Building Products

3Q23 preview: 2024 is what matters, and consensus is too high; Lower POs/EPS

Price Objective Change

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Rafe Jadrosich
Research Analyst
BofAS
+1 646 855 5815
rafe.jadrosich@bofa.com

Shaun Calnan, CFA
Research Analyst
BofAS
+1 646 855 1362
shaun.calnan@bofa.com

2024 is what matters, and consensus is too high (again)

We expect in-line 3Q23 earnings for most building products manufacturers vs. conservative guidance but see growing risks to 2024 earnings from the deteriorating macro outlook and higher interest rates. On average across our building products coverage, we lower 2023/2024E EPS by 1%/5% and price objectives by average 10%. We continue to prefer companies with more exposure to new construction vs. repair & remodel (R&R). Our top picks are TopBuild (BLD) and Owens Corning (OC).

3Q will be a good read on underlying R&R demand

The last three years have been exceptionally volatile for building products R&R revenue as the post-COVID spike in demand was followed with supply chain disruptions and massive price hikes. End market demand normalized in late 2022 and 2023, but elevated project backlogs and channel destocking have made it difficult to gauge the underlying trends. We believe 2H23 will be more representative of the new normal. With that in mind, consensus estimates are anticipating a better-than-normal growth trend in 1H24 compared to 2H23. We are skeptical given the deteriorating macro backdrop. On average, we model building product 2024 estimates 4% below consensus.

3Q23 industry trends and outlook

Repair & remodel (R&R) trends slowed in 3Q: Our channel checks with dealers/pro contractors indicate renovation demand continues to decline YoY and moderated sequentially in 3Q vs. 2Q due to higher rates, weak existing home sales (impacts turnover related home improvement) and a broader slowdown in consumer spending (See Monthly building products spending snapshot: trends slow in 3Q/September).

New construction improved but could slow going forward: Housing starts were flat YoY in 3Q with single-family starts inflecting positive for the first quarter since 1Q22. We expect single-family housing starts to grow 10% YoY in 4Q23 and 6% in 2024, which will be partially offset by a significant decline in multi-family starts. (See our recent report: Builder confidence continues fall, but single-family starts holding up).

Destocking likely done: Channel destocking started in 2H22 across multiple building products categories but is now likely complete. We expect distributors, retailers, and dealers will likely maintain lean inventory levels going forward given higher carrying costs, macro uncertainty and shorter lead times.

Pricing is resilient but expect fewer hikes: Pricing has held in most categories Flooring is the only category with aggressive price competition due import competition in luxury vinyl tile and ceramics. Channel checks indicate some trade down in interior products (cabinets, flooring, fixtures). We expect a return to the normal pricing cadence in 2024 (fewer and smaller price hikes).

Input costs are mixed, some production cuts: Energy (oil, natural gas) prices have increased, while most material costs are declining. There were some production curtailments in flooring and insulation (maintenance) in 3Q. Building product companies already adjusted their production levels in 4Q22-1H23.

Exhibit 1: Price objectives

We are lowering POs ~10% on avg

Building Products	New PO	Old PO
AWI	$87	$87
BLD	$319	$340
FBIN	$60	$66
MAS	$51	$59
MHK	$88	$110
OC	$154	$165
Outdoor Living	**New PO**	**Old PO**
HAYW	$11	$11
AZEK	$32	$37
TREX	$68	$82

Source: BofA Global Research

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Key changes to estimates and POs

Exhibit 2: BofA estimates vs. consensus

Our estimates are below consensus for most building products companies

Building Products	New CY 2023E	Old CY 2023E	Consensus CY 2023E	New vs. Old	New vs. Consensus	New CY 2024E	Old CY 2024E	Consensus CY 2024E	New vs. Old	New vs. Consensus
AWI	4.92	4.92	4.91	0%	0%	5.43	5.43	5.39	0%	1%
BLD	18.52	18.74	18.49	-1%	0%	20.32	20.62	19.78	-1%	3%
FBIN	3.88	3.91	3.85	-1%	1%	4.60	4.77	4.44	-4%	4%
MAS	3.54	3.54	3.61	0%	-2%	3.74	4.14	3.97	-10%	-6%
MHK	8.90	9.17	9.27	-3%	-4%	9.70	10.98	11.08	-12%	-12%
OC	13.65	13.73	13.71	-1%	0%	13.77	13.72	14.01	0%	-2%
Average				**-1%**	**-1%**				**-4%**	**-2%**
Outdoor Living	**New CY 2023E**	**Old CY 2023E**	**Consensus CY 2023E**	**New vs. Old**	**New vs. Consensus**	**New CY 2024E**	**Old CY 2024E**	**Consensus CY 2024E**	**New vs. Old**	**New vs. Consensus**
HAYW	0.59	0.59	0.60	0%	-2%	0.69	0.69	0.75	0%	-7%
AZEK	0.81	0.81	0.84	0%	-4%	0.97	1.09	1.03	-11%	-6%
TREX	1.83	1.83	1.77	0%	4%	2.12	2.22	2.14	-5%	-1%
Average				**0%**	**-1%**				**-5%**	**-5%**

Note: AZEK is September year-end. We compare calendar estimates in this table

Source: BofA Global Research estimates, Bloomberg

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Exhibit 3: Ratings and price objectives

We are lowering price objectives for most building products companies

Building Products	Rating	New PO	Old PO	New Multiple (2024 EV/EBITDA)	Old Multiple (2024 EV/EBITDA)
AWI	Buy	$87	$87	10.0	10.0
BLD	Buy	$319	$340	10.0	10.5
FBIN	Underperform	$60	$66	10.0	10.5
MAS	Underperform	$51	$59	9.5	10.0
MHK	Underperform	$88	$110	5.2	5.5
OC	Buy	$154	$165	7.0	7.5

Outdoor Living	Rating	New PO	Old PO	New Multiple (2024 EV/EBITDA)	Old Multiple (2024 EV/EBITDA)
HAYW	Underperform	$11	$11	11.0	11.0
AZEK	Buy	$32	$37	15.0	16.0
TREX	Buy	$68	$82	20.0	23.0

Source: BofA Global Research

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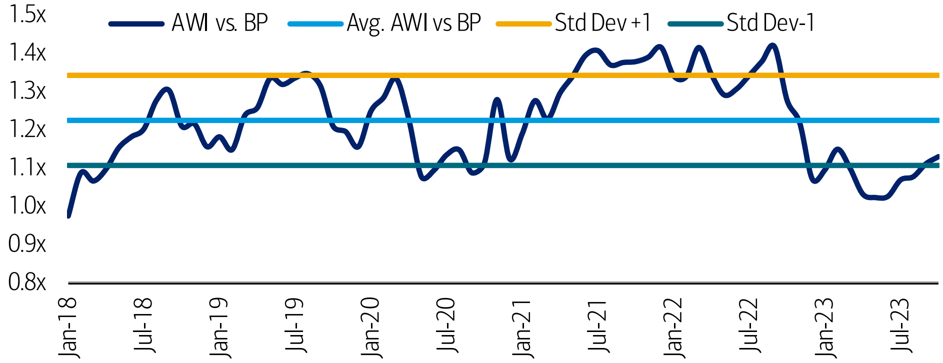
Building Products company preview

Armstrong (AWI): maintain Buy; $87 PO

Maintain estimates and PO; expect in-line 3Q with focus on pricing and volume

We maintain our 2023/2024E estimates and $87 PO. We think 3Q23 is generally on track with the guidance AWI provided last quarter. Investor focus for 3Q earnings will be the project backlog (given higher rates) and price realization from the 3Q price hike. Despite a challenging office/non-res construction backdrop and lingering inflation, AWI is one of few building products companies poised to grow earnings YoY in 2023. We maintain our Buy rating on attractive valuation vs. history.

