

Attractive Acquisition Opportunities in Residential Roofing

February 2024



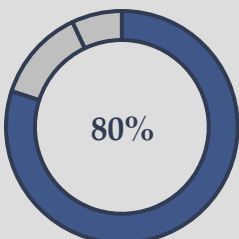
Residential service is a growing industry that is gaining interest from investors due to the high fragmentation of providers, generally low business sophistication level, and consistent revenue generation. Within residential services, STEER has identified the residential roofing market as a stable and attractive investment opportunity for private equity firms. Roofing providers can capture steady revenue from re-roofing services, despite the cyclical nature of new construction. **Investors have potential to build quality platforms within the highly fragmented landscape, with opportunity to diversify across geographies and service lines through strategic add-on acquisitions.**

STEER estimates the U.S. **single-family residential roofing market to be ~\$50B in 2023**, inclusive of services and materials, and expects healthy growth of **~5-7% p.a. through 2026**, with pricing expected to normalize to historical growth.

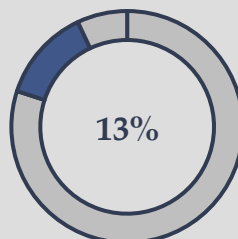
Within the single-family residential roofing industry, STEER has estimated roof replacement as the largest market segment, followed by new construction and roof repairs / add-ons.



