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# Building value with green construction

SPOT ON | BUILDING MATERIALS | SEPTEMBER 2022

## AN OAKLINS REVIEW OF INVESTMENT TRENDS AND OPPORTUNITIES IN THE BUILDING MATERIALS SECTOR

One of the central issues of our time is man-made climate change and the dangers this poses to the environment. Confronting this situation is an enormous challenge, one that governments are striving to address in partnership with the private sector. While the response in general has been uneven, on at least one front there has been considerable progress: the use of sustainable, environmentally friendly building designs and materials — a field known as 'green construction'.

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The global green building materials market is expected to reach US\$433 billion by 2024.

Green construction refers to creating a built environment that is as friendly to the natural environment as possible. From conception to completion, green construction attempts to limit any negative impact on the planet and enhance the biosphere. The resulting green buildings are eco-friendly and made from non-toxic materials derived from natural and renewable sources.

“Sustainability concerns within the built environment sector have changed from being seen as a compliance-led regulatory burden to being core for companies’ strategies within the sector. This development has been accompanied by a rapidly accelerating technology uptake across the building materials value chain. We believe these two emerging trends are driving M&A activity, increasing the number of buyers and attracting materially higher valuations.”

**BRIAN LIVINGSTON**

BUILDING MATERIALS SPECIALIST, OAKLINS



The Oaklins Green Construction Panel



Clockwise from top left: Jason Shingleton (Group Innovation Director at Genuit Group plc), David M. Felts (Managing Director at Oaklins TM Capital), Brian Livingston (Head of M&A at Oaklins Evelyn Partners)

**THE IMPACT OF THE GREEN REVOLUTION ON THE BUILDING MATERIALS SECTOR**

By 2024, the global green building materials market is expected to be worth US\$433 billion, up from US\$238 billion in 2020<sup>1</sup>, and this growth is playing out worldwide, country by country:

- Driven by the commercial office and education sectors, **the US green building market** is expected to surge from US\$79.05 billion in 2020 to US\$103.08 billion by 2023. US buildings certified under the LEED (Leadership in Energy and Environmental Design) green building program have been shown to consume 25% less energy and 11% less water than non-LEED certified structures.
- With 1,494 LEED-certified projects spread over 68.83 million square

meters, **China** is in the forefront of the worldwide green construction movement, followed by **Canada** with a total of 3,254 LEED-certified projects spread over 46.81 million square meters. **India** is third in the global rankings, with 899 LEED-certified projects spread over 24.81 million square meters. Buildings certified by the Indian Green Building Council use 40–50% less energy and 20–30% less water.

- In **South Africa**, there are more than 500 buildings with a green building license. These structures have been shown to reduce potable water consumption by 20–30% and to decrease energy and carbon emissions by 30–40%.
- The Pixel Building in Melbourne is said to be the most sustainable building in the world. Among other innovations, its roof is designed to catch rainwater, while a series of vertical wind turbines

process wastewater. Throughout **Australia**, there are more than 12 million square meters of registered green building space, which are reported to use 51% less water and emit 62% fewer greenhouse gases than non-green structures.

Recognizing the importance of a sustainable built environment and the explosive growth in green construction, on 16 June, Oaklins hosted a webinar to examine the impact of the green revolution on the building materials sector. The session, which also considered the role of automation in helping to reshape the industry, was led by Brian Livingston, who heads the Oaklins building materials team. Nearly 100 construction industry owners and executives from 16 different countries participated in the online meeting.

<sup>1</sup>“19 Fascinating Green Building Statistics,” Seed Scientific

## CHALLENGES GALORE

Livingston opened the discussion with the observation that, “We are entering a time where the building materials supply chain, from manufacturing to distribution through construction, is facing significant challenges.” These, he elaborated, run the gamut from adapting to new ways of designing and constructing buildings that are environmentally friendly, to resolving staffing and skill shortages and managing supply chain vulnerabilities.

In general, Livingston said, all these challenges can be grouped into three categories: sustainability, digitization and automation, and one big question is what impact will there be on a company’s valuation if it makes significant progress — or fails to act — in each of these three areas?

One UK-based company that’s been very active on all three of these fronts is Genuit Group plc, a global provider of environmentally friendly water, ventilation and climate management solutions. Formerly known as Polypipe, Genuit has a market cap in excess of US\$1,20 billion and an EBITDA of more than US\$132 million.

