SECTOR INSIGHTS

BUILDING PRODUCTS & SERVICES

2022 | BDO MERGERS & ACQUISITIONS | IN ASSOCIATION WITH THE CPA

CONTINUING THE PUSH FOR **RESPONSIBLE CONSTRUCTION**

IDEAS | PEOPLE | TRUST

cpa construction products association

BDO

KEY MARKET THEMES AND MERGERS & ACQUISITIONS (M&A) ANALYSIS

Featuring contributions from leading sector participants, this report looks at the key themes that are shaping the Building Products & Services sector and what they mean for M&A globally and in the UK.

KEY MARKET THEMES

M&A ANALYSIS

BDO IN THE SECTOR

ACKNOWLEDGMENTS:

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

GREENER PASTURES?

The Building Products & Services sector's resilience was amply demonstrated in 2021 as M&A transactions surpassed pre-pandemic levels to reach an all-time high. While the industry is set for continued growth in 2022, the giddy rate of expansion seen last year may be slowed by increasing headwinds.

The industry has been able to overcome challenges from Brexit and COVID-19 in the last two years, but the current crisis in Ukraine, coming on top of already strained supply chains, heightened inflation risks and longstanding skills shortages, is placing pressure on the sector.

Russia and Ukraine together only accounted for 1.2% of UK building products imports in 2021, so the impact of the conflict is limited overall although it varies considerably by product, with the price of some energy-intensive products such as steel particularly affected by the spikes in energy costs and commodity prices.

The Construction Products Association (CPA) believes the conflict could take years to resolve and will lead to further increases in the price of energy and raw materials, pushing CPI inflation to 8.5%. Another significant impact will be the effects of the conflict on consumer confidence and spending.

UK households have accumulated £200 billion in savings over the last two years, which underpinned the 20% rise in private housing RM&I output in 2021 to record levels. Although output is expected to decline a little, renovation projects are expected to remain a firm feature as many homeowners continue to work from home. Across all sub-sectors, Building Products & Services businesses are still seeking funding and engaging in M&A transactions. IPOs have increased in popularity. Company valuations are the highest in years. Many opportunities are arising from portfolio reviews, corporates streamlining operations through carve-outs, and significant cash available in the private equity market to invest in attractive businesses.

Particularly valued are companies that focus on sustainability, which is fast moving from a nice-to-have add-on to a basic business requirement. But innovation generally is catching the eye of investors in the sector.

In this year's publication we take an in-depth look at ESG but also consider a range of other innovation-led topics, including how companies are adapting to price inflation, what impact post-Grenfell regulations are having in the UK and how the sector is embracing online channels to market.

It all adds up to an exciting time for the sector.

We hope you enjoy the publication and would welcome any questions you have.

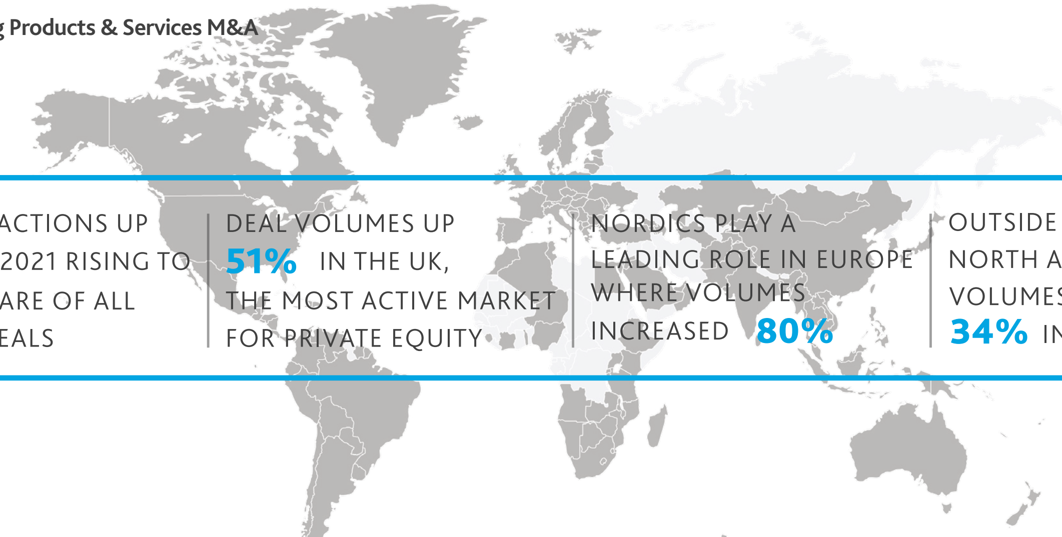
JOHN STEPHAN
Partner
BDO Building Products & Services M&A

MORE THAN **3,000** TRANSACTIONS ACROSS THE GLOBE IN THE LAST **3** YEARS

DEAL VOLUMES **UP 69%** IN 2021, WITH A RECORD **1,329** TRANSACTIONS WORLDWIDE

21% **PRIVATE EQUITY DEALS**, UP ON **PRE-PANDEMIC** LEVELS

20% CROSS-BORDER DEALS DOWN ON PRE-PANDEMIC LEVELS



US TRANSACTIONS UP **81%** IN 2021 RISING TO **40%** SHARE OF ALL SECTOR DEALS

DEAL VOLUMES UP **51%** IN THE UK, THE MOST ACTIVE MARKET FOR PRIVATE EQUITY

NORDICS PLAY A LEADING ROLE IN EUROPE WHERE VOLUMES INCREASED **80%**

OUTSIDE EUROPE AND NORTH AMERICA, DEAL VOLUMES INCREASED **34%** IN 2021

THE VIEW FROM THE CONSTRUCTION PRODUCTS ASSOCIATION

THE OUTLOOK FOR THE SECTOR IN THE UK

The last two years have been extremely challenging for UK construction — and the next two years will require careful navigation, according to the Construction Products Association's latest forecasts.

CONSTRUCTION OUTPUT

▲ 13%	IN 2021
▲ 2.8%	IN 2022
▲ 2.2%	IN 2023

PRIVATE HOUSING STARTS

▲ 16%	IN 2021
▲ 1.0%	IN 2022
▲ 1.0%	IN 2023

INFRASTRUCTURE WORK

▲ 30%	IN 2021
▲ 8.8%	IN 2022
▲ 4.6%	IN 2023

For those who prefer to view their glass as half full, activity on the ground is buoyant and demand remains strong across the industry. But there are also currently supply chain issues that may only get worse due to sharp increases in energy costs, pushing materials and product prices up even further.

The key to industry fortunes will be the extent to which supply can meet the high level of demand.

The industry has been remarkably resilient in recent years despite the disruption caused by the global pandemic and the end of the Brexit implementation period. This resilience will be critical in the face of the rising cost of living on households' spending decisions, business investment decisions and the wider economy. Russia's invasion of Ukraine adds another layer of uncertainty and high inflationary pressure contributed to by spiking energy prices has led to a revision in our forecasts. We had forecast 4.3% growth in 2022 and 2.5% in 2023; which are now revised to 2.8% growth in 2022 and 2.2% in 2023.

In the near-term, construction growth is likely to be driven by infrastructure and industrial warehouse activity, but this will also be supplemented by private housing growth and commercial activity. Infrastructure output already reached a record high last year and it is expected to be a key driver of construction growth in 2022.

General levels of activity are provided by frameworks in the regulated sectors of water, roads, rail and energy, with five-year spending plans in place. However, the main growth comes from main works on major projects: the Thames Tideway Tunnel, the Hinkley Point C nuclear power station and HS2.

Both Thames Tideway and HS2 reported delays last year, due to supply constraints. Further delays have been factored in, but infrastructure output is still forecast to rise by 8.8% this year and grow by 4.6% in 2023, to another all-time high.

Industrial growth is being driven by the long-term shift towards online shopping at the expense of in-store retail, which skews construction demand away from commercial retail and towards industrial warehouses.

It is not just the large number of warehouse projects on the ground and in the pipeline but also the larger size and value of 'smart' warehouses being built that will boost the sector.

Last year, industrial growth wasn't as high as the pipeline suggested due to materials and labour availability issues, but the indications are that these have eased since the final quarter of last year. Projects already on site and the strong pipeline means industrial output is forecast to rise by 9.8% this year and 9.3% next year.

Outlook for private housing growth has been reduced from 3% growth in the next two years, to 1% growth, and will be skewed towards starts as house builders focus on opening new developments for completions later in the year given high demand, driven by a 'race for space' as homeowners focus on purchasing houses rather than flats in areas where they can buy large properties with more space.

Major house builders have been less affected by supply issues — as they have been able to plan and purchase well in advance — and reported build cost inflation of around 5% last year.

House building prospects remain positive despite government curtailing its policy stimulus in Autumn 2021 and prices in the general housing market continued to rise by 10% year-on-year early in 2022.

As ever, planning remains an issue for house builders and there are concerns regarding the impacts of rising inflation and falling consumer confidence, housing affordability as well as the effects of increasingly devoting resource to cladding remediation.

Despite these uncertainties, while house price inflation remains strong, builders will be happy to cautiously increase build rates and we anticipate price growth of 6% this year and 2.5% next year.

"While commercial activity overall remains subdued, due to a dearth of new investment in tower projects two years ago, there are other areas of commercial that are currently very buoyant.

These include fit-out and finishing works, changes in use into residential or warehouses, and high-end commercial refurbishments as clients downsize to smaller, high-quality office space when leases end, on the assumption that even in the medium term there will be fewer employees in the office at any given time.

Overall, commercial output is forecast to rise by 5.2% in 2022 and 2.8% in 2023, but double-digit growth rates and a return to activity levels seen at the peak of commercial activity five years ago will only return once there has been a significant upturn in new tower projects activity down on the ground, which will not occur in the next two years."

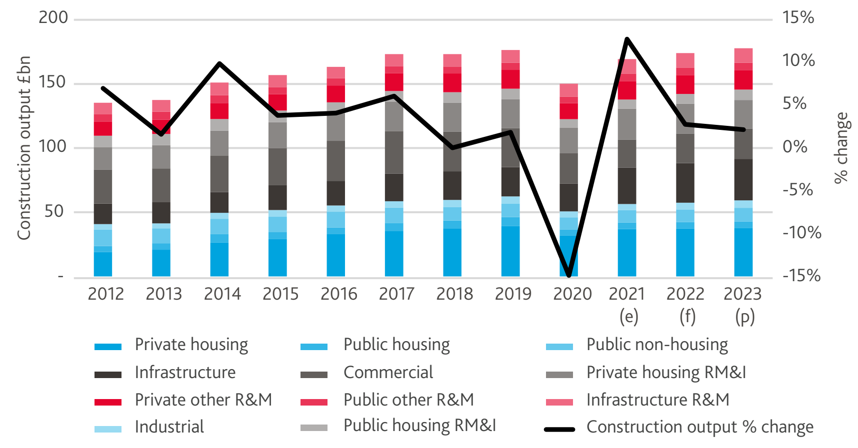
PROFESSOR NOBLE FRANCIS
Economics Director
Construction Products Association

BDO VIEWPOINT

Construction is arguably one of the industries that has rebounded most quickly from the impact of the pandemic, with most subsectors now close to or at pre-pandemic levels of growth. But after two years of seriously challenging conditions, the sector faces yet more issues in 2022. Our latest report outlines some options to help companies navigate the challenges ahead.

PAUL FENNER
BDO Partner
Head of Construction

TOTAL CONSTRUCTION OUTPUT BY SECTOR



Source: CPA

BDO'S RECENT SURVEY OF LEADERS IN THE CONSTRUCTION SECTOR REVEALS

TOP 3 CHALLENGES FACING UK CONSTRUCTION IN 2022

75%	70%	50%
LABOUR SHORTAGES	MATERIALS SHORTAGES AND PRICING	SUPPLY CHAIN RESILIENCE

TOP 3 INVESTMENT PRIORITIES IN 2022

66%	39%	33%
RECRUITMENT	SUSTAINABILITY	DIGITAL TRANSFORMATION

WHAT NEEDS TO BE DONE TO IMPROVE CONFIDENCE IN UK CONSTRUCTION? (TOP THREE RESPONSES)

1	2	3
GREATER ADOPTION OF INNOVATION AND TECHNOLOGY	GREATER CONFIDENCE IN GOVERNMENT	GREATER TRAINING OPPORTUNITIES

FOR MORE INFORMATION, DOWNLOAD BDO'S 2022 CONSTRUCTION SECTOR REPORT FROM HERE.

HOW SUSTAINABILITY IS SHAPING BUILDING PRODUCTS & SERVICES

SERIOUS ABOUT GOING GREEN

We had already identified sustainability as a key theme for the sector last year. But if last year the environmental, social and corporate governance (ESG) agenda was gaining traction among investors, now the trend towards sustainability is in full swing.

Companies in the Building Products & Services industry are reporting an acceleration of sustainability awareness in recent months, with many businesses making ESG commitments a core part of missions and visions.

The Ukraine crisis and ongoing supply chain problems have brought sustainability to the fore as a potentially key lever for national economic resilience.

In Europe and the US, for example, concerns about an over-reliance on Russian gas and oil have led leaders to fast-track plans for the energy transition, potentially compressing a decarbonisation agenda that was set to take decades into a matter of months. The UK, too, is speeding up effort to move away from fossil fuels.

In a January climate change risk assessment, published before the outbreak of hostilities in Ukraine brought new urgency to energy matters, the Government said global warming 'is one of the biggest challenges of our generation and has already begun to cause irreversible damage to our planet and way of life.'

The assessment reiterated the Government's goal of investing $100 billion in climate finance by 2023 and said the administration aimed 'to scale up the level of ambition' in future.

And in March this year, the Construction Leadership Council celebrated hitting its 'first target' on the roadmap to net zero with the launch of an industry change programme aiming to eradicate carbon from buildings and infrastructure.

The CO2nstruct Zero programme includes 28 metrics covering issues such as the reducing the embodied carbon in products, lowering the volume of waste produced by projects and boosting the number of carbon-retrofitted homes.

MAKE UK, the manufacturing sector body, has meanwhile published a net-zero roadmap that includes commitments such as establishing four low-carbon industrial clusters by 2030, achieving a 67% reduction on 2018 scope 1 and 2 emissions levels by 2035 and creating at least one zero-carbon cluster by 2040.

These initiatives build on the work being carried out under the Transforming Construction Challenge umbrella at Innovate UK, the national innovation agency.

The Challenge, now in its third year, aims to reduce whole-life costs by a third, halve carbon emissions, reduce the trade gap and double the speed of delivery for UK construction.

Meanwhile, tier 1 contractors are increasingly setting down sustainability targets as a requirement for suppliers. The ability to include sustainable metrics in tender documents is now seen as an important factor in winning business.

For some, this has been a wake-up call, and is encouraging all parts of the supply chain to consider issues such as adopting electric vehicle fleets, using renewable energy, increasing recycling and developing circular economy processes. These considerations may touch on issues beyond simple sustainability.

A May 2022 report by AMA Research for UK Construction Week notes how the need for transparency in ESG could lead to fewer but deeper supply chain relationships, for instance, and how incentives to meet non-financial metrics could help managers improve business performance.

As well as being good for the brand, ESG initiatives often make sound commercial sense, delivering rapid paybacks. The current climate particularly favours companies that have sustainable products at their core.

That is the case with Eneraqua Technologies, which installs water flow control systems plus ground- and air-source heat pumps for local authority construction projects.

The company listed on AIM in November 2021 after acquiring a water controls manufacturer and a borehole drilling business earlier in the year.

International growth and further expansion into the water and heating management markets is on the agenda.

Demand for sustainable products is proving to be a significant revenue driver, with companies such as Prolectric, which provides solar-powered mobile lighting systems, anticipating growth rates of up to 60% year on year.

Companies are looking to acquisitions as a way of entering this field to capitalise on the market opportunity.

Last year, for example, listed infrastructure player Hill & Smith Holdings bought Prolectric with a view to investing for further expansion.

Other deals involving new entrants to the renewables market include lighting maker Luceco's acquisition of electric vehicle charging point specialist Sync EV in March this year and Brickability Group's purchase of renewable energy systems installer HBS NE in November 2021.

Green tech businesses are proliferating and there is certainly no shortage of emerging technologies that could be brought together to make an interesting group in the future. Investors keen to harness such potential will be watching closely.

The trend towards sustainability will only grow with developments such as the ban on red diesel from April 2022. For companies that have an edge in this space, the challenge is not just how to meet demand for sustainable products and services — but how to grow sustainably, too.

