

# Greystone INSIDER

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## What's Inside:

-  Hanson offers to buy Pioneer for US\$2.5 billion.
-  Lafarge offers to buy Blue Circle for US\$5.5 billion.
-  Cementos Portland and acquires Giant cement for US\$343.3 million.
-  Hanson completes 8 acquisitions since November.
-  TXI stock outperforms peer group in 1999.
-  Environmental Issues Impacting U.S. Construction Materials Industry

*The Insider* is published quarterly for the clients of The Greystone Group. Quarterly publications include forecasts for cement consumption, sand, gravel and crushed stone production and ready mix concrete consumption. Please contact us at (858) 587-3900 if you are interested in being added to our mailing list.

The Greystone Group, located in San Diego, California, is an investment banking firm specializing in the cement and construction materials industry. Primary services include mergers and acquisitions, strategic planning, asset divestitures and debt placement activities. To learn more about Greystone please contact us at the address set forth below.

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## Greystone's U.S. Economic Outlook And Its Impact on The U.S. Construction Materials Industry

It has been more than a year ago since we last discussed the U.S. economy and our outlook for the U.S. construction materials industry. While we were tempted to do a "millennium issue" on the U.S. construction materials industry (starting with how the Hopi Indians used clay to build adobes before Christopher Columbus discovered America), we felt the "recapture" idea has been beaten to death by every other publication in circulation. More importantly, we are more concerned about the future than the past. This issue of the Insider covers the first half of a two-part report and focuses primarily on our U.S. Economic Outlook. The second half, slated for early April, takes a closer look at the U.S. construction materials industry, including Greystone's long-term forecast for materials consumption, and will be printed in the next issue of the Insider.

### Where We Are Today

Having successfully navigated the economic decade of the 1990s, the U.S. economy is ready to take on a new decade, century and millennium of continued prosperity. Before looking ahead, however, we need to look back and understand the strength and duration of our past success. The achievements during the current expansion are many, but in summary, since 1991 we have generated \$2 trillion in additional economic output, produced over 20 million new jobs, and drove the unemployment rate down to 4.0 percent (January 2000), its lowest level in 30 years. To put this in context, that is more jobs than there are persons employed in the states of California, Nevada, Oregon, Washington, Alaska and Hawaii combined, and is more economic output than is produced in all of Germany, the world's third largest economy. The strong U.S. economic performance during the 1990s is also quite remarkable considering the length of the current expansion. In fact, the current economic expansion will have run for 106 consecutive months as of February 2000, and will soon be the longest period of growth in U.S. history. Despite the length of the current expansion, 1999 was a year of robust growth as illustrated in the table below.

### Highlights of 1999 U.S. Economic Performance

- Gross Domestic Product grew by more than 4.0 percent.
- The jobless rate dropped to a low 4.1 percent in December.
- Despite a tight labor market, consumer price inflation was benign at only 2.0 percent.
- U.S. living standards have never been higher as real median household income exceeded a record \$40,000 in 1999.
- U.S. homeownership has also risen to more than two-thirds of households.
- The share of families owning stock has grown to over one-half.
- The long-running skewing of the income distribution has taken a breather as real incomes are rising for every income group, and those at the bottom end of the distribution have been able to hold on to their share of the nation's income in recent years.
- Housing starts advanced 2.8 percent to nearly 1.7 million, a record for the decade.
- The economic advancements took place in spite of three interest rate hikes by the Federal Reserve totaling 75 basis points.

Riding this tidal wave of upbeat economic news, it is not surprising that most economists are looking favorably at future growth prospects. According to the Wall Street Journal's semiannual economic forecasting survey, strong consumer spending, rising business productivity and tame inflation will keep the U.S. economy humming through the year 2000 – shattering records for the longest economic expansion in U.S. history. Conversely, continued on page 2

continued demand growth, robust residential construction activity and tight, labor markets, combined with weakening productivity and trade, could lead to an inflationary scenario with wage growth ahead of productivity. The current U.S. interest rate environment is our best indicator of how the Fed views the future inflationary scenario.

### **Current Interest Rate Environment**

Greenspan has been clever at fine-tuning economic growth without political influences, and we expect him to continue to be successful in the future. He did well during the fall of 1998 when he lowered the federal funds rate three times by a total of 75 basis points. The move brought the equity markets out of the then gloomy period, and has since supported improved investor confidence. Three increases in the federal funds rate of 25 basis points each during June, August, and November of 1999 were only preemptive strikes to warn off inflationary trends. The 25 basis point hike in February 2000 was also expected as the Fed's concerns about Y2K kept them from implementing the hike in December. Despite the full percentage point increase since the low during the first half of 1999, we continue to see strength in equity markets, residential building permits, and consumer confidence, all interest sensitive measures. Apparently, Greenspan appears to have a knack for interest rate management and what the market can bear.

However, while Greenspan has moved cautiously during the last four interest rate hikes, he has also shown boldness in the past. For example, twice in his tenure (1984 and 1994), he set out on aggressive programs of monetary tightening, raising rates by some 300 basis points each time to cool the economy. Therefore, an eye on consumer confidence, inflationary pressures and Federal Reserve signals is very important, particularly for interest rate sensitive industries like the construction materials industry. In sum, we believe interest rates will rise further in 2000. The current consensus among economists calls for at least a 0.25 percent hike in the Fed Funds rate during the next FOMC meeting on March 30, 2000, and a surprise move at some point this year is not unlikely. As late as January 13th, 2000, Greenspan said "the Central Bank is intent on defusing mounting imbalances in the booming economy and will support higher borrowing costs to prevent it from overheating."

