



EY CANADA'S M&A RECAP (Q1 2024)

Home + Building Products



SMART FOUNDATION: AI'S BLUEPRINT FOR CANADIAN HOMES

In this edition, we explore the evolving use of artificial intelligence (“AI”) in the Canadian home and building products (“HBP”) sector. From innovative market analysis tools to cutting-edge safety compliance solutions, AI is reshaping how homes are designed, built, and maintained across the country.

As AI becomes increasingly integral to home-building processes, the role of strategic investors in driving innovation and growth has become more pronounced, paving the way for exciting opportunities and partnerships. We anticipate continued momentum in AI-driven initiatives within the Canadian HBP sector, fuelled by a combination of technological advancements, regulatory support, and market demand.

We trust that you will find this edition informative and insightful, offering valuable perspectives on the transformative potential of AI in shaping the future of home building in Canada.

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Q1 2024 Home & Building Product Transaction Activity in North America:

Reflecting on the transaction landscape in the North American HBP industry during Q1 2024, we present the following key insights:

- ▶ Transaction activity in North America saw a slight increase in deal volume between LTM 2024 (423 transactions) compared to 2023 (419 transactions). The overall performance remained strong, highlighting the sector's adaptability and growth potential.
 - ▶ Canadian HBP transaction volume experienced a decline, with 8 transactions recorded in Q1 2024, compared to 18 transactions in the corresponding period of 2023. This figure fell below the five-year average of 10.5 transactions for the first quarter of historical periods.
 - ▶ On the other hand, transaction volume in the US increased by 20% to 95 transactions in Q1 2024 compared to 79 transactions in Q1 2023. The hot start to transaction activity in the US HBP sector is also higher by 20% than the five-year average of 79 transactions for the first quarter of historical periods.
- ▶ Interest from strategic investors remained strong in Q1 2024, with ~75% of the closed transactions during the period being executed by strategic buyers compared to ~84% in Q1 2023. Strategic buyers continued to explore opportunities in acquiring businesses specializing in product sectors such as HVAC, PVF, flooring, roofing, and others.
- ▶ Private equity buyers were involved in 13 transactions across North America in Q1 2024, compared to 14 in Q1 2023. Private equity firms have been seeking businesses with strong growth prospects as well as the ability to withstand current and future economic uncertainties. In terms of the HBP subsector, private equity primarily invested in HVAC, building envelope, kitchen and bath, lighting and electrical, building product distributors.



EMERGING IMPACT OF AI ON HOME BUILDING IN CANADA

As with many traditional industries across the Canadian landscape, the impact of artificial intelligence (“AI”) is having a profound impact on how businesses operate and evolve. The home-building sector is no exception. Entrepreneurs are coming up with new and innovative ways to leverage the power of AI to make things run better, smoother, faster, and start-ups are being launched monthly with new applications for targeting the home building industry. Canadian home builders are using AI in various ways to enhance their business operations.



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1. Market Analysis & Property Valuations

AI tools are being developed to help track real estate trends and market fluctuations to advise investors and developers on the best times to build, buy, or sell properties. It is also being used to conduct property valuations, by analyzing a wide spectrum of data points such as property size, condition, location, and market trends to provide accurate valuations.



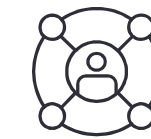
3. Design and Planning

Home builders are incorporating AI technology in the form of architectural software to design and plan houses. The technology can create sophisticated and accurate floor plans faster than a human could, thus saving time and resources. Moreover, the use of AI in the design process can also help enhance compliance with building codes and municipal by-laws, reducing the number of changes made when plans are submitted for approval and expediting the building permit approval process. Finally, AI can be used to more accurately cost projects based on final blueprints, and materials selections and more rapidly adapt to change orders to provide customers with a quicker estimate of incremental costs or potential savings.



