



News & Views

Construction Materials Industry Investment Banking

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Selling Your Company in a “Changing” Market

Selling a construction materials company in today’s market environment definitely presents challenges. The global economic meltdown has substantially reduced demand for construction materials, depressed producers’ revenues and profits, and thereby reduced the value of companies. While the construction materials industry has weathered many previous downturns, the current slowdown appears to be more serious than predecessors. Additionally, it is unknown whether the government’s recent “bail-outs” and “stimulus” will achieve their intended goals and accelerate economic recovery. Some of these spending plans may give the construction materials industry a short-term boost by increasing spending on infrastructure projects, but only time will tell whether these spending plans will be approved, funded or eventually lead to actual increases in construction.

So what can owners of construction materials companies do as they contemplate the value of their companies and the possibility of selling? From a purely economic perspective, the value of most construction materials companies are lower

Aggregate Industry Size Rankings Inside

than a year ago, so this may not be the best time to sell. But pure economics are not the only reason for owners to sell their companies. For many owners, the allure of retirement, health concerns, family issues or other non-economic factors may be much more important than pure economics. Of course, all owners want to maximize the value of their companies when they sell, and in today’s difficult market, maximizing value may require a little creativity.

Most buyers are willing to pay “fair value” for companies they buy, but their perception of fair value may differ from the seller’s perception. Buyers generally try to estimate the future cash flows a company will produce, then use their desired rate of return on investment to determine the price they are willing to pay for that stream of future cash

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Loading aggregates
on a barge.



The Top 25 Aggregate Producers

This most recent (2007) list of the largest aggregate producers in the U.S., ranked by volume, shows some new names breaking in to the top 25. Note that the top few producers have maintained their rankings, with several large acquisitions in 2007 (Cemex/Rinker, Carmeuse/Oglebay Norton, Heidelberg/Hanson, and Vulcan/Florida Rock) changing some rankings.

<u>2007</u>	<u>Producer</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
1	Vulcan	1	1	1	1	1	1	1	1
2	Martin Marietta	2	2	2	2	2	2	2	2
3	Oldcastle	3	4	4	4	4	4	4	4
4	Lehigh Hanson	4	3	3	3	3	3	3	3
5	Cemex	7	7	7	7	7	7	10	11
6	Lafarge	6	6	6	6	6	5	5	5
7	Holcim/Agg Indus	8	15	9	10	9	9	6	10
8	MDU Resources	9	9	10	9	10	14	—	—
9	Rogers Group	11	10	11	11	12	11	9	9
10	Carmeuse Lime & Stone	—	—	—	—	—	—	—	—
11	TXI	15	13	16	13	15	12	20	18
12	Cal. Portland Cement	20	—	—	—	—	—	—	—
13	Granite Construction	16	—	—	—	—	—	—	—
14	Luck Stone	14	12	13	16	16	17	19	19
15	New Enterprise	19	19	19	18	17	18	23	24
16	Vecellio & Grogan	13	17	22	24	23	—	—	—
17	Dolese Bros	22	18	21	19	20	20	—	—
18	Fisher Industries	—	—	—	—	—	—	—	—
19	Teichert	18	16	17	21	18	23	—	—
20	Ash Grove Cement	24	—	—	—	—	—	—	—
21	H&K Group	—	—	—	—	—	—	—	—
22	Chemical Lime	—	—	—	—	—	—	—	—
23	Colas Inc.	—	—	—	—	—	—	—	—
24	Fred Weber, Inc.	—	—	—	—	—	—	—	—
25	National Lime & Stone	—	—	—	—	—	—	—	—

Source: US Geological Survey

Recent Transactions



Tortola Concrete Limited

Tortola, British Virgin Islands

has been acquired by a

Local Investor Group



All Star Transit Mix

Las Vegas and Pahrump, Nevada

have been acquired by

Silver State Materials, LLC
and
Audax Group



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 Concrete Business of

Casino Ready Mix, Inc.

Las Vegas, Nevada

has been acquired by

Silver State Materials, LLC
and
Audax Group



The Concrete Business of

Builders Concrete Supply LLC

Las Vegas, Nevada

has been acquired by

Silver State Materials, LLC
and
Audax Group



50% of the stock of

West Coast Aggregates, Inc.

Tracy, California

has been acquired by

Lafarge North America Inc.

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flows. If expected future cash flows, especially near-term cash flows, are depressed, the price the buyer is willing to pay will also be depressed.

Everybody expects that the economy will eventually recover, but nobody really knows exactly when “eventually” will actually arrive. Buyers typically claim to be pessimistic about future cash flows, at least in part because that pessimism supports lower prices, and they would always prefer to pay a lower price than a higher price. Sellers are typically more optimistic about future revenues and profits, and they want the price for their company to reflect that optimism. This is all part of the natural tension between a buyer and a seller, but when the market is as depressed as it is today, this disparity between buyers’ perceptions and sellers’ perceptions may be too large to allow transactions to proceed.

So how can owners who might be motivated by non-economic factors obtain sufficient value for their companies, and find buyers willing to pay that value? Although the disparity described above may preclude a simple all-cash transaction, a more “structured” transaction may allow both buyer and seller to achieve their objectives. For example, some form of “earn-out” structure may provide substantial additional value if cash

flows increase as the seller expects, and the buyer may be willing to pay that increased value because his expectations will have been exceeded. Or, instead of an earn-out, a phased purchase of stock may be possible, with the price of future stock purchases determined by future financial results. This phased-purchase structure can achieve the same goal of providing additional value to seller if the company does well in the future.

Structuring an earn-out or phased-purchase can be challenging, with substantial control, capital and operating issues to be negotiated between buyer and seller, but there are several successful precedents for such transactions. Unfortunately, there have also been some not-so-successful transactions in which sellers’ expectations have not been realized, so sellers should be careful when attempting to structure such transactions. Advice from an experienced investment banker can be very helpful in avoiding the pitfalls of these structures. Eaton Capital has the experience and expertise to assist in maximizing the value of your company. Please give us a call if you are contemplating selling and would like to discuss these important issues.

Chuck Eaton