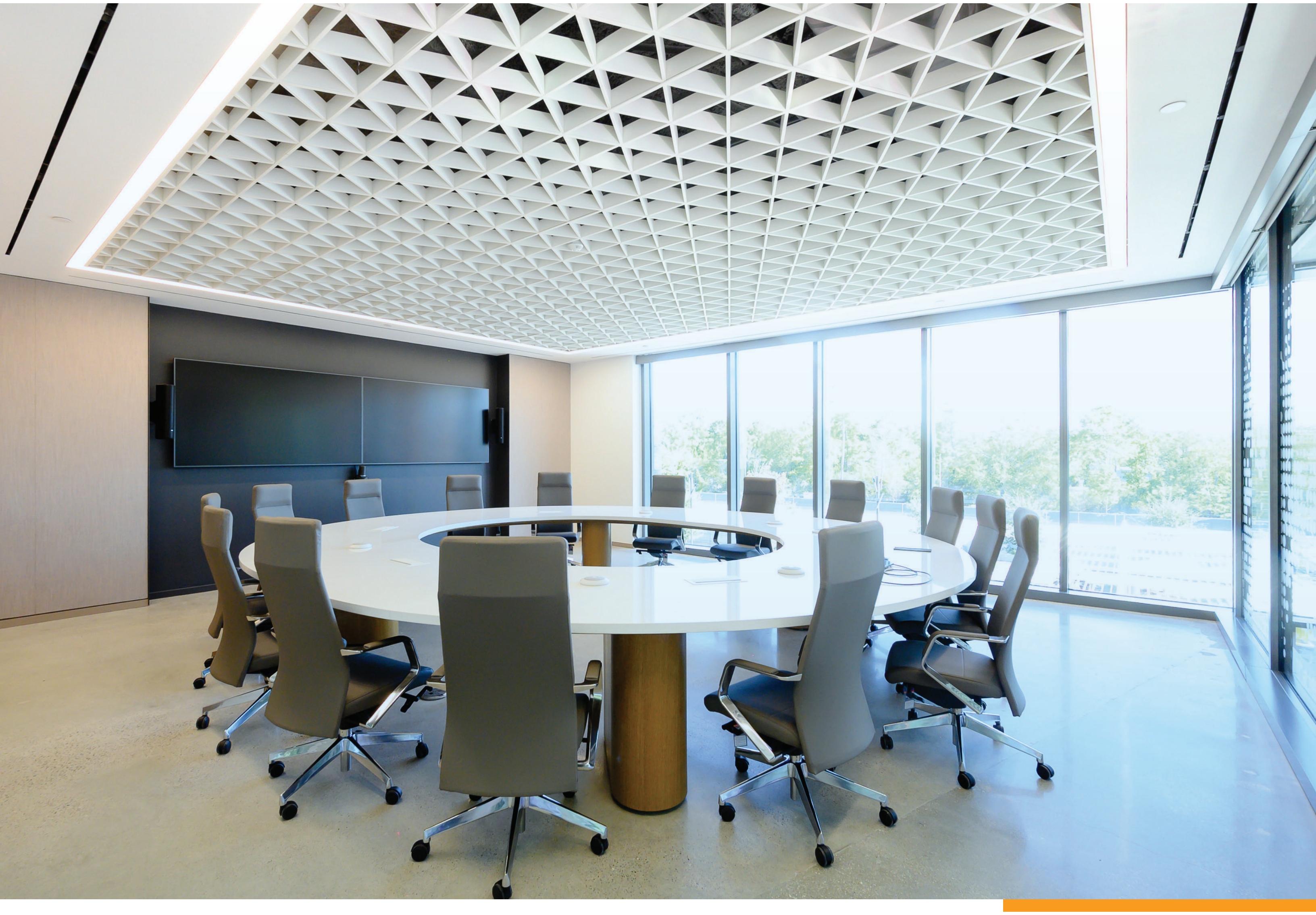
WALL AND CEILING INDUSTRY
TRENDS REPORT



in partnership with

OCTOBER 2024

EXECUTIVE SUMMARY

With funding and support from the Foundation of the Wall and Ceiling Industry, AWCI partnered with FMI to conduct a comprehensive study of member industry trends. The findings from this study are intended to provide market insights that enable member companies and AWCI to think strategically about the market and their businesses.

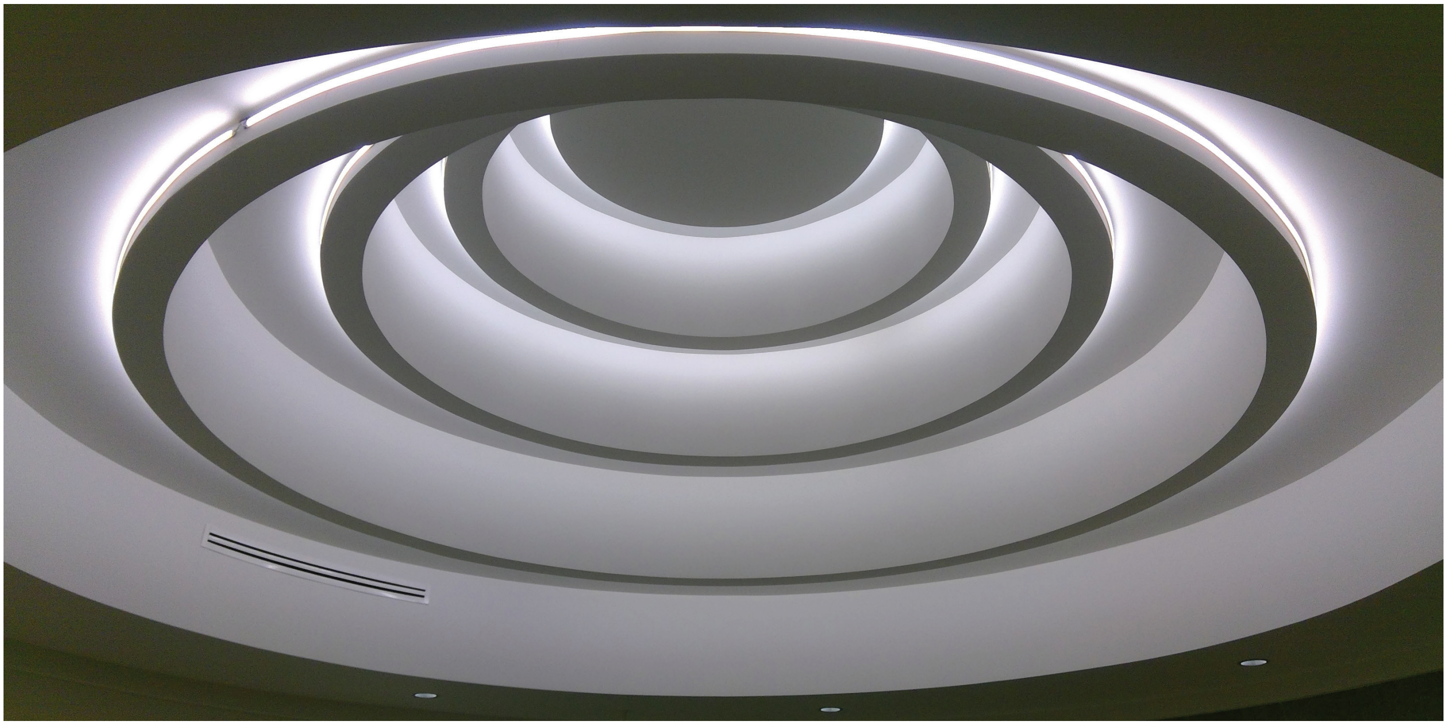
Specifically, the study aimed to:

- Gauge member companies' near-term sentiments on the performance of the overall economy, the construction industry and their businesses
- Explore areas of increasing importance and strategic priorities for their companies
- Determine top concerns among contractors, manufacturers and suppliers
- Assess member companies' sentiments on the competitive landscape, current issues and business operations

FMI first conducted interviews with AWCI leadership and 12 member companies. The conversations helped AWCI develop an industry survey and ensure that pertinent topics were included for AWCI's various membership company types (i.e., contractors, manufacturers, suppliers).

