

# the building product advisor

A PUBLICATION FOCUSED ON MERGERS, ACQUISITIONS, & CORPORATE FINANCE IN THE BUILDING PRODUCT INDUSTRY

## The Raw Story

In the last 3 years, the price of steel has doubled, copper and zinc have tripled, and the costs of gypsum, cement, and petroleum have increased dramatically. Despite these price hikes, building activity has been robust. Builders and building product manufacturers easily recouped these costs by raising prices, without much resistance from homebuyers – until now. Rising mortgage rates coupled with high 'entry level' home pricing is prompting predictions that home sales will fall in 2006 for the first time since 2000.

Analysts report that the world's mining industry has been unable to keep up with demand for copper and zinc. Copper prices have risen by nearly 60% over the last year, and forecasters predict a production shortfall, as demand will grow roughly 6% in 2006. Zinc, used in steelmaking, is up nearly 30% in less than three months, and by 80% over the last year. In late March, inventories in the world's three major metal exchanges totaled only 4 days of global consumption for copper, and 11 days for zinc.

Shortages of cement were widespread in 2005, prompting industry demands that tariffs on Mexican cement be lifted. An easing of the limits will take place in April 2006, reducing the tariff from \$26 per ton to \$3 per ton, and raising the import limit to 3 million metric tons per year. Unfortunately, this increase will not satisfy the US shortfall.

Asphalt, made by mixing crushed stone or gravel with bitumen, is also expected to be in short supply in 2006. Bitumen is the tar-like residue remaining after gasoline, jet fuel, diesel, and kerosene are processed out of crude oil. Shortages are occurring as refineries, faced with \$60+/barrel oil prices, move away from producing bitumen, and instead invest in the equipment needed to refine the tar into gasoline and other higher margin products. Meanwhile, road building activity in 2006 is expected to rise 8% from 2005.

Gypsum, for wallboard, rose by 20% in 2004, 18% last year and already has gone up 4.5% since the beginning of 2006. Prices for PVC pipe and other construction plastics have jumped 21% over the last year, largely because of soaring costs for natural gas and increases in resin prices.

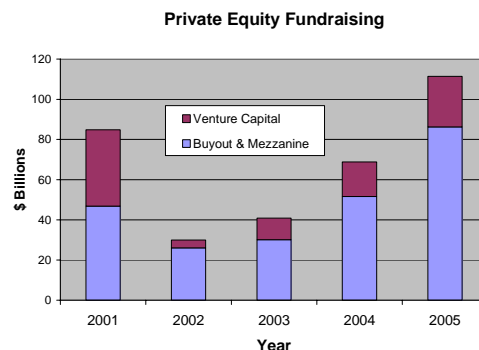
What will be the result of these raw material increases? Higher home prices are one obvious effect. Everything from the driveway to the walls to the bathtub now costs more to manufacture. The increase in building cost is one of the major reasons why a slowdown is predicted for 2006. Price hikes,

*(Continued on page 2)*

## Private Equity Pouring In

Private equity fundraising reached record levels in 2005, sparked by investors wearied by anemic stock market returns and dizzying real estate prices. According to Thomson Venture Economics, 159 buyout/mezzanine firms raised \$86.2 billion last year. This was a 67% increase over 2004, and the highest total ever. Combined with \$25.2 billion in Venture Capital fundraising, this equates to \$110 billion ready to be spent on ownership in private companies. Add in the hedge funds crossing over into private equity investing, and you have the makings of a buyout feeding frenzy as the funds feel pressure to spend the money they've raised.

We have already seen evidence of this, as competition for good companies is reaching all-time highs. The result is not only higher values for sellers of private companies, but also better deal execution as buyers seek to gain advantage by differentiating themselves in ways other than price. Speed to close, lack of a financing contingency, limited escrows and minimizing reps and warranties are all being used as ways to gain advantage in a competitive auction situation.



## Second Homes Now 40% of the Market

For those looking for the Achilles heel of the home building market, this is it - in 2005 second homes accounted for 40% of the real estate market! Nearly 28% of homes bought last year were for investment purposes, and an additional 12% were vacation homes. Most of the buyers were baby boomers in their top earning years, looking toward retirement and hoping to build wealth or find a more desirable place to live.

