

2019

Construction Materials Market Outlook

Summer 2019



FMI CAPITAL ADVISORS

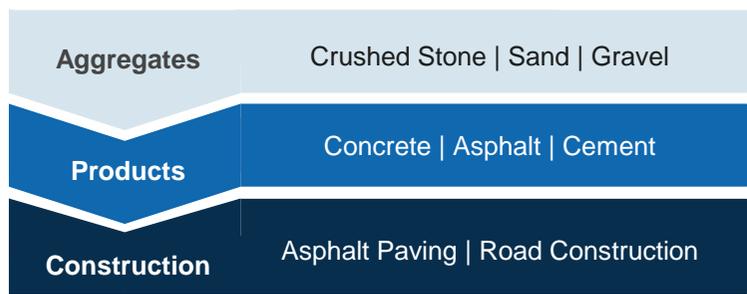
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MORE THAN
35 YEARS OF
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OVER
100 TRANSACTIONS

Servicing All Segments of the CM Supply Chain



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Recent Transactions

 has been acquired by The undersigned acted as the exclusive financial advisor to Windsor Rock Products in this transaction. FMI Capital Advisors, Inc.	 has been acquired by The undersigned acted as the exclusive financial advisor to Walker Sand & Gravel in this transaction. FMI Capital Advisors, Inc.	 has been acquired by The undersigned acted as the exclusive financial advisor to Peckham Industries, Inc. in this transaction. FMI Capital Advisors, Inc.	 has been acquired by The undersigned acted as the exclusive financial advisor to Midwest Minerals in this transaction. FMI Capital Advisors, Inc.	 has been acquired by The undersigned acted as the exclusive financial advisor to McCartney Construction in this transaction. FMI Capital Advisors, Inc.	 has acquired The undersigned acted as the exclusive financial advisor to Midwest Minerals in this transaction. FMI Capital Advisors, Inc.	 has acquired The undersigned acted as the exclusive financial advisor to Shockey in this transaction. FMI Capital Advisors, Inc.
 has acquired the assets of The undersigned acted as the exclusive financial advisor to Graymont in this transaction. FMI Capital Advisors, Inc.	 has acquired select assets of The undersigned acted as the exclusive financial advisor to E.J. Brennan, LP in this transaction. FMI Capital Advisors, Inc.	 has acquired select assets of The undersigned acted as the exclusive financial advisor to Berks Products in this transaction. FMI Capital Advisors, Inc.	 has acquired the assets of The undersigned acted as the exclusive financial advisor to EJB Paving & Materials Co. in this transaction. FMI Capital Advisors, Inc.	 has been acquired by The undersigned acted as the exclusive financial advisor to Albany Asphalt & Aggregates in this transaction. FMI Capital Advisors, Inc.	 a portfolio company of BMC Enterprises, Inc. has acquired select aggregate assets from a division of Oldcastle, Inc. The undersigned acted as the exclusive financial advisor to Breckenridge Materials Company in this transaction. FMI Capital Advisors, Inc.	 has been acquired by The undersigned acted as the exclusive financial advisor to Any in this transaction. FMI Capital Advisors, Inc.

MERGERS & ACQUISITIONS | FINANCIAL ADVISORY

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Construction Materials Market Update

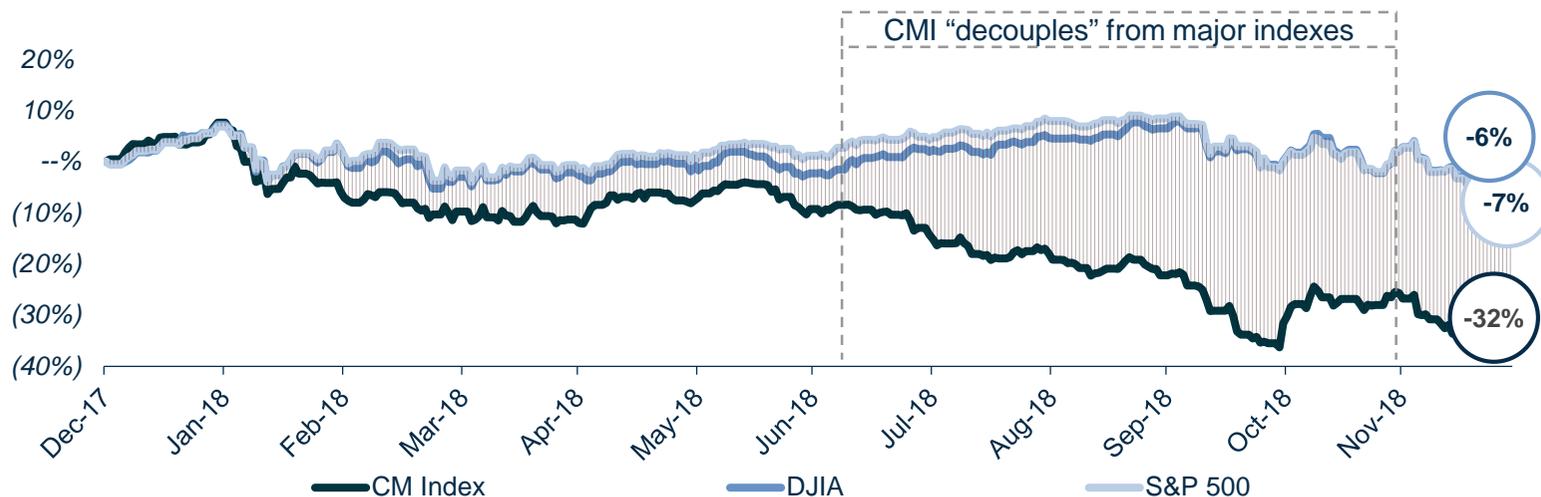
2019 has been an interesting year thus far for the Construction Materials (CM) industry, from both a performance and M&A perspective. FMI's Construction Materials Index (CMI) has slightly outperformed the major indexes year to date, after suffering sharp valuation declines in the second half of 2018. The Q1 earnings of public companies in the CMI were largely positive, and Q2 has generally proven to yield similar results.



