



Growth Through Acquisitions

Presented to:

**NRMCA Promotion Plus Forums
Pacific Southwest Region**

**April 27, 2000
San Francisco, California**

The Greystone Group LLC

Investment Banking



Presentation Outline

- I. U.S. Economic Overview & its Impact on the Construction Materials Industry
- II. Pacific Southwest Economic Overview & its Impact on the Construction Materials Industry
 - California
 - Nevada
 - Arizona
- III. Growth Through Acquisitions
- IV. Sequential Acquisition Strategy
- V. Sequential Acquisition Strategy – Example Phase 1



I. U.S. Economic Overview & its Impact on the Construction Materials Industry



U.S. Economy

- Notwithstanding short-term volatility in today's equity markets, the U.S. economy is still expanding with high levels of productivity, low unemployment, solid consumer confidence, stagnant inflation and relatively low interest rates.
- According to the latest Federal Open Market Committee (FOMC) minutes "reports from the twelve Federal Reserve Districts indicated appreciable expansion of economic activity during late January and February."
- The majority of districts reported strong growth during the survey period, with the remaining reports pointing to moderate growth or continued high levels of activity.
- According to Steve Cochrane, an economist with the Dismal Scientist, a provider of economic analysis on the Internet, "the FOMC will find few signs of an economic slowdown in this month's Beige Book report."



U.S. Economy

- Having been revised upward twice, the U.S. Gross Domestic Product for the fourth quarter of 1999 grew by a staggering 7.3 percent from a year earlier to more than \$9.0 trillion.
- The reported rate was the strongest since the first quarter of 1984 and the GDP has now seen three consecutive years of growth above 4.0 percent.
- This performance is impressive when recalling that economists typically look to a 2.5 - 3.0 percent average annual GDP growth rate as the sustainable long-term trend.
- GDP estimates for first quarter 2000 is slated for late April, and will be an important gauge for the next interest rate move by the Fed.



