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Industry Insights

Spring 2024



Executive Summary
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124

M&A transactions closed in the U.S. and Canadian building products and construction materials industry during 2023, a 25% decline from the prior year

82%

Percentage of M&A transactions completed by strategics or sponsor-backed strategics in 2023

7.62%

Highest average 30-year fixed mortgage rate in the past decade (7.62% in Oct. 2023 vs. 6.82% in Mar. 2024)

\$1.17 T

U.S. non-residential construction spending in 2023 totaled \$1.17 trillion, a 21% increase over the prior year

U.S. Market Update

U.S. Housing Indicators

The 30-year mortgage rate set a decade-long high, averaging 7.62% in October 2023. Since October, rates have shifted down slightly, averaging 6.82% in March 2024. Home buyers and investors have begun settling into the new, higher interest rate environment after rates reached historic lows during the pandemic. The 10-year Treasury rate largely mirrored the 30-year mortgage rate movement, and the federal funds rate experienced several consecutive rate hikes in the first half of 2023. During 2024, mortgage rates are forecast to pull back gradually to 6.0 – 6.5% and continue to decline in 2025.

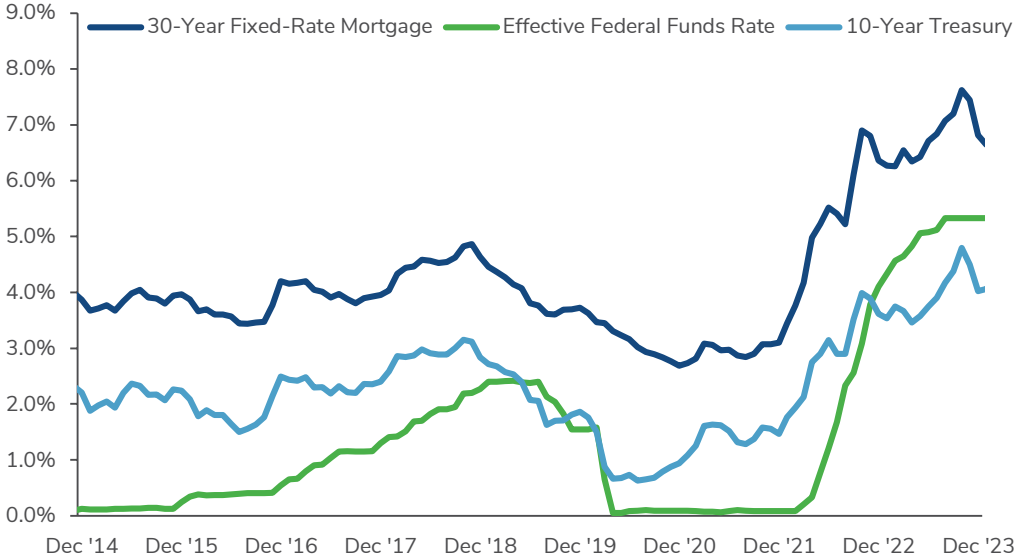
The Housing Market Index (HMI), a monthly measure of builder confidence, has been rising since September 2023; however, it still trails 2021 figures as global conflicts, high input costs and inflation pressures remain. The Consumer Confidence Index (CCI) in 2023 held constant with 2022 levels, as consumers continued to have mixed views of the labor market and overall economic outlook. Both the HMI and CCI as economic indicators have improved since the start of 2024, indicating a returned confidence among builders and the public in the near-term housing market.

The 30-year fixed mortgage rate, effective federal funds rate, 10-year treasury rate and HMI are not seasonally adjusted.
CCI indexed to 1985

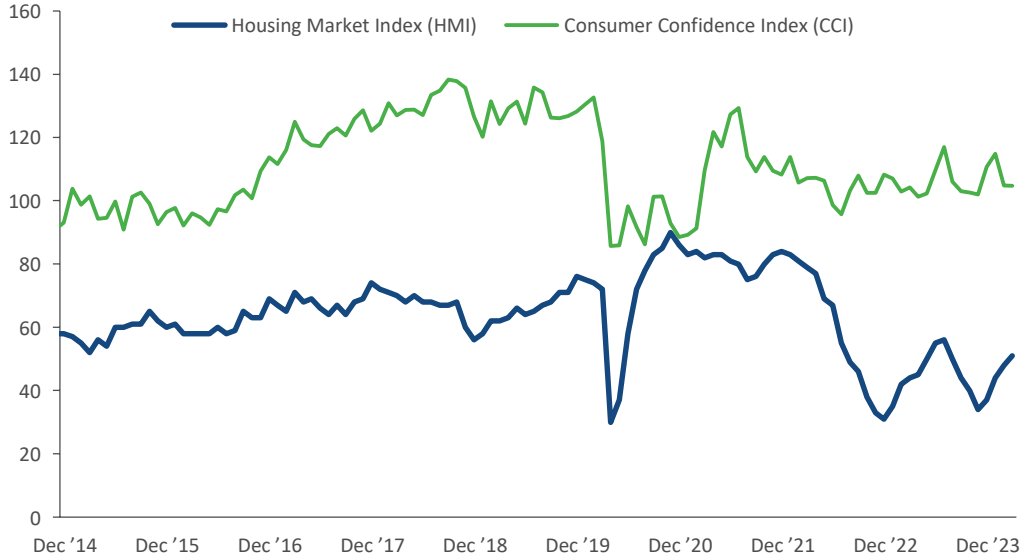
Sources: Federal Reserve Bank of St. Louis, Economic Research (FRED), The Conference Board, National Association of Home Builders, U.S. News and World Report