While M&A deal-flow was relatively quiet in the first half of 2019, we did see some activity focused mainly on smaller, bolt-on transactions. As predicted, buyers concentrated on "safe" transactions, targeting companies in their existing geographic markets with complementary core competencies. As Q2 earnings are finalized and faith in the segment continues to stabilize, we anticipate an uptick in activity for the second half of 2019.

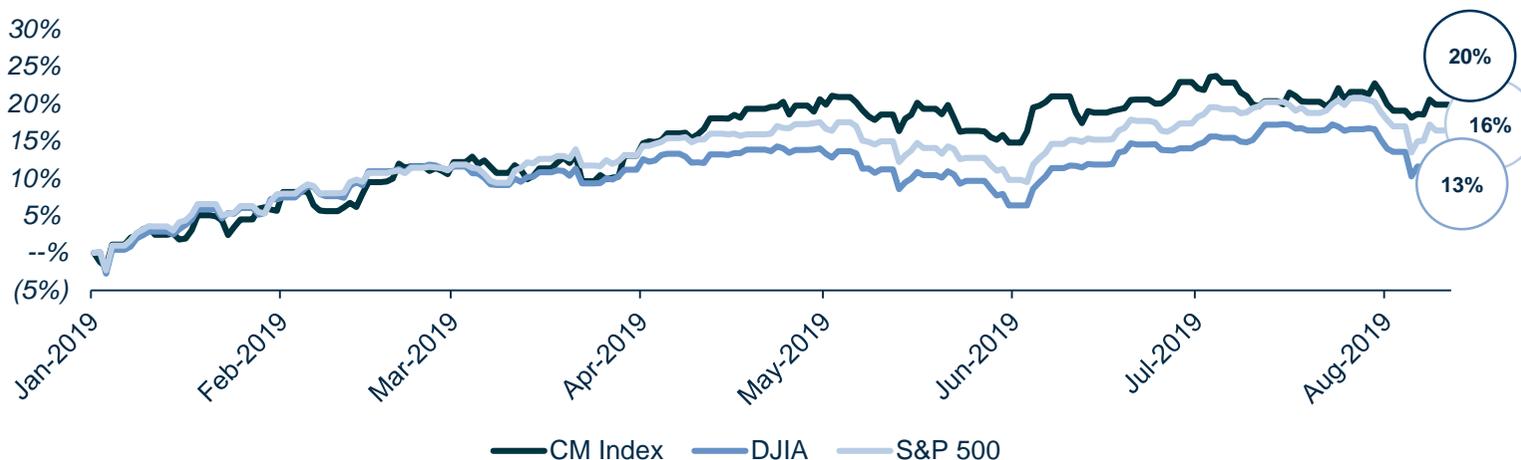
CMI vs. Major Indexes (2018)

In 2018, major market indexes outperformed the CMI...



CMI vs. Major Indexes (2019 YTD Performance)

...but CMI companies have performed well in 2019



FMI's CMI is up over 19.9 percent year to date, compared to 16.4 percent & 12.7 percent for the S&P 500 and Dow Jones Industrial Average

Economic Performance

Growth & Economic Environment

While macroeconomic forecasting is notoriously difficult, key drivers for the construction materials sector appear positive. Construction put-in-place highlights include:

- Transportation spending continues to lead economic growth, with outlays projected to increase by 8% in 2019 over 2018
- Year-over-year spending growth for Highways and Streets has risen since Q1, and is now projected at 6%
- The USGS reports a 9% increase in aggregates production in Q1 2019 as compared to Q1 2018

	Actuals					Forecast	
	2014	2015	2016	2017	2018	2019	2020
Transportation	7%	7%	(3%)	4%	15%	8%	8%
Highway & Street	4%	7%	2%	(4%)	4%	6%	5%
Residential	14%	14%	11%	12%	3%	(4%)	1%
Non-Residential	9%	14%	8%	2%	4%	4%	1%
Public Safety	(1%)	(10%)	(5%)	3%	11%	7%	8%

Growth in non-residential construction shows optimism, while residential markets appear stable

“Trade War” with China

Trade tensions between China and the U.S. continue to mount in 2019. In July, the U.S. announced additional tariffs on \$300 billion of Chinese goods. Shortly thereafter, the People Bank of China devalued the Yuan, leading the U.S. to accuse China of currency manipulation. 87% of economists now classify the trade disputes as a “trade war.”

