



THE BUILDING PRODUCT ADVISOR

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

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HOME DEPOT ACCELERATES MOVE INTO PRO MARKET

In a move to bolster its business with contractors and professionals, Home Depot purchased White Cap Construction Supply from Leonard Green & Partners for an undisclosed price. With sales of approximately \$500 million from its 70 branches in 17 states, White Cap is one of the larger players in a highly fragmented industry.

White Cap offers 65,000 in-stock products including brand-name construction materials, hand tools, fasteners, safety equipment,

power tools and equipment, work-wear and landscape lighting.

Approximately 60% of White Cap's sales are delivered to the job site, while the remaining 40 percent are purchased at branch locations. Founded in 1976 with a single store in Santa Ana, CA, White Cap has grown aggressively through a series of acquisitions – 16 in the last seven years alone.

Home Depot's Plan

Home Depot has a definite strategy to be the leading distributor

to professional contractors. "What we're trying to do here is get a higher penetration of that pro wallet," Arthur Blank has said. For good reason – pro customers spend twice as much per visit as the average DIYer. And, at an estimated \$400 billion, the professional market is twice the size of the DIY market.

In 1996, Home Depot took its first baby step into the pro market with the purchase of San Diego's

(Continued on page 2, see "Home Depot")

A RUN ON WINDOWS

Over the past six months, there have been a large number of window manufacturers changing hands, with financial buyers eagerly snapping them up. Ply-Gem, Atrium, Therma-Tru and PGT are just a few of the higher profile deals to have occurred in the past six months. There have been quite a few smaller transactions as well. And rumor has it that there are a number of other sizable companies being shopped right now. What gives?

First and foremost – valuations for window companies are at high levels. This is caused by a number of factors. Importantly for financial

buyers, the strong high yield market has offered relatively cheap long-term credit, and lots of it. Leverage multiples are north of five times cash flow for some deals. As leverage multiples increase, financial sponsors can pay higher prices for properties and still hit their targeted returns because the percentage of equity they are required to put into a deal is decreased.

One might think that the expected cooling of the new construction market as interest rates are expected to rise would temper prices a bit. But as the installed base of U.S. housing

stock continues to grow and age, remodeling is accounting for more and more of window sales.

And then there's China. Or the lack of China. Windows are bulky, difficult to ship and often semi or fully customized. All these attributes greatly diminish the threat of cheap Asian competition. The result is that window competition tends to be highly regional, another positive attraction.

While much of the focus here is on the larger deals, there is a great deal of activity in the middle market as well. New owners of the larger companies are aggressively filling geographic holes in their distribution.

GROHE CHANGES HANDS

On June 7, 2004, German faucet manufacturer Grohe Water Technology AG announced that it had been purchased by a consortium led by Texas Pacific Group and Credit Suisse First Boston Private Equity for a reported 1.5 billion euros (\$1.84 billion). The sale by London-based BC Partners had been expected,

although the company had held out the prospect of an IPO as a fallback alternative.

In early 2000, in the largest LBO in German history, BC Partners had acquired Friedrich Grohe AG, which had been owned by the Grohe and Rost families. Although the purchase price wasn't disclosed at the time, newspaper

reports pegged it at about \$1.4 billion.

GROHE ranks among the top three faucet manufacturers in the world, with distribution in more than 180 countries. Grohe employs more than 5,800 people in 130 countries. Grohe America is headquartered in the Chicago area.

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FORMICA EMERGES FROM BANKRUPTCY

Countertop maker Formica Corp. on Thursday, June 10 said it has emerged from Chapter 11, more than two years after filing for bankruptcy protection from creditors. Formica filed for Chapter 11 in March 2002 after struggling through years of losses, as changing consumer tastes led to a preference for such

upscale materials as stone and steel.

Formica is now controlled by private equity and distressed-debt investors Cerberus Capital Management and Oaktree Capital Management, who together agreed to invest \$175 million in exchange for 80% of the equity of Formica. Substantially all of these pro-

ceeds will be used to pay off secured lenders. Formica said it reduced its long-term debt load to about \$160 million from more than \$540 million. The \$200 million in exit financing included a \$135 million term loan with GE Capital and a \$65 million revolving facility from Wells Fargo.

Earlier this year as part of

the bankruptcy process, Formica sold the equipment assets of its Formica Flooring unit to Shaw Diversified Services Inc. for \$7 million in cash, plus assumption of an unspecified amount of debt. Shaw Diversified is a unit of Dalton, Ga., carpet maker Shaw Industries, Inc.

"Home Depot" Cont'd from pg. 1

Maintenance Warehouse/America Corp., a \$30-million direct-mail marketer to the apartment building maintenance market. Home Depot created its first Pro Store in 1998 - next to a regular Home Depot outlet - in Colma, California. The Pro Store's purpose, according to the company, was to relieve Depot's larger store across the street of the inordinate amount of traffic from builders and remodelers. Home Depot opened a similar store in Phoenix.

