

Outdoor Living
& Remodeling
Spotlight Inside

2020 BUILDING PRODUCTS REPORT: STAYING CLOSER TO HOME



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RECENT TM CAPITAL BUILDING PRODUCTS TRANSACTIONS



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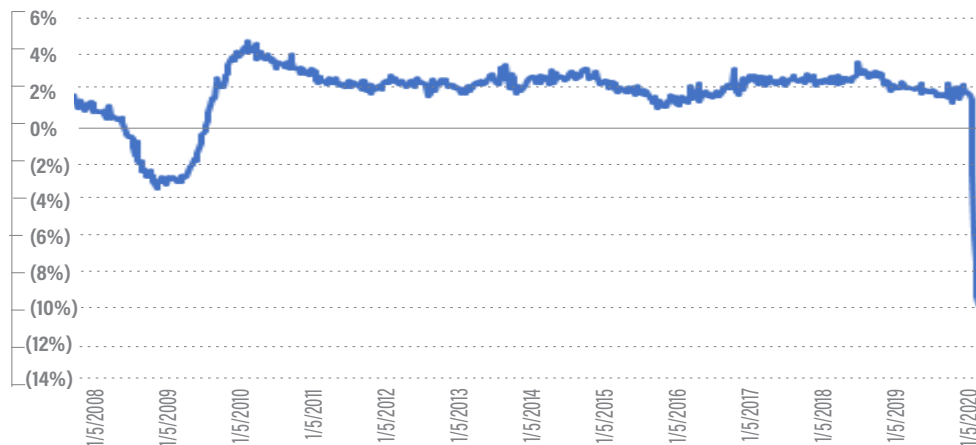
SUMMARY OVERVIEW

The U.S. housing market entered the new decade riding strong demographic and macroeconomic tailwinds despite the underlying challenges of historically low housing inventory and market uncertainty related to the eleven-year recovery. Historically low unemployment, steady wage and job growth and falling interest rates set the housing market on a path for a robust spring 2020 season. Rising median income levels that surpassed the peaks achieved in 1999 and 2007 triggered a material increase in building activity and homeownership levels, further bolstering a constructive outlook.

In January, new home sales increased by 7.5% (to a seasonally adjusted rate of 777,000, the highest since May 2007). February saw continued strength with new home sales rising nearly 12% compared to February 2019 levels. Housing inventory remained at record lows, resulting in sustained high housing prices, and continued strong homebuilder confidence (modestly down from 20+ year highs in December 2019). Finally, Millennials were poised to shape the housing market in 2020 with the cohort expected to generate more than 50% of all mortgage originations for the first time ever, notwithstanding the challenging affordability statistics.

“That was 2020 before COVID-19”

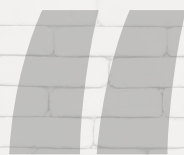
WEEKLY ECONOMIC INDEX (PERCENT CHANGE)



Note: The Weekly Economic Index (WEI) is a reflection of the status of the U.S. economy based on indicators of real economic activity available at a daily or weekly frequency. The Q1 2020 drop related to COVID-19 is primarily driven by increased unemployment claims, drops in retail sales and the immediate impact on consumer confidence

What started as a potential disruption to foreign trade and supply chains transformed the U.S. economy as the first cases arrived stateside. By March 11, 2020 the World Health Organization declared COVID-19 a global pandemic and by early April every state had declared a state of emergency with nearly all states operating under stay-at-home orders for non-essential businesses. The U.S. economy and stock markets tumbled, unemployment rates jumped at an unprecedented pace and the impact on the housing market was immediate. Potential home buyers saw income and savings erode while potential home sellers confronted the concerns of having strangers enter homes for viewings, inspections and appraisals.

Homebuilders also face pandemic-related challenges despite the fact that all but four states deemed construction an essential business. Construction employment is falling, bringing down with it the pace of homebuilding – this in turn will do little to alleviate the already limited housing inventory. Additionally, homebuilders are reporting project delays tied to the shortage of materials and equipment (including personal protective equipment) and the implementation of social distancing at job sites. According to the National Association of Realtors, pending home sales fell over 20% in March, as buyers and sellers increasingly postponed or paused transacting. In April, the NAHB/Wells Fargo Housing Index, a measure of homebuilders' perceptions of the market, dropped 58% from a 72 in March to a 30, representing the greatest monthly drop in the history of the index (started in 1985).



We will not know the full impact of COVID-19 on PPG and our business for some time... we are hopeful that, sooner rather than later, the worst will be behind us and we can soon begin to collectively focus on a brighter future.”

- Michael H. McGarry, PPG chairman and Chief Executive Officer

While the short and medium-term effects of the COVID-19 pandemic on the housing and building products markets remain uncertain, the long-term positive trends should continue to propel upward momentum and demand. Several short and medium-term factors expected to weigh on the markets include:

- Consumer confidence and uncertainty regarding the “new normal” environment
- Gale-force headwinds on employment, wages and savings which will directly impact income levels and homeownership
- Potential impact of the substantial increase in the U.S. deficit and essentially zero current interest rate Federal Reserve policy on future interest and tax rates
- Uncertainty regarding the impact on foreclosure levels. Supportive government disaster relief and monetary assistance through unemployment and claims and business loans, a well-capitalized banking sector and supportive forbearance programs should help to minimize the number of foreclosures

There is no historical period that closely resembles the current situation – this downturn is unique in that it was not caused by structural financial system weakness or inflated housing prices. However, despite the challenging circumstances there are signs of hope. Construction sites across the U.S. are reopening, and in the longer-term, several positive tailwinds will continue to propel the housing and building products sectors including:

- Millennials, the largest cohort of the U.S. population, continue to enter peak home buying ages. As they continue to age up, home preferences are likely to shift from the convenience of urban living to suburban towns and mid-size cities that offer quality of life and amenities at a more affordable price point
- Changes in income levels will be a significant driver of housing spending with affordability being a key factor in purchasing decisions. The last recovery did not begin until 2012 as income levels began to improve after the great recession
- Strong financial position by industry participants – evidence suggests that the domestic supply chain is taking steps to protect its financial position by expanding access to credit and drawing down existing lines creating a solid foundation for a recovery. This is further bolstered by concerns about China’s potential deficiencies in containing the spread of COVID-19, which could both dampen the pressure for tariff relief, and shorten supply chains via growth in domestic manufacturing and import substitutions
- Consumers are increasingly seeking do-it-for-me (“DIFM”) services as an alternative to do-it-yourself (“DIY”) projects. In fact, installation capacity is already a gating item for growth for certain companies. Millennials and Baby Boomers are driving this shift, valuing free time and experiential leisure, while often lacking necessary DIY skill sets required for more complex or time-consuming projects

“As shelter-in-place orders rolled out across the country in mid-to late-March, we saw our digital businesses accelerate from approximately 30% growth in early March to triple digit growth in early April. The last three weeks of the quarter, traffic to HomeDepot.com was consistently above Black Friday levels.”

-Ted Decker Executive VP, Home Depot

- Companies with an established direct-to-consumer (“DTC”) presence and those focused on building out DTC ecommerce platforms are already benefiting, and are now better positioned to capture new customer groups looking online for their orders for the first time as terrestrial retail shopping changes in the wake of COVID-19

Although the macro trends preceding the COVID-19 shutdown were positive, the severity of the downturn will undoubtedly lead to societal changes that will impact recovery timing and consumer preferences

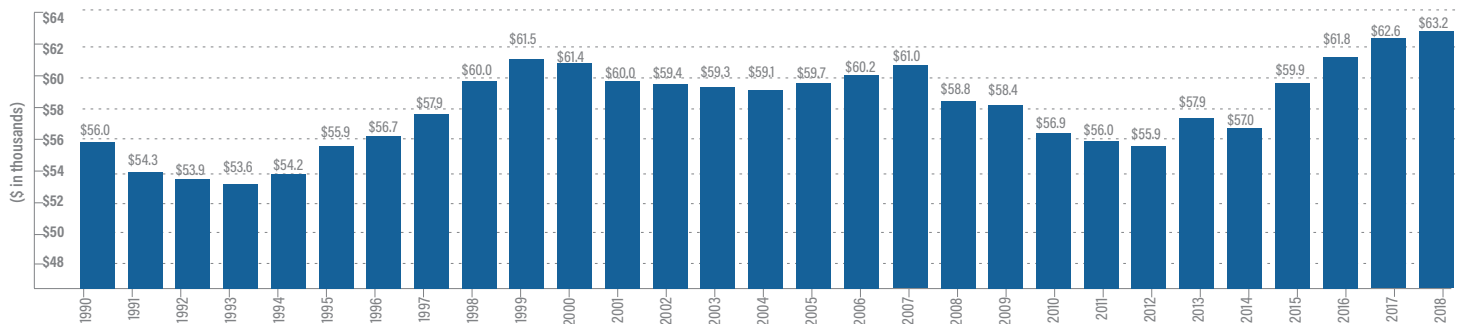
- A reduction to income and savings may cause Millennials, and others, to remain in multi-family and rental properties longer than initially expected. Homeownership may be slower to recover while the rental and multi-family sectors continue to grow
- On the homebuilding side, despite the social distancing requirements in place on both residential and commercial sites, there remains a strong backlog of demand and projects put on hold – construction should be among the first groups back to work as the economy reopens. Increased demand for entry and mid-level homes will put further pressure on builders to reduce the cost of construction in order to entice homeownership – this should spur development of cost saving initiatives including advanced construction management software. Furthermore, continued limits on immigration will also fuel demand for labor saving construction systems
- Potential sustainability of “Zoom-commuting” to the office may challenge the popularity of “in-city” living and benefit more suburban areas. The rise of the COVID-19 pandemic in densely populated areas and/or places that rely on high rates of crowded public transport for commuting, could lead to both a lower comfort level of living in crowded environments as well as lower overall office occupancy
- Sheltering-in-place is also causing homeowners to reassess their living environments. Current dramatic increases in remodel spend both inside and outside of the home should extend as the need for home offices and finished outdoor spaces will become more prevalent
- As we note in the Outdoor Living & Remodeling Sector Spotlight that follows (on page 15), these current and structural impacts should accelerate and sustain spending on the outdoor recreation parts of the home. The recent and strong share performance of swimming pool (and related equipment) equities underscores this expectation



Unlike in 2008, housing (and by extension the building products sector) will not drag down the recovery and should meaningfully contribute to a sustained, high velocity recovery. Over time, the inevitable force (Millennial demographic trends) will overcome the seemingly immovable object (financial challenges that have burdened Millennials), with the current environment only shifting the timing of a recovery.

