



SPOT ON MANUFACTURING & DISTRIBUTION OF BUILDING MATERIALS

Angela Chen, Oaklins' manufacturing and distribution of building materials specialist in China, is pleased to share some high-level industry intelligence in this edition of Spot On.

"The Chinese market is experiencing a change as a result of ongoing influential events, happening both domestically and abroad, such as the removal of presidential term limits in China and the tariff war with the USA.

Additionally, due to the implementation of further restrictions, the Committee on Foreign Investment in the United States (CFIUS) reviews are taking longer

than ever before, resulting in challenging deal-making conditions between China and the USA. Subsequently, we have observed more capital from China flowing into Europe. We believe that cross-border M&A transactions represent a significant opportunity for an increasing number of Chinese companies operating in the building materials sector, allowing businesses to penetrate new markets and benefit from synergies created.

In this newsletter, we will look into the market trends and M&A transactions in the building materials manufacturing sub-sector."

MARKET TRENDS



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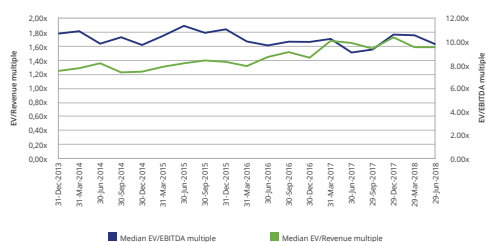
SPOTLIGHT



**China National
Building Materials
Group Corporation**

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VALUATION TRENDS



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M&A TRANSACTIONS

Date	Target	Country	Target description	Bidder	Country	Valuation EV (US\$m)	EV/ Rev	EV/ EBITDA
14-Jun-2018	nora		Manufactures rubber flooring systems. In addition to its flooring, it also provides accessories, stairtreads and installation services	Interface		448.2	N/A	N/A
17-May-2018	IMERYS Teiture		Manufactures terracotta tiles, accessories and solar tiles, with its products used in the construction of new builds, as well as renovations	LONE STAR FUNDS		1,164.1	3.3x	9.0x
26-Apr-2018	mungo		Manufactures fasteners, including metal and nylon plugs, special chemical and insulation fixations, and other accessories	FINATEM		N/A	N/A	N/A
19-Mar-2018	Simx		Manufactures residential and commercial ventilation products, as well as	evolution		52.0	2.0x	N/A

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Market trends

China has become the largest manufacturer and consumer of building materials in the world, leading in output of products such as cement, plate glass, building ceramics and wall material. Meanwhile, quality is increasing and consumption of natural resources and raw materials is decreasing, as new materials are being developed which are playing an important role in the industry.



External factors analysis

There are a number of external factors impacting the building materials industry in China. These include:

- Chinese government support of the industry through policy-making in recent years. One example is a series of regulations issued in 2017 strongly backing the use of energy-saving building materials.
- Since the end of 2016, prices of aluminium ingot, glass and packing materials have been climbing, leading to a cost increase for businesses, a significant squeeze on profits and fiercer competition. As a result, it has become critical for companies to progress and innovate in order to drive profits.
- Large-scale urbanization continues to provide a solid cornerstone for the building materials industry.
- The industry is embracing technological innovation — new materials, particularly those which are energy-efficient, are driving significant new demand and products are becoming greener and multi-functional.



Building materials market in China

In 2017, the building materials manufacturing market continued increasing, generating an added value of 3.6%. The price of building materials rose significantly with a year-over-year (YOY) growth of 8.2%, reversing the previous two-year decline. Overall, industry performance is recovering with revenues increasing to US\$1,200 billion, representing YOY growth of 8%. Meanwhile, the export of building materials from China has shown a decrease of 1.3%, falling to US\$30.6 billion over the same period.