U.S. Housing Indicators

Key Interest Rates



Key Housing Indicators*



*Index values greater than 50 indicate a positive view by builders.
 The 30-year fixed mortgage rate, effective federal funds rate, 10-year Treasury rate and HMI are not seasonally adjusted.
 CCI indexed to 1985
 Sources: Federal Reserve Bank of St. Louis, Economic Data (FRED), The Conference Board, National Association of Home Builders, U.S. News and World Report

U.S. Housing Starts

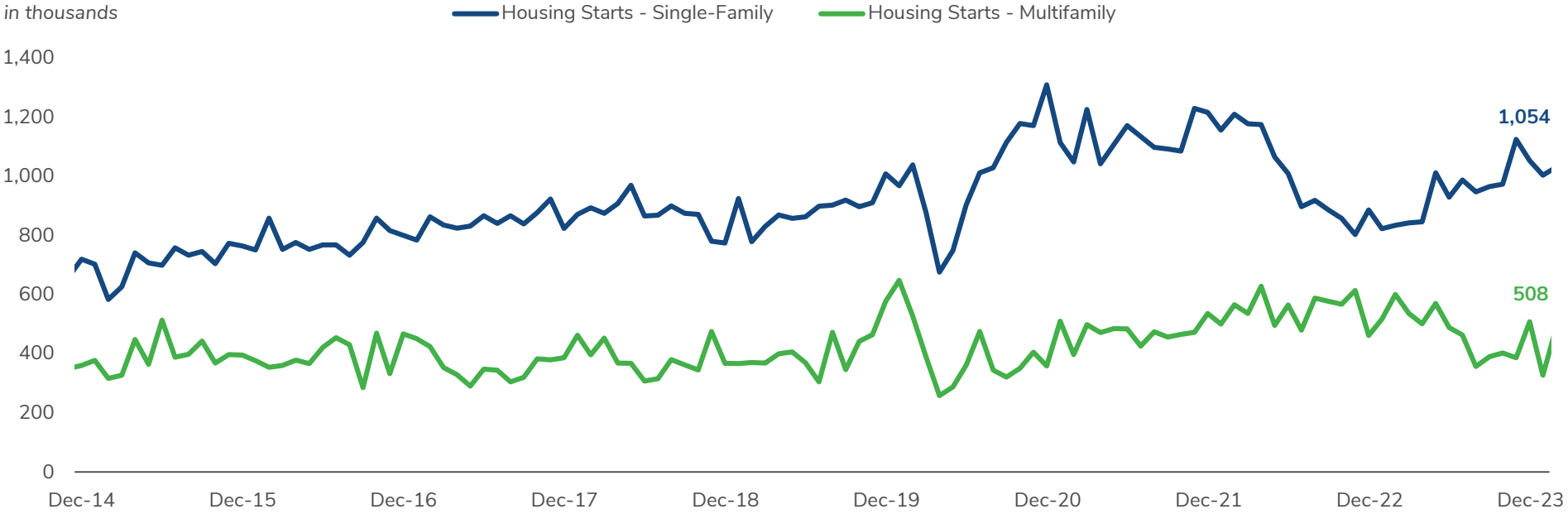
Both single-family and multifamily housing starts in 2023 experienced substantial year-over-year growth but lagged behind 2021 starts as home builders struggled with supply chain challenges, higher building material and rising labor costs. Total U.S. housing starts remained above the trailing 10-year average during the year.

Regionally, the southern U.S. experienced the highest volume of single-family housing starts in 2023 and the greater part of the past decade; this growth is attributed to population movement due to mild climates and lower cost of living in the region.

Weather delays across the country caused U.S. housing starts to lower in January 2024. These delays are not expected to affect the rest of 2024 as housing starts rebounded in February due to a favorable rise in temperatures, as well as the expectation that borrowing costs will lower in 2024.

