

AlixPartners' Building Materials Outlook

July 2021

AlixPartners



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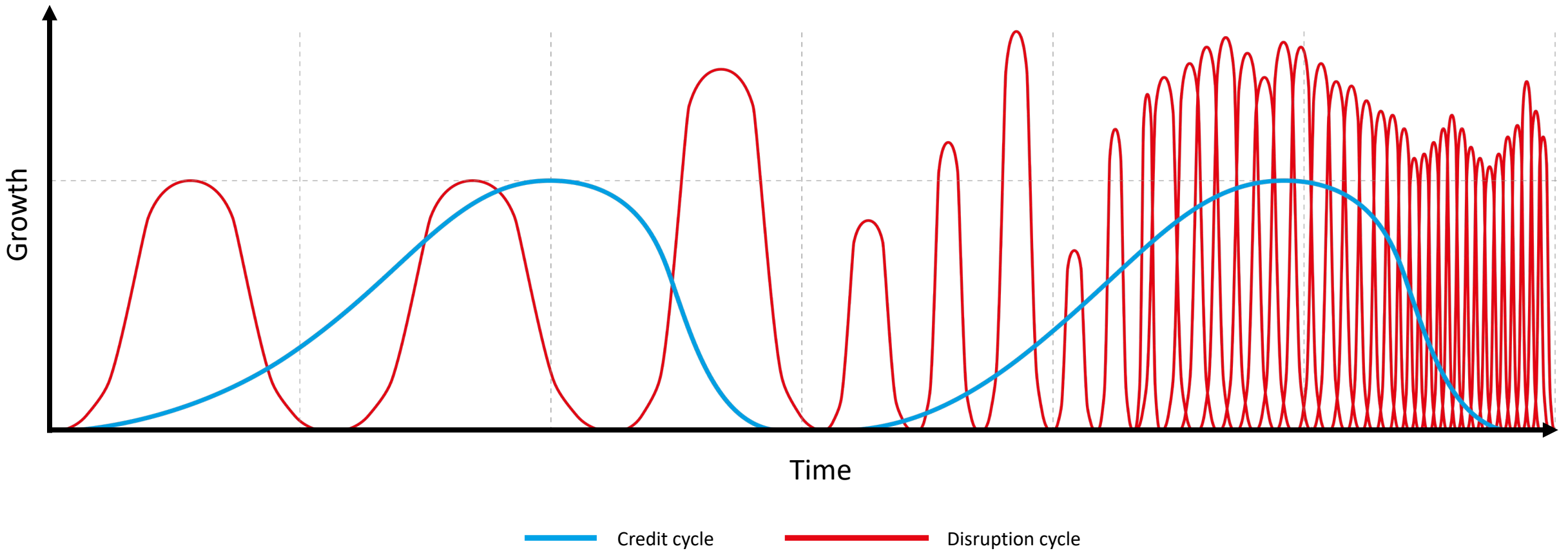
Marc Lampieri
Managing Director
AlixPartners



Joe Myers
Managing Director
AlixPartners

- AlixPartners has been researching and presenting the impact of disruption to businesses prior to the COVID-19 pandemic
- The results of our most recent disruption survey identify varying degrees of disruption measured by magnitude and frequency across different industries
- It is widely publicized that disruptions are occurring across multiple industry sectors now, including building materials
- While some of the root causes are known, and there are expectations for a return to more normal conditions, predicting the timing of this change remains a very challenging task
- There are multiple factors impacting the building materials industry that could be interpreted as “tailwinds” or support to keep commodity prices at levels elevated from the recent past
- However, based on this research, and analysis of sentiment of business leaders, there is a high level of confidence that volatility will remain in the near term
- Accepting the relative certainty of volatility, planning for it and making changes to the way your company operates is essential to remaining competitive, and to mitigate some of the impact
- We believe there are tangible actions that business can take now to manage the volatility for a better business outcome
- AlixPartners is currently working with clients to assess the risks of disruption and implement simple solutions to improve the financial outcomes in this more volatile environment today

