



HOME BUILDING

Update | Q3 2020



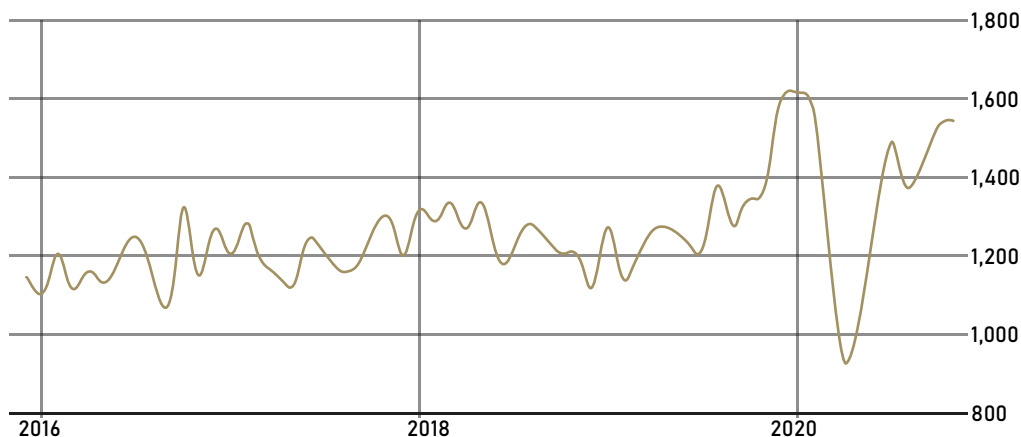
Victory Partners

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TABLE OF CONTENTS

- ▶ Industry Definition
- ▶ Industry Outlook
- ▶ M&A Overview
 - Home Building Deals Outlook
- ▶ Segment Highlights
 - Multi-family Residential
 - Single-Family Residential
- ▶ Victory Partners Group
- ▶ Firm Mantra
- ▶ Firm Track Record
- ▶ Citations

UNITED STATES HOUSING STARTS 2016-2020 DATA



Source: TRADINGECONOMICS.ORG | U.S. BUREAU

INDUSTRY DEFINITION

Industry operators primarily construct single-family homes, in which units are separated by ground-to-roof walls with no other units above or below. The industry also encompasses the remodeling of houses and other residential buildings, which include general contractors, design-build companies and single-family construction management companies acting as general contractors and builders.

INDUSTRY OUTLOOK

Revenue for the Home Builders industry is expected to continue growing through 2025, as demand for new housing expands following the COVID-19 pandemic and relatively low level of housing supply. Housing starts are expected to rise at an annualized rate of 2.9% over the next five years as well. This is widely believed to stem from consumers wanting to take advantage of low interest rates before interest rates return to the historical average. Housing supply has been relatively low and there is perceived pent-up demand that will be capitalized on following the Coronavirus pandemic.



M&A OVERVIEW

Apart from low borrowing costs, the changing geography of housing demand has been supporting builder confidence. Homebuilders have also been controlling construction costs by designing homes efficiently and obtaining construction materials and labor at competitive prices. Homebuilders are following a dynamic pricing model, which enables it to set price according to the latest market conditions. Meanwhile, large companies in the industry have been acquiring other homebuilding companies in desirable markets, resulting in improved volumes, revenues, and profitability. Data analytics from major metropolitan areas across the United States have helped quantify this trend and has elucidated the extent of this shift. In Dallas, the percentage of new home revenue from public and foreign builders has risen from 29.2% in 2009 to 45.7% by the second half of 2019. Likewise, public and foreign builders in Orlando grew their revenue share from 49.2% to 73.7% over this same time period. Such data demonstrates a changing landscape within the homebuilding industry, as the market has transformed from an extensive array of small construction firms to fewer, more dominant builders taking on a vast portion of new home constructions.

PWC's industry analysis reveals a number of key progressions occurring in relation to engineering and construction deals. Within 2020, E&C sector deal volume has been down with particularly pronounced declines coming in the second quarter. Total deal value for Q2 of 2020 was \$9 billion as compared to 2019's Q2, which saw \$22 billion in total transaction value. Additionally, a potential second wave of lockdowns could imply deflated deal volumes will extend through 2021. On the other hand, several positive indicators could implicate positive progressions for the construction sector. Low interest rates and government investing could lead to increased infrastructure building. Furthermore, technological innovations in conjunction with people's changing lifestyle preferences could provide various M&A opportunities in the specific construction segments.

