

Deal Terms

1 BECN = USD 124.25

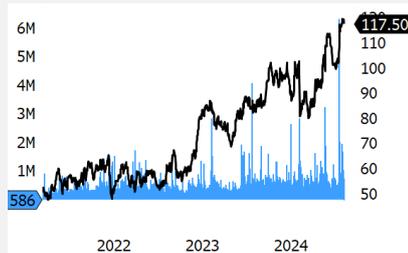
Target: Beacon Roofing Supply

Country	United States
Bloomberg	BECN
Sector	Home Products Stores
Share price (\$)	117.50
Market cap (\$m)	7,271.8
Free float (%)	~99.3

Acquirer: QXO Inc

Country	United States
Bloomberg	QXO
Sector	Application Software
Share price (\$)	13.44
Market cap (\$m)	5,502.7
Free float (%)	~69.2

Target Price Chart



Status

Offer period expires: February 24, 2025

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Beacon Roofing Supply (BECN) / QXO (QXO)

Hostile Tender Offer

Given the potential for a higher counterbid from strategic buyers like Lowe's or private equity firms such as Bain Capital and Carlyle Group, along with room for QXO to improve its offer, we recommend to long BECN.

Poison pill

- On January 28, 2025, Beacon adopted a stockholder rights agreement (poison pill) to deter hostile takeovers.
- Shareholders will receive one preferred share purchase right per common share as of February 7, 2025.
- These rights are triggered if any party acquires 15% (or 20% for certain institutional investors) of Beacon's shares without board approval. Expires January 26, 2026, unless extended.
- QXO remains committed to its bid, with CEO Brad Jacobs emphasizing shareholders should be able to accept the cash offer.
- QXO plans to nominate directors for BECN's May 2025 annual meeting, potentially gaining board control to approve the deal.

CBR view

- We see the announced poison pill as an effective takeover defense in the lack of board approval.
- We expect that QXO will engage with the board, and they will try to convince them to approve the offer.
- The board's prior rejection makes us believe that an increase in the offer price is essential to secure board approval.
- We highlight a scenario where the 2025 annual meeting could be a critical event for the deal. We emphasize that if the current board does not approve the existing or any improved offer, and QXO secures enough votes, it could gain control of the board and advance the transaction, provided the new board approves the offer.

Counter bid

- Beacon is actively seeking interest from strategic and private equity investors to counter QXO's bid.
- Lowe's is seen as the most likely strategic bidder, given Home Depot's SRS Distribution acquisition faces regulatory hurdles.
- We see the chance that the management will find an alternative bidder with higher offer price. However, we also note that a definitive deal typically requires more time than a few weeks.
- We observe that financing a cash deal would pose a significant challenge for most potential strategic bidders. Additionally, BECN's size considerably exceeds the target sizes typically pursued by industry-focused private equity firms.
- We consider LOW the most likely potential bidder among strategic buyers. From the PE point of view, we see that Bain Capital and Carlyle Group appear to be the most suitable candidates, considering their industry expertise and horizontal and vertical integration opportunities.
- In the case of a counterbid, we cannot completely rule out a bidding war scenario. Based on our ROIC model, strategic buyers could enhance their offers up to USD 140.00 per share. Similarly based on our LBO model PEs could bid up to USD 140.00 per share.

Offer consideration

- BECN's Board rejected QXO's offer on January 15, 2025. Regarding the hostile offer the board will issue a formal recommendation no later than February 10, 2025.
- We believe that most shareholders would likely tender their shares if the board approves an offer with a substantial premium over the standalone value.

Antitrust:

- The deal requires antitrust clearance in the US (HSR) and Canada (CC), but we do not see horizontal or vertical concerns.
- We expect that clearances will be provided following the initial waiting period in both jurisdictions.

Deal closing probability

- We estimate an implied deal closing probability of 78.1%, assuming deal closure by March 15, 2025, and downside to USD 97.00 per BECN.

Valuation:

- In a no-deal scenario, we estimate that the share price would trade around USD 95.30 and USD 98.90 per share.
- Our standalone estimates represent 9.6 EV/FY1 EBITDA and 1.0 EV/FY1 Sales multiples.
- We analyzed the announced transaction multiples and compared them with previous transactions in the US roofing and housing materials distribution markets.
- Our analysis indicates that while the current offer price reflects comparable trailing multiples, it does not factor in the improved growth prospects.
- Home Depot's \$18 billion acquisition of SRS Distribution highlights the strong growth potential of the roofing distribution industry, suggesting that QXO's offer may undervalue the sector.
- Based on our ROIC calculation, we believe there is potential for strategic bidders to further enhance the offer to approximately USD 140.00 per share.
- Focusing on our LBO calculation, we see some room for PE bidders to offer a takeout price above USD 140.00 per BECN share.
- We note that fundamental analysts' target prices for BECN ranged between USD 95.00 and USD 140.00 before the merger announcement.

Key terms of the merger

Transaction Details

Announcement Date	November 18, 2024
Offer terms	1 BECN = USD 124.25
% owned by BECN stockholders	N/A
Deal Size (Market Value)	~ USD 11 billion
Offer structure	Hostile Tender Offer
BECN's Board Recommendation	No
Voting Agreement	N/A
BECN Incorporation	Delaware (US)
QXO Incorporation	Delaware (US)
Tender Offer Statement	Click here for the tender offer statement
Tender Announcement (Jan. 15, 2025)	Click here for the announcement
Merger Announcement (Jan. 27, 2025)	Click here for the announcement
Poison Pill Announcement	Click here for the announcement
Synergies	■ N/A

Indicated Closing Date

- February 24, 2025

Dividends

- The company is not planning to pay dividend in the upcoming months.

Financing

- QXO has secured full financing commitments from Goldman Sachs, Morgan Stanley, Citi, Credit Agricole, Wells Fargo and Mizuho. The proceeds from the financing commitments, together with QXO's cash on hand, will be sufficient to pay 100% of the purchase consideration, any required refinancing of Beacon's debt, and associated transaction fees and expenses.