Traditional credit cycle versus disruption cycle

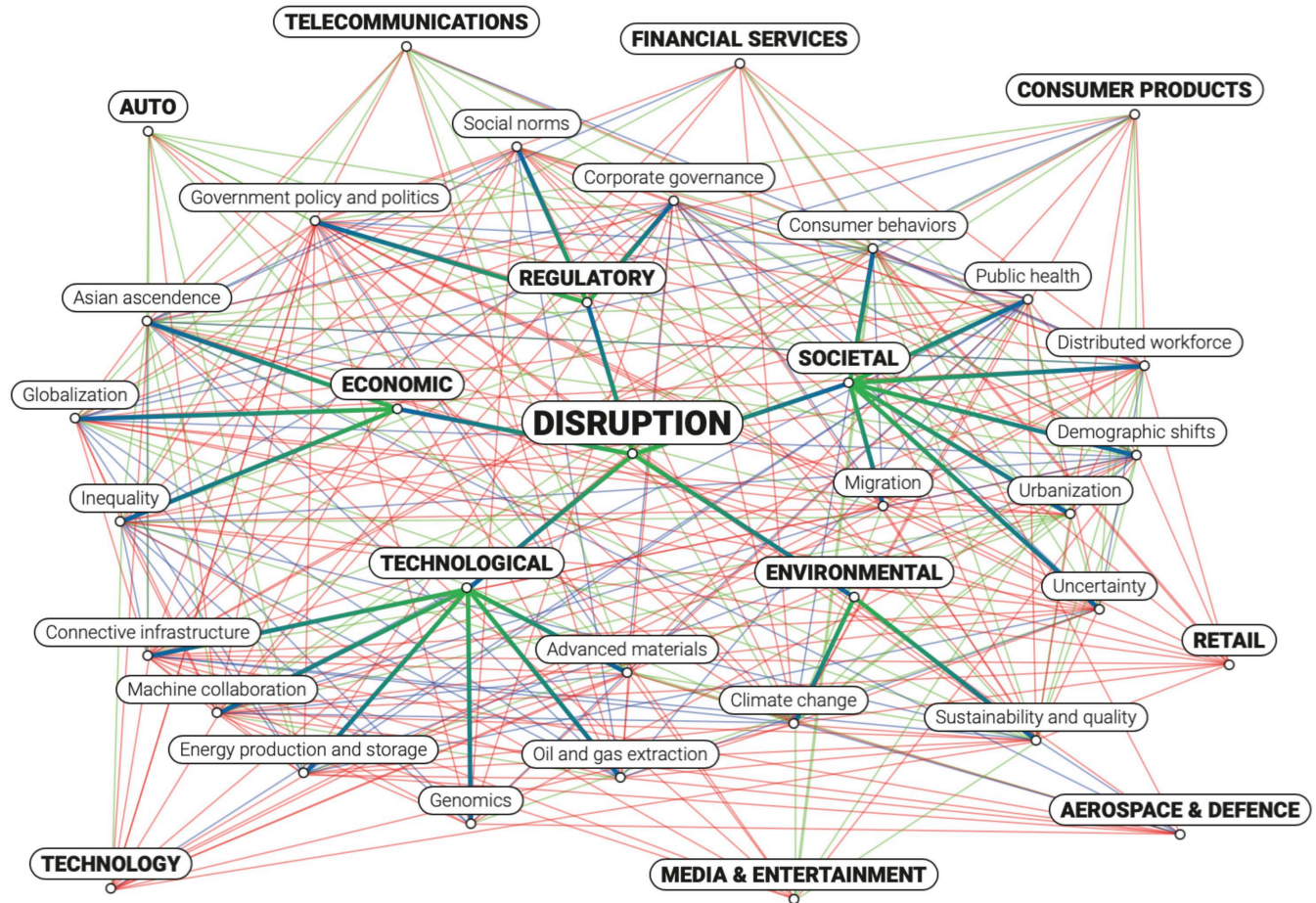


What is Disruption?

Forces that displace existing businesses, markets, and value networks in favor of newer models and relationships

Disruptions are interconnected and can be amplifiers or catalysts to accelerate other disruptive forces

Scan for the AlixPartners Disruption Index



3,149

Global business executives

394 per industry 100 to 400+ per country

Defined as...

- Ages 25 to 65
- Employed in relevant country
- Director level or above
- Company revenue of \$50 million+
- Have insight into disruption trends facing their industry

8

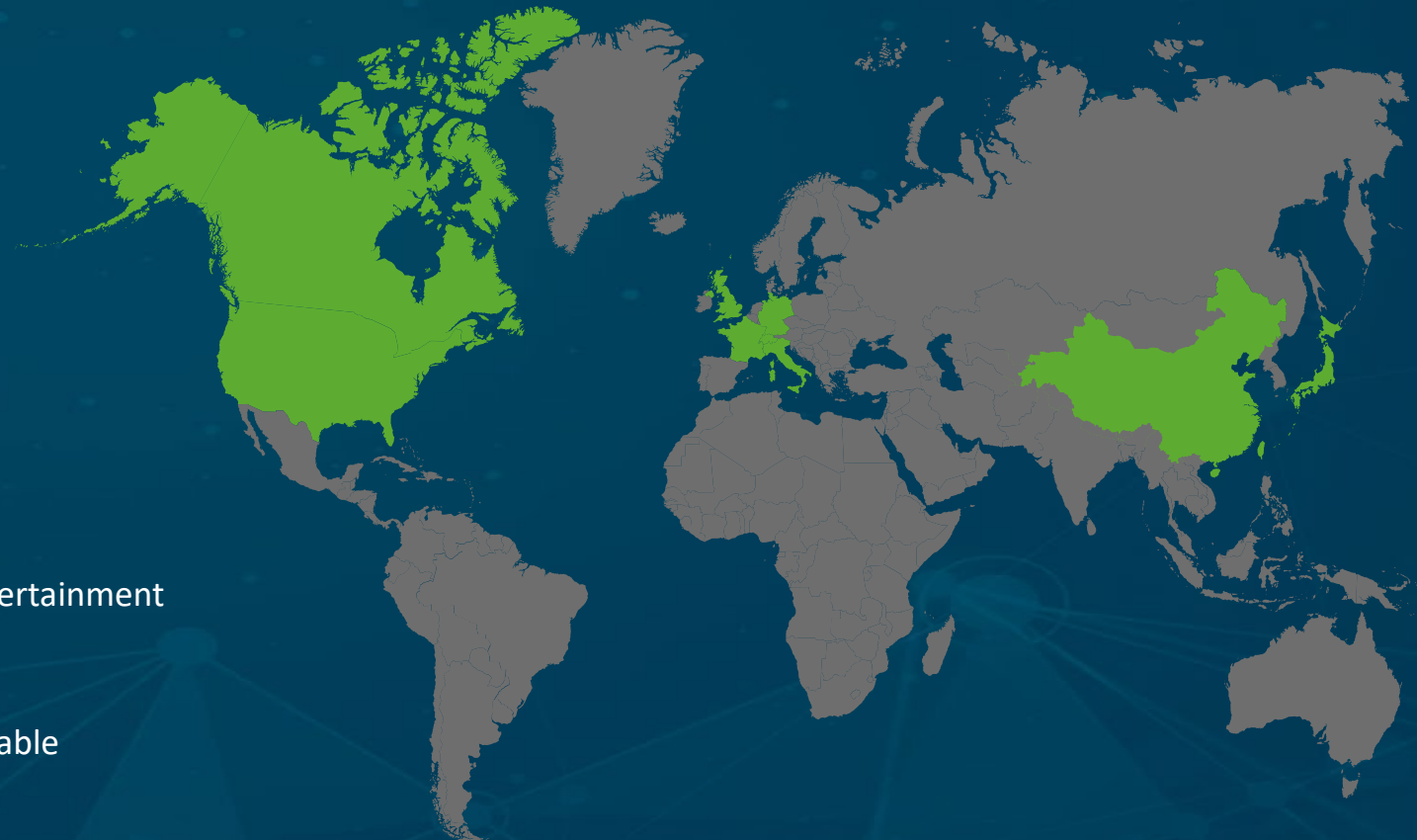
Industries

- Aerospace & Defense
- Automotive
- Consumer Products
- Financial Services
- Media & Entertainment
- Retail
- Technology
- Telecom & Cable