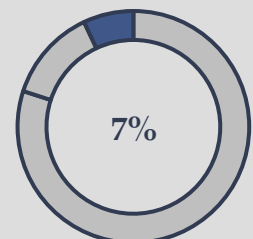
Roof Replacement



New Construction

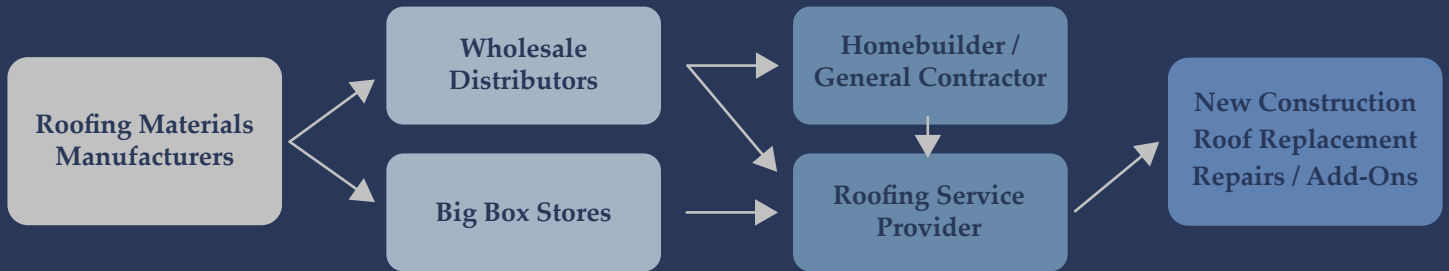


Roof Repairs / Add-Ons





Roofing Service Industry Roadmap



Energizing Forces Driving Replacement Services

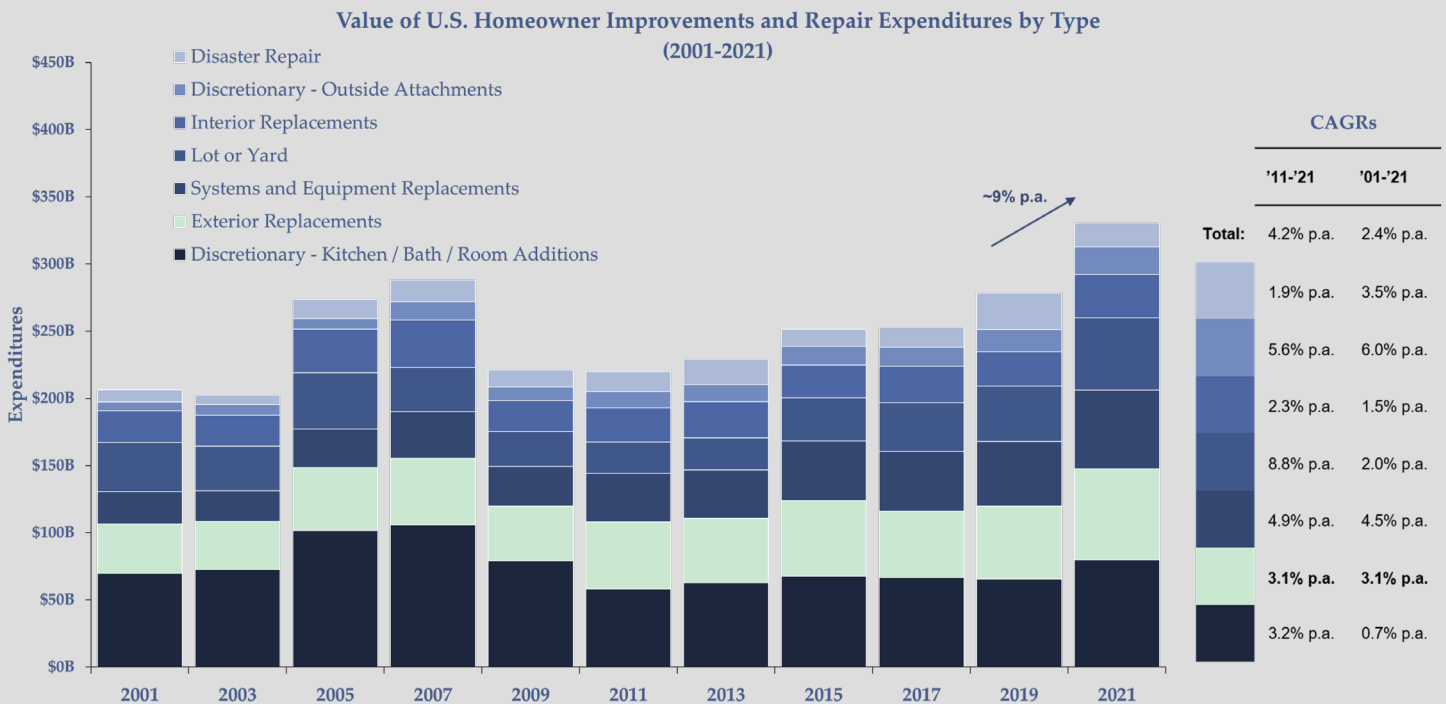
Severe Storm Activity

The Southern and Midwestern Census regions emerge as promising markets for re-roofing services due to the substantial occurrences of roof-damaging weather events

- The South and Midwest regions **experience consistently high numbers of roof-damaging severe weather events each year**
- There were 273 hurricane / tropical storm events in the South in 2022, and 2,597 and 3,582 hailstorm events in the South and Midwest, respectively

Homeowner Improvements

Homeowners are investing more into their homes, with exterior improvements showing consistent growth



- **U.S. homeowner improvements expenditures grew ~4% p.a. from 2011-2021, with a large ~9% increase from 2019-2021** due to increased savings, stimulus checks, time at home during COVID, as well as inflated material prices
- **Exterior replacements, including roofing, account for the 2nd largest segment and grew ~12% p.a. from 2019-2021**

Positive Outlook for New Construction Amidst Recent Challenges

New Home Starts

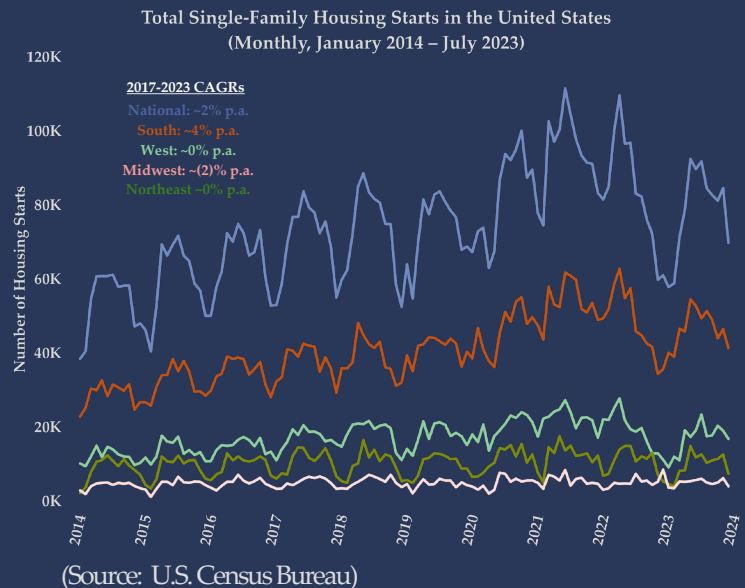
Interest rate cuts expected to drive new construction, also increasing the established base of serviceable roofs

- Federal Reserve is expected to cut the Fed Funds Rate by ~100-150 bps through 2024³
- NAHB projections show the national number of **single-family homes growing ~3% p.a. from 2023-2025P**
- The Midwest region is estimated to outgrow the national rate at ~5% p.a. during the same period (NAHB)