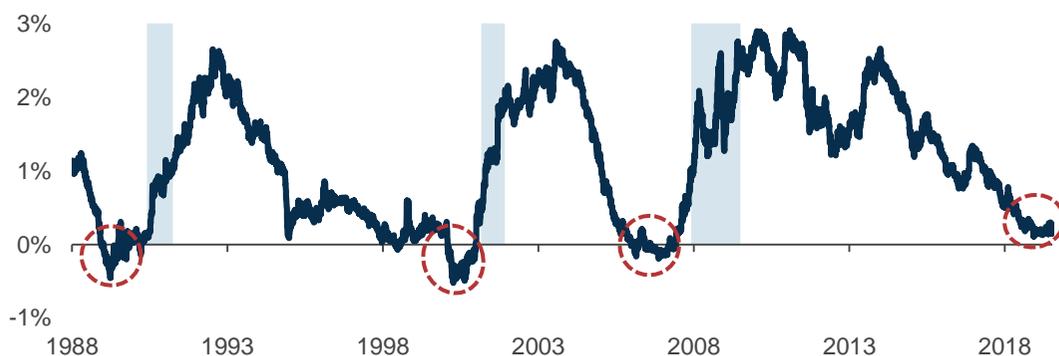
Interest Rate Cut

In late July, the Federal Reserve cut interest rates by a quarter point. This was the first reduction of interest rates since 2008, and a pre-emptive move to cushion the economy from slower growth and trade tensions. Additional rate cuts could follow as the Fed attempts to mitigate signs of weakening economic performance.

Probability of a Recession

An unprecedented bull market raises the possibility of recession for the U.S. economy. Historically, an inversion in 10-year and 2-year interest rates is a highly predictive recession indicator. The 2-year interest rate has yet to overcome the 10-year rate, yet the two rate continue to hang just above an inversion signal.

U.S. Treasury Spreads (10 Year Yield vs. 2 Year Yield)



Note: The red circles indicate yield curve inversions and blue bars denote recessions

“More than half of economists polled expected the next recession to start in 2020, and just over a quarter expected in to start in 2021”
~ Wall Street Journal

Recessions are inevitable, BUT economists predict the next downturn will not be as severe as the “Great Recession of 2008.” Additionally, a recession will have varying degrees of severity for different CM market segments:

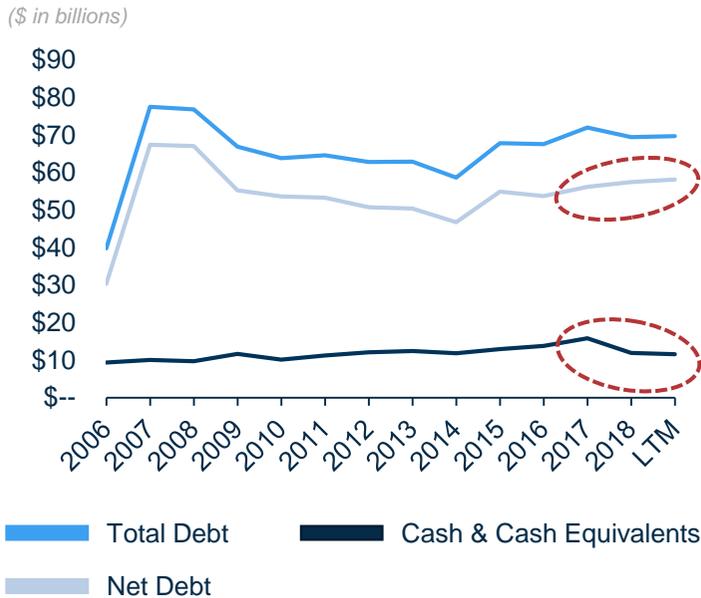
- Public revenue streams could only see modest declines
- Exposure to residential construction will be significantly impacted

Public Company Performance Metrics

Operating metrics comparing margins, valuations, and debt levels of the public CM companies all point towards a stable environment with attractive acquisition opportunity.

