

Transactions
Construction & Housebuilding

M&A Insights

Analysis & opinions on UK M&A activity
from our network of local advisers

2007



Welcome



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We are delighted to welcome you to Construction & Housebuilding M&A Insights 2007. This report reviews the sector's economic landscape and summarises M&A activity in three key sub-sectors – construction services, housebuilding and building products – in the fifteen months to 31 March 2007.

Most excitement has recently centred on UK housebuilding with some major M&A manoeuvres dominating the agenda. Barratt's acquisition of Wilson Bowden was swiftly followed by the HBoS / Sir Tom Hunter consortium's takeover of Crest Nicholson in the wake of the team's purchase of McCarthy & Stone. As we go to press, Wimpey and Taylor Woodrow look set to complete a £5bn merger and secure the hotly-contested title of 'the UK's largest housebuilder'.

There has also been considerable activity in construction services and building products, with international players particularly hungry for UK building materials concerns as the sector continues its global consolidation.

Generally, the UK construction industry is grappling with a full order book. This, coupled with an acute skills shortage and cost inflation in the materials sector, means that it has



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never been more important for contractors to price work fully. As margins begin to creep up from historic levels of around 2% the industry has within its grasp a real chance of achieving a step-change in terms of profitability. This potentially transformational opportunity is one that should not be missed.

Advising clients on maximising opportunities and achieving strategic aims and objectives is a core area for PricewaterhouseCoopers Corporate Finance and one in which we have a particularly strong track record. In the UK construction and housebuilding sector this is illustrated by our recent work on transactions such as the sale of McNicholas (Holdings) plc to Skanska, the sale of McCann Homes, and the acquisition of Linden Homes by Galliford Try plc.

We hope you find Construction and Housebuilding M&A Insights helpful and informative. If you would like further information or have any comments, please do not hesitate to contact us or one of our dedicated sector team.

The UK construction market: Building confidence

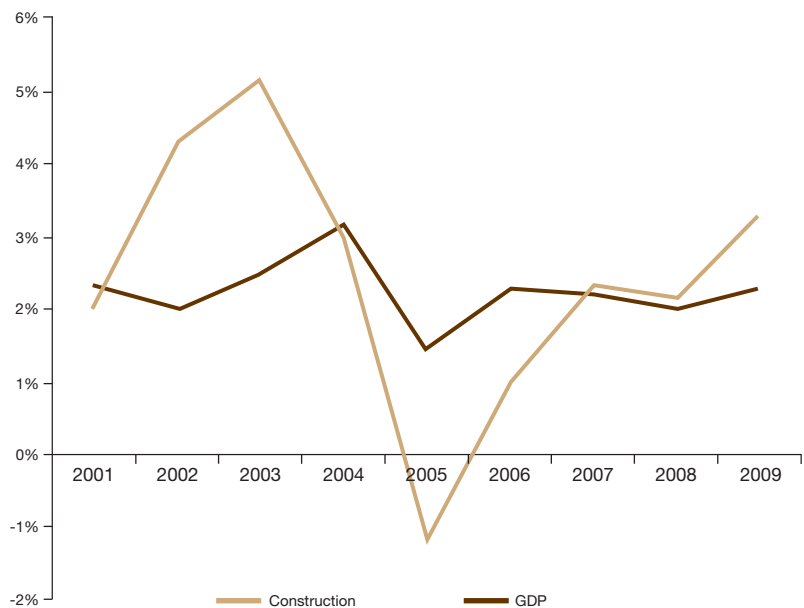
The construction industry looks set for a period of sustained growth.

Following a reduction in construction output in 2005 and a slow recovery in 2006, there is optimism about the industry's fundamentals with prospects for future growth remaining positive. Construction output is projected to exceed GDP growth over the next three years (see graph below). This confident outlook for the sector is certainly a major factor driving M&A activity.

The pronounced dip in 2005 and 2006 was anticipated, following exceptionally strong trading in 2002 to 2004. This period had experienced growth led by the public sector and high levels of both public and private residential building.