After the interviews, FMI conducted the electronic survey, capturing input from 209 member companies. The survey questions focused on the respondents':

- Economic perceptions
- Segment demand
- Future expectations
- Strategic priorities
- Innovation and technology



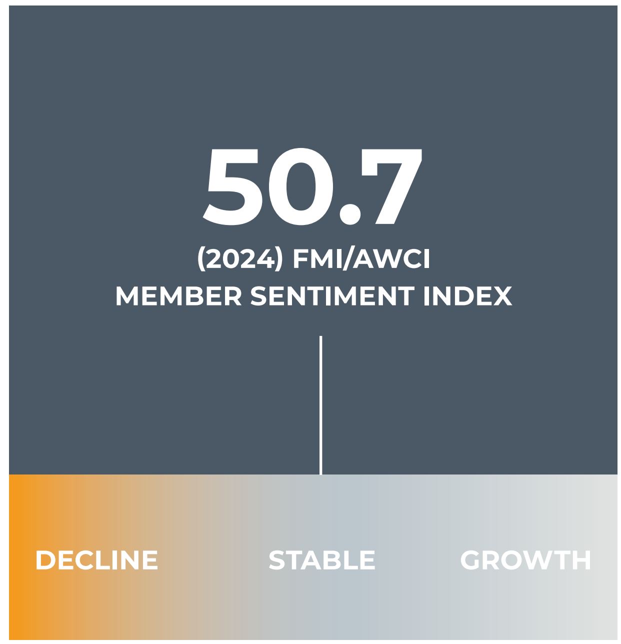
AWCI MEMBERSHIP SENTIMENT INDEX

A key component of the study was building the foundation for the AWCI Membership Sentiment Index (MSI). The AWCI MSI allows members and AWCI to begin tracking industry confidence in a standardized way. The index score is calculated by assessing:

- Members' overall economic outlook
- Anticipated supplier and manufacturer demand over the next 18 months
- Perceived capacity of suppliers and manufacturers to address demand over the next 18 months
- Contractors' expectations for labor productivity over the next 18 months
- Contractors' perceptions of inputs affecting the cost of construction for this year compared to last year

Moving forward, AWCI and FMI will be able to gauge changes in member sentiment and determine potential implications of improving or declining scores, and how members should consider these implications in their business planning.

WHAT IS THE LEVEL OF CONFIDENCE IN THE MARKET?

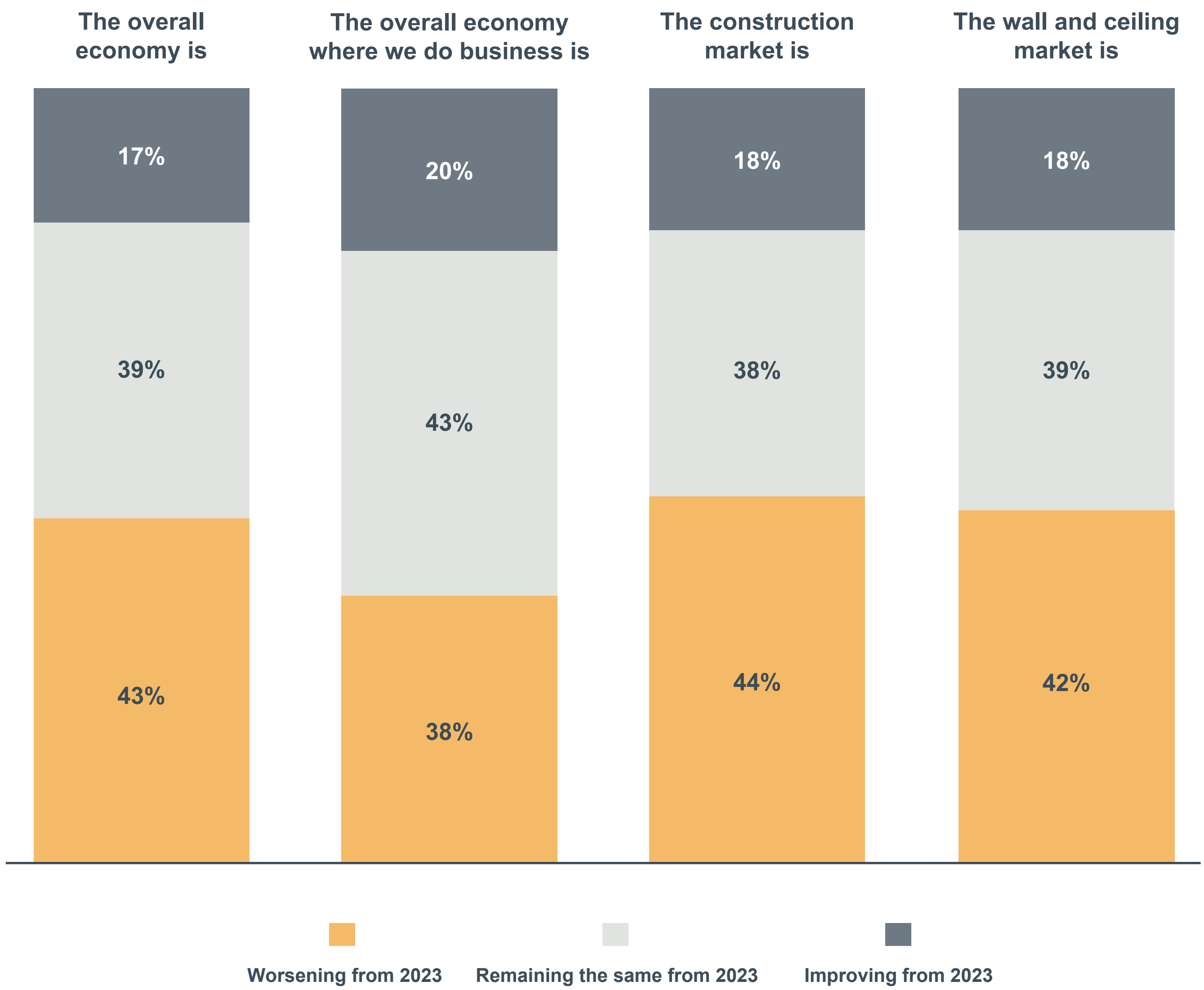


ECONOMIC PERCEPTIONS

When asked about the overall economic outlook, approximately 40% of respondents believe the economy has worsened since 2023, 40% perceive it as being the same and slightly less than 20% perceive it as improving from 2023. Several factors contributed to this sentiment, including the upcoming election and expectations in the first quarter that the third quarter would be a more favorable market.

We reviewed market performance around the last four presidential election years and found that the market was soft for one or two quarters before the election and increased after it. Should that trend continue, we anticipate growth in 2025.

WHAT IS THE OVERALL ECONOMIC OUTLOOK?



