Piper Jaffray M&A Monitor
Analyzing M&A Activity—June 20, 2007

Sections:

Feature Article

The Current State of the Residential Building Products Market

by Michael Dillahunt, 612-303-6337, michael.r.dillahunt@pjc.com

With three quarters of decelerating demand in the rearview mirror and no near-term rebound in sight, what is the current state of the residential building products market? We believe the short answer is that the entire supply chain has been, and will continue to be, adversely impacted. From basic materials suppliers to manufacturers, two-step wholesalers, pro dealers, homebuilders and big box retailers, revenue and earnings growth have been in extremely short supply. Headwinds have included a dramatic deceleration in homebuilding, declines in property values and refinancings, and the implosion of the subprime market.

Cutting to the chase, here is the tale of the tape:

Overall Industry Demand:
Residential new construction, as well as, remodeling and repair markets have declined.

- Housing starts were down 27% year-over-year for the first quarter of 2007.
- Although faring better, remodeling and repair spending has been soft as well, with fourth quarter 2006 spending down 5% year-over-year (first quarter 2007 census bureau data will be released on July 31).
  - Using home center data as a proxy, fiscal first quarter remodeling and repair spending continues to be soft with same store sales down an average of 7%.

Residential Building Product Manufacturers:
Our tracking group of publicly reporting manufacturers (which collectively have exposure of approximately 85% to the residential construction market, with 30% - 35% coming from new construction exposure and 50% - 55% from the repair/remodel market) reported the following:

- First quarter sales are down 3% - 5% (median/mean) for the group year-over-year.
  - On average, large manufacturers (total sales > $1.5 billion) have fared better than their mid-sized peers with average revenue declines of 2% - 3% (median/ mean) versus 5% - 6% (mean/median).
- EBITDA down 20% - 24% (median/mean) for the group.
  - Large manufacturers are down 15% - 24% (mean/median).
  - Mid-sized manufacturers are down 23% - 26% (mean/median).
- Manufacturers with above average residential new construction exposure have suffered considerably more than their peers.
- Average calendar year 2007 estimates for revenue and EBITDA project year-over-year declines of 1% - 3% (median/mean), and 2% (mean/median), respectively.

Two-Step Distributors:
This group primarily sells building materials to other resellers including pro dealers and big box retailers. On average, our tracking universe has 80% exposure to the residential construction market, with 60% exposure to residential new construction and 20% exposure to the residential repair/remodel market:

- First quarter sales are down 17% - 18% (median/mean) for the group year-over-year.
  - Falling lumber prices were a significant contributor to the decline.
- EBITDA down 24% - 26% (mean/median) for the group.
- Average calendar year 2007 estimates for revenue and EBITDA project year-over-year declines of 5% - 6% (median/mean), and 1% - 3% (mean/median), respectively.

*Source: Capital IQ, Securities Data Corporation & Piper Jaffray

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Pro Dealers:
This group's revenue is almost entirely driven by residential new construction and sales, in particular, to large and mid-size homebuilders.
- First quarter sales are down 33% for the group year-over-year.
- EBITDA down 76%.
- Average calendar year 2007 estimates for revenue and EBITDA project year-over-year declines of 21% and 49%, respectively.

Diversified Building Products Dealers:
This group of companies primarily sells building products to a highly fragmented customer base consisting of thousands of professional contractors. Their exposure to residential new construction (approximately 25% on average) is significantly less than the pro dealer segment. Significant exposure to the residential repair/remodel market, together with meaningful sales into the commercial construction market, has resulted in superior performance relative to pro dealers.
- First quarter sales are down 2% (mean/median) for the group year-over-year.
- EBITDA down 48% - 51% (mean/median).
- Average calendar year 2007 revenue estimates show a 10% increase (mean/median), with EBITDA projected to be largely flat (0% mean; 3% median projected increase.

Construction and Installation Services:
While no publicly reporting pure play exists, good data is available. Similar to the pro dealer segment, almost the entire revenue base of these businesses is exposed to residential new construction, in particular, to large and mid-size homebuilders.
- First quarter sales are down 24% - 29% (median/mean) for the group year-over-year.
- EBITDA down 81% (mean/median).

Homebuilders:
With nearly all revenue and EBITDA tied to residential new construction, this group (both large and small builders) has taken it on the chin.
- First quarter sales are down 24% - 26% (mean/median) for the group year-over-year.
  - On average, large homebuilders (annual revenue > $5 billion) declined 20% - 22% (median/ mean) versus 27% - 32% (mean/median) for their mid-sized peers.
- EBITDA down 69% - 72% (median/mean).
  - Large builders are down 66% - 69% (mean/median); mid-sized builders are down 73% - 84% (mean/median).
- Calendar year 2007 projected revenue and EBITDA expected to decline 29% - 30% (median/mean) and 66% - 68% (mean/median), respectively, versus 2006.

Big Box Retailers:
A softening repair and remodel market, particularly for large ticket, discretionary items coupled with difficult weather, resulted in soft top and bottom line performance during the first quarter.
- Overall fiscal first quarter sales up 1% on average.
  - Same store sales declined 7% on average.
- Earnings down meaningfully.
- Mid-single digit top line growth expected for calendar 2007 with flat to single digit earnings decline versus 2006.

