

the building product advisor

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

Distributor Consolidation: Follow the Builders

Mergers & acquisition activity in the highly fragmented professional building materials market continues at a rapid pace. Markets that were once local, have now become regional and even national. This matches the trend among production homebuilders, as the Pultes, Hortons and Lennars of the world gain market share. The giants are using their scale and access to cheap long term capital to great advantage, snapping up smaller competitors and banking huge amounts of land. The top ten builders have grown their market share from 11% in 1997 to 23% in 2003. And analysts estimate that it could grow to 35-40% in ten years. Major building materials distributors seek to match the scale and scope of the large builders, and to provide the products and services that these important customers demand.

A number of familiar names lead the way. Wolsely plc (owners of Stock and Fergusons) has spent almost \$500 million on 16 North American acquisitions in the past year. The largest of which was the \$240 million Vegas General Contractors, a building supply, framing and interior trim business. This demonstrates a trend that many dealers are following: the push into higher value added services. Builders today are seeking to outsource more production than in the past, and many distributors are happy to sell higher margin roof trusses, millwork and other products.

Home Depot, has also been active - but selective - as the company continues to invest away from the DIY market in which it dominates. Recent acquisitions include pro dealers (White Cap, Williams Brothers), commercial lighting (Litemor), and installation services (Viplex). The latest acquisition is National Waterworks, a \$1.5 billion distributor serving municipal water and wastewater markets, a far cry from the DIY market. Given the range and piecemeal nature of the acquisitions, it is difficult to discern a coherent strategy. Many have guessed that Home Depot's strategy is to acquire the expertise and talent of related businesses, then grow them internally. However, it is difficult to point to a successful implementation of that strategy on a scale commensurate with the company's resources.

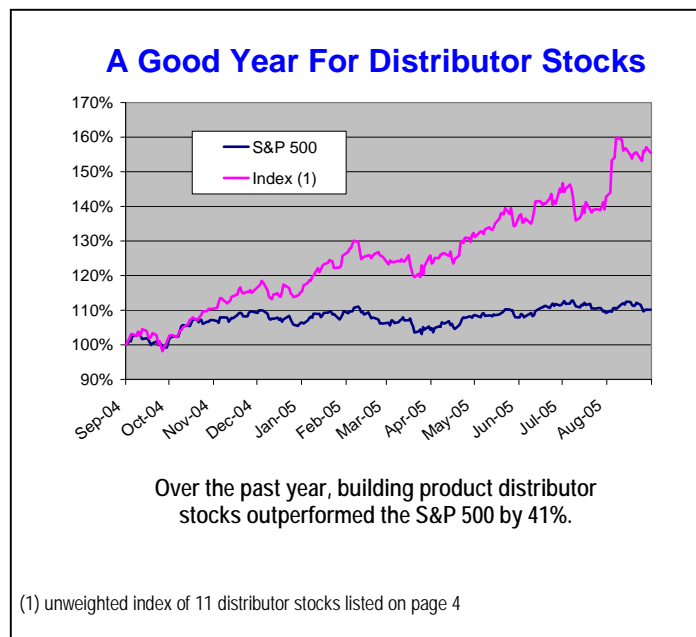
Others active in the M&A market over the past year include BMHC (5 acquisitions), Beacon Roofing (Shelter Distribution), and Hughes Supply. Going forward, look for Builders FirstSource to become active again, now that it has its IPO behind it.

Leveraged Re-cap a Valuable Tool

Finance rule #1: diversify your assets. Nobody invests all of his or her money in one stock. It is too risky. But many owners of private companies do. No one can blame a company owner for re-investing to build their business year after year, but there does come a time when diversification is the prudent course of action. Fortunately, there are liquidity strategies out there that can help, even for those owners who want to continue running their company. A leveraged recapitalization (recap) is one such strategy. It enables business owners to gain some liquidity for their investment, retain a significant ownership (and thereby participate in the company's upside potential) and continue to operate the business with considerable autonomy.

A leveraged recap is a reconfiguration of a company's capital structure. Basically, it involves replacing all or a portion of the investment capital of the company with new investment capital. The new capital can be senior debt (banks), subordinated debt (mezzanine) or private equity.

(Continued on page 2)



in this issue

Recently Announced Building Products Transactions.....	3
Public Company Valuations.....	4

(Leveraged Re-cap—continued from page 1)

Is now the time?

