



# THE BUILDING PRODUCT ADVISOR

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

## INSIDE THIS ISSUE:

<b>So You've Decided to Sell your Business...</b>	<b>2</b>
<b>Recently Announced Transactions</b>	<b>3</b>
<b>Deals in the Pipeline</b>	<b>3</b>
<b>Public Company Valuations</b>	<b>4</b>

## IS THE ASBESTOS FIX FINALLY IN?

Recent reports out of Washington strongly hint that a long awaited asbestos bill may be coming to fruition. The bill is designed to remove asbestos claims from the courts and have them paid out from a dedicated asbestos fund. For companies and their insurers, the great benefit is that their liabilities will be capped by the amount of the fund.

Senate Democratic leader Tom Daschle has agreed to a \$140 billion amount for an asbestos victims' compensation fund, matching a proposal by Republican Leader Bill Frist. Previously, the two sides had been deadlocked over the amount, with Daschle insisting the asbestos fund be \$145 billion. The proposed fund will be financed by companies with asbestos

exposure, their insurance companies and existing asbestos trusts. Asbestos related stocks rose sharply on the news – USG, McDermott and WR Grace all posted strong gains.

Frist and Daschle both say they want to pass this legislation this year. In a letter to Frist, Daschle said he is "hopeful that resolution can be achieved" before Congress completes its session Oct. 8. Though agreement on the amount is seen as great progress, significant hurdles remain.

Julie Rochman, a spokeswoman for the American Insurance Association says "The prospects are not good" for passage by Congress this year because "many very important structural elements of the fund are still open and nowhere near closure." Organized labor, one

of the Democrats' core constituencies, strongly opposes the \$140B amount, preferring a prior proposal for \$153B.

The ability to complete the bill before the end of the Congressional session could have great consequences depending upon the outcome of the November elections. Rumor has it that the asbestos bill has a very powerful ally in the White House – Dick Cheney. If you recall, when Cheney was CEO of Halliburton, he directed the purchase of Dresser Industries in 1998. Dresser had asbestos liabilities at the time, which exploded after the acquisition, leaving Halliburton with billions in asbestos liabilities. Currently, the company estimates that it has over \$4.1 billion in

*(Continued on page 2, see "Asbestos")*

## GLOBAL WARNING??

The 2004 hurricane season has been one of the most active and damaging in history. Four major storms devastated areas of the Southeastern U.S. – Charley, Frances, Ivan and Jeanne, with additional scares from the smaller Alex, Bonnie and Gaston. While meteorologists are divided as to whether global warming is contributing to the problem, most agree that we should expect at least another decade of increased storm activity in the Atlantic.

In the short term, these events are a boon to local building product distributors. Prior to a storm, plywood, generators, saws and drills fly off the shelves as people rush to board up their

windows and protect their property. Local economies overall take a hit though – as workers can't get to work, tourists cancel their trips and people must evacuate their homes and businesses. This decrease in economic activity lasts a quarter or two, as residents clean up and recover their lives.

However, depending upon the level of devastation, the rebuild and repair effort can inject significant spending into a regional economy. Most damage estimates are provided by the insurance industry and include *insured damages only*. Adding uninsured damages and federal aid dollars typically doubles this amount, resulting in a great deal of money

pouring in to a local economy. It is estimated that Charley alone severely damaged or destroyed 30,000 homes. The repair and replacement of these homes is expected to take up to four years.

Economists predict that the scale of this year's storms will have a measurable effect on the national economy, with the rebuild effort adding approximately .1-.2% to national GDP. And with a \$980 billion U.S. construction industry, an extra \$20-30 billion in spending is meaningful indeed (see chart next page). Regionally, the spending effects will be dramatic.

