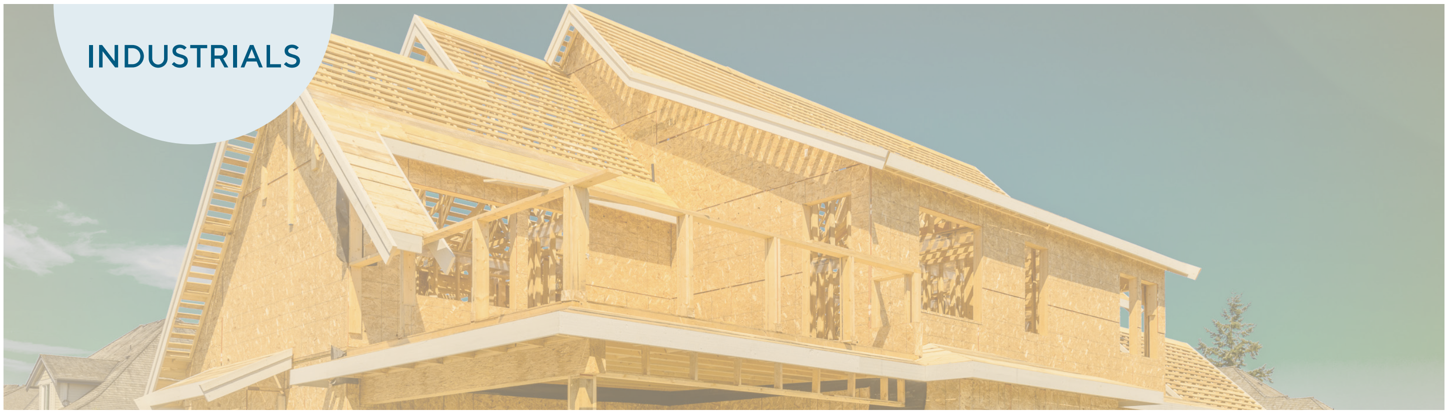

The Eventual Normalization of the Housing Market will Create a Busy Period for Building Products M&A

In late 2022, building products companies were assessing the impact of the flash freeze in the new residential construction market caused by mortgage interest rates more than doubling. However, as the calendar turned to 2023, the residential construction market quickly turned positive as home buyers who delayed home purchases began to adjust to the higher rate environment. During this time, every forward-looking indicator Lincoln International tracks turned materially positive, especially demonstrated by the NAHB / Wells Fargo Housing Market Index which has risen for three consecutive months from 31 at the beginning of the year to 44 in March. But the positivity seen in the first six plus weeks of the year has dissipated as continuing concerns about inflation and recent worries about the global banking system have rattled markets.

While the near-term demand and sentiment for residential building products and building products mergers and acquisitions (M&A) will be determined by the path of mortgage rates and interest rate policy set by the Federal Reserve, building products investors and strategic parties are looking to structural factors that will support the market in the medium to long-term. Namely:

Demographics

Aging millennials will drive an additional 12.7 million new households formed in the 2020s

Undersupply

Seven million more new homes needed in the 2020s to meet the above demographic demand and to fill the current two and a half million undersupply of homes

Mortgage Rate Normalization

Mortgage rates will normalize as the spread of the 30 year to 10 year treasury rate is currently near all-time highs; this spread plus other factors should result in lower mortgage rates going forward

