Is the Tide Turning for Building Materials in Europe? Investment Trends and Opportunities for Private Equity

Introduction

Building materials businesses have had a rough ride in recent years. As a sector strongly correlated with GDP growth, yet more volatile, and often characterized by high Capex requirements, they have been especially affected by the low growth, high-interest rates environment that followed the pandemic years.

Nevertheless, several megatrends, from sustainability to digitalization, alongside structurally steady demand for housing, have kept building materials companies firmly on the radar of private equity (PE) funds.

Looking ahead, expectations of further monetary easing and the decline in building costs might instill more confidence in the industry. However, lingering concerns about deeper structural challenges within the European economy – and Germany in particular – are tempering short -term optimism.

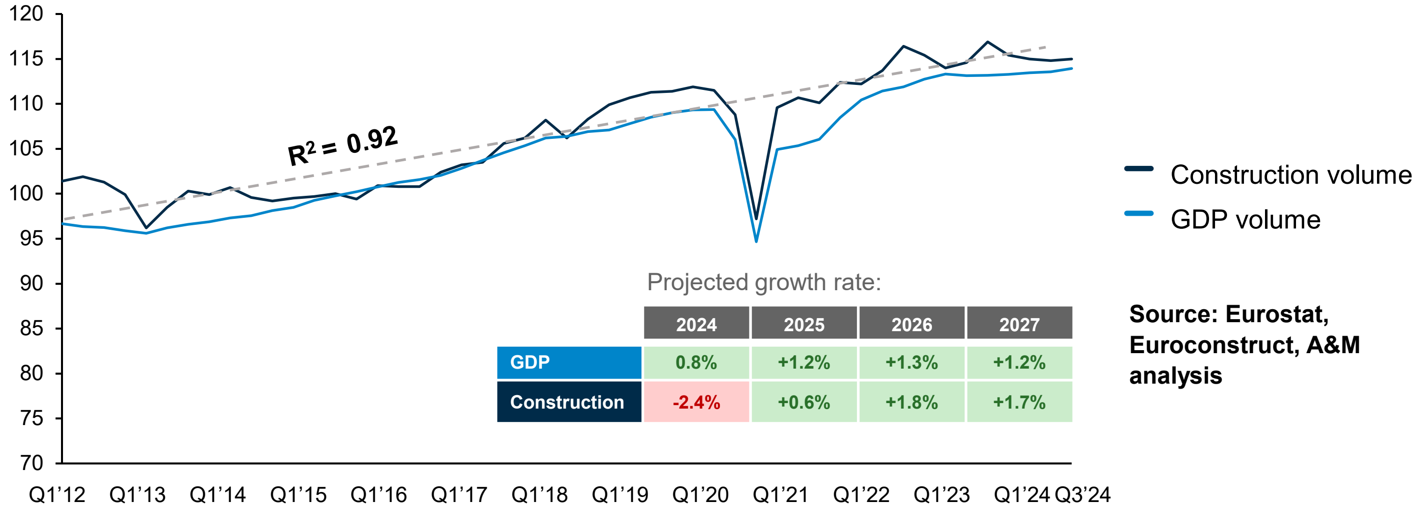
In this article, we explore the fundamental dynamics transforming the construction value chain, their impacts on the business models of building materials companies, and how they should be considered by investors in the context of target selection and value creation.

Construction value chain transformation

2023 and 2024 have been tough years for the construction industry in Europe, which saw activity shrink as the cyclical nature of the sector took effect. The building materials sector has been especially affected. While the recovery that many had expected for the second half of 2024 has yet to materialize, expectations of improved GDP growth, lower interest rates and the underlying demand for housing are providing hope that a rebound might be on the way.

Figure 1: Construction growth[1]

The construction activity has closely followed GDP cycles in Europe. Moderate decline in construction in 2024, with recovery expected from 2025.