BUSINESS VOICES

“When we first bought the technology to market in 2016, our target audience was the environmental team, but it would be the buyers that would make the final decision. It wasn't until we said, let's do some calculations based on how the buyers are looking at the procurement decisions that we started to get some traction.

If you look at a diesel tower light, we are saving your cost of diesel, the cost of the servicing and maintenance of the engine. So, within the first year you'd have payback. But you've got a seven-to-ten-year life on that asset.

Once you start to look at it through that lens, it's not more costly to go down an environmental route — it's a better return on your investment.

Just presenting those numbers to the buyers, to the financial directors, we really saw a step change in the volume of the products that we got on the market.”

CHRIS WILLIAMS
Managing Director, Prolectric Services Ltd (provider of sustainable lighting, power and security)

ON A MISSION: How sector leaders are using sustainable messaging in their corporate identities

“A global leader in sustainable building materials.”
CRH

“Supporting clients to meet their net zero and sustainability goals.”
Eneraqua Technologies

“A longstanding commitment to tackling global environmental challenges.”
FW Thorpe

“Building a sustainable future.”
Grafton

“Sustainable infrastructure and safe transport through innovation.”
Hill & Smith

“Ensuring that our business positively impacts the world around us.”
Howden Joinery

“A net zero emissions future with the wellbeing of people & planet at its heart.”
Kingspan

“The worldwide leader in light and sustainable construction.”
Saint Gobain

“We're here to build better communities and enrich lives.”
Travis Perkins

CPA OPINION

ESG has become increasingly important, primarily because of who is driving it. The past two to three decades have seen many attempts to provide a framework to align the interests of business with those of wider society.

But they have often lacked widespread credibility and it has been too easy for some people to dismiss them for providing little more than PR for companies keen to greenwash their reputations. However, now major investors are focusing on ESG to help them control and minimise risk in the medium term.

They are keen to see hard metrics, which are essential for ESG to become embedded. This means that firms have to adopt management processes that reflect and respond to environmental, social and governance issues.

Given that it is investors requiring ESG, it is unsurprising that large companies — commercial developers, major house builders and main contractors — are currently focusing on it.

For the smallest firms in construction, ESG isn't currently on the radar — but that may change over time as large companies increasingly focus on their own supply chains.

BUSINESS VOICES

“Fossil fuels have pretty volatile pricing. We need to use those resources more efficiently so that we don't have the risk of spikes in pricing causing real pain for people, especially those on low incomes.

Because of Ukraine, the likelihood is that it's going to go up again, so the need to get on and use energy efficiently is being turbocharged.

And don't forget there's water as well. If you look around the world, there is a pressing water issue. Saving water also generally saves energy, the two go hand-in-hand.”

GUY STENHOUSE
Chairman, Eneraqua Technologies
(specialist provider of energy and water efficiency solutions)

BDO VIEWPOINT

The momentum behind ESG investing appears unstoppable and will only increase the importance of sustainability in considerations around M&A. We are already seeing growing interest around companies that have sound green credentials and we expect such businesses will increasingly be able to command a premium.

With ESG scrutiny on the rise, it is essential for businesses to consider how they are positioned. Listed companies will be looking for robust ESG credentials within acquisition targets as a fundamental pillar of strategy, and private equity investors will likewise expect such focus.

Hence, companies should consider how they portray sustainability metrics alongside financial figures when putting together information for buyers and investors.

BDO has experience to help with this process.

MATTHEW GOODLIFFE
Director, BDO Building Products & Services M&A

THE SHORTAGES THAT ARE THWARTING COMPANIES' PLANS FOR GROWTH

GROWTH IN TIMES OF SCARCITY

Materials, wage and container price inflation are all having a material impact on the Building Products & Services sector, according to executives consulted by BDO.

Many UK companies would have been braced for shortages stemming from Brexit two years ago, but few could have foreseen a global supply chain squeeze of the kind we are witnessing today.

Mounting supply chain problems, exacerbated by the situation in Ukraine, have impacted on the cost and availability of key materials and products including aluminium, bricks, cement, ceramics, concrete and steel. Materials inflation hit 24.5% in October 2021 and was at 21.5% at the start of this year.

Timber and steel, along with products related to these materials, saw annual price increases of between 47% and 60%. Problems in getting hold of building materials at reasonable prices can have an impact on companies' ability to deliver on contracts, threatening growth.

Transportation issues are adding to materials price inflation. In the two years to February 2022, the price of shipping has soared from £994 to £7,088 per container, reaching an all-time high of £8,178 in September 2021.

Businesses are facing much reduced notice periods of price changes, with some companies reporting a jump from three months to a fortnight. In response, companies that can afford it are trying to amass stock. Staying close to suppliers is another common strategy.

The challenges in sourcing materials are compounded by energy costs as the UK and Europe look to replace Russian oil and gas. Price rises are impacting all sections of the market, but it is those smaller specialist contractors on fixed price contracts that are at most at risk of severe margin erosion.

Workers are increasingly hard to come by, too. For most companies, skills shortages are an even bigger concern than materials and price rises.

EU employment in UK construction fell 49% from the last quarter of 2017 to the first quarter of 2021, according to data from the Office for National Statistics' Labour Force Survey, despite strong demand for workers.

This loss of workforce was mainly due to European workers abandoning the UK after Brexit and was not restricted to the construction industry.

In Manufacturing, for example, 42% of companies surveyed in the three months to January 2022 said labour shortages could limit their output in the next quarter — the highest figure since 1973, according to the Confederation of British Industry.

Skills shortages are leading to wage inflation of as much as 20% among some companies consulted for this report. Business leaders are looking to attract and hold onto staff not only with attractive salaries but also training, apprenticeships and other perks.

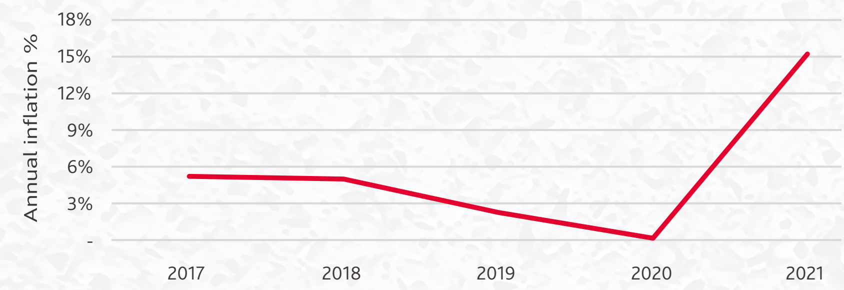
For some, integration into larger groups is helping provide more resources and promotion opportunities to retain employees. For example, as part of Hill & Smith, Prolectric can offer management development programmes to key employees.

Other businesses are using acquisitions to gain access to skilled workers and secure supply. For example, Eneraqua Technologies acquired Welltherm Drilling, a specialist borehole drilling business, bringing its team in house to mitigate the risk of not being able to access drilling equipment and expertise when needed.

Elsewhere, Building Products & Services companies that can tap into high levels of automation to avoid staff shortages or use circular economy processes to limit materials shortages should enjoy a competitive advantage — and be poised for growth in the months ahead.

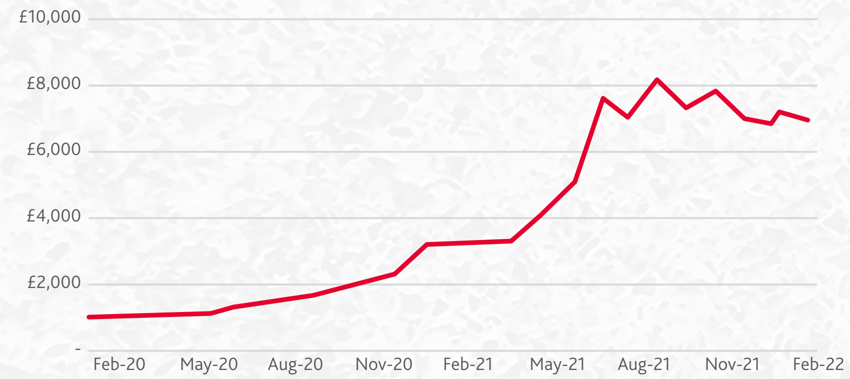
Talk to us for further insights into materials and staff shortages might affect your mergers & acquisitions strategy.

UK CONSTRUCTION MATERIALS INFLATION



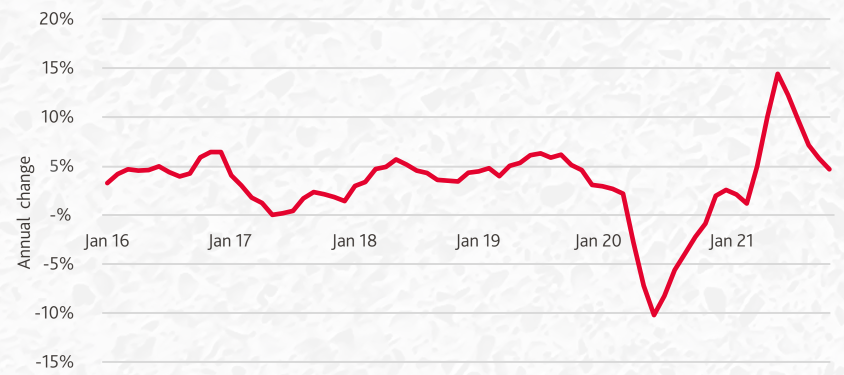
Source: ONS/BEIS

GLOBAL CONTAINER FREIGHT MARKET PRICES



Source: Freightos

UK CONSTRUCTION WAGE INFLATION



Source: ONS

BUSINESS VOICES

"Supply chain and price issues are in some ways temporary. They will come and they will go. But skill shortages are embedded.

Skill shortages are going to force us as an industry to reshape and, in some ways, de-skill some tasks and work differently, for example adopting modern methods of construction and offsite manufacturing. It'll push change out of necessity."

CHRIS BOSWORTH
Group Strategy Director,
Travis Perkins plc (distributor and retailer of building materials)

CPA OPINION

Materials availability and cost remains a key near-term challenge. Timber import issues have eased since Autumn 2021 but are likely to increase again as firms attempt to source from countries other than Russia and Ukraine.

There are greater issues for copper, aluminium and steel, roofing and cladding materials, which continued to suffer from extended lead times, and recent spikes in commodity prices will exacerbate cost inflation. Semiconductor shortages are likely to constrain the supply of electrics, boilers and white goods.

Some domestic heavy-side products, such as bricks, cement and roofing products, also continue to be tight in terms of supply.

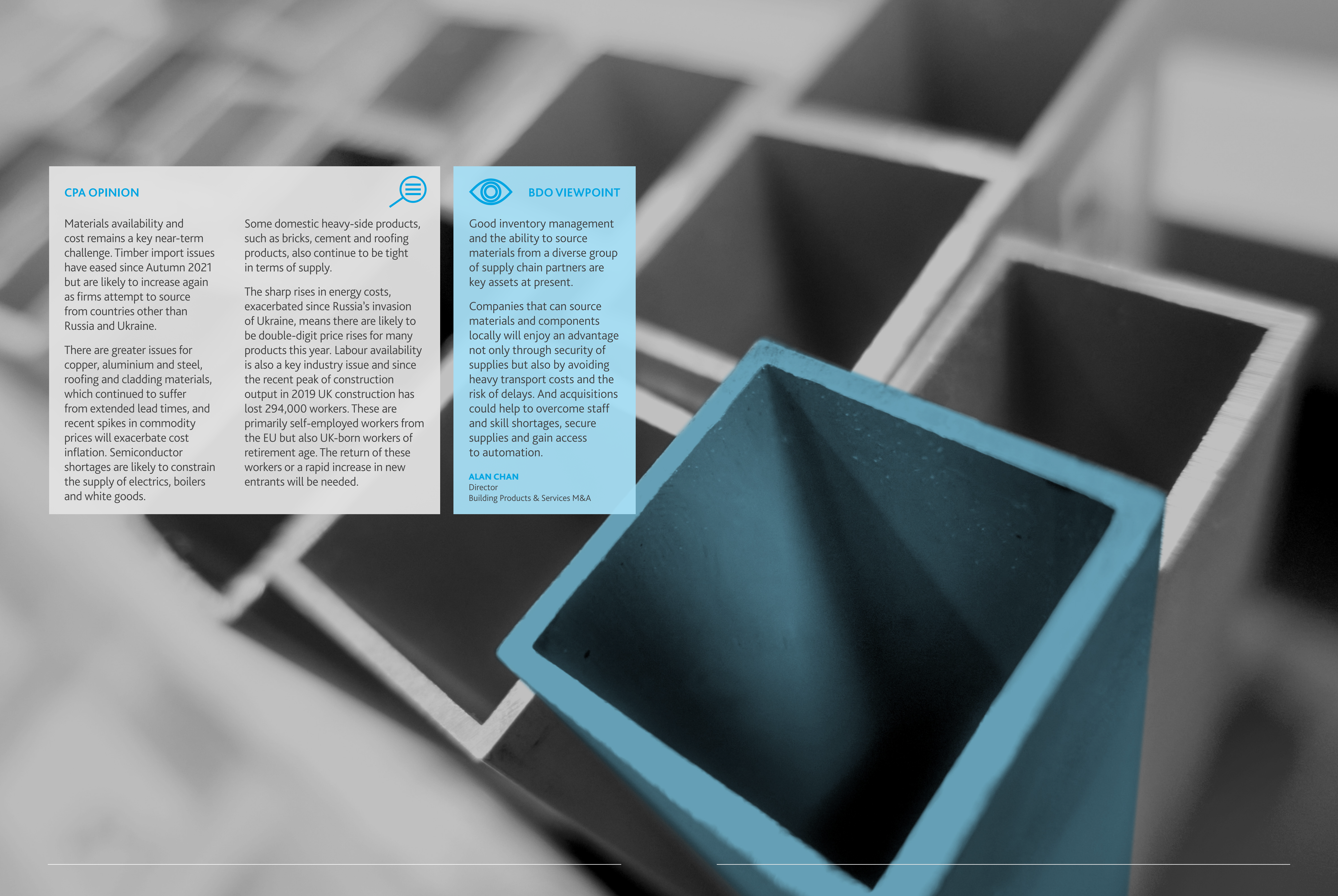
The sharp rises in energy costs, exacerbated since Russia's invasion of Ukraine, means there are likely to be double-digit price rises for many products this year. Labour availability is also a key industry issue and since the recent peak of construction output in 2019 UK construction has lost 294,000 workers. These are primarily self-employed workers from the EU but also UK-born workers of retirement age. The return of these workers or a rapid increase in new entrants will be needed.

BDO VIEWPOINT

Good inventory management and the ability to source materials from a diverse group of supply chain partners are key assets at present.

Companies that can source materials and components locally will enjoy an advantage not only through security of supplies but also by avoiding heavy transport costs and the risk of delays. And acquisitions could help to overcome staff and skill shortages, secure supplies and gain access to automation.

ALAN CHAN
Director
Building Products & Services M&A



PRODUCT CATEGORISATION AND TRACEABILITY IN A POST-GRENFELL ENVIRONMENT

BUILDING AFTER GRENFELL

Almost half a decade after the Grenfell Tower tragedy called attention to the need for stricter, safer building product regulations, new measures are trickling through.

In February 2022, for example, the government tabled 38 pages of amendments to a Building Safety Bill, including penalties and measures that sector association the CPA said 'will affect just about everyone in the industry.'

The measures in the Building Safety Act 2022, which has now become law, include extending liability for defects to 30 years and defining a relevant defect as anything done or not done that creates a building safety risk. This wide-ranging scope goes far beyond the defects identified at Grenfell but remains focused on cladding and insulation, a sub-sector particularly hard-hit by the tightening of regulations.

In particular, the Department of Levelling-Up, Housing and Communities has asked cladders to help shoulder the economic burden of upgrading existing stock.

The CPA has responded that remedial action might be of little help without improved traceability of products.

To this end the industry has established a voluntary Code for Construction Product Information (CCPI) to help organisations drive higher standards in the presentation of construction product information, prioritising building safety.

Passive fire and acoustic insulation solutions provider Siderise, which is owned by H2 Equity Partners, was consulted during the Grenfell Tower Inquiry and is a champion for higher building standards to maintain the UK Building Products & Services industry's reputation for quality.

Its chief executive, Adam Turk anticipates that by the end of 2023 adoption of CCPI should be the norm, and thereafter pressure from customers to conform to quality standards should compel those dragging their heels to catch up.