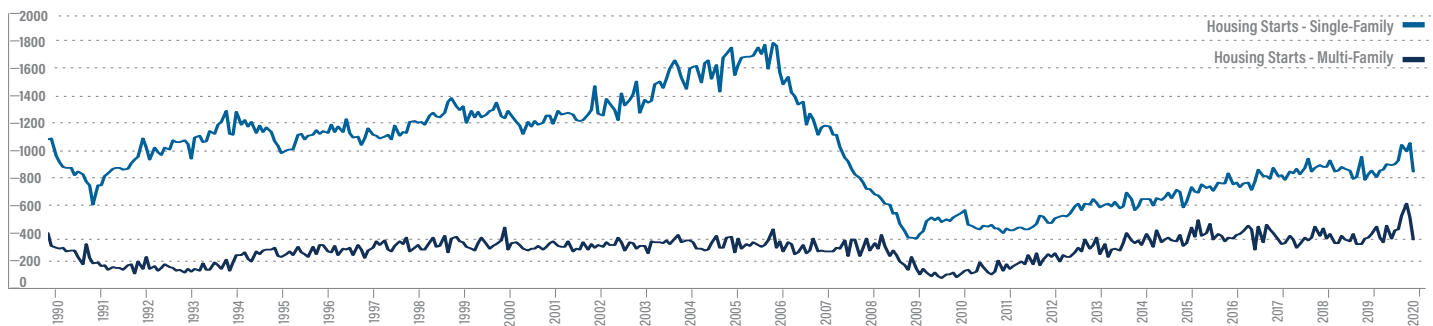
Despite the length of the post-2008 expansion, U.S. median household income grew slowly, only exceeding its prior peaks (1999 and 2007), in 2016. The tight labor market in the years prior to the pandemic led to a rapid increase in real median income, and a mirrored rise in household formation and homeownership rates. From a longer-term perspective, real median household income recorded almost no growth since 1999, with meaningful implications on the potential for consumer spending. At this writing, we have no visibility into how far income levels will drop in 2020 or when, and at what velocity, they will recover. The housing and building products market recovery is likely to be meaningfully impacted by the timing of a return to income growth.

U.S. REAL MEDIAN HOUSEHOLD INCOME



Source: U.S. Census Bureau, Federal Reserve Bank of St. Louis

SINGLE-FAMILY VS. MULTI-FAMILY HOUSING STARTS



Source: Federal Reserve Bank of St. Louis

Note: Multi-Family starts defined as 5-unit structures or more

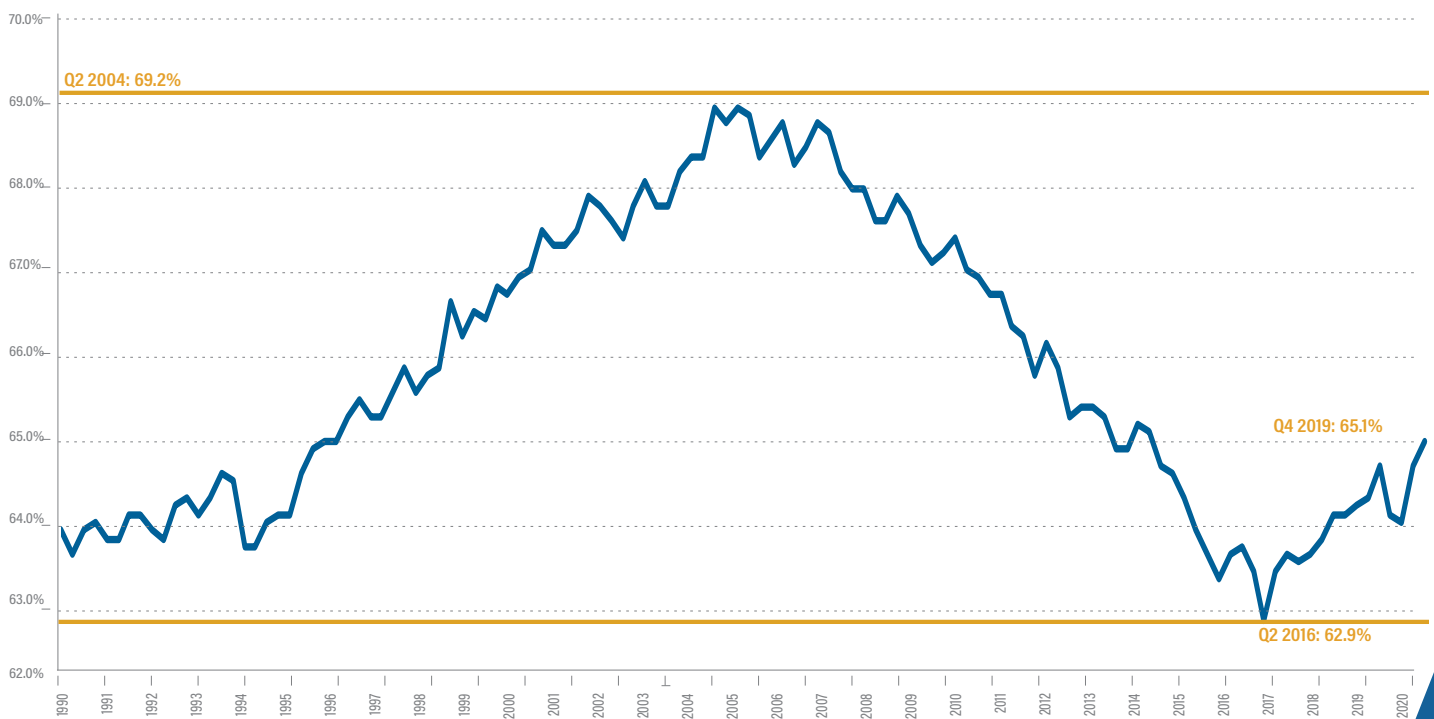
Coming out of the 2009 trough, U.S. single- and multi-family housing starts grew gradually. In February 2020, single-family starts reached a decade high; however, they remained 41% below the prior peak, partially the result of the very steep drop in income from 2007 to 2012 (as seen in the prior chart). Multi-family starts, generally associated with rental housing, have seen stronger growth, peaking in January 2019 with 612,000 starts, 45% above their prior peak, as slow growth in income levels deferred aspirations for homeownership. As of March 2020, there has been a notable drop in both single- and multi-family housing starts as COVID-19 impacts new construction.



U.S. HOMEOWNERSHIP RATES

2019 witnessed a strong rise in homeownership rates. Recent wage growth along with growing consumer confidence encouraged first-time home buyers to enter the market and transact. Overall, homeownership continued to push upward from its 20-year trough of 62.9% in Q2 2016, to 65.1% in Q4 2019. The recent rise in homeownership rates began less than 40 months ago, four years into the post-Great Recession expansion, and suggests (prior to COVID-19) that the resurgence was still in its opening stages. Of those surveyed in the 2018 Zillow Housing Aspirations report, 94% responded that if money were no object, they would own their home – a testament to the enduring American goal of homeownership.

NAHB/WELLS FARGO NATIONAL HOUSING MARKET INDEX (SEASONALLY ADJUSTED)

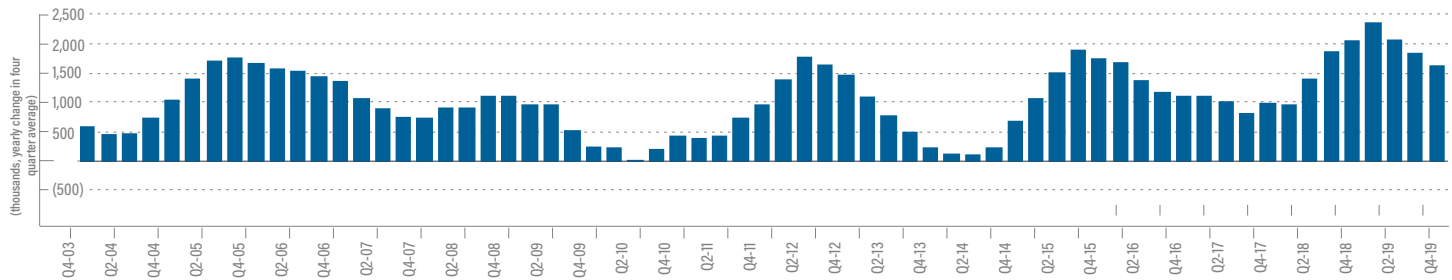


Source: Federal Reserve Bank of St. Louis

OWNER AND RENTER HOUSEHOLD FORMATION

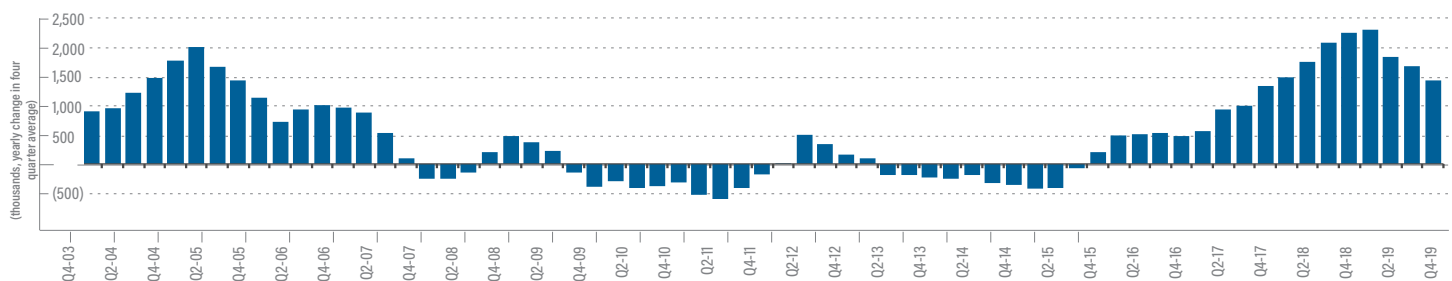
Household formation is a strong indicator of housing demand. According to the U.S. Census Bureau, Housing Vacancy Survey, the number of households increased year-over-year to nearly 124 million in the Q4 2019, up 1.2% from Q4 2018. Over the past two years, overall household formations grew steadily along with a rise in real median household income. Starting in 2016, increased consumer confidence and income levels influenced the rent vs. buy decision and supported owner household formation as renters were able to buy their own homes after an eight-year drought in formation. The ratio of owned household formations to rented household formations averaged more than 4x throughout 2019 as homeownership rates increased significantly in this period.