BECN capitalization

- BECN Equity ■ Shares outstanding: 61,887,984
- BECN Debt ■ USD 3,707 million
- BECN Net Leverage ■ Net Debt to FY1 EBITDA: 3.9x

QXO capitalization

- QXO Equity ■ Shares outstanding: 409,430,195
- QXO Debt ■ USD 0.7 million
- QXO Net Leverage ■ Net Cash

Deal Valuation Multiples

- 1-day premium 28%
- P/BV 4.1x
- LTM EV/Sales 1.2x
- FY1 EV/Sales 1.2x
- FY2 EV/Sales 1.1x
- LTM P/E 0.8x
- FY1 P/E 0.8x
- FY2 P/E 0.8x
- FY1 EV/EBITDA 12.1x
- FY2 EV/EBITDA 11.3x

Timetable

■ Deal Announcement	January 15, 2025
■ Poison Pill Announcement	January 28, 2025
■ Offer period starts	January 27, 2025
■ Offer period ends	February 24, 2025
■ Board recommendation deadline	February 10, 2025
■ HSR and CC filing	By mid-February 2025
■ Expiration of HSR waiting period (+15D)	By end of February, 2025
■ Expiration of CC waiting period (+30D)	By mid-March, 2025

- Settlement if the offer became friendly (CBR est.) End of 1Q/early 2Q 2025

Deal close definition

- N/A

Solicitation Clause

- N/A

Company Intervening Event

- N/A

Key conditions to the merger

- | | |
|--------------------------------|---------------------------------------|
| ■ Minimum Acceptance Condition | ■ 50% + 1 |
| ■ Board Approval | ■ Yes |
| ■ No Injunctions | ■ Yes |
| ■ No Legal Prohibition | ■ Yes |
| ■ Regulatory Approvals | ■ Antitrust: US (HSR) and Canada (CC) |
| ■ Reps and Warranties | ■ Yes |
| ■ Covenants Fulfilled | ■ Yes |
| ■ No Material Adverse Effect | ■ Yes |

MAC Definitions

- **“Material Adverse Effect”** means: any event, change, effect, development, circumstance, state of facts, condition or occurrence (each, an “Effect”) that, when considered individually or in the aggregate with all other Effects, has had, has or could reasonably be expected to have a material adverse effect on (x) the ability of the Purchaser to timely consummate the Offer or the Proposed Merger or the ability of Beacon to timely consummate the Proposed Merger or (y) the business, condition (financial or otherwise), assets, liabilities, capitalization, operations, results of operations, prospects of Beacon or its subsidiaries;

MAC Carve-outs

Provided,

- (i) changes after the date hereof generally affecting the securities, credit or financial markets in the United States;
- (ii) acts or declarations of war or other armed hostilities, sabotage or terrorism;
- (iii) changes after the date hereof in applicable laws or the definitive interpretations thereof;
- (iv) changes after the date hereof in generally accepted accounting principles in the United States or the definitive interpretations thereof; or
- (v) any failure by Beacon to meet any internal or public projections, forecasts or estimates of revenues or earnings for any period (provided that the exception in this clause (v) shall not prevent or otherwise affect a determination that any change or development underlying such failure constitutes, has resulted in or contributed to, a Material Adverse Effect);

provided that, in the case of clauses (i), (ii), (iii) and (iv), any such Effect may be taken into account in determining whether or not there has been a Material Adverse Effect to the extent that such Effect has been, or is reasonably expected to be, disproportionately adverse to Beacon or its subsidiaries as compared to other participants in the industry in which Beacon and its subsidiaries operate

Break fees

- | | |
|---------------------|-------|
| ■ Break fee | ■ N/A |
| ■ Reverse break fee | ■ N/A |

Antitrust related clauses

- | | |
|----------------------------------|--------------|
| ■ Jurisdictions | ■ US, Canada |
| ■ Divestiture obligation | ■ N/A |
| ■ Litigation obligation | ■ N/A |
| ■ Reverse break fee (regulatory) | ■ N/A |

Specific Performance

- N/A

Governing Law

- Delaware, New York (US)

Key BECN shareholders

Key QXO shareholders

Shareholders	%
Vanguard Group Inc/The	10.5
FMR LLC	10.4
Blackrock Inc	8.2
Boston Partners Global Investors I	6.9
American Century Cos Inc	5.7
T Rowe Price Group Inc	5.4
Frontier Capital Management Co LLC	3.3
Dimensional Fund Advisors LP	3.1
State Street Corp	2.4
Geode Capital Management LLC	2.4
Robeco Schweiz AG	2.2
Others	39.6

Source: Bloomberg

Shareholders	%
Orbis Allan Gray Ltd	26.7
MFN Partners Management LP	11.5
Finepoint Capital LP	6.3
Kushner Jared Corey	4.0
Madrone Advisors LLC	2.7
T Rowe Price Group Inc	2.6
Vanguard Group Inc/The	2.0
Patient Capital Management LLC	1.9
Consulta Ltd	1.6
Cercano Management LLC	1.6
SOFTBANK GROUP CORP	1.3
Others	37.8

Company descriptions & rationale for the merger

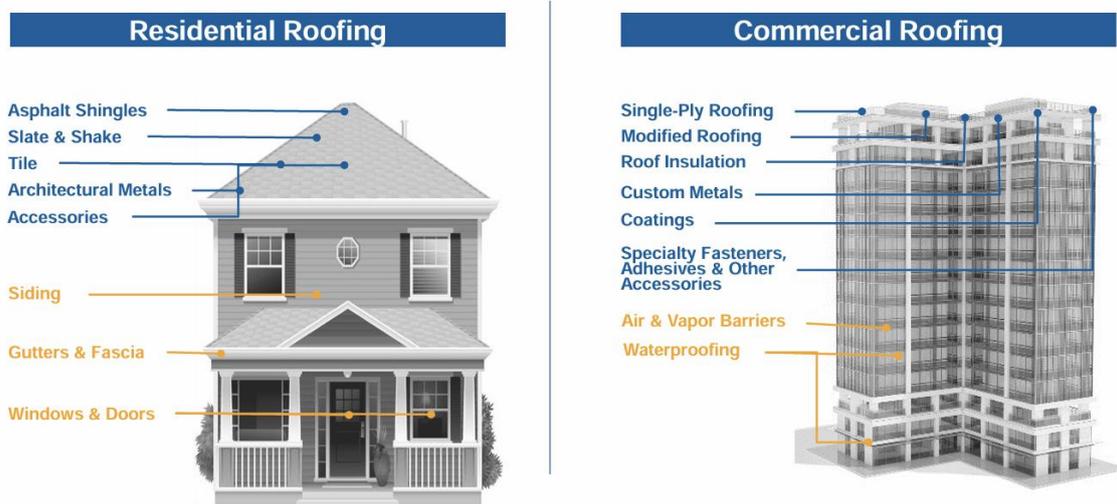
BEACON ROOFING SUPPLY DESCRIPTION

- Beacon Roofing Supply is a leading provider of commercial and residential roofing, siding, windows, decking, insulation, specialty lumber, waterproofing, and air barrier systems to the North American building industry. We have supported contractors who rely on us to help them save time and build more for nearly 100 years.
- Beacon serves an extensive base of nearly 100,000 customers, utilizing its vast branch network and service capabilities to provide high-quality products and support throughout the entire project lifecycle. Beacon offers its own private label brand, TRI-BUILT®, and has a proprietary digital account management suite, Beacon PRO+®, which allows customers to manage their businesses online.

Segments

- The company aggregates its sales into the following segments:
 - **Residential roofing products:** Accounted for approximately 51.0% (USD 4,652 million) of the company’s total sales in 2023.
 - **Non-residential roofing products:** Accounted for approximately 26.3% (USD 2,396 million) of the company’s total sales in 2023.
 - **Complementary building products:** Accounted for approximately 22.7% (USD 2,072 million) of the company’s total sales in 2023.