Exhibit 4: AWI forward EV/EBITDA relative to building products peers
AWI is trading below its historical average relative to the peer group



Source: Bloomberg
Note: Peers include MHK, AWI, FBIN, MAS, and OC; Data through October 17, 2023

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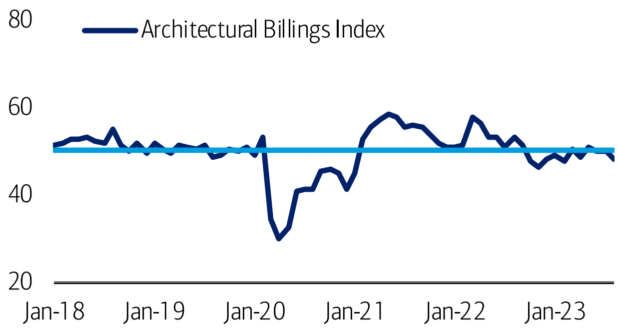
Exhibit 5: Architectural Billings Index (non-resi construction activity)
ABI fell below 50 in August



Source: AIA
Note: a score below 50 indicates declining billings; Date through Aug 2023

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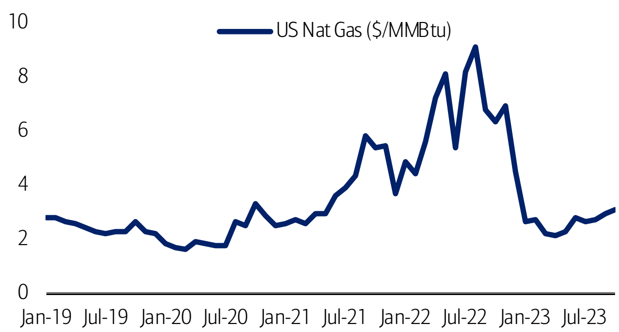
Exhibit 6: US natural gas futures
Lower natural gas prices could be a tailwind to margins in 2023/2024



Source: Bloomberg
Note: Data through October 17, 2023

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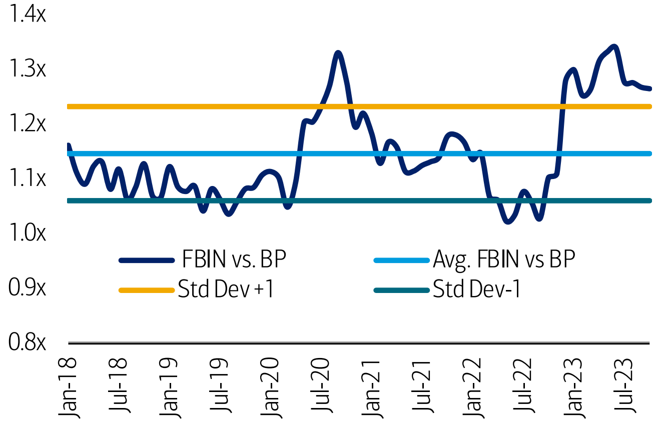
Fortune (FBIN): Reiterate Underperform; $60 PO

Lower estimates to reflect a slowdown in R&R and higher rates

We lower our 2023/2024E estimates by 1%/4% and lower our PO to $60 (from $66), now based on a 10x 2024 EBITDA (vs. previous 10.5x) to reflect lower sector multiples and higher interest rates. We lower our estimates to reflect: 1) a slowdown in R&R spending, 2) higher interest rates, weighing on the new construction outlook and 3) weaker than expected composite decking sales. We reiterate our Underperform rating primarily based on valuation. We see more upside in other building product stocks in our coverage universe that trade on inexpensive valuation multiples.

Exhibit 7: FBIN forward EV/EBITDA relative to building products peers
FBIN is above its historical average relative to the peer group post spin



Source: Bloomberg
Data through July 19, 2023

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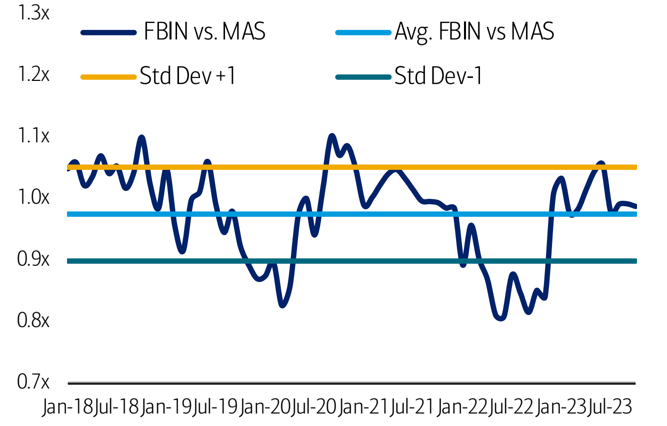
Exhibit 8: FBIN forward EV/EBITDA relative to MAS
FBIN now trades roughly in line with Masco



Source: Bloomberg
Data through July 19, 2023

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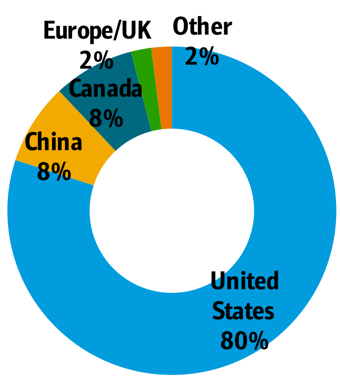
Exhibit 9: FBIN 2022 sales by country
20% of sales come from outside the US



Source: Company reports

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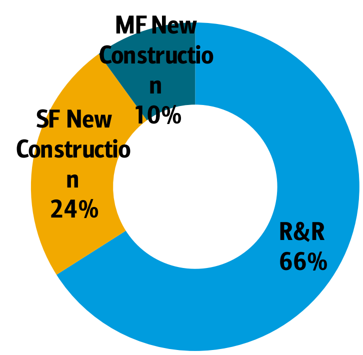
Exhibit 10: 2022 FBIN North America products by channel
66% exposure to repair and remodel



