

# Desautels Capital Management

## Industry Review

The Materials Team

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February 13, 2018

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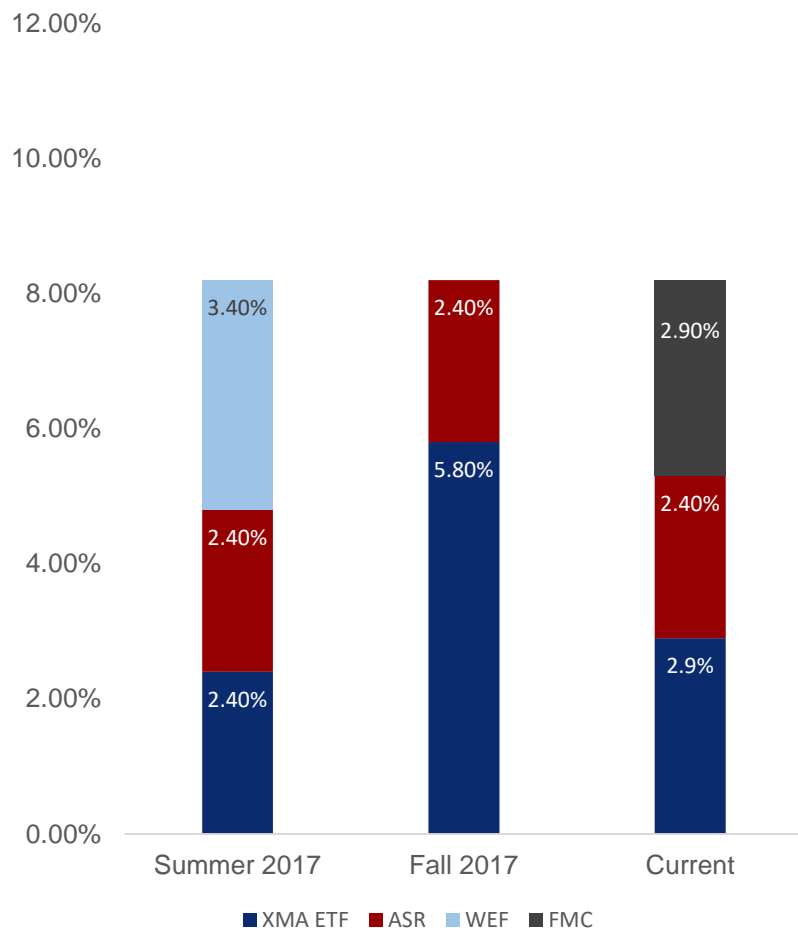
- a. Different Players
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# Materials Sector Update

## SECTION I

# Materials Current Situation

## Sector Snapshot

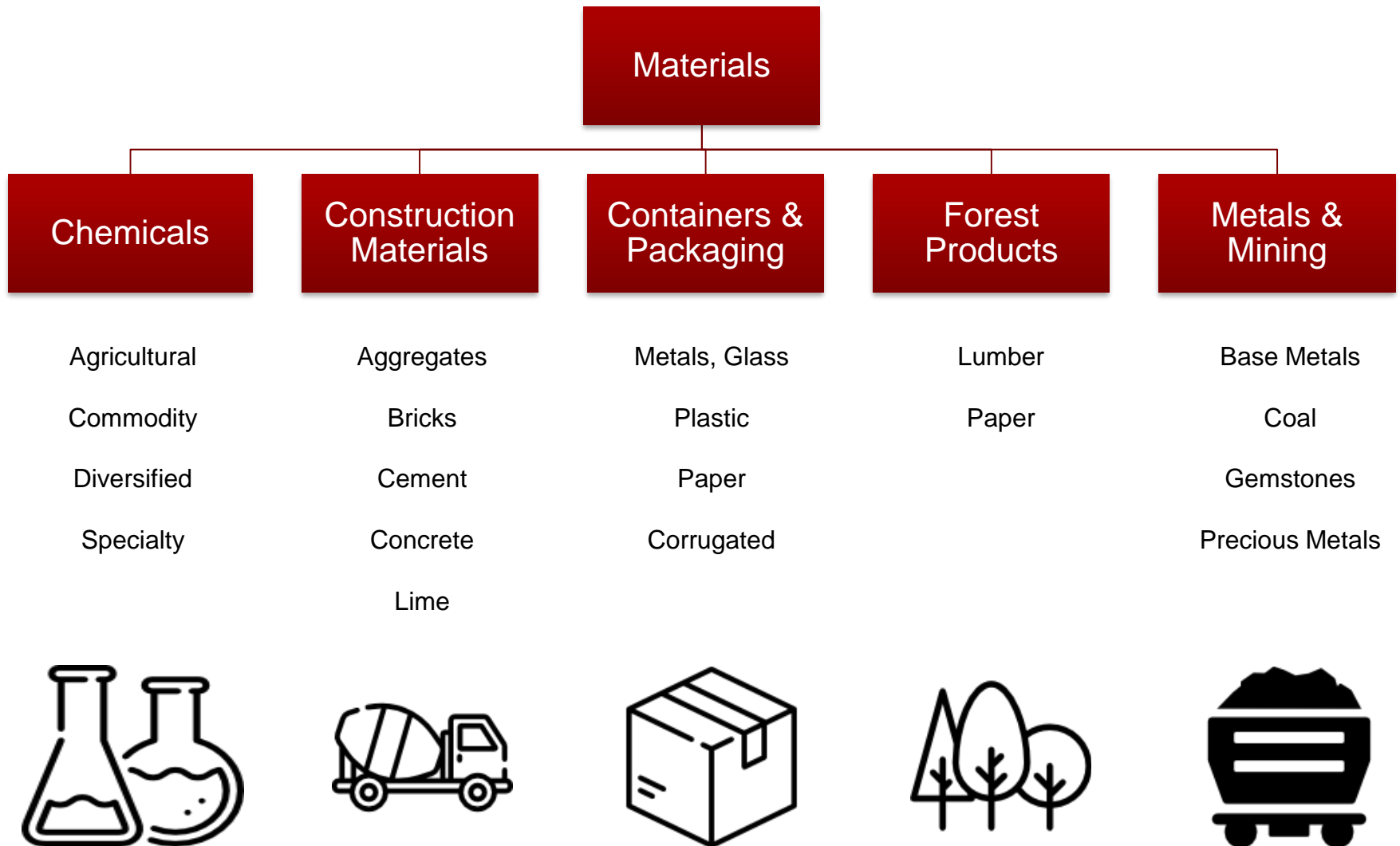


## Update

- During Fall 2017, we looked at Chemicals
  - Industry review covered various subsectors and helped narrow down to agricultural chemicals and lithium as bright spots
  - Pitched FMC given its exposure to both agricultural chemicals and lithium
  - Added FMC to DCM portfolio in Jan 2018
- For Winter 2017
  - Plan is to focus on the Construction Materials sector
  - Look at the various subsectors within building materials and narrow down
  - Pick a company with exposure to relevant subsectors and attractive valuation
  - Replace ETF exposure with a construction materials player from the U.S

Source: DCM

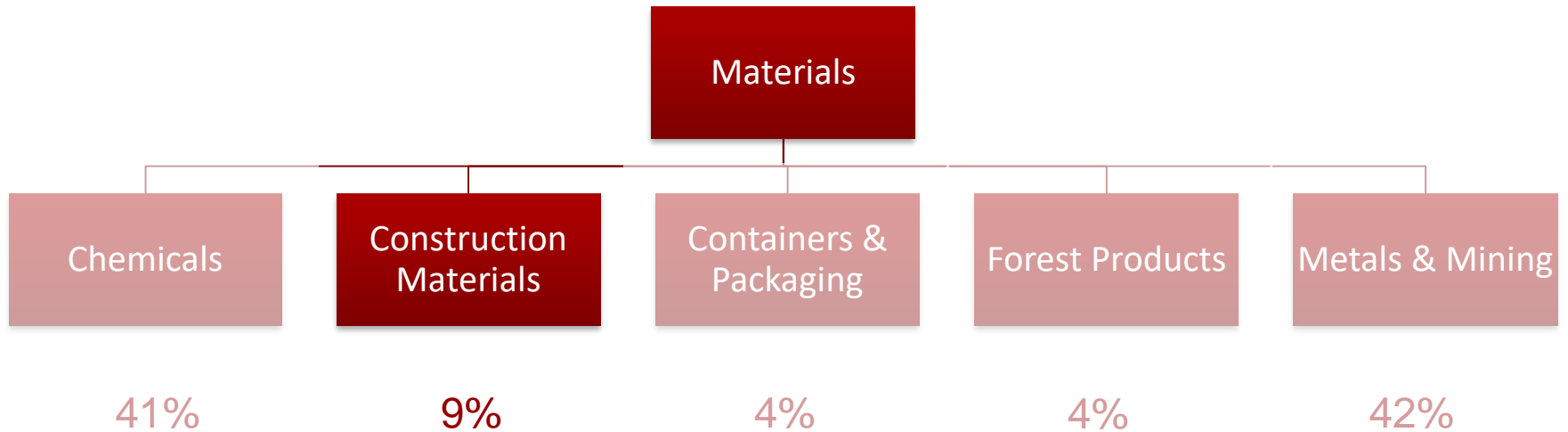
# Materials Overview



Source: GICS Industry Classification

# Materials Overview

## Recent and Current Holdings

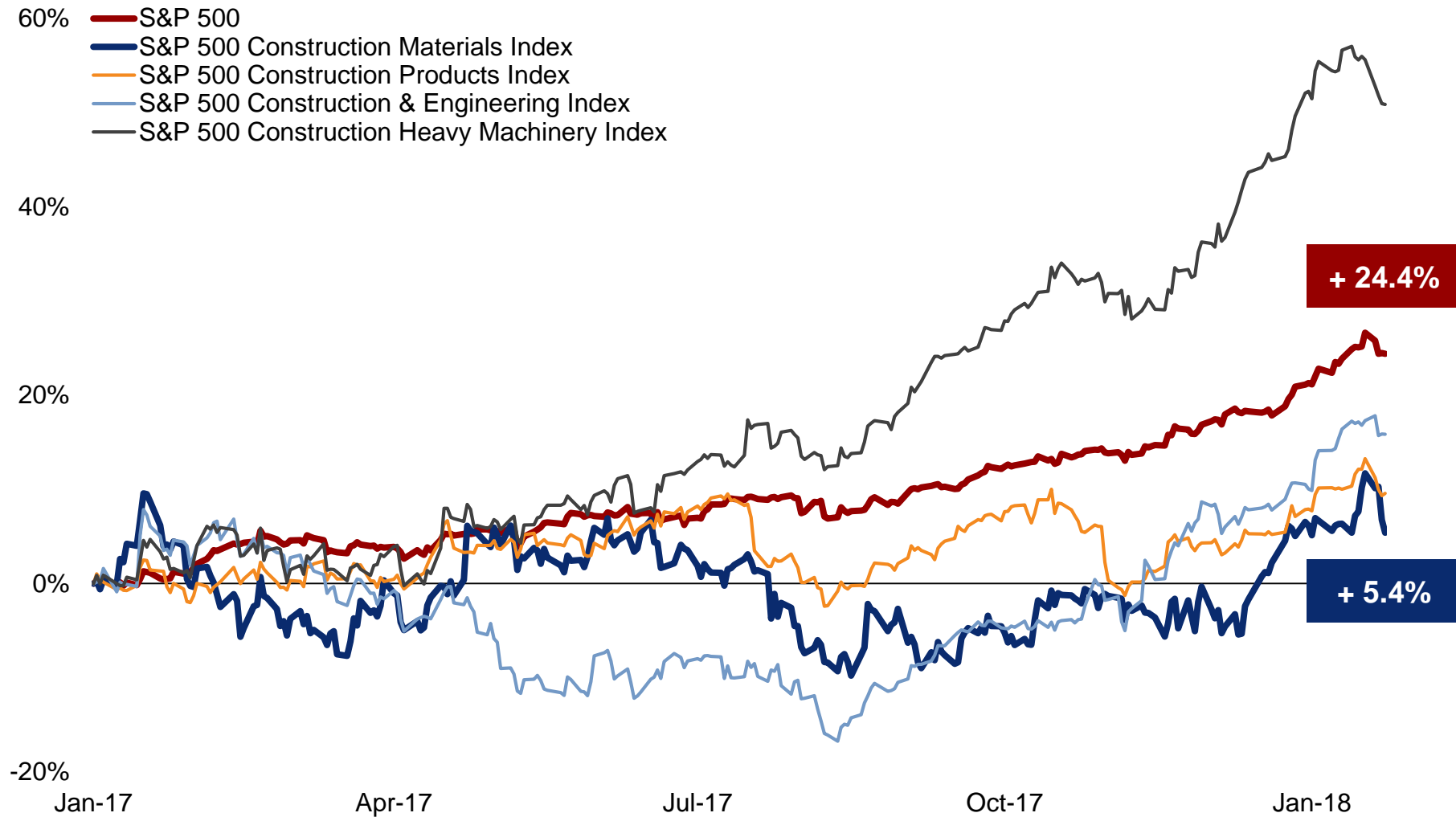


Source: GICS Industry Classification

# Construction Materials

## SECTION II

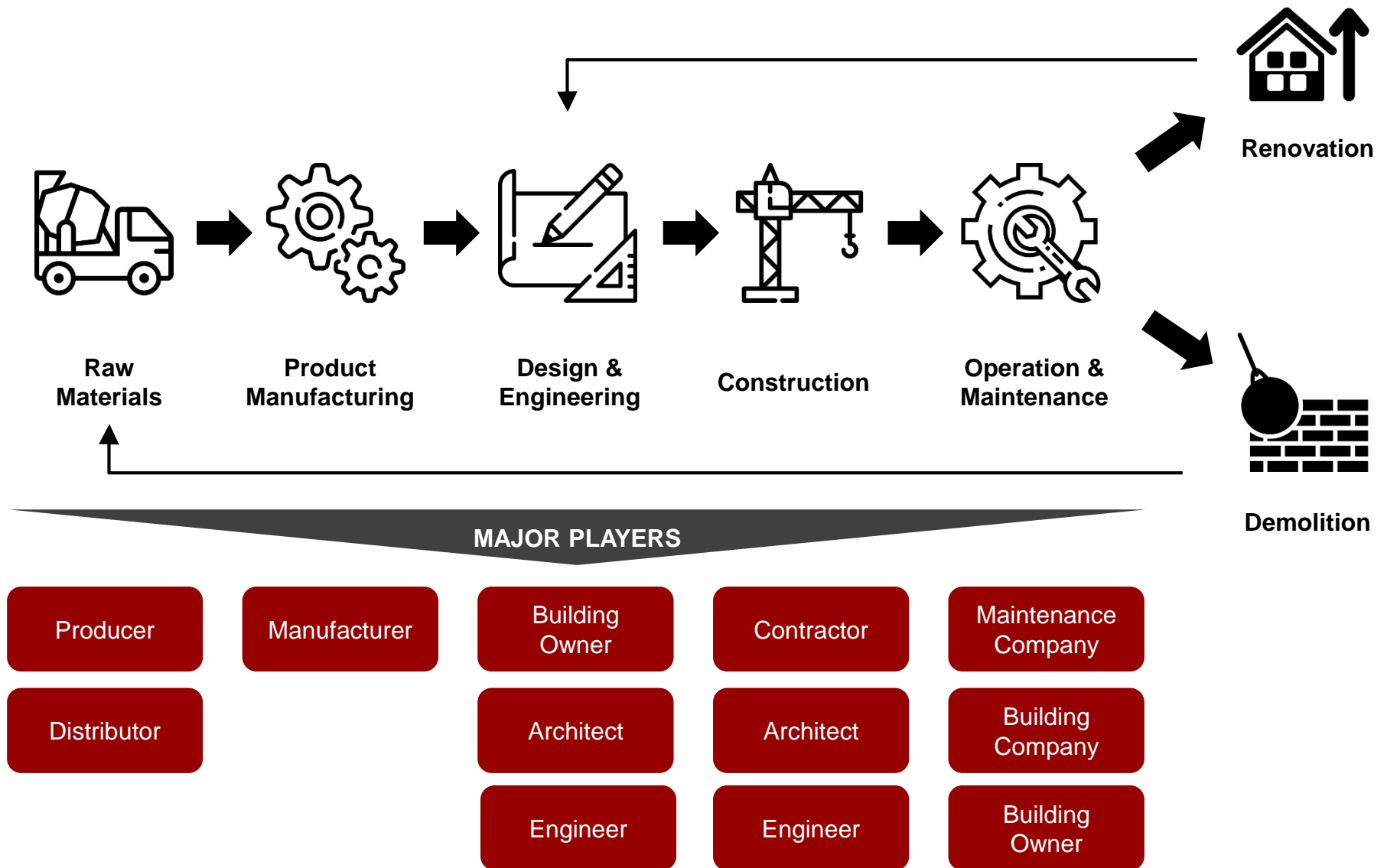
# Industry Player vs. Benchmark



Construction materials sector significantly underperformed S&P 500 benchmark and other construction industry players

