

Construction Materials 1H Review and Year End Outlook - October 2021



A Note From Managing Director, Dennis Coker

We've seen a return to a somewhat normalized state over the last nine months, with M&A activity picking back up fueled by potential tax changes, proposed infrastructure legislation, and a resurgence of economic activity despite lingering impacts of COVID-19 as we enter the final quarter of 2021. This 1H 2021 review includes some of the highlights from what the major construction materials companies achieved over the first half of 2021, as well as insight as to how they see the remainder of the year developing, and an overview of recent M&A activity and trends.

We hope you enjoy this update and look forward to working with you in the future. Please reach out to us if you have any questions.

Warmest regards,



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What Happened – 1H 2021

After a year of sailing uncharted waters in 2020, how did the major construction materials companies navigate a return to “normalcy” in the first half of 2021?

Arcosa Inc.

Following a record year in 2020, Arcosa’s total revenue through 2021 Q2 dropped slightly YOY (-3%). Arcosa’s construction products segment fared well through Q2 with Adjusted EBITDA for this segment increasing (+17%), driven largely by Arcosa’s acquisition of Stonepoint Materials. However, revenue from Arcosa’s transportation products segment was down (-47%) YOY, enough to turn total revenue growth negative.

CEMEX S.A.B.

Net sales increased YOY (+25%) with higher contributions in all regions and increased EBITDA (+39%). Q2 cement volumes up year over year (+22%) with higher prices across all regions (+4%). Unique supply chain in the Americas proved to be a competitive advantage in an environment of escalated shipping prices, with high flexibility to serve production constrained markets. Announced climate action goals and continued to apply digital innovation across its operations. Additionally, Cemex finalized an acquisition of Beck Companies as well as a corporate asset purchase of EQIOM Granulats in 1H.

Construction Partners Inc.

Construction Partners’ fiscal year end is September 30. Through nine months ended June 2021, the company saw revenues jump (+12.6%) as a result of new project work and a healthy backlog. Alternatively, net income dropped (-46.0%). This decrease in net income was primarily caused by a jump in SG&A expenses related to two acquisitions of the Good Hope Contracting Company and the Daurity Springs Quarry.

CRH PLC/Oldcastle

Higher sales revenue (+15%), EBITDA (+25%), operating cash (+55%) and expansion of margin (+120 bps) driven by reshaping and repositioning of business. Shift to higher growth markets (South & West US + Central and Eastern Europe), increased focus on horizontal construction (infrastructure & residential) and further development of integrated, value-added solutions (~65% of sales). M&A increasing as visibility improves.

Eagle Materials Inc.

Eagle’s fiscal year-end is March 31. Through three months ended in June, Eagle Materials reached record revenue of \$476 million (+11%). However, the company’s net earnings dropped (-3%) as the prior year benefitted from a \$52 million gain on the sale of their northern California business. Cement revenue was up (+3%) reflecting an increase in sales prices but was partially offset by a decrease (-2%) in Cement sales volume following heavy rainfall in Texas. Similarly, concrete and aggregates revenue increased (+2%) reflecting improved prices but was partially offset by lower aggregates sales volume.

Forterra Inc.

Forterra continued to see strong growth with net sales revenue increasing by (+15.6%). Meanwhile, gross profit grew (+13.3%) and Adjusted EBITDA increased (+8.7%). Drainage pipe and products net sales were up (+8.2%), reflecting higher shipment volumes YOY, partially offset by a decline in selling prices. Though the potential acquisition by Rinker/Quikrete was in process, on July 1, 2021, the company completed its acquisition of the businesses Barbour Concrete Company & Barbour Building Systems (mainly precast).

What Happened – 1H 2021 - Cont.

HeidelbergCement/Lehigh Hanson

Global revenues up (+8.0%), with EBITDA growth of (+23.0%). North American operations saw growth in sales volume across every segment YOY with cement sales increasing (+7.0%), Aggregate sales volume increasing (+3.7%), ready-mixed concrete sales volume up (+5.6%), and asphalt sales volume up (+11.1%).

LafargeHolcim Ltd.

Half year revenues up (+1.4%) YOY, while EBITDA increased (+31.7%) in North American operations. Sales growth was stunted as a result of extreme weather conditions in Q1 while EBITDA was boosted by strong operational performance and cost reduction initiatives. Additionally, Firestone Building Products was acquired in March of 2021 and saw growth of (+ 21%) under new ownership.

