

Initial Building Products Impact from COVID-19

CONTRIBUTORS

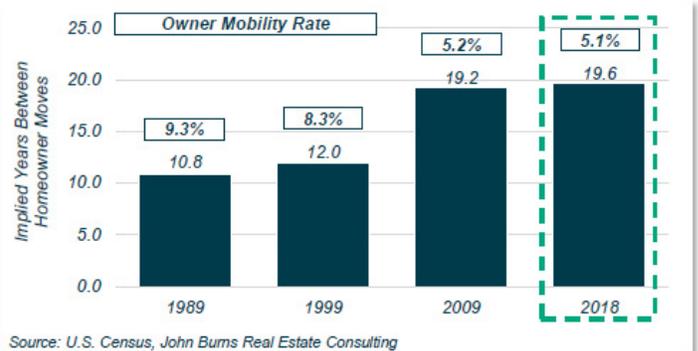
[Jeffrey Corum](#), Managing Director, Chicago
[Scott Molinaro](#), Director, Chicago

While the impact of COVID-19 on construction related end markets is still unclear, trends that were in motion before the crisis are becoming more pronounced and may be accelerating. Homeowner mobility has been declining for years as the implied years between homeowner moves has increased from 12.0 years in 1999 to 19.6 years in 2018. While housing turnover has slowed, residential repair & remodel (“R&R”) performance has continued to grow as there has been a nesting effect. A survey conducted by John Burns Real Estate Consulting recently concluded that the #1 reason to invest in a kitchen remodel is that the owner can “no longer stand looking at the current kitchen.” COVID-19 will accelerate nesting and its impact on businesses exposed to R&R.

A separate trend we expect to accelerate is the acceptance of building products being purchased online for small ticket R&R projects (<\$5,000) that are easily shipped. E-commerce has been a developing channel in recent years for many building products verticals but managing channel conflict with distributors or retailers has been challenging. As building products manufacturers have advanced their e-commerce efforts they have built some powerful digital platforms that can take an omni-channel approach to balancing the concerns of all channels. We expect companies with advanced digital platforms to potentially accelerate e-commerce sales, the convenience of which may sustainably change channel mixes going forward.



Homeowners Move Far Less Often



Overall, Lincoln’s view is that building products manufacturers and distributors will be challenged in this crisis, however as a result of generally modest leverage multiples and high cash flow in recent years we expect the sector will weather the storm. Business models will be tested and those who perform well will have more value to potential acquirers once the crisis ultimately clears.

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