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News & Views

Construction Materials Industry
Investment Banking

Aggregate Industry Size Rankings Inside

Who are these "Financial" Buyers?

For years, merger and acquisition activity in the construction materials industry has been dominated by strategic buyers, with only occasional successes by financial buyers. But during past couple years, financial buyers have become more active and have scored some big successes, so owners of construction materials companies should know more about these buyers.

First, a couple definitions. By strategic buyer, we mean companies with an existing presence in the construction materials industry who are trying to grow via acquisition of other companies in the same industry. Strategic buyers can be huge international companies, multi-state domestic producers, large regional producers, or just local competitors, but they are all currently in the industry and plan on staying in the industry. Financial buyers, on the other hand, generally are not already in the industry, and may not have any plans to remain in the industry long-term. For financial buyers, the plan is to acquire a company or companies, operate for a short time, then re-sell to another buyer (probably a strategic buyer) for a profit. These financial buyers may have a portfolio of companies from a variety of industries and are constantly looking for opportunities to buy and sell companies in multiple industries.

Historically, strategic buyers have paid the highest prices for construction materials companies because they were most likely to realize synergies and cost savings from adding the new company to their existing businesses in the industry. Additionally, strategic buyers are seeking to increase their market share and enter new markets to grow their revenue and profits within the industry. On the other hand, financial buyers have not been particularly competitive in the construction materials industry because they have not been willing to pay as high a price for a company as the strategic buyers. Financial buyers don't have existing industry operations into which they can blend the new acquisition, so they cannot benefit from the synergies, cost savings and market share increases enjoyed by strategic buyers. Plus, financial buyers do not plan on retaining their acquisitions for a long time, preferring to make an acquisition, operate for a few years, and re-sell, so they want to make sure they pay as little as possible when they buy.

So the different perspectives of strategic and financial buyers have resulted in the vast majority of industry transactions being completed by strategic buyers. But there are signs that domination by strategic buyers may be changing. Financial buyers have begun to realize that while construction materials companies are not fast-growing and "sexy" like many high-tech industries, they are steady cash flow and profit producers, and with continuing consolidation in the industry, re-selling at a higher price is a distinct possibility. There have been several recent large purchases by financial buyers, and some amazing successes by these buyers.

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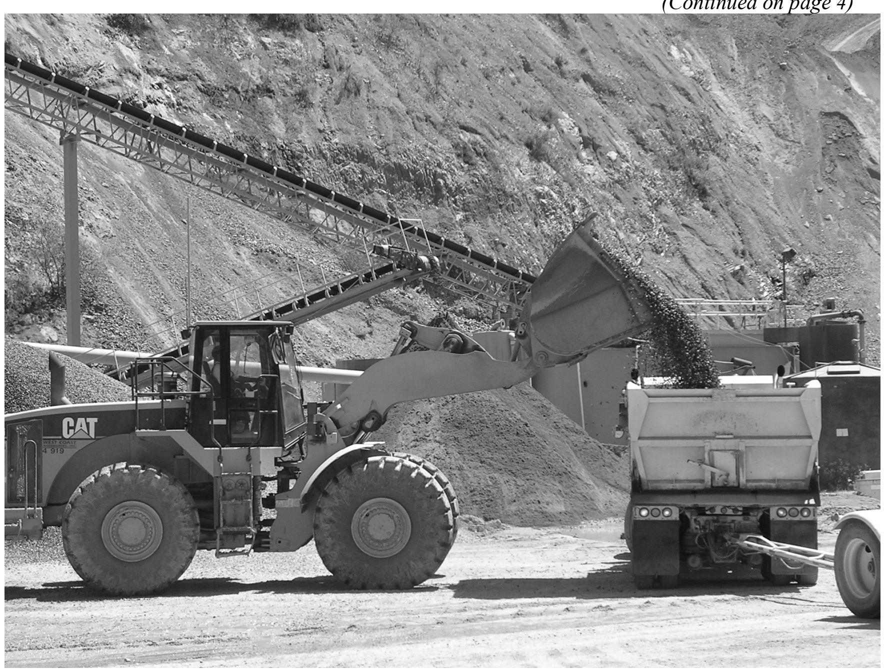