### **What may be the long-term effects?**

After the devastation of Andrew in 1992, South Florida building

*(Continued on page 2, see "Hurricane")*

Published by:

**Capstone Financial Group**  
215 East Bay St. Suite 505-I  
Charleston, SC 29401  
P) 843-577-3774  
F) 843-577-3144  
Web site: [www.capfg.com](http://www.capfg.com)

*If you would like to receive a copy, back issues, or more information on building products transactions and the capital markets as they relate to the Building Products Industry, please contact Porter Wiley, Managing Director, Capstone Financial Group at (843) 577-3774 or [porter@capfg.com](mailto:porter@capfg.com).*

**Hurricane** (Cont'd from pg. 1)

codes were improved to protect against future storms. Miami/Dade building codes are now the toughest hurricane codes in the country. Prior to this year's storms, many coastal counties and municipalities were studying the codes to assess whether it made sense to adopt the more stringent standards. Increased hurricane protection does not come without cost. For example, hurricane resistant windows are roughly 30% more expensive than normal windows. Many argued that the extra protection was not worth the cost. Inland Florida residents especially

argued that they were not at sufficient risk to warrant the expense.

After this year's meteorological debacle, expect to see increased adoption of tougher standards not only in coastal areas, but increased interest in inland communities as well. Rick Dixon, executive director of the Florida Building Commission, remarked that both mobile homes and traditional houses built under the new codes clearly withstood Charley's winds better. But in Central Florida, where Charley brought 100mph winds, the Red Cross estimated that at least

60% of homes in Hardee and DeSoto County were damaged or destroyed.

Whether it's the law or not, look for increased demand from homeowners and contractors for a wide variety of hurricane resistant products at all price points. With the extensive repair

effort underway, high expected growth in the Southeast and tens of millions of existing homes ready to be retrofitted, building products manufacturers would be wise to support this trend. Stringent standards mean more expensive products with potentially fatter margins.

**2004 Hurricane Damage Estimates**

Hurricane	Insured Damage	Uninsured Damage	Total
Charley	\$7.4B	\$8-10B	\$15.4-17.4B
Frances	4.4B	3-5B	7.4-9.4B
Ivan	4.5-6B	5B	9.5-11.5B
Jeanne	6-8B	6B	12-14B
<b>TOTAL</b>	<b>\$22.3-25.8B</b>	<b>\$22-26B</b>	<b>\$44.3-52.3B</b>

**Asbestos** (Cont'd from pg. 1)

asbestos liability, with expected insurance coverage for only a third of the amount.

To date, companies have paid approximately \$70 billion in claims and related costs. Remaining

asbestos liability has been estimated at \$145 billion to \$210 billion. The weight of the claims and size of settlements have caused or contributed to the bankruptcies of more than 70 companies. Companies in the building products industry have

been particularly hard hit. Johns Manville, National Gypsum, Armstrong, Celotex, Owens Corning, GAF Corp., and USG are just some of the venerable building products companies that asbestos has forced into bankruptcy.



**ABOUT CAPSTONE:**

Capstone Financial Group is an investment banking firm assisting owners of middle market companies with their financial needs - including mergers and acquisitions, recapitalizations, private placements, divestitures, 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.

**So You've Decided to Sell your Business...**

Entrepreneurs often spend a lifetime building their businesses. And selling your company is the crowning achievement of all of your work, the harvesting of all of the value you've created. It's true you've closed many, many deals running a successful company. But how many times have you sold your company? For many the answer is never.

An experienced investment banker can help you bring order to a highly complex process. He can also guide you through the process to avoid the common pitfalls that destroy value. All too often, deals fall apart or close at less than favorable terms because sellers have difficulty working through all of the "pressure points" that can be traded off with buyers to maxi-

mize realized value.

Listed below are several common misconceptions.

**(1) "I know the most logical buyer, so I don't need to go to market."**

While there might be a compelling reason to partner with a particular buyer, tunnel vision rarely leads to the highest sales price. Sellers need to consider the unknown. Highly attractive bids often come from suitors previously unknown to the seller. Plus, once a buyer senses that he's in the driver's seat, there is very little incentive to push their bid higher. And even if the favored buyer does indeed purchase the company, a competitive process is certain to push the sales price higher.

**(2) "I'm better off taking the offer in front of me. I don't want to potentially disrupt my business by going to market."**

Confidentiality concerns often lead sellers to limit their marketing efforts. However, limiting the field of prospective buyers may substantially reduce the price a seller may ultimately realize. An experienced investment banker can help you manage the disclosure process to employees and customers to minimize any potential damage. Owners are often surprised at how receptive customers and employees are to an acquisition. It may mean new career options or benefits for employees, and additional products or services for customers.