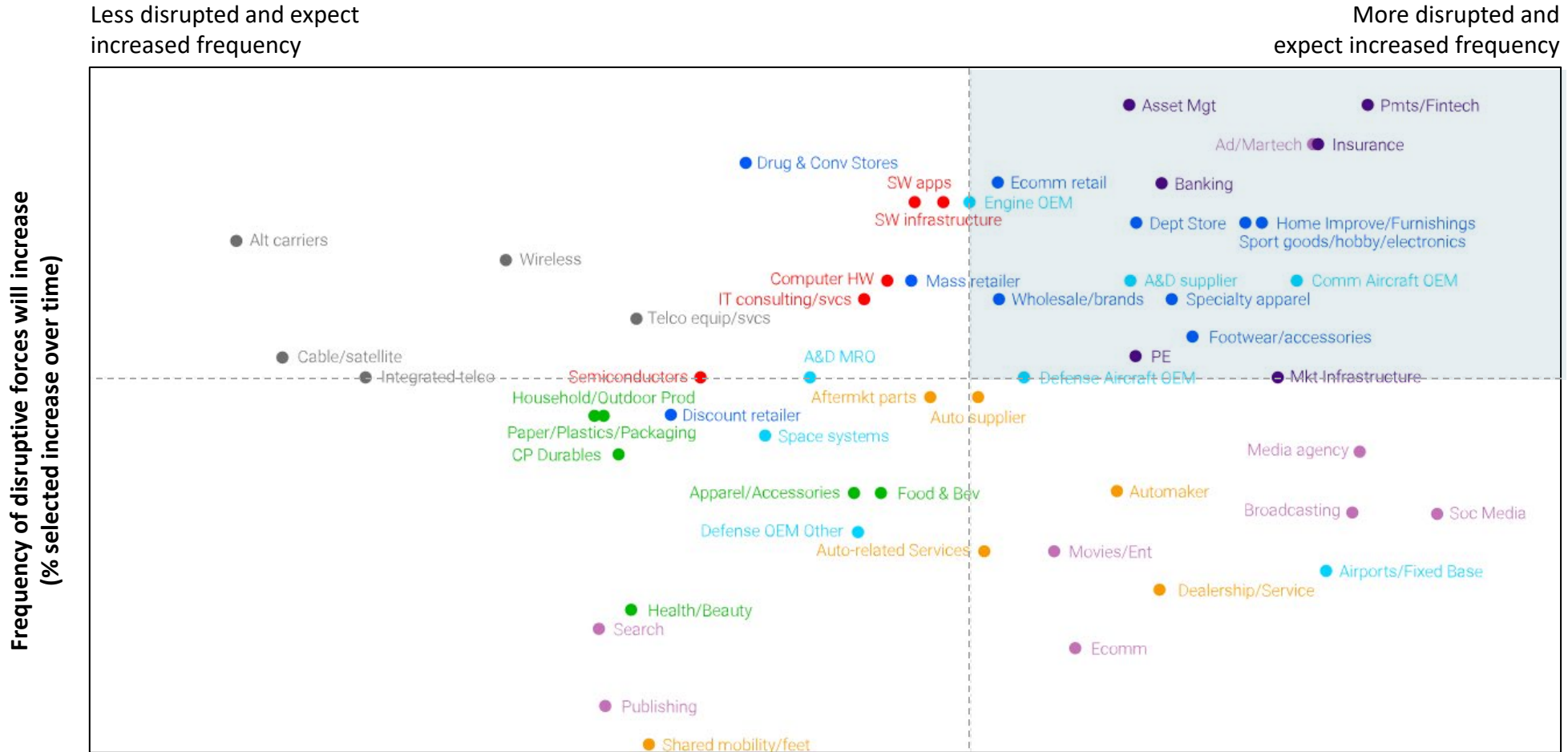
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Countries

- Canada
- China
- France
- Germany
- Italy
- Japan
- Switzerland
- United States
- United Kingdom



We saw greater dispersion at the industry sector level, especially when expectations that disruption frequency will increase over time are considered



- Automotive
- Consumer products
- Financial services
- Media & entertainment
- Aerospace & defense
- Retail
- Technology
- Telecom & cable

Primary Challenge¹

Disruption is the **primary strategic challenge confronting business and society** as a whole.

Global³

85%

Agree

Magnitude¹

The magnitude of disruptive forces impacting my organization will **continue to increase** over time.

69%

Agree

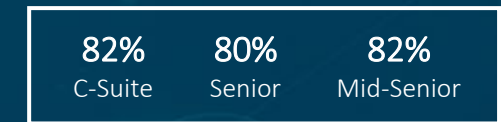
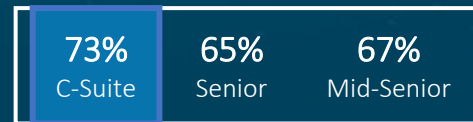
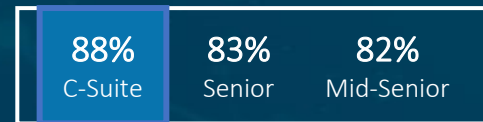
Frequency²

The frequency of disruptive forces impacting my organization will **remain the same** as today or **continue to increase** over time.

82%

Agree

By level




1. How strongly do you agree or disagree with the following statements?

2. Looking to the next 2-3 years, do you believe the frequency of disruptive forces facing your organization will increase, decrease or remain the same as today?

3. Global: n=3149; C-suite, n=1258, Senior, n=971, Mid-Senior, n=920

Source: AlixPartners Disruption Index 2021 survey data and analysis

 Denotes significance within category

No single disruptive force is predominant

Impact of disruptive forces on organizations

(Based on percentage selected very/extremely impacted)

New or evolving competition or business models

34%

Technology advances in materials and processes

33%

Data privacy and security related issues

33%

Pervasive connective infrastructure

32%

Automation
Artificial Intelligence
Robotics

32%

Regulation, policy, or politics

31%

Major shifts in consumer demographics and income

30%

Expectations of personalized products, services, & experiences

30%

Protectionism and tariffs

29%

Growth and growing importance of Asia

29%

Environmental and social concerns

27%

COVID-19

25%

COVID-19 is lower impact but has greater immediacy

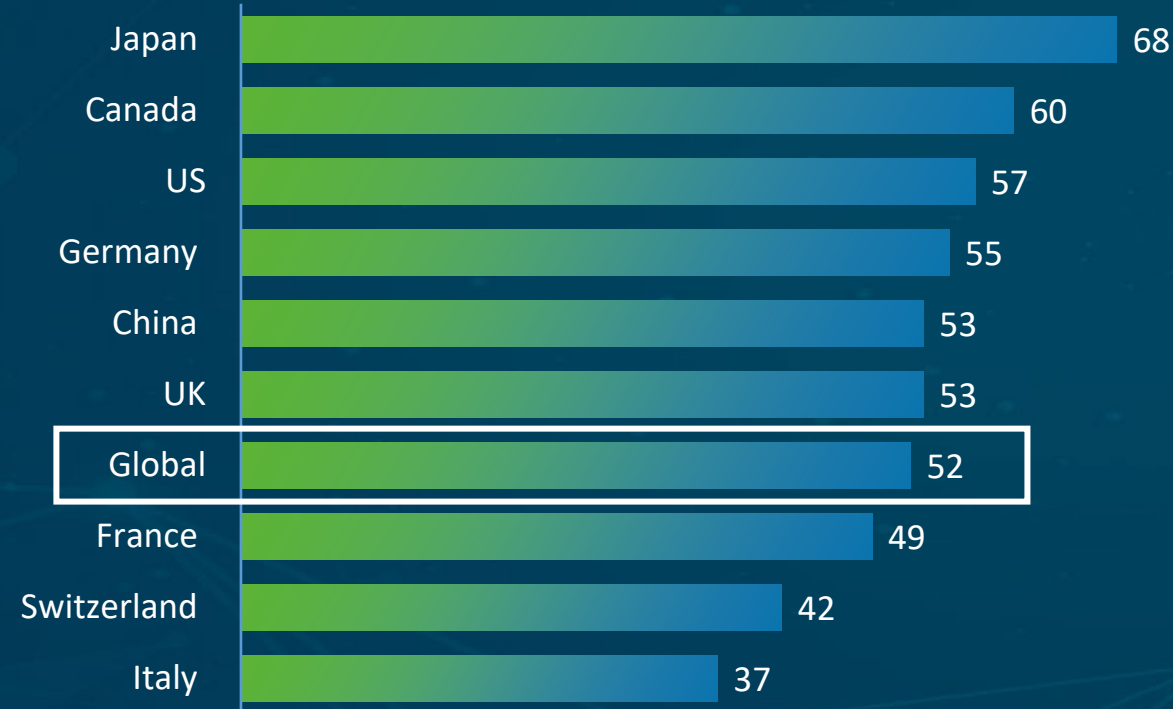
Companies face multiple, concurrent forces