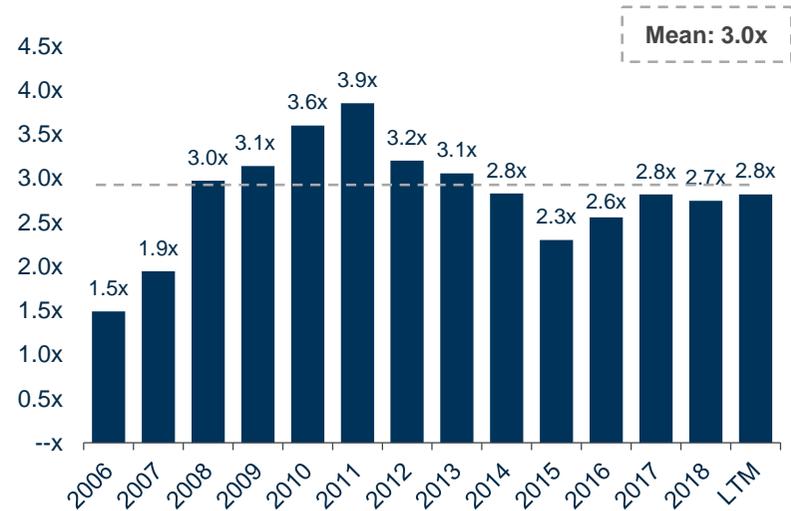
CMI Composite Debt Analysis

Debt levels have slowly risen only slightly since 2014



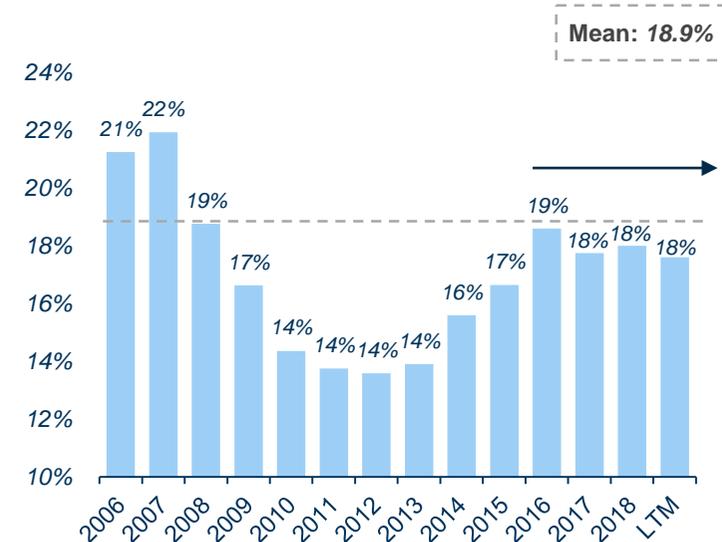
CMI Median Net Debt/EBITDA

Net Debt/EBITDA ratios remain below peak levels



CMI Average EBITDA Margin

EBITDA margins have stabilized since 2016



CMI TEV/EBITDA

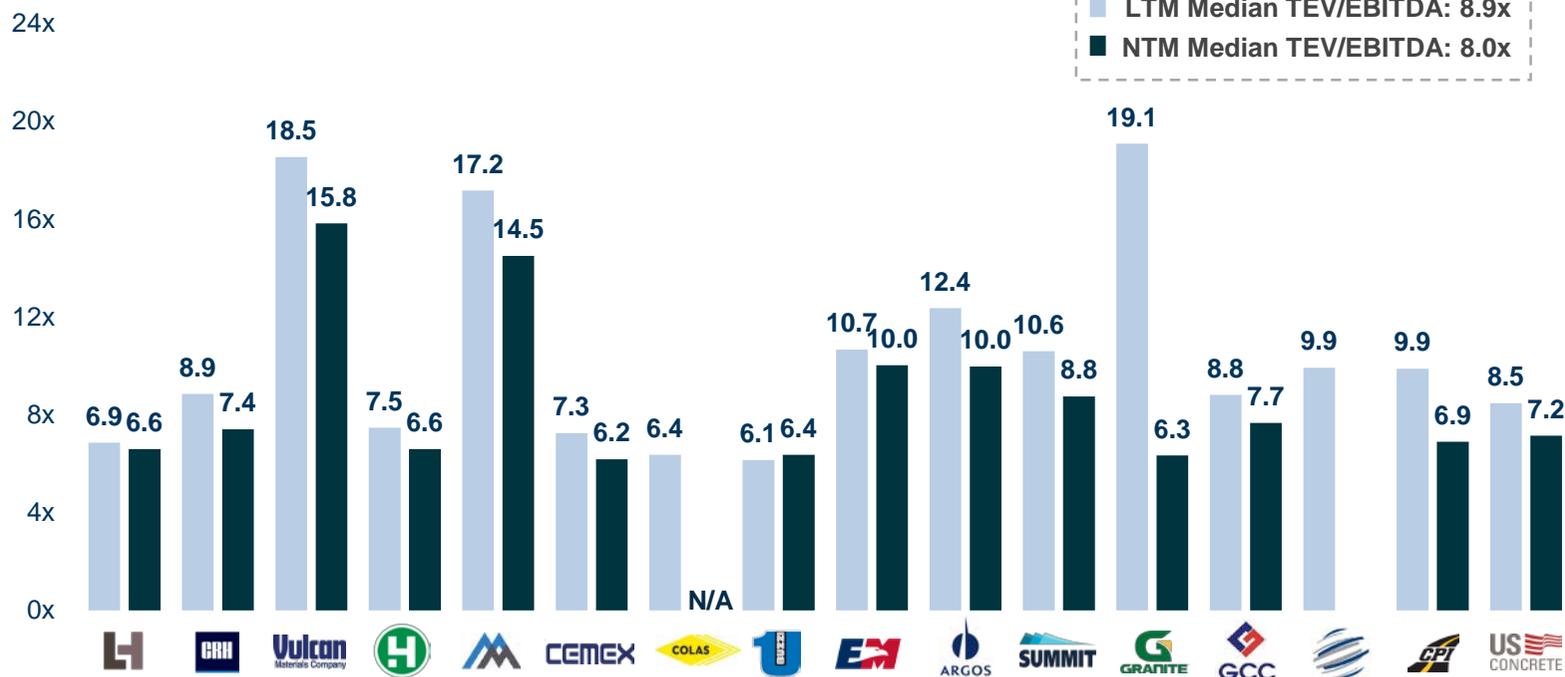
Valuation multiples remain at attractive levels



Each company in the CMI operates with a different financial structure, however general trends can be observed in key metrics

CMI Metrics

In Q1 2019, revenues and volumes for most CM companies were generally up year-over-year. Q2 results have shown continued growth for the most part, with strong margins and stable cash flow. Growing share prices and attractive trading multiples signal a return of investor confidence in the CM sector.