Strategically Focused on Two Core Markets

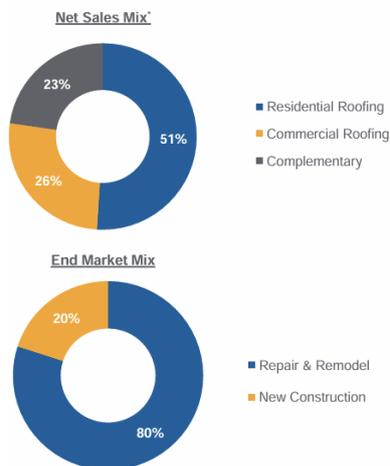


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Roofing Products
Complementary Products Note: From Beacon Investor Day - February 2022



Favorable Macro & Market Fundamentals



RESIDENTIAL CONSTRUCTION TRENDS**

- Higher single-household formation
- Undersupply of housing; aging housing stock
- Favorable de-urbanization trends
- Relatively low interest rates; favorable home equity values

COMMERCIAL CONSTRUCTION TRENDS**

- Improving commercial sentiment
- Strong warehouse development
- Post-COVID rebound
- New building code standards

* Full year net sales 2023; Commercial Roofing is reported as Non-Residential in financials statements.
** Complementary line of business is ~70% Residential & 30% Commercial, impacted by the same trends.
Note: Construction Trends From Beacon Investor Day - February 2022

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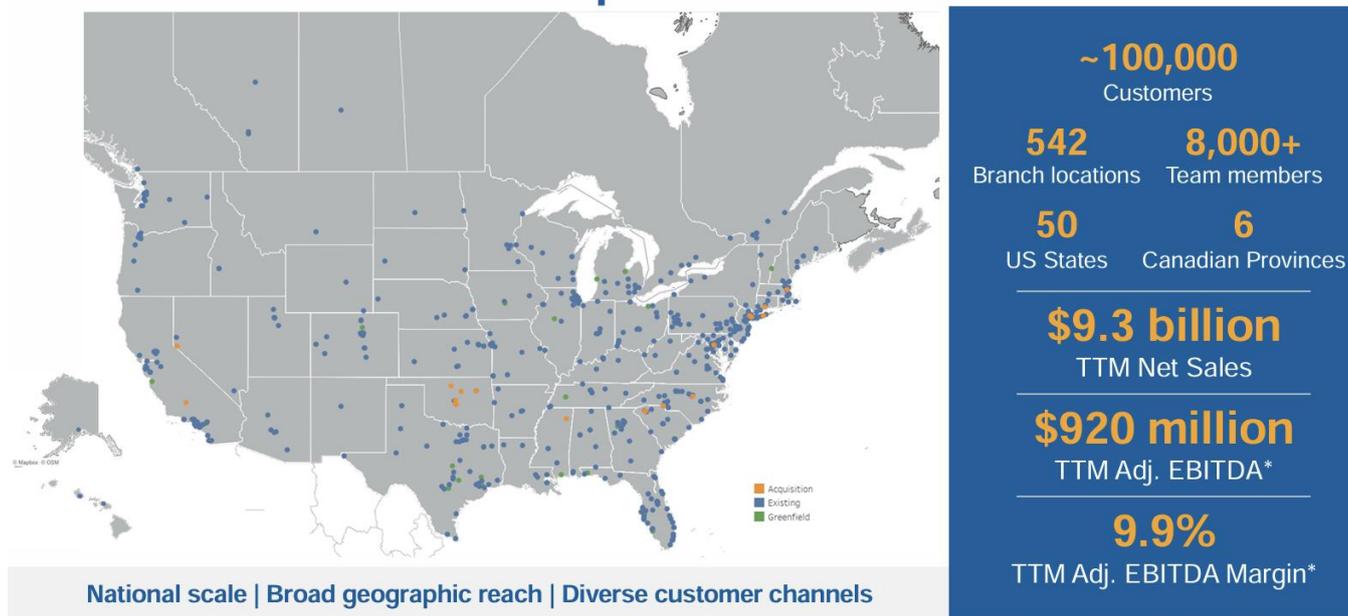


Source: [Company presentation](#)

Geographical coverage

- The company operates over 580 branches throughout all 50 states in the U.S. and 7 provinces in Canada.
 - **US:** Accounted for approximately 97% (USD 8,843 million) of the company’s total sales in 2023.
 - **Canada:** Accounted for approximately 3% (USD 277 million) of the company’s total sales in 2023.

Our North America Footprint



Note: Figures and map as of March 31, 2024
 * Non-GAAP measure, see Appendix for definition and reconciliation.

Source: [Company presentation](#)

Competitors

- According to the company's [10-K](#), **Beacon and two other distributors collectively represent over 55% of the roofing distribution market in North America.**
- Beacon competitors include the following:
 - **ABC Supply:** One of the largest private distributors of roofing and siding materials in the U.S.
 - **SRS Distribution:** A rapidly growing roofing distributor, SRS focuses on customer service and efficiency, posing significant competition to Beacon Roofing Supply. It was acquired by Home Depot in 2024.
 - **GMS:** Specializing in gypsum wallboard and related building products, GMS is a significant player in the building materials distribution sector.
- We note that customers have moderate bargaining power considering the availability of alternative suppliers and the importance of price and quality in purchasing decisions.

QXO INC DESCRIPTION

- **QXO provides technology solutions, primarily to clients in the manufacturing, distribution and service sectors.** The company provides consulting and professional services, including specialized programming, training and technical support, and develops proprietary software. As a value-added reseller of business application software, QXO offers solutions for accounting, financial reporting, enterprise resource planning, warehouse management systems, customer relationship management, business intelligence and other applications. QXO plans to become a tech-forward leader in the \$800 billion building products distribution industry.
- The company is targeting tens of billions of dollars of annual revenue in the next decade through accretive acquisitions and organic growth.

Components of revenue:	For the Year Ended December 31	
	2023	2022
Professional Consulting	\$ 18,647,579	\$ 13,124,812
Maintenance Revenue	5,203,221	4,993,114
Software Revenue	14,110,773	11,781,362
Ancillary Service Revenue	16,555,368	15,085,988
	\$ 54,516,941	\$ 44,985,276

Source: [QXO 10-K](#)

Segments

- **ERP (Enterprise Resource Management) and Accounting Software:** The company resells industry-leading ERP applications such as Sage, Acumatica, and Sage Intacct, offering both on-premise and cloud-based solutions. It provides customizable software packages and enhancements to streamline operations and meet specific customer needs.
- **Value-Added Services for ERP:** The business offers consulting, implementation, and ongoing support to ensure ERP solutions are fully integrated into clients' operations. It also provides custom software development, software upgrades, and a dedicated help desk to support long-term customer success.
- **Network and Managed Services:** The company delivers IT network management and business continuity solutions, including automatic backups, encryption, and failure testing. It also provides application hosting, IT consulting, and managed network services tailored to businesses of all sizes.
- **Warehouse Management Systems:** The company resells warehouse management software (WMS) to mid-market distributors, improving accuracy, efficiency, and inventory control through integration with various systems.
- **IT Managed Network Services and Business Consulting:** The company offers IT managed services, including cybersecurity, disaster recovery, network maintenance, and consulting, with a team of certified engineers supporting business clients.
- **Cybersecurity:** The company provides enterprise-level cybersecurity services, including incident response, penetration testing, and compliance-driven assessments for regulated industries.
- **Application Hosting:** The company offers hosting services to clients nationwide through its own data centers.