TOTAL HOUSEHOLD FORMATION



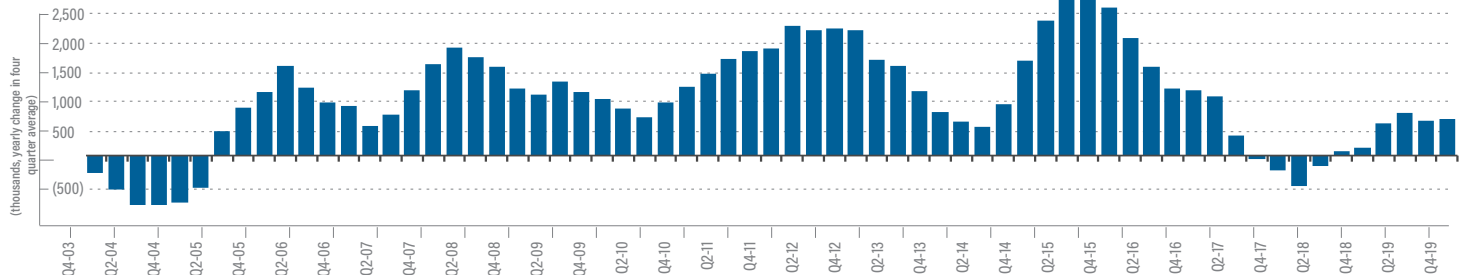
Source: U.S. Census Bureau

OWNER HOUSEHOLD FORMATION



Source: U.S. Census Bureau

RENTER HOUSEHOLD FORMATION



Source: U.S. Census Bureau



As customers are sheltering in place, they're looking at that deferred list of home projects," he said. "As they spend time around the home, they now have more time on their hands to tackle some of those things."

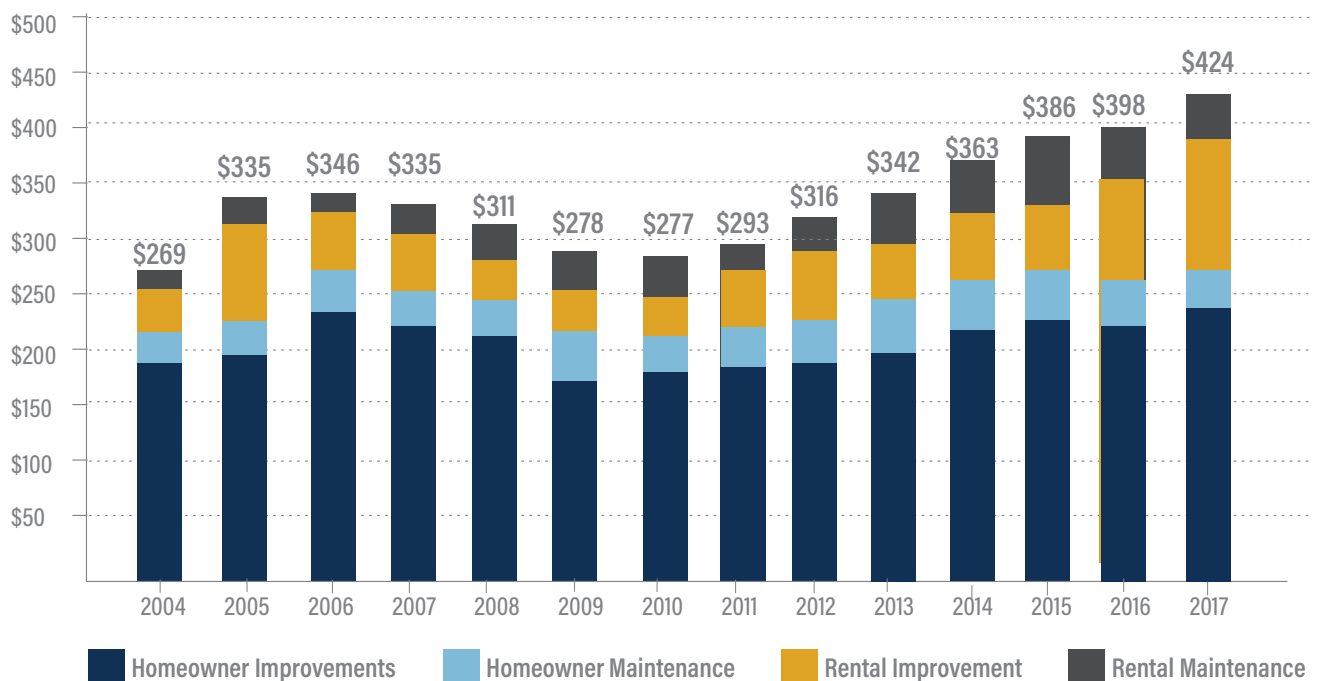
- Marvin Ellison, CEO Lowes



RESIDENTIAL REMODELING

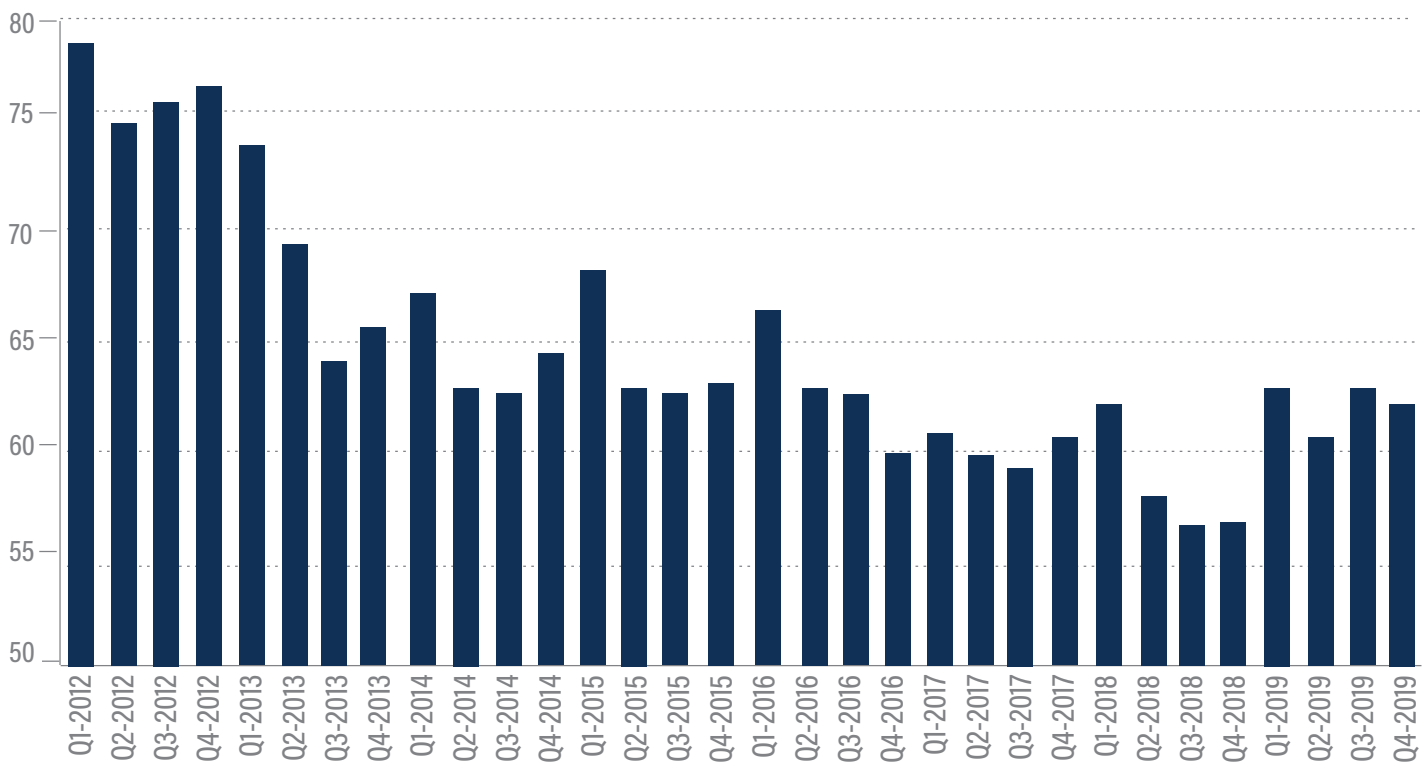
Since the 2009 trough, remodeling expenditures for rental units grew by 150%, while homeowner remodeling spending grew by only 30%. Measured peak to peak, rental spending increased by 90%, while homeowner spending only grew by 6%. At the start of the last recession rental remodeling fell deeper than homeowner repair & remodeling. However, remodeling spending for rental units demonstrated a more sustained recovery; it now represents 31% of all repair & remodeling spending, an increase from 20% before the Great Recession. As a larger percentage of Americans remain at home under "shelter in place," families are actively evaluating opportunities for repair & renovation, and now have the time to actively complete long-deferred home maintenance projects. In addition to routine repair, renovation of home offices, outdoor living environments, windows & doors, baths & kitchens are likely to be first in line to benefit from this spending. Firms focused in these areas are well positioned even during this challenging period. According to West Shore Home's CEO, **"our business YTD is up 64% versus last year as consumers use this time at home to tackle window, door and bath remodel projects."**

U.S. HOME REMODELING MARKET



NAHB / WELLS FARGO HOUSING OPPORTUNITY INDEX

2019 represented the first sustained improvement in housing affordability since 2012 and contributed to the growth in homeownership. Following the impact of the pandemic, a drop in median household income has begun to cause the index to drop in March 2020.

