



Building Products: Pursuing Resilience in a Time of Uncertainty

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Building products are a cyclical but a resilient industry that spans 12 micro-verticals serving diverse end markets. Industry growth trends follow housing cycles, stabilized by remodeling trends. During the most recent cycle, from 2019 to 2024, building exteriors (roofing, siding & framing, windows & doors, outdoor decking & landscaping, insulation, and other products like chimney, downspouts, etc.) outperformed interiors (ceilings, flooring, walls, kitchen cabinets & countertops, bathroom fixtures & fittings, and furnishings & décor) but winners emerged in both.

In the current cycle for building products, an economic recovery seems likely to be delayed for another 12 to 18 months. Nevertheless, there are some favorable indicators of a residential rebound, industrial demand, and continuing investments in infrastructure projects.

Meanwhile, opportunities are emerging for managers and investors alike. Relative winners during the recent downturn provide examples to study, suggesting the kinds of strategies most likely to succeed in the industry. This information also can help investors identify micro-verticals likely to enhance value as the sector rebounds.



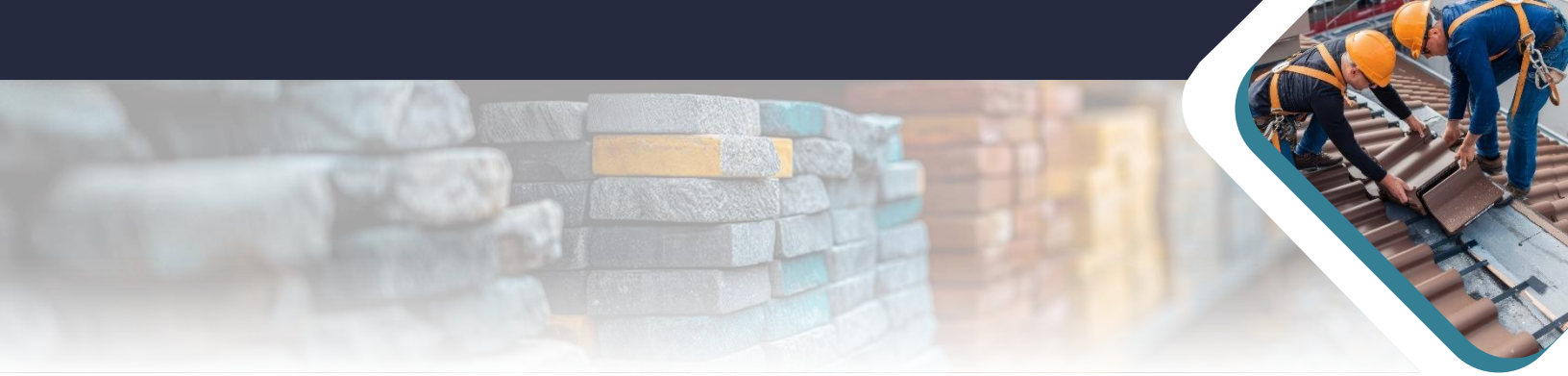
A Fragmented, Resilient Industry

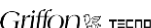


The \$350 billion market for building products includes residential, commercial, manufacturing, and infrastructure end-markets. The industry is highly fragmented, with a large base of privately held companies in 12 micro-verticals across interior and exterior product categories (Table 1). Examples of fragmentation include more than 1,000 companies providing decking and landscaping and more than 6,000 offering bathroom fittings. The industry is cyclical, but repair and replacement needs help to moderate the ups and downs.

Table 1. Building Products Companies, by Micro-Vertical and Ownership

	Company Examples			Number of Companies, Estimated		
Interiors						
Micro-Vertical	Public	Private	PE backed	Public	Private	PE backed
Ceiling materials and systems	 	  	   	2	10	>100
Flooring materials	  	     	      	10	15	>50
Wall materials	    	   	  	5	10	>300
Kitchen cabinets and countertops	    	        	     	3	7	>300
Bathroom fixtures and fittings	 	   	  	3	5	>6,000
Furnishings and decorations	   	  	  	20	5	>1,000



	Company Examples			Number of Companies, Estimated		
Exteriors						
Micro-Vertical	Public	Private	PE backed	Public	Private	PE backed
Roofing	  	    	 	5	>60	>100
Siding and framing	    	     	  	5	>30	>200
Windows and doors	    	   	   	7	>15	>100
Outdoor decking and landscaping	  	    	    	3	>5	>1,000
Insulation and weather-proofing	   	     	  	4	>10	>5,000

Diverse Building Products

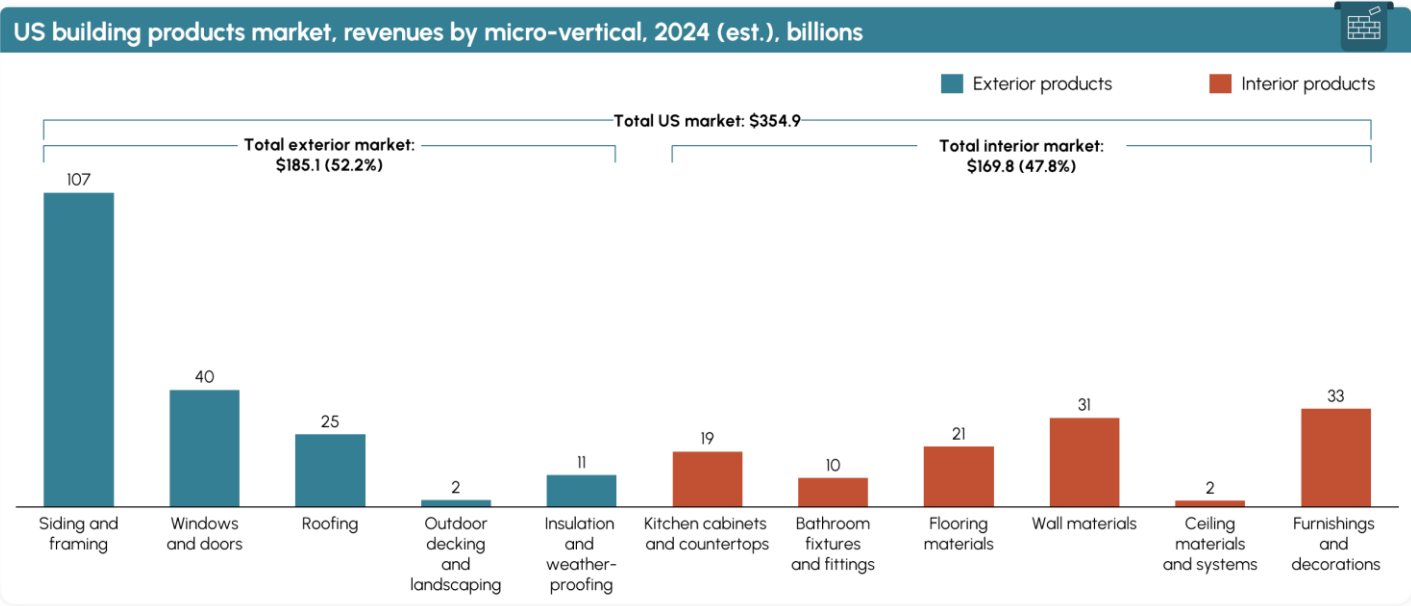
The building products industry produces processed and finished items for use in exteriors or interiors of residential, commercial, and manufacturing buildings and in infrastructure such as airports and power plants. The exterior segment includes six micro-verticals: roofing, siding and framing, windows and doors, outdoor decking and landscaping, insulation and weatherproofing, and other exterior products. The interior segment also has six micro-verticals: ceilings, flooring, walls, kitchen cabinets and countertops, bathroom fixtures and fittings, and furnishings and décor.

The US market for building products totals \$355 billion, split almost equally between exteriors (\$185 billion) and interiors, at \$170 billion (see Exhibit 1). In exteriors, the siding and framing vertical is by far the largest, with a market size of \$107 billion. In interiors, no micro-vertical dominates to that degree. The fastest growing interior micro-vertical is expected to be ceilings, with a compound annual growth rate (CAGR) of 9.3% over the period from 2024 to 2028; for exteriors, the fastest growing segment is expected to be roofing, with a 6.2% CAGR.