Although for Siderise it was an eight-month process to adopt the code, he advises how important it is to take the time to do it properly. Few would disagree that there needs to be a cultural shift in the sector, with all companies taking responsibility for training, understanding components and good workmanship.

Separately, the industry is being pressed to apply UK Conformity Assessed (UKCA) marking to building products.

The UKCA indicates conformity with the applicable requirements for products sold within Great Britain, replacing Europe's CE mark after Brexit.

Its introduction, originally planned for 1 January 2022 but extended a year because of a lack of testing facilities, further adds to the regulatory burden facing UK Building Products & Services companies.

But building safety is something the whole industry can get behind and a move towards tighter standards could lead to innovation that helps UK companies stay ahead in terms of quality. Government must help enable this transition rather than hindering through lack of resources.

BUSINESS VOICES

“What is clear to me is that Grenfell has sparked a domino effect as the industry recognises it has to do better, and not just in one area. There is an enormous amount of very strong initiatives out there to help us build buildings better and safer. I feel there's more momentum now than there's ever been.

But this is not a quick fix. This is a five-to-ten-year improvement programme. It's about awareness: I think a lot of companies are really improving how they operate and what they do, recognising we can't cut corners anymore. It's not just about price, it's about building safely.”

ADAM TURK
Chief Executive Officer, Siderise Group Ltd
(provider of innovative passive fire and acoustic insulation solutions)

CPA OPINION

The UKCA mark presents key challenges for the product manufacturing part of the construction supply chain. While contractors focus on the day job, particularly whilst demand remains high, manufacturers have to look further ahead given that business models are based upon high investment upfront for long-term rates of return.

The implementation of the UKCA mark was eventually postponed from the original deadline of 1 January 2022 after discussions that the CPA, along with other key trade associations, had with Government. However, only a one-year extension was granted, which is clearly insufficient given the lack of testing facilities in the UK and the time it takes to build new testing facilities.

The CPA continues to stress the importance of the UKCA mark issue and the implications of the revised deadline of 1 January 2023, not only for construction activity, but also for Government itself. With the current deadline, Government's own targets of 300,000 net additional homes per year, its £600 billion infrastructure pipeline and Net Zero would be put at risk.

Although the current deadline is set, discussions with the CPA and similar trade associations will intensify, and an extension is increasingly likely.

BDO VIEWPOINT

Yes, increased regulation is a short-term burden on business, particularly when government is slow at delivering on matters such as support for new certification schemes. But in the medium term, businesses will benefit from adopting the CCPI because they will be able to demonstrate higher quality standards.

As with sustainability initiatives, the CCPI is about showing the highest possible levels of commitment and responsibility for the work being done. In a competitive market such as Building Products & Services, businesses that do not have this on their agenda could miss out.

SUSANNAH PERKINS
Senior Research Manager
BDO Building Products & Services M&A

INNOVATING UNDER THE NEW RESEARCH AND DEVELOPMENT TAX CREDIT REGIME

INNOVATION IS MOVING UP THE AGENDA

The Chancellor is increasing the spotlight on innovation with his priorities of capital, people and ideas, but he also wants more return on his investment.

Sustainability, digitisation, supply chain disruption and regulation are driving change in Building Products & Services. These drive the development of new technology, products and processes, which can qualify for Government support through research and development (R&D) tax relief.

The Chancellor has referred to R&D Tax Credits as a key innovation driver and recognised the economic growth this generates. However, a recent National Audit Office report highlighted the growing cost of the relief and questioned the level of return on investment it generates.

It found that the Research and Development Expenditure Credit (RDEC) aimed at large companies generated between £2.40 and £2.70 of additional R&D expenditure for each £1 of tax relief claimed (a small-to-medium enterprise or SME scheme generated between £0.60 and £1.28).

The report also raised concerns around potential abuse of the reliefs and poor-quality claims leading to greater-than-expected costs, currently estimated at around £336 million per year. In difficult times for the economy, it is no surprise that the Government is taking action on both fronts.

Firstly, HMRC has recruited 100 additional inspectors specifically to open enquiries into R&D claims.

Alongside wider reforms from 1 April 2023, a raft of administrative measures will also be introduced to counter perceived abuse of the R&D regime, including measures aimed at 'advisers, many with no background in tax, … [who] submit numerous dubious claims.'

Secondly, reforms to the R&D qualifying criteria will come into effect from 01 April 2023. The good news is that data and cloud computing costs being brought into scope, along with costs for 'pure maths' that support projects.

However, the most significant change will be new rules to exclude non-UK staff costs from future claims. The aim is to ensure that the relief encourages R&D work and expertise to be based in the UK because of the overall benefits this brings to the UK economy.

Clearly, this will have a major impact on businesses that currently outsource some of their R&D work overseas, whether as part of multinational groups or when enlisting specialist subcontractors in jurisdictions where costs are lower.

The Government is consulting on some exemptions to the basic rule, for example where foreign regulatory obligations require overseas testing or where there are geographical/environmental grounds.

However, outsourcing overseas on cost grounds alone will mean that such costs will not qualify for UK R&D relief from 2023/24 onwards.

SECURING SUPPORT FOR YOUR INNOVATION

The enhanced compliance and enforcement measures will create more hoops to jump through for some businesses claiming R&D tax relief, and the changes to qualifying costs will add to the complexity of claims.

It is crucial that companies ensure that their claims are robust, accurate and beyond reproach to ensure ongoing financial support from the Government.

Getting a reputable adviser to test, validate (and where necessary de-risk) claims before they are submitted will be increasingly important as inaccuracies in claims will lead to delays and may damage the company's reputation with HMRC.

IMPACT ON TRANSACTIONS

It is not just HMRC that is interested in the quality of your R&D claims. R&D Tax Credits are increasingly important when considering buy-side or sell-side decision making.

When preparing a business for sale, ensuring that you have your R&D claims in order can lead to a better valuation, particularly where the R&D credit is recognised above the line and boosts earnings before interest and tax.

Likewise, when considering an acquisition it is imperative that any R&D claims are reviewed as part of the due diligence.

A host of common errors could result in an overstated R&D claim undermining a valuation: typical mistakes revolve around claiming SME tax credits where the (generally) lower-value RDEC may be due or allocating the development work to the wrong company.

Just because HMRC has paid cash on an R&D claim does not mean the matter is closed. In certain circumstances, extended enquiry time limits allow for much later challenges to claims, so buyers should seek an appropriate level assurance on recent claims.

Conversely, a R&D claim may have been missed or understated, so it is always wise to revisit claims for either of the previous two accounting periods.

Finally, acquiring a company may mean it no longer qualifies for the higher-value SME relief, so the timing and structure of purchases needs careful consideration where R&D relief is a key source of finance.

Similarly, qualification under some of the Patent Box relief rules may be affected by the nature and timing of a transaction.

BUSINESS VOICES

“We welcomed BDO's R&D and patent box technical leadership during the tax due diligence, showing both quickness of thought and pragmatism to drive a positive outcome for both parties.”

FTSE 250
Head of Tax

CPA OPINION

On the positive side for product manufacturers, government is trying to incentivise investment in manufacturing, which it sees as critical to improving UK economic productivity and long-term growth.

The 'super-deduction' against corporation tax, Annual Investment Allowance and the R&D tax credit scheme are all currently available to be taken advantage of to help new investment at a time when capacity is tight for many firms.

In particular, the R&D tax credit is the most frequently used form of innovation support by manufacturers, and in the Chancellor's Spring Statement in March 2022 it was expanded to include data and cloud computing.

BDO VIEWPOINT

As the Building Products & Services sector adapts and innovates at a rate faster than ever, companies need to be confident in accessing innovation reliefs available to them.

Government support for innovation will continue but improving your R&D claims and processes using health checks and support from respected R&D experts will be increasingly important in securing your future finances.

CONOR MANSFIELD
Senior Manager
BDO Innovation & Technology Group

COVID-19 AND THE RUSH TO BUILD NEW ONLINE CHANNELS TO MARKET

CROSSING THE CHANNELS

It was clear during the early days of the COVID-19 pandemic that many businesses would have to move online. Companies in the Building Products & Services sector — and particularly those dealing with consumer audiences, such as builder's merchants — were no exception.

Two years later, the trend has not stopped. While there are undeniable benefits to providing an in-person service, many customers have become accustomed to ordering online. And businesses switching to digital channels enjoy lower overheads, giving them a competitive advantage.

For proof, look no further than CMO Group, the UK's largest online-only retailer of building materials, which reported an impressive 47% increase in sales for the year ended 31 December 2021, to £77m, while growing its customer base by more than 30%.

The company raised £45 million through an AIM listing in July last year and has used part of the proceeds to fund acquisitions, buying JTM Plumbing for £5.7m in September as part of plans to launch an online plumbing superstore in 2022.

CMO Group claims it will 'revolutionise the shopping experience of homeowners and tradespeople to become the go-to digital retailer of building materials, providing market leading product choice, relevant help and advice, and a personalised customer experience.'

Yet while embracing digital channels clearly offers significant benefits, developing e-commerce offerings is not always easy, with companies such as Travis Perkins noting that the variability inherent in products and services ordering can be hard to handle in a digital environment.

One of the keys to success is through focusing on customer experience. Companies that can provide a consistent level of customer service across all sales channels have a greater chance of success. This requires underpinning the business with a robust technology architecture and business processes.

For example, Private equity firm Cairngorm Capital, which owns acquisitive builders merchant group IBMG and timber specialist National Timber Group, ensures that its portfolio companies invest in cloud-based enterprise resource planning systems that integrate with ecommerce software.

This is supplemented by other digital solutions such as pricing tools, rebate management software, and process automation. This technology allows rapid and effective integration of bolt-on acquisitions enabling the Groups to scale rapidly. IBMG, for example, has been buying up smaller companies at a rate of almost one a month.

One thing that is becoming apparent post-pandemic is that many builder's merchant customers — particularly those who are older or less digitally savvy — still relish the odd in-person experience.

Companies that benefitted from e-commerce during COVID-19 have experienced an increase in click-and-collect services from branches since, which has the benefit of supplementing footfall in stores.

For companies that are adopting a hybrid online and bricks-and-mortar approach to sales, this may not be a problem — although getting the proportion of digital and in-person sales right might be tricky in terms of maximising profit margins.

And even when they manage it, they will not be able to rest on their laurels. With customer expectations changing all the time, the key to success in sales will be to continuously innovate and provide a differentiated customer experience.

BUSINESS VOICES

“Our trade customers continue to enjoy buying from branches but, like all of us, they now run their lives with the smartphone in their pocket. Business-to-business customers are demanding the experience they get in the business-to-consumer world. We need to make it easy for them to buy from us across all channels, supported by great service.”

NEIL MCGILL
Managing Director, Cairngorm Capital Partners (private equity firm)

BUSINESS VOICES

“One of the reasons that the traditional sector has not really made the most of the opportunity online is because it has struggled with this dual-pricing model between in branches and e-commerce. Both business models have very different cost bases to consider.”

CALLUM TASKER
Commercial Director at CMO Group (online-only building materials distributor)

BDO VIEWPOINT

COVID-19 prompted an unprecedented shift to online operations and even with restrictions fully lifted it is unlikely we will see a return to pre-pandemic levels of on-site service. For companies such as builders merchants, this means having multiple channels to market is now a must.

MATTHEW HOCCOM
Senior Manager
BDO Building Products & Services M&A

THE KEY BUILDING PRODUCTS & SERVICES TRENDS TO WATCH IN 2022

THREE OTHER TRENDS TO WATCH

Sustainability, new regulations, channels to market and supply chain and human resource shortages are all important challenges for UK companies in Building Products & Services. But those are not the only trends the industry needs to be aware of.

Here are three other areas where deep, rapid change is taking place in Building Products & Services, creating opportunities for value creation that are being rewarded by interest from investors.

THE RISE AND RISE OF RM&I

The market for repairs, maintenance and improvement (RM&I) soared under COVID as homeowners devoted lockdown days to household renovations.

This trend looks set to continue for the rest of 2022 at least amid signs that increased levels of home working are here to stay and as growing uncertainty over the economy favours household renovations over new property purchases.

In commercial property, meanwhile, expect RM&I activity to focus on areas such as sustainability, through smart building retrofits, and office space conversions aimed at adapting spaces to hybrid work practices.

Builders' merchants are at the forefront of meeting unprecedented levels of demand and are consequently catching the eye of acquisitive investors such as Cairngorm Capital. Merchant deals shot up more than any other sub-sector in 2021, with 52 transactions compared to 12 in 2020 and 30 in 2019. With plenty more scope for market consolidation, we expect merchants to remain a hotspot for deals.

TECHNOLOGY TAKES OFF

Building Products & Services companies are embracing digital sales models and much has been said about the transformative potential of Building Information Modelling and the golden thread of data in improving the design, construction and management of built assets.

But these are far from the only areas where technology is having an impact on the sector. A large part of moves to reduce the carbon footprint of infrastructure will involve the use of digital systems and sensor networks across new and existing buildings.

And the UK's Transforming Construction Challenge is bristling with technology projects, including the use of machine learning to reduce defects, enterprise resource planning to improve construction efficiency and digital signature systems to enhance traceability and quality assurance.

GOING MAD FOR MODULAR

Few things get more mainstream than Ikea, so when in 2019 the furniture retailer's BoKlok subsidiary announced a deal with Worthing Council in the UK it was clear that modular housing's time had come.

BoKlok, a partnership between Ikea and construction giant Skanska, is building sustainable residential developments using modular home designs in Finland, Norway, Sweden and the UK. Modular designs are not only cheaper and easier to install than traditional projects, but also help overcome skills shortages.

Across Europe, the market for prefabricated buildings is expected to be worth £24 billion by 2026, with a compound annual growth rate of 4% over 2020's £18 billion level, driven by the affordability and increasing quality of products.

BUSINESS VOICES

“Social media is having a significant impact on installer buying behaviour. It reinforces perceptions of quality and plays a part in driving up standards, helping premium brands flourish even in categories which might have been seen as unlikely historically.”

ALEX PERRY
Corporate Development Director
Aspen Pumps Group Ltd (condensate removal pumps specialist)

BUSINESS VOICES

“As an industry, we have been typically slow to embrace any kind of new technology. I think technology can make a major difference. More use of site-based technology, more use of video to see what's going on — that's all really important. Everyone's going to start using this stuff.”

ADAM TURK
Chief Executive Officer
Siderise Group Ltd (provider of innovative passive fire and acoustic insulation solutions)

CPA OPINION

Private housing RM&I output rose by 20% in 2021, driven by the 'race for space' from homeowners that desire better-quality indoor and outdoor space for office, storage and leisure.

Households have accumulated £200 billion of savings since the start of 2020, according to the Bank of England, but the key question will be what happens to households as the 'cost of living crisis' intensifies as real incomes and consumer confidence fall.

Prior to 2020, small builders had suffered from economic and political uncertainty, while larger merchants had been losing out to regional players. But since Summer 2020, small builders and larger merchants have been the chief beneficiaries of the remarkable rise of renovation activity and have largely been flat out for the past 18 months.

Private housing RM&I is expected to fall by 3% this year from all-time-high levels, before falling a further 4% next year as cost-of-living rises and real income falls have a lagged effect on consumer spending. Homeowners' savings mean that, theoretically, they will still have the finance to do renovation projects — but whether they feel confident enough to will be the key to the sector's fortunes next year.

BDO VIEWPOINT

Building products are as old as humankind and have been impervious to change for most of history. But today the Building Products & Services sector is being buffeted by multiple trends, each creating new threats and opportunities.

It's an exciting time for the industry but one in which more traditional players may need an outside perspective on how to react. Mergers & acquisitions can serve a useful purpose in helping companies to align with emerging growth trends.

JOHN STEPHAN
Partner
BDO Building Products & Services M&A

UK M&A: STILL STRONG DESPITE ONGOING CHALLENGES

BREAKING RECORDS

Last year we predicted UK Building Products & Services would bounce back from the dip in mergers & acquisitions caused by COVID-19 in 2020. But nobody could have foreseen the extent of the rebound, with the industry registering a 51% increase in transactions.

This not only far exceeded pre-pandemic levels but was also by far the highest level of activity ever seen in the sector. While it is true that this was against a backdrop of generally higher levels of deal activity in the UK, Building Products & Services significantly outperformed the wider M&A market, which rose 42%.

Not only was 2021 notable for the overall level of transactions, but also because of a boom in private equity interest. Non-trade deals made up a record 41% of all M&A activity in 2021, likely reflecting investors' desire to deploy capital in industries that had proven resilient to COVID-19.

