



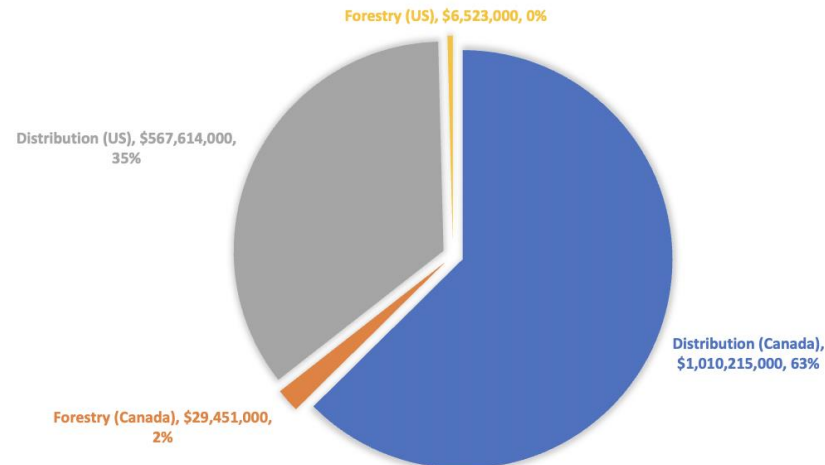
Doman Building Materials Group (TSE: DBM)

Company Overview

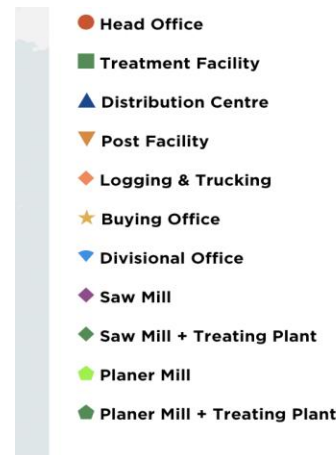
Company Description

- **Business Model:** Doman Building Materials Group Ltd is one of North America's largest producer of lumber products with 32 operating plants. It also distributes and produces a wide range of building materials, lumber, and renovation products. This company currently owns approximately 117,000 acres of private timberlands, strategic Crown licenses and tenures, log harvesting and truck operations, several post and pole peeling facilities, and two pressure-treated specialty wood production plants.
- **Divisions:**
 - **Canada:** CanWel Building Materials, CanWel Treating Division, CanWel Fibre Division
 - **US:** California Cascade, Honsador, Hixson Lumber Company (newly acquired June 4, 2021), Lignum Forest Products
- **Recent Acquisitions & Expansion Plans:**
 - Acquired Hixson Lumber Company on June 4, 2021 (19 treating plants, 2 specialty planning mills, 5 specialty sawmills in Central US). Strong complementary fit, little to no overlap of current lumber geographic coverage.
 - Acquired Fontana Wholesale Lumber and Wood Preserving (Lumber pressure treating plant) on June 22, 2021 – to join California Cascade facility

Revenue by Business Segments



Revenue Growth by Segment



Company Overview



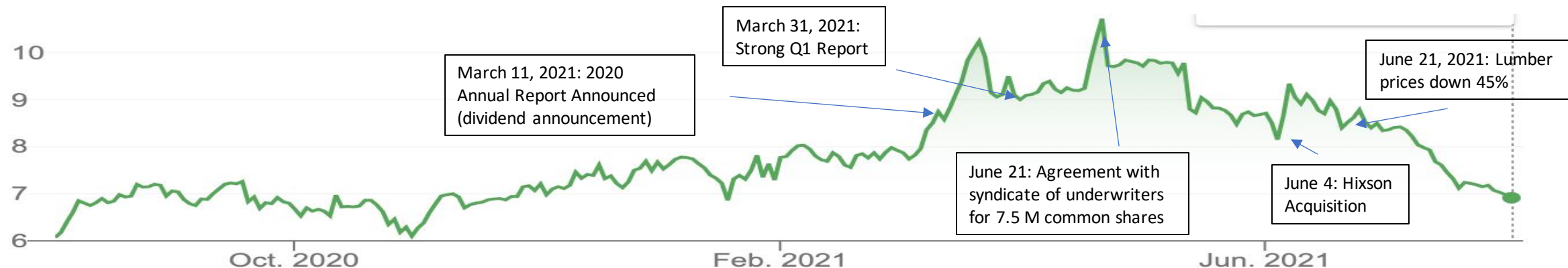
Key Financials

- Share Price: \$7.11
- Market Cap: \$616.36 M
- P/B: 1.49
- P/E: 4.48
- Dividend Yield: 6.96%
- EV: \$1.05 B
- Revenue LTM: \$1.81B
- Gross Profit Margin: 7.83%
- Profit Margin: 5.14%
- Debt to Equity: 142.91
- Historical Beta: 1.67

