Arthur D Little



2008 BUILDING AND CONSTRUCTION M&A CONFERENCE

June 24, 2008 ■ New York Athletic Club

Outlook and Opportunities in the Building and Construction Industry



CONFERENCE REPORT

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Partner, AEA Investors LLC

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Executive Summary

It has been a challenging year for companies operating in the building and construction industry, but there are plenty of bright spots amid the gloom. That was the message some 250 industry players took away from the half day conference co-hosted by Arthur D. Little and Lincoln International in New York in June.

During a keynote address and three panelist discussions, the audience heard the contrasting approach of private equity players and strategic companies to mergers and acquisitions in this industry and from a group of panelists, who addressed the unique challenges of being a seller in this market.

Despite the grim headlines concerning the U.S. residential construction market, the non-residential construction market is still holding up well, according to keynote speaker, Kermit Baker, Chief Economist at the American Institute of Architects and Senior Research Fellow at Harvard University's Joint Center for Housing Studies. He said that non-residential construction activity should grow this year, with reasonably healthy growth in industrial and institutional sectors, and forecast a modest 4 percent drop next year. "This non-residential cycle is likely to be very mild by historical standards," he said.

Andrew Bohutinsky, Managing Director and Global Head of Building and Construction at Lincoln International, underlined that sentiment when he said that he is constantly amazed by the resilience of the industry and the fact that there continue to be significant pockets of opportunity for would-be buyers and sellers.

One of those opportunities is the potential growth of green building services and sustainable technologies. One industry panelist, Ted Hathaway of Oldcastle Glass[®], said that the chance to bring green practices to the commercial buildings sector, in particular, could not be missed. "The commercial buildings sector has the largest carbon footprint in North America. I think we're in a period of transformational change. There's a unique opportunity to change the rules in building construction today."

However, Mr. Baker warned that the industry is being held hostage by the prospect of deteriorating economic conditions. "If we see the broader economy spiraling down because we didn't fully assess the risk we're seeing in credit, consumer spending or in an international incident coming, then I think all bets are off on this forecast and we need to reassess based on new macroeconomic fundamentals," he said.

Still, the building and construction industry also has a large influence on the economy. "It's an industry that shapes the rest of the economy, as everybody knows, and the things that have happened in building and construction have reverberated around the rest of the U.S. economy, impacting many other areas in which we operate and consult," said Natan Shklyar, Director and Managing Partner at Arthur D. Little.

When the outlook for the building and construction industry is so intrinsically linked to the state of the broader economy, it is a subject that none of us can afford to ignore.



Panel 1 (1-r): Ted Hathaway of Oldcastle Glass; Barry Silverman, formerly of The Home Depot; Peter Dachowski of CertainTeed Corporation; Frank Feraco of Great Lakes Equity Partners, formerly of Kohler Company

Panel 1

The View from the Corporate Suite: Global Strategic Buyers

The strategic buyers on the first panel of the day said that, as the economic landscape has changed, so have their acquisition strategies. In particular, they are keen on buying those companies providing green and sustainable products and services to the industry. These were identified as likely growth markets. The panelists also felt that all players in the market could use lessons from previous cycles to help them weather the current downturn, and talked about deal makers and deal breakers when it came to buying building and construction companies.



Andrew Bobutinsky of Lincoln International

Speaking first, Peter Dachowski of CertainTeed explained that the market for acquisitions was experiencing the convergence of four major issues: the downturn in residential and now commercial construction in the United States, the financial crisis, the rise of the East and its impact on the price of world commodities and the collapse of the U.S. dollar exchange rate, all of which have changed CertainTeed's perspective on the acquisition trail. "Riding the residential construction wave with a so-so investment is over, leveraged investments are over and perhaps sourcing from overseas as a basic business strategy, which was a slam dunk several years ago ... is no longer," he said. But he sees other opportunities, one of those being in renewable energies. He points out that CertainTeed has been looking for potential acquisitions but hasn't made a major splash yet.

The green opportunity

Mr. Dachowski said that when it comes to renewable technologies, private equity firms are more constrained and are not able to outbid strategic players so successfully, explaining that CertainTeed is investing in a synthetic slate roofing manufacturer

and also one making blocks from recyclable materials. "These could be significant growth businesses when the market eventually comes back," he said.

Mr. Dachowski added that he has been struck in the last 15 months by how dramatic progress in the renewable technologies sector has been in the United States, which he thought was now at least as well placed as, or even ahead of, Europe. However, he said that the company is cautious about buying outside renewables, as he does not think the industry has reached the bottom of the cycle yet.

Ted Hathaway of Oldcastle Glass said that companies bringing sustainable and green practices to the commercial buildings sector, in particular, represent an exciting opportunity. "The commercial buildings sector has the largest carbon footprint in North America ... solar is really where we're headed. I think we're in a period of transformational change ... There's a unique opportunity to change the rules in building construction today."

He went on to say that his company's acquisition strategy has changed to focus on end-use markets. "Five years ago, we were a supplier of custom



Peter Dachowski of CertainTeed Corporation



Frank Feraco of Great Lakes Equity Partners, formerly of Kohler Company

fabricated architectural glass to the residential and non-residential sectors. Today, we are a supplier of building envelope products. We've pretty much ceded the residential market to our competition. Our focus is very much on a strategic broadening of relationships with builders and architects." The company's recent acquisitions have all reflected this change.

He explained that Oldcastle Glass is interested in the product and the service side of the industry as he thinks the construction sector is one of the most inefficient out there. He mentioned that Building Information Modeling (BIM), the three-dimensional software platform that will enhance the ability to exchange information, cannot be rolled out across the industry too soon. "Right now, we cannot design buildings and integrate supplier information on the computer. We are still passing around huge blue prints."

The big box retailers

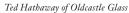
In response to a question about what advice he would give to those companies who are trying to profitably grow their relationship with The Home Depot, Barry Silverman, former Divisional President of The Home Depot, said that it is very important to assign an account representative to help the

merchant develop a product line and category, as well as others in the field who can relate to the local needs of the retailer's divisions across the country. Mr. Silverman pointed out that if you are a small company, your efficiencies are higher in selling to one big retailer. "The one thing that's a big concern is if you've got a product that someone can take away from you."

But Frank Feraco of Great Lakes Equity Partners and former President at Kohler Company said that, with the pricing power that companies like Lowe's and The Home Depot wield, Great Lakes Equity Partners doesn't like companies that have 30 percent of their revenue or more with big box retailers. However, he added that if a company is entrenched with a big box retailer, it should work hard with the buying group at that company to become more efficient and improve margins.

Customer concentration, he said, is the biggest deal breaker when Great Lakes Equity Partners is making an acquisition. "If anyone thinks that root canal work is fun, then have a line review with Home Depot," he joked. He said that it is also important that the management team at a target company wants to stay and that the company has a strong brand.