To put the scale of this interest in context, there were more private equity-backed transactions in 2021 than there were Building Products & Services deals in 2014, less than a decade ago. Private equity activity last year exceeded that of the two previous years together.

This hunger for deals was evident in the timing of activity, with private equity driving 67 transactions in the first quarter of 2021 alone — more than twice the amount seen in any other quarter. Trade deals also surged in the first quarter, with 87 transactions taking place.

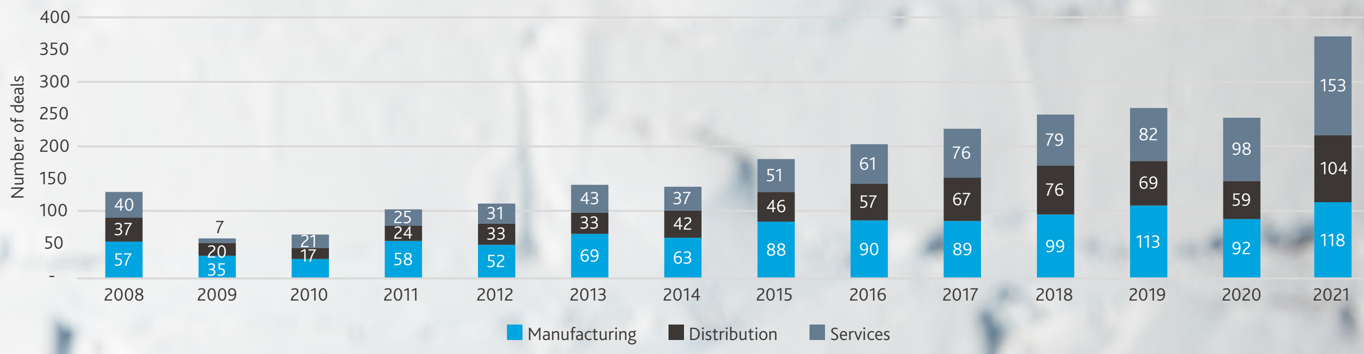
Overall, 41% of all 2021 deals happened in that hectic first quarter. The rest of the year saw deal flow settling down to an average of around 75 transactions per quarter. We would expect this approximate level of quarterly activity to continue throughout 2022 in the absence of factors that could hinder deal-making.

While the number of deals involving manufacturers returned to roughly pre-pandemic levels in 2021, services-related transactions continued to grow in proportion to other M&A activity, continuing a trend that has been evident over the last decade. The services-related M&A activity included several large deals.

In August, TDR Capital of London, UK, and I Squared Capital of Miami, USA, together paid £2.3 billion to take temporary power provider Aggreko off the stock market representing an EV/EBITDA multiple of 11x.

Elsewhere, US buyer Neighborly Inc, a KKR portfolio company that franchises home service brands, acquired a 90% stake in Pimlico Plumbers, a London-based plumbing and property maintenance business. The deal was reported to be worth around £145 million.

NUMBER OF TRANSACTIONS BY TYPE



Source: Experian MarketIQ, BDO analysis

Overall, there was a 56% increase in deals involving building services companies, making this the most popular type of deal by quite a wide margin. Around two fifths of all sector M&A in 2021 was focused on service businesses.

Interest in services businesses was a major component of the strong first quarter of 2021, with no less than 63 service company deals taking place in the first three months of the year. This was more than twice the number of services deals seen in any other quarter.

Distributor deals also shot up, by 76% for the entire year, as acquisitive groups such as Cairngorm Capital hoovered up small and medium builders' merchant and specialist timber merchant chains in clearly defined portfolio growth plays.

Again, interest was highest in the first quarter, when there were 44 transactions involving the distribution segment of the industry. This compared to 26, 13 and 21 deals in each of the subsequent quarters.

Finally, notable deals in the manufacturing segment included the acquisition of Nortek's air management division by Madison Industries for £2.62 billion, representing an EV/EBITDA multiple of 12.5x.

Nortek also divested its security business to NiceSpa for £209 million and, in its biggest deal to date, SigmaRoc acquired Finland-based limestone producer Nordkalk for €420 million, representing an EV/EBITDA multiple of 7.0x. While 2021 was characterised by record-breaking growth on most M&A metrics, there was one area that registered a downturn.

Cross-border deals fell from 18% of the total in 2020 to 15% in 2021, likely reflecting more limited demand for international deals in the face of lingering COVID-19 concerns and growing supply chain issues last year.

As market confidence returns, we would expect to see more cross-border activity — albeit boardroom discussions around recent supply chain pain could shift more business strategies towards onshoring or nearshoring strategies.

THE UK MARKET IN FIGURES

MORE THAN **1,000 DEALS** IN THE LAST FOUR YEARS

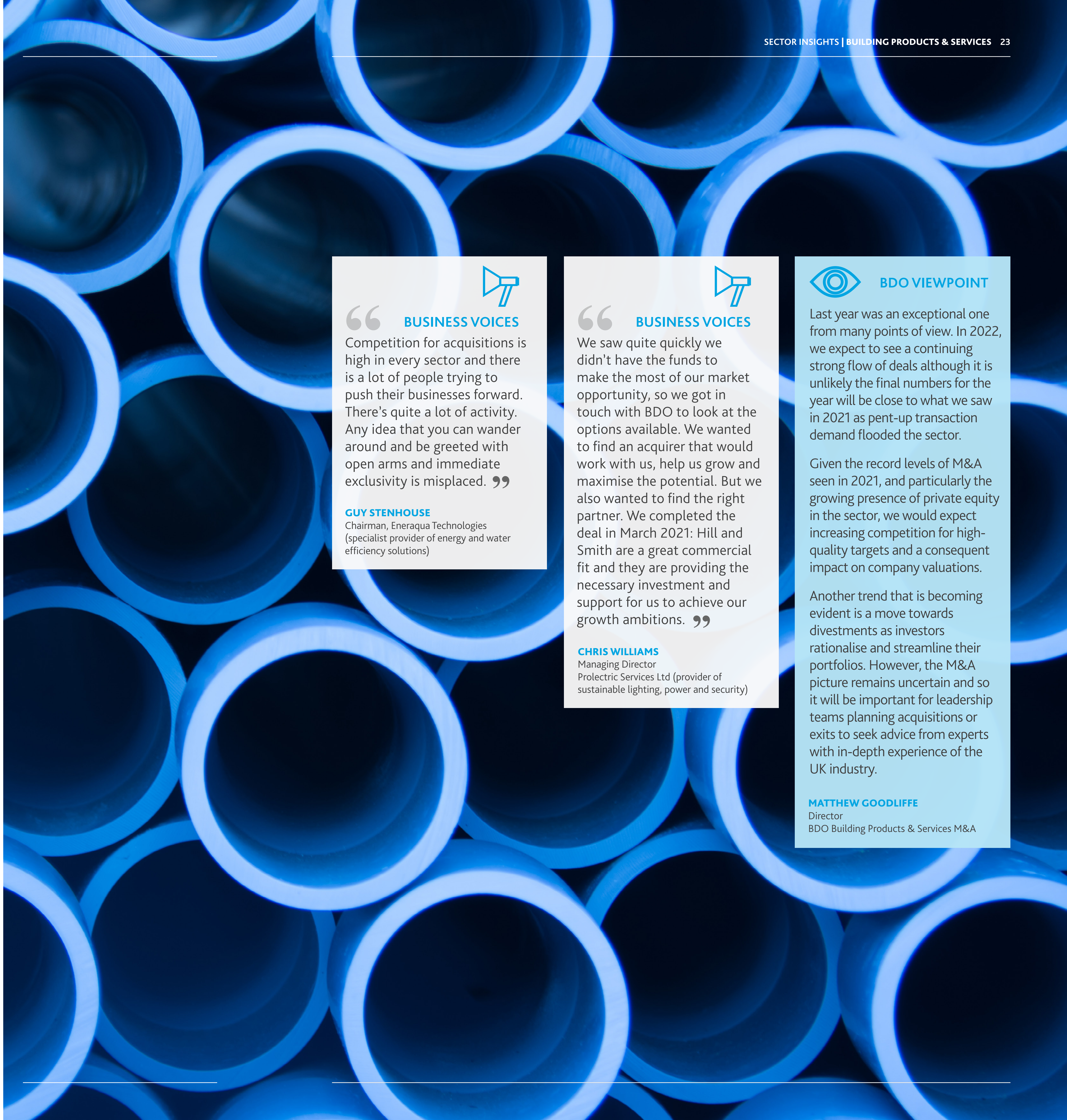
375 UK DEALS IN 2021

UK SECTOR DEALS UP **51%** ON 2020 LEVELS

OUTPERFORMS WIDER UK MARKET, WHICH SAW DEALS RISE **42%** ON 2020 LEVELS

(PER BDO'S PRIVATE COMPANY PRICE INDEX)

THINKING OF BUYING OR SELLING A BUSINESS THIS YEAR? SPEAK TO YOUR LOCAL BDO ADVISER OR ONE OF THE CONTACTS LISTED AT THE BACK OF THIS REPORT.



BUSINESS VOICES

"Competition for acquisitions is high in every sector and there is a lot of people trying to push their businesses forward. There's quite a lot of activity. Any idea that you can wander around and be greeted with open arms and immediate exclusivity is misplaced."

GUY STENHOUSE
Chairman, Eneraqua Technologies
(specialist provider of energy and water efficiency solutions)

BUSINESS VOICES

"We saw quite quickly we didn't have the funds to make the most of our market opportunity, so we got in touch with BDO to look at the options available. We wanted to find an acquirer that would work with us, help us grow and maximise the potential. But we also wanted to find the right partner. We completed the deal in March 2021: Hill and Smith are a great commercial fit and they are providing the necessary investment and support for us to achieve our growth ambitions."

CHRIS WILLIAMS
Managing Director
Prolectric Services Ltd (provider of sustainable lighting, power and security)

BDO VIEWPOINT

Last year was an exceptional one from many points of view. In 2022, we expect to see a continuing strong flow of deals although it is unlikely the final numbers for the year will be close to what we saw in 2021 as pent-up transaction demand flooded the sector.

Given the record levels of M&A seen in 2021, and particularly the growing presence of private equity in the sector, we would expect increasing competition for high-quality targets and a consequent impact on company valuations.

Another trend that is becoming evident is a move towards divestments as investors rationalise and streamline their portfolios. However, the M&A picture remains uncertain and so it will be important for leadership teams planning acquisitions or exits to seek advice from experts with in-depth experience of the UK industry.

MATTHEW GOODLIFFE
Director
BDO Building Products & Services M&A

VALUATIONS: WHAT'S A BUILDING PRODUCTS & SERVICES COMPANY WORTH?

VALUATIONS ON THE UP

The stock market has taken note of the resilient Building Products & Services sector, driving up valuations of listed business in the sector. Average listed company multiples, increased to 12.8x EV/EBITDA in April 2022, up from 12.1x last year.

And with the number of transactions also soaring to all-time highs in 2021, trade multiples rose from an average of 6.7x EV/EBITDA in 2020 to 7.7x EV/EBITDA in 2021.

Across the 11 sub-sectors, valuations rose or held firm in eight. The steepest rise was in the Kitchen and Bathroom sub-sector, where the average EV/EBITDA increased from 6.5x in 2020 to 7.2x in 2021.

Other significant increases were in two of the busiest sub-sectors: Merchants and distributors, which increased from 6.5x to 7.0x, and HVAC, which rose from 6.1x to 6.6x.

The overall upward trend in valuations is likely a result of increasing competition, as acquisitive private equity firms have the wherewithal to secure the targets they deem most attractive. The average multiple paid by private equity is 7.9x compared to an average of 7.5x paid by trade acquirers.

AVERAGE SECTOR MULTIPLE FOR DEALS IN 2021: **7.7X** EV/EBITDA FOR TRADE (6.7x IN 2021)

AVERAGE FOR TRADE **7.5X** (6.6x IN 2021)

AVERAGE FOR PRIVATE EQUITY **7.9X** (7.5x IN 2021)

AVERAGE LISTED SECTOR MULTIPLE **12.8X** EV/EBITDA (APRIL 2022)

BDO VIEWPOINT

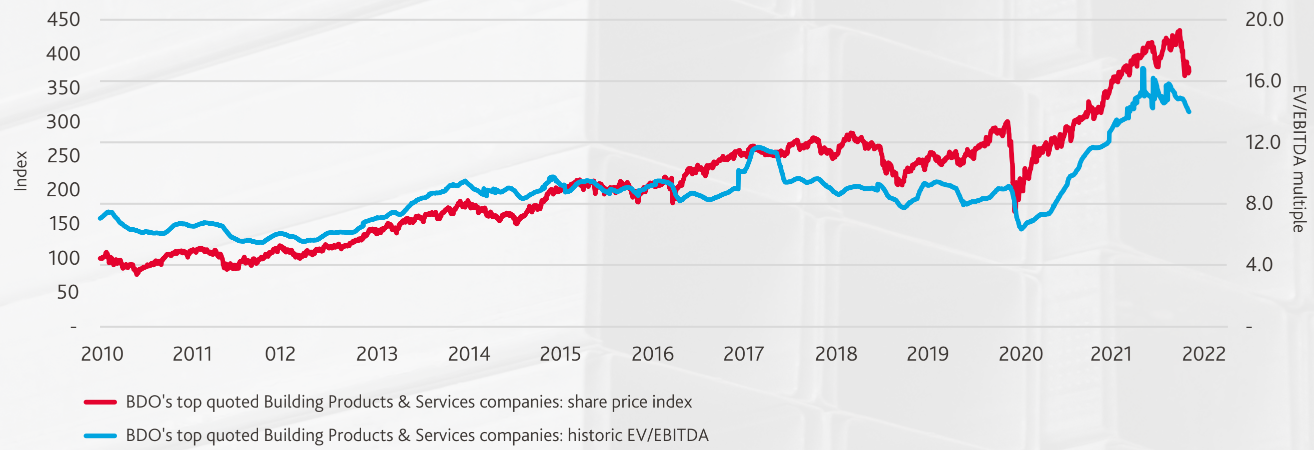
Competition for quality companies is likely to be intense following the recent spike in M&A across Building Products & Services.

This does not mean sellers can ignore the need to optimise the business for a transaction, however.

Similarly, buyers will need to be aware of the competitive nature of the market and look to court prospects not only on price but also bearing in mind intangibles such as cultural fit and synergies for growth. Expert counsel is advised on all these points.

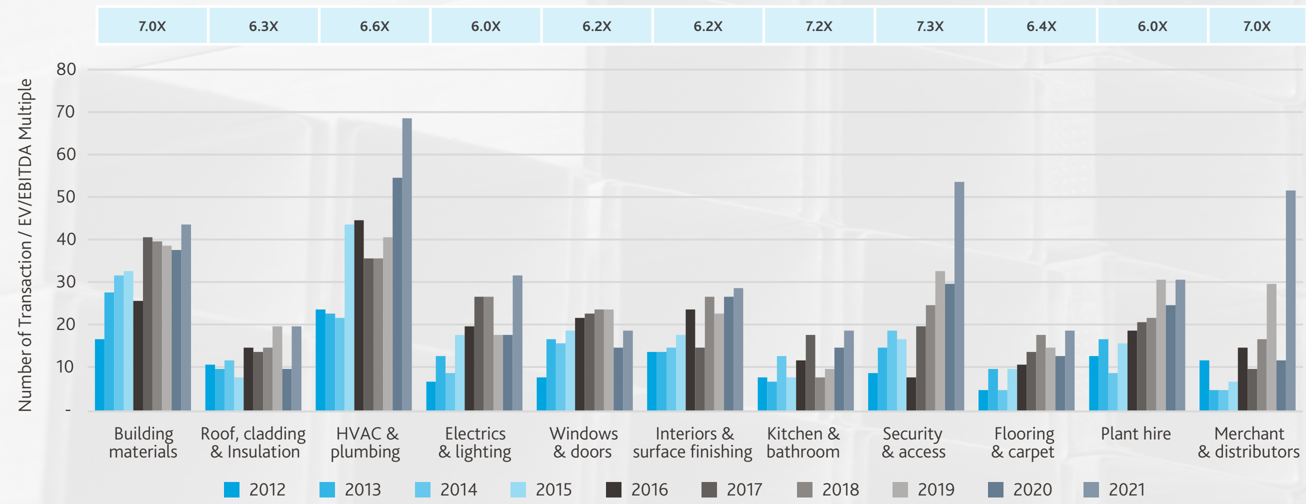
SUSANNAH PERKINS
Senior Research Manager
BDO Building Products & Services M&A

SHARE PRICE PERFORMANCE AND EV/EBITDA IN THE BUILDING PRODUCTS & SERVICES SECTOR



Source: S&PCapital IQ, BDO Analysis

TRANSACTION VOLUMES AND EV/EBITDA MULTIPLES BY SUB-SECTOR



Source: Experian MarketIQ, BDO analysis

PRIVATE EQUITY'S ENDURING IMPACT ON BUILDING PRODUCTS & SERVICES

PRIVATE EQUITY ROARS INTO THE SECTOR

Private equity investors have been showing increasing interest in Building Products & Services in recent years. But last year the stream of private equity-backed deals turned into a flood, increasing 92% from 79 transactions in 2020 to 152 in 2021.