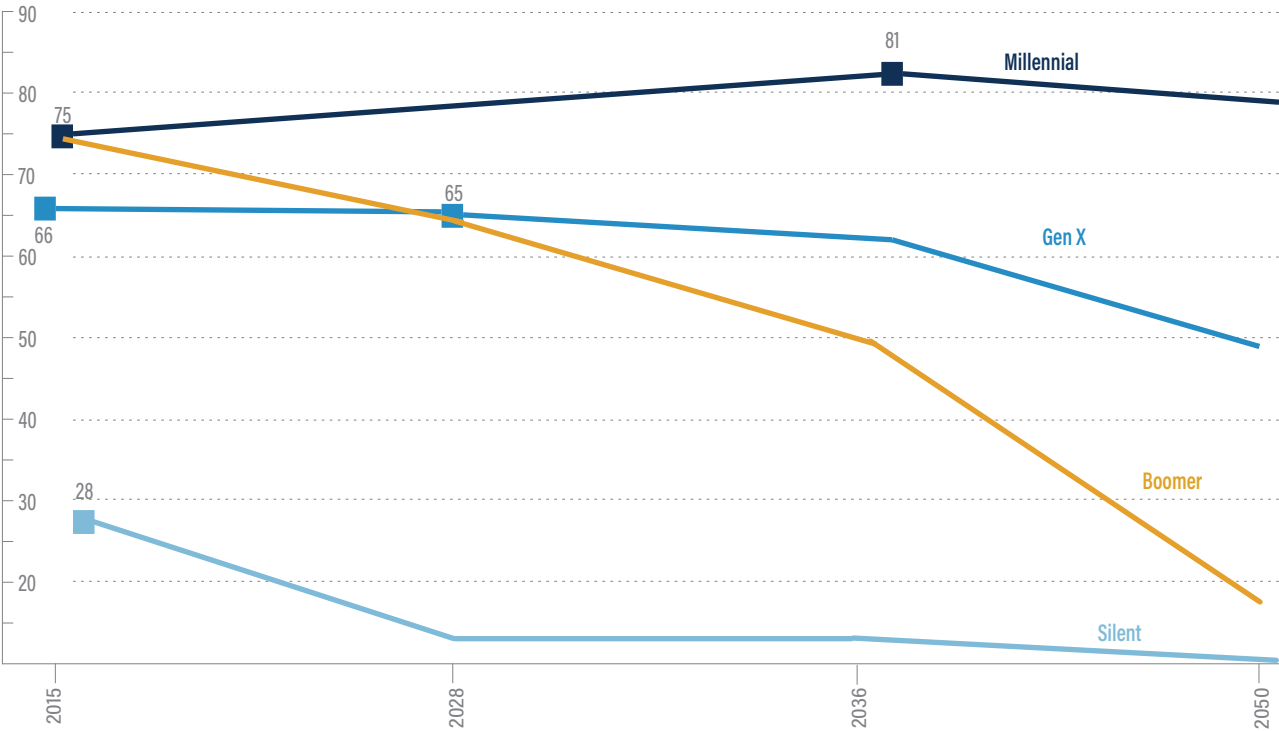


NOTE: The Housing Opportunity Index is defined as the share of home sold that would have been affordable to a family earning the median income in a particular area. The formula is calculated using standard mortgage underwriting criteria and is primarily based on income and housing cost. As of Q4 2019, 63.2% of new and existing homes sold nationwide were affordable to families earning the U.S. median income.

DEMOGRAPHIC TAILWINDS CONTINUE AS WAVE OF MILLENNIAL BUYERS GROWS FOCUSING ON URBAN AREAS

Millennials represent the largest cohort within the U.S. population and a significant percentage of that cohort remains below the age of 34 – the median age of first-time home buyers in the U.S. According to Zillow Economic Research, from 2019 through 2028, 44.9 million people will turn 34, representing an increase of 7.4% (3.1 million more people) compared to the prior 10-year period. While not every member of this younger group will purchase a home once they reach their mid-thirties, the sheer volume of people at key ages for home investments will have a meaningful impact on the market. Unfortunately, throughout the recent recovery, Millennials owned less real estate than expected. As The Economist wrote in January, “In 1990 a generation of Baby Boomers, with a median age of 35, owned a third of America’s real estate by value. In 2019 a similarly sized cohort of millennials, aged 31, owned just 4%.”

PROJECTED POPULATION BY GENERATION (IN MILLIONS)



Source: PEW Research Center

SECTOR SPOTLIGHT:

OUTDOOR LIVING & REMODELING

TM CAPITAL'S INDUSTRY-LEADING EXPERIENCE AROUND THE OUTSIDE OF THE HOME



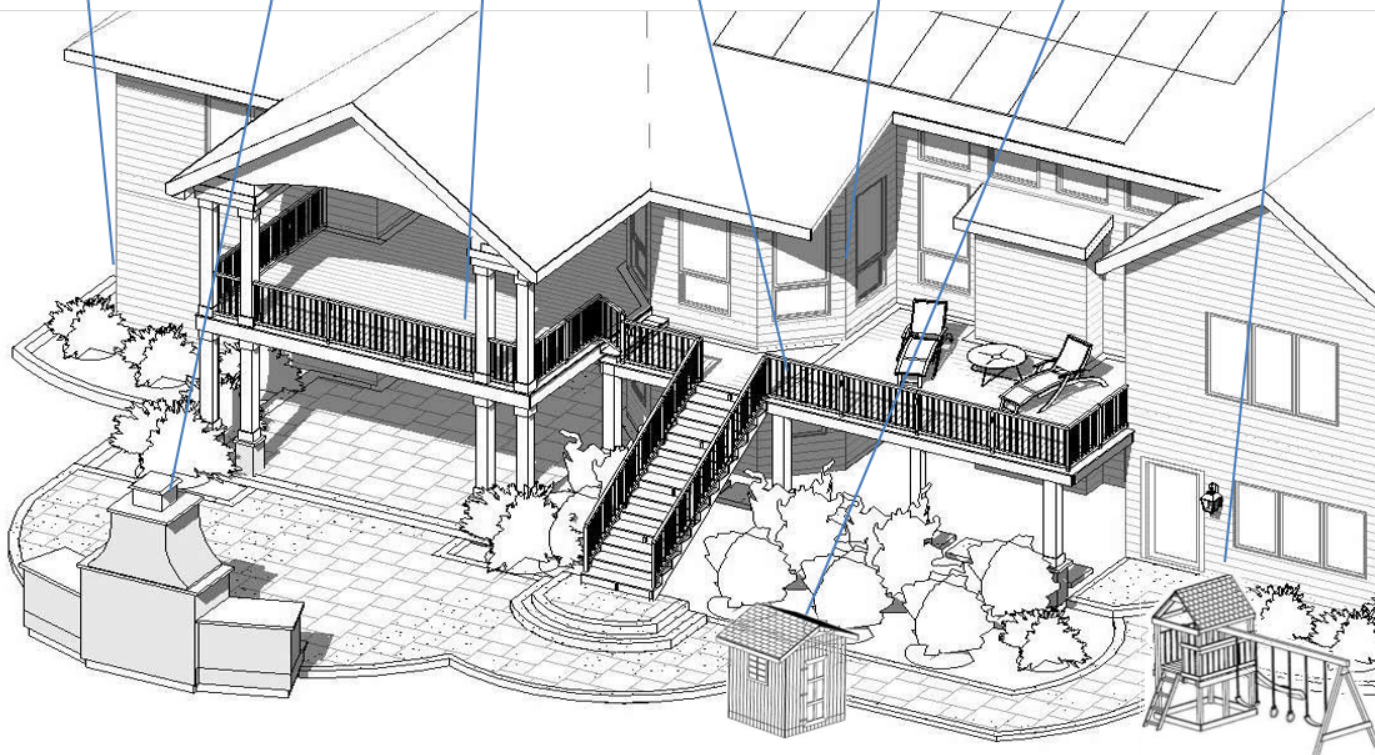
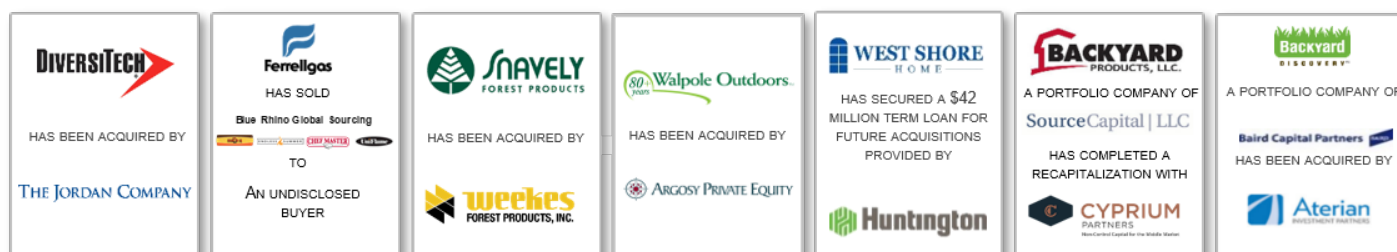
Yoga Sheds

Fencing & Posts

Decking & Railing

Pergolas & Gazebos

Play Sets



Outdoor Flooring

Storage Sheds

Lamp Posts & Mailboxes

Outdoor Furniture

Grill & Accessories

Note: TM Capital has completed multiple acquisition financings for West Shore Home

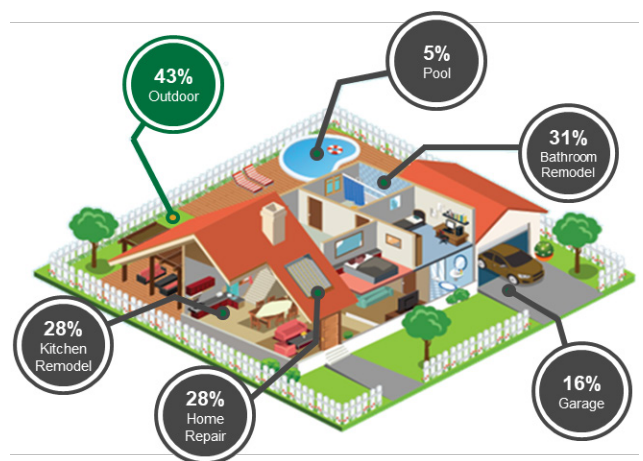
OUTDOOR LIVING & REMODELING SECTOR SPOTLIGHT

This year, TM Capital has chosen the Outdoor Living & Remodeling sector for its Sector Spotlight, a sector within which we have executed multiple transactions over many years. Constituting the largest single percentage of residential remodel spend (at 43%), this sector (as we show below) demonstrates superior relative stock price performance and generates significant acquisition interest. While this sector benefited from many of the positive fundamentals driving the overall building products sector pre-COVID-19, and is certainly impacted by the uncertainty of the current circumstances – it remains well positioned for higher than industry growth post-COVID. Even now, work-from-home requirements and preferences highlight the need for more functional outdoor spaces and are driving substantial purchase volume across almost all product sub-sectors.

OVERVIEW

The Outdoor Living & Remodeling sector, which generally includes sheds, playsets, patios and decks, decorative elements (pergolas, gazebos, light posts, mail posts, flower boxes), fencing, outdoor furniture, grilling accessories and pools, is estimated to be a \$30+ billion market. Several specific macro trends bolster the long-term outlook for this sector: multi-decade “nesting” trends; Millennial-led demographic trends; an aging housing stock; evolving DTC business models; and expanded do-it-for-me DIFM installation infrastructure. While all of these elements drive general home remodel and reinvestment, the outdoor living sector is the biggest beneficiary.

CONSUMER FOCUS ON OUTDOOR SPENDING



Source: SunTrust LightStream - 2018 Home Improvement Trends; totals more than 100% because consumers could identify planned projects in multiple categories

“NESTING” TREND OF INVESTING IN ONE’S LIVING ENVIRONMENT

Over two decades, behavioral trends have shifted towards creating more habitable entertainment areas in one’s own home. What started inside the home now has fully expanded outdoors. While outdoor projects can vary in scale, nearly 40% are under \$5,000.¹ These “nesting” trends, coupled with reduced homeowner mobility, are directly impacting outdoor spending. According to Wayfair CEO Nik Shah, “Starting in mid-March, we saw a pickup in both traffic and conversion... coincid[ing] with customers beginning to shelter in place at home, which led to new needs for essential products like cookware and kitchen appliances, home office products and children’s furniture and play items, and also brought to light ongoing renovation and decoration projects that customers are now taking on.”