Source: Company reports

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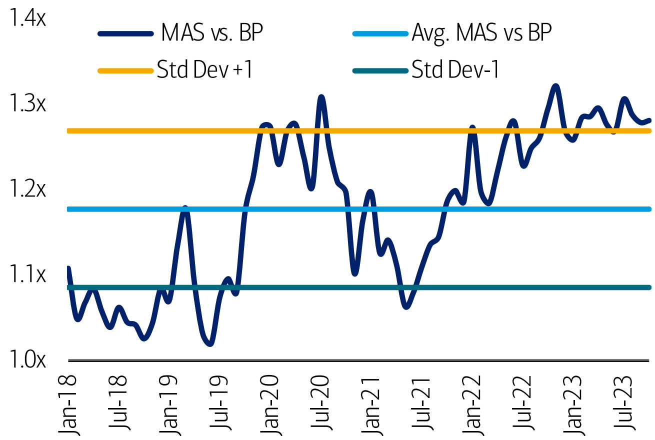
Masco (MAS): reiterate Underperform; $51 PO

Lower estimates to reflect a slowdown in R&R and low existing home turnover

We maintain our 2023E estimate but lower our 2024 estimate by 10% and lower our PO to $51 (from $59), now based on a 9.5x 2024 EBITDA (vs. previous 10x) on a weaker earnings outlook. Our lower estimates reflect a slowdown in R&R spending (see: Homebuilders and Building Products: Monthly building products spending snapshot: trends slow in 3Q/September 12 October 2023) and lower existing home turnover. We reiterate our Underperform rating based on valuation and slowing R&R spend. While 2023 guidance is conservative, we see risk to 2024 estimates and expect Masco to underperform given: 1) MAS generates 90% of sales from repair and remodel (R&R) and sell-out trends continue to decline against tough comparisons, 2) we expect depressed existing home turnover to continue to pressure R&R through 2H23, 3) Europe (15% of EBIT) recently and the macro backdrop remains challenging, and 4) MAS trades at a premium to its historical valuation vs. peers.

Exhibit 11: MAS forward EV/EBITDA relative to building products peers
MAS is trading above its historical average relative to the peer group



Source: Bloomberg
Data through October 17, 2023

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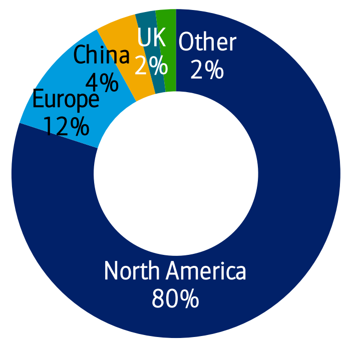
Exhibit 12: MAS 2022 revenues by geography
20% of sales come from outside North America



Source: Company reports

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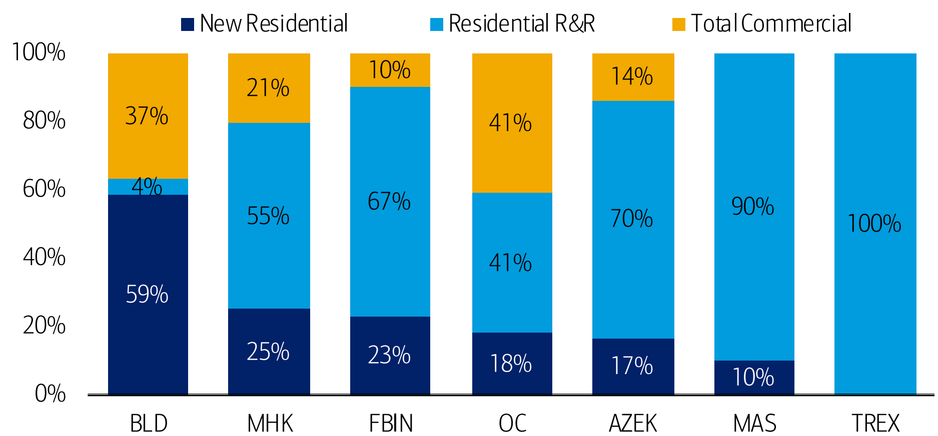
Exhibit 13: Building products residential and commercial exposure
BLD, MHK and FBIN have the highest exposure to new residential construction



Source: BofA Global Research estimates, company reports
Excludes AWI which has just 4% to the residential space

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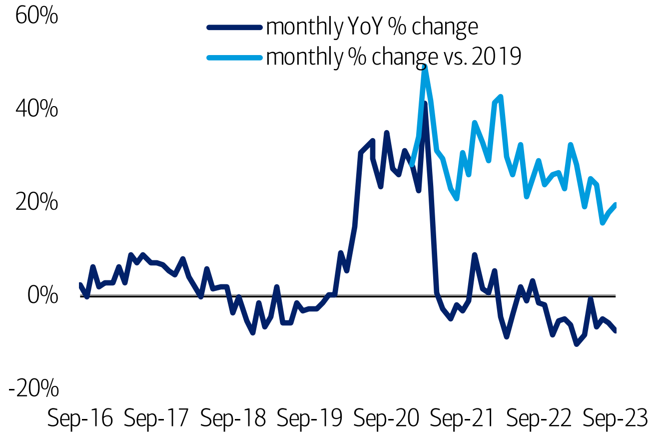
3Q home improvement trends weakened vs. 2Q on a YoY basis

For the month of September, spending at home improvement retailers (a proxy for do-it-yourself spending) fell (7.4%) YoY (+19% compared to September 2019) vs. a (5.7%) YoY decline in August, per BAC aggregated credit and debit card data (BAC card data). 3Q23 BAC card spending on the category declined (5.9%) YoY vs. a (4.9%) YoY decrease in 2Q23. See the latest BofA on USA note for an explanation of the methodology, disclaimers and limitations of BAC card data. Masco generated 38% of revenue from Home Depot in 2022.

Exhibit 14: Monthly BAC aggregated card data for home improvement spending at retailers (YoY and change vs 2019)
Sep 2023 spending fell 7.4% YoY, but increased 19.5% vs. Sep 2019



Source: BAC internal data

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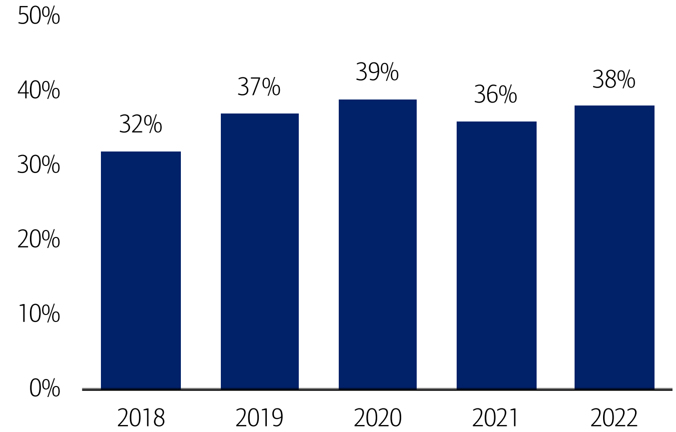
Exhibit 15: Exposure to Home Depot
Sales to Home Depot represented 38% in total sales in 2022



Source: Company reports

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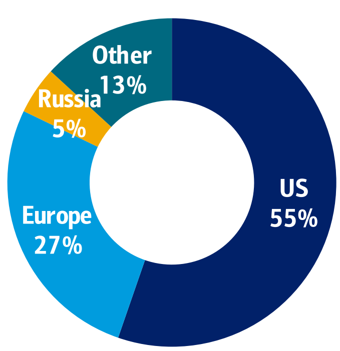
Mohawk (MHK): reiterate Underperform; $88 PO

Lower estimates to reflect weak demand, pricing pressure

We lower our 2023/2024E estimates by 3%/12% and lower our PO to $88 (from $110), now based on 5.2x EV/2024E EBITDA (vs. previous 5.5x) due to lower sector multiples and higher interest rates. Our lower estimates reflect declining flooring demand and weak pricing trends. Our BAC card data showed continued weakness in consumer spending for floor coverings (see: Homebuilders and Building Products: Monthly building products spending snapshot: trends slow in 3Q/September 12 October 2023). We reiterate our Underperform rating given: 1) flooring demand remains weak (see charts below), and 2) we expect most of the improvement in costs will be competed away on price and promotions.