Three key deal drivers will play a critical role in motivating future merger agreements. One development that will impact construction significantly is the recent migration of people from cities to suburban and rural areas. A recent survey revealed that 40% of urban dwellers have considered leaving the city in favor of a less-densely populated area. Furthermore, as corporations and people have adjusted to remote working, many management teams are evaluating reducing office space in the future. As a result, residential construction and M&A activity will likely enjoy a boost in the coming years, while commercial construction will likely drop. Another evolution that will influence the construction industry includes the inevitable pervasion of technology into the building process. As skilled labor costs grow, executives from construction firms will seek to utilize automation, robots, drones, and digital design to reduce costs and maintain profit margins. M&A activity aimed at construction technology will therefore surge in the next decade. The final driver that will impact the future of engineering and construction deal flow are lending rates. Economists expect the Federal Reserve to maintain interest rates near zero percent to help generate economic recovery. As a result, strategic buyers and private equity firms will have access to cheap debt, which will further encourage M&A deals. Furthermore, historical data has exhibited that investments made during economic downturns yield better returns, which should prompt a greater sense of urgency to buyers considering an acquisition.

HOME BUILDING DEALS OUTLOOK

Announced	Acquirer Name	Seller Name	Enterprise Value	Industry
11.4.2020	DRB Homes	Knight Homes	\$15M	Homebuilding
8.31.2020	LF Capital	Landsea Homes	\$510M	Green Homebuilding
6.10.2020	Dvele	Blu Homes	\$198M	Homebuilding
2.13.2020	Toll Brothers	Thrive Residential	\$53.3M	Urban Building
11.6.2019	Taylor Morrison	William Lyon Homes	\$2.4B	Homebuilder
9.16.2019	Toll Brothers	Sabal Homes	\$100M	Luxury Homebuilder



SEGMENT HIGHLIGHTS: MULTI-FAMILY RESIDENTIAL

Revenue growth pertaining to apartment and condominium construction is projected to decline 4.8% for 2020. According to senior analyst Ryan Roth from IBISWorld, an oversupply of existing apartment buildings along with a rise in unemployment have induced this retraction; however, long-term, this sector is expected to rebound. Over the next 5 years, experts anticipate an annualized growth rate of 1.5% with revenues hitting \$59.1B by 2025. One trend that is currently taking root is the development of regions surrounding metropolitan areas such as Boston, New York City, and Austin, incited by increases in the suburban population. Correspondingly, demand for new multi-family builds will amplify to satisfy this shift. Another progression expected to manifest in the coming years is the investments in master-planned community developments. This will lead to more builds of luxury apartments that will attract young professional and retirees. As a growing number of baby boomers hit retirement age, many will look to downsize from larger homes to smaller, high-end apartments. Furthermore, multi-family residential contractors will likely see more projects involving lifestyle developments, which are mixed-use developments of apartments, condos, stores, gyms, theaters and parks, as these complexes gain popularity.

A major technological innovation affecting the construction of multi-family homes includes prefabricated housing construction or modular homes. In this process, residences are built in a controlled factory setting in sections and are then shipped to the construction site. Professional installers then assemble the pieces, which culminates in an approximate 35% time reduction to complete a build. Other progressions in the multi-family construction sector include upgrades to the equipment and materials used. Concrete has steadily become favored as the primary construction material with poured-on-site and precast concrete products becoming particularly popular. Equipment improvement to items such as pumping apparatuses and lifting equipment have helped facilitate the prevalence of concrete. On the other hand, technological improvements have also led to increased expectations regarding to energy efficiency, as thermal and lighting standards become more stringent.