Martin Marietta Materials

Established quarterly records for revenues (+8.4% over prior year), profits, and safety, notwithstanding significant rainfall that adversely impacted operations in key geographies, most notably Texas and Colorado, its two largest revenue states. Completed acquisition of Tiller Corporation, a leading aggregates & FOB hot mix asphalt supplier in the Minneapolis / St. Paul region and announced the acquisition of Lehigh Hanson's West Region business.

Summit Materials

Record net revenue and record adjusted EBITDA. Aggregates sales volume increased (+14.7%), cement (+8.3%), ready mix concrete (+6.3%), with a decline in asphalt due primarily to divestitures (-11.3%). Completed five divestitures in 1H 2021 with \$103.6mm of proceeds.

US Concrete, Inc.

After a years-long, successfully executed bolt-on strategy, and significant platform expansion into aggregates, US Concrete was acquired by Vulcan Materials on August 26, 2021.

Vulcan Materials

Expanded aggregates gross profit margin (+150 bps) and increased cash gross profit per ton (+5%) as a result of growth in volume and sales prices. Ready mix concrete saw a similar (+3%) growth in selling prices but this was not enough to offset a (-7%) decrease in shipment volume due to timing of projects. Rising oil related energy costs reduced earnings by \$25mm in Q2, \$15mm due to diesel and \$10mm due to liquid asphalt. Announced the acquisition of U.S. Concrete, which closed in August.

Key Trends

Following a difficult and unpredictable year, companies in the construction materials space saw their revenues jump from pandemic lows, indicating that the worst has likely passed. For the most part, growth in revenue came in the form of increased sales volume growth across all product lines, in cement, ready-mix, and aggregates, concrete pipe and precast, as well as residential focused product lines. Additionally, many construction materials companies took advantage of the hot 2021 M&A market, and low cost of capital to complete significant platform acquisitions in addition to more common bolt-on deals.

Alternatively, much of the profit growth that companies experienced in the first half of 2021 was partially offset by increasing input prices (energy, raw materials, labor costs and labor shortage) for their products. For producers with operations in Texas there was unfavorable (very wet and rainy) weather. Though demand remained high, weather issues led to a slight decrease in demand for construction materials in the state for some producers.

What The Majors Predict – 2H 2021

“Demand fundamentals remain strong in our rural and exurban markets, while most of the state Departments of Transportation that we serve have returned to typical letting and operating conditions”

-Anne Noonan, CEO of Summit Materials

Key Notes from Major Players

Arcosa Inc.

Overall, key growth businesses, construction products and engineered structures, remain positioned well for the future. While high steel pricing has curtailed order activity for some of their business lines, outlook and longer-term fundamentals remain strong. They have made considerable progress advancing a major portfolio shift into higher margin and more stable construction products (aggregates). Arcosa closed their 15th aggregates focused acquisition in August 2021. The construction products business now represents more than 50% of their Adjusted EBITDA.

CEMEX S.A.B.

Anticipate volume growth in most regions, but at a moderated pace. Isolated flareups of COVID not expected to impact business operations. With tight supply / demand dynamics, pricing policy will adequately reflect the rising inflationary costs. With economic reopening, industrial and commercial investment to meet surge in consumer spending and supply chain disruptions, as well as the resumption of stalled formal construction projects. In the US and Europe, medium term upside from infrastructure stimulus programs such as Biden’s American Jobs Plan and Green Deal in Europe.

CRH PLC/Oldcastle

Focusing on higher growth markets including the South & West US and Central & Eastern Europe (now ~50% of sales). Attractive fundamentals with population growth, migration trends, and new-builds. Increasing exposure to infrastructure and residential with substantial under-build across key markets.

Construction Partners Inc.

With a growth in backlog, and a bright outlook for infrastructure, CPI is preparing for future expansion, through investments in technology and training. They believe these investments are vital as they continue to scale the business and grow through organic expansion and acquisitions to further enhance their vertical integration strategy.

Eagle Materials Inc.

Eagle Materials predicts underlying market conditions to remain strong as the US economy recovers, and they believe they are well-positioned to continue to benefit from this growth.