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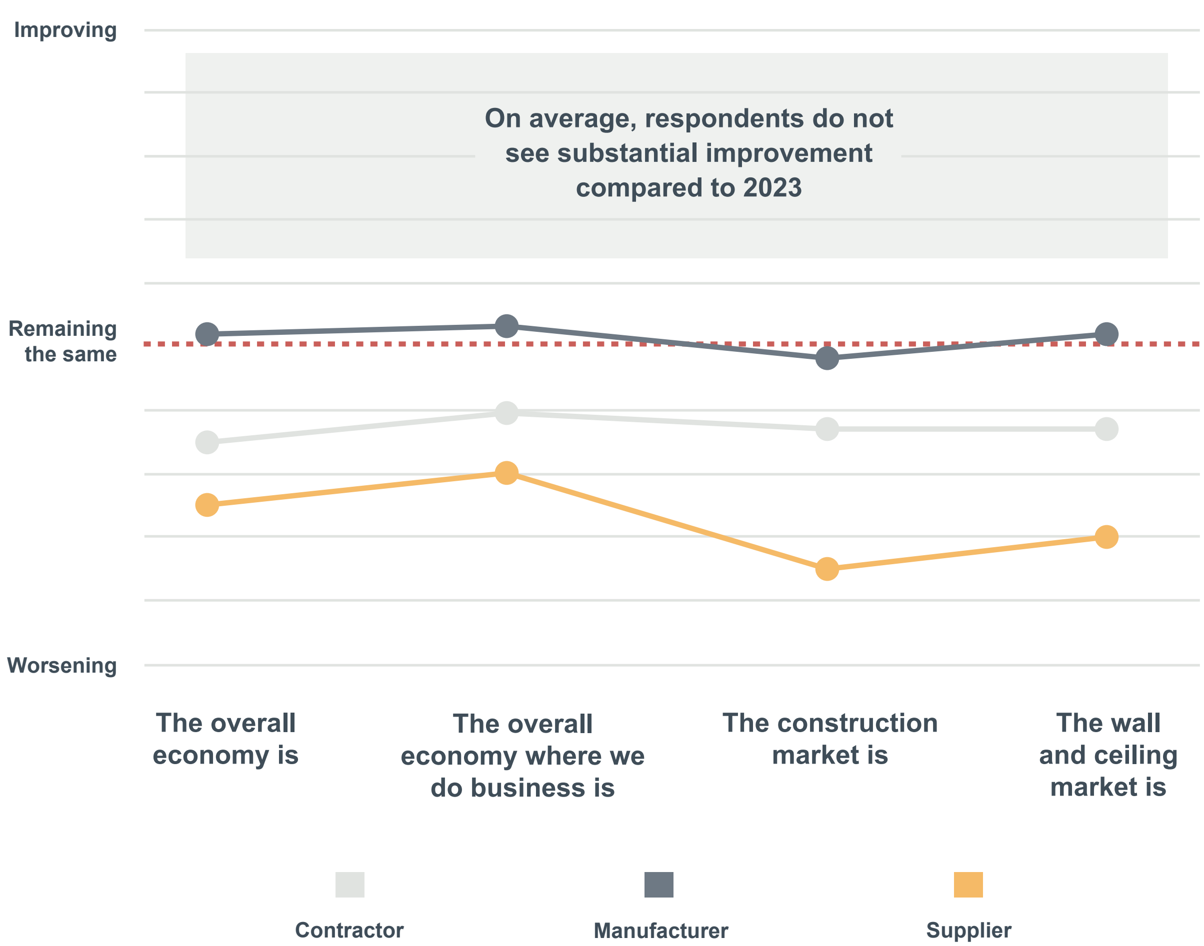
Although all three stakeholder groups perceive the market to be less favorable than or similar to 2023:

- Manufacturers possess a consistently more positive economic outlook than either contractors or suppliers.
- Contractors believe the economy where they operate is faring better than the overall economy, but lack confidence in the construction and wall and ceiling sectors.
- Suppliers are the least confident, showing less optimism in the construction market economy and not much more in the wall and ceiling segment.
- Respondents in the South are more optimistic about the economy than respondents in the other regions; those in the Northeast are the least optimistic.

HOW DO INDUSTRY STAKEHOLDERS RATE THE ECONOMY?



SEGMENT DEMAND

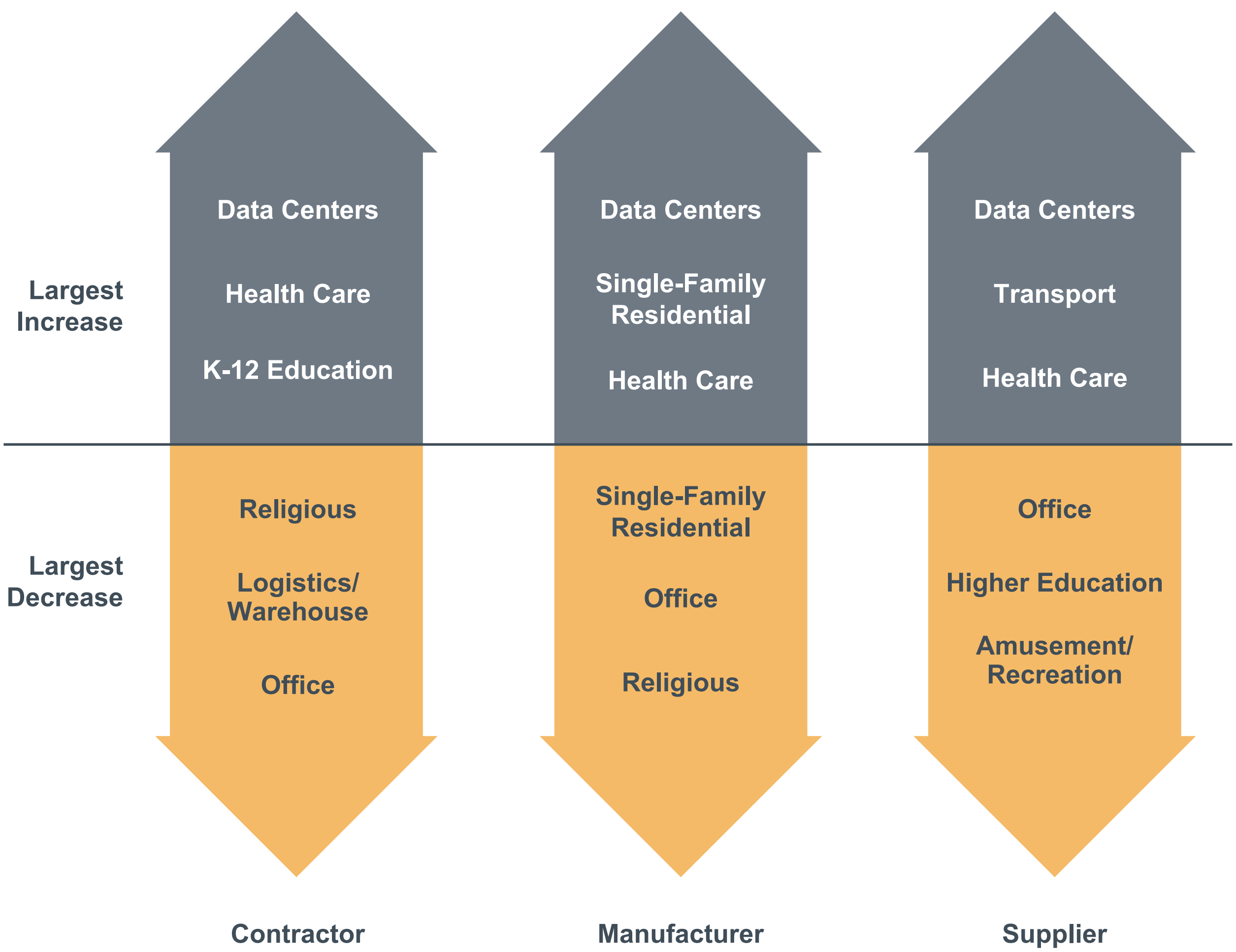
All member types anticipate that data centers and health-care facilities will experience favorable growth into 2025. An increasingly remote workforce and growing digital storage and artificial intelligence (AI) processing are fueling the demand for data centers, while our aging population, need for outpatient facilities and legacy infrastructure are driving new projects in health care.

