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Why Active Management Matters Amid Building Products M&A

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A wave of consolidation is sweeping through the building products industry, with implications that extend well beyond the latest headline transactions. For investors, the recent pace and scale of acquisitions suggest a structural reshaping of industry dynamics, capital allocation priorities and the competitive positioning of key players.

Strategic M&A by Market Leaders

Home Depot (HD) and **Lowe's Companies, Inc. (LOW)** remain the dominant forces in the U.S. home improvement market, with near-total control of the do-it-yourself (DIY) channel. Both companies are also expanding aggressively into the professional contractor, or "pro," market — a different customer base and a recurring source of demand. This shift reflects changing demographics, as aging baby boomers grow less inclined to undertake DIY projects and the balance of spending tilts toward professionals.

To accelerate penetration of the pro channel, Home Depot announced in June its acquisition of **GMS Inc.** a distributor of drywall, insulation and other essential building products. The \$5.5 billion purchase price represented a meaningful premium to **GMS's** pre-announcement stock price and underscored the strategic value of distribution scale. Not to be outdone, Lowe's responded within weeks with an \$8.8 billion agreement to acquire **Foundation Building Materials**, another pro-focused supplier. **Foundation** had been acquired by the private equity firm **American Securities** for just \$1.4 billion in 2020, highlighting the multiple re-rating that has occurred across the industry.

Home Depot had already set the tone for large-scale consolidation in 2024 with its \$18.2 billion acquisition of **SRS Distribution**, a leading roofing supplier with strong profitability and brand recognition. Taken together, the additions of **SRS** and **GMS** significantly enhance Home Depot's presence across residential and commercial construction markets.

The competitive landscape has also been altered by **QXO Inc. (QXO)**, a newly formed consolidator led by Brad Jacobs, whose track record at **United Rentals (URI)** and **XPO Inc. (XPO)** is grounded in aggressive, acquisition-driven growth. Backed by over \$5 billion in equity capital, **QXO** entered the sector with the \$11.4 billion purchase of **Beacon Roofing Supply** in April

2025. Since then, the company has pursued additional targets, including an unsuccessful bid for electrical distributor Rexel SA and a near miss on acquiring GMS before Home Depot prevailed. Given Jacobs' stated strategy, QXO is expected to remain an active buyer.

Demand Backdrop Supports the Trend

The surge in M&A reflects more than just opportunistic deal-making. Industry participants are positioning ahead of what many expect will be a gradual recovery in the U.S. housing market. For the past several years, housing turnover has been constrained by the "lock-in" effect: Nearly 55% of U.S. mortgage holders pay rates below 4%, limiting their incentive to move in a higher-rate environment. Should interest rates normalize, turnover and remodeling activity may accelerate, providing a catalyst for pro-focused distributors and suppliers.

Meanwhile, some sectors of non-residential construction have been resilient, compared to residential construction. Data centers, industrial facilities, and other large-scale projects are driving robust demand for roofing, insulation, HVAC and electrical products. These secular tailwinds, underpinned by electrification trends and U.S. manufacturing reshoring, provide additional support for distributors seeking greater scale and reach.

Investment Implications

For investors, this wave of consolidation highlights important considerations around capital allocation, competitive moats and valuation. Acquisitions in building products distribution often carry strategic logic — expanding geographic reach, deepening exposure to the pro channel and improving purchasing leverage. However, they also introduce risks, particularly where premiums are high or integration challenges loom.

At Westwood, we view M&A activity not simply as a binary positive or negative, but through a lens of capital discipline and long-term value creation. We assess whether transactions are likely to generate sustainable free cash flow, enhance return on invested capital and strengthen competitive positioning — or conversely, whether they risk value destruction through overleveraging or overpaying. Differentiating between accretive and dilutive deals is central to our investment discipline.

Our research-driven process emphasizes valuation discipline, downside risk management, and a clear focus on companies that can compound value across cycles. Consolidation in the building products industry illustrates the broader opportunity set for active managers: Periods of structural change often create inefficiencies, mispricing and dispersion in outcomes that can be exploited through careful security selection.

In our view, the recent activity across the sector is a timely reminder of why active management remains critical. While scale and consolidation can create long-term winners, not all acquirers will generate value for shareholders. By focusing on balance sheet resilience, cash flow durability and

capital allocation quality, we aim to identify those companies most likely to emerge stronger as the industry evolves — delivering excess return for investors seeking both alpha and risk control.

Disclosure

As of September 30, 2025, Westwood held a position in the following securities mentioned above: Home Depot, Inc. (HD), Lowe’s Cos. Inc. (LOW), and XPO Inc. (XPO). Holdings are subject to change without notice.