Projected growth rate:

	2024	2025	2026	2027
GDP	0.8%	+1.2%	+1.3%	+1.2%
Construction	-2.4%	+0.6%	+1.8%	+1.7%

Source: Eurostat, Euroconstruct, A&M analysis

1. Calendar and seasonally adjusted data. Includes activities corresponding to NACE code related to construction, construction of buildings, civil engineering and specialized construction activities.

Regardless of the cycle, the construction value chain is seeing a steady transformation, with business models challenged by global forces like decarbonization and urbanization, as well as sector-specific dynamics such as labor shortages and low productivity. This has translated into a set of megatrends that are reshaping the industry, including sustainable building design and materials, digitalization and robotization, modularity and circularity, and smart and connected homes.

Figure 2: Construction megatrends

Construction activity is gradually being transformed by a complex network of drivers and megatrends.

Drivers

Global cross-sector drivers
- Global warming
- Environmental concerns
- Strengthening regulation
- Urbanization /Megacities

Sector-specific drivers
- Qualified labor shortage
- Low productivity
- Increasing costs

Megatrends

End-users demand/behaviour
- Health, Wellness & Comfort
- Connected homes
- Affordable homes

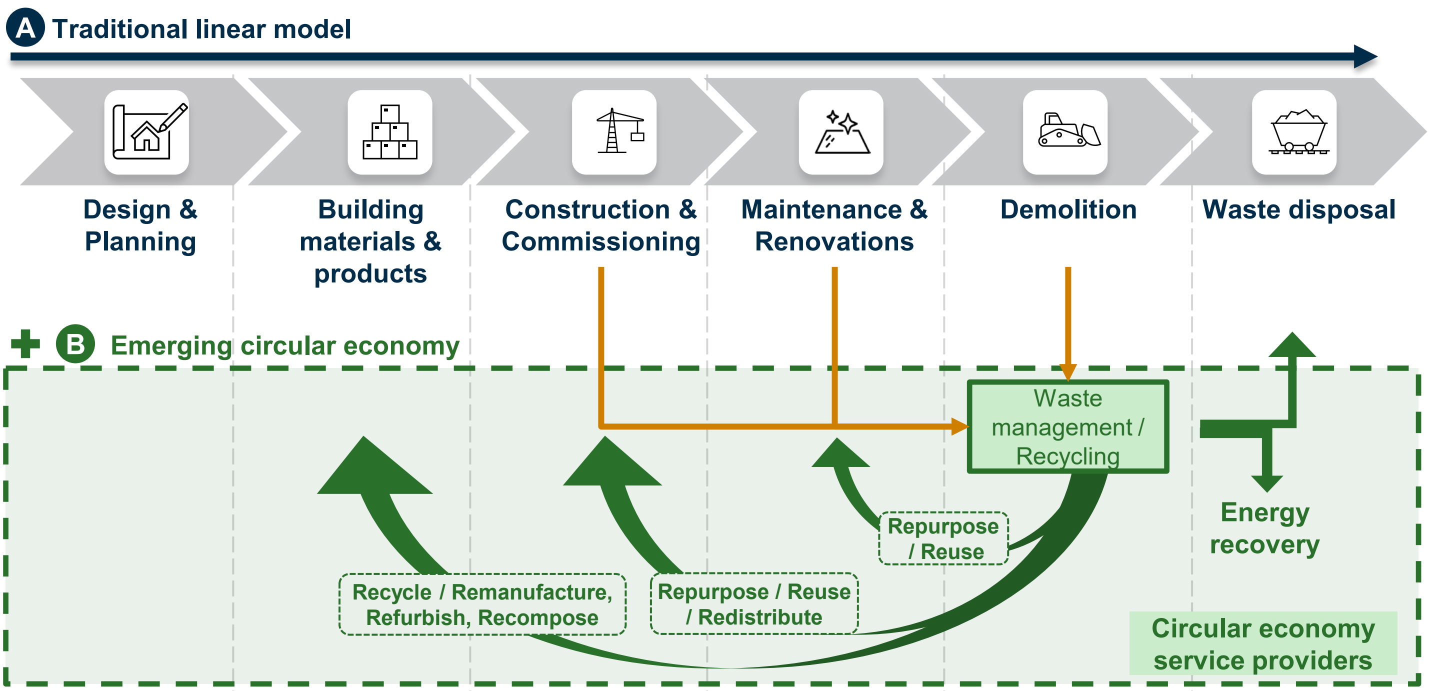
Sector dynamics & supply chain
- Sustainable building design
- Supply-chain localization
- Digital / Technology
- Prefabrication / modularization
- Circularity
- Alternative materials