### **Environmental Issues Impacting the U.S. Construction Materials Industry**

In some recent well-publicized transactions, poorly defined environmental liabilities have become critical factors in negotiating and completing the due diligence process. As a consequence, our clients are becoming increasingly frustrated with the complex and seemingly arbitrary nature of environmental laws and regulations. To assist our client's in recognizing and resolving environmental liabilities, Greystone has developed a strategic alliance with Brown and Caldwell, a nationally-recognized environmental engineering and consulting company to publish a series of articles on various environmental issues impacting the Construction Materials industry.

In January 2000, Brown and Caldwell authored a white paper on the U.S. Environmental Protection Agency's (EPA) proposed regulations for management of Cement Kiln Dust (CKD). In this report, Brown and Caldwell identifies the potentially substantial liabilities for cement producers caused by EPA's intent of regulating mismanaged CKD as a hazardous waste. The report notes that the historic exemption of CKD under the 1980 Bevill Amendment may be removed exposing hundred's of old CKD disposal sites to regulation and management. If you are interested in reviewing the entire Brown and Caldwell report, please visit their website at [www.browncaldwell.com](http://www.browncaldwell.com) or Greystone's website at [www.thegreystonegroup.com](http://www.thegreystonegroup.com).

### **Short-Term Economic Outlook**

When the final numbers are in for 1999, private and public spending in construction will show strong improvements, probably as good as in 1998, a record year itself. Growth may even continue into 2000, but eventually a correction will materialize. A rule of thumb for economists is that when the unemployment rate drops below the magic 5.0 percent level, there simply are not enough workers to fuel continued expansion above the long-term trend rates which average 2.0 percent to 2.5 percent. Hence, continued economic growth at current growth rates is not sustainable when employment is as strong as it is today.

Another possible indication that the current expansion is peaking is the extreme volatility seen in today's equity markets. Often in the past, heavy gyrations in stock market valuations have been a warning sign of a peaking, and subsequently falling, market. Increasing stock market speculation, which in turn makes the stock market vulnerable to a significant correction, is one factor causing rising volatility. Because the wealth effect, caused by extended valuations in stock prices, is a contributor to consumer spending, a significant market correction could cause a significant blow to consumer spending. However, because of the exceptionally strong consumer confidence we should see moderating growth rather than recession.

Accordingly, we may actually experience the famous, but historically absent, "soft economic landing." That would be good for businesses, and especially good for the construction materials industry, which does not respond well to sudden and monumental downturns in economic activity.

### **Long-Term Economic Outlook**

On the long-term horizon, today's economic indicators suggest that we have built a strong foundation for U.S. economic prosperity to last well into the 21st Century. For example, the U.S. has benefited from social and international political changes that have disrupted foreign economies. Moreover, U.S. companies have become the investment vehicle of choice, and among other things, allowed access to capital that has fueled significant investment in new productivity. Consequently, the U.S. economy has expanded its competitive lead to other nations. Today, as the world economy has slowed, the U.S. has become the primary growth engine accounting for more than 40 percent of the world's growth. From its current position, the U.S. will likely remain the world's leading economic, political and military power for years to come. Consequently, capital will continue to flow to U.S. debt and equity markets which represent the most stable, and perhaps most attractive, investment market in the world. This trend will further boost investment in

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## U.S. Ready Mix Consumption Northeast Region