Management

Name	Position	Background
Amar Doman (May 2010 – Present)	Chairman & CEO	Amar holds 25+ years of experience in building materials, specialty lumber and re-manufacturing industries, and in public and private investments. He is also the founder and sole shareholder of The Futura Corporation.
Marc Seguin (June 2011 – Present)	President	Joined CanWel as a GM in 2006. Appointed President in year 2011. Previous experiences include GM at a leading provider of specialized lamination products for interior decoration.
James Code (Dec. 2011 – Present)	CFO	Joined CanWel as a corporate controller in December 2009, appointed CFO in 2011. Brings 20+ years of diversified financial leadership to the Corporation. Previously held 2 CFO positions. Qualified Chartered Accountant in 1990 whilst working at EY.

Performance YTD



Investment Thesis #1: Prices of Lumber

Details

- Highly volatile lumber prices over the past 2 years
- Experienced significant increases in the second half of 2020 and during first quarter of 2021 (supply and demand)
 - Low supply – production reduction by major players early in 2020
 - High demand – strong home construction activity and repair and remodel market
- Experienced major lumber price fall from \$1500 to \$550 within 3 months as consumers viewed high lumber prices
- Stock price may be inflated for 1st quarter

Lumber Prices in the Market



Lumber Product Offerings by Doman Building Materials Group

(in Canadian \$)	2021		2020		2019			
	31 - Mar	31 - Dec	30 - Sep	30 - Jun	31 - Mar	31 - Dec	30 - Sep	30 - Jun
Lumber	1,329	914	1,025	540	558	538	509	480
Plywood	1,041	784	677	470	438	421	452	454
OSB	1,150	845	705	363	343	271	258	262

Per thousand board ft.