Barry Silverman, formerly of The Home Depot

The needs of strategic buyers

When thinking of selling to a strategic buyer, Mr. Hathaway said that it is important to understand the business model, the scale of the business, and how it performs in a downturn. "We're not particularly interested in systems, but we are very much interested in quality earnings ... and also a management that wants to stay," he said. Mr. Dachowski pointed out, though, that for a diversified company like CertainTeed, experience in one trade is easily transferable to another, so in his view the seller does not need to worry about providing a complete management team to a company such as CertainTeed.

When asked what lessons can learned from previous downturns in the economy when it comes to making acquisition decisions, Mr. Dachowski said that one of CertainTeed's basic disciplines is that if a business is in trouble going into a recession, the chance of it coming out the other side is much lower. Mr. Hathaway advised companies to stay close to their customers. "Everyone is pruning suppliers. To weather the storm, you need great, great customer relationships."



Kermit Baker of The American Institute of Architects and Harvard University's Joint Center for Housing Studies gives the keynote address

Keynote Address

Working Through the Construction Cycle: When Will We See a Rebound and How Will We Know It's Real?

In his keynote address, Kermit Baker set out to identify some opportunities for people doing business in this market and to outline broad trends in the construction industry through the eyes of design firms, looking at the outlook for the residential and non-residential markets. While the monthly billing survey run by the American Institute of Architects, the *AIA Architectural Billings Index*, a leading indicator of future construction activity, has taken a dramatic downturn in the last few months, Mr. Baker argued that the downturn for the non-residential market would be much milder than during previous cycles.



Kermit Baker, Chief Economist, The American Institute of Architects and Senior Research Fellow, Harvard University's Joint Center for Housing Studies

Mr. Baker pointed out that of the increasing number of economic concerns facing the industry, housing is at the top of the list, which is not only affecting the construction industry, but increasingly affecting consumer spending. "As the subprime mess has progressed that originated in the housing market, that has frozen credit throughout the broader economy," he observed.

Second, he said that there has been a deterioration in the job markets, with the loss of more than 300,000 payroll jobs nationally since the beginning of this year and unemployment rising half a point over the same time. Third, he pointed to rising inflation, both in oil prices and construction commodities, even as the prospect of a recession grew. "Even without a major international incident, and I think that's always looming over our heads, we're looking at the prospects of a weak economy for the remainder of 2008 and likely a good chunk of 2009," he commented.

Mr. Baker discussed the monthly billing survey run by the American Institute of Architects for about a decade, the AIA Architectural Billings Index. "Design activity is a leading indicator of construction activity and it leads construction/reconstruction activity by about nine to 12 months, so it gives us a very nice window on what's going to happen down the road here."

The index has taken a dramatic downturn in the last few months. Numbers held up surprisingly well up until the end of 2007, even as credit market problems were beginning to emerge, but in 2008, there has been a very sharp downturn, with a 15 point drop between December and March, the sharpest decline in the history of this index.

He also explained that the AIA asked architects separately about inquiries for new projects, another informal leading indicator. "We've seen weakness on that side of the ledger too, which also indicates that billings are unlikely to rebound in the near future," he said, which suggests that no turnaround in design activity is imminent.

Residential Construction Sectors Uniformly Softening While Remodeling Faring Better

% of respondents reporting sector "improving" minus % reporting "weakening"; Q1



Source: : The American Institute of Architects Home Design Trends Survey

Strong sector variations

Mr. Baker said that the AIA also tracks architect billings sector by sector, for residential, commercial/ industrial and institutional projects, which highlights some dramatic variations. The residential market has been weak for several years, while the commercial and industrial sectors were very strong through 2007, but have weakened quite dramatically since January 2008. Meanwhile, the institutional sector has not changed much at all and has been incredibly stable throughout the recent upheaval. He told the audience that the AIA also looks at the design billings index from a regional perspective, which demonstrates an unusual uptick in activity among firms in the Midwest and more dramatic downturns on both coasts, particularly on the West Coast but also in the Northeast.

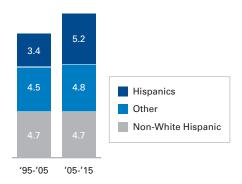
Yet he said that the outlook for residential construction was not all doom and gloom. For

example, the latest results from a quarterly survey of residential architects reveals that the weakest segment is entry-level homes, which has a knock on effect on move-up homes. But while residential construction is uniformly softening, remodeling is performing better. Remodelings have weakened compared to last year but are still positive.

Still, he argued that the best single indicator for the health of the residential industry, from a supply and demand perspective, is the inventory of vacant homes for sale. He said that at the moment, there is an excess inventory of 2.3 million units. He said the root of the problem is that production has slowed recently, beginning in late 2006, but demand from home buyers has slowed even faster, meaning that the market continued to build up inventory in the first quarter of this year. "We need to absorb 800,000 to 900,000 of these homes before we can move on towards a new round of production," he commented.

Household Growth in the Current Decade Should Be Even Greater Than the Last

Household growth (in millions)



Source: Census Bureau, Housing Vacancy Survey; JCHS Research Note N06-1,

March 2006

However, he thought that the good news is that longer term trends for household formations are very strong, which is a key driver for homebuilding needs. "We think we're going to get back on track to produce between 14 million and 15 million new households this decade in the country," he remarked. That prediction is up from the 12.5 million in net new households formed over the last decade.

But Mr. Baker said that in the residential sector, the problems were beyond just a mismatch of supply and demand. "To really track the industry, there is an increasingly long list of indicators that you really need to keep a handle on: financing, home sales, home prices, defaults, inventories, equity levels. It's gotten much more complicated." He pointed out that some of those indicators are giving different signals too, partly because not all the sectors in the housing market are behaving the same way.

Still, there is reason to hope for a quick recovery for residential construction once the economy is out of the woods. Mr. Baker pointed out that previous cycles have demonstrated that once an economic downturn ends, there is a very sharp upturn in residential construction recovery, with data from the last 50 years showing that production tends to increase 15 percent to 30 percent in the first quarter of a recovery.

Non-residential market shows resilience

Mr. Baker then turned to the non-residential market, presenting the latest preliminary numbers from the AIA's semi-annual Consensus Construction Forecast, a survey of the nation's leading construction forecasters, which the AIA has been coordinating for nearly a decade. Of the 1.5 billion square feet of non-residential construction activity last year, according to McGraw Hill Construction, he said that commercial construction accounted for 45 percent to 50 percent



of the non-residential market, manufacturing and distribution accounted for 20 percent, and institutional buildings for 33 percent.

Some of the issues in the non-residential market are as follows:

1) With the slowdown, architects are reporting new trends in the characteristics of buildings.

Based on a survey in early June, 75 percent to 80 percent of architects said they had seen changes in building characteristics in the design phase. The most common was an effort by clients to reduce construction costs, from the extensive value engineering of designs to creating simpler designs using cheaper materials. An increasing number reported additions or retrofits of existing facilities, while some reported a downsizing of projects. "These are cyclical changes that may not affect what buildings look like five or 10 years from now, but you're already seeing some changes in building design composition," he noted.

2) The rising costs of building materials.