Domestic Relocation Trends

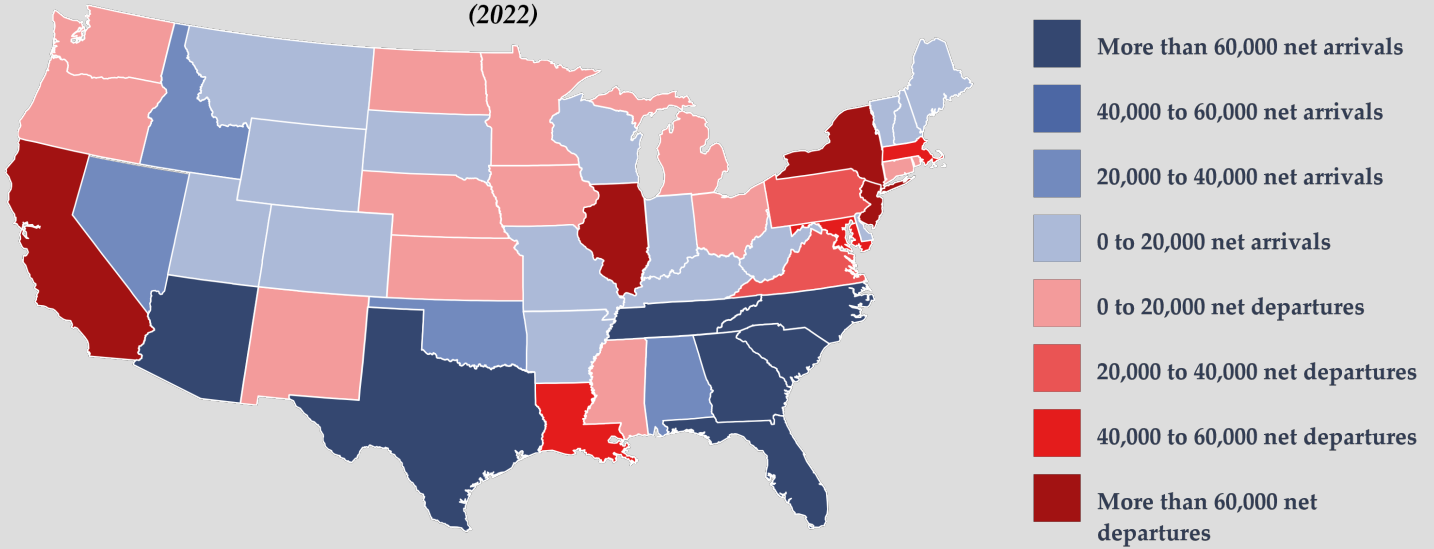
The Southern U.S. is an attractive region for roofing investment due to the high number of net arrivals and shortage of single-family homes that will drive new construction

- States like AZ, TX, FL, TN, NC, SC, GA, which collectively account for ~30% of total U.S. population, are attractive growth opportunities for new roofing services due to high net arrivals
- FL and TX face significant housing shortages: ~20% and 10%, respectively, creating strong demand for new homes in the future
- Homebuilders seek scalable roofers with project management expertise to help fulfill housing demand in these areas



¹ CME FedWatch Tool

Domestic Relocation Trends (2022)

