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UK Timber market

M&A insights

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Introduction

The last year has been an unprecedented time for all and the UK Timber market is no exception. While there have been significant challenges the COVID-19 pandemic has highlighted the industry's resilience and adaptability.

This report has been prepared by Deloitte's Construction & Building Products M&A team and focusses on current market themes and the M&A activity over the last few years.

The UK Timber market has been characterised by a number of independent regional businesses of scale as well as a significant number of sub-scale owner managed entities and as such represents a consolidation opportunity that has attracted private equity investment and a sustained level of M&A activity in recent years, including throughout the COVID-19 pandemic.

We expect M&A activity in the industry will continue in the near to medium term with an increasing focus on sustainable building materials acting as a positive market driver.



Insights at a glance

The **COVID-19** pandemic has had a **significant impact** on the **UK Timber market**. Shifts in **Consumer spending** and **UK government measures** have supported activity levels **over and above** the V-shaped recovery of **the building products market as a whole**.

Impact of COVID-19 pandemic on activity levels



V-shaped recovery for building products market as a whole



Timber products saw a significant above market level of activity

Beyond the impact of the pandemic there are a number of significant market themes in particular a **continued focus** on **sustainability** and **modern methods of construction**.

Sustainability and Modern Methods of Construction



Commission on Climate Change recommendation is anticipated to drive increasing demand for **Timber use in construction**

Despite the disruption **2020** closed with **Timber market transactions matching previous years** - effectively translating the **resilience seen by Timber businesses** during the pandemic into M&A activity.

UK Timber mid-market M&A activity



2020
Timber M&A activity remained resilient



>50%
Target is an importer or distributor



>50%
Private equity backed transactions



>80%
Target and Buyer based in the UK



Market themes

The COVID-19 pandemic has had a significant impact on almost every industry and the UK Timber market is no exception. However there are also a number of other underlying themes driving market activity.

COVID-19 activity levels

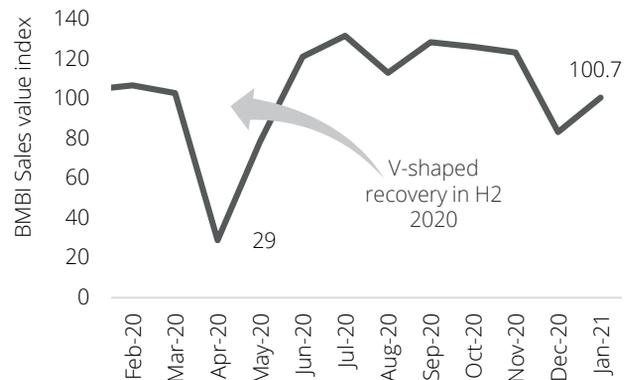
Following the announcement of significant measures to combat the COVID-19 pandemic by the UK government a significant portion of the construction industry shut down. In these initial weeks of the first “lock-down” activity levels in the Timber industry reduced significantly.

With the issuance of further government guidance major construction activity began to re-open and in addition repair, maintenance, and improvement (“RMI”) activity increased significantly over the summer months as home and in particular garden improvements became a focus for consumers.

As seen in figure 1, this led to a rapid recovery for the building products market as a whole, and in particular Timber and Landscaping (of which timber based products comprise a large component) saw a significant and above market level of activity.

The housing market has also seen a sustained recovery in activity following the first “lockdown” (see figure 2) supported by several government stimulus measures. RMI spend typically follows housing transaction activity and suggests continuing demand in this segment of the market.

Figure 1 | Total Builders Merchant Building Index¹



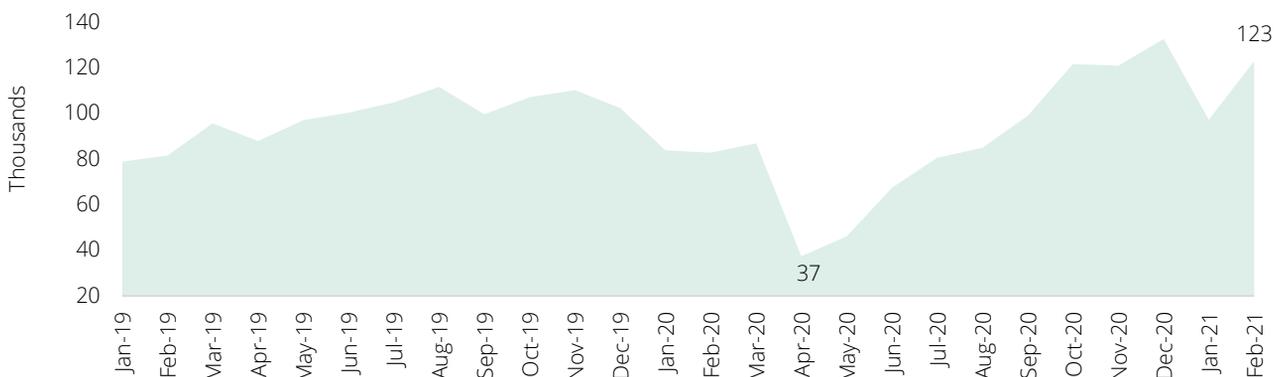
Timber shortage

The UK experienced a Timber shortage through the second half of 2020 which has continued into 2021.