In early 2000 Home Depot acquired Apex Supply, Atlanta, GA, a Southeast regional plumbing supplies and HVAC distributor with 21 locations in Georgia, Tennessee and South Carolina. In late 2001 Home Depot purchased Baton Rouge, La.-based plumbing distributor Your "other" Warehouse (YOW). YOW supplies the EXPO design centers and the U.S. divisions of The Home Depot with special-order faucets and plumbing fixtures.

After these two acquisitions, some industry experts thought that Home Depot would go on a buying spree of other supply houses. Others believed that the retailer would learn what it

could from the distribution companies and open its own stores. Recent events clearly show these two strategies not to be mutually exclusive.

HOME DEPOT SUPPLY OPENS

Building upon the expertise of its wholesaler acquisitions, The Home Depot opened its first Home Depot Supply store in February 2004 in the Dallas, Texas area. "Home Depot Supply is an evolution of those two Pro Stores on the West Coast," said Ellen Dracos, Home Depot's marketing director. HD Supply stores are meant to be contractor-only stores, designed to serve homebuilders, facility maintenance professionals, construction contractors and landscape professionals.

With a different look from the home centers, the Supply stores average 80,000-100,000 sq. ft. and carry around 13,000 products - versus 100,000+ sq. ft. and 35,000 products in the regular HD Home Centers. There are now five HD Supply retail locations - in California, Arizona, Texas and Colorado.

BUILDERS SUPPLY CONSOLIDATION?

With Home Depot now moving aggressively into the professional distribution market, one might expect a new wave of consolidation as the more established players in the channel look to defend their positions. Just this May, Hughes Supply acquired a \$73 million distributor in Las Vegas, and Wolseley plc's Stock Building Supply acquired Bellevue Builders Supply, with seven locations in New York State. Despite this, the pro market is still extremely fragmented

WILL IT WORK?

The critical question is will the HD Supply stores be successful. From a marketing perspective, it may be difficult to overcome the prejudice of professional buyers that don't want to buy from a company with a DIY brand image. However, good locations, products, pricing and service can overcome a great deal of prejudice. If HD Supply can deliver on those, it may prove to be a formidable competitor.



ABOUT CAPSTONE:

Capstone Financial Group is an investment banking firm assisting owners of "middle market" companies with their financial needs, including initial fundings, recapitalizations, acquisitions, divestitures, turnarounds and other financial advisory services. Capstone is backed by a highly experienced and knowledgeable team of financial professionals with first hand knowledge of starting, operating, growing, and selling middle market companies.

Recently Announced Building Product Transactions

Announce Date	Target	Target Description	Acquirer	Firm Value	Revenue FV / Rev.	EBITDA FV / EBITDA
6/16/2004	RMC Group plc's premix concrete business in Florida	7 concrete plants and a small building products distribution operation	Rinker Materials Corporation	-	-	-
6/10/2004	Formica Corp.	Manufactures laminates and counter tops - exit from bankruptcy	Cerberus Capital Management LP and Oaktree Capital Management	\$219.0	\$281.0 .8x	-
6/8/2004	Ames Tru Temper	Market leading manufacturer of garden tools	Castle Harlan	\$380.0	\$428.6 .9x	\$55.0 ¹⁾ 6.9x
6/8/2004	Sentinel Doors Ltd.	U.K. manufacturer and installer of complete composite entry door systems	ThermaTru, a subsidiary of Fortune Brands	-	\$25.0	-
6/2/2004	Eldorado Stone, LLC	San Marcos, CA manufacturer of architectural stone veneer - seller was Graham Partners, Inc.	Headwaters, Inc.	\$210.4	\$112.0 1.9x	22.0 9.6x
6/1/2004	Robico Shutters, Inc.	Florida manufacturer of custom-fit hurricane and storm protection systems	Atrium Companies, Inc.	\$12.0	-	-
5/24/2004	Bellevue Builders Supply, Inc.	Seven retail branches, a distribution yard, two manufacturing centers and a kitchen warehouse in New York State	Stock Building Supply, subsidiary of Wolseley plc	-	\$100.0	-
5/20/2004	CompX International Inc. ²⁾	Manufacturer of precision ball bearing slides, security products and ergonomic computer support systems used in office furniture	NL Industries Inc.	-	\$209.6	\$23.4
5/17/2004	Duron, Inc.	Maryland paint maker and retailer	Sherwin-Williams	\$253.0	\$350.0 .7x	-
5/6/2004	White Cap Construction Supply, Inc.	Distributor of specialty hardware, tools and materials targeting large- and medium-sized construction contractors	The Home Depot	-	\$500.0	-
5/6/2004	Friedrich Grohe	World leader in sanitary products and systems	Texas Pacific Group and CSFB	€ 1,500.0	-	-
5/5/2004	Kitchen Distributors of America	16 kitchen and bath distribution showrooms and two warehouses serving the Chicago and Philadelphia areas	Mars Equities	-	-	-
5/3/2004	Standard Wholesale Supply Company	Distributor of waterworks, electrical and plumbing products serving the Las Vegas area	Hughes Supply, Inc.	-	\$73.0	-
4/1/2004	The Concrete Co.	Columbus, GA seller of ready-mix concrete	Lafarge S.A.	-	-	-
3/30/2004	Ecoloc N.V./ Lock-Tile Belgium N.V.;	Manufacturer of industrial tile	RPM International Inc.	-	-	-
	Compakta/Pactan	Manufacturer of specialty silicone-based adhesives, joint filler, and sealers				
3/16/2004	Carolina Brick and Block	Manufacturer of masonry products	General Shale Brick (Wienerberger AG)	-	-	-
3/12/2004	Georgia-Pacific Building Materials Distribution	Distributes structural products used in construction	Cerberus Capital	\$810.0	\$4,050.0 0.2x	\$115.7 7.0x
3/11/2004	MAAX Inc.	Canadian manufacturer of bathroom products and spas	J.W. Childs Associates, Borealis Capital Corp., and Ontario Municipal Employees Retirement System	\$640.0	\$640.0 1.0x	\$98.5 6.5x
3/1/2004	Athens Brick Company, Inc.	Manufacturer of facing brick for residential and commercial construction	Hanson PLC	\$40.4	\$15.0 2.7x	\$6.5 6.2x