(000CYD)	Actual				Greystone Forecast				
	1995	1996	1997	1998	1999	2000	2001	2002	2003
<u>New England:</u>									
Connecticut	1,916	2,064	2,178	2,373	2,483	2,745	2,725	2,624	2,321
% Change	-2.8%	7.7%	5.5%	9.0%	4.6%	10.6%	-0.8%	-3.7%	-11.6%
Maine	656	663	583	735	664	718	758	770	673
% Change	-8.6%	1.1%	-12.0%	26.0%	-9.7%	8.2%	5.6%	1.6%	-12.6%
Massachusetts	3,271	3,392	3,985	4,931	4,971	4,850	5,042	5,457	5,771
% Change	-7.4%	3.7%	17.5%	23.7%	0.8%	-2.4%	4.0%	8.2%	5.7%
N. Hampshire	808	870	832	910	867	856	807	859	887
% Change	5.9%	7.6%	-4.4%	9.4%	-4.7%	-1.3%	-5.6%	6.4%	3.2%
Rhode Island	369	351	403	478	566	551	578	635	668
% Change	-23.2%	-5.0%	14.7%	18.6%	18.6%	-2.7%	4.9%	9.9%	5.2%
Vermont	332	352	334	392	444	468	504	509	525
% Change	4.0%	6.0%	-5.1%	17.4%	13.2%	5.5%	7.5%	1.0%	3.2%
<b>Subtotal - New England</b>	<b>7,353</b>	<b>7,692</b>	<b>8,314</b>	<b>9,819</b>	<b>9,995</b>	<b>10,188</b>	<b>10,413</b>	<b>10,855</b>	<b>10,845</b>
<b>% Change</b>	<b>-5.6%</b>	<b>4.6%</b>	<b>8.1%</b>	<b>18.1%</b>	<b>1.8%</b>	<b>1.9%</b>	<b>2.2%</b>	<b>4.2%</b>	<b>-0.1%</b>
<u>Mid Atlantic:</u>									
New Jersey	3,886	4,054	4,685	5,420	5,007	5,120	5,235	5,209	5,277
% Change	-1.2%	4.3%	15.6%	15.7%	-7.6%	2.3%	2.2%	-0.5%	1.3%
New York	3,886	4,054	4,685	5,420	5,007	5,120	5,235	5,209	5,277
% Change	-2.6%	5.3%	9.9%	10.1%	5.7%	4.4%	2.1%	-5.4%	-5.1%
Pennsylvania	7,655	7,862	8,404	9,194	9,259	9,377	9,420	9,047	8,758
% Change	-9.4%	2.7%	6.9%	9.4%	0.7%	1.3%	0.5%	-4.0%	-3.2%
<b>Subtotal - Mid Atlantic</b>	<b>18,752</b>	<b>19,509</b>	<b>21,430</b>	<b>23,794</b>	<b>23,971</b>	<b>24,626</b>	<b>25,000</b>	<b>24,041</b>	<b>23,326</b>
<b>% Change</b>	<b>-5.2%</b>	<b>4.0%</b>	<b>9.9%</b>	<b>11.0%</b>	<b>0.7%</b>	<b>2.7%</b>	<b>1.5%</b>	<b>-3.8%</b>	<b>-3.0%</b>
<b>Total Northeast Region</b>	<b>26,105</b>	<b>27,201</b>	<b>29,745</b>	<b>33,613</b>	<b>33,967</b>	<b>34,815</b>	<b>35,413</b>	<b>34,896</b>	<b>34,171</b>
<b>% Change</b>	<b>-5.3%</b>	<b>4.2%</b>	<b>9.4%</b>	<b>13.0%</b>	<b>1.1%</b>	<b>2.5%</b>	<b>1.7%</b>	<b>-1.5%</b>	<b>-2.1%</b>

## U.S. Ready Mix Consumption Regional Comparison

(000CYD)	1989 to 1998			1999 to 2008			Ave. Annual Percent Change		
	HIGH	LOW	AVG	HIGH	LOW	AVG	HIGH	LOW	AVG
Northeast Region	33,613	24,499	27,849	38,293	33,367	34,929	1.4%	3.6%	2.5%
Midwest Region	81,539	58,731	69,660	96,391	84,239	90,421	1.8%	4.3%	3.0%
South Region	111,730	76,975	92,984	135,968	109,428	120,852	2.2%	4.2%	3.0%
West Region	74,473	53,812	62,591	95,573	81,229	85,988	2.8%	5.1%	3.7%
<b>Total U.S.</b>	<b>301,355</b>	<b>214,017</b>	<b>253,083</b>	<b>361,998</b>	<b>313,949</b>	<b>332,189</b>	<b>2.0%</b>	<b>4.7%</b>	<b>3.1%</b>

