NA	4.5%	(876.7%)	0.1x	NA	0.1x	5.1x	7.9x
Tutor Perini Corporation	664	1,363	5,147	323	8.9%	6.3%	3.4%	14.1%	0.3x	4.2x	0.3x	3.7x	4.9x
VSE Corporation	436	712	707	83	11.2%	11.7%	(6.8%)	(4.3%)	1.0x	8.6x	1.1x	9.0x	13.6x
Perma-Fix Environmental Services, Inc.	72	76	99	6	17.5%	6.0%	NA	NA	0.8x	12.9x	NA	NA	NA
Median	\$4,875	\$5,147	\$323	17.5%	8.5%	3.4%	7.6%	1.0x	12.9x	1.1x	9.6x	14.2x	
Mean	\$6,105	\$6,003	\$300	20.0%	8.7%	2.7%	(135.8%)	1.4x	12.8x	1.4x	10.4x	15.2x	

Building Products

Masco Corporation	\$14,236	\$16,045	\$6,967	\$1,375	35.8%	19.7%	5.5%	6.5%	2.3x	11.7x	2.2x	11.0x	12.1x
Trex Company, Inc.	9,587	9,605	817	237	41.4%	29.0%	20.2%	22.2%	NM	40.5x	9.8x	33.1x	36.3x
Owens Corning	8,224	10,868	6,822	1,242	22.4%	18.2%	6.4%	13.8%	1.6x	8.8x	1.5x	7.7x	11.6x
Simpson Manufacturing Co., Inc.	3,995	3,801	1,237	283	45.5%	22.9%	5.2%	1.9%	3.1x	13.4x	2.9x	13.2x	15.4x
Builders FirstSource, Inc.	4,895	6,442	7,792	521	26.1%	6.7%	17.2%	39.0%	0.8x	12.4x	0.7x	8.9x	10.9x
UFP Industries, Inc.	3,415	3,456	4,758	381	16.2%	8.0%	1.4%	(0.7%)	0.7x	9.1x	0.7x	9.1x	11.3x
Armstrong World Industries, Inc.	3,571	4,185	945	285	35.9%	30.1%	1.5%	17.0%	4.4x	14.7x	4.4x	12.6x	16.4x
Gibraltar Industries, Inc.	2,321	2,165	1,123	145	25.0%	12.9%	10.4%	21.6%	1.9x	15.0x	1.7x	12.3x	14.5x
Quanex Building Products Corporation	728	846	852	103	22.6%	12.1%	6.6%	7.9%	1.0x	8.2x	0.9x	7.6x	12.9x
Median	\$4,185	\$1,237	\$285	26.1%	18.2%	6.4%	13.8%	1.8x	12.4x	1.7x	11.0x	12.9x	
Mean	\$6,379	\$3,479	\$508	30.1%	17.7%	8.3%	14.4%	2.0x	14.8x	2.8x	12.8x	15.7x	

Building Materials

Vulcan Materials Company	\$18,919	\$21,565	\$4,868	\$1,285	26.1%	26.4%	(0.5%)	1.7%	4.4x	16.8x	4.5x	16.5x	23.9x
Martin Marietta Materials, Inc.	17,068	20,053	4,346	1,276	27.4%	29.4%	7.4%	2.0%	4.6x	15.7x	4.3x	15.4x	21.8x
Boral Limited	4,652	6,630	3,916	431	30.1%	11.0%	8.7%	59.1%	1.7x	15.4x	1.6x	9.7x	20.9x
Eagle Materials Inc.	4,168	5,264	1,570	462	23.5%	29.4%	2.5%	16.1%	3.4x	11.4x	3.3x	9.8x	13.4x
United States Lime & Minerals, Inc.	640	571	158	51	40.2%	32.5%	NA	NA	3.6x	11.1x	NA	NA	NA
Median	\$6,630	\$3,916	\$462	27.4%	29.4%	4.9%	9.0%	3.6x	15.4x	3.8x	12.6x	21.4x	
Mean	\$10,817	\$2,971	\$701	29.5%	25.7%	4.5%	19.7%	3.5x	14.1x	3.4x	12.9x	20.0x	

As of December 30, 2020

Note: Mid-cap defined as market capitalization between \$2 billion and \$20 billion. Not meaningful (NM) if EV/Sales or EV/EBIT is a significant outlier. NA if denominator is 0 or not available. NTM figures are based on the median estimate of Wall Street analysts

Source: S&P Capital IQ, Company Press Releases, Meridian Research

MERIDIAN CAPITAL
INVESTMENT BANKERS

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Winter 2021 | ENC&BP UPDATE
Engineering, Construction & Building Products