Exhibit 1

The \$355 billion market for US building products is about evenly split between interior and exterior product segments



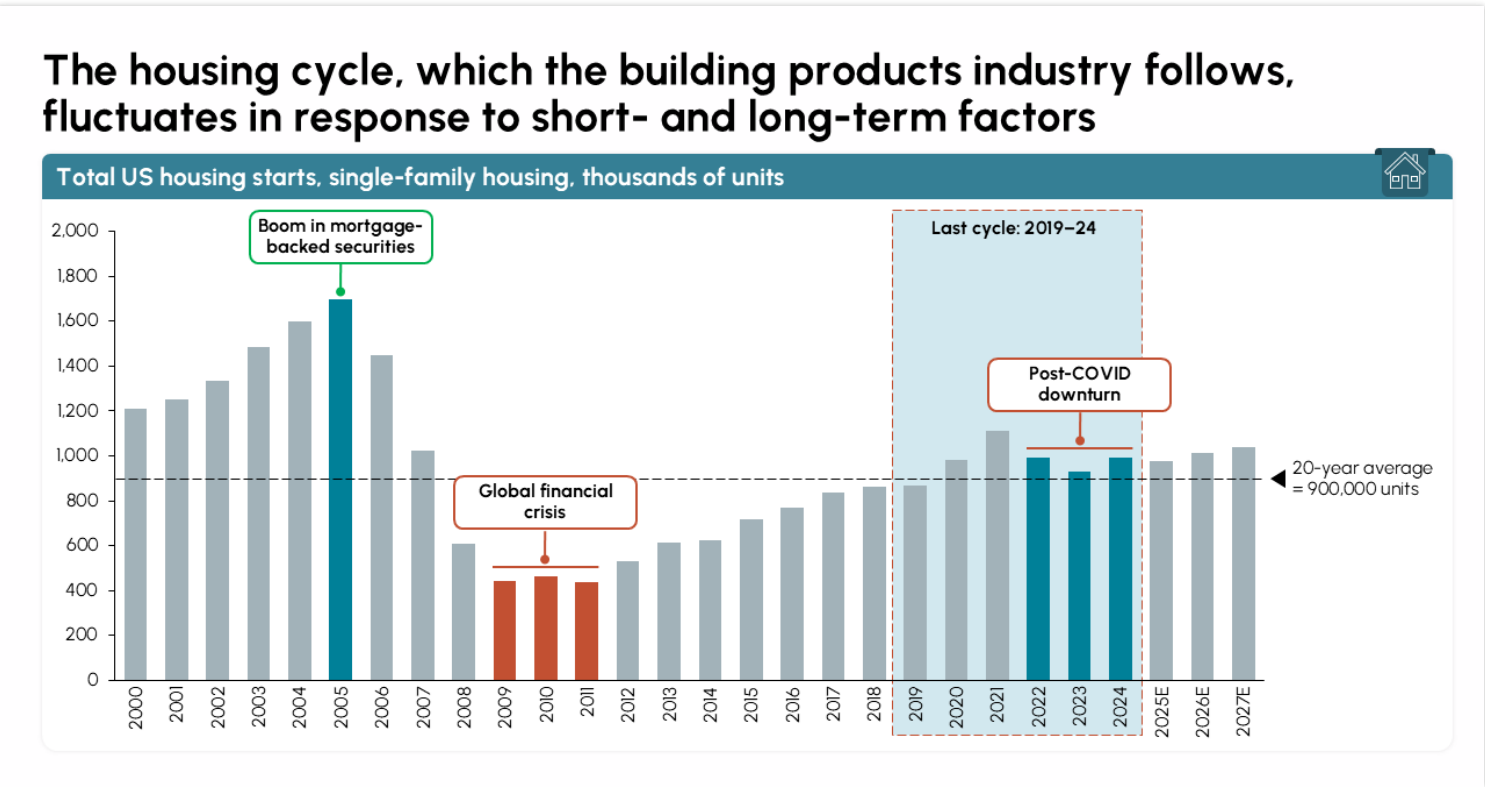
Source: FMI; Freedonia; Grandview Research; and Ayna estimates.



Cyclical Growth

Building products is a cyclical industry that follows the cycle for residential real estate. The residential real estate market peaked at roughly 1.7 million housing starts in 2005, a climate of favorable mortgage rates and a boom in mortgage-backed securities (Exhibit 2). Housing starts tumbled in response to the global financial crisis and gradually recovered beginning in 2012, surpassing a million housing starts again in 2020. The last cycle, from 2019 to 2024, peaked in 2021. Housing starts then declined in response to high costs from supply chain disruptions, rapidly rising interest rates, and affordability pressures of the post-COVID period. The key limiter of near-term housing demand continues to be mortgage rates, which are about 1.5 percentage points above their 20-year average .

Exhibit 2



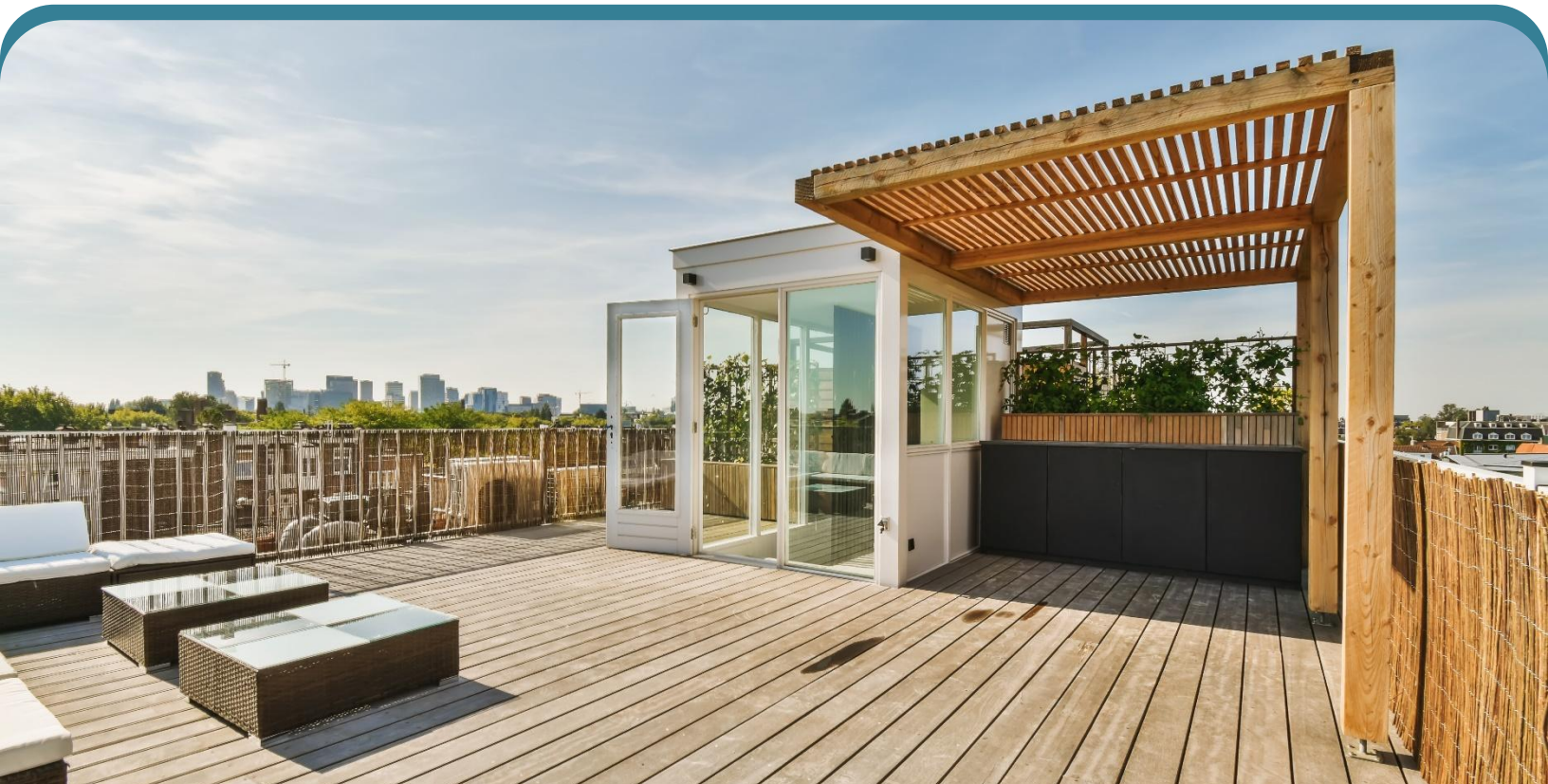
Source: Bluelinx investor presentation; National Association of Home Builders (NAHB); US 30-year fixed mortgage; Wendy Edelberg and Noadia Steinmetz-Silber, “High Mortgage Rates Are Probably Here for a While,” Brookings, November 16, 2023, <https://www.brookings.edu/articles/high-mortgage-rates-are-probably-here-for-a-while/>.