Exhibit 16: MHK 2022 revenues by geography
45% of sales come from outside the US



Source: Company reports

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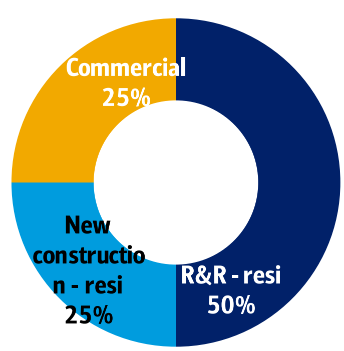
Exhibit 17: MHK revenues by channel
Residential R&R makes up half of revenues



Source: Company reports

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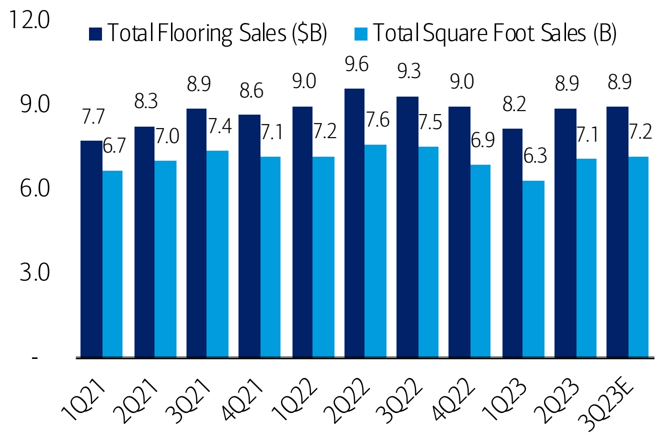
Flooring demand remained weak in 3Q23

For the month of September, spending at floor covering stores was down (11.3%) YoY and fell (7.7%) on a MoM basis (+9.5% vs. September 2019), per BAC card data. 3Q23 BAC card spending on the category decreased (11%) YoY vs. a (13.4%) YoY decrease in 2Q23. 3Q23 card spending on the category decreased (3.1%) QoQ.

Exhibit 18: Flooring industry sales

Flooring volumes have deteriorated YoY over the last four quarters



Source: Catalina Floor Covering

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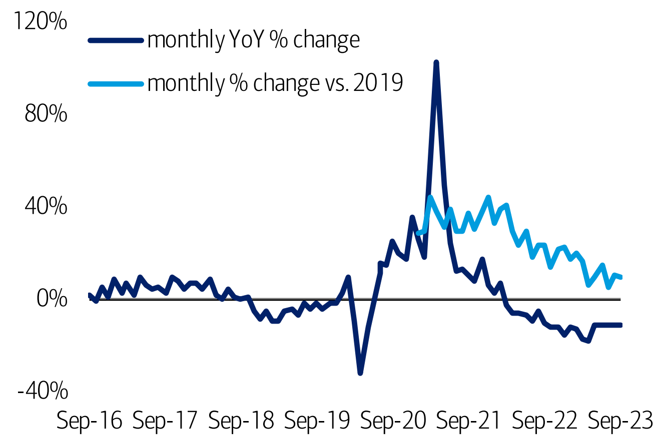
Exhibit 19: Monthly BAC aggregated card data for floor covering spending at retailers (YoY and three-year change)

Retail spending on flooring has been down double digits for 13 months



Source: BAC internal data

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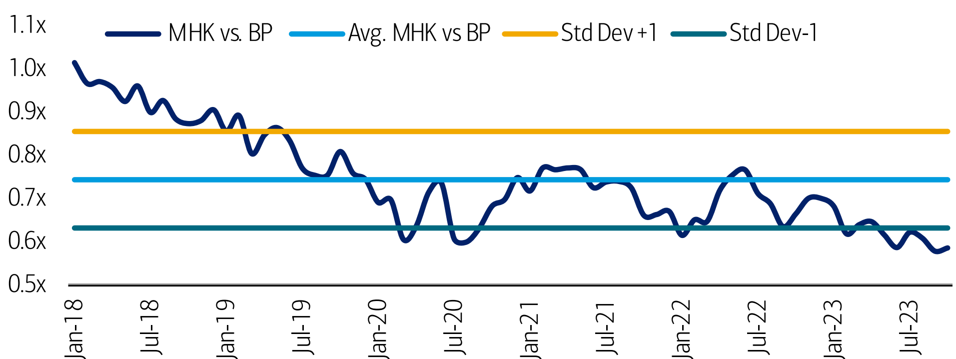
Exhibit 20: MHK Fwd EV/EBITDA relative to building products

MHK is trading below its avg. historical relative valuation



Source: BofA Global research, Bloomberg

Note: Peers include MHK, AWI, FBIN, MAS, and OC; Data through October 17, 2023

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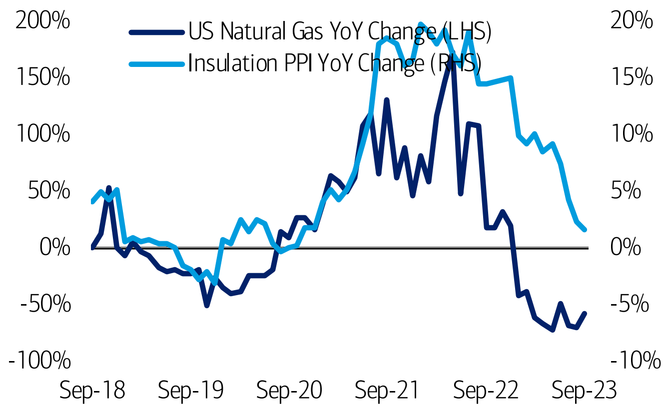
Owens Corning (OC): reiterate Buy; $154 PO

Estimates mostly unchanged with better roofing, lower insulation & composites

Our 2023/2024E EPS estimates are mostly unchanged with better roofing activity, offset by a weaker outlook for insulation and composites. We lower our PO to $154 (from $165), based on 7x 2024 EV/EBITDA (vs. previous 7.5x) to reflect lower sector multiples and higher interest rates. We reiterate our Buy rating to reflect: 1) attractive valuation (>10% free cash flow yield), and 2) potential upside to roofing price and margins in 2024 on channel restocking due to favorable storm demand and lean distributor inventory levels.

