Cherry Tree
& ASSOCIATES, LLC

Building Products Industry

Q3 2016

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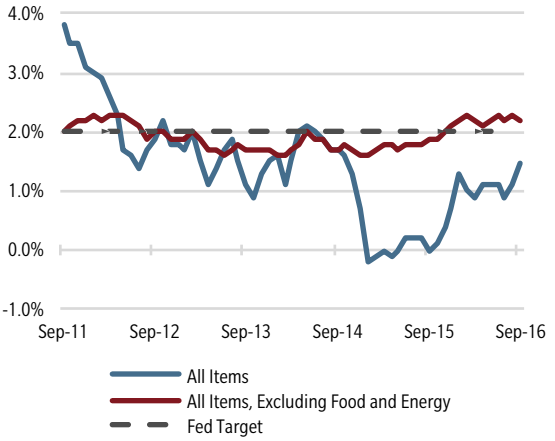
The Macroeconomic Picture

SUMMARY

Amid the hostility of this election season, the two U.S. presidential candidates, Hillary Clinton and Donald Trump, have painted alternate landscapes of the U.S. economy. Mr. Trump holds the more pessimistic view, stating, for instance, that U.S. jobs are being shipped abroad or taken by illegal immigrants en masse and existing trade agreements are the worst of their kind in history. On the other hand, Secretary Clinton speaks of an economy that continues to experience a robust recovery and has become far more fair under President Obama's tenure. Regardless of their current views, the next President will have little control over the state of the U.S. economy when he or she enters the oval office for the first time. That dilemma bears asking, what is the state of the economy that the next president will inherit? Is the economy booming, limping along at a sluggish rate, or even headed toward a new recession? Since the economy is a highly complex, integrated machine, the answer is not simple. It truly depends on what metrics are being considered.

INFLATION (CONSUMER PRICE INDEX)



CONSUMER CONFIDENCE

When President Obama entered office in 2008, the U.S. economy and financial markets were in tatters. Drastic fiscal and monetary policies were enacted to counter the effects of the Great Recession. The recession ended soon after in 2009. Since then, the U.S. economy has endured one of its longer recoveries. The recovery, while solid and consistent, has been unlike previous ones where a quick rebound occurred. As the recovery has entered its latter years, it has become increasingly difficult to understand the status of the U.S. economy. On a positive note, the labor market and consumer sentiment have been strong and steady. The labor market has been adding approximately 178,000 jobs on a monthly basis in 2016, an impressive pace for a recovery that's about to enter its eighth year. Additionally, wage growth has finally accelerated after years of stagnant-to-declining real incomes. Those two trends, as well as low interest rates, have boosted consumer confidence and spending. The Consumer Confidence Index has recently been hovering near pre-recession levels while retail sales have also shown a promising upward trend. Yet, this encouraging data is contrasted by underwhelming inflation and weak GDP growth. Although the Federal Reserve continues to pursue an aggressive monetary policy, inflation remains well below its target of two percent. The lack of inflation, in tandem with other discouraging data points, has forced the Fed to hold off on raising interest rates on multiple occasions. Finally, overall GDP growth has greatly disappointed many economists thus far in 2016. Both quarters have registered growth under two percent, which is already a low barometer compared to pre-recession figures. Taken all together, these metrics illustrate an economy that has the potential to accelerate, but is currently performing in a disappointing manner.

As the U.S. economy goes, so goes the building products industry. The industry has experienced a lackluster recovery similar to that of the wider economy. While housing prices approach pre-recession highs and mortgage rates remain at all-time lows, housing starts sit well below their historical average. A main priority for the next president will be to accelerate economic growth, which, in turn, will help the building products industry. The next president will oversee policy decisions regarding issues ranging from regulation to infrastructure spending to trade that will alter the growth prospects of both the U.S. economy and building products industry. Even with a detailed agenda, neither presidential candidate can fix these problems on his or her own. After a campaign season riddled with insults and scandals, the President and Congress must set aside partisan politics and compromise to solve the economic issues facing this nation over the next four years. That cooperation has certainly been far too absent over the past eight years.

Sources: U.S. Census Bureau, U.S. Bureau of Labor Statistics, The Conference Board, Capital IQ, Cherry Tree Research

FEATURED TRANSACTIONS

ABC Supply Agrees to Acquire L&W Supply

ABC Supply Co., one of the largest distributors of building products in the U.S., has agreed to acquire L&W Supply for $670 million from USG Corporation (NYSE:USG). L&W Supply had operated as the distribution business of USG Corporation. The acquisition expands and diversifies ABC Supply's product portfolio by adding a variety of interior building products to the company's vast offering of exterior building products. For USG, the sale proceeds will be used to pay down existing debt while more focus will be directed to its gypsum and ceilings manufacturing operations. ***Read More***

Melrose Industries Acquires Nortek

Melrose Industries (LSE:MRO), a turnaround specialist of underperforming manufacturing companies, has agreed to acquire Nortek, a provider of air management, security, home automation, and ergonomic solutions in residential and commercial buildings, for $86 per share or $1.44 billion (1.1x EV/Rev., 9.9x EV/EBITDA). The purchase price represents a 37.6 percent premium to the closing price of Nortek shares on July 5th, 2016, the day prior to the acquisition announcement. Nortek has recently struggled with its growth rate declining, while bearing a heavy debt burden. ***Read More***

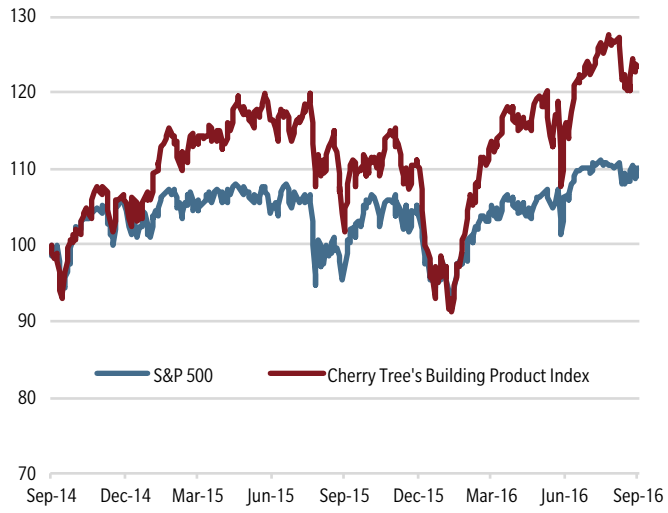
Lennar Corporation Acquires WCI Communities

