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IB PERSPECTIVE

Industrials

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JAMES HARDIE'S \$8.75 BILLION ACQUISITION OF AZEK

A bold bet on material conversion

JH

Jacob Harrison-Burke

Industrials Desk

\$8.75bn

DEAL VALUE

22.4X

EV / EBITDA

\$350m

SYNERGY TARGET

26%

PREMIUM (30D VWAP)

Jul 2025

CLOSED

Deal Overview

Acquirer: James Hardie Industries PLC (NYSE: JHX)

Target: The AZEK Company Inc. (NYSE: AZEK)

Transaction Value: \$8.75 billion (including net debt of ~\$386 million)

Announcement date: 24th March 2025

Closing: Completed 1st July 2025

Reverse Termination Fee: \$272 million

Acquirer Advisors: BofA Securities, Jefferies (Financial); Skadden, Arps, Slate, Meagher & Flom LLP, Arthur Cox LLP, Gilbert + Tobin (Legal)

Target Advisors: Goldman Sachs (Financial); Wachtell, Lipton, Rosen & Katz LLP (Legal)

Executive Summary

James Hardie Industries PLC completed its acquisition of The AZEK Company for \$8.75 billion in an all-cash and stock transaction, creating a leading building products growth platform. The deal combines James Hardie's position as the top fibre cement siding manufacturer with AZEK's dominance in composite decking and outdoor living products, bringing together two companies with complementary product offerings and shared material conversion strategies.

The transaction represents a strategic bet on the continued shift from traditional materials (wood, vinyl) to engineered alternatives across multiple building product categories. With combined revenues of \$5.9 billion and projected adjusted EBITDA of \$1.8 billion, the deal creates a company with scale advantages, enhanced cross-selling capabilities, and a comprehensive exterior solutions portfolio spanning siding, trim, decking, railing, and pergolas. This strategy centres on accelerating material conversion in large addressable markets where both companies have demonstrated success. James Hardie has driven fibre cement adoption to 22%

penetration in new construction siding, while AZEK has grown composite decking to 24% market share.

James Hardie's management projects \$350 million in annual synergies from cost efficiencies and commercial opportunities, with significant cross-selling potential given that 55% of homeowners complete deck and siding projects together.

The transaction closed on 1st July 2025, following AZEK shareholder approval (99.96% voted in favour), HSR clearance, and successful syndication of \$3.5 billion in credit facilities. James Hardie shareholders received the deal without a vote, creating controversy among some Australian institutional investors. The combined company maintains dual listings on NYSE and ASX, with James Hardie and AZEK shareholders owning approximately 74% and 26% respectively.

Due to Trump's increased tariffs, however, residential construction costs have started rising, threatening the transaction's growth assumptions and commercial synergy targets by dampening the repair and remodel activity that represents 70% of combined revenues. This created very unfortunate timing for the deal.

Company Profiles

James Hardie Industries PLC (Acquirer)

As the world's leading producer of fibre cement building products, James Hardie has a dominant position in the North American residential and commercial exterior solutions sector. It has built a powerful brand associated with climate and fire resistance alongside low maintenance performance, driving sustained material conversion from wood and vinyl siding.

James Hardie – Financial Overview

Metric	Value
Revenue	\$3.9 billion
Adjusted EBITDA	\$1.1 billion
Adjusted EBITDA Margin	28%
7-Year Revenue CAGR	11%
7-Year EBITDA CAGR	14%
Geographic Mix	74% North America, 26% International
End Market Mix	~65% Repair and Remodel, ~35% New Construction
Product Mix	93% Exteriors, 7% Interiors

The company operates 16 manufacturing plants with highly localised production, sourcing 81% of raw materials from within 150 miles of its plants. It has achieved 22% penetration in new construction fibre cement siding but faces a massive conversion runway with approximately 78% of the market still using vinyl, wood, or other materials. The repair and remodel market has even larger opportunities, with 35 million homes aged 20–40 years and 10 million homes built with vinyl siding over the past 30 years representing prime conversion targets.

The acquisition addresses a gap in the company's portfolio. While dominant in siding, James Hardie lacked presence in adjacent outdoor living categories where contractors and homeowners increasingly seek comprehensive solutions. AZEK fills this void given its expertise in decking, railing, and pergolas while operating a similar material conversion playbook focused on replacing wood and engineered wood alternatives.

The AZEK Company Inc. (Target)

AZEK is a leading manufacturer of engineered outdoor living products, operating market-leading brands including TimberTech decking and railing, AZEK Exteriors trim, Versatex, and StrXure pergolas. The company has built a vertically integrated recycling operation consuming over 500 million pounds of recycled waste annually, positioning sustainability as a core competitive advantage.