Current market conditions are ideal to execute a recapitalization. Private equity firms are flush with cash right now, and are bidding aggressively for acquisitions. Supporting the higher valuations is a debt market that is also more competitive and aggressive. Senior debt covenants have loosened, maturities have increased and lenders are competing on price. In the mezzanine market, competition for deals and from the nascent second lien market is improving pricing. In addition, strategic buyers are returning to the mix, which further increases the competition for quality transactions – thereby driving up prices further.

Other considerations

A recap can offer other benefits besides partial liquidity. In some cases, owners of a company may disagree on future strategy. Or one owner may wish to do something else. A recap provides a mechanism to solve these problems.

A leveraged recap can also be used for orderly succession planning. It is an efficient way to transfer assets from one generation to the next. It is also an effective tool to provide cash to an estate while maintaining operational control of the company within the family.

Often, the result of a leveraged re-cap is a more focused and efficient company. Private equity partners offer the management team meaningful incentives (options) to promote sales growth and profitability. And the new and remaining investors all agree on strategy.

Finding and selecting the right financial partner is a critical part of any recapitalization. As is negotiating and structuring the best deal possible. If you'd like to learn more about how a leveraged re-cap could benefit your business, call Managing Director, Porter Wiley.

After Spin-Off, Texas Industries a Likely Target

On July 29, 2005 Texas Industries (TXI) completed the spin-off of Chaparral Steel Company in a tax-free distribution to TXI shareholders. Thus ends the strange marriage of cement and steel, leaving TXI as a pure play in the cement, concrete and aggregates business.

Texas Industries is the last major independent cement manufacturer in the U.S. Look for global giants like LaFarge, Holcim, CSR and others to take a look at the company. They must however, proceed with caution. If the IRS determines that the spin-off was for other than “business purposes” (i.e., to facilitate a transaction), the tax-free status of the distribution could be reversed, leaving the unhappy shareholders with a big tax bill. Two years is the safe harbor, though a deal could happen after only six months if not “part of a plan”.

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

Capstone is backed by a knowledgeable team of senior professionals. 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 |

Company Valuation

Investment bankers use a variety of methods to value companies. Two of the most important tools are comparable transaction analysis and public equity trading comparables (both seen in this newsletter). Comparable transaction analysis looks at past purchases of similar companies, and calculates a purchase multiple based upon some measure of earnings. The measure most often used in the building products industry is EBITDA (earnings before interest, taxes, depreciation and amortization). One reason is that it capital structure neutral, another is that it is the measure most often used by debt investors.

Trading comparables use the fact that the public equity markets value companies on a constant basis – every move in stock price changes a company's value. Again, investment bankers look for comparable companies and use the trading multiples as benchmarks for valuing similar companies, whether private or divisions of larger companies.

Of course, no two companies are alike, and many factors affect value. Differences in size, growth rate, profit margins, diversification, markets and customers are all relevant factors, as are many others. The result is that company valuation ends up being more art than science. At the end of the day, there is only one true measure of company value — how much is somebody willing to pay for it?

Deal in the Pipeline

P&F Industries Inc, a tool and hardware maker is in discussions with Mestek Inc. for the sale of Embassy Industries Inc., its heating and plumbing product subsidiary.