¹⁾ estimate

²⁾ compX and NL Industries are both controlled by Harold Simmons

Deals in the Pipeline

Nortek Holding Inc., a manufacturer of building products.

Nortek announced on June 21st that it is "exploring strategic alternatives". Nortek was taken private by New York private equity firm Kelso & Co. in a 2003 LBO.

Earlier this year Nortek sold its Ply Gem windows, doors and vinyl siding subsidiary to Caxton-Iseman for \$570 million. Ply Gem accounted for roughly one-third of Nortek's 2003 Ebitda. The auction is expected to attract mainly financial buyers.

Tools division of Pentair, Porter-Cable, Delta and Devilbiss.

Pentair's options include a sale, joint venture or spinoff for its power tools unit, depending upon the value of the bids in the auction - though a sale is certainly the preference. The company hopes to decide on the sale of the unit by year's end.

Possible bidders include Makita, Hitachi, Bosch and financial buyers with an expected price in the \$700 million to \$800 million range.

Public Equity Trading Valuations

	Current share price	Market value	Firm value as a multiple of:				LTM EBITDA margin	Market value as a multiple of:			Total debt / EBITDA
			Total firm value	LTM revenue	LTM EBITDA	LTM EBIT		LTM net income	CY04 EPS	Book value	
LARGE CAP											
American Standard	\$ 40.31	\$ 8,677.9	\$ 10,381.8	\$8,802.0	\$948.2	\$695.5	10.8%	\$426.0	\$ 2.39	\$ 697.9	2.0x
				1.2x	10.9x	14.9x		20.4x	16.9x	12.4x	
Black & Decker	\$ 62.13	\$ 4,919.5	\$ 5,525.5	5,575.6	736.5	568.0	13.2%	379.6	\$ 4.86	\$ 994.1	1.3x
				1.0x	7.5x	9.7x		13.0x	12.8x	4.9x	
Masco	\$ 31.03	\$ 13,592.1	\$ 17,478.1	11,373.6	1,815.7	1,571.7	16.0%	808.4	\$ 2.13	\$ 5,127.0	2.5x
				1.5x	9.6x	11.1x		16.8x	14.6x	2.7x	
Masonite	\$ 25.85	\$ 1,417.4	\$ 1,995.9	1,843.1	247.4	197.7	13.4%	115.0	\$ 2.52	\$ 760.2	2.8x
				1.1x	8.1x	10.1x		12.3x	10.3x	1.9x	
Mohawk	\$ 73.33	\$ 4,897.0	\$ 5,896.7	5,311.7	695.6	583.0	13.1%	334.8	\$ 5.32	\$ 2,373.8	1.4x
				1.1x	8.5x	10.1x		14.6x	13.8x	2.1x	
RPM	\$ 15.03	\$ 1,743.2	\$ 2,404.2	2,250.2	295.0	231.8	13.1%	45.5	\$ 1.61	\$ 943.0	2.4x
				1.1x	8.1x	10.4x		38.3x	9.3x	1.8x	
Sherwin Williams	\$ 41.34	\$ 5,919.9	\$ 6,329.8	5,578.8	716.2	599.4	12.8%	352.7	\$ 2.65	\$ 1,451.3	.7x
				1.1x	8.8x	10.6x		16.8x	15.6x	4.1x	
Stanley Works	\$ 45.50	\$ 3,715.5	\$ 4,310.4	2,790.5	404.0	315.7	14.5%	242.2	\$ 2.83	\$ 1,004.1	1.9x
