

Outlook and Opportunities in the Building and Infrastructure Industry

2009 Building and Infrastructure M&A Conference: Is now an opportune time to invest in the building and infrastructure industry? Is the residential construction industry emerging from its lows? What sectors are ripe for consolidation? How can companies position themselves to emerge from today's challenging market environment even stronger than before?

If you've considered any of these questions recently, you should attend this conference co-sponsored by Lincoln International and L.E.K. Consulting.

The conference is complimentary and will be held on November 12th at the New York Athletic Club, conveniently located in mid-town Manhattan.

Panelists include industry executives from firms such as:

- Consolis SAS
- The Gores Group (Glendon Partners)
- Golden Gate Capital
- Graham Partners
- Oldcastle Glass
- Stock Building Supply
- Summit Materials
- USG Corporation
- Vulcan Materials Company



WHEN Thursday, November 12th
1:00 PM - 5:00 PM EST

WHERE New York Athletic Club
180 Central Park South
New York, NY 10019



Keynote Speaker

Peter Linneman, Ph.D.

Principal, Linneman Associates
Albert Sussman Professor of Real Estate, Finance and Public Policy at the Wharton School of Business at the University of Pennsylvania

European Stimulus Packages and their Effects on the Construction Industry

In the current global slowdown, countries are being hit in different ways and to varying degrees, yet the common denominator has been the contraction of the construction sector. In response, governments around the world are searching for solutions to lessen the downturn and revitalize their economies. In this article, we compare the stimulus packages of major European countries such as Germany, France, Spain, the United Kingdom and Italy, and we examine the impact these policies are having on construction activity.

Construction is among the largest sectors in terms of employment headcount and therefore has a significant impact on global economic activity. In the EU, 26 million workers are directly or indirectly in the construction sector; in fact one job in the construction industry creates two jobs in the rest of the economy. The construction sector is the biggest industrial employer and is a significant share of the total GDP of the EU, representing 10.7% of the GDP in 2007.

General Trends in the European B&I Market in 2008 and 2009

Between 2005 and 2007, Europe's construction industry performed solidly. The construction industry in markets such as France, Germany, Italy, Spain and the

United Kingdom showed steady growth during this period. In the second half of 2007, however, the growth phase ran its course and the current economic crisis expanded to the construction sector.

The end of 2007 was marked by a slowdown due to the financial crisis and the resulting tightening in lending conditions. Consequently, major European construction markets, including those in Spain and France, faced significant order declines, and overall European construction activity declined in 2008 by 4%. The negative trend continued and intensified in the second quarter of 2009 in all European construction markets.

Different paths to dealing with the crisis

The actions from the stimulus packages can be divided into those supporting the construction sector directly and measures which may support the construction industry indirectly by stimulating general consumption.

Germany's stimulus package has a total size of EUR 80 billion. Investments in infrastructure such as traffic infrastructure and renovation of buildings are planned for an amount of EUR 18 billion. The French government also plans to invest the majority of its stimulus funds, EUR 15

billion of the total EUR 26 billion, on infrastructure projects. Italy's recovery plans include a stimulus package of EUR 80 billion, of which EUR 40 billion are sponsored by the European Union. Italy plans to invest EUR 16 billion in its infrastructure. Similar to France and Italy, the Spanish stimulus package also envisages investing "several billion Euros" of the total amount of EUR 11 billion in Spanish infrastructure projects.

Besides direct infrastructure investments, the above mentioned country governments are also trying to revitalize their economies through consumption. Thus, various stimulus packages such as in France, Germany, Italy and Spain include consumption vouchers, tax and tax reductions and / or family allowances.

In contrast, the United Kingdom did not plan large infrastructure investments. The U.K. is fighting the crisis with tax reductions and other measures, which heavily promote consumption.

Outlook

Its unclear whether the current stimulus packages will bridge the gap until the underlying economies improve. Increased government spending will generate demand for construction products and services, particularly in the infra-

European Stimulus Packages and their Effects on the Construction Industry (continued)

structure sector. Yet, overall conditions are expected to remain soft through the end of 2009, with construction output across all major European countries lower (for 2009F a 3.5% decline in Germany, a 7.5% decline in the U.K. and Italy, and double digit contraction in Spain).