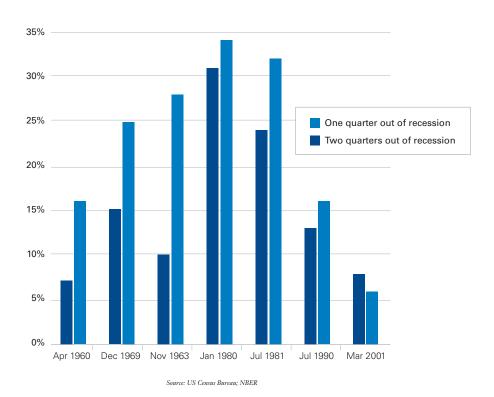
Mr. Baker said that non-residential construction materials pricing has increased twice the amount of the CPI since 2003, at around 37 percent, which makes architects nervous and contractors even more nervous, particularly if they are making fixed-price bids for projects. "This uncertainty is making people real nervous about getting involved in projects, particularly ones that could be considered more marginal," he added.

3) The green movement is becoming firmly entrenched.

Mr. Baker pointed out that, to date, this has been more of an ideology than a reality. While there is a growing awareness of the problems, and strategies and programs to deal with this issue, the perception remains that sustainability is more about sacrifice than it is about efficiencies. He said that when it comes to the motivation for designing green buildings, 40 percent of architects said that cost savings over the life cycle of the building is

Once Recession Ends, Housing Snap Back Has Traditionally Been Strong and Quick

Growth in Total Housing Starts Relative to Level in Last Quarter of Recession(%)



the key reason, a concern highlighted by higher energy costs. That is followed by the conservation of resources, improved marketability and the prestige of certification, as well as working with new sustainable products.

Mr. Baker said that the overall forecast for the next 18 months is that non-residential construction activity should grow by 2 percent until the end of 2008, with reasonably healthy growth in industrial and institutional sectors. In 2009, the forecast is for a 4 percent drop, with a bigger drop in the more cyclical commercial sector and modest growth expected to continue in the more stable institutional sector. By mid-2009, he argued that the United States should

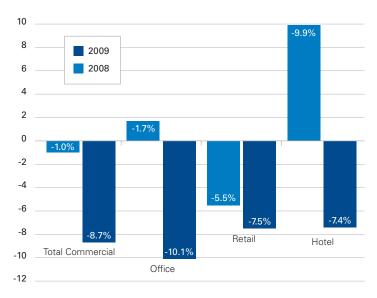
begin to see recovery in the wider economy, so a recovery in the non-residential sector is likely by 2010.

He pointed out that the consensus view supports a very mild non-residential cycle by historical standards. Peak to trough, the decline, given these forecasts, would be somewhere below 10 percent, whereas in the late nineties, the decline for the non-residential market was more like 20 percent to 25 percent. In 2001 to 2002, it was 10 percent to 15 percent.

Mr. Baker explained that the main difference this cycle is that there is not as much building inventory, since office vacancy rates have been going down for a number of years now. "They have probably hit the bottom for this cycle and will start coming back

Construction Outlook: Projected Declines in 2008 for Commercial Facilities To Accelerate in 2009

annual % change; \$ (preliminary numbers)



Source: AIA Consensus Construction Forecast Survey for 2008 and 2009 conducted in June, 2008

up, but there's still a lot of regional variation." For example, he said that the lowest office vacancy rates are in Manhattan, while the highest are in Detroit and Dallas. For that reason, there is likely to be regional variation in construction volumes within the office sector. The aforementioned Consensus Construction Forecast panel predicts that the office sector will fare better this year than the overall commercial sector, while next year, declines are expected to be in the high single-digit range.

Institutional commissions still growing

Mr. Baker went on to discuss the institutional market, pointing out that while commercial construction tends to react to economic cycles, institutional construction tends to react to longer term demographic trends, such as the growth in projected college and university

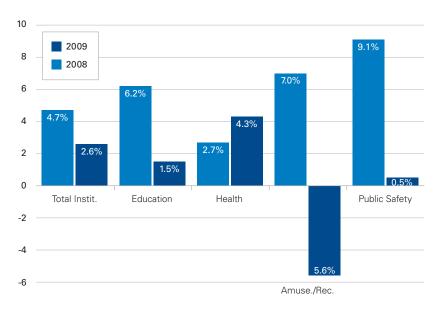
enrollment. He predicted that growth in all areas of institutional construction spending is projected to remain fairly healthy, even if it slows in 2009.

Drawing his speech to a close, Mr. Baker said that the broader economy has weakened over the last few months and that it is unlikely that the United States can avoid a recession over the next nine to 12 months. This will slow demand for residential and non-residential facilities, which will result in lower levels of production in the near term. On the housing front, he spelled out that we are two years into a major housing recession, with still mounting problems and no clear signs of recovery.

"Our sense is that we're going to bump along the bottom. We may not see recovery in housing until early 2010," he said, pointing out that this very much depended on economic conditions and policy efforts

Most Major Institutional Categories Projected To See Modest Increases in Construction Spending

annual % change; \$ (preliminary numbers)



Source: AIA Consensus Construction Forecast Survey for 2008 and 2009 conducted in June, 2008

made in Washington to rescue the housing market. He reiterated that on the non-residential side, the market is about to enter a downturn in construction activity, whereas the institutional sector could just skate through without really seeing much decline at all. "This non-residential cycle is likely to be very mild by historical standards," he remarked.

However, Mr. Baker foresees that there are also likely to be some relatively fundamental changes in the industry during this time, with a greater focus on productivity gains and efficiencies, which could lead to greater technology investment and sustainability features.

Mr. Baker said that the main risk to the forecast, particularly on the non-residential side, is that the

market is being held hostage by what's going on in the economy. He argued that there are no other imbalances, such as a lot of spare inventory or a large speculative boom, compared to the residential market, which clearly has been overbuilt. He said that in non-residential construction, the industry is experiencing a little pause until the economy recovers. "If we see the broader economy spiraling down because we didn't fully assess the risk we're seeing in credit, consumer spending or in an international incident coming, then I think all bets are off on this forecast and we need to reassess based on new macroeconomic fundamentals," he concluded.



Panel 2 (1-r): Dan Pansing of Merit Capital Partners; Brian Sbortsleeve of HIG Capital; Jim Lawson of Lincoln International; Ira Starr of Long Point Capital; Alan Wilkinson of AEA Investors LLC

Panel 2

Private Equity Acquisitions of Building and Construction Companies

The panel of private equity buyers thought that they had some key advantages over strategic buyers when purchasing in today's market, particularly as some strategic buyers are preoccupied with trying to improve the performance of their own companies. But they differed over how favorable buying opportunities are and when the bottom of the cycle will be reached. The panelists also discussed other topical issues, such as when to over equitize a transaction, customer concentration in target companies, and sourcing products from China.



Jim Lawson of Lincoln International



Dan Pansing of Merit Capital Partners

Dan Pansing, of Merit Capital Partners, was the first of the panelists to explain his firm's exposure to the building and construction industry. He said that although his firm has completed several investments in the building products or construction sectors, this had happened largely as a result of an opportunistic investment approach rather than by design. Merit Capital is a junior capital provider, investing in subordinated debt and equity, taking either significant minority or majority positions in companies.

