



Sector Spotlight:

Building Products

Achieving Premium Valuation
and Recommended
Communication Strategies
to Close the Gap

OUTPERFORMANCE
BUILT ON TRUST™

Achieving a premium valuation in the Building Products industry is no easy feat. For an industry characterized by high volatility and cyclical, it takes a resilient business model, through-cycle execution, and strong and differentiated investor communications to achieve a premium valuation.

Our **Sector Spotlight: Building Products** evaluates 33 publicly traded North American Building Products companies to identify the factors leading to premium status, as well as **recommended communication strategies to maximize your company's valuation, differentiate as an investment, and shine a light on developing capabilities to close the gap** – all with the intent of giving confidence to investors in your company's quality, potential, and earnings power through the cycle.

We also **interviewed 20 Building Products investors and analysts**, whose firms collectively have \$2.2 trillion equity assets under management, to highlight today's sentiment toward the industry following the U.S. Federal Reserve's half point rate cut on September 18.

Sector Spotlight: Building Products

Operating within an industry that is viewed as highly cyclical and subject to fluctuations in commodity prices, housing, and construction trends, Building Products companies face a challenging backdrop as they seek to compete for investor attention and differentiate as an investment. As such, it is **incumbent upon management teams to control the narrative and overcome investor skepticism** around their ability to navigate cycles and challenging market dynamics.

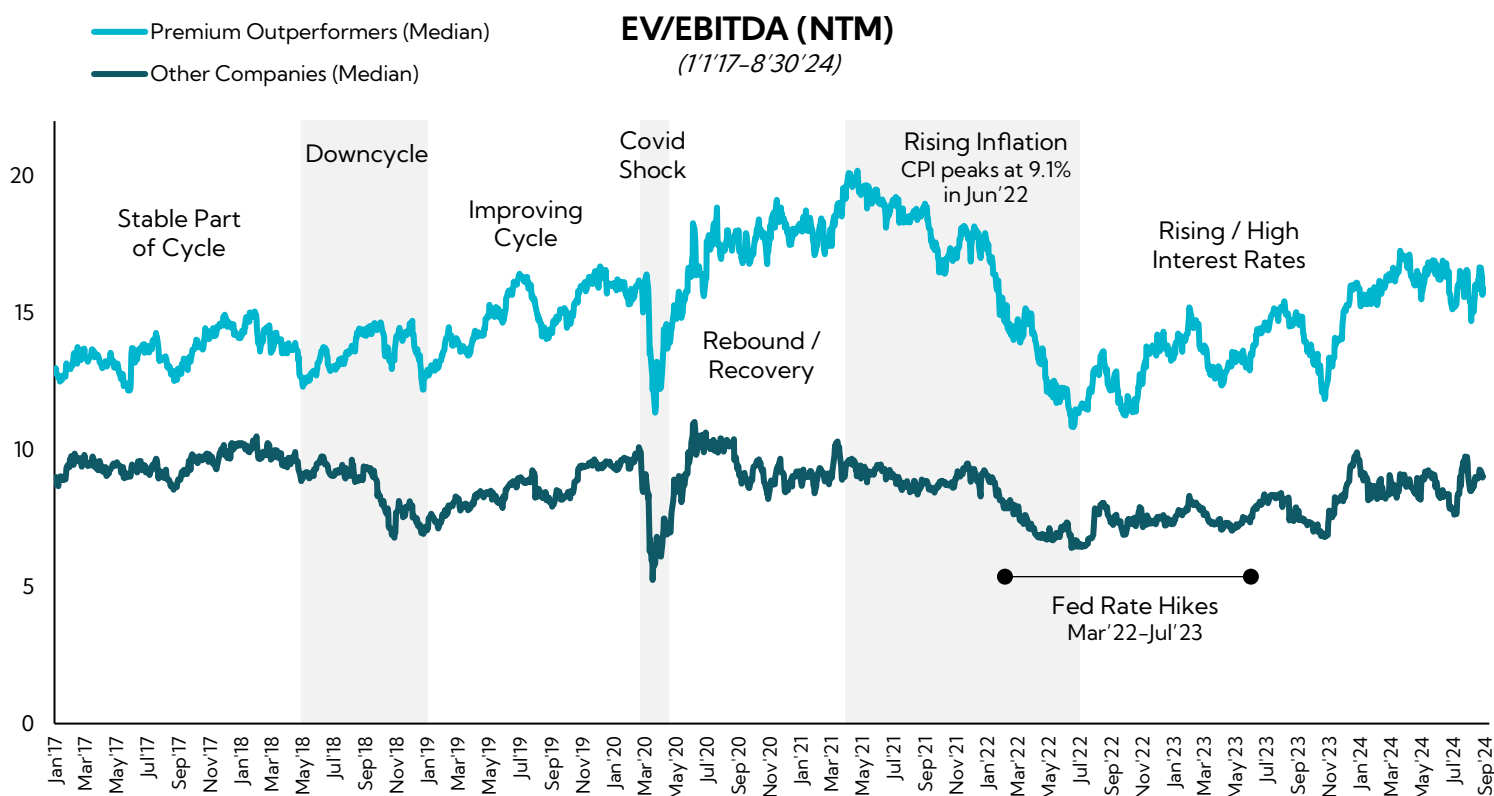
Indeed, the sector has seen valuations lag the S&P 500 for the better part of the past decade, with the gap widening in recent years. Examining a group of **33 publicly traded building product companies¹**, the vast majority – **nearly 80% – had multiples below the S&P 500 average** at the start of September 2024, with a median EV/EBITDA of roughly 12x, compared with ~14.5x for the benchmark.

