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**Happy
New Year!**

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2005—A LOOK AHEAD

2004 was a great year for builders, distributors and manufacturers. The long awaited/feared bubble in residential construction never popped, low interest rates prevailed and home equity values continued their upward march. And despite the economic uncertainty and constrained government budgets, nonresidential construction was basically flat for the year. Overall, a great performance.

The consensus for 2005 is that residential construction will finally ease from its torrid pace. The NAHB predicts that housing starts will slip 4.4% to 1.523 million units. However, analysts predict that nonresidential construction will pick up, as pent-up demand and improving state budgets lead to increased spending. The Portland Cement Association predicts 4.0% growth in real terms on public works construction.

Detailed below are some things to look for as we head into 2005.

Higher Interest Rates – I'm not going out on a limb here, but all signs point to increasing interest rates for 2005 - inflation driven by the cheap dollar and energy prices; the current account deficit; the federal budget deficit; and even Federal Reserve bias. The question is how high? The NAHB predicts that fixed mortgage rates will climb from 5.9% in 2004 to 6.5% in 2005, and to 7.1% in 2006. Still low by historical standards. But with all the negative factors noted above, there is potential for long term interest rates to rise higher faster.

Consolidation – There will be continued consolidation in homebuilding and building materials distribution. The large public builders will continue to gain market share. As a whole, they are sitting on a great deal of land purchased at reasonable prices, and wads of cash.

Building materials distribution in the pro market is still highly fragmented. This will have to change as the customer base changes – with the

largest homebuilders continuing to take market share. Also, Home Depot is showing signs of making an aggressive move here, and competitors will likely respond. Look for increased M&A activity – and prices – as competition for prime properties heats up.

Improved M&A Conditions - A variety of factors point to a sharp increase in M&A deal volume industry wide. Economic sentiment is improving, and corporations have large amounts of cash and very friendly financing markets. And now that Sarbanes-Oxley and the Enron accounting disaster is several years old, managers are more comfortable with the increased due diligence and potential liability of making big bets on acquisitions.

Asbestos Reform - The long awaited asbestos reform now has a great deal of momentum, and it appears likely that the new Congress will pass reform legislation. The certainty of a hard cap on future claims will lead to increased M&A –

(Continued on page 2, see "Look Ahead")

KKR KNOCKING ON DOOR BUSINESS?

On December 22nd, US leveraged buyout firm Kohlberg Kravis Roberts & Co. (KKR) announced a \$3.1-billion all-cash bid to buy Mississauga, Canada-based Masonite International Corp. to take the company private. The offer of C\$40.20 per share represented a 13% premium over its share price that day, and a 9.15x multiple of LTM EBITDA. But Masonite's stock price has surged past the KKR offer, suggesting shareholders anticipate a better bid.

Masonite is a manufacturer of doors, door components and door

entry systems for new residential construction, home repair, renovation and remodeling, and commercial use. Previously named Premdor, the company purchased Masonite from International Paper in 2001, and took the acquired company's name.

The announcement continues the streak of heavy interest in building products companies by private equity groups. Building products investments have performed extremely well over the past several years as they rode the residential construction building boom.

KKR has a modest (for a deal of this size) termination fee of \$27.4 million if the deal falls apart. This is not insurmountable, and it helps fuel the speculation that a bigger bid is likely to come. Other potential bidders include Fortune Brands, (owner of Therma-Tru), and Masco Corp. Paint manufacturer Sherwin-Williams Co is also mentioned as another potential bidder.

Masonite's investors are scheduled to vote on the KKR bid February 18th, giving other suitors a brief window to prepare competing offers.



EUROPEAN ACQUIRERS ON THE COME?

For the past several years, the dollar has plummeted almost daily against the world's other major currencies, weakening roughly 50% against the euro since its peak in October 2000. As a result, American assets (and companies) are appearing much cheaper to the rest of the world.

One would think that a weak dollar would make U.S. assets more attractive to European purchasers. However, transaction data for 2004 shows just the opposite. U.S. buying of European assets is up, while European purchases of U.S. businesses are down. What gives?