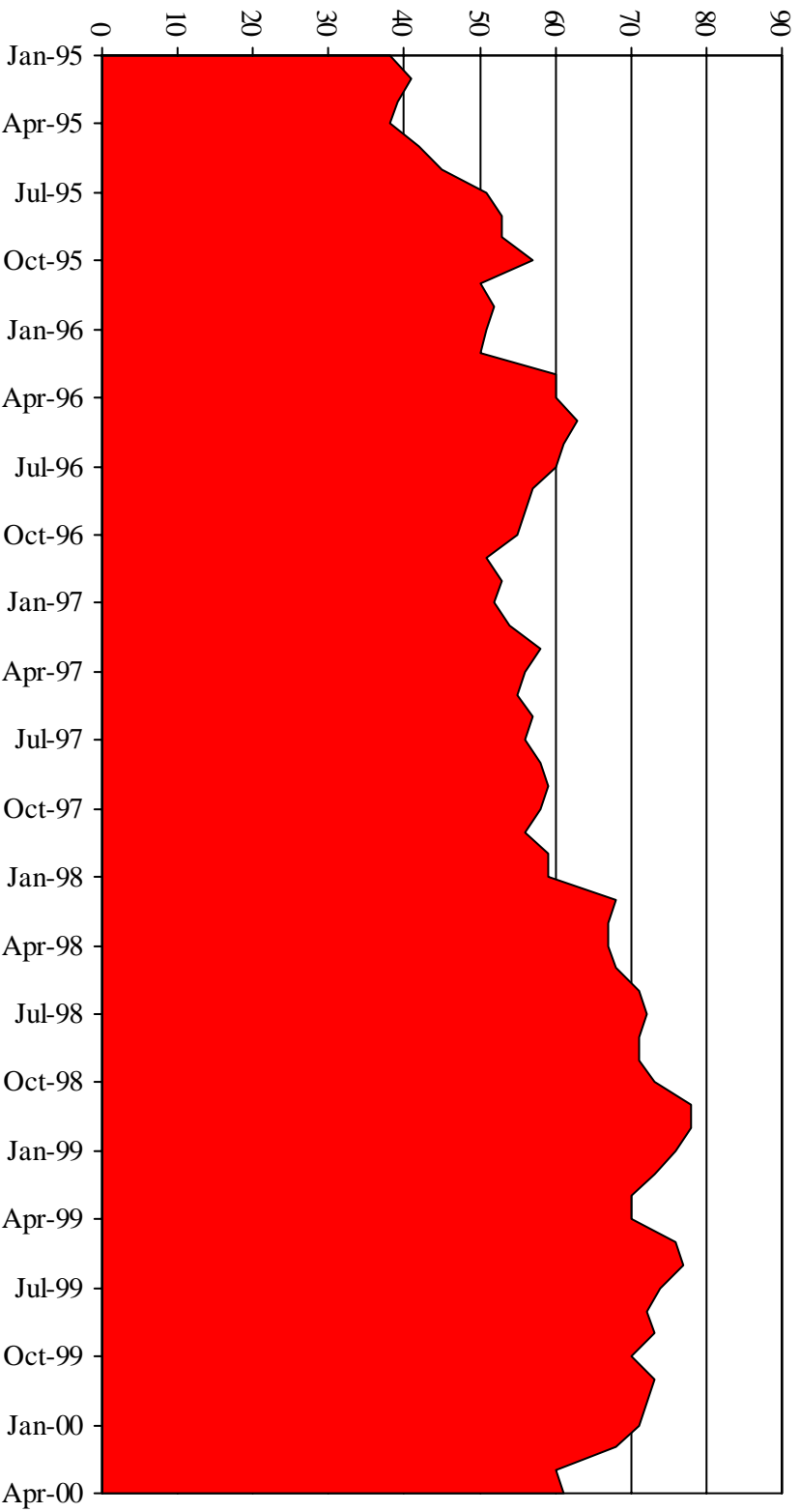
U.S. Economy

- Surprising to many, the rise in market interest rates during 1999 did not slow down big-ticket purchases during the second half of the year, but continued hikes during February and March appears to have finally made an impact on the housing market.
- For example, the Housing Market Index prepared by the NAHB dropped to 61 points in March and barely moved to 62 points in April.
- The Index, which measures present single family sales, single family sales during the next six months, and traffic of prospective buyers, is down from its high of 77 points in June 1999 as the traffic of potential buyers continued to deteriorate.
- While the overall traffic is positive, April's reading suggests that builders are less optimistic about the summer's housing market.



U.S. Economy

NAHB Housing Market Index



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U.S. Economy

- Another key indicator for continued economic expansion, The Conference Board's Consumer Confidence Index weakened only slightly in April, despite a trailing trend since January.
- The assessment of present conditions declined by 2.5 percent, but was offset by stronger expectations for the future.
- Interestingly, after leading the surge in confidence during the past few years, it is the younger households (under age 35) that seem most rattled by recent events. In fact, the confidence of older households actually increased in April.
- Despite high confidence levels, it appears that interest rates and the erosion of stock market wealth is beginning to have an impact on consumer buying plans.