Source: Bloomberg

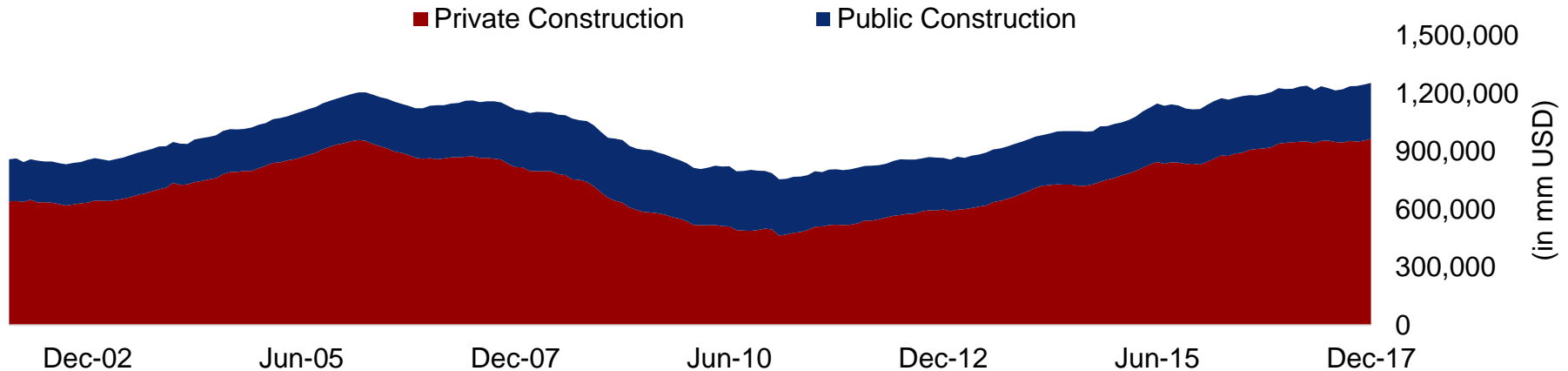
# Construction Industry Value Chain



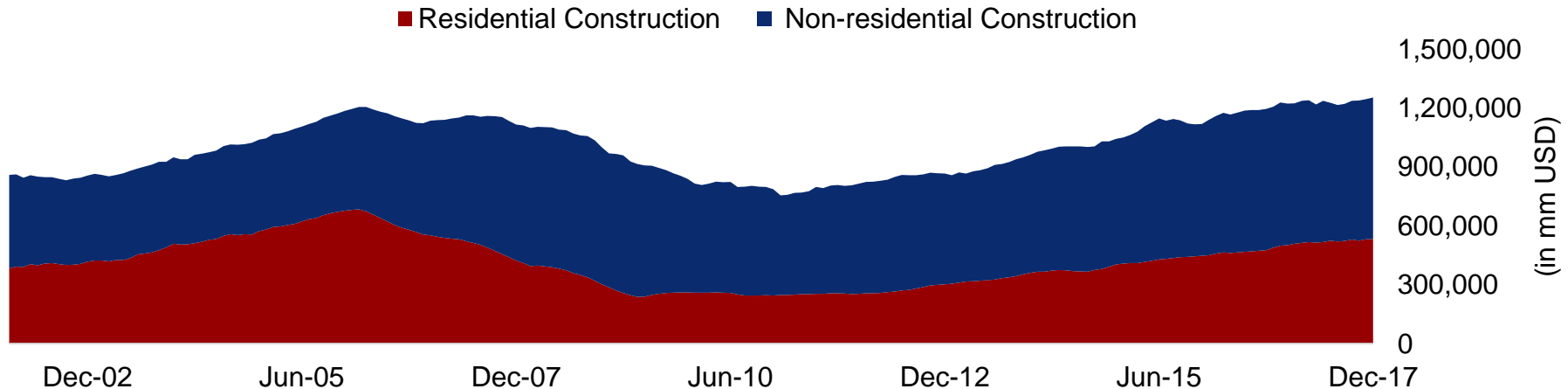
Source: BPIE

# Construction Spending Breakdown

## US Total Value of Construction Put in Place (Public vs. Private)

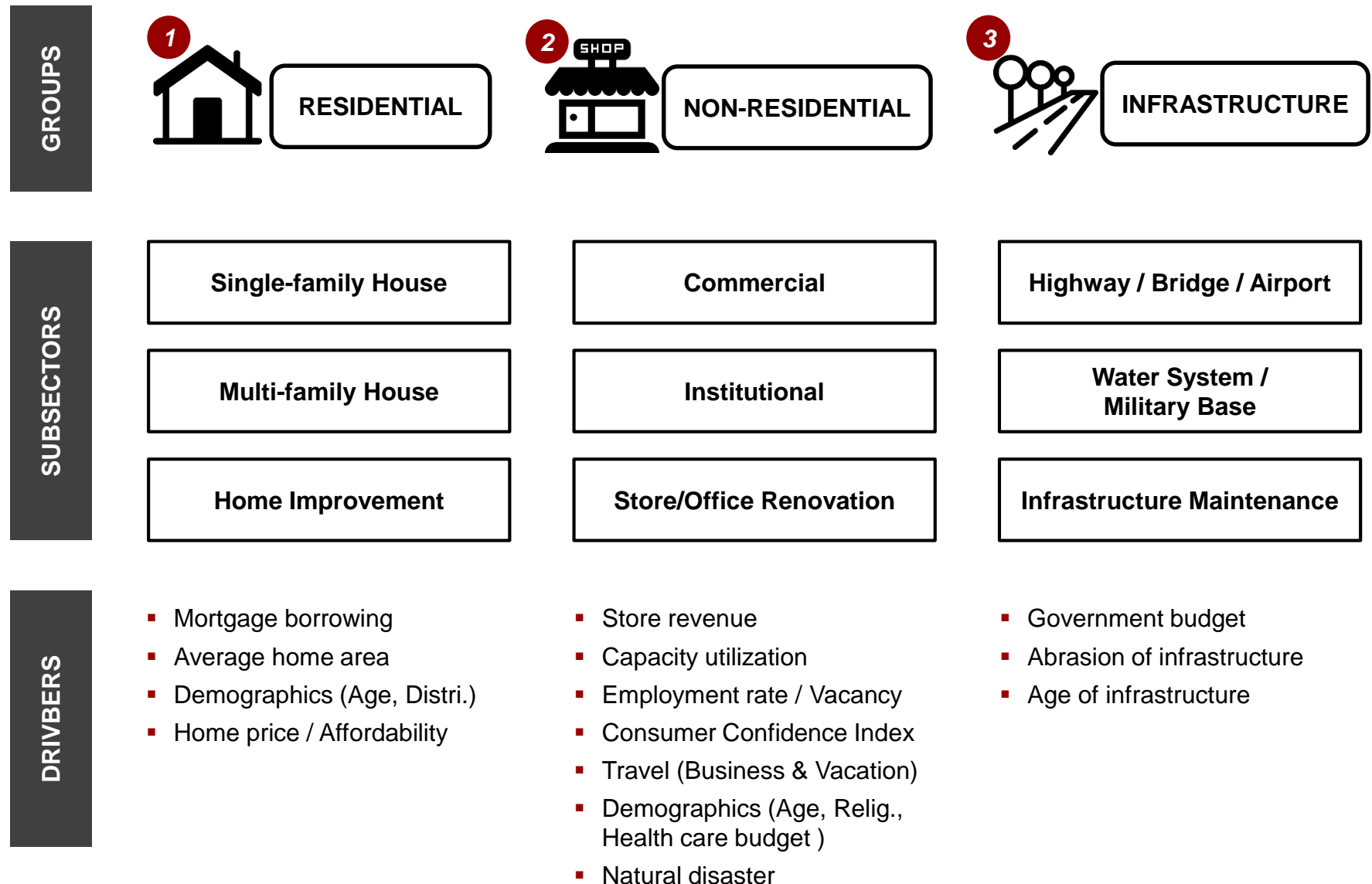


## US Total Value of Construction Put in Place (Residential vs. Non-residential)



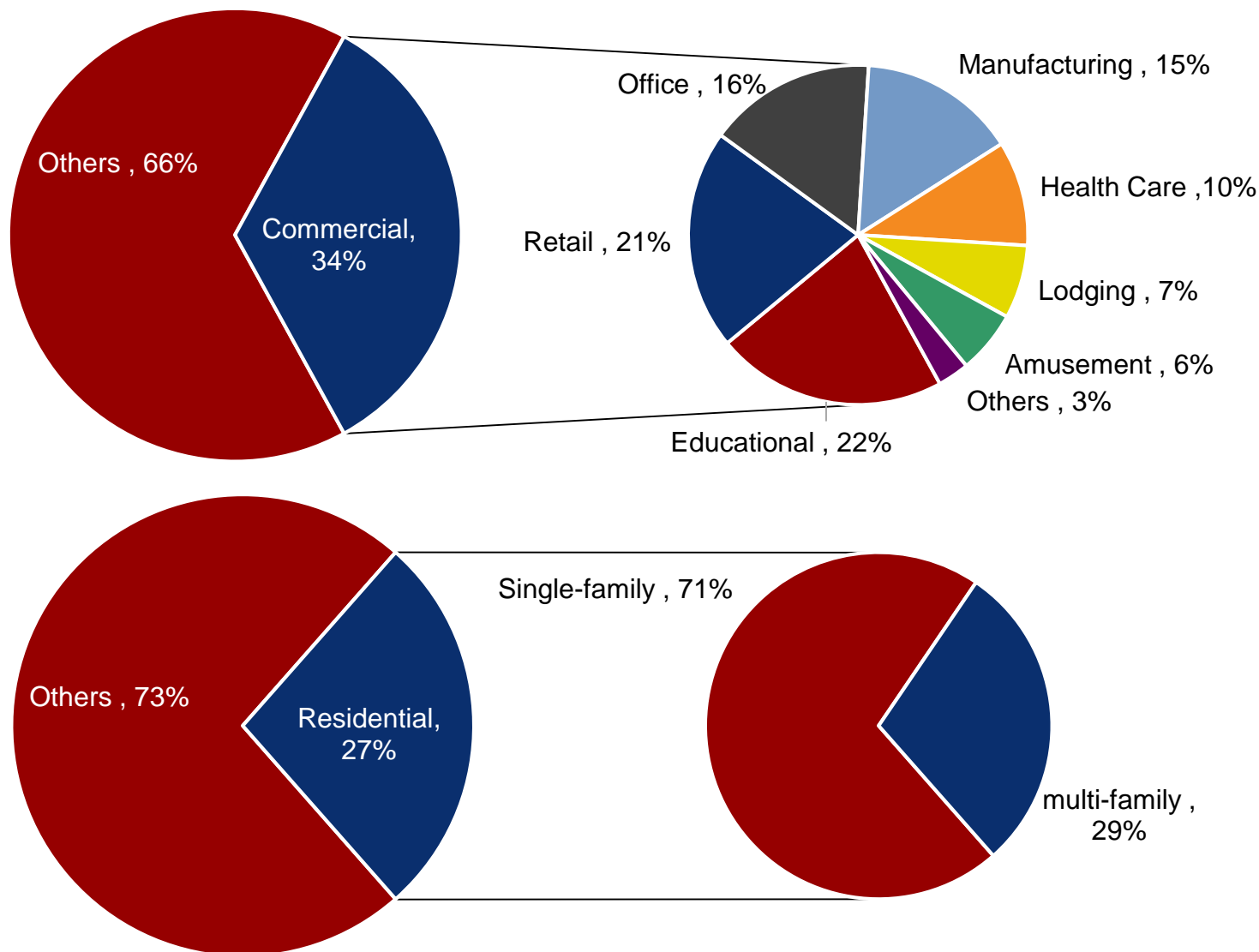
Source: US Census Bureau

# Construction Market Breakdown and Drivers



Source: Portland Cement Association

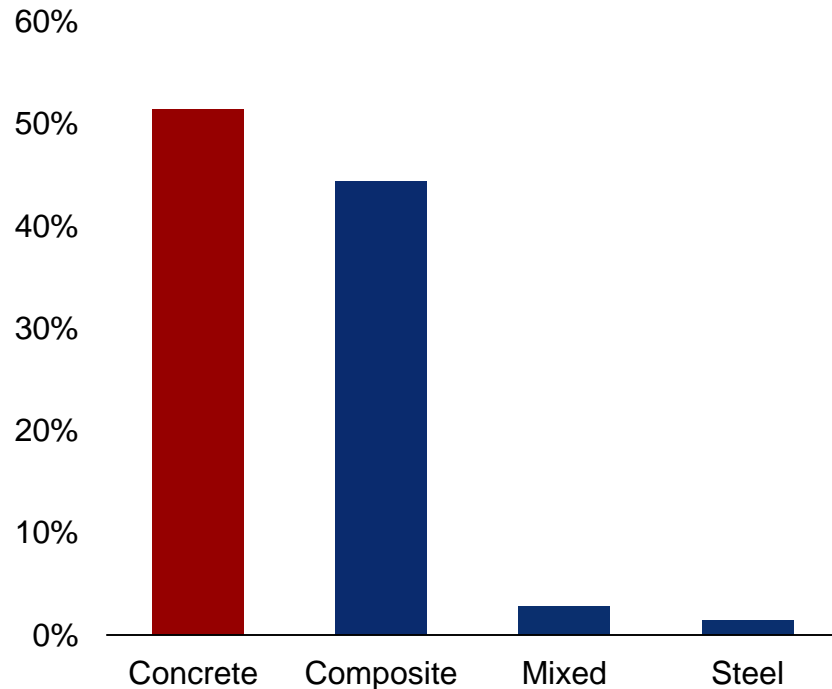
# Residential and Non-residential Construction Breakdown



Source: Portland Cement Association, Deutsche Bank Market Research

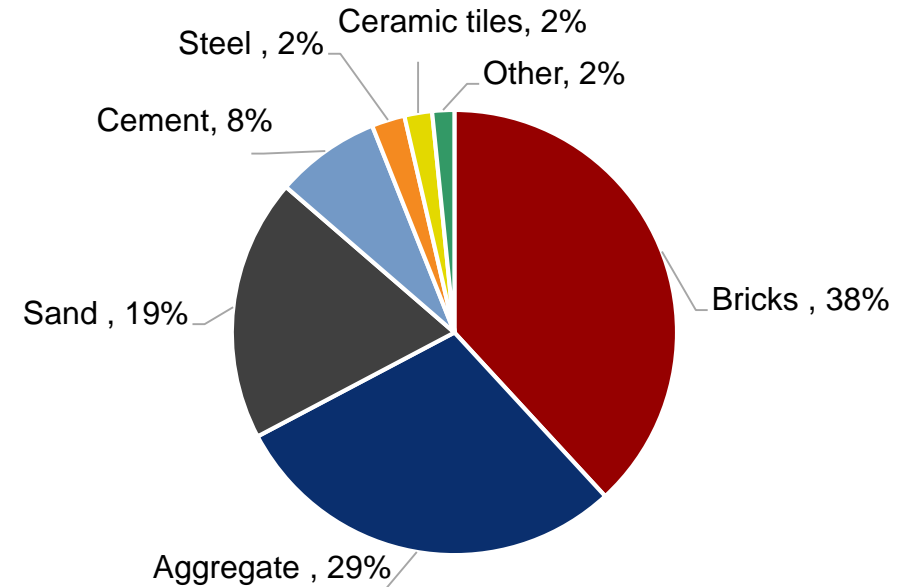
# Building Completion by Structural Materials

## Tall-rise Building (Residential + Non-residential)



- Inherent heaviness and mass creating lateral stiffness
- Resistance to horizontal movement
- Disaster-resistant, such as hurricane, fire, flood, etc.

## Low-rise Building (Residential + Non-residential)

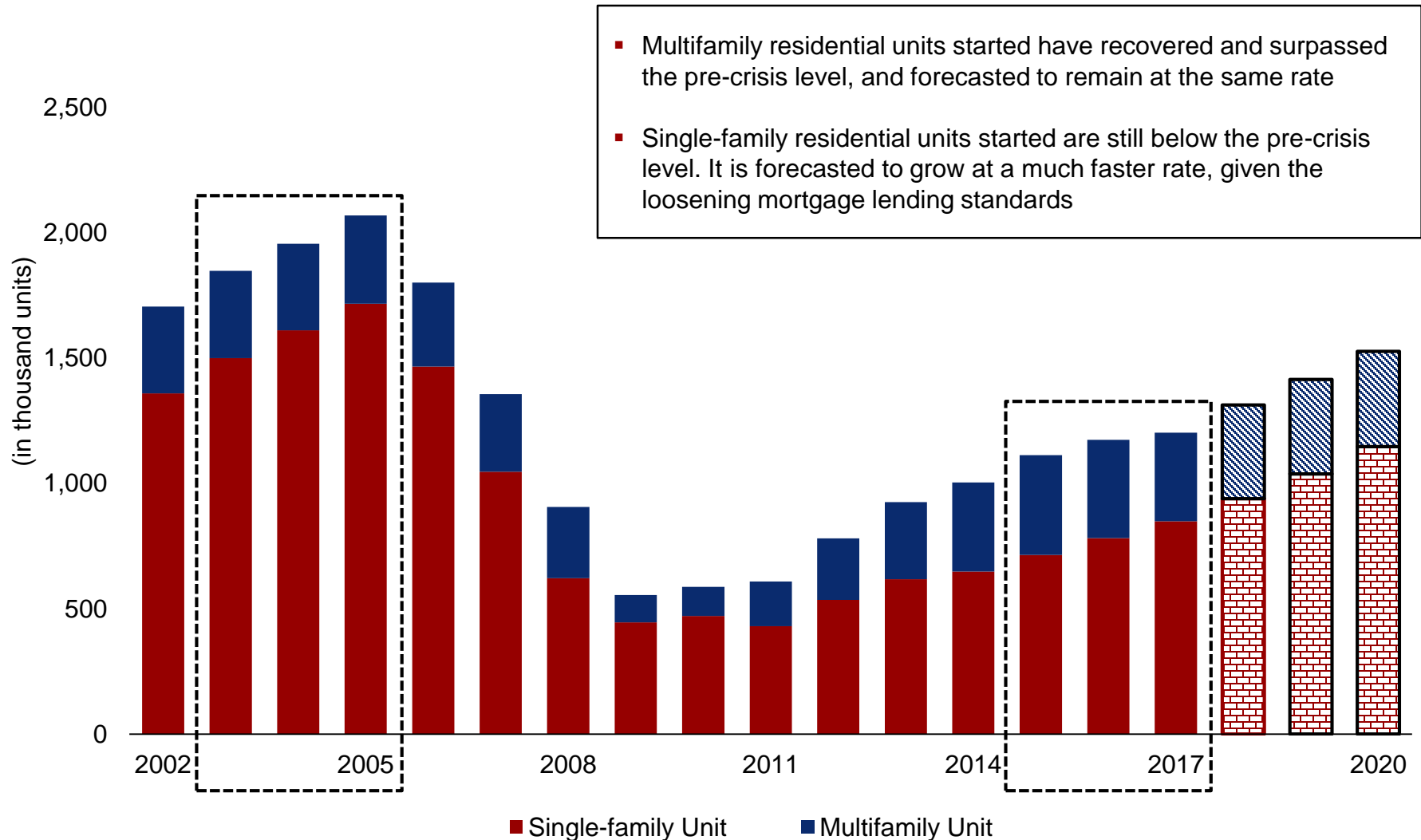


- > 50% of low-rise buildings are made of concrete
  - Detached houses, stores, warehouses, schools
- Durability, resilience and ease of using
- Economical – energy saving and locally sourced material
- Sound proof, extreme weather protection

Source: Council on Tall Buildings and Urban Habitat, Statista, Street Research

# Residential Construction

## Single-family and Multifamily Residential Units Started

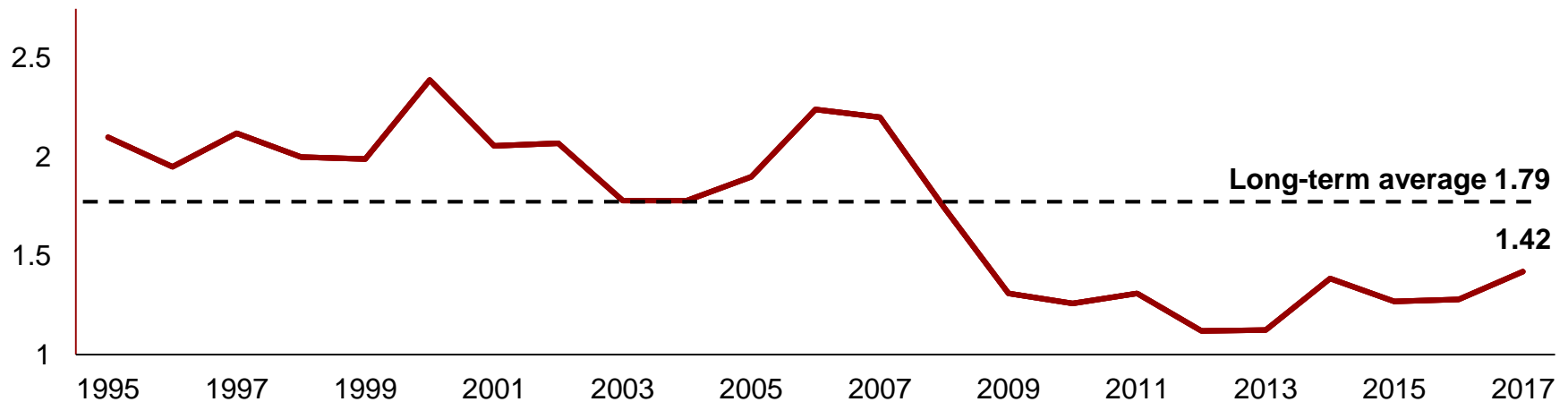


Source: US Census Bureau

# Residential Construction

## Renters Become Buyers

### Price-to-rent ratio relative to historical average



#### Rising Non-Bank Lending Share

- Shrinking of mortgage refinance demand has led to intense competition
- Overall non-bank share of purchase lending increase from 25% to 60% (FHA tripled its lending volume, other GSE doubled its lending volume)
- “*Competition from Other Lenders*” became top reason for lender’s lower profit margin

#### Loosening Lending Standard

- Debt-to-income ratios over 43% (*The Qualified Ratio*) has been increasing materially
- In 2013, 40-45% of FHA loans had DTI over 43%; in 2016, the number is > 50%
- FHA FICO have declined in 2017 after limited movement in 2016

The comparatively low cost of ownership relative to the cost of renting explains why renters are becoming buyers

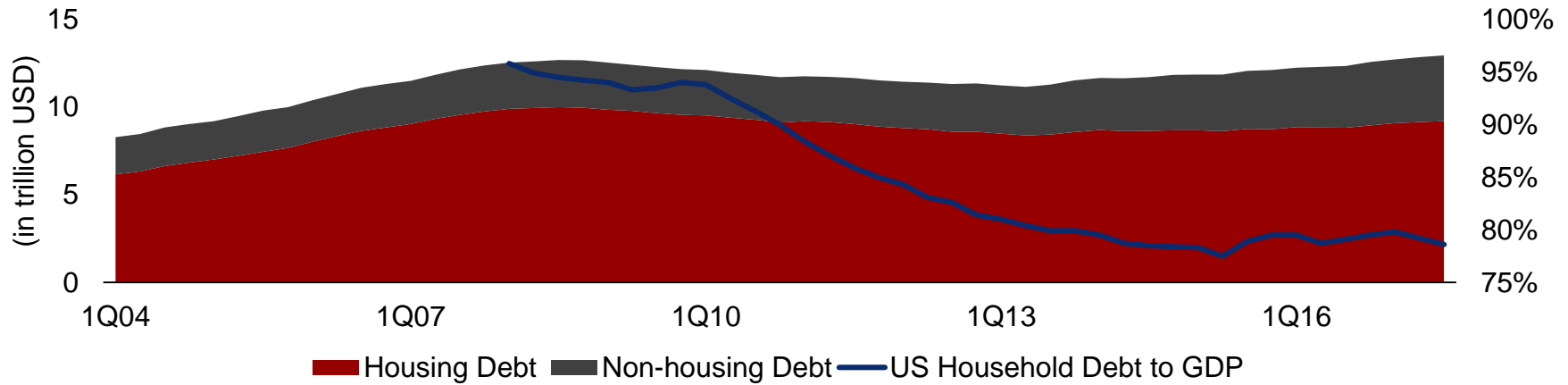
Source: Deutsche Bank Market Research, RBC Equity Research