Sustainability is core to Genuit’s strategy, which includes the extensive use of recycled materials and a commitment to reduce its carbon footprint by two-thirds by 2025. This has been reflected in the group’s recent acquisitions, including last year’s purchases of Adey for US\$ 251 million and Nu-Heat for US\$32 million. The former is the UK’s leading provider

of magnetic filters and chemicals to protect against magnetite and other performance issues in water-based heating systems, while the latter is a UK-based supplier of warm water underfloor heating systems.



**JASON SHINGLETON**  
Group Innovation Director  
Genuit Group plc

Jason Shingleton, Genuit’s Group Innovation Director, told the webinar attendees that the pace of change in the building materials sector has accelerated dramatically in recent years, as a host of new green construction-related trends have emerged. These include the drive towards net-zero carbon emissions, the need for greater resilience in the built environment in response to climate change, and the push to make building construction smarter and more productive. This has also created a need to develop metrics for reporting on sustainability goals to investors and stakeholders.

To address climate change, new technologies are being deployed. For example, geothermal heat pumps are replacing gas-fired heating systems.

These requirements, Shingleton said, have brought about a number of changes in the technologies that Genuit employs. Currently, for example, the company is shifting away from gas-fired heating systems in favor of ground-source heat pumps, also known as geothermal heat pumps. These tap into the heat generated by the Earth itself and have a carbon footprint that approaches zero. Another example is the use of polyethylene sheets that are placed underground to attenuate water and prevent flooding. The market for these plastic water barriers first began in the UK around 2005, and since then, Shingleton said, it has grown to be worth well over US\$144 million.

## ADDRESSING A LABOR SHORTAGE

A related challenge is finding ways to improve construction productivity, which tends to lag behind that of other industries, and this is all the more daunting because of the difficulties the industry is having in attracting new workers. “Construction,” Shingleton admitted, “is just not viewed as a sexy place to work,” and with large numbers of experienced construction workers set to retire, this is creating an acute skill shortage.

“Nature provides a free lunch, but only if we control our appetites.”

**WILLIAM RUCKELSHAUS**  
FOUNDING ADMINISTRATOR OF THE US ENVIRONMENTAL PROTECTION AGENCY

Genuit is attempting to manage the problem by reducing its labor requirements. One approach is a shift to off-site construction, where various building components are manufactured at the factory and then shipped to the building site pre-assembled. The market for factory-built houses didn't exist in the UK three years ago for example, is now rapidly growing.

However, many of the new, climate-friendly technologies that Genuit is employing also require new types of expertise that fall outside the skill sets traditionally employed by the company. "As we try to make buildings more carbon efficient," Shingleton explained, "we insulate them and they become hermetically sealed, creating a need for better ventilation." But to design and install such systems, he continued, "demands an entirely new set of engineering skills."

### CIRCULAR CONSTRUCTION

Shingleton then described the new "circular construction model" on which sustainable companies like Genuit are basing their business. The traditional linear construction model, he said, involved extracting materials from the ground, using them and then discarding them when they're no longer needed.

The circular model aims to reduce the amount of resources that are required for a project, and then reuse them at the end of the project's life cycle. If they can't be reused, they are recycled instead, with the ultimate objective of minimizing resource depletion.

Recycling is nothing new at Genuit. The company has used recycled plastic in the pipes it produces since the 1980s, and today about half of the 750,000 tonnes of plastic it consumes per annum comes from recycled materials. Currently, however, one of the company's KPIs for its investors is to increase the amount from 50% to 62% of the total.

About half of the 750,000 tonnes of plastic used by Genuit each year is recycled. The goal is to get that up to 62%.

To adopt the circular model, or "to participate in the circular economy," as Shingleton put it, Genuit has had to make a number of new types of investments. For instance, the company now operates its own polyethylene bottle recycling facility, which reformulates and recompounds the plastic for use in Genuit's piping systems. By acting as its own recycler, Shingleton said, Genuit exercises more control over its supply chain and assures its access to a vital raw material.

### DIGITAL CONSTRUCTION

Genuit has also made strides towards digital construction. One example, cited by Shingleton, is the use of digital twins where computers are used to model a new building, creating an exact digital replica. This technique allows Genuit to test and experiment with different heating systems and other elements of the building's infrastructure. "Virtual reality, augmented reality these things are all being used in the modern construction environment," he noted.

Digital technologies such as smart construction, remote monitoring and the Internet of Things (IoT) are increasingly used to help reduce a building's carbon footprint. Systems like floor heating are continuously adjusted in response to

changes in foot traffic, weather patterns and other variables in order to minimize energy consumption.