U.S. Housing Starts

Trailing Annual U.S. Housing Starts



Single-Family
2023 YoY Δ 18.8%



Multifamily
2023 YoY Δ 10.2%

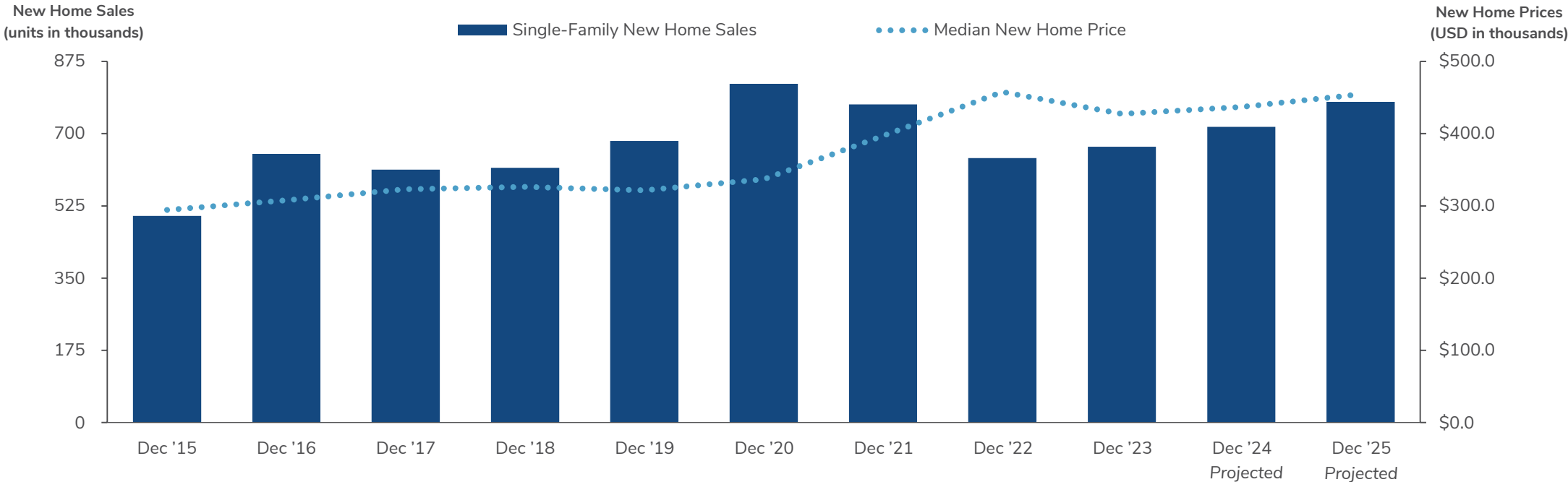
Seasonally adjusted annual rate
Sources: Reuters, U.S. Department of Commerce: Census Bureau

U.S. Home Sales and Inventory — New Home Sales and Supply

In 2023, approximately 668,000 new single-family homes were sold, an increase of approximately 4.4% year-over-year. This increase in new home sales was driven by a 6.6% decrease year-over-year in new home prices, following a volatile 2022 during which purchasers were impacted by rapid rate hikes.

New single-family home sales are expected to increase by approximately 7.2% in 2024 and by 8.5% in 2025. New home sales are projected to grow, reflecting long periods of low supply and pent-up demand. Growth is expected particularly from first-time home buyers waiting for a more favorable interest rate environment before they waded into the market.

New Home Sales and Supply



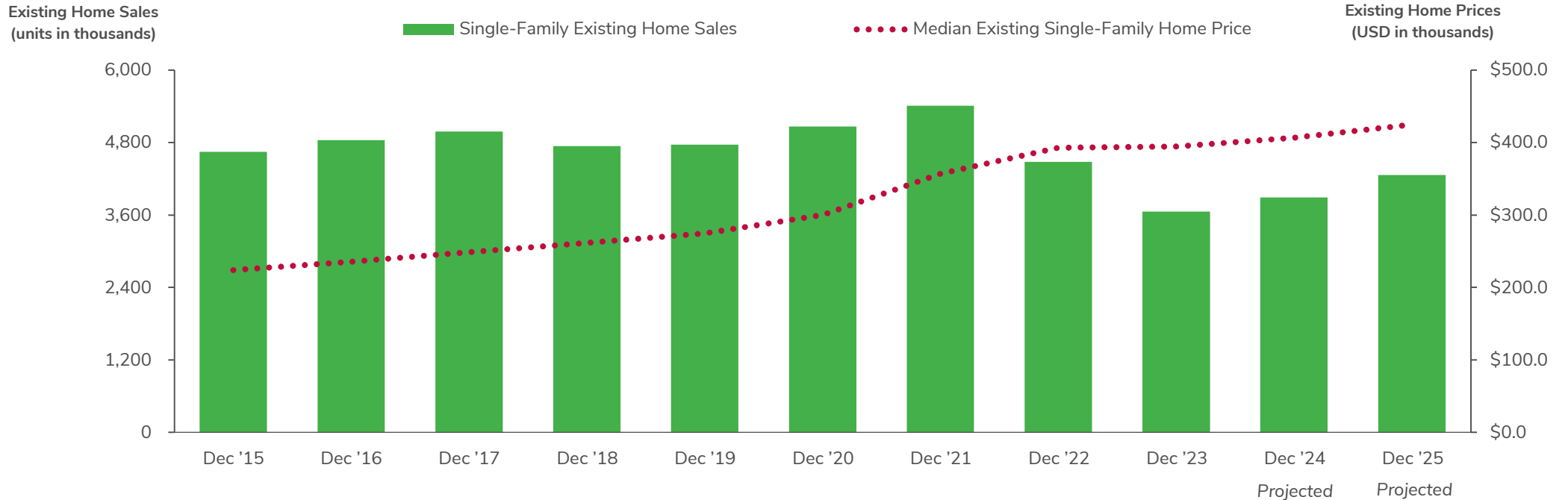
Source: Wells Fargo U.S. Housing Forecast

