

Fall 2009

The “Green” Home Market

Market Update

A number of positive signs in the market recently indicate that the recession could be abating. The Institute for Supply Management (ISM) Manufacturing Index, which tracks manufacturing activity, rose 4 points to 52.9 in August, exceeding the desired level of 50 which indicates manufacturing growth. The Philadelphia Federal Reserve Bank’s Survey of Professional Forecasters in August indicated the reduced chances of a contraction in the U.S. economy from one-in-two to one-in-four.¹ First-time jobless claims for the week ending September 5, 2009 dropped to 550,000, the lowest level since July. The total number of people collecting unemployment insurance, while still very high, dropped to 6.09 million, the lowest level since April 2009. Vehicle sales have been bolstered by the Cash for Clunkers incentive program. The research firm Macroeconomic Advisers almost doubled its growth estimate for the value of goods and services produced by the U.S. economy in 3Q 2009 from 1.6 percent to 2.9 percent.² Overall, economists predict a brighter second half for 2009 as manufacturing ramps up and the American Recovery and Reinvestment Act’s stimulus package filters through the economy.³

Similarly, the homebuilding industry has started to show initial signs of stabilization. In July 2009, new home sales increased 9.6 percent from June 2009 and although this is down 13.4 percent from July 2008

levels, it reflects the largest monthly gain since February 2005.⁴ Existing home sales in July 2009 also rose for the fourth consecutive month, increasing 7.2 percent from June 2009 and 5 percent from July 2008. Housing starts in July for single-family residences increased 1.7 percent to an annual rate of 490,000 homes.⁵

Although the direction of the homebuilding market appears to be more favorable than earlier this year, the industry remains dramatically short of the positive activity experienced several years ago and the statistics remain daunting. Home foreclosure rates increased 7 percent in July 2009 from June 2009 and 32 percent from July 2008.⁶ Home prices continue to remain under pressure as evidenced by the median price of a new home, which was US\$210,100 in July, down 11.5 percent from a year ago. The median price of an existing home was US\$178,400 in July, down 15.1 percent from a year ago. Most analysts do not expect a return to historical highs in the short term, primarily due to the persistent high unemployment rate, lower personal income levels, and a continued tight lending environment, all of which are deterrents to consumer spending.

Government Initiatives

Many analysts believe that if the economic outlook continues to slowly improve, the prospects for the homebuilding industry will stabilize and show positive movement. The US\$8,000 government tax credit for

first-time homebuyers has already spurred home sales as observed recently.⁷

There are several government initiatives pending that could enhance a recovery. The Home Improvements Revitalize the Economy (HIRE) Act of 2009, if passed, would create a tax deduction of up to US\$2,000 and tax credits of up to US\$500 for consumers who purchase qualified building products and home furnishings.

The HIRE Act could positively influence the recent negative trends. The home renovation market was down 18 percent in 2008 to US\$188 billion from 2007, and during this period, the U.S. residential construction market dropped 41 percent. Additionally, the Act would target the use of qualified products which have proven to somewhat sustain a presence in the market. SBI, a provider of market research reports, estimates that residential energy efficiency products were relatively more resilient, dropping 13 percent in 2008 from 2007 levels.⁸

¹ The *Wall Street Journal*, “Philadelphia Fed Survey: Odds of Negative Q3 GDP Fall to 1-in-4,” August 14, 2009.

² The *Wall Street Journal*, “Global Economy Gains Steam,” September 2, 2009.

³ The *Wall Street Journal*, “Economists upgrade second-half GDP forecasts,” August 5, 2009.

⁴ U.S. Department of Housing and Urban Development, August 2009.

⁵ National Association of Realtors, August 2009.

⁶ *Reuters*, “U.S. home foreclosures set another record in July,” August 13, 2009.

⁷ The *Wall Street Journal*, “U.S. Economy Gets Lift From Stimulus,” September 2, 2009.

⁸ *Mindbranch*, “Energy-Efficient Home Renovations Market, Part I: Windows, Doors, and Insulation,” July 2009.

Looking forward, the National Association of Home Builders (NAHB) expects the home renovation market to improve in 2009. The Harvard University Joint Center for Housing Studies report released in April 2009 predicts the government stimulus plan will modestly boost remodeling activity in 2009 and early 2010. Congressman Nathan Deal of Georgia stated, “The HIRE Act will offer incentives for consumers who would otherwise forgo spending in 2009 and 2010, allowing them to improve their homes. And, in turn, jump-start the home furnishings and building products market.”⁹ The American Home Furnishings and Building Products Coalition estimates the bill will generate US\$18 billion in after-tax income and boost home valuations by US\$58 to US\$76 billion.¹⁰

The “Green” Initiative

As the appetite for home purchases and home remodeling returns, demand for “green” building products in particular is expected to be strong especially given government incentives. Green building consists of energy-efficient new construction, renovation, and remodeling. It includes a range of building product categories from windows and doors to insulation, HVAC systems, caulking and weather stripping, lighting, and appliances. A recent NAHB survey found 85 percent of the remodelers used energy-efficient windows in projects in 2008. According to the “Green Building Materials to 2013” report issued by Freedomia Group, Inc. in February 2009, the demand for green building products is expected to grow from US\$57 billion in 2008 to US\$80 billion by 2013, representing a compounded annual

growth rate (CAGR) of 7 percent. From 2003 until 2008, the industry has grown at a CAGR of 7.8 percent, fueled primarily by government programs and consumer demand.

The U.S. government has a strong agenda to boost energy efficiencies of facilities ranging from government structures to private residential and commercial buildings. The pending Waxman-Markey bill, better known as the American Clean Energy and Security Act of 2009, calls for a national cap-and-trade program intended to limit greenhouse gas emissions. The bill has a number of provisions for the green building industry. It calls for a national energy efficiency building code for residential and commercial buildings with a phased-in reduction in energy usage of up to 50 percent by 2018. It requires states and local municipalities to adhere to the federal national energy code, which historically has been managed by local governments. The program allocates billions of dollars to the Department of Energy’s State Energy Program for building retrofits and to state and local governments to develop energy-efficient and renewable projects.

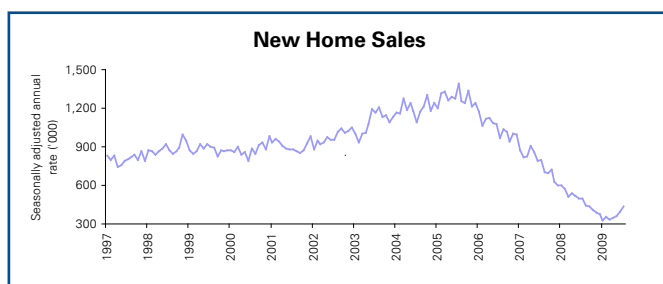
The American Recovery and Reinvestment Act’s stimulus package currently allocates considerable funding for energy-efficient projects. Under the Act, the government is offering tax rebates and credits to companies that adopt green technologies. Currently, there is an approximate US\$4.5 billion allocated to green projects for federal buildings. The Empire State Building Co. plans to spend US\$20 million on energy-efficiency upgrades to reduce annual energy usage by 38 percent. The Poff Federal Building in Virginia received

US\$51 million for energy upgrades.¹¹ Companies selling green products and services are positioned for significant windfalls from the government’s green agenda.

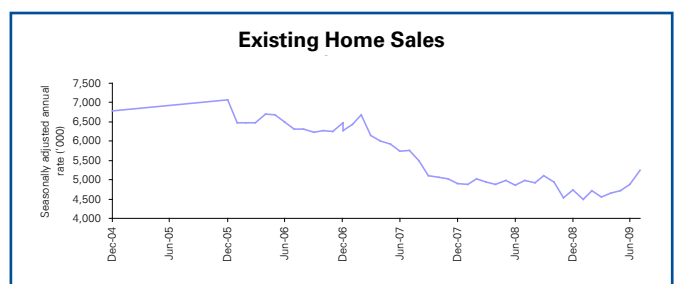
Johnson Controls, which provides energy optimization products and services, has received US\$25 million in government contracts and is bidding on another 2,700 government funded projects valued at approximately US\$800 million. Skanska, a Sweden-based construction company, was awarded its first fully funded US\$90 million stimulus contract to renovate the Dr. A.H. McCoy Federal Building in Jackson, Mississippi, and the George C. Young Courthouse and Federal Building in Orlando, Florida. Echelon Corp., a provider of control networks for buildings, was awarded the contract to upgrade street lights in Palo Alto, California. Honeywell International, a manufacturer of automation and control systems, has received orders, valued as much as US\$650 million over three years, from the U.S. Army Corps of Engineers to make energy-efficient upgrades at federal buildings.¹¹

The green initiative has taken hold at the consumer level as well, and although fuel prices have come down from their highs, there is ongoing interest to save money on energy. The Propane Education & Research Council found 80 percent of homeowners surveyed are concerned about energy efficiency in

⁹ *Home Furnishings Business*, “Bill Would Establish Tax Credits for Home Furnishings Purchases,” July 31, 2009.
¹⁰ *fibre2fashion.com*, “Rep. Johnson introduces HIRE Act to boost home furnishings market,” August 11, 2009.
¹¹ *The Wall Street Journal*, “Johnson Controls Gets High-Rise Window Work,” August 5, 2009.



Source: U.S. Census Bureau, August 2009



Source: National Association of Realtors, August 2009

Market Snapshot											
Company	Market Cap ¹	Share Price ¹	52 Week Low	52 Week High	Price % Change 1 Mo	Price % Change 3 Mo	Price % Change 1 Yr	EV ² /Sales	EV ² /EBITDA	EV ² /EBIT	
BUILDING PRODUCTS COMPANIES											
AXIS-SHIELD PLC ³	295.0	5.94	3.99	6.15	3.3%	22.6%	1.0%	2.0x	23.6x	69.0x	
AMERICAN WOODMARK CORP.	283.3	20.08	12.99	32.42	-14.3%	4.5%	-15.5%	0.5x	14.9x	NM	
BEACON ROOFING SUPPLY INC.	759.1	16.82	9.01	18.74	0.3%	16.0%	3.3%	0.6x	6.8x	8.5x	
THE BLACK & DECKER CORPORATION	2,654.6	44.12	20.10	69.50	17.3%	37.6%	-30.2%	0.7x	8.4x	11.7x	
CARLISLE COMPANIES INC.	2,020.6	32.99	16.60	37.19	5.3%	44.3%	1.9%	0.8x	7.8x	10.3x	
CEMEX, S.A.B. DE C.V.	10,737.6	13.28	3.79	20.67	41.4%	36.1%	-31.1%	1.9x	9.2x	17.3x	
COOPER INDUSTRIES LTD.	5,377.3	32.25	18.86	49.64	-2.1%	-1.7%	-32.3%	1.1x	7.2x	8.7x	
THE DIXIE GROUP, INC.	37.8	3.00	0.75	8.83	-4.5%	2.0%	-60.6%	0.5x	32.5x	NM	
DREW INDUSTRIES INC.	444.2	20.58	5.40	23.98	7.2%	43.4%	28.4%	1.1x	35.2x	NM	
FORTUNE BRANDS INC.	5,981.3	39.81	17.68	63.67	0.6%	13.7%	-32.3%	1.6x	9.7x	12.9x	
THE HOME DEPOT, INC.	46,485.6	27.29	17.05	30.74	5.2%	17.8%	0.6%	0.8x	8.8x	12.6x	
INTERFACE INC.	417.7	6.61	1.45	13.85	-4.8%	4.3%	-49.8%	0.7x	6.4x	8.4x	
JAMES HARDIE INDUSTRIES NV ³	2,531.3	5.85	2.43	6.29	35.4%	69.9%	45.8%	2.4x	41.1x	NM	
JOHNSON CONTROLS INC.	14,749.5	24.77	8.35	36.00	-4.3%	24.3%	-19.9%	0.6x	15.7x	41.9x	
LAFARGE SA ³	24,236.5	85.05	39.44	124.76	17.9%	25.4%	-29.9%	1.9x	8.1x	11.1x	
LOUISIANA-PACIFIC CORP.	781.5	7.53	1.03	11.75	78.4%	73.5%	-22.7%	1.0x	NM	NM	
LOWE'S COMPANIES INC.	31,755.5	21.50	13.00	28.49	-4.3%	13.1%	-12.7%	0.7x	7.0x	10.6x	
MAKITA CORP. ³	3,903.6	28.34	12.50	31.08	14.2%	27.9%	7.9%	1.1x	6.1x	7.4x	
MARTIN MARIETTA MATERIALS INC.	3,900.6	87.58	58.62	124.97	1.8%	7.5%	-22.4%	2.7x	11.0x	17.7x	
MASCO CORP.	5,201.2	14.48	3.64	22.00	3.9%	39.8%	-24.0%	1.0x	15.8x	29.5x	
MOHAWK INDUSTRIES INC.	3,430.8	50.12	16.97	75.26	-2.8%	31.0%	-27.4%	0.9x	12.8x	47.7x	
OWENS CORNING	2,856.3	22.34	5.08	26.42	21.5%	60.4%	-7.6%	1.0x	9.5x	25.4x	
PPG INDUSTRIES INC.	9,136.0	55.40	28.16	69.89	0.7%	24.6%	-11.9%	0.9x	8.6x	12.9x	
RPM INTERNATIONAL INC.	2,101.7	16.28	9.09	22.00	2.0%	6.3%	-24.6%	0.8x	7.4x	9.7x	
SHERWIN-WILLIAMS CO.	7,000.4	60.20	42.19	65.00	4.2%	14.0%	2.8%	1.0x	8.6x	10.6x	
SKANSKA AB ³	6,009.8	14.47	7.48	15.06	3.4%	32.2%	14.2%	0.2x	5.8x	7.7x	
SNAP-ON INC.	2,153.9	37.32	20.51	60.02	4.7%	19.8%	-34.5%	0.9x	6.2x	7.4x	
STANLEY WORKS	3,248.0	40.93	22.61	49.58	1.9%	14.6%	-14.6%	1.2x	8.0x	12.2x	
TREX CO. INC.	292.3	19.01	5.11	21.73	16.3%	71.1%	2.5%	1.3x	9.0x	25.0x	
UNIVERSAL FOREST PRODUCTS INC.	797.4	41.30	14.61	47.78	-7.5%	35.6%	25.7%	0.4x	11.1x	27.2x	
USG CORP.	1,474.3	14.86	4.16	35.00	5.1%	23.8%	-46.5%	0.7x	94.7x	NM	
VALSPAR CORP.	2,691.8	26.78	14.47	27.64	5.8%	17.2%	13.2%	1.1x	8.8x	11.5x	
VILMORIN CLAUSE & CIE SA ³	1,344.3	100.38	85.32	154.16	2.7%	13.1%	-34.4%	1.7x	9.3x	14.0x	
VULCAN MATERIALS COMPANY	6,254.4	50.04	34.30	100.25	5.4%	13.0%	-33.1%	2.9x	14.3x	37.1x	
WEYERHAEUSER CO.	7,902.6	37.39	18.67	65.50	6.7%	11.3%	-32.6%	1.9x	NM	NM	
WOLSELEY PLC ³	6,696.8	23.59	15.78	84.02	5.7%	40.6%	-70.9%	0.4x	8.8x	16.9x	
Building Products Companies Mean								1.0x	8.9x	12.6x	
HOMEBUILDERS											
BEAZER HOMES USA INC.	169.2	4.31	0.24	9.34	33.9%	69.0%	-38.1%	1.0x	NM	NM	
BROOKFIELD HOMES CORP.	192.7	7.20	1.49	17.80	27.9%	73.5%	-43.9%	2.6x	NM	NM	
DR HORTON INC.	4,252.3	13.41	3.79	15.46	15.7%	45.6%	7.6%	1.3x	NM	NM	
HOVNANIAN ENTERPRISES INC.	414.6	5.37	0.52	9.67	67.8%	100.4%	-24.8%	0.9x	NM	NM	
KB HOME	1,603.8	18.21	6.90	25.43	9.1%	21.4%	-12.5%	1.0x	NM	NM	
LENNAR CORP.	2,654.9	15.15	3.42	16.90	28.0%	59.3%	15.2%	1.1x	NM	NM	
MDC HOLDINGS INC.	1,759.3	37.46	20.89	46.79	6.3%	22.0%	-9.6%	1.1x	NM	NM	
M/I HOMES, INC.	292.8	15.82	4.92	26.00	20.5%	36.9%	-11.7%	1.1x	NM	NM	
MERITAGE HOMES CORPORATION	709.8	22.41	5.10	29.49	4.7%	7.4%	-4.3%	0.8x	NM	NM	
NVR INC.	3,923.2	675.25	310.69	698.28	12.3%	36.4%	13.0%	1.0x	10.0x	10.4x	
ORLEANS HOMEBUILDERS INC.	72.5	3.80	1.00	8.00	15.2%	124.9%	-22.4%	1.2x	NM	NM	
PULTE HOMES INC.	4,866.8	12.78	6.49	23.24	12.4%	45.2%	-11.9%	1.4x	NM	NM	
RYLAND GROUP INC.	1,004.1	22.92	9.95	30.00	14.8%	34.2%	-1.1%	0.8x	NM	NM	
STANDARD PACIFIC CORP.	367.8	3.63	0.65	6.85	5.5%	48.8%	13.4%	0.9x	NM	NM	
TOLL BROTHERS INC.	3,665.5	22.74	13.55	28.00	16.3%	22.4%	-8.6%	2.1x	NM	NM	
Homebuilders Mean								1.1x	10.0x	10.4x	
¹	Market Capitalization amounts are in millions, based on closing Share Prices as of August 31, 2009					³	Market Capitalization and Share Prices for foreign exchange listed securities are converted to US\$				
²	Enterprise Value (EV) equals Market Capitalization plus Debt, Preferred Equity, and Minority Interest, minus Cash and Cash Equivalents; For Homebuilding companies, Enterprise Value excludes debt related to the company's mortgage finance division										

Source: Capital IQ and company filings

their homes.¹² According to Sid Spear, vice president of Sales and Marketing for Simonton Windows, a West Virginia-based manufacturer of windows and doors, "Consumers will recognize in the future that they can gain a higher rate of return on investment with energy-saving window products, and while energy costs have flattened out most recently, we believe there will still be an ongoing interest from consumers on investing in products that have the most positive impact on their home."¹³ In addition, government programs

including the HIRE Act provide incentives for energy-efficient renovations. Under the HIRE Act, the incentives double for purchases of products that meet recognized environmental standards, such as from LEED, ESP, NAHB, the Sustainable Forestry Initiative/Forest Stewardship Council, or Green Globes.

Similar incentives are proposed for green providers, who could receive tax credits of up to US\$20,000 for purchases certified by recognized green programs versus US\$10,000 for non-green programs.¹⁴

Manufacturers of green products have ramped up activity to take advantage of consumer demand, tax credits, and rebates. Serious Materials, a California-based provider of green building materials, recently rehired laid-off staff members in order to manufacture the energy-efficient Serious Windows product line.

¹² Mindbranch, "Energy-Efficient Home Renovations Market, Part I: Windows, Doors, and Insulation," July 2009.

¹³ windowanddoor.com, "Window and Door Manufacturers Hold Breath to Stay Afloat in 2009," January 15, 2009.

¹⁴ Remodeling, "New Tax Deductions and Credits Proposed for Green Products," July 14, 2009.

Select Building Products Transactions

- August 31, 2009 – **Industrial Opportunity Partners**, an Evanston, Illinois-based private equity firm, entered into an agreement to recapitalize Carlson Systems Holdings, Inc., a multiregional distributor of product assembly systems. KPMG Corporate Finance LLC advised on the transaction.
- August 18, 2009 – **PGT, Inc.** (NASDAQGM: PGTI), a manufacturer and supplier of residential impact-resistant windows and doors, entered into an agreement to acquire all of the assets of The Hurricane Window & Door Factory, LLC, a Florida-based provider of vinyl impact windows and doors.
- July 27, 2009 – **Design Investors LLC**, a Westport, Connecticut-based private equity firm, entered into an agreement to acquire all of the assets of **Waterworks Inc.**, a provider of bath fittings and accessories. Waterworks, in May 2009, filed a voluntary petition under Chapter 11 of the bankruptcy code.
- July 6, 2009 – TPG, a Forth Worth, Texas-based private equity firm, entered into an agreement to acquire 12.2 percent stake in **Armstrong World Industries, Inc.** (NYSE: AWI), a manufacturer of flooring products and ceiling systems, for an implied enterprise value of US\$1.37 billion and a valuation of 0.5x revenue and 4.3x EBITDA.
- April 17, 2009 – The Iron Door Company, LLC, a manufacturer of custom hand-forged wrought iron doors, agreed to acquire **Castle Entries, Inc.**, a provider of custom wrought iron doors and windows.

Source: Capital IQ, August 31, 2009

Similarly, Andersen Windows, a Minnesota-based provider of windows, rehired 180 employees as a result of an uptick in business that Andersen attributes to new tax credits. Many analysts believe that the incentives of the stimulus act will spur window and door replacements. “We’re hoping this provision will provide more incentive for homeowners to take advantage of this unique opportunity to invest in windows and save on their energy bills,” said Mark Wherry, vice president of manufacturing for Simonton Windows.¹⁵

As the economy recovers, consumer spending on homebuilding and home renovation increases, and the government continues to promote green projects, the companies providing green products and services are ideally positioned for strong growth.

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¹⁵ remodeling.net, “Spring Sees Window Manufacturers Ramping Up,” March 27, 2009.

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