Exhibit 21: Nat gas pricing vs. Insulation PPI
Nat gas pricing is down YoY, while Insulation PPI is increasing



Source: Bloomberg, Bureau of Labor Statistics

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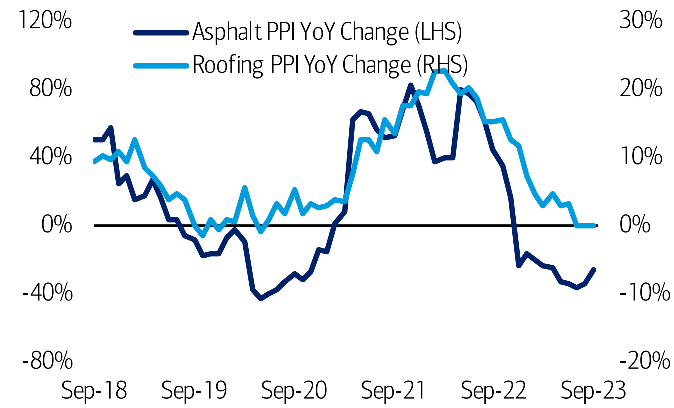
Exhibit 22: Asphalt PPI vs. Roofing PPI
Asphalt PPI is down YoY, while Roofing PPI is increasing



Source: Bloomberg, Bureau of Labor Statistics

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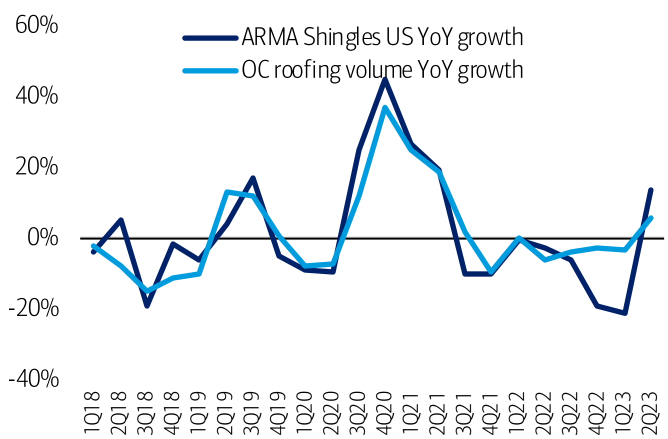
Exhibit 23: ARMA shipments vs. OC roofing volume
ARMA shipments increased 14% YoY in 2Q23



Source: BofA global research estimates, ARMA, company reports

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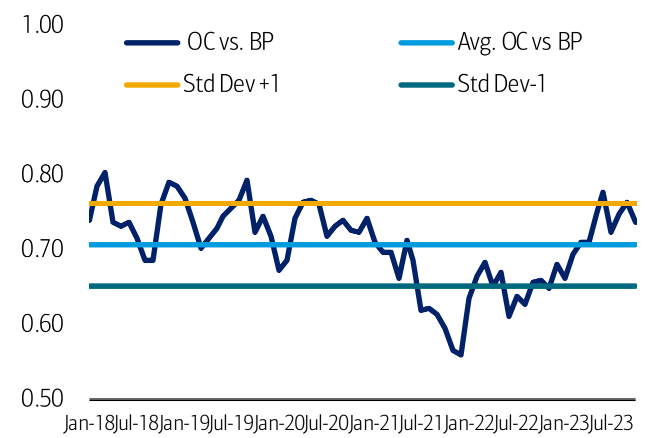
Exhibit 24: OC Fwd EV/EBITDA relative to building products
OC is trading above its avg. historical relative valuation



Source: BofA Global research, Bloomberg
Note: Peers include MHK, AWI, FBIN, MAS, and OC; Data through October 17, 2023

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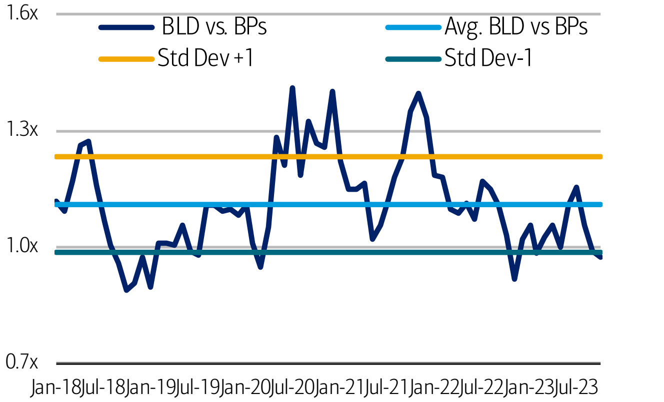
TopBuild (BLD): reiterate Buy; $319 PO

Lower estimates on weakening housing outlook

We lower our 2023/2024E EPS estimates by 1%/1% and lower our PO to $319 (from $340), now based on 10X EV/2024E EBITDA (vs. previous 10.5x) due to lower sector multiples and higher interest rates. Our lower estimates reflect a more conservative housing starts outlook. We reiterate our Buy rating given we still see upside to consensus estimates in 2024 and valuation remains compelling. We also see upside from the Specialty Products & Insulation (SPI) acquisition in 2024 (see: TopBuild Corp: BLD acquires SPI: great strategic fit at a good price; synergies look conservative 28 July 2023).

Exhibit 25: BLD Fwd EV/EBITDA relative to building products
BLD is trading below its avg. historical relative valuation



Source: BofA Global research, Bloomberg
Note: Peers include MHK, AWI, FBIN, MAS, and OC; Data through July 19, 2023
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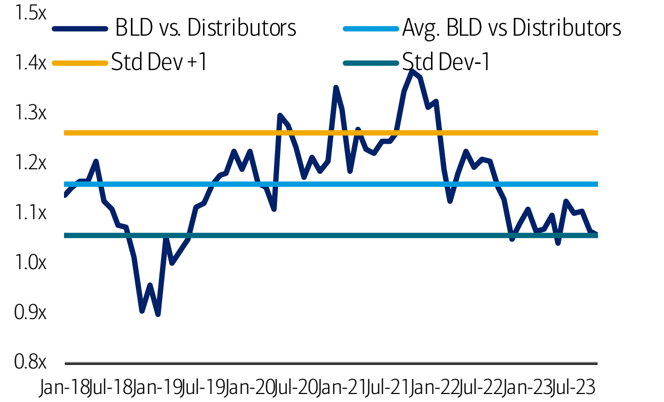
Exhibit 26: BLD Fwd EV/EBITDA relative to distributors
BLD is trading below its avg. historical relative valuation



