2016 M&A Recap

What last year's activity can tell us about the state of the LBM industry

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The pace of merger and acquisition (M&A) activity at the turn of a new year has important implications on the perceived health of the industry—and owners' ability to seek a buyer for their business. In 2016, we tracked 51 different M&A transactions in which an LBM distributor was involved. This represents a decline from the 64 deals completed in 2015. However, with nearly a deal per week taking place in 2016, sizeable bets are being made that the next few years will continue to be strong for LBM companies.

The honor for the largest deal of 2016 belongs to ABC Supply, with its somewhat surprising acquisition of L&W Supply. This deal, valued at $670 million, represented ABC's first major foray outside of the roofing and exterior products segment.

The most active buyers, measured by number of companies acquired, were Gypsum Management and Supply and Foundation Building Materials, with eight and seven deals, respectively. ABC Supply, SRS Distribution, and US LBM each completed four acquisitions, and Beacon Roofing Supply completed three.

Nearly 400 combined locations were acquired in the 51 transactions. ABC Supply and Foundation Building Materials captured the lion's share, with nearly 150 locations each. Monomoy Capital Partners, a PE fund, picked up 30 locations in two acquisitions, highlighting the continued interest of equity funds in the LBM space. Gypsum Management and Supply acquired two dozen locations in its acquisitions, followed by Beacon Roofing, SRS Distribution, and US LBM at roughly 10 locations each.

About half of 2016 deals were undertaken by a specialty dealer of some type. Drywall dealers accounted for 16 deals and roofing dealers undertook seven transactions. Lumberyards accounted for a third of 2016 buyers, with PE funds, manufacturers, timber companies, and others completing six deals.

A look at the types of sellers echoes the strong level of interest in specialty dealers. In 2016, 60% of targets acquired were specialty dealers, half of which were drywall distributors. Roofing and other exterior products made a strong showing and a few acquisitions of distributors of fencing, doors, and millwork were completed. Six manufacturers were acquired by LBM distributors in 2016.

Some 46 new LBM locations were launched and 20 other locations were shuttered, for a net opening rate of 26 locations. In 2015, there were 96 openings and 57 closings, for a net opening of 39 locations. This could be seen as a rush to get new locations in place as early in the cycle as possible. All closings were by lumberyards, some of which had operated for well over 100 years. Among new openings, two-thirds were lumberyards, and the remaining third were specialty dealers.

There is a popular belief that active acquirers like to shutter locations after an acquisition. The statistics from 2016 tell a different story, though. Of the 20 LBM locations that closed, only two of them were closed by companies that are active acquirers. The remainder of closings were either the rationalization of locations within a company that had not been involved in a transaction or resulted from the failure of standalone businesses. Nearly one out of four new expansions in 2016 was undertaken by serial acquirers like ABC Supply and SRS Distribution.

As a whole, the level of M&A activity and the opening of new locations are positive indicators for the LBM industry, with a high likelihood that M&A activity will continue at a beneficial pace.

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