The cyclical pattern is moderated by the ongoing demand for repair and remodeling (see “Veka’s Joe Peilert on Navigating Market Volatility and Building for the Long Term” on page 12). The long-term driver of that demand is demographics: Aging housing stock and population growth support sustained replacement and remodeling. The remodeling index has grown 3.5 times since 2000. While new housing starts declined during the COVID pandemic, demand for repair and remodeling has remained resilient, with steady activity levels since 2021.

During the most recent cycle, the building exterior segment outperformed interiors in terms of shareholder returns, thanks to strong operational performance.

Among publicly traded companies, micro-verticals for building exteriors saw TSR rise **22.7%**, versus just **8.3%** for micro-verticals selling building interior products.



A Pause on Growth



Despite slight reductions in interest rates and slow upticks in residential construction starts, the outlook for the market isn't improving. In June 2025, U.S. single-family home construction fell to its lowest level in nearly a year, as elevated mortgage rates and economic uncertainty weighed on buyer demand. Permits for future single-family builds also sank to a more than two-year low, mirroring the subdued mood among homebuilders.¹



The sector's slow recovery this year is also evident in shareholder returns. Overall TSR for the first half of the year was **-8.8%**, compared to **11.6%** during the 2019–2024 cycle. Both segments saw declines: Building Exteriors dropped to **-27.5%** (vs. 22.7% in 2019–2024) and Building Interiors edged up just 0.5% (vs. 8.3% 2019–2024)

While many analysts remain optimistic about the back half of this decade, a recovery of the building products market may be pushed out for another 12 to 18 months, for three reasons: demand drag, a weak macro-outlook, and the double strain of tariffs and a tighter labor supply. Nevertheless, some indicators hint that growth may be on the way.

¹ Lucia Mutikani, "US single-family homebuilding hits 11-month low; building permits slump," Reuters, July 18, 2025, <https://www.reuters.com>.



Cause for Caution

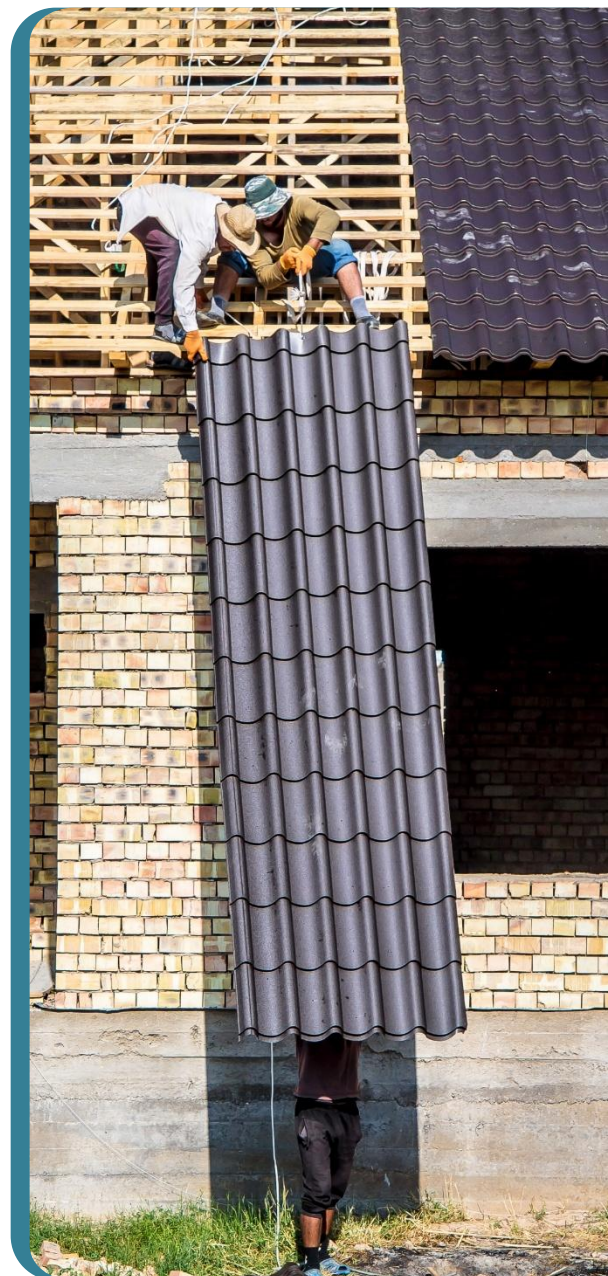
Companies seeking growth may be stymied by the ongoing shortage of single-family homes, a housing affordability crisis, unfavorable macro indicators, tariffs on imported materials, and difficulties finding sufficient labor.

» Demand Drag

The demand side is unfavorable, mainly because of elevated mortgage rates. Mortgage rates are at 6.8%, which is two points above the 10-year average. At the same time, because previous rates were lower, less than 15% of mortgages in 2024 are above a 6% rate. This situation has been stalling buyer-seller activity, because current homeowners hold onto lower rates.

High rates intensify a housing affordability crisis. Prices are climbing faster than incomes, making homes increasingly unaffordable. Nearly half of US households are unable to afford a home above \$250,000, while roughly 75% cannot afford a median-priced home.²

Under these conditions, the number of pending sales has halved. Unaffordability is driving down pending home sales. The US Pending Home Sales Index has nearly halved, dropping from 130.3 in August 2020 to 72 in June 2025.³



² Median Home Price by State 2025, World Population Review, worldpopulationreview.com, accessed August 12, 2025.

³ US Pending Home Sales Index, June 2025, YCharts, ycharts.com.



“Single-family starts remain soft, as builders manage the pace of construction amid affordability challenges, inventory buildup, and increased economic uncertainty.

—Peter Jackson, CEO, Builders FirstSource, Q1 2025 Earnings Call

“Consumer confidence and sentiment is down double digits. Historically, we’ve said that’s the leading indicator when we look at future activity. And so that’s the driver.

—Cliff Buster, CEO, Tempur Sealy International, Q1 2025 Earnings Call

Weak Macro Outlook

The macro-outlook does not favor a strong housing market rebound. The Federal Reserve is holding rates steady, bond yields are ticking up, and the dollar has plunged.

In the second half of 2024, the Fed began cutting the federal funds rate, bringing it from 5.25% down to 4.25%. However, so far in 2025, the Fed has entered a wait-and-see mode in response to uncertainty about the level and impact of tariffs. Mortgage rates have barely budged, with the 30-year fixed rate ticking down only slightly, from 7.04% to 6.08%. Experts expect 30-year and 15-year mortgage rates to stay elevated, mirroring current interest rate levels. Housing projects remain highly rate-sensitive, so high rates are stalling new construction and permitting.

Meanwhile, a rare macro mix—rising Treasury yields and a falling dollar—is fueling inflation concerns and pushing mortgage rates higher.⁴ Rates on 30-year Treasuries are near 5.0%, up half a point from a year ago, while 10-year Treasuries have also increased around a quarter point. The value of the US dollar relative to other currencies fell sharply. Combined with rising yields, this signals lower confidence in the US dollar and its bonds, which could translate to import-driven inflation. Also, rising bond yields can make buying a home more expensive, because yields are a key factor in setting mortgage rates (see “Veka’s Joe Peilert on Navigating Market Volatility and Building for the Long Term” on page 12).

⁴ E. Napoletano, “When Will Mortgage Rates Go Down? Rates Are Still Higher than This Time Last Year,” *Yahoo Finance*, August 7, 2025, <http://finance.yahoo.com> ; “The Outlook for the US Housing Market in 2025,” J.P.Morgan, February 10, 2025.



» Double Strain: Tariffs and Labor Market Uncertainty

Tariffs and immigration policies are straining the sector from both ends. Tariffs are driving up material costs, and strict immigration enforcement is cutting the labor supply, though at a time of softening demand.

Tariffs have caused spikes in the price of important construction materials (see “Industry Veteran Bob Merrill on Pricing Discipline, Material Shifts, and Execution Excellence” on page 16) . Canadian lumber, for example, is subject to 25% tariffs; adding in the existing duties, prices are up nearly 40%. Commercial construction is facing cost inflation of 8% to 12% on infrastructure projects. In the residential sector, materials inflation could add \$5,000 to \$20,000 to the price of a new home.