Founder of QXO

- Jacobs, the founder of QXO based in Greenwich, Conn., brings extensive experience in strategic acquisitions, having successfully built several industry-leading companies. With a track record of over 500 M&A transactions and raising more than \$30 billion in capital, Jacobs is focused on achieving operational excellence. In a recent interview, he stated, "There's a clear path of how I can [reach] \$50 billion" in the roofing industry.

STRATEGIC RATIONALE FOR THE MERGER

- **Market Leadership:** Acquiring Beacon strengthens QXO's presence in roofing and complementary building materials in North America.
- **Growth Potential:** QXO can provide financial flexibility and resources to help Beacon pursue transformational growth opportunities and expand into high-growth categories.
- **Proven Expertise:** Led by Brad Jacobs, QXO brings a successful track record in scaling businesses and improving operational efficiency through acquisitions.
- **Operational Efficiency & Technology Integration:** By leveraging advanced technology and data-driven logistics, QXO seeks to enhance Beacon's inventory management, supply chain optimization, and delivery speeds, providing contractors with faster and more reliable access to materials.
- **Industry Consolidation:** QXO aims to capitalize on consolidation trends in the building materials sector, following deals like Home Depot's \$18 billion acquisition of SRS Distribution.

BACKGROUND

- November 11, 2024: QXO privately submits an unsolicited all-cash offer to acquire Beacon for \$124.25/share, valuing the company at \$7.7 billion (or \$11 billion including debt).
 - QXO Inc. is led by Brad Jacobs, a veteran dealmaker known for building multibillion-dollar companies through acquisitions in various industries, including logistics, waste disposal, and equipment rental.
 - In late 2023, Jacobs and a group of investors invested approximately \$1 billion into a small publicly traded software company, SilverSun Technologies, and rebranded it as QXO.
 - The goal was to transform QXO into a large-scale company through acquisitions.
- November 18, 2024: The Wall Street Journal reports QXO's private bid for Beacon. Consequently, Beacon's shares begin to rise as speculation about the bid intensifies.
- January 11, 2025: QXO sends a public letter detailing its \$124.25/share offer after being rebuffed by Beacon.
 - QXO states that Beacon's board failed to engage meaningfully, despite the offer's attractiveness.
- January 15, 2025: **Beacon formally rejects** QXO's proposal, stating that it "**significantly undervalues**" the company and does not reflect its growth strategy or potential. Beacon also accuses QXO of declining to sign a non-disclosure agreement (NDA) for due diligence.
 - Following the rejection, it was reported that Beacon may search for alternative bidders to fend for QXO's offer.
- January 27, 2025: QXO publicly announces its hostile tender offer to acquire all outstanding shares of Beacon for \$124.25/share.
 - QXO has announced that it has secured financing for the deal and is ready to nominate directors to Beacon's board. The deadline for shareholder nominations at Beacon is February 14.
 - Tender offer set to expire on February 24, 2025.

- January 28, 2025: Beacon Roofing Supply adopted a poison pill defense to fend off a hostile takeover bid from QXO Inc.

Key risks

POISON PILL/TAKEOVER DEFENSE,

- On January 28, 2025, Beacon adopted a stockholder rights agreement (poison pill) to deter hostile takeovers.
 - Shareholders will receive one preferred share purchase right per common share as of February 7, 2025.
 - Initially, these rights will not be exercisable and will trade with, and be represented by, the shares of Beacon common stock.
 - These rights are triggered if any party acquires 15% (or 20% for certain institutional investors) of Beacon's shares without board approval.
 - If triggered the right allow other shareholders (excluding the acquirer) to purchase additional Beacon shares at a 50% discount, diluting the hostile bidder's ownership.
 - The poison pill will expire on January 26, 2026, unless extended via shareholder approval.
- We note that following the poison pill announcement QXO [emphasized](#) its commitment to continue the offer.
 - "We launched our all-cash tender offer to ensure that Beacon's shareholders can take advantage of our compelling offer and get paid quickly. We have committed financing, have no due diligence condition and anticipate a smooth regulatory approval process to close," said Brad Jacobs, chairman and chief executive officer of QXO. "The only thing stopping shareholders from acting to get cash expeditiously is the decision by Beacon's Board to adopt a poison pill. We are prepared to take all necessary steps to complete this transaction promptly and deliver significant and immediate value to Beacon shareholders."
- We also highlight that BECN has an annually elected board and QXO plans to nominate its own slate of directors before the February 14, 2025, deadline and solicit votes from shareholders.
- QXO expects Beacon's 2025 Annual Meeting to be held in May 2025.

CBR view

- We see the announced poison pill as an effective takeover defense in the lack of board approval.
- We expect that QXO will engage with the board and will try to convince them to approve the offer.
- However, given the board's prior rejection, we believe that an increase in the offer price is essential to secure board approval.
- We highlight a scenario where the 2025 annual meeting could be a critical event for the deal. We emphasize that if the current board does not approve the existing or any improved offer, and QXO secures enough votes, it could gain control of the board and advance the transaction, provided the new board approves the offer.

COUNTERBID

- It has been reported that Beacon is actively seeking interest from strategic and private equity investors to counter QXO's bid.

Potential Strategic Investors Counterbidders

- Companies rumored as a potential buyer: SiteOne Landscape (SITE), Floor & Decor (FND), Pool Corp. (POOL), and Lowe's Cos. (LOW).

Focusing on these companies:

- **SiteOne Landscape Supply:** This company is a leading wholesale distributor of landscape supplies in North America. They offer a wide range of products, including irrigation supplies, fertilizers, and outdoor lighting.
 - SiteOne Landscape Supply [noted](#) that its acquisition strategy focuses on expanding into new markets, diversifying product lines, and leveraging operational best practices to enhance market leadership and achieve cost efficiencies. They adopt a selective and disciplined approach to maximize synergies and reduce costs.
 - M&A history: SITE acquired 18 companies since 2023.
 - Financing: As the most recent disclosure indicates, the company has approximately USD 85 million cash. We believe that SITE is not highly leveraged, so it is able to offer cash, but share element also needs to be included in the offer consideration.
- **Floor & Décor:** Floor & Decor is a specialty retailer of hard surface flooring and related accessories. They provide a broad selection of tile, wood, stone, and laminate flooring, along with installation materials.
 - Floor & Decor pursues acquisitions to expand its presence in the commercial surfaces market, focusing on businesses that complement its existing operations.
 - M&A history: Since 2023 FND has had only one acquisition. In 2023 FND acquired Salesmaster Associates, a wholesale distributor specializing in commercial floor covering products, installation supplies, and carpet products.
 - Financing: As the most recent disclosure indicates, the company has approximately USD 180 million cash. It has ~2.5x Net Debt/EBITDA, thus most likely FND can offer a cash and share alternative.
- **Pool Corporation:** Pool Corp. is the world's largest wholesale distributor of swimming pool supplies, equipment, and related leisure products. They serve a wide range of customers, including pool builders, retail stores, and service companies