1. How strongly has your organization been impacted by each of the following disruptive forces?; global cross-industry disruptions
 2. Overall, how strongly has your organization been impacted by COVID-19?
- Source: AlixPartners Disruption Index 2021 survey data and analysis

A talent gap presents a stubborn challenge

There is a talent gap in my organization that makes us vulnerable to effectively navigating disruption¹
(percentage selected 'agree')

By country



By level



1. Note: Global sample size = 3149; C-suite n=1258; Senior n=971; Mid-Senior n=920
Source: AlixPartners Disruption Index 2021 survey data and analysis

Top strategies and tactics organizations utilize in response to disruption^{1,2} (percentage selected)



3.4

Average number of actions taken by an organization

1. What strategies or tactics are you utilizing to mitigate or take advantage of disruption at your organization?

2. Global sample n=3149

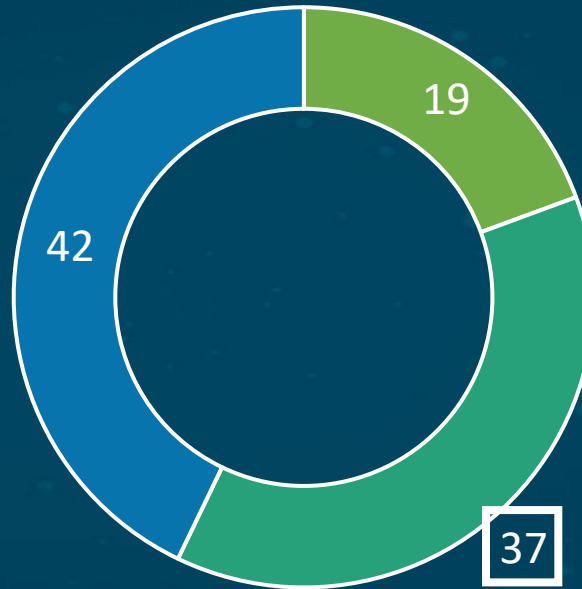
Source: AlixPartners Disruption Index 2021 survey data and analysis

Mindset is a major differentiator: 'better off' organizations are more likely to view disruption as an opportunity rather than threat

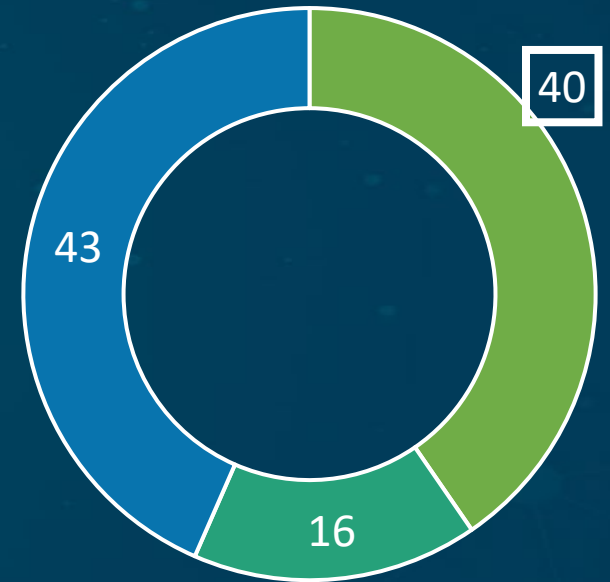
Disruption as opportunity or threat to organizations¹ (percentage selected)

“ The pandemic helped us to focus more on the new innovations that can be used to move ahead in the game. It was a great opportunity to drive fully in the digital landscape and adopt new technology to stay ahead.”
– MEDIA & ENTERTAINMENT, UK

Organization is Better off²



Organization is Worse off²



■ Threat alone ■ Opportunity alone ■ Equal opportunity and threat

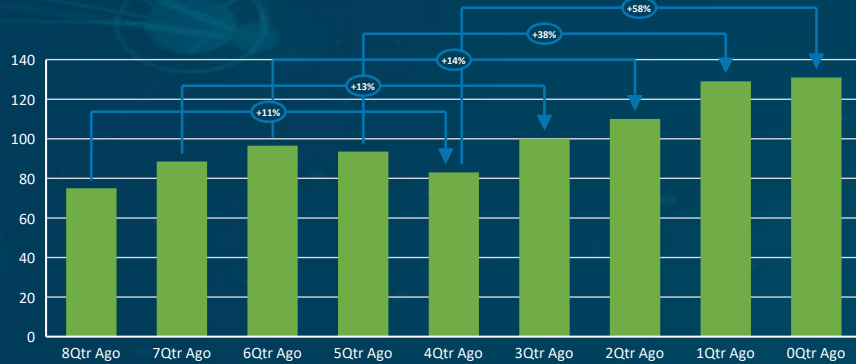
1. Do you see disruption as an opportunity or a threat to your organization?
2. Do you believe your organization and industry are better off, worse off, or about the same compared to one year ago?; Organization is Better off n=1229, Organization is Worse off n=474]
Source: AlixPartners Disruption Index 2021 survey data and analysis

□ Denotes significance within category

COVID-19 pandemic has significantly increased demand in the building materials industry accelerated by lifestyle changes