After all, increased government stimulus attempts to temporarily substitute private investments that are currently lacking. Thus, the stimulus packages can and will “merely” soften the downturn before institutional investments returns.


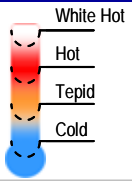
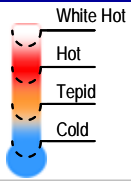
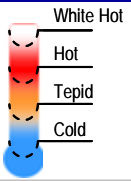
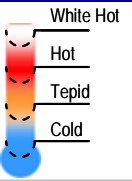
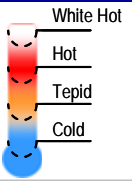
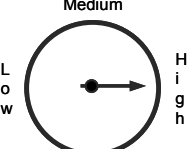
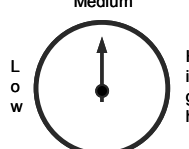
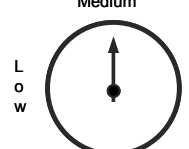
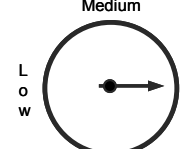
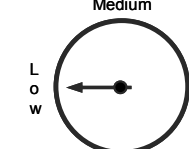
For 2010 and 2011, as stimulus money continues to flow and underlying conditions improve, many experts predict residential and civil construction in these European countries to resume growth. 

Figure A: Stimulus Packages Summary

	Germany	France	Spain	Italy	UK
Current construction thermometer					
Actions	Direct investment in infrastructure, tax relief and subsidized loan facilities	Indirect investment in private housing and infrastructure, as well as backing of credit facilities for small and medium enterprises	Government subsidized investment in housing, tax initiatives and loan facilities	Large direct investment in infrastructure, as well as select tax relief programs	Low direct investment in infrastructure, but partial tax relief and expected benefits from the Olympics
Direct construction stimulus level					

Source: Lincoln International, Building Connect

Building and Infrastructure High Yield Market Update

Despite its recent run-up, the high yield market continues to reflect uncertainty and a dim short term outlook for the construction industry. Over the past months, several private equity owned construction companies have been downgraded by ratings agencies because of the severity of the economic downturn in the U.S. and tight credit markets which limit construction of new housing projects and limit remodeling efforts by existing homeowners. For example, in July 2009, Moody's lowered its outlook on Associated Material's debt to Caa1 even though the company has reduced its outstanding debt by over \$55 million between January and July 2009.

Nortek, another private equity owned company, has also had its debt downgraded by Moody's, to Caa3 rating in August 2009. While the company's air conditioning business continues to perform relatively well, its other businesses remain stressed due to the pressures in the residential construction and remodeling markets (the company had a \$250 million goodwill impairment charge in the quarter ending July 4, 2009). Fur-

ther, Nortek has hired outside advisors and is seeking a “pre-packaged” plan of reorganization.

As construction companies continue to struggle with their capital structure we will continue to see “pre-packaged” plans or reorganization, bankruptcy filings, amendments to the credit agreements, exchange offers and increased investments from private equity owners. For example, Ply Gem's equity sponsor purchased a large portion of the company's 9% senior subordinated debt to provide Ply Gem with the flexibility of making interest payments in-kind instead of cash interest payments. Having equity sponsors purchasing outstanding debt at a discount is a growing trend, which will remain prominent as sponsors struggle to maintain control of their investments. Another example of direct investment by a private equity fund into a company with a large debt burden is Clayton, Dubilier and Rice. The firm made an investment of \$250 million in NCI Building Systems in August 2009. Approximately \$140 million will be used to

partially repay its term loan and the remaining term loan will be modified under a new amendment.


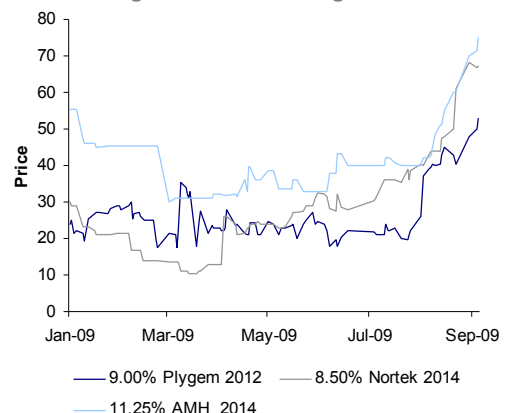
Given the current environment, private equity firms are becoming more opportunistic and creative in how they invest in the sector. 