Brian Shortsleeve of HIG Capital said that his firm has played in building products over time and now owns a hardwood manufacturer and another company that manufactures doors and windows. He said that HIG Capital is not afraid of industries in transition. Ira Starr of Long Pont Capital said that the firm became focused on building products over time and is typically looking for entrepreneurial businesses. It has six building and construction portfolio companies and has about six searches active at the moment.

Alan Wilkinson explained that AEA Investors is an

old firm in the private equity business, which has been active in the buildings products sector for a long time. It currently has investments in a synthetic materials company, a roofing products company, a roofing products distributor and a hardware distributor for commercial construction.

The problems of high customer concentrations

The panelists then took up one of the contentious issues from the first panel of the day and discussed whether they would invest in companies that have a high customer concentration. Mr. Shortsleeve responded that HIG does have a significant number of businesses with a customer concentration. He said that a concentration of over 30 percent certainly makes him nervous, but he said that he would still buy the right operator at the right price, with roll over equity and a strong management despite this. "It's a valuation issue, not a deal-kill issue," he said. Mr. Wilkinson agreed that AEA Investors does not have any hard and fast rules when it comes to this, that he addresses every deal on a case-by-case basis, and that it depends on the valuation.



Ira Starr of Long Point Capital



Brian Shortsleeve of HIG Capital

However, Mr. Starr said that only one in 10 of Long Point Capital's portfolio companies has significant exposure to Lowe's or The Home Depot, while Mr. Pansing said that Merit Capital Partners tends to avoid big box concentrations. "When companies get involved with those customers ... it's distracting to the growth of the rest of the business," he argued. "They become ever more reliant on those customers and ever more exposed to their pricing pressure."

Some panelists also expressed concerns about companies that source a significant number of products from China, given the strengthening currency and the prospect of even higher prices there. Mr. Pansing said that a challenge for Merit Capital Partners is if a company manufacturing in the United States needs to make the transition to China, due to a threat from Chinese manufacturers. However, if a company is already manufacturing there successfully and able to manage that issue, he does not think that is a cause for as much concern.

A buying opportunity?

All the panelists said that they want to make longterm investments in portfolio companies with good management teams, mentioning companies working in energy efficiency and repair and replacement as two potential areas of interest. But they differed on how favorable conditions are for buying companies right now, given the downturn in building and construction and in the wider economy.

Mr. Wilkinson said that he thinks there are buying opportunities in the residential market, given that AEA Investors has a five-year investment horizon. "The key is to finance it and to create a capital structure that means you can live through an extended downturn. Particularly in the residential market, we think this is actually a very good time to be making investments and it is certainly a much better time than it was 18 months ago." He feels that there are companies under stress and undercapitalized private owners out there that would like a private equity partner.

Mr. Shortsleeve agreed, saying that HIG Capital is not focused on the market next year, but in 2012 or 2013, and with a five-to-seven year time horizon, the ideal situation is to find a market-leading company at depressed multiples with depressed earnings. All of them stressed that due diligence is particularly important in the current environment.



Alan Wilkinson of AEA Investors LLC

But Mr. Starr pointed out that the problem is finding companies that are prepared to sell at all, because if they are not compelled to sell, it is not a market to be selling in. As a result, he said that he is finding that small add-on transactions are easier to do. He added that the financing environment is more challenging than 12 months ago. "A year ago, we might have gone to eight banks to finance a deal, now we'll go to 20. You can't tell which banks are basically going to shut down all their lending to building construction companies."

Mr. Pansing argued that trying to call the bottom of the market was a bit like catching a falling knife. "I think we know that we're under the norm, at least in terms of residential activity right now ... I'm not sure that anyone can say with confidence exactly when activity should pick up, or at what levels activity will stabilize. Many people are saying that it will be at least 2010." He added that even purchase multiples that looked cheap today might not be if demand continued to fall.

The panelists thought they had some advantages over strategic buyers in the current market, because many are grappling with their own operational challenges or simply not interested in buying the same sorts of companies, and private equity firms are also able to invest more equity into deals. In addition, buying companies that have bonding requirements seems to be something that everyone is keen to avoid, as successful deals by private equity buyers and bonded companies are few and far between. Mr. Starr pointed out that it is nearly impossible to do a leveraged recapitalization in a bonded company. "Bonded companies have very cut and dried rules. Sometimes it is just easier to say no altogether."



Panel 3 (1-r): Jean-René Hartpence of Lincoln International; Steven Kraus of Skyline Windows LLC; George A. Pattee of Parksite; Simon Flax of Artbur D. Little, Inc.

Panel 3

Strategies for Successfully Selling a Company in the Cyclical Building and Construction Industry

The panelists participating in the last discussion of the day gave advice to those companies considering selling in such a cyclical industry and offered their experience from both a first-hand and an advisory capacity about how to make the sale a success. Panelists also offered their thoughts on what companies could do to sustain themselves through the current downturn and even to come out stronger when economic recovery finally arrives.



Jean-René Hartpence of Lincoln International



Simon Flax of Arthur D. Little, Inc.

Jean-René Hartpence of Lincoln International started by addressing what European buyers, hoping to capitalize on the euro-dollar exchange rate and the downturn in the U.S. economy, are looking for from U.S. sellers in building and construction at the moment. "The scenario that's most interesting is the European buyer that can take advantage of the euro-dollar rate today, but can go after the quality companies in a good market sector."

To determine what those quality companies are in a cyclical industry, he said that buyers would look at how the company has fared in previous downturns, its last 10 years of cash flows and how well the company had anticipated the present downturn. Other key selling points are the strengths of the company and its plans.

The advisor's perspective

Simon Flax of Arthur D. Little said that all of these elements play into the work Arthur D. Little does when preparing a company for sale. In particular, he said that the business analysis phase is very important, citing the recent sale of a client's company, a paint manufacturer. "Though

macroeconomics for the paint industry in general were weak due to the downturn in the residential housing market, the company produces a high-end product and serves affluent, less-price-sensitive customers, and was therefore less affected by the broader downturn." He said that Arthur D. Little works with investment bankers to ensure that the Confidential Information Memorandum accurately reflects the potential of a company and its assets.

He added that Arthur D. Little also works very closely with sellers of companies to create a value creation plan. "One key point that a lot of middle market companies overlook is that the private equity buyer will often prioritize operational improvement over revenue growth initiatives on the basis that they are looking for a solid operational platform for growth." The client achieves a high multiple in part because they have a clear and realistic value creation plan.

The seller's view

The seller on the panel, Steven Kraus from Skyline Windows, who has completed two private equity transactions in the last five years, one with Lincoln International acting as the advisor, said that going



Steven Kraus of Skyline Windows LLC



George A. Pattee of Parksite

through the process of preparing the company for sale, while daunting, was one of the most valuable parts of the whole experience. The financial systems were inadequate to deal with the due diligence, the paperwork generated was overwhelming. Evolving from a company that operated in secrecy to a company in which everything was shared was another big challenge. "A lot of initial concerns turned into positives as the business moved forward, but initially they were very daunting." He said that even understanding things like covenants was a big issue at first. "Today I believe that the mere process was a great benefit to my company."