# Recently Announced Building Product Transactions

Announce Date	Target	Target Description	Acquirer	Firm Value	Revenue FV / Rev.	EBITDA FV / EBITDA
9/30/2004	RMC Group Plc	World's leading manufacturer of ready-mix concrete	Cemex S.A.	\$5,800.0	\$8,089.2 .7x	\$861.8 6.7x
9/28/2004	Residential Services Group	Ohio based HVAC installer with 27 locations - Seller was Wellspring Capital	Direct Energy, a CT subsidiary of UK natural gas supplier, Centrica plc.	\$150.0	\$308.6 .5x	\$24.4 6.1x
9/22/2004	Eagle Supply Group, Inc.	US wholesale distributors of residential roofing and masonry supplies and related products	Gulfside Supply, Inc.	\$66.1	\$252.2 .3x	\$6.4 10.3x
9/21/2004	Stone Panels, Inc.	Texas producer of construction panels	Metapoint Partners	-	-	-
9/21/2004	Rocky Gorge Homes	Homebuilder in MD, VA, and DC	Hovnanian Enterprises, Inc.	-	-	-
9/17/2004	Erickson Construction Co., Inc.	Homebuilder based in Arizona	private equity firm	-	-	-
9/8/2004	Tapco Holdings, Inc.	Maker of vinyl building products and construction tools	Headwaters, Inc.	\$715.0	\$237.0 3.0x	\$77.8 9.2x
9/7/2004	Plastmo Ltd.	Ontario extruder of vinyl window products	Kaycan Ltd.	-	-	-
9/1/2004	Kinco	Manufacturer, distributor and installer of aluminum and vinyl windows based in Jacksonville, FL	Atrium Companies, Inc.	\$27.1	-	-
8/27/2004	Nortek Holdings, Inc.	Manufacturer of branded building products, including Broan, NuTone, and Nordyne	Thomas H. Lee Partners, L.P.,	\$1,750.0	\$1,515.0 1.2x	\$198.7 8.8x
8/25/2004	Becker Gravel Company, Inc.	Stratford, Iowa construction materials company	Fred Carlson Company, a Knife River Corp. subsidiary	-	\$5.0	-
8/24/2004	Kemmerly Homes	Homebuilder based in Arizona	Standard Pacific Corp	-	\$47.5	-
8/13/2004	Thibodaux Lumber and Concrete	Louisiana based building products distributor	LaFarge North America	-	-	-
8/10/2004	Paint Sundry Brand Corporation	Manufacturer of Purdy brand paint brushes and rollers	Sherwin-Williams Company	\$295.0	-	-
8/9/2004	Smith & Hawken	Upscale garden products cataloger / retailer. Seller was DDJ Capital Management	Scotts	\$72.0	\$145.0 .5x	-
8/8/2004	KBI Norcal	Acquired remaining 49%.	Building Materials Holding Corporation (BMHC)	-	-	-
8/5/2004	Realen Homes, L.P.	Residential home builder with operations in PA, NJ, NC, SC, VA, and FL	Orleans Homebuilders, Inc.	\$60.0	\$150.0 .4x	-
8/4/2004	West Coast Custom Finish, Inc.	Southern California window installer	Atrium Companies, Inc.	\$2.3 plus earnout	-	-
8/2/2004	Genlyte Thomas Group, LLC	Thomas Industries, Inc. sold its remaining 32% interest	The Genlyte Group, Inc.	\$1,121.1	\$1,121.0 1.0x	\$111.0 10.1x
8/2/2004	Bristolpipe Corporation	PVC pipe manufacturer previously owned by Heywood Williams	Westlake Chemical Corporation	\$33.0	\$114.0 .3x	\$6.1 5.4x
7/26/2004	MW Manufacturers, Inc.	Manufacturer of windows and patio doors	Ply Gem Industries, Inc., owned by Caxton-Iseman Capital, Inc.	\$320.0	\$250.0 1.3x	\$40.0 8.0x
7/12/2004	Regency Windows Corporation	Ohio marketer and installer of vinyl windows and siding	Propect Partners	-	-	-
7/8/2004	Woodmark International, L.P.	Importer and manufacturer of builders' hardware including staircase components	P&F Industries, Inc.	-	\$26.0	-
7/7/2004	Southwest Concrete Products, L.P.	South Texas manufacturer of concrete blocks	Headwaters, Inc.	\$36.0	\$31.0 1.2x	\$5.0 7.3x