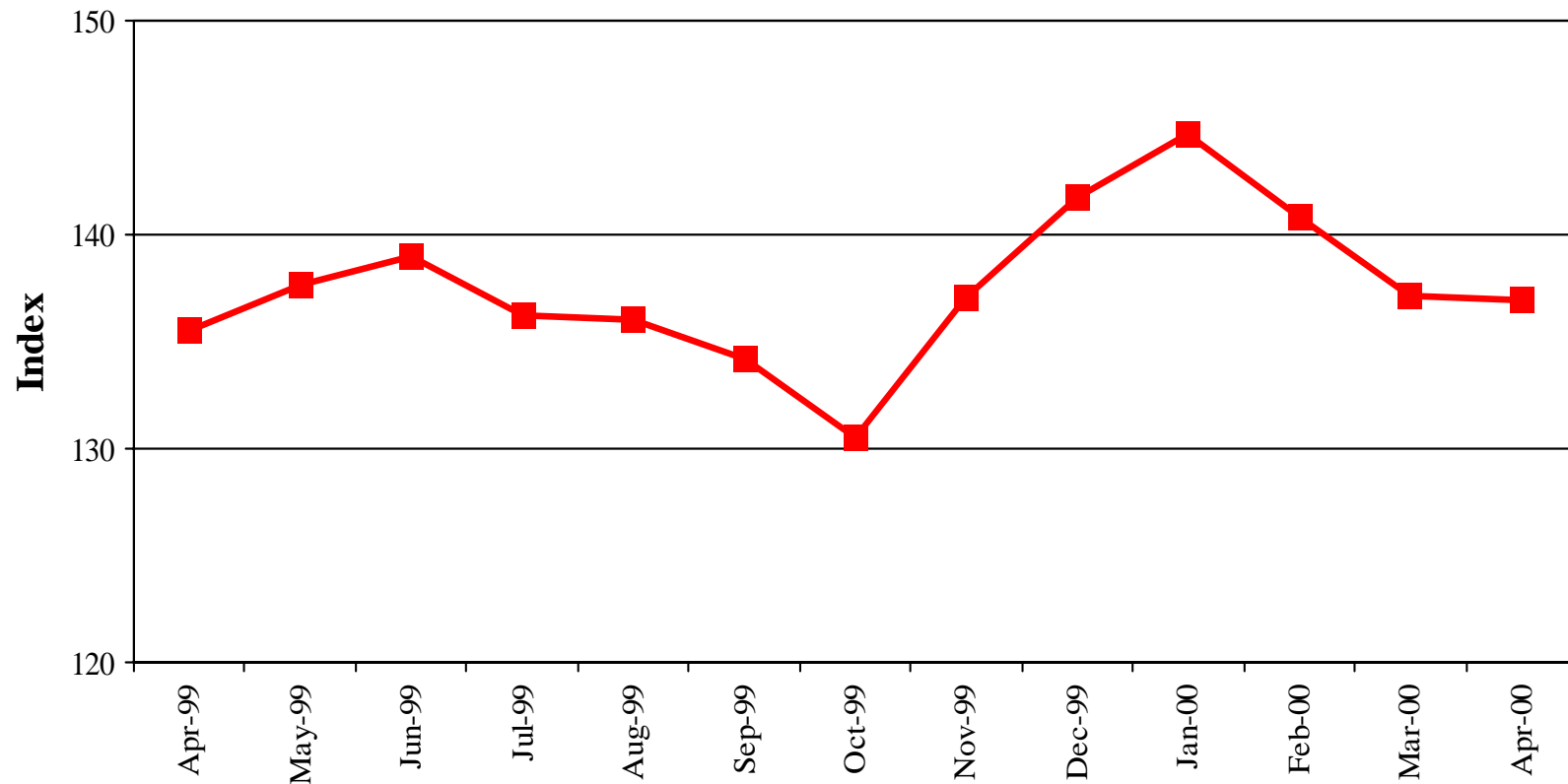
U.S. Economy

- For instance, the share of households planning to purchase a home has fallen sharply from 4.0 to 2.5 percent in March, and the share of households planning to purchase a vehicle is down to its lowest level since the beginning of 1998.
- Moreover, while consumers still believe that the labor markets hold promise, the share of households that believe that jobs are hard to get rose to 12 percent in March.
- On a positive note, more than one half of households still believe that jobs are plentiful, and roughly 45 percent of households see business conditions as good.
- In short, consumers still have confidence in the resilience of the U.S. economy.