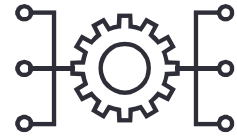
2. Customer Service

Home builders are starting to use AI-driven chatbots and virtual assistants to provide round-the-clock customer service and support. These can handle routine queries and help customers through the purchase process.



4. Project Management

Many large-scale construction projects experience cost overruns, with reports putting estimates at an average of approximately 30% over the initial budget. Budget overruns can arise from inaccurate project estimates, design errors and underestimating the project timeline. AI can be used in large-scale project management, where it can analyze various factors such as weather conditions, available resources, and worker performance to keep the project on schedule and within budget. AI can assist in analyzing weather patterns to predict conditions that could impact the construction process, enabling teams to plan ahead and avoid unnecessary delays.



5. Materials Procurement & Supply Chain Planning

AI can help in more accurately predicting the quantity of materials needed for a project, thus minimizing waste and costs. It can also anticipate the need for materials and equipment based on project timelines, helping to ensure that supplies arrive just when needed, reducing delays and storage costs.



6. Energy Efficiency

AI is helping to make homes more eco-friendly and energy-efficient. During the design phase, AI can be used to optimize the sizing of HVAC systems as well as the sizing and placement of windows based on factors such as the size of the home, number of floors, and lot orientation, among others. Once constructed, smart thermostats learn homeowner's habits and automatically adjust temperatures to save energy.



7. Safety Compliance & Surveillance

Electrocution and collision are the leading causes of construction site incidents.^[1] According to reports, the proper use of PPE can prevent 37.2% of occupational injuries and diseases. Additionally, about 12%-14% of occupational injuries that lead to disabilities are caused by the inappropriate use of PPE equipment.^[2]

On-site PPE compliance is a critical component of construction site safety. Safety gear such as hard hats, gloves, steel-toe boots, and work pants must be worn. Traditionally, PPE detection was done through ethnographic methods, which required a supervisor to check whether workers had properly put on the protective gear.

AI algorithms like computer vision help to monitor and detect PPE compliance using techniques such as object detection, image detection, pattern analysis, and motion tracking. Workplace safety companies can now provide PPE detection solutions. Their technology can monitor and detects workers with incomplete or missing pieces of PPEs.^[3] AI can monitor safety compliance in real time on construction sites, identifying potential risks and notifying appropriate parties to prevent accidents.

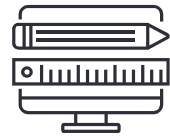
Surveillance systems can offer real-time monitoring and alert systems to prevent theft or vandalism on-site.





8. Document Management

AI can help manage vast volumes of documents in construction projects, enabling faster retrieval, processing, and validation of information.



9. Predictive Maintenance

Finally, by using AI and data analysis, builders can predict when a part of the building may need maintenance or replacement. This can lead to cost savings and increased building life span. Roofing companies, for example, have started using AI-enabled drones to more quickly, safely and accurately survey roofs to spot damage, take measurements, quote replacement work and monitor work progress. Survey results can analyze past repair data, roof age, and weather conditions to predict when a roof may require repair before costly damages occur.

HARNESSING AI ADVANCEMENTS FOR HBP INNOVATION

While there appear to be an endless number of ways AI can be used to improve the various stages of the home-building process, implementing it is not without its challenges. For starters, ethical concerns exist related to the use of computer vision-powered drones and cameras to monitor and capture data about workers, raising questions about privacy infringement. Providing AI with access to voluminous project and personal data creates the need for enhanced data security measures. Regulatory and legal liability issues will surely arise, and laws will need to be clear on who is held accountable when AI generates adverse outcomes, particularly when lives are at stake. Machine learning at the very heart of AI may provide limited benefits to unique projects or lead to erroneous conclusions. Finally, implementing AI solutions is very costly for smaller companies and the high cost of the required hardware and software, data-gathering process and skilled labour is preventative without the appropriate size and scale.