Suppliers feel positively about transportation demand and contractors see opportunities in institutional segments (e.g., health care and education), with more investment from the Inflation Reduction Act (IRA) and other government incentives. Manufacturers anticipate a significant increase in single-family residential construction.

Stakeholder groups agree that the office segment will continue to be challenged by continued remote work and stalled return-to-office efforts. Additionally, members perceive amusement and recreation, religious, and logistics and warehousing as having less favorable growth potential into 2025.

IN WHICH SEGMENTS DO KEY PLAYERS EXPECT THE MOST GROWTH AND DECLINE?

Compared to 2024, which segments will see the greatest growth or demand in 2025?

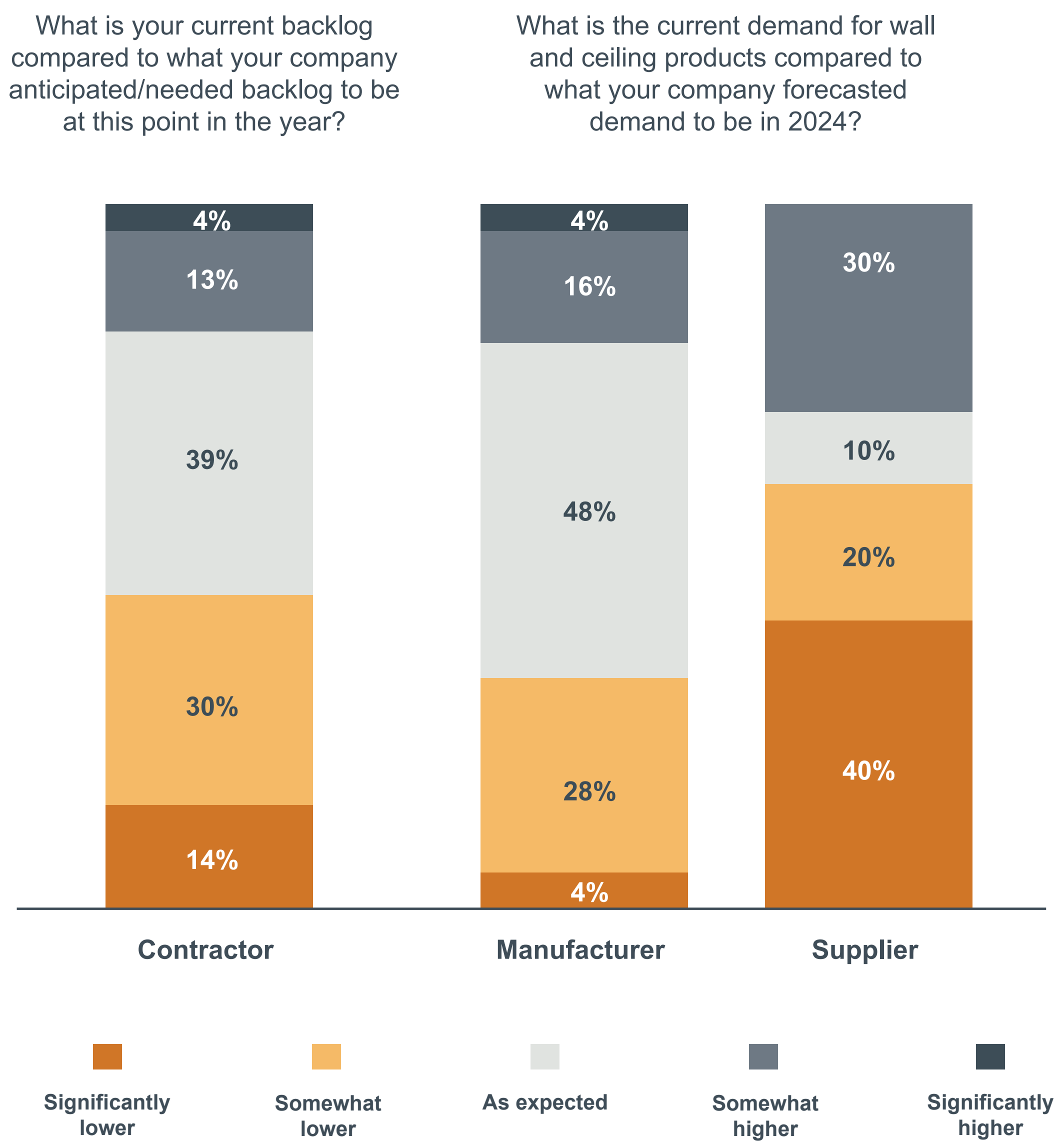


DEMAND AND BACKLOG (CURRENT VERSUS FORECASTED)

When asked about the current demand for wall and ceiling products relative to what they forecasted demand to be for 2024, 68% of manufacturers reported that demand is at or above the level they had expected, compared to 40% of suppliers.

Thirty-nine percent of contractors says their current backlog is at the level they forecasted in 2024. However, 44% indicated current backlog is below what they expected for 2024.

HOW DOES CURRENT DEMAND COMPARE TO FORECASTED DEMAND FOR 2024?



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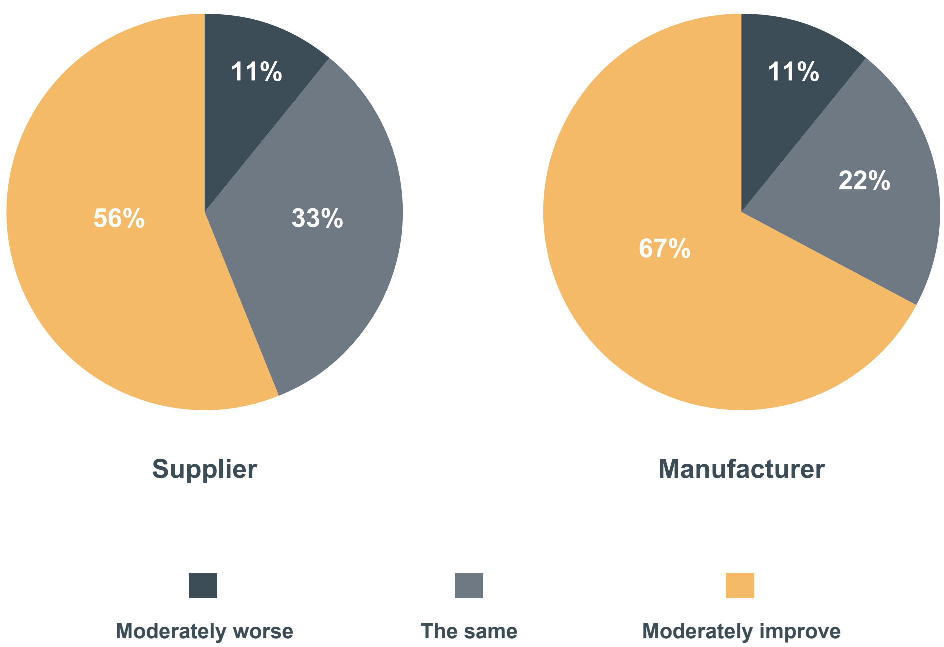
FUTURE EXPECTATIONS

Suppliers and manufacturers remain optimistic about the future, with more than two-thirds (67%) of suppliers and more than half of manufacturers (56%) expecting demand to improve moderately in the next 18 months.

