NEW TRADE DEALS
The newly-elected POTUS toughens trade stance

HEALTHY DEMAND
But is there impetus for growth?

UPTICK IN SOFTWOOD PRICING
How the flat trend shifted
Deals are a moving target. A constantly shifting mix of people, numbers, and timing. We’re here to simplify this process for you. Our experts are dedicated to tracking down and flushing out the values you need, even on the most complex deals. So when the time comes to take your shot with Great American, you’re always—right on the money.
**Trend Tracker**

### INVENTORY

<table>
<thead>
<tr>
<th></th>
<th>Lumber</th>
<th>Building Materials</th>
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<tbody>
<tr>
<td>NOLVs</td>
<td>Increasing</td>
<td>Mixed</td>
</tr>
<tr>
<td>Sales Trends</td>
<td>Increasing</td>
<td>Increasing</td>
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<tr>
<td>Gross Margin</td>
<td>Mixed</td>
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</tr>
<tr>
<td>Inventory</td>
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- **NOLVs:** Steady demand has improved sales trends for both lumber and building materials. Gross margins have improved in many cases due to rising lumber prices and increasing rebates from vendors. Shifting consumer preferences for certain more specific building materials has resulted in some mixed trending.

- **Sales Trends:** Lumber and building materials sales trends have been increasing due to continued steady demand, increased prices, and merger and acquisition activity.

- **Gross Margin:** Gross margins in general have been mixed, primarily due to timing. While prices on the whole increased, GA noted that there has been a lag in passing these rising costs onto customers.

- **Inventory:** Inventory levels have been increasing due to the busier building season. In addition, merger and acquisition activity has led to consolidating inventories.

- **Pricing:** Pricing has been increasing overall, with few exceptions. The expiration of the Softwood Lumber Agreement and implementation of duties has resulted in increasing lumber prices throughout the country. With the exception of Hard Maple, most hardwood products have shown stability or slight increases over the past several months. Other products, such as gypsum and steel-based materials, have also demonstrated an upward trajectory.
M&E

<table>
<thead>
<tr>
<th>Used Pricing</th>
<th>Woodworking/Sawmills/Furniture</th>
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<tbody>
<tr>
<td>Increasing</td>
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- **Used Pricing**: Late-model, high-production CNC woodworking equipment is stable to increasing due to manufacturing continuing to return stateside. Saw mill equipment pricing is stable but poised for increase due to increased construction activity and increased availability of private equity investments into the building materials sector.

- **Used Trade Movement**: Movement within the used trade market has been decreasing based on demand elasticities within the past few years. However, as of late, it has stabilized as demand and prices have shifted. In addition, cheaper and more quality import machinery from Taiwan continues to hit the domestic market.

- **OEM Pricing**: Demand from manufacturing and construction industries has led to a steady rise in industry revenue within the woodworking and lumber production sectors. Import machinery, especially from Taiwan, has put pressure on domestic manufacturers to keep OEM pricing in check.

- **Technology Advancement**: Technology has remained consistent. With the availability private equity funds, many companies continue to spend investment dollars on upgraded CNC controls and upgraded software to maximize efficiency returns.
Overview

Since the prior Building Materials Monitor, a newly elected president has taken office, and with his inauguration, a tougher stance on international trade has taken shape. As one of Donald Trump’s primary platforms, renegotiations with several foreign leaders over trade agreements have taken place since January.

Within the construction industry, the most important of these negotiations took place early in the year when President Trump met with Canadian officials regarding timber imports from up north. The Softwood Lumber Agreement (“SLA”), which had been in place since 2006, expired in October 2015. Since then, concern has been rampant throughout the industry about what impacts any new agreements could pose.

Tensions between the U.S. and Canada have been simmering since the early 1980s. As the majority of timber in Canada is owned and controlled by the government, timber producers in the U.S. have been leery about potential competitive advantages that have emerged. For one, pricing is set by the government rather than through free trade. Further, the government offers subsidies to Canadian lumber companies, putting domestic producers at a severe disadvantage.

While the SLA alleviated some of this tension, its expiration had the opposite effect. Canada produces almost one-third of the softwood lumber used in the United States, so its influence on the domestic market is significant. After the expiration of taxes on imported Canadian timber, the U.S. International Trade Committee (“ITC”) released findings that stated the imports from Canada in the wake of the SLA had a material negative impact on domestic producers. As a response, President Trump imposed preliminary tariffs of up to 24% on Canadian lumber shipped to the United States, with a final determination coming in September.