The trend really started after 1997, when Congress changed the tax code, allowing most homeowners to duck capital gains taxes when they sold their homes. Under the old system, the only way to avoid the tax was to "roll" the gains into another home of equal or greater value. Americans bought bigger and costlier homes. But now, they can downsize and use the equity built up

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## BIG DEAL

### *Fidelity Acquires Lanoga to Create Industry Powerhouse*

Lanoga Corp, the 3rd largest professional building materials dealer in the country, has been acquired by Fidelity Capital, owner of The Strober Organization, marking the formation of a new parent company called Pro-Build Holdings. Following the acquisition, Pro-Build Holdings will oversee 420 building products locations in 38 states with more than 14,000 employees and projected 2006 revenues of nearly \$5 billion.

### *Home Depot Accelerates Pro Market Push by Acquiring Hughes Supply*

In the largest acquisition in company history, The Home Depot has taken a giant leap forward in its pro market strategy with the \$3.4 billion acquisition of Hughes Supply. The acquisition more than doubles HD Supply's business to \$9.5 billion in revenue, and is the latest and largest in a series of acquisitions intended to turn HD into the dominant player in the \$400 billion/year professional market.

### *Fortune Brands acquires SBR, parent of Simonton Windows*

Fortune Brands, maker of Moen faucets, MasterBrand and Omega cabinets and ThermaTru windows & doors, has agreed to acquire SBR, Inc. for \$630 million. SBR's largest division is Simonton Windows, a major seller of vinyl windows and hurricane-resistant windows. Other SBR brands include Fypon urethane millwork and cellular PVC sheet extrusion, and Dixie-Pacific columns. Look for Fortune to dispose of Dixie as well as some of SBR's other lesser businesses, as it is not Fortune's strategy to participate in niche markets.

*(Raw story—continued from page 1)*

easier to get in a rising market, will be much more difficult to obtain in a declining market. Builders and building product manufacturers will see increasing pressure on their margins in 2006.

Perhaps the biggest effect of the increase in raw material prices is that it will accelerate the pace of industry consolidation. The building industry as a whole is geared up to produce homes at the 2005 record levels. Any decrease from those levels inevitably leads to excess capacity across sectors of the industry. The least efficient producers will be unable to sustain themselves in an environment with increased margin pressures, and will be "shaken out" of the market to bring capacity more in line with current demand. This shake out can be simply going out of business, but it will more often mean selling the company to a strategic acquirer that can benefit from the cost synergies of scale.

In the M&A market, evidence of the resurgence of strategic acquirers is already being seen. For the past several years, financial buyers have been preeminent in the market. The traditional rule of thumb whereby strategic buyers can and will pay more for companies was turned upside down. Cheap and plentiful debt allowed financial buyers to pay big prices for their acquisitions. Meanwhile, their strategic competition was busy making money in the booming construction market, and had extremely attractive opportunities to allocate their capital to internal development. With the building market expected to decline, the ability to consolidate production facilities, purchasing and labor forces gives strategics a great advantage vs. financial buyers, who typically do not have such cost saving opportunities.

## ABOUT CAPSTONE:

Capstone Financial Group is an investment banking firm that specializes in assisting owners of middle market companies with their financial needs:

- Mergers and acquisitions
- Recapitalizations
- Private placements

Managing Director, Porter Wiley has extensive experience focusing exclusively on the building products sector, both with Capstone and a major Wall Street firm. He has completed transactions for companies in a wide variety of businesses:

- |                                  |                           |
|----------------------------------|---------------------------|
| ● Bath & Plumbing                | ● Concrete & Aggregates   |
| ● Windows & Doors                | ● Roofing & Waterproofing |
| ● Building Products Distribution | ● Lighting & Electrical   |
| ● Cabinets & Millwork            | ● HVAC                    |
|                                  | ● Tile & Flooring         |

## Going Public

Despite the projected downturn in residential construction in 2006, the public equity markets continue to be receptive to new issues of building product manufacturers.

Goodman Global Inc., a Houston, TX-based HVAC manufacturer, priced its IPO of 23.5MM shares at \$18 on April 5th, the high end of its proposed range—representing a 9.3x multiple of EBITDA. Goodman will trade on the NYSE under ticker symbol GGL.