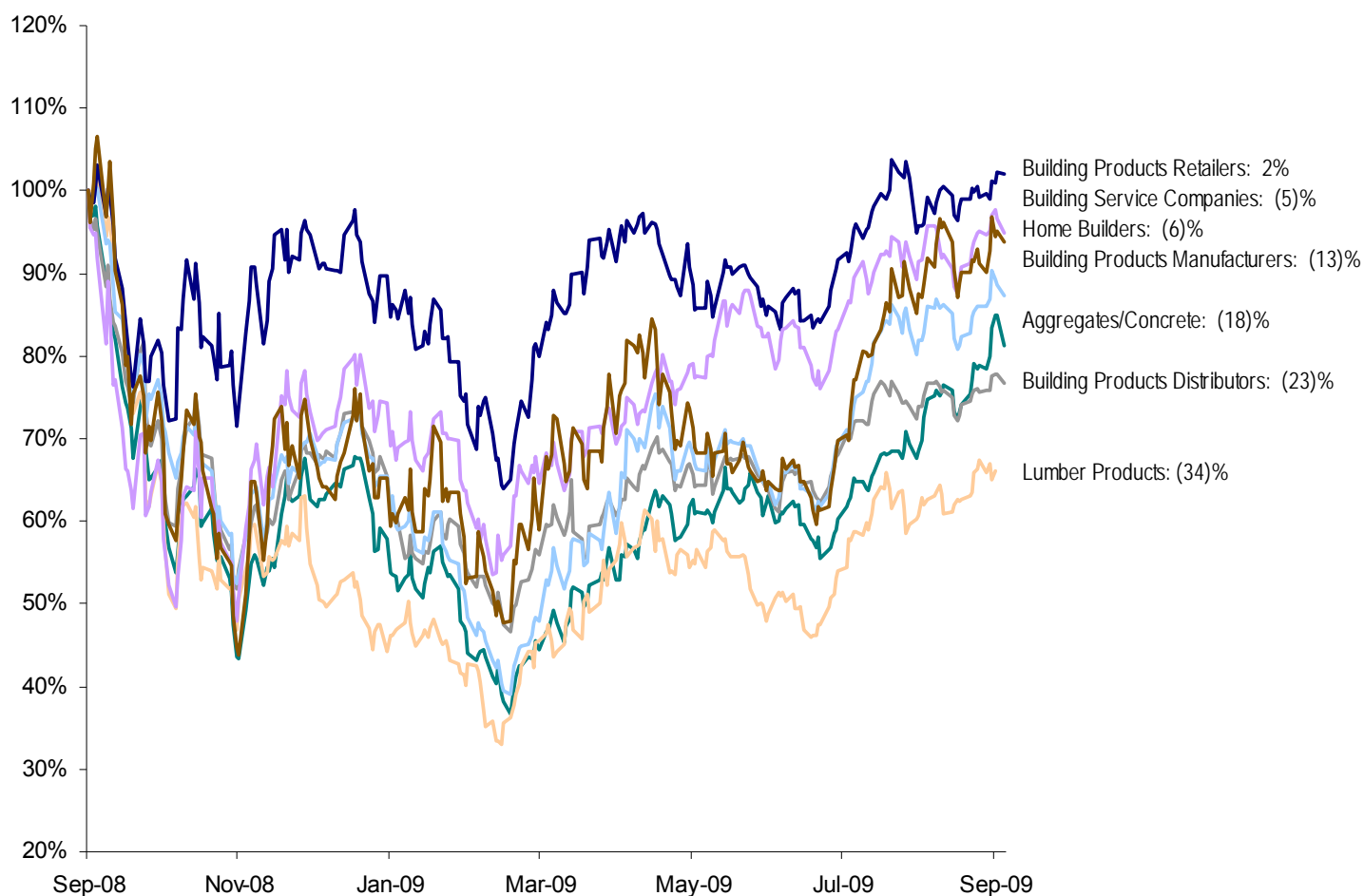
Chart A: High Yield Debt Pricing Trend



Source: Bloomberg

Publicly Traded Building and Infrastructure Companies

Chart B: Building Products and Services Indices



Source: Capital IQ

Multiples from Public B&I Companies

(USD in millions, except per share data)