As already described, demand fell and then quickly recovered, applying pressure to supply chains. In April many saw-mills negotiated reduced working hours to match the fall in demand which were then difficult to un-wind when activity levels returned.

The UK is also particularly reliant on imports for a significant proportion of its Timber, consequently the worldwide shipping crisis and congestion at UK ports has significantly constrained supply.

Figure 2 | UK monthly housing transaction completions²



¹ The Builders Merchant Building Index January 2021 | ² ONS UK Monthly Property Housing Transactions



Market themes

Brexit

While Brexit has not occupied the headlines to the same degree in the last 12 months it still remains an area of significant change.

The immediate impact in 2021 has been to compound the pressures facing imports and exports as a result of the COVID-19 pandemic.

Concern in the industry also remains around the implementation of changes to the CE mark as it transitions to UKCA¹.

Spring 2021 budget

The UK government's spring budget contained a number of positive measures for the Timber industry.

The establishment of Freeports has the potential to positively impact Timber imports and exports as "in-transit" hubs.

A new 130% "Super Deduction" for capital expenditure will be particularly welcomed by capital intensive operations such as saw-milling.

The extension of the stamp duty stimulus and introduction of a new mortgage scheme will likely continue to support RMI spend and consequently demand for Timber.

Sustainability

Constructing with wood as opposed to more energy intensive building materials such as concrete or steel has been identified as an important measure to combat climate change and was a key recommendation of the Commission on Climate Change 2018².

A number of councils (including Hackney and Powys) have adopted a Timber first policy to planning processes in line with the recommendations.

Modern methods of construction

The UK has for a many years had a demand for housing that significantly exceeds the construction of new homes. 2019 saw an 11 year high of 170,000³ new homes constructed in England however this compares to an estimated annual requirement of 240,000-340,000⁴.

Modern methods of construction ("MMC") has been identified as route to increasing supply rapidly by deploying techniques such as off-site, modular, and timber frame construction, which can allow for faster and more efficient builds.

UK Timber frame homes

Timber frame construction of new build homes has been a common feature of housebuilding in Scotland for some time however its uptake in the rest of the UK is still comparatively low.

An increasing focus on sustainability and MMC has resulted in the major housebuilders looking to increase the percentage of Timber frame homes. This has also resulted in M&A activity for example Barratt's acquisition of Oregon Timber Frame Ltd.

European Timber market trends

The Timber market in Europe has experienced low raw material prices due to a surplus created by beetle and storm damage.

Processed lumber has however seen increasing prices in many markets with increasing demand for pallets for distribution and pellets as a fuel source. The demand for Timber products as a sustainable construction material is also a key driver in Europe.

Covid-19 has further increased demand for lumber products and constrained supply as seen in the UK.

¹ Timber Trade Federation Survey February 2021 | ² Commission on Climate Change 2018 | ³ ONS | ⁴ House of Commons briefing 12/12/18



M&A activity

UK Timber M&A Activity over the last four years has been compiled and analysed by target category, the type of deal, and whether or not it was a cross-border transaction.

Figure 4 | UK Timber mid-market M&A activity 2017 - Q12021





M&A activity

Resilience through COVID-19

2020 was an unprecedented year for all, and the M&A market was no exception. Deal volumes were significantly impacted during the early months of the COVID-19 pandemic, as both trade and private equity investors largely focused on managing their own businesses and portfolios ahead of considering inorganic growth opportunities.

Despite the disruption 2020 closed with Timber market transactions matching previous years - effectively translating the resilience seen by Timber businesses during the pandemic into M&A activity.

Category trends

Timber importers and distributors form more than 50% of transactions analysed. This is partially driven by the comparative volume of businesses within this segment but also by trade and private equity consolidators focusing on this category. These businesses also typically exhibit a degree of vertical integration, which can broaden the appeal to acquirers

Acquisitions of Timber frame manufacturers by both trade and private equity is the next most active category. This reflects increasing activity more broadly in modern methods of construction with trade acquirers seeking additional capacity and private equity a new growth market.

Private Equity as a consolidator

The UK Timber market has been traditionally characterised by a number of independent regional businesses of scale as well as a significant number of sub-scale owner managed entities and as such represents a consolidation opportunity.

