



the Building Industry

Advisor

2007 4TH QUARTER REVIEW

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Wiley Dickson is an investment bank that follows trends in the building industries almost as closely as you do. Our strategy is to combine that market knowledge with our deep transactional experience in M&A and capital markets. It is our belief that the better we understand your business, the better we can help you achieve your financial and strategic goals.

Down Size Me

An industry that geared up to produce 2.292 million housing starts at its peak in January 2006—on a seasonally adjusted annual basis—is now doing a reported 1.006 million starts as of December 2007. That is a decline of 56% from its peak. And unsold inventories of new homes hover near ten months supply, a level not seen since 1981.

What that means is that a great deal of capacity needed to be taken out of the system. A great deal. There are a variety of means to accomplish this, layoffs and plant closings being the most common. And the building industry has certainly seen much of both of those activities. Every week brings news of more facility shutdowns.

What we are now seeing, with the downturn about to enter its third year, is that capacity is being removed from the market through involuntary means—financial distress and bankruptcy. After financing quarters of losses, many companies now have balance sheets that are severely stressed or broken. And access to capital, plentiful in a booming market, has evaporated. Banks want to reduce their portfolios' exposure to the housing market, and it is difficult to entice other investors into an asset that competes in a declining market.

Listed below are some of the most common reasons we see for financial difficulty, although it is usually a combination of several of these factors that leads to serious financial distress:

The Home Builders

Residential builders are having it especially tough. With little exposure to either repair/remodel or commercial segments, they have zero insulation from the cratering of the new construction market. Many sit on mounds of debt borrowed over the past few years to purchase the land needed to fuel their growth—land that is now often declining in value. The result is poor cash flow and high interest payments.

A number of local and regional homebuilders have already gone under. Some of the smaller public builders have seen their shares plummet to dangerously low levels. Tech Olympic has been delisted and is in default on its bond payments. Dominion was trading under \$1/share until its recent management buyout. Comstock is also trading under \$1, with others approaching that level. Even some of the mid-sized builders appear to be jeopardy. WCI Communities was recently granted a reprieve by its lenders, and Standard Pacific traded down to \$2/share. Overall, the homebuilders are under a great deal of financial pressure.

The Slow

In the summer of 2006, as the first signs of the slowdown were being felt, it was impossible to predict how long or how deep the drop would be. As a result, many companies were slow to adjust to the new market realities. Closing a facility or laying off experienced employees are not pleasant activities. After all, they will be needed once the market returns, and good employees are hard to find.

Companies slow to react ended up with bloated payrolls and underutilized facilities—and mounting losses due to high costs. These losses had to be financed somehow, either through cash on hand or more often through additional borrowing. This scenario can only endure for so long until borrowing limits are reached and bank covenants are broken. At that point the bank will usually step in and demand that cost cutting actions be taken.

CONTINUED ON PAGE 2

HD Supply Unrolling

The new owners of HD Supply are trying to create some sense of the monstrosity Nardelli built. At the time of HD Supply's buying binge, analysts (this one included) were puzzled as to exactly what the strategy was. It was a mystery why anybody would think that a regional lumberyard, a home carpet installer, a municipal pipe distributor, an MRO business, the White Cap construction supply business, among others, would be long under the same roof.

Apparently, the trio of private equity owners that purchased HD Supply in August 2007 couldn't come up with an answer either. In the 4th quarter of 2007, they announced deals to sell both the Lumber and Building Materials ("LBM") unit, as well as the HVAC Supply unit. Terms of neither deal were released.

CONTINUED ON PAGE 2

We will be on-site at the **International Builders' Show** in Orlando, Feb 13 to 16. We can be reached at the following numbers if you would like to get together: Ian Dickson: 912-247-5100; Porter Wiley: 843-532-4782.

Down Size Me CONTINUED FROM PAGE 1

The Weak

A bull market cures many ills. Even poorly managed and high cost producers can manage to make money with demand soaring. That is certainly not the case right now. All market participants are seeing pressure on their profit margins.