Increasing urbanization

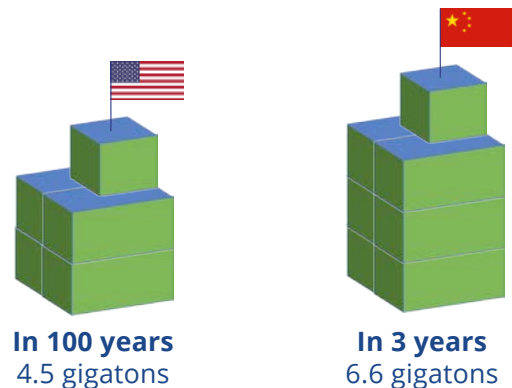
- The total population living in urban areas increased from **26%** in 1990 to **59.4%** in 2017. (Source: People's Daily).
- By 2025, about 900 million will be living in cities, representing **70%** of China's population. (Source: The New York Times).



Analysis of different sectors

- **Cement:** The cement sub-sector is a regional market subject to seasonality. High and stable demand coupled with increased cement prices have driven profits up considerably. However, the sector is highly dependent on the macro-economy, making demand vulnerable to economic downturns.
- **Ceramics:** The number of building ceramics enterprises in China has decreased from 1,452 in 2014 to 1,366 in 2017, a decrease of 5.92%. In comparison to the overall sector landscape, which remains concentrated, the ceramics sector is still highly fragmented.
- **Steel:** In 2011 China was the largest producer of steel in the world, producing 45% of the world's steel, until the Chinese stock market crash in 2016 which resulted in a decrease in material supply and increase in price.
- **New materials:**
 - a) **Graphene:** Due to its unique qualities, graphene has significant potential as a building material and is currently being used to enhance mechanical properties and endurance. Furthermore, graphene has the potential to improve electrical and thermal conductivity and to provide intelligent functions.
 - b) **CFRP (Carbon Fiber Reinforced Plastic):** As a non-metallic material, CFRP has a wide range of potential applications. A key trait is its highly specific strength, making it widely used in products in need of weight reduction. The corrosion resistance of CFRP makes it a good fit for building reinforcement.
- **Green materials:**
 - a) **Green coating:** To advance environmental protection, the Chinese government implemented a 4% coating consumption tax in February 2015, with incentives for enterprises meeting environmental protection standards.
 - b) **Low-emissivity glass (Low-e glass):** This material is recommended for its low radiation and heat preservation properties, as well as its low cost. It is estimated that the growth rate of demand for energy saving products will be greater than 35% over the next ten years.

China used more concrete in 3 years than the US used in the 20th century



Source: Forbes

Value chain





Cross-border Chinese transactions

As the industry in China grows, we are witnessing a larger number of cross-border M&A transactions and investments by Chinese companies involving businesses throughout Europe, North America and Australia. Examples of recent M&A and investment activities include:



Acquisition of Permasteelisa S.p.A. by Grandland Holding Group Co., Ltd.

- Permasteelisa, based in Italy, designs, manufactures and installs architectural components, offering curtain walls, partition walls, doors and facades
- Grandland Holding Group Co., Ltd. is engaged in real estate development, architectural decoration design and construction, and chemical environmental protection coatings
- The implied enterprise value of the deal has been reported as US\$1,016 million, representing 0.7x LTM (last twelve months) revenue and 34.6x LTM EBITDA
- This transaction gives Grandland the opportunity to differentiate its current offering in the curtain wall market with access to a premium brand, complementing Grandland's focus on interiors



Investment by China Lesso Group Holdings Limited in Artaic LLC

- Incorporated in 2007 and based in Boston, USA, Artaic designs and fabricates custom tile-work for commercial and residential markets. They make mosaic and tile designs for a variety of uses and offer installation services
- China Lesso Group is involved in the manufacture of building materials and interior decoration products
- Ted Acworth, Founder and CEO of Artaic, is quoted as saying "I think Lesso saw an interesting product that they could sell in China. They're kind of known as the Ikea or Home Depot of China."



China National Building Material Co., Ltd. (CNBM) is a state-owned building materials business listed on The Stock Exchange of Hong Kong with a market capitalization of US\$10.1 billion.

