Garage Door Company Acquisitions to Increase

Various Market Factors Point to More Industry Changes

By Michael Collins

The garage door industry is likely to see more acquisitions in the near future. Here's why.

A number of factors have changed in the broader building products industry and in the M&A (mergers and acquisitions) market specifically. These changes represent positive developments for companies that decide to present themselves to potential buyers.

The New Normal

The overarching change is that industry participants and capital providers are adjusting to a "new normal." At the outset of the recession, everyone asked when we would return to the housing numbers seen in 2005 and 2006, when 1.6 million homes were built annually. Since that time, we have come to appreciate that those soaring housing numbers were being fueled by unsustainable mortgage origination practices, which eventually accelerated the decline.

Today, industry experts anchor to the sustainable home-building levels seen from 2000 to 2003, when 1.3 million homes per year were the norm. Currently, the NAHB predicts that 1.17 million homes will be built in 2016, putting us just over 90 percent of the way back to this more sustainable "normal" level.

Better Earnings

Among the more obvious trends of change in the industry is that EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) multiples, the basis on which most companies are valued, have increased significantly in the past several years. (An EBITDA multiple is the purchase price divided by the EBITDA the year after the transaction takes place.) While no recent garage door company acquisitions have announced the EBITDA multiple, there have been several examples in the broader door and window industry.

Recently, profitable mid-market window and door manufacturers have sold at nine to 10 times their EBITDA, a strong indicator for cash flow. While smaller or less profitable companies usually command lower multiples, the trend is that multiples have increased across the entire spectrum of companies.

Strong EBITDA multiples still make sense for buyers, and that represents another trend driving the industry. Buyers have increasingly begun to value companies based on their forward-year EBITDA. In the past, it was generally accepted that buyers focused on prior-year earnings.

If a company is on a strong growth path, the effective EBITDA multiple can be much more modest. In the publicly traded stock market, this is known as "pricing in growth," which is an indicator that buyers are highly confident regarding the growth of the building products industry.

Buyers Have More Capital

Another key trend in M&A in the garage door industry is that companies with the strongest balance sheets will carry the day when they pursue acquisitions. For example, Overhead Door Corporation's acquisition of Wayne Dalton in 2009 would have been daunting to a less well-capitalized industry participant. Similarly, when Amarr was acquired in 2013, Assa Abloy drew on a very strong balance sheet and, we would predict, its ability to close an acquisition with few or no financing contingencies.

Even buyers that seek assistance from the outside capital markets benefit from current developments in the industry. Debt availability has returned to levels last seen in 2007. In that year, strong debt availability drove building products M&A to its peak of activity in recent years. Also, strategic buyers wishing to undertake acquisitions will find an increasing number of private equity (PE) funds that are willing to make a non-control investment alongside a strategic buyer.

The Return of PE Firms

In the past couple of years, a key area emerged in which M&A in the garage door industry has bucked the national trend of increasing interest by private equity funds. There were a number of PE-backed acquisitions in the garage door segment in the past. These included C.H.I. Overhead Door, Windsor Door, and Safe-Way, all of which were completed in 2004.

In 2014, Martin Garage Door and Upwardor were acquired by groups that would be treated as financial groups in our statistics, since the buyers were not existing participants in the garage door industry. Despite these recent transactions, PE buyers have not been as active in the garage door segment in the past few years as they have been in other product segments.

However, as the recovery continues and as garage door manufacturer earnings increase, we believe that PE firms will resume their involvement in purchasing garage door companies. This will be particularly true for companies with owners who are nearing retirement. We'll watch and see. ■

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