The private commercial and infrastructure markets are expected to lead growth going forward. The start on site of Olympics-related work at Stratford in East London will also be a contributing growth factor. However, this is only part of a strong workload profile, particularly in the South-East of England.

Construction output[†] versus GDP (real terms)



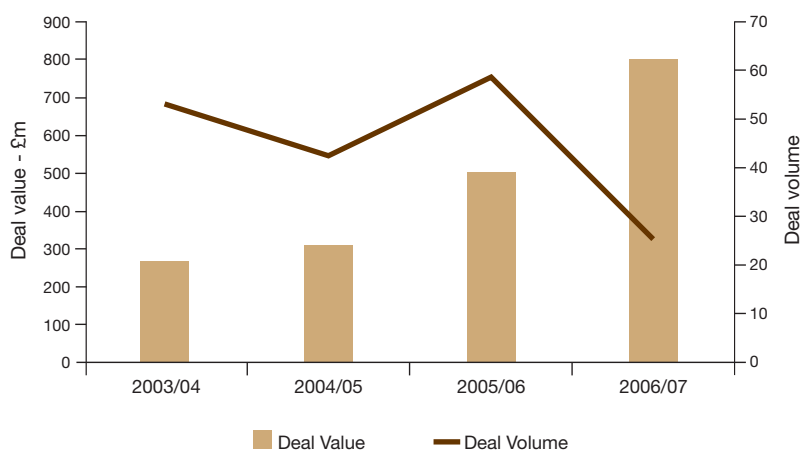
Source: Experian and Datastream

[†]Construction output, in this report, is defined as the value of all those products and services provided for the build and refurbishment of physical structures within the UK built environment.

Construction services: Deals get larger and more complex

While deal volume falls, the surge in deal value reflects the market's willingness to pursue larger and more complex deals.

Overview of deal activity in construction services†



Source: Experian and Datastream

M&A in the construction services† market has been extremely buoyant in recent years with the total value of transactions growing at an average of 30% each year for the past four years.

Deal volumes actually declined in 2006 with the number of transactions falling from the historic average of 50 to 25. However, this underlines the market's shift towards larger transactions. This bullish stance has been led by quoted companies which have felt the benefits of a sector re-rating and increased confidence from the stock market about their ability to deliver more complex strategic deals.

The strength of the market is underpinned by the rise in pricing trends. Following a couple of years where Earnings Before Interest and Tax (EBIT) multiples were averaging 6.5x, 2006 saw average EBIT multiples increase to 7.3x.

In addition, there is a scarcity of quality businesses with established positions in growth markets and the ability to produce superior financial returns on a consistent basis.

†The construction services market is defined as all those services provided for the construction, repair, maintenance and improvement of physical assets within the built environment. It therefore spans building, civil engineering, building services such as mechanical and electrical and specialist services including utilities repair and maintenance.

Key deals in Construction Services 15 months to 31 March 2007

Date	Value £m	Target	Acquirer
Feb 06	313	Mowlem plc	Carillion plc
Dec 06	50	McNicholas (Holdings) plc	Skanska Ab
Mar 06	43	Morrison Construction Division	Galliford Try plc
Oct 06	36	Engineering division of MJ Gleeson	Black & Veatch
Jul 06	32	Birse Group plc	Balfour Beatty plc
Jul 06	31	Tulloch Construction Group	Rok plc
Mar 06	23	Gleeson MCL	Morgan Sindall
Sep 06	18	Denne Construction Ltd	JB Leadbitter & Co Ltd
Jan 07	16	DC Group	IBO
Apr 06	n/d	Apollo	Oval
Nov 06	n/d	McCann Homes Ltd	Existing management (MBO)

Source: Mergermarket

The largest deal completed in the UK construction services sector in 2006/7 was the £313m takeover by UK building group Carillion of its smaller rival Mowlem. The deal created one of Britain's largest support services and construction firms with an estimated turnover of more than £4bn.

The companies are seen as a good match; while Carillion focuses primarily on large building projects with a particularly strong presence in the education, retail, high-rise urban residential, offices and mixed-use development sectors, Mowlem brings an extensive presence in the education and defence sectors and in smaller-scale building projects.

Another notable deal within the last 12 months was Galliford Try's £43m acquisition of Morrison Construction Division from AWG. This acquisition provides Galliford with the critical mass now expected by the City. Morrison is a good operational fit and is in the same strategic markets as Galliford but serves different geographical areas and customer clusters thus offering scope for significant synergies. Similarly, the recent £31m acquisition by Rok, the UK provider of development, building and maintenance services, of Tulloch Construction, a privately-owned building and related services business, will broaden Rok's national footprint by strengthening its presence in Scotland.

The transactions involving Denne Construction, Apollo and McCann all illustrate the growing interest from financial as well as trade buyers for companies in the social housing sector. While Apollo and McCann were both the subject of management buyouts, backed by Lloyds Development Capital and BoS Integrated Finance respectively, Denne was bought by Leadbitter, a subsidiary of the Dutch construction group Heijmans.

Interestingly, after only a short period of ownership, Apollo's new owners have already raised the 'For Sale' sign. As we go to print, an announcement is expected with further institutional investment almost guaranteed.

PE investors target profitable niches

The construction sector is becoming an increasingly attractive source of investments for private equity funds.

Private equity investment interest in the construction services sector is largely driven by the opportunity to acquire fast-growing businesses in specialty niches.

Against this background, Sovereign Capital completed the £16m institutional buyout (IBO) of Cheshire-based DC Group. The DC Group trades as 'Seaflame', one of the largest gas maintenance contractors in London, and 'Camerons', a maintenance provider operating in the North-West.

Balfour Beatty's acquisition of Birse should unlock regional civil engineering markets besides adding to its UK road and rail capabilities. Skanska's acquisition of McNicholas (Brown) should open up attractive growth markets for the Swedish-owned group, such as the London power market through the all-important relationship with EDF Energy. The acquisition will also see Skanska becoming a 100% partner in the London Alliance contract.

As part of its extensive restructuring, MJ Gleeson successfully completed the disposal of its rail and water engineering businesses to Morgan Sindall and the US construction company Black & Veatch respectively.



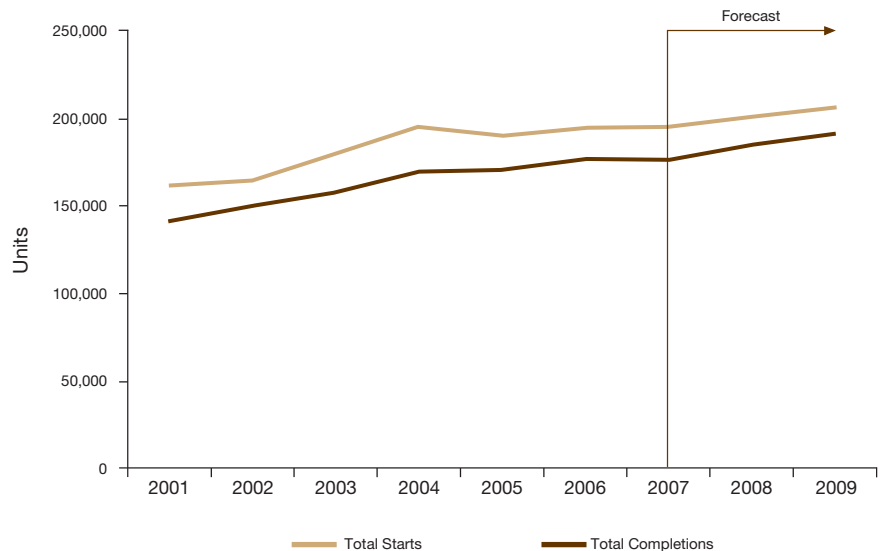
UK housebuilding: Balancing supply and demand

Land bank, planning regulation and the drive for economies of scale has underpinned further consolidation amongst housebuilders, in the context of buoyant demand for houses.

The underlying theme of the housing market has been the shortage of supply relative to the pressures of buoyant demand. This has triggered significant price inflation with increases over the past five years averaging around 13%.

This contrasts with housing completions growing at below 5% in the same period. Even though price inflation has slowed since 2004, averaging around 6% in 2005 and 2006, the imbalance between supply and demand has not eased.

Private New Housing - Key Trends



Source: Experian and Datastream

Looking forward, the general consensus is that the upward trend in interest rates could lead to a reduction in price inflation and, potentially, a softer market. However, the long-term fundamentals remain relatively strong. The main challenge for house builders will be to increase supply over the current levels within what remains a tight planning environment.

Against this background, M&A is expected to remain a strategic linchpin for all the major players in the market. In particular, acquisitions provide scope to:

- Unlock significant land banks which would otherwise require long gestation periods to build up;
- Provide access to attractive strategic and optioned land, essential for any company's long-term growth plans;
- Drive consolidation in an industry where scale and market reach can offer more stable earnings streams and generate significant synergies that have a material impact on future profit levels.

Key deals in UK Housebuilding 15 months to 31 March 2007

Date	Value £m	Target	Acquirer
Mar 07	5,000	<i>Merger</i>	George Wimpey plc/Taylor Woodrow plc
Feb 07	2,200	Wilson Bowden plc	Barratt Developments plc
Dec 06	1,105	McCarthy & Stone plc	Mother Bidco Ltd
Mar 07	715	Crest Nicholson plc	Castle Bidco
Feb 07	109	Linden Holdings plc	Galliford Try plc
Sep 06	98	50% of stake St James Group Ltd	Berkeley Group plc
Jan 06	67	Chartdale Ltd	Galliford Try plc
Feb 06	60	Yuill Group Ltd	Taggart Holdings Ltd
Aug 06	53	Hugh Bourn Developments (Wragby) Ltd	Kier Group plc
Apr 06	25	Squires Bridge Homes Ltd	Barratt Developments plc
Apr 06	25	Roland Bardsley Homes Ltd	Wilson Bowden plc
Aug 06	24	Bowey Homes Holdings Ltd	McInerney Holdings plc

Source: Mergermarket

Builders find room for development

The UK housebuilding sector is going through a period of strong consolidation. The first three months of 2007 alone saw a run of major deals which have significantly reshaped the industry.

Barratt eventually emerged as the successful bidder for Wilson Bowden in a deal worth £2.2bn. The transaction, which creates a group with a 12% market share, will provide Barratt with broader national coverage by extending the company beyond its key markets in the North and South of England and establishing a significant presence in the Midlands.

At the end of March 2007, Taylor Woodrow and George Wimpey responded in style by announcing a long-awaited merger. This will create a business capitalised at some £5bn and propel the newly-combined group into the FTSE 100, alongside Persimmon and Barratt. The merger has been generally well received by the City. Most commentators have praised the companies' strong strategic fit which capitalises on Wimpey's building efficiencies and Taylor Woodrow's strong land development skills.

Also in March this year, Crest Nicholson agreed a £715m bid from a consortium led by the Scottish entrepreneur Sir Tom Hunter and HBoS. This transaction came on the back of last year's acquisition of McCarthy & Stone, the retirement homes builder, making HBoS and Sir Tom a prominent force in UK housebuilding.

This year has also seen Galliford Try reaffirm its strategy of rapid growth in housebuilding through the £108.5m acquisition of Linden Homes. The deal is underpinned by a robust strategic rationale as the two businesses are highly complementary. Both have positioned themselves as specialist regional housebuilders with expertise in developing brownfield sites. The deal also strengthens Galliford's geographic coverage.

M&A has also been extremely buoyant at the smaller end of the market with a number of acquisitions designed to provide greater geographic focus in key regions. Hugh Bourn Developments provides Kier with extensive coverage in Lincolnshire, providing the basis for a new region. Galliford Try's acquisition of Chartdale was also driven by the desire to expand in this fast-growing region. Chartdale represents the natural extension of Stamford Homes' activities in the Eastern Counties and will also provide a viable platform for growth into Yorkshire. Similarly, Squires Bridge gives Barratt attractive development opportunities in Hampshire and West Sussex while Wilson Bowden's earlier acquisition of Roland Bardsley strengthened its market position in the high-growth Manchester conurbation, prior to its own acquisition by Barratt.