Investment Thesis #2: Debt & Equity Finance Restructuring

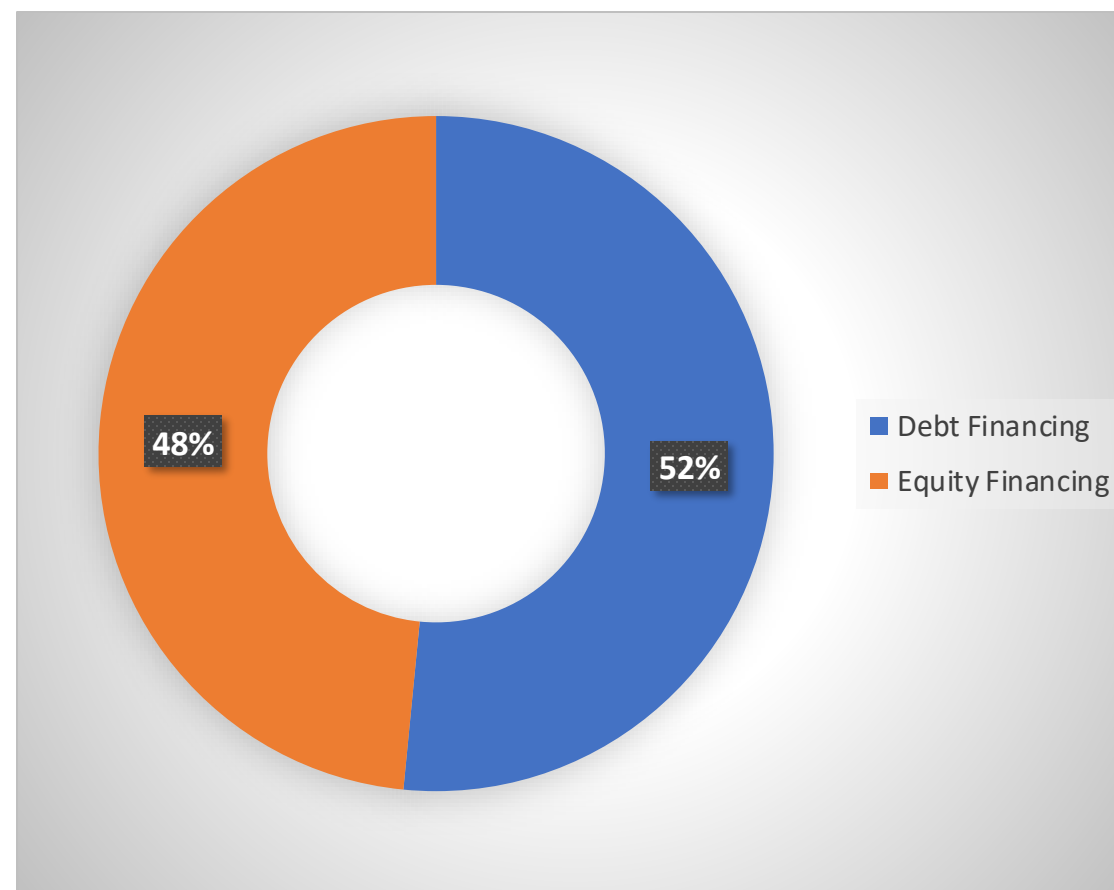
Debt Financing

- **May 10, 2021: Restructured Debt Financing**
- Sell \$325 million in senior unsecured notes to pay off \$300.8 million in debt (5.25% interest rate per annum) maturing May 15, 2026
 - Additional funds for working capital, general corporate purposes and funding of potential acquisitions in the short-term

Equity Financing

- **May 11, 2021: Restructuring Equity Financing**
- Closed its previously announced bought deal offer of 8,625,000 common shares of the company @ \$10
 - Funds will be used to reduce company's existing loans and borrowings
 - Opportunity to provide the firm with available capital for future acquisitions and other growth investments

Debt & Equity Structure



Investment Thesis #3: Home Renovation & Production Reduction



Rising Demand

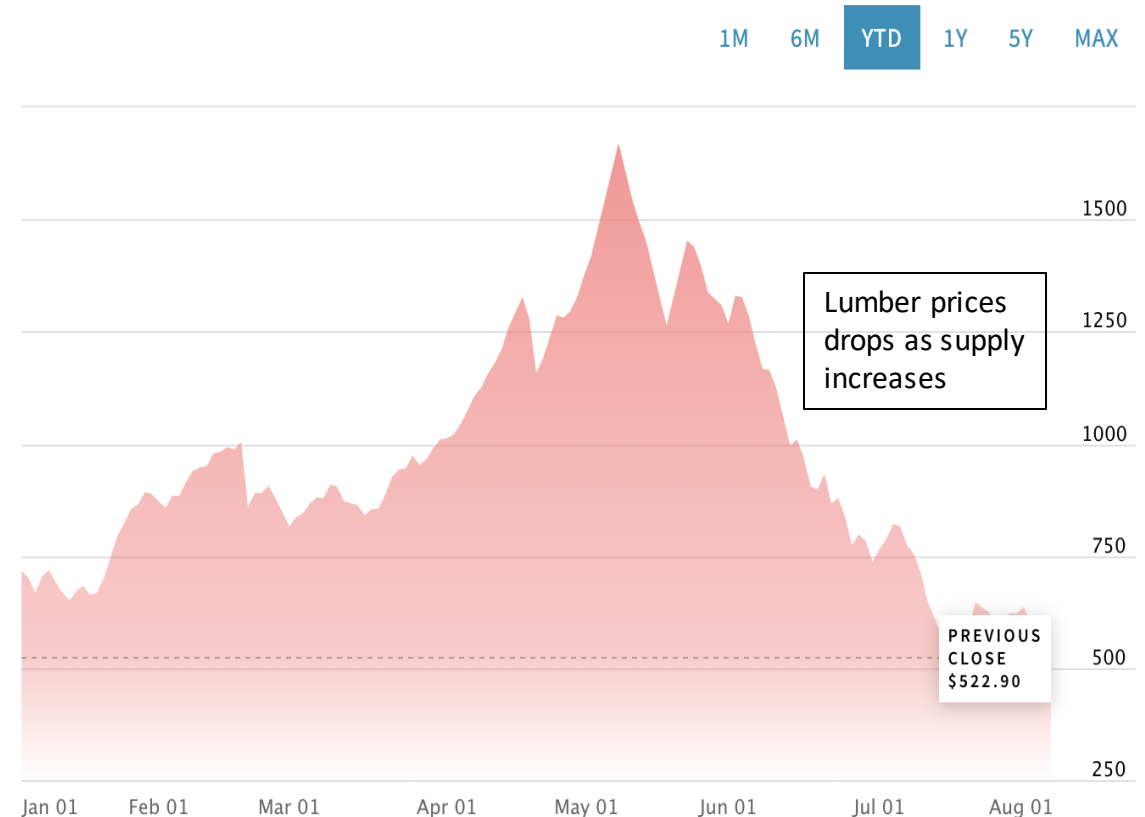
- Due to COVID-19 events, many home owners have relocated their travel and entertainment funds to repairs and remodeling activities for their houses
- Many individuals have also resided for single-family detached housing
- Through these efforts, demand for residential building materials in the North American market has been stronger than expected