Several answers come to mind. First of all, acquisitions are principally made for strategic

reasons. So that while relative value will affect decisions at the margin, it is not the driving force behind the purchase decision. For instance, France's building products giant St. Gobain has been very active in the U.S. market in the past, but its current strategy is to focus on Eastern Europe.

Another reason is that European building products companies have seen the value of their U.S. earnings erode as the euro continues to gain. Ireland's CRH made a slew of U.S. acquisitions over the past several years, but has slowed its acquisition pace considerably in 2004. The company estimates that unfavorable cur-

rency translation will reduce profit before tax by 26 million euros versus 2003 – itself not a good year. The problem is that while U.S. assets are cheap, so are the dollars that they earn. So all things being equal, it's a wash. But with the dollars' slide continuing, the earnings power of U.S. assets in euro terms slides as well.

As we carefully monitor M&A in the building products industry it is our belief that once the market senses that the dollar has at least stabilized on world currency exchanges, a rash of cross-border acquisitions will occur. And owners of middle market companies should take note. International companies have

been aggressive buyers in the past for companies of all sizes, and will be again, as they seek to increase their U.S. market share. Owners seeking to maximize the value of their companies need to market on a world-wide basis. So look for the major players to return – CRH, La-Farge, Wolsely, Hanson, Etex, CSR and others. For despite our weak dollar, the U.S. economy continues to outgrow the euro region economies. The European Central Bank recently cut its 2005 growth projection to 1.4% - 2.4%. Meanwhile, the CBO estimates the United States GDP growth at or about 4.1%.

Look Ahead (Cont'd from pg. 1)

many companies have tried to sell, or would like to sell, but have been unable to due to the asbestos poison pill. I won't name any names here, but with liabilities fixed, those deals will be able to happen. Look for a raft of deals to hit the market once the legislation passes the courts, likely in late 2005 and 2006.

Also look for long suffering companies to emerge from bankruptcy - Owens Corning, GAF, Armstrong World Industries, USG to name a few. They will make extremely attractive targets for both strategic and LBO buyers. And the stronger companies may even become consolidators themselves. For example, USG and Owens Corning are both sitting on about \$800MM in cash.

Continued Private Equity Interest - Private equity investments in the building products industry have performed extremely well over the past few years. And nothing breeds emulation like success. Private equity groups continue snapping up companies despite the consensus view that the housing market will cool in 2005 (see KKR

story). Huge and fragmented markets and stable cash flows make the industry an extremely attractive investment.

Easing of financing markets – As interest rates pick-up, look for decreased availability of higher risk growth capital. While there is still a great deal of committed

mezzanine money out there, look for investors to start rotating their money out of high yield funds and into more conservative investments. Many can live with a 5-6% return, but have trouble investing for 3-4% return.

PCA Construction Put-in-Place \$ billion (constant 1996)

Construction	2003	2004	2005E	'03-'04	'04-'05
Residential	361.9	392.5	391.2	+8.5%	-0.3%
Non-Residential	122.2	122.22	134.3	0.0%	+9.9%
Total	697.6	723.7	744.7	+3.7%	+2.9%

Deals in the Pipeline

Builders First Source - the third-largest professional distributor of building materials to major residential homebuilders in the U.S. Rumor has it that Home Depot pre-empted the auction process and has entered into exclusive negotiations with BFS. If Home Depot completes this deal, it would be their most aggressive move to date

to capture a larger share of the pro market. And it would certainly be a wake-up call to competitors Stock Building Supply, 84 Lumber and others.

Murray Inc. – bankrupt manufacturer of lawn mowers. On December 14th, Briggs & Stratton entered a stalking horse



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.

bid of \$150MM to the bankruptcy court. Murray is Briggs' 3rd largest customer, and owes the company \$40MM.

It makes sense that Briggs would try to keep a major customer alive, and it follows closely on the heels of the purchase of Simplicity Mfg. It continues Briggs' strategy to complement its OEM business with consumer products.