Trends

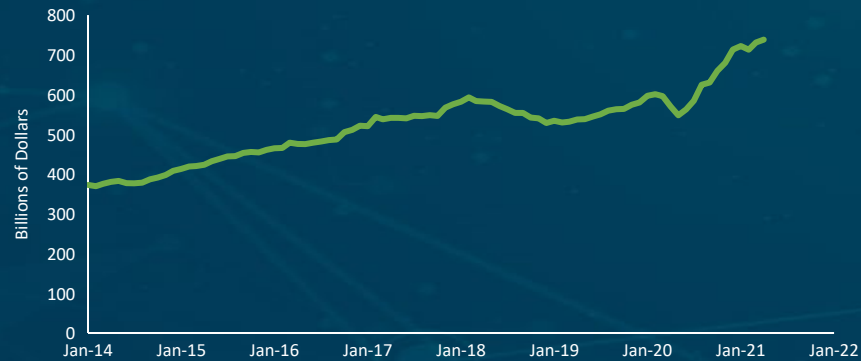
Backlog in Demand¹



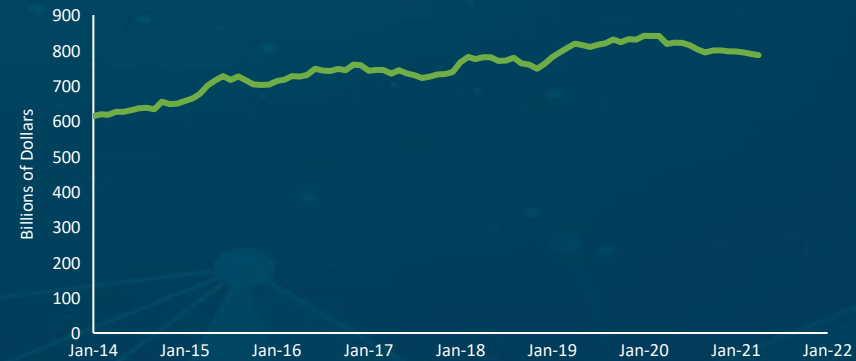
30-year Mortgage Rates²



Residential Construction Spend²



Nonresidential Construction Spend²



Comments

Pent-up demand pre-pandemic

- Supply wasn't keeping pace even before the pandemic
- Additional backlog of demand due to shutdowns and holding patterns at the beginning of the pandemic

Low interest rates

Great Reshuffling

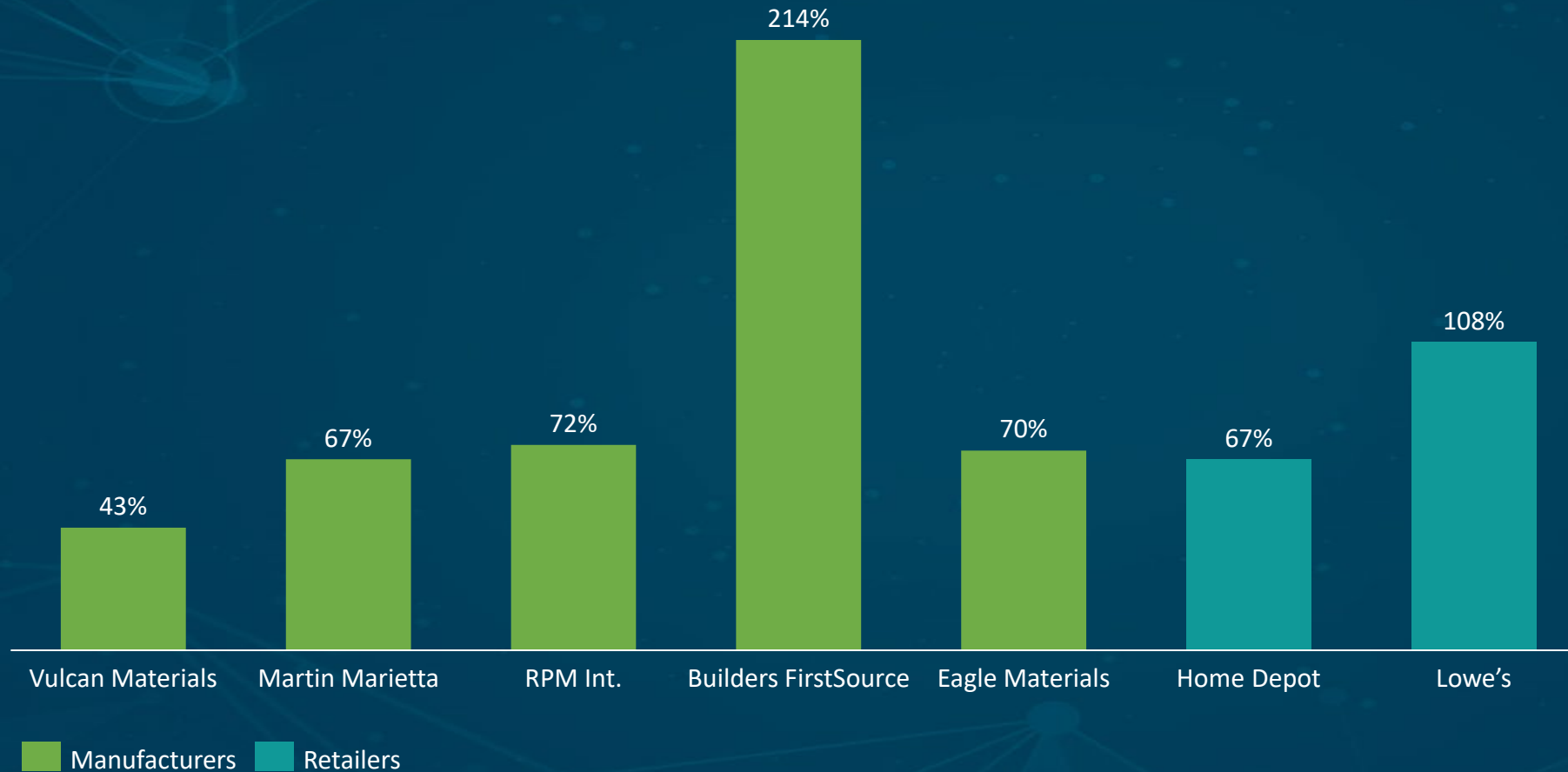
- Moving from cities to suburbs
- Home design/layout changes
 - Home lifestyles have changed
 - Working from home
 - Schooling from home
 - Working out at home
 - Cooking more at home
 - Entertaining from home

1. Jefferies
2. FRED – Federal Reserve Economic Data

Demand is expected to remain strong due to backlog of construction demand, despite normalization of the 'Great Reshuffling'

The increased momentum is reflecting in the stock performance of major players in the industry

2-year change in stock price (Jun 19 – Jun 21)



Comments

- Construction firms are already implementing a number of solutions from cloud-based software to improve workflow to the utilization of drones for more accurate, efficient site visits or even robotic constructors to provide additional manpower
- As technologies become more financially accessible and user-friendly, builders – both large and small – are beginning to fuse these new tools into their business