The effect of the new tariffs was to drive prices higher throughout the industry. But the new tariffs were not the only catalyst. Domestic demand remains strong, with the U.S. Census Bureau reporting that housing starts in April were 0.7% above April 2016 and housing completions were 15.1% above the prior year. The steady building activity has put pressure on mills to meet demand, further spurring price increases.

KEY FACTORS

President Trump’s hardened stance on international trade resulted in newly-imposed tariffs on Canadian lumber, which paved the way for price increases in early 2017.

Indicators across the construction industry, including mortgage demand and construction employment, remain stable and relatively healthy.
Recent Appraisal Trends

LUMBER AND PLYWOOD
GA witnessed increased recovery value trends for lumber processors and distributors during the first half of 2016. Housing and remodeling activity remains strong, and demand has followed suit.

The expiration of the SLA has been one of the largest drivers of the market in 2017. With President Trump’s enactment of duties on lumber originating in Canada, prices throughout the market increased. The upward pricing trend started even earlier though, as many producers predicted a similar move from the newly-inaugurated Commander-in-Chief.

Despite the increase in lumber pricing, certain companies were unable to capitalize. GA observed a few distributors that were unable to pass through increased pricing immediately to customers, resulting in short-term margin contraction. However, GA notes that once these price increases go through, gross margins will increase.

As demand remains strong, the industry should be able to avoid an oversupply on the market. However, it is likely that producers may seek to capitalize on the higher prices by increasing output. Should production increase too quickly, a general buildup of inventory on the market could result in price declines and weeks of supply increases. For now, supply and demand dynamics remain in check.

BUILDING MATERIALS
The picture for other building materials has been less cut-and-dry compared to the lumber market. While similar catalysts such as healthy new construction and remodeling activity benefited the market for other building materials, other offsetting factors have emerged.

For steel-based building materials, the enactment on tariffs on Chinese steel has served both to increase pricing and reduce the level of Asian imports. Other materials, such as asphalt shingles and gypsum, have also demonstrated increased pricing. As such, companies that have been able to pass through price increases to customers have seen a likewise improvement in their gross margins. However, delays in passing through price increases to customers have experienced the inverse effect. In some cases, more generous vendor rebates on products such as asphalt shingling have led to improved post-rebate margins, positively impacting recovery values.
Pricing Trends

SOFTWOOD LUMBER
Softwood lumber, including genuses such as Spruce, Pine, Fir, and Cedar, is typically used for structural building purposes, as well as millwork. As previously stated, the expiration of the SLA and looming enactment of further acts by President Trump have proven to be major catalysts for rising softwood lumber prices.

The US Department of Commerce estimates that Canada exported approximately $4.7 billion USD of lumber to the United States last year and produces 33% of the softwood used in the United States annually. Random Lengths reports that total shipments from Canada rose 22.5% to over 16 billion board feet (bbf) in 2016. In addition, U.S. lumber production increased over 3% in 2016 to 32.8 bbf, the highest level since 2007.

The surge in imports and modest increase in domestic lumber led to a nearly 10% increase in supply on the US market for the year, reaching 48.1 billion board feet.

Yet despite ample supplies, prices have increased fairly steadily since last fall. In addition to the aforementioned enactment of duties on Canadian imports to put them in line with domestic prices, overall indicators have shown demand keeping up with the increased supply. Housing starts are projected to increase 10% to 15% year-over-year to over 1.3 million units in 2017. The increase in activity will lead to a high level of consumption, with the Western Wood Products Association forecasting that total U.S. lumber consumption will increase from 47.0 bbf in 2016 to 49.7 bbf in 2017, before increasing to 50 bbf in 2018, the highest demand level since 2007.

1 Softwood Lumber - Price per MBF
Consistent with historical trends, softwood panel pricing has followed a similar trajectory to that of framing lumber over the past year. In general, activity has increased over the past several months as the weather has improved. In particular, orders in the Southern part of the US rose in early spring following an extended period of warm weather.

Similar to softwood lumber, prices for panels have increased despite ample supply on the market. According to the Engineered Wood Association, structural panel production in North America increased 4.4% year-over-year during the first quarter of 2017 and increased 1.5% from the last quarter of 2016. Similarly, plywood production demonstrated a 2.9% year-over-year increase and a 4.4% increase from the fourth quarter of 2016.