Lennar Corporation (NYSE:LEN), a national homebuilder, has acquired WCI Communities, a Florida-based community developer and luxury homebuilder, for $23.50 per share or $619 million (1.3x EV/Rev., 13.7x EV/EBITDA). Lennar used a combination of cash and stock to fund the acquisition. Both companies have a heavy presence in the Florida market with WCI Communities' portfolio consisting of approximately 14,200 homesites. ***Read More***

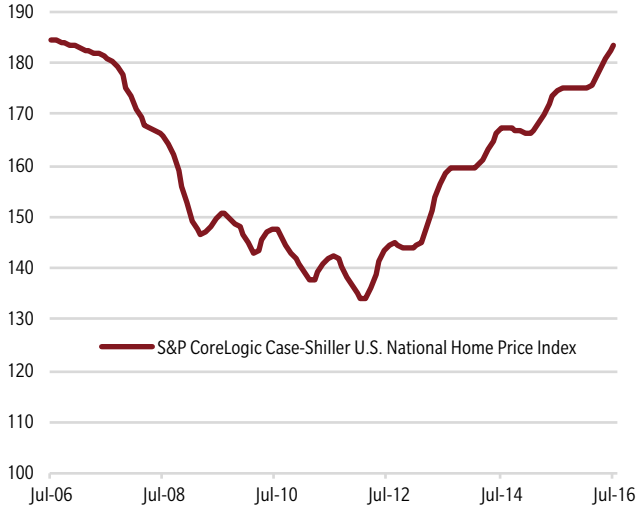
ONCAP Acquires Tecta America Corp.

ONCAP, the middle-market arm of private equity firm Onex Corporation (TSX:OCX), has acquired Tecta America Corp. for approximately $280 million from Oaktree Capital Management. Tecta America is one of the largest commercial roofing contractors in the U.S., providing installation, replacement, and repair services. The company generated more than $420 million of revenue in 2015. Oaktree Capital Management purchased Tecta America in July 2013 for an undisclosed sum. ***Read More***

EQUITY PERFORMANCE



U.S. HOUSING PRICES



Sources: Capital IQ, Cherry Tree Research

The Election and Building Products Industry

In an election season dominated by insults and scandals rather than civil debate, Cherry Tree believes it is important for building products companies to understand key policies that may alter their operating landscape under the next administration. Therefore, we have selected four issues (regulations, infrastructure spending, immigration, and trade) that could directly affect the building products industry. The two major party candidates, Hillary Clinton and Donald Trump, strongly disagree on each issue, except for the dire need for increased infrastructure spending. Regardless of whether Clinton or Trump is elected, building products companies should be well aware of how macroeconomic factors may change over the next four years. — ***(Note: Cherry Tree does not endorse either candidate and intends to present an unbiased view of the candidates' policy stances in the following table.)***

	Significance	Hillary Clinton	Donald Trump
Regulations	Regulations increase the cost of conducting business and have been contributing to skyrocketing home prices. According to a report released in May by the National Association of Home Builders (NAHB), regulatory costs make up 24.3% of a home's selling price today.	Mrs. Clinton would likely continue a similar regulatory regime as President Obama. Obamacare, as well as key energy, business, and banking regulations, would likely remain or expand under her administration. Regulatory reform has not been a major talking point during her campaign.	Mr. Trump has proposed a temporary halt on new regulation, excluding rules compelled by Congress or for public safety. A systematic review of existing regulations will be conducted across all federal departments. Mr. Trump has previously stated that "70% of regulations can go."
Infrastructure Spending	In 2013, the American Society of Civil Engineers issued a D+ grade for America's infrastructure. Since then, the ASCE has stated that infrastructure spending must amount to $3.6 trillion by 2020 to meet the nation's needs. It is one of the few issues that enjoys bipartisan support.	Mrs. Clinton has proposed a five year, $275 billion infrastructure spending plan. The vast majority, $250 billion, would be devoted to direct public investment, while the remaining total would be directed to a newly created Infrastructure Bank. Financing would come from unspecified reforms to business taxes.	Mr. Trump recently announced a ten year, $1 trillion infrastructure spending plan. The plan would focus exclusively on revenue-generating projects, such as toll roads and airports. Financing will be provided by private investors who will receive tax credits for their equity stake in a project.
Immigration	Skilled labor shortages have plagued the building products industry throughout the recovery. Immigrants provide a key source of both skilled and unskilled labor. According to the NAHB, foreign-born workers comprise more than 22% of the industry's labor force.	In her first 100 days in office, Mrs. Clinton intends to pass comprehensive immigration reform. A feature of that plan will be a pathway to citizenship for illegal immigrants. Additionally, she will uphold President Obama's recent executive actions, DACA and DAPA, that shield some illegal immigrants from deportation.	Mr. Trump intends to build a wall along the U.S.-Mexico border. President Obama's executive actions will be terminated and the removal of illegal immigrants will become a top priority. In terms of legal immigration, Mr. Trump plans to "keep immigration levels at historic norms" in order to best serve the American worker.
Trade	U.S. exports of building products totaled $35.2 billion in 2015 and are projected to rise to $39.4 billion by 2018. The top three markets for U.S. building products are Canada, Mexico, and China. Trade agreements and relations with those three countries will significantly impact export stability and growth in the industry.	After originally supporting the Trans-Pacific Partnership (TPP), Mrs. Clinton now opposes the deal along with Mr. Trump. She supported the North American Free Trade Agreement (NAFTA) while First Lady and has not suggested that she will push to have terms renegotiated. Outside of the TPP, Mrs. Clinton's trade policy will likely look similar to President Obama's.	Along with a strict immigration plan, a protectionist trade policy has been a key facet of Mr. Trump's campaign. He intends to renegotiate NAFTA, walk away from the TPP, and label China as a currency manipulator and bring trade cases against them at the WTO. If NAFTA's terms are not negotiable, the U.S. will withdraw from the agreement.