Immigration policy is significant because immigrants make up 34% of the construction workforce. In some building products micro-verticals, the representation of foreign-born workers is even higher—for example, 61% of drywallers and 52% of roofers. As immigration rates slow and deportations rise, fewer experienced workers remain. A tight job market could contribute to higher costs for construction and housing, but for now, demand for labor is stagnating. Jobs in construction grew by just 1.7% over the past year, and the pace is slowing as firms report that they are currently not hiring.⁵

“ We expect a one-time tariff-related headwind of approximately \$5,000,000 in the second quarter of 2025.

—Cliff Buster, CEO, Tempur Sealy International, Q1 2025 Earnings Call

“ April’s tariff announcements resulted in a pause in consumer activity in our markets.

—Andrew Nemeth, CEO, Patrick Industries, Q2 2025 Earnings Call

⁵ Johnny Bradigan, “Midway through 2025, Here’s the Outlook for the Construction Economy in North America,” ConstructConnect, June 12, 2025, www.constructconnect.com.



VEKA's Joe Peilert on Navigating Market Volatility and Building for the Long Term

Joe Peilert, President and CEO of VEKA North America, spoke with Dinesh (President at Ayna) about how the building-products industry can navigate volatility while positioning for long-term growth. With three decades in the sector, including leadership roles spanning strategy, manufacturing, and sales, Peilert brings a practitioner's view on how macro shifts, tariffs, and design trends are reshaping the competitive landscape. (The conversation has been edited for clarity and length.)

Rates Unlock Demand; R&R Keeps the Floor Steady

Joe believes the sector's recovery depends on one number: the mortgage rate. Until 30-year rates drop below 6%, homeowners remain locked in, muting new construction. But the underlying replacement cycle and aging housing stock keep the repair-and-remodel (R&R) market steady—"our ballast while new builds wait for affordability to return."

Tariffs Shift ROI Toward Domestic Equipment

While VEKA sources most raw materials domestically, tariffs are reshaping capital decisions. Imported European equipment has become more expensive, making U.S. alternatives more viable and speeding ROI for domestic automation. At the same time, the real margin headwinds come from labor, healthcare, and insurance costs rather than materials.

Design Trends Redefining the Windows and Doors Product Mix

Demand is tilting toward darker colors (black to grey), larger windows and patio doors, and seamless indoor-outdoor transitions. Impact-rated solutions are increasingly spec'd as building codes tighten and extreme-weather events rise. Peilert notes that staying ahead of these trends requires constant investment in color capacity and performance innovation.

Play the Long Game—Lean, Not Anorexic

Having guided VEKA through previous downturns, Peilert stresses financial discipline without cutting into core capabilities. "Being lean is critical, but being anorexic leaves you unprepared for the upturn," he says. His focus is on automation and talent retention to stay ready for the next demand cycle.



A Stirring of Tailwinds

Although the building products industry is in the tough part of its cycle, some tailwinds are stirring across residential, commercial, and industrial/infrastructure markets.

Leading Indicators of Growth in Residential

Several signs suggest that a residential recovery may be nearing:



Household income

Household income grew year after year in 2023 for the first time since 2019, which increases disposable income that could drive spending for remodels.



Remodeling

In February, the National Association of Home Builders (NAHB) forecast that growth in the remodeling market will be a robust 5% in 2025, with a further 3% nominal gain in 2026.⁶



Housing starts

Single-family construction ended 2024 with growth in all geographic regions, driven by a shortage of homes for sale.



Manufactured housing

Manufactured housing has grown at a 5% CAGR from 2019 to 2024, rapidly gaining momentum as households come to view it as an affordable option.



Regional and demographic shifts

Construction and starts in smaller counties and lower-density areas expanding as people look away from high-priced urban centers.



Accessory dwelling units (ADUs)

The ADU market is growing rapidly, given the increase in housing costs and housing inventory shortages. Also, ADUs boost home value, which motivates owners to pursue construction projects as an investment.

⁶ “Remodeling Market Poised for Growth in 2025,” press release, National Association of Home Builders, February 25, 2025.

Initiatives in Non-Residential Segments

Commercial construction has been growing steadily since 2021 and is expected to surpass pre-COVID levels by 2026 (Exhibit 3). The increase in retail construction is driven by increased demand in suburban areas. Owners of office buildings are retrofitting them, boosted by aging stock, limited supply, and concerns for environmental sustainability .

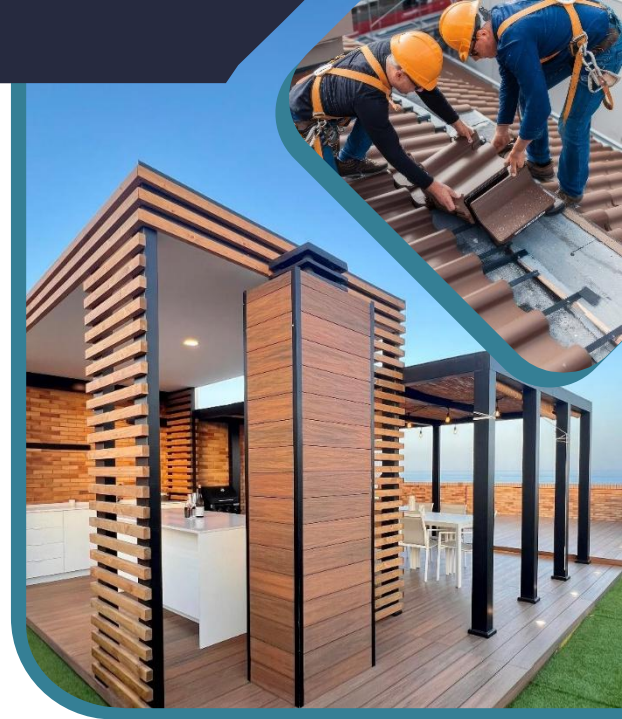
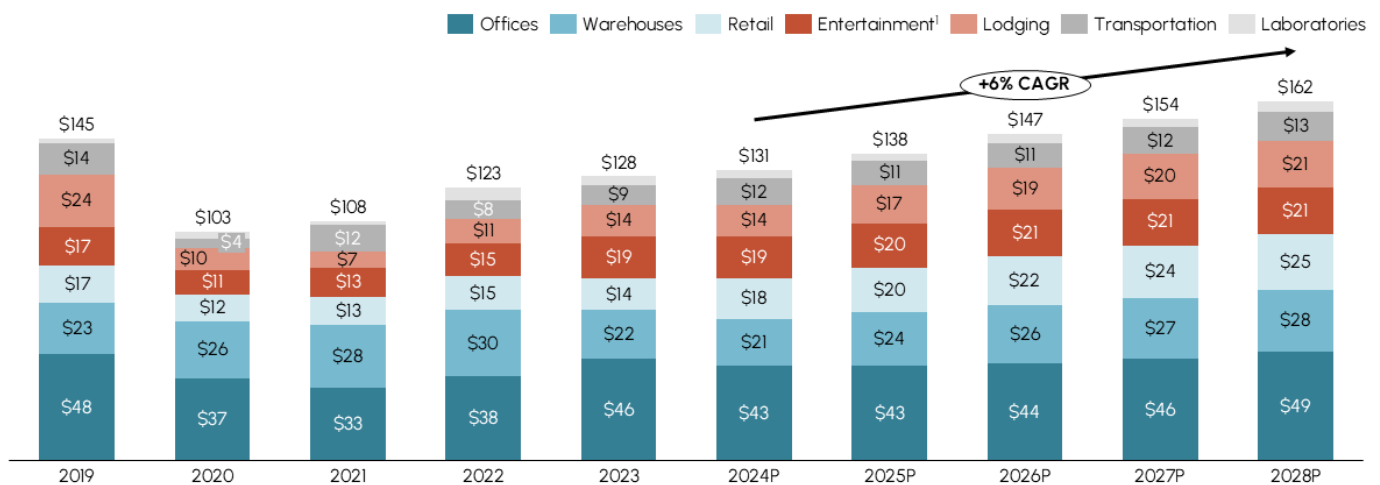


Exhibit 3

Commercial construction remains strong, with increases in building starts and retrofit activity on aging real estate

Commercial building starts by sector, billions



¹ "Entertainment" includes amusement, sports stadiums, and convention centers.