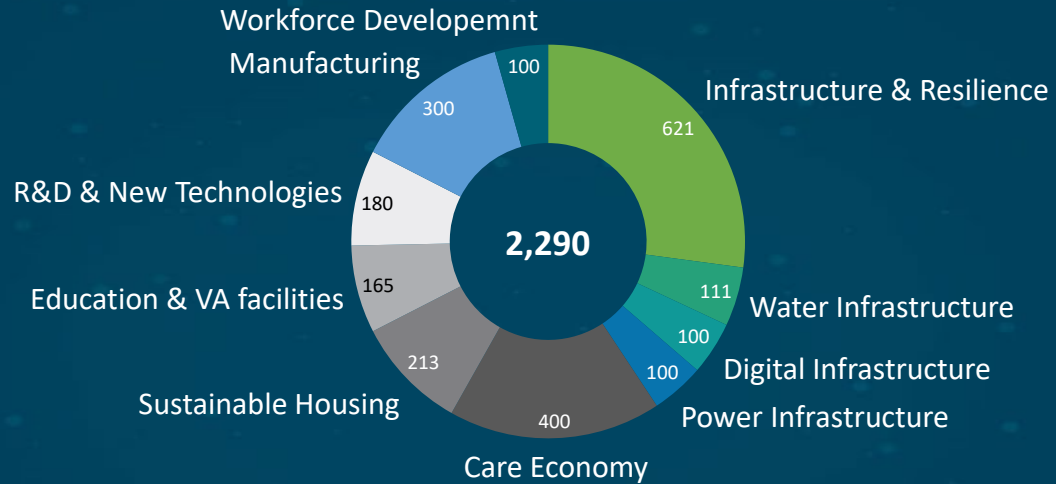
Source: www.google.com/finance/

Construction material suppliers are experiencing tremendous growth and opportunity to digitize operations

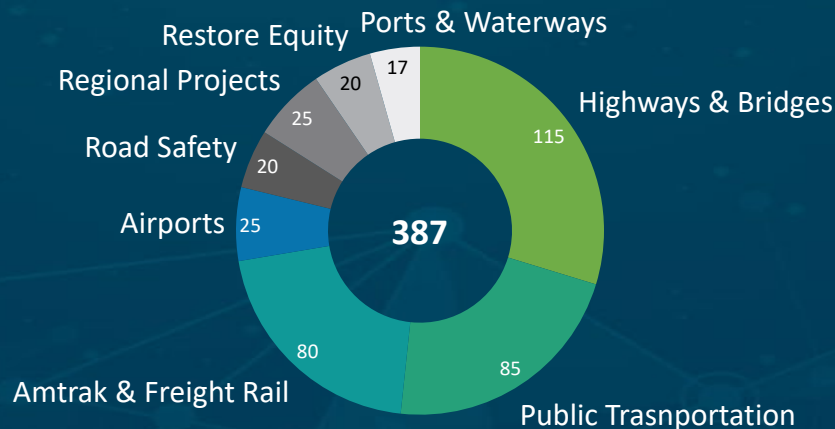
New demand from proposed infrastructure bill/investments will continue to drive growth in the industry

Infrastructure Bill \$ Allocation

Total Allocations



Infrastructure Allocations



Comments

\$2.3 Trillion over next 8 years

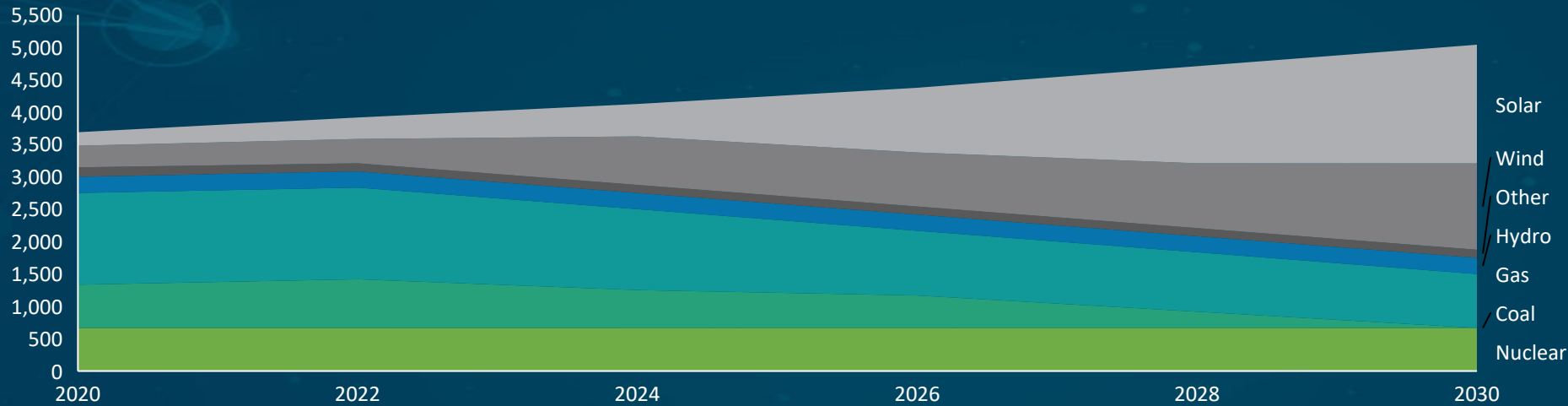
- “The American Jobs Plan acknowledged that public domestic investment as a share of the economy has fallen by more than 40% since the 1960s. It is estimated that one in five miles, or 173,000 total miles, of highways and major roads in the US are in poor condition, as well as 45,000 bridges, leaving the US languishing in 13th place, globally, in infrastructure quality.”

Source: **Hill & Smith: US business galvanized for Infrastructure boom – 2021/05/21**

Focus on climate technologies and shift in consumer behavior is likely to change demand patterns

Trends

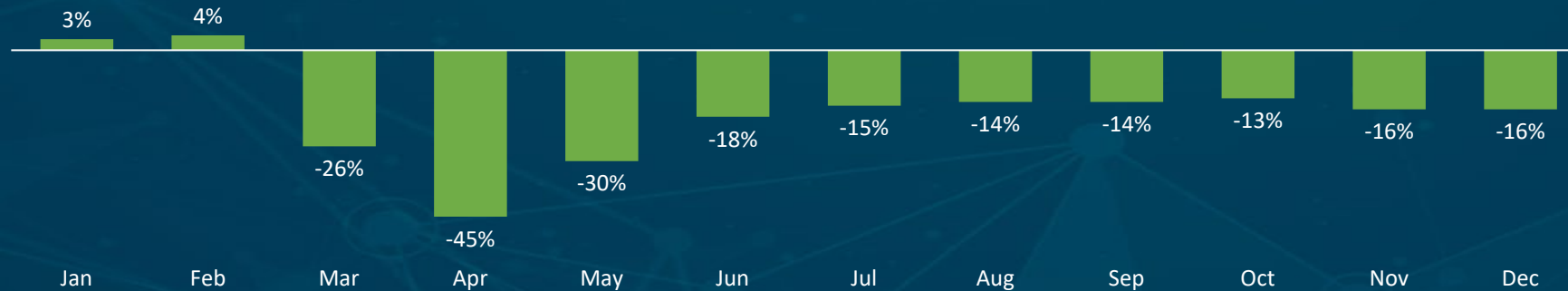
80% Clean Electricity Scenario – Annual Generation (TWh/yr)¹