Forterra Inc.

Since Q2, Forterra has seen several positive developments. Both of their segments continue to show year-over-year growth in shipment volumes, and their backlog volumes at quarter-end experienced significant growth. The proposed deal with Rinker/Quikrete continues to move forward as Rinker continues to respond to government information requests. The Texas and Florida pipe and precast markets are very strong at present.

HeidelbergCement/Lehigh Hanson

In view of the strong operational results in the first six months, HeidelbergCement is raising its outlook for the whole of 2021. The company now foresees a strong increase in results from current operations.

What The Majors Predict – 2H 2021 - *Cont.*

Martin Marietta Materials

Company predicts improvements in all primary end-use markets (infrastructure, non-residential construction, and residential) and all key geographies. Infrastructure activity, particularly for aggregates-intensive highways, roads and streets, continues to be resilient. Projected average price increase in aggregates (+3% to +5%). Expect to pursue further bolt-on and platform acquisitions.

LafargeHolcim Ltd.

Holcim expects the growth momentum to continue in all regions, supported in the second half of 2021 by various stimulus programs. The company anticipates continued growth of Firestone Building Products, while pursuing further bolt-on acquisitions.

Vulcan Materials

Believes progress made through the first half of 2021 will continue and will focus on navigating the changing macro environment. Through 1H, the aggregate pricing environment continues to be positive across its footprint as demand visibility continues to improve. In Q1, freight-adjusted pricing increased 2 percent and mix-adjusted pricing improved sequentially in March, reflecting recently announced price increases in certain markets. The company believes these sequential increases should continue through the remainder of the year.

Summit Materials

Anticipating low- to mid-single digit pricing increases, low single digit volume increases, and organic growth expected to offset divestiture impacts. Residential demand remains strong, with non-residential not yet returning to pre-COVID levels. Public sector funding resilient but have not yet seen effects of stimulus funds to states.

Key Trends

Given the strong performance that construction materials companies have experienced over the past six months, most of the key players are revising their outlook for 2H in favor of higher financial targets. Much of this growth is a result of increasing residential construction, the rising number of housing starts, and the positive trend in building permits, among other indicators, the large players in the construction materials industry expect a successful finish to fiscal year 2021. While input prices continue to rise and cut into profits within the industry, producers have been largely successful in passing on cost increases through price increases to keep up with inflation. Large players remain hopeful that a continued growth in sales volume will be enough to offset this difference and solidify a record year.

KNOWN INCREASE IN INFRASTRUCTURE SPENDING

In early August, the Senate passed a massive bipartisan infrastructure bill after months of negotiation. The deal includes \$550 billion in new federal investments in America's infrastructure over five years, far short of the \$2.25 trillion proposal unveiled by the Biden administration in the spring. House progressives are delaying a vote on the bill until voting to pass a separate \$3.5 trillion spending bill focused on the country's safety net system.