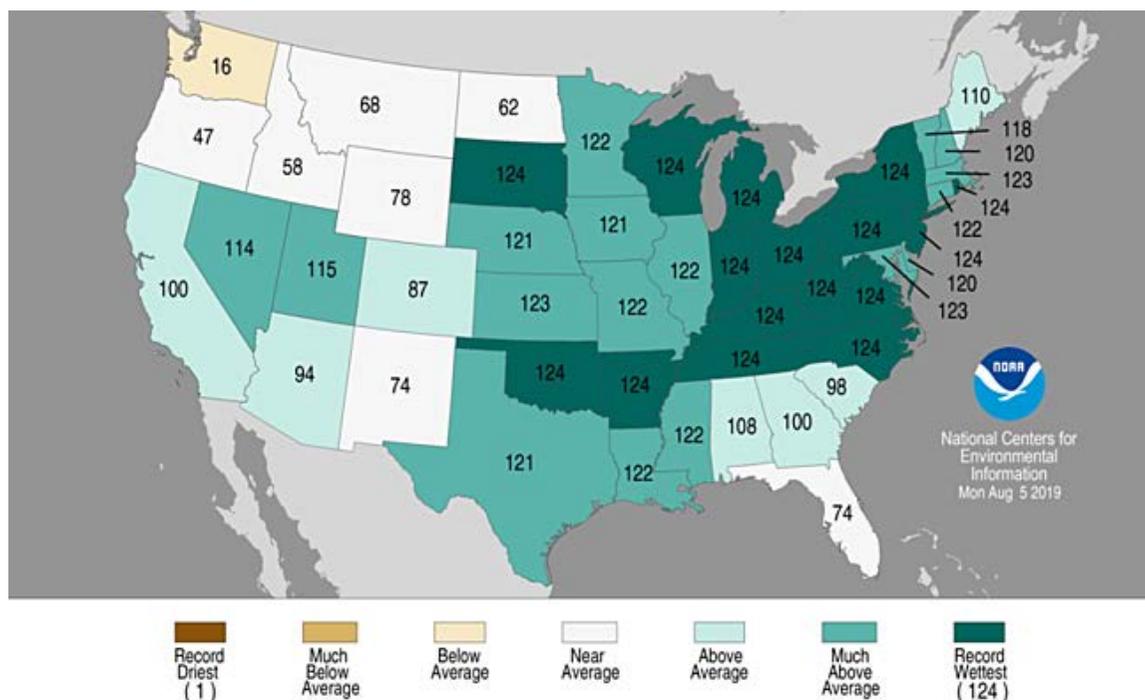
(\$ in millions USD)

Company	Share Price							
	Current	YTD % Change	Vs 52 Wk High	Market Cap	TEV	EBITDA Margin	TEV/EBITDA	Net Debt/EBITDA
LafargeHolcim Ltd	\$47.83	16.2%	(13.9%)	\$28,949	\$44,984	21.2%	6.9x	2.2x
CRH plc	31.83	20.4%	(7.4%)	25,385	33,854	12.5%	8.9	2.1
Vulcan Materials Company	140.00	41.7%	(1.3%)	18,520	21,841	25.3%	18.5	2.8
Martin Marietta Materials, Inc.	249.41	45.1%	(1.4%)	15,573	19,139	26.7%	17.2	3.2
HeidelbergCement AG	68.00	11.8%	(17.3%)	13,492	26,872	15.5%	7.5	3.6
Colas SA	155.02	(3.3%)	(23.1%)	5,059	5,659	5.7%	6.4	0.7
CEMEX, S.A.B. de C.V.	0.31	(35.3%)	(56.5%)	4,686	16,620	16.2%	7.3	4.6
Buzzi Unicem S.p.A.	20.52	19.3%	(9.5%)	3,955	4,833	20.3%	6.1	1.2
Eagle Materials Inc.	84.32	38.2%	(13.7%)	3,543	4,469	27.8%	10.7	2.4
Cementos Argos S.A.	2.15	0.1%	(21.7%)	2,879	5,309	16.9%	12.4	5.1
Summit Materials, Inc.	19.28	55.5%	(11.8%)	2,161	4,059	18.1%	10.6	4.9
Grupo Cementos de Chihuahua, S.A.B. de C.V.	5.27	3.1%	(21.8%)	1,751	2,240	28.5%	8.8	2.0
Titan Cement International S.A.	22.03	(0.7%)	(11.3%)	1,742	2,770	16.0%	9.9	NM
Granite Construction Incorporated	28.46	(29.3%)	(51.7%)	1,333	1,452	2.1%	19.1	1.0
Construction Partners, Inc.	14.01	58.7%	(11.6%)	724	716	10.9%	8.5	NM
U.S. Concrete, Inc.	45.04	27.7%	(18.0%)	736	1,527	10.5%	9.9	NM
The Monarch Cement Company	59.81	(9.4%)	(19.2%)	236	231	24.9%	5.2	NM
Mean		15.3%	(18.3%)			17.6%	10.2x	2.8x
Median		16.2%	(13.9%)			16.9%	8.9x	2.4x

Weather & Market Activity

State Precipitation (August 2018-July 2019)

For much of the US, weather played a significantly large role in the 2018 performance of the CM industry. Companies are now hoping for a “return to normal” precipitation levels, however the first half of 2019 continued to be extremely wet. The map below illustrates the trailing-twelve-month precipitation levels by state (from July 2018 – June 2019). The numbers on each state represent the ranking of precipitation in the past twelve-month period as compared to historic periods. The data has been gathered from 1895 – 2019; therefore, “1” represents the driest period on record, while “124” represents record setting wetness.



Select M&A Market Activity (2019)

As expected, M&A activity in the CM space has been limited in the first half of 2019, however there is always an appetite for compelling, strategic targets when available. Most transactions in early 2019 were bolt-on acquisitions in nature, securing buyers market presence in existing geographies.