Reduced Supply

- With regulatory mandates to halt non-essential work, labor became a challenge for many building materials companies. With government incentives to remain unemployment and COVID-19 outbreaks, many blue-collar occupations were left vacant (e.g. truck drivers)
- Reduced labor in transportation causes a bottleneck within the operation process and ultimately reduces supply

Stock Performance YTD

Aug 06, 2021



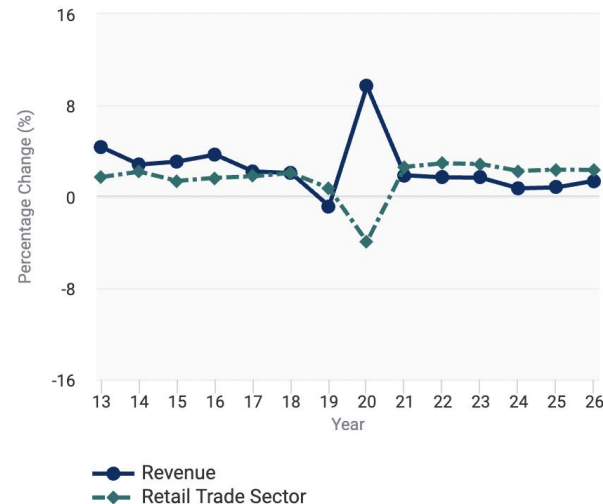
Macro & Micro Outlook

Macroeconomic Concerns – COVID 19

- Despite COVID-19 impacting businesses globally and creating significant economic uncertainty, building materials industry has not been significantly impacted
- As part of the supply chain for a construction industry, the company has been classified as an essential service for majority of its operations in Canada and the US, and has continued business operations
- To maximize business efficiencies, Doman explores to optimize its working capital, defer or eliminate certain non-essential operating expenditures, minimize capital expenditures, evaluate ongoing cost savings opportunities and receive financial assistance from government programs

Industry Outlook:

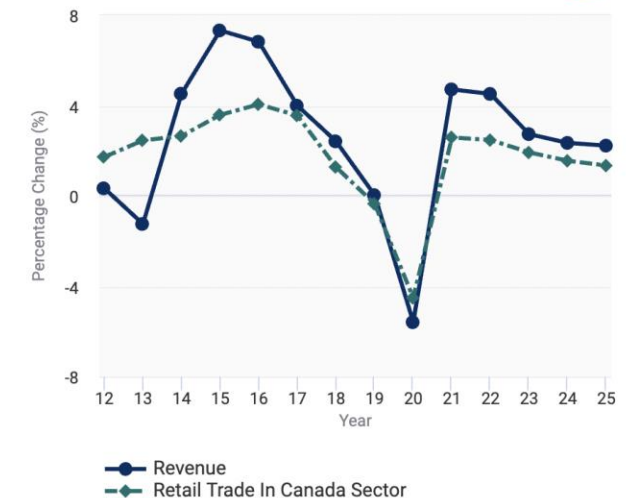
Industry Outlook 2013–2026



Industry Growth: According to IBISWorld, ,
lumber & building material stores:

- In Canada, stores are expected to grow at an annual growth rate of 3.3% over the 2020-2025 period, exceeding global GDP
- In the US, stores are expected to grow at an annual growth rate of 1.3% over the 2021-2026 period, growing slower than the global

Industry Outlook 2012–2025



Catalysts & Risks



Catalysts

- **Recent Acquisitions**: With Hixson Lumber Company and Fontana Wholesale Lumber and Wood Preserving, Doman can expect to increase its supply counts across North America and cover the expected growth in lumber demand
- **Dividends**: 6.85% dividend yield four-folds the current US treasury yield, providing a margin of safety in case of stock price drop
- **Continued Growth**: 7 M&A activities over the past 5 years, showcasing company's capability and willingness to expand further across North America
- **Seasonality**: Strong 2nd and 3rd quarters