However, Buildings Products has its fair share of outperformers – what sets these companies apart?

A select group of companies have managed to garner premium valuations through a range of market conditions and economic environments. Our research identified **10 building product companies** – denoted the “**Premium Outperformers**” – that maintained EV/EBITDA multiples meaningfully above the group average going back to the start of 2017.

To understand why these companies are rewarded with premium valuations, we analyzed our Voice of Investor® interviews for the Building Products industry and Premium Outperformers’ investor communications.

We also highlight companies which do not yet trade at a premium valuation but have demonstrated an ability to expand valuation through effective investor communications, which play a significant role in this industry.



¹Companies included in the analysis are Building Products, Household Durables, and Commercial Services & Supplies companies based on S&P 1500 GICS subsector classification. “Premium Outperformers” include: AAON, Allegion, The AZEK Company, Carlisle, Carrier Global, Hayward Holdings, Johnson Controls International, Lennox International, Trane Technologies, and Trex Company.

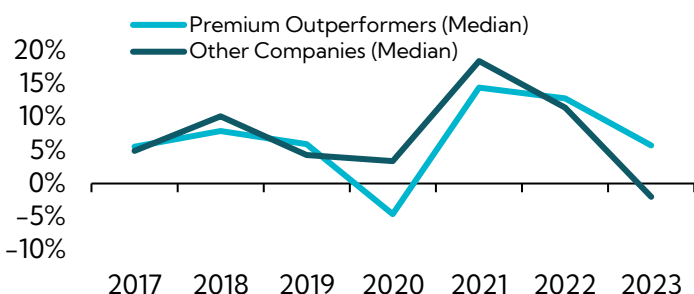
Five Defining Characteristics of Premium Outperformers

Fundamentally, multiples are driven by revenue growth, profitability, and ROIC, while investors also apply other methodologies (i.e., DCF) based on free cash flow generation.