Aggregates/Concrete	Market Value	Enterprise Value	LTM			Enterprise Value / LTM			P/E	
			Revenue	EBITDA	EBIT	Revenue	EBITDA	EBIT	LTM	FY+1
CEMEX, S.A.B. de C.V.	\$ 12,212	\$ 33,818	\$ 17,402	\$ 3,458	\$ 1,808	1.9x	9.8x	18.7x	<i>nmf</i>	29.3x
CRH plc	19,216	27,081	27,301	2,940	1,779	1.0x	9.2x	15.2x	12.4x	18.7x
Eagle Materials Inc.	1,239	1,563	550	107	55	2.8x	14.6x	28.2x	27.2x	31.7x
HeidelbergCement AG	8,072	25,565	17,824	3,375	2,268	1.4x	7.6x	11.3x	12.7x	<i>nmf</i>
Holcim Ltd.	18,792	36,980	20,980	4,299	2,684	1.8x	8.6x	13.8x	15.4x	<i>nmf</i>
Lafarge SA	25,387	50,368	25,170	5,912	4,313	2.0x	8.5x	11.7x	11.9x	<i>nmf</i>
Martin Marietta Materials Inc.	4,195	5,385	1,912	464	287	2.8x	11.6x	18.7x	32.2x	33.1x
Texas Industries Inc.	1,208	1,718	767	107	40	2.2x	16.0x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>
US Concrete Inc.	65	379	647	18	(13)	0.6x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>
Vulcan Materials Company	6,828	9,772	3,135	643	248	3.1x	15.2x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>
Median						2.0x	9.8x	15.2x	14.1x	30.5x

Source: Capital IQ. As of September 29, 2009

Publicly Traded Building and Infrastructure Companies (continued)

Multiples from Public B&I Companies

(USD in millions, except per share data)

Building Products Distributors	Market Value	Enterprise Value	LTM			Enterprise Value / LTM			P/E		
			Revenue	EBITDA	EBIT	Revenue	EBITDA	EBIT	LTM	FY+1	
Beacon Roofing Supply Inc.	\$ 737	\$ 1,014	\$ 1,813	\$ 153	\$ 122	0.6x	6.6x	8.3x	12.7x	14.9x	
Bluelinx Holdings Inc.	135	463	2,059	(12)	(32)	0.2x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Builders FirstSource, Inc.	152	339	836	(49)	(69)	0.4x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Huttig Building Products Inc.	19	47	529	(31)	(35)	0.1x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Interline Brands Inc.	552	824	1,122	93	75	0.7x	8.9x	11.0x	18.3x	18.6x	
Travis Perkins plc	2,664	3,503	4,873	392	290	0.7x	8.9x	12.1x	12.3x	n/a	
Watsco Inc.	1,736	1,712	1,506	76	69	1.1x	<i>nmf</i>	24.6x	35.4x	38.5x	
WESCO International Inc.	1,221	2,073	5,397	285	263	0.4x	7.3x	7.9x	7.6x	11.6x	
Wolseley plc	6,566	11,039	24,252	1,134	590	0.5x	9.7x	18.7x	<i>nmf</i>	<i>nmf</i>	
W.W. Grainger, Inc.	6,607	6,726	6,431	846	727	1.0x	7.9x	9.2x	15.8x	17.8x	
						Median	0.5x	8.4x	11.0x	14.2x	17.8x