Furthermore, the industry has also been steadily adapting to digital transformation brought about by technologies such as BIM and construction automation. Many of those solutions are still in very early stages, with innovative models brought by start-ups in a venture capital phase.

Traditional players such as cement producers have been forced to evolve their strategies, for example by investing in or partnering with other businesses in the value chain to boost circularity and technology credentials. Notably, a true "ConstructionTech" boom remains outstanding, with promising technologies, like 3D-printing, still far from being scalable in significant ways.

Figure 3: Value chain transformation

Construction value chain is transitioning towards a "closed loop" model with increasing integration of tech-solutions.



+ C Increasing technology integration throughout the value chain

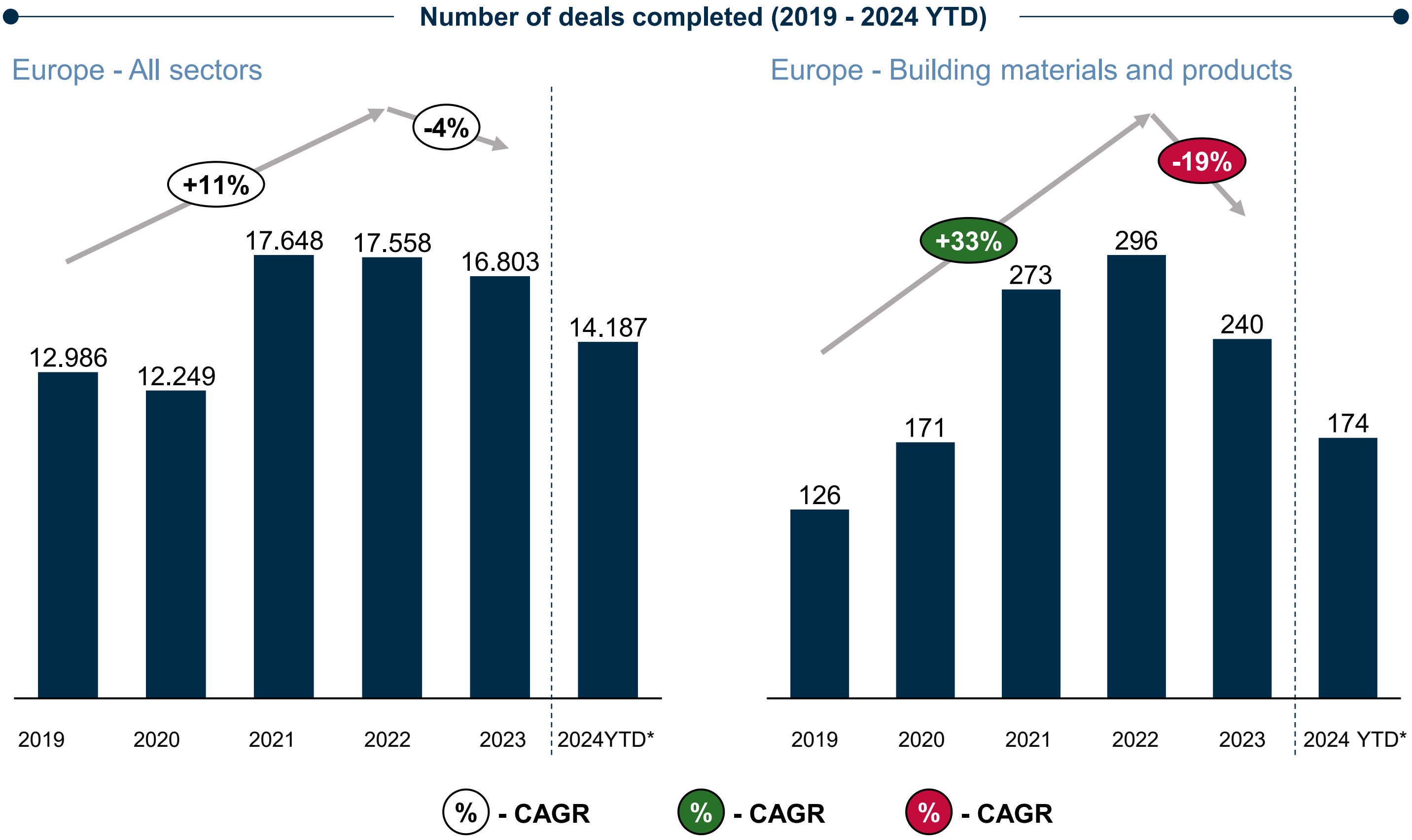
Building Information Modelling (BIM)	Geographic Information Systems (GIS)	Construction Automation & Robotics	Internet of Things (IoT)	3D printing technology	Drones & Aerial Imaging
Augmented/Virtual Reality (AR/VR)	Digital Twin Technology	Energy Management Systems	Building Automation	Project management software	… and more