Sources: Department of Commerce, Cherry Tree Research

M&A: $1+ Billion Enterprise Value

$ in millions

Announced Date	Acquirer	Target	Target Description	Enterprise Value	Enterprise Value/ Revenue	Enterprise Value/ EBITDA
09/15/2016	Marsella Holdings S.à r.l.	Braas Monier Building Group S.A.	Pitched roof products manufacturer and supplier	$1,620.5	1.2x	7.9x
08/01/2016	Tianjin Circle Enterprise Management Center	Sichuan Shuangma Cement Co.	Chinese cement subsidiary of LafargeHolcim	$1,301.4	4.3x	31.4x
07/06/2016	Melrose Industries PLC	Nortek Inc.	HVAC products manufacturer	$2,732.0	1.1x	9.9x
03/17/2016	Lafarge Ciments SA	Holcim Maroc S.A.	Morrocan cement, concrete, and aggregates manufacturer	$1,177.0	3.6x	13.3x
01/25/2016	Standard Industries Inc.	Icopal a/s	Roofing and waterproofing products manufacturer	$1,100.0	1.0x	—
11/08/2015	Weyerhaeuser Co.	Plum Creek & Timber Co.	Timber REIT	$11,644.5	7.2x	22.4x
07/28/2015	HeidelbergCement AG	Italcementi SpA	Italian cement and clinker producer	$7,492.1	1.5x	10.4x
07/27/2015	Beacon Roofing Supply, Inc.	Roofing Supply Group, LLC	Roofing materials distributor	$1,142.0	1.0x	—
07/22/2015	The Home Depot, Inc.	Interline Brands Inc.	Maintenance, repair, and operations products distributor	$2,423.2	1.4x	18.5x
06/14/2015	Standard Pacific Corp.	Ryland Group Inc.	Homebuilder and mortgage-finance firm	$3,077.5	1.2x	10.0x
04/13/2015	Builders FirstSource, Inc.	ProBuild Holdings, Inc.	Building and lumber materials distributor	$3,432.4	0.8x	—
01/13/2015	Unilin BVBA	IVC N.V.	Belgium- based vinyl floors producer	$1,227.1	1.8x	—
12/24/2014	Lone Star Funds	Forterra plc	Concrete and clay building products manufacturer	$1,410.8	1.2x	14.5x
05/19/2014	Oak Hill Capital Partners; CCMP Capital Advisors, LLC	The Hillman Companies, Inc.	Hardware-related products distributor	$1,475.0	2.1x	12.8x
04/07/2014	Holcim Ltd.	LaFarge S.A.	Cement and aggregates manufacturer	$32,132.9	2.2x	10.6x
01/28/2014	Martin Marietta Materials, Inc.	Texas Industries Inc.	Cement, aggregates, and concrete manufacturer	$2,685.1	3.4x	31.5x
			Median	**$2,021.9**	**1.5x**	**13.0x**

Note: Criteria includes transactions with publicly-disclosed multiples and enterprise values greater than $1 billion since the beginning of 2014.

Sources: Capital IQ, Cherry Tree Research

M&A: $100 Million – $1 Billon Enterprise Value

$ in millions

Announced Date	Acquirer	Target	Target Description	Enterprise Value	Enterprise Value/ Revenue	Enterprise Value/ EBITDA
09/22/2016	Lennar Corporation	WCI Communities	Florida-based community developer and luxury homebuilder	$830.7	1.3x	13.7x
08/04/2016	Siam City Cement Public Company	Holcim, Vietnam Operations	Cement and ready-mix concrete supplier in Vietnam	$824.2	3.4x	15.5x
07/25/2016	Siam City Concrete Co.	Holcim (Lanka) Limited	LaFargeHolcim's Sri Lankan assets	$377.5	2.3x	18.2x
06/13/2016	Hardwoods Specialty Products US	Rugby IPD Corp.	Building products distributor	$119.8	0.4x	9.5x
05/12/2016	NIBE Energy Systems Inc.	The Climate Control Group, Inc.	HVAC manufacturer	$364.0	1.3x	14.6x
12/16/2015	PulteGroup, Inc.	JW Homes, LLC	Homebuilder in Southeast U.S.	$450.0	1.6x	—
11/18/2015	Breedon Aggregates Limited	Hope Construction Materials Limited	Cement, ready mix concrete and aggregates producer	$544.8	1.2x	6.7x
09/17/2015	Lone Star Funds	Foundation Building Materials	Drywall and insulation distributor	$560.0	0.8x	—
08/31/2015	Quanex Building Products Corporation	WII Components Inc.	Cabinet and wood products manufacturer	$368.3	1.5x	12.9x
08/25/2015	Mitsubishi Electric Corporation	DeLclima S.p.A.	HVAC and refrigeration products provider	$790.6	2.0x	17.0x
08/20/2015	BMC Stock Holdings, Inc.	Robert Bowden, Inc.	Georgia-based building material supplier and manufacturer	$102.7	1.3x	9.9x
06/10/2015	AV Homes, Inc.	Bonterra Builders, LLC	Homebuilder in North Carolina and South Carolina	$101.5	0.9x	—
04/17/2015	Continental Cement Company, LLC	Lafarge North America Inc., Cement Assets	Cement plant and cement distribution terminals.	$450.0	4.0x	—
03/30/2015	Fortune Brands Home & Security	Norcraft Companies	Kitchen and bathroom cabinetry manufacturer	$551.4	1.5x	12.1x
01/26/2015	Kingspan Group plc	Joris Ide NV	Metal envelope building products manufacturer	$335.1	0.6x	7.7x
12/08/2014	Norbord, Inc.	Ainsworth Lumber Co.	Engineered wood products manufacturer	$889.9	2.2x	29.0x
11/11/2014	Kingspan Group plc	Vicwest Inc	Roofing, siding & insulation products manufacturer and distributor	$300.4	0.8x	22.5x
11/10/2014	NCI Group, Inc.; Steelbuilding.com, Inc.	CENTRIA Incorporated	Engineered wall, roof and flooring systems manufacturer	$245.0	1.1x	—
10/22/2014	CVC Capital Partners Limited	Paroc Group Oy	Stone wool insulation producer	$885.7	1.7x	9.3x
08/19/2014	Ply Gem Industries, Inc.	Simonton Windows	Vinyl framed windows and patio doors manufacturer	$130.0	0.4x	—
07/28/2014	PGT Industries, Inc.	CGI Windows & Doors, Inc.	Hurricane impact resistant windows and doors manufacturer	$111.0	2.5x	16.8x
07/10/2014	Meritage Homes Corporation	Legendary Communities LLC	Homebuilder in Georgia, South Carolina, and North Carolina	$140.0	0.9x	—
04/01/2014	Century Communities, Inc.	Dunhill Homes, LLC	Nevada-based homebuilder	$165.0	2.2x	—
03/21/2014	Nortek Inc.	Thomas & Betts, HVAC Business	HVAC manufacturer	$260.0	1.6x	—
02/09/2014	Interfor U.S. Inc.	Tolleson Lumber Company, Inc.	Lumber products manufacturer	$180.7	1.3x	4.9x
01/23/2014	Cementos Argos S.A.	Vulcan Materials, Florida Assets	Cement and concrete manufacturing facilities	$720.0	4.7x	—
			Median	**$366.1**	**1.4x**	**13.3x**

Note: Criteria includes transactions with publicly-disclosed multiples and enterprise values between $100 million and $1 billion since the beginning of 2014.

