MERCER CAPITAL

BUSINESS VALUATION & FINANCIAL ADVISORY SERVICES

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VALUE FOCUS

Construction & Building Materials

Third Quarter 2024 | Sector Focus: Roads, Bridges, and Highways

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Executive Industry Trends

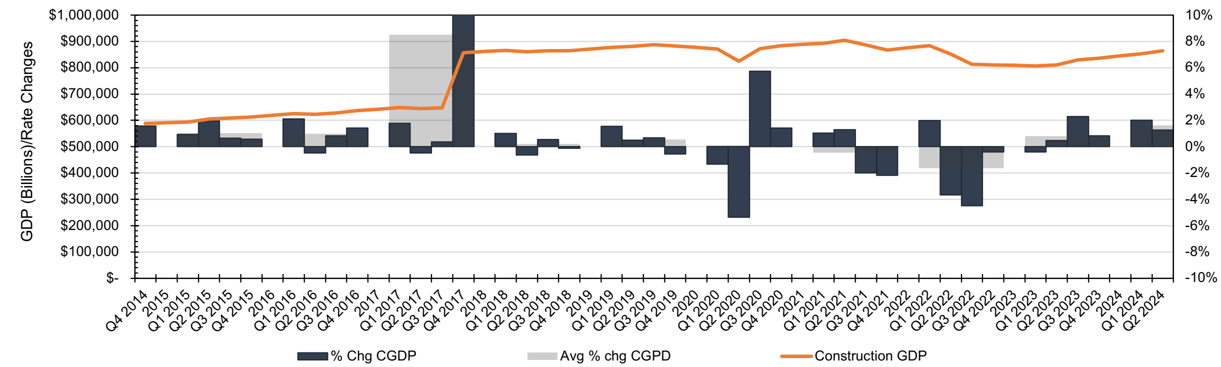
- During Q3 2024, real GDP expanded, marking the tenth consecutive quarterly increase following a downturn at the beginning of 2022. Construction GDP also rose this quarter, growing at 1.3% compared to 0.7% for the broader economy.
- Both the residential and non-residential building sectors have enjoyed strong years thus far, with Value Put-in-Place up 4.9% and 5.6% Y-o-Y, respectively, on a seasonally adjusted annual basis.
- The median sales price of houses sold has further moderated in 2024, with this quarter's $420,400 value down approximately 4.5% from late 2022 highs.
- Elevated rates and commodity input prices have proved to be strong headwinds for industry activities; however, the expected cut to the Federal Reserve's target rate materialized at the end of the quarter with a 50 basis point cut. Further rate cuts could boost affordability for major capital projects and industry activity.

Construction Overview

Construction & National GDP

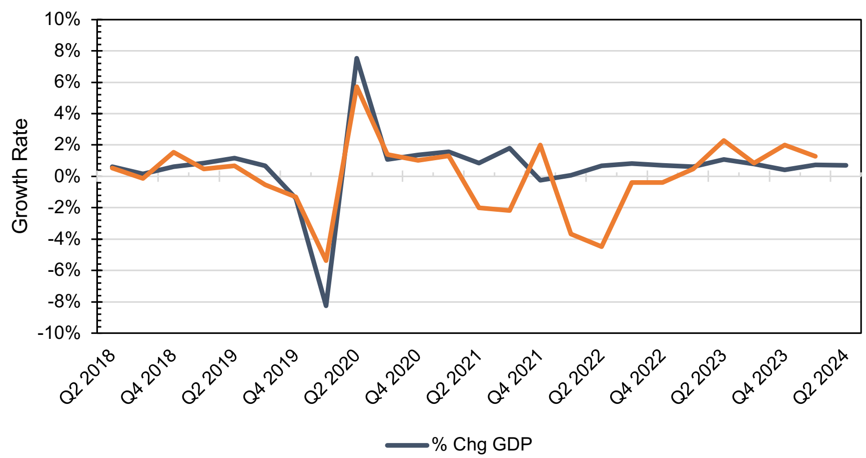
National GDP growth slowed slightly with a 2.6% Y-o-Y increase and a 0.7% quarterly increase. Resilient consumer spending has supported continued recovery and growth in the years after the pandemic, though elevated interest rates and inflationary pressures have presented a ceiling on expansion. Further rate cuts could boost GDP growth. Construction GDP saw greater growth with an approximately 6.6% Y-o-Y change and a 1.3% quarterly increase, though both metrics trail Q2 2024.