U.S. Home Sales and Inventory — Existing Home Sales and Supply

Existing home sales, which account for much of the housing market, totaled 4.1 million in 2023. This represents a year-over-year decrease of 18.3%. The 2023 decrease in sales volume was attributed to the 2022 spike in median sale price, as buyers and sellers were misaligned on home values.

For the 2024 – 2025 projected period, existing home prices are expected to increase by 3.1% and 4.4%. The overall volume of existing home sales is expected to rise with anticipated interest rate decreases.

Existing Home Sales and Supply



Source: Wells Fargo U.S. Housing Forecast

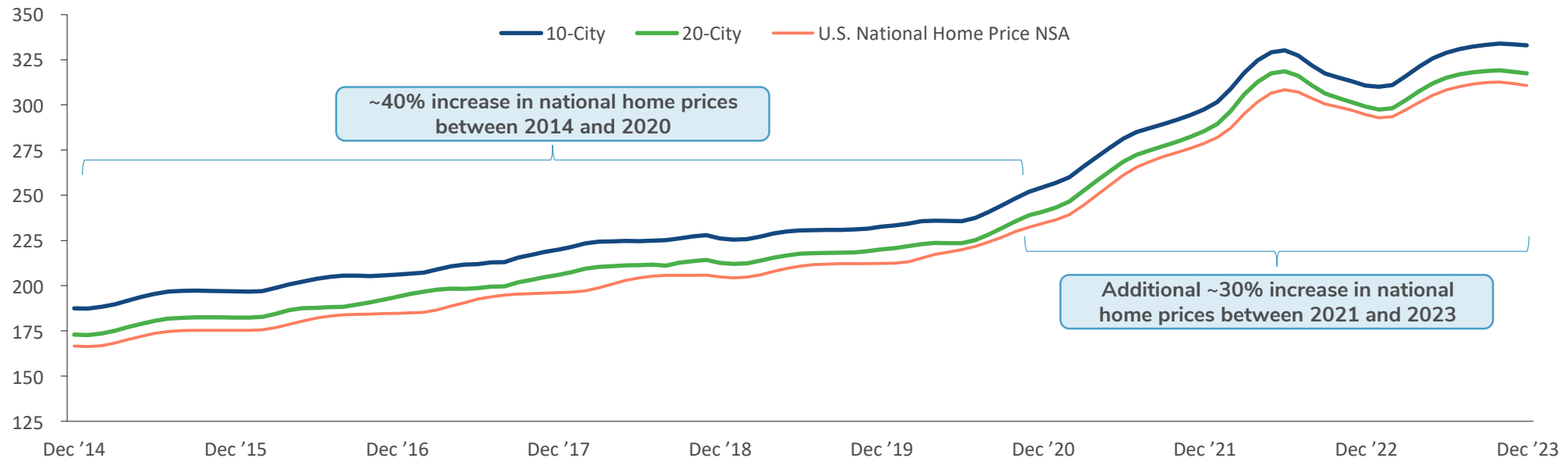
U.S. Home Prices

The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, which measures average home prices in major metropolitan areas across the nation, rose 5.4% in December 2023 from the prior year.

The Case-Shiller 10-City index increased 7.1% in December 2023 over the prior year, while the 20-City index rose 6.1%.

According to the Zillow Home Value Index (ZHVI), the price of a typical U.S. single-family home increased approximately 41% between January 2020 and August 2023. The sharp rise in prices is due to the strong growth in demand for homes post-pandemic, coupled with a tight supply. Housing supply tightened following the pandemic as homeowners were reluctant to forfeit their existing lower interest rates, given a lack of alternatives.

S&P CoreLogic Case-Shiller Home Price Indices*



Monthly, indexed to January 2000

*The S&P CoreLogic Case-Shiller Home Price Indices are not seasonally adjusted; they are calculated monthly using a three-month moving average and published with a two-month lag.