Source: ConstructConnect; Ruth Hynes and Adrian Davidson, "Outlook on Design Trends 2025," JLL, <https://www.jll.com/en-us/insights/2025-outlook-on-global-design-trends>; Arsene Aka, "Booming Retail Construction away from Dense Urban Cores," Dodge Construction Network, January 10, 2025, <https://www.construction.com/blog/booming-retail-construction-away-from-dense-urban-cores/>.



In industrial construction, construction of factories grew 32% year over year in 2022, 29% in 2023, and 14% in 2024. The growth in demand has been fueled by the reshoring of manufacturing and enabled by the CHIPS Act and the Infrastructure Investment and Jobs Act (IIJA) of 2022. By December 2024, over \$32 billion of the \$39 billion semiconductor manufacturing funds had already been allocated. Investments in US semiconductor facilities surged, with an average of \$7.5 billion per month in construction investment from 2020 to 2024. Moreover, there is a proposed \$1.7 billion in funding for 13 more projects, following \$30.6 billion in funding already awarded.

Reshoring of manufacturing is contributing to demand for both factories and warehouse construction. Warehouse construction also reflects the impact of e-commerce and supply chain shifts.

Data Centers are further leading the way in nonresidential. The massive demand for cloud infrastructure and AI has caused investment in data centers to surge. Spending on data center construction, which accounted for roughly 5% of total construction spending in 2014, now represents 32% of spending, with projections that the share could hit 40% by 2028 (Exhibit 4).⁷ And between March 2024 and 2025, over 70% of private, non-residential spend went to building data centers.⁸



⁷ Sebastien Tillett, "Rising Demand Fuels Surge in US Data Center Construction," ConstructConnect, September 16, 2024, www.constructconnect.com.

⁸ "ABC: Nonresidential Construction Spending Plunges in March," Associated Builders and Contractors news release, May 1, 2025, www.abc.org.



Industry Veteran Bob Merrill on Pricing Discipline, Material Shifts, and Execution Excellence

Bob Merrill, former CEO of CMI and long-time building-products executive, spoke with Dinesh (President at Ayna) about how the industry is adjusting to shifting demand, tariffs, and evolving materials. With leadership experience across windows, doors, and distribution, Bob shared his views on market cycles, pricing discipline, and why execution matters more than ever. (The conversation has been edited for clarity and length.)

Housing is Underbuilt—But Affordability is the Gatekeeper

Bob sees structural demand for housing but notes that affordability and rate-lock are still major constraints. He expects starts to stabilize around 1.5 to 1.6 million once rates return to the 5–6% range. “People want to move, but can’t afford to. The pent-up demand is there; it just needs the math to work again.”

Price Pressure Persists as Tariffs Ripple Through the Chain

Even as volumes stay soft, prices for windows and doors are up 5–10%, driven by tariff-linked hardware and laminate costs. Bob points out that “these increases are now baked in” — a reminder that pricing discipline and service differentiation will matter more than simply passing through costs.

Aluminum’s Comeback Signals New Design Priorities

As architectural preferences shift toward larger openings and modern aesthetics, aluminum is regaining share thanks to advances in thermal breaks and energy performance. Fiberglass and vinyl still dominate volume, but aluminum’s mix is growing in higher-end and commercial segments.

Execution is the Real Differentiator

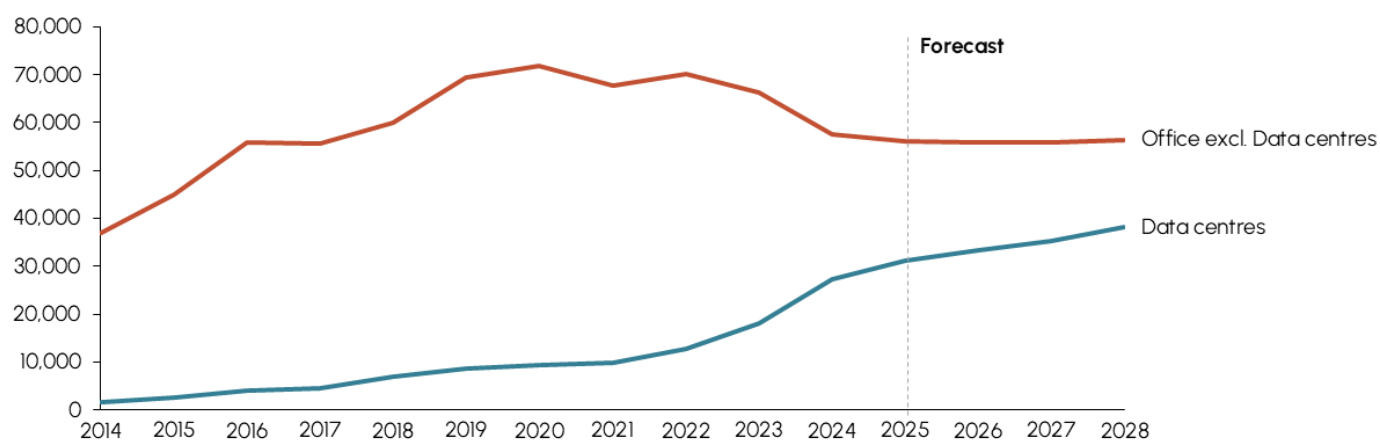
For Bob, winning in this environment comes down to plant productivity, waste reduction, and product refresh. He also sees strategic M&A as a smart shortcut to capability gaps—“Pella’s acquisition of Weather Shield to add an aluminum line is a good example of building breadth without reinventing the wheel.”



Exhibit 4

Data center construction is increasing to meet the demand fueled by emerging technology and hyper-scalers

Private construction capital expenditures: Offices and data centers, \$ million



<https://brightlio.com/data-center-stats/> ;

Source: Census Bureau, Haver Analytics; Sebastian Straub, "49 Cloud Computing Statistics You Must Know in 2025," N2W blog, June 25, 2025, <https://n2ws.com/blog/cloud-computing-statistics>; Sebastian Tillett, "Rising Demand Fuels Surge in US Data Centre Construction," Oxford Economics blog, September 11, 2024, <https://www.oxfordeconomics.com/resource/rising-demand-fuels-surge-in-us-data-centre-construction/>; Matt Ashare, "Data Center Investments Surged to \$455B Last Year: Report," CIO Dive, March 20, 2025, <https://www.ciodive.com/news/data-center-ai-cloud-infrastructure-capex-gpu-servers/743002/>.

The key catalyst is technology. With the cloud computing boom, 94% of enterprises now report using cloud services, and 60% of business data is stored in the cloud. The latest wave of data center growth is to meet the needs of generative AI. For example, NVIDIA's data center revenue has grown 427% year-over-year from the first quarter of FY 2024 to the first quarter of FY 2025. The top 10 hyperscalers, including AWS, Microsoft, and Google Cloud, were responsible for over 50% of the \$455 billion in global data center capital expenditures in 2024.

Institutional sectors, specifically health care and education, have seen sharp growth compared with the rest of the industry. A CAGR of 7% is expected over the next four years.

Some Winning Strategies

Given the significant challenges facing building products companies, how can these players build resilience and prepare for future growth? To answer that question, we studied the performance of the top five public companies in building exteriors and the top five in building interiors, based on their 2019–24 growth in total shareholder returns (TSR). Others in the industry can benefit from investigating these ten companies' strengths in product differentiation, operational excellence, digital transformation, strategic M&A, and channel strategy.

The Top Five in Exteriors

Overall, the companies providing building exterior products outperformed those in the interiors segment.



Among the 16 publicly traded companies in building exteriors, the top five have **12%** of the total market cap and expanded their five-year TSR by **35.6%**. On a company-by-company basis, these five, with 2024 revenue between **\$2.9** billion and **\$16.4** billion, had an impressive performance in TSR growth and EBITDA margins (see Exhibit 5).

Exhibit 5



The top five players in building exteriors

Company	Micro-vertical	Revenue, 2024, billions	EBITDA margin, 2024	5-year TSR, ¹ 2019–24, CAGR
BLUELINX	Siding and framing	\$2.9	4.1%	48.3%
Builders FirstSource	Windows and doors; engineered wood; siding	\$16.4	13.2%	41.3%
LP	Siding and framing	\$2.9	22.6%	30.0%
Boise Cascade Corporation	Doors; engineered-wood products	\$6.7	9.5%	27.5%
BEACON	Roofing	\$9.8	9.2%	26.0%

¹ Total shareholder return.