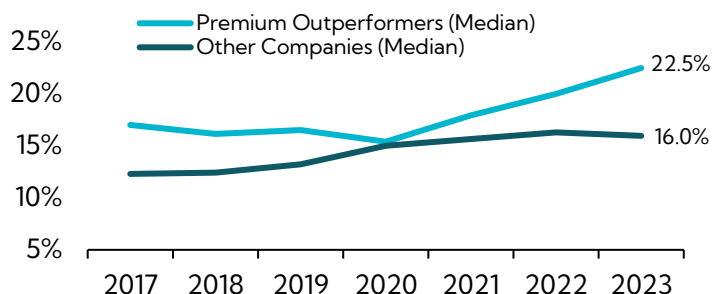
However, in a highly cyclical and volatile Building Products industry, it is not solely about absolute performance, but rather about the resiliency and through-cycle earnings power companies demonstrate. In our research, just as important is the ability to manage investor expectations and proactively communicate actions taken to improve the resiliency of the business, including maximizing the upside and minimizing the downside – which is often unclear or underappreciated by investors without effective and transparent communication from management.

We sought to further investigate what common characteristics the **Premium Outperformers** share that sets them apart from the rest of the pack. Our findings identified **five defining characteristics** exhibited by the Top 10 outperformers that have contributed to higher-than-average through-cycle valuations.

Revenue Growth (YoY)



EBITDA Margin %



1 Market leaders with strong brand equity

Unsurprisingly, this group is recognized in our Voice of Investor® interviews and analysis for leading market positions and brand equity, factors typically associated with an ability to command premium prices (or pass along higher prices in an inflationary environment), generate and maintain customer loyalty, and drive profitable growth.

2 Attractive growth profiles / ability to weather (most) downturns

While the macro environment and broader demand backdrop play a significant role in the direction and magnitude of revenue growth for any building products company, the Premium Outperformers have shown an ability to maintain solid top-line growth through shifting economic climates. As shown above, excluding the 2020 Covid shock, the Premium Outperformers saw less of a pullback in growth during the downturns of Mid 2018 – Early 2019 and Mid 2022 – Today. In part, the group of “other companies” did see higher revenue growth rates in strong parts of the cycle, reflecting more cyclical upside.

3 Resilient through-cycle EBITDA margins

Most notably, Premium Outperformers have demonstrated an ability to protect – and in many cases, expand – margins during challenging market environments, including recent periods of rapid inflation and rising interest rates. Even during the Covid shock, outperformers maintained above-average margins despite significant negative swings in top-line growth, including through swift and thoughtful cost-cutting.

4 Superior capital allocation and ROIC

Premium valuation companies are recognized for superior capital allocation and ability to deliver high ROIC. They demonstrate strong investments while also taking advantage of market dislocations through buybacks and in many cases, consolidating fragmented industries or filling strategic gaps. Debt level thresholds are notably more conservative in this industry given large cyclical swings in EBITDA.

5 Differentiated investor communications

While not all demonstrate prowess in this area, many leverage investor communications to position differentiated equity brands, leverage transparent communication across environments, and cast a light on competitive moats and efforts to increase resiliency.

Investor Commentary: Key Investment Factors and Premium Valuation Drivers

"In a cycle, you cannot hide from the end markets you are exposed to. There are opportunities to add bolt-ons close to the core and continue to outgrow end markets over time. The business should generate a lot of cash. The best companies are able to manage product costs while buying back a lot of stock to continue to compound growth longer term. It is a combination of executing well in a cycle where they are the leader and have scale advantages and getting an appropriate return on the capital they generate. Exposure to commodity cost fluctuation is not necessarily a weakness, it is part of their businesses, but they must demonstrate an ability to handle and execute it well." *Security Analyst, \$31.2B EAUM*

"In a market where we can choose where we want to invest, the cyclical nature of the business is a weakness, but that weakness is tempered by the fact that, in a down cycle, the business releases a lot of cash from its inventory, which helps protect the balance sheet, so a cyclical business with an interesting working capital dynamic helps soften the underlying cyclical nature." *Security Analyst, \$8.1B EAUM*

"I love quarterly presentations of earnings results from an illustration perspective where companies hit the salient points. I once got involved in a company because I know people in the hedge fund community who were trading it and they called it a 'hedge fund hotel' because when commodity prices went up, they held it, traded out of it, and played it that way. But the business was transforming, so I went to a couple meetings and became excited about it." *Portfolio Manager, \$6.2B EAUM*