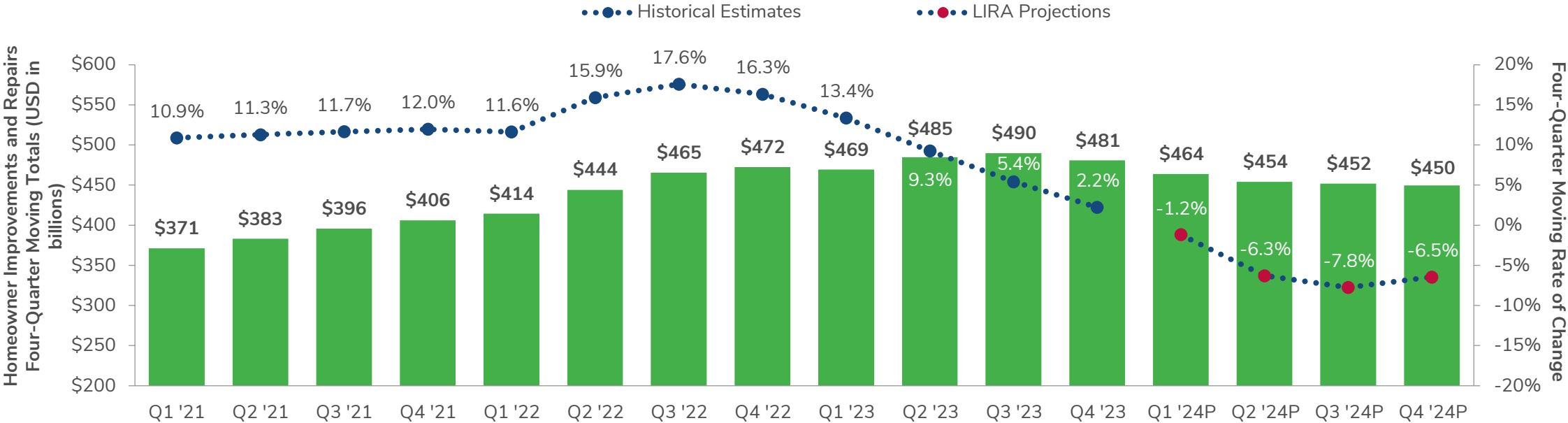
Sources: S&P Dow Jones Indices LLC, Federal Reserve Bank of Chicago, Federal Reserve Bank of St. Louis

U.S. Home Remodeling Activity

Based on the Leading Indicator of Remodeling Activity (LIRA*), spending for improvements and repairs to owner-occupied homes increased 2.2% in Q4 2023 and is expected to decrease throughout 2024, driven by high interest rates, elevated material costs and labor constraints.

The remodeling market slowdown is connected to the spike in home prices across the country. In the current high-interest-rate environment, homeowners do not expect home renovations to generate significant incremental value. Although substantial remodeling projects have slowed, if the demand for new homes continues to outweigh the supply, homeowners will return to making improvements to their existing properties.

Leading Indicator of Remodeling Activity (LIRA*)



*The LIRA represents the estimated annual rate of change in spending for the current quarter and subsequent three quarters. This annual or moving four-quarter rate of change compares total spending in any given four-quarter period to the total spending that occurred in the four quarters prior to that period. As of April 21, 2016, the LIRA has undergone a major rebenchmarking and recalculation to better forecast a broader segment of the national residential remodeling market.
 Source: Joint Center for Housing Studies, Harvard University

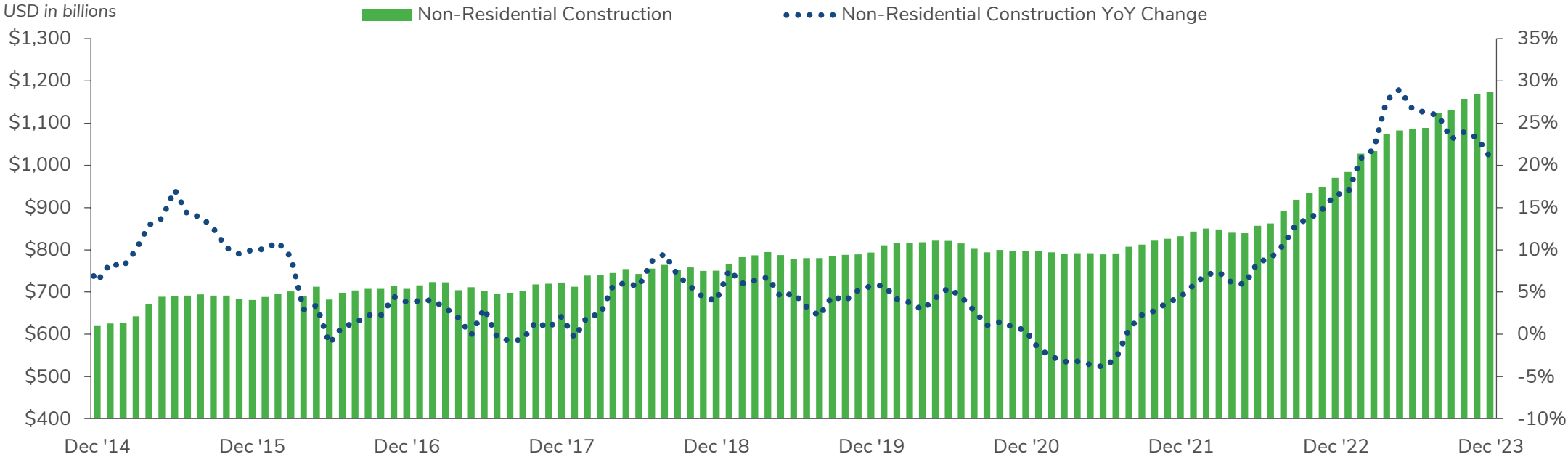
U.S. Non-Residential Construction Activity

In December 2023, non-residential construction was at a seasonally adjusted annual rate of \$1.17 trillion, representing an increase of 21.0% over the prior year.