More than 50% of the transactions analysed were either platform Management Buy-outs ("MBOs") or subsequent bolt-on transactions to these platforms.

Cairngorm Capital with National Timber Group and Endless with BSW Timber have driven this consolidating activity from a private equity perspective.

UK centric transactions

Only four of the deals analysed were cross-border in nature demonstrating M&A activity has been focused between UK entities.

This is partially due to the consolidation activity within the UK market driving the volume of transactions but can also be linked to Brexit uncertainties surrounding tariffs and imports which may have constrained inward interest from some of the larger European timber trade acquirers.

European M&A activity

There has been increasing interest in the Timber market from financial investors in Europe, attracted by the market margin drivers, the fragmented nature and the sustainability credentials of the industry.

Strategic acquirers however remain more acquisitive than financial acquirers, and this has still led to consolidation in the market.

This has been driven by deployment of significant cash piles accumulated in the high margin environment of the last few years, an understanding of the commodity driven nature of the raw material, and importantly the relationships between the family shareholders within the industry built up over many decades.



M&A activity

Table 1 | UK Timber mid-market M&A transactions 2017 - Q12021¹

Completion Date	Target	Target Description	Buyer	Deal Value (£m)
Mar-21	Hymor Timber Limited	UK-based timber merchant supplier of sourced hardwood and softwood	National Timber Group	n/d
Mar-21	GT Timber Ltd	UK-based company engaged in producing and supplying sawn timber products	James Jones & Sons Limited	n/d
Dec-20	Inverclyde Windfarm Limited	UK-based wind farm	James Jones & Sons Limited	n/d
Dec-20	SCA Wood Supply UK Ltd	UK-based manufacture and distribution of timber and associated products	BSW Timber Limited	n/d
Nov-20	Dick Brothers Forestry Limited	UK-based timber harvesting company	BSW Timber Limited	n/d
Feb-20	AVS Fencing Supplies Ltd	UK-based supplier of fencing, landscaping and decking materials	Lawsons (Whetstone) Ltd	n/d
Feb-20	BSW Timber Limited	UK-based company engaged in producing and supplying sawn timber products	Endless LLP	n/d
Feb-20	Rowan Manufacturing Ltd; Smith & Frater Ltd	UK-based building supplies company; UK-based kitchen remodeler	James Donaldson & Sons Limited	n/d
Nov-19	Dresser Mouldings (Rochdale) Limited	UK-based company engaged in processing timber and cladding products	James Latham Plc	1
Jul-19	Frame-Tech Structures Ltd.	UK-based manufacturer of timber frame structures	Lagan Investments Limited	n/d
Jun-19	Oregon Timber Frame Limited	UK-based timber frame manufacturer	Barratt Developments Plc	20
Jun-19	Sussex Turnery and Moulding Company Limited	UK-based builders' merchant and wholesale timber processing and distribution business	Parker Building Supplies Ltd.	n/d
Mar-19	Snows Timber Limited	UK-based importer, distributor and processor of timber and timber related products	Management Vehicle	n/d
Feb-19	Abbey Wood Agencies Limited	Ireland-based timber importer and distributor	James Latham Plc	2
Dec-18	RoofSpace	UK-based offsite manufacturer of panelised room-in-roof system	Compagnie de Saint-Gobain SA	n/d
Nov-18	Arnold Laver & Company Limited	UK-based company that imports, distributes and manufactures a wide range of timber, panels, decorative surfaces and joinery products	Cairngorm Capital Partners LLP	n/d
Oct-18	Merlwood Timber Ltd.	UK-based timber importer and distributor	Premier Forest Products Limited	n/d
Jul-18	Rembrand Timber Limited	UK-based importer, manufacturer and distributor of timber	Cairngorm Capital Partners LLP	n/d
May-18	Continental Wood Products Limited	UK based importers and distributors of timber	Bergs Timber AB	n/d
Feb-18	North Yorkshire Timber Company Limited	UK-based timber merchant	Cairngorm Capital Partners LLP	n/d
Nov-17	Thornbridge Sawmills Limited	UK-based timber processing and distribution company	Cairngorm Capital Partners LLP	n/d
Nov-17	Scotframe Limited	UK-based manufacturer and supplier of full timber frame housing kits for small/medium builders, developers and self-builders.	Compagnie de Saint-Gobain SA	n/d
Jun-17	Taylor Maxwell Group Limited	UK-based brick and timber merchants engaged in the supply of timber, brick, cladding systems and ancillary products	Management Vehicle	n/d
Jan-17	Timbmet Group Limited	UK-based supplier and processor of timber and panel product ranges	Hadleigh Partners	n/d

¹ MergerMarket, Company Websites



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