Source: BofA Global research, Bloomberg
Note: Peers include GMS, BECN, BLDR and IBP; Data through July 19, 2023
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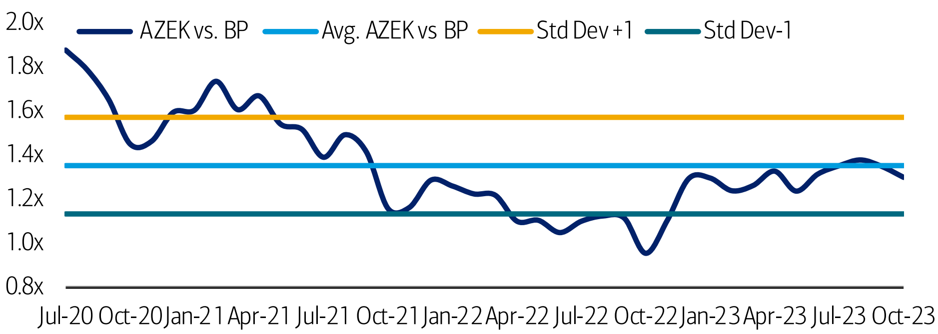
Composite decking companies

AZEK Co. (AZEK): reiterate Buy; $32 PO

Lower C2024 estimate on Vycom sale and more conservative residential outlook

We maintain our C2023E estimate but lower our C2024E estimate by 11% and lower our PO to $32 (from $37), now based on a 15x C2024 EBITDA (vs. previous 16x) to reflect lower sector multiples and higher interest rates. We lower our estimates to reflect the Vycom business sale (expected to be completed November 1st) and more conservative residential outlook given the slowdown in broad R&R trends. We reiterate our Buy rating given: 1) Azek has now cleared through its high cost inventory, 2) margins will continue to benefit from PVC deflation in F1H24, 3) channel inventory is below historical levels, and 4) Azek has long-term margin opportunity from increased use of recycled materials.

Exhibit 27: AZEK forward EV/EBITDA relative to building products peers
AZEK is trading slightly below its historical average relative to the peer group



Source: Bloomberg
Data through October 17, 2023
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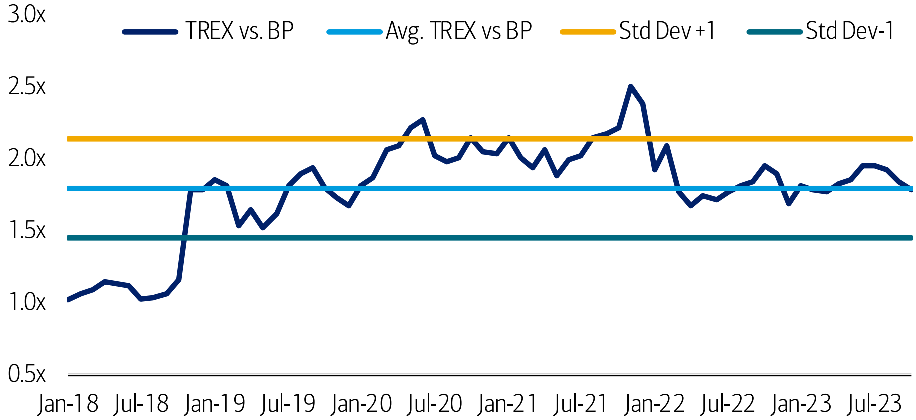
TREX (TREX): reiterate Buy; $68 PO

Lower 2024 estimate on more conservative residential outlook

We maintain our 2023E estimate but lower our 2024E estimate by 5% and lower our PO to $68 (from $82), now based on a 20x 2024 EBITDA (vs. previous 23x) to reflect lower sector multiples and higher interest rates. We lower our 2024 estimate to reflect a more conservative residential outlook given the slowdown in broad R&R trends. We reiterate our Buy rating given: 1) near-term gross margin expansion, 2) meaningful outperformance vs. R&R from ongoing material conversion to composite decking and 3) longer-term revenue opportunities from adjacent categories, especially railing.

Exhibit 28: TREX forward EV/EBITDA relative to building products peers
TREX is trading in line with its historical average relative to the peer group



Source: Bloomberg
Data through October 17, 2023

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Composite decking call:

Sell-out trends moderated in 3Q23, but still growing YoY

We hosted an expert call with George Pattee, current Chairman and former CEO of Parksite. Parksite is a major distributor of building products, including building wrap, decking and railing, exterior doors, kitchen and bath products, lumber and millwork, siding and trim. Parksite sells roughly $300M annually in composite decking and railing per year with the vast majority sourced from AZEK. Parksite is one of AZEK's largest customers. Our key takeaways include:

- **Decking sales growth moderated on a YoY basis in 3Q23**: Parksite's composite decking and railing sales grew slightly YoY in 3Q23 (slightly below expectations from a few months ago). This compares to low-to-mid single digit growth in 2Q23 and flattish YoY growth in 1Q23. Pattee cited lower consumer sentiment, higher interest rates and seasonality as potential drivers of the moderation.

- **Decking sales expected to increase 1-2% in 2023**: Pattee expects decking volume to increase 1-2% YoY, which is healthy, but below prior expectations of 4-5%. Price has been steady with no additional price hike announcements or discounting/rebates.

- **Inventory levels are "perfect"**: Parksite fill-rates are at record levels. Parksite's orders outpaced sales in 2Q as it built inventory for summer/3Q. Sell-in matched sell-through in 3Q and sell-through will outpace sell-in in 4Q, in-line with typical seasonality.

- **Decking early buy should grow YoY**: Parksite will begin taking early buy inventory at the end of 2023 and expects dealers to increase their participation in 1Q24 compared to 1Q23. In 1Q23, dealers bought very conservatively initially and then ordered more product in-season.

- **Decking should grow YoY in 2024 despite macro headwinds**: Pattee expects decking volume to grow in 2024. Pattee noted that composite decking has meaningfully outperformed in prior down cycles due to the material conversion trend and replacement of aging of pressured-treated lumber decks.

- **Overall trends by end market**: Parksite is roughly evenly split between new construction, repair & remodel (R&R) and commercial. By end market, Pattee has not seen a slowdown in the pace of new residential construction despite the increase in rates. Pattee is positive on long-term R&R opportunity, but trends have moderated recently, and 2024 growth will depend on the macro outlook. Commercial has slowed recently, which will likely worsen into 2024.

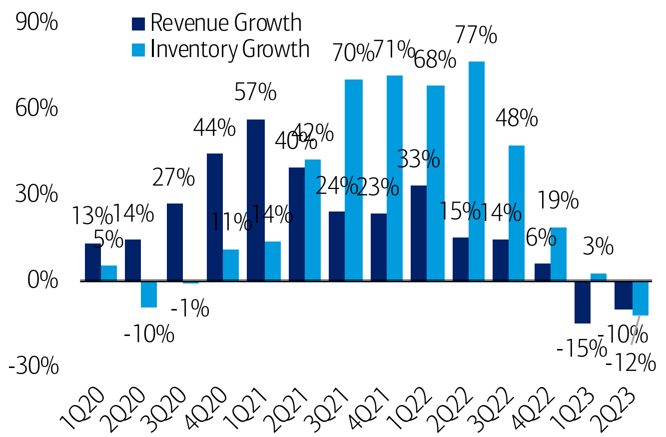
Pool equipment

Hayward (HAYW): maintain Underperform; $11 PO

Maintain 2023/2024 estimates and PO

We maintain our 2023/2024E estimates and $11 PO. While pool demand improved in 3Q, on warmer weather, we expect a weaker macro environment to weigh on demand in 4Q23 and 2024 (Homebuilders and Building Products: September pool spending and composite decking search trend update 13 October 2023). We maintain our Underperform rating to reflect: 1) tough comparisons following two years of exceptionally high growth, 2) macro headwinds, especially in international markets (~28% of sales) and 3) potential share loss to Pentair and Fluidra as supply chains normalize.