## Deals in the Pipeline

### Loma Negra - Argentina's largest cement company

The worldwide cement consolidation continues. Loma Negra has had to confront the disastrous Argentine economy for the last several years. Now appears a propitious time to sell, as the well-advertised cement shortage caused by booming Chinese demand has and will allow Loma Negra strong export sales.

Likely Bidders include Cemex (Mexico), Votorantim (Brazil), LaFarge (France), Cimpor (Portugal) and Holcim (Switzerland).

### Builders FirstSource - national distributor of residential building products

Founded in 1998 by private equity firm JLL Partners, Builders FirstSource followed a consolidation strategy in this highly fragmented industry.

Likely bidders include industry players such as 84 Lumber, Lanoga, Wolesely Plc's Stock Building Supply plus a number of financial buyers. The price could top \$800 million, based on projected EBITDA for 2004 of \$115 million. Cerberus Capital recently paid 7x EBITDA for the Georgia-Pacific distribution business, which points the way to a financial purchase.

# Public Equity Trading Valuations

	Current share price	Market value	Total firm value	Firm value as a multiple of:			LTM EBITDA margin	Market value as a multiple of:			
				LTM revenue	LTM EBITDA	LTM EBIT		LTM net income	12 mo Forward EPS	Book value	Total debt / EBITDA
<b>LARGE CAP</b>											
<b>BUILDING PRODUCTS</b>											
American Standard	\$38.34	\$8,202.0	\$10,169.0	\$9,112.0	\$987.0	\$723.0	10.8%	\$451.0	\$2.46	\$786.0	2.2x
				1.1x	10.3x	14.1x		18.2x	15.6x	10.4x	
Black & Decker <sup>(1)</sup>	76.97	6,169.0	7,318.5	5,923.9	806.9	657.0	13.6%	447.5	5.50	1,094.9	1.4x
				1.2x	9.1x	11.1x		13.8x	14.0x	5.6x	
Masco	33.87	14,675.0	18,581.0	11,646.9	1,652.8	1,510.8	14.2%	887.6	2.39	5,020.0	2.7x
				1.6x	11.2x	12.3x		16.5x	14.2x	2.9x	
Masonite	25.39	1,382.0	1,939.4	1,950.6	255.9	203.8	13.1%	126.3	2.83	797.6	2.7x
				1.0x	7.6x	9.5x		10.9x	9.0x	1.7x	
Mohawk	79.97	5,336.0	6,319.9	5,551.3	719.7	603.5	13.0%	347.0	5.66	2,455.2	1.4x
				1.1x	8.8x	10.5x		15.4x	14.1x	2.2x	
RPM	17.35	2,016.0	2,697.4	2,341.6	309.8	246.6	13.2%	141.9	1.42	975.3	2.3x
				1.2x	8.7x	10.9x		14.2x	12.2x	2.1x	
Sherwin Williams <sup>(2)</sup>	43.28	6,161.0	6,678.8	5,725.1	723.0	606.0	12.6%	369.0	2.86	1,503.3	.7x
				1.2x	9.2x	11.0x		16.7x	15.1x	4.1x	
Stanley Works	42.52	3,483.0	4,035.1	2,966.6	388.8	322.9	13.1%	188.3	3.04	1,041.1	2.0x
				1.4x	10.4x	12.5x		18.5x	14.0x	3.3x	