## U.S. Ready Mix Consumption Midwest Region

(000CYD)	Actual				Greystone Forecast				
	1995	1996	1997	1998	1999	2000	2001	2002	2003
<u>East N. Central:</u>									
Illinois	12,163	12,820	12,974	13,321	14,432	14,325	14,932	15,536	16,589
% Change	-9.2%	5.4%	1.2%	2.7%	8.3%	-0.7%	4.2%	4.0%	6.8%
Indiana	6,146	6,440	7,077	7,471	7,606	7,520	7,230	7,479	7,639
% Change	-0.4%	4.8%	9.9%	5.6%	1.8%	-1.1%	-3.9%	3.4%	2.1%
Michigan	8,839	9,752	10,433	10,995	11,265	10,483	10,048	10,695	11,287
% Change	3.1%	10.3%	7.0%	5.4%	2.5%	-6.9%	-4.2%	6.4%	5.5%
Ohio	12,409	13,082	13,254	13,975	14,625	14,385	15,583	16,088	16,915
% Change	0.9%	5.4%	1.3%	5.4%	4.6%	-1.6%	8.3%	3.2%	5.1%
Wisconsin	5,828	6,487	6,752	7,039	7,483	7,264	7,129	7,410	7,746
% Change	-2.4%	11.3%	4.1%	4.3%	6.3%	-2.9%	-1.9%	3.9%	4.5%
<b>Subtotal - East N. Central</b>	<b>45,386</b>	<b>48,581</b>	<b>50,489</b>	<b>52,802</b>	<b>55,411</b>	<b>53,977</b>	<b>54,921</b>	<b>57,207</b>	<b>60,176</b>
<b>% Change</b>	<b>-2.2%</b>	<b>7.0%</b>	<b>3.9%</b>	<b>4.6%</b>	<b>4.9%</b>	<b>-2.6%</b>	<b>1.7%</b>	<b>4.2%</b>	<b>5.2%</b>
<u>West N. Central:</u>									
Iowa	4,253	4,766	5,177	5,139	5,054	5,092	4,835	4,697	4,990
% Change	-2.9%	12.1%	8.6%	-0.7%	-1.7%	0.8%	-5.1%	-2.9%	6.2%
Kansas	4,303	4,909	4,848	4,741	4,935	4,676	4,426	4,521	4,667
% Change	1.1%	14.1%	-1.2%	-2.2%	4.1%	-5.2%	-5.4%	2.1%	3.2%
Minnesota	5,006	5,089	5,368	5,932	6,175	6,532	6,078	6,001	6,328
% Change	5.2%	1.7%	5.5%	10.5%	4.1%	5.8%	-7.0%	-1.3%	5.4%
Missouri	7,850	7,971	8,100	8,252	8,815	8,574	9,034	9,832	9,923
% Change	-8.2%	1.5%	1.6%	1.9%	6.8%	-2.7%	5.4%	8.8%	0.9%
Nebraska	3,309	3,343	3,436	2,955	3,237	3,426	3,261	3,209	2,956
% Change	3.6%	1.0%	2.8%	-14.0%	9.5%	5.9%	-4.8%	-1.6%	-7.9%
N. Dakota	742	719	473	757	860	968	1,005	973	936
% Change	28.8%	-3.2%	-34.3%	60.2%	13.7%	12.6%	3.7%	-3.1%	-3.8%
S. Dakota	779	859	1,085	961	1,012	993	1,058	1,136	1,153
% Change	-3.9%	10.2%	26.3%	-11.4%	5.3%	-1.9%	6.6%	7.3%	1.5%
<b>Subtotal - West N. Central</b>	<b>26,242</b>	<b>27,655</b>	<b>28,486</b>	<b>28,737</b>	<b>30,087</b>	<b>30,262</b>	<b>29,696</b>	<b>30,370</b>	<b>30,954</b>
<b>% Change</b>	<b>-1.1%</b>	<b>5.4%</b>	<b>3.0%</b>	<b>0.9%</b>	<b>4.7%</b>	<b>0.6%</b>	<b>-1.9%</b>	<b>2.3%</b>	<b>1.9%</b>
<b>Total Midwest Region</b>	<b>71,628</b>	<b>76,237</b>	<b>78,975</b>	<b>81,539</b>	<b>85,498</b>	<b>84,239</b>	<b>84,617</b>	<b>87,577</b>	<b>91,130</b>
<b>% Change</b>	<b>-1.8%</b>	<b>6.4%</b>	<b>3.6%</b>	<b>3.2%</b>	<b>4.9%</b>	<b>-1.5%</b>	<b>0.4%</b>	<b>3.5%</b>	<b>4.1%</b>

### The Greystone Methodology

The success of any transaction depends on the participant's ability to accurately forecast future financial performance. As part of this process, The Greystone Group constantly scrutinizes the numerous economic indicators that ultimately influence the consumption of cement and construction materials. Additionally, we maintain a database of historical population, housing starts, construction employment, cement consumption, sand, gravel and crushed stone production and ready mix concrete consumption on a state-by-state basis. In many regions, we maintain this information by county or major metropolitan area.

After analyzing economic projections generated by a myriad of independent economists from each relevant market, we apply Greystone's proprietary correlation in order to produce our construction materials forecast.