"If you can be the top choice for the housing play, you can attract a lot of capital. It is about more consistent execution than peers. In the same economic backdrop, these companies manage their business better, and they will do better in a lot of market environments. They must generate consistently higher returns and beat and raise." *Portfolio Manager, \$2.9B, EAUM*

"I look for companies that wave the flag to the investment community and say, 'We are a different business than you perceive us to be.' The cyclical nature has dampened, the opportunity is much larger, and the profitability is at greater and sustainable levels." *CIO, \$0.7B EAUM*

"The area these companies are particularly strong in and **deserve the highest kudos for, because so few cyclical businesses can do it, is they present a north star about what their business should produce in a normalized environment.** You have to deal with a noisy industry, commodity pricing, and volatile housing starts. What management teams really do a great job of is **cutting through that noise and reminding people to focus on what their business is capable of producing in a normal environment and how they have improved that over time.**" *Security Analyst, \$0.4B EAUM*

"What it ultimately comes down to are durable franchises with great moats that produce good FCF and that are trading at reasonable valuations." *CIO, \$0.2B EAUM*

"I like to see secular tailwinds that are durable in nature like housing. You can get that in other areas of the economy like technology, but you are going to have to pay a lot more for it. Sometimes you have value traps where low multiples continue to perpetuate, but if you have a growing entity with a good business plan that has been executed well, companies like that can grow faster than the industry." *Portfolio Manager, <\$0.1B EAUM*

"Companies should communicate well to the investment community, not overpromising but showing sensitivities of their core business versus taking advantage of short-term, one-time benefits." *CIO, <\$0.1B EAUM*

"Core advantages are outperforming end markets, resetting higher levels of profitability through the cycle, and keeping a strong balance sheet. They must do a good job returning capital to shareholders with the FCF they generate. The only weakness for these companies relative to others is the commodity exposure, which is part of the business that is uncontrollable; it is volatile, with larger swings up and down. That is a negative but necessary part of the business. They must do a good job identifying what the core business is outside of growth or earnings related to fluctuations in commodity prices and help the investment community identify what the true core business is doing." *Sell Side Analyst*

Premium Outperformers Archetypes

While the Premium Outperformers share five defining characteristics, not all companies are created equal. However, they tend to fit into **four primary archetypes** (sometimes multiple) that differentiate them from industry peers in the eyes of investors. This is important in the context of portfolio construction, particularly when generalists are seeking to identify high-quality companies in general or when selecting the highest-quality companies within key thematic.

Importantly, your company may not have an inherently more resilient business model, nor be the market leader, but what we **encourage you to take from these outperformer archetypes is the developing or emerging characteristics that make your company better positioned for the future**. Investors are looking for quality and potential – it is not about where you start, but where you are going to close competitive gaps, maximize your potential given your circumstances, and drive higher “normal” earnings.

A standout case study in this regard is **Builders FirstSource**, a leading supplier of structural building products and value-added components and services. This is a company that still trades below the group median on EV/EBITDA multiples, but by less than a quarter of a turn, compared to a 2.5-turn discount in the latest part of the cycle and nearly three turns prior to Covid, as a result of effective execution and differentiated messaging around the core business and improved resiliency, including its [latest investor day](#).

1 Service and Replacement

Due to the inherent nature of their business models, these companies benefit from regular replacement cycles and additional services that boost revenue resiliency and reduce earnings volatility. Given the more predictable – and, in some cases, recurring – nature of these revenue streams, investors are often willing to assign these companies a higher multiple.

The most notable contingent fitting this archetype are HVAC companies, which see ongoing service and maintenance, including **AAON, Carrier, Lennox, and Trane**. Another notable example outside of HVAC is **Hayward**, a pool equipment supplier that offers aftermarket maintenance, which it recently characterized as “more resilient” relative to new construction/remodel demand in the current economic and interest rate environment.