The result was a success in the first 18 months; the company was able to start implementing changes from information generated by the new financial systems and subsequently doubled in size over three years, removing its prior bonding line in the process.

Although he has no plans to sell his business, George Pattee of Parksite, pointed out other things that a company should do to be a successful seller in a cyclical industry. Given that only 10 percent of Parksite's business is commercial, he joked that "we've got the perfect storm in this particular downturn," adding, "In the first 35 years of the business, we went from zero to about \$500 million in sales. In the last two years, we have given back about 30 percent."

He argued that during cyclical downturns, companies can still take market share, improve efficiencies, take costs out of the business and look at diversification opportunities. "We're spending a lot of time in repair and remodeling and we've tripled our efforts on commercial opportunities," he added. Parksite has eliminated non-value-adding activities such as underperforming business units, added items in a limited number of areas, simplified business processes and cut 15 percent of the workforce.

Mr. Pattee said that sustaining a business through the downturn involves sharing information with employees and renewing the emphasis on sitting down with customers and the customers' customers. It also means talking to suppliers about the best strategies for a down marketplace. Then there are the real basics such as managing the balance sheet, looking at debt, inventory, payments and receivables. "It's about how you can sustain the business so you can take advantage of the situation when the market comes back," he said.



Summary of Key Information and Insights

Andrew Bohutinsky of Lincoln International wrapped up the afternoon's discussions by sharing the results of a delegate survey taken at the same conference this time last year. Participants correctly predicted that activity in the residential construction sector over the next year would be lower, but that non-residential activity would also be lower, when it actually rose 13 percent.

Last year's delegates also thought that green companies would be the sector that saw the most activity in building and construction M&A over the course of the year, when in fact building services turned out to be the most popular. "Green is nascent and growing, but it hasn't quite hit its stride," Mr. Bohutinsky stated.

The survey of participants in this year's conference revealed that they thought construction activity in the residential market over the next year would be the same, while non-residential activity would be lower. The hottest segment over the next 12 months was predicted to be infrastructure products and services.

Mr. Bohutinsky said that infrastructure products and services companies were also at the top of Lincoln International's Deal ThermometerSM and was predicted to be the hottest area for M&A activity in the building and construction sector for the coming year, followed by green building services, with home builders and residential new construction companies at the opposite end of the scale. "This is what we're seeing in the market in terms of valuations and interest in transactions," he concluded.



2008 BUILDING AND CONSTRUCTION M&A CONFERENCE

Outlook and Opportunities in the Building and Construction Industry

The **Organizers**

Andrew Bohutinsky

Managing Director and Global Head, Building and Construction Lincoln International

Andrew Bohutinsky has significant experience as an investment banker and corporate attorney. He advises clients, which have included Fortune 500 multinationals and private equity firms, on international and domestic sale transactions, divestitures, mergers, acquisitions and private equity transactions. Additionally, he has completed sales of numerous private companies that are market leaders.

The leader of Lincoln International's Building and Construction group, Andrew has a high degree of experience working with manufacturers, distributors and service providers for construction related markets. Andrew and his team have grown Lincoln International

into the most active Building and Construction M&A advisor in the middle market, having completed approximately 50 assignments in the sector since 2005.

Prior to joining Lincoln International in 2002, Andrew was with Green Manning & Bunch, a boutique investment banking firm focused on mergers and acquisitions and private financings. From 1996 to 1998, Andrew was an attorney in the international corporate transactions group with Altheimer & Gray, where he worked in the firm's Chicago and Prague, Czech Republic offices. Prior to joining Altheimer & Gray, Andrew was an attorney in the corporate transactions group with Hopkins & Sutter.

Andrew earned a J.D. from Cornell Law School, where he was an editor of the Cornell Law Review, and a B.A. in economics from Washington College, where he graduated summa cum laude.



Natan M. Shklyar, Director and Managing Partner, Arthur D. Little, Inc.



The Organizers cont'd

Natan M. Shklyar

Director and Managing Partner Arthur D. Little, Inc.

Natan M. Shklyar leads Arthur D. Little's New York City office and the North American Private Equity practice, with a focus on middle market funds and their portfolio companies. He is a trusted advisor to some of the leading global and middle market private equity firms and hedge funds, advising clients on due diligence, as well as operational improvement and the strategic repositioning of their portfolio companies.

Previously, Natan worked with several consulting firms, including McKinsey & Company, Booz Allen Hamilton and Droege & Comp.

Natan holds an M.B.A. with the highest distinction in finance and management from Columbia Business School, where he was a member of Beta Gamma Sigma, and a B.A. in diplomacy and foreign affairs, summa cum laude, from Miami University of Ohio, where he was a member of Phi Beta Kappa and a Benjamin Harrison Scholar.

Simon Flax

Manager Arthur D. Little, Inc.

Simon Flax works in Arthur D. Little's New York City office and the North American Private Equity practice, serving leading global and middle market private equity firms and their portfolio companies. Simon has led buy-side and sell-side commercial due diligence engagements, as well as strategy development, sales and marketing and operational improvement programs for private equity clients and middle market companies.

Previously, Simon was with several other consulting firms, including Booz Allen Hamilton, Droege & Comp. and Accenture Consulting.

Simon holds an M.B.A. in finance from New York University's Stern School of Business and a B.S. in engineering, cum laude, from University of Cape Town.

The **Keynote Speaker**

Kermit Baker

Chief Economist
The American Institute of Architects

Senior Research Fellow Harvard University's Joint Center for Housing Studies

Kermit Baker analyzes business and construction trends for the U.S. economy and examines their impact on AIA members and the architectural profession. He originated the AIA's Work on the Boards survey, a monthly assessment of business conditions at architecture firms, as well as the AIA Consensus Construction Forecast Panel. Kermit writes a regular economics column for the AIA member electronic newspaper, AIArchitect.

Kermit also is Project Director of the Remodeling Futures Program at the Joint Center for Housing Studies at Harvard University. This research program works toward an improved understanding of the dynamics of the U.S. repair and renovation industry.

Prior to joining the AIA, Kermit was Vice President and Director of the Economics Department at Reed Business Information, where he was responsible for industry forecasting. During his 10 years at Reed, he developed the Top U.S. Construction Markets Report and served as editor of Reed Business Information's Building and Construction Market Forecast newsletter.

Kermit received his master's degree in urban planning from Harvard University and holds a Ph.D. from Massachusetts Institute of Technology in the same field. In 2002, Kermit became an honorary member of The American Institute of Architects.

The **Speakers**

Ted Hathaway

Chief Executive Officer Oldcastle Glass®

Ted Hathaway joined Oldcastle, Inc., in 1987 as Vice President of Development. In 1990, he championed the formation of Oldcastle Glass with the \$100 million acquisition of HGP Industries, an architectural glass manufacturer with \$80 million in sales and 11 operating locations. Subsequently, 28 acquisitions advanced the business to a leadership position in North American high-performance architectural glass and customengineered aluminum glazing systems for multi-story commercial, institutional and residential construction. Oldcastle Glass currently has 73 locations in 26 states and four Canadian provinces, and employs more than 6,000 people.