WHAT ARE EXPECTATIONS OVER THE NEXT 18 MONTHS?



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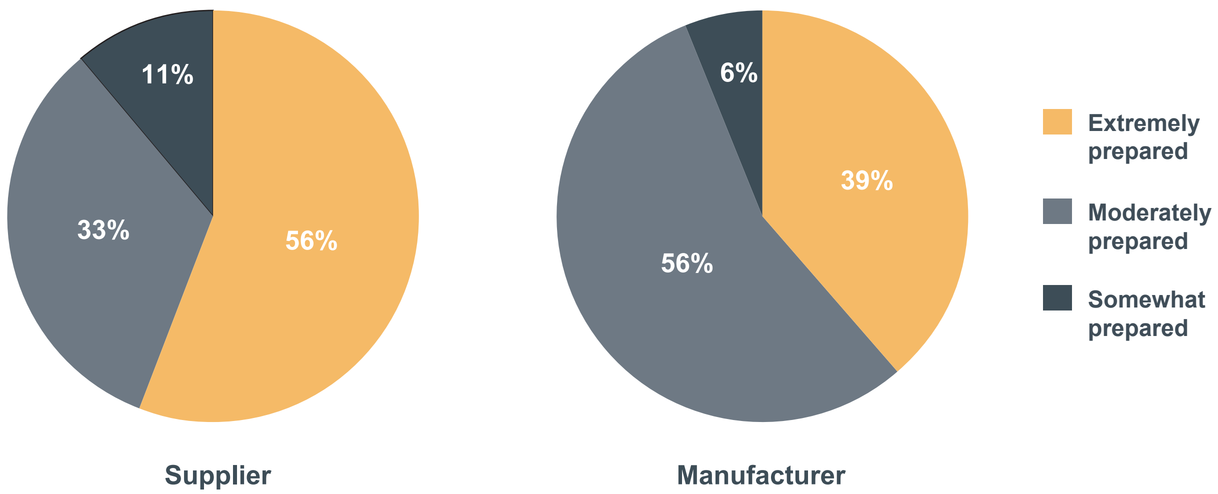
CAPACITY PREPAREDNESS AND COMPETITIVE LANDSCAPE

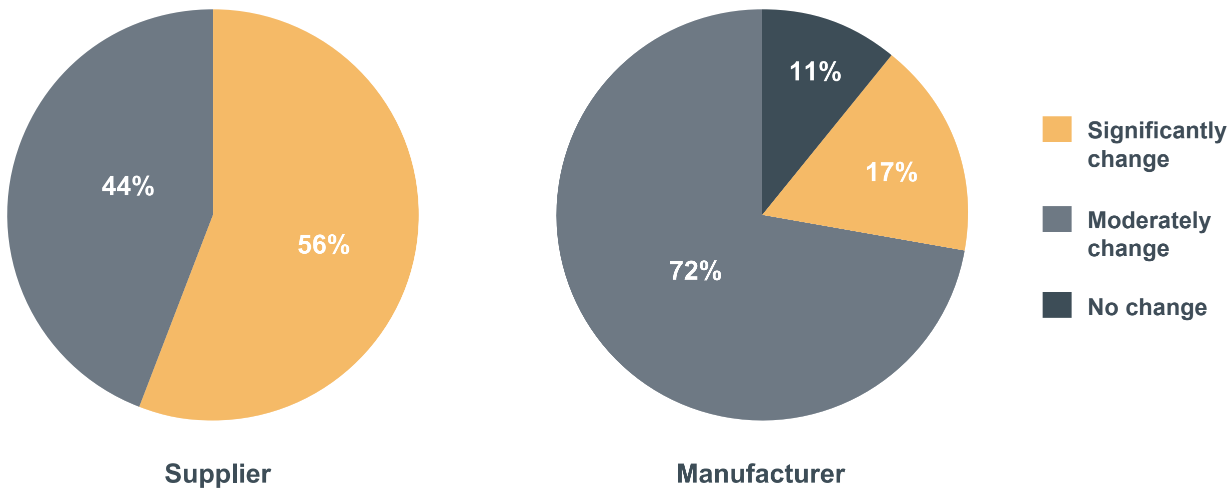
Among the suppliers and manufacturers surveyed, most in both groups indicated that they are moderately or extremely prepared to meet demand over the next 18 months. However, 56% of suppliers anticipate the competitive landscape will significantly change over the next 18 months. Respondents note that increased consolidation could cause price increases and constrain the supply chain.

HOW PREPARED ARE COMPANIES FOR DEMAND AND COMPETITION CHANGES?

How prepared from a capacity standpoint is your company to address demand over the next 18 months?



How do you anticipate the competitive landscape will change over the next 18 months?



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STRATEGIC PRIORITIES

For manufacturers and suppliers, product and service expansion are top strategic priorities, while contractors identify growth among current customers and segments as their biggest focus.

Contractors favor plans to grow volume with exising customers as well as increase market share within their current segments rather than chasing new business or territories. Manufacturers and suppliers plan to expand product offerings and services.

The acquisition of other businesses was rated as the lowest strategic priority across member groups; however, as companies look to expand product offerings and lines, acquisitions are cited as a potential way to achieve these strategic priorities.

WHAT ARE THE TOP STRATEGIC PRIORITIES IN THE INDUSTRY?

Strategic Priorities

Level of strategic priority: Highest (top) to Lowest (bottom)

Contractor	Manufacturer	Supplier
Increasing volume of work with existing customers	Introducing new products to the industry	Expanding our product offerings
Increasing market share within existing segment	Expanding our product line	Adding additional value-add services
Increasing product/ service offerings	Adding additional value-add services	Expanding geographically
Adding new capabilities	Expanding geographically	Acquiring other businesses
Entering new segments	Acquiring other businesses	
Acquiring other businesses		

Our survey showed that succession planning is also top of mind among respondents, particularly when it comes to developing the next generation of owners. Companies are developing relationships with next-generation owners of their clients' firms as well — seeking to understand how they buy, their motivation for running the business and what influences their decision making.

MARKET CHALLENGES AND CONCERNS

A key dynamic the study sought to assess was how well respondents understand the challenges faced by other member groups. The charts below highlight the perceptions contractors, manufacturers and suppliers have about each other's challenges.

TOP FIVE PRIMARY BUSINESS CHALLENGES ACROSS MEMBER TYPES



Contractor	Manufacturer	Supplier
Economic outlook	Talent availability	Economic outlook
Talent availability	Economic outlook	Cost escalations
People development	Cost escalations	Talent availability
Operational efficiency and productivity	People development	Political environment
Political environment	Political environment	People development

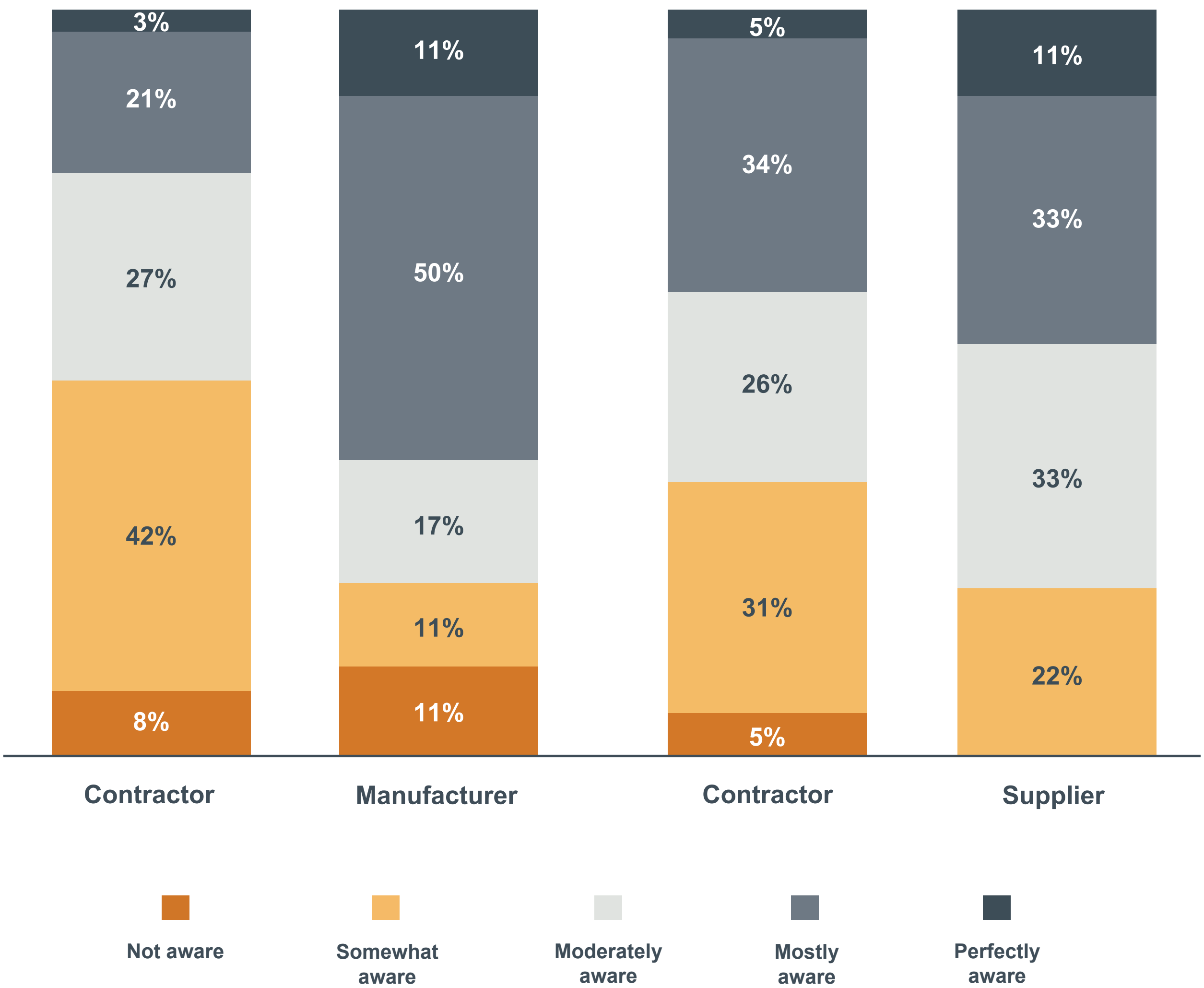
Manufacturers and suppliers agree with contractors on the top business challenges that contractors are facing, particularly around operational efficiency and productivity.

Discrepencies between contractors' perceptions of their businesses and what suppliers and manufacturers see as challenges began to arise when it comes to relationships, supply-chain, regulation and industry consolidation.

HOW ALIGNED ARE INDUSTRY PARTNERS IN UNDERSTANDING EACH OTHER'S CHALLENGES?

Contractors: How would you rate your manufacturer/supplier partners' awareness of the challenges your company is facing?

Manufacturer/Supplier: How would you rate your company's awareness of the challenges your contractor partners are facing?



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MANUFACTURING AND PROJECT DELIVERY

Despite industry dialogue emphasizing energy efficiency and sustainability, survey respondents indicated that decarbonization, energy efficiency and recycled materials have had less impact on their operations than other factors. Although sustainability continues to be a topic of conversation, it has not significantly influenced how products are manufactured and projects are delivered.

For manufacturers, supply-chain disruptions, raw material inputs and changing building codes are the factors with the most bearing on their operations. Contractors also cited supply-chain issues along with government incentives and design drawing as major influences.

WHAT FACTORS ARE IMPACTING MANUFACTURING AND PROJECT DELIVERY?

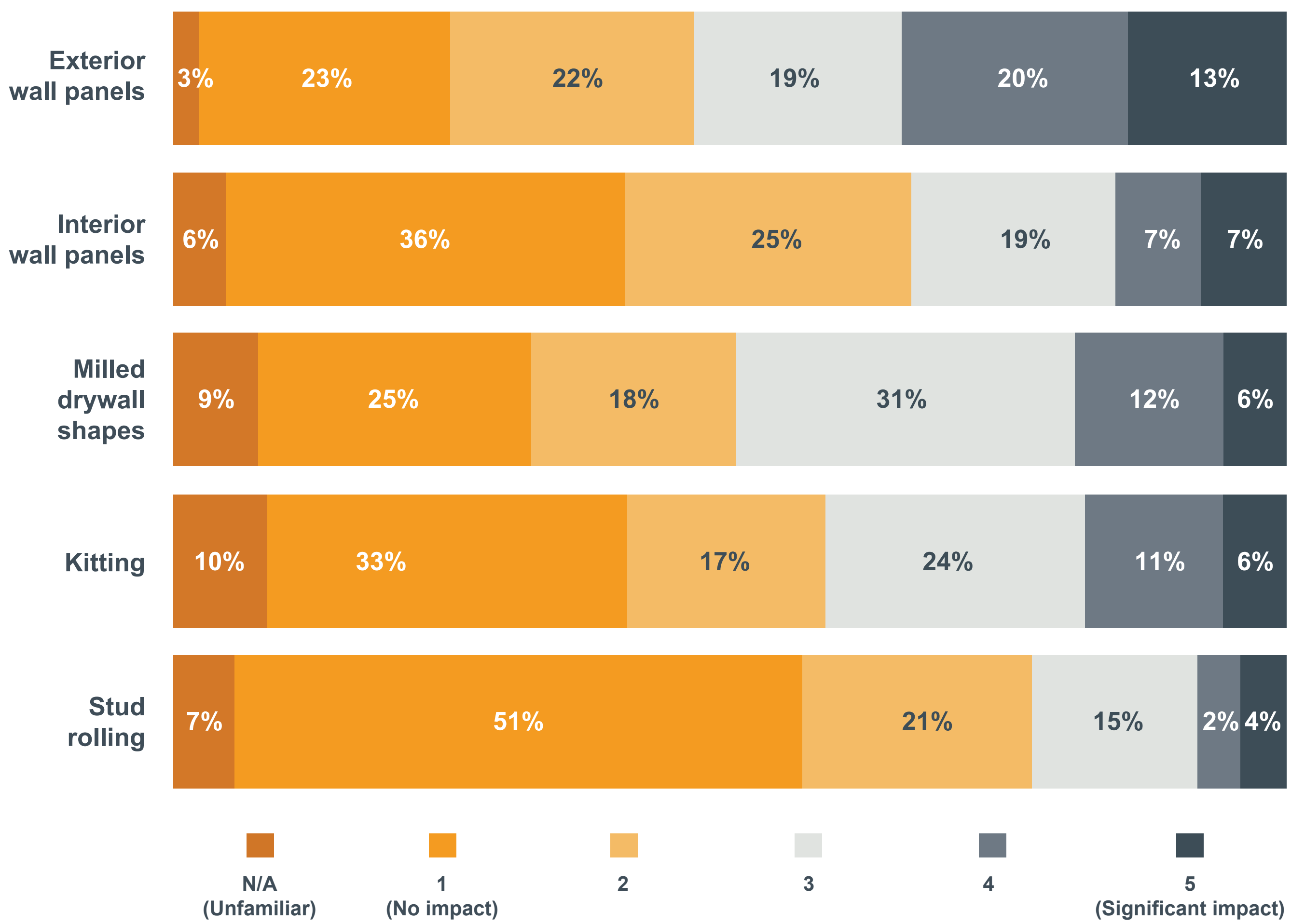
Contractor		Manufacturer
To what extent are the following factors impacting how your projects are delivered?		To what extent have the following factors impacted your company's manufacturing of products?
• Design drawings • Government initiatives • Supply chain	High Impact	• Supply chain • Raw material inputs • Changing building codes
• Changing building codes • Material restrictions • Prefab/modular requirements	Moderate Impact	• Government initiatives • Design drawings • Recycled materials
• Alternate delivery methods • Energy efficiency		• Prefab/modular requirements • Energy efficiency • Material restrictions
• Recycled materials • Decarbonization	Low Impact	• Decarbonization • Alternate delivery methods

PREFABRICATION/MODULAR

Although respondents note that adding new capabilities (e.g., prefabrication) is a mid-tier strategic priority, off-site construction methods were flagged as an opportunity to better address expedited project schedules and ongoing labor challenges. When asked about how prefabrication or modular construction would impact their businesses moving forward, contractors indicated that exterior wall panels, kitting and milled drywall shapes would have the greatest impact.

HOW CONTRACTORS EXPECT THESE MODES OF PREFABRICATION TO IMPACT THEIR BUSINESSES

Contractors were asked to rank the prefabrication mode on a scale of 1-5.



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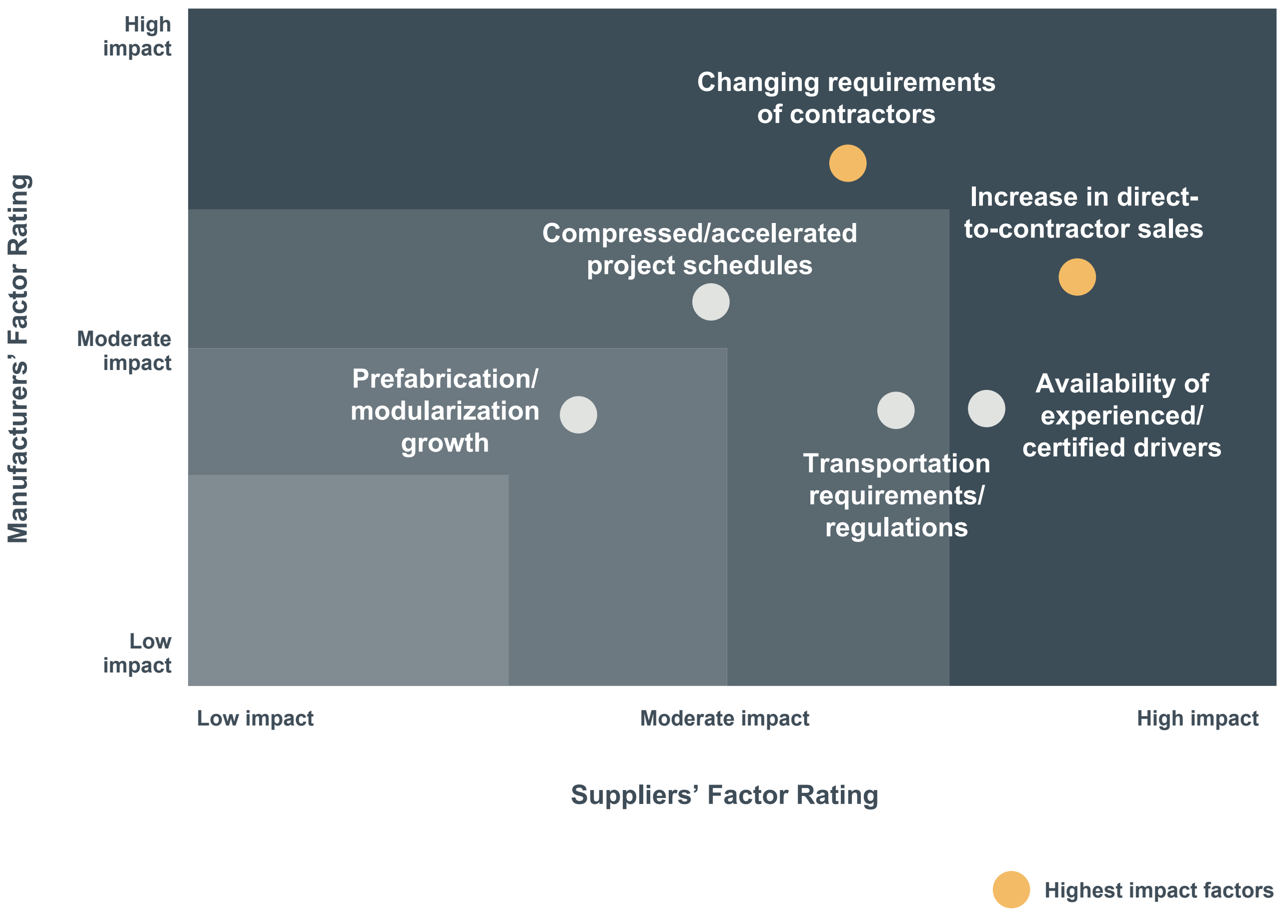
PRODUCT SUPPLY

According to manufacturers and suppliers, the trends that are most impacting product supply are changing requirements of contractors (perhaps related to material restrictions and evolving building codes) and the increased demand for direct-to-contractor sales.

Self-distribution among manufacturers was relatively low and focused on specialized systems or specific products. Supplier members also face difficulties on the logistics front, as an industry-wide shortage of certified drivers has made it more challenging to transport goods.

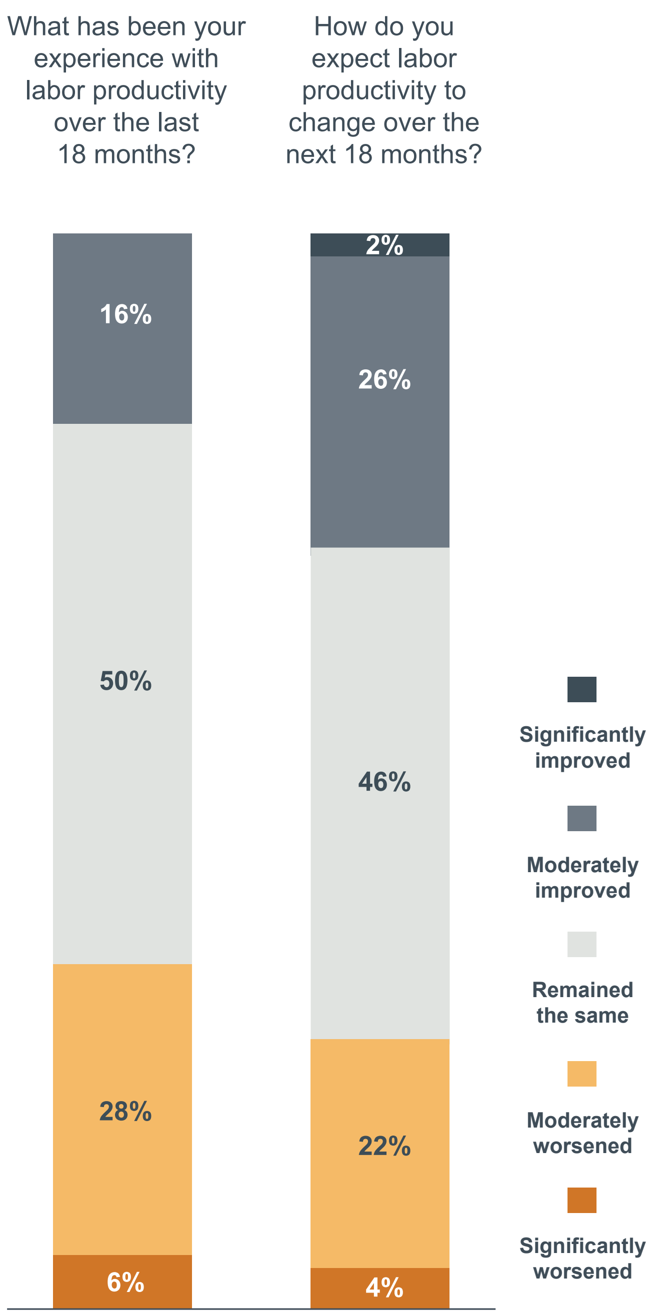
WHAT HAS THE GREATEST IMPACT ON THE SUPPLY OF PRODUCTS?



CONTRACTOR LABOR AND WORKFORCE DYNAMICS

Contractors expected minimal improvement in labor productivity over the past 18 months, largely due to critical shortages in skilled labor and field management — roles representing a large percentage of the total workforce. However, contractors are more optimistic that labor productivity will improve over the next 18 months, with 28% anticipating improvement. That said, 46% believe labor productivity will remain the same.

WHAT ARE THE TRENDS IN LABOR PRODUCTIVITY AND WORKFORCE NEEDS?



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INNOVATION AND TECHNOLOGY

When asked how various technologies/competencies would impact member companies moving forward, three areas rose to the top for each member group.

1

Suppliers indicate that logistics and inventory tracking technology/software, as well as vehicle monitoring technology, will have the greatest impact on their businesses. These technologies can help suppliers better understand their product movement and delivery, and in the case of vehicle monitoring, ensure the protection and safety of drivers and inform customers where their products are at in the delivery process and when delivery is expected.

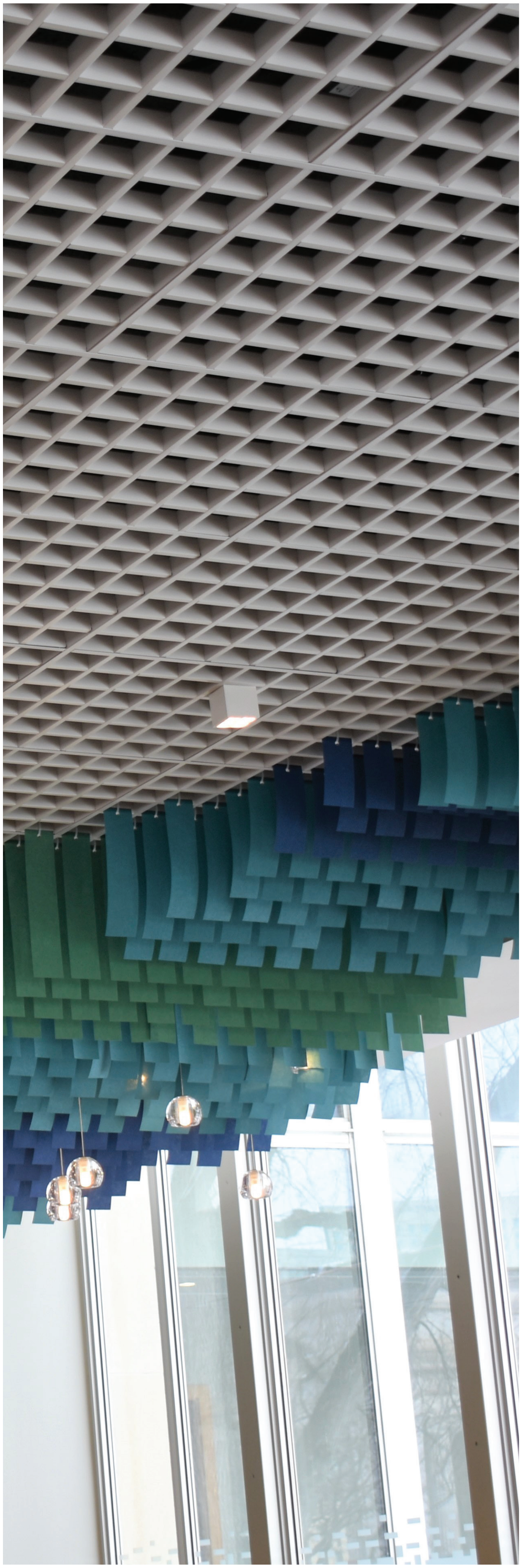
2

Research and development for manufacturers is focused on how the market is evolving and what products could be developed to alleviate key pain points and challenges for customers. In addition, survey respondents emphasized the role of automation and how manufacturers' production facilities can better track productivity.

3

For contractors, building information modeling (BIM) is becoming a project requirement. Possessing the internal capabilities and knowledge to effectively utilize these programs will help contractors improve project delivery. Robotics is an emerging opportunity for contractors in the framing and drywall space. Contractors are assessing how to best incorporate these technologies.

Lastly, AI is increasingly impacting members' businesses. Currently, members are using it to varying degrees, but anticipate that further adoption of AI will help them drive their businesses forward.



CONCLUSION

By achieving a firm grasp of how each member group (contractors, manufacturers and suppliers) is assessing their company's economic outlook, strategic priorities, major challenges and competitive landscape, members can improve alignment on business priorities. This not only allows the company to better serve the industry but also strengthens its foundation for partnerships and ability to address the needs of each member group. In establishing clarity around strategic priorities, challenges and future market expectations for each group, companies can work cohesively to best address the changing needs of the market moving forward.

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ABOUT AWCI

AWCI represents nearly 2,400 companies and organizations in the acoustics systems, ceiling systems, drywall systems, exterior insulation and finish systems, fireproofing, insulation, prefabrication/panelization and stucco industries. Our members are contractors, manufacturers and suppliers and those in allied trades. Our mission is to connect people in the wall and ceiling industry to innovate, grow and succeed.

ABOUT THE FOUNDATION

The Foundation of the Wall and Ceiling Industry was formed in 1977 to unite and expand the educational and research activities available to contractors, manufacturers, suppliers and the public in general. It is an IRS designated non-profit 501(c)(3) corporation. The Foundation's mission is to provide resources to grow, research to inform, and philanthropy to CARE, in support of the wall and ceiling industry.

ABOUT FMI

FMI is a leading consulting and investment banking firm dedicated to serving companies working within the built environment. Our professionals are industry insiders who understand your operating environment, challenges and opportunities. FMI's sector expertise and broad range of solutions help our clients discover value drivers, build resilient teams, streamline operations, grow with confidence and sell with optimal results.

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