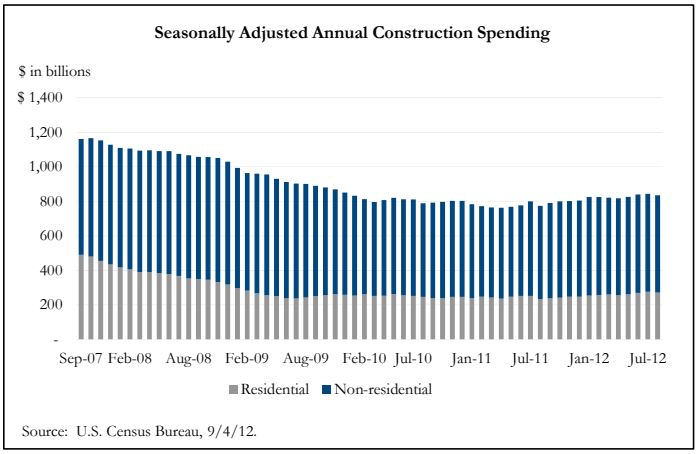
**Building Products & Materials Industry Update**
*Fall 2012*

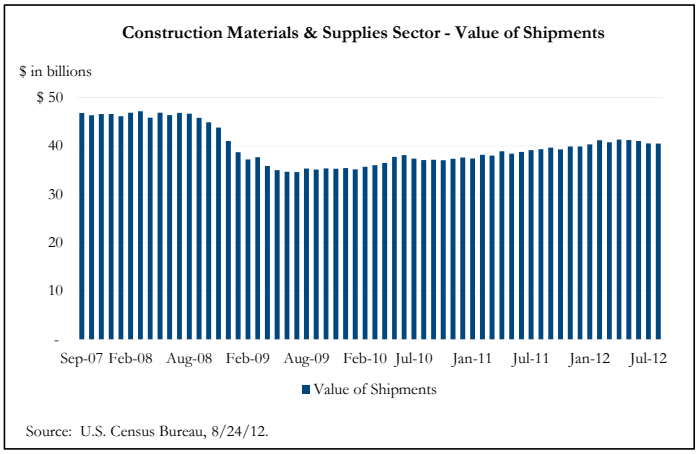
MORGAN JOSEPH TRIARTISAN

## September 11, 2012: Building Products & Materials Trends

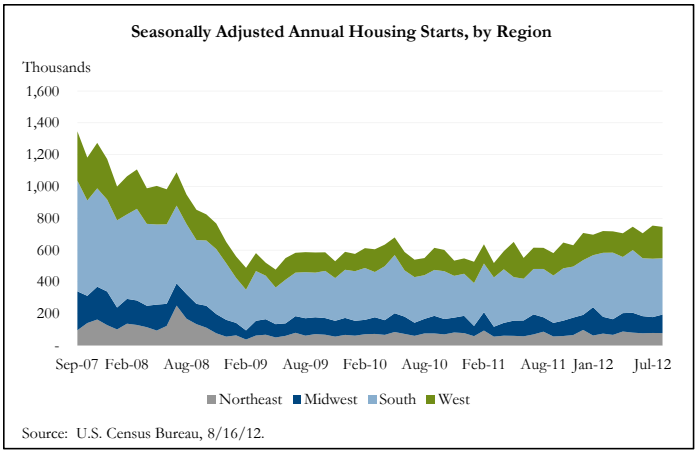
Seasonally adjusted annual construction spending during July 2012 was estimated at $834.4 billion, down 0.9% from the revised June estimate of $842.2 billion and up 7.9% from the July 2011 figure of $773.3 billion. The slight decline from June to July reverses a trend of three straight monthly increases from March to June. Overall, construction spending is up 9.4% from its five year low in March 2011.