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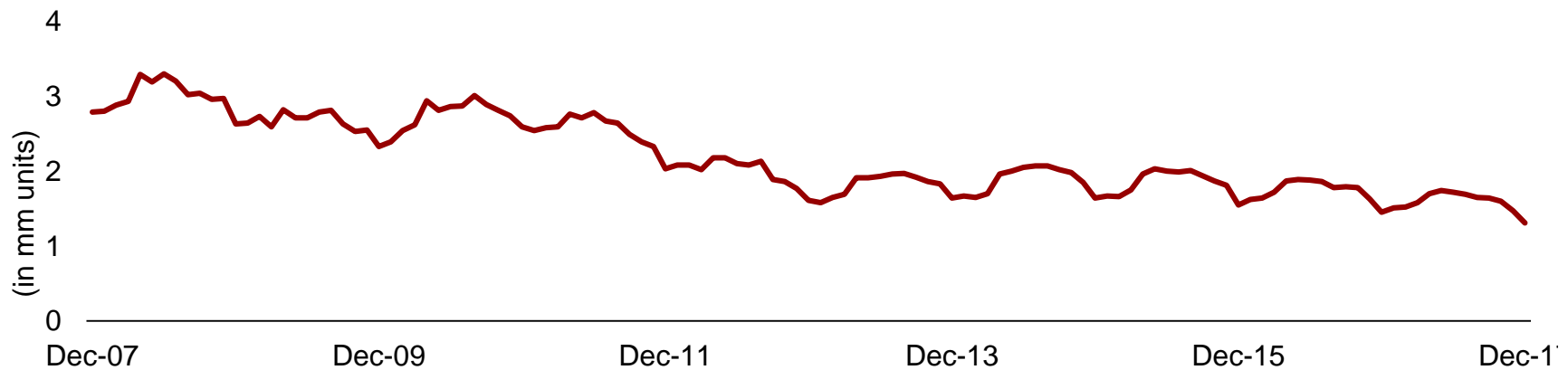
# Residential Construction

## Macroeconomics Indicators Show Promising Growth

### American



### U.S. Existing Single-Family Home Inventory



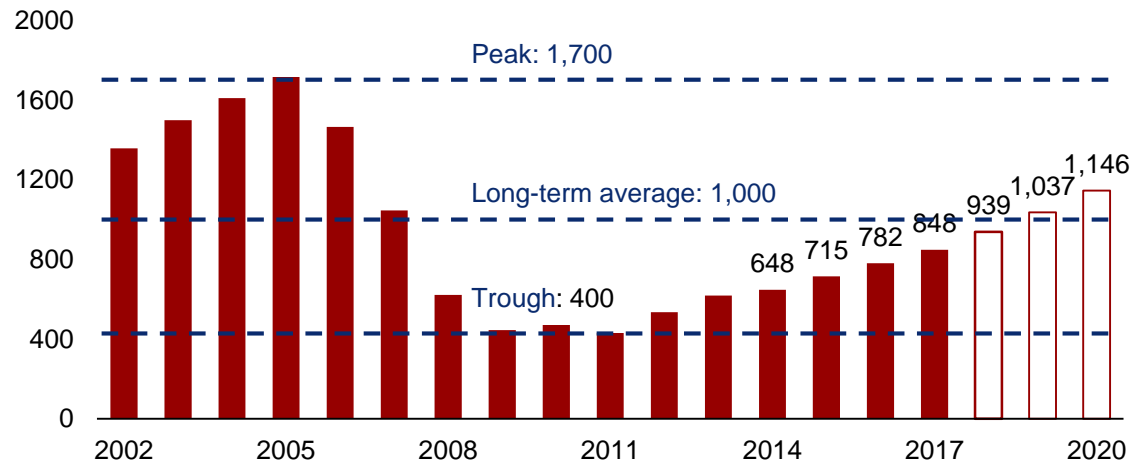
As average households decide to increase their housing borrowing, additional residential construction is needed

Source: Deutsche Bank Market Research, RBC Equity Research

# Residential Construction

## Residential Historical Starts Comparison

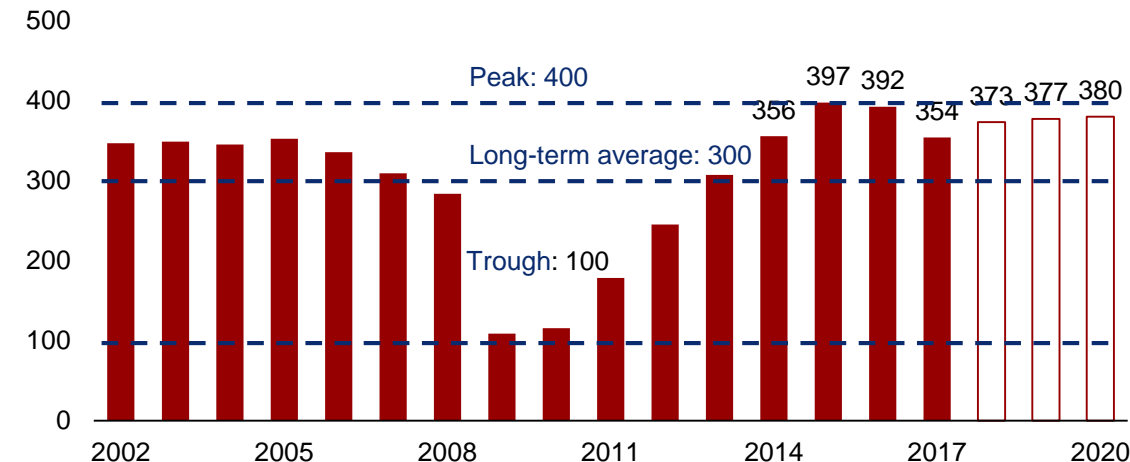
### Historical and forecasted single-family starts (in 000s)



Single-family housing still has room to run:

- The forecast anticipates the single-family starts to rise at 955,000 by 2018, at a rate of 10.6%, given the current favorable mortgage credit environment
- It is still below the long-term average of 1mm single-family housing starts
- New single-family sales is only **10.9 %** of total single-family sales, expected to recover to the long-term average of 16%

### Historical and forecasted multi-family starts (in 000s)



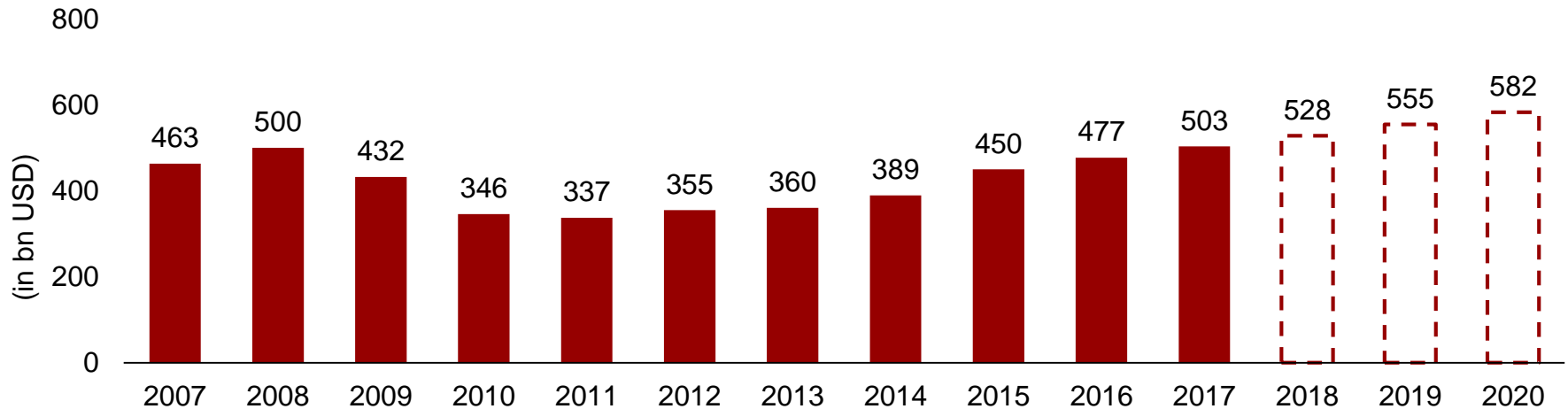
The growth of multi-family housing units will be limited moving forward:

- 2014-16 have witnessed the multi-family starts peak at the pre-crisis level
- The flattened volume addition reflects the renting preference brought by SALT and mortgage deduction capping
- Different regions differs
- The supply addition should dampen multi-family starts' pricing power

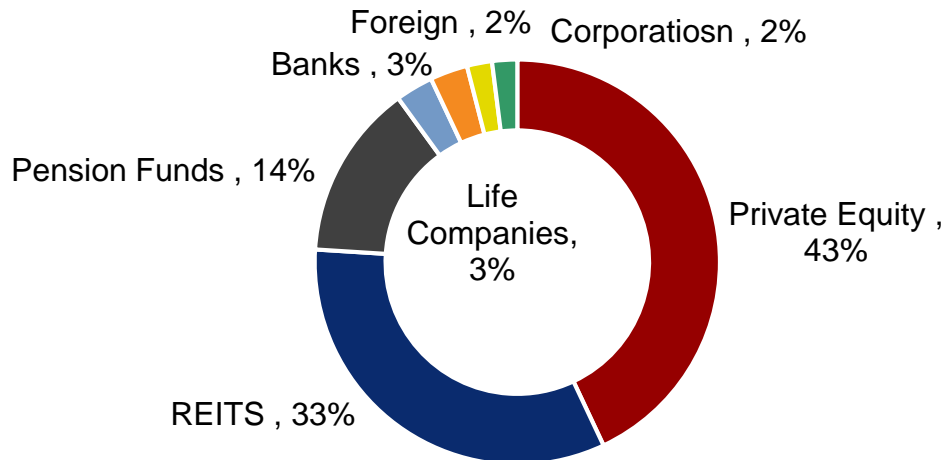
Source: US Census Bureau, RBC Equity Research

## Non-residential Construction Expenditure

### Financing Sources for Commercial Real Estate Investment



### Financing Sources for Commercial Real Estate Investment



Financing for institutional construction is split between private and public sectors

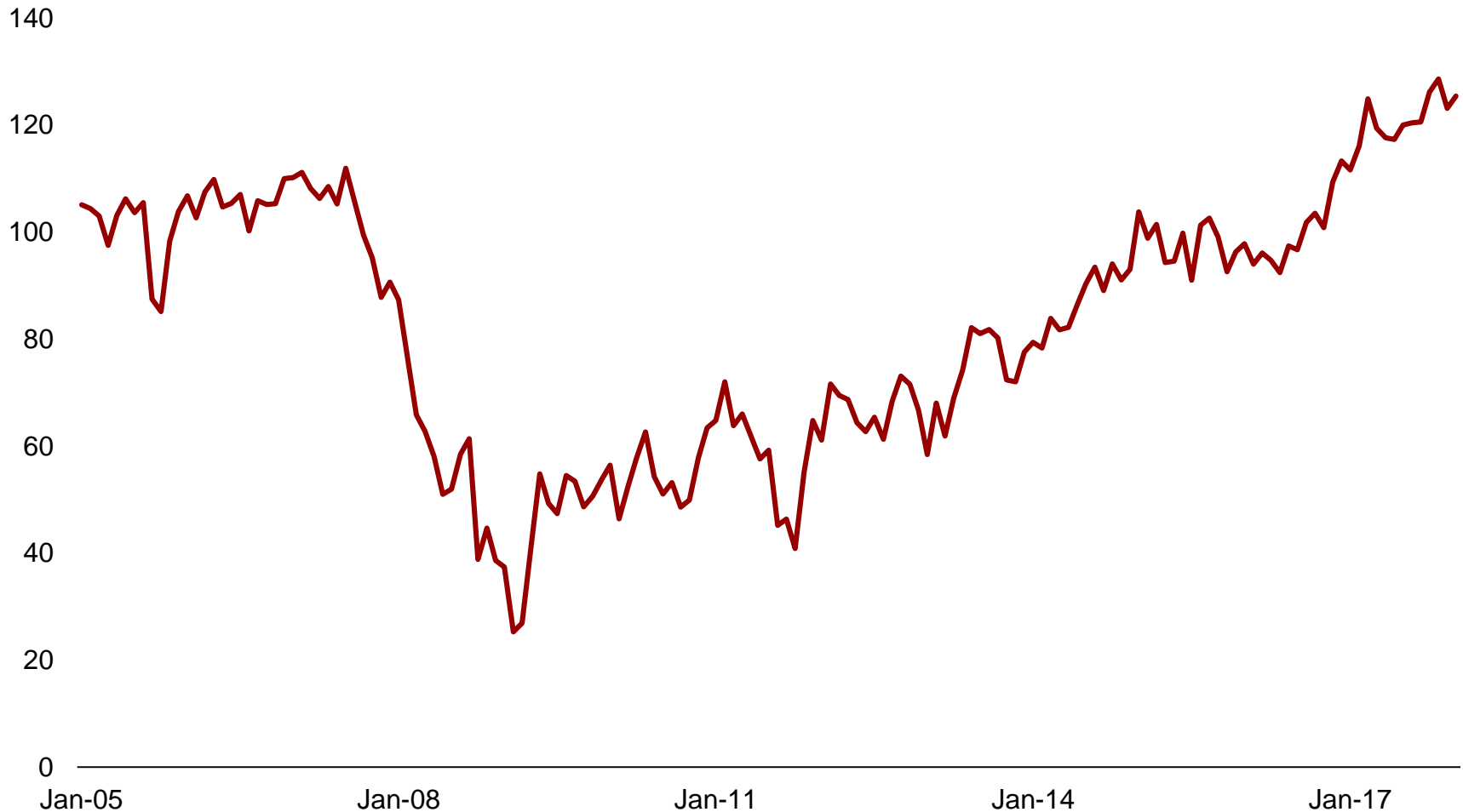
Most of commercial construction in U.S. are financed using private capitals:

- U.S. economy is currently solid
- Accumulated wealth push investors to seek higher return through alternative investment
- Greater capital inflow of PE, REITs and other sources of funds
- Financing resource is secured

Source: Street Research, RBC Equity Research, Deutsche Bank Market Research

## 2 Non-residential Construction

### Conference Board Consumer Confidence Survey

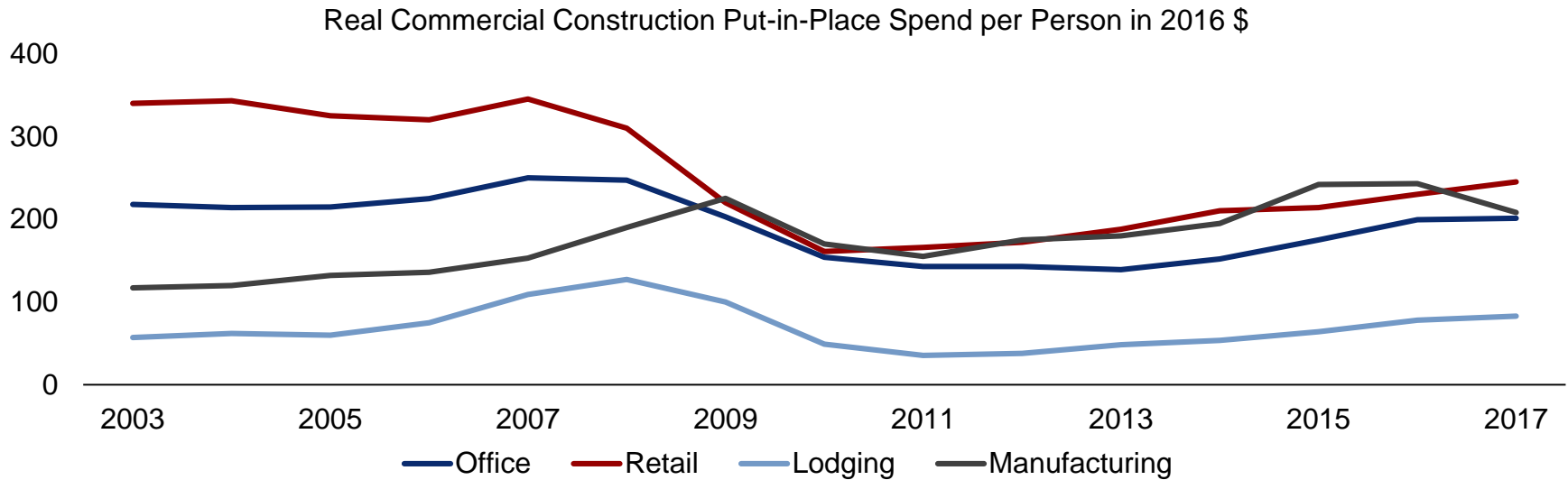


Consumer Confidence Survey reflects prevailing business conditions and favorable consumer attitude and buying intention

Source: Bloomberg, The Conference Board

## Non-residential Construction

### Most Commercial Construction Shows Promising Outlook



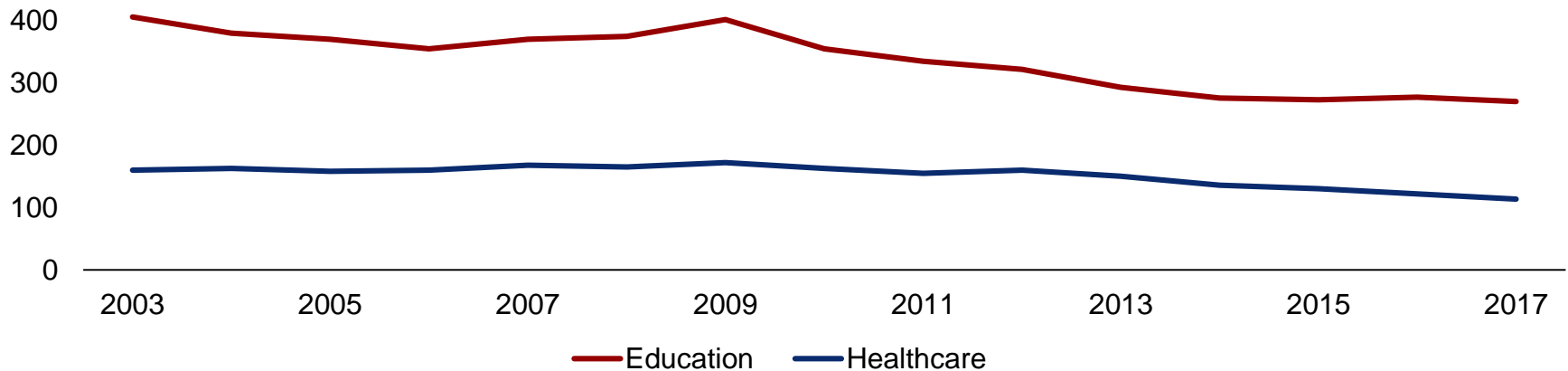
|                        |  |              |  |  |
|------------------------|--|--------------|--|--|
|                        |  |              |  |  |
| <b>Peak Comparison</b> | - 23%                                    | - 27%        | - 35%  | - 14%  |
| <b>Demand Drivers</b>  | Unemployment Rate<br>Office Vacancy Rate | Retail Sales | Household Income<br>Personal and Business<br>Travel Volume | Capacity Utilization<br>Industrial Production<br>Index |