The Top 25 Aggregate Producers

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

2005 Ranking	Producer	2004 Ranking	2003 Ranking	2002 Ranking	2001 Ranking	2000 Ranking	1999 Ranking	1998 Ranking
1	Vulcan	1	1	1	1	1	1	1
2	Martin Marietta	2	2	2	2	2	2	2
3	Hanson	3	3	3	3	3	3	3
4	Oldcastle	4	4	4	4	4	4	11
5	Rinker	5	5	5	6	8	8	9
6	Lafarge	6	6	6	5	5	5	16
7	Cemex	7	7	7	7	10	11	18
8	Florida Rock	8	8	8	8	7	7	5
9	MDU Resources	10	9	10	14	—	—	—
10	Rogers Group	11	11	12	11	9	9	7
11	Ashland Oil	12	12	11	10	14	16	13
12	Luck Stone	13	16	16	17	19	19	17
13	TXI	16	13	15	12	20	18	15
14	General Dynamics	14	15	13	15	15	17	14
15	Aggregate Indus.	9	10	9	9	6	10	22
16	Teichert	17	21	18	23	—	—	—
17	Vecellio & Grogan	22	24	23	—	—	—	—
18	Dolese Bros	21	19	20	20	—	—	24
19	New Enterprise	19	18	17	18	23	24	—
20	National Lime & Stone	18	17	19	21	21	20	21
21	Fred Weber	—	—	—	—	—	—	—
22	Texas Crushed Stone	—	—	—	—	—	—	—
23	Glacier Northwest	—	—	—	—	—	—	—
24	Robertson Ready Mix	23	25	25	—	—	—	—
25	Centex Cement	24	—	—	—	—	—	—

Source: US Geological Survey

ALL STAR
TRANSIT MIX

The Concrete Business of
All Star Aggregate, Inc, Buffalo Building Materials, LLC, and Nye County Concrete, LLC
dba

All Star Transit Mix

Las Vegas and Pahrump, Nevada

have been acquired by

Silver State Materials, LLC
and
Audax Group

The undersigned initiated and managed this transaction while
representing the owners of All Star Transit Mix

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For example, in 2003, Texas Growth Fund and Austin Ventures purchased Southern Star Concrete, held it for two years, then sold the company to Cementos Argos, the Columbian cement company, for $245 million. More recently, in 2006 Audax Group, a Boston based private equity firm, purchased Silver State Materials and All Star Transit Mix, both in Las Vegas. Audax had previously (2004) purchased Ready Mixed Concrete in North Carolina, South Carolina and Virginia, so they had some experience in the industry. In fact, the Ready Mixed Concrete acquisition turned out to be huge success for them when they sold it to Cementos Argos in early 2006. Cementos Argos reportedly won a bidding war with Cementos de Chihuahua, with the final price at $435 million. Audax and their investor group must have been ecstatic since they only paid $222 million a couple years earlier. According to press releases at the time, the EBITDA in 2004 was reportedly $37.3 million, so the price was a pretty "normal" 6.0 multiple. Audax made some additional investments to increase the EBITDA to $50 million, so the price paid by Argos was a not-so-normal 8.7 multiple. Audax clearly achieved their goal of re-selling for a profit, and achieved that goal very quickly. It will be interesting to see if they can duplicate this sort of success in Las Vegas.

Does this mean that there are suddenly lots of financial buyers and therefore many more potential purchasers vying for construction materials companies? Does it mean that market prices are much higher than before these new buyers entered the market? Unfortunately, the answer is "no" to both questions, although even one or two additional potential buyers can make a difference. But it is important that company owners who are contemplating selling their companies consider a broader potential audience than in previous years. Strategic buyers are still probably going to offer the highest prices, but owners (and their investment bankers) need to think beyond just the traditional list of strategic buyers if they want to be confident that they are really covering the whole market of potential purchasers. Of course, there are pros and cons of widely-shopped marketing strategies, but it is always good to be aware of the options and alternatives when considering decisions as important as selling a company.

Chuck Eaton