CNBM states its strategic goal is “to become a world-class manufacturer of building materials and to maximize shareholder return”. Its core values are “innovation, performance, harmony and responsibility”. The group's main focus areas are:



Cement



**Lightweight
building materials**



**Glass fiber and
composite materials**



Engineering services

CNBM is a significant market participant. There have been a number of interesting insights into the group, its investment activity and the wider M&A landscape - a selection of which we have provided below.

Shou Peng, Executive Director of China National Building Materials Group, commented in China Daily that the acquisition of the business and assets of the solar production operations of Avancis GmbH & Co. KG is key for CNBM to further develop the building materials and energy materials industries. The transaction is expected to help CNBM master thin-film solar cell and special glass manufacturing technologies, as well as help break the monopoly of international market participants in this area.

Additionally, the transaction is expected to promote the rapid and sustainable development of China's new energy industry.

According to a report in Hexun News, Zhijiang Liu, Chairman of China National Materials Company (a subsidiary of CNBM), stated at the China Building Materials Industry Annual Economic Forum that The Belt and Road Initiative represents a new opportunity for Chinese building materials market participants to implement an internationalization strategy. When selecting overseas projects to invest in, CNBM looks for those with high demand, a large market and access to resources, as well as an opportunity to promote the use of SINOMA technology in the cement industry, all with the aim of increasing the influence of Chinese enterprises.

Sohu.com has reported Zhiping Song, CNBM's President, noted that when doing cross-border transactions, Chinese companies should always be cooperative and share resources such as engineering services, capital investment and operations management in order to achieve a win-win situation.

Reflecting on Chinese companies in the cement industry being acquired by or merged with global enterprises, Renwei Zhang, an independent non-executive director at CNBM, says that with China's rapid development, it is crucial for those operating in the building materials industry to seize available opportunities. The main elements of development are resources, technology and capital. Renwei Zhang does not believe one should refuse foreign investment based on a perceived threat to national security. He emphasizes that China should guide foreign investment with industry development planning and policies, and thinks that key projects should be approved by relevant departments in China to measure whether the foreign investment makes sense.

Some key questions to ask when considering foreign investment are:

- **will the transaction result in a loss of national assets?**
- **will the investment result in the formation of a monopoly?**
- **does the investment comply with regulated procedures, such as the bidding process?**