## U.S. Ready Mix Consumption South Region

(000CYD)	Actual				Greystone Forecast				
	1995	1996	1997	1998	1999	2000	2001	2002	2003
<u>South Atlantic:</u>									
Delaware	615	662	681	792	667	654	610	765	721
% Change	-3.0%	7.6%	2.9%	16.4%	-15.9%	-1.9%	-6.7%	25.3%	-5.7%
District of Columbia	336	360	329	308	410	391	381	409	437
% Change	-4.6%	7.1%	-8.6%	-6.3%	33.0%	-4.6%	-2.6%	7.5%	6.8%
Florida	16,747	17,655	18,680	19,830	21,824	21,401	19,720	19,945	21,349
% Change	1.4%	5.4%	5.8%	6.2%	10.1%	-1.9%	-7.9%	1.1%	7.0%
Georgia	9,338	9,754	9,892	10,751	10,296	10,508	9,504	10,002	10,676
% Change	14.3%	4.5%	1.4%	8.7%	-4.2%	2.1%	-9.6%	5.2%	6.7%
Maryland	3,556	3,841	3,990	3,926	3,965	3,651	3,482	3,504	3,744
% Change	4.8%	8.0%	3.9%	-1.6%	1.0%	-7.9%	-4.6%	0.6%	6.8%
North Carolina	6,778	6,905	7,939	8,249	8,312	7,727	8,283	8,919	9,288
% Change	2.9%	1.9%	15.0%	3.9%	0.8%	-7.0%	7.2%	7.7%	4.1%
South Carolina	3,220	3,611	3,733	3,963	4,169	3,814	3,865	4,085	4,124
% Change	7.8%	12.1%	3.4%	6.2%	5.2%	-8.5%	1.4%	5.7%	1.0%
Virginia	5,721	5,841	6,218	6,369	6,580	6,288	6,209	6,541	6,746
% Change	4.5%	2.1%	6.5%	2.4%	3.3%	-4.4%	-1.3%	5.3%	3.1%
West Virginia	1,342	1,443	1,431	1,393	1,303	1,379	1,418	1,517	1,564
% Change	-3.7%	7.5%	-0.8%	-2.7%	-6.5%	5.9%	2.8%	6.9%	3.1%
<b>Subtotal - South Atlantic</b>	<b>47,653</b>	<b>50,072</b>	<b>52,894</b>	<b>55,582</b>	<b>57,525</b>	<b>55,813</b>	<b>53,473</b>	<b>55,688</b>	<b>58,651</b>
<b>% Change</b>	<b>4.7%</b>	<b>5.1%</b>	<b>5.6%</b>	<b>5.1%</b>	<b>3.5%</b>	<b>-3.0%</b>	<b>-4.2%</b>	<b>4.1%</b>	<b>5.3%</b>
<u>East S. Central:</u>									
Alabama	3,801	4,032	3,899	4,110	4,097	3,630	3,415	3,816	4,103
% Change	-6.4%	6.1%	-3.3%	5.4%	-0.3%	-11.4%	-5.9%	11.7%	7.5%
Kentucky	3,965	4,174	4,404	4,366	4,737	4,609	4,470	4,098	4,313
% Change	6.9%	5.3%	5.5%	-0.9%	8.5%	-2.7%	-3.0%	-8.3%	5.2%
Mississippi	2,306	2,510	2,581	2,563	2,673	2,648	2,528	2,693	2,855
% Change	-8.3%	8.9%	2.8%	-0.7%	4.3%	-0.9%	-4.6%	6.5%	6.0%
Tennessee	5,489	5,975	6,203	6,378	6,802	6,589	6,170	6,475	7,047
% Change	7.2%	8.8%	3.8%	2.8%	6.6%	-3.1%	-6.4%	4.9%	8.8%
<b>Subtotal - East S. Central</b>	<b>15,562</b>	<b>16,691</b>	<b>17,087</b>	<b>17,417</b>	<b>18,309</b>	<b>17,475</b>	<b>16,582</b>	<b>17,082</b>	<b>18,319</b>
<b>% Change</b>	<b>1.0%</b>	<b>7.3%</b>	<b>2.4%</b>	<b>1.9%</b>	<b>5.1%</b>	<b>-4.6%</b>	<b>-5.1%</b>	<b>3.0%</b>	<b>7.2%</b>
<u>West S. Central:</u>									
Arkansas	2,475	2,391	2,666	2,769	2,536	2,482	2,438	2,408	2,294
% Change	2.8%	-3.4%	11.5%	3.8%	-8.4%	-2.1%	-1.7%	-1.3%	-4.7%
Louisiana	4,754	4,800	4,953	5,134	4,971	5,019	4,871	4,785	4,902
% Change	2.2%	1.0%	3.2%	3.7%	-3.2%	1.0%	-3.0%	-1.8%	2.4%
Oklahoma	2,760	2,859	2,966	2,826	2,652	2,675	2,534	2,548	2,644
% Change	-2.1%	3.6%	3.8%	-4.7%	-6.2%	0.9%	-5.3%	0.5%	3.7%
Texas	23,206	24,448	26,099	28,001	30,929	30,269	29,530	27,180	26,647
% Change	6.5%	5.3%	6.8%	7.3%	10.5%	-2.1%	-2.4%	-8.0%	-2.0%
<b>Subtotal - West S. Central</b>	<b>33,195</b>	<b>34,498</b>	<b>36,685</b>	<b>38,731</b>	<b>41,088</b>	<b>40,444</b>	<b>39,374</b>	<b>36,921</b>	<b>36,486</b>
<b>% Change</b>	<b>4.8%</b>	<b>3.9%</b>	<b>6.3%</b>	<b>5.6%</b>	<b>6.1%</b>	<b>-1.6%</b>	<b>-2.6%</b>	<b>-6.2%</b>	<b>-1.2%</b>
<b>Total South Region</b>	<b>96,410</b>	<b>101,261</b>	<b>106,666</b>	<b>111,730</b>	<b>116,923</b>	<b>113,732</b>	<b>109,428</b>	<b>109,690</b>	<b>113,456</b>
<b>% Change</b>	<b>4.1%</b>	<b>5.0%</b>	<b>5.3%</b>	<b>4.7%</b>	<b>4.6%</b>	<b>-2.7%</b>	<b>-3.8%</b>	<b>0.2%</b>	<b>3.4%</b>