Both the private and public non-residential construction sectors experienced year-over-year increases, respectively, of 19.7% and 23.0%.

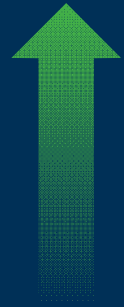
Overall, all segments of non-residential building construction grew in 2023, and the manufacturing sector witnessed record growth. Projected growth in 2024 and 2025 within the segment is expected to stabilize and return to historic levels. Recent investment was fueled by government subsidies through, e.g., the Infrastructure Investment and Jobs Act (IIJA), Inflation Reduction Act (IRA) and Creating Helpful Incentives to Produce Semiconductors (CHIPS).

Non-Residential Construction Spending



Seasonally adjusted annual rate
Source: U.S. Census Bureau

U.S. Non-Residential Construction by Segment - Manufacturing



32%
2023 YoY
Growth

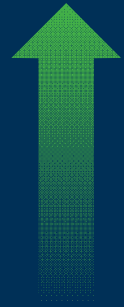
Key Drivers

- Computer and electrical segment
- Government subsidies
- Efficiency and utilization goals

The manufacturing construction segment saw record investment in 2023, largely due to government programs such as the IJIA, IRA and CHIPS and Science Act fueling spending.

2024 is expected to bring normalized spending and growth, though the computer / electrical components subsegment and availability of labor are the near-term focal points.

U.S. Non-Residential Construction by Segment - Office



6%
2023 YoY
Growth

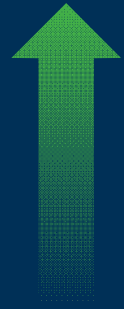
Key Drivers

- Return to office initiatives
- Refreshed office space
- Unemployment rates

2023 proved to be a year in which corporations worked to balance hybrid work policies, as some companies experienced a drop in work efficiency the year prior.

Nominal near-term growth is expected in the office segment as companies continue to sublease or repurpose existing space, and office vacancy rates remain near historic highs.

U.S. Non-Residential Construction by Segment - Education



18%
2023 YoY
Growth

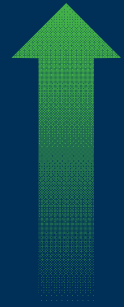
Key Drivers

- Aging education buildings
- Hybrid learning environments
- Population below age 24

Higher education has experienced a strong need for modernization from pandemic-related increases in hybrid/online enrollments.

Continued investment in education infrastructure is expected from both new builds and renovation projects.

U.S. Non-Residential Construction by Segment - Healthcare



17%
2023 YoY
Growth

Key Drivers

- Modernization and renovations
- Aging population
- Public funding

The U.S. healthcare system has seen an influx of federal and state investment that is expected to continue for the next 2-3 years.

The healthcare construction industry is projecting modest growth through 2025 based on input costs and changes in overall demand.