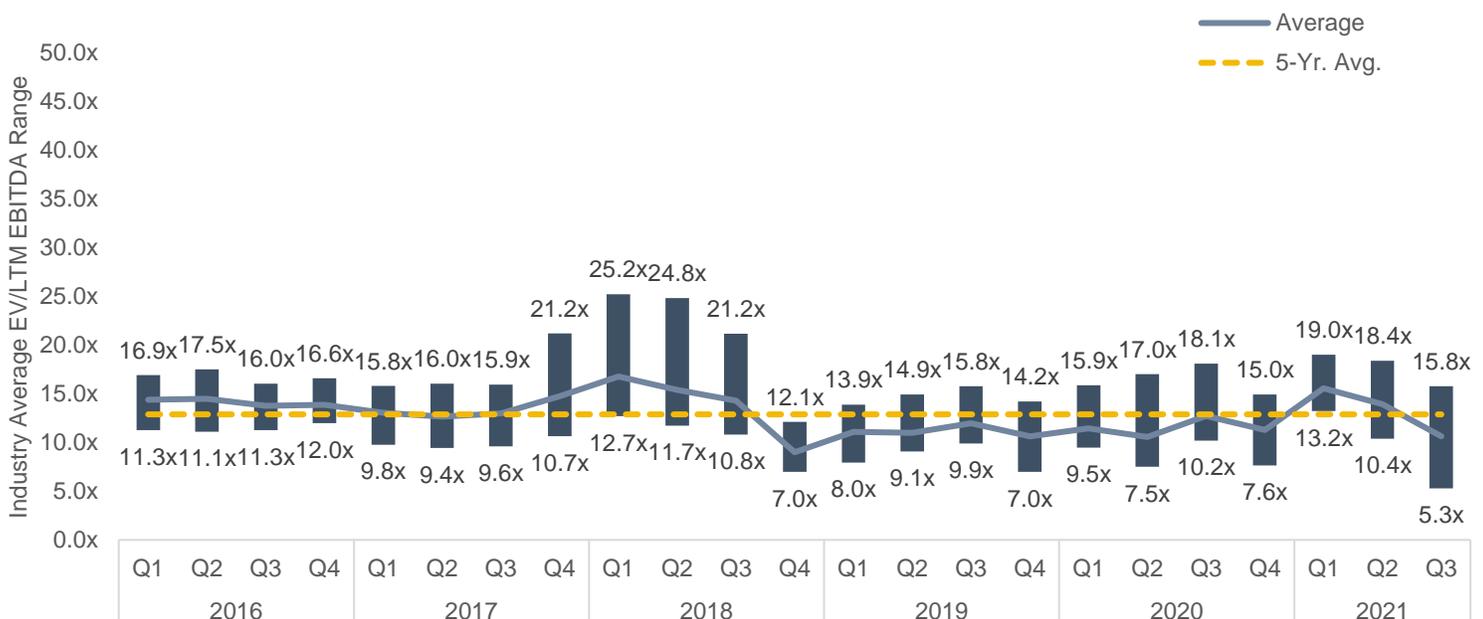
The long-anticipated infrastructure bill, which includes spending across energy, transport, utilities and climate-related initiatives, is expected to provide positive tailwinds for construction materials companies in the United States. GlobalData, a leading data and analytics company, now forecasts that the US construction industry will grow by 3.3% annually between 2021 and 2025, vs. its prior forecast of 2.2%. Despite the potential benefits of the proposed bill, the industry continues to face challenges including rising material costs and labor shortages.

Valuation and Trading Statistics for Major Players

Ticker	Company Name	Stock Price	% of 52-Week		Market Cap	Enterprise Value	LTM Revenue	LTM EBITDA	Enterprise Value /	
		10/2/2021	High	Low					LTM Revenue	LTM EBITDA
<i>(All \$ in MM except for Stock Price)</i>										
Construction Materials Product Index										
NYS: ACA	Arcosa	\$ 51	75%	119%	\$ 2,488	\$ 3,042	\$ 1,904	\$ 265	1.6x	12.8x
NYS: CX	Cemex	\$ 7	79%	199%	\$ 10,688	\$ 9,835	\$ 14,240	-	0.7x	7.4x
NAS: ROAD	Construction Partners	\$ 33	92%	186%	\$ 1,750	\$ 1,821	\$ 856	\$ 98	2.1x	20.3x
LON: CRH	CRH	\$ 46	86%	7969%	\$ 35,956	\$ 42,807	\$ 29,416	\$ 5,035	1.5x	9.9x
NYS: EXP	Eagle Materials	\$ 135	84%	163%	\$ 5,646	\$ 6,388	\$ 1,671	\$ 490	3.8x	13.1x
NAS: FRTA	Forterra	\$ 24	99%	207%	\$ 1,583	\$ 2,681	\$ 1,698	\$ 308	1.6x	8.6x
ETR: HEI	HeidelbergCement	\$ 75	77%	135%	\$ 14,794	\$ 25,180	\$ 21,803	\$ 8,237	1.2x	5.4x
SWX: HOLN	Holcim (LafargeHolcim)	\$ 48	76%	115%	\$ 29,411	\$ 46,003	\$ 27,470	\$ 7,409	1.7x	6.7x
NYS: MLM	Martin Marietta	\$ 354	90%	154%	\$ 22,082	\$ 25,338	\$ 4,861	\$ 1,482	5.2x	17.2x
NYS: SUM	Summit Materials	\$ 33	90%	216%	\$ 3,935	\$ 5,422	\$ 2,430	\$ 514	2.2x	11.6x