AZEK – Financial Overview

Metric	Value
Revenue	\$1.5 billion
Adjusted EBITDA	\$390 million
Adjusted EBITDA Margin	26%
7-Year Residential Revenue CAGR	15%
7-Year Residential EBITDA CAGR	16%
End Market Mix	~82% Repair and Remodel, ~18% New Construction
Product Mix	~74% Decking/Accessories/Rail, ~26% Exteriors
Geographic Focus	North America

AZEK has demonstrated exceptional growth through material conversion, product innovation, and multichannel expansion, operating through 170+ distributors,

5,000+ dealer locations, and serving 15,000+ professional contractors. TimberTech ranks as the top brand for composite decking while AZEK Exteriors holds leading positions in decorative mouldings, trim, and columns.

The root of the company's value is its participation in large addressable markets with significant conversion runways. Composite decking holds only 24% market share with wood representing 76% of opportunities, exterior trim shows 54% conversion potential from wood and engineered wood, and railing presents 63% conversion potential.

AZEK has also grown faster than the market, with a 15% residential CAGR compared to mid-single digit market growth in 2024, alongside the aforementioned vertically integrated recycling platform.

AZEK's decision to sell reflects optimal timing, with a degree of fortune due to the introduction of Trump's tariff policies. The strategic fit with James Hardie offers acceleration opportunities that would be difficult to achieve independently, including access to its contractor relationships, geographical expansion capabilities, and operational best practices through the Hardie Operating System.

Strategic Rationale

Acquirer Motivations

The first reason that James Hardie is doing this is the accelerated growth trajectory. AZEK's 15% residential revenue growth significantly outpaces James Hardie's 11% growth rate. The combination is expected to accelerate net sales growth by 250-plus basis points and adjusted EBITDA growth by 300-plus basis points, materially enhancing James Hardie's growth profile over the next five years.

Secondly, this deal increases James Hardie's serviceable market from approximately \$10 billion to \$23 billion by adding \$9 billion in decking and outdoor living categories. This diversification reduces concentration risk while providing access to faster-growing segments where outdoor living popularity has ranked first among architects for the past decade.

Furthermore, research shows that 55% of homeowners complete deck and siding projects together, 55% of siding contractors also perform decking work, and 80% of contractors view a combined offering as valuable. James Hardie can expand fibre cement exteriors through AZEK's 15,000+ TimberTech contractor network, while AZEK products gain access to James Hardie's contractor base. This transaction additionally enables \$125 million in annual cost synergies through manufacturing and procurement optimisation, commercial efficiencies, R&D consolidation, and administrative streamlining, driving additional efficiency gains.

Finally, the combined company increases repair and remodel revenue mix from 65% to approximately 70%, providing more stable cash flows and reduced cyclicity compared to new construction markets. Management expects the transaction to unlock valuation benefits through dual NYSE and ASX listings, improved US institutional ownership, potential S&P 500 inclusion eligibility, and trading characteristics more aligned with higher-multiple US building products peers.

Target Motivations

Firstly, AZEK shareholders receive consideration representing a 26% premium to 30-day VWAP and a 21% premium to 60-day VWAP, capturing significant value relative to standalone trading levels. The \$56.88 per share total consideration represents a compelling exit for shareholders who witnessed the company's transformation from a private equity-backed business to public market leader.

The combination with James Hardie provides AZEK access to resources that would take years to develop independently, including James Hardie's operational excellence systems, international manufacturing footprint, established contractor

network, and capacity to fund growth investments across a larger product portfolio.

Additionally, the all-cash and stock structure with fully committed financing, minimal regulatory risk, and strong strategic logic provided AZEK shareholders a high probability of transaction completion, with 99.96% shareholder approval.

Valuation Analysis

The \$8.75 billion transaction value represents an equity value of approximately \$8.4 billion for AZEK. Based on LTM 12/31/24 financials, this implies the following valuation metrics:

AZEK – Implied Valuation Multiples

Metric	AZEK Standalone	Implied Multiple
EV / LTM Revenue	\$1.5B Revenue	5.8x
EV / LTM Adjusted EBITDA	\$390M EBITDA	22.4x
EV / Residential Revenue	\$1.1B Residential	~7.9x

The 22.4x EV/EBITDA multiple appears elevated relative to broad building products sector averages of 9.7x EV/EBITDA (2023–2024) and US construction sector medians of 12.4x. However, several factors justify this premium:

The first of these is the growth premium: AZEK's 15% residential revenue CAGR and 16% EBITDA CAGR substantially exceed sector averages, and the company demonstrates consistent above-market growth through multiple cycles, reflecting

successful material conversion execution.