2 Preferred Brands with Distinction

These companies are industry leaders with established positions in their respective markets, leveraging strong franchises and recognized brands. Operating from a position of strength, investors often view such competitively advantaged companies as lower risk, better able to maintain (or grow) market share, dictate pricing, and weather downturns relative to peers that lack the same degree of customer loyalty.

An example is **Trex Company**, which has firmly cemented a leadership position in the wood-alternative decking market; as such, its average EV/EBITDA since the start of 2017 sits more than 2.5x ahead of the median versus “other companies” in our analyzed group.

3 Proven Acquirers

These companies pursue inorganic growth as part of their broader growth strategy, and importantly have demonstrated a track record of pursuing deals with strong strategic fit and delivering on integration. While a challenging endeavor, companies that do this well are able to consolidate fragmented markets and/or grow their capabilities and expand into new markets while achieving synergies.

One example is **Allegion**, a manufacturer in the security and locks market with a history of acquiring category-leading brands and start-up innovators. Another, **Carlisle**, has completed 15 acquisitions since 2018, focused on synergistic deals that support its transition to a pure-play building products company. Importantly, both companies clearly communicate their M&A strategies and provide details about their M&A frameworks in investor communication materials.

4 Secularly Advantaged

Companies fitting this archetype have elements tied to secular tailwinds and “megatrends,” benefiting from structural trends like demographic shifts and technological advancements, and consequently are less at the mercy of short-term cyclical swings.

For example, **AAON**, a leader in the rooftop HVAC market, highlights the growing opportunity in cooling for data centers (roughly 10% of revenue but with a large and growing opportunity). In addition to riding the tailwinds of GenAI-fueled demand for data centers, its solutions fit with secular trends toward energy efficiency and decarbonization.

Sector Sentiment: Building Products

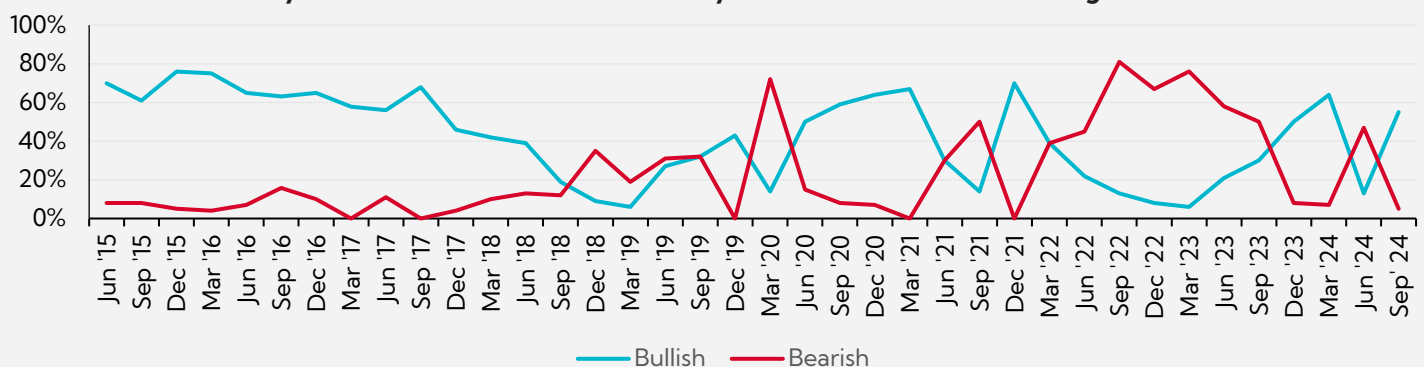
For nearly a decade, Corbin has tracked industrial investor sentiment toward Building Products quarterly through its **Inside The Buy-Side® Industrial Sentiment Survey®** publication, which has found up-and-down views toward the industry since September 2018.

In line with the timing of valuation expansions and contractions described earlier, the most optimistic investor sentiment exhibited since 2018 occurred during the Covid rebound and recovery, the last quarter of 2023 on the heels of improved housing starts, and today, where investors feel more confident about the outlook for the industry. The most downbeat periods came at the onset of Covid and, unsurprisingly, during the recent rising interest rate cycle.