But another reason to adopt digital technologies, Shingleton added, is to help the company attract a new generation of engineering talent that is drawn to the technology.

### M&A STRATEGY

Genuit's efforts to improve sustainability and increase its use of digital technology and automation are, in Shingleton's words, "part of any consideration in M&A activity."

This is evidenced by some of the company's recent acquisitions, such as Adey, whose corporate focus is on improving heating system efficiency, an important part of Genuit's decarbonization strategy, and Permavoid, which provides rainwater storage and attenuation to help reduce the strain on sewage systems, another key element of Genuit's sustainable infrastructure solutions.

Going forward, Shingleton said, the carbon footprint and sustainability strategy of any prospective target would be a significant factor in whether Genuit deems the company a good fit for its business. "We'll be looking to acquire businesses that have focused attention on their own sustainability strategies," adding that these must enhance and not detract from Genuit's ability to meet its green construction KPIs.

"Problems cannot be solved at the same level of awareness that created them."

ALBERT EINSTEIN



**DAVID M. FELTS**  
Managing Director  
Oaklins TM Capital

## ESG TRENDS IN THE US

In the US, observed David Felts, Managing Director of Oaklins TM Capital in Atlanta and the third member of the webinar panel, environmental, sustainability and governance (ESG) concerns aren't as central to the building materials market as they are in Europe. On the other hand, Felts said, they are becoming increasingly important, with large public companies and private equity firms driving what's known as the ESG agenda.

Felts cited a recent deal involving one of the world's largest providers of heavy-duty construction cranes, in which Oaklins acted as the advisor. As a rental business, this company has very high annual capital expenditure requirements to maintain and grow its fleet, requirements, Felt said, that historically have made this type of business less attractive to investors.

**In the US, the ESG agenda isn't as central to the building materials sector as it is in Europe, but it is becoming increasingly important.**

But the heavy-lift cranes this company specializes in are particularly well-suited for the construction of wind-turbine towers, and over 80% of its revenue

comes from wind-power installations. This led to an unusual response when Oaklins shopped the firm to potential buyers. Many responded that even though they aren't usually interested in rental businesses with high capex requirements, given how well this company is positioned in the sustainable energy space, they wanted to take a closer look at it.

"So," Felts explained, "the interest in that business was many times greater than it would have been otherwise, just because of that ESG element."

Another recent ESG-driven deal in which Oaklins served as the advisor was for Cali Bamboo Holdings, Inc., a California-based company that specializes in sustainable bamboo flooring and building products.

The company's long-stated goal has been to offer the greenest possible materials for each category of products that it carries, and this has led to great customer loyalty for the Cali brand and given it a cult-like following within the upscale consumer market. And in large measure because of the pride that its employees feel in the green nature of the products that they sell, the company has had very low levels of employee turnover and very high levels of productivity and customer engagement.

These attributes made Cali a very attractive target for UK-based Victoria plc, a US\$1 billion global provider of ceramic floors and other sustainable flooring products. The US\$104 million acquisition allowed Victoria to expand its US distribution with a direct-to-consumer marketing channel, and gave Cali additional financial support along with access to the European and Australian building materials markets.

Green products are central to what Victoria does, Felt said, and when it was looking at ways to expand its US business, "that E and S part of the Cali story strongly resonated with them."

## THE IMPACT ON DEAL PRICE

This attitude, Livingston noted, is increasingly widespread throughout the sector and is having a real, tangible impact on deal outcomes. "Acquirors really will pay more for businesses that they perceive to have a strong sustainability play," he commented, "and they will deduct from the price of any company that isn't taking at least the most basic steps to recycle heat and conserve energy."

**Buyers will pay more for a business with a strong sustainability play, and they will deduct from the price of any company that isn't investing in green technology.**

Buyers — especially big, publicly held companies — will do this, Livingston continued, "because they recognize that these steps will have to be taken, and if the seller hasn't already made the investment in more sustainable construction, then the buyer will have to.

"When you're a small company, you can get away with being less green," Livingston acknowledged, "but not when you're a larger public company." So, the smaller companies in the sector, "may as well make the investment in sustainability now and get a return on it when they sell."

That, Felt said, was precisely how it played out with yet another recent transaction for which Oaklins was the advisor. In this case, Steamist Inc., a New Jersey-based provider of high-quality steam showers and luxury shower accessories, was acquired by the Masco Corporation, a Michigan-based, US\$14 billion global powerhouse in the design, manufacture and distribution of plumbing and decorative architectural products.

Steam showers are designed to provide whole-body relaxation after a workout or some other strenuous activity.