PGT Inc., a FL-based manufacturer of impact-resistant windows and doors, has filed to raise \$150MM via an IPO of common shares. It plans to trade on the Nasdaq as PGTI. JLL Partners acquired PGT in January 2004.

*(2nd Homes—continued from page 1)*

in their homes to buy second homes. "That's what spurred all this on in the beginning," says David Lereah, the NAR's chief economist. "It's like all the stars are aligned. The tax situations helped, but at the same time, baby boomers were entering their peak earning years. That's why we just boomed in second homes."

He thinks the trend crested in 2005. With rising interest rates, tighter lending standards and slower price appreciation, Lereah expects second-home sales to drop this year to 30% of all existing-home sales, and maybe into the 20% range.

Real estate, over the past five years, has outperformed virtually every other investment vehicle. History suggests that will not last. Capital invested in the real estate market can be reallocated to stocks, bonds and other investment choices. "What's going to be leaving the market right now are the speculative investors who came into the market and were trying to flip homes," Lereah says. "They were buying one, two, three or four properties at a time, and that was distorting the numbers."

Announce Date	Target	Target Description	Acquirer	Firm Value	Revenue FV / Rev.	EBITDA FV / EBITDA
3/31/2006	Arkla Cementing, Inc.	AR and LA provider of cementing services to oil and gas mkt	Basic Energy Services, Inc.	\$5.0	-	-
3/31/2006	Highland Manufacturing Company	MN mfr of manufactured homes sold by Norwest Equity	Champion Enterprises, Inc.	-	\$32.0	-
3/27/2006	Adams Rite Manufacturing Co.	CA mfr of mechanical and electrical security products	ASSA ABLOY	-	\$50.0	-
3/22/2006	Spear & Jackson	UK mfr of hand and garden tools, Jacuzzi selling majority interest	United Pacific Industries	\$8.0	-	-
3/21/2006	Capital Drywall, Inc.	Goense will combine L&S Plumbing, Melco Elec, and Capital Drywall to form US Builder Services, LLC	Goense Bounds	-	-	-
3/21/2006	Roxbury Ready-Mix	VA 2-location ready mix operation	Ennstone PLC	\$7.4	-	-
3/16/2006	Ready Mixed Concrete Co.	southeastern US concrete co sold by Audax	Cementos Argos	\$435.0	-	-
3/16/2006	Merlin Garage Door Ltd.	New Zealand mfr of garage door openers	Chamberlain Group, Inc.	-	-	-
3/16/2006	Western Window Systems LLC	AZ mfr of custom windows	Bush O'Donnell Capital Partners	-	-	-
3/15/2006	Republic Storage Systems Co., Inc.	OH mfr of storage lockers and storage system products	Monomoy Capital Partners	\$20.0	-	-
3/14/2006	Callaway Building Products	TN provider of rebar and concrete construction products	Gerdau Ameristeel	-	-	-
3/9/2006	Comark Buildings Systems, Inc.	TX mfr of modular buildings, sold by Brazos P.E. Partners	Carlyle Venture Partners	-	-	-
3/7/2006	Pacific Sales Kitchen and Bath Centers	14 location home improvement retailer in CA	Best Buy Co., Inc.	\$515.0	-	-
3/7/2006	Appolo Heating, Inc.	upstate NY HVAC installer	Moro Corporation	-	-	-
3/6/2006	American Homes Intl	Mexican supplier of commercial mobile/modular buildings	Williams Scotsman	-	-	-
3/3/2006	Schlegel Building Products	mfg of sealing systems for windows and doors	Lupus Capital	-	\$125.0	-
3/2/2006	Keys Concrete	FL ready mixed co. with 7 plants	Rinker Group	-	\$75.0	-
3/2/2006	div. of Leaman Building Materials	3 Houston area distribution locations	BMC West Corporation	-	-	-