PRIVATE EQUITY BACKED **43% OF ALL UK DEALS** IN 2021

The biggest disclosed deal, at £2.3 billion, was the delisting of power systems hire leader Aggreko at the hands of UK-based TDR Capital and US private equity house I Squared Capital. Elsewhere, the emerging dynamic of carve-outs created sizeable opportunities for private equity.

Clayton Dubilier & Rice paid £308 million for plumbing and building materials carve-out Wolseley, which it bought from Wokingham-based listed multinational Ferguson. Meanwhile, Travis Perkins had a busy recent period completing the divestment or demerger of several units to reshape its business, in each case creating opportunities for private equity and the capital markets.

In 2020, Travis Perkins sold its Primaflow F&P wholesale plumbing and heating business to distributor Newbury Investments (UK), for £46 million, and its flooring specialist Tile Giant to investment group Coverings for £50 million.

And last year, the group floated its DIY chain Wickes and sold its plumbing and heating business to private equity investor H.I.G. Capital for £325 million. Such divestments appear to have worked for the parent group; the most recent trading statement reported increasing revenues and improving profit margins across its core divisions.

Private equity has long been attracted to the merchants' sub-sector because of its potential for value creation. Private equity players buy small family businesses, equip them with more professional systems and processes and integrate them into larger entities to create significant portfolio plays.

This strategy was evident in 2021, with 30 private equity deals in the sub-sector — a sixfold increase on the five transactions in 2020. Private equity accounted for 58% of all builders' merchant transactions last year.

The biggest deal in the sub-sector was for Huws Gray, which itself had just been sold by Inflexion to US-based Blackstone Group. The independent builders merchant group paid £520 million for Grafton Group's merchanting business.

At the other end of the scale, Cairngorm Capital focused on smaller merchant business acquisitions through its Grant & Stone, Independent Builders Merchant Group (IBMG) and National Timber Group portfolio companies.

Grant & Stone acquisitions last year included Devondale Electrical, RGB Building Supplies, Total Plumbing Supplies, Buildit and CRS Building Supplies. In September, Cairngorm merged Grant & Stone with IBMG to create a builders' merchant group with 123 branches and annual revenues of more than £500 million. National Timber Group acquired Hymor Timber and Orchard Timber and now has annual revenues of over £300 million.

Another busy sub-sector for private equity was security and access. The number of deals rose fourfold from six in 2020 to 23 in 2021, giving private equity a 43% share of all transactions.

Key deals included BGF's acquisition of lock and hardware supplier Brisant Secure and Threesixty Investments' purchase of steel access products maker Technocover.

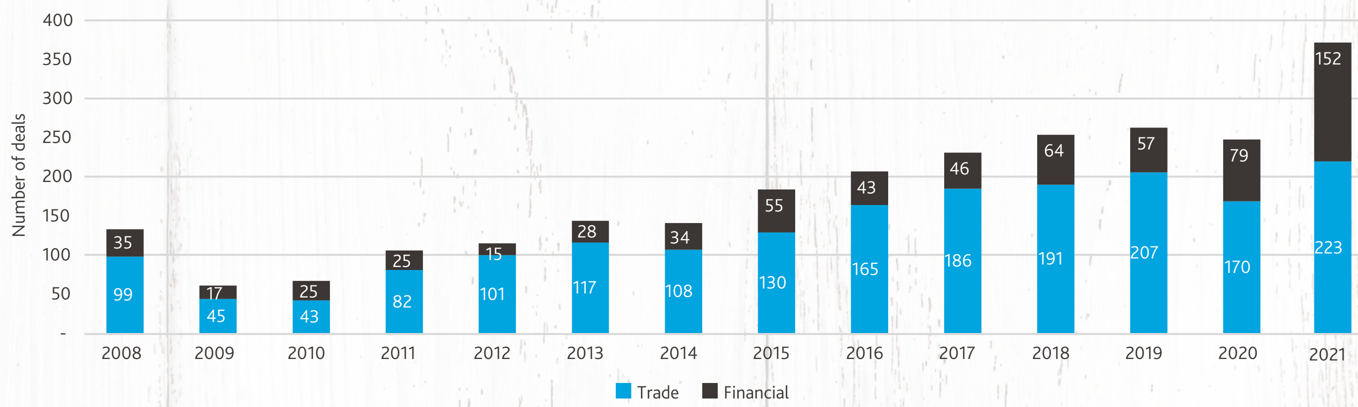
At the same time, Horizon-backed Churches Fire & Security picked up Alert Fire & Security, Dragon Fire & Security Systems and Detect Fire & Security.

Similarly, Rockpool Investments provided funding for EA-RS Fire Group to buy CCSS Fire & Security, AST, Crane Communications and UK Security Doors, as well as securing the trade and assets of Essex Fire Sprinklers.

Such buy-and-build strategies create large, professionalised groups that private equity owners then need to find buyers for. And the search for optimal exit routes is increasingly leading to stock markets.

▶ If you are weighing up a listing, our highly experienced advisory team will be able to provide a readiness assessment and expert advice on the full range of possibilities.

TRADE AND PRIVATE EQUITY TRANSACTIONS



Source: Experian MarketIQ, BDO analysis

BUSINESS VOICES

“Due to capital availability, I expect there to be an active deals market in the next 12 months although there might be lower volumes than last year. I still think M&A will remain robust. People will focus on the right business models and there may be a flight to quality.”

NEIL MCGILL
Managing Director
Cairngorm Capital Partners
(private equity firm)

BUSINESS VOICES

“In a relatively traditional sector like building material distribution there has been a lot of recent portfolio change. And I don't think it's done yet.

There's more to come with private equity playing a large role. We've divested a division and demerged a large business and we've seen other people do similar things. The capital inflows that private equity brings are a positive. I view it as an endorsement. People do not invest where they don't think there are returns to be made. Investors should look at that as being a sign of good business models to get behind.

More competition makes us all better.”

CHRIS BOSWORTH
Group Strategy Director,
Travis Perkins plc (distributor and retailer of building materials)

BDO VIEWPOINT

Private equity is clearly at home in Building Products & Services, seeing plenty of opportunities for value creation and continuing scope for portfolio building.

There will soon come a time, however, when consolidation starts to restrict the availability of suitable acquisition targets and private equity players begin pondering how to best achieve a return on their investments.

SARAH ZIEGLER
Director
BDO Private Equity Coverage

HOW PRIVATE EQUITY IS LEADING TO A RUSH FOR PUBLIC LISTINGS

UK COMPANIES EMBRACE THE IPO ROUTE

One notable trend as private equity continues to expand its presence in Building Products & Services is an increase in company listings. As private equity firms look to consolidate portfolios, they are creating entities that might be hard to sell to any but the largest of trade buyers.

These potential buyers, in turn, are often preoccupied with portfolio rationalisation, offering carve-outs that can help serve private equity's acquisition targets but limit the firms' options for exit.

This is encouraging companies to consider listing as a serious option, with Key Capital-backed CMO Group and Bregal Capital's Stelrad representing two notable examples last year. This trend will likely continue as more and more private equity firms look to cash in on their success in the Building Products & Services sector.

The UK Building Products & Services sector saw eight initial public offerings (IPOs) in 2021. Perhaps not a lot considering there were 343 corporate finance deals across the market that year. But then again, there was only one registered flotation in the sector outside the UK throughout the whole of 2021.

Not only was the UK a relative hotbed of IPO activity in Building Products & Services, but several of the listings were particularly notable. In July, for example, online-only building materials retailer CMO Group raised £45m through a listing on AIM.

Later that month, Lords Group Trading, a specialist distributor of building, plumbing, heating and DIY goods, also listed on AIM, raising £52 million and giving the company a market capitalisation of £150 million.

Eneraqua Technologies, which provides heating and hot water systems for social housing and commercial buildings, followed suit with an AIM listing in November. Stelrad Group, which makes steel panel radiators, chose London Stock Exchange's main market for its November listing, raising £274 million.

Several factors appear to be driving the trend toward these high-profile transactions. One is the need for fast-growing groups to increase cash reserves for acquisitions.

But in the case with CMO and Stelrad, formerly backed by Key Capital and Bregal Capital, respectively, the main motivation was to provide an exit route for private equity. It is clear is that the strategy tends to work in terms of delivering value.

In the last two years, the valuations of listed businesses in the sector have increased from 9.4x EV/EBITDA in April 2020 to 12.8x in April 2022.

Finally, one transaction this year showed how just the airing of an IPO can increase publicity and flush out buyers. Inflexion had been preparing to float its roofing specialist Marley when landscaping group Marshalls came forward with an offer valuing the prospect at £535 million.

BUSINESS VOICES

“Our successful IPO was recently quoted by Rishi Sunak, which was extremely positive for us an organisation and everyone at CMO who have been integral in our journey so far.”

CALLUM TASKER
Commercial Director at CMO Group
(online-only building materials distributor)

BUSINESS VOICES

“Being listed means increased transparency. We welcome that in terms of how we want to be perceived by customers and those who deal with us.

We have high hopes of where we can go because unlike many companies involved in the drive to net zero we are profitable. We're not one of those tech companies that is drinking cash.”

GUY STENHOUSE
Chairman, Eneraqua Technologies
(specialist provider of energy and water efficiency solutions)

BDO VIEWPOINT

Capital markets remain an interesting option for companies looking to raise cash for acquisitions.

Whilst IPO activity has slowed so far in 2022, we expect it to pick up again later in the year. Private equity can be another attractive exit route for both carve-out and standalone transactions.

If you are weighing up your options and wondering if listing could be right for your business, get in touch with our highly experienced plc advisory team, which can give you an IPO readiness assessment and expert advice on the full range of possibilities.

SUSAN JARRAM
Director
BDO Plc Advisory

SELLING YOUR BUSINESS
POST-COVID: A GUIDE
FOR BUSINESS OWNERS

POST-COVID: WHAT ARE THE KEY CONSIDERATIONS FOR M&A?

The past decade has seen unprecedented disruption for business models in the Building Products & Services sector. The last couple of years have delivered challenges from Brexit, COVID and supply-chain related issues.

We have seen deal flow continue strongly in this period, pointing to the resilience of the sector and its ability to successfully adapt. Quality businesses will always be attractive. M&A processes have adapted to a new normal and buyers have focused on certain areas during diligence to get comfortable with perceived risk areas.

While key processes and activities remain largely unchanged, we have seen more flexibility in how certain things are done — particularly with wider uptake of technology, from virtual management presentations to drone site tours.

During COVID, a lot of work had to be done remotely, and experience has shown that there is no reason why certain workstreams cannot continue in such a manner. Certain meetings, of course, work better in person and there may be a natural reorientation to face-to-face sessions.

But there is the optionality going forward, particularly for example in areas such as international travel, where a virtual meeting saves travel, time and costs, and, importantly, brings sustainability benefits. Along with such business factors to consider, COVID has thrown up a few new items to evaluate.

While furlough supported many through the pandemic, it came in quickly and involved new processes. It is worth checking claims have been done correctly and — considering some companies repaying support received — there is a perception point as well.

If HMRC deferrals were agreed, there will be a temporary unwinding effect on net working capital and cash flows to consider, while stretching of debtors/creditors will also impact the working capital dynamics.

Disaster recovery and scenario planning is an area often overlooked but the onset of the pandemic and shift in working patterns caught some out, raising the importance of general preparedness. Elsewhere earnings through the pandemic have been given more scrutiny.

Careful presentation and explanations to demonstrate the sustainability of earnings have helped buyers understand underlying profitability.

Whether a business has had a positive or negative impact from COVID, getting under the skin of what has happened is critical.

Linking to this is the nature of the end sectors served and the outlook for these. COVID-19 has led to an increase in repairs, maintenance and improvement activity and sellers will need to demonstrate how this is sustainable, referencing market outlook and business factors.

Above all, remember that one thing has not changed with COVID, and that's the need for preparation before you set out on any process. We are seeing several features of business models which are catching the attention of buyers:

- **Multiple and established routes to market.** We have seen the importance of online channels, but this is not all. For example, in distribution businesses, online supplements existing routes to market rather than replacing them. People still value conversation and interaction. It's about service and advice as well as flexibility and convenience
- **Supply chains.** These have seen significant disruption. Having robust and reliable supply is beneficial. However, a major planning thought now is whether onshoring or near-shoring is required to gain protection from future shocks
- **Sustainability.** This is a major draw for investors, so brush off your environmental, social and corporate governance story. It is high on buyers' agendas. They are keen to add knowledge and intellectual property
- **Agile and resilient business models.** Many of these have thrived in the pandemic and they are more able to capture market opportunities while withstanding headwinds
- **Automation and digitalisation.** These can provide more efficient businesses as well as enhancing data capture and analysis.

With all the change in recent years, the all-important question is: how have buyers been adjusting valuations? Here we are seeing three trends:

- We are still seeing a mixture of completion accounts and locked box. There are benefits to both approaches, but in some instances completion accounts have been chosen if there is any uncertainty from a buyer's perspective, or for buyers looking to get the full benefit of profits to completion
- Fundamentals remain important but may be adjusted to focus on EBITDAC (earnings before interest, taxes, depreciation, amortisation and COVID), last 12 months, run rate or forward-looking statements, depending on the circumstances
- There have been a number of deals with earnouts. Particularly with uncertainty, these are the go-to mechanism to bridge valuation gaps while mitigating risks on future trading.

BUSINESS VOICES

“I think valuations have gone up, on the back of the revenue drivers and fundamentals we see in the market. It's been quite noisy with COVID-normalisation adjustments, which along with inflation can sometimes make the underlying picture harder to read. But if you believe the fundamentals, you believe in the sector and you're well positioned, then that reinforces a full valuation.”

CHRIS BOSWORTH
Group Strategy Director,
Travis Perkins plc (distributor
and retailer of building materials)

BDO VIEWPOINT

Deal flow has been extremely strong, and we see ongoing high demand for M&A. Transaction processes have adapted in the current market environment to take into consideration the extra factors that need to be explored as a result of COVID: both at the planning stage and from a valuation perspective.

ALAN CHAN
Director
BDO Building Products & Services M&A

UK BUILDING PRODUCTS & SERVICES SUB-SECTORS BOUNCE BACK AFTER COVID

A YEAR OF GROWTH ACROSS THE BOARD

Last year's spectacular level of M&A activity was spread across Building Products & Services sub-sectors, all of which saw year-on-year growth. In most cases, this was to record levels. Only one sub-sector, windows and doors, failed to meet or exceed a previous transaction record.

By far the most spectacular increase in deal activity was in the merchants and distributors sub-sector, where deal volumes increased more than fourfold, from 12 to 52. This was largely a result of private equity deals, which accounted for almost three out of every five transactions in 2021.

The increase in merchant and distributor deal volumes almost saw the sub-sector overtaking security and access in terms of total transactions. As it was, security and access also had a bumper year, with 54 deals: 12 more transactions than in 2020 and 11 more than its previous high of 31 in 2019.

Always a busy sub-sector for transactions, in 2021 HVAC & plumbing registered 59 deals — a rise of 11% and more than the three least active sub-sectors combined.

It is notable that these three busiest sub-sectors also saw increasing valuations, with HVAC & plumbing rising from 6.1x EV/EBITDA to 6.6x, merchants rising from 6.5x to 7.0x and security and access increasing from 7.1x to 7.3x

Another area of high growth in the year was building materials, which saw activity rise by 86% to 44 deals.

At the other end of the scale, sub-sectors seeing relatively lower levels of activity were the windows and doors, kitchen and bathroom, and flooring and carpet sub-sectors, with 19 deals apiece.

Above all, sub-sector activity was characterised by a high level of private equity interest across the board: 30 of the 52 merchant and distributor deals last year were backed by PE investors, for example. More than half the transactions in the interiors and surface finishing sub-sector were also private equity backed.