Exhibit 29: POOL (~35% of HAYW sales) revenue vs inventory growth
POOL has been destocking inventory in 2023



Source: Company reports

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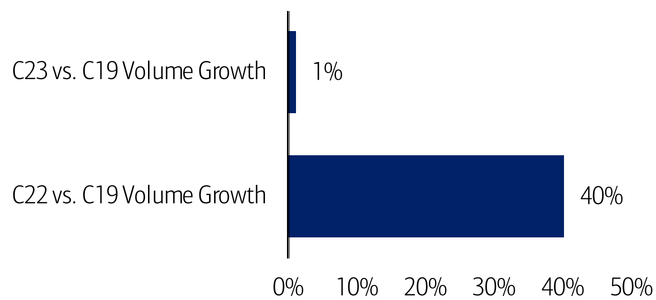
Exhibit 30: Estimated HAYW volume growth vs 2019
We expect volume to return to 2019 levels in 2023



Source: Company reports, BofA Global research estimates

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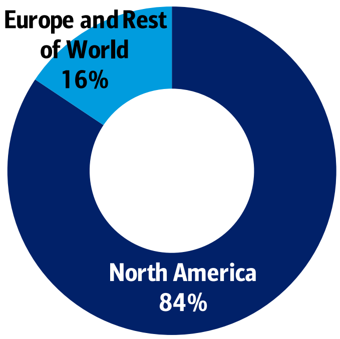
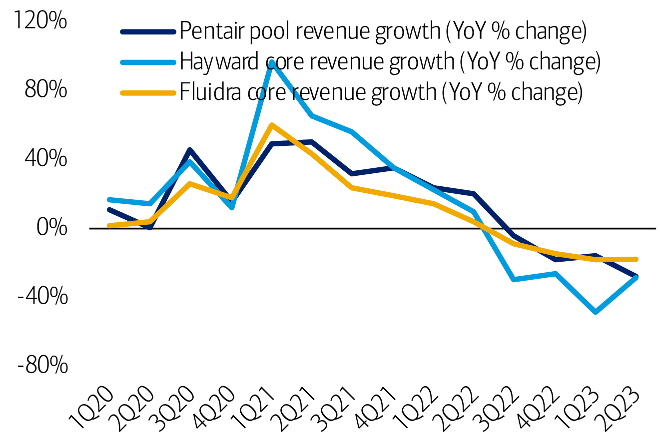
Exhibit 31: HAYW 2022 revenues by geography
16% of sales come from outside North America



Source: Company reports
BofA GLOBAL RESEARCH

Exhibit 32: Pool equipment manufacturer revenue growth
Hayward gained share from competitors in 2021



Source: Company reports
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Methodology explained

Readers should be aware that although the BAC datasets utilized in our analysis represent a significant number of data points, they nevertheless present a degree of selection bias, including but not limited to income levels and geographies. In addition, the data is limited to debit and credit cards and does not include other payment methods such as cash or checks.

Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

BAC data used in this report include spending from active US households only. Spending from corporate cards are excluded.

Additional information about the methodology used to aggregate the data is available upon request.

Exhibit 33: Stocks mentioned
Rating and price summary

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AWI	AWI US	Armstrong World	US$ 70.4	B-1-7
FBIN	FBIN US	Fortune Brands Inc	US$ 58.74	B-3-7
HAYW	HAYW US	Hayward Holdings	US$ 12.55	C-3-9
MAS	MAS US	Masco Corp	US$ 50.79	B-3-7
MHK	MHK US	Mohawk Industries	US$ 81.13	B-3-9
OC	OC US	Owens Corning	US$ 123.53	B-1-7
AZEK	AZEK US	The AZEK Company	US$ 26.6	C-1-9

Exhibit 33: Stocks mentioned
Rating and price summary

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BLD	BLD US	TopBuild	US$ 229.77	B-1-9
TREX	TREX US	Trex Company, Inc.	US$ 56.28	C-1-9

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Armstrong World Industries, Inc. (AWI)

Our $87 PO for AWI shares is based on a 2024E adjusted EV/EBITDA multiple of roughly 10.0x, implying a 2024E P/E multiple of roughly 16x, a premium to AWI's historical average to reflect the improving commercial spending outlook and price increases. We view AWI as among the best positioned, most resilient companies in our coverage through-out a cycle.

Downside risks: 1) weaker than anticipated commercial construction activity, 2) slower than forecast share repurchases, 3) weaker than expected economic growth in North America, 4) a resurgence in COVID-19 outbreaks that leads to another round of construction market closures, 5) slower than expected return to the office, 6) less municipal spending dedicated to non-residential R&R.

Upside risks: 1) stronger than anticipated recovery in commercial construction, 2) faster than expected recovery in mineral fiber AUV, 3) stronger than expected economic growth in North America, 4) an unexpected decline in COVID-19 cases, 5) faster than expected return to the office, 6) strong municipal spending on R&R for schools and other projects.

Fortune Brands Innovations Inc (FBIN)

Our $60 PO for FBIN shares is based on a 2024E adjusted EV/EBITDA multiple of roughly 10x. At 10x adjusted EV/EBITDA, FBIN would trade near the mid-point of its historical valuation range.

Downside risks to our PO are: 1) slowing in the residential R&R market, 2) failure to successfully integrate acquisitions, 3) failure to meet long term outlook, 4) pricing pressure from large customers, 5) greater than expected input cost inflation, 6) rising interest rates increasing the cost of home equity loans, 7) tariffs on imported goods, 8) slowing US economy.

Upside risks to our PO are: 1) acceleration in the residential R&R market, 2), relief on Chinese tariffs, 3) portfolio rationalization, 4) faster than expected Cabinet business restructuring, 5) greater than expected declines in raw material costs.

Hayward Holdings, Inc. (HAYW)

Our $11 PO for HAYW shares is based on a 2024e adjusted EV/EBITDA multiple of roughly 11x. In determining the adjusted EV/EBITDA multiple underlying our PO on HAYW shares, we considered current valuation multiples for pool equipment manufacturing competitors and other pool and outdoor living related companies. We believe Hayward should trade at a slight premium to pool peers given its share gain trends in the pool segment.

Upside risks are: 1) a faster than anticipated rebound in pool demand, 2) market share gains, 3) favorable demographics, 4) a more favorable economic backdrop with lower interest rates, and 5) continued elevated price increases.

Downside risks are: 1) higher financial leverage than many building product peers, 2) real/perceived COVID-beneficiaries could lag as economy re-opens, 3) international expansion could negatively impact margins and valuation multiple, 4) effectiveness of Omni app to drive sales remains unclear, 5) rising interest rates could make financing pools more expensive.

