



# News & Views

## Construction Materials Industry Investment Banking

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### The Benefits of Competition

By Charles E. Eaton

**A**t Eaton Capital, our primary focus is to represent the owners of small- and medium-sized construction materials companies, especially family-owned companies, in the often complex task of selling their businesses. For these companies, an investment banker can help maximize the value of the company while minimizing the hassle, and the most important method of maximizing value is through competition among prospective purchasers. 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.

#### Benefits

**C**ompetition among purchasers is absolutely necessary to insure that the best price and terms available in the market are obtained. Negotiating a transaction with a single potential purchaser may seem attractive because it can be clean, quick, and quiet, and the price obtained may even be "acceptable", but this single-bidder negotiation strategy almost always results in a lower price and less attractive terms than a competitive bidding strategy. Any prospective purchaser who knows he is competing with other purchasers will "sharpen his pencil" a little more than if he thinks he is the sole buyer. This does not necessarily mean that the list of bidders needs to be large and the company widely shopped. In some situations, a large number of bidders are invited to submit bids. In other situations, a smaller group of bidders is se-

lected, and in certain situations, it may be appropriate to contact as few as two or three potential purchasers. It is difficult to generalize about the best marketing strategy and number of bidders 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 a strategy. Whatever the number of bidders, competition among prospective purchasers is the best way to insure that sellers receive the best price and terms available.

#### Two Examples

**F**or example, a few years ago we completed the sale of a family-owned aggregate producer which had negotiated directly with a purchaser for sale of the company for \$14.75 million. The sellers were concerned about a couple of the non-economic document terms the purchaser had required and asked us whether they should complete the deal as written. We advised them not to close, mostly due to one particularly onerous provision in the documents. We were then engaged by the sellers to manage a competitive bidding strategy among

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Aggregate Industry  
Size Rankings Inside

## The Top 25 Aggregate Producers

This most recent list of the largest aggregate producers in the U.S., ranked by volume, shows little change from last year, although a couple acquisitions (e.g., Cemex acquisition of RMC) may change the rankings next year. Note that the top eight producers have maintained their rankings, with only a few other changes compared to last year.

<u>2004</u> <u>Ranking</u>	<u>Producer</u>	<u>2003</u> <u>Ranking</u>	<u>2002</u> <u>Ranking</u>	<u>2001</u> <u>Ranking</u>	<u>2000</u> <u>Ranking</u>	<u>1999</u> <u>Ranking</u>	<u>1998</u> <u>Ranking</u>
1	Vulcan	1	1	1	1	1	1
2	Martin Marietta	2	2	2	2	2	2
3	Hanson	3	3	3	3	3	3
4	Oldcastle	4	4	4	4	4	11
5	Rinker	5	5	6	8	8	9
6	Lafarge	6	6	5	5	5	16
7	Cemex	7	7	7	10	11	18
8	Florida Rock	8	8	8	7	7	5
9	Aggregate Indus.	10	9	9	6	10	22
10	MDU Resources	9	10	14	—	—	—
11	Rogers Group	11	12	11	9	9	7
12	Ashland Oil	12	11	10	14	16	13
13	Luck Stone	16	16	17	19	19	17
14	General Dynamics	15	13	15	15	17	14
15	RMC	14	14	13	13	22	23
16	TXI	13	15	12	20	18	15
17	Teichert	21	18	23	—	—	—
18	National Lime & Stone	17	19	21	21	20	21
19	New Enterprise	18	17	18	23	24	—
20	Minnesota Mining & Mfg	—	—	—	—	—	—
21	Dolese Bros	19	20	20	—	—	24
22	Vecellio & Grogan	24	23	—	—	—	—
23	Robertson Ready Mix	25	25	—	—	—	—
24	Oglebay Norton	—	—	—	—	—	—
25	Irving Materials	20	21	22	25	—	—

Source: US Geological Survey

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a small group of prospective purchasers. At the end of the competition, we completed sale of the company for \$17 million, without the onerous document provisions, to the same purchaser! The \$2.25 million of additional price the sellers received and the much more favorable terms were created solely by competition among purchasers.

As another example, we recently closed the sale of an aggregate and concrete producer in the western US. The owners had been approached directly by three different companies wanting to buy their operation. The owners decided that they should hire an investment banker to represent their interests and Eaton Capital was engaged to manage a competitive bidding process. We obtained four strong bids for the company, despite its somewhat limiting geographic location, two from companies with nearby operations and two with no apparent synergies. After a couple weeks of re-bids and detailed discussions, we selected one of the same buyers who had directly approached the company, but this time their offer was 14% higher than their original proposal. In addition to this significantly higher price, we were also able to negotiate


favorable representation and indemnity provisions in advance of signing a letter of intent. Again, the increase in value and the favorable terms were solely due to a properly managed competitive bidding program.

## Potential Problems

We are strong advocates of competition, but we also know that there are potential problems inherent in a competitive bidding strategy. In fact, some of the large construction materials companies who 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. Owners sensibly want to maintain confidentiality and minimize disruption to their operations during discussions with prospective buyers. While negotiating with a single bidder increases the likelihood of maintaining confidentiality, most owners know instinctively that a single-party negotiation may not be in their best interest. On the other hand, an open bidding strategy in which there are


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## Recent Transactions Completed by Eaton Capital in 2005



**Tortola Concrete Limited**  
Tortola, British Virgin Islands  
has been acquired by a  
Local Investor Group

The undersigned initiated and managed this transaction while representing the owner of Tortola Concrete Limited






**Unaga-Eusti Enterprises, Inc.**  
(dba: G&B Redi-Mix)  
Nampa, Idaho

has sold certain of its aggregate and concrete assets to

**Thueson Construction, Inc.**

The undersigned initiated and managed this transaction while representing the owners of G&B





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many bidders makes it more difficult to maintain confidentiality and can damage customer and vendor relations and otherwise disrupt operations. Although it is difficult to generalize about the best marketing strategy for any company, we often advocate a “controlled” bidding strategy in which there are a few selected bidders. This controlled bidding strategy often provides the best combination of the benefits of competition while minimizing disruption and maintaining confidentiality.

Selecting a marketing strategy 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, and have a great track record of bringing the benefits of competition to company owners. Let us apply our industry knowledge and transaction management experience to your situation.

*Chuck Eaton*

To all our friends in the construction materials industry:  
**Happy Thanksgiving!**  
**Merry Christmas!**  
**Happy New Year!**  
Eaton Capital Corporation