M&A trends in building materials

Reflecting the broader slowdown in construction activity, M&A involving building materials assets has dropped sharply in the past two years, reversing a strong growth trend seen in the 2019-2022 period. From 2022 to 2023, the number of sector deals in Europe fell by 19%, a much steeper decline compared to the overall M&A market over the same period, which declined only 4%.

Figure 4: M&A activity in Europe[2]

M&A activity in building materials has dropped sharply after a 2019 - 2022 spike.



Source: Mergermarket, CapitalIQ, Pitchbook, ARX, A&M analysis

Deal activity has been dominated by strategic buyers, such as cement players, which have sought diversification and consolidation strategies in response to the intense transformation in the industry.

2. Based on September 2024 data. 1,280 deals have been identified in the building materials and products sector.

* Including September 2024

In contrast, financial investors have taken a more restrained approach, accounting for approximately 26% of building materials and products deals so far this year. This percentage has declined from around 35% in 2019, and remains below the average PE participation in overall M&A, indicating cautiousness from financial buyers towards the sector more recently.

Looking ahead though, we expect a resurgence in PE interest in building materials, fueled by an improving economic outlook and the search for value in assets aligned with the sector's transformative megatrends. The strong appetite among industrial buyers for diversification also provides PEs with compelling exit opportunities: in fact, financial investors sold their investments to corporates in around 70% of the transactions completed in the last five years.