Source: Street Research, Bloomberg

## 2 Non-residential Construction

### Institutional Construction Sending Mixed Signals

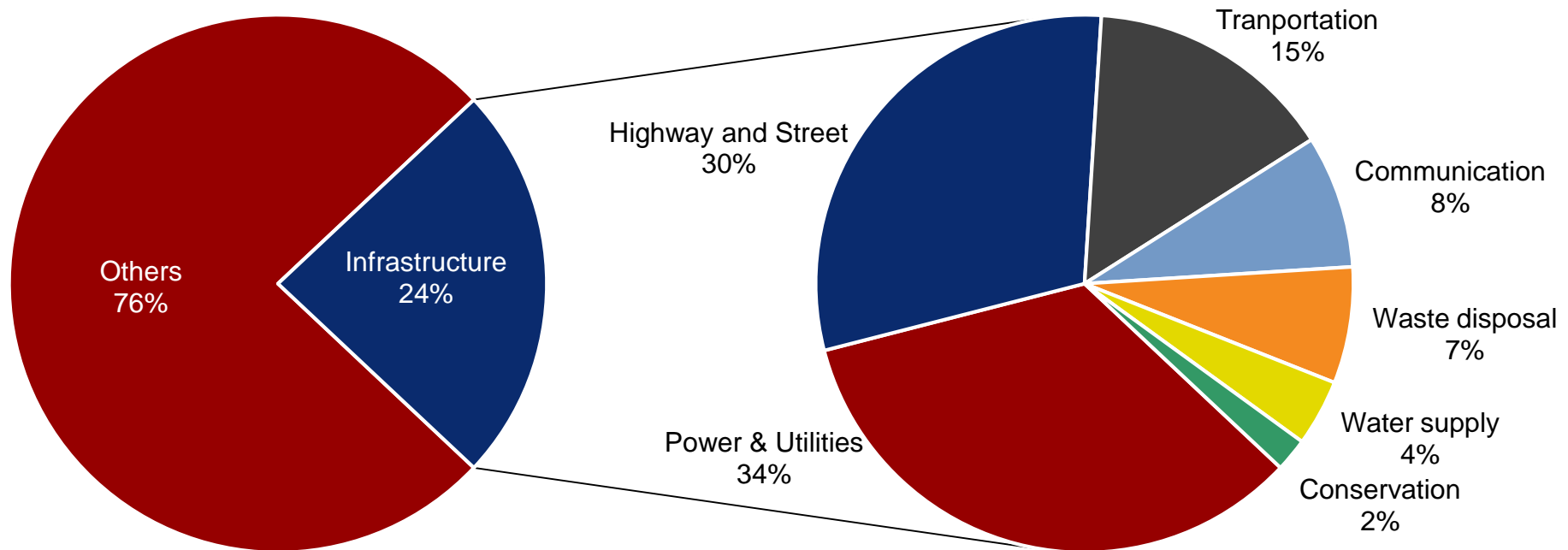
Real Institutional Construction Put-in-Place Spend per Person in 2016 \$



|                 |  |   |
|-----------------|--|---|
|                 |   |   |
| Peak Comparison | - 33%  | - 33%   |
| Demand Drivers  | Municipal Budgets<br>Endowment Funding   | Impatient Enrollment<br>Insurance Mandate   |

Source: Street Research, Bloomberg

## Infrastructure Construction Breakdown

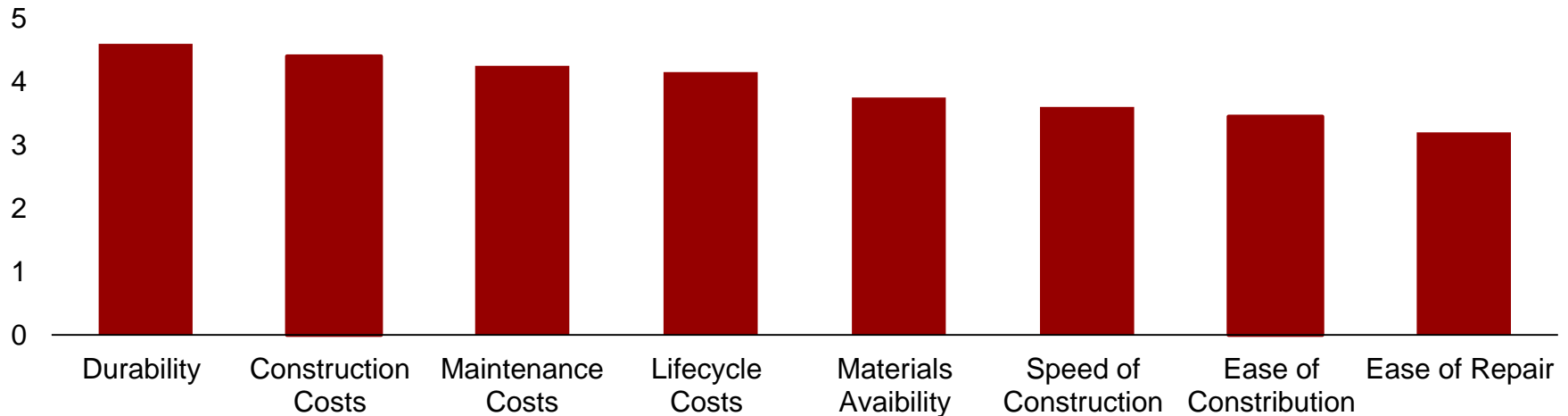


Highway and streets and transportation within infrastructure construction requires the most construction spending

Source: Portland Cement Association, Deutsche Bank Market Research

## Infrastructure - Bridge

### Selection Factors Determining Bridge Material



#### Long Life and recyclable

Concrete pavements have an average service life of 30-50 years; Recycle base materials

#### Low life-cycle cost

Concrete consumes minimum materials, energy and other resources for construction, and requires little to no maintenance

#### Safety and reliability

Concrete is less susceptible to damage from heavy vehicles, easier to see at night, etc.

#### Fewer traffic disruption

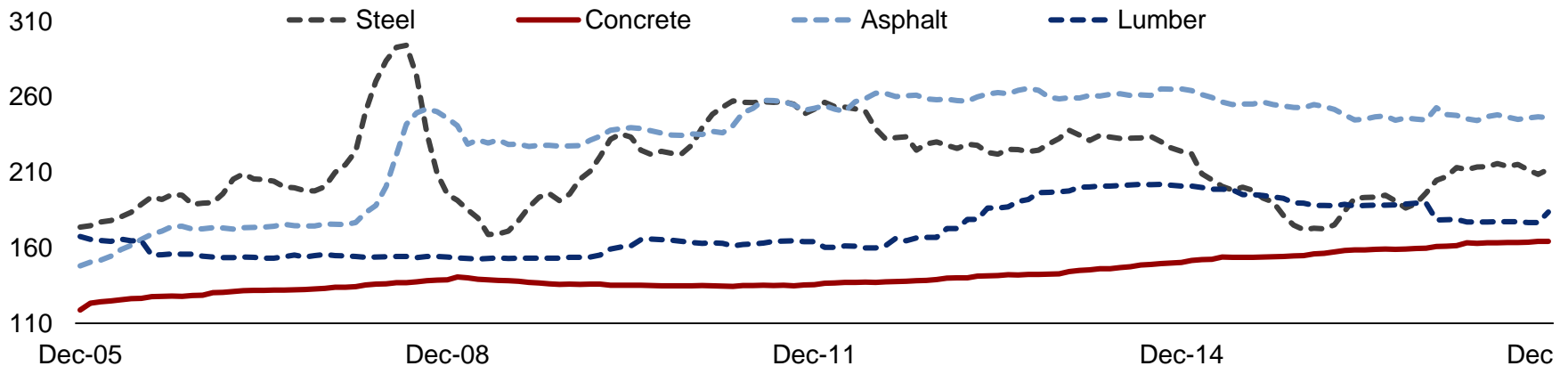
Concrete does not require lengthy lane closures, with roads able to reopen within as little as 6 hours

Concrete is widely used for infrastructure – with applications for reconstruction, resurfacing, restoration, or rehabilitation

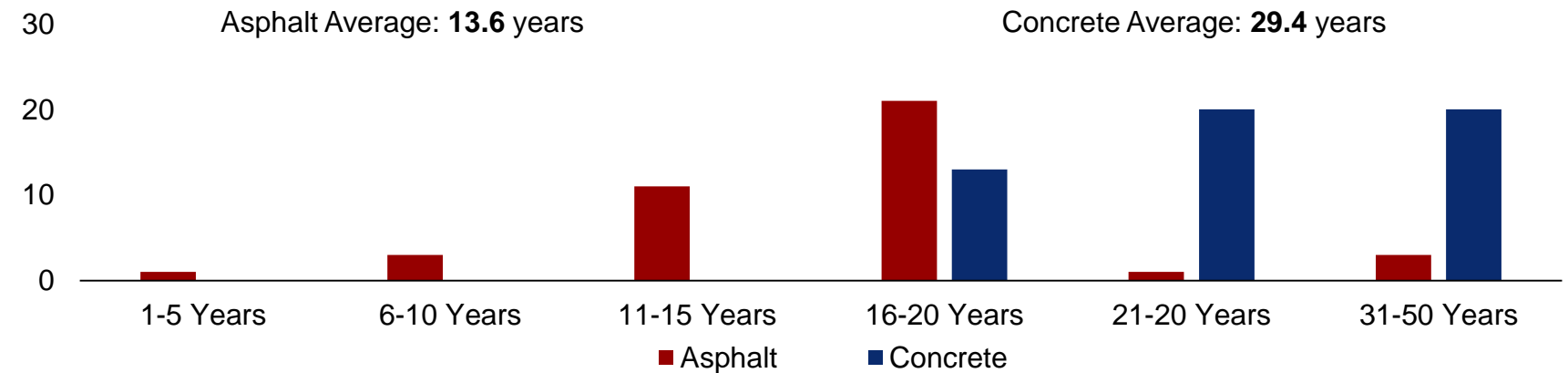
# Infrastructure

## U.S. Producer Price Indices – Competitive Building Materials

### Construction Materials Historical Producer Price Index



### Pavement Life Expectancy – Years Elapsed Before Major Reconstruction Required

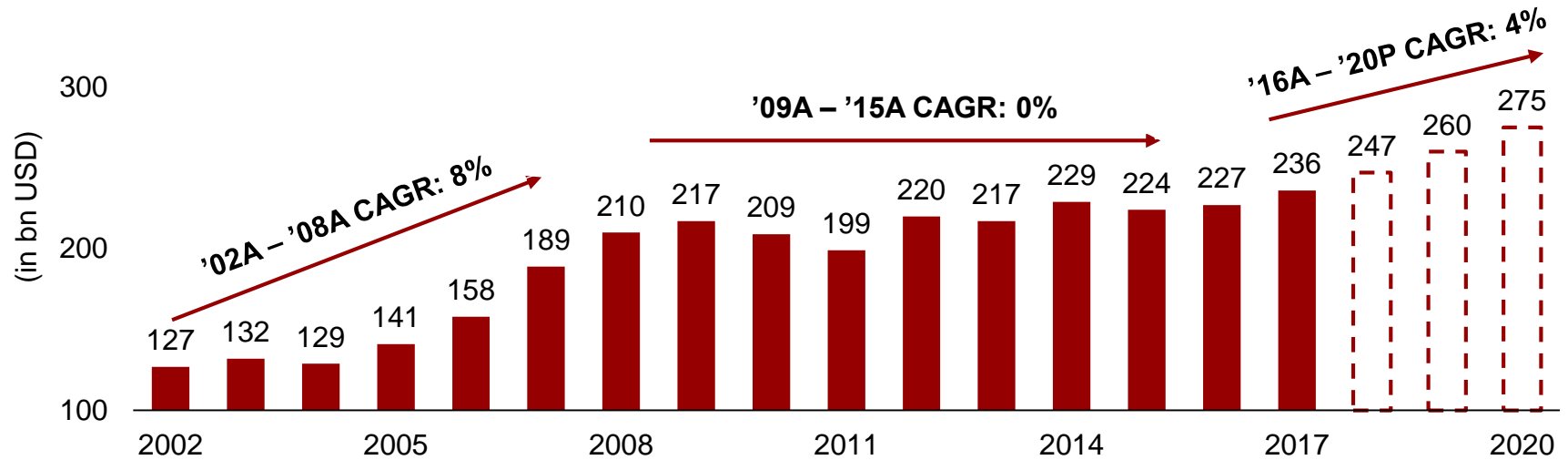


Volatile and rising price of alternative construction materials and long pavement life expectancy supported concrete use

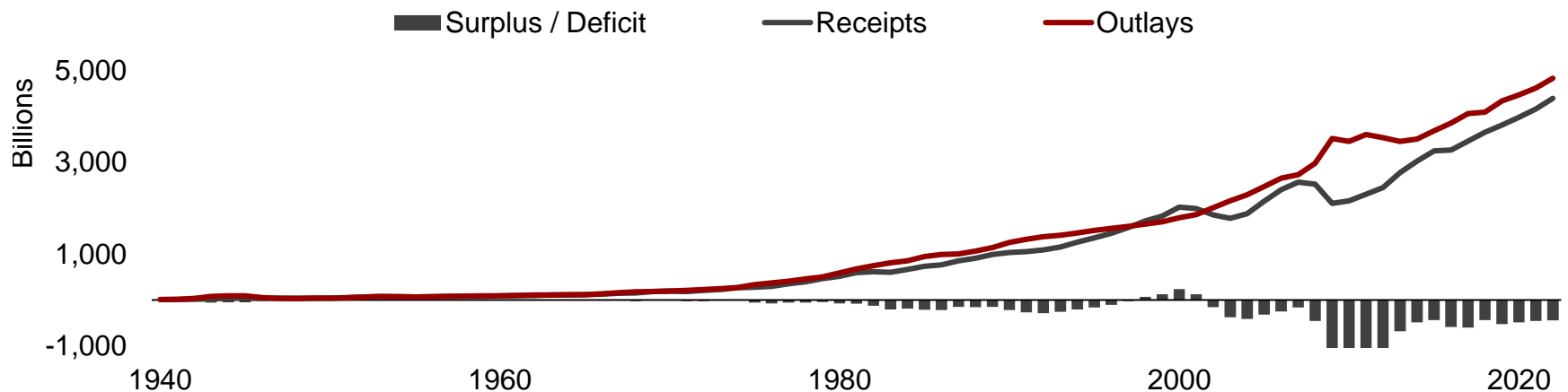
Source: Portland Cement Industry.

# Infrastructure

## Government Infrastructure Expenditure



## U.S. Federal Budget Surplus/ Deficit

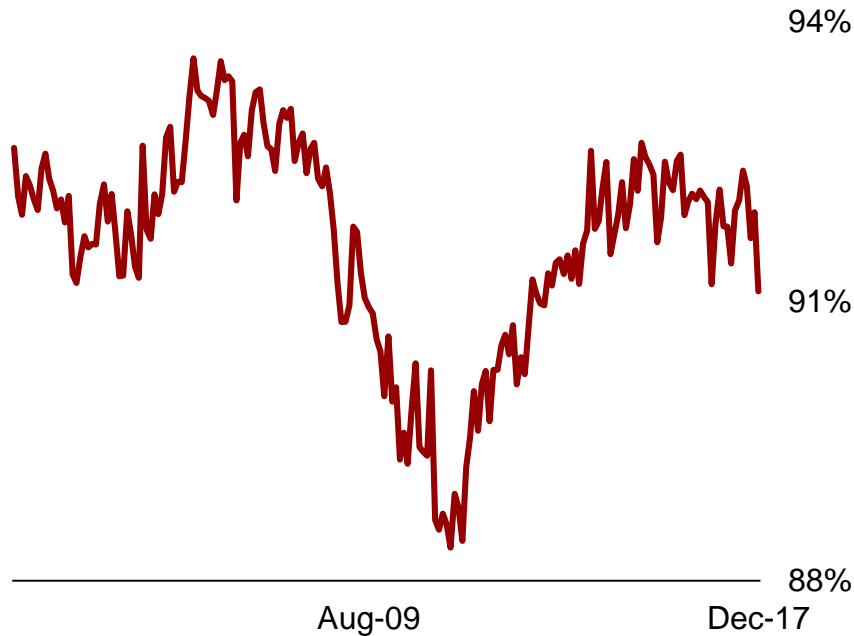


Source: Eagle Materials Report, Bloomberg

# Infrastructure

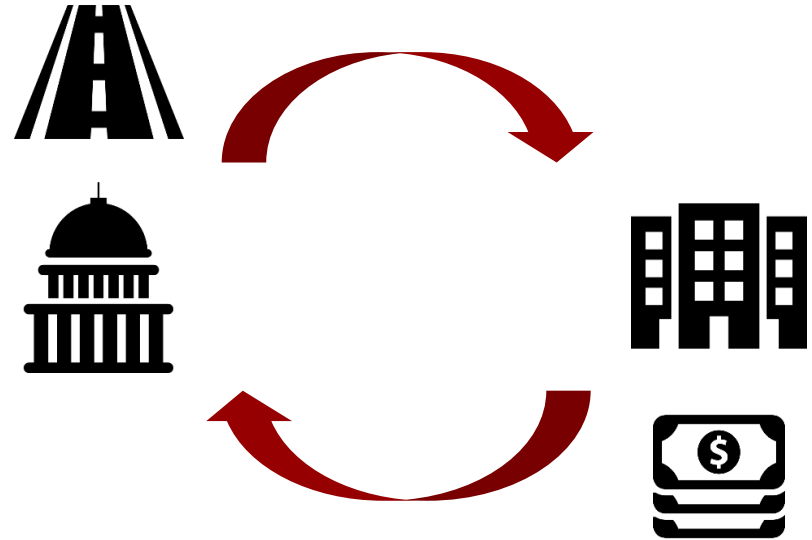
## Financing Alternatives

### A. State/ Local Level of Financing



- State/ municipal governments initiate project according to regional infrastructure condition\
- Benefit primarily regional taxpayers/ residents
- Might run in the same problem as federal government

### B. Public-Private Partnership



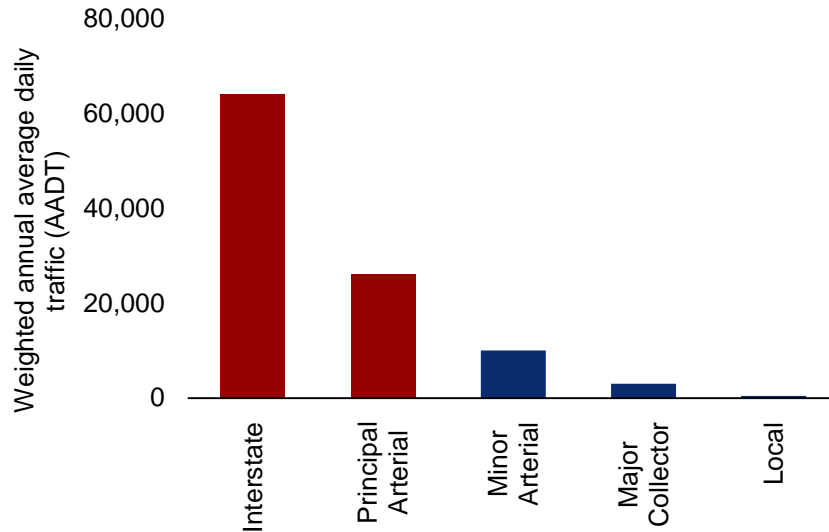
- Funding infrastructure projects selectively
- Not influenced by certain interest group lobbyists
- Cost reduction and efficiency improvement
- Channel private capital into public projects

Source: Street Research, Portland Cement Association, US Census Bureau

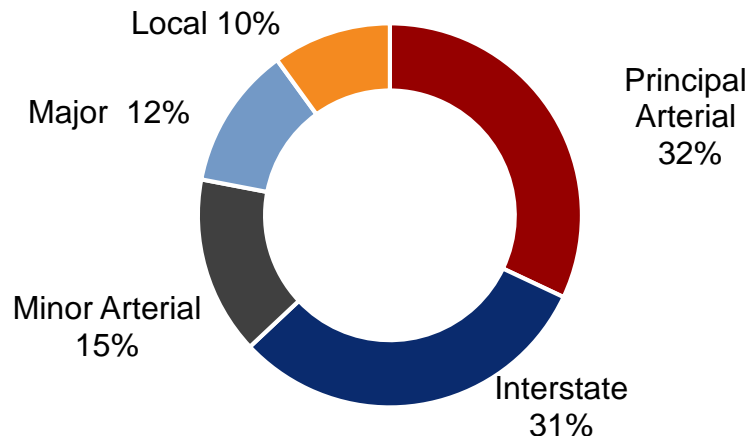
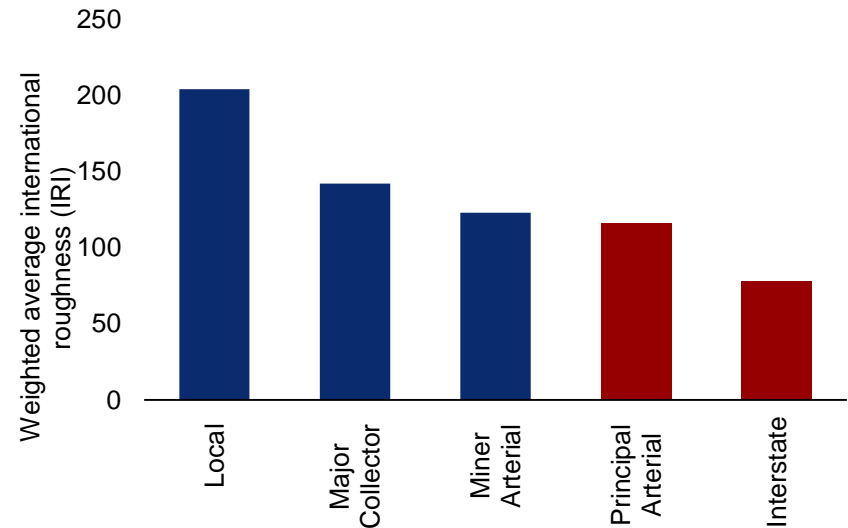
## Infrastructure – Highway

### Highway Has The Largest Consumption and Most Funding Sources

#### Interstate Roads Carry The Most Traffic...



#### ...and Have the Lowest Roughness Score



Within the mix of road and highway system in the U.S., there are various classifications of roadways

- 54% of road and highway are classified as rural, 44% of which are classified as local
- Interstate and principal arterial roads (very similar to interstates) carry more traffic and are in better condition
- According to DOT and FHWA analysis, states spent 63% of states capital outlays go to interstate and principal arterial roads

Source: UBS Evidence Lab.

# Infrastructure – Highway

## Federal Level of Highway Funding Is Secured

### Highway Trust Fund

The Highway Trust Fund (HTF) funds highway and intermodal programs. The fund provides a direct benefit to the highway program through its **contract authority** role:

More than 80% of fund was funded with Federal Motor fuel taxes – not sustainable

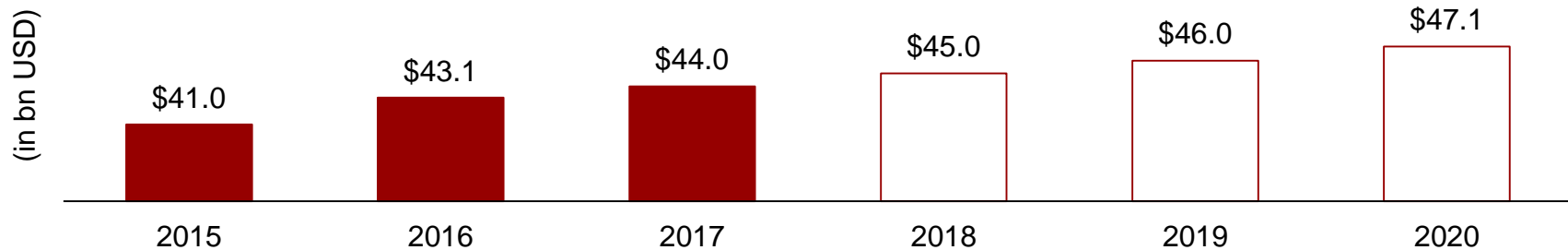
- 18.4 cents/ gallon of gasoline and 24.4 cents/ gallon of diesel fuel
- The tax rate has not been increased since 1993 – even in the context of inflation and gains of gas suppliers – little support for tax rate increase is shown in Congress



# FAST ACT

- Fixing America's Surface Transportation (FAST) Act was signed by Obama in 2015
- Providing \$305bn infra funding from '16 to '20, \$225bn (70%) is dedicated to highways
- \$70bn in transfer to keep HTF afloat (insolvency was projected in 2014)
- Renew HFT's legal authority to impose tax, collect receipts and fund federal-aid highway projects until Sep. 2020

FAST Act Provides More Than \$225 Billion in Federal Highway Thru 2020



FAST Act will be the core of federal highway funding, and make the next 3-4 years the golden era for cement/ concrete

Source: Street Research, JP Morgan, U.S. Department of Transportation, Tax Policy Center

## Infrastructure – Bridges

### Bridges Are Currently In Need of a Massive Repair Program

#### Current U.S. Bridge Condition

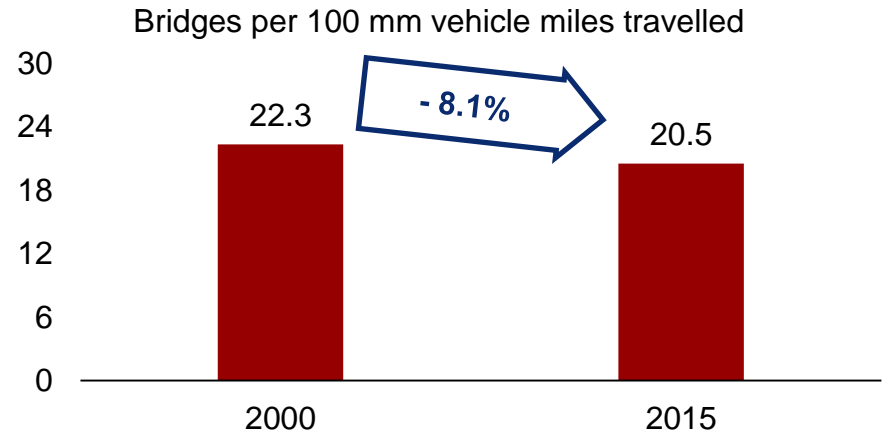
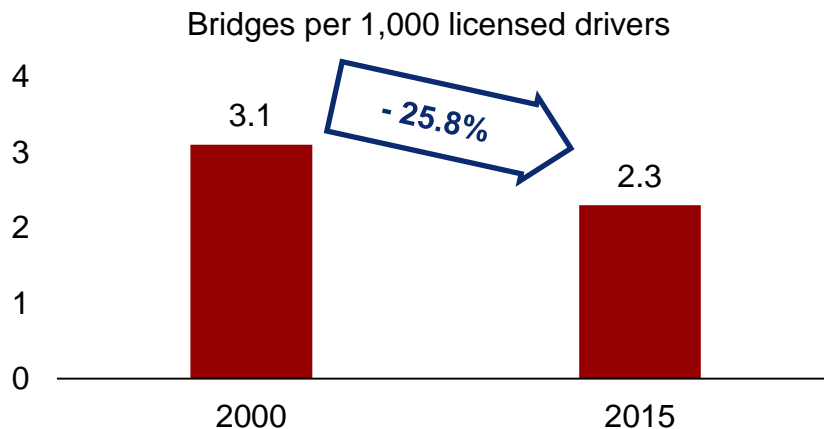
610,000 bridges in the U.S.

- There are 57,000 structurally deficient bridges (9.3%)
- Concrete bridges represent 58% of all bridges built, reflecting the increase from 52% in 2000
- The 6% increase in concrete bridges doubled the industry's consumption for cement, (3.7% → 7.5%)
- Structurally deficient bridges are between 39-94 years old, with the mean age 68 years > 50 years (expected)

Population and the number of drivers increases, so will total vehicle miles travelled and bridge crossings

- Increasing crossing and rising vehicle weights suggest an acceleration in bridge stress

#### The Shortfall In Bridge Expansion Is Reflected Into Two Key Congestion Measures



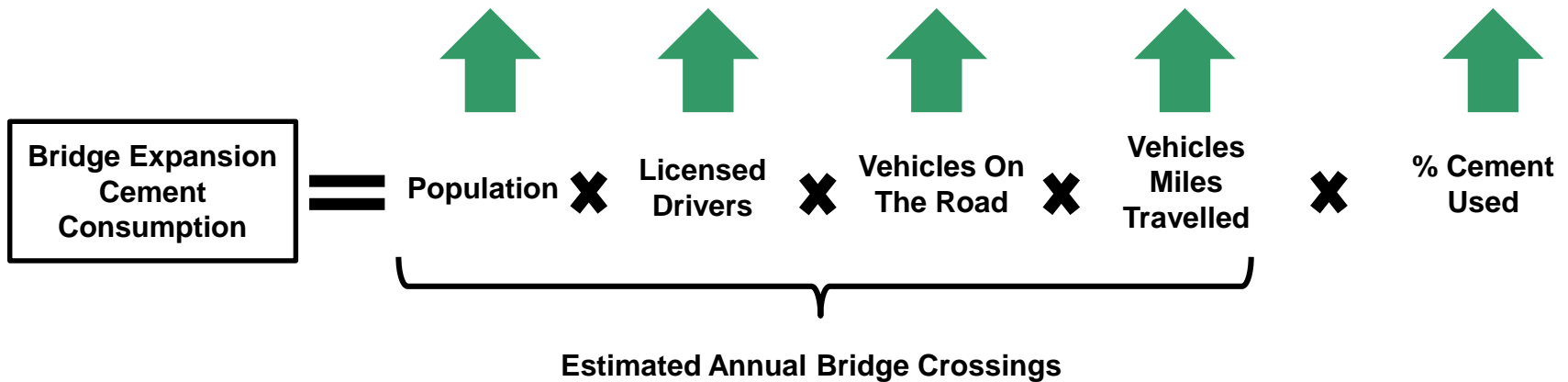
Congestion level is directly linked to the urgency to spend, and the urgency dictates funding levels and expansion efforts

Source: Portland Cement Industry, Department of Transportation.

## Infrastructure – Bridges

### Expansion of Bridges Construction

#### Demand Drivers For Cement Consumption In Bridge Construction



Demographic changes are expected to be powerful influencers in the amount of future bridge expansions

- In 2040, 40 mm more licensed drivers and 53 mm more vehicles are expected in the projection

#### \$75 Bn Senate Bridge Bill Gains Support

On Jan.4<sup>th</sup> 2018, Bridge Investment Act, a \$75 billion spending bill in the span of 10 years was brought to bill committee:

- Proposed by Ohio Senator Brown and Oregon Senator Wyden
- To repair America's either structurally deficient or functionally obsolete bridges
- Gained tremendous supports from transportation industry professionals and civil engineer societies
- Leveraging funding from state and local levels, America's \$ 123 billion bridge repair backlog will be funded

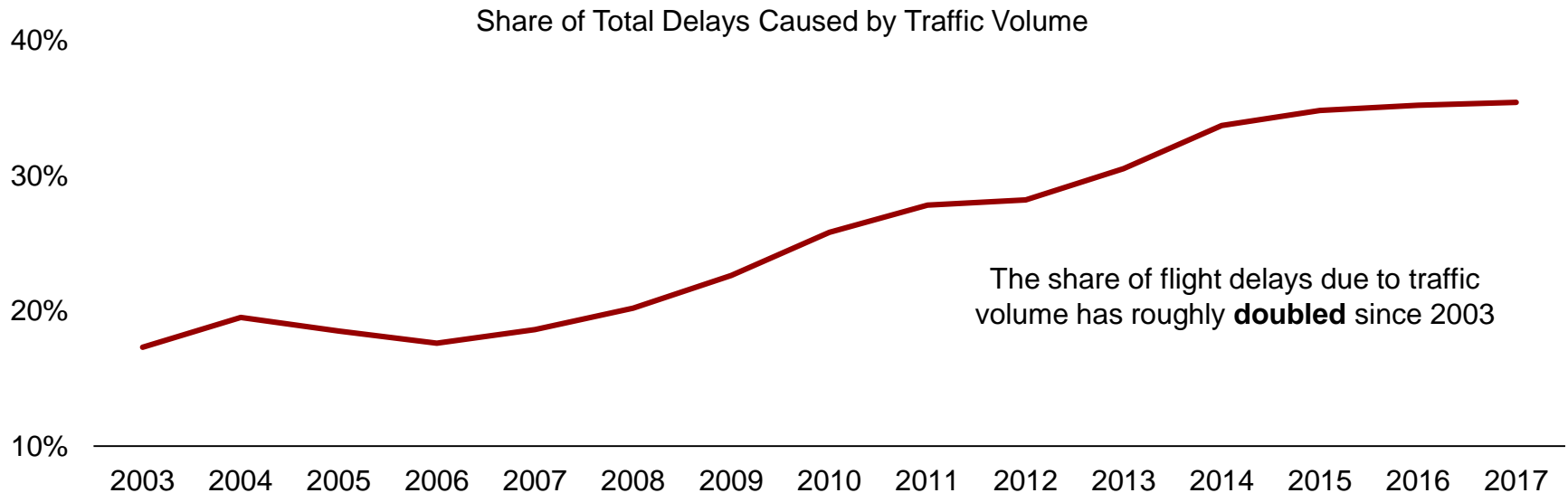
# Infrastructure – Airports

## Lacking Maintenance

### Current U.S. Airports Condition

Major airports and aviation systems in the U.S. except Brandon Airport are owned by government entities

- Some are owned by public universities, privately owned airports are small fields for small aircraft
- Public control allows airports to benefit from lower borrowing costs, local authorities financed through bonds
- FAA should take care of certain airports, air traffic controls, and aircrafts
- Congestion-related delays have hit record high due to the lack of investment
  - Budgetary constraints during recession
  - Spending on operation and maintenance declined from 21 to 13 billion dollars (2004-15)

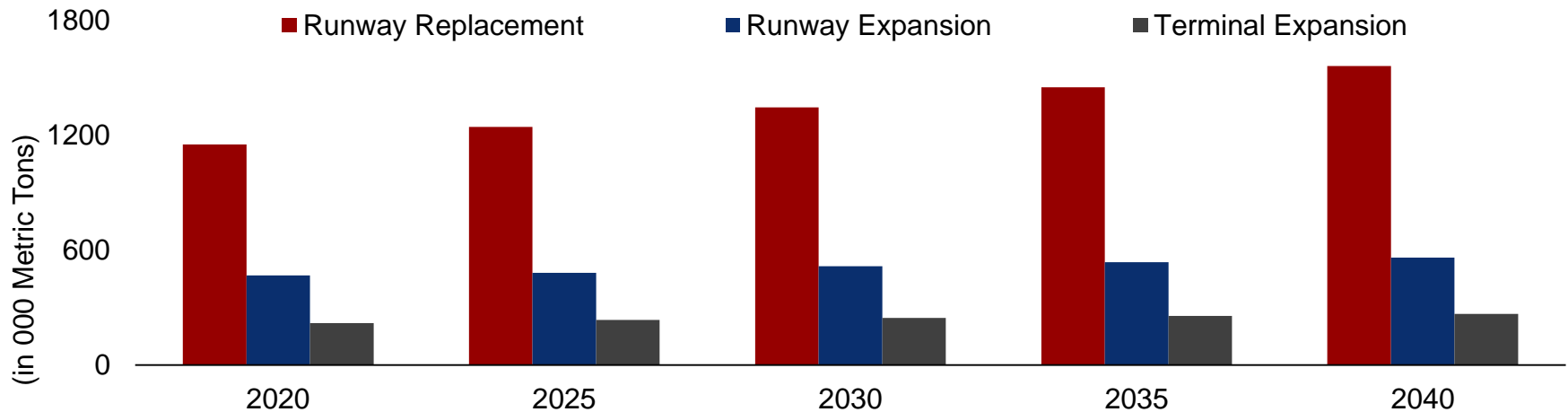
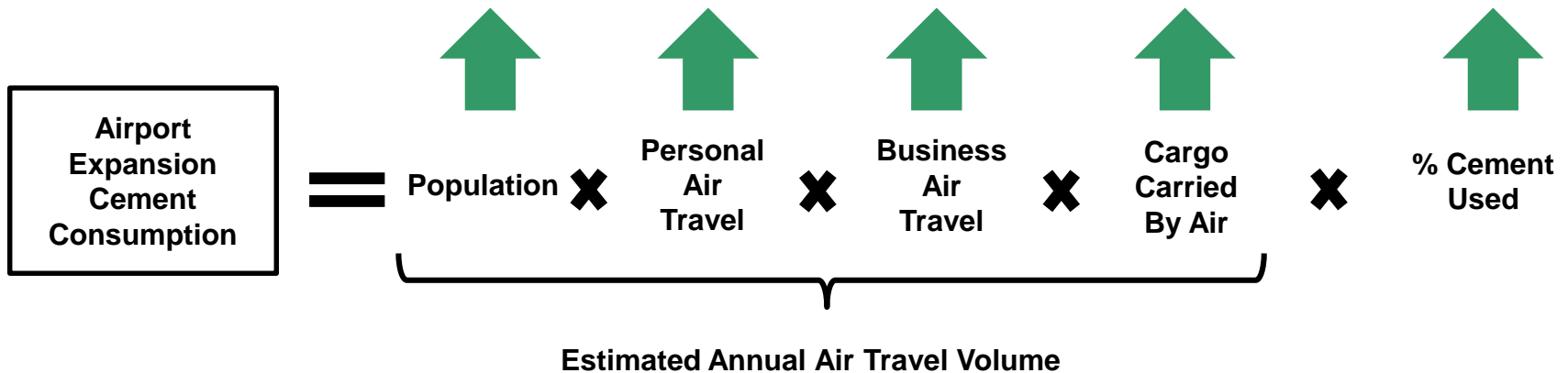


Source: Street Research, U.S. Department of Transportation, Federal Aviation Administration

## Infrastructure – Airports

### Airport's Cement (Concrete) Consumption Outlook

#### Demand Drivers for Cement Consumption In Airport Construction

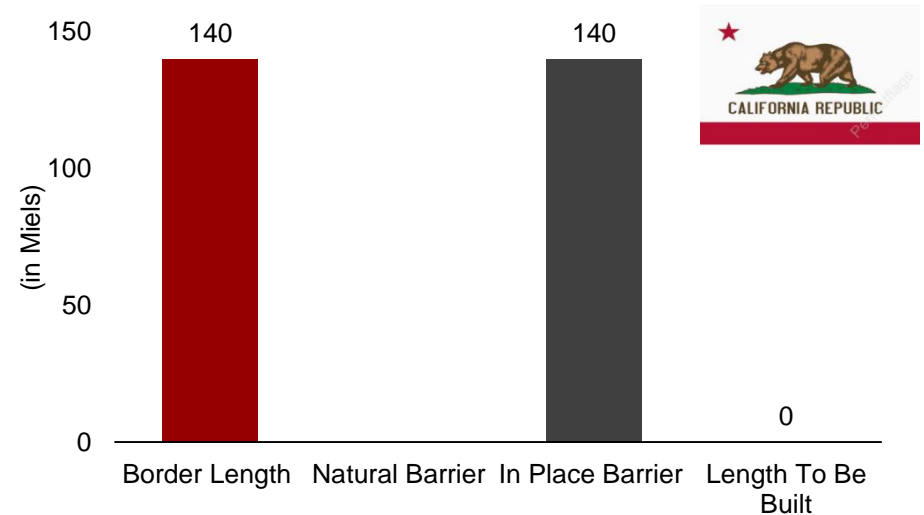
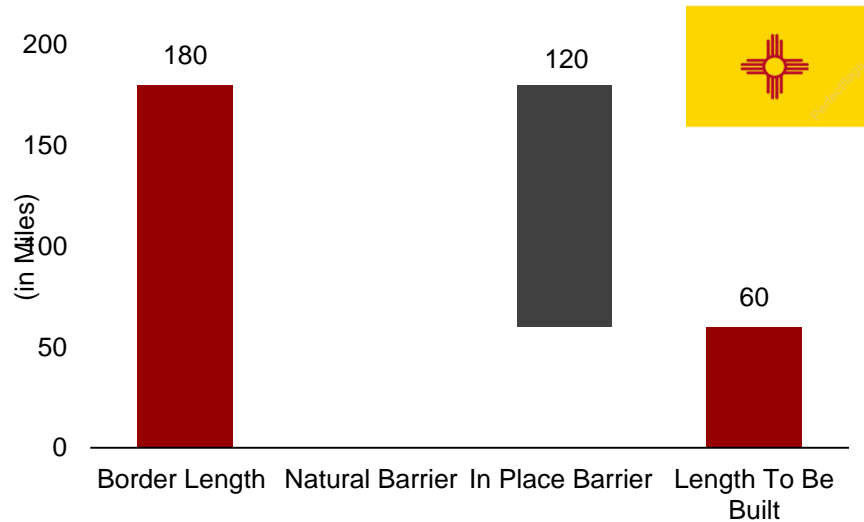
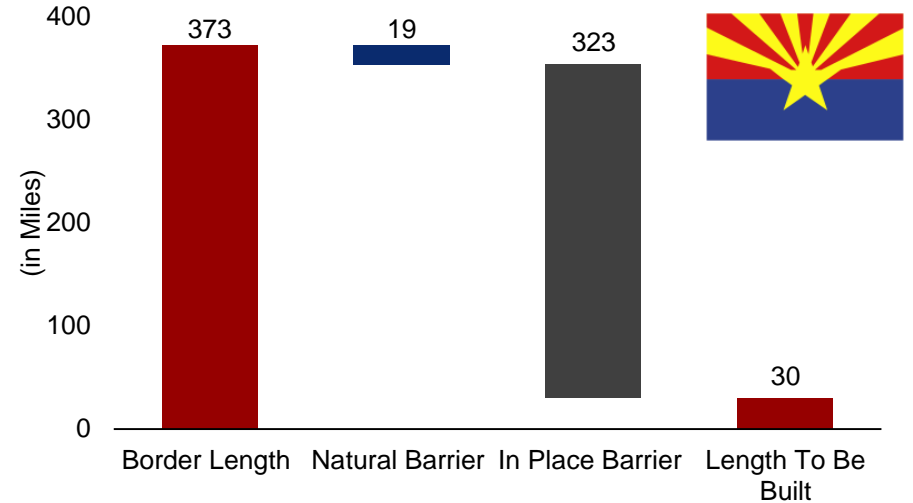
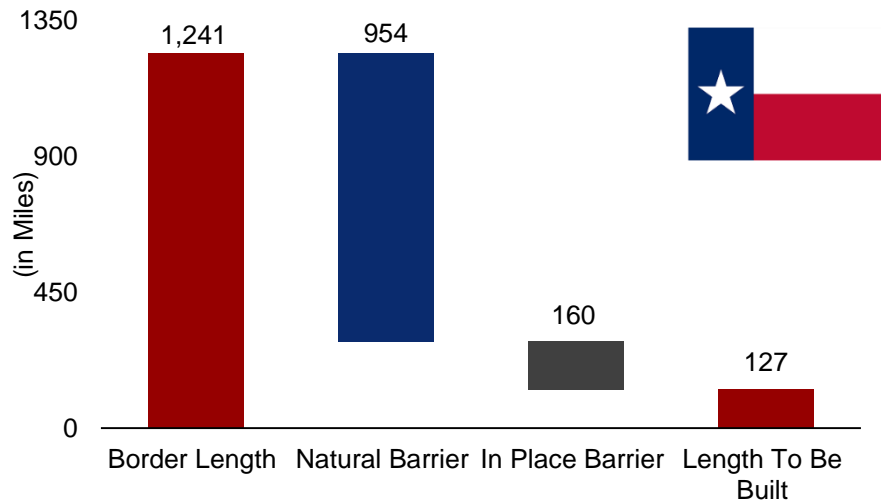


Among airport infrastructure sector, runway replacement will outpace runway expansion and terminal expansion activities

Source: Portland Cement Industry, U.S. Department of Transportation, Federal Aviation Administration

### 3 Infrastructure – Trump Bump

“We will BUILD THE WALL” – Donald J. Trump

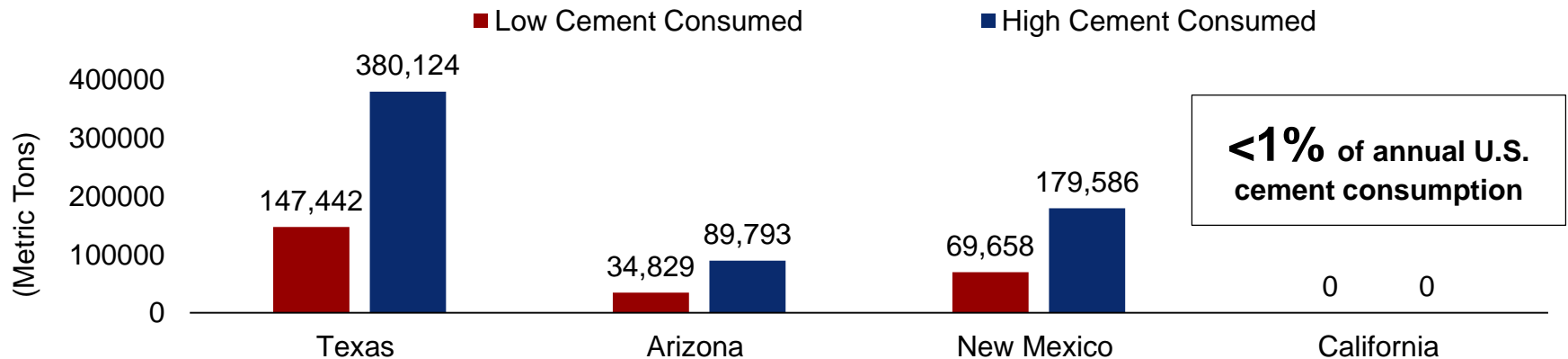


Source: USCS, Portland Cement Association

### 3 Infrastructure – Trump Bump

“We will BUILD THE WALL” – Donald J. Trump

#### Case Study on the Cement Usage in the Wall



#### Trump's Infrastructure Plan

Infrastructure improves American productivity and global competitiveness

- Advance a legislative package to generate >1 trillion
- Channel public and private investment to transportation, water, broadband, and energy projects

The legislation still has a long way to go, but senate and house show favorable attitudes

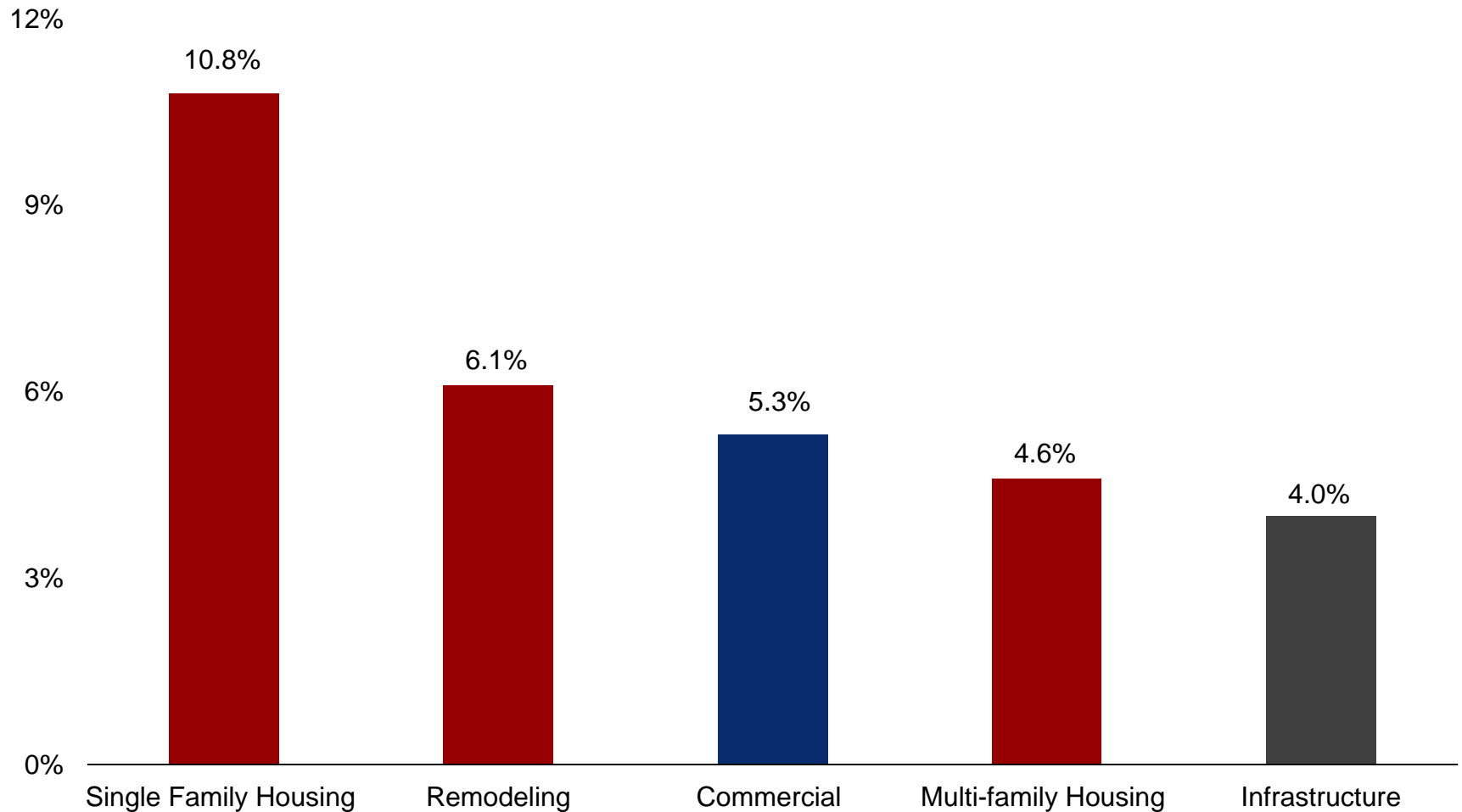
- Democrats support a large investment in infrastructure
- Republican have grown more open to the infrastructure package

Even without added government stimulus, construction and cement industry will record sustained gains  
It is better for additional stimulus to materialize later, because it will lead to higher inflationary expectations and then rising interest rates. The effects brought by these policies will offset construction activities

Source: USCS, Portland Cement Association

# Construction Outlook By Sector

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Residential construction is forecasted to grow fast, but infrastructure has the most secured funding source

Source: Portland Cement Association






# An Overview of Heavy Materials Uses

## Direct Exposure to All Construction Markets

### Indoor Uses

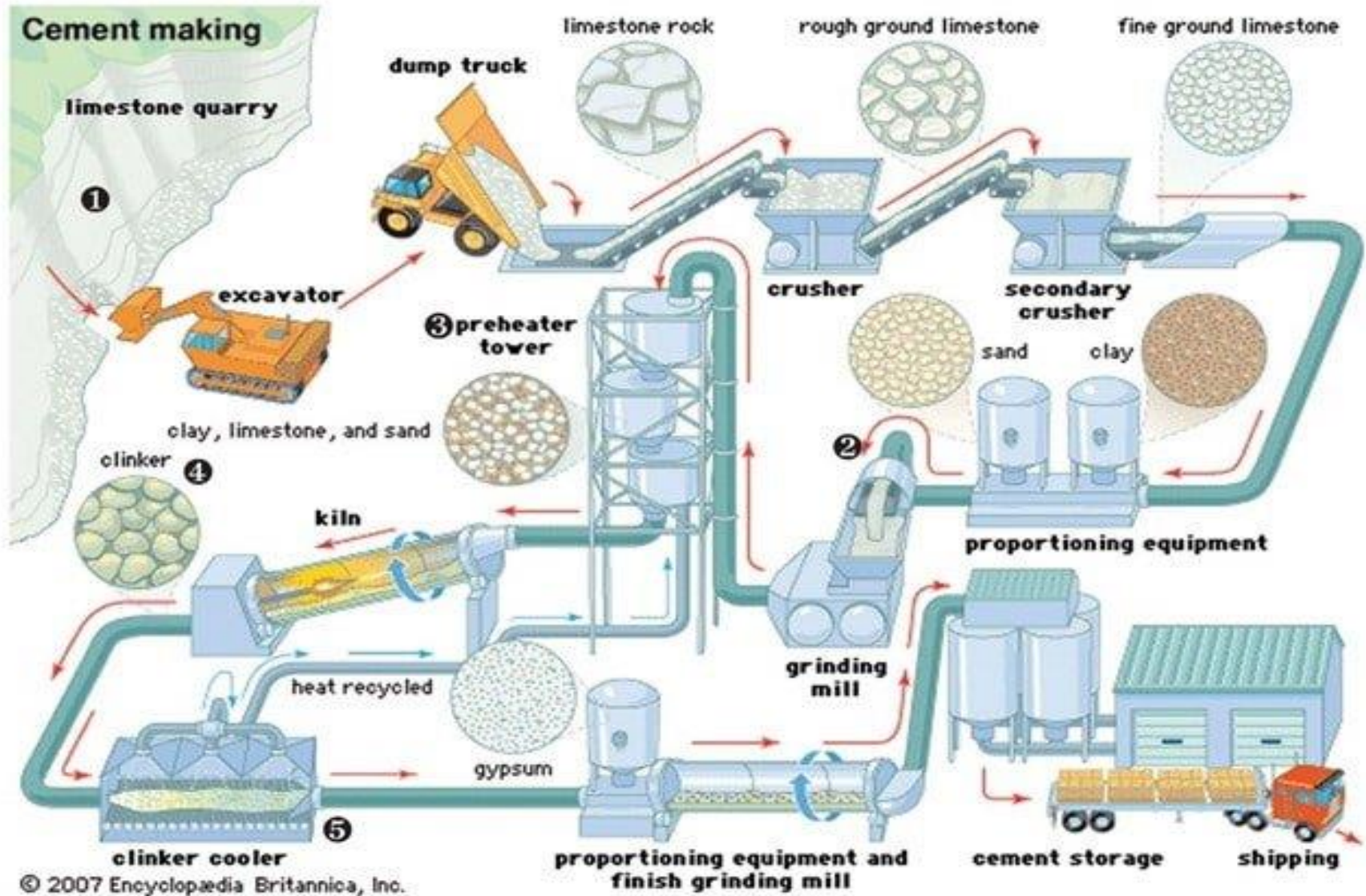
| Buildings  | Walls   | Countertops  | Fireplaces  | Floors  |
|--|---|--|---|---|
| Less likely to corrode or decay, resistance to wind and noise, less maintenance  | Durable, aesthetically pleasing and reduced need for cleaning                     | Easy to clean, aesthetically pleasing  | Does not crack, contemporary design material  | Durable, practical, and easy to clean. Resistance to scuffs and scratches           |
|  |  |  |  |  |

### Outdoor Uses

| Roads and Highways   | Airport Runways   | Dams   | Bridges   | Pipes   |
|--|---|--|---|---|
| Less maintenance and reduced fuel consumption                                      | More durable, requires less maintenance. Usually a mix of asphalt and concrete      | Better resistance to water pressure, less maintenance                                | Longer life and better resistance against adverse weather conditions                  | Extremely long lasting, first seen over 2,000 years ago                               |
|  |  |  |  |  |

Source: Portland Cement Association

# Cement

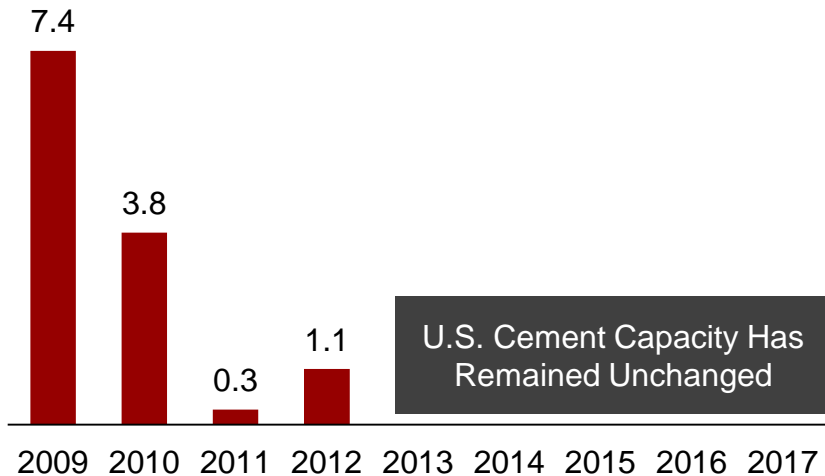


Source: Portland Cement Association

# Cement Supply

## Domestic Cement Capacity Unchanged Since 2012

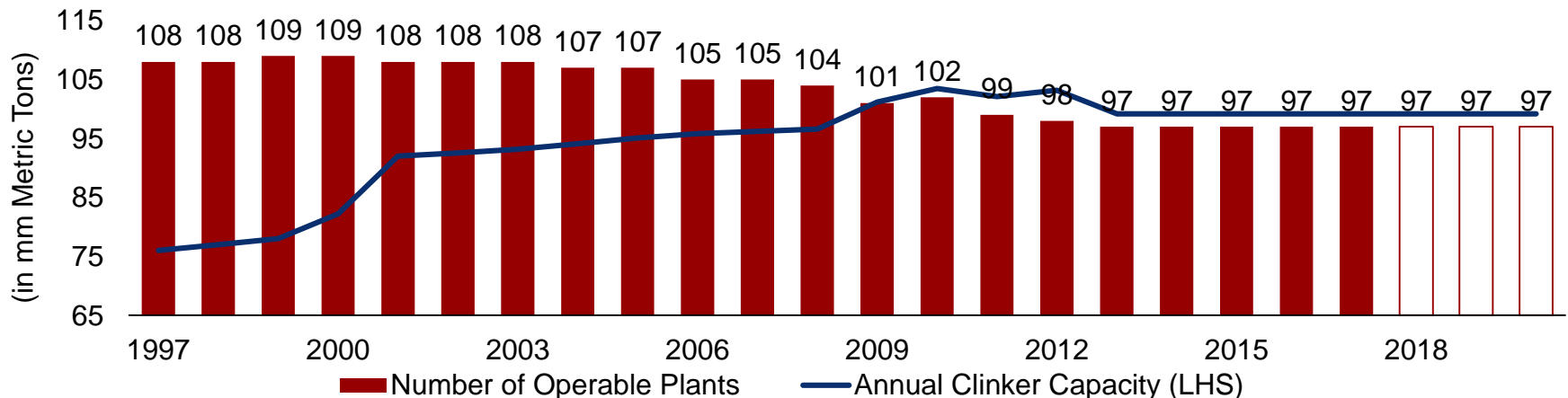
### Net Expansion in U.S. Cement Capacity (mm Metric Tons)



Over the past 20 years, the number of operable plants located in the U.S. has decreased by 10%

- Weak construction activities post financial crisis
- More rigorous environmental requirements

Unless the future capacity utilization rate is roaring beyond 90%, we do not believe there will be more operable plants being introduced to the industry



Source: Portland Cement Association, Company filings.

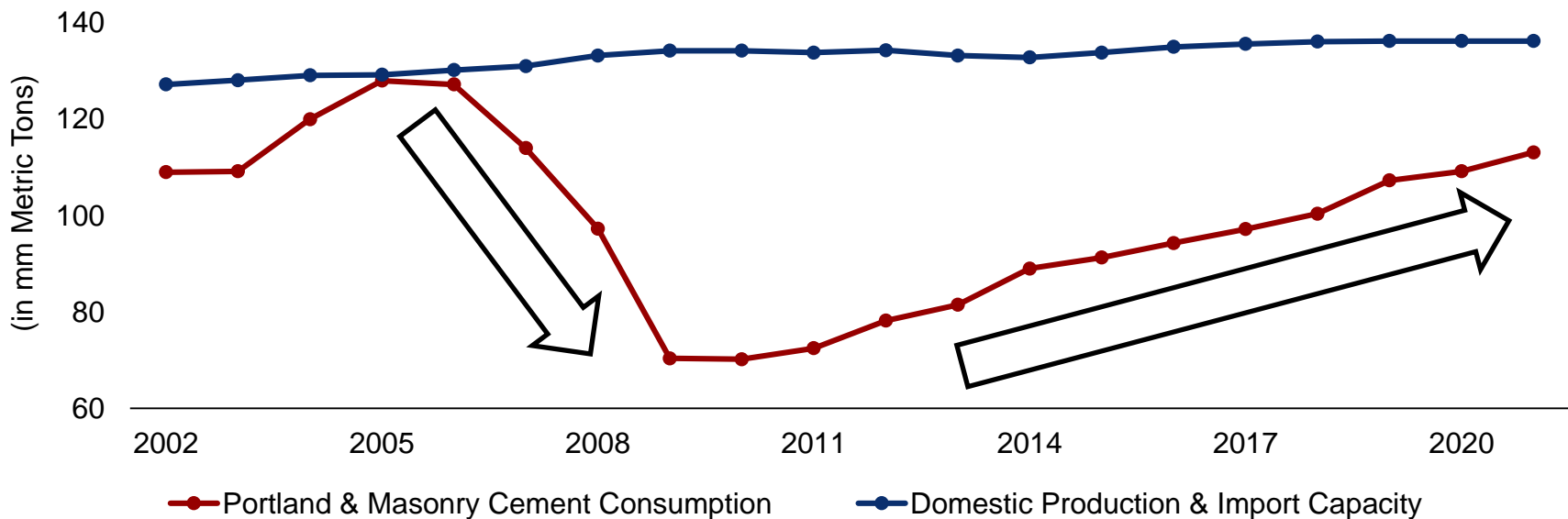
# Cement Supply and Utilization Rate

## Cement Import Volume

- Domestic cement capacity can supply approximately 100 mm metric tons, import volumes stabilizes at 45 mm metric tons annually
- The ability and willingness to import cement is driven by demand condition, dollar value and global shipping rates

## Cement Capacity Utilization Rate

- Cement consumption decreases post financial crisis, the utilization rate fell drastically
- As construction market recovers, the utilization rate of combined domestic and import cement capacity exceeds 70%, yet still below the sustainable utilization rate of **90%**, offering the current maximum cement supply at **135 mm** metric tons



Combined domestic and import cement capacity will feed even the most optimal infrastructure project (128mm tn in 2021)