3/2/2006	Material Service Corp	aggregates producer bought from General Dynamics	Hanson PLC	\$300.0	\$160.0 1.9x	\$40.0 7.5x
3/2/2006	Vector Products, Inc.	mfr of consumer portable power products	Black & Decker	\$160.0	\$150.0 1.1x	-
3/2/2006	Civil and Marine Holdings, Ltd	ground granulated blast furnace slag cement	Hanson PLC	\$430.0	-	-
3/2/2006	Silver State Materials, LLC	Las Vegas ready-mixed provider	Audax Group	-	-	-
3/2/2006	John Maneely Co.	US pipe mfr with 7 plants in OH, IL, PA, AR, and TX	Carlyle Group	\$500.0	\$700.0 .7x	-
2/29/2006	VersaStone, Inc.	mfr of composite building supplies and decorative products	Consolidated American Ind. Corp.	-	-	-
2/27/2006	Florida Tile Industries	tile mfr sold by Milestone Capital	Panariagroup Industrie Ceramiche	-	-	-
2/27/2006	Miller Building Systems	mfr of modular building systems sold by Coachmen	Opus Acquisitions Group	\$11.5	\$41.6 .3x	-
2/27/2006	Caledonian Building Systems	UK mfr of modular steel framed buildings	Champion Enterprises, Inc.	\$110.0	-	-
2/25/2006	NuCedar Mills, Inc.	acquired 51% of start-up using PVC technology	Jain Irrigation Systems Ltd	\$3.0	-	-
2/21/2006	Robertson-Ceco Corporation	leader in the metal buildings industry	NCI Building Systems, Inc.	\$370.0	\$430.0 .9x	-
2/20/2006	Grifco Precision Products	AU and NZ mfr of industrial door operators	Chamberlain Group, Inc.	-	-	-
2/16/2006	Maracay Homes LLC	Tucson, AZ area homebuilder	Weyerhaeuser Co.	-	-	-
2/11/2006	SBR, Inc.	WV based owner of Simonton Windows and others	Fortune Brands	\$630.0	\$565.0 1.1x	-
2/10/2006	Alenco Windows	TX based window mfr, sold by Lansalata Capital Partners	Ply Gem Industries	\$120.0	-	-
2/13/2006	Custom Building Products	CA producer of tile and stone installation products	RPM's DAP, Inc.	-	-	-
2/9/2006	Pioneer Concrete	DE 4-location ready mix operation	Oldcastle Materials	-	-	-
2/9/2006	Universal Supply Co., Inc.	7 location NJ building materials distributor	Stock Building Supply	-	\$142.0	-
2/8/2006	AWC Holding Co. (Alenco Windows)	KS mfr of aluminum and vinyl windows and doors	Ply Gem Industries	\$120.0	-	-
2/8/2006	Antique Masonry Products	security and construction firm sold by Devcon Intl Corp	group of investors	\$5.1	-	-
2/8/2006	Newington Concrete Corp	Northern VA 4-plant operation	Florida Rock Industries	-	-	-
2/6/2006	Design Masonry, Inc. and John Ginger Masonry	2 CA masonry businesses - merged to form "The Masonry Group"	Graham Partners	-	-	-
2/6/2006	26.2% of Builders First Source	sold by JLL Partners	Warburg Pincus	-	\$2,337.7	\$144.3
2/3/2006	Arbec Forest Products, Inc.	mfr softwood lumber	Jolina Capital	-	\$138.7	\$5.6
2/1/2006	Lanoga Corporation	national professional building materials dealer	The Strober Organization	-	\$2,750.0	-
1/31/2006	Nevamar Company LLC	CT mfr of decorative laminates	Panolam Industries, Inc.	-	-	-
1/31/2006	SI Geosolutions and SI Concrete Systems	sold by Investcorp	Propex Fabrics	-	-	-
1/30/2006	Roanoke Companies Group	IL based mfr of pre-mix grout	H.B. Fuller Company	\$270.0	-	-
1/20/2006	Parker Chandler Homes	homebuilder in Atlanta, Charlotte, and Myrtle Beach markets	Comstock Homebuilding	-	-	-
1/10/2006	Hughes Supply	building product distributor serving professional market	Home Depot	\$3,395.0	\$5,437.7 .6x	\$309.9 11.0x
1/6/2006	Pulte Mexico	Pulte Homes' Mexico homebuilding division	Walton Street Capital	\$131.5	\$201.0 .7x	-