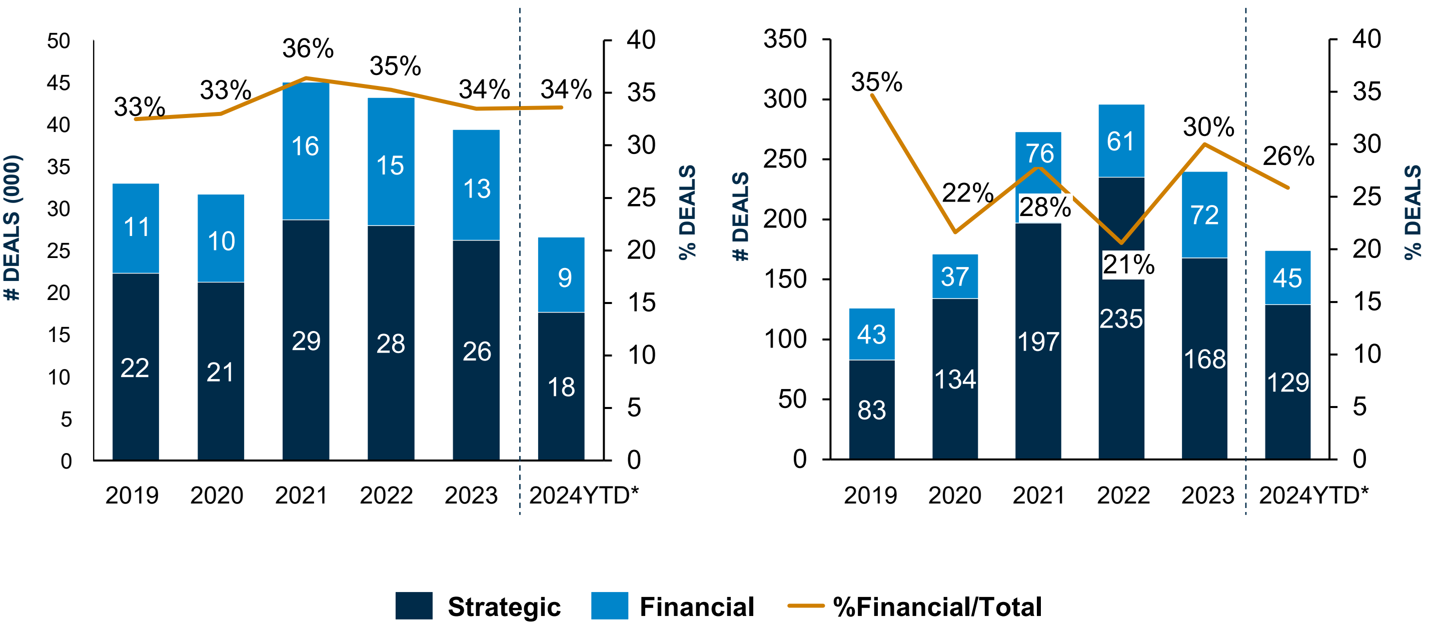
Figure 5: Financial vs strategic buyers

Financial Investors participate less in the Building Materials and Products sector, compared to global trends.

Number of deals completed by type of buyer

Global - All sectors
Number of deals (in thousands)