Additional Observations:
- **Top of the Class:** Although the slowdown in residential construction activity has been widespread, certain participants have outperformed the rest of the field. In particular, companies that offer synthetic/composite alternatives to traditional building materials continue to gain share. In some instances, these share gains have resulted in continued top line growth even in the face of significant end market declines. Examples include the meaningful year-over-year top line growth of both Trex (composite decking) and Compression Polymers (composite trim board) during the first quarter.

- **Relative Strength of Certain Market Segments**: Companies that have a strong presence in the remodeling market have shown more stability than those more dependent on residential new construction. However, even within the remodeling market there are significant differences in category performance. Large ticket, discretionary purchases have shown significant sensitivity to the recent downturn. For example, cabinet sales (which are roughly 75% remodeling/repair) have declined at a much faster rate (with most reporting companies showing double digit first quarter year-over-year declines) than paint/coatings sales (a smaller ticket expenditure with similar end market mix) which have been flat to up mid-single digits.

- **Large Manufacturers Versus Mid-Sized Manufacturers:** In general, large-cap building product manufacturers have outperformed their mid-cap peers. Although some of the relative out performance is likely attributable to alignment with leading customers, the ability to more effectively resist pricing pressure, and potential market share gains, the most significant factor appears access to faster growing international markets (such as Western Europe).

*Source: Capital IQ, Securities Data Corporation & Piper Jaffray

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- **M&A Activity:** Given where we are in the respective business cycles, the M&A market generally is much more seller friendly to commercial building products companies than residential building products companies. While private equity owners and entrepreneurs try and ride out the residential building products cycle, corporate divestitures of residential building products divisions continue to heat up with a number of announced and unannounced opportunities currently in the marketplace.

- **Road to Recovery:** While the rate of decline appears to have decelerated, we likely are in still the middle innings of the current downturn. We expect the balance of 2007 to remain challenging for companies serving the residential building products market. Long term demographics and underlying demand, however, suggest that this recent correction should reverse itself in the mid-term (e.g., 12 to 18 months) and once again generate growth in the coming years that will result in levels of both new construction and remodeling activity that, although unlikely to reach the trajectory of the last cycle, are high by historical standards.

Feature Transaction

Piper Jaffray Advises Sanitors, Inc.
by Blake Cunneen, 312 920-3273, blake.i.cunneen@pjc.com

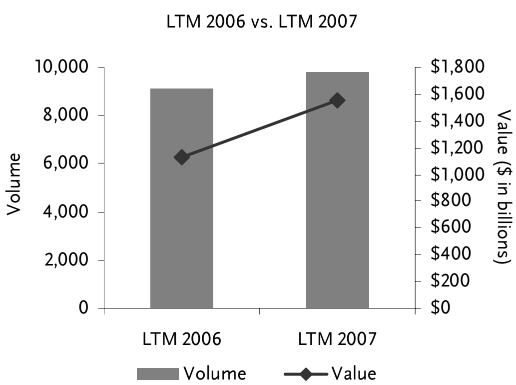
On June 5, 2007, Sanitors, Inc., a portfolio company of Cravey, Green & Wahlen, was acquired by ISS A/S, a portfolio company of EQT Partners and Goldman Sachs Merchant Banking. Terms of the transaction were not disclosed.

Headquartered in San Antonio, Texas, Sanitors, Inc. is a major U.S. provider of facilities maintenance services specializing in commercial cleaning, landscaping and security services to customers across a wide range of end markets. With revenues of approximately $320 million, Sanitors represents ISS' entry into the U.S. market and will serve as a platform company for future expansion.

Piper Jaffray served as exclusive financial advisor to Sanitors and Cravey, Green & Wahlen.

Domestic Transactions

($ in billions)	Value*	Volume
LTM: 2006	$1,149.3	9,285
LTM: 2007	$1,635.6	9,848



*Total value based on deals with reported values
Source: Thomson Financial Securities Data Corporation
LTM median deal value for 2007 is $36.8 million compared to $31.5 million for 2006.

LTM Transaction Multiples

By Size ($ in millions)	EBIT	EBITDA
Less than $25	18.5x	9.4x
$25 to $100	11.6x	9.3x
$100 to $250	15.5x	11.0x
$250 to $1,000	17.2x	10.8x
Over $1,000	15.2x	10.6x

Current data as of June 19, 2007
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	23.1%
4 weeks prior to announcement	27.0%

Current data as of June 19, 2007
Source: Thomson Financial Securities Data Corporation

Deal Financing

	Current	1 Year Ago
Leveraged Bank Loan	8.16%	8.11%
High Yield Bond Rate	7.70%	8.65%
Senior Debt/EBITDA*	4.6x	4.0x
Total Debt/EBITDA*	5.1x	4.5x

Current data as of June 19, 2007
Source: Portfolio Management Data, The Wall Street Journal and LCD Comps
*Represents leverage statistics for middle market LBOs (less than $50 million of EBITDA)

Buyout Fund Market

($ in billions)	YTD '07	'06
Funds Raised	$89.5	$197.6
Deals Completed	$139.5	$319.7

Data as of May 28, 2007
Source: Buyouts

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