Announce Date	Target	Acquirer
Jul-19	Undisclosed HMA Producer and Paver	Construction Partners Inc.
Jul-19	Southern Lime	Mississippi Lime
Jul-19	Dan Malloy Paving	Advanced Pavement Group (APG)
May-19	Coots Materials Company	Wendling Quarries, Inc.
May-19	Midwest Block & Brick	Quikrete
Apr-19	PCS Concrete	Chaney Enterprises
Mar-19	United Materials	Votorantim Cimentos North America
Mar-19	Windsor Rock Products, Inc	RiverBend Materials (CRH)
Mar-19	Viesko Redi-Mix	Knife River (MDU Resources)
Mar-19	Aggregate Deposit in Texas	Knife River (MDU Resources)
Feb-19	Liquid Asphalt Terminal in Florida and HMA and RMC Company	CPI
Feb-19	100M tons of mineral reserves in Somerset County, PA	New Enterprise Stone & Lime Co., Inc.
Feb-19	Yager Materials	Carmeuse Lime & Stone
Feb-19	Transit Mix Concrete	LafargeHolcim Ltd (SWX:LHN)
Jan-19	USG Boral	Boral (ASX: BLD)

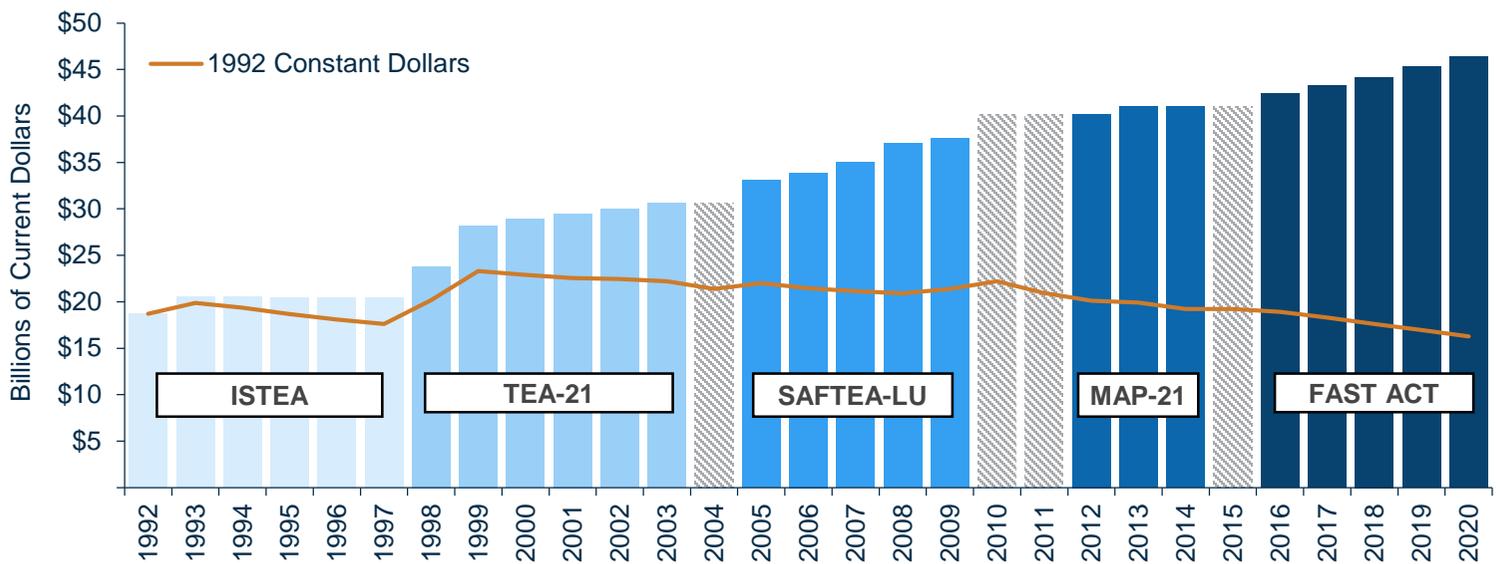
Infrastructure Funding

Federal Infrastructure Funding

Outside of a robust economy, the single most important driver for the construction materials industry is infrastructure funding. National funding for the US infrastructure continues to be a topic of focus for both local and federal politicians. While substantial obstacles to new legislation persist, infrastructure legislation appears to be one of the few areas where Democrats and the President can broadly agree. On April 30th, President Trump and House Speaker Nancy Pelosi agreed on a \$2.0 trillion infrastructure package, however negotiations broke down shortly after in May.