The second is margin profile and quality: AZEK's 26% adjusted EBITDA margin significantly exceeds typical building products companies, reflecting its vertically integrated recycling operations and premium product positioning. The company's margins have room for expansion through operational improvements and increased recycled content utilisation.

Thirdly, AZEK represents a rare asset combining scale leadership positions across multiple outdoor living categories with proven innovation capabilities. The company's recycling infrastructure creates barriers to entry, while its contractor relationships and dealer networks provide defensible distribution advantages.

Furthermore, AZEK traded at an average 17x EV/NTM EBITDA since its 2020 IPO, suggesting the market historically valued the business at significant premiums to traditional building products companies. The transaction multiple therefore reflects this premium positioning while adding a control premium and strategic value.

Acquirer Financial Capacity

James Hardie demonstrated strong financial capacity to execute the transaction, with the company securing \$3.5 billion in fully committed credit facilities with broad syndication across 30 participating banks. Pro forma leverage at close was approximately 2.8x net debt to LTM adjusted EBITDA, within reasonable ranges for the sector.

Management projects generating over \$1 billion in annual free cash flow once run-rate cost synergies are achieved, providing ample capacity to deleverage while maintaining growth investments and returning capital to shareholders. The company targets reducing leverage below 2.0x by the end of the second full fiscal year post-close while executing up to \$500 million in share repurchases within 12 months of closing.

Risks and Considerations

Tariff-Driven Cost Inflation and Demand Suppression

The Trump administration's 2025 tariff regime poses material threats to the transaction's financial assumptions and growth targets, potentially jeopardising this deal. Steel and aluminium now face 25% tariffs while a 10% universal baseline applies to most imports, directly impacting manufacturing costs for both companies.

AZEK faces significant exposure to these tariffs through its composite decking operations, where manufacturers sourcing raw materials internationally will see cost increases ranging between 12–20% depending on supply chain adjustments for polyethylene, polypropylene, and PVC resins.

Current cost pressures threaten demand by pushing homeowners towards cheaper traditional materials when the transaction's thesis depends on accelerating material conversion. Material costs for multifamily construction projects could spike 7.5%, increasing total construction budgets by 3% to 4%, while tariff uncertainty causes project delays and cancellations. This combined impact creates risk to the \$500 million commercial revenue synergy target and could extend the timeline for achieving projected financial returns.

Integration Risk

Integrating AZEK's operations presents meaningful execution challenges. Both companies operate different manufacturing processes and have developed separate go-to-market approaches. Successfully combining these businesses while preserving the growth momentum of AZEK requires careful change management, particularly given the volatility of markets due to tariff distortions. A particular concern for AZEK is talent retention, with loss of personnel during integration potentially compromising innovation and execution.

Commercial Synergy Execution Risk

The \$225 million commercial synergy target is ambitious and faces multiple challenges. For example, cross-selling success depends on contractors being willing to consolidate purchases across categories, maintain pricing discipline when buying products, and field sales teams effectively managing expanded product portfolios.

Research indicating contractor interest in combined offerings provides support, but translating those preferences into actual purchasing behaviour is difficult. Contractors may resist adding new product lines due to installation complexity, working capital requirements, or competitive dynamics in their local markets.

Our View

While the strategic logic of combining James Hardie and AZEK is compelling on paper, we believe the timing of this transaction materially undermines its probability of success. The deal is fundamentally predicated on accelerating material conversion in repair and remodel markets, yet Trump's renewed tariff regime directly attacks the affordability equation required to sustain that conversion.

Higher input costs for steel, aluminium, and petrochemical resins are likely to be passed through to homeowners at a time when discretionary spending is already under pressure. As a result, the premium pricing that underpins both companies' margin structures risks becoming a demand constraint rather than a value driver, pushing homeowners back toward cheaper traditional materials and delaying projects altogether. This dynamic threatens not only near-term volumes but also the long-term narrative of steady penetration gains that justified the transaction multiple.

Moreover, the scale and ambition of the projected \$350 million synergy target appear increasingly optimistic in a tariff-distorted environment. Commercial synergies rely on strong contractor confidence, stable pricing

frameworks, and predictable project pipelines—all of which are weakened by cost volatility and policy uncertainty. Rather than enabling seamless cross-selling, the integration could distract management at precisely the wrong moment, as both businesses are forced into defensive cost management and pricing negotiations.

In our view, AZEK likely sold at an opportune peak, while James Hardie has assumed asymmetric downside risk by leveraging into a macro environment that may suppress repair and remodel activity for several years. Without a rapid easing of tariff pressures, this deal risks delivering dilution, extended deleveraging timelines, and returns meaningfully below management's expectations.

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