Once highly profitable companies are now less so, and the once marginally profitable companies are now losing money. Particularly at risk are me too commodity products that have no other way to compete other than through service and price. And good service is not something that can be achieved overnight. That leaves only price, which is a very tough place to make money in a market with so much excess capacity.

The Leveraged Buyout

These companies have a high risk of financial distress by design, often with little to no room for error. Private equity groups seek to juice their returns to equity by putting in the minimum required. That means high levels of debt.

Those especially at risk of financial distress are companies purchased at the peak of the market in 2006. During that time it was a perfect storm for sellers—trailing earnings were high, and frothy debt markets led to high purchase multiples.

Financial buyers are now dealing with the other side of that trade, with high levels of debt, declining revenues and declining earnings (or increasing losses in many cases). Several examples of distressed or busted LBOs are window maker Barber & Ross, bath manufacturer Maax, and flooring distributor Hoboken Flooring.

The Florida Effect

Where there's a boom, the laws of physics state that a bust must follow. What a boom Florida had, and Las Vegas, and Arizona, and a few other well-known areas. But oh, what a bust. Participants in these formerly overheated markets are experiencing the overcapacity issue worse than others, simply because the supply was so great.

These markets will eventually come back, and those that survive will thrive once again. But it is unlikely these markets will return to boom time conditions any time soon.

The Small

It is an unfortunate fact of life that small companies have far less access to capital than large companies. This is true in good and bad times. In good times it can mean stunted growth, in bad times it can be the difference between surviving or not.

The Aftermath

What does this activity mean for the M&A market? The answer is that well-managed and well-capitalized companies can absolutely benefit from this downturn in terms of market share. Whether it is simply taking advantage of a competitor's demise, or the purchase of a distressed asset at an attractive price. For example, flooring distributors in the northeast scrambled to pick up customers after Hoboken Flooring went straight to Chapter 7. And Pro-Build Holdings, with Fidelity's balance sheet behind them, has been on a buying binge.

It is difficult to remain aggressive when so many are battering down the hatches to ride out the storm. However, those that are able to take a longer-term view, and that have a strong balance sheet backing them up, can take advantage of the current situation. For the current pain can't last forever, and there will never be a better opportunity to take market share from hobbled competitors. ■

HD Supply Unrolling CONTINUED FROM PAGE 1

On November 29, 2007 the company announced its intent to sell the LBM business to Pro-Build Holdings. The division consisted primarily of Atlanta-based Williams Brothers and Cox Lumber of Florida. Pro-Build is acquiring 39 lumberyards in Georgia and Florida, 32 truss plants, a construction services division and 10 engineered lumber production facilities.

On December 14, 2007 HD Supply announced it had a signed letter of intent from Watsco to acquire the HVAC supply unit. The unit was comprised of the former operations of Apex, which was acquired in 2000, and the HVAC business of Hughes Supply. The deal does not include Hughes' plumbing distribution business.

Of interest in both these deals is not only the paring down of HD Supply into a more cohesive business. But also, that industry leaders with strong balance sheets are taking advantage of the depressed market to add scale and market share. Pro-Build—with Fidelity's backing—has been the most aggressive acquirer this year of lumberyards. Watsco adds this transaction to its July 2007 acquisition of ACR Group for \$110 million. Houston-based ACR had revenues of \$240 million. ■

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Recently Announced Transactions 2007—4th Quarter

(\$ in Millions)