Masco Corp (MAS)
Our $51 PO for MAS shares is based on a 2024E adjusted EV/EBITDA multiple of roughly 9.5x. At 9.5x adjusted EV/EBITDA, MAS would trade near the mid-point of its recent valuation range.

Downside risks to our PO are: 1) slowing in the residential R&R market, 2) larger than expected declines in paint sales/margins, 3) pricing pressure from large customers, 4) greater than expected input cost inflation, 5) rising interest rates increasing the cost of home equity loans, and 6) slowing US economy.

Upside risks to our PO are: 1) stronger spend in residential R&R market, 2) decline in input costs, 3) declining interest rates and 4) improved DIY paint trends.

Mohawk Industries (MHK)
Our $88 PO for MHK shares is based on 5.2x 2024E EV/EBITDA. At 5.2x 2024e adjusted EV/EBITDA, MHK would trade at the low-end of its 3-year historical average, which we view as appropriate given the a slowdown in near-term revenue growth due to capacity constraints, weakening demand and a recent surge in raw material costs.

Downside risks to our PO are: 1) accelerating execution challenges, 2) greater than expected negative impact from the industry mix-down to lower-value-add products, 3) slowdown in residential new construction, 4) economic slowdown in Europe, 5) political uncertainty in Mexico, 6) slowdown in the resi R&R market, 7) slowdown in commercial construction, 8) continued structural decline in carpeting, 9) capacity additions present risk, 10) rising interest rates increasing the cost of home equity loans, 11) additional loss of patent income, 12) slowdown in acquisitions, 13) slowing global economic growth.

Upside risks to our PO are: 1) more rapid than expected improvement in execution, 2) industry mix improvement, 3) stronger than expected new construction and R&R markets in the US, 4) stronger than expected economic growth in Europe, 5) stabilization in the Mexican political environment, 6) increased carpet demand, 7) smoother execution with capacity additions, 8) lower than expected interest rates, 9) resumption of accretive acquisitions.

Owens Corning (OC)
Our PO for OC is $154. Our PO is based on 7x 2024E EV/EBITDA, in line with Owens Corning's historical average and roughly in line with OC's historical discount to the group to the current peer group average. We believe that a multiple in the middle of OC's historical range is appropriate given positive demand and pricing trends but some input cost pressure and capacity constraints.

Downside risks: 1) further input cost pressure, 2) softer-than-expected new construction and repair and remodel trends in the US, 3) slower-than-expected GDP growth in key regions, 4) deceleration in industrial production, 5) further competitor capacity additions in the insulation industry, 6) inability to successfully integrate acquisitions, 7) slowing global growth.

Upside risks: 1) stronger than-expected new construction and repair and remodel trends in the US, 2) upside to GDP growth in key regions and global industrial production, 3) better-than-forecast capacity utilization, particularly in Insulation, 4) stronger-than-expected pricing power.

The AZEK Company Inc. (AZEK)
Our $32 PO for AZEK shares is based on a CY2024E EV/EBITDA multiple of 15x, which implies Azek trades in line with its historical discount to key peer Trex. We believe a discount to TREX is appropriate given AZEK's lower return on invested capital, margins and brand recognition.

Upside risks to our PO: 1) an acceleration in residential repair & remodeling and outdoor living spending, 2) a faster than expected conversion from wood decks to composite decks, 3) faster than expected share gain, 4) continued consumer preference towards enhancing the overall outdoor living space, and 5) faster than expected transition to recycled materials.

Downside risks to our PO: 1) a slowdown in residential repair & remodeling spending, 2) a slower than expected conversion from wood decks to composite decks, 3) potential market share loss, 4) a mix shift in consumer preferences away from outdoor living and 5) a slowing US economy.

TopBuild Corp (BLD)
Our $319 PO is based on a 10x EV/2024E EBITDA multiple, in line with its average from 2017-2023. We think BLD's valuation will trade more in-line with its historical valuation as housing starts recover.

Upside risks to our PO: 1) faster than expected recovery in new home starts, 2) further residential market share gains through organic growth and M&A, 3) continued strength in the commercial/industrial market, 4) continued price increases on insulation products. Downside risks: 1) a downturn in the housing market leading to less starts, 2) deflation in insulation products leading to weaker revenue growth and margin pressure, 3) a broad pullback in commercial/industrial activity.

Trex Company, Inc. (TREX)
Our $68 PO is based on a 20X 2024E EV/EBITDA multiple, which is roughly in-line with TREX's trailing 5-year average. We believe EV/EBITDA is the most appropriate metric for valuing the building product companies.

Upside risks to our PO: 1) an acceleration in residential repair & remodeling and outdoor living spending, 2) a faster than expected conversion from wood decks to composite decks, 3) faster than expected share gains, 4) stronger than anticipated pricing, and 5) continued consumer preference towards enhancing the overall outdoor living space.

Downside risks to our PO: 1) a slowdown in residential repair & remodeling spending, 2) a slower than expected conversion from wood decks to composite decks, 3) market share loss, 4) a mix shift in consumer preferences away from outdoor living, 5) a slowing US economy and 6) rising interest rates.

Analyst Certification

I, Rafe Jadrosich, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Homebuilders and Building Products Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Armstrong World Industries, Inc.	AWI	AWI US	Rafe Jadrosich
	D.R. Horton, Inc.	DHI	DHI US	Rafe Jadrosich
	Latham Group, Inc.	SWIM	SWIM US	Shaun Calnan, CFA
	NVR, Inc.	NVR	NVR US	Rafe Jadrosich
	Owens Corning	OC	OC US	Rafe Jadrosich
	PulteGroup Inc.	PHM	PHM US	Rafe Jadrosich
	The AZEK Company Inc.	AZEK	AZEK US	Rafe Jadrosich
	Toll Brothers, Inc.	TOL	TOL US	Rafe Jadrosich
	TopBuild Corp	BLD	BLD US	Rafe Jadrosich
	Trex Company, Inc.	TREX	TREX US	Rafe Jadrosich
NEUTRAL				
	Dream Finders Homes, Inc.	DFH	DFH US	Rafe Jadrosich
	KB Home	KBH	KBH US	Rafe Jadrosich
	Lennar Corporation	LEN	LEN US	Rafe Jadrosich
UNDERPERFORM				
	Fortune Brands Innovations Inc	FBIN	FBIN US	Rafe Jadrosich
	Hayward Holdings, Inc.	HAYW	HAYW US	Rafe Jadrosich
	Masco Corp	MAS	MAS US	Rafe Jadrosich
	Mohawk Industries	MHK	MHK US	Rafe Jadrosich
	Patrick Industries, Inc.	PATK	PATK US	Rafe Jadrosich
	Pool Corporation	POOL	POOL US	Shaun Calnan, CFA

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Building Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	41	47.67%	Buy	23	56.10%
Hold	14	16.28%	Hold	8	57.14%
Sell	31	36.05%	Sell	9	29.03%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster [R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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