U.S. Economy

Conference Board's Consumer Confidence Index



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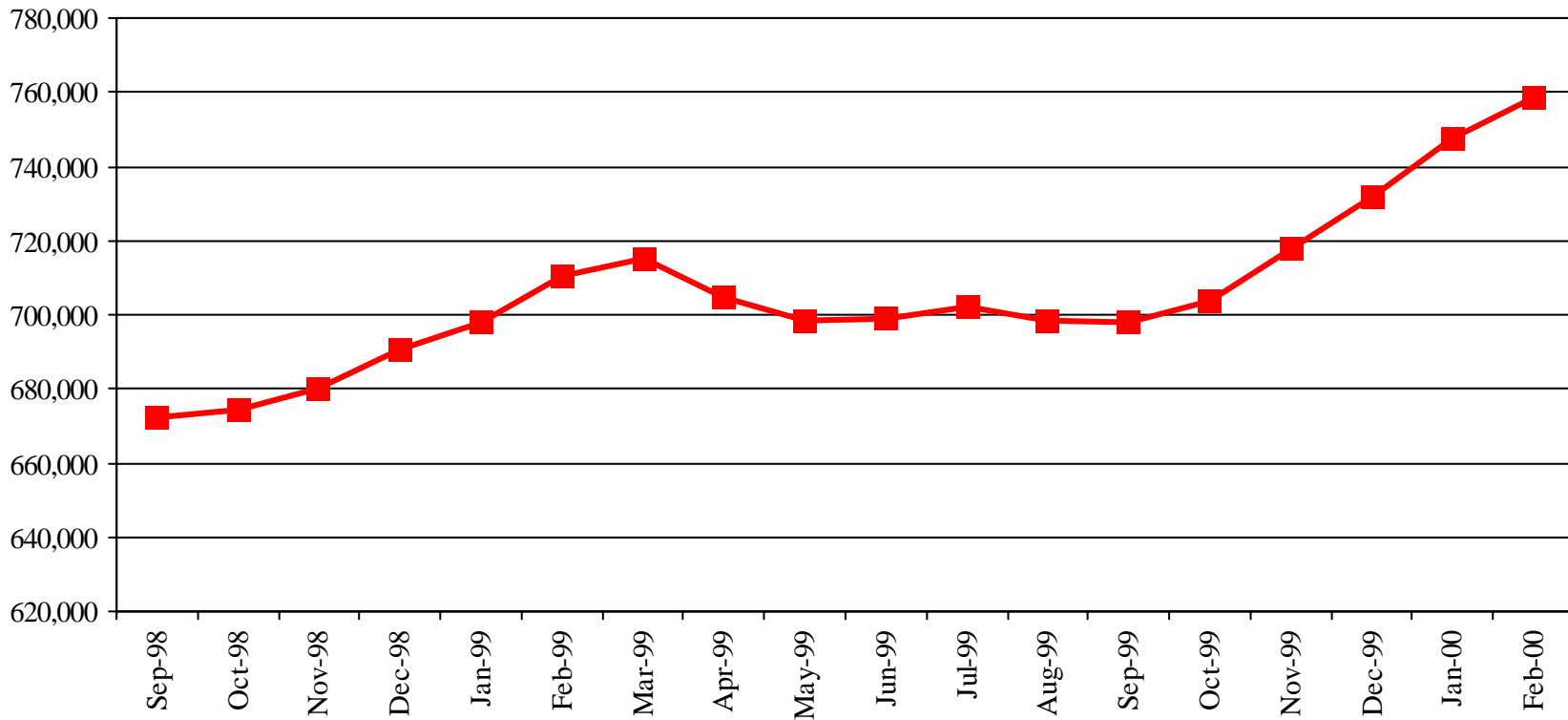
U.S. Construction Materials Industry

- The U.S. construction industry continues to benefit from strong economic activity, and construction spending rose in February for the 5th consecutive month to an annual rate of \$758.7 billion.
- Additionally, the February figure represents a 7.0 percent increase over February 1999.
- During the first two months of this year \$99.5 billion of construction was put in place, an 8.0 percent improvement from the same period in 1999.
- Yet, the 1.5 percent month over month increase was down from the 2.0 percent increases seen during the previous three months, likely due to a weather-induced slowdown in highway construction.



U.S. Construction Materials Industry

Construction Value Put in Place Seasonally Adjusted Current Dollars



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U.S. Construction Materials Industry