Construction Gross Domestic Product



Source: Federal Reserve Economic Data

% Change in GDP



Construction GDP	
Period	**% Change**
Q-o-Q	1.3%
Y-o-Y	6.6%

National GDP	
Period	**% Change**
Q-o-Q	0.7%
Y-o-Y	2.6%

Source: Federal Reserve Economic Data

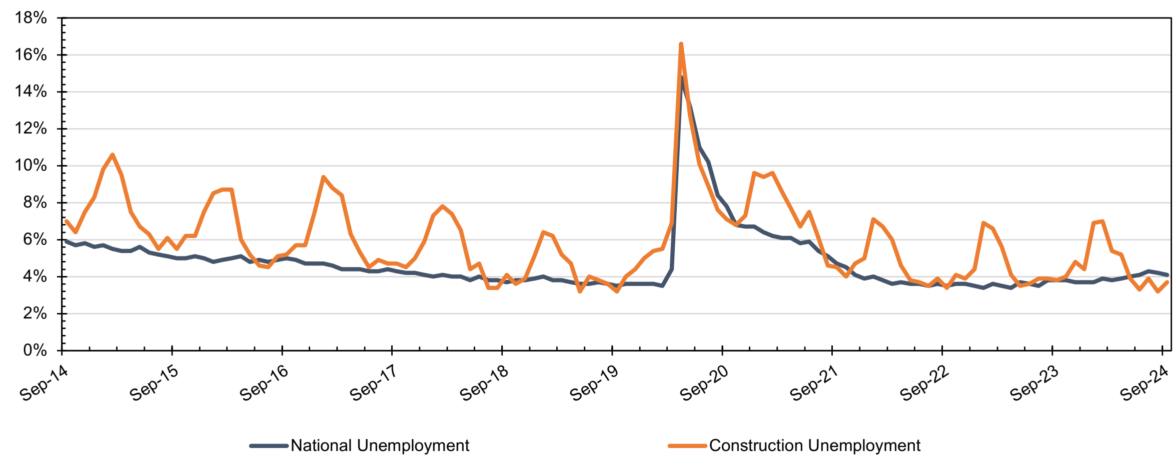
Construction Overview

Construction & National Unemployment

There are differing opinions on what exactly is a healthy unemployment rate, but most people agree that it is somewhere between 3% and 6%. Unemployment was effectively flat across the third quarter of 2024, steady at 4.1%. Job growth has slowed in the current market, as the effect of the Fed's interest rate cuts has continued to be felt by the economy. Fears of potential overtightening by the Fed have also raised expectations for rate cuts in Q3 2024, which was realized via a 50 basis point cut at the September meeting.

The unemployment rate in the construction industry experiences high seasonality, as the industry is both cyclical and seasonal, as variables like weather, commodity prices, regulation, and available demand for capital projects all affect construction industry activity. Construction unemployment follows seasonal trends as production of materials and fulfillment of projects typically stall during the winter. Construction unemployment fell to 3.7% as of September 2024, a slight decrease from 3.8% in September 2023. It reached a seasonally high of 7.0% in February 2024, which is in line with previous seasonal peaks in 2023 (6.9%) and 2022 (7.1%). Higher interest rates might have been a headwind for the industry, but the September rate cut and anticipated future cuts could bolster production and labor demands in the industry.

National and Construction Unemployment Rates



Source: Federal Reserve Economic Data

Construction Overview

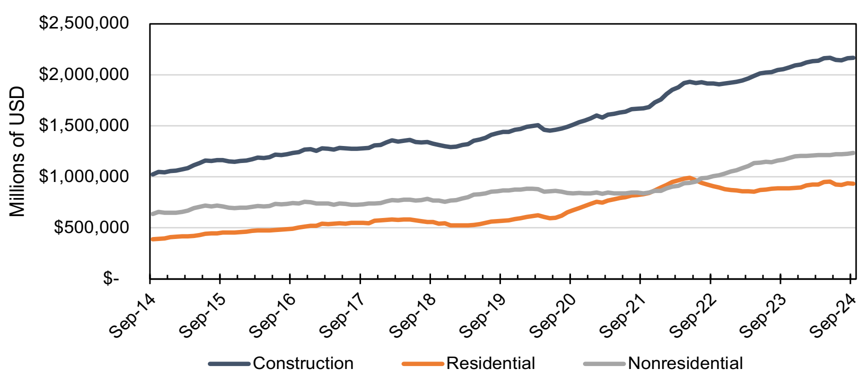
Value of Construction Put-in-Place

The value of construction put-in-place (PIP) is a measurement of the total value of construction work performed in the U.S. during a specified time period. The U.S. Census Bureau tracks this data and reports the results monthly. This value includes, but is not limited to, building materials costs, labor costs, profit, engineering costs, interest and taxes. Over the past year, the United States has seen strong growth across both residential and non-residential projects.

As of Q3 2024, residential construction value PIP has seen a 4.9% increase year-over-year, and a 0.9% increase over the third quarter of 2024. Residential home prices remain elevated throughout Q3 2024 and have been since a surge in the immediate aftermath of the COVID-19 pandemic. Home prices could begin falling as current and future rate cuts increase supply, though greater demand should support prices above pre-pandemic trends.