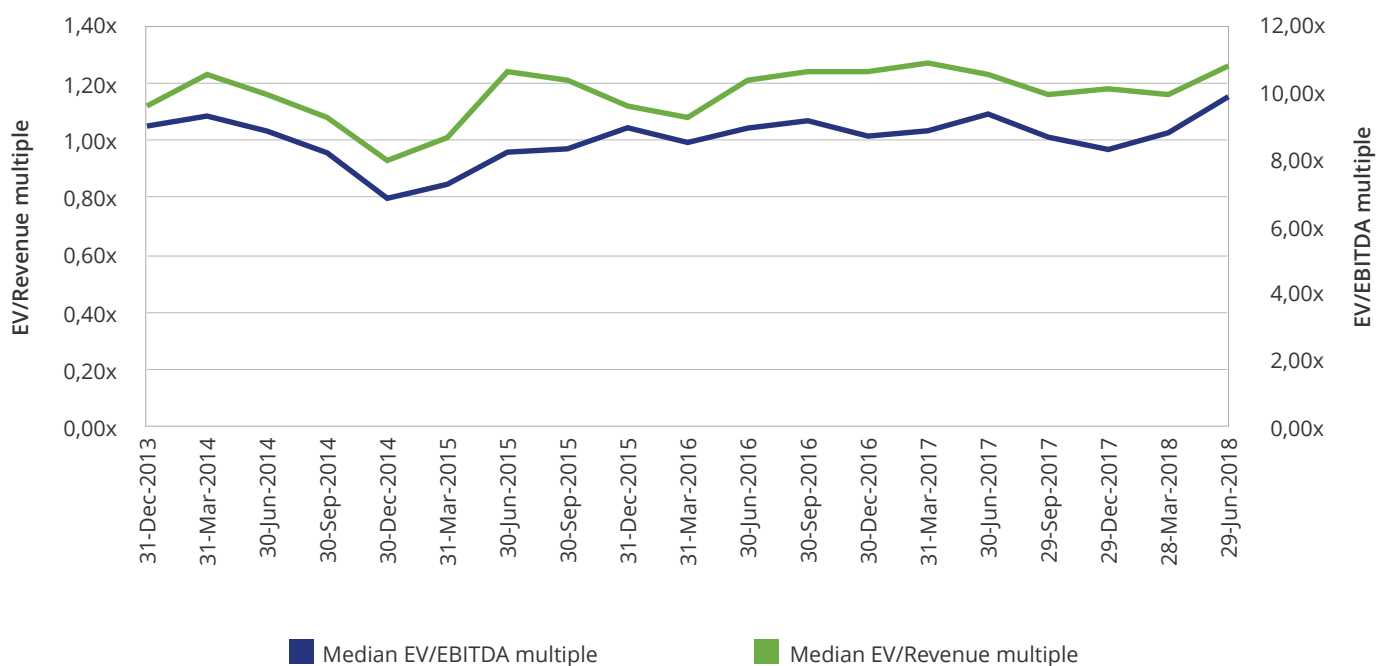
Selected public company valuations

A selection of public listed companies

Manufacturers	Head office location	Enterprise value (US\$m)	Enterprise value			
			LTM sales	NTM sales	LTM EBITDA	NTM EBITDA
CEMEX, S.A.B. de C.V.	Mexico	22,795	1.6x	1.5x	9.4x	8.0x
China National Building Material Company Limited	China	27,070	1.3x	1.1x	6.6x	4.5x
Compagnie de Saint-Gobain S.A.	France	35,590	0.7x	0.7x	6.6x	6.1x
CRH plc	Ireland	36,350	1.3x	1.2x	9.8x	9.0x
CSR Limited	Australia	1,634	0.9x	0.9x	6.7x	6.0x
KCC Corporation	South Korea	4,196	1.2x	1.1x	9.5x	8.7x
Louisiana-Pacific Corporation	USA	3,341	1.2x	1.2x	4.9x	5.0x
Masco Corporation	USA	14,843	1.9x	1.7x	11.5x	9.8x
PPC Ltd	South Africa	1,060	1.4x	1.2x	8.1x	5.8x
ROCKWOOL International A/S	Denmark	7,885	2.7x	2.5x	14.4x	12.9x
Toto Ltd.	Japan	7,412	1.4x	1.3x	10.9x	10.2x
USG Corporation	USA	6,796	2.1x	2.0x	12.9x	10.4x