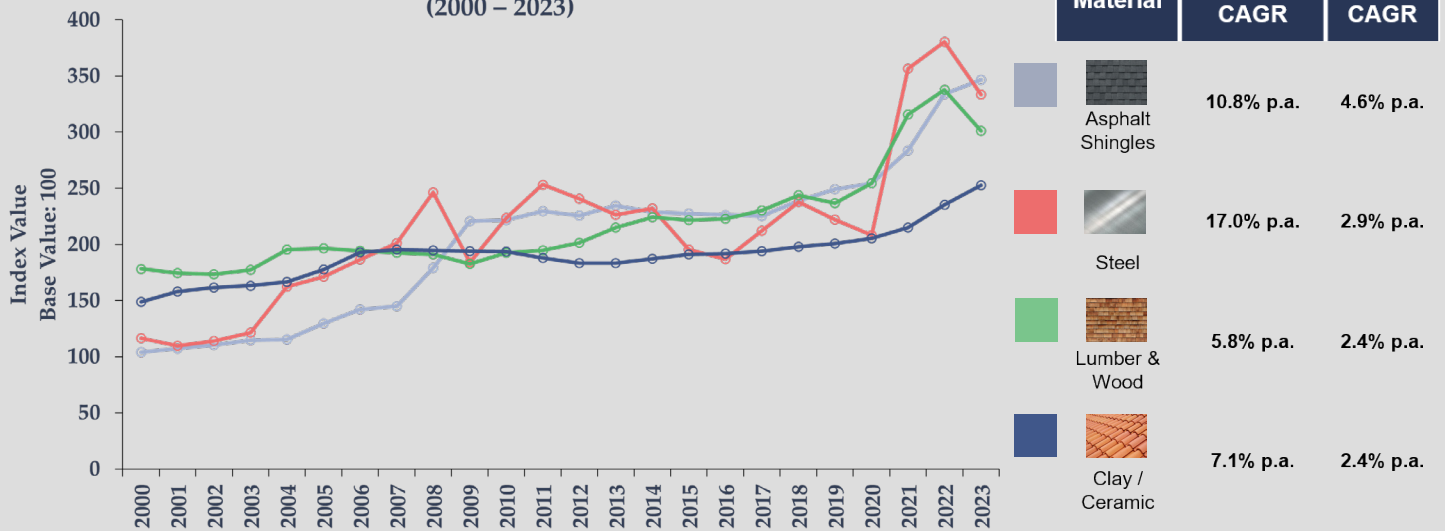


Providers Navigate Cost Increases for Margin Stability

Materials and labor costs have gone up, but roofing providers are able to maintain margins by passing these increases on to end users and insurance companies

- Pricing of building materials has increased dramatically due to shortages and supply chain struggles
- Contractor wages grew ~4% from 2017-2022, driving end user costs up. Labor and material prices are expected to normalize to historical growth trends of ~1% and ~3-5% respectively

U.S. Producer Price Index of Select Roofing Materials (2000 – 2023)



Steel, Lumber and Wood Products: (1982=100)

Asphalt Shingles, Clay, Ceramic: (1984=100)

(Source: FRED)

Ideal Landscapes for Aggressive Add-On Acquisitions

The roofing industry is highly fragmented, giving investors potential to build onto platforms with add-on acquisitions of small & medium providers



- **400+ scale providers** with 10M+ in revenue that have a wide geographic reach, service a mix of residential and commercial real estate, and offer specialized services / equipment in tandem with core repair, replacement, and new construction
- **Over ~98K medium- and small-scale providers** with limited geographical coverage and typically only offer core re-roofing and repair services
- Providers can keep their **operations asset-light with variable labor costs** through subcontractors, allowing them to stay agile in fluctuating economic conditions

Basis of Competition	Homeowners		Homebuilders		
	Storm-Based Re-Roofing Impact	Non-Storm-Based Re-Roofing Impact	New Construction Impact		
 Price					
 Quality of Installation					
 Availability					
	Low Importance		High Importance		

Established Providers Thrive in Minimal Regulatory Constraints

Certain storm-prone states are enacting **regulations to safeguard insurance providers against fraudulent claims and price gouging**

- Homeowners are most affected by regulations as insurance is becoming more costly
- “Storm-chaser” roofing companies who look to provide price inflated re-roofing services to areas recently damaged by storms will be forced to alter sales tactics
- While established providers are mostly insulated from headwinds due to these laws, investors should be conscious of regulation that has impact on re-roofing service lines

Sample Regulations

Texas



Chapter 542A

Requires roofers to avoid acting as a contractor and adjuster during a project. This means that contractors are not able to negotiate on behalf of customers to try and justify a higher cost

Colorado



HB 18-207 & HB 18-1289

These policies require public adjusters to be licensed by the state and prohibits roofing companies to incentivize homeowners to file insurance claims



Attractive Avenues for Capturing Future Growth

- Providers can **generate new revenue streams by expanding into adjacent home-service offerings: siding, gutters, solar, and insulation**
- Home builders prefer sourcing adjacent services from roofing companies, streamlining the project management process
- **Offering a wider range of services positions roofing companies to meet demand** for new housing starts and build strong relationships with home builders

Strategic Approach for Investors

- Healthy growth in the residential roofing services market is expected, driven by factors such as housing start volume, home improvement expenditure, severe weather events, and material/labor pricing. Population growth serves as a secondary demand driver
- Tailwinds anticipated in the new construction segment as home starts return to pre-COVID levels and federal interest rates normalize
- Re-roofing offers steady growth, especially during recessions when homeowners prioritize roof repairs despite budget constraints
- Investors can capitalize on industry growth by identifying established providers in the South and Midwest regions
- Focus on providers offering diversified re-roofing and new construction services
- Established and scaled providers are well-positioned to benefit from increased new home starts, while also relying on age and storm-based roof replacement for consistent revenue



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