In addition to the innovations being seen in multi-family residential construction, industry experts also anticipate there will be significant advancements to the amenities that apartments and condominiums offer. According to CBRE, one of the United States leading real estate firms, avant-garde amenities will emerge as a key differentiator influencing how renters chose where to lease. Therefore, developers will need to place considerable attention and effort into the amenities they offer in order to gain a competitive advantage in today's market. CBRE reports that an increasing number of renters are searching for amenities that promote increased social connectivity. For example, many apartments are offering communal workspaces that allow residents to work remotely and that help bridge the gap between living and working. Apartment gyms are also seeing an upgrade with modern designs, trendy gear for yoga and TRX (suspension training), and a broad equipment selection beyond the standard treadmill and free weights. Technology will also play an important role in influencing apartment trends in the coming years. Many renters will place high importance on living spaces that offer high-speed secure internet with increased bandwidth for gaming, streaming, and video calls. As a bonus, multi-family developers have an opportunity to drum up additional excitement by providing high-tech entertainment offerings such as virtual reality gaming platforms.

“ Rock-bottom mortgage rates and families looking for more space are fueling demand and more than offsetting the impact of labor market turmoil, ”

- Joshua Shapiro
Chief U.S. Economist at Maria Fiorini Ramirez Inc.

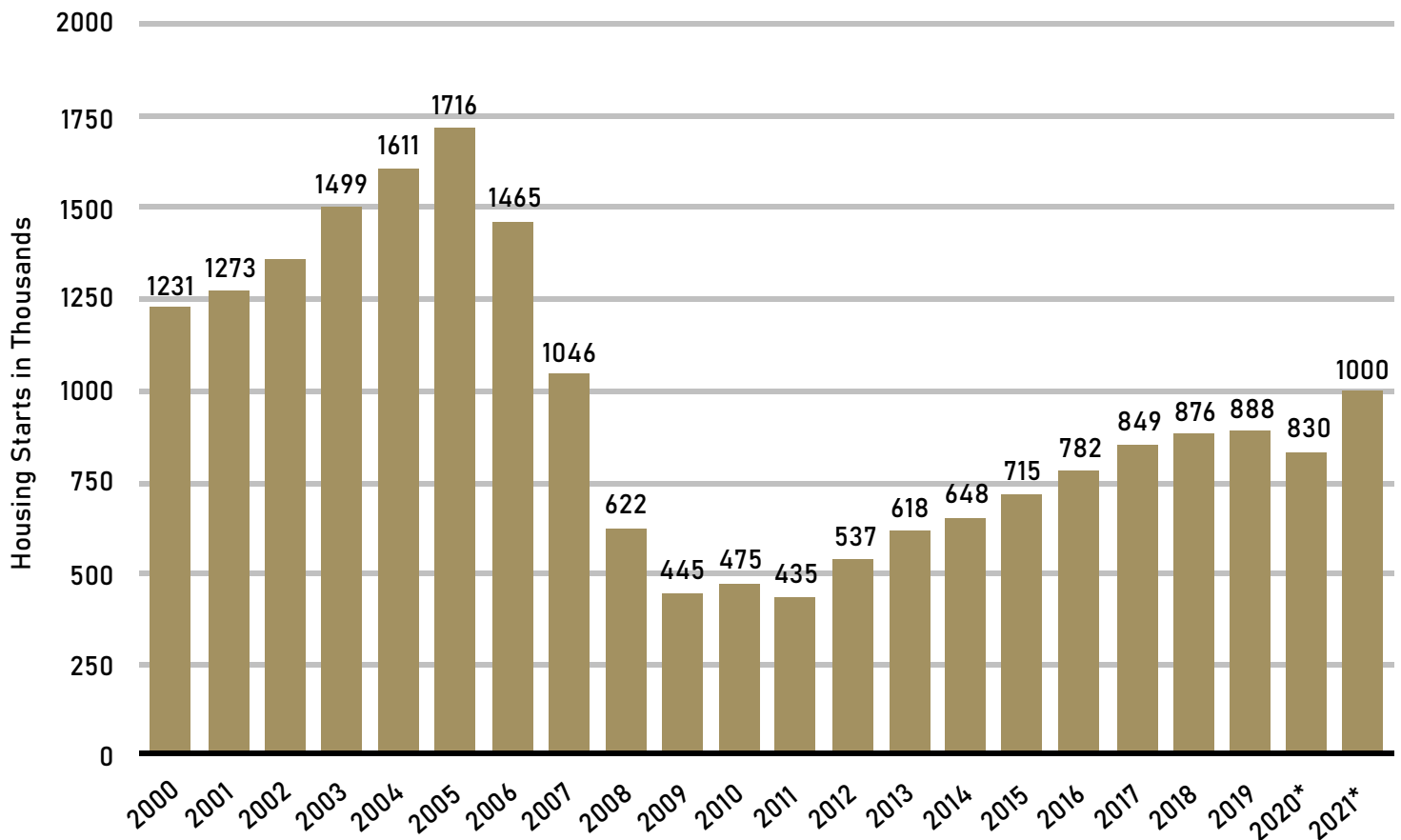


SEGMENT HIGHLIGHTS: SINGLE-FAMILY RESIDENTIAL

The decrease in single-family units in Q2 indicates that there will be a shortage of single-family homes in the future. Single-family homes were the most common type of home purchased in 2019 in the United States, which means that demand for single-family units is unlikely to wane. As a result, there may be an increase in single-family home prices if supply doesn't meet demand. Additionally, the decrease in single-family unit starts indicates that people want more affordable options and are looking at multifamily units instead. It is also an indicator for construction companies. These companies can locate where the demand is highest and decide to build in these areas instead.

The single-family homebuilding industry surged in September, cementing the housing market's status as the star of the economic recovery. The single-family industry has continued to be robust thanks to record-low interest rates and a migration to the suburbs and low-density areas as Americans seek more room for home offices and schooling. Housing starts overall increased by 1.9% to a seasonally adjusted annual rate of 1.42M units last month, the Commerce Department reported. Single-family construction climbed to its highest level in more than 13 years in Q3. Building permits also climbed, indicating residential building had plenty of momentum at the end of the third quarter.