Recently Announced Building Product Transactions

Announce Date	Target	Target Description	Acquirer	Firm Value	Revenue FV / Rev.	EBITDA FV / EBITDA
12/18/2004	Farley Windows, Inc.	Canadian supplier of windows and doors	Gienow Building Products Ltd.	-	-	-
12/16/2004	East Coast Metal Distributors, Inc.	Southeastern distributor of HVAC products	Watsco, Inc.	-	\$180.0	-
12/16/2004	Wickes division of Focus Wickes	UK DIY retailer wth 172 stores selling to small contractors	Travis Perkins plc	£950.0	£911.0	£75.8
					1.0x	12.5x
12/16/2004	RJ Flooring Systems	supplier and installer of commercial flooring in NY and NJ	Jordan Kane Floor Coverings, Inc.	-	-	-
12/16/2004	Architectural Wall Solutions, Inc.	9th largest commercial glass installer in the US.	Apogee Enterprises, Inc.	-	\$25.0	-
12/16/2004	JGA Corporation	Distributor of roofing and building materials with 8 sites in GA and FL	Beacon Roofing Supply, Inc.	-	\$74.0	-
12/13/2004	ISR Solutions, Inc.	electronic security integrator	Stanley Works	-	\$40.0	-
12/9/2004	Mikron Industries	manufacturer of window coverings and door components	Quanex Corp	\$205.0	\$215.0	-
					1.0x	-
12/6/2004	Stanley Works' Home Décor business	leading supplier of mirrored closet doors, closet organization and wall decor products	Wellspring Capital Management	-	\$150.0	-
12/6/2004	Associated Materials, Inc.	purchase of 50% interest in mfr and distributor of windows, vinyl siding, fencing, and decking	Investcorp	\$945.0	\$1,085.0	\$124.0
					.9x	7.6x
12/3/2004	Hurd Millwork Company, Inc.	4 facility manufacturer of windows and doors	Monarch Holdings, Inc.	-	-	-
12/2/2004	TRI-FLEX 30 product line from Flexia	roofing underlayment used in sloped roofing	W.R. Grace & CO	-	-	-
12/1/2004	Seasonshield, Inc.	FL based manufacturer of hurricane windows and doors	Jeld-Wen	-	-	-
11/29/2004	Illinois Cement Company	purchase of remaining 50% of JV in IL cement plant	Eagle Materials, Inc.	\$144.0	\$50.0	\$14.0
					2.9x	10.3x
11/29/2004	Security Group, Inc. and Cal-Dor	Security Group makes locks and locking systems, Cal-dor is a CA distributor of security products	Stanley Works	\$56.0	\$55.0	\$8.0
					1.0x	7.0x
11/15/2004	CEMEX assets in Great Lakes region of US	Charlevoix and Dixon-Marquette cement plants, and other associated operating assets in the region	Votorantim Cimentos LTDA	\$400.0	-	-
11/15/2004	Latham International	manufacturer of swimming pool components and accessories	Brockway Moran & Partners, Inc.	\$163.0	\$170.0	-
					1.0x	-
11/11/2004	Sodisco-Howden	Montreal hardware and building materials distributor	CanWel Building Materials	C\$ 90.9	C\$ 485.3	C\$ 15.6
					.2x	5.8x
11/11/2004	Honsador Lumber	Hawaii's largest wholesale building products distributor	Key Principal Partners	-	\$150.0	-
11/10/2004	Clark Group, Inc.	sprinkle manufacturer bought out of bankruptcy	Ferguson Enterprises, owned by Wolseley, PLC	\$20.0	\$65.0	-
					.3x	-
11/8/2004	Moore's Lumber	19 location supplier of building materials	The Strober Organization	-	-	-
11/2/2004	Addison Products Company, div. of Heat Controller, Inc.	manufacturer of commercial HVAC units	Fedders Corporation	-	\$21.0	-
11/1/2004	Glens Falls Lehigh Cement Co.	sale of Buzzi Unicem's 50% interest in cement plant and related facilities	Lehigh Cement Co., division of HeidelbergCement	-	-	-
11/1/2004	Braid Electric Company	8 location TN based wholesale electrical distributor	REXEL S.A.	-	\$28.3	-
10/30/2004	Peerless Pottery	manufacturer of china bathroom fixtures. Acquired brand names and product designs	Procemex	-	-	-
10/28/2004	Texas Wholesale Building Materials	two facility regional distributor of millwork and building products	Huttig Building Products, Inc.	\$16.5	\$90.0	-
					.2x	-
10/26/2004	C.H.I. Overhead Doors	garage door maker	JLL Partners, Inc.	\$195.0	\$130.0	\$28.0
					1.5x	7.0x
10/25/2004	VisionBuilt Homes	Atlanta homebuilder	David Weekly Homes	-	-	-
10/19/2004	Southern Equipment Co., dba Ready Mixed Concrete Co	Southeastern ready mixed concrete company	Audax Group	\$222.0	\$163.0	\$28.0
					1.4x	7.9x
9/30/2004	RMC Group Plc	World's leading manufacturer of ready-mix concrete	Cemex S.A.	\$5,800.0	\$8,089.2	\$861.8
					.7x	6.7x