They are the sustainable alternative to whirlpools, which use up to 100 gallons of water to provide a 20-minute soak. In contrast, a 20-minute steam shower only requires a single gallon of water.

In shopping Steamist, Oaklins played up the water conservation side of the company's story. But another draw for a potential buyer was the manufacturer's use of digitization. Initially, the company's core product was quite complex and required specialized plumbing contractors to install it. However, Steamist invested in the development of an IoT-manageable version of its steam shower that could be sold directly to the consumer online and readily installed by an ordinary plumber. This greatly expanded the company's market and heightened its appeal to Masco, which was looking to enter the steam shower category in keeping with its corporate commitment to environmental sustainability.

### THE FUTURE IS GREEN

Compared to more conventional suppliers of building materials, which are currently selling for multiples of between seven and 10 times EBITDA, Felt said that companies with a strong sustainability story are selling for multiples in the high teens — or even as much as 20 times earnings.

Livingston concurred, adding that on his side of the pond, the multiples for companies that excel at capturing and analyzing data about the effectiveness of various green strategies had “entered into nosebleed territory.”

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**Companies with a strong sustainability story are selling for as much as 20 times EBITDA.**

Moving to wrap up the webinar, Livingston summarized the panelists' conclusions. “Sustainability within the built environment sector,” he said, “is no longer viewed as a regulatory burden, but as a core element of a company's strategy. This,” he added, “has been accompanied by the rapid uptake of technology across the building materials value chain. Together, these two trends are driving M&A activity, increasing the number of buyers and attracting materially higher valuations.”



Watch the webinar [here](#)

# Our track record

Our clients rely on us to help them prepare for their next challenge, whatever it may be. With deep-rooted sector expertise in building materials, we are able to support you and provide the professional advice required to achieve a successful outcome.

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**vhz**  
GROEP

has been acquired by

**Gilde**  
EQUITY MANAGEMENT

M&A SELL-SIDE

Construction & Engineering Services/Private Equity

**Martin**  
Glas

has been acquired by

**VE PARTNERS**

M&A SELL-SIDE

Construction & Engineering Services

**BREWSTER**  
HOME FABRICS

fine  
decor

have been recapitalized by

**I O P**  
INDUSTRIAL  
OPPORTUNITY  
PARTNERS

M&A SELL-SIDE

Construction & Engineering Services/Private Equity

**VERSATRIM**  
The Leading Molding Brand in North America

has been acquired by

**SAW MILL**  
CAPITAL

M&A SELL-SIDE

Construction & Engineering Services/Private Equity

Minority shareholders and Ibéris

have acquired

**sanindusa**  
lifemoments

M&A BUY-SIDE

Construction & Engineering Services

**LONGWATER**  
OPPORTUNITIES

has sold

**San Benito Shutter** **LEWIS**  
CABINET SPECIALTIES

to

**MONUMENT**  
SOLID MOUNTAIN

M&A SELL-SIDE

Construction & Engineering Services/Private Equity

**P.F.B.**  
CORPORATION  
Better building ideas

has been acquired by

**Riverside**

M&A SELL-SIDE

Construction & Engineering Services/Private Equity

**JOHNSTON**  
QUARRY GROUP

has been acquired by

**Sigma Roc**

M&A SELL-SIDE

Construction & Engineering Services

**SPARR**  
BUILDING AND FARM SUPPLY

has been acquired by

**NATION'S BEST**  
HOLDINGS

M&A SELL-SIDE

Agriculture/Construction & Engineering Services/Consumer & Retail

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- Debt advisory
- Corporate finance services

Building materials is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the building materials sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for building materials companies.

If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

### ✉ **BRIAN LIVINGSTON**

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Brian leads Oaklins' building materials team. He is also head of mergers & acquisitions at Oaklins Evelyn Partners, one of Oaklins' member firms in the UK. Brian continuously follows developments, publishes newsletters, attends major events and maintains regular contact with the key players. Notable deals he has advised on include the sale of TG Lynes to Grafton, the sales of Euroclad and Eurobond to Kingspan and the sale of Motivair Compressors. Brian has also established high-level contacts with the market consolidators, such as Grafton, Wolseley, CRH, Kingspan, SIG and Saint-Gobain, as well as strategic private equity investors active in the sector.



**United by a strong belief that we can achieve the extraordinary.** Oaklins is a global team of 850+ financial advisory professionals in 45 countries providing M&A, growth equity, ECM, debt advisory and corporate finance services to support entrepreneurs, corporates and investors in reaching their goals.



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