¹ Houzz 2017 U.S. Landscape Trends Study



The oldest millennials are 36, but the average age is 26.5...this means the peak of millennials are driving the automobile market but just beginning to impact the housing market."

- Tom Lee, head of research at Fundstrat Global Advisors

SUPPORTIVE DEMOGRAPHIC TRENDS

Millennials are poised to be a driving force in homeownership. More specific to outdoor living, this age range also overlaps meaningfully with key child-bearing and rearing years. Reflecting this convergence, in a recent study, 90% of Millennials prefer to live in rural or suburban areas. Additionally, they place a high value on connecting with friends and family, validating the need for supportive environments in and around their homes.² Not to be discounted, Baby Boomers still generate substantially more disposable income than Millennials. As Boomers near retirement age, many are seeking similarly to improve their home environment, both inside and outdoors.

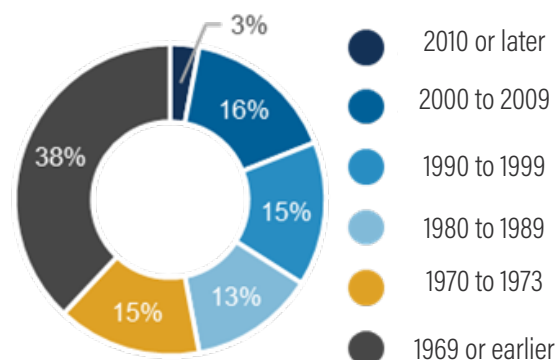
Millennials
62%
Aim to spend more time outdoors
85%
Rank outdoor living "Important" or "Very Important"
66.1%
66.1% of Millennials plan to buy a home over the next 5 years

Source: K&A Outdoor Living Report

AGED AND AGING HOUSING STOCK

Another key driver of outdoor living spending is the aging U.S. housing stock. As of 2018, only about 20% of homes were under 20 years old. Investments to enhance and bring on-trend the remaining 80% have driven home improvement spending in recent years and was expected to have grown at more than 7% in 2019.³ Within this spend, homeowners increasingly view outdoor projects as an extension of the home.⁴

SHARE OF OWNER-OCCUPIED HOUSING BY YEAR BUILT



Source: Houzz 2017 U.S. Landscape

² K&A Outdoor Living Report

³ National Association of Homebuilders

⁴ JCHS of Harvard, Home Improvement Research Institute

DTC PLATFORMS ARE DISRUPTING THE TRADITIONAL “GO-TO-MARKET” PARADIGM..

Outdoor living companies continue to exploit ecommerce platforms to build rapidly-growing DTC sales channels. This requires much more than a website – it demands customer-sensitive product development; an authentic brand promise; price competitiveness; extraordinary and frictionless customer service; and a sophisticated fulfillment engine. Where expertly executed, companies exploiting the DTC channel can bypass distribution, offer “endless aisle” product options, establish brand awareness and loyalty and enrich customer relationships - thereby stealing market share from traditional “go-to-market” paradigms.^{5, 6} DTC flooring innovator Cali™ was able to leverage its digital advertising, direct-to-home shipping capabilities, and DIY friendly products to increase April sales by +32% YOY, as consumers make the most of their time at home. The importance of an established DTC ecommerce platform currently is clearly evident and will become increasingly important in the post-COVID-19 world as the terrestrial retail shopping habits of consumers further shift to a virtual environment.

... AND CONSUMER PREFERENCES ARE DRIVING DEMAND FOR DIFM SERVICES

Today's consumer is often looking for ways to make life easier, driving a sustained mental shift from DIY to DIFM (do-it-for-me). The ability to provide DIFM services is increasingly a primary consideration for homeowners; and the advantage increasingly inures to the company that offers an easy, seamless DIFM installation option – either directly, via a managed vendor network or, at a minimum, via referral to a contractor.⁷ Our current last-mile residential product installation client provides a great example, as demand has increased across the e-commerce and terrestrial consumer retail landscape for larger home products that require professional installation.

The shift towards DTC and DIFM sales within the outdoor products sector in particular dovetails with the rise of Millennials as a percentage of home improvement consumers. Millennials employ technology more extensively to access online reviews, compare prices and ultimately make purchases. To capture a larger share of the market, outdoor living companies must continue to refine business models that allow for direct access to consumers and offer the desired DIFM service.^{6, 8}

SELECT COMPANIES WITH DISRUPTIVE DTC AND/OR DIFM FULFILLMENT ENGINES



DTC Marketer and DIFM
Installer of Replacement Doors,
Windows & Baths



DTC Marketer and DIFM
Installer of Children's Play and
Outdoor Activity Products



Leading DTC and DIFM Installer
of Wood Sheds, Gazebos, and
Pergolas



DTC Producer of Sustainable
Flooring and Decking Products



DTC and DIFM Installer of
Fences, Pergolas, and Other
Structures

⁵ Interactive Advertising Bureau, 2018 Study

⁶ Forrester Research

⁷ Home Depot Annual Report

⁸ KPMG: A Look at the Changing Landscape of DTC



SHEDS, PLAY, OUTDOOR STRUCTURES & POOLS

Outdoor storage products alone are projected to total \$1.6 billion by 2023, and the category is rapidly evolving. For example, Backyard Products (Source Capital/Cyprium), the #1 resource for world-class storage solutions, playsets, specialty buildings and recreational structures, has entered the fast growing, "studio shed" market – a market benefiting directly from the current work-from-home environment. According to Backyard's CEO, *"Outdoor structures have shown strong demand this season, stronger than usual due to consumers spending most of their time at home. Although demand has been strong, supply chains and fulfillment have been constrained by either States' aggressive stay-at-home policies, or delays from China. Our StudioShed business -- ranging from smaller studios to small dwellings -- is seeing even stronger demand than usual due to extended work from home guidelines. A StudioShed is the perfect solution to work from home, in your own private backyard sanctuary!"*

Playset sales remain similarly strong. Supportive overall tailwinds are enhanced by specific drivers including shelter-in-place decisions; overall greater emphasis on children outdoor activities; and the first positive birth rate-of-change in the past 30 years. Playset manufacturers have reported demand almost doubling in March and April.

Sales growth across other outdoor structures (gazebos, pergolas, lamp & mail posts, etc.) have followed similar trajectories, and speak to the myriad of opportunities homeowners have to enhance their outdoor living environment across a range of home investment sizes. According to Walpole's CEO, *"Walpole temporarily shuttered our 14 brick and mortar showrooms as a safety measure during the pandemic. With a refocused marketing initiative, we encouraged homeowners to let us make their additional time at home more beautiful and enjoyable. These efforts drove 200% YOY growth in ecommerce."*



Pools and related products, including both residential and commercial categories, represent a large category within outdoor livings – an estimated \$10+ billion market with a 4-6% projected growth rate. According to PoolCorp, “During the first quarter of 2020, we benefited from earlier pool openings, as mild weather combined with school closures have driven greater early-season residential pool usage... we believe we can still deliver solid business results in 2020.” Remodeling activity has always driven spending for pools as it provides an easy way to add value to a home. By one estimate, 95% of all in-ground pools are more than 10 years old. Pool spending for multi-family homes is the largest component within the commercial segment. Growth in the multi-family category coupled with continued demographic shift to sun belt states should only fuel pool demand. Given these positive dynamics, we have seen active investor interest.

SHEDS, PLAY, OUTDOOR STRUCTURES & POOLS



DECKING, FENCING, RAILING & FIXTURES

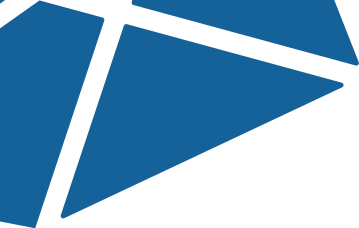
A well-crafted deck is often the focal point of any outdoor living experience. Demand for decking was expected to reach over \$7 billion in 2020 and to register double-digit gains – the fastest pace of any market segment. While wood was expected to account for the largest segment of demand in 2020 at approximately \$4.4 billion, it has been losing share to alternative material competitors. Companies such as Trex, Azek and OldCastle offer composite products which require less annual maintenance and have been taking market share from pressure-treated lumber.⁹

Overall, demand for fencing & railing was expected to reach approximately \$7.5 billion in 2020, or approximately 880 million linear feet comprising metal fencing (460 million), wood (285 million) and composite plastic (135 million). As outdoor living spaces expand, the integrated aesthetic qualities of decking, railing and fencing are increasingly intertwined.

Historically, fencing demand in the U.S. has been appreciably influenced by construction expenditure. Post-COVID-19, single-family, multi-family and nonresidential demand drivers are expected to return, with additional upside tied to the outdoor living and remodel influences noted herein.

DECKING, FENCING, RAILING & FIXTURES





OUTDOOR FURNITURE, GRILLS AND ACCESSORIES

The U.S. outdoor furniture industry consists mostly of items for use in backyards, patios, decks, and swimming pool areas, and demand therefore follow these sustained growth tailwinds. Additionally, brand strength is a key success factor; with fabric brands like Sunbrella™ have established almost universal recognition. Overall demand has been expected to grow from \$1.65 billion to \$1.73 billion from 2018 to 2022, representing a CAGR of 1.2%. Yet, U.S. manufacturers have struggled to capture a larger share with imports satisfying over 52% of domestic demand. Design-forward, sourced, higher-end, environmentally-friendly and advanced material products (such as composites, cellular PVC and HDPE extrusions and technical fabrics) are driving greater than average revenue growth. In the case of HDPE furniture, consumers are becoming more eco-conscious as they improve their backyard living environments. Consumers resonate with sustainable products made in the USA – in this case hundreds of “recycled milk jugs” transformed into beautiful, maintenance-free, durable, weather-resistant, colorfast and comfortable outdoor furniture. Leveraging expanding DTC capabilities, particularly today, this segment is enjoying significant growth. Private equity-backed companies such as POLYWOOD (Oxford/Cardinal), Breezesta (Argosy) and Tangent (Sterling Group) both benefit from and are leading this trend. Post-COVID, macro supply chain concerns may open the door for domestic suppliers to retake share.