Statistics

Min	\$ 7	75%	115%	\$ 1,583	\$ 1,821	\$ 856	\$ 98	0.7x	5.4x
Median	\$ 48	86%	163%	\$ 10,688	\$ 9,835	\$ 4,556	\$ 939	1.7x	11.6x
Mean	\$ 89	85%	872%	\$ 13,753	\$ 17,621	\$ 10,082	\$ 2,520	2.4x	12.2x
Max	\$ 354	99%	7969%	\$ 35,956	\$ 46,003	\$ 29,416	\$ 8,237	5.2x	21.0x



1H 2021 Transaction Trends

During 1H 2021, M&A activity sped up significantly (+50%) YOY as a result of business owners seeing favorable valuations coinciding with an impending tax change at year-end 2021.

Furthermore, with interest rates low and buyers' belief that the economy has returned to a more financially stable state, major strategic and private equity backed buyers are actively seeking transactions. Target companies have experienced a hot M&A market as their markets have strengthened, and a backlog of projects makes them a favorable acquisition target for both strategics and private equity backed firms.

With over one hundred transactions YTD-June 2021, public strategics made up 29% of all acquisitions in the building materials space while private strategics made up 39% of transactions. In 1H, Industry leaders such as Martin Marietta, Lafarge Holcim, Vulcan, and Arcosa were involved in a combined 8 transactions while they announced an additional 5 deals that have not closed yet.

The remaining 32% of transactions were private equity based with 20% of acquisitions being add-ons compared to 12% being platform companies.

Through 1H, building materials companies experienced continued positive outlook following an increase in housing starts, resumption of commercial and institutional construction, infrastructure spending, and a strong backlog of projects as mentioned above.

While the pandemic has helped drive input prices upwards, and constrained the supply of materials, resulting in delays for parts, machinery, etc. in the industry, construction levels are expected to continue through 2021 which will curb the negative effect of the pandemic.

Transactions flourished throughout 1H 2021 as a result of strong industry performance, a competitive buyer's market, and macroeconomic factors such as a potential impending tax change that has caused business owners to reevaluate their exit timeline.

Historical M&A transaction count in the Building Materials Industry



1H 2021 Notable Construction Materials Transactions

Target	Buyer	Rationale / Commentary
		U.S. Concrete is an important Vulcan customer in a number of markets. This transaction adds substantial downstream vertical integration and significant aggregate operations to supply the west coast, and NY/NJ markets.
		Martin Marietta reached an agreement to buy certain cement, aggregate, and ready mix assets on the west coast of the United States. This establishes a major western US position for Martin Marietta, similar in scope to what it accomplished with the TXI acquisition.
		These acquisitions enable Builders Firstsource to expand to the metropolitan areas of the U.S. while targeting faster growth product categories.
		The acquisition of Firestone gave LafargeHolcim a new business unit in the roofing sector, opening up more areas for future expansion. LafargeHolcim's acquisition of Utelite strengthens Holcim's aggregate position in the Mountain Region, which includes aggregate operations in the Denver, Phoenix and Las Vegas metro areas.
		Pretty clear synopsis of this deal by Will McGill (Quikrete CEO) - "Forterra and Quikrete are an ideal strategic fit, and this combination is a natural next step for our company, enabling us to better serve our customers across the company on their concrete projects from start to finish."
		JKR expansion of its contracting business into the quarrying and ready mix concrete sector.
		Platform investment for private equity investors seeking to grow a building products business.
		The acquisition of Kuhlman expands The Gerken Companies' (primarily aggregates, asphalt and paving focused business) further into the ready mix concrete sector.
		The acquisition will enable Saint-Gobain to strengthen its position in the construction chemicals market.
		The acquisition adds a pipeline of organic growth opportunities and bolt-on acquisitions in attractive new geographies, as well as a top-notch operating team with extensive experience in construction materials.

Early 2H 2021 Construction Materials Transactions

As a number of the public construction materials companies indicated, 2021 has been a busy year for M&A in the construction materials sector. By the end of the third quarter, several transactions were announced (deals agreed to but not yet closed), and others continue to close at an accelerated pace.