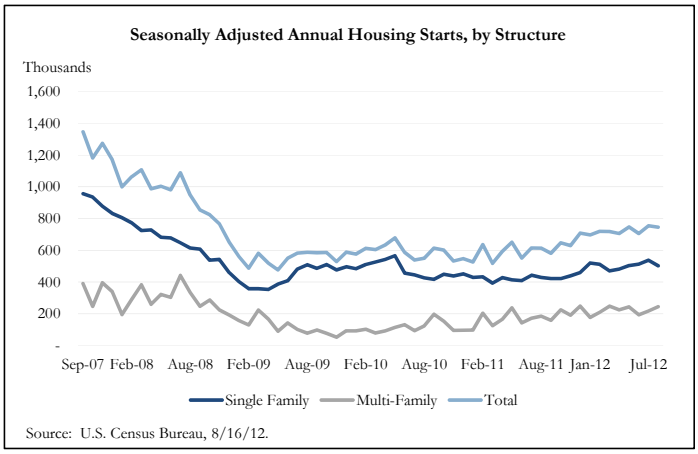
Shipments within the Construction Materials & Supplies sector have declined slightly over the past four months from $41.3 billion in March to $40.5 billion in July. However, shipments are still hovering around the highest level since October 2008, which was achieved in March. Suppliers to the construction industry have benefited from positive housing trends in the wake of the historic decline beginning in late 2008.



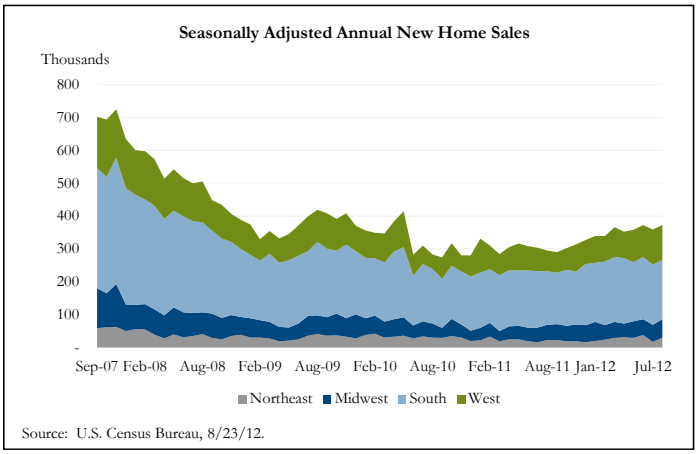

Seasonally adjusted annual housing starts were 746,000 in July, representing a 1.1% decrease from June's estimate of 754,000 and a 21.5% increase from July 2011's figure of 614,000. The Midwest was the only region to post a monthly increase, up 17.0%, while the Northeast, South and West regions posted declines of 1.3%, 3.5% and 5.3%, respectively. Single family housing starts nationwide decreased by 6.5% from last month while multi-family starts increased by 12.4%. While July housing start markets were mixed, results remain positive over the longer term, as the overall U.S. market has posted six consecutive quarterly increases dating back to Q4 2010.



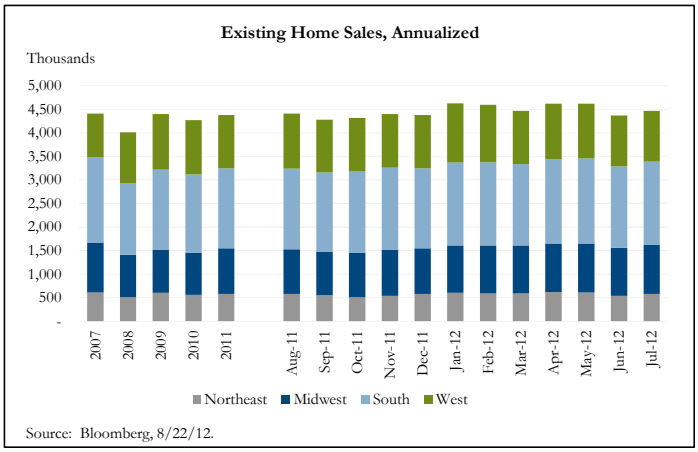



## September 11, 2012: Building Products & Materials Trends

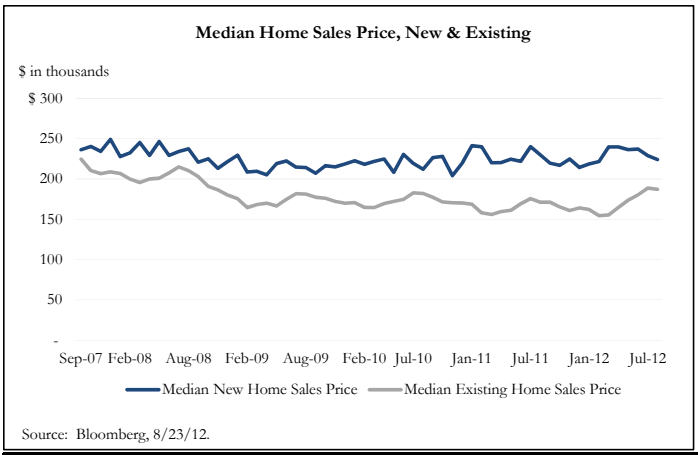
Seasonally adjusted annual new home sales were 372,000 in July. The rate during July increased 3.6% from June's rate of 359,000 and 26.1% from last July's rate of 295,000. The Northeast and Midwest regions showed percentage gains over the last month (76.5% and 7.7%, respectively), offsetting slight declines in the South and West. Months supply at the end of July was 4.6 months at the current sales rate.