Sources: Capital IQ, Cherry Tree Research

M&A: $1 Million – $100 Million Enterprise Value

$ in millions

Announced Date	Acquirer	Target	Target Description	Enterprise Value	Enterprise Value/ Revenue	Enterprise Value/ EBITDA
09/06/2016	DR Horton Inc.	Wilson Parker Homes	Homebuilder in the Southern United States	$90.0	0.4x	–
05/23/2016	Patrick Industries Inc.	Cana Holdings, Inc.	Cabinetry products manufacturer	$16.8	0.9x	–
03/09/2016	CanWel Building Materials Group Ltd.	California Cascade Industries	Wood decking and fencing manufacturer	$53.2	0.6x	–
10/01/2015	Masonite International Corporation	USA Wood Door, Inc.	Wood door manufacturer	$13.7	0.8x	–
08/11/2015	Ductmate Industries, Inc.	Lindab Inc.	Sheet metal products manufacturer for the HVAC industry	$10.7	0.6x	–
08/05/2015	Masonite International Corporation	Hickman Industries	UK-based building materials manufacturer	$82.0	0.7x	–
07/27/2015	Masonite International Corporation	Performance Doorset Solutions	Doorsets and windows manufacturer	$16.0	0.8x	–
04/29/2015	Stella-Jones Inc.	Ramfor Lumber Inc. And Ram Forest Group Inc.	Lumber and plywood products manufacturer	$49.4	0.6x	5.0x
04/24/2015	DR Horton Inc.	Pacific Ridge Homes	Homebuilder in the Seattle metropolitan area	$70.9	0.9x	–
02/09/2015	Builders FirstSource, Inc.	Timber Tech Texas, Inc.	Wood and building products manufacturer	$5.8	1.3x	–
11/13/2014	Century Communities, Inc.	Peachtree Communities Group, Inc.	Homebuilder in the Southeastern United States	$94.9	0.4x	–
09/18/2014	Hardware and Home Improvement Group	Tell Manufacturing, Inc.	Commercial and residential door hardware distributor	$31.8	0.8x	–
08/18/2014	Kingspan Group plc	Pactiv Building Products	Insulation products manufacturer	$82.0	1.0x	6.4x
08/01/2014	Builders FirstSource, Inc.	West Orange Lumber Company	Building products manufacturer	$9.8	0.7x	–
07/01/2014	Builders FirstSource, Inc.	Slone Lumber Company	Building materials distributor	$8.7	0.5x	–
02/24/2014	Masonite International Corporation	Door-Stop International	Door manufacturer	$50.4	1.3x	–
			Median	**$40.6**	**0.8x**	**5.7x**

Note: Criteria includes transactions with publicly-disclosed multiples and enterprise values between $1 million and $100 million since the beginning of 2014.

Sources: Capital IQ, Cherry Tree Research

Recent M&A: 2016Q3

$ in millions

Announced Date	Acquirer	Target	Target Description	Enterprise Value	Enterprise Value/ Revenue	Enterprise Value/ EBITDA
09/29/2016	Yenni Capital; Braga Investment & Advisory	Steven Feller P.E.	Building and HVAC design services	—	—	—
09/22/2016	Lennar Corporation	WCI Communities	Florida-based community developer and luxury homebuilder	$830.7	1.3x	13.7x
09/21/2016	Glen Dimplex Group	Cadet Manufacturing Company	Residential heating products manufacturer	—	—	—
09/16/2016	Polycor Inc.	Swenson Granite Company	Granite and stone products manufacturer	—	—	—
09/16/2016	Performance Air Conditioning Services	Hart's Home Services	Electric, plumbing, and HVAC services provider	—	—	—
09/15/2016	Marsella Holdings S.à r.l.	Braas Monier Building Group S.A.	Pitched roof products manufacturer and supplier	$1,620.5	1.2x	7.9x
09/12/2016	Eagle Materials Inc.	Cemex Construction, Certain Assets	Ohio cement plant and related assets	$400.0	—	—
09/06/2016	DR Horton Inc.	Wilson Parker Homes	Homebuilder in the Southern United States	$90.0	0.4x	—
09/06/2016	CGI Windows & Doors, Inc.	US Impact Systems, Inc.	Window and door products manufacturer	$4.0	—	—
09/06/2016	Tecta America Corp.	M.B. Roofing Systems	Commercial re-roofing services provider	—	—	—
09/02/2016	GMS Inc.	Olympia Building Supplies	Building products distributor	—	—	—
08/30/2016	GMS Inc.	Steven Kempf Building Material Company	Building materials distributor	—	—	—
08/30/2016	United Subcontractors, Inc.	Southern Foam & Coating	Insulation and air barrier material provider	—	—	—
08/29/2016	ABC Supply Co.	L&W Supply Corporation	Gypsum wallboard and building materials distributor	$670.0	—	—
08/29/2016	CanWel Building Materials Group	Total Forest Industries	Canadian lumber manufacturer	—	—	—
08/23/2016	Clements Concrete Co.	C&A Paving Co.	Asphalt and paving products manufacturer	—	—	—
08/22/2016	U.S. Concrete, Inc.	Kings Ready Mix	Ready-mix concrete manufacturer	—	—	—
08/17/2016	Argos USA Corporation	HeidelbergCement, Certain U.S. Assets	Cement plant and eight terminals	$660.0	—	—
08/16/2016	TopBuild Corp.	Valley Insulation	Insulation services provider	—	—	—
08/16/2016	Stebbins-Duffy, Inc.	HTS New England	Custom HVAC solutions provider	—	—	—
08/15/2016	Installed Building Products, Inc.	Southern Insulations & Specialties	Insulation installation services provider	—	—	—
08/12/2016	Broughton Construction	Johnson Concrete	Concrete construction services provider	—	—	—
08/11/2016	ONCAP	Tecta America Corp.	Commerical roofing contractor	$280.0	—	—
08/10/2016	U.S. Concrete, Inc.	Jenna Concrete Corporation	Ready-mix concrete producer	—	—	—
08/10/2016	Mueller, Inc.	Ruffin Building Systems, Inc.	Pre-engineered metal building systems manufacturer	—	—	—
08/08/2016	SRS Distribution, Inc.	Monroe Aluminum Products, Inc.	Exterior building products distributor	—	—	—
08/05/2016	Installed Building Products, Inc.	FireClass, LLC	Fireplaces installer and distributor	—	—	—
08/04/2016	Siam City Cement Public Company	Holcim, Vietnam Operations	Cement and ready-mix concrete supplier in Vietnam	$824.2	3.4x	15.5x
08/03/2016	Huaxin Cement Co.	Lafarge China Cement Limited	Certain Chinese assets including plants and grinding stations	$214.1	—	—