Non-residential construction value PIP has seen a year-over-year increase of 5.6% and third quarter growth of 1.0%. Residential construction has historically lagged non-residential construction, yet in 2020, while the residential construction market experienced significant growth, non-residential construction value stagnated. It wasn't until June of 2022 that non-residential construction began to see increases in value PIP, at which point it once again eclipsed the value of residential construction value PIP. In this period of growth, the U.S. has seen an increase in reconstruction projects, which include renovations, expansions, and preservations of current buildings, rather than new construction projects. Private non-residential value PIP has decreased while public value PIP has increased amid $1.25 trillion allocated for investment into public non-residential projects over the next 5 years, funded by both the CHIPS and Science Act in 2022 and the Bipartisan Infrastructure Act of 2021. Looking forward, spending on projects should increase slightly as materials affordability improves and contractors look to refill project pipelines.

Value of Construction Put-in-Place



Source: US Census Bureau

Residential	
Period	**% Change**
Q-o-Q	0.9%
Y-o-Y	4.9%

Nonresidential	
Period	**% Change**
Q-o-Q	1.0%
Y-o-Y	5.6%

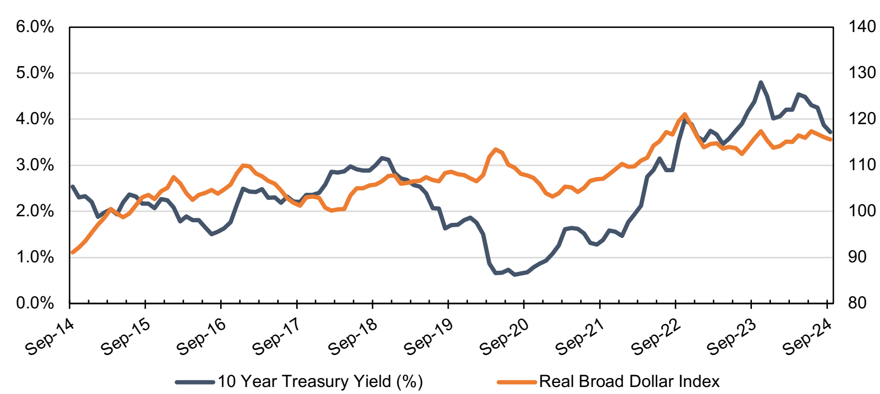
Construction Overview

Real Broad Index & 10-Year Yields

The Real Broad Dollar Index is a type of trade weighted index, which measures the relative strength of the U.S. Dollar compared to foreign currencies, emphasizing the weight of our most common trade partners and largest economies. When the dollar is strong, trade becomes much more advantageous for the U.S. Imports become cheaper and the status of the dollar as the world reserve currency is bolstered. However, exporters suffer as domestically produced goods become more expensive abroad. Based on the real broad dollar index, the dollar has weakened 0.1% year over year and 1.5% quarter over quarter as of Q3 2024. This benefits construction industry operators that focus on exporting end products or services, but may harm industry operators that rely heavily on imports for project inputs and could discourage investment in domestic industry investment and activity if the trend continues.

The yield on 10-year treasury bonds can provide an indication of investor sentiment, economic growth, and inflation expectations. These factors can affect the construction and building materials industry activity. On one hand, higher interest rates make construction projects more expensive to undertake as borrowing becomes more expensive. On the other hand, an increase in 10-year yields may signal an increased optimism in the overall market. The 10-year yield graph shown below shows a sharp decline through the COVID-19 pandemic in 2020 followed by a quick recovery through 2021. Growth remained strong thereafter, rising 100 BPS from 2.9% to 3.9% in Q2 2023. As of Q3 2024, the 10-year yield has fallen 0.7% year-over-year and 0.6% quarter-over-quarter, reflecting expectations for continued rate cuts and optimism regarding long-term inflation expectations.

10 Year Treasury Yield/Real Broad Dollar Index



Source: Federal Reserve Economic Data

Real Broad Dollar Index	
Period	**% Change**
Q-o-Q	-1.5%
Y-o-Y	-0.1%

10 Year Yields	
Period	**% Change**
Q-o-Q	-0.6%
Y-o-Y	-0.7%

Sector Focus

Roads, Bridges, and Highways

Companies in the roads, bridges, and highways industry construct new highways, streets, roads, bridges, and airport runways. Their work includes new construction, reconstruction, and repairs. Industry success and activity is driven by government spending at the federal, state, and local level, as well as trends in consumer travel and business trucking activity. The combination of a growing population, increasingly sprawling urban centers, and decay of current infrastructure due to constant use and erosion from both normal and extreme weather provides consistent favorable tailwinds for the industry. These trends are further bolstered by regulations that require road infrastructure to stay up to date with safety standards and necessitate consistent investment in maintenance and reconstruction. Cars have gotten heavier as well, which puts further strain on existing infrastructure. The American Society of Civil Engineers gave the United States' road and aviation infrastructure a D+ on the 2021 edition of its Report Card for America's Infrastructure and estimates that 42.0% of U.S. bridges are 50 years old, further emphasizing the need for investment in national infrastructure that drives opportunities for growth.