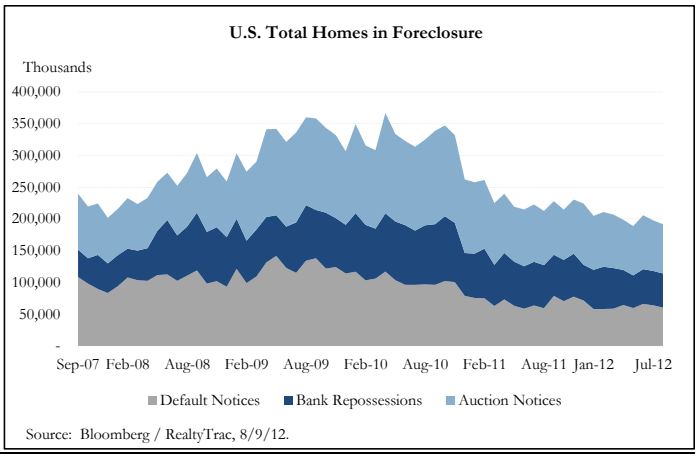

Seasonally adjusted annual existing home sales were 4.5 million in July, up 2.3% month-over-month and 10.4% year-over-year. Existing home sales have been mixed year-to-date, with monthly increases occurring in January, April and July. For July, the supply of existing homes was 6.4 months, down from 9.3 months in July 2011. Distressed home sales represented 24% of July existing home sales.




The median sales price of existing homes sold in July was $187,300, down 0.8% from June. However, existing home sales prices increased year-over-year for the fifth consecutive month, which last occurred in 2006. For new houses, the median sales price in July was $224,200, down slightly month-over-month and year-over-year.