## U.S. Ready Mix Consumption West Region

(000CYD)	Actual				Greystone Forecast				
	1995	1996	1997	1998	1999	2000	2001	2002	2003
<u>Mountain:</u>									
Arizona	6,394	7,098	7,193	8,174	9,040	8,973	8,475	7,512	7,951
% Change	8.1%	11.0%	1.3%	13.6%	10.6%	-0.7%	-5.6%	-11.4%	5.8%
Colorado	4,550	5,264	5,605	6,425	6,782	6,997	6,629	6,400	6,620
% Change	-3.4%	15.7%	6.5%	14.6%	5.6%	3.2%	-5.3%	-3.5%	3.4%
Idaho	1,336	1,293	1,365	1,406	1,648	1,695	1,646	1,746	1,811
% Change	4.5%	-3.2%	5.5%	3.0%	17.2%	2.9%	-2.9%	6.0%	3.7%
Montana	799	794	883	906	950	1,051	1,033	1,112	1,129
% Change	-1.9%	-0.6%	11.2%	2.6%	4.9%	10.6%	-1.8%	7.6%	1.5%
Nevada	4,153	5,050	5,351	5,358	5,211	5,138	4,158	3,752	3,581
% Change	13.1%	21.6%	6.0%	0.1%	-2.7%	-1.4%	-19.1%	-9.8%	-4.6%
New Mexico	1,967	2,076	2,052	2,034	2,111	2,062	2,026	2,172	2,304
% Change	7.9%	5.5%	-1.1%	-0.9%	3.8%	-2.3%	-1.8%	7.2%	6.0%
Utah	3,685	3,630	3,884	4,256	4,295	4,542	4,612	4,236	3,751
% Change	26.7%	-1.5%	7.0%	9.6%	0.9%	5.8%	1.5%	-8.2%	-11.5%
Wyoming	576	525	611	579	583	599	580	547	593
% Change	-22.0%	-8.8%	16.3%	-5.2%	0.6%	2.8%	-3.1%	-5.8%	8.5%
<b>Subtotal - Mountain</b>	<b>23,460</b>	<b>25,730</b>	<b>26,944</b>	<b>29,138</b>	<b>30,620</b>	<b>31,057</b>	<b>29,159</b>	<b>27,477</b>	<b>27,739</b>
<b>% Change</b>	<b>7.3%</b>	<b>9.7%</b>	<b>4.7%</b>	<b>8.1%</b>	<b>5.1%</b>	<b>1.4%</b>	<b>-6.1%</b>	<b>-5.8%</b>	<b>1.0%</b>
<u>Pacific:</u>									
Alaska	345	315	342	388	411	424	440	426	442
% Change	2.4%	-8.5%	8.4%	13.5%	5.8%	3.3%	3.7%	-3.2%	3.6%
California	27,152	28,369	31,871	34,334	39,367	41,149	44,141	46,306	46,000
% Change	-2.5%	4.5%	12.3%	7.7%	14.7%	4.5%	7.3%	4.9%	-0.7%
Hawaii	1,153	1,006	809	825	790	903	989	1,179	1,278
% Change	-10.4%	-12.8%	-19.6%	2.0%	-4.2%	14.3%	9.5%	19.2%	8.4%
Oregon	3,252	3,688	3,784	3,605	3,294	3,304	3,388	3,515	3,692
% Change	3.9%	13.4%	2.6%	-4.7%	-8.6%	0.3%	2.6%	3.7%	5.0%
Washington	5,724	5,920	6,386	6,183	6,746	6,629	6,374	6,529	6,832
% Change	-6.6%	3.4%	7.9%	-3.2%	9.1%	-1.7%	-3.9%	2.4%	4.6%
<b>Subtotal - Pacific</b>	<b>37,626</b>	<b>39,298</b>	<b>43,192</b>	<b>45,335</b>	<b>50,608</b>	<b>52,409</b>	<b>55,331</b>	<b>57,955</b>	<b>58,244</b>
<b>% Change</b>	<b>-2.9%</b>	<b>4.4%</b>	<b>9.9%</b>	<b>5.0%</b>	<b>11.6%</b>	<b>3.6%</b>	<b>5.6%</b>	<b>4.7%</b>	<b>0.5%</b>
<b>Total West Region</b>	<b>61,086</b>	<b>65,028</b>	<b>70,136</b>	<b>74,473</b>	<b>81,229</b>	<b>83,466</b>	<b>84,491</b>	<b>85,432</b>	<b>85,984</b>
<b>% Change</b>	<b>0.8%</b>	<b>6.5%</b>	<b>7.9%</b>	<b>6.2%</b>	<b>9.1%</b>	<b>2.8%</b>	<b>1.2%</b>	<b>1.1%</b>	<b>0.6%</b>
<b>TOTAL U.S.</b>	<b>255,228</b>	<b>269,727</b>	<b>285,521</b>	<b>301,355</b>	<b>317,616</b>	<b>316,252</b>	<b>313,949</b>	<b>317,595</b>	<b>324,741</b>
<b>% Change</b>	<b>0.6%</b>	<b>5.7%</b>	<b>5.9%</b>	<b>5.5%</b>	<b>5.4%</b>	<b>-0.4%</b>	<b>-0.7%</b>	<b>1.2%</b>	<b>2.2%</b>

# Industry News

**Cementos Portland, S.A.** announced the successful completion of its tender offer to purchase all of the outstanding shares of common stock of **Giant Cement Holding, Inc.** (NASDAQ: GCHI) at US\$31.00 net per share in cash, a transaction valued at approximately US\$343.4 million. Cementos Portland's offer price reflected a 51% premium to Giant Cement's closing stock price on November 3, 1999, the day before the announcement.

**CEMEX, S.A.** (NYSE: CX) announced in November that it had formalized the contracts for the acquisition of a 90% stake of the social capital of Assiut Cements Co., the largest cement producer in Egypt. The total investment will approximate US\$373 million and includes a minor investment to increase production capacity at Assiut by 0.6 million metric tons. Assiut Cements Co. has 4.0 million tons of cement production capacity, representing 17.4 percent of Egypt's 23 million ton market. In January, CEMEX announced that it had entered into shareholder and subscription agreements with three additional institutional investor groups that will participate in **CEMEX Asia Holdings Ltd.**, a CEMEX subsidiary created to take advantage of attractive acquisition opportunities in Asian cement-related assets. The three new investor groups, which will commit capital of US\$106 million, are the **Asia Equity Infrastructure Fund, L.P.**, **Capital International Asia CDPQ Inc.**, and a consortium of investors led by **Navis Capital Partners**.