TRANSACTION SNAP SHOTS






















The following are brief summaries of selected transactions in the North American home and building products industry from the first quarter of 2024:

Closed Date	Target Name	Target HQ Flag	Target Description	Buyer Name	Buyer HQ Flag	Reported EV	Reported EV / Revenue	Reported EV / EBITDA
02-Apr-2024	 ANTARES HOMES		Operates as a homebuilder in the Dallas-Fort Worth area	 LANDSEA HOMES		US\$242.5M	n.d.	n.d.
28-Mar-2024	 PGT INNOVATIONS		Manufactures & supplies windows & doors	 MITER BRANDS		US\$3.1B	2.1x	11.2x
*	 SRS DISTRIBUTION		Distributor of roofing products	 THE HOME DEPOT		US\$18.3B	1.8x	16.6x
12-Mar-2024	 WHITCO SUPPLY		Distributor of pipes, valves, fittings and related products	 DNOW		n.d.	n.d.	n.d.
07-Mar-2024	 BMC ENTERPRISES, INC.		Manufacturer of concrete and related products	 BREEDON		US\$301.2M	1.7x	8.5x
05-Mar-2024	 YORKWEST PLUMBING SUPPLY INC.		Distributor of plumbing products	 FERGUSON		n.d.	n.d.	n.d.
04-Mar-2024	 HBS WWW.HBSVA.COM		Manufacturer of turnkey structural building components	 U.S. LBM		n.d.	n.d.	n.d.

*Announced transaction; closing date not available
Source: Capital IQ

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04-Mar-2024	 American Insulated Glass		Fabricator and wholesale distributor of glass and glazing products	 Trulite <small>GLASS & ALUMINUM SOLUTIONS™</small>		n.d.	n.d.	n.d.
*	 DESERT TECH <small>AIR CONDITIONING & HEATING</small>		Provider of air conditioning and heating installation, repair and maintenance services	 SUNLOGIX™ ENERGY		n.d.	n.d.	n.d.
20-Feb-2024	 Springhouse		Designer and builder of custom houses	 [studi:yo-b] architects		n.d.	n.d.	n.d.
13-Feb-2024	 Johansen Anderson Inc.		Operates as a heating, air conditioning, and ventilation service contractor	 PremiStar		n.d.	n.d.	n.d.
13-Feb-2024	 ELEMENT5 <small>MODERN TIMBER BUILDINGS</small>		Designer, fabricator and assembler of contemporary timber structures	 HASSLACHER NORICA TIMBER		n.d.	n.d.	n.d.
*	 PINNACLE Home Improvements		Provider of home improvement products and services	 BOYNE CAPITAL		n.d.	n.d.	n.d.
9-Feb-2024	 PROGRESS LIGHTING™		Manufacturer and distributor of lighting fixtures for residential and commercial lighting	 KINGSWOOD CAPITAL MANAGEMENT		US\$131.0M	n.d.	n.d.

*Announced transaction; closing date not available
Source: Capital IQ

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Closed Date	Target Name	Target HQ Flag	Target Description	Buyer Name	Buyer HQ Flag	Reported EV	Reported EV / Revenue	Reported EV / EBITDA
*	 MASONITE		Manufacturer of interior and exterior doors			US\$4.3B	1.5x	8.5x
08-Feb-2024			Manufacturer and distributor of industrial composite matting and related products			US\$350.0M	3.2x	n.d.
05-Feb-2024			Manufacturer of roofing & siding products for buildings			n.d.	n.d.	n.d.
05-Feb-2024			Distributor of windows and doors			n.d.	n.d.	n.d.
05-Feb-2024			Fabricator and distributor of architectural glass and aluminum products			n.d.	n.d.	n.d.
02-Feb-2024			Manufacturer of profiles and trims for floor and wall tile installation			n.d.	n.d.	n.d.
01-Feb-2024			Manufacturer and distributor of piping components			n.d.	n.d.	n.d.