SINGLE-FAMILY HOME STARTS



Source: Statista



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FIRM MANTRA

“ It is not the critic who counts; nor the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat. ”



Theodore Roosevelt

- Theodore Roosevelt
The Man in the Arena



PREVIOUS CLIENTS

Client	Industry	Type of Engagement
ACSI	Financial Services	Advisory
Activor, Inc.	Healthcare	Corporate Finance
Advanced Particle Therapy	Healthcare	Corporate Takeover
Affinity Finance	Mortgage	M&A – Buyer
Affinity Finance	Mortgage	Joint Venture Advisory
Auto Benefits Corporation	Financial Services	Advisory
Automated Data Services, Inc.	Software	M&A Advisory
Automated Data Systems, Inc.	Financial IT Services	M&A– Seller
Bibbentuckers	Retail Chain / Consumer Services	M&A Advisory
Boardroom Software	Software	Corporate Finance
Brides International, Inc.	Apparel/Specialty Retail	M&A Advisory
California Proton Treatment Center	Healthcare	Bankruptcy Advisory
Cambridge Home Loans	Mortgage	M&A – Seller
Cantoni, Ltd.	Specialty Retail	M&A Advisory
Carequest Home Care, Inc.	Healthcare	M&A Advisory
Champion Brass, Inc.	Distribution	M&A Advisory
Cimaco, Inc.	Industrial Machinery	M&A Advisory
City Holdings	Mortgage	Divestiture Advisory
CMG Mortgage, Inc.	Community Banking	M&A – Buyer
Cobb Partners, LLC	Financial Services	Convertible Preferred Offering
Computrition, inc.	Software	Advisory
Contender Boats	Marine Manufacturing	Advisory
Dallas European Shoreline Imports	Auto Parts Distribution	Debt Financing
Datazone Systems, Inc.	Data Storage Devices	M&A Advisory
DeCrane Aircraft Holdings, Inc.	Aviation	M&A Advisory
Destination Films, Inc.	Film/Entertainment	Recapitalization
ECP Processing, Inc.	Merchant Processing	Advisory
First Chair Technologies, Inc.	IT Outsourcing/Integration	Private Placement-Convertible Debt
First National Bank of Los Angeles	Community Banking	Advisory
Fredericks of Hollywood, Inc.	Apparel/ Specialty Retail	Bankruptcy Advisory
Fruit-A-Freeze, Inc.	Foods/ Specialty Retail	M&A Advisory
H&S Yacht	Manufacturing	M&A Advisory
Hi Quality Electronics, Inc.	Consumer Electronics	M&A Advisory
Homebanc, Inc.	Financial Services	M&A – Seller
Homestar Funding	Mortgage	M&A – Seller
Hoss Equipment Company	Heavy Equipment Remanufacturing	Debt Financing
IMC	Building Products	M&A Advisory
Imperial Technology, Inc.	Data Storage Technology	M&A Advisory
Intelegy, Inc.	CRM/ Consulting	Advisory
JDI Solutions, Inc.	Manufacturing	M&A Advisory
Jolly Chef	Food Service	M&A Advisory
KAT & Associates, Inc.	Healthcare	Advisory
LAX World Co, Inc.	Sporting Goods Retail	M&A Advisory
Loan Genie, Inc.	Mortgage	Advisory
Long Range Systems, Inc.	Manufacturing	Corporate Finance
Magicstone Media, LLC	Media/Entertainment	Corporate Finance