Ted was promoted to COO in 1998 and to CEO in 2000. He started his career as a banker with Bankers Trust and later worked for Midland Capital, a leveraged-buyout firm.

In 2004, Ted joined the board of trustees of the New York-based Museum of Arts and Design.

Ted holds an M.B.A. with honors from Columbia Business School and a B.A. in economics from Connecticut College.

Barry Silverman

Former Divisional President The Home Depot

Former CEO

Do+Able Products Davidson Plywood

Barry Silverman spent 11 years as an officer with Home Depot. In that time he held the key positions of Vice President of Merchandise for the Northeast Division as well as Vice President of Merchandise for two departments of the entire company. Barry also served as Divisional President of the Southwest Division and a Group President of the Western half of the United States. He was instrumental in the development of the EXPO concept for Home Depot, and spent time as Divisional President of EXPO during his tenure with the company.

In 2001, Barry left Home Depot and became Chief Executive Officer of Do+Able Products Davidson Plywood, a manufacturer and distributor of storage cabinets, plywood, press board, value-added wood products and steel shelving. Over the next four years he took the company from \$123 million to \$173 million,



serving customers such as Home Depot, Lowe's, Orchard Supply and a variety of OEM accounts. In February 2006, he sold the company to Emerson.

Barry is currently the majority owner of two Ashley Furniture Home Stores in California, which did more than \$18 million in sales in 2007.

Peter Dachowski

President and Chief Executive Officer CertainTeed Corporation

Peter Dachowski is responsible for all of Compagne de Saint-Gobain's construction products businesses in North America (CertainTeed is a wholly owned subsidiary of Saint-Gobain).

Peter joined CertainTeed in 1976. He was named Vice President of Planning and Development in 1980. Since then, he has served as Vice President and Treasurer, Vice President and Comptroller, President of the Roofing Products Group, President of the Vinyl Building Products Group, Senior Vice President of Exterior Building Materials, Executive Vice President of CertainTeed and President of Saint-Gobain's worldwide insulation business. He assumed his current position in 2004.

Prior to CertainTeed, Peter worked as a financial analyst at Exxon Corporation and was an engagement manager for the Boston Consulting Group.

He serves on the boards of the Philadelphia Orchestra Association, the International House of Philadelphia, Ball Horticultural and the National Building Material Distributors Association, and on the advisory councils to the University of Chicago Graduate School of Business and the Joint Center for Housing Studies of Harvard University.

Peter graduated in economics from Queens' College, Cambridge University in Great Britain, and earned an M.B.A. in finance from the University of Chicago.

Frank Feraco

Managing Partner Great Lakes Equity Partners

Former President Kohler Company

Frank Feraco has managed and led the acquisition and integration of 28 companies over the past 15 years and the divestiture of five large divisions. He is the former President of Pentair's \$1.2 billion Tool Group as well as

Textron's \$4.0 billion industrial products segment. Frank has 35 years of executive management experience within industrial and consumer durables industries, including the successful turnarounds in three Fortune 200 companies.

From 1970 to 1990 Frank held successive executive roles at Emerson Electric Co. He played an integral part in the turnaround of Skil® power tool company, which sold in 1990 for \$987 million.

From 1990 to 1997 Frank held executive level positions at Kohler Corporation, beginning as President and CEO of its Sterling Plumbing Group subsidiary. Over the next three years, he grew Sterling's sales at 10% CAGR to \$370 million and EBITDA to 10% or \$40 million, making it the fastest growing segment within the Kohler Company. As President, Sector Executive for Kohler Plumbing International, he initiated and implemented plans to further grow Sterling Plumbing Group, revamp European operations, build facilities in China and establish a footprint in Home Depot stores. During his tenure, Kohler Plumbing sales globally grew at a CAGR of 20% and profitability increased from \$175 million to \$300 million on a revenue base of almost \$20 billion.

Frank is currently a Managing Partner of Great Lakes Equity Partners, which provides a combination of access to patient capital through financial partners and a long-term outlook to build strong mid-market businesses. He serves on the board of directors of TLZ Inc., Flex GmbH, Rapha International, Bluewater Thermal Processing Co., Advisory Committee School of Business Administration at the University of Rhode Island and several industry associations.

Frank earned a B.A. from the University of Rhode Island, where he graduated cum laude.

Dan Pansing

Principal and Partner Merit Capital Partners

Dan Pansing joined Merit Capital Partners (formerly William Blair Mezzanine Capital Partners) in 1999. Based in Chicago, Merit Capital Partners manages more than \$1 billion through four institutionally sponsored limited partnerships. The firm provides junior capital, both subordinated debt and equity, alongside management teams and other investors to support management buyouts, recapitalizations, leveraged acquisitions and other growth initiatives.

Dan is active in all aspects of Merit's investment process including deal origination, transaction execution and portfolio company oversight. He has been involved with a number of Merit's building-products-related investments including Parksite, Dunn-Edwards, WL Plastics, Southern Lime and Design Space. Most recently, he led the firm's investment in Skyline Windows LLC, a New York-based manufacturer and installer of aluminum replacement windows. Dan is also active with the firm's investments in Angus Industries and Clarion Technologies.

After starting his career at the First National Bank of Omaha, he joined LaSalle Bank, NA, in Chicago, where he was a commercial loan officer focused on leveraged transactions. He received his M.B.A. from the Anderson School at U.C.L.A. and his B.S. from Miami University of Ohio.

Dan is a member of the ESOP Association and the Association for Corporate Growth.

Brian Shortsleeve

Principal H.I.G. Capital

Brian Shortsleeve is a Principal with H.I.G. Capital, a leading private equity firm specializing in providing capital to small and medium-sized companies in a variety of industries. Since its founding in 1993, H.I.G. has been an active investor, acquiring more than 90 companies with combined revenues exceeding \$5 billion. With offices in Miami, Atlanta, Boston and San Francisco, H.I.G. invests its capital in companies located throughout the United States and Europe.

Prior to joining H.I.G., Brian was a consultant at Bain & Company, Inc., a leading international strategy consulting firm, where he worked on growth strategy, manufacturing optimization and cost-rationalization-focused projects for a variety of Bain's corporate clients. He also worked on customer and market diligence projects for Bain's private equity clients.

After graduating from Harvard College, Brian served four years as an officer in the U.S. Marine Corps. He is also a graduate of Harvard Business School.

Ira Starr

Managing Director Long Point Capital

Ira Starr, a founding Partner of Long Point Capital, is responsible for deal sourcing, execution and portfolio

company management and growth. Ira works in Long Point Capital's New York office.

Prior to forming Long Point Capital, Ira was a Partner of Morgan Lewis Githens & Ahn and served on the board of directors for a number of its portfolio companies. He was also an investment banker with Merrill Lynch and a management consultant with Booz, Allen & Hamilton, Inc.

Ira received a B.S.E. from Princeton University and an M.B.A. from Harvard Business School.