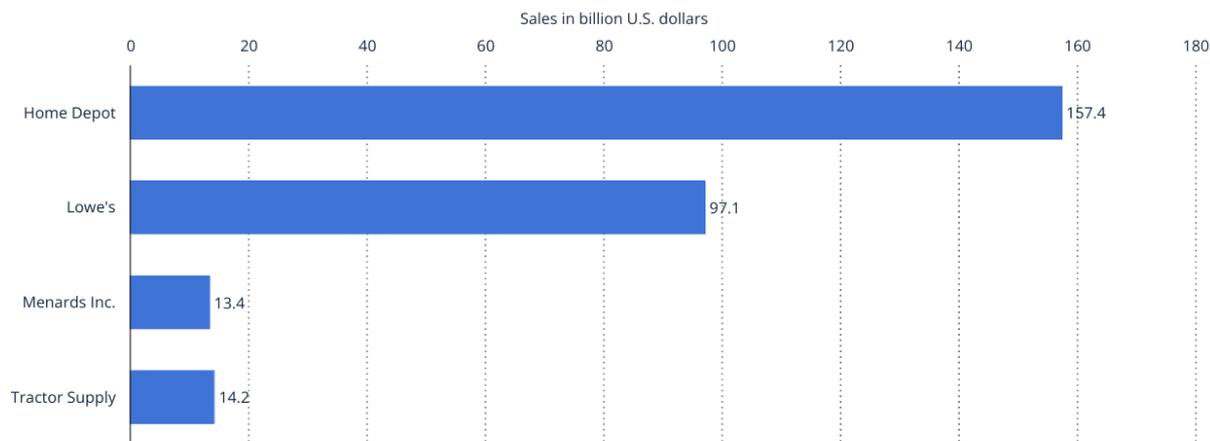
- Pool Corporation plans to drive growth through strategic acquisitions, new sales centers, market expansion, and increased product offerings, with a focus on proprietary and exclusive brands.
- M&A history: The company has not made any acquisitions since 2021.
- Financing: As the most recent disclosure indicates, the company has approximately USD 91 million cash. It has a below ~2x Net Debt/EBITDA leverage but it would most likely include some share alternative as well.
- **Lowe's Companies:** Lowe's is a well-known home improvement retailer offering a wide variety of products for home renovation, maintenance, and repair. They provide everything from tools and appliances to building materials and garden supplies.
 - Lowe's 2025 Total Home Strategy aims to drive long-term growth and market share by enhancing Pro services, accelerating online sales, expanding home services, creating a loyalty ecosystem, and increasing space productivity. While the strategy primarily focuses on organic growth, Lowe's remains open to strategic acquisitions that align with their overall goals and provide significant value.
 - M&A history: Since 2023 LOW has had only one acquisition. In 2023 LOW acquired Vacation Rental Management Business from Hyatt Hotels.
 - Financing: As the most recent disclosure indicates, the company has approximately USD 3.6 billion cash. It has ~3x Net debt/EBITDA metrics but a cash-heavy consideration might not stretch LOW's financials.

Precedent transaction

- We highlight that Home Depot acquired a similar size roofing distributor called SRS Distribution for USD 18 billion. Based on CNBC interviews with similar EV/EBITDA multiple would result in approximately USD 204.00 takeover price per BECN share.
- SRS Distribution and Beacon Roofing Supply are two of the three leading players in the North American roofing distribution industry. As a result, we do not anticipate an acquisition offer from Home Depot due to the significant regulatory challenges it would face.
- We recognize that Lowe's is Home Depot's biggest competitor. We believe that acquiring BECN would enhance Lowe's ability to compete in the roofing distribution industry. Additionally, we anticipate that Lowe's could achieve similar synergies to those of Home Depot.

Sales of the leading home improvement chains in the United States in 2022 (in billion U.S. dollars)

United States: top home improvement chains in 2022, by sales



Description: This statistic depicts the sales of the leading home improvement chains in the United States in 2022. In that year, the Home Depot was the top ranked home improvement chain in the United States with sales amounting to around 157 billion U.S. dollars.
 Statistics
 Note(s): United States; 2022
 Source(s): Forbes; National Retail Federation; NIPA

statista

Source: [Statista – The Home Depot](#)

Potential Private Equity Counterbidders

- We note that M&A activity in the building products sector in generally [accelerated](#) in 2024, up 31.1% YOY with 232 transactions announced or closed.
- We note that the proportion of the financial buyers gained in FY2024 compared to FY2023.



Source: [Capstone Partners](#)

- PEs that are actively seeking acquisition opportunities in the building materials industry:
 - **Kin Capital Partners** is a purpose-driven private equity firm offering flexible capital with no required returns or exit timelines. They guide their investments using their team's extensive experience, focusing on building reputable companies and ensuring employee fulfillment.
 - **Baymark Partners** is a Dallas-based private equity firm focused on growth-oriented investments. They specialize in acquiring middle-market companies in various sectors, including services (healthcare, business, and IT), distribution, manufacturing, and tech-enabled businesses (SAAS and E-Commerce).
 - **Ironspring Ventures** backs innovators in massive industries, including building materials distribution. They focus on modernizing the industry through digital solutions and strategic investments
 - **Platinum Equity** is a global investment firm specializing in mergers, acquisitions, and operations, with over \$48 billion in assets under management. They focus on transforming businesses across various industries.
- However, we note that most of these industry-focused PEs focus on a significantly smaller business than BECN.
- Focusing on the big PEs with potential interest:
 - **Bain Capital:** This firm has a robust industrial portfolio and manages around \$185 billion in assets. Current related portfolio companies:
 - US LBM: National lumber and building material distributor
 - MKM Building Supplies: MKM is a leading independent distributor of building materials in the UK.
 - Imperial Dade: Imperial Dade is a leading distributor of foodservice disposables and janitorial-sanitation products in the United States.
 - **Carlyle Group:** With a strong focus on industrials, Carlyle manages approximately \$376 billion in assets across various sectors. Current related portfolio companies:
 - TAMKO Building Products: Beacon Roofing Supply distributes TAMKO's roofing products, including their popular Heritage® series shingles and other roofing accessories.
 - **KKR & Co.:** Known for its extensive investments in industrial companies, KKR manages over \$500 billion in assets. Current related portfolio companies:
 - Flow Control Group: FCG serves as a value-added distributor and technical advisor to more than 10,000 customers and more than 2,000 suppliers in North America for mission critical flow control and industrial automation products and related services.