Activity in the industry is also driven by large-scale economic and demographic trends in the United States. As population and disposable income rise, Americans travel more and further, resulting in both a need for new infrastructure and maintenance of existing infrastructure as increased usage generates more wear and tear for roadways. Greater economic development also raises tax budgets, which generates more government funding for projects. Interest rate trends impact activity as well, as higher rates raise the price of major projects and curtail building activity. Private and institutional building and development impacts the industry, as new structures increase demand for roadwork.

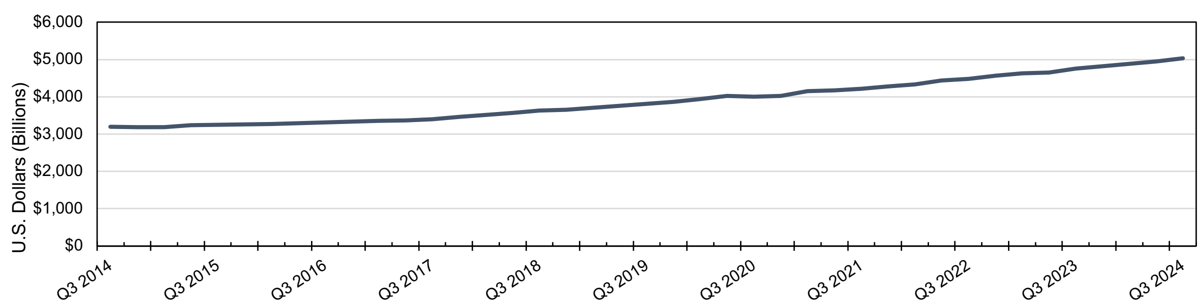
The industry is also dependent on the prices of inputs including, but not limited to, concrete, steel, various aggregates including sand, gravel, and crushed stone, bitumen and other binders, asphalt, and labor. Skilled labor can be expensive, and volatility in the price of other inputs can have a material effect on operating profits. Furthermore, the construction process and characteristics of the input materials can be affected by weather and temperature, which can result in higher costs during the winter (for example, specialized equipment can be needed to help the concrete cure properly) or when there is particular severe weather.

Roads, Bridges, and Highways

Government Consumption and Investment and Total Public Spending on Highway and Street Construction

Much of the funding for transportation and other large infrastructure projects including the building and maintenance of road, bridge, and highway networks come from public resources at the federal, state, and local levels. Accordingly, activity in the roads, bridges, and highways industries is typically correlated to level of government spending on broad construction activity. After stagnating for much of 2013 to 2016, government consumption and investment (GCI) has grown consistently at a compound annual rate of 5.4%, hitting a high of $5.03 trillion in Q3 on a seasonally adjusted annual basis. The growth in GCI over time was boosted by increased military spending as well as increased public infrastructure investment at the state and local level. While spending stagnated slightly in late 2020 during the midst of pandemic restrictions, programs such as the Paycheck Protection Program (PPP) and the Infrastructure Investment and Jobs Act (IIJA) resulted in quick recovery in government spending. Road and highway maintenance was also deemed "mission-critical" during the pandemic, providing a backstop for government spending on industry services. At the end of Q3 2024, government consumption and investment grew 5.8% on a year-over-year basis and 1.8% from the previous quarter, reflecting continued expansion in government spending as the economy continues post-pandemic recovery. Total public spending specifically earmarked as going to highway and street construction has also grown over the past several years, rising 7.6% on a compound annual basis from Q3 2019 and 2.5% Y-o-Y.

Government Consumption and Investment



Source: Federal Reserve Economic Data

Government Consumption and Expenditure	
Period	**% Change**
Q-o-Q	1.8%
Y-o-Y	5.8%