Alan Wilkinson

Partner

AEA Investors LLC

Alan Wilkinson joined AEA as a Partner in 1989. For ten years he concentrated his investment activities in industrial and consumer products companies. He was involved in all aspects of the investment review process and portfolio company management at AEA. Alan left AEA in 1999 and joined an advisory firm. He returned to the private equity business in 2002 and rejoined AEA in 2004. He currently leads the firm's activities in the services sector. He is also active in certain sectors of value-added industrials and is co-head of the AEA Small Business Fund. During his tenure at AEA, Alan has led many of AEA's successful investments and currently serves on the board of directors of four of AEA's portfolio companies: Plaze, PPC Industries, Suncoast Roofing and Implus Footcare.

From 2002 to 2004, Alan was a Partner at Saratoga Partners, a middle market private equity firm and from 2000 to 2002, he was a Managing Director at investment banking firm Peter J. Solomon Co., with primary responsibility for industrial company coverage. From 1984 to 1989, Alan was with Lehman Brothers, first in the mergers and acquisitions department and then with the principal investment group.

Alan received an M.B.A. from Columbia University in 1984 and a B.S. in mathematics from King's College, London, in 1977. He became a chartered accountant in England in 1980.

Jim Lawson

Co-Chairman and Managing Director Lincoln International

Jim Lawson has 25 years of experience in marketing and negotiating sales of manufacturing, distribution and service businesses. Jim has advised on acquisitions, both public and private, as well as

provided fairness opinions and other forms of valuations. Jim has also advised on financings, both public and private. In addition to selling attractive companies for premium prices, Jim has extensive expertise in selling distressed or over-levered companies both prior to and during a bankruptcy or similar process.

Jim serves on the boards of Bell Industries, Inc., where he is Chairman of the audit committee, and JEB, Inc. He has completed more than 100 merger and acquisitions transactions in a variety of industries. He is a member of the Building and Construction group and co-head of the Financial Restructuring group.

Prior to co-founding Lincoln International in 1996, Jim served six years as a senior officer with Peers & Co, where he spent significant time working on crossborder transactions, with a particular focus on Japan. From 1981 to 1990 he worked in corporate finance for PaineWebber Incorporated, both in Chicago and New York, leaving as a senior officer in the Mergers and Acquisitions Department.

Jim earned an M.B.A. from the University of Chicago Graduate School of Business, and a B.S. from Washington and Lee University, where he graduated magna cum laude and was a member of Beta Gamma Sigma.

Steven Kraus

President and Chief Executive Officer Skyline Windows LLC

Steven Kraus is the co-founder of Skyline Windows LLC and has been President and CEO for the past 15 years. During Steven's tenure, Skyline has emerged as a leader in the replacement window industry and has grown significantly in recent years. Mr. Kraus has also led Skyline through two important transactions in under five years. First Linx Partners purchased a majority interest in the business in 2004. In 2007, Merit Capital Partners made a significant investment in Skyline Windows.

Before working at Skyline, Steven was employed at Coopers and Lybrand. Steven graduated from Adelphi University with a B.A. in accounting.

George A. Pattee

Chief Executive Officer Parksite

George Pattee began his Parksite career in 1972 in the warehouse loading and unloading trucks. More than 34 years later he is CEO and Chairman of the Board. George is involved in strategy development, organizational design, business planning and overall management of Parksite and all of its subsidiaries.

George has experienced every role within the Parksite organization, including several warehouse and sales management positions. He served as President prior to being named CEO.

George has (and continues to) provide strength and experience in corporate and competitive strategic planning, problem solving, fiscal accountability, strategy planning, marketing and research, brand management, customer service and people management. He was instrumental in the creation of Tyvek, resulting in a change in building practice worldwide. He was responsible for opening several sales offices, effecting acquisitions of Plunkett-Webster, Sloan Distribution, Metro Distributors, Metro Associates and Eastern Distributors between 2000 and 2005, and restructuring The Parksite Organization into a 100% employee owned company (ESOP). George is responsible for building sales from \$0 to \$500,000,000 from 1972 – 2006.

George serves on the councils of the National Association of Wholesalers, North American Building Material Distributor Association, The ESOP Association, and The Employee Owned S Corporations of America. He is an active member of TEC/Vistage, an organization for the development of CEOs.

George received a B.S. in management from Elmhurst College in 1977.

Jean-René Hartpence

Managing Director Lincoln International

Jean-René Hartpence joined Lincoln International in 2006 as a Managing Director and co-founder of the firm's French team, based in Paris. A key member of Lincoln International's Building and Construction group, Jean-René has extensive experience in the industry and serves on the Supervisory Board of Consolis, Europe's largest manufacturer of prefab concrete products for the construction and civil works industry, with €1.2 billion in sales. In 2002, Hartpence led the team that advised AXA Private Equity on the acquisition of Bonna Sabla, a €350 million manufacturer of prefab concrete pipes and other civil works elements, owned then by the French environmental group Veolia. He also led the team that acted as co-advisor with Rothschild on the sale of Bonna Sabla to Industri Kapital, a Scandinavian private equity firm, owner of Consolis, which eventually merged the two companies to create the Consolis group of today.

Prior to Lincoln International, Jean-René worked as a corporate banker with JP Morgan from 1977 to 1981. He then held management positions in the wines and spirits industry, first in France with an affiliate of the Remy Cointreau group, and then in Canada with the imports division of Andres Wines Ltd. In 1989, Hartpence founded Canec International, an M&A boutique specializing on mid-cap transatlantic transactions, with offices in Toronto and Paris.

Jean-René graduated from Ecole Polytechnique de Paris in 1971.



Lincoln International

Delivering results you can rely on.

Lincoln International is the world's only truly international, integrated and independent mid-market M&A advisor. What does that mean to our clients?

International

With offices in Chicago, Frankfurt, London, Los Angeles, Madrid, New York, Paris, Tokyo and Vienna and strategic partnerships with firms in China and India, our experienced professionals provide valuable insight into local markets worldwide and greater access to buyers, sellers and investors.

Integrated

Unlike other M&A advisory firms that operate as a network of individual affiliates, Lincoln International works as one global, integrated firm. With a deep understanding of local markets around the world, our

clients benefit from our anticipation of the dynamics that may affect their transactions. Lincoln International's industry groups include senior professionals from each of our offices to ensure that our clients receive unparalleled service regardless of location.

Independent

Lincoln International is owned and operated by its members. Our freedom from outside influence ensures that our clients receive the best advice while avoiding conflicts of interest; our singular focus on M&A related advisory services ensures the highest level of expertise and commitment.

Mid-Market

We focus solely on mid-market transactions. Our professionals have extensive experience servicing the mid-market, and we understand its intricacies and issues. As we grow, Lincoln International remains committed to the mid-market and dedicated to being the world's premier mid-market M&A advisory firm.

Lincoln International provides transactional expertise in five core service areas:

- Merger and Acquisition Advisory
- Private Capital Raising
- Fairness Opinions and Valuations
- Financial Restructurings / Distressed Situations
- Corporate Finance Advisory

We dedicate senior resources to serving financial sponsors, publicly traded companies, privately held businesses, management teams, European government entities and United Kingdom pension trustees.