Building Products Manufacturers	Market Value	Enterprise Value	LTM			Enterprise Value / LTM			P/E		
			Revenue	EBITDA	EBIT	Revenue	EBITDA	EBIT	LTM	FY+1	
AAON Inc.	\$ 349	\$ 335	\$ 272	\$ 53	\$ 43	1.2x	6.4x	7.7x	12.5x	13.8x	
American Woodmark Corp.	281	236	508	19	(5)	0.5x	12.5x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Assa Abloy AB	5,928	8,585	4,643	677	548	1.8x	12.7x	15.7x	17.4x	<i>nmf</i>	
Gibraltar Industries, Inc.	407	696	1,013	59	26	0.7x	11.9x	27.1x	<i>nmf</i>	<i>nmf</i>	
Griffon Corporation	628	518	1,219	65	22	0.4x	8.0x	24.0x	<i>nmf</i>	32.1x	
Headwaters Inc.	201	718	714	73	3	1.0x	9.8x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Interface Inc.	569	781	936	99	75	0.8x	7.9x	10.4x	<i>nmf</i>	34.1x	
Lennox International Inc.	2,056	2,277	3,093	245	192	0.7x	9.3x	11.9x	24.5x	22.0x	
Louisiana-Pacific Corp.	869	1,192	1,111	(122)	(207)	1.1x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Masco Corp.	4,810	8,027	8,362	532	285	1.0x	15.1x	28.2x	<i>nmf</i>	<i>nmf</i>	
Mohawk Industries Inc.	3,326	5,013	5,863	399	107	0.9x	12.6x	<i>nmf</i>	<i>nmf</i>	35.2x	
NCI Building Systems Inc.	66	433	1,232	42	9	0.4x	10.2x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Owens Corning	2,858	5,049	5,213	530	197	1.0x	9.5x	25.6x	<i>nmf</i>	23.7x	
PGT, Inc.	98	166	192	15	(0)	0.9x	10.9x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Quanex Building Products Corporation	540	442	636	39	6	0.7x	11.2x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Sherwin-Williams Co.	7,007	7,759	7,467	900	731	1.0x	8.6x	10.6x	16.8x	16.7x	
Simpson Manufacturing Co., Inc.	1,244	1,075	655	83	53	1.6x	13.0x	20.2x	45.3x	<i>nmf</i>	
The Dixie Group, Inc.	42	123	235	4	(10)	0.5x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Trex Co. Inc.	282	341	274	39	14	1.2x	8.8x	24.3x	<i>nmf</i>	<i>nmf</i>	
US Home Systems Inc.	18	12	117	(1)	(2)	0.1x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
USG Corp.	1,790	3,158	3,885	30	(167)	0.8x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
						Median	0.9x	10.2x	20.2x	17.4x	23.7x

Building Products Retailers	Market Value	Enterprise Value	LTM			Enterprise Value / LTM			P/E		
			Revenue	EBITDA	EBIT	Revenue	EBITDA	EBIT	LTM	FY+1	
The Home Depot, Inc.	\$ 45,733	\$ 54,050	\$ 67,637	\$ 6,056	\$ 4,199	0.8x	8.9x	12.9x	19.0x	18.0x	
Lowe's Companies Inc.	31,339	34,904	47,387	5,073	3,352	0.7x	6.9x	10.4x	16.5x	17.8x	
						Median	0.8x	7.9x	11.6x	17.8x	17.9x

Source: Capital IQ. As of September 29, 2009

Publicly Traded Building and Infrastructure Companies (continued)

Multiples from Public B&I Companies

(USD in millions, except per share data)

Building Service Companies	Market Value	Enterprise Value	LTM			Enterprise Value / LTM			P/E		
			Revenue	EBITDA	EBIT	Revenue	EBITDA	EBIT	LTM	FY+1	
AMEC plc	\$ 4,028	\$ 2,962	\$ 4,296	\$ 346	\$ 295	0.7x	8.6x	10.0x	12.2x	<i>nmf</i>	
Arcadis NV	1,237	1,519	2,422	211	171	0.6x	7.2x	8.9x	11.6x	<i>nmf</i>	
Chicago Bridge & Iron Company N.V.	1,761	1,826	5,585	387	309	0.3x	4.7x	5.9x	10.2x	10.6x	
Fluor Corporation	9,184	7,278	22,836	1,273	1,100	0.3x	5.7x	6.6x	12.4x	13.3x	
Granite Construction Incorporated	1,164	1,084	2,334	259	175	0.5x	4.2x	6.2x	10.3x	17.1x	
Jacobs Engineering Group, Inc.	5,763	4,757	12,111	753	677	0.4x	6.3x	7.0x	13.3x	14.2x	
Michael Baker Corporation	321	253	689	49	43	0.4x	5.1x	5.8x	10.8x	10.8x	
Shaw Group Inc.	2,675	1,965	7,245	375	322	0.3x	5.2x	6.1x	31.1x	15.8x	
Skanska AB	6,180	5,033	18,274	762	573	0.3x	6.6x	8.8x	15.8x	<i>nmf</i>	
SNC Lavalin Group Inc.	6,729	8,233	5,782	553	438	1.4x	14.9x	18.8x	22.7x	22.7x	
Tutor Perini Corporation	1,012	770	5,917	287	245	0.1x	2.7x	3.1x	<i>nmf</i>	7.9x	
URS Corporation	3,717	4,125	10,115	580	436	0.4x	7.1x	9.5x	12.8x	14.6x	
						Median	0.4x	6.0x	6.8x	12.4x	14.2x