Announce Date	Target	Target Description	Acquirer	Firm Value	Revenue FV / Rev.	EBITDA FV / EBITDA
9/20/2005	DiversiTech	mfr and dist of HVAC components	Peachtree Equity Partners	-	-	-
9/16/2005	National Hardware	mfr and dist of builders hardware	Stanley Works	\$170.0	\$200.0 .9x	-
9/16/2005	Gutter Helmet product line from Hart & Cooley	gutter protection system	Gibraltar Industries, Inc.	-	\$16.0	-
9/13/2005	Wood Structures, Inc.	ME mfr of wood trusses, joists, and prefab walls - bought from Harbour Group Industries, Inc.	Roark Capital Group	-	\$80.0	-
9/8/2005	Commercial Supply, Inc.	MA distributor of building products	Beacon Roofing Supply, Inc.	-	\$1.4	-
9/7/2005	Polypipe Group	building supplies unit of UK's engineering group IMI plc	Castle Harlan	£293.0	£314.6 .9x	£45.6 6.4x
9/6/2005	USPoly Company	acquired remaining 30% interest	PW Eagle, Inc.	\$36.6	-	-
9/2/2005	Greater Homes, Inc. (Orlando)	Orlando area homebuilder	Meritage Homes Corp	-	\$160.0	-
8/31/2005	Illbruck Sealant Systems	German mfr of sealant and installation systems	RPM International, Inc.	\$137.0	\$190.0 .7x	-
8/30/2005	Fiore Concrete Products	RI ready mixed concrete co	Hanson Pipe & Products	-	-	-
8/30/2005	Sherman Pipe	9 plant operator in Alabama and Georgia	Hanson Pipe & Products	-	-	-
8/29/2005	assets of Polk County Stone LLC	TN crushed stone quarry	Vulcan Materials Company	-	-	-
8/28/2005	Pilgrim Fireplace Equipment Co	CT mfr of hearth and fireplace accessories	SilkRoad Resources LLC	-	-	-
8/26/2005	TVESCO, Inc.	Southeastern distributor of electrical products	Hughes Supply, Inc.	-	\$138.0	-
8/25/2005	Panolam Industries International, Inc.	mfr of decorative laminate panels	Genstar Capital	-	-	-
8/25/2005	Victor Oolitic Stone Company	IN dimensional limestone supplier	Audax Group	-	-	-
8/25/2005	RGM Products, Inc.	CA mfr of roofing products	Elk Premium Building Products	\$35.0	\$57.0 .6x	-
8/24/2005	York International	supplier of HVAC equipment and services	Johnson Controls, Inc.	\$3,266.7	\$4,646.4 .7x	\$225.5 14.5x
8/17/2005	Polythane Systems, Inc.	TX supplier of spray polyurethane foam roofing systems	Bayer MaterialScience LLC	-	-	-
8/17/2005	Fastec Industrial Corp	dist of fasteners, cabinet hardware, and locking products	WESCO	-	-	-
8/12/2005	Malaysia Wood Industries Sdn Bhd	mfr of engineered hardwood flooring with 2 Malaysian plants	Columbia Flooring	-	-	-
8/11/2005	Rudolph and Sletten, Inc.	CA construction and construction management co.	Perini Corp	\$50.0	\$700.0 .7x	-
8/10/2005	Shelter Distribution, Inc.	multi-state distributor of roofing products	Beacon Roofing Supply, Inc.	\$152.5	\$248.0 .6x	-
8/9/2005	Critser Companies, Inc.	1 stone & 3 sand/gravel quarries in NW Indiana	Vulcan Materials Company	-	-	-
8/8/2005	Webber Group	TX construction company	Group Ferroval	\$220.0	\$400.0 .6x	-
8/4/2005	Thomas Supply Co	WI distributor	First Supply LLC	-	-	-
8/4/2005	Campbell Companies	Las Vegas and S. Cal provider of concrete and plumbing serv.	BMHC	\$84.0	\$200.0 .4x	-
7/31/2005	Vegas General Construction	provides construction and framing in Las Vegas and Denver	Stock Building Supply	-	\$240.0	-
7/31/2005	East Haven Builders Supply	CT building supply company with 4 locations	Stock Building Supply	-	\$75.0	-
7/29/2005	Hancor, Inc.	OH provider of drainage and water conservation solutions	Advanced Drainage Systems, Inc.	-	-	-
7/26/2005	Adams Building Materials	7 FL locations	Stock Building Supply	-	\$118.0	-
7/22/2005	Lane Stanton Vance	CA hardwood lumber company	BlueLinX	-	\$62.0	-
7/20/2005	National Waterworks Holdings, Inc.	TX dist of water and wastewater transmission products	The Home Depot, Inc.	\$1,350.0	\$1,500.0 .9x	-
7/18/2005	Facom Tools	UK industrial and automotive tools	The Stanley Works	€ 410.0	€ 370.0 1.1x	-
7/11/2005	American Asphalt & Grading Co	S. Nevada residential construction services	Code Hennessy & Simmons	-	-	-
7/18/2005	Home Décor Products, Inc.	online retailer of home improvement products	Kinderhook Partners	-	-	-
7/14/2005	CON/SPAN - BridgeTek	OH precast concrete bridge technologies	CONTECH Construction Products	-	\$70.0	-
7/11/2005	Laars Heating Systems	sold by Water-Pik	Bradford White	\$24.3	-	-
7/7/2005	Copperfield Chimney Supply	distributor of chimney and ventilation products	Interline Brands	\$70.0	\$41.0 1.7x	\$8.2 8.5x
7/5/2005	Unilin Holding NV	Belgian laminated flooring mfr	Mohawk Industries	\$2,600.0	\$1,000.0 2.6x	-
7/5/2005	Shamrock Homes	FL homebuilder	M/I Homes, Inc.	-	-	-
7/1/2005	Ram Pipe & Supply, Inc.	AZ dist of plumbing, water, and sewer products	Hughes Supply, Inc.	-	\$14.0	-