The opportunity to capture investor mindshare is here –

Following the last few quarters of choppy sentiment, Building Products companies are seemingly poised to attract more investment in the last quarter of 2024 and 2025. Despite global macroeconomic uncertainty, there is a strong belief that Building Products demand will come off relatively low activity levels amid lowering interest rates and favorable long-term trends around an underbuilt U.S. housing market. In our most recent investor interviews, 70% are Bullish or Neutral to Bullish, compared to only 25% whom are Neutral, the latter expressing concern around companies over-earning and valuations having “run in the space.”

Inside The Buy-Side® Industrial Sentiment Survey® Investor Sentiment: Building Products



As it relates to current Building Products sentiment:



- **Bullish** views driven by favorable long-term trends around an “underbuilt” U.S. housing market, as well as more optimistic views on a cyclical recovery amid lowering interest rates

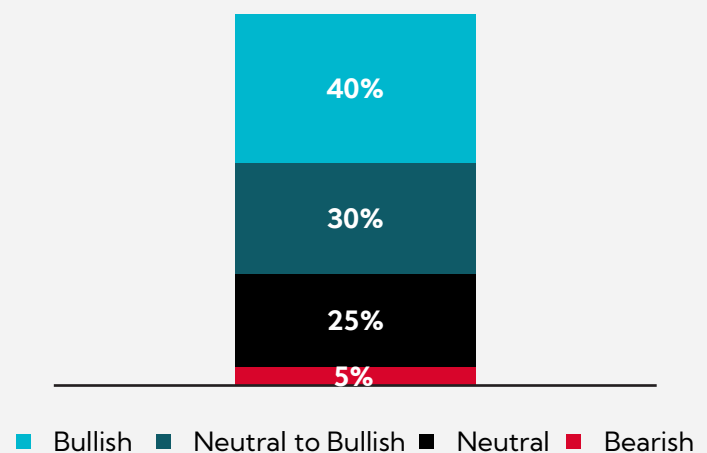


- **Neutral to Bullish** sentiment driven by similar views around an underbuilt U.S. housing market and potential for a recovery off lower activity levels, but with uncertainty around continued end market headwinds



- **Neutral** sentiment driven by questions around companies over-earning and valuations having “run in the space”

Building Products Industry Sentiment



Investor Commentary: Current Building Products Sentiment

Bullish

"The sector is a good opportunity for well-run businesses, and there are truly good niches for high-quality companies." *Portfolio Manager, \$300B EAUM*

"I am leaning positively toward the building products sector. We have had two years of weak demand and finally got the rate cut we have all been waiting for, so it feels like we could have a good up-cycle starting in mid-2025." *Sell Side Analyst*

"I am constructive on the sector in general. The market is under-built. We have a favorable wave of demographics of young people and rates are coming down, so that should help affordability." *Sell Side Analyst*

Neutral to Bullish

"Modestly positive, because most building products end markets have potential for recovery from relatively low activity levels over the last year or so, and will be helped by lower interest rates. This will be offset somewhat by producers and distributors having seen healthy margin expansion levels, so some have normalization of margins to come." *Security Analyst, \$55.2B*

"I am between neutral and bullish on the sector. On the pricing side, there has been a positive dynamic of pricing in excess of inflation with industry consolidation and pricing discipline that point to a continuation of such trends. On the volume side, in addition to the secular thesis of an underbuilt U.S. housing market, there is general resilience in volumes despite more recent macro datasets being softer than the market expected." *Security Analyst, \$1.3B EAUM*

"I am somewhere between bullish and neutral, because bullish is too strong now. The companies seem to be in much better positions financially from a margin and cash flow profile, but there obviously are headwinds to the end markets. I will be more bullish when those headwinds seem to abate more, and when there seems to be more of a see-through and inflection for either multifamily to bottom, or single-family housing to improve." *Portfolio Manager, \$1.0B EAUM*

"Somewhat bullish, because of rates coming down and underbuilt housing stocks in the country. Long term, it is a good place to be and the valuations aren't too high." *Portfolio Manager, \$1.0B EAUM*