Date	Target/Seller	Target Description	Acquirer/Parent	Value	Revenue
28-Dec	Dixie-Pacific Manufacturing (Certain assets)	Synthetic and wood porch operations	HB&G Building Products, Inc.	—	—
27-Dec	Lumber, Inc.	NM-based distributor of lumber products	Pro-Build Holdings, Inc.	—	—
26-Dec	Sure Power Industries, Inc.	Manufacturer of electronic power management and control systems	Cooper Industries Ltd.	—	—
26-Dec	Roam Secure, Inc.	Manufacturer of emergency communication and notification systems	Cooper Industries Ltd.	—	—
26-Dec	OMNEX Control System ULC	Manufacturer of radio remote control and industrial wireless solutions	Cooper Industries Ltd.	—	—
25-Dec	Marmon Holdings, Inc.	Holding co. with many construction related businesses	Berkshire Hathaway, Inc.	\$7,500.0	\$7,000.0
25-Dec	GA Industries, Inc.	Producer of valves and flow controls for water and waste applications	Zurn Industries, LLC/Rexnord, LLC	\$76.0	—
21-Dec	Tubelite, Inc.	Manufacturer of extruded aluminum products for glass and glazing	Apogee Enterprises, Inc.	\$44.0	\$60.0
20-Dec	Rosen Building Supplies	5-unit building materials supplier to South Florida and Las Vegas	Pro-Build Holdings, Inc.	—	—
20-Dec	Simplex Building Products, Inc.	Distributor of PVC building products	HERC Products, Inc.	—	—
15-Dec	Trane, Inc.	Manufacturer of commercial and residential HVAC	Ingersoll-Rand Co. Ltd.	\$11,408.5	\$11,673.5
14-Dec	The Home Depot Supply, Inc. (HVAC)	Southeastern distributor of HVAC products	Watsco Inc.	—	—
13-Dec	Insl-X Products Corporation	Producer of specialty, industrial, and architectural paints and coatings	Benjamin Moore & Co.	—	—
11-Dec	GS Metals Corp. and Clarity Lighting Ltd.	Commercial and industrial metal and lighting products	Cooper Industries Ltd.	\$49.0	—
11-Dec	Weyerhaeuser distribution center	Wood products distribution center in Boston, MA	Wood Structures, Inc./Roark Capital	—	—
7-Dec	Kele, Inc.	Distributor of HVAC and building automation interface products	Code Hennessy & Simmons, L.L.C.	—	—
6-Dec	Specialized Flooring, LLC	Distributor of residential flooring	Star Lumber and Supply Co., Inc.	—	—
6-Dec	International Paper Co. (3 lumber mills)	WA-based lumber mill and producer of wood byproducts	Simpson Timber Co.	—	—
4-Dec	Curt Bean Lumber Co.	MO and AR wood treating plants	Great Southern Wood Co.	—	—
30-Nov	CEMEX, S.A.B. de C.V.	39 ready-mix concrete and aggregate facilities in AZ and FL	CRH plc	\$250.0	—
29-Nov	The Home Depot Supply, Inc. (LBM Div.)	Lumber and building materials division of HD Supply	Pro-Build Holdings, Inc.	—	—
27-Nov	Capitol Hardwood Floors	NY-based manufacturer of hardwood flooring	Premium Wood Floors	—	—
27-Nov	Mitchell-Newhouse Lumber	IL-based distributor of lumber products	Hundman Lumber Mart Co.	—	—
26-Nov	Genlyte Group, Inc.	Manufacturer of lighting fixtures and related products	Philips Holdings USA, Inc.	\$2,786.3	\$1,601.3
20-Nov	Holcim (U.S.), Inc.	MI-based distributor of blended cement and related materials	Lattimore Materials Company, LP	—	—
19-Nov	Tarkett Wood, Inc.	North American manufacturer of hardwood flooring products	New Stream Capital, LLC	—	—
19-Nov	U.S. Concrete (certain assets)	Knoxville, TN and Wyoming, DE ready-mixed locations	Oldcastle Materials, Inc.	\$16.5	—
19-Nov	Pope and Talbot (Three sawmills)	Two British Columbia and one South Dakota-based sawmill	Interfor Pacific, Inc.	—	—
15-Nov	Wilder Construction Company	23% of Western U.S. Construction company	Granite Construction, Inc.	\$120.7	\$250.0
15-Nov	Performance Mechanical, Inc.	Contractor providing civil, structural, and equipment installation	EMCOR Group, Inc.	—	—
13-Nov	Ready Mix Concrete Company Of Knoxville	Knoxville, TN-based ready-mixed concrete manufacturer	Harrison Construction Co.	—	—