Grill manufacturers have shared spikes in demand since March double or even triple prior year demand levels. The U.S. barbecue tools and accessories market totals over \$1 billion as grillers typically own a range of barbecue tools and accessories that need to be replaced frequently. Approximately 50% of total in-store barbecue accessory shelf space drives recurring business each year. In addition to increase outdoor living spend, increased participation in growing lifestyle trends, including tailgating and camping, is expected to propel growth.



9 Freedonia 2017 Wood & Competitive Decking Report



RECENT TM CAPITAL OUTDOOR PRODUCTS TRANSACTIONS



HAS RECEIVED THREE ROUNDS OF ACQUISITION
FINANCING PROVIDED BY



WEST SHORE HOME SECURED DEBT FINANCING FROM HUNTINGTON NATIONAL BANK AND GARMARK PARTNERS

- TM Capital served as exclusive financial advisor to West Shore Home on a series of acquisition financing transactions with Huntington National Bank and Garmark Partners
- Founded in 2006, West Shore is a leading direct-to-consumer seller of high-end residential windows, doors and bathroom products, providing customers with a combination of high touch in-house consultation, exclusive West Shore-branded products and one-day product installation
- West Shore Home is pursuing an acquisition program focused on establishing a national footprint through which to leverage its highly differentiated, KPI-driven business model and assert itself as the dominant player in its core end market



HAS BEEN ACQUIRED BY



WALPOLE OUTDOORS ACQUIRED BY ARGOSY

- TM Capital served as exclusive financial advisor to Walpole Outdoors in its sale to Argosy Private Equity
- Walpole is an iconic, 100-year old Northeastern DTC brand offering premium, installed outdoor living products
- The Company is a vertically-integrated manufacturer, marketer and installer of premium fences, mailbox and lantern posts, and outdoor structures including pergolas and arbors
- Argosy Private Equity has been an investor in growing middle market companies since 1990, with a history investing in the building products sector



HAS SOLD

Blue Rhino Global Sourcing



TO

an undisclosed buyer

FERRELLGAS PARTNERS HAS SOLD BLUE RHINO GLOBAL SOURCING TO AN UNDISCLOSED BUYER

- TM Capital served as exclusive financial advisor to Ferrellgas Partners in the sale of Blue Rhino Global Sourcing ("BRGS") to an undisclosed buyer
- BRGS is a leading designer and supplier of barbecue accessories, outdoor heating products, fireplace accessories and commercial cooking products
- BRGS serves as a category manager for retailers and commercial foodservice customers and boasts a portfolio of well recognized brands including Blue Rhino, Chef Master, Endless Summer, Mr. Bar-B-Q and UniFlame



HAS BEEN ACQUIRED BY



SNARELY FOREST PRODUCTS ACQUIRED BY WEEKES

- TM Capital served as exclusive financial advisor to Snavely Forest Products, Inc. in its sale to Weekes Forest Products, Inc.
- Snavely is a two-step distributor of composite decking & railing, engineered wood products, boards, exterior cladding and other building materials
- Weekes is an employee-owned distributor of lumber and building materials including commodity and specialty lumber, panel products, engineered wood and related residential and industrial products
- Snavely's five autonomous distribution centers have no geographic overlap with Weekes' distribution footprint, and the transaction will significantly expand the combined company's reach



HAS BEEN ACQUIRED BY

THE JORDAN COMPANY

DIVERSITECH CORPORATION ACQUIRED BY THE JORDAN COMPANY

- TM Capital served as exclusive financial advisor to DiversiTech Corporation in its sale to The Jordan Company
- DiversiTech is the leading manufacturer and distributor of HVACR equipment pads and offers an extensive, proprietary portfolio of condensate management equipment, HVACR chemicals and electrical accessories
- The Company's breadth of offerings, extraordinary product innovation capabilities and market leadership combine to position DiversiTech as the "one-stop-source" for HVACR distributors nationwide
- The Jordan Company, with over \$8 billion of cumulative equity commitments, is one of the world's most respected investors in middle market industrial businesses



A PORTFOLIO COMPANY OF

SourceCapital | LLC

HAS COMPLETED A RECAPITALIZATION WITH



BACKYARD PRODUCTS RECAPITALIZED BY CYPRIUM PARTNERS

- A TM Capital partner previously served as exclusive financial advisor to Backyard Products, LLC, a portfolio company of Source Capital, in its recapitalization with Cyprium Partners
- Backyard Products is a leading manufacturer, distributor and installer of residential wood sheds, playsets and other outdoor structures under the Handy-Home, Heartland, Yardline, Gorilla Playsets, Swing-n-Slide, Kids Creations and Backyard Buildings
- The company supports in-store and ecommerce channels with a national DIFM installation company
- Cyprium Partners is a Cleveland-based private investor, providing mezzanine debt and equity to middle market businesses



A PORTFOLIO COMPANY OF

Baird Capital Partners 

HAS BEEN ACQUIRED BY



BACKYARD DISCOVERY ACQUIRED BY ATERIAN INVESTMENT PARTNERS

- TM Capital served as exclusive financial advisor to Backyard Leisure Holdings, LLC in its sales to Aterian Investment Partners
- Backyard Discovery at the time was an industry leader in the residential playset, playhouse and wooden shed markets operating under Backyard Discovery™, Backyard Odyssey™, Backyard Adventures®, Leisure Time Products™, Sheds USA® and GoConfigure
- Backyard Discovery has a unique Do-It-For-Me business model which includes proprietary branded products and at-home installation services
- Aterian Investment Partners is a private equity firm focusing on acquisitions of middle-market companies possessing strong, proven franchises and experienced management teams



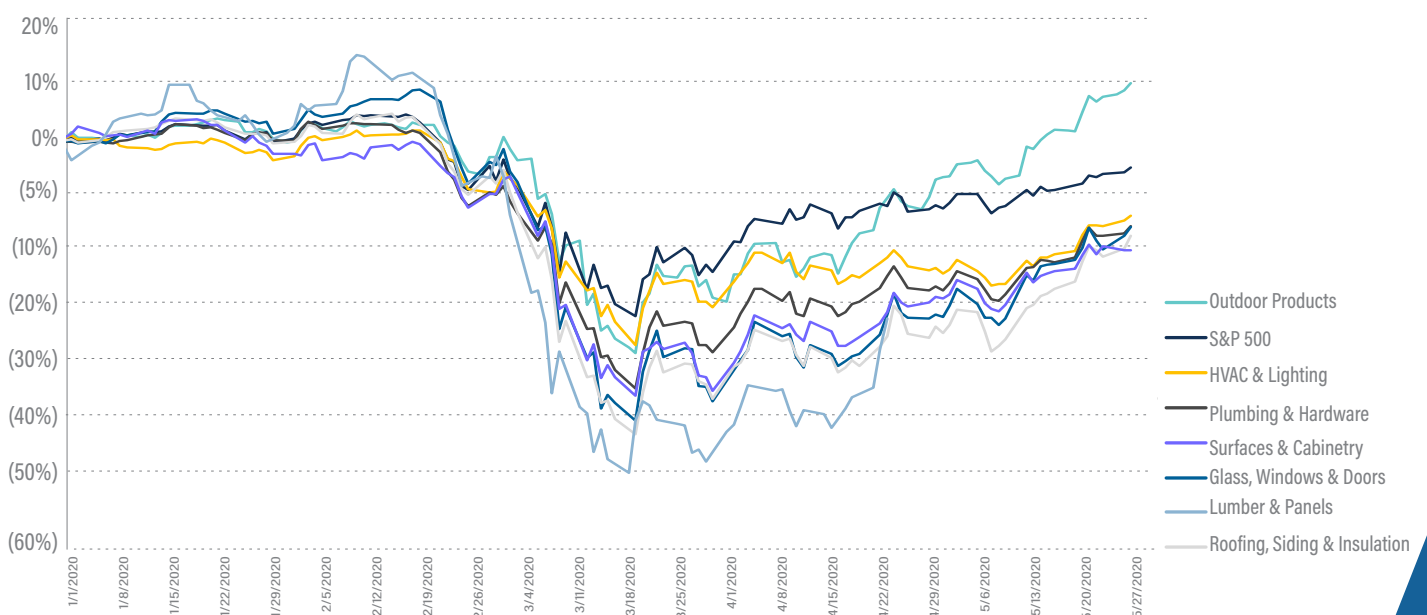
GUIDELINE PUBLIC COMPANY PERFORMANCE - BUILDING PRODUCTS

Through the COVID-19 induced market reset, building products stocks performed roughly in line with the broader indices. Since then, however, the overall building products segment has dropped much deeper, reflecting the greater discretion involved in such consumer spending.

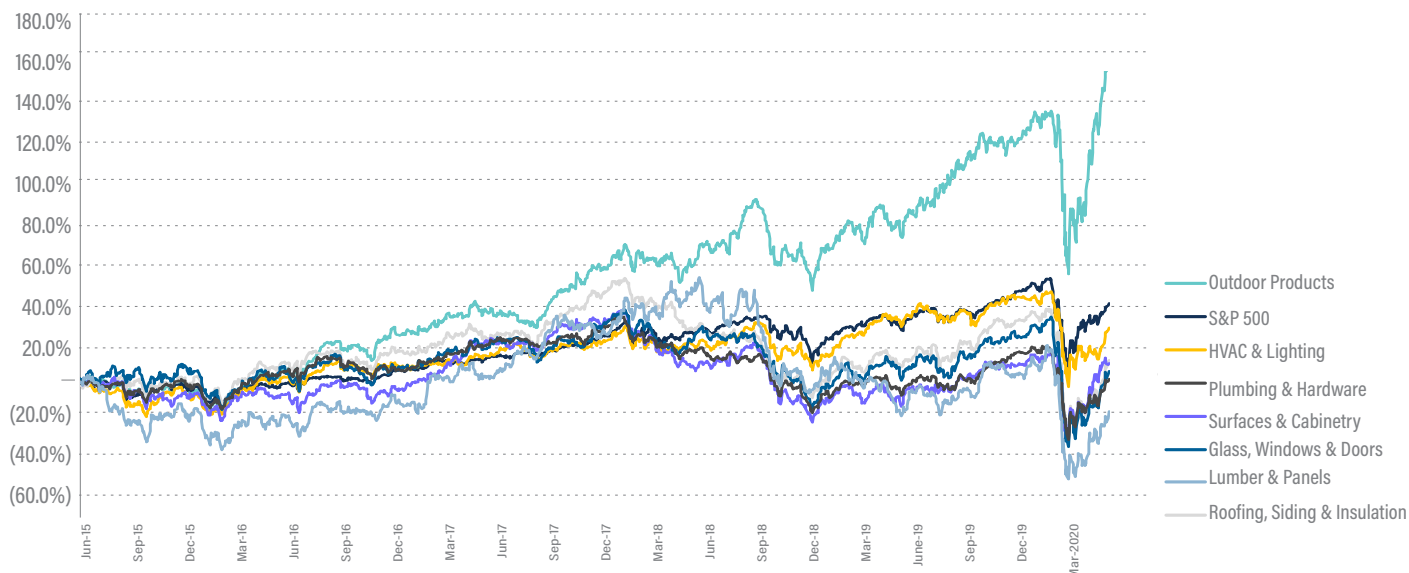
Over both 5-year and YTD time periods, the "Outdoor Products" category has outperformed the S&P and the other building products sectors, a testimony to the strength of renovation and remodeling spending. Two of the weaker categories have been the Lumber and Panels ("L&P") and Surfaces and Cabinetry ("S&C") sectors. Several reasons likely explain this:

- The S&C category has likely been hurt by the associated investment size and disruptions (especially during stay-at-home periods) along with disruptions in what for many is a China-based supply chain
- L&P has been negatively impacted by continued overcapacity exacerbated by capacity expansion in the U.S. South. Absence of historical demand from Asia has also hurt

YTD STOCK PERFORMANCE



5-YEAR STOCK PERFORMANCE



TM CAPITAL BUILDING PRODUCTS SECTORS, EQUALLY WEIGHTED COMPRISING THE FOLLOWING COMPANIES:

1. Glass, Windows & Doors: American Woodmark Corporation, Apogee Enterprises, Assa Abloy, CRH, Fortune Brands Home & Security, Masonite International Corporation, PGT Innovations
2. HVAC & Lighting: Acuity Brands, Daikin Industries, Eaton Corporation, Johnson Controls, Koninklijke Philips, Lennox International, Schneider Electric, Trane Technologies
3. Lumber and Panels: Canfor, LPX, Norbord, West Fraser
4. Outdoor Products: CRH, Pool Corporation, Maytronics, Pentair, Trex
5. Plumbing & Hardware: Assa Abloy, Fortune Brands Home & Security, Masco Corporation, Mueller Water Products, Newell Brands, Rexnord Corporation, Richelieu Hardware, Spectrum Brands Holdings, Stanley Black & Decker, Toto, Tyman, Villeroy & Boch
6. Roofing, Siding & Insulation: Beacon Roofing, Carlisle Companies, Compagnie de Saint-Gobain, James Hardie Industries, LPX, Owens Corning
7. Surfaces & Cabinetry: Caesarstone, Fortune Brands, Interface, Mohawk Industries, Panariagroup Industrie Ceramiche, Sherwin Williams, Tarkett, The Dixie Group, Trex Company



M&A TRENDS

2019 was another strong year for M&A activity in the Building Products Sector, as strategic and financial buyers capitalized on significant growth in the sector. A rise in family offices over the past few years, and a corporate focus on efficient “tuck-in” purchases helped to drive acquisition activity and remain key factors.

Looking forward, and after the economy begins to recover and companies repair their balance sheets, corporate investors are likely to focus on sectors that provide material cost efficiencies in the near-term or can position their companies well for the future. These firms will continue to watch shifting demographic trends, in order to capitalize on a new cohort of Millennial consumers’ and homeowners’ preferences. At the same time, the continuously aging U.S. residential housing & infrastructure grid continue to require significant investment, which will likely grow in urgency through the foreseeable future. In the shorter term, homeowners’ increasing focus on their homes and yards should continue to drive M&A activity. Financial buyers are likely to focus on platform acquisition opportunities provided by companies who continued to perform through the current COVID-19 crisis. Firms are adapting their customer relations and on-site protocol to make consumers feel more comfortable bringing workers into their homes. Companies that act quickly, enabling HVAC maintenance workers or remodeling teams with new social distancing protocols can win consumer trust well into the future and create valuable in-home programs.

Longer-term, companies increasingly will need to offer (whether built organically or acquired) DTC and DIFM capabilities across many product categories to gain a market advantage – especially where the consumer makes the primary purchase decision.

PRIVATE EQUITY BUILDING PRODUCTS

M&A ACTIVITY

Recent Acquisitions of North American Building Products Companies by Private Equity Firms			
Date	Target	Investors	Description
3/31/2020	Engineered Plastic Systems	CMI Limited Co. (Capital Partners)	Manufacturer of plastic lumber products
3/10/2020	Traverse City Products	Charter Capital Partners, Colfax Creek Capital	Manufacturer of custom roll formed and stamped metal products
3/6/2020	GED Integrated Solutions	The Beekman Group	Manufacturer and supplier of insulated glass and vinyl window and door fabrication systems
3/3/2020	EJ Enterprises	Unified Door and Hardware Group (Dunes Point Capital)	Distributor of doors and hardware
3/3/2020	Value Plus Flooring	Artisan Design Group (The Sterling Group)	Provider of installation services for flooring and complementary products
3/2/2020	HC Quality Doors	The Cook & Boardman Group (Littlejohn & Co)	Supplier of aluminum storefronts and commercial doors and hardware
3/2/2020	Mad City Windows and Baths	Florida Home Improvement Associates (York Capital Management)	Provider of home remodeling services
2/25/2020	Homewood Holdings	American Construction Source (Angeles Equity Partners, Clearlake Capital Group)	Operator of a holding company with interests in supplying lumber and building materials
2/24/2020	PolyVision	Industrial Opportunity Partners	Manufacturer and supplier of ceramic-steel surfaces
2/18/2020	Masco Cabinetry	ACProducts (American Industrial Partners)	Manufacturer of cabinets
2/10/2020	Guerdon Enterprises	Innovatus Capital Partners	Manufacturer and provider of large-scale, commercial modular construction projects in the Western United States and Canada
2/7/2020	Gannon Wholesale	SRS Distribution (Berkshire Partners, Leonard Green & Partners)	Distributor of building roofing products
2/5/2020	IDI (Two Specialty Building Products Branches in Baltimore and Washington)	Foundation Building Materials	Two specialty building product branches in Baltimore, Maryland and Washington, District of Columbia.
2/3/2020	Amerimax Building Products	Cascade Windows (CenterOak Partners)	Producer of aluminum, steel, vinyl and fiberglass replacement windows and doors as well as vinyl windows and patio doors
2/1/2020	Lightstreams	Pebble Technology International (Graycliff Partners)	Designer of architectural glass tile serving architectural and residential properties based in Manteca, California
1/27/2020	Aegis Fire Systems	Rapid Fire Protection (Boyne Capital Partners)	Designer and installer of fire protection systems
1/27/2020	TK Classics	Twin-Star International (Z Capital Group)	Designer, manufacturer, and distributor of design-rich outdoor furniture
1/22/2020	Mac Skylights	Dakwakada Capital Investments (Alex Doepel)	Provider of a range of glass and plastic skylights for commercial and residential applications, plastic fabrication of many types of plastic products, and also provides installation and repair services.
1/21/2020	Kinetics Noise Control	The Stephens Group	Designer and manufacturer of noise and vibration control products and solutions
1/15/2020	Carstin Brands	Wolf Home Products (Tenex Capital Management)	Manufacturer of marble, quartz and granite countertops
1/8/2020	Safe-Way Garage Doors	Brixey & Meyer Capital	Manufacturer of garage doors
1/1/2020	J&R Products	Cameron Ashley Building Products (Highland Avenue Capital Partners, Pacific Avenue Capital Partners)	Distributor of building products, tools and accessories
12/31/2019	Metal Form Manufacturing	United Enertech Holdings (DalFort Capital Partners)	Designer and manufacturer of ventilation, security and sound reduction solutions for commercial, industrial, institutional and residential applications
12/27/2019	Quality Acrylic Bath	Royal Manufacturing (Cotton Creek Capital)	Manufacturer of acrylic tubs
12/20/2019	KCH Engineered Systems	ECS Environmental Solutions (Argosy Private Equity)	Manufacturer and provider of corrosion-resistant ventilation systems
12/20/2019	Mission Bell	USA Millwork (Tecum Capital, Ninth Street Capital)	Provider of architectural woodwork, reclaimed wood and custom casework
12/17/2019	Swisstrax	The Recreational Group (Eagle Merchant Partners)	Manufacturer of modular garage floor for commercial, residential and industrial applications
12/2/2019	Versare Solutions	WILsquare Capital	Manufacturer and distributor of portable partition products designed to improve the utilization of space
11/19/2019	Colony Display	Kinzie Capital Partners	Manufacturer of customized wood and metal modular fixtures, exhibits and displays from wire, steel tubing, sheet steel, wood, plastic and other materials for home improvement, retail and hospitality industries, providing assembly, installation and project management services
11/7/2019	Express Flooring Services	HighGrove Companies (Longhouse Partners, Valesco Industries)	Provider of replacement flooring for the residential and commercial markets
10/31/2019	Banner Solutions	Tailwind Capital	Distributor of building hardware for the commercial, residential and institutional facilities markets
10/31/2019	Lamvin	Sound Seal (The Stephens Group)	Manufacturer of acoustical wall and ceiling products for commercial construction
10/29/2019	Hearth Craft	Design Specialties (Blackthorne Partners)	Manufacturer of fireplace doors
10/27/2019	Alpha Pump & Equipment	Holland Pump (Win Blodgett), XPV Water Partners (Samuel Saintonge)	Distributor of specialty pumps and accessories intended for industrial solutions
10/23/2019	Sears Hometown Stores	Transformco (ESL Investments)	National retailer of home appliances, lawn and garden equipment, and hardware at its stores and on its websites
10/18/2019	Roofers Supply	SRS Distribution (Berkshire Partners, Leonard Green & Partners)	Distributor of residential and commercial roofing products and accessories
10/17/2019	Dura Supreme	GHK Capital Partners	Manufacturer of semi-custom and custom kitchen and bath cabinetry
10/16/2019	Engineered Plastic Systems	Tangent Technologies (The Sterling Group)	Manufacturer of plastic lumber products
10/4/2019	World and Main (U.S.)	Piedmont Hardware Brands (Nova Capital Management)	Distributor of hardware and housewares-related products
10/3/2019	Ortal Heat	Tene Investment Funds	Provider of modern fireplace designing and installation services
10/2/2019	Construction Materials	Construction Supply Group (The Sterling Group, Kingfish Group)	Provider of concrete, masonry, and waterproofing products
10/1/2019	American Building Services	The Cook & Boardman Group (Littlejohn & Co)	Provider of architectural doors, frames, hardware and related products
10/1/2019	Laurier Architectural	Caisse de dépôt et placement du Québec (Novatech Group)	Manufacturer of heat-treated glass, spandrels, decorative glass & laminated glass intended for the commercial and institutional construction market, high-rise buildings and the manufacturing industry