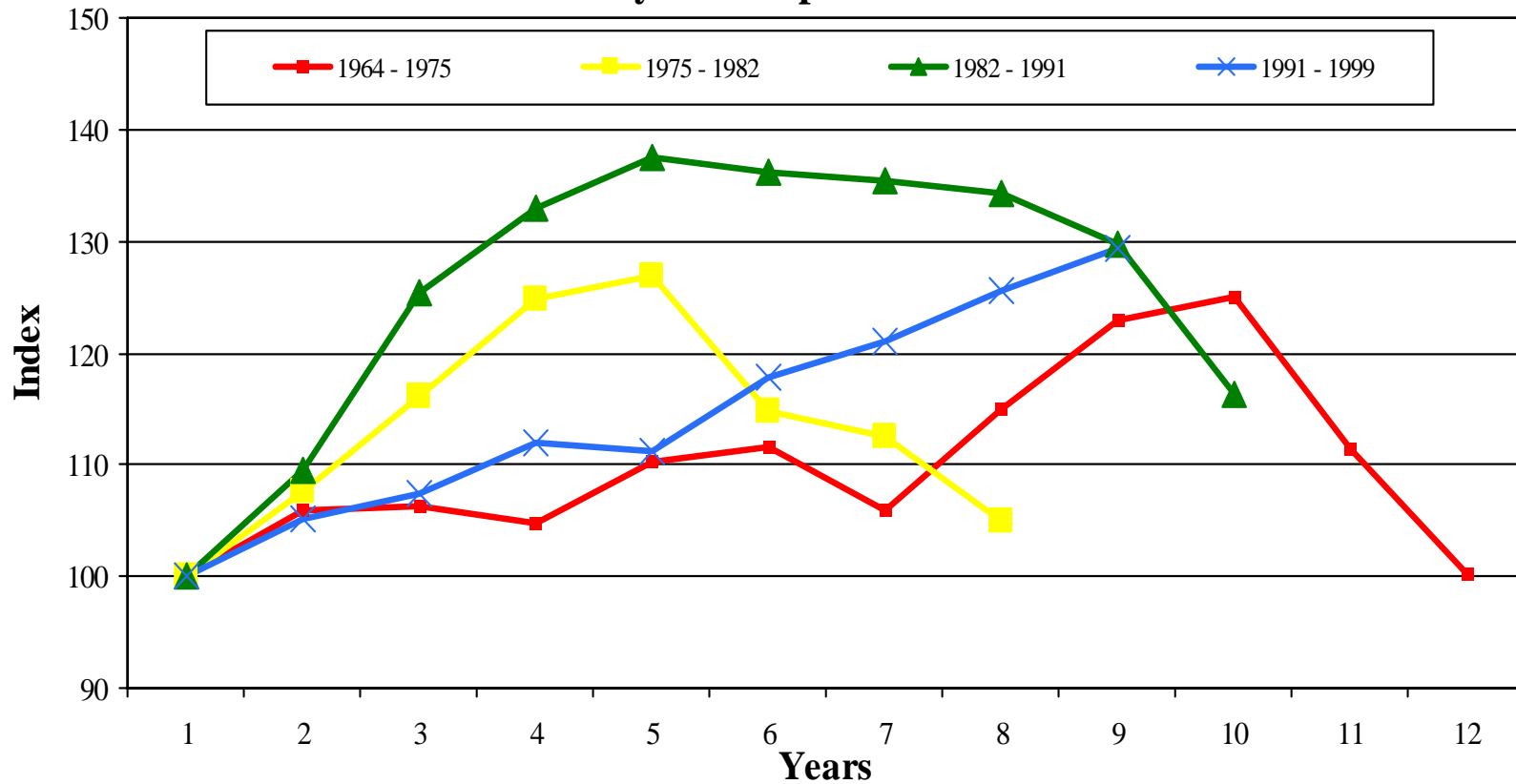
- If the activity during the last five months sustains through the remainder of 2000, this year will be the ninth consecutive year of growth in construction spending.
- Moreover, the current up-cycle has seen a very tempered and consistent expansion in contrast to the prior three cycles.
- While this may suggest that we have several more years of continued growth in construction spending ahead of us, historical cycles leads us to believe that the current golden times will eventually peak out.
- In our opinion, this peak will materialize in 2000 and 2001.



U.S. Construction Materials Industry

Total Value Put in Place - Constant 1992 Dollars

Cycle Comparisons



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U.S. Construction Materials Industry

- Homebuilding remained robust in February, despite a run-up in mortgage rates which now averages around 8.0 percent for 30 year fixed loans.
- Recent hikes in interest rates appear to have put a damper on the demand for homes, and the number of new permits during the first quarter of 2000 are down 1.4 percent from a year ago.
- The decline in authorized housing units during the first three months of the year was caused by a 7.9 percent drop in the South region, offset by smaller gains in the Northeast, Midwest and South regions.



U.S. Construction Materials Industry

Housing Units Authorized

<u>Permits in 000s</u>	<u>1Q-99</u>	<u>1Q-00</u>	<u>% CH</u>
Northeast	32,710	34,025	4.0%
Midwest	63,338	69,163	9.2%
South	186,478	171,677	-7.9%
West	<u>91,213</u>	<u>93,720</u>	<u>2.7%</u>
United States	373,739	368,585	-1.4%



U.S. Construction Materials Industry

- Nonresidential building during February 2000 measured \$197 billion at a seasonally adjusted annual rate, a 4.2 percent improvement from the \$189 billion in expenditures recorded during February 1999.
- Public construction grew to a seasonally adjusted annual value of \$179 billion during February 2000, a 10.6 percent gain from the year before.
- While the Highways & Streets sector represents the largest public construction spending segment, it's year over year growth of 4.7 percent did not keep up with the public sector as a whole.



U.S. Construction Materials Industry

Public Construction Spending				
Not Seasonally Adjusted in Billions of 1992 Dollars				
	<u>Feb-99</u>	<u>Feb-00</u>	<u>% CH</u>	<u>Allocation</u>
Housing & Redevelopment	\$3.7	\$3.6	-2.7%	2.0%
Industrial	0.9	1.3	44.4%	0.7%
Educational	32.0	41.5	29.7%	23.2%
Hospital	4.8	4.0	-16.7%	2.2%
Other Public Buildings	27.2	30.0	10.3%	16.8%
Highways & Streets	54.9	57.5	4.7%	32.1%
Military Facilities	2.6	2.8	7.7%	1.6%
Conservation & Development	6.3	7.1	12.7%	4.0%
Sewer Systems	9.4	9.4	0.0%	5.2%
Water Supply Facilities	6.7	7.8	16.4%	4.4%
Miscellaneous Public	<u>13.5</u>	<u>14.1</u>	<u>4.4%</u>	<u>7.9%</u>
Total	\$162.0	\$179.2	10.6%	100.0%

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U.S. Construction Materials Industry

- As the investment in residential, nonresidential and public construction has reached a new peak for the current cycle, so has the financial performance of the industry.
- For the fiscal year ending December 31, 1999, the industry's composite revenues, as measured by the Greystone Group's Corporate Watch list, rose 16.9 percent from 1998.
- Gross Margin, EBITDA and Pre-Tax Earnings for the same group of companies climbed accordingly at 13.7 percent, 20.6 percent and 15.8 percent.



U.S. Construction Materials Industry

1999 Earnings Report

(\$000)	<u>Net Revenue</u>	<u>99/98 %Chg.</u>	<u>Gross Margin</u>	<u>99/98 %Chg.</u>	<u>EBITDA</u>	<u>98/99 %Chg.</u>	<u>Pre-Tax Earnings</u>	<u>98/99 %Chg.</u>
Ameron (AMN)	\$545,081	-1.3%	\$161,968	2.6%	\$64,679	-1.5%	\$32,755	2.6%
Centex Constr. (CXP)	\$323,391	26.1%	\$148,771	37.4%	\$145,259	40.0%	\$133,702	42.3%
Florida Rock (FRK)	\$155,111	8.4%	\$45,264	8.3%	\$46,515	92.1%	\$35,533	128.4%
Granite Constr. (GVA)	\$1,328,774	8.4%	\$221,564	15.9%	\$137,197	11.8%	\$86,043	14.7%
Lafarge (LAF)	\$2,654,361	8.4%	\$893,588	10.9%	\$667,794	14.3%	\$436,786	15.0%
Martin Marietta Matls (MLM)	\$1,258,827	19.0%	\$435,453	14.5%	\$358,478	20.8%	\$194,313	11.6%
Puerto Rican Cement (PRN)	\$173,300	16.8%	\$60,611	14.4%	\$36,478	11.6%	\$16,268	15.0%
Southdown (SDW)	\$1,271,800	7.4%	\$497,100	6.4%	\$403,500	35.8%	\$315,200	50.4%
TXI Corp. (TXI)	\$943,417	13.3%	\$234,445	4.6%	\$160,820	-0.1%	\$64,852	-30.2%
U.S. Aggregates (AGA)	\$298,181	30.4%	\$84,504	39.6%	\$35,283	82.4%	\$22,432	172.2%
U.S. Concrete (RMIX)	\$167,912	152.5%	\$36,170	168.8%	\$21,009	167.7%	\$15,848	134.6%
Vulcan Materials (VMC)	\$2,355,778	32.6%	\$793,559	15.4%	\$607,245	16.9%	\$351,561	-6.2%
Average	\$1,188,617	16.9%	\$377,819	13.7%	\$283,373	20.6%	\$179,806	15.8%