7-Nov	A-S China Plumbing Products Ltd.	Chinese distributor of bath and plumbing fixtures and supplies	American Standard Companies, Inc.	\$47.2	\$100.2
6-Nov	Superior Highwall Miners, Inc.	Manufacturer of coal mining systems with international distribution	Terex Corp.	\$140.0	—
6-Nov	Expocrete Concrete Products, Ltd.	Canadian manufacturer of masonry and stone paving products	Tricor Pacific Capital	—	\$16.9
5-Nov	CITGO Asphalt and Refining Company	Refiner of performance-grade and specialty-grade asphalts	NuStar Energy, L.P.	\$450.0	—
5-Nov	UCSC Ltd.	Manufacturer of foam and coating equipment for contractors	BaySystems North America, LLC	—	—
5-Nov	Leo Alarie and Sons Limited	Canadian provider of construction and engineering services	Aecon Group Inc.	\$19.0	—
5-Nov	KBC Construction LLC	Turnkey framer and wall panel manufacturer in New Mexico	Stock Building Supply/Wolseley	—	\$16.6
2-Nov	Cape Electrical Supply, Inc.	U.S. distributor of electrical supplies and equipment	Svoboda, Collins, LLC	—	\$25.5
1-Nov	J & J Sheet Metal Works, Inc.	Producer and installer of commercial grade sheet metal for HVAC use	Moro Corporation	—	—
1-Nov	Antrim Carpets USA, Ltd.	Wholesaler of hand-loomed and custom rugs	Stanton Carpet/Linsalata Capital	—	—
31-Oct	Road & Highway Builders, LLC	Construction of transportation and water infrastructure in the U.S.	Sterling Construction Company, Inc.	\$57.3	\$58.5
29-Oct	Jacobi Hardware Co., Inc.	NC fabricator and distributor of commercial doors and entry systems	Stock Building Supply/Wolseley	—	\$3.3
26-Oct	Cover-All Holdings, Inc.	Manufacturer of pre-engineered membrane building systems	Audax Group	—	—
25-Oct	Hagemeyer NV	Worldwide distributor of electrical supplies	Rexel SA	\$3,418.3	\$6,357.8
25-Oct	Weyerhaeuser Co.	Green Bay, WI building materials distribution center	Weekes Forest Products, Inc.	—	—
22-Oct	Goodman Global, Inc.	Manufacturer of HVAC and related products	Hellman & Friedman	\$2,678.3	\$1,853.6
16-Oct	Coatings Resource Corporation	Producer of paints, lacquers and varnishes	PPG Industries, Inc.	—	—
15-Oct	Rossi American Hardwoods	Manufacturer of hardwood lumber products	H.I.G. Capital	—	—
15-Oct	Hardwood Lumber Manufacturing, Inc.	Manufacturer of hardwood lumber products	H.I.G. Capital	—	—
15-Oct	Affordable Interior Systems, Inc.	Manufacturer of commercial furniture	Audax Group	—	—
12-Oct	Forester Moulding and Lumber	Manufacturer of custom wood mouldings	Concord Lumber Corp.	—	—
10-Oct	WeatherBest Decking/LP Corp.	Manufacturer of wood and plastic composite decking	Fiber Composites, LLC	—	—
8-Oct	FAS Construction Management, Inc.	Construction consulting firm	MDI, Inc.	\$4.1	—
7-Oct	OneSource Services, Inc.	Provider of outsourced property management services	ABM Industries, Inc.	\$393.3	\$820.4
5-Oct	Criterion Custom Floors, Inc.	Provider of flooring for multi-family residences on West Coast	Wedbush Capital Partners	—	—
4-Oct	North Atlantic Scaffolding Company	Provider of scaffolding design, supervision, and erection services	Atlantic Scaffolding Company	—	—
2-Oct	Prestige Group of Companies	West Palm Beach-based gunite and ready-mixed distributor	Votorantim Cement	—	—
2-Oct	California Products Corp./Fiberlock Tech.	MA-based producer of architectural coatings	Apollo Management, L.P.	—	—
1-Oct	Nazon, Inc. (MD ready mixed operations)	Beltsville, MD-based ready-mixed operations	Aggregate Industries	—	—
1-Oct	Architectural Building Supply	ID Fabricator and distributor of commercial doors and entry systems	Stock Building Supply/Wolseley	—	\$36.0
1-Oct	Architectural Precast, LLC	Manufacturer of precast architectural concrete products	U.S. Concrete, Inc.	—	\$16.9
1-Oct	Skyline Windows, LLC	Manufacturer and installer of windows	Merit Capital Partners	—	—