Other sub-sectors with private equity deals exceeding 40% of volume included security and access, windows and doors, and electrics and lighting.

BDO VIEWPOINT

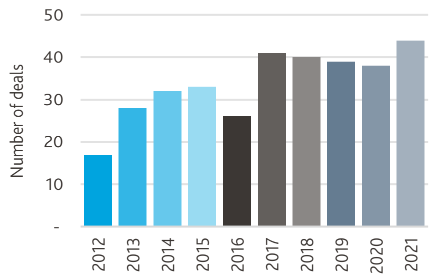
While the outlook for deals remains positive in 2022, it is hard to envisage as much activity as we saw last year. Similarly, it is difficult to pinpoint which sub-sectors could be busiest this year.

Although we still see room for consolidation, some sub-sectors appear to be enjoying a heyday for deals, which could eventually reduce the number of acquisition targets available. But rather than reducing future deal flow, we expect this will lead buyers to shift focus to other fragmented sub-sectors.

MATTHEW HOCCOM
Senior Manager
BDO Building Products & Services M&A

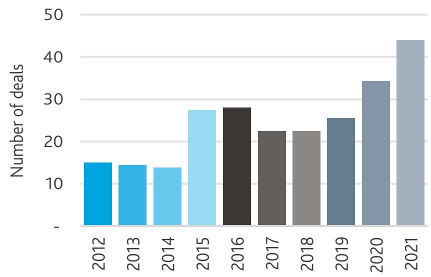
BUILDING MATERIALS

Last year saw the end of a four-year downwards trend with a 16% rise in volumes, driven by a strong pipeline of trade transactions.
Average EV/EBITDA multiple **7.0x**
2012 – 2021



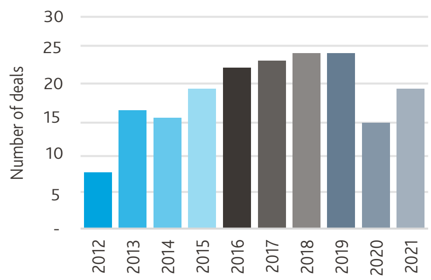
HVAC & PLUMBING

By far the most active sub-sector, 2021 saw HVAC and plumbing deals rise 25%, with 36% of transactions backed by private equity. Valuations also edged up.
Average EV/EBITDA multiple **6.6x**
2012 – 2021



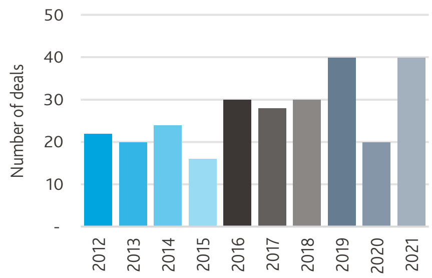
WINDOWS & DOORS

Although the sub-sector picked up compared to 2020, partly thanks to private equity backing 42% of deals, it has yet to regain the level of activity seen in previous years.
Average EV/EBITDA multiple **6.2x**
2012 – 2021



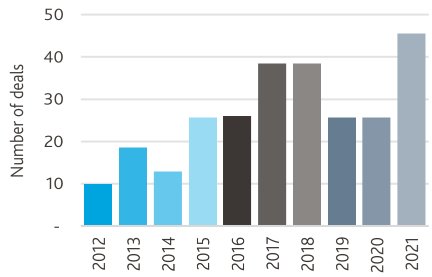
ROOF, CLADDING & INSULATION

Deal volumes returned to pre-pandemic levels after a major dip in 2020.
Average EV/EBITDA multiple **6.3x**
2012 – 2021



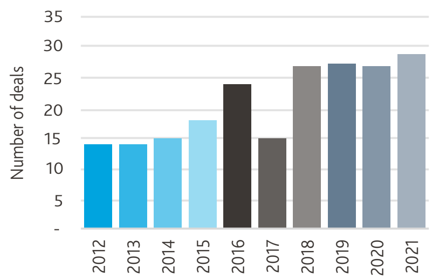
ELECTRICS & LIGHTING

Management buyouts and strong interest from private equity helped this fragmented sub-sector soar 78% in terms of deal volume, with 40% of transactions involving private equity.
Average EV/EBITDA multiple **6.0x**
2012 – 2021



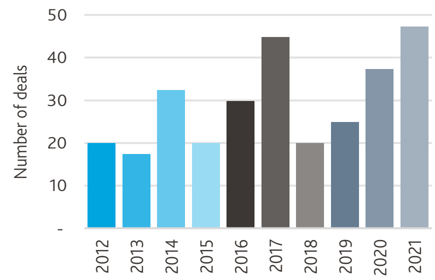
INTERIORS & SURFACE FINISHING

Private equity dominates transactions, accounting for 54% of all deals; home improvements been a driver of deal volumes.
Average EV/EBITDA multiple **6.2x**
2012 – 2021



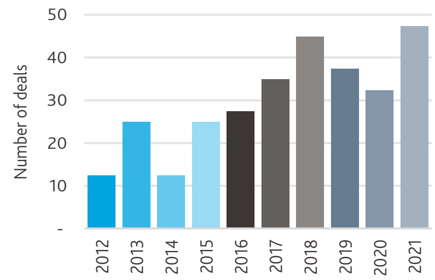
KITCHEN & BATHROOM

Transaction activity has been growing in this sub-sector for the last four years and grew 27% to new heights in 2021.
Average EV/EBITDA multiple **7.2x**
2012 – 2021



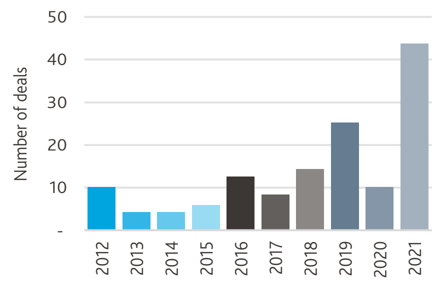
FLOORING & CARPET

Flooring and carpet deal volumes recovered strongly, with corporates taking a leading role in consolidating the market.
Average EV/EBITDA multiple **6.4x**
2012 – 2021



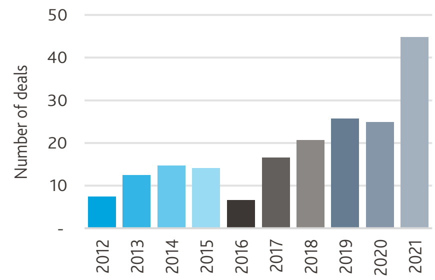
MERCHANTS & DISTRIBUTORS

High deal volumes due to major consolidation pushed by private-equity groups. Multiples have also risen, from 6.5x to 7.0x.
Average EV/EBITDA multiple **7.0x**
2012 – 2021



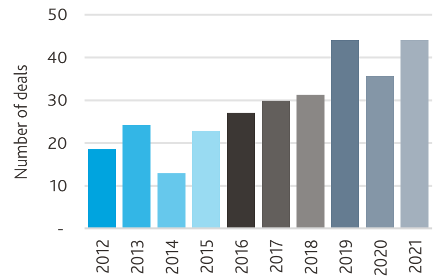
SECURITY & ACCESS

This sub-sector saw an 80% spike in deal activity as PE backed groups including Churches Fire & Security and EA-RS Fire Group went on spending sprees. Valuations also rose.
Average EV/EBITDA multiple **7.3x**
2012 – 2021



PLANT HIRE

Deal volumes rose 24% in 2021 to equal 2019's historic levels and valuations were up, too.
Average EV/EBITDA multiple **6.0x**
2012 – 2021



Source: Experian MarketIQ, BDO analysis

THE GLOBAL M&A PICTURE AND TRENDS IN KEY INTERNATIONAL MARKETS

RIGHT BACK ON TRACK

A dip in international Building Products & Services deal activity was only to have been expected as COVID-19 put the world on hold in 2020. But last year saw M&A carrying on as if the pandemic had never existed. Pent-up demand following lockdown was a major factor driving deal flow.

MORE THAN **3,000 DEALS** IN THE LAST THREE YEARS

DEAL VOLUMES UP **69%** IN 2021, WITH A RECORD **1,329** TRANSACTIONS WORLDWIDE

The sector saw a record 1,329 deals in 2021 — and that figure may well represent a significant underestimate, owing to reporting deficiencies outside the major markets of North America and Europe. The level of activity was 69% higher than in 2020 but also 43% higher than 2019.

This means the global Building Product & Services sector has completed more than 5,000 deals in the last six years, with 3,000 taking place in the last three. The US was the most active market, with 543 M&A bidders and 538 targets — an increase of 81% on the 2020 figure.

This gave the US a 40% share of global M&A volumes for the sector last year. In second place, with a 26% share of activity, was the UK. The market was home to 343 M&A targets in 2021, a 52% increase on the 2020 level. Nowhere in the world compared to these two industry M&A hotbeds, although Sweden claimed a respectable 80 M&A targets in 2021. Elsewhere, Australia, Canada, Germany, China, Ireland, Finland, the Netherlands, Norway, France, Italy, Spain and Denmark all saw double-digit levels of activity last year.

Globally, the proportion of cross-border deals rose by just half a percent between 2020 and 2021, but last year's level of 20% was still significantly lower than pre-pandemic levels.

It is tempting to ascribe this to the travel restrictions arising from the COVID-19 pandemic, and indeed it is almost certain that lockdowns had an impact.

However, it is also true that the proportion of cross-border trades has been on a downward trend for the last decade, with the highest level ever being witnessed back in 2013.

Up until 2015, it was common for almost a third of all transactions to take place across borders, a level that dropped to around a quarter in the second half of the last decade. However, it should be noted that the amount of cross-border activity varies greatly by market. In Sweden, for example, 54% of the country's 152 deal seekers last year looked abroad for targets.

Meanwhile in quieter M&A markets for the sector, such as those in Germany and France, companies were frequently snapped up by foreign investors.

Most German and French sales were across frontiers last year, and Canada and the Netherlands had cross-border selling rates above 40%, contrasting with levels under 10% in the busy US and UK markets.

Around the world, 21% of Building Products & Services transactions last year were buyouts, up from 17% in 2020 and the highest level since 2015.

This uptick was largely due to the UK, where 43% of deals were non-trade transactions, although buyouts were also a salient feature in Australia, accounting for 25% of M&A activity, and the Netherlands (24%). In contrast, trade deals remained by far the norm in Sweden, France and the US.

BUYOUTS

2021 BUYOUTS:

21.0%

2020 BUYOUTS:

17.1%

CROSS-BORDER DEALS

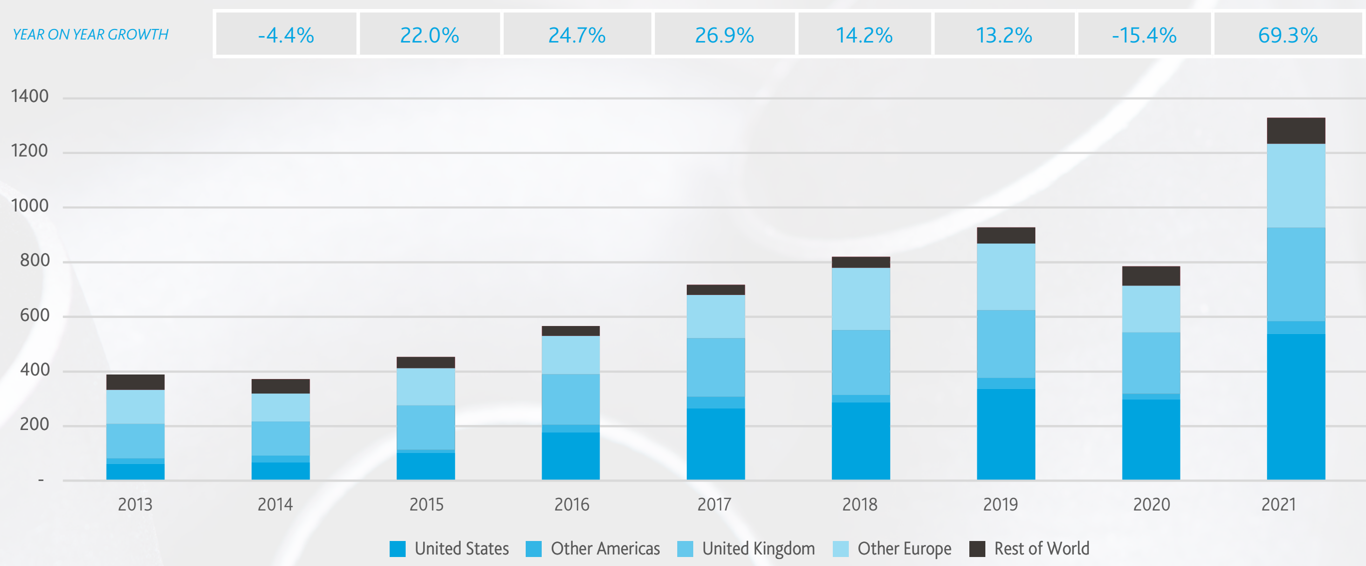
2021 LEVEL:

20.2%

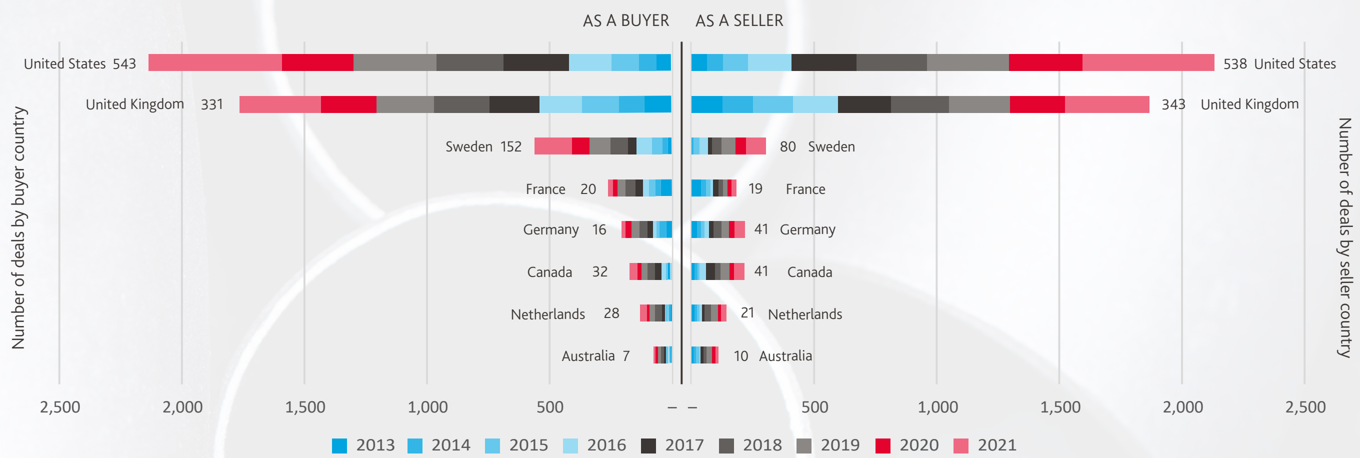
2020 LEVEL:

19.7%

GLOBAL DEAL VOLUMES, 2013 – 2021



PRIMARY DEAL MARKETS



Source: Experian MarketIQ, BDO analysis

M&A IN NORTH AMERICA

LIQUIDITY LEADS TO RECORD GROWTH

Building Products & Services M&A activity in the US set records in 2021, with 538 deals reported by target — a new all-time high.

The unprecedented dealmaking activity was linked to the overall liquidity-driven US economic recovery, which recorded a pace not seen in decades as GDP growth reached nearly 6% in 2021.

Sector dealmaking was driven by healthy new commercial and residential construction backlog levels, elevated housing starts and pent-up construction demand, all of which supported increased transaction volumes and strong valuations as acquirers sought to expand product offerings and market share.

Positive demographic shifts and post-pandemic mobility created increased demand for new housing as well as renovation and remodelling activity in the residential sector.

Meanwhile, commercial activity rebounded from a pandemic-induced softening and was energised by the passing of the $1.2 trillion Infrastructure Investment and Jobs Act by the US Congress.

Valuations in the Building Products & Services sector remained buoyant as earnings and prospects of target companies continued to grow and the competition for deals was never more apparent.

Domestic corporates, multinationals, financial sponsors and family offices all actively sought to deploy capital in the sector, given the industry's growth prospects combined with the backdrop of low interest rates and a strong underlying economy.

Furthermore, the potential for tax policy changes in the US at the start of the year, in the form of significant increases in capital gains rates, undoubtedly motivated many sellers to pursue a transaction before higher rates were potentially enacted.