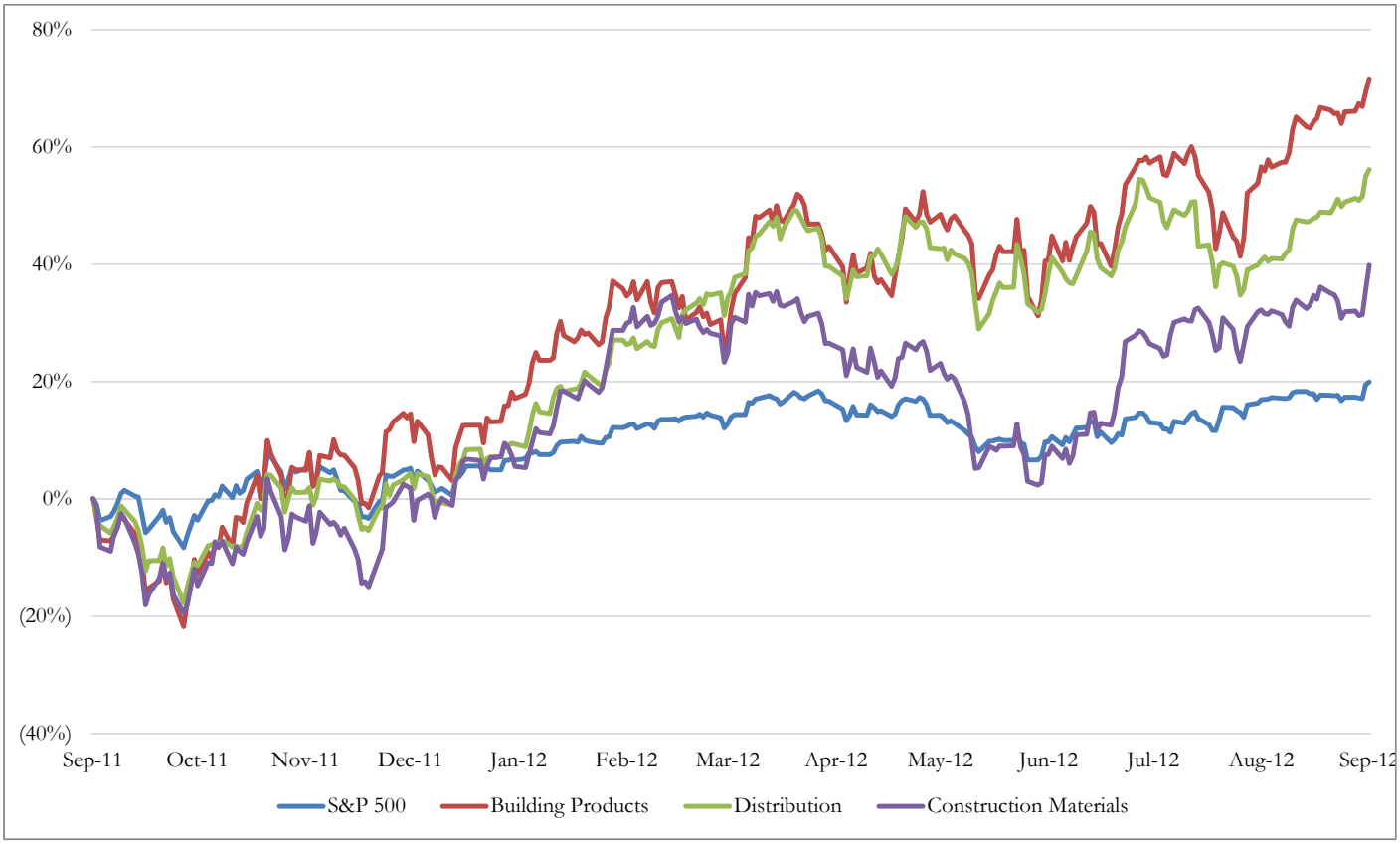

The number of homes in foreclosure (default notice, auction sale notice or bank repossession) declined to 191.9 million in July 2012, down 9.8% from last July. However, 2.0% more properties began foreclosure in the first half of the year than in the prior six months, which should cause more short sales and bank repossessions through the rest of 2012 and into 2013.



## Recent Stock Price Performance

After steeply declining in late Summer to early Fall 2011, along with the entire U.S. stock market, the stock prices of publicly-traded Building Products & Materials companies rebounded steadily through August 2012. These markets fell more drastically than the broader indices between August and October 2011, so their strong increase year-to-date 2012 can be partly attributed to a lower starting point. However, the more important drivers were positive U.S. macroeconomic data, including increases in new housing starts and construction spending, and an increased perception of global financial stability, reducing the fear of another worldwide recession.

Over the past three months, the sectors within the Building Products & Materials universe have traded up, with all three currently trading at their 52-week highs and substantially outperforming the broader S&P 500 index. The sectors are up at least 39% year-over-year, paced by the Building Products sector, which has posted returns in excess of 70% since September 2011. While overall performance has been positive over the short term, it has also been subject to increased volatility, especially when compared to the steady upwards trend between Fall 2011 and Spring 2012. This renewed volatility can be attributed to mixed U.S. macro-level data, including employment and new and existing home sales figures, as well as some returning fears about European sovereign debt and its impact on the global economy.




Source: Capital IQ (9/10/2011 – 9/10/2012)

