

## M&amp;A Monitor

**Piper Jaffray Middle Market Mergers & Acquisitions**

M&amp;A Monitor: Analyzing M&amp;A Activity—May 31, 2006

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**Feature Article****M&A Activity in the Building Products Manufacturing Sector**by Jon Kreidler, 612 303-6328, [jon.w.kreidler@pjc.com](mailto:jon.w.kreidler@pjc.com)

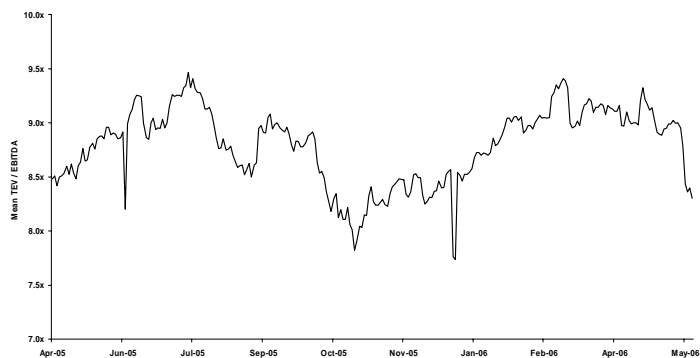
M&A activity in the building product manufacturing sector continues to remain strong. Much of this strength can be attributed to consolidation trends among building product manufacturers in response to the continued consolidation of key sales channels and customers (i.e., Big Box retail, pro dealers, production homebuilders). In particular, consolidation of certain subsectors of the broader industry has become quite apparent with industry heavyweights, both increasing their product and service capabilities and extending their reach geographically.

Ultimately, manufacturers and distributors of building and home improvement products who can provide a broad product offering and superior service to these consolidating customer bases will be well-positioned for continued growth. In many instances, the best way for companies to achieve these attributes is through business combinations. Acquisitions help companies gain market share, expand their product offering, leverage manufacturing and distribution costs, and expand their geographic presence. With a dwindling supply of unique companies on the market that meet these criteria, competition has been heating up, driving attractive prices for sellers.

While strategic acquirers have led consolidation in the building products space, many financial sponsors have established platforms in the sector in recognition of the consolidation opportunities. Because of the presence of strong strategic and financial acquirers, coupled with the increasing need for scale, we expect merger and acquisition activity to remain a large part of the industry landscape for the foreseeable future.

In addition to the channel consolidation trends discussed above, strong long-term industry fundamentals also have provided support to public company and M&A valuations. In April, the Remodelers Council of the NAHB predicted that 2006 would show the largest year-to-year increase in spending for residential remodeling in more than 10 years. The record industry growth forecast for 2006 (13.2%) is more than double the pace of growth in 2005 when remodeling spending grew by 5.8%, which was in line with the average annual growth of 5.3% from 1994 to 2004. Furthermore, although the market for new home construction has been somewhat volatile as of late, the long-term prognosis for residential new construction remains strong, particularly in the South and West.

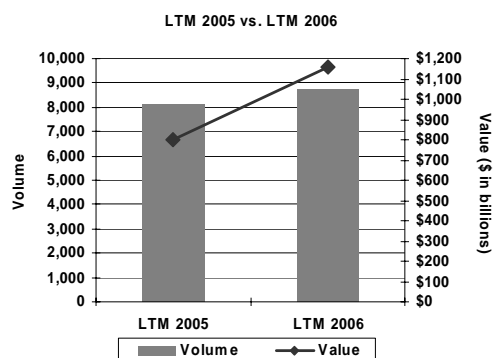
To discuss this topic or other building products industry issues in further detail, please contact Michael Dillahunt, Head of Building Products Industry Practice at [michael.r.dillahunt@pjc.com](mailto:michael.r.dillahunt@pjc.com) or 612 303-6337.

**Building Products Manufacturers Valuations—April 2005 to Present (TEV/EBITDA)**

Note: Recent decline in valuations mirror that of S&P 500  
 Source: Capital IQ

### Domestic Transactions

(\$ in billions)	Value*	Volume
LTM: 2005	\$797.1	8,121
LTM: 2006	\$1,160.2	8,747



\*Total value based on deals with reported values

Source: Thomson Financial Securities Data Corporation

LTM median deal value for 2006 is \$34.8 million compared to \$26.0 million for 2005.

### LTM Transaction Multiples

By Size (\$ in millions)	EBIT	EBITDA
Less than \$25	5.9x	2.3x
\$25 to \$100	12.0x	8.8x
\$100 to \$250	12.9x	7.0x
\$250 to \$1,000	12.8x	8.4x
Over \$1,000	14.7x	10.1x

Current data as of May 31, 2006

Source: Thomson Financial Securities Data Corporation

Based on multiples between 0x and 25x; excluding media and telecom.

### Public Company Premiums

1 week prior to announcement	21.7%
4 weeks prior to announcement	24.5%

Current data as of May 31, 2006

Source: Thomson Financial Securities Data Corporation

### Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	7.80%	5.57%
High Yield Bond Rate	8.22%	8.21%
Senior Debt/EBITDA*	4.0x	3.8x
Total Debt/EBITDA*	4.5x	4.0x

Current data as of May 31, 2006

Source: Portfolio Management Data, The Wall Street Journal and LCD Comps

\*Represents leverage statistics for middle market LBOs (less than \$50 million of EBITDA)

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### Buyout Fund Market

(\$ in billions)	2005	2004	2003
Funds Raised	\$173.5	\$42.2	\$24.0
Deals Completed	\$198.0	\$136.5	\$94.8

Data as of May 31, 2006

Source: Buyouts

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(General and Deal Related Questions)

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