Comments

- The Green Industrial Revolution and climate focused tech. is putting more of focus on “Critical minerals” mining minerals and rare earth metals (RBC Washington Quarterly Green Day pg.12). China processes 35% of nickel, 50-70% of lithium and cobalt and 90% of rare earths

Y-o-y change in monthly foot traffic in the U.S. retail industry in 2020²



- Mobility traffic data shows the decline in foot traffic to retail and recreation locations when indexed relative to a pre-crisis baseline

1. Nasdaq.com
2. www.retaildive.com

Trends

Comments



Labor Shortages: Businesses across America are finding it hard to fill open positions, potentially causing an increase in wage rates, driven by:

- Stimulus checks reducing the anxiety of finding a job
- Many people avoiding jobs that require high social interactions
- New jobs are being created in newer industries like e-commerce
- Jobs are focused in a few states that have recovered faster than others

Source: FRED – Federal Reserve Economic Data

Although prices are increasing across the board, some commodities are increasing much more than others

Commodity pricing history

Comments

Lumber Futures Price¹

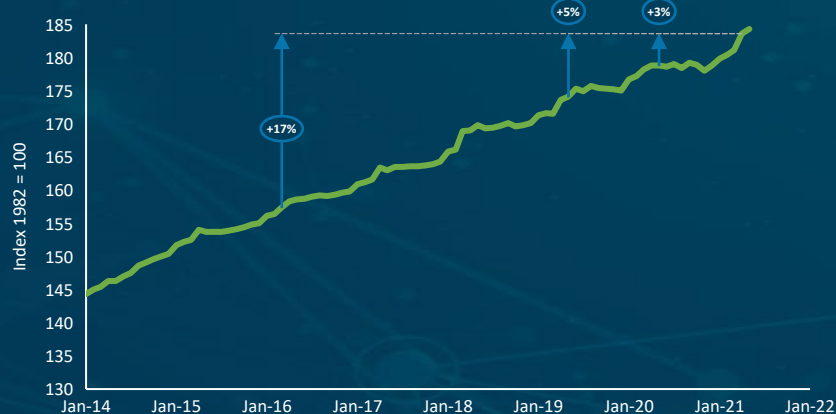


Iron & Steel PPI²

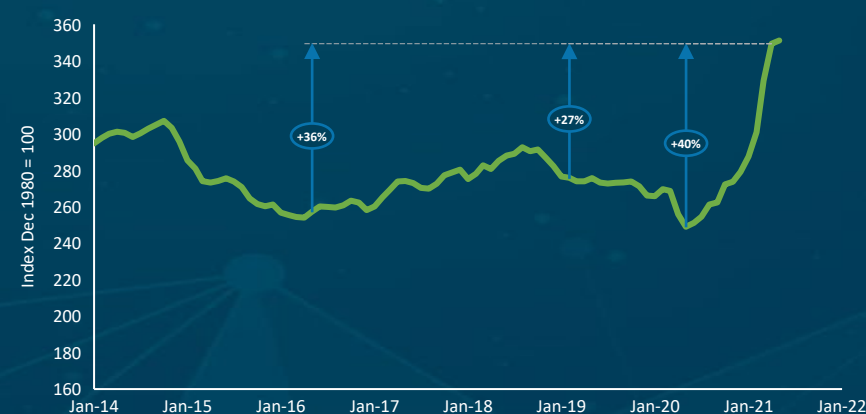


- Although prices are increasing generally across the board, some commodities are increasing more than others. And while lumber prices, for example, have fallen by almost 50% from their highs in May, they remain well above historical averages.

Cement and Concrete Product PPI²



Plastics Material and Resins PPI²



1. Nasdaq.com
2. FRED – Federal Reserve Economic Data

Value, cost, and risk all need to be equally considered when delivering greater customer value in a cost-effective manner

Framework for breaking down the problem

Comments



Value

- Product and quality
- Service and lead time
- Assortment
- Digital commerce

Cost

- Commodity prices
- Processing costs
- Labor costs
- Freight and distribution costs
- Tariffs

Risk

- Suppliers and partners
- Manufacturing and distribution
- Material supply or inventory
- Technology disruption

There are 4 key elements you should be considering to assure your supply chain



Improve sales forecast accuracy

1

- Better understand your customers and make them a stakeholder in your demand forecasting process
- Tie sales force performance objectives with improvement in forecast accuracy



Implement a value-cost-risk framework for your supply chain

2

- In more volatile and uncertain times, companies need a way to improve decision making and manage trade offs
- Developing improved models and data to understand the problems and risks is a critical step in this process



Evaluate the ROI from automation investments

3

- Construction firms are already implementing a number of solutions from cloud-based software to improve workflow to the utilization of drones for more accurate, efficient, site visits or even robotic constructors to provide additional manpower
- As technologies become more financially accessible and user-friendly, builders – both large and small – are beginning to fuse these new tools into their business



Improve hourly labor efficiency

4

- To adapt to the new reality of labor supply constraints, manufacturers have three key moves in their playbook:
 - Reduce applied hours
 - Reduce hourly labor costs
 - Establish and enforce workforce metrics and policies

Case Study: A manufacturer was facing similar issues with demand spikes and supply shortages, exposing structural gaps in their global supply chain

Situation

In Q3'2020, our client experienced a 36% YoY increase in demand due to COVID environment which contributed to deteriorated customer fill rates due to a number of factors, each building on the other, worsening the situation:

1	Supply Chain	<ul style="list-style-type: none">• Limited visibility into the current global supply• Lack of strong resource capabilities within supply chain planning
2	Customer Management	<ul style="list-style-type: none">• Poor customer communications on actual supply, fill rates, and 'Get Well Dates'
3	Organization	<ul style="list-style-type: none">• Lack of strong resource capabilities within supply chain planning
4	S&OP Process	<ul style="list-style-type: none">• Lack of a comprehensive S&OP process to pressure test forecast and capacity requirements• Inaccurate safety stock levels contributing to poor service level performance
5	Plant Performance	<ul style="list-style-type: none">• Poor schedule attainment due to equipment downtime, component supply, and labor shortages
6	Systems	<ul style="list-style-type: none">• Existing IBP IT system inaccuracies significantly underestimated production needs
7	Financials	<ul style="list-style-type: none">• Client was projecting a \$25 million revenue shortfall, customer fines and risked losing key customers

Problem statement – “We are projecting a \$25 million revenue shortfall in Q4 for our NA business. Our fill rates have deteriorated. Not sure why and not sure what we tell customers. Can you help?”

