News & Views

Construction Materials Industry
Investment Banking

Eaton, Serri to Speak at M&A Forum

Chuck Eaton and Vic Serri are both scheduled to speak at a two day Construction Materials Industry Mergers & Acquisitions Forum, Spetember 16-17, 1999 in Washington DC. The Forum, sponsored by Fulcrum Information Services, will be held at the Westin Grand Hotel and will feature speakers on a wide variety of merger and acquisition related topics. Speakers will include senior executives from construction materials companies, investment bankers, lawyers, accountants and consultants. Topics will include industry trends, valuation, the acquisition process, buyers' and sellers' perspectives, due diligence, accounting issues, documentation, and other pertinent subjects. In addition to informative speakers, there will be plenty of opportunity to mingle and meet other industry participants during breaks, lunches, and a Thursday evening cocktail party.

Chuck Eaton will speak on "What Sellers are Looking For" and on "Process Management, Key Steps in a Typical Deal". Eaton is also co-chairman of the event. Vic Serri will speak on "The Economics of Vertical Integration".

For more information about the forum, please call Fulcrum Information Services at (800) 869-4302 or Eaton Capital at (415) 464-5500.

Too Many Bidders??

At Eaton Capital, we often represent the owners of small- and medium-sized construction materials companies, especially family-owned companies, in the sometimes complex task of selling their businesses. The main reason to hire an investment banker is to maximize the value of the company while minimizing the hassle, and the most important method of maximizing value is through competition among prospective purchasers. This competition is absolutely necessary to insure that the full value of the company is obtained and that the terms of the transaction are fair and reasonable. Few owners have the transaction experience or broad market knowledge required to properly manage such a competition, whereas an experienced investment banker can implement a competitive strategy while minimizing the impact on the owners and company.

In our seller-representation engagements, we are almost always asked whether the competition should be open to all potential buyers, or just a few selected buyers, or just one "friendly" buyer. Nearly all owners of construction materials companies have been approached directly by one or more large companies hoping to purchase the company. While it may seem attractive and easy to directly enter into an agreement with such a buyer, most owners know instinctively that a single-party negotiation may not be in their best interests. As indicated in the first paragraph, we are strong advocates of competition, but we are also aware that there are potential problems inherent in a competitive bidding strategy. In fact, some of the large construction materials companies who

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Top 25 Aggregate Producers

The USGS annually compiles a ranking of the top 25 domestic aggregate producers, usually published in August. This year's rankings won't be published until next month, but they gave Eaton Capital a sneak peak at the rankings, as shown in the chart below. The chart also includes last year's rankings, which makes for some interesting observations. The top three producers (Vulcan, Martin Marietta and Hanson) retained their relative rankings, although all three added substantial acquisitions during the year. Oldcastle's acquisition binge moved them up to 4th, Lafarge's acquisition of Redlands moved them up to 5th, Aggregate Industries moved to 10th, and US Aggregates moved into 14th after its acquisitions of Monroc and others.

We expect some changes for the 1999 list, as recent large acquisitions like CalMat and Thompson-McCully shuffle the deck somewhat. But the biggest producers will keep getting bigger and the total number of companies in the industry will keep shrinking as consolidation continues…

Top 25 Aggregate Producers

1998 Rank	Company	1998 Rank
1	Vulcan Materials	1
2	Martin Marietta	2
3	Hanson	3
4	Oldcastle	11
5	Lafarge	16
6	CalMat	6
7	Florida Rock	5
8	CSR	9
9	Rogers group	7
10	Aggregate Industries	22
11	Southdown	18
12	Tarmac America	8
13	Meridian Aggregates	10
14	U.S. Aggregates	--
15	Blue Circle	12
16	Ashland Oil/APAC	13
17	General Dynamics	14
18	TXI	15
19	Luck Stone	17
20	National Lime & Stone	21
21	Michigan Limestone	19
22	RMC	23
23	Dolese Bros.	24
24	New Enterprise Stone & Lime	--
25	Peter Kiewit & Sons	25

Source: USGS

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approach owners directly warn the owners that their company will be "damaged" if they allow other potential purchasers to bid for the company. Of course, this claim is somewhat self-serving, but there is also a grain of truth in the warning about potential problems, especially if there are many bidders. So the question arises, can there be too many bidders?

It is difficult to generalize about the best marketing strategy for any company, because the specific characteristics of the company and its market, competition, size, ownership, and many other factors must be considered in choosing the strategy. However, there are some general principals which apply to marketing strategies and the pros and cons of various alternatives. At the risk of over-simplifying, we can divide marketing strategies into three categories: "open" bidding, in which there are many bidders; "controlled" bidding in which there are a few selected bidders; and "negotiated", single-party situations.

The **open bidding** strategy, in which there are many (more than four or five) bidders can be very beneficial because it provides maximum exposure. That is, a large number of potential purchasers are provided information about the company, including the obviously interested, nearby companies, plus the not so obviously interested companies which may not already have a local presence. The good side of an open bidding strategy is that at the end of the process, the owners should be confident that the best economics and terms available in the market have been obtained. Unfortunately, the "maximum exposure" nature of open bidding also has a dark side. That is, the process can potentially be the least confidential and most disruptive marketing strategy. Although all prospective purchasers sign confidentiality agreements promising to keep everything secret, the large number of people receiving information about the company significantly increases the probability that word of the possible sale will somehow get out into the market. Such rumors can seriously disrupt relationships with employees, customers and suppliers, and potentially cause real damage to the company. The owners and the investment banker should have a clear strategy for controlling the amount and nature of the information disseminated to people both inside and outside the company to help mitigate these problems. Additionally, buyers are usually just as concerned about confidentiality as sellers. No buyer wants to purchase a company whose employee, customer and supplier relationships have been damaged in this fashion. Plus, for a variety of reasons, buyers may not want the fact they are trying to buy a company to be public knowledge.

At the other end of the marketing strategy spectrum is the **negotiated** transaction, in which the owners negotiate with a single party and work out the best deal they can, often without any third-party assistance. This strategy provides the minimum exposure for the company and produces only a single valuation, so the owners may be left wondering if they really got the best economics and terms available in the market. The good side of a negotiated transaction is that it is the most confidential and least disruptive. In fact, with a small ownership group and a cooperative buyer, the owners may be able to keep the entire process totally secret. If the entire negotiation, due diligence and documentation process can be managed off-site, there may be no reason any employees, customers or suppliers will know.

An excellent middle-ground between these two extremes is the **controlled bid** process in which a few (maybe three to six) selected buyers are given information about the company and asked to submit bids. If the bidders are selected correctly, this controlled marketing strategy may be the preferred process, providing the benefits of a substantial amount of competition among the most interested potential purchasers, while minimizing the disruption caused to the company. Selection of the most interested and appropriate bidders is critical to the success of this strategy, so an investment banker experienced in the industry is essential to insure the right buyers are asked to bid. If the right buyers are selected, there will be no loss of competition compared to the open bid strategy, while the smaller number of people in the process will allow much greater confidentiality and much better control over the process.

Over the past three or four years, the open bidding contests we have seen in the industry have been managed by investment bankers who do not specialize in the construction materials industry. Since these investment bankers do not specialize in our industry and therefore do not know prospective

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buyers well enough to select the most interested and appropriate bidders, it was probably in the sellers' best interest to use an open bidding strategy, despite the disruption. Of course, there is no way to know for certain if the companies were actually "damaged" by this process, but these bidding contests were well known to everyone in the industry and I am certain that employ, customer and supplier relationships were affected during the process.

In summary, a controlled bidding strategy seems to provide the best combination of competition with minimal disruption. Which marketing strategy is best for any specific company should be the subject of careful consideration and discussion among the owners and the investment banker. At Eaton Capital, we have experience with a wide range of bidding strategies. Let us apply our industry knowledge and transaction management experience to your situation. C.E.

Current Engagements

Eaton Capital is currently representing a family-owned concrete block and architectural products producer. We have completed a Letter of Intent with the purchaser and expect the transaction to close in October. We are also just beginning an engagement to sell a crushed stone producer in the western US. Should we be helping your company, too?

Attention Recipients

If you have received this newsletter, you are in our construction materials industry database. We would very much like to have other senior managers, and especially the owners of your company, see this newsletter, too, so please pass it on. And if you are not the right person in your company to receive our newsletter, please call or write to tell us to whom in your organization we should send future newsletters. Thanks.