Canadian Market Update

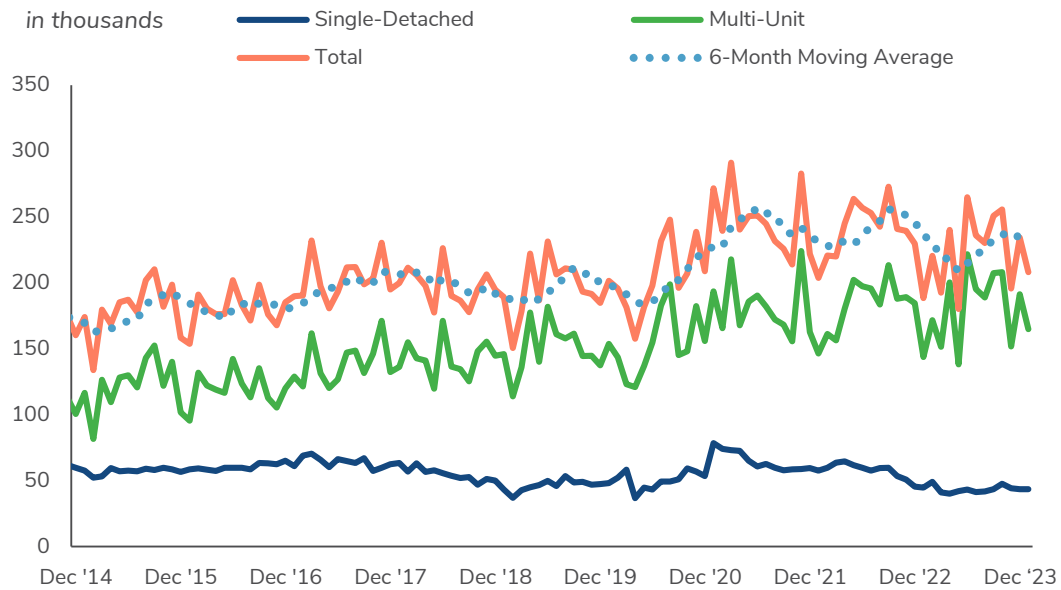
Canadian Housing Indicators

Canadian housing starts in January 2024 increased year-over-year by 10.5% but decreased by 11.3% compared to December 2023. The year-over-year uplift was driven by multi-unit housing starts, which increased by 14.7%, but was partially offset by a 2.9% decrease in single-unit starts. Despite a strong overall increase, demand for Canadian housing continues to outpace growth in supply, which has been impacted by increased costs of materials, labor supply challenges and expensive construction financing.

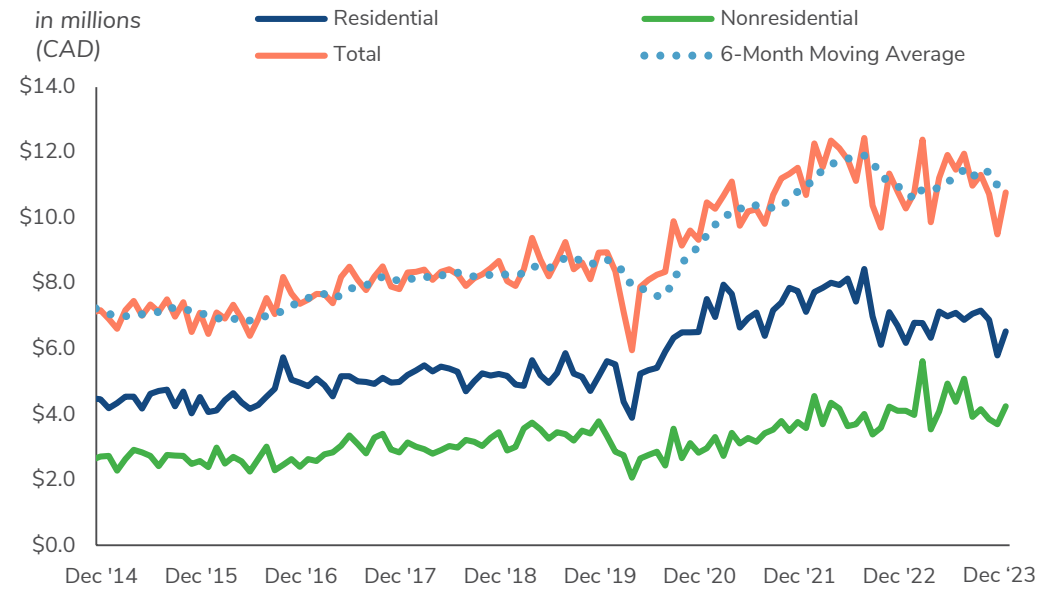
The value of authorized building permits rebounded from recent December 2023 lows, growing month over month by 13.5% in January 2024. On a year-over-year basis, the value of authorized building permits increased by 4.8% and saw strong growth in both the residential and non-residential categories.