As softwood panels are produced with softwood lumber, the major impetus for rising prices has been speculation of new tariffs imposed on imports from Canada. In addition, like softwood lumber, consumption of softwood panels has increased over the past year, with year-over-year consumption of structural panels, OSB, and plywood each up between 4% and 6% during the first quarter of 2017.
HARDWOOD LUMBER
Consistent with historical trends, hardwood lumber pricing typically exhibits a far lower level of volatility as compared to softwood lumber. As can be seen in the graph below, pricing has been largely consistent over the past year.

Production levels have remained stable over the first half of 2017. Last year, Eastern US hardwood production totaled 8.30 bbf, a slight increase from 8.28 bbf in 2015. While some inclement logging conditions have plagued certain areas, such as Appalachia, it is likely that hardwood lumber production will meet or exceed 2016’s output.

One genus of hardwood that has shown some price mobility over the past year has been Hard Maple. Excess supply on the market led to declining prices throughout the second half of 2016. Since then, production has declined and demand for green product increased, resulting in more balanced market dynamics heading into the summer.

With overall housing construction and remodeling activity remaining relatively healthy, it is likely that pricing for most hardwoods will remain buoyant as the traditional summer building season picks up steam.
OVERVIEW

The woodworking and lumber production machinery industries continue to see stabilization and some moderate growth of late. The lumber and woodworking market continues to see fewer closures, consolidations, and restructurings within producers and wholesalers, and according to the most recent IBISWorld report, the woodworking machinery industry is still poised for stable gains of 0.6% over the next five years.

The balanced activity within the sawmill liquidation sector that has been seen over the past few years has slowed considerably as well. Even fewer sawmill liquidations have been seen within the past year. At the same time, market experts are predicting a slower resurgence of mothballed mills in contrast to what was previously thought. This has proven to be true of late, as the secondary market for used sawmill equipment has slowed precipitously over the past year. The one bright spot in this sector would be an uptick in sales of new sawmill machinery and equipment as lead times have normalized as OEM's have begun normal production again.

Much of the same can still be found in the woodworking and furniture manufacturing industries. While a modest growth has been anticipated and even more modest growth expected within the next five years, it has not created a demand for used woodworking machinery and equipment. Where new machinery purchases have been contemplated, many producers have been forced to consider cheaper alternatives from Asian markets; most notably from Taiwan. The quality of new imports from Taiwan has increased dramatically in the past few years which, along with cheaper pricing, has forced manufacturers to seriously consider these alternatives.

GA’s recent consultations with used equipment dealers and auctioneers suggest that domestic market conditions are expected to see very little, if any, improvement despite the anticipated growth in the industries. Demand for large equipment found in the secondary marketplace has not increased either. Domestic economic activity has increased in the form of do-it-yourself activities like home improvement and hobbyist ventures. This has begun to trail off as construction continues to pick back up. Construction markets also demand woodworking products, and as demand for construction has risen, improved conditions continue to lead to positive demand growth for the segment. As of now, however, this trend has not led to a seller’s market in the used sector.
# Building Materials Reference Sheet

## SOFTWOOD LUMBER AND PANEL PRICING ($ PER MBF)

<table>
<thead>
<tr>
<th>Material</th>
<th>Year-Over-Year Change</th>
<th>Quarter-Over-Quarter Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Softwood Framing Lumber ($340 to $430/mbf)</td>
<td>21.0%</td>
<td>15.3%</td>
</tr>
<tr>
<td>OSB ($260 to $380/mbf)</td>
<td>37.9%</td>
<td>14.8%</td>
</tr>
<tr>
<td>Pine Plywood ($460 to $550/mbf)</td>
<td>8.8%</td>
<td>12.4%</td>
</tr>
</tbody>
</table>

## HARDWOOD LUMBER PRICING - GREEN - FAS GRADE ($ PER MBF)

<table>
<thead>
<tr>
<th>Material</th>
<th>Year-Over-Year Change</th>
<th>Quarter-Over-Quarter Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Red Oak ($1,050 to $1,120/mbf)</td>
<td>(3.6%)</td>
<td>(1.8%)</td>
</tr>
<tr>
<td>White Oak ($1,290 to $1,560/mbf)</td>
<td>11.9%</td>
<td>(0.4%)</td>
</tr>
<tr>
<td>Ash ($920 to $1,150/mbf)</td>
<td>(0.5%)</td>
<td>6.6%</td>
</tr>
<tr>
<td>Poplar ($830 to $840/mbf)</td>
<td>0.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Hard Maple ($1,450 to $1,665/mbf)</td>
<td>(21.3%)</td>
<td>(2.6%)</td>
</tr>
</tbody>
</table>