# Building Products & Materials Trading Comparables

*($ in millions)*

| Construction Materials | 10-Sep-12 Stock Price | % 52-Week High | Mkt Cap | TEV | LTM Revenue | LTM EBITDA | EBITDA Margin | EV / LTM Revenue | EV / LTM EBITDA | EV / 2012E Revenue | EV / 2012E EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Lafarge S.A. | $ 52.08 | 97.9% | $ 14,950.9 | $ 33,799.3 | $ 20,988.5 | $ 4,483.2 | 21.4% | 1.69 x | 7.9 x | 1.65 x | 7.6 x |
| CEMEX, S.A.B. de C.V. | 7.93 | 94.6% | 8,628.1 | 26,354.5 | 15,166.5 | 2,382.0 | 15.7% | 1.74 x | 11.1 x | 1.72 x | 10.1 x |
| CRH plc | 19.32 | 89.2% | 13,953.6 | 19,295.5 | 24,865.4 | 2,158.3 | 8.7% | 0.82 x | 9.5 x | 0.79 x | 8.6 x |
| Vulcan Materials Company | 41.44 | 86.2% | 5,363.1 | 8,018.3 | 2,605.4 | 414.0 | 15.9% | 3.08 x | 19.4 x | 3.03 x | 17.2 x |
| Martin Marietta Materials Inc. | 84.18 | 92.9% | 3,859.3 | 5,000.9 | 1,863.2 | 335.2 | 18.0% | 2.68 x | 14.9 x | 2.59 x | 13.7 x |
| Eagle Materials Inc. | 44.32 | 97.4% | 2,047.7 | 2,298.0 | 529.3 | 123.6 | 23.4% | 4.34 x | 18.6 x | 3.96 x | 14.7 x |
| Texas Industries Inc. | 40.74 | 89.2% | 1,154.3 | 1,724.5 | 647.0 | 36.0 | 5.6% | 2.67 x | NM | 2.63 x | NM |
| **Sector Mean** | | 92.5% | $ 7,136.7 | $ 13,784.4 | $ 9,523.6 | $ 1,418.9 | 15.5% | 2.43 x | 13.6 x | 2.34 x | 12.0 x |

| Building Products | 10-Sep-12 Stock Price | % 52-Week High | Mkt Cap | TEV | LTM Revenue | LTM EBITDA | EBITDA Margin | EV / LTM Revenue | EV / LTM EBITDA | EV / 2012E Revenue | EV / 2012E EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Compagnie de Saint-Gobain | $ 37.21 | 77.3% | $ 19,585.2 | $ 32,678.4 | $ 57,376.2 | $ 6,977.5 | 12.2% | 0.60 x | 4.9 x | 0.59 x | 5.7 x |
| Masco Corporation | 14.18 | 96.6% | 5,067.3 | 7,777.3 | 7,595.0 | 585.0 | 7.7% | 1.02 x | 13.3 x | 1.01 x | 11.9 x |
| Mohawk Industries Inc. | 73.64 | 97.6% | 5,101.3 | 6,409.5 | 5,699.6 | 668.4 | 11.7% | 1.12 x | 9.6 x | 1.11 x | 9.4 x |
| Owens Corning | 33.80 | 88.9% | 4,028.9 | 6,252.9 | 5,383.0 | 753.0 | 14.0% | 1.16 x | 8.3 x | 1.12 x | 8.8 x |
| Fortune Brands Hm & Sec., Inc. | 26.00 | 95.6% | 4,439.5 | 4,656.9 | 3,458.2 | 258.6 | 7.5% | 1.35 x | 18.0 x | 1.31 x | 14.3 x |
| USG Corporation | 22.48 | 98.0% | 2,425.3 | 4,271.3 | 3,179.0 | 184.0 | 5.8% | 1.34 x | NM | 1.27 x | 14.1 x |
| Armstrong World Ind., Inc. | 44.18 | 73.9% | 2,616.0 | 3,494.3 | 2,803.6 | 376.1 | 13.4% | 1.25 x | 9.3 x | 1.21 x | 8.3 x |
| Louisiana-Pacific Corp. | 14.13 | 98.5% | 1,948.1 | 2,409.8 | 1,452.1 | 35.7 | 2.5% | 1.66 x | NM | 1.54 x | NM |
| Headwaters Inc. | 7.38 | 98.8% | 451.0 | 925.1 | 625.0 | 100.6 | 16.1% | 1.48 x | 9.2 x | 1.47 x | 9.7 x |
| Universal Forest Products Inc. | 39.98 | 96.7% | 789.0 | 856.6 | 1,941.8 | 78.5 | 4.0% | 0.44 x | 10.9 x | 0.42 x | 10.4 x |
| Trex Co. Inc. | 31.14 | 91.9% | 523.1 | 589.4 | 309.8 | 39.5 | 12.7% | 1.90 x | 14.9 x | 1.84 x | 10.8 x |
| Quanex Building Products | 17.98 | 94.1% | 673.2 | 585.2 | 826.9 | 43.3 | 5.2% | 0.71 x | 13.5 x | 0.67 x | 9.5 x |
| Gibraltar Industries, Inc. | 11.97 | 68.6% | 370.8 | 533.7 | 806.1 | 72.4 | 9.0% | 0.66 x | 7.4 x | 0.66 x | 7.0 x |
| PGT, Inc. | 3.14 | 92.4% | 176.9 | 204.7 | 166.0 | 18.1 | 10.9% | 1.23 x | 11.3 x | 1.06 x | 10.5 x |
| **Sector Mean** | | 90.6% | $ 3,442.5 | $ 5,117.5 | $ 6,544.5 | $ 727.9 | 9.5% | 1.14 x | 10.9 x | 1.09 x | 10.0 x |