**Devcon International Corp.** (NASDAQ: DEVC) announced in January that it had completed the sale of its ready-mix concrete and quarry operations on Tortola, British Virgin Islands, and its ready-mix concrete operations on St. Thomas, U.S. Virgin Islands. The combined transactions were valued at approximately \$10.9 million. A few weeks later, Devcon announced that it had signed a letter of intent to sell its ready-mix concrete operations on the independent Caribbean island of Dominica, to **Caricement, B.V.**, an affiliate of Madrid-based **Umar Union Maritima International S.A.**, one of the world's leading cement trading companies. The transaction, which is subject to customary terms and conditions, includes a concrete operation that generated \$2.0 million in annual revenue. The cash purchase price is approximately \$1.4 million plus half of the net income generated by the business during the next two years. Umar previously acquired Devcon's Caribbean cement terminals including the Dominica terminal which is operated in conjunction with the ready-mix concrete batch plant.

**Florida Rock Industries, Inc.** (NYSE: FRK) announced in November that it had entered into a letter of intent to sell its Fort Myers Alico Road Quarry operation as well as the Palmdale Sand Mine operation owned by its subsidiary, **Harper Bros. Inc.** to **Rinker Materials Corp.**, a subsidiary of **CSR America Inc.** The transaction is subject to a number of conditions, including a final judgment entered on October 13, 1999 by the United States District Court, Middle District of Florida, in an action brought by the United States, requiring the company to divest itself of the aforementioned properties.

**Granite Construction Incorporated** (NYSE: GVA) announced in January that it had acquired 30% of the common stock of **Wilder Construction Company**, a Pacific Northwest-based heavy-civil construction company and aggregate materials producer. The purchase price was \$13.1 million. Under the terms of the agreement, Granite will make subsequent investments in Wilder bringing its equity ownership to between 51-60% in 2002 and 75% in 2004. Founded in 1911, Wilder Construction has annual revenues of approximately \$150 million and employs approximately 650 people throughout the Northwest and Alaska. In February, Granite Construction announced that it had reached an agreement with **TIC Holdings Inc.** to exit its investment position in the Steamboat Springs, Colorado-based industrial company.

On November 29, 1999, **Hanson PLC** (NYSE: HAN) and **Pioneer International Limited** announced that they agreed to the terms of a recommended offer by Hanson to acquire Pioneer, a transaction valued at approximately US\$2.5 billion. Hanson's offer reflects a premium of approximately 39.2 percent over the closing market price of Pioneer on the Australian Stock Exchange on November 24, 1999, the last business day on which Pioneer shares were traded prior to the announcement. Upon completion of the transaction, Hanson will become the world's largest aggregate supplier, (216 million metric tons) and the world's second largest producer of ready mix concrete (31.3 million cubic meters). The transaction reflects a current year EBITDA multiple of 7.7.

In early December, Hanson acquired **Jones Sand Co.** and **Olin Jones Sand Co.** based in Martinez, California, a privately owned company that dredges high quality sand from long-term leases in the San Francisco Bay. In 1998, Jones produced approximately 1.2 million tons of sand. The acquisition will increase Hanson's reserve base in the region and follows the August 1999 acquisition of

**Tidewater Sand & Gravel, Inc.**

## **Hanson Aggregates Mid-Pacific, Inc.**

*a business unit of*

**Hanson PLC**  
*London, England*

*has acquired the stock of*

**Jones Sand Co.**  
*Martinez, California*

*and*

**Olin Jones Sand Co.**  
*Martinez, California*

The undersigned initiated and managed this transaction and acted as exclusive financial advisor to the shareholders of Jones Sand Co. and Olin Jones Sand Co.

**The Greystone Group LLC**  
Investment Banking

Also in December, Hanson acquired **Brewer Sand Co.**, the largest supplier of sand in the Charlotte, North Carolina market. Brewer owns one sand mine in Jefferson, South Carolina which holds permitted reserves of 27 million tons on over 1,000 acres of land. In 1998, Brewer produced 2.1 million tons of sand for sale principally to local ready mix producers. In November, Hanson announced the acquisition of **B.R. DeWitt, Inc., Genesee LeRoy Stone Corp. and Orleans Marketing LLC** (DeWitt) from a privately owned company. DeWitt operates quarries, asphalt and ready mix concrete plants in and around the Rochester area in New York state, producing approximately 2.4 million tons of aggregate, 632,000 tons of asphalt and 415,000 cubic yards of ready mix concrete and holds reserves estimated at 325 million tons. Also in November, Hanson acquired **Superior Products Company**, a privately owned manufacturer of concrete pipe and precast products. Superior serves the Cleveland, Ohio and Philadelphia markets from two plants, selling an estimated 85,000 tons of concrete products during 1998.

Hanson completed two acquisitions in Singapore in November valued at approximately \$26.1 million. The first transaction, **Highway International Pte Limited** is the leading supplier of asphalt, producing an estimated 650,000 tons annually. The second transaction, **Rite-Mix Pte Limited** is one of the major ready mix concrete producers in Singapore, operating from three fixed plants and four portable plants producing an estimated 567,000 cubic meters during its FYE March 31, 1999. Also in November, Hanson entered the German aggregates market by acquiring 75% of privately owned **RENA Recycling und Naturstein GmbH** for \$11.8 million. RENA's operations include three

residential, commercial and public construction. And construction spending is not only fueled by private spending, but by investments from public budgets that pour money into infrastructure improvements.