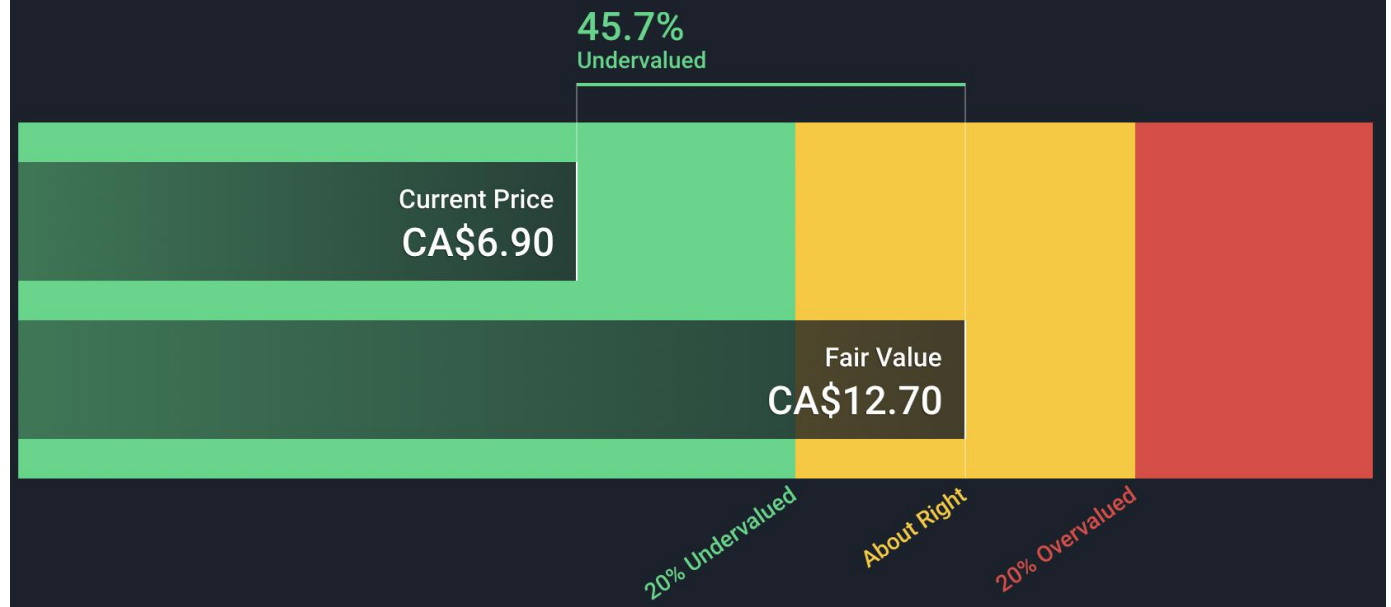
- **Housing Market & Activity** (key driver of lumber demand)
 - Seasonally adjusted annualized rate for Canadian housing
 - March 21, 2021: 296,174 units
 - March 21, 2020: 203,433 units
 - Increase of 45.6%
 - Seasonally adjusted annualized rate for US housing
 - March 21, 2021: 1,613,000 units
 - March 21, 2020: 1,487,000 units
 - Increase of 8.5%
 - Projected end of 2021: 1,619,000 units

Risks

- **Volatile Lumber Prices**: Due to the fluctuations in supply & demand, prices of lumber have been heavily volatile the past year. Company has taken pre-cautionary measures to mitigate this risk: use of vendor managed inventories, direct shipment from manufacturer to the customer, and use of lumber future contracts.
- **Wildfires in North America**: Forestry operations and harvest activities can be compromised by inaccessibility to some sites during extreme heat and low humidity.
- **Unstable Dividend Track Record**: Mainly due to COVID, management reduced dividend yield from \$0.14/share to \$0.12/share. Rewarded with \$0.16/share next quarter.
- **Debt is Not Well Covered by Operating Cash Flow**: Debt to equity ratio (106.4%) is high. However, company has continued to reduce this number (reduced ratio from 140.6% to 106.4% over the past 5 years).
- **Shareholder Dilution**: Shareholders have been diluted in the past year, with the total shares outstanding growing by 11.1%. Most raised funds are allocated to funds for potential M&A in the short-term.

Valuation - Discounted Cash Flow

3.1 | Share Price vs. Fair Value



Valuation – DCF Analysis



Free Cash Flow Build

	2019A	2020A	2021E	2022E	2023E	2024E	Terminal Value
Revenue							
EBIT							
NO PAT							
(+) D&A							
(-) CAPEX							
(x) Changes in NWC							

Valuation: Recommendations



Graph

Insert Graph Here

Implied Valuation

Analysis

Price

Comparable

Discounted Cash Flow

Analyst Recommendations

Analysis

Target Price

Recommendation, Entry & Exit Strategy

Entry Price:
Target Price:
Time Horizon: