



US Construction Materials Industry Update

Spring 2023



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Current Dynamics

Over the course of a more than decade-long growth period in the construction industry, material prices, employment rates and profitability have risen to lofty heights. Construction-related purchaser price indices have all significantly outpaced inflation, indicating meaningful gains in real terms for industry participants. Additionally, M&A activity in the construction materials and aggregates sectors over the past eight years has been relatively steady with a slight increase seen in recent years. Moving through the rest of 2023, however, continued macroeconomic uncertainty from rising interest rates and slowing GDP growth suggest a downturn is looming—particularly for the residential construction segment of the industry.

Inflation

On the heels of pandemic-related economic dislocations, Covid stimulus payments, supply chain disruptions, and opportunistic price increases, inflation rates around the world began to rise in early-2021. Exacerbated by the Russian invasion of Ukraine in early 2022—which impacted global prices for oil, natural gas, and food—U.S. inflation reached its peak of 9.1% in June of 2022. In response, the U.S. pursued legislative (the Inflation Reduction Act) and fiscal policy remedies (interest rate increases). The effect has been a steady decline in inflation, but current rates are still well above Fed targets.

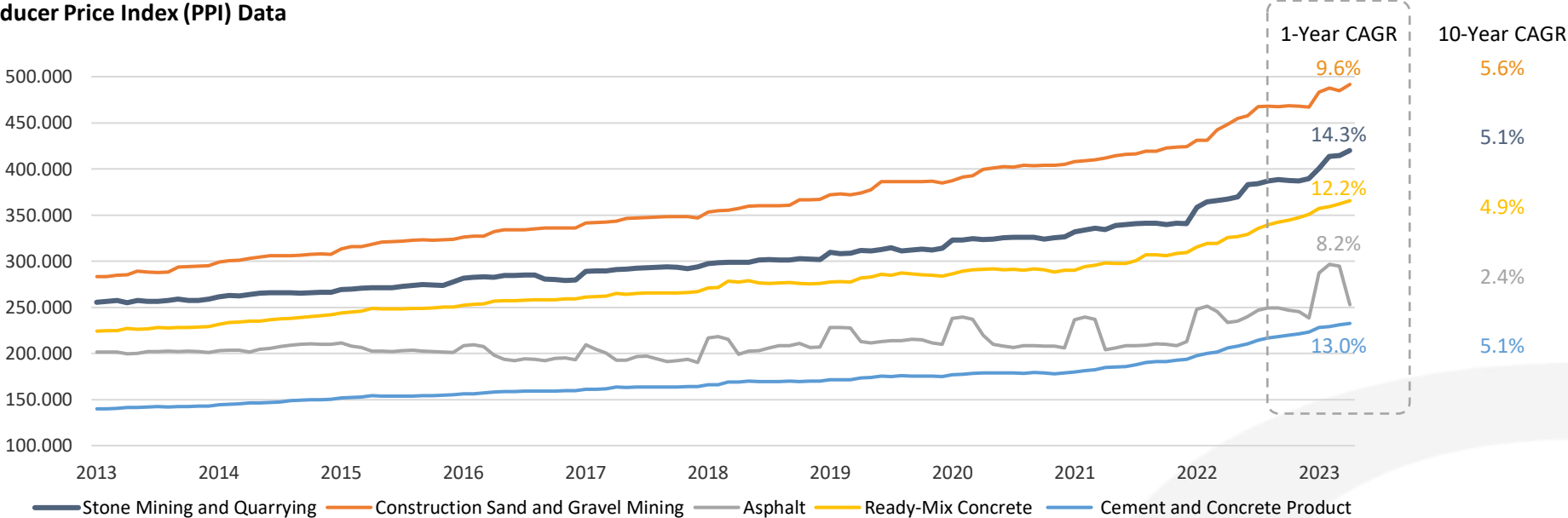
Interest rates

Interest rates around the world have been historically low for much of the recovery period, with companies and investors enjoying a low-cost capital environment. An initial reluctance to raise rates during the Covid response put central banks in an awkward position for tackling accelerating inflation. Since March 2022, however, the Fed has pursued consistent rate increases, with eight such increases to date. Ultimately, the balance between inflation and interest rates will determine the likelihood, depth and duration of a potential recession. As interest rates continue to rise to combat inflation, residential construction will almost certainly slow in step.

Pricing

At present, pricing remains robust across most construction materials. As a result, margins and profits have been strong, helping most producers deliver healthy cash flow and balance sheets. Rising demand, tight supply and disciplined management have all provided a foundation for sustaining future value. After steady increases over the last ten years, the prices of construction materials in 2022 skyrocketed well in excess of inflation. The various Producer Price Index (PPI) metrics for construction materials recorded double digit percentage increases. In light of an increased interest rate environment and potential macroeconomic pressures, however, there is an expectation that prices will ease throughout 2023 and over the next few years, which will likely put pressure on future margins.

Producer Price Index (PPI) Data

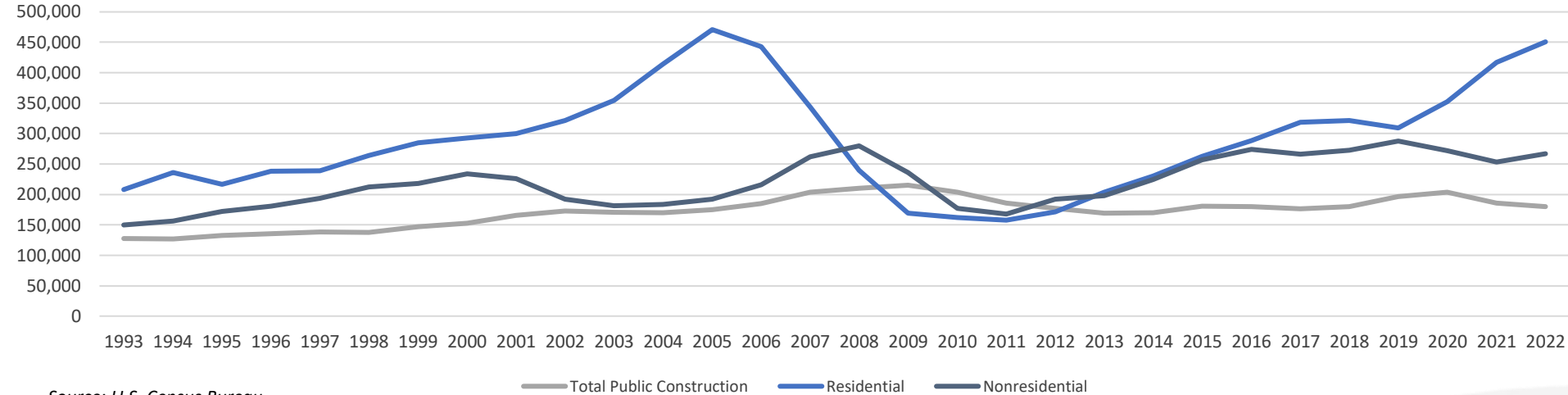


Source: Federal Reserve Economic Data

Construction Cycle

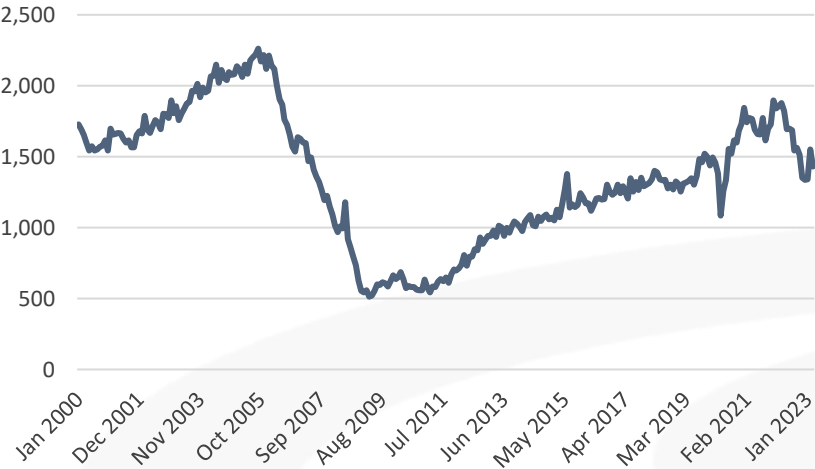
Despite the brief market disruption related to Covid, 2022 marked the 11th straight year of overall growth in the construction sector. It has now been more than 15 years since the peak of the last cycle, among the longest in the past 50 years, and construction spending (in real terms) and construction employment are above prior peak levels. Looking forward, however, current economic conditions raise concerns about continued growth in the near-term, with residential construction being of particular concern, as evidenced by the notable decline in residential permits and housing starts.

Construction Put in Place



Source: U.S. Census Bureau

Residential Permits



Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development

U.S. Housing Starts



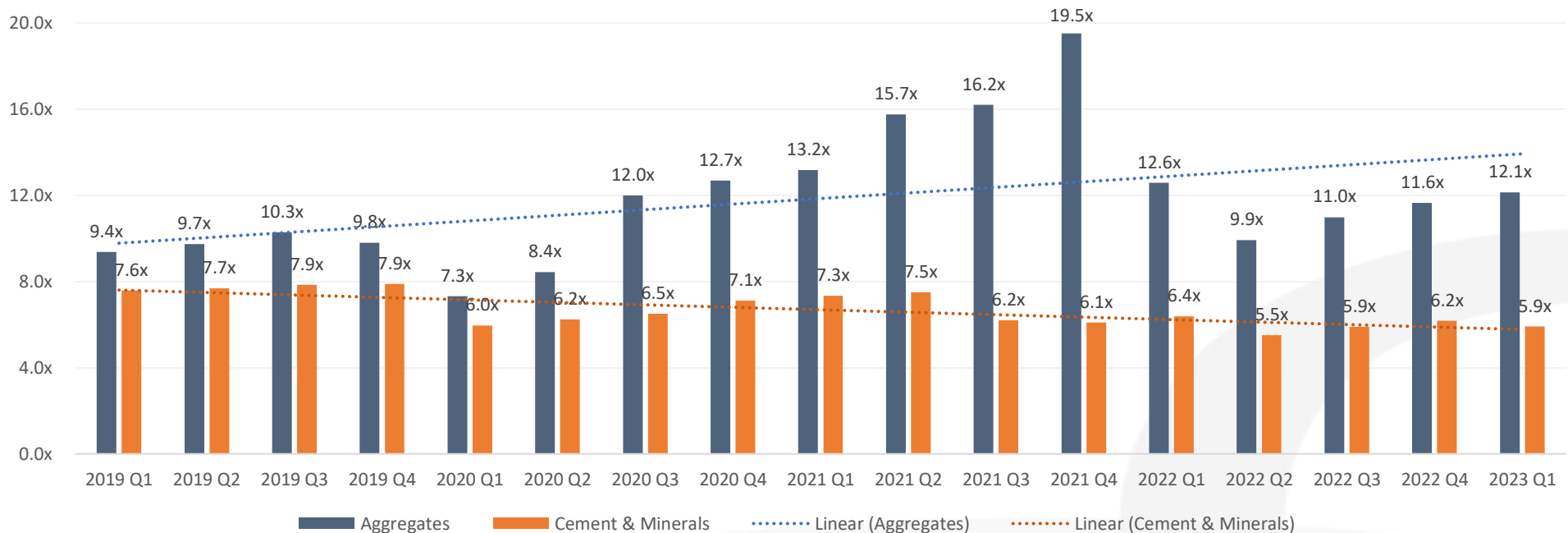
Source: U.S. Census Bureau

Public Company Valuations

Growing environmental and social risk (ESR) pressures have limited the development of new operations and the expansion of existing ones, bolstering strong valuations for established, well-managed businesses in the construction materials sector. Permitting limitations have throttled expansion of capacity and in some cases replacement of older technologies with more efficient operations. The industry in general has directed the capital into projects that offset the impacts of

a tight labor market to retain operating efficiencies. Buyers recognize the value of well-established businesses and have been willing to invest at higher multiples. The valuation disparity between publicly traded aggregates producers and cement/minerals producers has increased over the last four years, from a delta of 15% at the end of 2018, to 51% at the end of Q1 2023.

Average Public Company TEV/EBITDA Multiples



Source: Capital IQ

Companies included in Aggregates category: Arcosa, Inc. (NYSE:ACA), Boral, Ltd. (ASX:DLB), Martin Marietta (NYSE:MLM), Summit Materials (NYSE:SUM), and Vulcan Materials Company (NYSE:VMC)

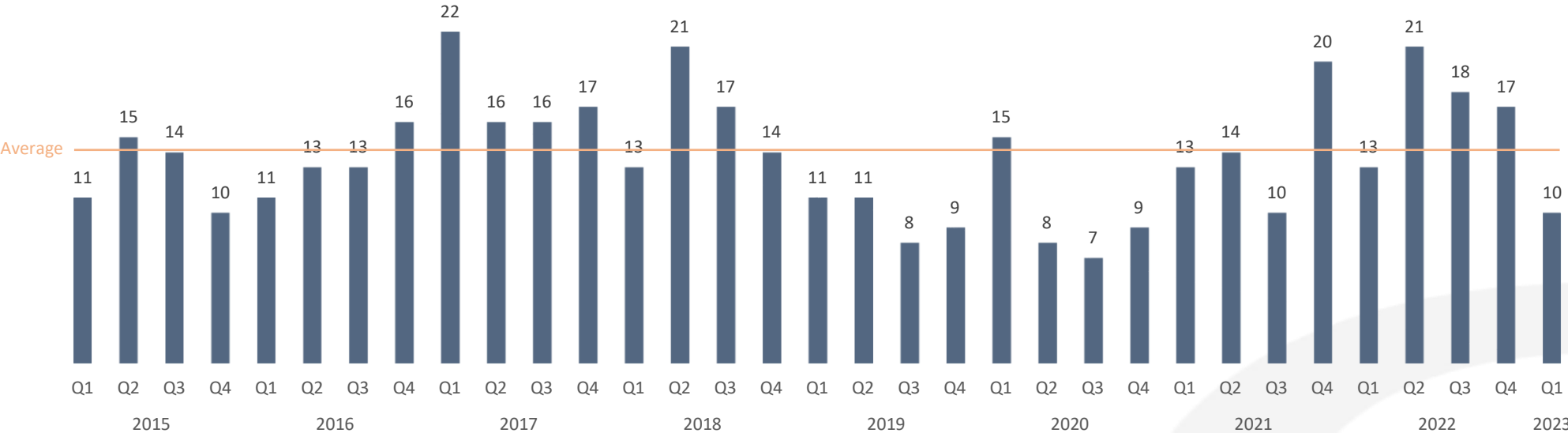
Companies included in Cement & Minerals category: Buzzi Unicem S.p.A. (BIT:BZU), CEMEX, S.A.B. de C.V. (BMV:CEMEX CPO), CRH plc (ISE:CRG), Eagle Materials (NYSE:EXP), Heidelberg Cement AG (DB:HEI), Holcim Ltd. (SWX:HOLN), The Monarch Cement Company (OTCPK:MCEM), Titan Cement International S.A. (ATSE:TITC), US Lime & Minerals, Inc. (NasdaqGS:USLM), and Vicat S.A. (ENXTPA:VCT)

M&A Transactions

M&A activity in the construction materials and aggregates sectors over the past eight years has been relatively steady. There was some notable softness in 2019 and 2020, but the industry rebounded towards the end of 2020, and M&A activity has been strong since then.

In fact, there were more transactions (69) in 2022 than in any other year in the past eight years. We expect this trend to continue as large industry players seek access to additional reserves and look to maintain margins in the face of macroeconomic pressures.

Merger & Acquisition Activity by Quarter



Source: Capital IQ

Select Recent Transactions

Although there have been relatively few large, headline deals since the start of 2022, overall activity has been strong, as noted by the following representative transactions.

Close Date	Buyer	Target (Seller)	Target Business Description	Target Headquarters
04/04/2023	Heidelberg Materials US, Inc.	Operating Assets and Reserves of RMS Gravel Inc	Sand and gravel producer	Dryden, NY
03/23/2023	Smyrna Ready Mix, LLC	23 concrete plants in North Carolina and Southw est Florida (Argos USA Corporation)	Ready-mix concrete production	North Carolina / Florida
12/23/2022	ProFrac Holding Corp. (NasdaqGS:ACDC)	Eagle Ford sand mining operations of Monarch Silica, LLC	Sand mining operations	San Antonio, TX
12/01/2022	Holcim (US) Inc.	Substantial Aggregate Reserves of J-2 Contracting Company	Aggregate reserves in the form of a fully permitted and operational sand and gravel site	Greeley, CO
12/01/2022	Sunroc Corporation	Assets of J.K Merrill & Sons	Aggregates producer	Pocatello, ID
11/25/2022	Smyrna Ready Mix, LLC	USC Atlantic, Inc. (U.S. Concrete, Inc.)	Manufactures and markets concrete products	Elmwood Park, NJ
11/21/2022	Construction Partners, Inc. (NasdaqGS:ROAD)	Three hot-mix asphalt plants (Blue Water Industries LLC)	Hot-mix asphalt production	Nashville, TN
11/18/2022	Blue Water Industries LLC	Daurity Springs Quarry (Fred Smith Company)	Crushed stone and aggregates facility	Goldston, NC
09/22/2022	Blue Ridge Construction Capital LLC	Matthew s Sand and Gravel, and Edge Aggregates, LLC (d/b/a Matthew s-Edge Sand)	Supply asphalt sand, concrete sand and aggregates	Raleigh, NC
09/20/2022	Mississippi Lime Company	Valley Minerals LLC	Manufactures and processes dolomite lime	Bonne Terre, MO
08/25/2022	BM Group of Companies	Sanderson Concrete Inc.	Manufactures standard and custom precast concrete products catering to engineers, architects, and contractors	Surrey, BC (Canada)
08/17/2022	Vulcan Materials Company (NYSE:VMC)	Syar Industries, LLC	Manufactures and supplies aggregate rock products and asphaltic paving materials	Napa, CA