	Current share price	Market value	Total firm value	LTM revenue	LTM EBITDA	LTM EBIT	LTM EBITDA margin	LTM net income	12 mo Forward EPS	Book value	Total debt / EBITDA	
<b>DISTRIBUTORS</b>												
				Firm value as a multiple of:				Market value as a multiple of:				
Home Depot <sup>(1)</sup>	\$42.30	89,549.1	96,223.0	86,948.7	11,144.9	9,638.9	12.8%	\$5,989.7	3.07	\$26,909.0	.6x	
				1.1x	8.6x	10.0x		15.0x	13.8x	3.3x		
Lowe's Companies, Inc.	64.44	50,386.9	53,041.9	43,243.0	5,689.0	4,664.0	13.2%	2,771.0	4.05	14,339.0	.6x	
				1.2x	9.3x	11.4x		18.2x	15.9x	3.5x		
Wolseley plc	£14.30	8,467.7	10,138.7	12,660.3	911.2	733.6	7.2%	512.3	-	2,455.0	1.8x	
				.8x	11.1x	13.8x		16.5x	-	3.4x		
Watsco, Inc.	71.05	1,959.6	1,982.0	1,682.7	125.5	116.5	7.5%	70.0	2.97	678.7	.4x	
				1.2x	15.8x	17.0x		28.0x	23.9x	2.9x		
Beacon Roofing Supply, Inc. <sup>(2)</sup>	40.64	1,175.7	1,372.8	1,262.6	102.7	89.1	8.1%	49.1	1.60	246.5	2.0x	
				1.1x	13.4x	15.4x		24.0x	25.4x	4.8x		
Building Materials Holding Corp	35.64	1,030.7	1,299.3	2,912.2	267.4	239.4	9.2%	129.5	9.06	470.1	1.1x	
				.4x	4.9x	5.4x		8.0x	3.9x	2.2x		
Builders FirstSource, Inc.	22.71	744.0	1,028.2	2,337.8	144.3	125.2	6.2%	48.6	2.62	171.1	2.2x	
				.4x	7.1x	8.2x		15.3x	8.7x	4.3x		
Bluelinx Holdings, Inc.	16.00	483.8	1,062.8	5,622.1	134.4	115.7	2.4%	44.6	1.42	183.9	4.5x	
				.2x	7.9x	9.2x		10.8x	11.3x	2.6x		
Canwel Building Products <sup>(3)</sup>	C\$ 4.84	123.5	217.4	1,000.1	25.1	18.1	2.5%	9.4	0.65	110.1	3.7x	
				.2x	8.7x	12.0x		13.2x	7.4x	1.1x		
Huttig Building Products	9.31	187.8	219.6	1,097.2	37.7	32.1	3.4%	17.1	1.01	114.9	.9x	
				.2x	5.8x	6.8x		11.0x	9.2x	1.6x		
			MEAN	.7x	10.9x	7.2%	16.0x	13.3x	3.0x	1.8x		
			MEDIAN	.6x	8.7x	10.7x	7.3%	15.1x	11.3x	3.1x	1.5x	

**LARGE CAP BUILDING PRODUCTS**

Masco	\$32.49	\$13,525.6	16,308.6	12,642.0	1,818.0	1,577.0	14.4%	940.0	2.42	4,848.0	2.6x
				1.3x	9.0x	10.3x		14.4x	13.4x	2.8x	
American Standard	42.86	8,781.2	10,086.7	10,264.4	1,111.9	844.2	10.8%	556.3	2.71	922.5	1.5x
				1.0x	9.1x	11.9x		15.8x	15.8x	9.5x	
Black & Decker	86.89	6,723.5	7,508.4	6,523.7	963.7	813.1	14.8%	543.9	7.34	1,523.6	1.8x
				1.2x	7.8x	9.2x		12.4x	11.8x	4.4x	
Sherwin Williams	49.44	6,686.8	7,306.6	7,190.7	897.7	754.1	12.5%	463.3	3.85	1,730.6	.7x
				1.0x	8.1x	9.7x		14.4x	12.8x	3.9x	
Mohawk <sup>(4)</sup>	80.72	5,458.3	8,632.1	7,443.4	1,020.6	826.2	13.7%	366.5	6.64	3,027.1	3.2x
				1.2x	8.5x	10.4x		14.9x	12.2x	1.8x	
Stanley Works <sup>(5)</sup>	50.66	4,218.5	4,626.2	3,285.3	541.0	444.5	16.5%	269.6	3.47	1,444.9	2.0x
				1.4x	8.6x	10.4x		15.6x	14.6x	2.9x	
James Hardie <sup>(6)</sup>	34.00	3,143.0	3,115.7	1,415.1	335.8	292.3	23.7%	190.5	2.46	740.0	.4x
				2.2x	9.3x	10.7x		16.5x	13.8x	4.2x	
RPM <sup>(7)</sup>	17.94	2,121.6	2,884.7	2,757.5	338.0	269.7	12.3%	156.0	1.35	1,099.2	2.6x
				1.0x	8.5x	10.7x		13.6x	13.3x	1.9x	
			MEAN	1.3x	8.6x	10.4x	14.8%	14.7x	13.5x	3.9x	1.8x
			MEDIAN	1.2x	8.5x	10.4x	14.0%	14.7x	13.4x	3.4x	1.9x