				1.5x	10.7x	13.7x		15.3x	16.1x	3.7x	
			MEAN	1.2x	9.0x	11.3x	13.4%	18.4x	13.7x	4.2x	1.9x
MID CAP											
American Woodmark	\$ 59.85	\$ 487.2	\$ 476.8	667.6	73.3	52.5	11.0%	31.8	\$ 4.73	\$ 193.1	.3x
				.7x	6.5x	9.1x		15.3x	12.7x	2.5x	
CFM Majestic	\$ 9.75	\$ 387.6	\$ 511.7	486.2	57.4	42.2	11.8%	15.1	NA	\$ 246.0	2.4x
				1.1x	8.9x	12.1x		25.7x	NA	1.6x	
Elkcorp	\$ 23.85	\$ 470.1	\$ 637.2	563.6	77.7	59.6	13.8%	20.0	\$ 1.62	\$ 207.9	2.2x
				1.1x	8.2x	10.7x		23.5x	14.7x	2.3x	
Genlyte Group ⁽¹⁾	\$ 63.77	\$ 867.9	\$ 750.2	705.4	103.2	79.0	14.6%	48.4	\$ 3.56	\$ 367.9	.1x
				1.1x	7.3x	9.5x		17.9x	17.9x	2.4x	
Jacuzzi	\$ 8.16	\$ 614.9	\$ 1,093.4	1,279.6	110.8	95.4	8.7%	(2.2)	\$ 0.51	\$ 273.2	4.6x
				.9x	9.9x	11.5x		NM	16.0x	2.3x	
Omnova Solutions	\$ 6.10	\$ 244.1	\$ 433.0	689.1	39.1	(0.4)	5.7%	(82.7)	\$ (0.10)	\$ 65.4	5.2x
				.6x	11.1x	NM		NM	NM	3.7x	
Royal Group Technologies	C\$12.48	C\$1163.4	C\$1873.1	1,887.3	118.5	(5.2)	6.3%	(66.5)	NA	\$ 1,381.4	6.7x
				1.0x	15.8x	NM		NM	NM	.8x	
			MEAN	.9x	9.7x	10.6x	10.3%	20.6x	15.3x	2.2x	3.1x
HEAVY BUILDING MATERIALS											
Eagle Materials	\$ 71.40	\$ 1,323.0	\$ 1,402.4	523.3	120.4	87.4	23.0%	66.9	\$ 5.15	\$ 439.0	.7x
				2.7x	11.6x	16.0x		19.8x	13.9x	3.0x	
Florida Rock Industries	\$ 41.90	\$ 1,812.2	\$ 1,866.1	872.2	205.2	142.8	23.5%	103.5	\$ 2.59	\$ 620.6	.5x
				2.1x	9.1x	13.1x		17.5x	16.2x	2.9x	
LaFarge N. America, Inc.	\$ 43.53	\$ 3,053.2	\$ 3,509.4	3,852.2	543.3	301.5	14.1%	209.8	\$ 3.66	\$ 2,556.6	1.6x
				.9x	6.5x	11.6x		14.6x	11.9x	1.2x	
Martin Marietta Materials	\$ 44.65	\$ 2,152.6	\$ 2,831.4	1,751.1	335.2	195.4	19.1%	107.9	\$ 2.54	\$ 1,090.7	2.2x
				1.6x	8.4x	14.5x		19.9x	17.6x	2.0x	
Texas Industries	\$ 41.18	\$ 871.8	\$ 1,426.6	1,593.6	120.7	23.7	7.6%	(8.9)	\$ 2.84	\$ 723.6	5.1x
				.9x	11.8x	NM		NM	14.5x	1.2x	
U.S. Concrete, Inc.	\$ 7.02	\$ 201.3	\$ 387.2	478.4	43.4	29.0	9.1%	(10.3)	\$ 0.74	\$ 152.3	4.6x
				.8x	8.9x	13.4x		NM	9.5x	1.3x	
Vulcan Materials	\$ 47.76	\$ 4,876.3	\$ 5,320.0	2,942.9	657.4	384.5	22.3%	227.5	\$ 3.15	\$ 1,801.7	1.3x
				1.8x	8.1x	13.8x		21.4x	15.2x	2.7x	
			MEAN	1.6x	9.2x	13.7x	17.0%	18.6x	14.1x	2.0x	2.3x

Share price as of 7/1/04

All figures in millions except Share Price and EPS

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

(1) Genlyte Firm Value, Revenue, EBITDA and EBIT after adjustment for 32% owned by Thomas

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