Source: Company Filings and Capital IQ, as of 9/10/12. 2012 estimates represent consensus mean estimates and are calendarized, where appropriate.
Note: LTM EBITDA and corresponding multiples exclude stock-based compensation; consensus mean estimates may not exclude stock-based compensation.
Note: For companies which report in currencies other than USD, multiples calculated based on local currency to eliminate variation due to currency conversion.

## Building Products & Materials Trading Comparables

*($ in millions)*

| Distribution | 10-Sep-12 Stock Price | % 52-Week High | Mkt Cap | TEV | LTM Revenue | LTM EBITDA | EBITDA Margin | EV / LTM Revenue | EV / LTM EBITDA | EV / 2012E Revenue | EV / 2012E EBITDA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Wolseley plc | $ 43.86 | 99.9% | $ 12,517.5 | $ 13,391.7 | $ 22,049.9 | $ 1,279.1 | 5.8% | 0.61 x | 10.5 x | 0.64 x | 10.6 x |
| WESCO International Inc. | 59.78 | 87.7% | 2,690.9 | 3,246.8 | 6,448.7 | 410.2 | 6.4% | 0.50 x | 7.9 x | 0.48 x | 7.8 x |
| Watsco Inc. | 77.00 | 96.1% | 2,378.5 | 2,902.7 | 3,205.2 | 234.6 | 7.3% | 0.91 x | 12.4 x | 0.84 x | 11.7 x |
| Beacon Roofing Supply Inc. | 28.78 | 99.2% | 1,410.4 | 1,658.5 | 2,021.1 | 174.2 | 8.6% | 0.82 x | 9.5 x | 0.79 x | 9.9 x |
| Builders FirstSource, Inc. | 4.76 | 86.7% | 470.6 | 663.6 | 901.2 | (4.1) | NM | 0.74 x | NM | 0.65 x | NM |
| Bluelinx Holdings Inc. | 2.17 | 75.1% | 138.2 | 605.9 | 1,834.8 | 2.3 | NM | 0.33 x | NM | NA | NA |
| Headlam Group plc | 4.96 | 96.9% | 412.6 | 388.8 | 919.8 | 53.7 | 5.8% | 0.43 x | 7.3 x | 0.42 x | 6.8 x |
| Taiga Building Products Ltd. | 0.92 | 100.0% | 29.9 | 305.5 | 1,013.1 | 37.9 | 3.7% | 0.31 x | 8.5 x | NA | NA |
| **Sector Mean** | | 92.7% | $ 2,506.1 | $ 2,895.4 | $ 4,799.2 | $ 273.5 | 6.3% | 0.58 x | 9.3 x | 0.64 x | 9.3 x |

Source: Company Filings and Capital IQ, as of 9/10/12. 2012 estimates represent consensus mean estimates and are calendarized, where appropriate.
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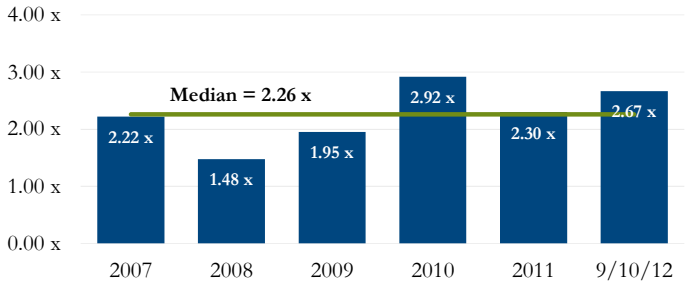
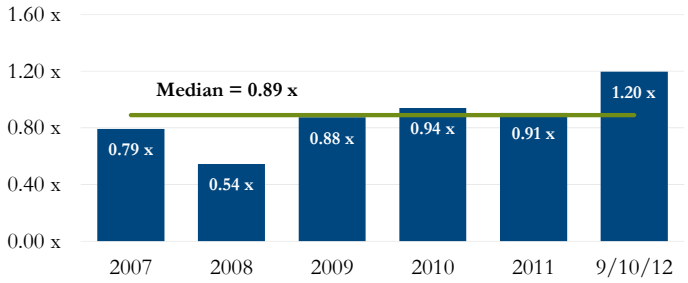
# Building Products & Materials Historical Valuation Trends