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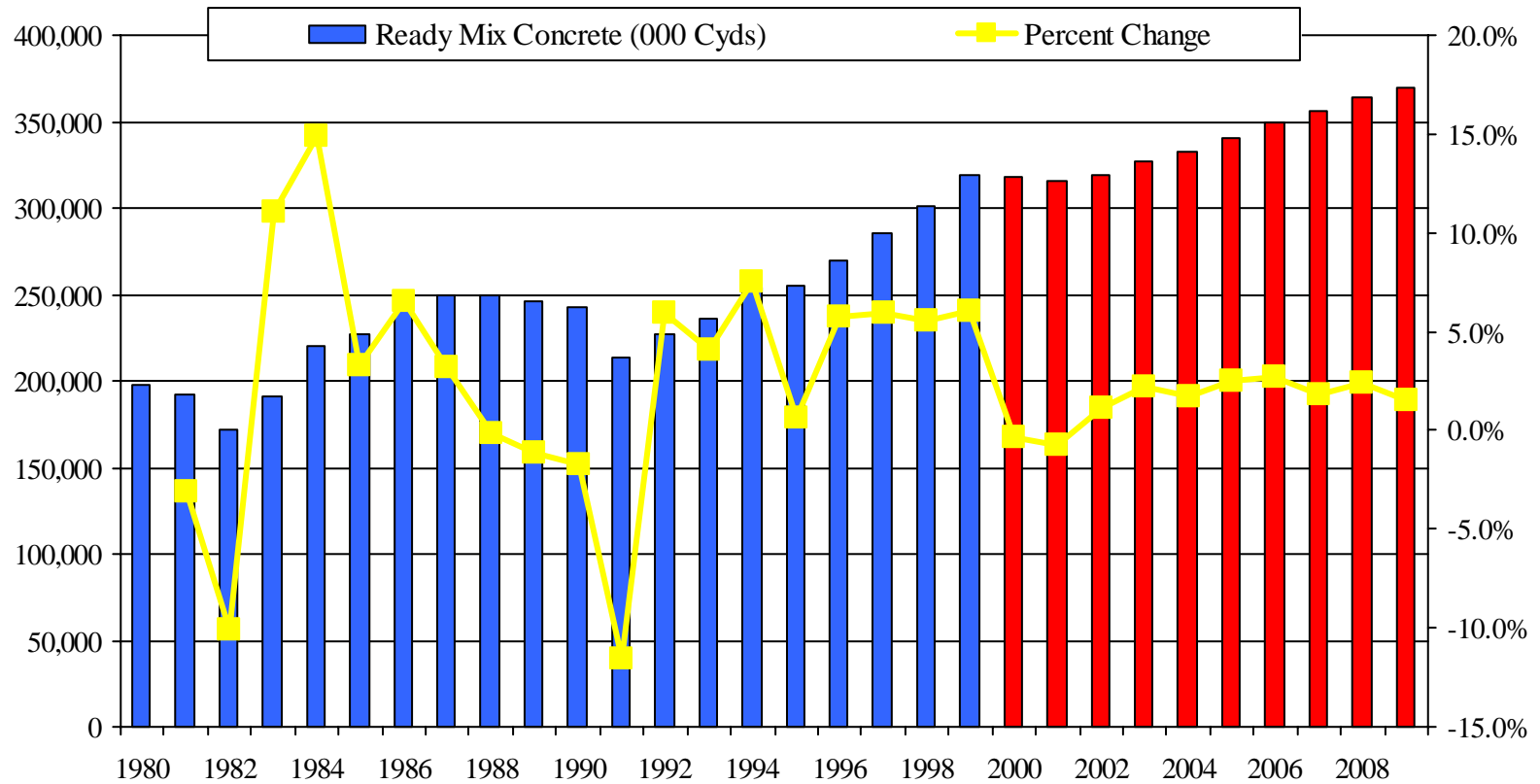
U.S. Construction Materials Industry

- Given today's economic and construction industry conditions, the next decade should offer tremendous opportunities for construction materials producers operating in key U.S. markets.
- For instance, U.S. aggregate production is estimated to increase from 2.7 billion metric tons in 1999 to 3.2 billion metric tons by 2009, equivalent to an average annual compound growth rate of 1.9 percent.
- U.S. ready mix concrete consumption is cast to escalate from an estimated 319 million cubic yards in 1999 to 370 million yards in 2009, equivalent to an average annual compound growth rate of 1.5 percent.



U.S. Construction Materials Industry

Ready Mix Concrete Consumption (000 Cyds)



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U.S. Construction Materials Industry

“Hopefully, a repeat of the mid-seventies and early eighties is not in store, but a significant economic slowdown is on the way as the runaway economy hits a wall of higher interest rates”

PCA's "The Monitor" – December 1999



II. Pacific Southwest Economic Overview & its impact on the Construction Materials Industry



California

- California is the economic powerhouse of the western United States, representing approximately 13 percent of the nation's GDP.
- From resource industries to manufacturing businesses to high technology firms, the state's broad-based industrial platform is one of the key factors that will support above average economic growth in California during the decade ahead.
- A rapidly growing and diverse population base, access to human and industrial resources, a strategic geographic location for trade, and a strong representation in those industry segments that are forecast to be most central in the 21st century, are additional factors that indicate an optimistic future for California.