Source: FactSet; Ayna team analysis

BLUELINX

1

BlueLinX, a leading distributor of residential and commercial building products focusing on lumber, siding, roofing, and outdoor living products, posted the largest five-year TSR growth, at 48.3%. The company's success is driven by its portfolio of specialty products, which account for 70% of net sales and 80% of gross profit. The company also builds resilience on the cost side. Its structure gross margin has been consistently around 11%, and it invests in digital initiatives, including the development of an e-commerce platform.

Builders FirstSource

2

Builders FirstSource, the largest US supplier of structural building products, prefabricated components, and value-added services, has the greatest revenue of the five companies and an impressive EBITDA margin of 13.2%. The company leverages a strong value-added and digital services segment to complement its operational excellence. Its value-added manufacturing components, by ensuring faster cycle times, command margins that are 1,200 basis points greater than for their other products. BFS also has reported leverage ratios consistently below two times and a free cash flow (FCF) trailing 12-month yield of about 9%.



LP BUILDING SOLUTIONS

3

Louisiana-Pacific, a leading manufacturer of high-performance, engineered wood building products, including framing, siding, and outdoor building solutions, is among the smallest of the five companies but has the greatest EBITDA margin, 22.6%. LP employs a disciplined approach focused on returning cash to shareholders through innovation and expansion. In its siding product line, 14% of LP's volume in 2024 came from recently launched products, helping the company achieve 25% EBITDA margin in 2024. LP is strategic about divesting businesses where high margins aren't achievable, and it has been pursuing capacity expansion in anticipation of an upturn in demand.



Boise Cascade

4

Boise Cascade, a leading manufacturer and distributor of engineered wood products, plywood, and lumber, leveraged EBITDA margins of 9.5% to achieve shareholder returns of 27.5%. The company emphasizes a high-volume product mix and stable inventory. It benefits from selling a product for which demand growth is outpacing the rate of single-family home starts. Boise Cascade strengthens margins with new SKUs and a strategy of reliable order fulfillment. Its effective approach to capital expenditures directs roughly equal shares to foundation, modernization, and capacity completion.



BEACON

5

Beacon, a distributor focused on roofing materials and complementary building products like siding, waterproofing, windows, and decking, rounds out the top five with revenue of \$9.8 billion, margins of 9.2%, and a five-year TSR of 26.0%. Beacon is scaling its physical and digital network, powered by solid operations and a strong product lineup. Providing an e-commerce option also enables growth. Digital sales in the fourth quarter of 2024 were up 20% year-over-year, reaching 16% of the company's total sales.



The Top Five in Interiors

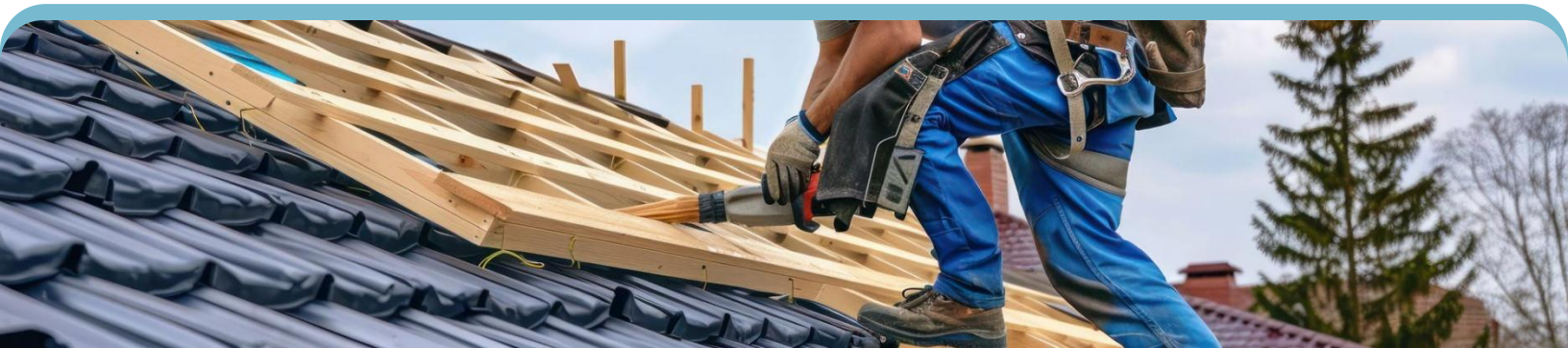
Although building interiors overall added less value than exteriors in 2019–24, the top five companies managed to shine. Among the 23 publicly traded companies in building interiors, the top five have 40% of the total market cap and expanded their five-year TSR by 14.5%. On a company-by-company basis, these five, with 2024 revenue between \$0.4 billion and \$23.1 billion, had impressive performance in TSR growth, and four had EBITDA margins above 20% (Exhibit 6):

Exhibit 6

The top five players in building interiors

Company	Micro-vertical	Revenue, 2024, billions	EBITDA margin, 2024	5-year TSR, ¹ 2019–24, CAGR
FLEXSTEEL	Furnishings and décor	\$0.4	6.2%	25.1%
TopBuild	Insulation and weatherproofing	\$5.3	19.8%	24.7%
TEMPUR+SEALY	Furnishings and décor	\$4.9	17.6%	22.0%
PATRICK	Composite materials	\$3.7	11.6%	21.1%
SHERWIN-WILLIAMS	Walls	\$23.1	19.0%	12.7%

¹Total shareholder return.
Source: FactSet; Ayna team analysis





FLEXSTEEL®

1

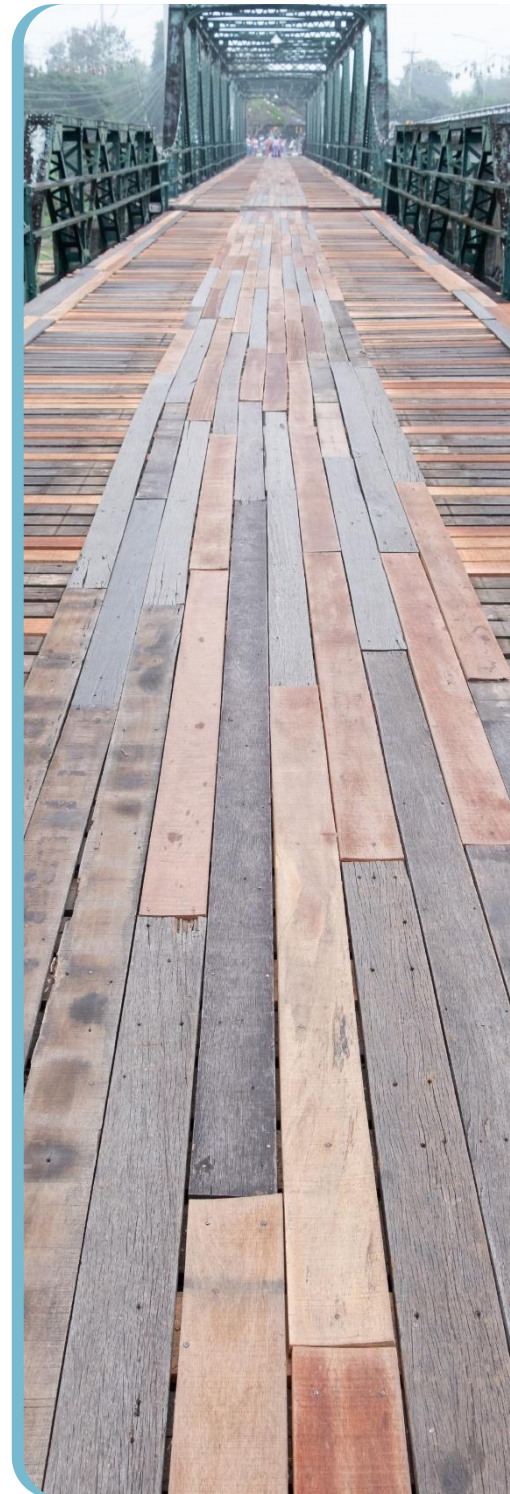
Flexsteel, a historic American furniture brand best known for their patented Blue Steel Spring Technology, is the smallest of the five (revenues of \$0.4 billion) but posted the largest growth rate of TSR, at 25.1%. Flexsteel leverages product innovation and unique customer-driven insights, evidenced by 237 unique SKUs in the first quarter of 2025 alone. Additional growth comes from omnichannel expansion, with expansion initiatives up 92% in the fourth quarter of 2024 year-over-year. The company keeps its supply chain agile to manage tariff risks and in the fourth quarter of 2024, reduced its inventory by \$25 million.