Source: Portland Cement Association, Summit Materials Investor Presentation

# Aggregate

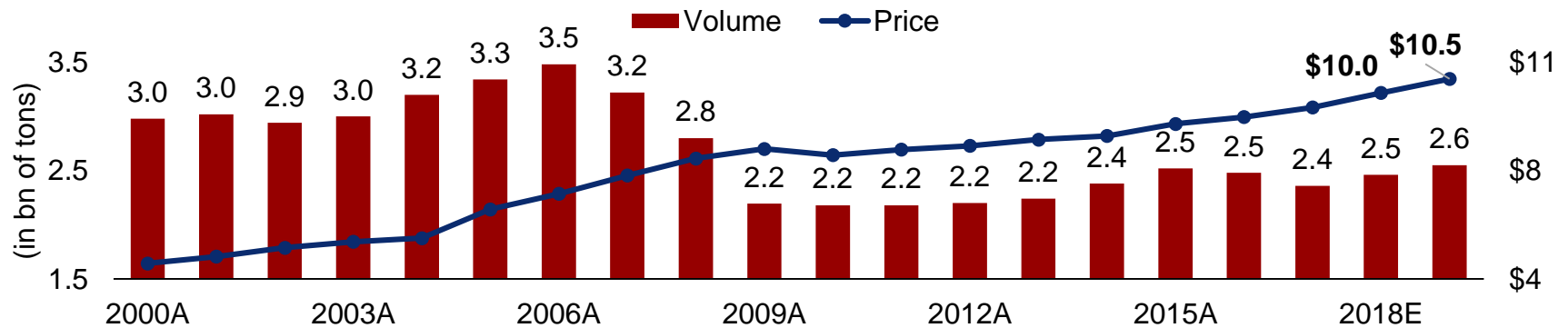
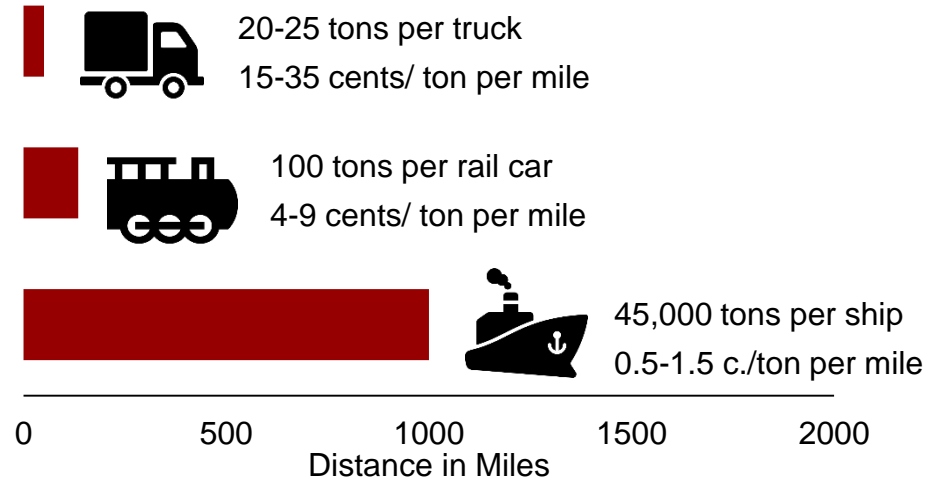
## Aggregates Expects Solid Growth

### Aggregates Fundamentals

Aggregate are inert materials such as sand, gravel, or crushed stone

- High pricing power
  - Difficulty of owning quarries in growing metropolitan
  - Relative monopolistic market dynamic
- High weight-to-value ration
  - They are produced near where they are used
  - Transportation cost > producing cost

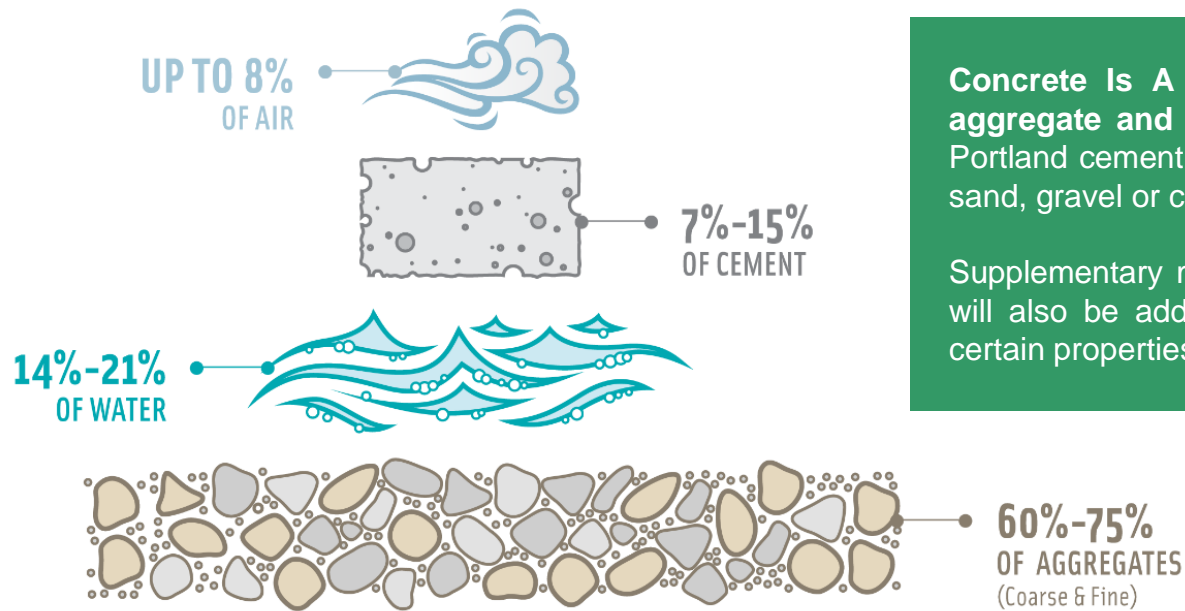
### Aggregate Transportation Cost per tonne/mile



Given high pricing power, screening companies with aggregate assets (for sale or for internal use)

Source: Street Research, RBC Equity Research, Martin Materials Annual Report

# Concrete Composition



**Concrete Is A Mixture Of Two Components: aggregate and paste.** The paste is made up of Portland cement and water, which then binds with sand, gravel or crushed stone (Aggregate)

Supplementary materials and chemical admixture will also be added during the mixing to achieve certain properties

**Ready-mixed Concrete**

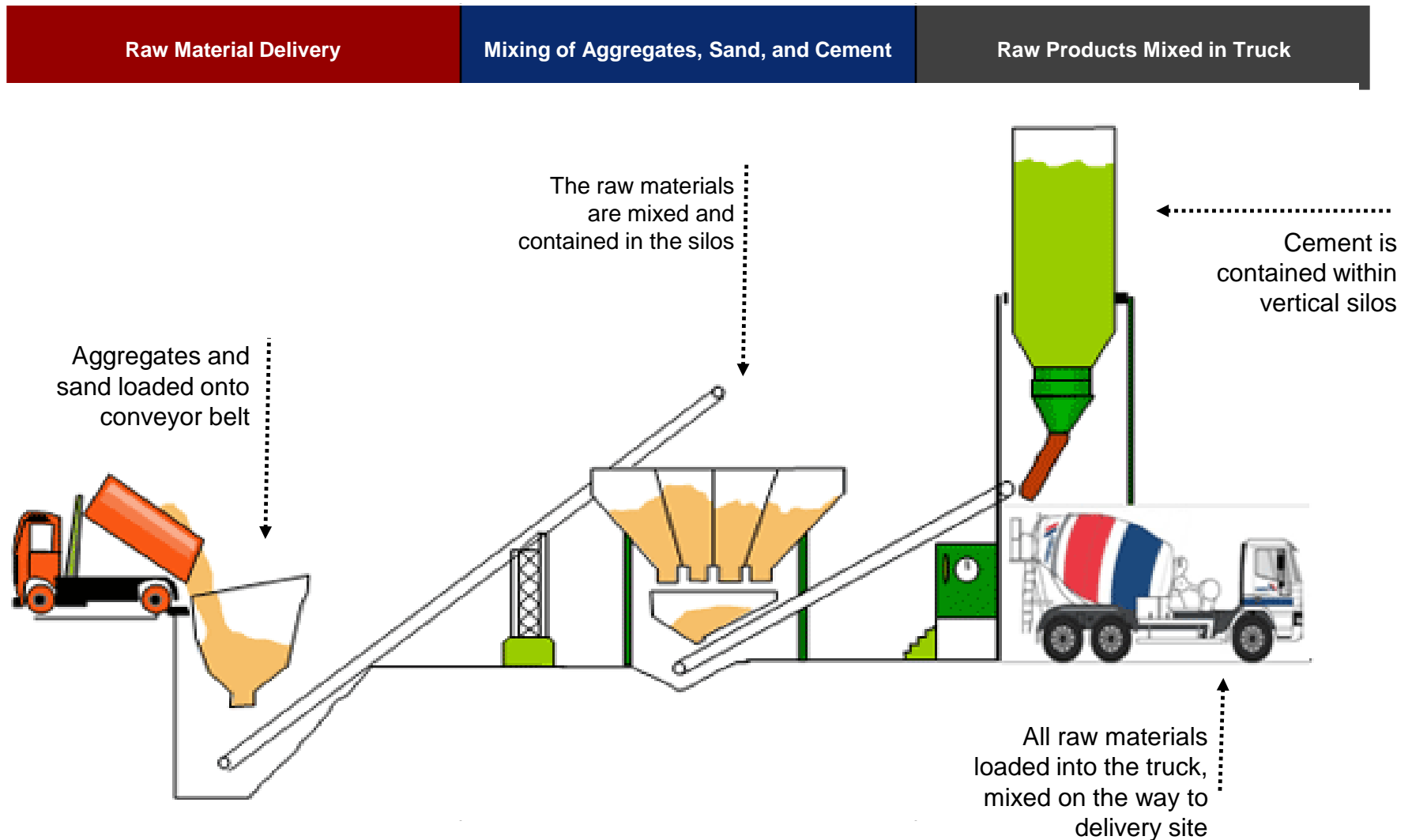
**Cement-based Materials**

**Precast Concrete**

**Advanced Materials**

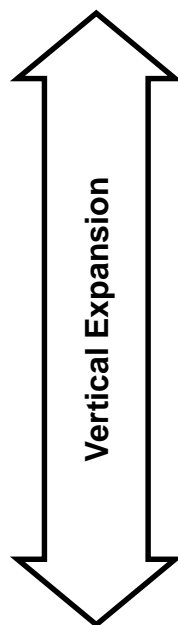
# Ready-Mixed Concrete

## How It's Made: Transit-Mixed / Dry-Batch



# Heavy Materials Industry Is Highly Fragmented

## Total Market Opportunity Approaching \$100 billion



## Industry Snapshot By Line of Business

### U.S. Aggregates Industry

More Than 4,000 Industry Participants  
~2.3 Billion Tons Sold (2016)

### U.S. Ready-Mix Concrete Industry

More Than 5,500 Plants  
Consumes 75% of U.S. Cement

### U.S. Cement Industry

~100 Plants; 80% Foreign Owned  
~95 Million Tons Sold (2016)

### U.S. Asphalt Industry

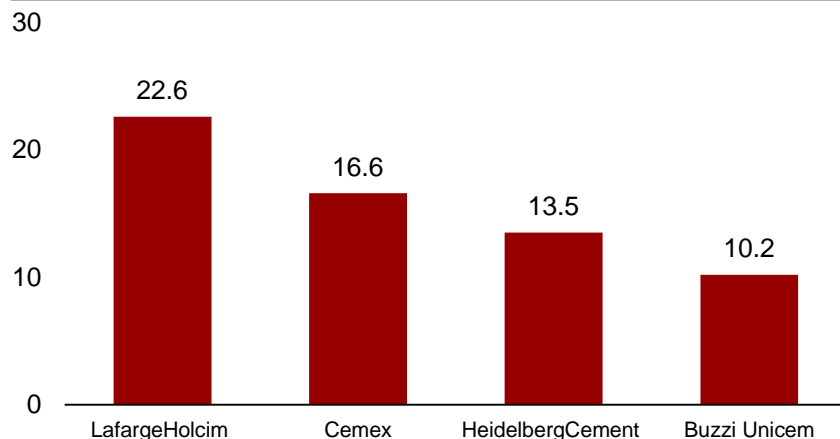
More Than 3,500 Plants  
~ 120 Million Tons (2016)

Looking for companies that have expanded its business offerings and geographic presence through acquisition

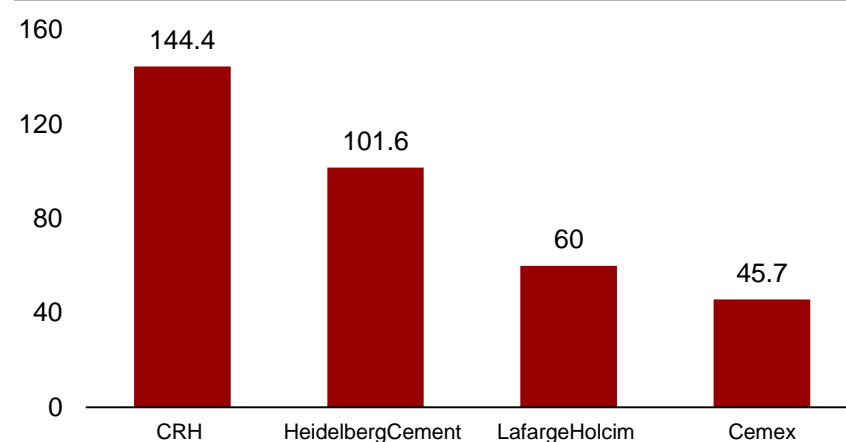
# Heavy Materials Players

## Most Industry Sales Were Captured By Foreign Companies

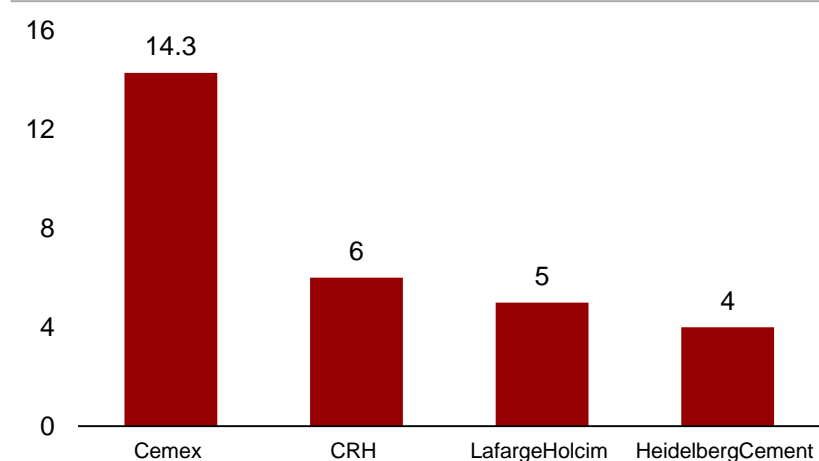
U.S. Cement Capacity By Company (in mm tons)



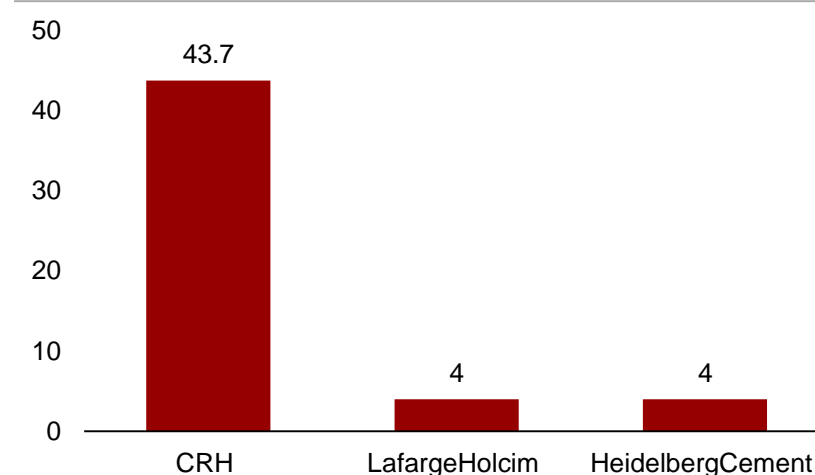
U.S. Aggregate Sales By Company (in mm tons)



U.S. Ready-Mix Sales By Company (in mm tons)



U.S. Asphalt Sales By Company (in mm tons)



Source: Street Research, UBS Evidence Lab

# Investment Criteria

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## In Summary

- U.S. Focused heavy material supplier
- Primary focus on Residential and Non- Residential markets
- Infrastructure exposure in states with reliable funding
- Diversified product mix to avoid over reliance on single end-product
- Integrated Business Model

# Heavy Materials Players

Competitive Landscape – We Want U.S. Focused Only

| Large-size  | Mid-size   | Small-size   |
|---|--|--|
|    |    |   |
|    |    |   |
|    |    |  |
|   |   |  |
|  |  |  |

Source: Street Research, The Concrete Producer

# Construction Materials Players

## Narrowing Down

| Company               |  |  |  |  |  |  |
|-----------------------|---|---|--|---|---|---|
| Market Capitalization | \$1,270M  | \$3,320M  | \$16,820M  | \$13,370M   | \$10,800M   | \$32,640M   |
| Headquarters          | United States   | United States   | United States  | United States   | Mexico  | Switzerland   |
| Founded               | 1948  | 2008  | 1909   | 1993  | 1936  | 2015  |
| Vertical Integration  | ✗   | ✓   | ✓  | ✓   | ✓   | ✓   |
| U.S. Focus            | ✓   | ✓   | ✓  | ✓   | ✗   | ✗   |
| Tagline               |   |   |  |   |   |   |

Source: Capital IQ m/d/yyyy, Company filings.

# U.S. Players' End Market Exposure



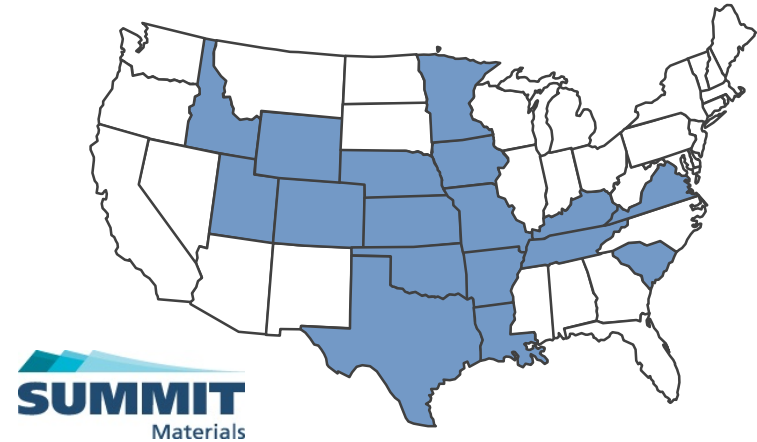
Source: Portland Cement Association

# Geographical Exposure

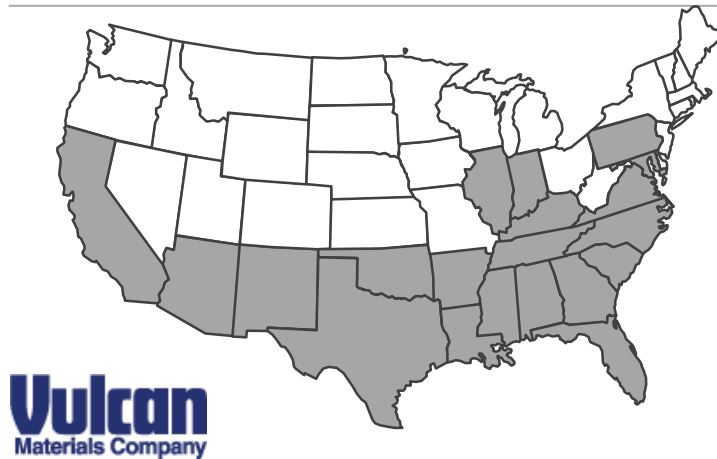
## U.S. Concrete



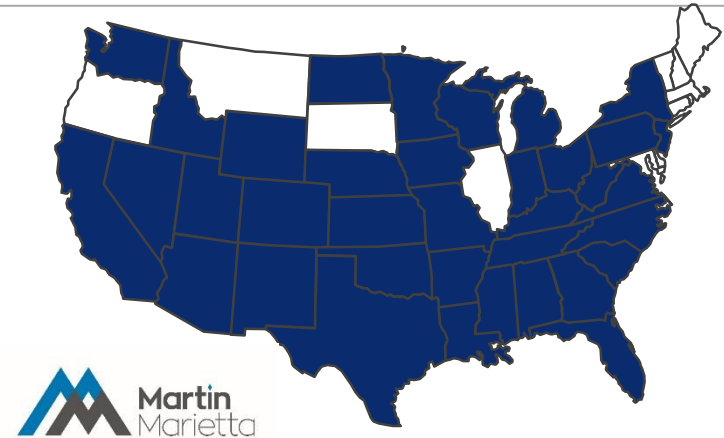
## Summit Materials



## Vulcan Materials



## Martin Marietta

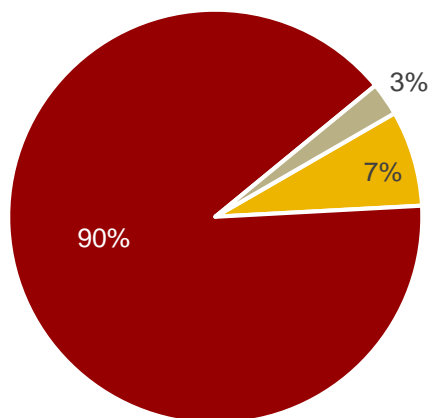


# End-Product Breakdown

■ Aggregates ■ Cement ■ Ready Mixed Concrete ■ Asphalt ■ Other

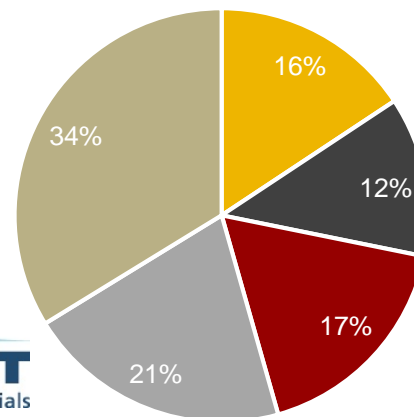
## U.S. Concrete

Revenue  
\$1,168M



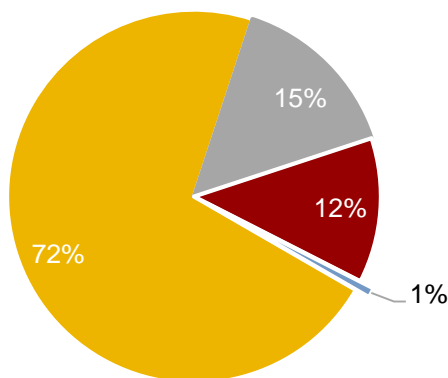
## Summit Materials

Revenue  
\$1,626M



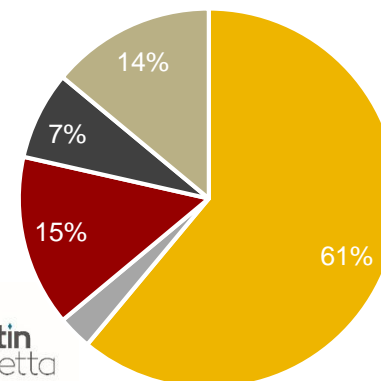
## Vulcan Materials

Revenue  
\$3,592M



## Martin Marietta

Revenue  
\$3,818M



# Investment Criteria

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## Summit Meets all Criteria