The number of tax-driven, motivated sellers clearly increased deal flow during the year although this dynamic subsided in Q4 as US Congressional leaders announced spending packages with far more modest adjustments, if any, to existing capital gains rates.

Building Products & Services trade buyers were particularly active during the year and accounted for 86% of all M&A activity in the sector.

Corporates renewed efforts to deploy abundant, low-cost capital, accelerating growth and expanding market share to meet increasing demand while diversifying and updating product portfolios with next-generation products.

Trade buyers also deployed M&A strategies to address ESG and increased building codes and requirements.

The capital markets in 2021 were highly supportive of trade buyers engaging in M&A, with sustained low interest rates, a healthy banking sector and highly receptive equity markets which enabled unprecedented access to acquisition capital.

Such conditions, combined with renewed CEO confidence to deploy capital, increased deal flow across the sector.

Noteworthy US M&A deals led by trade buyers included Carlisle Companies' acquisition of Henry Company from American Securities, in a transaction valued at $1.575 billion.

Henry is a provider of building envelope solutions for use in the residential, light commercial and commercial sectors.

Elsewhere, Westlake Chemical Corporation acquired Boral Limited's North American building products business for $2.15 billion and Cornerstone Building Alliance SW was bought for $400 million by Builders FirstSource. Cornerstone has since agreed a sale to Clayton, Dublier & Rice for £5.8 billion.

Private equity firms continued to contribute to sector M&A volume. The sheer amount of private equity dry powder, combined with a booming economy and a liquid debt market, increased activity.

Many private equity firms focused on the Building Products & Services sector subscribe to the secular thesis of a major housing shortage in the US as well as a mass relocation of the population fuelled by the fallout of COVID-19.

As a result, private equity buyers are seeking platform and add-on acquisition targets with established and growing market positions, innovative solutions and direct-to-consumer or direct-to-professional business models.

Notable private equity deals included Bain Capital Private Equity-backed US LBM agreeing to acquire leading national building materials distribution platform American Construction Source for an undisclosed sum and Platinum Equity's acquisition of Paramount Global Surfaces (PGS) from Linsalata Capital Partners.

UNITED STATES

M&A activity within the Building Products and Services sector in the US was record-setting in 2021 as rising demand and unprecedented low inventory boosted housing prices and remodelling activity, while commercial construction rebounded to pre-pandemic levels.

Looking forward, while the fundamentals for dealmaking remain strong, concerns are mounting over severe labour shortages, rising input costs and availability of building materials, which have been in very short supply with extended lead times.

Of greatest worry is the impact rising interest rates will have on housing demand and construction activity in general, which could dampen CEO confidence and soften the push to pursue M&A.

Despite a growing list of potential headwinds, we expect the strong M&A environment in the US to continue for the near term as the economy remains strong and capital is abundant.

BOB SNAPE
M&A Partner
United States

PATRICK BISCEGLIA
Managing Director
United States

CANADA

Canadian M&A activity within the Building Products & Services sector followed the broader market trend in 2021 and saw a significant increase in activity with volume up 114% over 2020, to 41 completed transactions in 2021.

High levels of market liquidity through the year, combined with dealmakers adjusting to practical challenges in navigating cross-border transactions, have allowed deal volume to return to pre-pandemic levels.

New challenges emerged related to volatile commodity cost inputs such as lumber and steel but market participants continue to find creative ways to get deals completed and we expect this to continue through 2022.

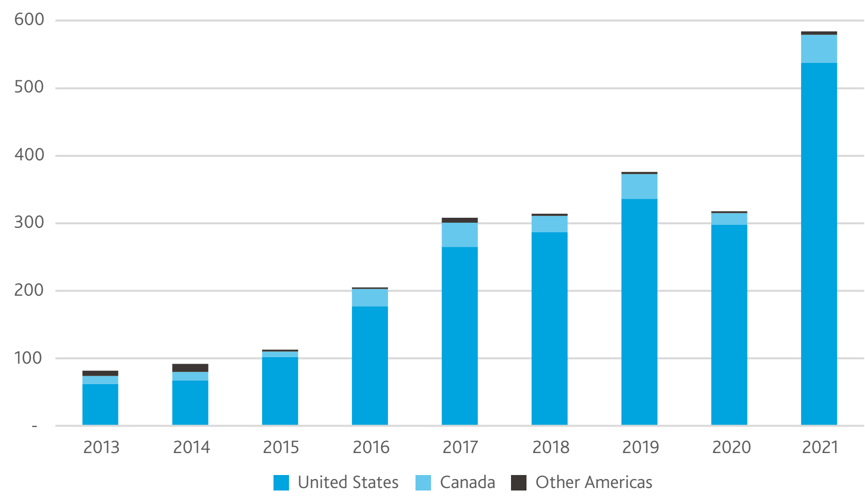
RYAN FARKAS
Managing Director
M&A and Capital Markets, Canada

BUSINESS VOICES

With a thoughtful and disciplined approach to deploying our capital, we are transforming the homebuilding industry through our investments in digital, expanding valued-added offerings for our customers, and making strategic acquisitions that bolster and extend our industry leadership position.

DAVE FLITMAN
Chief Executive, Builders FirstSource (repairs and remodeling products and services provider)

NORTH AMERICA DEAL VOLUMES



Source: Experian MarketIQ, BDO analysis

M&A IN NORTH AMERICA

STEADY AS SHE GOES

While robust residential and commercial activity construction in the US remained at the start of 2022, growing headwinds in the form of supply disruptions, labour constraints and rising input costs are concerns for the Building Products & Services sector and a potential drag on M&A for the balance of the year.

Would-be acquirors are assessing the severity of rising inflation and supply chain shortages on their existing operations — and could turn more cautious with time.

Although most companies have been able to successfully pass along cost increases, many have incurred at least a portion of the increase which has temporarily resulted in lower gross margins — which in turn has dampened valuations and enthusiasm for deal-making somewhat.

Of greater concern for the industry is the potential impact of rising interest rates on housing demand and home improvement activity.

If interest rates were to rise dramatically or even faster than currently anticipated, the result could mean a sharp falloff in demand for goods and services in the sector.

This would likely negatively impact growth and profitability, resulting in lower valuations and muted M&A activity across the board.

Despite these concerns, the overall environment for dealmaking in the Building Products & Services sector is still highly attractive and well above historical norms. Valuations remain elevated while capital is abundant.

As such, potential sellers with a liquidity objective should look to strike now as the proverbial window for deals remains open — but uncertainty abounds as to how long.

US THE BIGGEST CONTRIBUTOR OF GLOBAL DEAL VOLUMES: **43%** IN 2021

538 DEALS BY TARGET, AN **81%** YEAR-ON-YEAR INCREASE

TRADE DEALS ACCOUNTED FOR **86%** OF TRANSACTIONS

MORE THAN **90%** DOMESTIC DEALS

BDO CAPITAL CASE STUDY

Sale of Solatube International to Kingspan Light & Air (a division of Kingspan Group plc (ISE:KRX))

SOLATUBE

SALE TO

Kingspan Light + Air

BDO Capital senior investment bankers involved in this transaction

BOB SNAPE
President

ERIC HIGGINS
Director

THE TRANSACTION

- BDO Capital served as the exclusive financial advisor to Solatube International, Inc. and its affiliates (collectively 'Solatube' or the 'Company') on its sale to Kingspan Light & Air LLC, a division of Kingspan Group plc (ISE:KRX).

COMPANY BACKGROUND

- Solatube is a privately held business based in Vista, CA and founded in 1991
- The Company is a worldwide leader in the manufacturing and distribution of tubular daylighting systems
- Solatube has a 30+ year track record as an industry innovator transforming interior spaces with the power of daylight across both residential and commercial end markets
- The Company designs and manufactures a comprehensive, patent-protected portfolio of daylighting systems and complementary products such as solar-powered attic fans, whole house & garage fans, and traditional skylights
- Solatube focuses on easy to install, environmentally-friendly building products and its daylighting systems provide commercial architects with relatively inexpensive LEED points.

THE TRANSACTION PROCESS

- BDO Capital worked closely with Solatube's management team to understand the business, develop marketing materials, identify prospective acquirers, and orchestrate a controlled sale process
- BDO Capital identified and contacted 172 potential strategic and financial buyers, distributed 69 confidential information memoranda, received 8 indications of interest, conducted 4 management presentations, and received 4 letters of intent
- BDO Capital successfully re-engaged a strategic buyer that previously dropped out of the process at the Letter of Intent stage to drive competition in the final stages of negotiations.

SUCCESSFUL OUTCOME

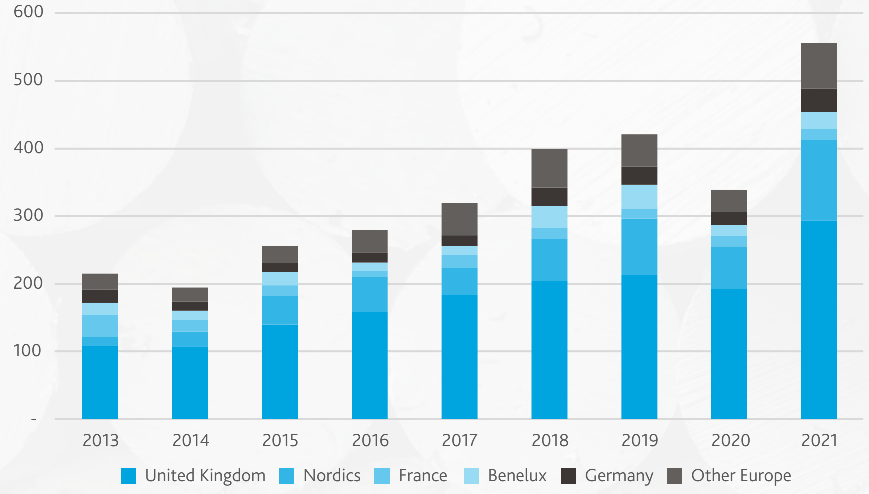
- BDO Capital's unique process delivered a premium outcome for Solatube's shareholders and employee base
- BDO Capital successfully created a competitive process that drove the purchase price from the ultimate buyer of Solatube up 100% from original indication of interest to final letter of intent, while navigating an international shareholder base and complex tax structure
- BDO Capital negotiated the economics and structure of the transaction, resulting in a strong strategic fit and a successful outcome for both parties.

M&A IN EUROPE

LEADING EUROPE

The UK has long been the strongest market in Europe for Building Products & Services M&A. Last year was no exception, with the UK surpassing all other markets bar the US in terms of deal activity.

EUROPEAN DEAL VOLUMES



Source: Experian MarketIQ, BDO analysis

UNITED KINGDOM

The scene was set for 2021's high transaction levels to continue at the start of 2022, although with growing uncertainty over the macroeconomic picture it is now difficult to make hard and fast predictions about the market.

Many Building Products & Services sector players are having to contend with rising input costs and challenging supply chain conditions, and it remains to be seen how these issues will affect the prospects for growth across the sector.

At the same time, the spectre of inflation could have a dampening effect on consumer, commercial and public sector spending, leading to the delay or cancellation of new projects.

On the plus side, Buildings Products & Services has more than demonstrated its resilience to shocks in the last couple of years — and may continue to do so in 2022. The March Snap Analysis report from Barbour ABI revealed a very buoyant market, with record levels of later-stage construction activity, and £8.6 billion of contracts agreed in the month.

JOHN STEPHAN
Partner
BDO Building Products & Services M&A

CPA OPINION

Construction activity currently remains strong and demand has continued to remain remarkably resilient in recent years despite the number of big 'one-off' uncertainties. Government has a key role to play in providing funding, policy and stimulus to benefit housing new build, RM&I and infrastructure.

Government announcements are rarely matched by activity on the ground, but if ambitions set out in the Energy Security Strategy, for example, are given adequate finance and incentives, as well as time to build momentum, this could provide a significant upside risk to RM&I forecasts.

BUSINESS VOICES

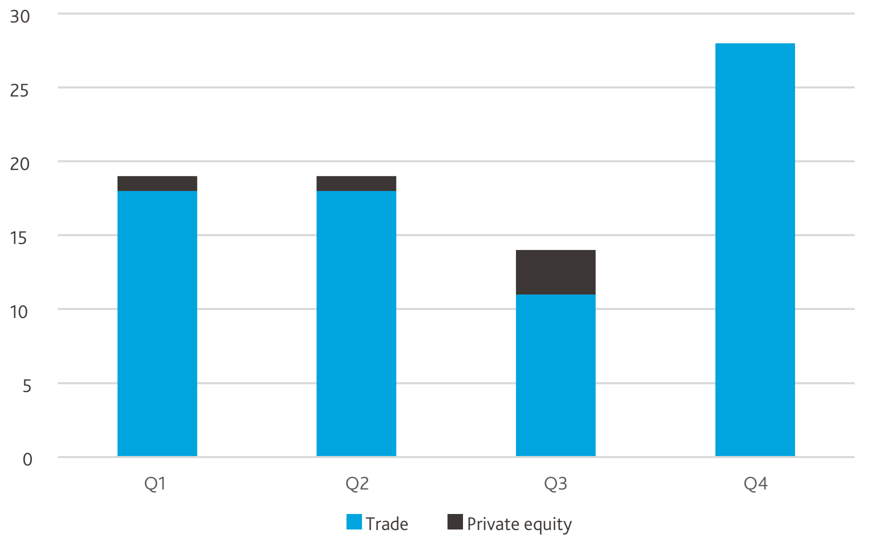
BDO provided excellent advice and support throughout our divestiture project, and we are pleased with the outcome. The BDO team, with support from their network, had a deep understanding of the sector and potential buyers. Challenged with a tight timetable, BDO managed the sales process very effectively and considering the company was based in the Middle East, provided a high-quality buyer pool.

BDO's professionalism and can-do attitude meant that any obstacles were overcome quickly in this complex carve-out, complicated further by COVID-19 restrictions and we successfully navigated the sale.

Based on our experience, we would have no hesitation in recommending BDO to other companies.

PHIL STREET
Vice President of Business Development, Europe, Middle East and Africa, Allegion plc, on non-core carve-out of QMI Door Solutions to HLD Group

SWEDEN DEAL VOLUMES 2021



SWEDEN

Last year Sweden continued to play an outsized role in global Building Products & Services M&A activity, registering more deals by far than any other market except the US and UK. Sweden is the world's third most active market for Building Products & Services, with 6% of global transactions in 2021, and a favoured hunting ground for buyers, which picked up 80 Swedish businesses during the year — an 86% increase on 2020 levels.

But in most cases, it was Swedish companies doing the buying. Last year saw 152 deals involving Swedish buyers, a 120% increase on the 69 in 2020. Underlying Sweden's impressive M&A figures are the actions of serial corporate acquirers such as Assa Abloy, Instalco, Securitas, Storskogen and Vestum.

These companies are attracted to Sweden's fragmented Building Products & Services market but also regularly look for targets abroad, with 54% of deals involving a Swedish buyer being cross-border transactions. In contrast, buyouts represented only 6% of deals as private equity was crowded out by the serial corporates.

While the outlook for 2022 remains unclear, 2021 at least ended on a high note, with 35% of deals taking place in the fourth quarter.

CLAES NORDEBACK
M&A Partner, Sweden

FRANCE

The impact of lockdowns was less than expected in residential property. In terms of building permits, the market recorded a decline of 13.3%, corresponding to 390,000 units. The most affected segment was apartments, with a decline of 16.2% (223,800 units).

In terms of housing starts, the decline was more moderate: 351,900 units in total, representing a decrease of 9%. In commercial space, retail and offices were the two most impacted market segments. The first lockdown was the key factor in this general decrease, as most activity stopped on sites.

In the first half of 2020, the number of non-residential starts fell by 20.4% compared to the same period in 2019. In the second half, the number of starts decreased by only 7%.

Like all the other construction areas, the civil engineering market was strongly impacted by the first lockdown, from 17 March to 11 May 2020, and less by the second one from 30 October to 15 December. All in all, the market fell by 12% in 2020 compared to 2019.

As the civil engineering market is mostly driven by the public sector, its recovery will be closely and strongly driven by the fiscal stimulus build up by the French government. Consequently, for 2021 we estimate an increase of 5.6% in volume.

PASCAL MARLIER
Advisory Partner, France

GERMANY

The construction market in Germany — the largest in Europe — was buoyant in 2021, with accelerating order books in the second half of the year driven by demand from the commercial and housebuilding sectors.