Lamson & Sessions — The manufacturer of thermoplastic enclosures, fittings, pvc conduit and pipe, and wiring devices. Company announced they has hired an advisor to “explore strategic options”, but had not received any offers. Moderate leverage and an expiring credit facility lead analysts to believe

the company will seek to divest its struggling PVC pipe business. Potential buyers include PW Eagle and Etex Group.

Service America - Chemed Corp, owner of Roto-Rooter, announced it will sell its Service America unit to its employees.

Service America performs maintenance and repairs for HVAC units and appliances.

The transaction is expected to be completed in the first half of 2005.

CompX International— a manufacturer of precision ball

bearing slides, security products, and ergonomic systems, approved a plan to dispose of its Thomas Regout operations in Europe. Thomas Regout manufactures ball bearing slides.

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:			Total debt / EBITDA
				LTM revenue	LTM EBITDA	LTM EBIT		LTM net income	12 mo Forward EPS	Book value	
LARGE CAP BUILDING PRODUCTS											
American Standard	\$41.32	\$8,860.0	\$10,698.0	\$9,274.0	\$1,010.0	\$749.0	10.9%	\$484.0	\$2.56	\$959.0	2.0x
				1.2x	10.6x	14.3x		18.3x	16.1x	9.2x	
Black & Decker ⁽¹⁾	88.33	7,130.0	8,191.6	6,090.6	837.7	686.3	13.8%	485.6	6.05	1,258.6	1.3x
				1.3x	9.8x	11.9x		14.7x	14.6x	5.7x	
Masco	36.53	16,370.0	19,655.0	11,902.0	1,720.0	1,578.0	14.5%	914.0	2.54	5,242.0	2.5x
				1.7x	11.4x	12.5x		17.9x	14.4x	3.1x	
Masonite	34.36	1,870.0	2,514.3	2,085.6	273.2	216.3	13.1%	133.4	2.75	844.5	2.5x
				1.2x	9.2x	11.6x		14.0x	12.5x	2.2x	
Mohawk	79.97	5,336.0	6,243.3	5,779.3	759.3	637.1	13.1%	368.3	6.13	2,559.1	1.2x
				1.1x	8.2x	9.8x		14.5x	13.0x	2.1x	
RPM	19.66	2,290.0	2,957.4	2,413.0	323.2	258.8	13.4%	148.7	1.42	1,018.3	2.2x
				1.2x	9.1x	11.4x		15.4x	13.8x	2.2x	
Sherwin Williams ⁽²⁾	44.63	6,300.0	7,285.2	5,899.2	741.1	621.6	12.6%	381.6	3.02	1,570.5	1.2x
				1.2x	9.8x	11.7x		16.5x	14.8x	4.0x	
Stanley Works	48.99	4,030.0	4,515.8	3,092.2	440.5	351.4	14.2%	214.9	3.25	1,095.2	1.7x
				1.5x	10.3x	12.9x		18.8x	15.1x	3.7x	