## HARDWOOD LUMBER PRICING - KILN-DRIED - FAS GRADE ($ PER MBF)

<table>
<thead>
<tr>
<th>Material</th>
<th>Year-Over-Year Change</th>
<th>Quarter-Over-Quarter Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Red Oak ($1,335 to $1,575/mbf)</td>
<td>0.0%</td>
<td>0.3%</td>
</tr>
<tr>
<td>White Oak ($1,780 to $1,205/mbf)</td>
<td>9.6%</td>
<td>(0.6%)</td>
</tr>
<tr>
<td>Ash ($1,425 to $1,600/mbf)</td>
<td>(4.8%)</td>
<td>2.8%</td>
</tr>
<tr>
<td>Poplar ($1,085 to $1,170/mbf)</td>
<td>(1.5%)</td>
<td>0.2%</td>
</tr>
<tr>
<td>Hard Maple ($1,860 to $2,120/mbf)</td>
<td>(16.6%)</td>
<td>(2.6%)</td>
</tr>
</tbody>
</table>
LIQUIDATIONS
GA has been involved in the liquidation of three National Home Centers building products locations, the liquidation of inventory and fixed assets across eight North Pacific Building Materials distribution centers, and the auctions of various woodworking companies, including Woodworking IVA, The Truss Company, Lux Cabinetry, LLC, and Graeber’s Lumber & Millwork.

APPRAISALS
In addition, GA has worked with and appraised numerous manufacturers and distributors within the building materials, lumber, and woodworking industries. While our clients remain confidential, they range in scale from smaller, more specialized regional businesses to major global and national industry leaders, and include the following sampling of companies:

• The nation’s largest supplier of building materials for home building, as well as professional and contract builders.
• One of the largest roofing products distributors in the United States, with locations throughout the country and sales exceeding $2 billion annually.
• Global leaders in home fixtures and plumbing products, including faucets, sinks, toilets, and bath tubs, with presence in over 40 countries.
• Leading manufacturers of HVAC systems, serving residential, light commercial, and commercial applications, with annual sales exceeding $1 billion.
• The largest publicly-traded roofing distributor in the U.S.
• One of the nation’s largest producers of oriented strand board (“OSB”), siding, and engineered wood products.
• The largest independent distributor of wallboard, acoustical, and other specialty building materials in the United States.
• One of the world’s leading manufacturers of windows and doors.
• Regional sawmills, log processors, and producers of green and kiln-dried lumber.
• Manufacturers and distributors of fasteners and bolts used in light and heavy construction.
• Suppliers of iron and wood building components utilized in stair construction.
• Specialty producers of custom interior wood doors for the education, commercial, health care, institutional, and hospitality industries.
• A leading distributor of roofing materials, with 60 distribution facilities nationwide.
• A manufacturer and distributor of exterior residential building products, primarily servicing professional contractors.
• Distributors of exotic imported hardwoods utilized in high-end building projects.
• Independent building material and plumbing product retailers and wholesalers, each serving distinct regional customer bases.
• A diversified holding company operating in the building materials supply industry, with a focus on more specialized supply services.
• A manufacturer and distributor of metal roofing and accessories for residential, light commercial, and agricultural applications.
• Various companies’ woodworking machinery and equipment, including producers of dimensional lumber, hardwood lumber, plywood, and fiberboard.

In addition to our vast liquidation and appraisal experience, GA maintains contacts within the building materials and lumber and woodworking equipment industries that we utilize for insight and perspective on recovery values. GA is a subsidiary of B. Riley Financial, Inc., whose affiliate B. Riley & Co. (“B. Riley”) is nationally recognized for its highly ranked proprietary equity research.
The Building Materials Monitor relates information covering most building projects, including industry trends, market pricing, and their relation to our valuation process. GA internally tracks recovery ranges for specialty and exotic hardwoods and softwoods, building product retailers and wholesale distributors, and specialty building products, but we are mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.

The information contained herein is based on a composite of GA’s industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of well-respected industry publications and sources believed to be reliable. GA does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither GA nor any of its representatives shall be liable for use of any of the information in this issue or any errors therein or omissions therefrom.
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