CBR view

- We see the chance that the management will find an alternative bidder with higher offer price. However, we also note that the Board just recently started the sales process and reaching a definitive deal might take some time.
- We observe that for most potential strategic bidders, financing a cash deal would pose a significant challenge. Additionally, BECN's size considerably exceeds the target sizes typically pursued by industry-focused private equity firms.
- Among strategic buyers we consider LOW to be the most likely potential bidder. While from the PE point of view, we see that Bain Capital and Carlye Group appear to be the most suitable candidates considering their industry expertise and opportunities for horizontal and vertical integration opportunities.
- In the case of a counterbid, we cannot completely rule out a bidding war scenario. Based on our ROIC model, strategic buyers could enhance their offers up to USD 140.00 per share. Similarly based on our LBO model, PEs could bid up to USD 140.00 per share.

REGULATORY RISKS AND TIMING

- The deal requires antitrust clearance in the US (HSR) and Canada (CC).
- There is no direct horizontal overlap between the business lines.
- We do not anticipate any vertical concerns.

Timing

- HSR: Under the HSR Act, the waiting period for the tender offer is 15 days, which can be extended if additional information is requested.
- CC: Upon submitting a complete pre-merger notification, an initial 30-day waiting period is triggered. During this time, the Competition Bureau assesses the transaction.

CBR view

- We expect that clearances will be provided following the initial waiting period in both jurisdictions.

Top Building Materials/Construction Distributors

While distributors are ranked by 2023 revenue within this vertical, the figure shown is total company revenue.
Estimates for this sector developed with analysis by Craig Webb, [Webb Analytics](#).

Rank	Company	2023 Revenues
1.	ABC Supply Co.	\$20.4B
2.	Builders FirstSource	\$17.1B
3.	Ferguson plc	\$29.7B*
4.	SRS Distribution	\$9.8B
5.	Beacon Roofing Supply	\$9.1B
6.	US LBM	\$8.2B
7.	B4 Lumber	\$6.3B
8.	White Cap	N/A
9.	GMS Inc.	\$5.3B*
10.	SiteOne Landscape Supply	\$4.1B
11.	Foundation Building Materials	\$3.4B
12.	BlueLinx Holdings	\$3.1B
13.	Kodiak Building Partners	N/A
14.	TopBuild (Distribution)	\$5.3B
15.	Lansing Building Products	\$1.5B

*GMS' fiscal 2023 ended April 30, 2023
*Ferguson's fiscal 2023 ended July 31, 2023

Source: [mdm Research](#)

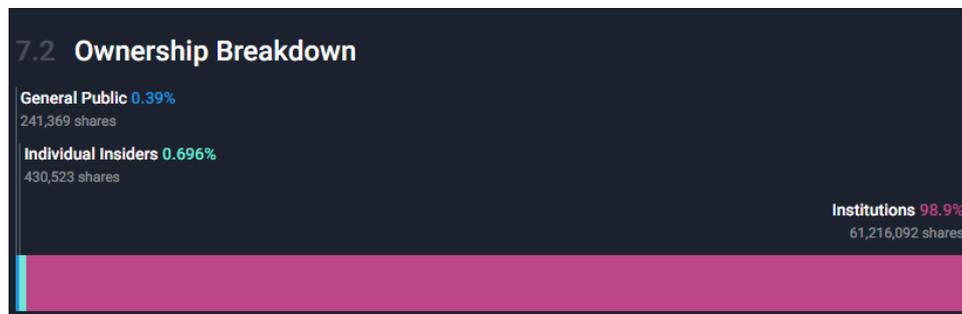
OFFER CONSIDERATION

- The Board rejected the offer on January 15, 2025. The hostile bid was announced on January 27, 2025.
 - Following the hostile bid announcement BECN announced that the Board will issue its formal recommendation to shareholders regarding QXO's tender offer within ten business days.
- We note that the company is almost entirely owned by institutional investors.
- The current deal is conditional on the minimum acceptance condition that requires 50% plus 1 share to be tendered.
- The biggest shareholders:
 - **The Vanguard Group (10.5%):** A global investment management company known for its low-cost mutual funds and ETFs, managing over \$9 trillion in assets.
 - **FMR (10.4%):** A global financial services corporation offering investment management, retirement options, brokerage, financial planning, and wealth management services.
 - **BlackRock (8.2%):** The world's largest asset manager, with over \$11.5 trillion in assets under management, offering investment management, risk management, and advisory services to institutional and retail clients worldwide.
 - **Boston Partners Global Investors (7.2%):** An American investment management firm headquartered in Boston, specializing in value-oriented equity investing worldwide.
 - **T.Rowe Price Group (5.4%):** An American publicly owned global investment management firm, offering mutual funds, subadvisory services, separate account management, and retirement plans for individuals, institutions, and financial intermediaries.
 - **American Century Investment Management (5.2%):** A privately controlled investment management firm known for its focus on delivering superior long-term performance.
 - **Frontier Capital Management (3.3%):** A Boston-based boutique investment management firm specializing in managing small and mid-cap U.S. equities
 - **Dimensional Fund (3.1%):** A private investment firm that applies the efficient market hypothesis to its strategies, offering mutual funds, ETFs, and separately managed accounts

- **State Street Global (2.4%):** The investment management division of State Street Corporation, managing over \$4.1 trillion in assets and offering a range of index and active strategies for institutional and retail clients worldwide.
 - **Geode Capital Management (2.1%):** A Boston-based systematic asset manager, providing core beta exposures across equity and niche asset classes, with over \$1.5 trillion in assets under management.
- Consequently, we believe that the majority of the stakes are owned by financial investors rather than strategic investors.
 - We note that Julian Francis (BECN CEO), in a CNBC interview, explicitly emphasized that “this is about shareholder value. I mean, ultimately, we are here. I lead this company in order to generate shareholder value. That’s fundamentally it. We do it through being a great company. We do it by hiring great employees. We do it by delivering roofs and doing hard things. So, no, it’s not personal. It’s not about that. It’s about value and about shareholder value.”

CBR view

- We believe that if the board approves an offer with a substantial premium over the standalone value, most shareholders would likely tender their shares.
- We note that based on our calculations, there is room for QXO to improve the offer, assuming synergies from technological transformation, operational efficiency, and better inventory management.