*Announced transaction; closing date not available
Source: Capital IQ

TRANSACTION SNAP SHOTS

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01-Feb-2024			Distributor of roofing products			n.d.	n.d.	n.d.
31-Jan-2024			Manufacturer of automatic, hollow metal personnel, industrial, commercial and residential overhead door			n.d.	n.d.	n.d.
31-Jan-2024			Distributor of plumbing, heating and HVAC products			n.d.	n.d.	n.d.
30-Jan-2024			Distributor of building products in US and Canada			n.d.	n.d.	n.d.
*			Designer, manufacturer and distributor of wire and cable products			US\$2.0B	n.d.	n.d.
24-Jan-2024			Manufacturer and provider of engineered truss systems and engineered wood products			n.d.	n.d.	n.d.
18-Jan-2024			Operator of an online marketplace for purchasing and selling building materials			US\$22.8M	0.3x	10.7x

*Announced transaction; closing date not available
Source: Capital IQ

TRANSACTION SNAP SHOTS

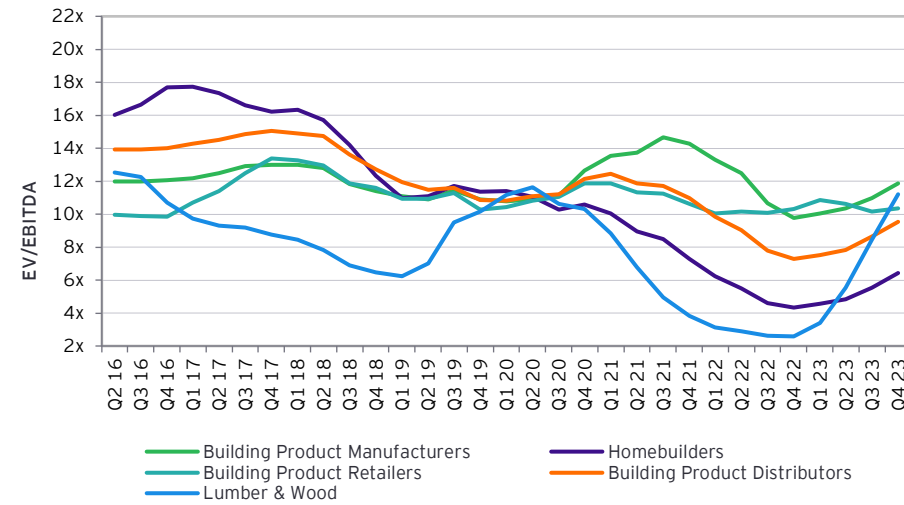
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Closed Date	Target Name	Target HQ Flag	Target Description	Buyer Name	Buyer HQ Flag	Reported EV	Reported EV / Revenue	Reported EV / EBITDA
*	 MDC HOLDINGS INC.		Engaged in the homebuilding and financial service businesses			US\$5.2B	1.1x	10.1x
12-Jan-2024	 AFS ALBERT FREI & SONS		Producer of quarry rock, sand and gravel	 Martin Marietta		n.d.	n.d.	n.d.
09-Jan-2024	 BCTS BEST IN CLASS TECHNOLOGY SERVICES		Provider of aftermarket HVAC services	INVESTCORP		n.d.	n.d.	n.d.
*	 RedBUILT		Designer and manufacturer of proprietary engineered wood products			n.d.	n.d.	n.d.
08-Jan-2024	 QR QUICK ROOFING		Provider of residential and commercial roofing services	 CENTREPARTNERS		n.d.	n.d.	n.d.
*	 WEST COAST INSULATED GLASS PRODUCTS		Manufacturer of glass products for windows and doors	 AGNORA		n.d.	n.d.	n.d.
*	 GROSS-YOWELL		Distributor of lumber and building materials	 KODIAK BUILDING PARTNERS		n.d.	n.d.	n.d.