For example, large federal spending commitments like the Transportation Equity Act of the 21st Century will fuel strong highway spending. Because of bottlenecks in channeling the federal funds into actual highway work, 1999 did not see the benefit from TEA-21 that was anticipated. However, the funds are available and will thus make its impact in 2000 and beyond instead, and the construction materials industry will undoubtedly see its fair share of the anticipated increases in construction spending during the next decade. Judging by the heightened merger and acquisition activity and the general rise in transaction values in the construction materials industry during 1998 and 1999, international and domestic participants appear to agree with our optimistic reading for the construction materials industry in the decade ahead.

### Indicators of Economic Change

In summary, the fundamental health of the U.S. economy is evident in several measures, and overall U.S. economic figures compare favorably with the past thirty years. During the months ahead, it will be increasingly important to keep a finger on the economic pulse of the nation. So for executives in the construction materials industry, we suggest you keep abreast of the key indicators that will signal a change or continuation in the current economic venue.

Key Indicators of Economic Growth	
<p><u>Favorable</u></p> <ul style="list-style-type: none"> <li>Continued productivity improvements</li> <li>Accelerated pace of technological change</li> <li>Continued globalization</li> <li>Commitment to further deregulation (i.e. financial services, telecom)</li> <li>Aging baby boom generation</li> <li>The "wealth effect"</li> <li>Continued consumer confidence</li> <li>Liquidity fuels growth in equity markets (leverage, foreign investors, Federal Reserve)</li> <li>Y2K OK</li> </ul>	<p><u>Unfavorable</u></p> <ul style="list-style-type: none"> <li>Tightening labor markets</li> <li>Accelerating growth in labor compensation</li> <li>Inflationary pressures</li> <li>Expectations of higher interest rates</li> <li>Eroding corporate profit margins</li> <li>Increased global competition</li> <li>Slower than anticipated Asian recovery (i.e. Japan)</li> <li>Overvalued stock market leads to a correction</li> <li>Low savings rate combined with spending based on the wealth effect</li> <li>Presidential election in 2001</li> </ul>

### Conclusion

A strong U.S. economy during the 1990s has supported unprecedented levels of construction spending, a condition which has greatly benefited construction materials producers in markets across the country. Furthermore, the U.S. economy has not yet seen an indication of a material slowdown despite the Fed's attempts to slow it down. Consequently, both private and public commitments to construction spending will continue to establish a solid platform for continued growth in construction materials consumption in the long-term, despite an anticipated slowdown in the near-term.

## Company Profiles

Company	Symbol	52-wk High	52-wk Low	P/E Ratio	Market Cap.	12/31/98 Close	12/31/99 Close	YTD Change
Ameron International Corp.	AMN	47 1/4	36	6.10	156.2 Mil	37	39 9/16	6.9%
Cemex S.A.	CX	N/A	N/A	7.00	5589 Mil	N/A	27 7/8	N/A
Centex Constr. Products	CXP	40 3/4	33 5/8	5.70	569.1 Mil	40 5/8	39	(4.0%)
Continental Materials Corp.	CUO	37 3/4	19 1/4	8.70	44.82 Mil	36 1/2	23	(37%)
Florida Rock Industries	FRK	44 3/4	28	14.90	675.8 Mil	31	34 7/16	11.1%
Granite Constr. Inc.	GVA	33 5/8	17 1/4	11.60	559.1 Mil	33 9/16	18 7/16	(45.1%)
Hanson PLC	HAN	49 9/16	32 3/4	12.70	4733 Mil	39	40 5/16	3.4%
Lafarge S.A.	LAF	40 1/2	25 15/16	6.20	1704 Mil	40 1/2	27 5/8	(31.8%)
Martin Marietta Materials	MLM	66 1/8	36	16.60	2073 Mil	62 3/16	41	(34.1%)
MDU Resources Group	MDU	26 7/16	19 11/16	13.3	1144 Mil	26 5/16	20	(24%)
Monarch Cement Company	MCEM	22 1/4	19 1/4	8.28	82.7 Mil	22 1/4	20 1/8	(9.6%)
Morrison Knudsen Corp.	MK	11 5/16	7 1/2	9.10	435.2 Mil	9 3/4	7 13/16	(19.9%)
Puerto Rican Cement Co.	PRN	37 9/16	30 13/16	14.70	175.0 Mil	34 15/16	34	(2.7%)
Southdown, Inc.	SDW	68 5/16	46 13/16	9.50	1918 Mil	59 3/16	51 5/8	(12.8%)
Texas Industries, Inc.	TXI	42 9/16	22 7/8	12.20	767 Mil	26 15/16	42 9/16	58%
U.S. Aggregates	AGA	N/A	N/A	143.2	234.7 Mil	N/A	12	N/A
U.S. Concrete, Inc.	RMIX	N/A	N/A	22.06	124.8 Mil	N/A	6	N/A
Vulcan Materials Co.	VMC	50 7/16	35 1/16	18.20	4290 Mil	43 7/16	39 15/16	(8.1%)