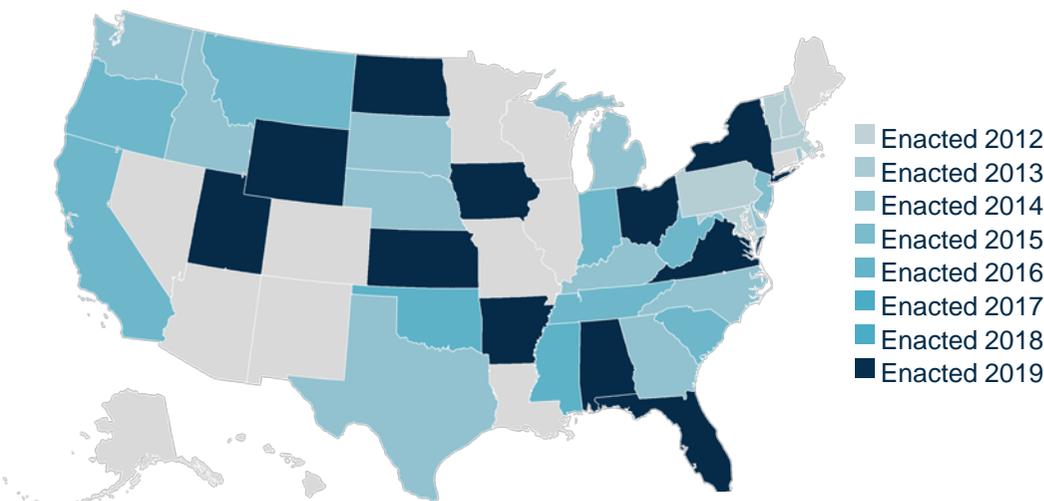
On July 29th, the Senate Committee on Environment and Public Works introduced America's Transportation Infrastructure Act of 2019 ("ATIA"). ATIA would authorize \$287 billion in infrastructure spending over five years, including \$259 billion for roads and bridges. On an annualized basis, ATIA represents a 27% increase over FAST Act funding. The introduction of ATIA is a positive signal for federal infrastructure spending, yet ATIA is a long way from becoming official.

"It is our shared goal to advance a bill out of committee this summer"
 ~ Chairman John Barasso (R-WY)



States Enacting Recurring Transportation Revenue

States are adopting supplemental infrastructure funding due to the lack of movement on the federal front



- Since 2012, **37 states** have approved plans to raise additional transportation revenue
- The federal government has signaled that states which raise tax rates could receive bonus federal funding
- From January through March 2019, 37 state legislatures introduced 185 bills targeting transportation investments, including proposed 21 fuel tax increases
- Some States have launched major initiatives to prevent the further degradation of their struggling infrastructure – ex. The Kentucky bridge initiative, launched in June of 2018, with the goal to upgrade over 1,000 bridges statewide

Activist Investors

A recent development in the CM market is the emergence of “activist investors” – financial institutions that take significant stakes in public companies with the goal of quickly implementing changes and improving stock performance. So far in 2019, three investment firms have taken large stakes in CM public companies.

Actions in the past from these activist shareholders include: Management reorganizations, share buy-back programs, divestitures/spin-offs, and other operational initiatives. Often, involvement from activist shareholders can signal a “slow-down” in M&A activity, as non-operating initiatives are paused to assess overall corporate strategies. However, once companies have completed the strategic initiatives implemented by activists, they are frequently left in positions primed for in-organic growth, with excess cash available for acquisitions and newly defined strategic growth targets.

Sachem Head Capital Management

*has purchased a large share of
Eagle Materials*

Profile

- Sachem is an activist hedge fund headquartered in New York, NY
- Founded in 2012 by Scott Ferguson
- Value-oriented strategy
- Approximately \$4.0B in assets under management

Eagle Materials Campaign

- On March 28, 2019, Sachem disclosed an 8.9% stake in Eagle Materials; Eagle shares rose 15.0% on the news, closing at \$84.30
- In response to pressure from Sachem, Eagle announced a plan to separate its Heavy Materials and Light Materials into independent corporations
- Sachem believes that a breakup of Eagle could result in a combined valuation of \$130/share

Other Investments



Cevian Capital

*has purchased a large share of
CRH (Formerly Oldcastle)*

Profile

- Cevian is an activist investor fund headquartered in Stockholm, SE
- Founded in 1996 by CEO Christer Gardell & Managing Partner Lars Förberg
- Among the largest activist funds in Europe, with approximately \$14.5 billion in assets under management

CRH Campaign

- On Feb. 6, 2019, Cevian publicly disclosed that it had become CRH's second largest shareholder, implying ownership of roughly 2.8%
- CRH has been undergoing a comprehensive strategic review of all businesses, bolstered by Cevian's investment strategy
- As previously contemplated, CRH is divesting its European distribution arm and Fencing/Security group

Other Investments



Southeastern Asset Management

*has purchased a large share of
Summit Materials*

Profile

- Southeastern is an investment management firm headquartered in Memphis, TN
- Founded in 1975 by Mason Hawkins
- Value-oriented strategy
- Approximately \$35.0B in assets under management

Summit Materials Campaign

- Southeastern disclosed a large position in Summit in Nov. 2018, but the position was filed passively
- On June 13, 2019, Reuters reported that Columbian aggregate firm Cementos Argos approached Summit with a proposed merger
- On June 17, 2019, Southeastern submitted a Schedule 13G filing to the SEC, signaling its intention to actively engage management

Other Investments

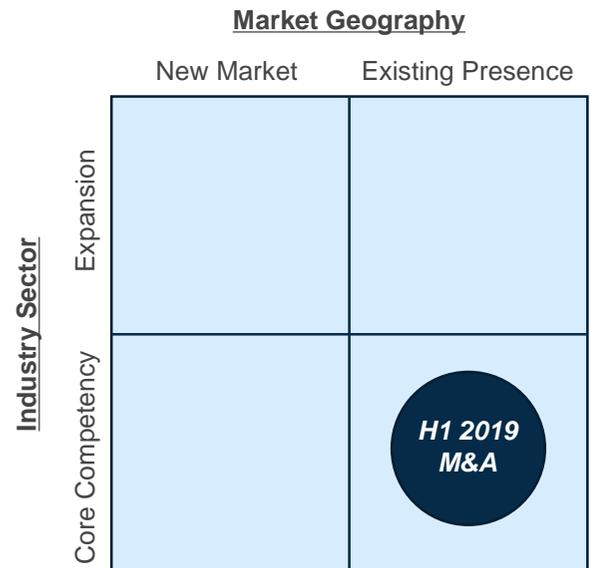


Renewed Optimism and Forward Expectations

For the construction materials space, M&A activity in the first half of 2019 began slowly as expected. Buyers were focused on compelling, strategic bolt-on transactions - targeting companies with similar core competencies to their own in existing markets. In order to renew a more robust M&A scene in 2019, we projected that two things were necessary: Q1 and Q2 earnings needed to meet analyst expectations and weather would need to return to normal. While earnings reports have played out as expected thus far as hoped, the weather has continued to be an issue in many markets.