SELECT ENC&BP M&A TRANSACTIONS

Announced Date	Acquirer/Investor	Target	Target Description
12/23/2020	Vortex Companies, LLC	North American Pipeline Services LLC	Offers commercial and residential sewer and pipeline services.
12/21/2020	Trinity Hunt Partners, L.P.	Dayspring Restoration	Provides disaster restoration, mitigation, and renovation services.
12/21/2020	Lindsay Goldberg LLC	Pike Corporation	Provides construction and engineering services for electrical utilities.
12/18/2020	Construction Partners, Inc.	R.P.C. Contracting, Inc.	Operates as an excavation, grading, and paving contractor.
12/14/2020	Trachte Building Systems, Inc.	Roof Mart, LLC	Designs and manufactures steel roofing systems, wall panels, trims and trusses for post frame building packages.
12/7/2020	Terracon Consultants, Inc.	TAM Consultants, Inc.	Provides engineering and design services.
12/7/2020	Installed Building Products, Inc.	Custom Glass & Doors, Inc.	Provides glass, shower, shelving, and mirror installation services.
12/7/2020	Squan Construction Services, LLC	ElecComm Corporation	Provides underground and overhead high/low voltage electric and communications line construction services.
12/4/2020	Construction Partners, Inc.	Gelder & Associates, Inc.	An asphalt and paving contractor, manufactures and pours virgin and recycled asphalt mixes.
12/2/2020	AWP, Inc.	Advantage Barricade & RoadMarks, LLC	Engages in installing road signs.
12/2/2020	Tundraland Home Improvements	Renewal by Andersen Corporation	Designs, custom manufactures, and installs windows and patio doors.
11/30/2020	Asgard Partners & Co.	Angstrom Technology, Ltd.	Engages in the designing and building of modular cleanrooms.
11/30/2020	BOXX Modular Inc.	Vanguard Modular Building Systems, LLC	Engages in the planning, design, construction, and installation of prefabricated, portable, and relocatable buildings.
11/30/2020	Layton Construction Co Of Arizona Inc	J.R. Abbott Construction Inc.	Operates as a general contractor.
11/24/2020	Kyocera Industrial Tools, Inc.	Manor Hardware, Inc.	Distributes construction tools.
11/24/2020	ATI Restoration, LLC	Mark 1 Restoration Service, Inc.	Offers fire, water, mold, and storm restoration services; and inspection and appraisal of damages services.
11/19/2020	Renovation Brands LLC	Profile Designs, Inc.	Manufactures tin panels that are used by interior designers and architects to design ceilings.
11/17/2020	OMERS Private Equity	Turnpoint Services, LLC	Provides plumbing, heating, ventilation and air conditioning, electrical, and maintenance and repair services.
11/16/2020	Installed Building Products, Inc.	WeatherSeal Insulation Company, LLC	Offers fiberglass and spray foam insulation services to contractors and homeowners.
11/15/2020	The Home Depot, Inc.	HD Supply Holdings, Inc.	Operates as an industrial distributor in North America.
11/14/2020	American Securities LLC	Foundation Building Materials, Inc.	Distributes building products in the United States and Canada.
11/13/2020	Bain Capital Private Equity, LP	US LBM Holdings, Inc.	Distributes specialty building materials in the United States.

Meridian Capital completed transaction
Source: S&P CapitalIQ, Company Press Releases, Meridian Research

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ENGINEERING, CONSTRUCTION AND BUILDING PRODUCTS SECTOR

MERIDIAN CAPITAL SECTOR COVERAGE

- **Building Materials**
- **Engineering**
- **Specialty Contractors**
- **Building Products**
- **Heavy Construction**
- **Service & Maintenance**
- **Construction**
- **Infrastructure**
- **Utilities**

MERIDIAN CAPITAL TRANSACTION EXPERIENCE

Manor Hardware



- Acquired by -





AD Systems




- Acquired by -





Brundage-Bone Concrete Pumping *




- Acquired by -



NW Building Components & Mandere Construction *

- Acquired by -



Rockmount Research & Alloys *




- Recapitalized by -



QC Data



- Acquired by -



Burton Saw and Supply



- Acquired by -




Dade Moeller & Associates *



- Acquired by -



Selland Construction *



- Strategic advisory -


Fasteners, Inc.



- Acquired by -



Northwest Landscaping Services



- Acquired by -



Eco-Pan, Inc. *



- Acquired by -




Omega Morgan



- Acquired by -



Central Washington Refrigeration *




- Strategic advisory -

Goldfinch Brothers



- Strategic advisory -

MM Comfort Systems



- Acquired by -

Private Investor

* Note: Includes transactions completed by Meridian bankers while at previous firms





MERIDIAN CAPITAL

INVESTMENT BANKERS

Meridian Capital has been helping middle market business owners achieve their M&A and corporate finance goals since 1995.

INDUSTRY EXPERIENCE

Meridian's diversified industrials practice provides comprehensive access to industry-wide strategic and financial sponsor relationships, deep sector expertise, and proven transaction experience to help maximize shareholder value.

TRANSACTION EXPERTISE

- Mergers & Acquisitions
- Growth Capital
- Strategic Advisory

TAILORED PROCESSES

- High-Touch Approach
- Multidisciplinary Deal Team
- End-to-End Services

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About Meridian Capital

Meridian Capital (www.meridianllc.com), a Seattle-based M&A advisory firm, has served as a trusted advisor to business owners on complex corporate finance, M&A, and strategic challenges for over 20 years. The firm differentiates itself through its deep industry insights, highly customized service approach, and end-to-end commitment to execution.

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