Canadian Housing Indicators

Housing Starts



Value of Authorized Building Permits

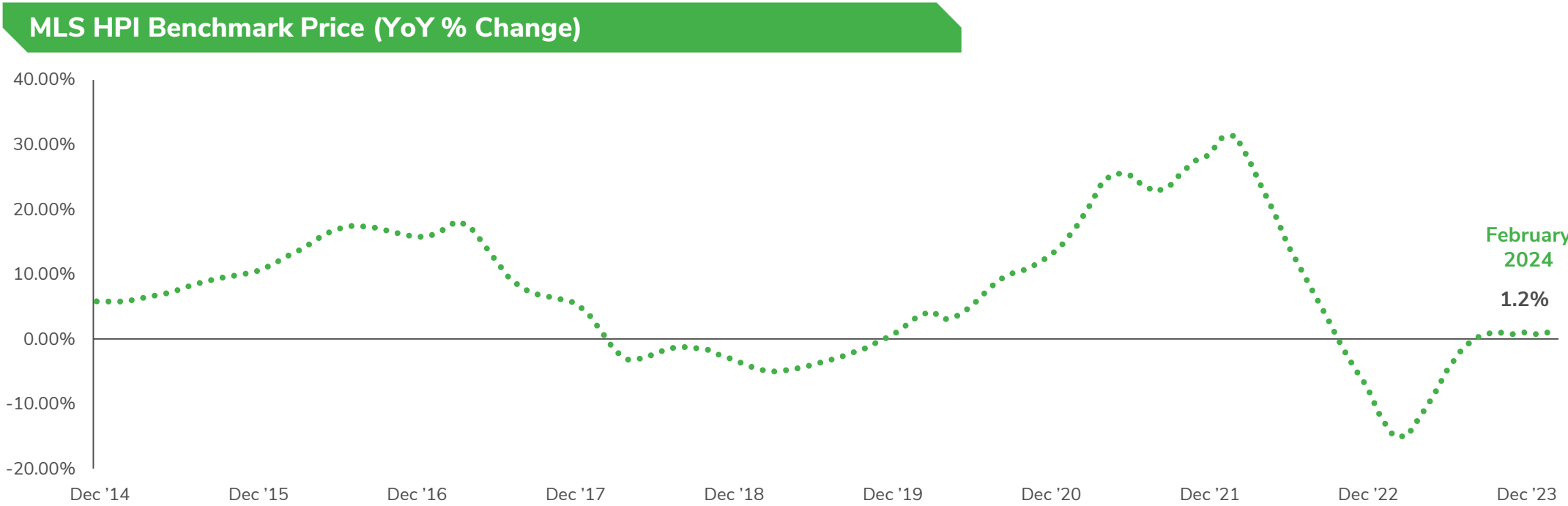


Seasonally adjusted, areas 10,000+
Source: Canadian Real Estate Association (CREA)

Canadian Housing Market – Existing Prices

Housing prices declined in Q1 2023, showed signs of a rebound in Q2 and Q3, and abruptly fell once again in Q4. In February 2024, the MLS Home Price Index (HPI) Benchmark Price increased 1.2% year-over-year and remained in-line with January 2024 figures, ending a streak of five consecutive monthly declines. The prices of single family, one-story and two-story homes, townhouses and apartments each experienced similar trends throughout 2023. One-story and two-story homes experienced the largest year-over-year change in February 2024, with prices increasing by 2.4% and 1.9%, respectively.

The recent decline in Canadian home prices can be largely attributed to high mortgage rates negatively impacting consumer buying power. However, despite an uncertain economic environment, demand for housing remains high and prices continue to hold at high levels.




Seasonally adjusted, areas 10,000+
Source: Canadian Real Estate Association (CREA)

Relevant Kroll Building Products Experience


Kroll's Industrials Investment Banking Practice Advised Fleetwood Aluminum Products on Its Sale

Modern Door and Window Manufacturer for the Luxury Residential Market

Financial Advisor



has been acquired by



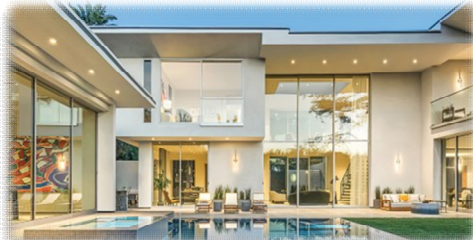
MASONITE.

Financial advisor to Fleetwood Aluminum Products





























- A family-owned business since 1961, Fleetwood Aluminum Products (“Fleetwood”) designs and manufactures high-quality doors and windows for luxury homes with a core specialty in window walls. The company’s exceptionally high-quality product offerings are fully customizable and feature modern designs, sleek hardware and precision locking and rolling systems.
- The company is headquartered in Corona, CA, and operates a 200,000 square-foot manufacturing facility with approximately 350 employees.
- A network of exclusive Fleetwood dealers partners with homebuilders and architects to offer the industry-leading products to homeowners throughout North America

“Kroll provided **unparalleled guidance and dedication** throughout the deal process. Being a family-owned and operated manufacturer since 1961, we were determined to find the right buyer for the family and Fleetwood. Kroll’s **resources and expertise** allowed us to find the perfect fit with Masonite. We could not be happier with the outcome, and it was only possible with Kroll as our partner.”

– Gary Gumbleton, Fleetwood CEO



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<p>Sell Side Advisor</p>  <p>has been acquired by</p> 	<p>Sell Side Advisor</p>  <p>a portfolio company of</p>  <p>has been acquired by</p> 	<p>Sell Side Advisor</p>  <p>has been acquired by</p> 	<p>Sell Side Advisor</p>  <p>a portfolio company of</p>  <p>has been acquired by</p> 	<p>Sell Side Advisor</p>  <p>has been acquired by</p> 	<p>Sell Side Advisor</p>  <p>has been acquired by</p> 
<p>Sell Side Advisor</p>  <p>has been acquired by</p> 	<p>Sell Side Advisor</p>  <p>a portfolio company of</p>  <p>has been acquired by</p> 	<p>Sell Side Advisor</p>  <p>has been acquired by</p> 	<p>Sell Side Advisor</p>  <p>has been acquired by</p>  <p>a portfolio company of</p> 	<p>Capital Raise</p>  <p>has completed a refinancing with</p> 	<p>Capital Raise</p>  <p>has completed a senior debt recapitalization with</p> 



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