Source: Capital IQ

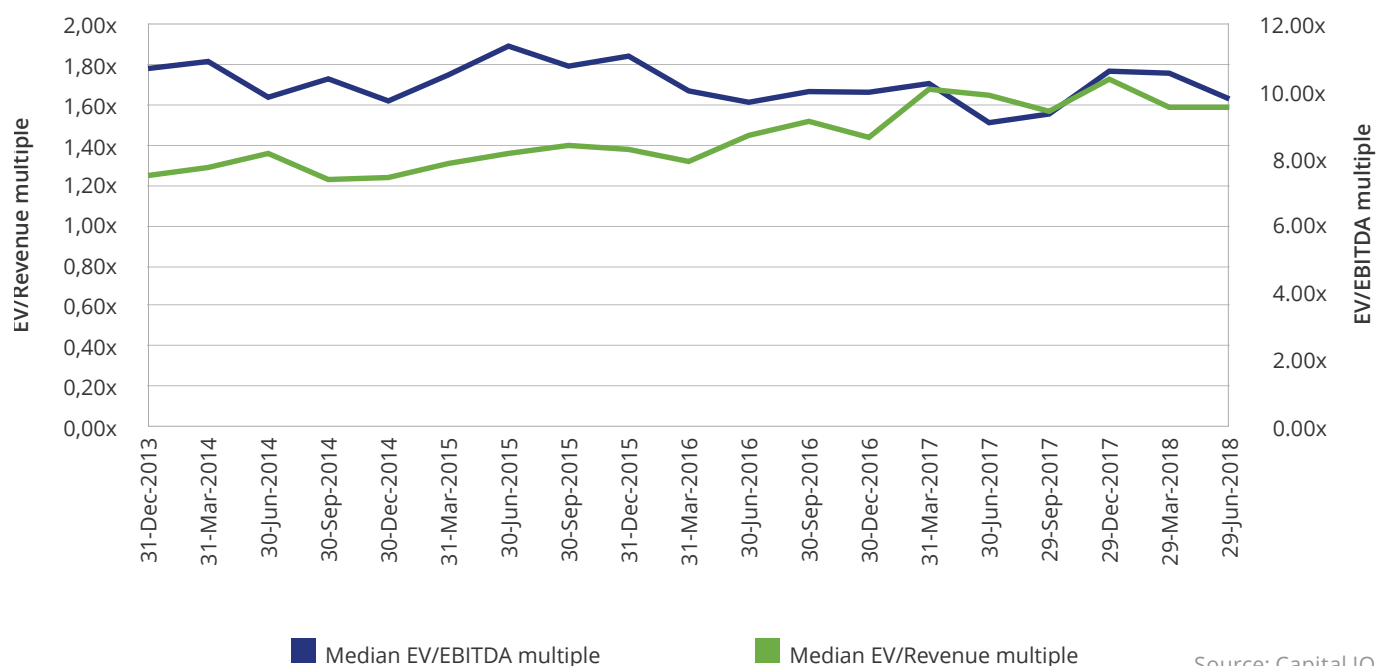
EMEA historical multiples



Source: Capital IQ

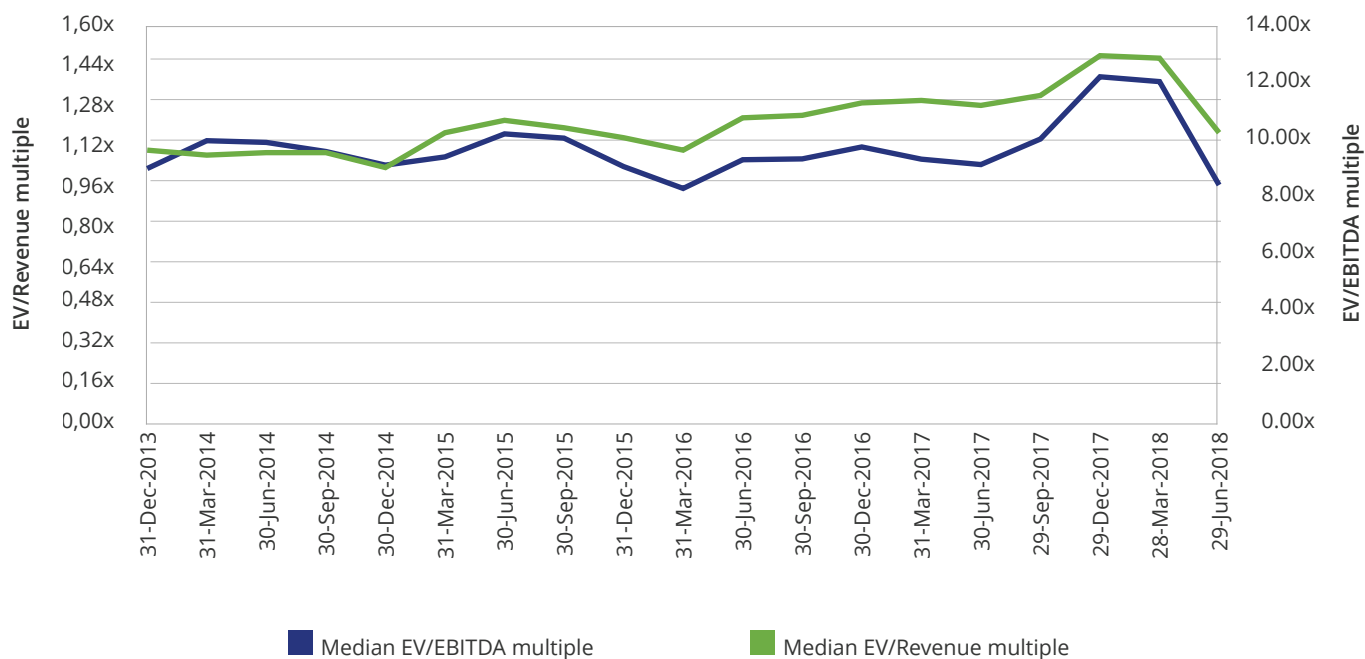
Selected public company valuations

Americas historical multiples



Source: Capital IQ

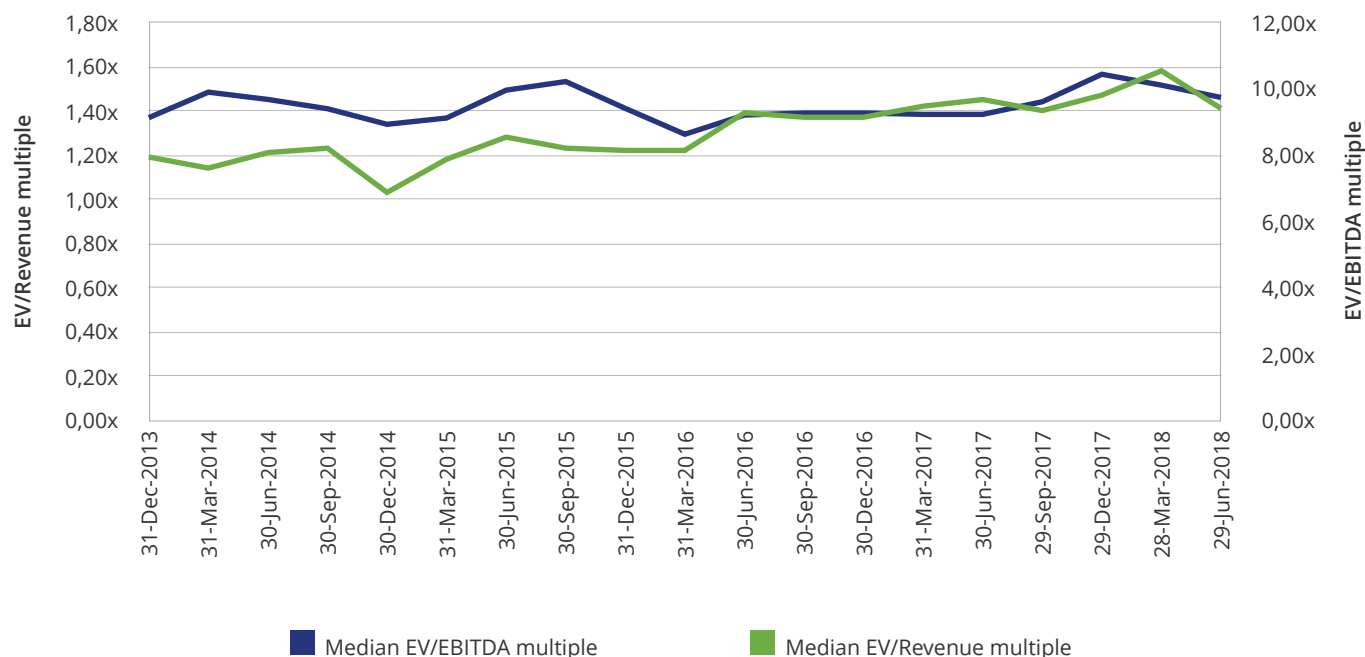
Asia-Pacific historical multiples



Source: Capital IQ

Selected public company valuations

Global historical multiples



Source: Capital IQ



Brian Livingston, Manufacturing & Distribution of Building Materials Specialist, Oaklins

























"As shown in the above graphs, valuations of the selected building materials manufacturing companies globally have fluctuated over the past five years. The median EV/Revenue multiple over the period is 1.3 times last twelve months revenue, with EV/EBITDA multiples over this period being 9.5 times last twelve months EBITDA. Private companies are typically valued at a discount to larger public companies depending on the sector growth and market size.