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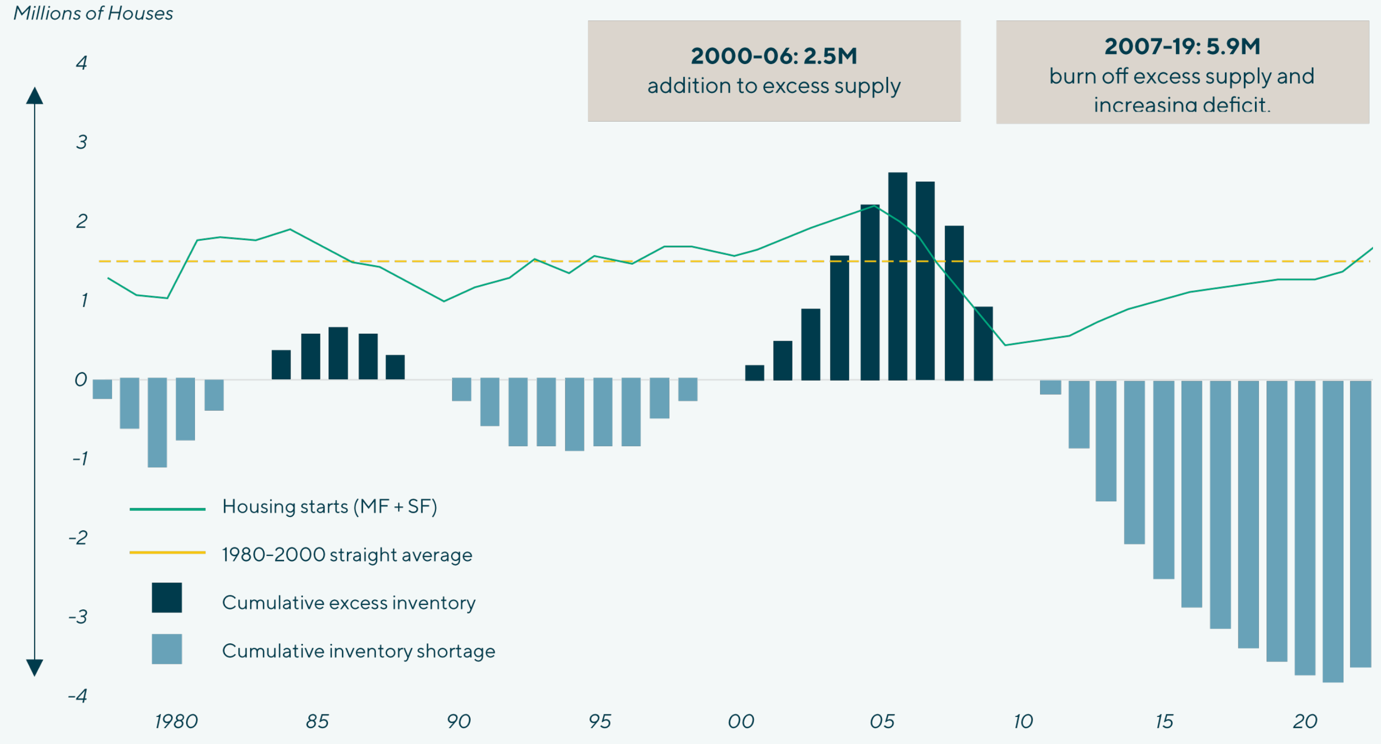
U.S. Housing Starts and Cumulative Inventory



Source: U.S. Census Bureau

We believe it is only a matter of time until the housing market finds its footing. Because of low inventory levels and high demand dynamics, it is becoming clear that the housing market downturn will most likely be limited in nature and nowhere near what was experienced in the global financial crisis.

Any downturn will also be buttressed by robust demand for repair and remodel (R&R). When building products spend is split between new construction and R&R, there is a roughly 25% / 75% split. This split is important to understand as R&R cash flows are valued higher by potential investors as they are less volatile than new construction. There are structural factors that support R&R to rebound strongly. Namely:

Housing Stock Age

24 million

homes will reach "prime remodel years" by 2027F, an all-time high as the late 90s and early 2000 homes reach prime age

Lock in Effect

87%

of mortgage borrowers are "locked in" at rates below 5%

Homeowner Equity

$343,000

near all time high home equity with home equity line of credit loans available in most markets