## Revenue Multiples

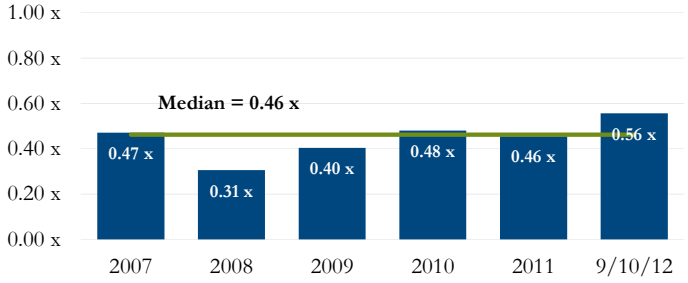
### Construction Materials




### Building Products

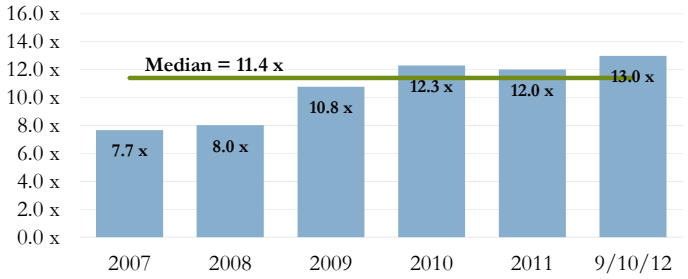



### Distribution




## EBITDA Multiples

### Construction Materials

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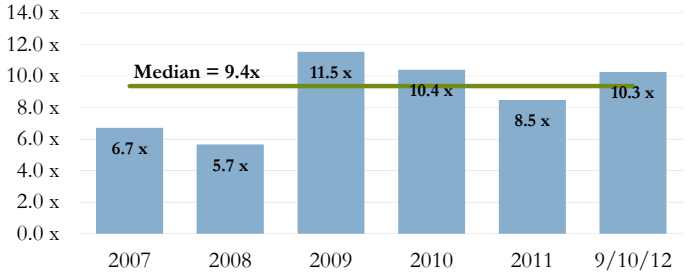


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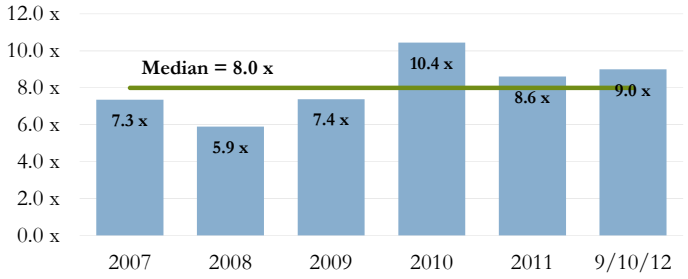


Source: Company Filings and Capital IQ; represents median Enterprise Value to LTM EBITDA multiple as of the date presented.

## Building Products & Materials M&A Transactions

*($ in millions)*

Despite the positive trends in the Building Products & Materials equity markets, there has been relatively little volume in M&A year-to-date 2012, especially in comparison to pre-Recession periods. In the wake of the Recession and historic fallout in construction-related industries, companies focused internally on rebuilding their core operations and stabilizing their balance sheets. With recent positive macroeconomic indicators and a return to growth and profitability of these companies, industry experts expected M&A activity to begin to pick up. While this expectation is yet to be seen in terms of volume, 2012 has produced a few large transactions in the space. Q1 2012 featured a $4.7 billion hostile bid and proxy battle by construction materials conglomerate Martin Marietta Materials for rival Vulcan Materials, which was put on hold by courts for a period of four months. Additionally, in May 2012, private equity sponsors Goldman Sachs and P2 Capital announced a management buyout of publicly-listed distributor Interline Brands for $1.1 billion. In late August, Japan-based Daikin Industries, the largest HVAC company in the world, signed an agreement to acquire Goodman Global, a U.S. HVAC provider, from private equity sponsor Hellman & Friedman in a $3.7 billion deal.