Neutral

"For the near term, I am neutral toward the sector. Many of the building products companies have benefited a lot from a higher inflationary environment and there is clearly some give-back on price going on across the space. The country is massively short of housing supply, which we need to rectify with the government in making it a little easier to build affordable housing, so I am bullish on the long-term demand set up for the entire space. Near-term, they are dealing with overearning from the high inflationary and supply chain disruptive period of '21 to '23." *Security Analyst, \$14.7B EAUM*

"I am neutral toward the sector. There is a long-term underbuilt situation in the U.S. in terms of new home construction, but I am cautious because interest rates have risen significantly and we have not seen that affect new home construction yet, so is that on the come or is that going to reaccelerate with the interest rates? The second piece is on the repair and remodel. It was big after COVID, so I am trying to understand that dynamic moving forward." *Security Analyst, \$0.3B*

"I am neutral on the space. I am optimistic that housing activity will improve into 2025 on the back of interest rate cuts, but valuations have run in the space. We do not see many compelling opportunities. Valuations might have gotten ahead of fundamentals. There is near-term uncertainty and the earnings outlook for the second half of this year has not captured the ramp in earnings growth that the market is anticipating." *Sell Side Analyst*

THE *Big* so WHAT™

With more optimistic Building Products sentiment heading into 2025, companies have an opportunity to control their narratives and leverage strategic investor communications to rise above the pack. For those seeking to expand valuation, we offer some key considerations to bolster investor confidence on your long-term investment merits, as every quarter of a turn in multiple expansion can equate to tens or hundreds of millions (or billions) in shareholder value creation:

- Describe your ability to **deliver strong normalized earnings through a cycle**, what the potential is, and why investors should be confident it will be stronger than in previous environments
- Highlight and demonstrate how you are **improving competitively and closing the delta between top peers** – it’s not about where you start, it’s where you are going
- **Shine a light on current or emerging competitive advantages** that might not yet be fully appreciated
- Showcase efforts to **drive more resilient margins** and offset cyclical volatility in earnings, including the business mix, strategic or operational initiatives, and if applicable, recurring or aftermarket revenue
- **Communicate and emphasize resilient parts of the business** to offset views the company is fully at the whims of commodity exposure, for example value-add, aftermarket, or other stickier revenues

Wherever you currently sit on your journey to outperformance, it is critical to start with a well-defined, differentiated investment thesis – the case for why to invest – while underpinning confidence in the Corbin Critical Five investment factors, a distinguished group of measures cited as most important to institutional investors beyond quantitative screening when determining to allocate capital:

Management Quality	• Position management as cycle-tested, including proof points for how execution through the post-pandemic inflation spike and subsequent rate hikes led to better-than-expected performance, or lessons learned
Long-term Strategy	• Keep investors focused on the long-term vision, and highlight any changes or acceleration to strategic initiatives in support of that vision • Connect the long-term vision to specific outcomes, including improved resiliency of the business and margins
Execution Track Record	• Highlight operating and financial strengths; for example, low-cost operational execution and balance sheet strengthening • Demonstrate improvements in the business through portfolio and product positioning
Sustainable Competitive Advantages	• Communicate what is unique and different about the Company • Highlight key competitive moats, or emerging / developing advantages to close the competitive gap with peers
Capital Allocation	• Articulate a comprehensive capital allocation framework, including any shifts in prioritization between growth investments and shareholder returns • Ensure management’s M&A track record is well understood and seen as means to compound value over time; communicate a framework and scorecard



Let Corbin help you cut through the noise and develop a differentiated investment thesis that serves to educate and capture investor mindshare.



Contact us today:

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About Corbin Advisors

Corbin Advisors is a strategic consultancy accelerating value realization globally. We engage deeply with our clients to assess, architect, activate, and accelerate value realization, delivering research-based insights and execution excellence through a cultivated and caring team of experts with deep sector and situational experience, a best practice approach, and an outperformance mindset.

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