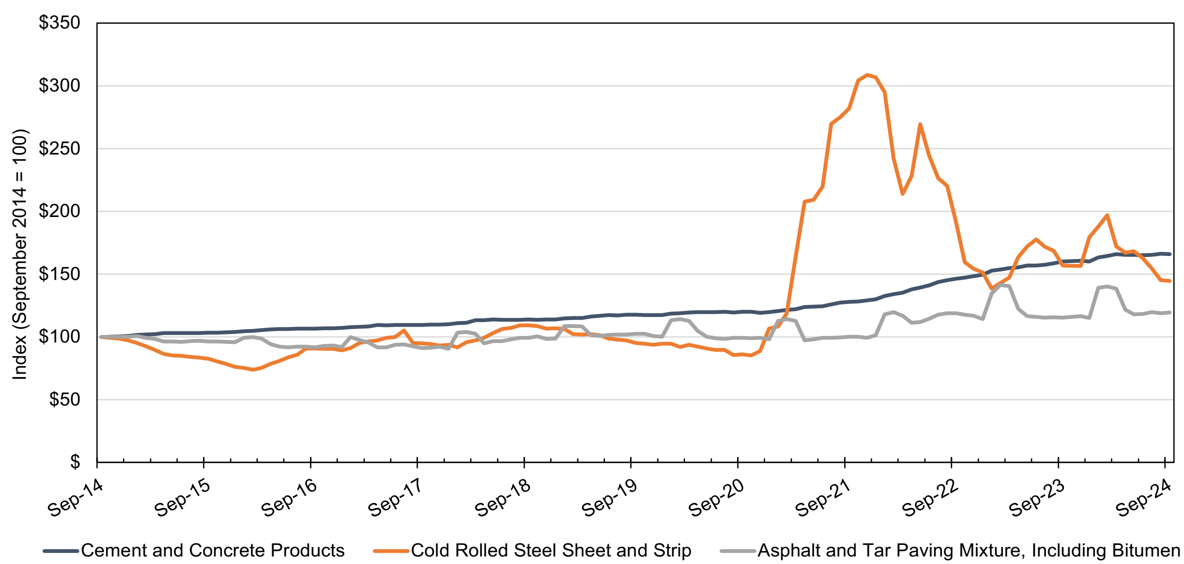
Roads, Bridges, and Highways

Production Input Costs

Road, bridge, and highway construction is resource intensive, with roadways comprised of various layers held together by binding materials and a multi-stage production process that requires certain environmental and production processes to create a safe and well-built final product. Some of the major inputs for production are concrete and cement, steel, and asphalt, tar, bitumen, and other petroleum-based inputs. The price of these commodities has a direct impact on the operating profits of industry businesses, and volatility or excessively high prices can have an adverse effect on their financial outcomes.

Indexed to Q3 2014, these inputs saw spikes in late 2020/early 2021 as the effects of pandemic travel, production, and policy rippled through the economy. Steel was most affected, with a sharp spike that moderated through 2022 and left prices elevated above pre-pandemic trends. Cement prices rose more gradually and consistently. Asphalt and tar paving mixture exhibits considerable seasonality, as cold conditions in the winter raise prices and require the need for additional technology and inputs to ensure the mixture sets properly. Over the past year, the index levels for cement and asphalt/tar have risen 3.8% and 3.4%, respectively, while the index for steel has fallen 7.8%.

Roads/Bridges/Highways Production Inputs Price Index



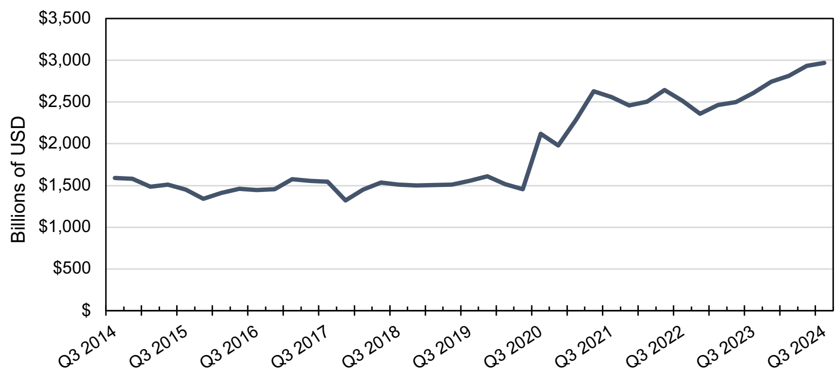
Source: Federal Reserve Economic Data

Sector Round-up

Nonresidential Construction

Corporate profits are an essential indication of a business' ability to expand. As corporate profits rise, so does capital spending, buoyed by an elevated capacity and willingness to open new branches and divisions, undertake expansion projects, and invest in products and new services, which consequently drives demand for commercial construction. As seen in the chart below, corporate profits expanded considerably during the end of 2020 and beginning of 2021 and have risen on a more consistent level afterwards. As of Q3 2024, profits were up 5.4% and 3.5% on a compound annual basis from local peaks in Q2 2022 and Q2 2021, respectively. The Inflation Reduction Act, signed into law in August 2022, included amendments that contributed to headwinds in corporate earnings, including raising the minimum tax on large corporations to 15%, while also imposing a 1% tax on stock buybacks. This new policy is partially responsible for the moderation in corporate profit growth following excellent post-pandemic numbers, alongside higher input costs and elevated interest rates. Lower borrowing costs following the most recent and anticipated future Fed rate cuts could work to free up capital for new corporate projects and development, further driving demand and activity for the construction and building materials sector.