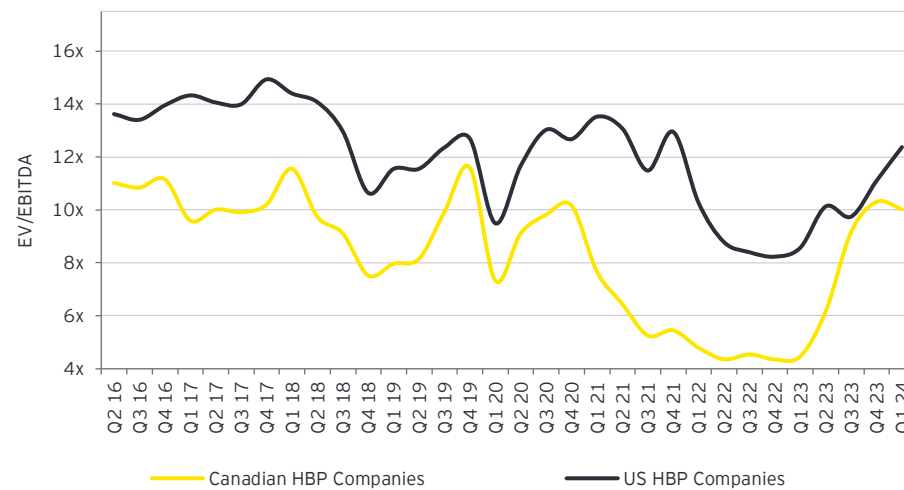
*Announced transaction; closing date not available
Source: Capital IQ

Ernst & Young Orenda's Home & Building Product Indices

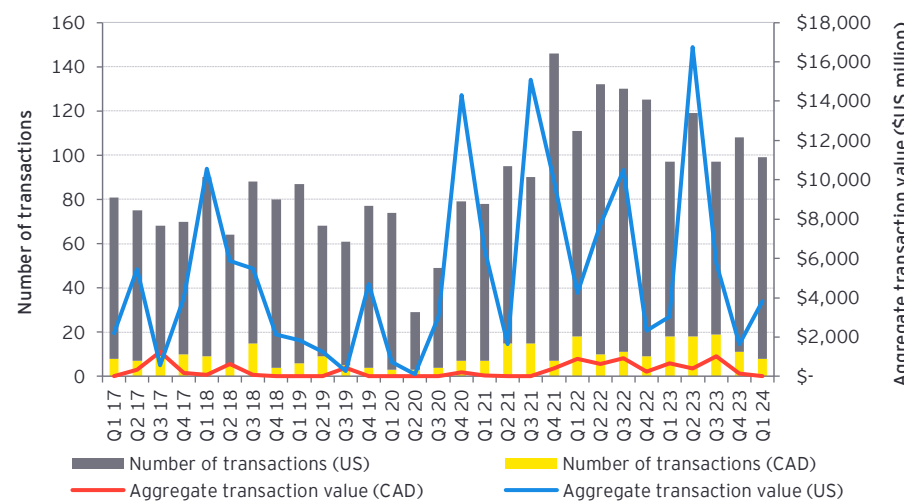
NORTH AMERICAN ENTERPRISE VALUE TRENDS BY SECTOR L4Q AVERAGE



NORTH AMERICAN ENTERPRISE VALUE BY COUNTRY L4Q AVERAGE



NORTH AMERICAN TRANSACTION VOLUME AND REPORTED TRANSACTION VALUE



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Our home and building products index includes the following publicly traded companies:

Company name	Ticker	Company name	Ticker
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Acuity Brands, Inc.	NYSE:AYI	Meritage Homes Corporation	NYSE:MTH
Advanced Drainage Systems, Inc.	NYSE:WMS	M/I Homes, Inc.	NYSE:MHO
American Woodmark Corporation	NASDAQ:AMWD	Mohawk Industries, Inc.	NYSE:MHK
Apogee Enterprises, Inc.	NASDAQ:APOG	Mueller Industries, Inc.	NYSE:MLI
Armstrong World Industries, Inc.	NYSE:AWI	Nucor Corporation	NYSE:NUE
Beacon Roofing Supply, Inc.	NASDAQ:BECN	NVR, Inc.	NYSE:NVR
Beazer Homes USA, Inc.	NYSE:BZH	Owens Corning	NYSE:OC
Bed Bath & Beyond Inc.	NASDAQ:BBBY	PGT Innovations, Inc.	NYSE:PGTI
BlueLinX Holdings Inc.	NYSE:BXC	Pool Corporation	NASDAQ:POOL
Boise Cascade Company	NYSE:BCC	PulteGroup, Inc.	NYSE:PHM
Builders FirstSource, Inc.	NYSE:BLDR	Quanex Building Products Corporation	NYSE:NX
Burnham Holdings, Inc.	OTCPK:BURC.A	Simpson Manufacturing Co., Inc.	NYSE:SSD
Carlisle Companies Incorporated	NYSE:CSL	Stanley Black & Decker, Inc.	NYSE:SWK
Carpenter Company	NYSE:CRS	Steel Dynamics, Inc.	NasdaqGS:STLD
Carrier Global Corporation	NYSE:CARR	Summit Materials, Inc.	NYSE:SUM
Comfort Systems USA, Inc.	NYSE:FIX	Taylor Morrison Home Corporation	NYSE:TMHC
Commercial Metals Company	NYSE:CMC	The Home Depot, Inc.	NYSE:HD
D.R. Horton, Inc.	NYSE:DHI	The Sherwin-Williams Company	NYSE:SHW
Eagle Materials Inc.	NYSE:EXP	Toll Brothers, Inc.	NYSE:TOL
Emerson Electric Co.	NYSE:EMR	TopBuild Corp.	NYSE:BLD
Fastenal Company	NASDAQ:FAST	Trex Company, Inc.	NYSE:TREX
Floor & Decor Holdings, Inc.	NYSE:FND	UFP Industries, Inc.	NASDAQ:UFPI
Fortune Brands Home & Security, Inc.	NYSE:FBHS	United States Steel Corporation	NYSE:X
Generac Holdings Inc.	NYSE:GNRC	Vulcan Materials Company	NYSE:VMC
Gibraltar Industries, Inc.	NASDAQ:ROCK	W.W. Grainger, Inc.	NYSE:GWW
GMS Inc.	NYSE:GMS	Watsco, Inc.	NYSE:WSO
Griffon Corporation	NYSE:GFF	WESCO International, Inc.	NYSE:WCC
Hovnanian Enterprises, Inc.	NYSE:HOV	Weyerhaeuser Company	NYSE:WY
Hubbell Incorporated	NYSE:HUBB	CAD TRADING COMPS	
Installed Building Products, Inc.	NYSE:IBP	Canadian Tire Corporation, Limited	TSX:CTC.A
Insteel Industries, Inc.	NYSE:IJIN	Canfor Corporation	TSX:CFP
Interface, Inc.	NASDAQ:TILE	Doman Building Materials Group Ltd.	TSX:DBM
JELD-WEN Holding, Inc.	NYSE:JELD	Goodfellow Inc.	TSX:GDL
KB home	NYSE:KBH	Hardwoods Distribution Inc.	TSX:HDI
Lennar Corporation	NYSE:LEN	Interfor Corporation	TSX:IFP
Lennox International Inc.	NYSE:LII	Leon's Furniture Limited	TSX:LNf
Louisiana-Pacific Corporation	NYSE:LPX	Richelieu Hardware Ltd.	TSX:RCH
Lowe's Companies, Inc.	NYSE:LOW	Taiga Building Products Ltd.	TSX:TBL
Martin Marietta Materials, Inc.	NYSE:MLM	West Fraser Timber Co. Ltd.	TSX:WFG
Masco Corporation	NYSE:MAS	Western Forest Products Inc.	TSX:WEF
Masonite International Corporation	NYSE:DOOR		

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