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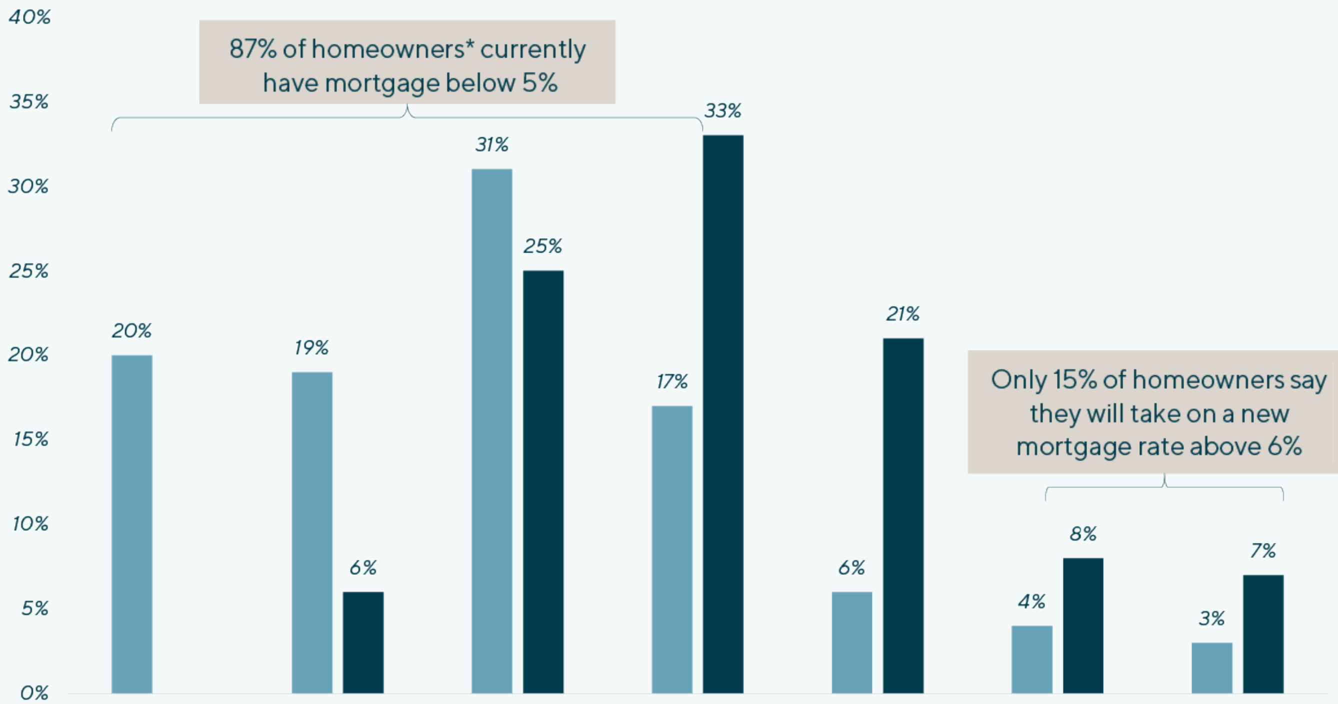
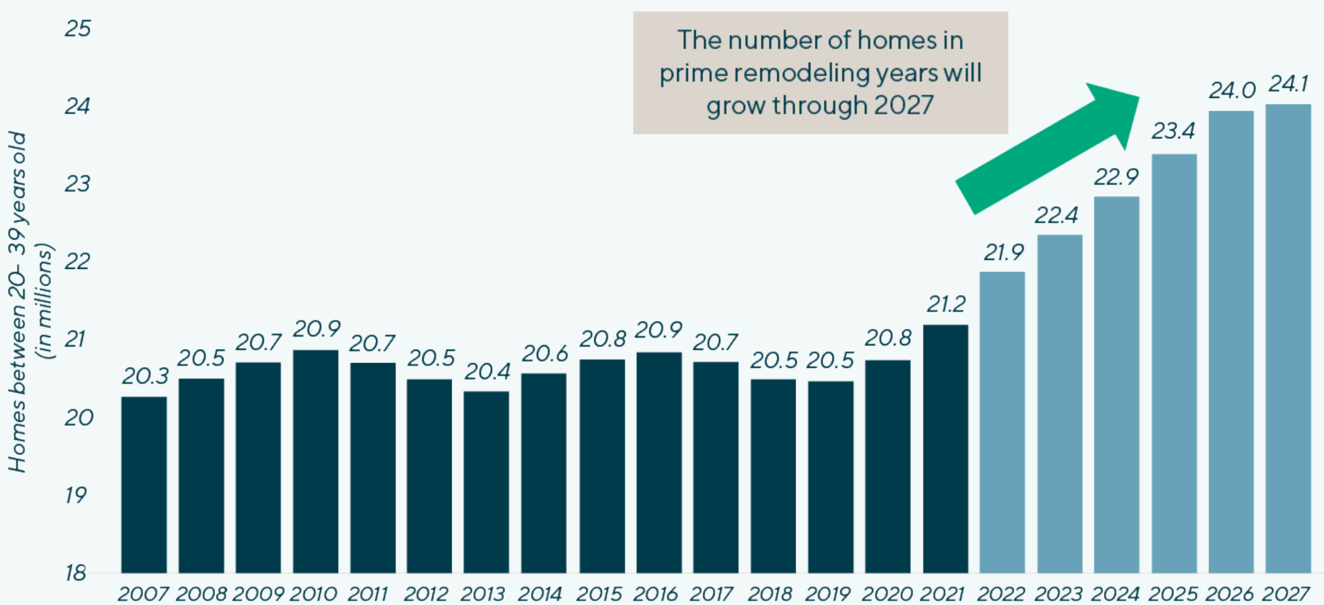
Homeowners' Highest Acceptable Mortgage Rate Willing to Take On for New Home Purchase