Oaklins, with its ability to bring international buyers to help drive a competitive process, can help companies achieve a premium value on exit."



Recent M&A activity

A selection of private transactions in the manufacture & distribution of building materials sector

Date	Target	Country	Target description	Bidder	Country	Valuation		
						EV (US\$m)	EV/ Rev	EV/ EBITDA
14-Jun-2018			Manufactures rubber flooring systems. In addition to its flooring, it also provides accessories, stairtreads and installation services			448.2	N/A	N/A
17-May-2018			Manufactures terracotta tiles, accessories and solar tiles, with its products used in the construction of new builds, as well as renovations			1,164.1	3.3x	9.0x
26-Apr-2018			Manufactures fasteners, including metal and nylon plugs, special chemical and insulation fixations, and other accessories			N/A	N/A	N/A
19-Mar-2018			Manufactures residential and commercial ventilation products, as well as residential lighting products			52.0	2.0x	N/A
15-Mar-2018			Manufactures residential window and door hardware for the fenestration industry			101.0	1.5x	9.0x
24-Jan-2018			Manufacturer of sanitaryware products			39.3	N/A	N/A
2-Dec-2017			Manufacturer of insulated, tempered, laminated and other glass for the construction industry	Beijing Liandong Jintai Investment Co., Ltd,		16.0	1.2x	N/A
14-Nov-2017			Manufactures unitized window systems for use in residential buildings			78.4	N/A	6.7x
9-Nov-2017			Manufactures wall tiles, flooring tiles, bathroom furniture and accessories			21.6	N/A	N/A
21-Aug-2017			Design, manufactures and installs architectural components			1,067.0	0.7x	36.3x

Recent M&A activity

A selection of recent Oaklins M&A transactions

<p>The Asamer family</p> <p>has acquired 100% of the shares in</p>  <p>M&A BUY-SIDE</p> <p>Construction & Engineering Services</p>	 <p>has acquired</p>  <p>US\$900m M&A BUY-SIDE</p> <p>Construction & Engineering Services/Other Industries/Private Equity</p>	 <p>has been acquired by</p>  <p>M&A SELL-SIDE</p> <p>Construction & Engineering Services</p>	 <p>has been acquired by</p>  <p>M&A SELL-SIDE</p> <p>Construction & Engineering Services</p>
 <p>has been acquired by</p>  <p>M&A SELL-SIDE</p> <p>Construction & Engineering Services</p>	 <p>has been acquired by</p>  <p>M&A SELL-SIDE</p> <p>Construction & Engineering Services/Logistics</p>	 <p>has been acquired by</p>  <p>M&A SELL-SIDE</p> <p>Construction & Engineering Services/Industrial Machinery & Components</p>	 <p>has been acquired by</p>  <p>M&A SELL-SIDE</p> <p>Construction & Engineering Services/Consumer & Retail</p>
 <p>has been acquired by</p>  <p>M&A SELL-SIDE</p> <p>Construction & Engineering Services/Consumer & Retail/Industrial Machinery & Components</p>	 <p>has been acquired by</p>  <p>M&A SELL-SIDE</p> <p>Construction & Engineering Services</p>	 <p>has been acquired by</p> <p>a private individual</p> <p>M&A SELL-SIDE</p> <p>Construction & Engineering Services</p>	 <p>has acquired</p>  <p>US\$6m M&A BUY-SIDE</p> <p>Construction & Engineering Services/Private Equity</p>
 <p>has acquired</p>  <p>US\$44m M&A BUY-SIDE</p> <p>Construction & Engineering Services/Consumer & Retail</p>	 <p>has been acquired by</p>  <p>US\$1.1bn M&A SELL-SIDE</p> <p>Construction & Engineering Services</p>	 <p>has been acquired by</p>  <p>M&A SELL-SIDE</p> <p>Construction & Engineering Services/Industrial Machinery & Components</p>	 <p>has been acquired by</p>  <p>M&A SELL-SIDE</p> <p>Construction & Engineering Services/Industrial Machinery & Components</p>