Source: Capital IQ

Close Date	Buyer	Target (Seller)	Target Business Description	Target Headquarters
08/09/2022	Holcim (US) Inc.	Sand and Gravel Operation in New Kent County (Basic Construction Company, LLC)	Sand and gravel operations	New Kent, VA
07/25/2022	ProFrac Holdings II, LLC	SP Silica of Monahans, LLC/SP Silica Sales, LLC (Signal Peak Silica, LLC)	Sand production activities	Monahans, TX
07/01/2022	Holcim Ltd (SWX:HOLN)	Quarry and asphalt operations of Carrière St-Eustache Ltée and Pavage St-Eustache Ltéein (Mathers Group Inc.)	Crushed stone quarry and asphalt operations	Saint-Eustache, QC (Canada)
06/30/2022	Lafarge Canada Inc.	Assets of St-Eustache Quarries Ltd	Quarries	Saint-Eustache, QC (Canada)
06/30/2022	CalPortland Company	Certain West Coast Cement and Ready Mixed Concrete Operations of Martin Marietta Materials, Inc.	Cement plant, related cement distribution terminals, and 14 ready-mixed concrete plants	California
05/23/2022	Arcosa, Inc. (NYSE:ACA)	Recycled Aggregate Materials Company, Inc.	Manufactures recycled aggregate materials for the construction industry	Simi Valley, CA
05/23/2022	Holcim Ltd (SWX:HOLN)	Cajun Ready Mix Concrete, LLC	Manufactures and supplies ready-mix concrete products	Baton Rouge, LA
04/20/2022	Oldcastle Infrastructure, Inc.	Concrete pipe and box culvert plants in Texas (The QUIKRETE Companies, LLC)	Concrete pipe and box culvert manufacturing	Houston, TX
04/04/2022	Heidelberg Materials US, Inc.	Meriwether Ready Mix, Inc.	Produces and supplies ready mixed concrete materials for residential and commercial job sites	Griffin, GA
04/01/2022	Smyrna Ready Mix, LLC	Colorado and Central Texas Ready Mixed Concrete Operations of Martin Marietta Materials, Inc.	Ready-mix concrete production	Colorado / Texas
03/18/2022	Quikrete Holdings, Inc.	Forterra, Inc. (Lone Star Americas Acquisitions, Inc.)	Manufactures and sells pipe and precast products in the United States, Canada, and Mexico	Irving, TX
02/10/2022	Eco Material Technologies Inc	North American Fly Ash Business of Boral Limited	Fly ash manufacturing	Atlanta, GA
01/07/2022	Thomas Concrete Inc.	Assets of Benton Ready Mix of Florence, Inc.	Ready-mix concrete production	Florence, SC
01/03/2022	Aggregate Industries-WCR, Inc.	Cowden Inc.	Provides gravel and ready-mix products for commercial construction and residential projects	Bellingham, WA

Source: Capital IQ

Future Outlook

2023 is likely to be a year of economic uncertainty. Adding to worries about a possible recession later this year, annual U.S. GDP growth rates for the first quarter (1.1%) came in significantly lower than the prior quarter (2.6%). While recent federal infrastructure funding provides some support for the construction sector, elevated inflation rates and rising interest rates have already begun to impact spending in the private sector, particularly in the housing market. Built-in momentum from existing projects will provide some buffer; however, those businesses with high exposure to residential construction are likely to see a softening in demand and volume as the year progresses.

Beyond 2023, the uncertainty continues. The supply chain disruptions that began due to complications from the pandemic and were further exacerbated by the war in Ukraine have largely been addressed, but issues for many critical items persist. The corresponding downstream effects—felt most strongly in Europe—will have an impact on companies in the U.S. and Canada. The ability to address these issues and the continued high cost of energy will have an important bearing on the depth and duration of any potential downturn.

Origin Merchant Partners

Origin Merchant Partners is a leading investment banking advisor to private companies, public corporations and financial sponsors in the middle market. Origin has a proven track record of success in middle market transactions and offers thought leadership and dedicated teams focused on select industry segments.

Through ongoing construction material activities and prior M&A transactions, we have developed deep relationships throughout the industry with many of the most active acquirers—including local and regional market leaders, national and publicly-traded corporations, and private equity groups focused on the industry.

With professionals in five cities across the US and Canada, Origin provides extensive direct coverage of North America. In addition, Origin offers international reach through the Terra Alliance, a global alliance providing coverage of more than 45 countries.

Key Service Offerings

Sell-Side Advisory

- ▶ Searching for potential buyers
- ▶ Preparing marketing and financial materials
- ▶ Facilitating due diligence
- ▶ Negotiating transactions

Buy-Side Advisory

- ▶ Identifying and approaching potential targets
- ▶ Preparing valuation analyses
- ▶ Managing due diligence
- ▶ Negotiating transactions

Capital Raising

- ▶ Performing a range of financing-related services
- ▶ Conducting private placements of debt and equity for acquisitions, growth or recapitalization needs

“Origin Merchant Partners was exceptional in guiding us through the sale process. Not only did they help us navigate the unique challenges posed by the pandemic, but they orchestrated a highly competitive process that resulted in a transaction that exceeded our expectations. I am absolutely certain we made the right choice with Origin.”

Dave Mischler
President
Daman Products Co.

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