Recent Acquisitions of North American Building Products Companies by Private Equity Firms			
Date	Target	Investors	Description
9/25/2019	Oakland Metal Buildings	Union Corrugating Company (Industrial Opportunity Partners)	Manufacturer and distributor of pre-engineered metal buildings
9/20/2019	Home & Leisure (Canada)	Tangent Technologies (The Sterling Group)	Provider of fabrication and assembly services for plastic lumber furniture focused on the mass market casual furniture industry.
9/6/2019	Schultz Roofing Supply	SRS Distribution (Berkshire Partners, Leonard Green & Partners)	Distributor of roofing products and accessories
9/4/2019	Contractor's Truss Systems	American Construction Source (Angeles Equity Partners, Clearlake Capital Group)	Provider of engineered wood structural building components for residential, commercial, agricultural and industrial buildings
9/4/2019	Surfaces Southeast	The Baupost Group	Manufacturer and supplier of mosaics and specialty wall tiles
9/3/2019	Holdfast Technologies	Construction Supply Group (The Sterling Group, Kingfish Group)	Distributor of specialty construction materials, accessories and tools
9/3/2019	Wolf Home Products	Tenex Capital Management	Provider of kitchen and bath cabinetry and building products
9/1/2019	Bel Shower Door Corp	Denver Glass Interiors (Baymark Partners)	Manufacturer of bath fittings
8/23/2019	Arizona Shower Door	DreamLine (MPE Partners)	Designer and manufacturer of custom glass shower doors and enclosures
8/23/2019	Starr Systems Design	Bravas Group (Presidio Investors)	Designer and provider of electronic systems for residential and commercial properties including lighting control systems, electrical services, audio/video, entertainment and smart home automation systems
8/23/2019	The Home Works Group	Bravas Group (Presidio Investors)	Designer and provider of smart home technology and commercial control systems
8/23/2019	Travis Roofing Supply	SRS Distribution (Berkshire Partners, Leonard Green & Partners)	Distributor of residential and commercial roofing products and accessories
8/21/2019	Acoustical & Tackable Surfaces	Sound Seal (The Stephens Group)	Manufacturer and installer of acoustical wall and ceiling panels
8/14/2019	Watermark Designs	Top Knobs (The Jordan Company)	Manufacturer of plumbing fixtures and bathroom accessories
8/9/2019	Armstrong Ceiling Business	Aurelius Growth Investments	Manufacturer of commercial and residential ceiling, wall and suspension systems
8/5/2019	Total Trim Construction	Homewood Holdings (Building Industry Partners)	Provider of door and millwork installation services intended to serve multi-family builders, commercial and hospitality developers and contractors
8/1/2019	Flooring Systems	Interior Logic Group (Littlejohn & Co, Platinum Equity, The Gores Group)	Provider of flooring installation service
8/1/2019	Hayfield Window & Door	Drum Capital Management, Spell Capital Partners	Manufacturer of vinyl windows and doors
8/1/2019	Statewide Remodeling	Florida Home Improvement Associates (York Capital Management)	Provider of home innovation and remodeling services
7/31/2019	LM Flooring	AHF Products (American Industrial Partners)	Manufacturer of engineered wood flooring
7/23/2019	Polished Concrete Solutions	Aramco (Odyssey Investment Partners)	Provider of concrete products, training, and other services to the concrete maintenance industry.
7/3/2019	Lunada Bay Tile	Saugatuck Capital	Manufacturer and designer of decorative tiles for the remodeling and architectural and design markets
7/1/2019	Custom Choice Door	Homewood Holdings (Building Industry Partners)	Supplier of doors & millwork
6/28/2019	Unified Door and Hardware Group	Dunes Point Capital	Distributor of doors and hardware products
6/25/2019	Noise Barriers	Sound Seal (The Stephens Group)	Manufacturer of noise absorbing barrier systems
6/18/2019	Arteriors Home	Norwest Equity Partners	Manufacturer, designer and seller of lighting and fixtures to residential and commercial interior designer community and specialty retailers
6/17/2019	Milliken Infrastructure Solutions	Clock Spring Company (Wind Point Partners)	Provider of geopolymer-based building materials including chemicals, flooring and construction materials.
6/17/2019	MPL Holdings	Wynnchurch Capital	Provider of marble products for the hospitality and multi-family housing markets
6/17/2019	Ross Technology	FC Crestone (Trendline Capital)	Manufacturer of industrial storage, safety, architectural and perimeter security products
6/12/2019	Freeborn Lumber Company	American Construction Source (Angeles Equity Partners, Clearlake Capital Group)	Provider of lumber for home builders, building professionals and DIY customers
6/5/2019	Alum-A-Fold Pacific	Material Sciences (Sky Island Capital)	Producer of specialty coated metals
6/4/2019	Heritage Carpet & Tile	Artisan Design Group (The Sterling Group)	Provider of flooring solutions
6/3/2019	The Door Mill	Homewood Holdings (Building Industry Partners)	Distributors of residential interior and exterior doors
6/1/2019	Durante Rentals	Clairvest Group	Provider of construction equipment on a rental basis

Recent Exits of North American Building Products Companies by Private Equity Firms			
Date	Target	Exiting PE Firm	Description
3/6/2020	GED Integrated Solutions	Altus Capital Partners	Manufacturer and supplier of insulated glass and vinyl window and door fabrication systems
2/25/2020	Homewood Holdings	Building Industry Partners	Operator of a holding company with interests in supplying lumber and building materials
2/14/2020	American Freight	The Jordan Company	Retailer of home furnishing products
2/10/2020	Guerdon Enterprises	Main Street Capital, Riverlake Partners	Manufacturer and provider of large-scale, commercial modular construction projects
1/15/2020	Carstin Brands	Kirkpatrick & Company, Pulte Capital Partners	Manufacturer of marble, quartz and granite countertops
1/8/2020	Safe-Way Garage Doors	The Ellis Company	Manufacturer of garage doors
12/2/2019	Versare Solutions	Convergent Capital	Manufacturer and distributor of portable partition products designed to improve the utilization of space
10/31/2019	Banner Solutions	High Road Capital Partners	Distributor of building hardware for the commercial, residential and institutional facilities markets
10/4/2019	World and Main (U.S.)	Littlejohn & Co	Distributor of hardware and housewares-related products
10/1/2019	Custom Window Systems	Nautic Partners	Designer and manufacturer of windows, doors and porch enclosures
8/12/2019	Artistic Holdings	Long Point Capital, Rockwood Equity Partners	Manufacturer of staircases and railing systems
7/8/2019	Home Franchise Concepts	Trilantic North America	Manufacturer of home improvement goods
6/17/2019	MPL Holdings	Monument MicroCap Partners	Provider of marble products for the hospitality and multi-family housing markets
6/10/2019	DaVinci Roofscapes	TGP Investments	Manufacturer and marketer of synthetic shingles for residential and commercial buildings

Source: Pitchbook

TM CAPITAL'S INDUSTRIALS TEAM

We continue to broaden our building products reach with several key transactions this year. Reach out to our industrials team to see how we can orchestrate an extraordinary outcome for you.



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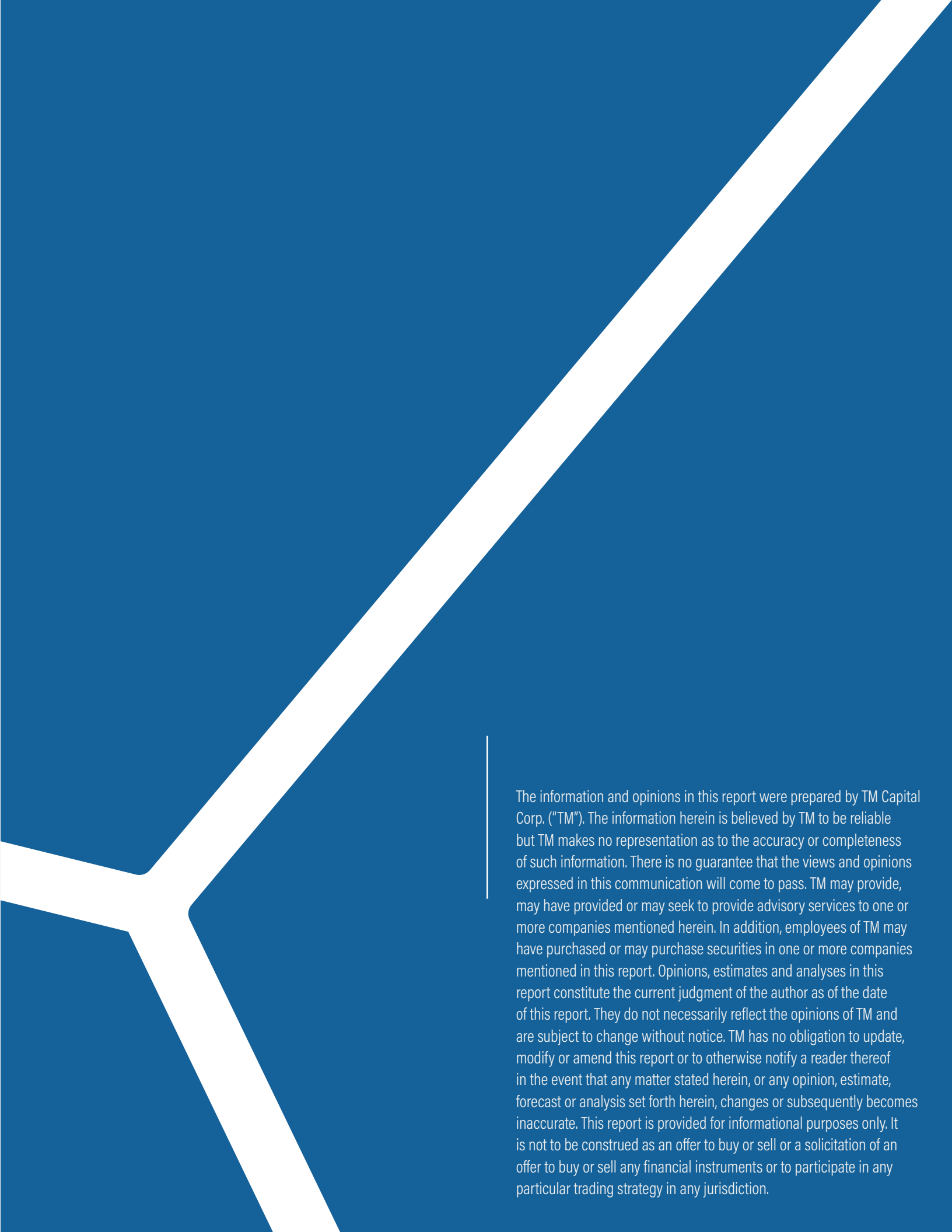
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