MEET OAKLINS, THE WORLD'S MOST EXPERIENCED MID-MARKET M&A ADVISOR

700 
professionals

60 
offices

40 
countries

5,000+ 
transactions

15 
sectors

Oaklins offers a comprehensive range of services

- M&A advisory (buy and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

Oaklins industry specialists

Manufacturing & distribution of building materials is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in this sector, with a large contact network of the most relevant market operators worldwide. This results in the best possible merger, acquisition and divestment opportunities for companies engaged in the manufacturing & distribution of building materials.

If acquisitions or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you. Please find our contact details below.



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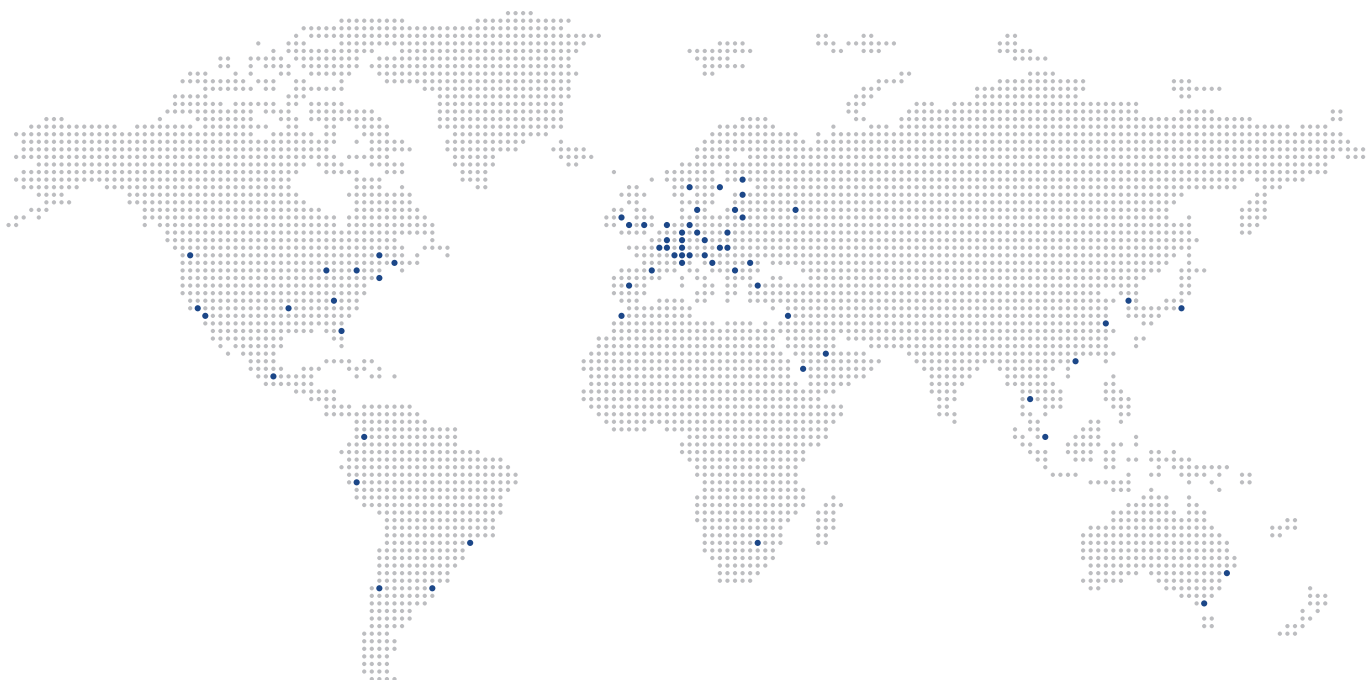
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