**MID CAP BUILDING PRODUCTS**

Lennox International	\$29.86	\$2,132.0	2,029.0	3,366.2	243.0	205.6	7.2%	150.7	2.04	794.4	.5x
				.6x	8.3x	9.9x		14.1x	14.6x	2.7x	
Royal Group Technologies	C\$ 10.90	1,018.5	1,568.3	1,875.9	138.3	(3.0)	7.4%	(34.8)	0.45	1,346.3	3.9x
				.8x	11.3x	NM		NM	24.2x	.8x	
Genlyte Group	68.14	1,911.3	1,999.7	1,252.2	178.5	149.3	14.3%	84.8	3.44	545.6	.9x
				1.6x	11.2x	13.4x		22.5x	19.8x	3.5x	
Jacuzzi <sup>(8)</sup>	9.83	762.5	1,051.4	1,119.5	132.3	105.8	11.8%	58.5	0.50	294.0	3.1x
				.9x	7.9x	9.9x		13.0x	19.7x	2.6x	
Elkcorp <sup>(9)</sup>	33.75	688.8	825.7	849.4	103.5	78.4	12.2%	42.4	2.40	296.8	2.0x
				1.0x	8.0x	10.5x		16.2x	14.1x	2.3x	
American Woodmark	35.50	569.1	565.9	828.4	81.1	44.0	9.8%	27.2	1.80	224.3	.4x
				.7x	7.0x	12.9x		21.0x	19.7x	2.5x	
International Aluminum	41.09	177.1	159.9	263.1	28.0	22.0	10.7%	14.3	NA	126.6	.0x
				.6x	5.7x	7.3x		12.4x		1.4x	
			MEAN	.9x	8.5x	10.6x	10.5%	16.5x	18.7x	2.3x	1.5x
			MEDIAN	.8x	8.0x	10.2x	10.7%	15.2x	19.7x	2.5x	.9x

Share price as of 3/31/06

(1) Home Depot is pro forma for acquisition of Hughes Supply.

(2) Beacon is pro forma for the 10/05 acquisition of Shelter Distribution, which has \$342.4MM in revenue and an estimated \$28MM in EBITDA (8.1%). Not pro forma for acquisition of Easton Wholesale (\$9.3MM in revenue) and Insulation Systems, Inc. of Virginia (\$19MM in revenue)

(3) CanWel is not pro forma for the acquisition of Sodixco Howden

(4) Mohawk is pro forma for 10/05 acquisition of Unilin Holding NV

(5) Stanley Works is not pro forma for acquisition of National Hardware nor Facom Tools

(6) James Hardie is not pro forma for \$18.4MM in 'Special Commission of Inquiry' related expenses; primarily legal expenditures concerning asbestos

(7) RPM is not pro forma for the acquisition of Illbruck. \$61MM related to asbestos charges added back to EBIT and EBITDA. \$40MM added back to net income for after tax effects of asbestos reserve charges.

(8) Jacuzzi is pro forma for the divestitures of Rexair and Eljer Plumbingware

(9) Elk is not pro forma for the acquisition RGM Products and the divestiture of Ortloff Engineers

All figures in millions except Share Price and EPS

NM is Not Meaningful, and is not included in the calculation of Mean

Firm Value = Market Cap + Debt + Minority Interest + Preferred Stock - Cash & Equivalents