	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
DISTRIBUTORS											
				Firm value as a multiple of:			Market value as a multiple of:				
Home Depot	\$38.14	81,632.1	81,496.1	76,862.0	9,977.0	8,565.0	13.0%	\$5,373.0	2.98	\$25,139.0	.2x
				1.1x	8.2x	9.5x		15.2x	12.8x	3.2x	
Lowe's Companies, Inc.	64.40	50,210.1	52,540.1	39,456.0	5,139.0	4,157.0	13.0%	2,452.0	3.92	13,085.0	.7x
				1.3x	10.2x	12.6x		20.5x	16.4x	3.8x	
Wolseley plc	£11.56	6,845.2	8,146.3	10,631.7	782.8	643.8	7.4%	443.4	-	1,961.1	2.0x
				.8x	10.4x	12.7x		15.4x	-	3.5x	
Hughes Supply	32.60	2,175.1	2,494.2	4,859.4	263.8	233.3	5.4%	127.7	2.48	1,320.5	2.0x
				.5x	9.5x	10.7x		17.0x	13.1x	1.6x	
Building Materials Holding Corp	93.26	1,328.0	1,505.8	2,405.2	194.1	170.4	8.1%	91.6	6.50	390.3	1.0x
				.6x	7.8x	8.8x		14.5x	14.3x	3.4x	
Watsco, Inc.	53.11	1,454.7	1,499.3	1,452.7	97.3	90.9	6.7%	53.6	2.71	437.9	.5x
				1.0x	15.4x	16.5x		27.1x	19.6x	3.3x	
Bluelinx Holdings, Inc.	13.44	405.8	1,135.6	5,645.8	113.3	96.7	2.0%	30.9	1.43	159.9	6.7x
				.2x	10.0x	11.7x		13.1x	9.4x	2.5x	
Builders FirstSource, Inc.	22.33	729.3	1,090.3	2,208.9	120.8	101.6	5.5%	36.2	2.24	119.6	3.0x
				.5x	9.0x	10.7x		20.2x	10.0x	6.1x	
Beacon Roofing Supply, Inc. ⁽¹⁾	32.67	871.0	958.5	800.0	54.9	46.6	6.9%	21.7	1.39	166.3	1.7x
				1.2x	17.5x	20.6x		NM	23.5x	5.2x	
Canwel Building Products ⁽²⁾	C\$ 6.18	157.8	265.9	1,075.8	30.1	22.9	2.8%	8.7	0.65	118.5	3.6x
				.2x	8.8x	11.6x		18.2x	9.5x	1.3x	
Huttig Building Products	9.05	182.4	244.3	1,012.6	34.4	29.2	3.4%	16.0	1.32	104.5	2.1x
				.2x	7.1x	8.4x		11.4x	6.9x	1.7x	
			MEAN	.7x	10.4x	12.2x	6.7%	17.3x	13.6x	3.3x	2.1x
			MEDIAN	.6x	9.5x	11.6x	6.7%	16.2x	13.0x	3.3x	2.0x
LARGE CAP BUILDING PRODUCTS											
Masco	\$30.68	\$13,204.7	\$16,417.7	\$12,524.0	\$1,763.0	\$1,521.0	14.1%	\$881.0	\$2.64	\$4,979.0	2.7x
				1.3x	9.3x	10.8x		15.0x	11.6x	2.7x	
American Standard	46.55	9,813.7	11,200.5	9,843.8	1,146.1	877.9	11.6%	401.9	3.06	909.7	1.5x
				1.1x	9.8x	12.8x		24.4x	15.2x	10.8x	
Black & Decker	82.09	6,605.0	7,443.3	6,226.0	886.0	736.3	14.2%	546.9	7.40	1,625.3	1.4x
				1.2x	8.4x	10.1x		12.1x	11.1x	4.1x	
Sherwin Williams	44.07	6,118.2	7,109.0	6,680.2	828.3	689.1	12.4%	451.9	3.65	1,710.4	1.1x
				1.1x	8.6x	10.3x		13.5x	12.1x	3.6x	
Mohawk	80.25	5,366.3	6,250.2	6,122.7	775.7	650.0	12.7%	379.0	6.58	2,827.4	1.1x
				1.0x	8.1x	9.6x		14.2x	12.2x	1.9x	