Sources: Capital IQ, Cherry Tree Research

Recent M&A: 2016Q3

$ in millions

Announced Date	Acquirer	Target	Target Description	Enterprise Value	Enterprise Value/ Revenue	Enterprise Value/ EBITDA
08/03/2016	Senneca Holdings	Door Engineering and Manufacturing	Customized door solutions provider	—	—	—
08/02/2016	Headwaters Windows, LLC	Krestmark Industries	Window and patio door manufacturer	$240.0	—	—
08/02/2016	Specified Air Solutions	Dectron Internationale, Inc.	HVAC and indoor air quality solutions provider	—	—	—
08/01/2016	Tianjin Circle Enterprise Management Center	Sichuan Shuangma Cement Co.	Chinese cement subsidiary of LafargeHolcim	$1,301.4	4.3x	31.4x
08/01/2016	US LBM Holdings, LLC	Keene Lumber Company	Building materials distributor	—	—	—
07/29/2016	Chelsea Building Products, Inc.	ABC Supply Co., Everlast Polymeric Cladding System Assets	Siding products manufacturer	—	—	—
07/27/2016	Pella Corporation	Reilly Windows & Doors	Window and door solutions provider	—	—	—
07/25/2016	Siam City Concrete Co.	Holcim Lanka Limited	LaFargeHolcim's Sri Lankan assets	$377.5	2.3x	18.2x
07/22/2016	Aldora Aluminum and Glass Products	Louisville Plate Glass Company	Architectural glass products distributor	—	—	—
07/20/2016	Elite Roofing LLC	CJ Roofing Co.	Colorado-based roofing contractor	—	—	—
07/19/2016	DiversiTech Corporation	Alltemp Products Co. Ltd.	HVAC parts distributor	—	—	—
07/18/2016	Watson Lumber Company	Magnolia Flooring Mill	Hardwood flooring manufacturer	—	—	—
07/14/2016	Distribution International, Inc.	E.O. Wood Company Inc.	Insulation products manufacturer and distributor	—	—	—
07/13/2016	AAR Manufacturing, Inc.	Vantem Modular, LLC	Prefabricated building structures manufacturer	—	—	—
07/11/2016	Nirma Limited	Lafarge India Pvt. Ltd.	Indian construction materials supplier	$1,400.0	—	—
07/07/2016	Universal Sealants Limited	Applied Polymerics, Inc.	Construction maintenance services provider	—	—	—
07/06/2016	Melrose Industries PLC	Nortek Inc.	HVAC products manufacturer	$2,732.0	1.1x	9.9x
07/06/2016	GMS Inc.	RockWise, LLC	Building materials distributor	—	—	—
07/01/2016	Parkline, Inc.	Bebco Industries Inc.	Pre-engineered modular buildings manufacturer	—	—	—