Industry Groups

Lincoln International recognizes the importance of understanding a client's industry, value drivers, growth opportunities and challenges. Our dedicated industry groups are headed by senior professionals in each of our global offices who have spent the majority of their careers developing deep professional relationships and knowledge within their respective sectors. We bring our experience, valuable relationships and insights to clients in the following industries:

- Aerospace and Defense
- Automotive and Truck
- Building and Construction
- Business Services
- Chemicals
- Consumer
- Electronics
- Industrials
- Financial Institutions
- Food and Beverage
- Packaging
- Technology
- Transportation and Logistics





Lincoln International is the most active mid-market M&A advisor in the building and construction industry, having completed approximately 50 assignments within this industry since 2005.

Our transaction experience has resulted in an expert level of knowledge of both the residential and non-residential sectors of the construction industry, which in turn results in successful transactions for our clients.

Lincoln International's global Building and Construction group is headed by senior investment bankers in each of our eight global offices, leveraging key experience, insights and relationships in the industry in local markets worldwide.

About Lincoln International

Lincoln International specializes in merger and acquisition services, private capital raising, U.K. pensions advisory and providing fairness opinions and valuations for leading organizations involved in midmarket transactions. With offices in Chicago, Frankfurt, London, Los Angeles, New York, Madrid, Paris, Tokyo and Vienna and strategic partnerships with China Everbright and other partner firms in Asia, Lincoln International has strong local knowledge and contacts in the key global economies. The organization provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at www.lincolninternational.com.

For more information on our firm's experience within the Building and Construction industry, please contact:

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CHICAGO | FRANKFURT | LONDON | LOS ANGELES MADRID | NEW YORK | PARIS | TOKYO | VIENNA

Recent Building and Construction transactions include:

































Finding the right deals to generate superior returns

In today's marketplace, private equity funds are encountering everincreasing competition for deal opportunities. As the competitive landscape intensifies, investors are demanding higher returns through a more aggressive focus on value creation. For private equity funds to continue their success, excellence in deal-sourcing, due diligence and operational improvement of portfolio companies is now more critical than ever before.

At Arthur D. Little, we help investors achieve superior returns through rigorous due diligence and accelerated operational improvement of portfolio companies. We provide transparency into even the most obscure industries and outline clear value creation opportunities well before deal closing, thus providing our clients with a clear understanding of their options. Immediately after the closing, the Arthur D. Little team goes to work alongside the portfolio company's management team to implement the value creation opportunities already identified during pre-deal due diligence.

In the last three years alone, Arthur D. Little has served more than 100 private equity and hedge fund clients worldwide, from the largest global buyout firms to midmarket investment houses. We have helped our clients to not only increase their returns but to also decrease their holding periods through proprietary deal flow assistance, transparency-building due diligence and immediate action on value creation opportunities.

Returns Under Pressure

Record amounts of affordable equity and debt capital raised by private equity, venture capital and hedge funds have created an extraordinarily large pool of capital in pursuit of scarce deal opportunities worldwide. With acquisition multiples on the rise, it is increasingly difficult to find deals with the potential to generate superior returns using classic financial engineering (leverage) strategies. Successful investors must focus on operational improvement of their portfolio companies, something we at Arthur D. Little intimately understand.

Credit markets are changing the private equity landscape. Investors are even more determined than ever in seeking new approaches that not only enhance the value of their investments but also lead to better business decisions in the long run.

The *Investment Management Process* on the opposite page highlights those areas where

We have helped our clients to not only increase their returns but to also decrease their holding periods through proprietary deal flow assistance, transparency-building due diligence and immediate action on value creation opportunities.

Arthur D. Little provides strong expertise in improving the operations of portfolio companies and complementing the activities of private equity firms.

How Arthur D. Little Helps Companies Enhance Business Value



The *Investment Strategy* stage focuses on the screening criteria for investments and the overall risk and reward that may be associated with the acquisition or existing portfolio company. In this area, Arthur D. Little can help with investment strategy development as well as portfolio optimization to determine which investments provide the best value for the firm.

Arthur D. Little's comprehensive network of experts and project portfolios will help identify and scout out potential investment candidates that private equity or hedge funds may be interested in pursuing during the *Deal Flow* stage. For well over 120 years, Arthur D. Little has been a catalyst for helping companies re-invent their business models and create new opportunities for success. By having this knowledge, we have helped companies identify the right mix of deals that can optimize their business portfolio.

In the *Deal Evaluation* stage, firms obtain access to Arthur D. Little's leading industry experts and our rigorous due diligence process. Today, every targeted company's business is affected by a multitude of complex factors. Our due diligence projects answer the following four investment questions:

- How attractive is the company's industry / market?
- Is the company well positioned in its market?
- What are the value creation opportunities available (quantified in terms of EBTIDA improvements)?
- What are possible exit strategies for this investment in 3-5 years?

As our clients like to tell us, the key differentiator for Arthur D. Little is that we give them an actionable "business plan" for their investment even before they close on the deal.

Value Creation is more than just the development of a business plan; it is paying close attention to the right set of business activities that will lead to winning returns for private equity firms. Arthur D. Little begins the

process with a strategic audit on how the company operates in its current environment from strategy and sales growth to operational reviews (organizational structures, processes, technologies, etc.) to supply chain assessments.

When the initial audit has been completed and the improvement areas have been identified, it provides a roadmap on what needs to be restructured and what value creation activities need to be implemented. To be successful, a company needs to have a baseline understanding of the current conditions before it can prioritize its next set of actions.

Arthur D. Little knows how to choose the right *Exit Strategy* for your business. Our industry knowledge coupled with a strong understanding of the market provides firms with distinct advantages when it comes to due diligence, deal valuation, and investor alignment.

How Arthur D. Little can help you.

Our services for Private Equity Funds:

- Proprietary deal flow to avoid traditional "auctions," including in-depth industry screenings to identify attractive acquisition targets.
- Due diligence, both initial market-focused studies and in-depth operational assessments, always focused on quantifying potential EBITDA improvements.

Our services for Portfolio Companies:

- Strategy Formulation
- Sales Growth
- Operational Improvement
- Organizational Design
- Post-Merger Integration

If you would like additional information on our services, please contact:

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Email: shklyar.natan@adlittle.com



Arthur D. Little

Arthur D. Little, founded in 1886, is a global leader in management consultancy; linking strategy, innovation and technology with deep industry knowledge. We offer our clients sustainable solutions to their most complex business problems. Arthur D. Little has a collaborative client engagement style, exceptional people, and a firm-wide commitment to quality and integrity. The firm has over 30 offices worldwide. With its partners Altran Technologies and Cambridge Consultants Ltd, Arthur D. Little has access to a network of over 16,000 professionals. Arthur D. Little is proud to serve many of the Fortune 100 companies globally, in addition to many other leading firms and public sector organizations. For further information, please visit www.adl.com.

Our Global Private Equity practice brings world-class consulting services to some of the largest buyout funds and to middle market private equity investors. We serve our private equity clients in all the key areas of their investment process. Fund managers rely on us for strategic and operational due diligence as well as operational value creation at their portfolio companies.

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