Home Builders	Market Value	Enterprise Value	LTM			Enterprise Value / LTM			P/E		
			Revenue	EBITDA	EBIT	Revenue	EBITDA	EBIT	LTM	FY+1	
Beazer Homes USA Inc.	\$ 228	\$ 1,355	\$ 1,358	\$ (152)	\$ (174)	1.0x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Caltex Australia Ltd.	2,878	3,375	16,452	218	76	0.2x	15.5x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Champion Enterprises Inc.	37	335	682	(7)	(27)	0.5x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
DR Horton Inc.	3,764	5,176	4,411	(20)	(52)	1.2x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Hovnanian Enterprises Inc.	310	1,800	1,880	(317)	(334)	1.0x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
KB Home	1,512	2,372	2,069	278	272	1.1x	8.5x	8.7x	<i>nmf</i>	<i>nmf</i>	
Lennar Corp.	2,588	4,241	3,484	(53)	(74)	1.2x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
M/I Homes, Inc.	281	578	523	(202)	(210)	1.1x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
MDC Holdings Inc.	1,658	1,048	1,030	(72)	(79)	1.0x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Meritage Homes Corporation	677	896	1,227	1	(13)	0.7x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
NVR Inc.	3,749	2,744	3,047	291	280	0.9x	9.4x	9.8x	<i>nmf</i>	<i>nmf</i>	
Pulte Homes Inc.	4,330	5,760	4,465	(231)	(291)	1.3x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Ryland Group Inc.	951	1,219	1,609	(53)	(99)	0.8x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Standard Pacific Corp.	384	1,148	1,287	27	22	0.9x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Toll Brothers Inc.	3,220	3,701	1,970	40	14	1.9x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
						Median	1.0x	9.4x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>

Lumber Products	Market Value	Enterprise Value	LTM			Enterprise Value / LTM			P/E		
			Revenue	EBITDA	EBIT	Revenue	EBITDA	EBIT	LTM	FY+1	
Ainsworth Lumber Co. Ltd.	\$ 204	\$ 627	\$ 301	\$ (10)	\$ (42)	2.1x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Canfor Corp.	785	1,275	1,966	(16)	(158)	0.6x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Louisiana-Pacific Corp.	869	1,192	1,111	(122)	(207)	1.1x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Norbord, Inc.	663	1,161	777	(53)	(114)	1.5x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Universal Forest Products Inc.	783	811	1,911	75	30	0.4x	10.9x	26.7x	<i>nmf</i>	37.8x	
West Fraser Timber Co. Ltd.	1,006	1,548	2,476	51	(190)	0.6x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
Weyerhaeuser Co.	7,901	12,121	6,468	(88)	(638)	1.9x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	
						Median	1.1x	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>	<i>nmf</i>

Source: Capital IQ. As of September 29, 2009

Lincoln International's Global Footprint



About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, debt advisory services, UK pension advisory services and providing fairness opinions and valuations for leading organizations involved in mid-market transactions. With offices in Chicago, Frankfurt, London, Los Angeles, Madrid, New York, Paris, Tokyo and Vienna, and strategic partnerships with China Everbright in China and ICICI Securities, Inc. in India, Lincoln International has strong local knowledge and contacts in the key global economies. The organization provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at www.lincolninternational.com

Industry Groups

Lincoln International dedicates teams headed by senior professionals in each of its global offices to the following industries:

- Aerospace and Defense
- Automotive and Truck
- Building and Infrastructure
- Business Services
- Chemicals
- Consumer
- Electronics
- Financial Institutions
- Food and Beverage
- Industrials
- Packaging
- Renewable Energy
- Technology
- Transportation and Logistics

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