Europe - Building materials and products
Number of deals



Source: Mergermarket, CapitalIQ, Pitchbook, ARX, A&M analysis

* Including September 2024

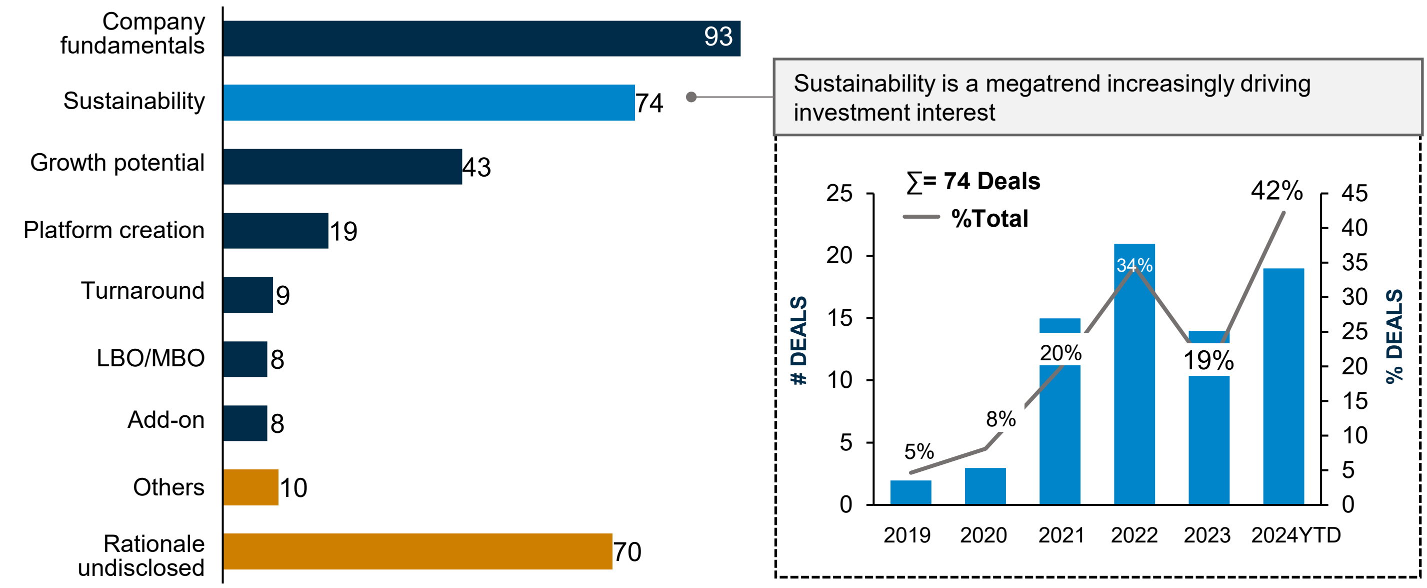
Sustainability, in particular, is expected to remain a key driver of financial investor interest, continuing a trend observed in recent years. According to A&M's analysis of over 330 PE deals in the European building materials and products space, 42% of buyouts so far this year had sustainability credentials as the primary rationale, a sharp rise from just 5% in 2019. Over the past five years, sustainability has emerged as the second most common rationale for deals, surpassed only by company fundamentals.

Additionally, we see growing momentum toward consolidation and buy-and-build strategies as the recent industry downturn has made vulnerabilities in business models more evident. Examples of this approach include the consolidation of the ceramics sector, deals in the modular and prefabricated construction space, as well as in the doors and windows sub-sector.

Figure 6: PE deals rationale

Financial Buyers are mostly motivated to complete a deal given company fundamentals, and increasingly by sustainability credentials.

Number of deals in Europe completed by Financial Buyers due to Sustainability credentials (2019-24YTD)



Source: Mergermarket, CapitalIQ, Pitchbook, ARX, A&M analysis

Key takeaways

- The construction sector is going through a deep transformation, driven by a host of megatrends such as circularity, sustainable building design and materials, modularization/prefabrication and digitalization.
- Deals in the sector soared between 2019 to 2022, outperforming overall M&A activity, but dealmaking has seen a sharp drop in the past two years.
- Strategic buyers dominate M&A activity, providing financial investors with good exit opportunities for those assets aligned with megatrends.
- Sustainability is the second most cited rationale for M&A in the sector, only after company fundamentals; other megatrends, including tech, are less prevalent as M&A driver.
- Opportunities arise for PE by buy-and-build approaches to consolidate fragmented sub-sectors, or to scale companies whose business models are aligned with megatrends.

How A&M can help

A&M Private Equity Performance Improvement (PEPI) supports clients across the whole investment cycle, from target scouting and screening through to pre-deal due diligence, post-deal transformation and value creation, as well as exit support.

Our team brings unparalleled operational expertise, supported by a network of experts in the construction and building materials sector across Europe and the world, including former C-level executives. With 11,000 professionals worldwide and a strong coverage of North America, Europe, Middle East, Latin America, and Asia, we are positioned to help leading building material companies tackle their most complex global business challenges.

A&M's differentiated action- and results-oriented approach to supporting clients relies on the active and sustained involvement of senior resources, experts, and former industry operators throughout the entire project. A&M has an outstanding track record, specifically in driving operational and commercial improvements, delivering bottom-line results, and in situations that require a sense of urgency.

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