Vulcan Materials Company completed its acquisition of U.S. Concrete in August. Headquartered in Euless, Texas, U.S. Concrete operates in large, attractive metropolitan areas that complement Vulcan's existing footprint. With 27 aggregates operations serving California, Texas and the Northeast, that shipped 12.6 million tons in 2020, the acquisition of U.S. Concrete's portfolio represents a synergy driven addition to Vulcan's business. The acquisition complements Vulcan's existing aggregates business in California with access to a blue-water source of high-quality aggregate operations with extensive reserves, and enhances Vulcan's position in key Texas markets, with additional aggregate footprint expansion including the attractive New York and New Jersey metro areas. The deal is expected to increase Vulcan's EBTIDA by ~\$190 million pre-synergies. The transaction also provides strategically oriented ready-mixed concrete operations that will expand Vulcan's service capabilities and level of vertical integration.

Following its east coast platform expansion (StonePoint), Arcosa announced in August that it acquired Arizona-based Southwest Rock Products, LLC and affiliated entities ("Southwest Rock") for \$150 million. Southwest Rock is a pure-play natural aggregates company serving the greater Phoenix metropolitan area with five active sand and gravel locations and one hard rock quarry, producing approximately five million annual tons of construction aggregates. Southwest Rock had trailing 12 month revenues of approximately \$36 million and Adjusted EBITDA of approximately \$14 million as of May 31, 2021, implying a purchase price multiple of 10.7x Adjusted EBITDA.

Martin Marietta, followed up its significant platform acquisition of west coast Lehigh Hanson assets by adding a bolt-on acquisition to its Houston business, reaching an agreement in August to purchase Southern Crushed Concrete ("SCC") from Spanish conglomerate Ferrovial for ~\$140 million. Ferrovial, which also operates airports and toll roads, said last month it had agreed to sell certain non-strategic assets, including SCC, but did not give details. The deal was pending approval by regulatory authorities.

Lafarge Holcim has recently pursued acquisitions outside the US, reaching an agreement in July to acquire Heinrich Teufel CmbH & Co.KG, a regional player in aggregates and ready-mix concrete in southern Germany. Miljan Gutovic, Region Head EMEA: "The acquisition of Heinrich Teufel will strengthen our footprint in southern Germany in aggregates and ready-mixed concrete."

Concrete pipe and precast concrete products are an area seeing significant growth in M&A activity and investment in organic expansion. While Quikrete/Forterra is receiving most of the press, other regional and private producers of pipe and precast are actively seeking growth opportunities. Thompson Pipe Group has hired a buy-side advisor to help them find acquisition opportunities, Northwest Pipe continues to look for expansion opportunities after acquiring Geneva in 2020, and private equity backed Evercast Concrete continues to close on acquisitions in the precast sector. Ameritex Pipe and Products recently closed on financing to fund its now under construction greenfield pipe and products plant in the DFW area.

Based on trends in the industry and the underlying sectors that support it, the M&A market should continue to see quite a bit of activity as the year comes to a close. With changes to the tax code yet to be finalized, a low interest rate environment, and positive buyer sentiment, it is likely this momentum for M&A will continue in 2022.

About Founders Advisors

Founders Advisors (Founders) is a merger, acquisition, & strategic advisory firm serving lower middle-market companies. Our focus is on consumer, industrials, energy, healthcare, business services, and technology companies throughout the United States. Our skilled professionals, proven expertise, and process-based solutions help companies access growth capital, make acquisitions, and/or prepare for and execute liquidity events to achieve specific financial goals.

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Capital
Raises



Strategic
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Targeted
Buyside



Spin-Offs /
Divestitures

\$55B+

Founders Managing
Directors' Transacted
Enterprise Value*

90+

Founders' Completed
Engagements
Since 2013

21%

Average Increase in
Initial Bid to
Closing

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- Pipe and Precast
- Brick
- Roof Tile
- Pavers
- Asphalt & Paving
- Industrial Materials

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- Tech-Enabled Services
- Management Consulting

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- Electrical & Electronics
- Safety & Security
- Test & Measurement

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- Industrial Services
- Engineering & Construction
- Midstream & Downstream
- Oilfield Services & Equipment

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- Education Services
- Retail Services

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- Healthcare IT
- Healthcare Services
- Medical Technology
- Tools & Diagnostics

TECHNOLOGY

- SaaS
- DTC & eCommerce
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CAPITAL SOLUTIONS

- Debt Financings
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