Source: New Home Trends Institute by John Burns Real Estate Consulting, LLC

Single-Family Homes in "Prime Remodel" Years



Source: U.S. Census Bureau; John Burns Real Estate Consulting, LLC

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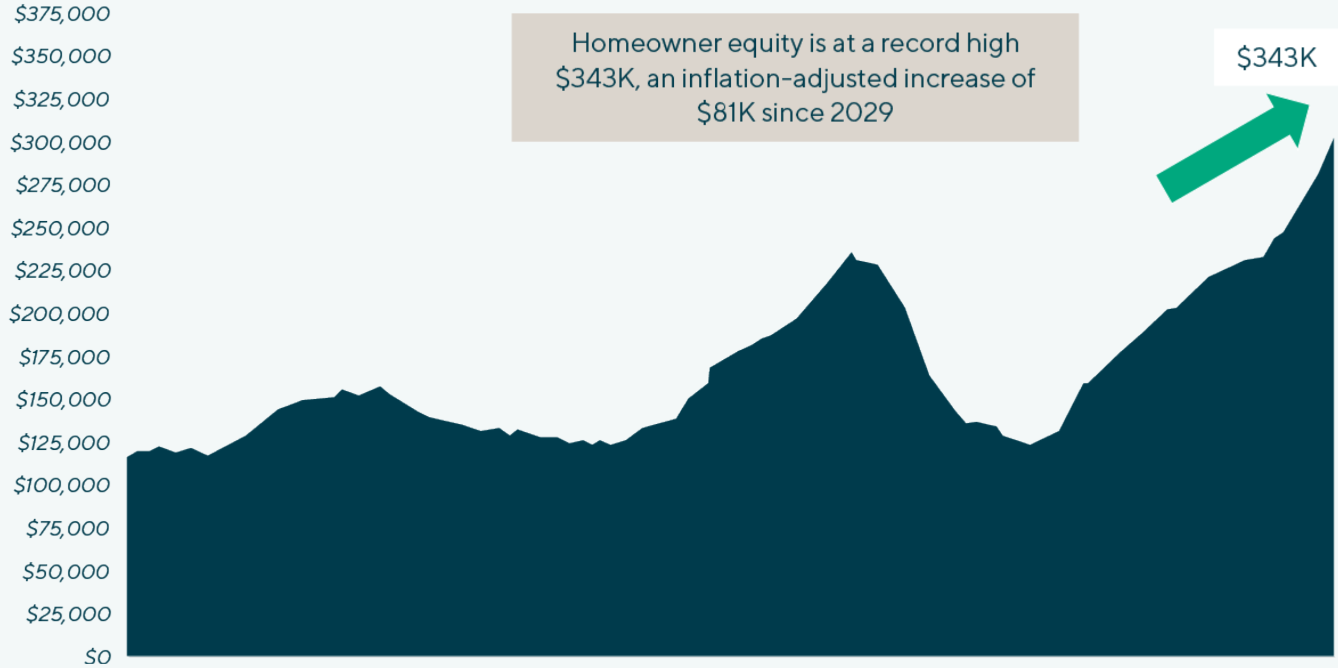
Inflation-Adjusted Homeowner Equity per Owned Household



Source: Federal Reserve; Census Bureau; John Burns Real Estate Consulting, LLC

The current dislocations in the residential construction market have impacted the number of M&A opportunities currently available. Owners of building products assets will benefit from remembering the 2020 COVID-19 impact to M&A. When the market re-opened in summer 2020, the dislocations in the market created a powder keg that resulted in more activity and higher multiples than at any other time in the industry's history. During that timeframe, double-digit EBITDA multiples became normal, creating an attractive time for sellers. By the later half of 2021 the market for sellers had become more crowded, impacting the depth of processes but not the ultimate outcome.

Lincoln expects a similar dynamic to occur when the 2023 rate driven market normalizes, creating an optimal time for M&A processes to commence. We would expect A+ assets that have done well during this time to receive premium valuations from both strategic parties and financial sponsors. We recommend that owners commence preparation activities in the first half of the year to take advantage of a potentially healing market ahead of what could be a crowded market in 2024 and beyond.

For other perspectives, visit us at www.lincolninternational.com/perspectives.

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