Source: Simply Wall Street

FINANCING

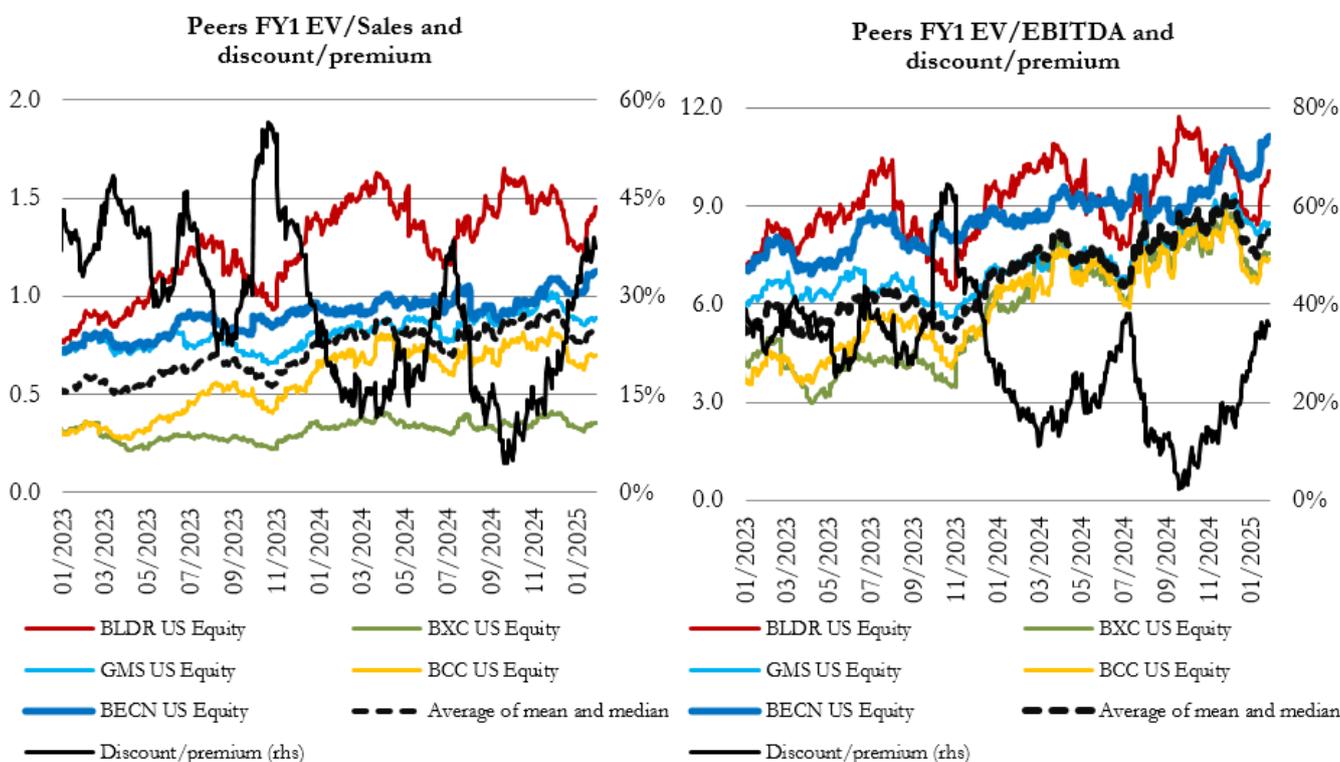
- We note that analysts see QXO’s robust financial position, which includes \$5 billion in cash and secured financing commitments from Goldman Sachs, Morgan Stanley, Citi, Credit Agricole, Wells Fargo and Mizuho.

Valuation

STANDALONE VALUE

- We note that the company historically traded with premiums over its peers. The premium is backed by better growth and profitability measures.
- In 2024, despite a decline in premiums, both the share price and multiples rose steadily throughout the year.
- We estimate that, in a no-deal scenario, the share price would trade around USD 95.30 and USD 98.90 per share.
- Our standalone estimates represent 9.6 EV/FY1 EBITDA and 1.0 EV/FY1 Sales multiples.

Company	Ticker	Last P/BV	FY1 P/ E	FY2 P/ E	Net Income CAGR	FY1 EV/ EBITDA	FY2 EV/ EBITDA	EBITDA CAGR	FY1 EV/S	FY2 EV/S	Sales CAGR
BUILDERS FIRSTSO	BLDR US	4.5x	15.5x	15.3x	-5.3%	9.8x	8.4x	-2.4%	1.5x	1.4x	2.8%
BLUELIX HOLDING	BXC US	1.4x	17.4x	17.7x	-11.3%	8.0x	6.8x	-7.2%	0.4x	0.3x	-0.1%
GMS INC	GMS US	2.3x	11.9x	10.5x	2.7%	7.8x	6.8x	1.0%	0.9x	0.9x	3.3%
BOISE CASCADE CO	BCC US	2.3x	13.4x	12.6x	-4.6%	6.7x	5.8x	-2.4%	0.7x	0.7x	2.2%
Average		2.6x	14.5x	14.0x	-4.6%	8.1x	7.0x	-2.8%	0.8x	0.8x	2.1%
Median		2.3x	14.4x	13.9x	-4.9%	7.9x	6.8x	-2.4%	0.8x	0.8x	2.5%
BEACON ROOFING S	BECN US	3.9x	16.6x	15.0x	3.1%	9.4x	8.4x	4.8%	1.1x	1.1x	5.3%



Source: CBR and Bloomberg

PREMIUM

The deal represents

- 26% premium to Beacon’s unaffected price of \$98.75 per share (as of November 15, 2024, the last trading day prior to the Wall Street Journal report that QXO had made an offer to acquire Beacon);
- 37% premium to Beacon’s 90-day unaffected VWAP of \$91.02 per share;
- 17% premium to Beacon’s unaffected all-time high price of \$105.84;
- 14% premium to Beacon’s stock price of \$108.85 on January 14, 2025, which is affected by the Wall Street Journal report on November 18, 2024;
- 3.0x premium to Beacon’s unaffected three-year historical average next-twelve-months enterprise value to EBITDA multiple of 8.1x.

PRECEDENTS

- We analyzed the announced transaction multiples and compared them with previous transactions in the US roofing and housing materials distribution markets.
- Our analysis indicates that while the current offer price reflects comparable trailing multiples, it does not factor in the improved growth prospects.
- However, we also highlight Home Depot’s \$18 billion acquisition of SRS Distribution in 2024. SRS Distribution is a direct competitor of BECN.
 - In FY2023 SRS Distribution had [USD 9.8 billion total sales](#) compared to BECN’s USD 9.1 billion total sales.
 - This indicates that the roofing distribution industry has a stronger outlook for the future and QXO’s offer price may significantly undervalue the industry’s potential.
 - On CNBC’s “Mad Money with Jim Cramer.” show it was mentioned that, based on the EV/EBITDA multiple from the SRS deal, the price should be at USD204.00.

Company	Incorporation	Year	Transaction value	Trailing EV/Sales	Trailing EV/EBIT	Trailing EV/EBITDA
BMC Stock Holdings	United States	2020	USD 2.706 billion	0.7x	15.8x	7.3x
Foundation Building Materials	United States	2020	USD 1.389 billion	0.7x	18.0x	7.3x
HD Supply	United States	2020	USD 11.088 billion	1.9x	16.8x	13.1x
Allied Building Products	United States	2017	USD 2.625 billion	1.0x	N/A	13.6x
Mean				1.1x	16.9x	10.3x
Median				0.9x	16.8x	10.2x
Beacon Roofing Supply	United States	2025	USD 11, 328 million	1.2x	15.9x	11.2x

Source: CBR and Bloomberg

LBO

- We see some room for PE bidders to offer a takeout price even above USD 140.00/BECN.
- Our assumptions include
 - Offer at 124.25/BECN share
 - 3.00% LT growth rate
 - Net debt as of September 30, 2024
 - LT EBITDA margin 10.00%
 - Equity participation 45%
 - Leverage 6.0x in FY2025
 - Interest coverage 1.6x in FY2025
 - Credit spread 6.00%
 - 26% tax rate
 - 5-year IRR of 13.0%
 - USD 72.7 million synergies in FY2027 (5% of Selling, General & Admin. cost synergies)