Discussions on infrastructure spending and speculation about the reauthorization of the Fast Act continue with increased optimism, while State funding initiatives continue to grow at an increased pace. Public spending on road related projects is very active, resulting in strong volumes and backlogs for many CM companies. Labor constraints continue to be a significant challenge across the industry, however the overall outlook for the remainder of 2019 and early 2020 looks positive.

FMI anticipates an active M&A market for the second half of the year. While sounding repetitive, a return to normal weather is expected to produce improved earnings and return a strong appetite for acquisitions.



M&A in the first half of 2019 has been focused on bolt-on targets in existing markets. As we move into the second half of 2019, we expect a return to a robust transaction climate



Q2 2019: Earnings Report Update

As of 8/12/2019, 11 companies out of 17 reporting CMI companies have released their second quarter earnings (first half earnings for non-US companies) for 2019. Revenues and volumes for most CM companies were generally up 2%, year-over-year in Q2.

Company	Revenue Q2 2019	Revenue ▲ (YOY %)	EBITDA Q2 2019	EBITDA Q2 2018	EBITDA ▲ (YOY %)	Analyst Revenue Expectations	Analyst EBITDA Expectations
CMI Member Firms							
Buzzi Unicem S.p.A.	864.4	10.7%	153.8	120.8	27.3%	MISS	EXCEED
CEMEX, S.A.B. de C.V.	3,523.1	(4.8%)	607.0	722.3	(16.0%)	MISS	MISS
Colas SA	-	-	-	10.5	-	N/A	N/A
*Construction Partners, Inc.	227.3	16.5%	30.3	21.3	42.2%	HIT	HIT
CRH plc	-	-	-	652.2	-	N/A	N/A
*Eagle Materials Inc.	370.6	(5.9%)	82.0	113.5	(27.7%)	HIT	MISS
Granite Construction Incorporated	789.5	(2.2%)	(89.5)	47.1	(290.1%)	HIT	MISS
The Monarch Cement Company	50.3	3.5%	11.6	12.9	(10.0%)	EXCEED	EXCEED
HeidelbergCement AG	5,246.0	(6.5%)	751.3	1,020.7	(26.4%)	MISS	MISS
LafargeHolcim Ltd	6,691.4	0.2%	1,312.3	1,130.3	16.1%	MISS	MISS
Martin Marietta Materials, Inc.	1,279.5	13.3%	377.5	349.7	7.9%	HIT	HIT
Grupo Cementos de Chihuahua	240.5	3.5%	70.3	65.5	7.2%	HIT	HIT
Cementos Argos S.A.	-	-	-	85.3	-	N/A	N/A
Summit Materials, Inc.	600.9	0.0%	134.8	131.6	2.4%	HIT	HIT
Titan Cement International S.A.	481.0	5.7%	85.8	86.8	(1.1%)	HIT	HIT
U.S. Concrete, Inc.	367.5	(9.1%)	31.5	52.2	(39.7%)	MISS	MISS
Vulcan Materials Company	1,327.7	10.6%	357.9	319.4	12.1%	HIT	HIT
Other Firms							
Arcosa, Inc.	434.1	23.0%	64.0	46.4	37.9%	HIT	EXCEED
Bouygues SA	-	-	-	1,022.1	-	N/A	N/A
MDU Resources Group, Inc.	1,303.6	22.4%	159.8	128.5	24.3%	HIT	EXCEED
VINCI SA	12,608.1	7.2%	1,928.2	1,829.4	5.4%	MISS	EXCEED
Skanska AB (publ)	4,585.7	(5.5%)	280.7	190.8	47.1%	HIT	EXCEED

Select Highlights from Earnings Reports



Granite Construction (NYSE:GVA) – In August, Granite announced that Q2 earnings would be offset by a major write down, resulting from non-cash charges related to four legacy, unconsolidated heavy civil joint venture projects. The total after-tax effect of this write down was a \$100+ million deduction from the bottom line. As a result, Granite has pledged a switch strategies, dedicated to the pursuit of sole ventures and Granite-led projects



Martin Marietta (NYSE:MLM) - Martin Marietta Materials Inc. reported results for a record-breaking quarter ending June 30, 2019. Total revenues amounted to \$1.279 billion, proving 6.4% YOY growth. The company attributes the growth to increases in both volumes and pricing in MLM's aggregate shipments. Earnings from operations increased by 8.3% YOY, stimulating a stock price jump of 4% the day after MLM's earnings report was released.



MDU Resources Group, Inc. (NYSE:MDU) – Revenues for MDU Resources Group in Q2 were up 41% in the second quarter at \$61.8 million. The increase can be attributed to acquisitions made in 2018 and early 2019, as well as increased opportunities from strong economic environments in many of the group's operating states. Construction Materials earnings were up 20% with a backlog 42% higher than the same period last year.

Our Team



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