The number of M&A deals in Building Products & Services involving German companies as the target was up 78% on the level in 2020, albeit the absolute number remains relatively low at 41 given the size of the German market compared to, say, Sweden or the UK.

The third quarter was the strongest and private equity accounted for nearly 20% of all deals. Cross-border interest in the German market remains extremely high, with 73% of deals involving an international investor. Keen investors to the German market have recently included Atlas Copco, Polygon Holding, the Stark Group and Building Materials Europe.

There were several larger deals, including the CHF5.5bn acquisition of Master Builders Solutions Deutschland by Sika AG, providing an exit for investor Lone Star Funds. Deals were heterogenous, involving heavy and light materials, civil engineering and there is an ongoing interest in technical building equipment and related services.

JANE EVANS
M&A Senior Manager, Germany

NETHERLANDS

Building activity in the Netherlands has been under pressure the past few years, mainly fuelled by national policies pressuring businesses to decrease nitrogen levels in the atmosphere.

The construction sector is a key contributor to atmospheric nitrogen levels, and because of ongoing public pressure, interest in the takeover of companies has been lower than before.

It is now starting to pick up again to pre-pandemic levels, especially given the extremely large housing need and corresponding high housing prices in the Netherlands. Besides that, the public debate is shifting from nitrogen control towards making more affordable housing available soon.

Construction prices are skyrocketing however, due to raw materials prices going up quickly and good staff being extremely scarce. Demand remains strong for companies that have a distinguishing focus or specialisation.

There also remains a broad interest for technical servicing, maintenance — for large property owners and housing associations — and installation companies, where consolidators keep looking to buy many smaller players, thereby creating national coverage companies.

JOOST COOPMANS
M&A Partner, Netherlands

EUROCONSTRUCT OPINION

The level of construction output in 2021 was €1.7trn euros, a leap of 5.6%. In seven countries, the pre-crisis level has already been overtaken, in six others the market is flat compared to 2019, while in the remaining six the gap is still negative, with one big country still to re-absorb a 10% negative gap with respect to pre-crisis.

The short-term outlook is defined by lively 3.6% growth in 2022 and an increase of no more than 1.5% in the next two-year period. Some elements of concern may impact the scenario, not only in terms of raw material prices but also in terms of labour shortage and public support.

At country level, development will be sustained by strong growth (more than 4%) in Ireland, Spain, Hungary and the UK. A flat trend is expected for Germany and Switzerland, while sectorial output should be shrinking in Finland and Sweden.

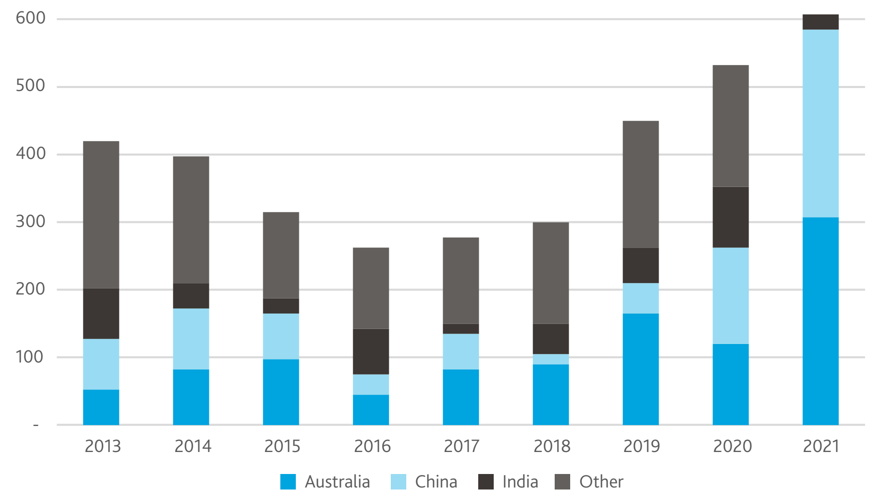
M&A IN OTHER INTERNATIONAL MARKETS

AUSTRALIA AND CHINA ON THE UP

In 2021 Building Products & Services deal volumes across markets outside Europe and North America rose by 34%. The M&A markets in Australia and China were particularly active and have strong outlooks too.

Reporting for 2021 in other markets is incomplete and therefore these figures should be treated with caution.

REST OF THE WORLD DEAL VOLUMES



Source: Experian MarketIQ, BDO analysis

CHINA

Cross-border M&A activity in Building Products & Services in China declined in 2021, with only one overseas deal completed in the year compared with 19 overseas deals in the previous year.

Highly leveraged property developers experienced liquidity issues and missed interest payments on their debts in 2021 amid the slump in property sales and tightened borrowing policies in China.

However, domestic deals increased to 36 deals in 2021 compared with 21 deals in 2020, as large and state-wned property firms acquired assets from cash-strapped private developers.

Recent relief measures have been implemented by China since early 2022, including a reduction in borrowing costs and thresholds calculations. It is therefore expected that there will be more China M&A activity in the sector in 2022.

KENNETH YEO
Advisory Partner, China

AUSTRALIA

The Australian Building Products & Services sector experienced a recovery in transaction volume during 2021, rebounding strongly in the third and fourth quarters as COVID restrictions and uncertainty eased.

Demand for the sector remained high, especially from private equity, as government infrastructure spend continues to be a key driver for future growth and value creation.

Last year saw non-core assets being sold following strategic reviews and there remained continued appetite for Australian assets from overseas buyers and investors in the sector.

Looking forwards, supply chain constraints and material shortages, geopolitical considerations and rising interest rates will pose challenges for the sector more broadly.

This year may also see increased distressed M&A activity amongst construction companies, as evidenced by the recent Probuild administration, with flow-on impacts experienced throughout the rest of the construction industry.

ANDREW MCFARLANE
M&A Partner, Australia

INDIA

Despite the year of headwinds in 2021, there has been a good momentum in the sector mainly due to growing demand on account of the government push on infrastructure development, low-cost housing schemes, and improvement in real estate demand. Further, pent-up demand in various sub-segments led to improvement in secondary sales.

Initially, the industry suffered due to lockdown and the run-up in commodity prices, whether coal, metal or crude, coupled with a shortage of supplies that led to a sudden jump in raw material costs. However, with stronger policies and liquidity measures introduced by the government, most corporates could sail through the challenges and are back on their feet. 2021 also provided a huge fillip to the innovation and technological advancements in the industry.

2022 seems to be very promising for the industry with an increase of 35% in the budgetary allocation towards capital expenditure, including to schemes like housing for all and tap water connection to each household.

With the availability of liquidity and a stronger balance sheet, companies are getting bolder in their investment plans. The industry will also continue its transformation journey with disruptive technologies, product innovation, and digitization.

Domestic and international companies that have managed to accumulate war chest will go aggressive in terms of acquisitions and investments, leading to increased M&A activities in the space. Domestic companies would not shy from raising capital amid stronger equity markets and soaring valuations.

MAULIK SANGHAVI
Partner, India

AUSTRALIAN CONSTRUCTORS ASSOCIATION (ACA) OPINION

The construction industry will continue to take a leading role in rebuilding Australia's economy with a further AUD$17.9bn in infrastructure funding announced in March's Federal Budget.

With a record $120bn investment in infrastructure, it is incumbent on government and industry to ensure taxpayer money is well spent — and this means hitting the accelerator on industry reform. According to analysis undertaken by BIS Oxford Economic for the ACA, just halving the productivity gap between construction and other major industries would unlock $15bn in savings annually.

The ACA is calling on the Federal Government to coordinate and incentivise reforms to state procurement and delivery processes, to realise this opportunity. With a predicted 105,000-worker shortfall in less than 18 months, measures in the budget to improve skills and increase participation, particularly from women, are welcomed.

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 exceeds client expectations.

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

2,500 corporate finance professionals globally | Integrated capabilities encompassing tax, pensions and technical accounting | Sector-focused M&A teams.

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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.

DEBT ADVISORY

- Refinancing
- Restructuring
- Stapled debt.

STRATEGIC ADVISORY

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

BDO

Helping you succeed

2021 THE BDO BUILDING PRODUCTS & SERVICES TEAM COMPLETED **OVER 200 DEALS**

BUSINESS VOICES

Excellent advice throughout from BDO, who supported us all the way through the transaction.

They understood our business model and the sector and demonstrated this throughout the process, through excellent marketing materials, finding a suitable buyer and negotiating a favourable outcome.

The situation was compounded by a very tight time schedule, and we were astounded by the precision of BDO's approach.

We are delighted with the outcome. A great team to work with and we would highly recommend BDO.

ROGER CHERRINGTON AND PAT CHERRINGTON
Shareholders, Mikrofill, on sale to Stuart Turner, backed by LDC

BUSINESS VOICES

BDO approached a long list of UK targets on my behalf. They did so in a professional, responsive and confidential matter, utilising their own relationship network but also opening doors where no previous relationship existed. They galvanised their teams in other departments to bring in expertise and relationships where required. They were available for advice and to serve as a sounding board for tactics. As a result, we successfully acquired Marflow Engineering and The Majestic Shower Company and have a strong pipeline of acquisition targets. I am not aware of an acquisition search and approach capability of the same calibre available elsewhere.

MARTIN MURPHY
Managing Director, Sanbra Group, on acquisition of Marflow Engineering and The Majestic Shower Company

BUSINESS VOICES

Sincere thanks for an amazing job, for all the support, guidance, and talent in steering us through the preparation and complexities of an M&A deal. It's been an absolute pleasure working with you. Anyone thinking about selling their business should talk to BDO. They'll get a first-class service from people who really care about finding the right buyer for the business and getting the best price. Fantastic job, thanks again.

ALEX HANCOCK
CEO and Shareholder, StairBox, on sale to Grafton

BDO IS No.1 GLOBALLY, RANKED M&A Advisor IN EUROPE AND ACROSS THE UK

Pitchbook league tables 2021

SERVING BEYOND EXPECTIONS: A REVIEW OF RECENT DEALS

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 perfect outcome for our clients.

BDO COMPLETED **213** DEALS IN THE SECTOR IN **2021** A RISE OF **33%**

ADVISOR ON OVER **450** SECTOR TRANSACTIONS IN THE LAST **3** YEARS

MANUFACTURING

IPO OF ENERAQUA TECHNOLOGIES
Energy and water efficiency specialist

SALE OF ELECTROZEMPER TO FW THORPE
Emergency lighting specialist

SALE OF FIORA BATH COLLECTIONS TO THE ENGINEERED STONE GROUP
Manufacturer of bathroom products

SALE OF MIKROFILL TO STUART TURNER
Manufacturer of water pressurisation devices, boilers and systems

SALE OF PROLECTRIC TO HILL & SMITH
UK market leader in temporary solar lighting

SALE OF REGBA TO IDFI INVESTMENTS
Design and manufacture of kitchens

SALE OF STAIRBOX TO GRAFTON GROUP
Automated, off-site staircase manufacturer

SALE OF HILL & SMITH SUBSIDIARY TECHNOCOVER TO THREESIXTY INVESTMENTS
Manufacturer of steel security access products

SALE OF THURSTON GROUP TO HLD GROUP
Design and manufacture of modular buildings

ACQUISITION OF BARBOUR CONCRETE COMPANY BY FORTERRA
Manufacturer of precast concrete products

ACQUISITION OF ENERGENT BY VOLUTION
Manufacturer of ventilation systems

ACQUISITION OF FADE ACOUSTIC CEILINGS BY SAINT GOBAIN
Manufacturer and supplier of acoustic plaster

SALE OF QATAR METAL INDUSTRIES BY ALLEGION TO HLD GROUP
Commercial door manufacturer

ACQUISITION OF MARFLOW ENGINEERING & THE MAJESTIC SHOWER COMPANY BY SANBRA GROUP
Designer and manufacturer of shower enclosures and bath screens

SALE OF RATIO ELECTRIC TO FW THORPE
Developer of electrical power connection and distribution systems

SALE OF SOLATUBE INTERNATIONAL TO KINGSPAN GROUP
Manufacturer of tubular daylighting devices

DISTRIBUTION

IPO OF CMO GROUP
Online-only retailer of building materials

SALE OF BUMA HAUSTECHNIK TO DOMOTEC
Wholesaler of BUMA water heaters

SALE OF PMF PLUMBING SUPPLIES TO DESCHÊNES GROUP
Wholesale distributor of luxury kitchen and bath products

INVESTMENT IN BROMBOROUGH PAIN & BUILDING SUPPLIES BY CAIRNGORM
Supplier of paint and consumables through 17 stores

ACQUISITION OF PENLAW & COMPANY BY SIG
Supplier of building materials

ACQUISITION OF ROYAL PACIFIC HOLDINGS BY FERGUSON ENTERPRISES
Wholesaler of lighting and fans

INVESTMENT IN TEUNISSEN & BECKING BY NEWPORT CAPITAL
Wholesale and retail of tiles, kitchens and bathrooms

ACQUISITION OF ARRAN ISLE BY ASSA ABLOY
Distributor of branded building products

SERVICES

PLACING AND ADMISSION OF HSS HIRE = SHARES ON AIM
Equipment hire

INVESTMENT IN AIR PROS BY PEAK ROCK CAPITAL
HVAC installation & repair

SASLE OF NGWORX TO BKW BUILDING SOLUTIONS
Provider of building technology

SALE OF CLIMATECH TO WEISS
Air conditioning engineers

SALE OF EKS HOLDING TO ATLAS COPCO INTERNATIONAL
Rental and sale of boilers

SALE OF ETI GROUP TO VECTIS PRIVATE EQUITY
Installation of building solutions

SALE OF PARAMOUNT FLOORING TO A PRIVATE INVESTOR
Supplier of flooring products

SALE OF SH-BYGG TO FASADGRUPPEN GROUP
Facade renovation

SALE OF TAKAKUSTIK TO VESTUM
Supply and installation of suspended ceilings

ACQUISITION OF FOUR ELECTRIC INSTALLATION COMPANIES BY KONSTEL
Electrical installation services

ACQUISITION OF SIX HVAC AND ELECTRICAL INSTALLATION COMPANIES BY INSTALCO
HVAC and electrical installations

ACQUISITION OF ONGARDE AND SICURO BY VISSER PROJECTSERVICE
Security solutions for construction sites

MORE THAN **30%** OF OUR M&A TRANSACTIONS HAVE INVOLVED PRVATE EQUITY OVER THE LAST **3** YEARS

EXPERTS IN THE SECTOR: YOUR UK & INTERNATIONAL TEAM

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.

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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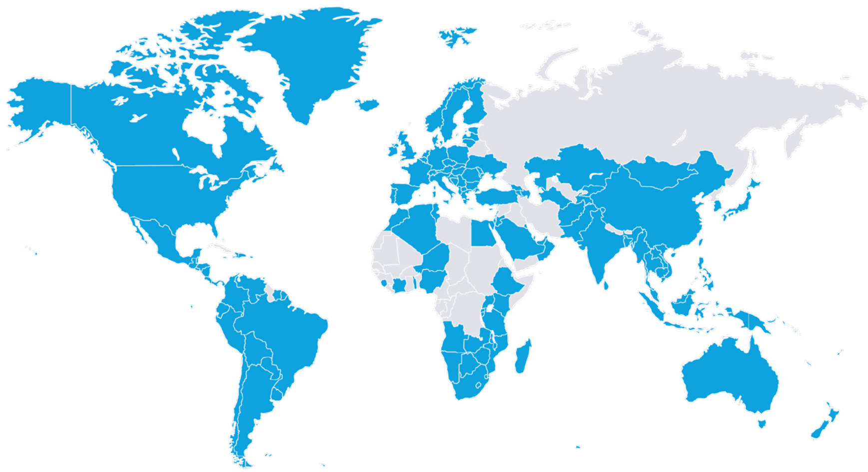

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BDO GLOBAL CORPORATE FINANCE

2,020 COMPLETED DEALS IN 2021

WITH A TOTAL DEAL VALUE OF **$128.6bn**

36% PRIVATE EQUITY DEAL INVOLVEMENT

26% OF OUR DEALS ARE CROSS BORDER

ONE OF THE MOST ACTIVE ADVISERS GLOBALLY*

2,500 CORPORATE FINANCE PROFESSIONALS

120 COUNTRIES PROVIDING DEDICATED CORPORATE FINANCE SERVICES

*1st most active M&A Advisor Globally – Pitchbook league tables 2021
1st most active Advisor & Accountant Globally 2021 – Pitchbook league tables 2021
2nd leading Financial Due Diligence provider Globally – Mergermarket global accountant league tables 2021

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