Sensitivity tables

		Bid Price (USD / share)							Bid Price (USD / share)				
		124.25	130.00	135.00	140.00	145.00			124.25	130.00	135.00	140.00	145.00
EBITDA Marg.	9.0%	11.5%	11.3%	11.0%	10.8%	10.6%	LT Growth	1.0%	12.6%	12.3%	12.1%	11.8%	11.6%
	9.5%	12.3%	12.0%	11.8%	11.6%	11.3%		2.0%	12.8%	12.5%	12.3%	12.1%	11.9%
	10.0%	13.0%	12.8%	12.5%	12.3%	12.1%		3.0%	13.0%	12.8%	12.5%	12.3%	12.1%
	10.5%	13.7%	13.5%	13.3%	13.0%	12.8%		4.0%	13.3%	13.0%	12.8%	12.6%	12.3%
	11.0%	14.4%	14.2%	14.0%	13.7%	13.5%		5.0%	13.5%	13.2%	13.0%	12.8%	12.6%
		Bid Price (USD / share)							Bid Price (USD / share)				
		124.25	130.00	135.00	140.00	145.00			124.25	130.00	135.00	140.00	145.00
Equity Part.	30.0%	15.5%	15.1%	14.8%	14.5%	14.2%	EV/EBITDA	10.0x	7.7%	6.4%	5.4%	4.3%	3.2%
	40.0%	13.7%	13.4%	13.1%	12.9%	12.6%		11.0x	10.4%	9.2%	8.2%	7.2%	6.1%
	45.0%	13.0%	12.8%	12.5%	12.3%	12.1%		12.1x	13.0%	11.9%	10.9%	10.0%	9.0%
	50.0%	12.5%	12.3%	12.1%	11.9%	11.7%		13.0x	15.0%	13.9%	12.9%	12.0%	11.1%
	60.0%	11.7%	11.5%	11.3%	11.2%	11.0%		14.0x	17.0%	15.9%	15.0%	14.1%	13.2%

		Bid Price (USD / share)				
		124.25	130.00	135.00	140.00	145.00
Interest Marg.	4.0%	14.1%	13.8%	13.6%	13.4%	13.2%
	5.0%	13.6%	13.3%	13.1%	12.9%	12.7%
	6.0%	13.0%	12.7%	12.5%	12.3%	12.1%
	7.0%	12.4%	12.1%	11.9%	11.7%	11.5%
	8.0%	11.8%	11.5%	11.3%	11.0%	10.8%

Source: CBR and Bloomberg

ROIC

- Based on our ROIC calculation, we believe there is potential for strategic bidders further to enhance the offer to approximately USD 140.00 per share.
- We assumed:
 - 26% effective tax rate
 - USD 145.4 million synergies in FY2027 (10% of Selling, General & Admin. cost synergies)

ROIC calculations

Deal value (USDm)	2025	2026	2027
<i>Bid price (USD/sh.)</i>	124.25	124.25	124.25
<i>O/S (m)</i>	61.9	61.9	61.9
Deal value (m)	7,690	7,690	7,690
ROIC calculation			
BEST Operating Profit (m)	798	858	918
<i>Synergies</i>	0	72.7	145.4
Adj. Operating Profit (m)	798	931	1064
<i>Tax (26%)</i>	207	242	277
NOPAT (m)	590	689	787
ROIC	7.7%	9.0%	10.2%
WACC	9.1%	9.1%	9.1%

Sensitivity tables

Price vs Operating profit

		Bid price (USD/share)				
		110.00	120.00	124.25	130.00	140.00
2025 Op. Profit (USDm)	800	10.3%	9.4%	9.1%	8.7%	8.1%
	900	11.4%	10.4%	10.1%	9.6%	8.9%
	918	11.6%	10.6%	10.2%	9.8%	9.1%
	1000	12.5%	11.4%	11.0%	10.5%	9.8%
	1100	13.5%	12.4%	12.0%	11.5%	10.6%

Price vs Synergies

		Bid price (USD/share)				
		110.00	120.00	124.25	130.00	140.00
Ann. Cost Syn. (USDm)	0	10.0%	9.1%	8.8%	8.4%	7.8%
	100	11.1%	10.1%	9.8%	9.4%	8.7%
	145	11.6%	10.6%	10.2%	9.8%	9.1%
	200	12.2%	11.1%	10.8%	10.3%	9.5%
	250	12.7%	11.6%	11.2%	10.7%	10.0%

Price vs Tax rate

		Bid price (USD/share)				
		110.00	120.00	124.25	130.00	140.00
Tax rate	20%	12.5%	11.5%	11.1%	10.6%	9.8%
	25%	11.7%	10.7%	10.4%	9.9%	9.2%
	26%	11.6%	10.6%	10.2%	9.8%	9.1%
	30%	10.9%	10.0%	9.7%	9.3%	8.6%
	35%	10.2%	9.3%	9.0%	8.6%	8.0%

Synergies vs Tax rate

		Annual cost savings (USDm)				
		0	100	145	200	250
Tax rate	20%	9.6%	10.6%	11.1%	11.6%	12.2%
	25%	9.0%	9.9%	10.4%	10.9%	11.4%
	26%	8.8%	9.8%	10.2%	10.8%	11.2%
	30%	8.4%	9.3%	9.7%	10.2%	10.6%
	35%	7.8%	8.6%	9.0%	9.5%	9.9%

Source: CBR and Bloomberg

IMPLIED DEAL CLOSING PROBABILITY

- We estimate an implied deal closing probability of 78.1% assuming deal closure by March 15, 2025, and downside to USD 97.00 per BECN.

Sensitivity tables

	Deal Close Date						Deal Close Date						
	2/28/2025	3/15/2025	3/31/2025	4/15/2025	4/30/2025		2/28/2025	3/15/2025	3/31/2025	4/15/2025	4/30/2025		
Downside (USD/share)	90.00	81.8%	82.7%	83.8%	84.8%	85.8%	Offer Price (USD/share)	121.00	87.6%	89.1%	90.7%	92.2%	93.8%
	95.00	78.6%	79.7%	80.9%	82.0%	83.2%		122.00	84.1%	85.4%	86.9%	88.3%	89.8%
	97.00	77.0%	78.1%	79.4%	80.6%	81.9%		124.25	77.0%	78.1%	79.4%	80.6%	81.9%
	100.00	74.1%	75.3%	76.7%	78.0%	79.4%		135.00	54.9%	55.6%	56.2%	56.9%	57.6%
	105.00	67.1%	68.6%	70.2%	71.7%	73.3%		145.00	43.4%	43.8%	44.2%	44.7%	45.1%

Source: CBR and Bloomberg

ANALYST TARGET PRICES

- Fundamental analysts' target prices for BECN ranged between USD 95.00 and USD 140.00 before the merger announcement.

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