Public Equity Valuation Analysis Q4 2007

(\$ in Millions except Share Price and EPS)

Latest Twelve Months

	Share Price	Market Value	Total Firm Value	Latest Twelve Months				EBITDA Margin	Net Income	2007 Forward EPS	Book Value	Total Debt/EBITDA
				Revenue	EBITDA	EBIT						
Building Product Manufacturers				Firm value as a multiple of:				Market value as a multiple of:				
Masco Corporation	\$21.40	\$7,892.3	\$11,376.3	\$12,063.0	\$1,501.0	\$1,255.0	12.4%	\$564.8	\$1.80	\$4,203.0	2.7x	
				.9x	7.6x	9.1x		14.0x	11.9x	1.9x		
Mohawk Industries, Inc.	72.86	4,976.3	7,392.1	7,677.3	1,110.4	813.2	14.5%	457.6	6.33	4,247.7	2.2x	
				1.0x	6.7x	9.1x		10.9x	11.5x	1.2x		
Sherwin-Williams Co.	56.11	7,047.4	7,986.9	7,946.0	1,113.2	956.6	14.0%	613.4	4.74	1,992.4	.9x	
				1.0x	7.2x	8.3x		11.5x	11.8x	3.5x		
Black & Decker Corp.	69.98	4,373.8	5,831.8	6,522.0	821.6	674.1	12.6%	426.4	6.19	1,056.5	2.0x	
				.9x	7.1x	8.7x		10.3x	11.3x	4.1x		
Stanley Works	46.26	3,700.8	5,028.4	4,335.7	779.9	630.0	18.0%	350.9	4.00	1,695.1	2.1x	
				1.2x	6.4x	8.0x		10.5x	11.6x	2.2x		
Owens Corning, Inc.	18.57	2,430.8	3,874.8	5,986.0	697.0	364.0	11.6%	7,911.2	1.04	3,925.0	2.7x	
				.6x	5.6x	10.6x		.3x	17.9x	.6x		
RPM International, Inc.	20.56	2,504.2	3,255.1	3,521.3	447.2	361.6	12.7%	217.1	1.70	1,230.1	2.1x	
				.9x	7.3x	9.0x		11.5x	12.1x	2.0x		
James Hardie Industries NV	5.71	2,627.7	2,717.6	1,530.5	418.5	364.3	27.3%	(79.8)	0.50	147.7	.3x	
				1.8x	6.5x	7.5x		NM	11.4x	17.8x		
Armstrong World Industries, Inc.	35.24	2,001.6	2,261.4	3,514.6	393.0	259.9	11.2%	1,300.1	2.74	2,322.0	1.3x	
				.6x	5.8x	8.7x		1.5x	12.9x	.9x		
American Woodmark Corp.	18.32	263.8	245.1	653.6	57.9	22.6	8.9%	16.2	0.65	217.2	.5x	
				.4x	4.2x	10.8x		16.3x	28.2x	1.2x		
PGT, Inc.	4.20	116.3	226.6	292.8	35.0	19.1	12.0%	2.7	0.16	214.1	3.7x	
				.8x	6.5x	11.9x		43.1x	26.3x	.5x		
				Mean:	.9x	6.4x	9.3x	14.1%	13.2x	15.4x	3.1x	1.9x
				Median:	.9x	6.5x	9.0x	12.6%	11.5x	12.0x	1.5x	2.1x
	Share Price	Market Value	Total Firm Value	Revenue	EBITDA	EBIT	EBITDA Margin	Net Income	2007 Forward EPS	Book Value	Total Debt/EBITDA	