Corporate Profit



Source: Federal Reserve Economic Data

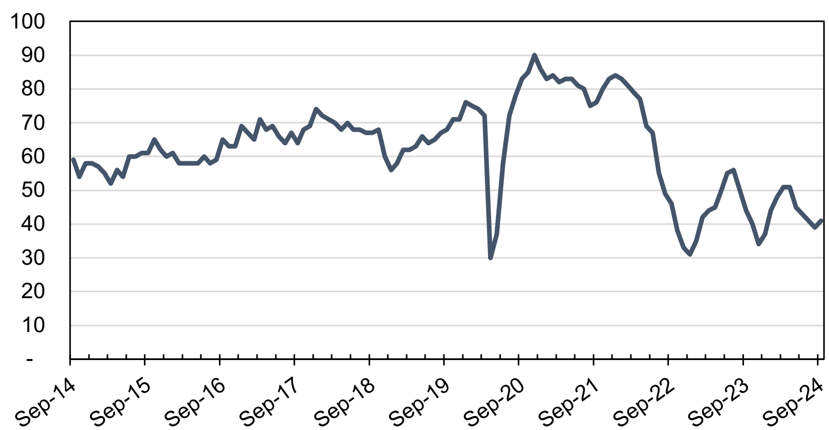
Corporate Profit	
Period	**% Change**
Q-o-Q	1.3%
Y-o-Y	14.0%

Sector Round-up

Residential Construction

The National Association of Home Builders (NAHB) conducts two separate surveys specifically targeted towards those who are NAHB members. The two surveys are the Housing Market Index (HMI) and the Remodeling Market Index (RMI), which are both distinct measurements of confidence in the home building industry. HMI is a weighted average of 3 components: present single-family home sales, next-six-months single-family home sales, and traffic of prospective buyers. Each respondent is asked to respond to each of these questions on a 3-level scale. They are then averaged. The HMI dropped to 30 at the start of the pandemic, but quickly recovered across the rest of the year. It dropped to this level again in December of 2022 following an approximately 330 basis point increase in the 30 year mortgage rate. Despite some moderate recovery, the index has remained depressed due to elevated borrowing rates, depressed supply, and volatile conditions, with the index down 6.8% year-over-year and 4.7% over the last quarter. While the index has exhibited considerable volatility since Q3 2022, it appears to be beginning to normalize around a value of 40, approximately 33.3% above the pandemic-era low but 55.6% below the 2020 high and 34.1% below the ten-year average. The RMI has fared slightly better, though still is down 3.1% year-over-year and 3.1% over the last quarter. Taken together, these metrics indicate an uncertain outlook among NAHB members.

NAHB Housing Market Index



RMI	
Period	**% Change**
Q-o-Q	-3.1%
Y-o-Y	-3.1%

HMI	
Period	**% Change**
Q-o-Q	-4.7%
Y-o-Y	-6.8%

Source: National Association of Home Builders

Sector Round-up

Residential Construction

(cont.)

Building permits and housing starts are important indicators for the residential construction industry. Both reflect demand, consumer confidence, and the feasibility of financing construction projects. Building permits can be issued and not be started, so housing starts are a more accurate measure for current activity. However, building permits can be a relevant measure for future housing starts. From the period following the housing crash of 2008 up until COVID-19, housing starts and permits stayed relatively calm with a solid growth rate. Residential construction slowed during the COVID-19 pandemic, with both housing and permit numbers falling. After this initial downturn, however, the residential housing market saw record growth through 2020, 2021 and some of 2022. After peaking in late 2021/early 2022, housing starts and permit numbers began falling. Single family hit a local low in the end of 2022 from which it recovered during early 2023, while private building starts and permits have begun trending lower (appr. 1.35 million starts and 1.425 million permits for Q3 2024 on a seasonally adjusted rate basis) after oscillating between approximately 1.3 million and 1.6 million units from mid-2022 through early 2024, reflecting a potential slowdown in activity.

Seasonally Adjusted Housing Starts and Building Permits

Source: Federal Reserve Economic Data

Single Fam.	Starts	Permits
Period	**% Change**	**% Change**
Q-o-Q	5.7%	-0.7%
Y-o-Y	-5.6%	-4.6%

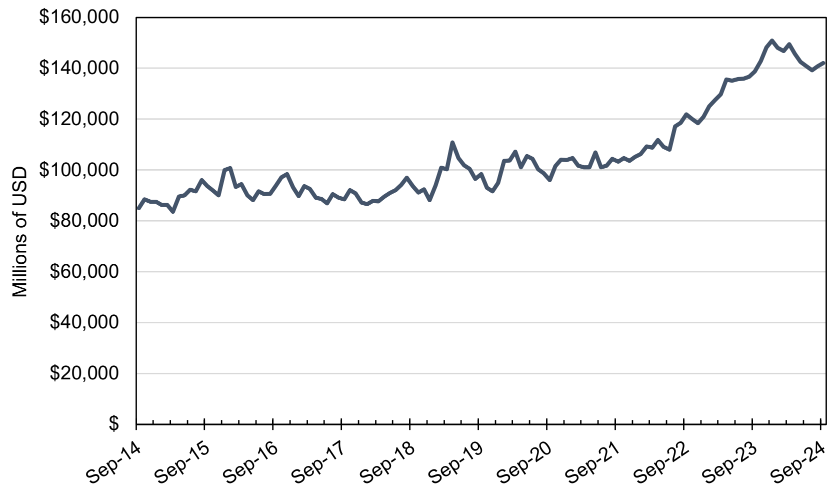
Private	Starts	Permits
Period	**% Change**	**% Change**
Q-o-Q	2.3%	-2.1%
Y-o-Y	-6.1%	-2.6%

Sector Round-up

Building Materials

Similar to the roads, bridges, and highways industry, the building materials industry is highly reliant on the input price of commodities including concrete and cement, steel, and lumber. Indexed to Q3 2014, the price of inputs jumped following the pandemic and eventually recovered to a less volatile level, albeit above pre-pandemic trends. Steel was most impacted, while concrete and cement was the least, partially due to its ubiquity in worldwide building usage. Over the past year, indexed concrete prices have risen 3.8%, while indexed steel and lumber prices have fallen 7.8% and 0.5%, respectively. A headwind facing this industry is sustainability demands and regulations, as the procurement and development of building materials is a resource- and emissions-intensive process.

Value of Highway and Street Construction



Highway and Street	
Period	**% Change**
Q-o-Q	1.0%
Y-o-Y	2.5%

Source: Federal Reserve Economic Data

Bellwether Stocks & Industry Participants

	Ticker	Price at 9/30/24	52-Week Perf.	LTM Revenue	Enterprise Value	Debt / MVTC	EBITDA Margin	EV / EBITDA (x)	TEV / Next Yr EBITDA (x)	Price / LTM Earnings
Residential										
Beazer Homes USA, Inc.	BZH	$34.17	37.2%	$2,330	$1,842	50.1%	6.9%	11.5x	7.0x	7.5x
D.R. Horton, Inc.	DHI	$190.77	77.5%	$36,801	$64,378	8.7%	16.9%	10.4x	9.4x	13.3x
KB Home	KBH	$85.69	85.2%	$6,604	$7,597	21.2%	12.3%	9.4x	7.5x	11.0x
Lennar Corporation	LEN	$187.48	67.0%	$36,463	$48,361	6.9%	15.5%	8.6x	8.6x	12.4x
LGI Homes, Inc.	LGIH	$118.52	19.1%	$2,254	$4,271	35.7%	10.9%	17.4x	11.9x	14.2x
NVR, Inc.	NVR	$9,811.80	64.5%	$10,281	$28,667	3.0%	20.1%	13.8x	13.5x	20.1x
PulteGroup, Inc.	PHM	$143.53	93.8%	$17,319	$30,545	6.8%	22.1%	8.0x	8.4x	10.6x
Taylor Morrison Home Corporation	TMHC	$70.26	64.9%	$7,832	$9,229	22.6%	14.9%	7.9x	7.2x	9.3x
Meritage Homes Corporation	MTH	$205.07	67.6%	$6,434	$7,932	15.0%	16.0%	7.7x	8.3x	9.3x
Tri Pointe Homes, Inc.	TPH	$45.31	65.7%	$4,499	$4,562	19.0%	13.7%	7.4x	6.2x	9.4x
Toll Brothers, Inc.	TOL	$154.49	108.9%	$10,533	$17,544	15.3%	20.3%	8.2x	8.3x	10.6x
Median - Residential			**67.0%**	**$7,832**	**$9,229**	**15.3%**	**15.5%**	**8.6x**	**8.3x**	**10.6x**