Sources: Capital IQ, Cherry Tree Research

Cherry Tree Building Products Index

As of October 3, 2016

($ in millions) Company	Market Cap	Enterprise Value	LTM Revenue	LTM Gross Profit	LTM EBITDA	Gross Margin	EBITDA Margin	Enterprise Value/ Revenue	Enterprise Value/ EBITDA	3-Yr Rev Growth
Cherry Tree Building Products Index	**$2,295.1**	**$3,102.6**	**$3,006.0**	**$643.5**	**$306.1**	**24.4%**	**12.1%**	**1.3x**	**10.6x**	**10.3%**
Median Summary										
Distributors	$945.4	$1,398.9	$2,203.6	$543.4	$136.9	22.2%	5.4%	0.7x	11.3x	8.7%
Home Builders	$3,917.8	$6,635.3	$4,751.3	$1,039.6	$588.7	20.3%	11.6%	1.2x	10.6x	20.7%
HVAC	$12,176.0	$14,296.9	$8,459.3	$2,566.5	$1,187.8	31.0%	14.7%	1.9x	13.6x	6.6%
Roofing, Siding & Insulation	$3,841.3	$5,053.4	$2,457.9	$762.0	$416.7	30.1%	18.0%	1.6x	10.0x	7.1%
Windows & Doors	$634.4	$854.7	$874.5	$217.0	$92.0	26.1%	11.6%	1.2x	9.3x	12.2%
Plumbing & Cabinetry	$7,583.8	$7,993.5	$5,206.3	$1,917.3	$689.5	34.0%	13.4%	1.5x	10.4x	7.7%
Floors & Surfaces	$1,823.0	$2,210.7	$2,126.3	$586.9	$226.6	28.8%	12.4%	1.2x	9.9x	4.1%
Lumber & Wood Products	$2,181.6	$2,798.4	$2,970.1	$442.1	$235.0	20.2%	11.5%	1.5x	12.4x	8.7%
Cement, Concrete & Aggregates	$11,176.6	$14,802.3	$3,521.3	$1,016.6	$920.0	31.3%	19.3%	1.9x	11.3x	11.3%
Distributors										
Beacon Roofing Supply, Inc.	$2,480.0	$3,633.7	$3,740.5	$902.6	$285.1	24.1%	7.6%	1.0x	12.7x	20.2%
Bluelinx Holdings Inc.	$80.7	$495.7	$1,929.3	$231.6	$32.7	12.0%	1.7%	0.3x	15.2x	-1.9%
BMC Stock Holdings, Inc.	$1,163.1	$1,558.2	$2,451.6	$582.3	$136.1	23.8%	5.6%	0.6x	11.4x	-
Boise Cascade Company	$983.9	$1,354.0	$3,792.6	$504.4	$163.1	13.3%	4.3%	0.4x	8.3x	7.5%
Builders FirstSource, Inc.	$1,255.1	$3,187.3	$5,806.3	$1,475.2	$301.0	25.4%	5.2%	0.5x	10.6x	64.8%
CanWel Building Materials Group Ltd.	$305.4	$508.9	$715.4	$93.4	$33.6	13.1%	4.7%	0.7x	15.1x	8.8%
GMS Inc.	$906.9	$1,443.8	$1,955.5	$632.0	$137.7	32.3%	7.0%	0.7x	10.5x	-
Goodfellow Inc.	$73.2	$150.1	$429.3	$79.1	$13.2	18.4%	3.1%	0.3x	11.4x	-
Hardwoods Distribution Inc.	$302.6	$325.8	$468.1	$83.3	$29.9	17.8%	6.4%	0.7x	10.9x	21.8%
Huttig Building Products Inc.	$148.7	$223.9	$693.8	$143.4	$24.3	20.7%	3.5%	0.3x	9.2x	8.7%
Watsco Inc.	$4,630.6	$5,138.8	$4,146.7	$1,012.2	$352.1	24.4%	8.5%	1.2x	14.6x	4.6%
25th Percentile	**$264.1**	**$453.2**	**$710.0**	**$130.9**	**$32.0**	**16.7%**	**4.1%**	**0.4x**	**10.6x**	**4.6%**
Median	**$945.4**	**$1,398.9**	**$2,203.6**	**$543.4**	**$136.9**	**22.2%**	**5.4%**	**0.7x**	**11.3x**	**8.7%**
75th Percentile	**$1,561.3**	**$3,298.9**	**$3,881.1**	**$930.0**	**$289.1**	**24.7%**	**7.1%**	**0.8x**	**13.2x**	**20.2%**
Home Builders										
Beazer Homes USA Inc.	$367.8	$1,670.0	$1,822.8	$250.7	$28.2	13.8%	1.5%	0.9x	-	14.3%
CalAtlantic Group, Inc.	$3,917.8	$7,552.0	$5,159.5	$1,189.7	$696.1	23.1%	13.5%	1.5x	10.8x	49.0%
DR Horton Inc.	$11,198.4	$13,637.4	$11,588.6	$2,347.4	$1,345.8	20.3%	11.6%	1.2x	10.1x	26.4%
KB Home	$1,342.0	$3,682.2	$3,388.5	$576.0	$201.4	17.0%	5.9%	1.1x	18.3x	18.1%
Lennar Corporation	$9,471.6	$15,720.0	$10,518.9	$2,320.7	$1,292.7	22.1%	12.3%	1.5x	12.2x	25.1%
M/I Homes, Inc.	$580.7	$1,208.2	$1,558.0	$320.4	$125.7	20.6%	8.1%	0.8x	9.6x	20.7%
MDC Holdings Inc.	$1,247.4	$2,009.0	$2,042.5	$362.2	$124.8	17.7%	6.1%	1.0x	16.1x	10.8%
Meritage Homes Corporation	$1,387.0	$2,372.9	$2,859.3	$548.0	$250.0	19.2%	8.7%	0.8x	9.5x	24.1%
NVR, Inc.	$6,392.4	$6,635.3	$5,499.7	$1,039.6	$682.6	18.9%	12.4%	1.2x	9.7x	15.1%
PulteGroup, Inc.	$6,886.1	$9,455.7	$6,800.9	$1,582.6	$921.8	23.3%	13.6%	1.4x	10.3x	8.6%
Toll Brothers Inc.	$4,842.7	$8,373.6	$4,751.3	$1,076.4	$588.7	22.7%	12.4%	1.8x	14.2x	28.1%
25th Percentile	**$1,294.7**	**$2,190.9**	**$2,450.9**	**$455.1**	**$163.6**	**18.3%**	**7.1%**	**0.9x**	**9.8x**	**14.7%**
Median	**$3,917.8**	**$6,635.3**	**$4,751.3**	**$1,039.6**	**$588.7**	**20.3%**	**11.6%**	**1.2x**	**10.6x**	**20.7%**
75th Percentile	**$6,639.3**	**$8,914.6**	**$6,150.3**	**$1,386.1**	**$809.0**	**22.4%**	**12.4%**	**1.4x**	**13.7x**	**25.8%**