			MEAN	1.3x	9.8x	12.0x	13.2%	16.3x	14.3x	4.0x	1.8x
			MEDIAN	1.2x	9.8x	11.8x	13.3%	16.0x	14.5x	3.4x	1.9x
MID CAP BUILDING PRODUCTS											
American Woodmark	\$43.68	\$719.4	\$709.1	\$729.9	\$89.6	\$60.7	12.3%	\$37.1	\$2.70	\$210.1	.3x
				1.0x	7.9x	11.7x		19.4x	16.2x	3.4x	
Elkcorp	34.50	685.2	839.9	576.6	71.6	52.1	12.4%	28.9	2.30	221.7	2.2x
				1.5x	11.7x	16.1x		23.7x	15.0x	3.1x	
Genlyte Group ⁽³⁾	85.50	1,175.6	1,407.0	1,151.0	140.7	109.3	12.2%	49.7	5.10	405.6	2.1x
				1.2x	10.0x	12.9x		23.7x	16.8x	2.9x	
Jacuzzi	8.70	662.1	1,094.1	1,347.0	121.0	97.0	9.0%	29.0	0.70	289.0	3.9x
				.8x	9.0x	11.3x		22.8x	12.4x	2.3x	
Omnova Solutions	5.65	229.4	401.5	727.5	31.4	8.1	4.3%	(71.0)	0.30	60.9	5.9x
				.6x	12.8x	NM		NM	18.8x	3.8x	
Royal Group Technologies	10.47	977.5	1,468.1	1,584.7	240.5	133.1	15.2%	60.4	-	1,174.3	2.3x
				.9x	6.1x	11.0x		16.2x	NM	.8x	
			MEAN	1.0x	9.6x	12.6x	10.9%	22.4x	15.8x	2.7x	2.8x
			MEDIAN	.9x	9.5x	11.7x	12.2%	22.8x	16.2x	3.0x	2.2x
HEAVY BUILDING MATERIALS											
Eagle Materials	\$86.35	\$1,582.8	\$1,626.3	\$555.6	\$142.9	\$109.1	25.7%	\$87.4	\$6.50	\$452.7	.3x
				2.9x	11.4x	14.9x		18.1x	13.3x	3.5x	
Florida Rock Industries	59.53	2,581.8	2,580.0	948.5	239.6	175.9	25.3%	113.7	3.20	620.9	.2x
				2.7x	10.8x	14.7x		22.7x	18.6x	4.2x	
LaFarge N. America, Inc.	51.32	3,825.9	4,189.7	3,641.3	664.6	459.3	18.3%	265.0	3.85	2,865.6	1.2x
				1.2x	6.3x	9.1x		14.4x	13.3x	1.3x	
Martin Marietta Materials	53.66	2,576.8	3,162.9	1,742.3	340.8	205.1	19.6%	120.0	2.88	1,167.5	2.1x
				1.8x	9.3x	15.4x		21.5x	18.6x	2.2x	
Texas Industries	62.38	1,352.4	2,036.9	1,796.3	300.1	203.4	16.7%	87.9	5.60	799.2	2.7x
				1.1x	6.8x	10.0x		15.4x	11.1x	1.7x	
U.S. Concrete, Inc.	7.67	222.8	398.5	499.8	45.8	33.0	9.2%	-6.0	0.50	167.2	4.4x
				.8x	8.7x	12.1x		NM	15.3x	1.3x	
Vulcan Materials	54.61	5,592.6	5,997.7	3,053.7	690.1	432.8	22.6%	263.7	3.01	1,946.9	1.0x
				2.0x	8.7x	13.9x		21.2x	18.1x	2.9x	
			MEAN	1.8x	8.8x	12.9x	19.6%	18.9x	13.9x	2.4x	1.7x
			MEDIAN	1.8x	8.7x	13.9x	19.6%	19.7x	15.3x	2.2x	1.2x

Share price as of 12/31/2004

(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