Building Products Distributors				Firm value as a multiple of:				Market value as a multiple of:				
The Home Depot, Inc. ¹⁾	\$28.53	\$48,147.2	\$59,986.2	\$77,094.0	\$9,301.4	\$7,327.0	12.1%	\$4,518.4	\$2.79	\$17,446.0	1.3x	
				.8x	6.4x	8.2x		10.7x	10.2x	2.8x		
Lowe's Companies, Inc.	24.71	36,323.7	41,618.7	48,309.0	6,406.0	5,007.0	13.3%	3,017.0	1.84	16,054.0	.9x	
				.9x	6.5x	8.3x		12.0x	13.4x	2.3x		
Wolseley plc	13.62	9,005.5	14,632.4	33,202.3	2,206.8	1,561.8	6.6%	976.2	1.82	7,013.5	2.8x	
				.4x	6.6x	9.4x		9.2x	7.5x	1.3x		
Watsco, Inc.	32.05	900.6	995.3	1,769.5	124.7	118.8	7.0%	70.4	2.56	562.1	.8x	
				.6x	8.0x	8.4x		12.8x	12.5x	1.6x		
Universal Forest Products, Inc.	32.69	621.1	783.3	2,499.8	121.1	75.6	4.8%	40.8	1.79	551.1	1.6x	
				.3x	6.5x	10.4x		15.2x	18.3x	1.1x		
Beacon Roofing Supply, Inc.	8.11	359.3	761.8	1,645.8	102.7	69.8	6.2%	25.3	0.60	323.9	4.0x	
				.5x	7.4x	10.9x		14.2x	13.5x	1.1x		
Bluelinx Holdings, Inc.	4.91	153.2	746.5	3,995.2	65.1	43.9	1.6%	3.2	0.04	188.1	9.5x	
				.2x	11.5x	17.0x		NM	NM	.8x		
Building Materials Holding Corp.	5.40	158.8	507.1	2,504.5	111.9	63.4	4.5%	24.9	0.42	589.2	3.4x	
				.2x	4.5x	8.0x		6.4x	12.9x	.3x		
Builders FirstSource, Inc.	6.50	231.4	417.9	1,728.8	69.4	45.3	4.0%	11.8	0.01	260.8	4.6x	
				.2x	6.0x	9.2x		19.6x	NM	.9x		
Huttig Building Products, Inc.	4.20	88.2	122.8	926.0	2.8	(2.5)	0.3%	(6.7)	NA	109.8	16.6x	
				.1x	NM	NM		NM	NA	.8x		
Imperial Industries, Inc.	4.37	10.9	15.8	61.5	1.9	0.7	3.1%	0.4	NA	13.4	2.9x	
				.3x	8.3x	22.6x		NM	NA	.8x		
				Mean:	.4x	7.2x	11.2x	5.8%	12.5x	12.6x	1.2x	4.4x
				Median:	.3x	6.6x	9.3x	4.8%	12.4x	12.9x	1.1x	2.9x

Source: Company filings and Capital IQ.

Share price as of January 28, 2008

NM is Not Meaningful and is not included in the calculation of Mean or Median. NA is Not Available.

Results have been adjusted to exclude certain non-recurring and non-operating gains and losses.

Unless otherwise noted, results are not pro forma for any acquisitions or divestitures in the LTM Period

1) Results have been adjusted pro forma for the sale of HD Supply.

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