Sources: Capital IQ, Cherry Tree Research

Cherry Tree Building Products Index

As of October 3, 2016

($ in millions) Company	Market Cap	Enterprise Value	LTM Revenue	LTM Gross Profit	LTM EBITDA	Gross Margin	EBITDA Margin	Enterprise Value/ Revenue	Enterprise Value/ EBITDA	3-Yr Rev Growth
HVAC										
AAON Inc.	$1,543.8	$1,499.5	$379.3	$118.2	$92.0	31.2%	24.3%	4.0x	16.3x	6.6%
Daikin Industries Ltd.	$27,414.4	$31,083.0	$19,956.9	$7,041.0	$3,042.4	35.3%	15.2%	1.6x	10.2x	12.6%
Ingersoll-Rand Plc	$17,476.8	$20,697.6	$13,395.0	$4,127.8	$1,908.8	30.8%	14.3%	1.5x	10.8x	6.6%
Lennox International, Inc.	$6,875.2	$7,896.1	$3,578.5	$1,042.1	$493.6	29.1%	13.8%	2.2x	16.0x	4.5%
25th Percentile	**$5,542.4**	**$6,296.9**	**$2,778.7**	**$811.1**	**$393.2**	**30.4%**	**14.1%**	**1.6x**	**10.7x**	**6.1%**
Median	**$12,176.0**	**$14,296.9**	**$8,486.8**	**$2,585.0**	**$1,201.2**	**31.0%**	**14.7%**	**1.9x**	**13.4x**	**6.6%**
75th Percentile	**$19,961.2**	**$23,294.0**	**$15,035.5**	**$4,856.1**	**$2,192.2**	**32.2%**	**17.5%**	**2.6x**	**16.1x**	**8.1%**
Roofing, Siding & Insulation										
Continental Building Products, Inc.	$836.1	$1,082.9	$447.1	$123.8	$104.8	27.7%	23.4%	2.4x	10.3x	-
Headwaters Incorporated	$1,233.9	$1,716.0	$955.9	$293.0	$171.7	30.6%	18.0%	1.8x	10.0x	12.1%
James Hardie Industries plc	$6,876.3	$7,262.4	$1,777.6	$654.9	$441.3	36.8%	24.8%	4.1x	16.5x	9.5%
Kingspan Group plc	$4,831.7	$5,284.5	$3,339.6	$1,003.6	$416.7	30.1%	12.5%	1.6x	12.7x	20.4%
Owens Corning	$6,063.4	$8,315.4	$5,520.0	$1,342.0	$1,010.0	24.3%	18.3%	1.5x	8.2x	2.5%
Rockwool International A/S	$3,841.3	$3,763.3	$2,457.9	$1,614.1	$402.7	65.7%	16.4%	1.5x	9.3x	3.7%
USG Corporation	$3,701.4	$5,053.4	$3,869.0	$762.0	$602.0	19.7%	15.6%	1.3x	8.4x	4.7%
25th Percentile	**$2,467.7**	**$2,739.7**	**$1,366.8**	**$473.9**	**$287.2**	**26.0%**	**16.0%**	**1.5x**	**8.9x**	**4.0%**
Median	**$3,841.3**	**$5,053.4**	**$2,457.9**	**$762.0**	**$416.7**	**30.1%**	**18.0%**	**1.6x**	**10.0x**	**7.1%**
75th Percentile	**$5,447.5**	**$6,273.4**	**$3,604.3**	**$1,172.8**	**$521.7**	**33.7%**	**20.9%**	**2.1x**	**11.5x**	**11.5%**
Windows & Doors										
Apogee Enterprises, Inc.	$1,295.3	$1,221.1	$1,026.8	$268.2	$147.7	26.1%	14.4%	1.2x	8.3x	12.2%
Deceuninck NV	$359.6	$486.4	$735.9	$217.0	$71.2	29.5%	9.7%	0.7x	6.8x	6.7%
Masonite International Corporation	$1,886.6	$2,311.0	$1,964.4	$391.9	$211.3	19.9%	10.8%	1.2x	10.9x	4.5%
PGT, Inc.	$502.7	$724.1	$412.9	$122.6	$61.0	29.7%	14.8%	1.8x	11.9x	26.8%
Ply Gem Holdings, Inc	$891.9	$1,784.2	$1,880.5	$456.7	$217.2	24.3%	11.6%	0.9x	8.2x	16.2%
Quanex Building Products Corporation	$584.8	$854.7	$874.5	$206.4	$92.0	23.6%	10.5%	1.0x	9.3x	12.0%
Tyman plc	$634.4	$818.6	$503.9	$177.3	$77.0	35.2%	15.3%	1.6x	10.6x	16.4%
25th Percentile	**$543.7**	**$771.4**	**$619.9**	**$191.8**	**$74.1**	**23.9%**	**10.6%**	**1.0x**	**8.2x**	**9.3%**
Median	**$634.4**	**$854.7**	**$874.5**	**$217.0**	**$92.0**	**26.1%**	**11.6%**	**1.2x**	**9.3x**	**12.2%**
75th Percentile	**$1,093.6**	**$1,502.6**	**$1,453.7**	**$330.0**	**$179.5**	**29.6%**	**14.6%**	**1.4x**	**10.8x**	**16.3%**
Plumbing & Cabinetry										
American Woodmark Corp.	$1,288.7	$1,093.7	$974.0	$208.8	$115.4	21.4%	11.8%	1.1x	9.5x	13.8%
Fortune Brands Home & Security, Inc.	$8,775.5	$10,102.0	$4,867.8	$1,715.2	$732.2	35.2%	15.0%	2.1x	13.8x	10.0%
Masco Corporation	$11,214.1	$13,294.1	$7,275.0	$2,390.0	$1,182.0	32.9%	16.2%	1.8x	11.2x	-2.2%
Toto Ltd.	$6,392.0	$5,885.0	$5,544.7	$2,119.5	$646.9	38.2%	11.7%	1.1x	9.1x	5.5%
25th Percentile	**$5,116.2**	**$4,687.2**	**$3,894.3**	**$1,338.6**	**$514.0**	**30.0%**	**11.8%**	**1.1x**	**9.4x**	**3.6%**
Median	**$7,583.8**	**$7,993.5**	**$5,206.3**	**$1,917.3**	**$689.5**	**34.0%**	**13.4%**	**1.5x**	**10.4x**	**7.7%**
75th Percentile	**$9,385.1**	**$10,900.0**	**$5,977.3**	**$2,187.1**	**$844.7**	**36.0%**	**15.3%**	**1.9x**	**11.9x**	**10.9%**