All figures reported in millions, except per share data

Source: Capital IQ

Bellwether Stocks & Industry Participants

	Ticker	Price at 9/30/24	52-Week Perf.	LTM Revenue	Enterprise Value	Debt / MVTC	EBITDA Margin	EV / EBITDA (x)	TEV / Next Yr EBITDA (x)	Price / LTM Earnings
Building Materials										
Eagle Materials Inc.	EXP	$287.65	72.7%	$2,267.85	$10,650.52	10.0%	35.9%	13.1x	11.7x	20.4x
Martin Marietta Materials, Inc.	MLM	$538.25	31.1%	$6,513.20	$36,757.25	10.9%	29.9%	18.9x	15.8x	16.7x
Summit Materials, Inc.	SUM	$39.03	25.3%	$3,754.55	$8,939.44	29.2%	22.4%	10.6x	8.5x	42.6x
Vulcan Materials Company	VMC	$250.43	24.0%	$7,398.30	$36,015.59	9.2%	26.8%	18.1x	16.3x	39.1x
CEMEX, S.A.B. de C.V.	BMV:CEMEX CPO	$0.62	-5.7%	$17,249.07	$16,327.55	44.8%	18.5%	5.1x	4.8x	50.0x
CRH plc	LSE: CRH	$91.38	64.9%	$35,387.00	$12,432.00	91.6%	18.4%	1.9x	1.7x	18.4x
Heidelberg Materials AG	XTRA: HEI	$108.86	39.9%	$22,275.37	$27,878.17	31.0%	19.2%	6.5x	5.5x	10.0x
Holcim AG	SWX: HOLN	$97.74	52.1%	$29,774.09	$67,920.45	22.3%	23.6%	9.7x	8.2x	16.4x
Median - Building Materials			**35.5%**	**$12,323.68**	**$22,102.86**	**25.7%**	**23.0%**	**10.1x**	**8.3x**	**19.4x**
Roads, Bridges, and Highways										
Granite Construction Incorporated	GVA	$79.28	108.5%	$3,963.97	$3,648.11	17.3%	6.6%	14.0x	8.4x	36.4x
Sterling Infrastructure, Inc.	STRL	$145.02	97.4%	$2,102.90	$4,145.80	6.7%	15.4%	12.8x	12.9x	24.6x
Construction Partners, Inc.	ROAD	$69.80	90.9%	$1,823.89	$4,121.61	12.2%	10.9%	20.6x	16.6x	53.3x
Tutor Perini Corporation	TPC	$27.16	246.9%	$4,280.74	$1,835.11	32.1%	0.4%	114.9x	6.1x	nm
Median - Roads, Bridges, Highways			**102.9%**	**$3,033.44**	**$3,884.86**	**14.8%**	**8.8%**	**17.3x**	**10.6x**	**36.4x**

All figures reported in millions, except per share data

Source: Capital IQ

Bellwether Stocks & Industry Participants

	Ticker	Price at 9/30/24	52-Week Perf.	LTM Revenue	Enterprise Value	Debt / MVTC	EBITDA Margin	EV / EBITDA (x)	TEV / Next Yr EBITDA (x)	Price / LTM Earnings
Nonresidential										
AECOM	ACM	$103.27	24.4%	$16,105.50	$14,962.95	15.2%	6.9%	13.5x	13.0x	27.8x
Dycom Industries, Inc.	DY	$197.10	121.5%	$4,434.05	$6,636.95	14.1%	11.9%	12.6x	10.9x	24.5x
EMCOR Group, Inc.	EME	$430.53	104.6%	$14,235.32	$19,059.20	0.0%	9.7%	13.9x	13.3x	21.9x
Fluor Corporation	FLR	$47.71	30.0%	$15,875.00	$6,372.15	11.9%	1.9%	21.0x	8.7x	31.8x
Jacobs Solutions Inc.	J	$130.90	-4.1%	$11,500.94	$17,432.89	11.5%	10.0%	15.2x	13.6x	27.3x
MasTec, Inc.	MTZ	$123.10	71.0%	$12,180.45	$11,751.03	19.5%	7.5%	12.8x	11.5x	109.1x
Quanta Services, Inc.	PWR	$298.15	59.4%	$22,903.32	$47,868.80	9.6%	8.4%	25.0x	19.2x	55.1x
Primoris Services Corporation	PRIM	$58.08	77.5%	$6,141.06	$3,667.97	22.5%	6.6%	9.0x	9.1x	19.2x
Median - Non-Residential Construction			**65.2%**	**$13,207.88**	**$13,356.99**	**13.0%**	**8.0%**	**13.7x**	**12.2x**	**27.6x**

All figures reported in millions, except per share data

Source: Capital IQ

Mercer Capital

Construction & Building Materials Industry Services

Mercer Capital provides valuation and transaction advisory services to the construction and building materials industries.

Industry Segments

Mercer Capital serves construction industry segments from to commercial and civil to residential. We also serve the building materials sector from aluminum and steel to brick, glass, and lumber.

Mercer Capital Experience

- Family and management succession planning
- Buy-side and sell-side transaction advisory assistance
- Conflict resolution and litigation support
- Trust and estate planning
- Buy-sell agreement valuation, design, and funding advisory

Contact a Mercer Capital professional to discuss your needs in confidence.

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