- ✓ U.S. Focused heavy material supplier
- ✓ Primary focus on Residential and Non- Residential markets
- ✓ Infrastructure exposure in states with reliable funding
- ✓ Diversified product mix to avoid over reliance on single end-product
- ✓ Integrated Business Model

# Mini-Pitch Summit Materials (NYSE:SUM)

SECTION III

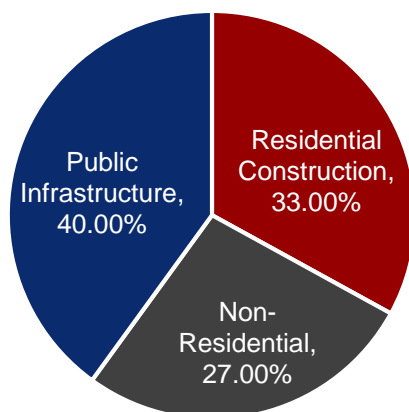
# Mini-Pitch

## Company Overview

### Overview

- Summit Materials is a vertically integrated heavy side building products company that sells aggregates, cement, concrete, asphalt, and asphalt paving services
- Since the company's formation in 2009, management has completed more than 50 acquisitions
- Summit operates primarily in the mid-continental U.S. (TX, KS, MO, KY, UT) and in Canada (Vancouver)

### End Market Exposure



Source: Street Research, Capital IQ as of 02/13/2018.

### Market Overview

(in \$ millions, except share price)

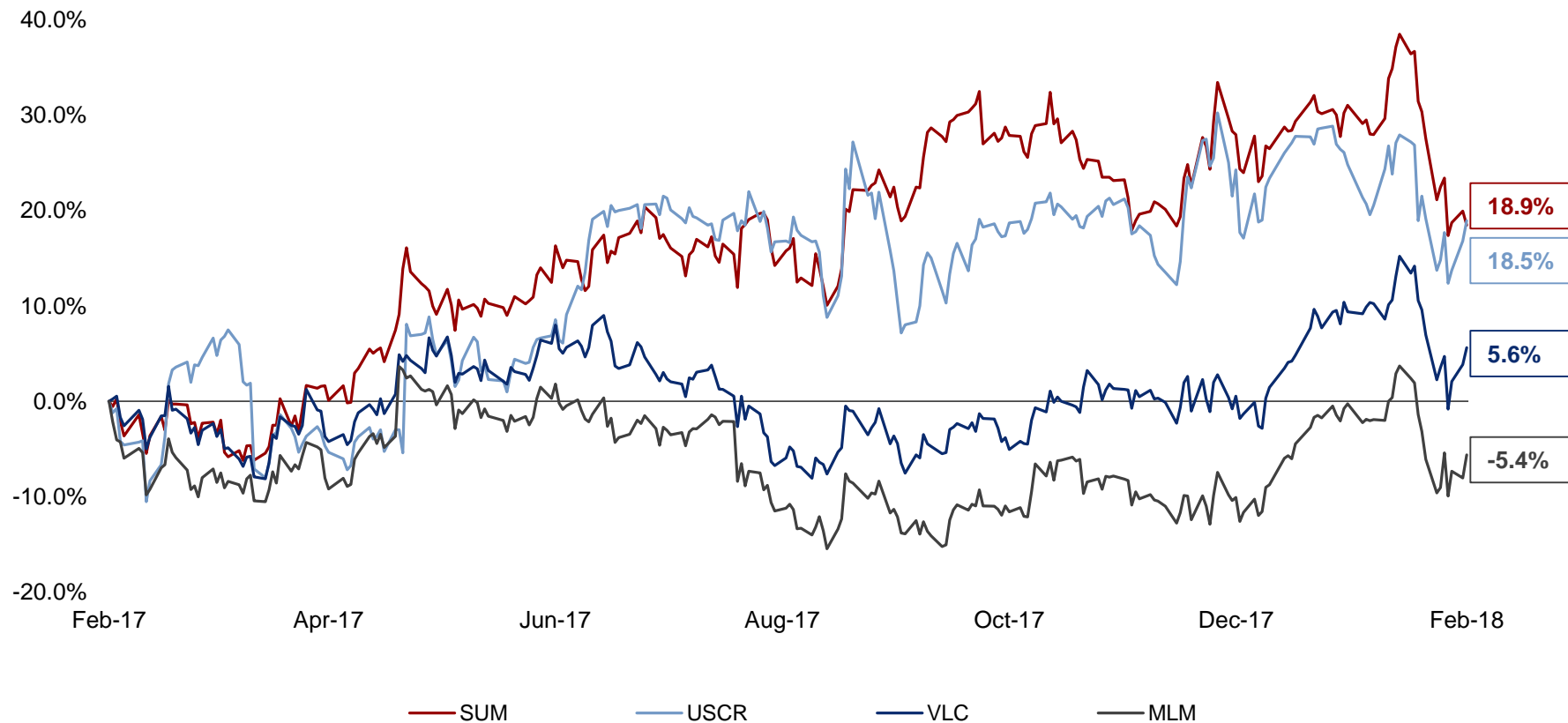
|                         |          |
|-------------------------|----------|
| Share Price             | 29.15    |
| Shares Outstanding (mm) | 110.00   |
| Market Cap.             | 3,206.50 |
| - Cash                  | 287.10   |
| + Debt                  | 1,834.00 |
| + Minority Interest     | 15.80    |
| Enterprise Value        | 4,769.20 |

### Financial Overview

|            | 2016A | 2017E | 2018E |
|------------|-------|-------|-------|
| Revenue    | 1,626 | 1,777 | 1,960 |
| YoY        |       | 9.3%  | 10.3% |
| EV/Revenue | 2.9x  | 2.7x  | 2.4x  |
| EBITDA     | 322   | 424   | 501   |
| YoY        |       | 31.9% | 18.1% |
| EV/EBITDA  | 14.8x | 11.2x | 9.5x  |

# Mini-Pitch

## 1Yr Performance vs. Peers



Summit outperformed its peers in the heavy construction materials segment over the last year

Source: Capital IQ.

## Summit meets all criteria

### I. Summit Will Benefit from Favorable Industry Tailwinds

- Given their primary exposure to residential and non-residential sectors, Summit is well positioned to benefit from ramp-up in single-unit construction
- Summit's presence in states like Texas which are increasing highway spending is an added bonus to their infrastructure segment

### II. Management's Acquisition Growth Strategy

- Management's strategy involves acquiring privately-owned vertically integrated companies to expand footprint in the mid-west leading to higher pricing power
- Management's excellent track record of acquisitions and abundance of opportunities in a highly fragmented market indicate more activity in the near-term

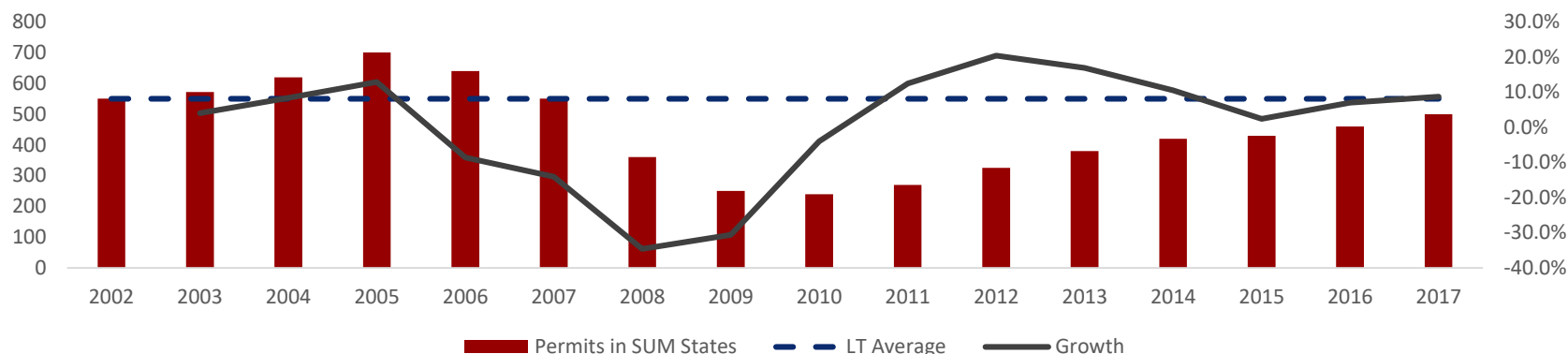
### III. Attractive Valuation

- Summit is trading at a discount on 2018E EV/EBITDA to its peers in the heavy materials industry despite strong fundamentals and better growth prospects

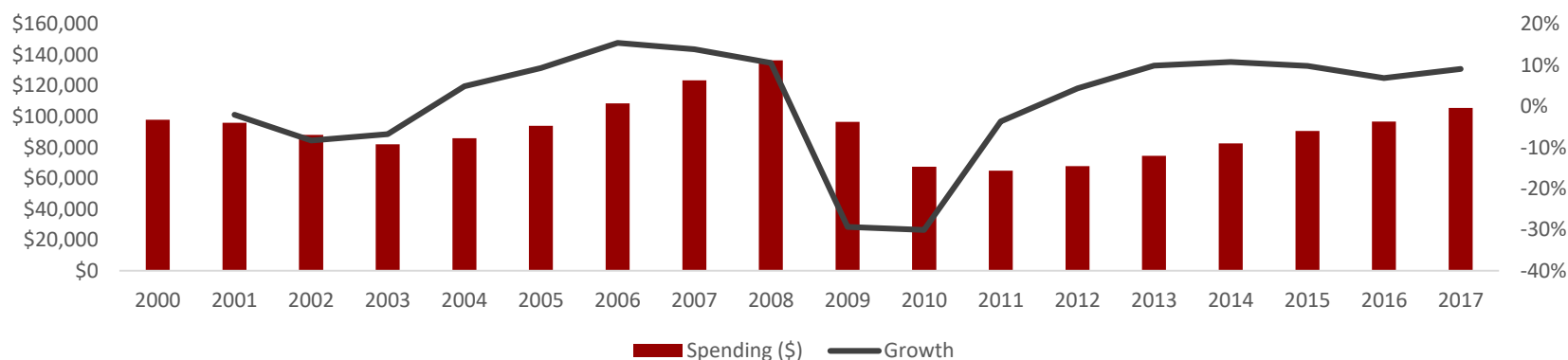
# I. Favourable Industry Tailwinds

## Most Industry Sales Were Captured By Foreign Companies

### Residential Building Permits in States Where Summit Operates



### Residential Construction Spending in States where Summit Operates



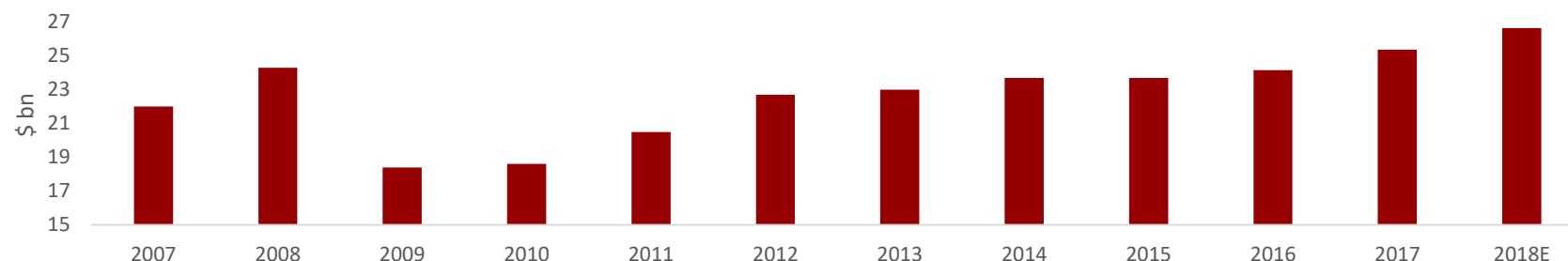
Residential starts are still 20% below their LT average and 50% below their peak in 2005. We also expect an improvement in residential construction spending moving forward.

Source: Street Research, US Census

# I. Favourable Industry Tailwinds

## Most Industry Sales Were Captured By Foreign Companies

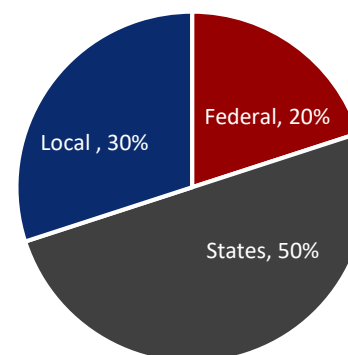
### Highway Expenditure of Summit's Top Five States



### Summit Will Benefit From Increasing Highway Spending

### Highway Spending Funding

- Highway Expenditures in Summit's five largest states by revenue have increased from \$18 bn in 2009 to \$25 bn in 2017
- Overall, expenditures on highways in these states increased as a percentage of total U.S. highway expenditures from 12.6% in 2003 to 15.9% in 2016
- Since states are the largest funding source for highways, we believe SUM is well positioned to benefit from increasing spending under the FAST bill



Source: Street Research.

## II. Management's Acquisition Growth Strategy

### Seasoned Management Team

#### CEO Leading the Charge

- Tom Hill, CEO
  - Previously CEO of OldCastle Materials
- During his tenure (1992-2008), Mr. Hill turned OldCastle (CRH) into one of the largest vertically integrated heavy materials business in the U.S.
- During this time, CRH completed 173 acquisitions on its way to becoming one of the most profitable materials businesses
- He also brought with him a lot of former colleagues from OldCastle to Summit

#### M&A Critical for Growth

- Management has successfully completed more than 50 acquisitions since 2009
- Revenues have grown from \$29 mm in 2009 to \$1.6 bn in 2017E with the help of acquisitions
- Management usually targets small private companies within \$10-\$100 mm range
- In 2015, there were ~1,550 aggregates businesses, of which 65% are privately owned
- This makes us believe that there is still scope for more activity, which would also help Summit increase pricing power in the region

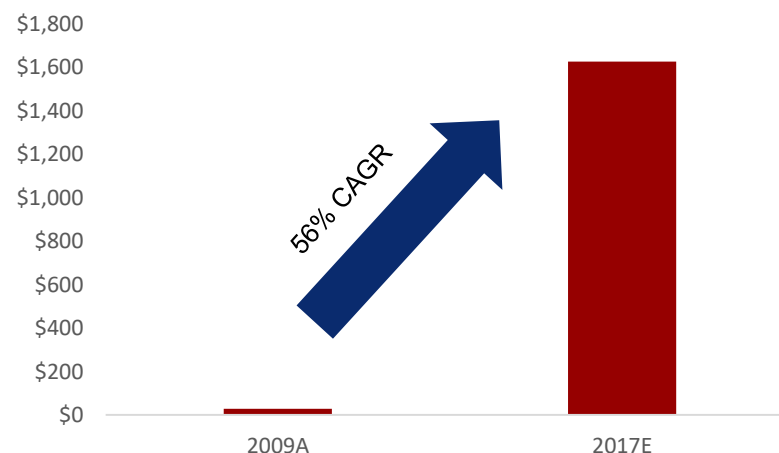
Source: Street Research, Company Materials.

#### Management Team

| Executive         | Age | Position                  | Years in the Industry |
|-------------------|-----|---------------------------|-----------------------|
| Tom W. Hill*      | 61  | President & CEO           | 37                    |
| Brian Harris      | 61  | CFO                       | 5                     |
| Micheal J. Brady* | 50  | COO                       | 18                    |
| Damian J. Murphy* | 47  | President -Central Region | 23                    |
| Shane Evans*      | 46  | President - West Region   | 25                    |

\* Indicates former OldCastle employee

#### Revenue Growth



### III. Attractive Valuation

#### Public Market Comparables

| Company                   | Ticker          | Market Cap. (\$mm) | Enterprise Value (\$mm) | EV/Revenue |       | EV/EBITDA |       | Revenue Growth 2018E | EBITDA Margin 2018E |
|---------------------------|-----------------|--------------------|-------------------------|------------|-------|-----------|-------|----------------------|---------------------|
|                           |                 |                    |                         | LTM        | 2018E | LTM       | 2018E |                      |                     |
| Vulcan Materials          | VMC US Equity   | 17,113             | 19,227                  | 5.1x       | 4.6x  | 20.2x     | 16.4x | 5.84%                | 25.20%              |
| Martin Marietta Materials | MLM US Equity   | 13,729             | 15,310                  | 3.9x       | 3.8x  | 15.2x     | 14.1x | 10.30%               | 25.40%              |
| Eagle Materials           | EXP US Equity   | 5,040              | 5,854                   | 4.0x       | 3.7x  | 12.1x     | 10.3x | 16.50%               | 30.20%              |
| U.S Concrete              | USCR US Equity  | 1,234.50           | 1,674                   | 1.3x       | 1.1x  | 9.6x      | 7.3x  | 18.00%               | 13.20%              |
| CEMEX                     | CEMEX MC Equity | 11,159             | 21,579                  | 1.6x       | 1.6x  | 8.9x      | 7.6x  | 2.88%                | 17.30%              |
| CRH                       | CRG IS Equity   | 28,676             | 37,306                  | 1.1x       | 1.1x  | 9.4x      | 8.6x  | 1.67%                | 11.50%              |
| Mean                      |                 | 12,825             | 16,825                  | 2.8x       | 2.7x  | 12.6x     | 10.7x | 9.20%                | 20.47%              |
| Median                    |                 | 12,444             | 17,269                  | 2.8x       | 2.7x  | 10.9x     | 9.5x  | 8.07%                | 21.25%              |

#### Summit Valuation

|                  |               |       |       |        |      |         |      |        |        |
|------------------|---------------|-------|-------|--------|------|---------|------|--------|--------|
| Summit Materials | SUM US Equity | 3,206 | 4,769 | 2.7X   | 2.4X | 11.2X   | 9.5X | 10.30% | 30.66% |
|                  |               |       |       | -9.55% |      | -11.42% |      |        |        |

Despite stronger fundamentals, SUM trades at a discount on 2018E EV/EBITDA & EV/Revenue to its peers

Source: Capital IQ.

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