Sources: Capital IQ, Cherry Tree Research

Cherry Tree Building Products Index

As of October 3, 2016

($ in millions) Company	Market Cap	Enterprise Value	LTM Revenue	LTM Gross Profit	LTM EBITDA	Gross Margin	EBITDA Margin	Enterprise Value/ Revenue	Enterprise Value/ EBITDA	3-Yr Rev Growth
Floors & Surfaces										
Armstrong Flooring, Inc.	$523.1	$521.5	$1,210.8	$230.1	$55.5	19.0%	4.6%	0.4x	9.4x	-
Interface Inc.	$1,073.9	$1,209.9	$972.1	$382.0	$142.0	39.3%	14.6%	1.2x	8.5x	0.9%
Mohawk Industries Inc.	$14,749.9	$17,624.8	$8,631.0	$2,724.0	$1,591.1	31.6%	18.4%	2.0x	11.1x	10.6%
Tarkett S.A.	$2,572.1	$3,211.6	$3,041.8	$791.8	$311.2	26.0%	10.2%	1.1x	10.3x	4.1%
25th Percentile	**$936.2**	**$1,037.8**	**$1,151.1**	**$344.0**	**$120.4**	**24.3%**	**8.8%**	**0.9x**	**9.2x**	**2.5%**
Median	**$1,823.0**	**$2,210.7**	**$2,126.3**	**$586.9**	**$226.6**	**28.8%**	**12.4%**	**1.2x**	**9.9x**	**4.1%**
75th Percentile	**$5,616.5**	**$6,814.9**	**$4,439.1**	**$1,274.9**	**$631.2**	**33.5%**	**15.6%**	**1.4x**	**10.5x**	**7.4%**
Lumber & Wood Products										
Canfor Corp.	$1,434.8	$1,968.9	$3,184.3	$915.1	$313.3	28.7%	9.8%	0.6x	6.3x	11.4%
Louisiana-Pacific Corp.	$2,715.2	$2,987.7	$2,014.8	$344.7	$164.2	17.1%	8.1%	1.5x	18.2x	0.0%
Norbord, Inc.	$2,181.6	$2,903.6	$1,624.0	$251.0	$235.0	15.5%	14.5%	1.8x	12.4x	6.2%
Trex Co. Inc.	$1,813.4	$1,853.9	$461.4	$173.1	$108.3	37.5%	23.5%	4.0x	17.1x	12.6%
Universal Forest Products Inc.	$1,990.1	$1,989.5	$2,970.1	$442.1	$200.8	14.9%	6.8%	0.7x	9.9x	8.9%
West Fraser Timber Co. Ltd.	$2,408.6	$2,798.4	$3,270.5	$960.7	$377.5	29.4%	11.5%	0.9x	7.4x	8.7%
Weyerhaeuser Co.	$23,809.6	$32,693.6	$7,508.0	$1,517.0	$1,643.0	20.2%	21.9%	4.4x	19.9x	0.5%
25th Percentile	**$1,901.8**	**$1,979.2**	**$1,819.4**	**$297.9**	**$182.5**	**16.3%**	**9.0%**	**0.8x**	**8.7x**	**3.4%**
Median	**$2,181.6**	**$2,798.4**	**$2,970.1**	**$442.1**	**$235.0**	**20.2%**	**11.5%**	**1.5x**	**12.4x**	**8.7%**
75th Percentile	**$2,561.9**	**$2,945.6**	**$3,227.4**	**$937.9**	**$345.4**	**29.1%**	**18.2%**	**2.9x**	**17.7x**	**10.1%**
Cement, Concrete & Aggregates										
Boral Limited	$3,862.6	$4,532.3	$3,211.7	$1,031.0	$378.7	32.1%	11.8%	1.4x	12.0x	1.2%
CEMEX, S.A.B. de C.V.	$11,131.2	$26,570.1	$13,120.6	$4,474.0	$2,508.2	34.1%	19.1%	2.0x	10.6x	8.0%
CRH plc	$27,505.4	$36,197.4	$29,938.4	$9,507.5	$3,039.6	31.8%	10.2%	1.2x	11.9x	14.8%
Eagle Materials Inc.	$3,656.6	$4,146.1	$1,156.0	$277.5	$337.5	24.0%	29.2%	3.6x	12.3x	17.3%
HeidelbergCement AG	$18,699.6	$26,596.2	$14,892.6	$9,015.4	$2,640.3	60.5%	17.7%	1.8x	10.1x	-0.6%
LafargeHolcim Ltd.	$32,741.9	$55,825.7	$28,997.7	$8,915.7	$5,636.0	30.7%	19.4%	1.9x	9.9x	9.6%
Martin Marietta Materials, Inc.	$11,222.1	$12,982.9	$3,435.4	$838.7	$878.7	24.4%	25.6%	3.8x	14.8x	23.0%
Summit Materials, Inc.	$1,381.1	$3,018.0	$1,547.0	$501.7	$318.0	32.4%	20.6%	2.0x	9.5x	-
U.S. Concrete, Inc.	$670.6	$1,011.1	$1,079.5	$221.7	$127.3	20.5%	11.8%	0.9x	7.9x	24.1%
Vulcan Materials Company	$14,731.0	$16,621.8	$3,607.3	$1,002.1	$961.3	27.8%	26.6%	4.6x	17.3x	11.3%
25th Percentile	**$3,708.1**	**$4,242.7**	**$1,963.2**	**$586.0**	**$347.8**	**25.3%**	**13.3%**	**1.5x**	**9.9x**	**8.0%**
Median	**$11,176.6**	**$14,802.3**	**$3,521.3**	**$1,016.6**	**$920.0**	**31.3%**	**19.3%**	**1.9x**	**11.3x**	**11.3%**
75th Percentile	**$17,707.5**	**$26,589.7**	**$14,449.6**	**$7,805.2**	**$2,607.3**	**32.3%**	**24.3%**	**3.2x**	**12.2x**	**17.3%**

Sources: Capital IQ, Cherry Tree Research

ABOUT CHERRY TREE

History and Background

Cherry Tree is a private investment banking and wealth management firm headquartered in Minneapolis, Minnesota. Our firm specializes in serving middle market companies and their owners, whether private, public, or divisions of larger corporations. Founded in 1980, Cherry Tree managed several successful institutional private funds focusing on platform acquisitions. Those funds led to more than 300 financings, 26 public offerings, and 41 strategic sales. In 1996 the firm diversified into investment banking services to take advantage of our long history and position in the market. In 2003 we added wealth management to our operations by acquiring and growing our existing business. Our professionals collectively have been members of more than 80 boards of directors, worked with more than 250 different companies, and advised on hundreds of financings and M&A transactions.

Broad Market Expertise

Cherry Tree has been working with middle market companies for more than 35 years. Our core M&A activity is sell-side engagements with middle market companies where ownership wants to achieve some liquidity goals or desires to recapitalize its business to better position the company for future growth. Additionally, we represent buy-side clients attempting to add acquisition strategies to complement their organic growth efforts. We are experts in the capital markets, having previously managed four private funds. Our firm primarily has been focused on investment banking transactions since 1996 and has an exceptional team of dedicated investment banking professionals. Most of our managing directors have had C-level operating experience with backgrounds as CEOs or CFOs. Collectively, they represent more than 200 years of transaction and operating experience.

Research

We distinguish our firm by conducting comprehensive research and publishing our findings in reports that provide in-depth analyses of selected industries and overall market conditions. For each client assignment, we apply our internal research capabilities and our deep domain expertise in relevant markets in order to provide the highest value to our clients. Some of our industry research is sponsored by our clients with an interest in specific industry segments.

Contacting Cherry Tree

For more information, please contact one of our professionals listed below, or visit us at www.cherrytree.com.

Paul Novak
Managing Director
pnovak@cherrytree.com
952.253.6036

Dave Latzke
Managing Director
dlatzke@cherrytree.com
952.253.6032

Additional Recent Cherry Tree research:

- *Media and Marketing Services, Q1 2016 (Jim Dolan, jdolan@cherrytree.com, 952.253.6012)*
- *Technology Enabled Business Services, Q1 2016 (Mik Gusenius, mgusenius@cherrytree.com, 952.253.6005)*
- *Education For-Profit: PreK-12, Q4 2015 (Chad Johnson, cjohnson@cherrytree.com, 952.253.6010)*
- *Information Technology Services, Q3 2015 (Elmer Baldwin, ebaldwin@cherrytree.com, 952.253.6001)*

301 Carlson Parkway, Suite 103,
Minneapolis, MN 55305
(952) 890-9012 • info@cherrytree.com
www.cherrytree.com

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