The growing attractiveness of the residential market in the North of England was also confirmed by the acquisitions of Yuill and Bowey Homes. Hartlepool-based Yuill provides Taggart with a wider geographic representation beyond the core Manchester market by granting access to the North-East. McInerney's acquisition of Bowey Homes follows a similar logic, also strengthening McInerney's presence in the North-East.

Building products: Cementing cross-border consolidation

In contrast to the housebuilding and construction services markets where consolidation is occurring primarily on a national basis, the building products market continues to be driven by largely pan-European and global consolidatory forces.

Landmark deals, such as the £3.9bn hostile takeover of BPB, the UK plasterboard maker, by France's Saint Gobain in 2005, set the scene for the £1.8bn purchase by Japan's Nippon Sheet Glass of the 80% of the UK's Pilkington that it did not already own. Holcim followed this up with the purchase of the UK regional aggregates manufacturer Foster Yeoman for some £300m.

Another example of a large overseas player keen to build a strong base in the UK building products sector is Austria's Weinerberger. It made an £89m offer for Baggeridge Brick, the UK's fourth biggest brick manufacturer, in August 2006. Following a review by the Competition Commission, the deal looks set to complete despite intervention from Michelmersh Brick who had built a 23% stake in Baggeridge.

Within the cement and aggregates arena, the £245m acquisition of Civil & Marine Holdings (C&M) by Hanson, now the UK's only major international building materials group not under foreign ownership, provides access to the production of ground granulated blast furnace slag (GGBS). C&M is the largest UK producer of GGBS, an environmentally-friendly material increasingly specified as a substitute for conventional Portland cement content.

Key deals in Building Products 15 months to 31 March 2007

Date	Value £m	Target	Acquirer
Mar 06	2,200	Pilkington plc	Nippon Sheet Glass
Jun 06	300	Foster Yeoman Ltd	Holcim / Aggregate Industries
Mar 06	245	Civil & Marine (Holdings)	Hanson plc
Mar 07	84	Armitage Venesta	MBO
May 06	68	Tensar International Ltd	Arcapita (Private Equity)
Jun 06	29	Ultraframe plc	Latium Plastics Holdings
May 06	20	Rixonway Kitchens Ltd	August Equity Ltd (IBO)

Source: Mergermarket

On the private equity front, earlier this year US-based American Standard Companies completed the £84m non-core disposal of Armitage Venesta, the UK's leading maker of commercial washroom systems, to RS Building Products, an MBO-formed company backed by Barclays Ventures.

In 2006, Tensar Group, a supplier of geogrids solutions for earthworks and soil stabilisation applications, was bought by its US licensee, Tensar Corporation, for £68m. The deal secured an exit for 3i and Electra Partners. Tensar is owned by Arcapita, the private equity arm of Bahrain-based Arcapita Bank B.S.C. Corporation, following an MBO in 2005.

Kitchen manufacturer Rixonway Kitchens was also the subject of an MBO last year in a £20m deal backed by August Equity. The Dewsbury-based company concentrates on the fast growing social housing market providing kitchens for refurbishment as well as new build applications.

One deal which side-stepped the PE players was the £29m public takeover of the troubled conservatory specialist Ultraframe by Latium, the private uPVC windows manufacturer.

Outlook

The prospects remain bright for sustained strategic M&A activity.

The frantic pace of M&A and the strong prices paid for assets has sparked renewed interest in the construction sector as a whole.

The continued appetite for land, drive for higher volumes, and ability to realize significant cost savings should see continued interest in opportunities offering scale in the housebuilding sector. In May 2007 Hanson, the UK's only major international building materials group, agreed an £8bn takeover by German Cement underlining the attractiveness of the sector.

Given the opportunities for greater consolidation across all these sectors, the continued speculation over further transactions, and the prospect of stable workload over the next three years, the high volume of M&A activity is set to continue.



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