Stanley Works ⁽³⁾	46.68	3,895.4	4,284.1	3,114.9	514.5	420.5	16.5%	251.9	3.61	1,292.5	1.4x
				1.4x	8.3x	10.2x		15.5x	12.9x	3.0x	
James Hardie ⁽⁴⁾	34.33	3,153.9	3,139.7	1,263.7	263.0	226.2	20.8%	146.7	2.50	658.7	.6x
				2.5x	11.9x	13.9x		21.5x	13.7x	4.8x	
RPM ⁽⁵⁾	18.40	2,164.8	2,818.7	2,555.7	343.1	277.1	13.4%	155.7	1.51	1,046.5	2.4x
				1.1x	8.2x	10.2x		13.9x	12.2x	2.1x	
			MEAN	1.3x	9.1x	11.0x	14.5%	16.3x	12.6x	4.1x	1.5x
			MEDIAN	1.2x	8.5x	10.3x	13.8%	14.6x	12.2x	3.3x	1.4x
MID CAP BUILDING PRODUCTS											
Lennox International	\$27.41	\$1,710.9	\$1,892.6	\$3,081.4	\$211.4	\$172.5	6.9%	\$118.1	\$1.92	\$501.3	1.3x
				.6x	9.0x	11.0x		14.5x	14.3x	3.4x	
Royal Group Technologies	C\$ 11.70	1,093.3	1,729.2	1,881.8	174.2	38.6	9.3%	(4.3)	0.70	1,371.8	3.6x
				.9x	9.9x	NM		NM	16.7x	.8x	
Genlyte Group	48.08	1,338.1	1,516.9	1,217.9	165.4	134.5	13.6%	75.4	3.31	486.4	1.5x
				1.2x	9.2x	11.3x		17.7x	14.5x	2.8x	
Jacuzzi ⁽⁶⁾	8.06	618.0	951.6	1,160.2	122.2	95.4	10.5%	31.3	0.51	281.7	3.3x
				.8x	7.8x	10.0x		19.8x	15.8x	2.2x	
Elkcorp ⁽⁷⁾	35.77	725.8	847.9	761.7	101.7	77.8	13.4%	42.7	2.36	270.8	2.0x
				1.1x	8.3x	10.9x		17.0x	15.2x	2.7x	
American Woodmark	33.60	551.4	555.1	805.0	90.0	54.6	11.2%	33.4	2.18	222.4	.3x
				.7x	6.2x	10.2x		16.5x	15.4x	2.5x	
International Aluminum	37.10	158.8	146.4	251.6	27.1	20.8	10.8%	12.9	-	120.5	.0x
				.6x	5.4x	7.0x		12.3x	-	1.3x	
			MEAN	.9x	8.0x	10.1x	10.8%	16.3x	15.3x	2.2x	1.7x
			MEDIAN	.8x	8.3x	10.5x	10.8%	16.8x	15.3x	2.5x	1.5x

Share price as of 9/30/2005

(1) Beacon is not pro forma for the acquisition of Shelter Distribution

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

(3) Stanley Works is not pro forma for its 04 acquisitions of Blick, CST/Berger, Frisco Bay, and ISR Solutions

(4) James Hardie is not pro forma for \$30.4MM in 'Special Commission of Inquiry' related expenses; primarily legal expenditures concerning asbestos

(5) RPM is not pro forma for the acquisition of Illbruck. \$78MM related to asbestos charges added back to EBIT and EBITDA. \$51MM added back to net income for after tax effects of asbestos reserve charges.

(6) Jacuzzi is pro forma for the divestiture of 70% ownership in Rexair and for the divestiture of Eljer Plumbingware

(7) Elk is not pro forma for the acquisition of Railway and RGM Products and the divestiture of Orloff 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