			MEAN	1.2x	9.4x	11.5x	13.0%	15.5x	13.5x	4.1x	1.9x
			MEDIAN	1.2x	9.2x	11.1x	13.1%	16.0x	14.1x	3.1x	2.1x
<b>MID CAP</b>											
<b>BUILDING PRODUCTS</b>											
American Woodmark	\$37.48	\$616.4	\$600.9	\$700.2	\$83.7	\$55.7	11.9%	\$34.0	\$2.49	\$201.1	.3x
				.9x	7.2x	10.8x		18.2x	15.1x	3.1x	
CFM Corporation	4.56	230.0	370.7	482.6	49.7	37.3	10.3%	7.3	0.83	242.4	3.0x
				.8x	7.5x	9.9x		NM	5.5x	.9x	
Elkcorp	26.43	524.5	681.1	573.0	74.0	55.9	12.9%	31.7	1.98	215.0	2.1x
				1.2x	9.2x	12.2x		16.6x	13.3x	2.4x	
Genlyte Group <sup>(3)</sup>	66.79	913.4	1,179.6	1,120.7	133.5	109.5	11.9%	50.1	4.15	381.4	2.0x
				1.1x	8.8x	10.8x		18.2x	16.1x	2.4x	
Jacuzzi	9.40	709.2	1,181.2	1,331.0	117.0	103.0	8.8%	7.0	-	287.0	4.3x
				.9x	10.1x	11.5x		NM	NM	2.5x	
Omnova Solutions	6.15	247.8	428.2	702.0	32.5	8.2	4.6%	(77.4)	0.30	65.1	6.0x
				.6x	13.2x	NM		NM	NM	3.8x	
Royal Group Technologies	9.20	858.9	1,383.9	1,484.7	132.9	34.4	9.0%	(22.8)	-	1,091.4	4.5x
				.9x	10.4x	NM		NM	NM	.8x	
			MEAN	.9x	9.5x	11.0x	9.9%	17.6x	12.5x	2.3x	3.2x
			MEDIAN	.9x	9.2x	10.8x	10.3%	18.2x	14.2x	2.4x	3.0x
<b>HEAVY BUILDING MATERIALS</b>											
Eagle Materials	\$69.34	\$1,286.0	\$1,355.5	\$526.5	\$125.6	\$92.9	23.8%	\$75.9	\$5.89	\$442.3	.6x
				2.6x	10.8x	14.6x		16.9x	11.8x	2.9x	
Florida Rock Industries	48.75	2,110.0	2,140.1	925.7	236.7	173.9	25.6%	113.6	2.83	647.2	.2x
				2.3x	9.0x	12.3x		18.6x	17.2x	3.3x	
LaFarge N. America, Inc.	48.07	3,569.0	3,993.0	3,544.3	665.7	464.9	18.8%	265.5	3.95	2,610.2	1.2x
				1.1x	6.0x	8.6x		13.4x	12.2x	1.4x	
Martin Marietta Materials	45.98	2,217.0	2,856.4	1,747.9	336.1	197.7	19.2%	112.5	2.61	1,128.1	2.2x
				1.6x	8.5x	14.4x		19.7x	17.6x	2.0x	
Texas Industries	53.35	1,138.0	1,822.5	1,796.3	255.7	159.0	14.2%	87.9	4.93	799.1	3.2x
				1.0x	7.1x	11.5x		12.9x	10.8x	1.4x	
U.S. Concrete, Inc.	6.44	187.3	371.3	492.4	44.7	31.8	9.1%	-7.8	0.50	159.1	4.5x
				.8x	8.3x	11.7x		NM	12.9x	1.2x	
Vulcan Materials	50.70	5,184.0	5,681.2	2,992.4	680.6	410.9	22.7%	258.6	2.83	1,867.2	.9x
				1.9x	8.3x	13.8x		20.0x	17.9x	2.8x	
			MEAN	1.6x	8.3x	12.4x	19.1%	16.9x	12.8x	2.1x	1.8x
			MEDIAN	1.6x	8.3x	12.3x	19.2%	17.8x	12.9x	2.0x	1.2x

Share price as of 10/5/2004

(1) Black & Decker is pro forma for acquisition of Pentair's Tools division

(2) Sherwin-Williams is not pro forma for acquisitions of Duron and Paint Sundry Brands

(3) Genlyte Group is pro forma for acquisition of Thomas Industries' 32% holding in Genlyte Thomas

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