TopBuild™

2

TopBuild, a leading installer and distributor of insulation products, serving the North American construction industry, had the largest EBITDA margins at 19.8% in 2024, and second-largest five-year growth in TSR at 24.7%. TopBuild prioritizes M&A and leverages its technology platform to develop stable revenue segments. The company completed eight acquisitions in 2024, adding \$153 million to its top line. Resilience comes from a diversified service model; 25% of recurring revenue comes from specialty distribution. To make operations more efficient, the company consolidated 33 facilities in the first quarter of 2025 for an annual savings of more than \$30 million. In addition, the company's technology platform provides real-time analytics for pricing, productivity, and lead generation.





TEMPUR+SEALY

3

Tempur Sealy, a global leader in the design, manufacture, and distribution of retail mattresses and bedding products, is in the middle of the pack for revenue (\$4.9 billion), EBITDA margin (17.6%), and TSR growth (22.0%). The company focuses on product innovation and customer-centric marketing and distribution. Innovations include pressure relief technology and late-stage customization. Other gains come from omnichannel expansion, including direct-to-consumer sales. Focusing operations on enhancing supply contracts, improving labor productivity, and optimizing logistics has yielded a 200-basis-point improvement in gross margin.

PATRICK

4

Patrick Industries, a leading provider of component solutions for various end markets, including housing, and a key supplier for housing manufacturers, rounds out the set of companies with above-20% TSR growth. The company has leveraged M&A to enhance its revenue growth; acquisitions contributed four percentage points of the company's 7% total revenue growth in the first quarter of 2025. Automation initiatives helped improve gross margin by more than 90 basis points year-over-year in the first quarter of 2025.



5

Sherwin-Williams, a leader in the manufacture, distribution, and sale of paints, coatings, and related products, earned the greatest revenue, \$23.1 billion, and achieved the second highest EBITDA margin, 19.0%. The company maintains a customer-centric approach to provide consistent service. Sherwin-Williams launched a consumer app in 2024 while also investing in dedicated sales representatives. In the first quarter of 2025, the company reported that selling, general, and administrative expenses (SG&A) were only in the mid-teens as a percent of total expenses.



Lessons for Companies

The examples of top-performing interior and exterior players point to five shared themes: product differentiation, operational excellence, digital transformation, strategic M&A, and channel strategy. Others in the industry can benefit from investigating each of these and considering how each theme might play out in their own company.

Product Differentiation



BlueLinx, Builders FirstSource, FlexSteel, and Tempur Sealy all differentiated their products and services, becoming a valued source for their customers. This enables higher margins and increases customer loyalty, making the company more resilient throughout the business cycle. Companies can apply this theme by doubling down on specialty products, value-added manufacturing, or proprietary innovations.

Operational Excellence



Beacon, Louisiana-Pacific, and TopBuild have track records of operational excellence. They control costs and quality to enable robust margins, satisfy customers, and keep the company lean enough to weather downturns in demand. Companies pursue operational excellence by maintaining a sustained focus on cost control, productivity, and margin stability. Key metrics to monitor include facility footprints, workforce efficiency, and freight and fulfillment costs.

Digital Transformation



Beacon, Builders FirstSource, Tempur Sealy, and TopBuild have engaged in digital transformations to increase both sales and profitability. They understand that well-planned, carefully executed transformations are not simply IT expenses but growth enablers and margin levers. Companies wanting to benefit from a digital transformation need to take a strategic approach. Rather than merely searching for the latest and greatest, they should pursue business objectives such as growth and customer engagement. Digital tools could include e-commerce platforms and pricing analytics.

Strategic M&A



Beacon, BlueLinx, FlexSteel, Louisiana-Pacific, and TopBuild drive profitable growth with their strategic approach to M&A. They manage their business portfolio, considering how an acquisition or divestment could deliver growth while maintaining or increasing margins. Companies can shape their business portfolio by regularly assessing the contribution of each business to the company's overall profitability (see "Industry Veteran Bob Merrill on Pricing Discipline, Material Shifts, and Execution Excellence" on page 16). They can target acquisitions that would expand product lines, the geography they serve, and the important capabilities they have. Divesting lower-margin businesses is equally important.

Channel Strategy



Beacon, FlexSteel, and Tempur Sealy are strategic about distribution. They are extending their reach with omnichannel distribution, private labels, and integrated marketing. They are investing in customer-facing technology and talent to improve customer conversion and brand pull. Companies that want to learn from their example should investigate omnichannel distribution, including opportunities to pursue direct-to-consumer sales or B2B online channels. They can investigate customer-facing investments that could improve conversion and brand pull.

Micro-Verticals to Watch



Investors with an interest in the building supplies industry will want to direct their money to companies with potential to deliver value. In general, the odds of success will be greater in a high-opportunity micro-vertical. The previous chapter addressed companies' value creation strategies; this chapter addresses the selection of micro-verticals where investments are most promising, given what we know today.

Selection Criteria

Based on our experience as consultants and investors, we have found the following criteria to be helpful in selecting high-opportunity micro-verticals. For each criterion, we suggest questions to use as a guide in your evaluation. The following sections will apply these criteria broadly to exterior and interior building products.



 Address the following questions for each criterion



Market Size

- How big is the micro-vertical?
- Is it large enough to expand into or invest in value enhancement initiatives?



Demand and Growth Drivers

- How resilient is demand?
- What is the growth outlook?



Product Innovation Potential

- What are the emerging trends?
- Are there opportunities to introduce new or premium products based on these trends?



Digital Innovation Potential

- Can technology improve the business (e.g., with smart products, digital sales, automation)?
- Can AI help unlock new opportunities or improve efficiency?



Programmatic M&A

- Is the market fragmented and ripe for consolidation?
- Do valuations and financing markets support the consolidators?



Value Chain Leverage

- Where is the leverage in the value chain?
- Who has pricing power?



Supply Chain Risks

- What are the risks related to raw-material pricing and logistics?
- What is the impact of trade and immigration policy changes on labor and goods?



Operational Enhancement Potential

- Are there structural constraints to margin improvement?
- Do financial backers see a substantial opportunity for operational enhancement?



Opportunities in Exteriors

Within building exteriors, the windows and doors micro-vertical clearly stands out. The green squares in Table 2 indicate that this micro-vertical offers strong opportunities based on its size (\$40 billion), growth rate (5.4%), and the other criteria except value chain leverage (Table 2). The other micro-verticals present mixed or moderate opportunities (yellow) or low opportunities (red) for at least one other criterion.

Table 2. Assessment of Opportunities in Exteriors

Micro-vertical	Criteria for value enhancement							
	Size, billions	Growth	Product innovation	Digital innovation	Program-matic M&A	Value chain leverage	Supply chain risks	Operations enhancement potential
Windows and doors	\$40	5.4%	Favorable	Favorable	Favorable	Mixed	Favorable	Favorable
Roofing	\$24.8	6.2%	Favorable	Favorable	Unfavorable	Mixed	Unfavorable	Unfavorable
Siding and framing	\$107.3	5.4%	Mixed	Mixed	Favorable	Mixed	Unfavorable	Unfavorable
Insulation and weatherproofing	\$10.9	5.0%	Favorable	Mixed	Mixed	Mixed	Unfavorable	Unfavorable
Outdoor decking and landscaping	\$2.5	5.8%	Favorable	Favorable	Favorable	Mixed	Unfavorable	Mixed

Windows and doors present great opportunities for innovation. Technology is a key factor, enabling smart glass technology, smartphone-controlled features, and automatic weather response. In addition, windows and doors can be made with eco-friendly materials. There is high potential for M&A because the market for windows and doors is highly fragmented, and private equity has strong buy-and-build interest. In terms of supply chain risks, the windows and doors micro-vertical is less volatile than the others because it relies less on lumber. And supply chain management and material sourcing boost the opportunity to enhance operations. Value chain leverage in windows and doors is a moderate enhancer of value because branded products hold strong pricing power, especially in premium segments.