PREVIOUS CLIENTS

Client	Industry	Type of Engagement
Maryland Proton Treatment Center	Healthcare	Turnaround & Recapitalization
Maui Girl & Co., Inc.	Apparel/Specialty Retail	M&A Advisory
MI Senior Living	Senior Housing/Healthcare	Corporate Finance
Mid-America Fittings, Inc.	Manufacturing	M&A Advisory/Sale
Midland Metals Manufacturing, LLC	Distribution	Leveraged Recapitalization
MVI, Inc.	Insurance	Advisory
Nature's Formula, Ltd.	Health and Beauty	M&A Advisory
Neuronix, LTD	Healthcare	M&A Advisory
Newline	Int'l Manufacturer of Marker Boards	M&A Advisory
Numeria Software	Software	Advisory
Oakley Homes, Inc.	Construction	Private Placement
Palm Beach Tan	Retail Chain/Consumer Services	Debt Financing
PayDay One Holdings, LLC	Consumer Finance	M&A - Seller
PERGAN Nordamerika GmbH, i.G.	Organic Peroxides	M&A Advisory
Phoenix Radiology, Inc.	Healthcare	M&A Advisory
Predicate Logic, Inc.	Software	Corporate Finance
Pro Systems, Inc.	Manufacturing	Advisory
Prologistics Technology, Inc.	Software	Advisory
Promiseland Dairy	Food & Beverage	M&A Advisory
Resource Bancshares, Inc.	Mortgage	M&A – Buyer
San Dieguito National Bank	Community Banking	Advisory
SCS/Frigette	HVAC Manufacturing	M&A Advisory
Sessions, Inc.	Staffing/Entertainment	M&A Advisory
StaffUSA, Inc.	Staffing	M&A Advisory
Sun Country Bank	Community Banking	Advisory
Surgical Notes	Health Care Services & Technology	Debt Financing
SY technologies, Inc.	Missile Guidance Technology	Corporate Finance
Tishman West Realty, Inc	Financial Services	M&A– Seller
Transcend Equity Development	Energy Conservation Services	Project Financing
TruckloadUSA	Building Product Distributor	Debt Financing
Turner Financial, Inc.	Mortgage	M&A – Seller
U.S.E Community Services, Inc.	Financial Services	M&A – Seller
Uncle Julio's	Restaurant Chain	Recapitalization
Undaunted Holdings, LLC	Marine Manufacturing	Acquisition
US Merchant Systems, Inc.	Transaction Processing	Corporate Finance
US Merchant Systems, Inc.	Financial Services	Convertible Preferred Offering
USDB Bancorp, Inc.	Mortgage	M&A – Buyer
VVI Construction, Inc.	Construction	M&A Advisory
WalkAbout Software, Inc.	Software	M&A Advisory
Westex Metal & Iron, Inc.	Scrap Metals	M&A Advisory
Worthy Financial, Inc.	Reg A+ Bond Sales	Advisory
YouGotCash, LLC	Software- Portal	Advisory



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