| Date Announced | Target | Buyers/Investors | Business Description | Value ($mm) |
|---|---|---|---|---|
| 08/29/2012 | Goodman Global Group, Inc. | Daikin Industries Ltd. | HVAC equipment manufacturer | $3,700.0 |
| 08/27/2012 | TimberTech Limited | AZEK Building Products, Inc. | Wood decking and railing manufacturer | NA |
| 08/07/2012 | US Home Systems Inc. | THD At-Home Services, Inc. | Home improvement products manufacturer | 97.4 |
| 07/26/2012 | Bentley Prince Street, Inc. | Dominus Capital, L.P. | Tile products manufacturer | 35.0 |
| 07/02/2012 | Structural Materials Co. Inc. | Beacon Roofing Supply Inc. | Roofing materials retailer | NA |
| 06/11/2012 | Hardwoods Distribution (4%) | Arbutus Distributors Ltd. | Wood products distributor | 91.8 |
| 06/07/2012 | Trydor Industries (Canada) Ltd. | WESCO International Inc. | Electrical equipment distributor | NA |
| 05/29/2012 | Interline Brands Inc. | Goldman Sachs; P2 Capital | MRO products distributor | 1,073.3 |
| 05/02/2012 | Metl-Span LLC | NCI Group, Inc. | Insulated building panels manufacturer | 143.6 |
| 04/16/2012 | TXI Package Products Operations | Bonsal American, Inc. | Packaged cement manufacturer | 46.0 |
| 02/15/2012 | Novatech Group Inc. | Caisse de Depot et Placement | Steel and fiberglass doors manufacturer | 16.7 |
| 02/14/2012 | Edvan Industries Inc. | Gibraltar Industries, Inc. | Grating products distributor | NA |
| 12/14/2011 | Western Forest Products Inc. | Brookfield Asset Management | Softwood forest products manufacturer | 161.3 |
| 12/12/2011 (a) | Vulcan Materials Company | Martin Marietta Materials Inc. | Construction aggregates manufacturer | 4,740.9 |
| 12/01/2011 | Harvel Plastics Inc. | Georg Fischer Piping Systems | Thermoplastic extrusions manufacturer | 50.0 |
| 10/28/2011 | Lyman Lumber Company | BlackEagle Partners, LLC | Building materials distributor | 23.8 |
| 10/28/2011 | Unifrax Holding Co. | American Securities | Insulation products manufacturer | 1,000.0 |
| 09/12/2011 | Frank Paxton Lumber Company | Hardwoods Distribution Inc. | Sheet goods manufacturer | 13.9 |
| 07/31/2011 | FiberTEK Insulation, LLC | Owens Corning Insulation | Insulation materials manufacturer | 109.0 |
| 07/20/2011 | C.H.I. Overhead Doors, Inc. | Friedman Fleischer & Lowe | Garage doors manufacturer | 290.0 |
| 06/20/2011 | Northwest Hardwoods, Inc. | American Industrial Partners | Lumber furniture manufacturer | 108.0 |
| 06/03/2011 | Pacific Award Metals, Inc. | Southeastern Metals Co. | Sheet metal products manufacturer | 15.4 |
| 05/12/2011 | Cement Assets of Lafarge | Cementos Argos | Cement and concrete producer | 760.0 |
| 04/15/2011 | Kay Concrete Materials Co. Inc. | Monarch Cement Co. | Concrete distributor | 5.0 |
| 04/14/2011 | Finishing Businesses of ITW | Graco Minnesota Inc. | Finishing equipment manufacturer | 650.0 |
| 03/10/2011 | Renown Specialties Company Ltd. | MiTek Canada, Inc. | Connectors and brackets manufacturer | 17.4 |
| 03/08/2011 | The Paterson Group Inc. | Hill & Smith Holdings PLC | Pipe supports manufacturer | 45.0 |
| 02/09/2011 | Crane Plastics Siding LLC | Royal Mouldings Limited | Building products manufacturer | 72.0 |
| 01/28/2011 | Valley-Todeco and Linread | Alcoa Global Fasteners, Inc. | Fasteners distributor | 240.0 |
| 12/29/2010 | Giant Cement Holding, Inc. | Corporación Uniland, S.A. | Cement and aggregates manufacturer | 700.0 |

Source: Thomson SDC, Capital IQ.
Note: Enterprise Value equals market value of equity, plus debt and minority interests, less cash and cash equivalents.
(a) Vulcan Materials / Martin Marietta Materials deal currently on court-ordered hold due to breach in confidentiality agreements.

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