We took a hands-on role in various critical functions that focused on rapid results and long-term sustainability

✓ S&OP process

- **SITUATION** - Company had launched and disbanded S&OP processes with three other consultants in the past
- **APPROACH**
 - Rather than fit a standard process, we truly understood the business and customized our approach to what works for the company
 - Ensured process addressed cross-functional pain points, drove improved visibility and decisions
- **OUTCOME** – process fully bought-in by client; transition underway

✓ Planning systems enhancements

- **SITUATION** – prior system implementation was botched – poor user training, data and logic issues, low adoption of functionality
- **APPROACH**
 - Identified root cause pain points, reasons for low adoption and training gaps
 - Developed a prioritized training and system enhancement roadmap
- **OUTCOME** – client executed majority of improvements; enhanced business/IT collaboration

✓ Organization design

- **SITUATION** – existing org structure was not aligned to company vision of E2E product ownership; planning team had talent gaps and structural issues
- **APPROACH**
 - Clean sheet approach to org design balancing key principles of E2E product ownership, global nature of business and cost savings objectives
- **OUTCOME** – successful change event, \$10 million SG&A savings being executed

✓ Manufacturing attainment

- **SITUATION** – poor plant leadership and lack of basic plant management processes had led to safety and efficiency issues, ultimately affecting customer fills
- **APPROACH**
 - On the ground team focused on improving line efficiencies for problem lines and embedding key tools/governance processes for sustainability
- **OUTCOME** – problem lines are exceeding schedule and efficiency targets on a consistent basis

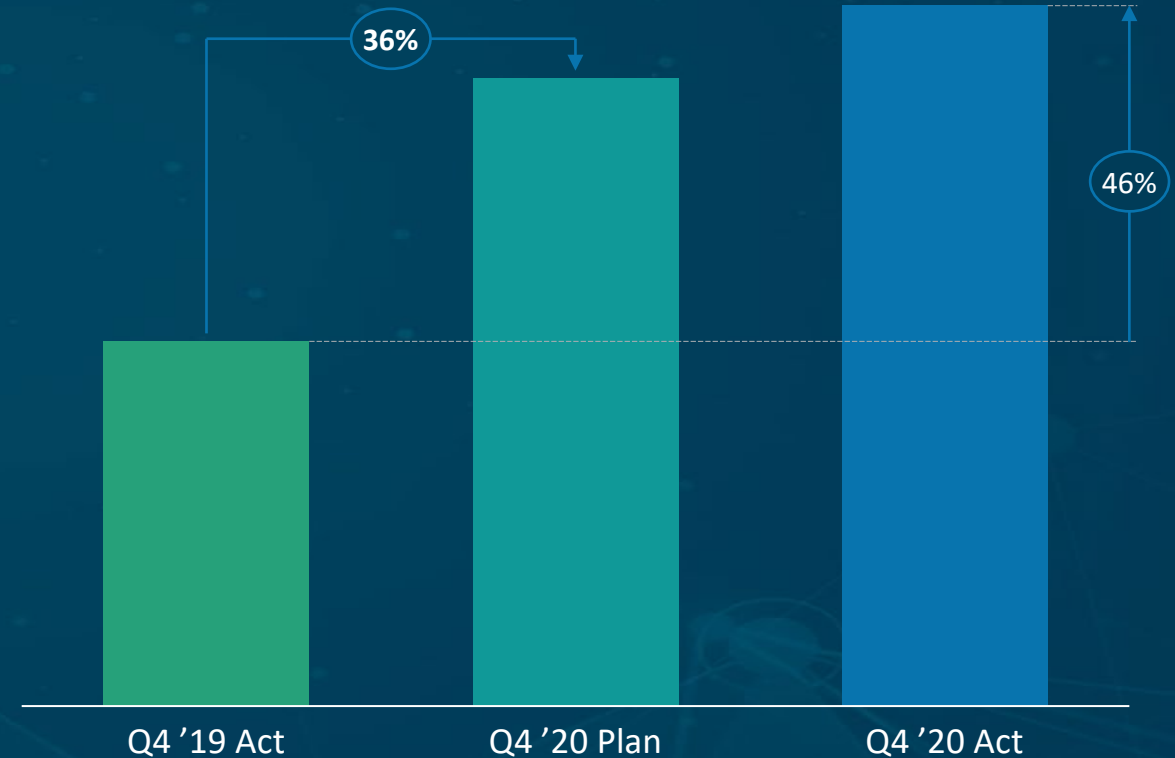
We helped our client accelerate supply, improve service levels, and capture incremental revenue...exceeding Wall Street expectations

Our approach

- We leveraged a senior, cross-community team to quickly **structure a supply assurance 'War Room'**, provide industry expertise, analytical support and customer fill projection scorecards
 - Conducted daily cross-functional allocation meetings to allocate inventory to customer orders
 - Helped drive analytics and strategic supply decisions to help maintain supply/demand balances
 - Facilitated commercial war room discussion to align on customer trade offs
 - Facilitated Ops SWAT team to work co-packer and staffing solves for medium term shortfalls
 - Launched a formal S&OP assessment and monthly process across demand and supply planning
 - Assumed in-house positions (e.g., planning and scheduling) to fill resource/capability gaps
- **Our stabilization efforts rapidly helped, not only close the \$25 million revenue gap but exceed it by \$10 million**

Outcome

Q4 Net Sales Performance (%)



A

Stakeholder mapping and communication

Early on, mapped key stakeholders and ensured regular 1:1 touchpoints to hear their pain points, perspectives on progress, etc.

B

Speed versus perfection to drive early wins

Focused on prioritizing efforts to specific segments and 80:20 within the segments to drive early wins.

C

No one size fits all

Prior attempts with three consultants had failed. We listened and rather than force fit processes, customized where needed to increase adoption.

D

Incremental buy-in versus a big reveal

Engaged stakeholders in the sausage making process and get incremental/daily buy-ins versus a big reveal of the results of our work.

E

Enhanced internal AlixPartners team coordination

Multiple complex inter-dependent workstreams required increased internal alignment and brainstorming which was key.

F

Focus on sustainability

Transitioned pieces of our work along the way to gain momentum and provided follow up support to ensure transition was successful.



Q&A

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