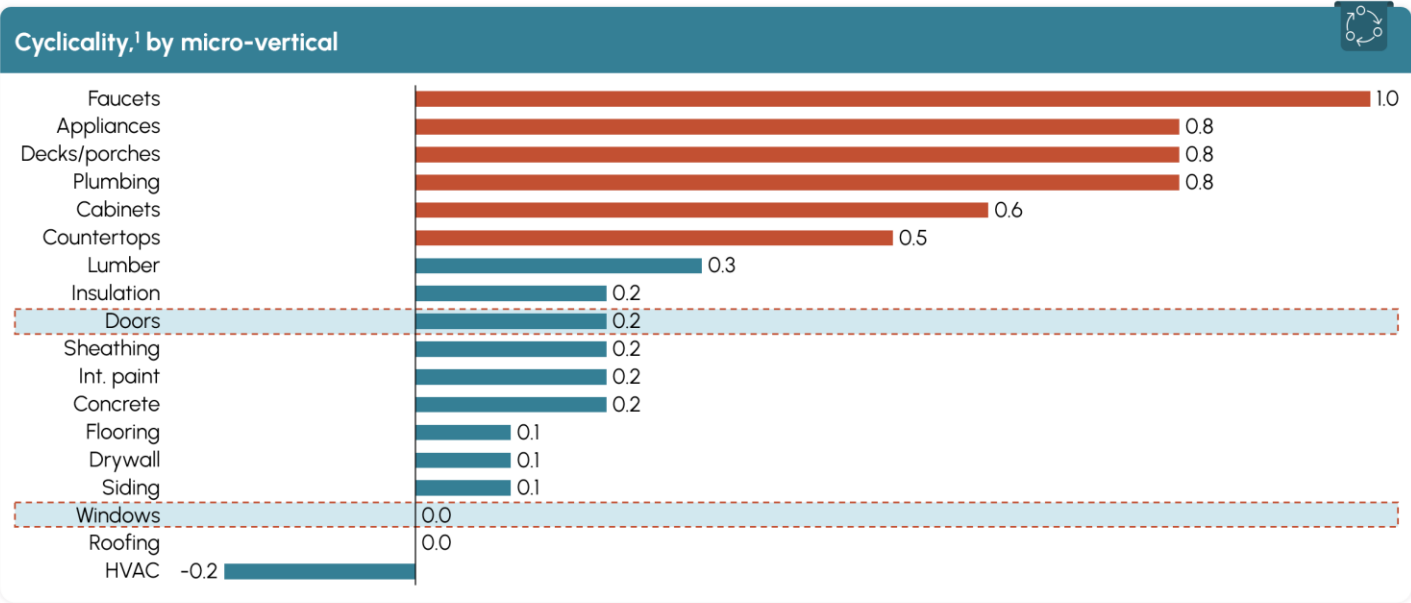




Examining the performance of windows and doors points to other advantages of this micro-vertical: it is an essential product, and much of its business is for repairs and remodeling (Exhibit 7). In general, repair and remodeling business moderates the cyclicity of real estate by providing a stream of income as items wear out. This impact is most pronounced for essential products than for discretionary ones such as cabinets. For building owners, windows and doors are core elements for home comfort, security, and energy efficiency, so wear and tear as infrastructure ages is likely to trigger a purchase.

Exhibit 7

Windows & doors stands out due to its lack of cyclicity and close ties to R&R



¹ Cyclicity is defined by its correlation with US GDP, where +1 signifies highly correlated, 0 is not correlated, and -1 is negatively correlated. Source: *Building Products Industry Analysis*, John Burns Research and Analysis, 2024.



Opportunities in Interiors

The only micro-vertical for which the opportunity is at least mixed for all the criteria is flooring (Table 3). Flooring scores high on size (\$74.6 billion), growth (6.8%), product innovation, digital innovation, and programmatic M&A. Value chain leverage, supply chain risks, and operations enhancement potential point to a mixed or moderate opportunity because raw-material suppliers have leverage, a few of the inputs are subject to sharp price fluctuations, and price competition is fierce, which limits opportunities to gain from operations improvements.

Table 3. Assessment of Opportunities in Interiors

Micro-vertical	Criteria for value enhancement							
	Size, billions	Growth	Product innovation	Digital innovation	Programmatic M&A	Value chain leverage	Supply chain risks	Operations enhancement potential
Flooring	\$74.6	6.8%	Favorable	Favorable	Favorable	Mixed	Mixed	Mixed
Walls	\$30.5	8.8%	Favorable	Favorable	Favorable	Mixed	Unfavorable	Unfavorable
Kitchen cabinets and countertops	\$19.0	2.2%	Mixed	Mixed	Favorable	Mixed	Unfavorable	Favorable
Bathroom fixtures and fittings	\$10.0	4.3%	Favorable	Mixed	Mixed	Mixed	Unfavorable	Mixed
Furnishings and decor	\$33.5	2.1%	Favorable	Favorable	Favorable	Mixed	Unfavorable	Mixed
Interior ceilings	\$2.2	9.3%	Favorable	Favorable	Favorable	Mixed	Unfavorable	Unfavorable

As with windows and doors, flooring demand is not very cyclical (Exhibit 8). Flooring is essential to a building’s function, so as it wears out, need-based demand fuels repair and replacement. In addition, resilient flooring materials like vinyl, laminate, and luxury vinyl tile (LVT) have made flooring projects more accessible to consumers, further smoothing demand growth. In value-driven renovations and maintenance, flooring is prioritized to boost property appearance and value.

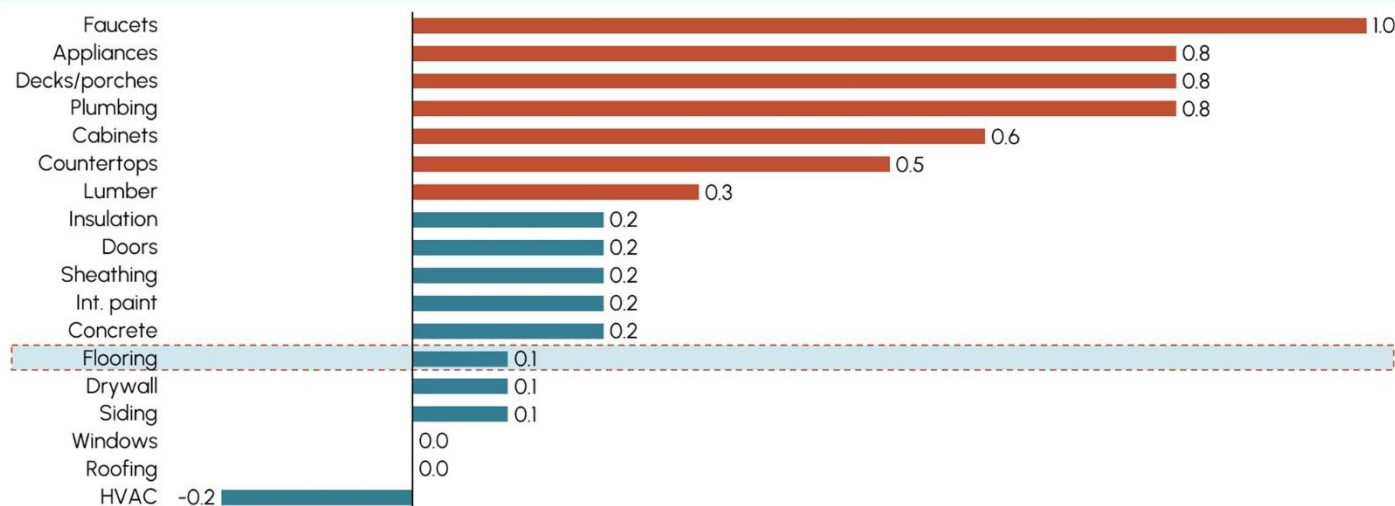


Exhibit 8



Flooring also lacks cyclicality and is essential to home function

Cyclical¹ by product



¹ Cyclical¹ is defined by its correlation with US GDP, where +1 signifies highly correlated, 0 is not correlated, and -1 is negatively correlated.
Source: Building Products Industry Analysis, John Burns Research and Analysis, 2024.

The building products industry is an exciting arena for businesses and their investors. This highly fragmented industry has opportunities stretching across 12 micro-verticals in which thousands of privately held companies serve diverse end markets. The industry is cyclical yet resilient.

In the current cycle, a strong recovery has not yet followed the post-COVID dip associated with high interest rates and costs. Uncertainties in the industry's environment have pushed back hopes for a market rebound within a year's time. However, there are bright spots: non-residential construction is strong, and even the residential market is showing early signs of growth.

How to make the most of opportunities before the upturn? One approach is to follow the example of the companies that have been outperforming their peers with strategies that include product innovation, digital innovation, customer centricity, and programmatic M&A. Investors wanting to select micro-verticals with the greatest value enhancement opportunity might investigate companies particularly in windows and doors or flooring.

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