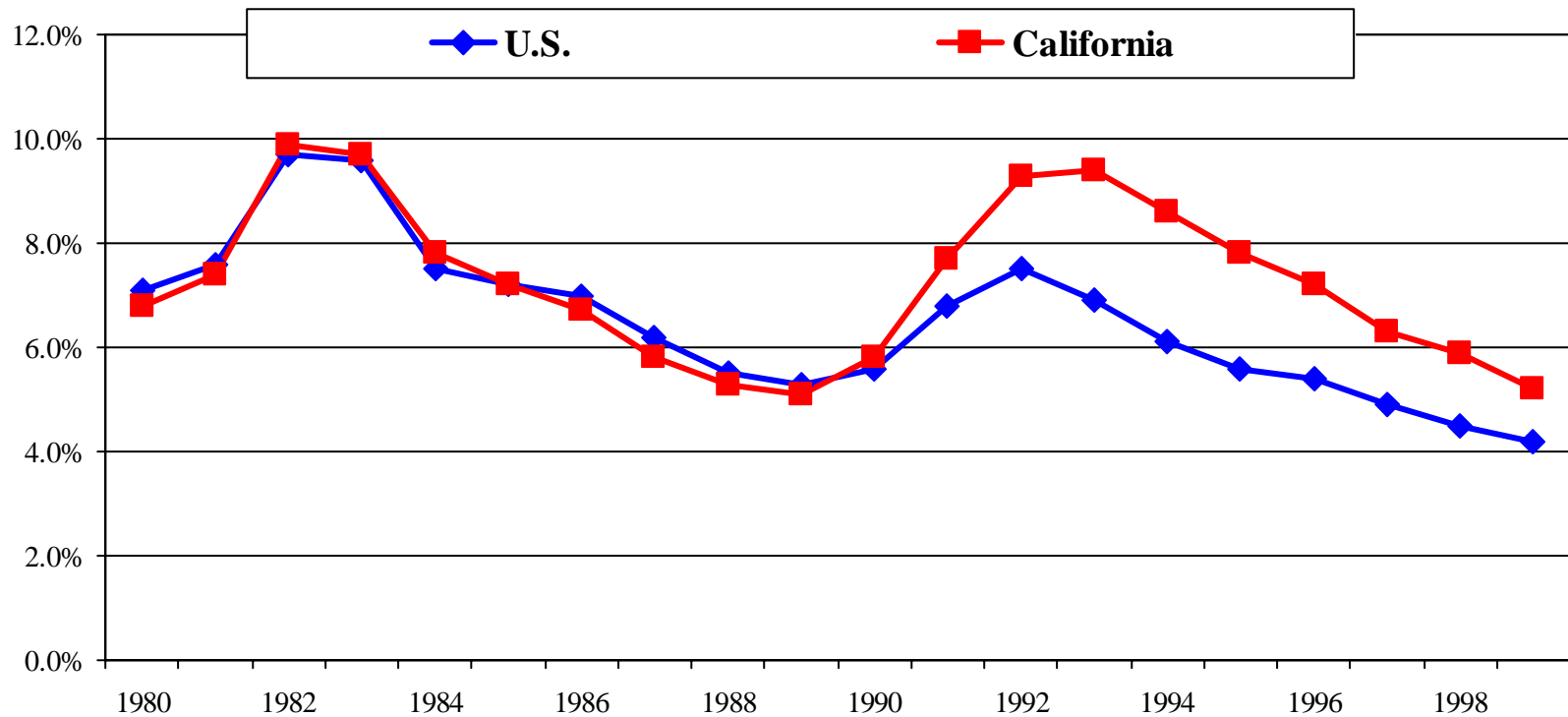
California

- While the California economy typically follows the national economy, it has taken a slightly different turn during the last economic cycle.
- California's unemployment rate was below the nation's in 1989 at 5.1 percent. Conversely, in 1994 the state's jobless rate was 2.5 percentage points higher than the national average of 6.1 percent. In 1999, California's jobless rate of 5.2 percent was still a full percentage point higher than the national rate at 4.2 percent.
- Accordingly, California's depth in, duration of, and late exit from, the 1990-1991 national recession remains an important reflection on the current economic cycle, and California's economic expansion should outlast national growth by two to three years because of its lagging position.



California

Unemployment Rate Trends



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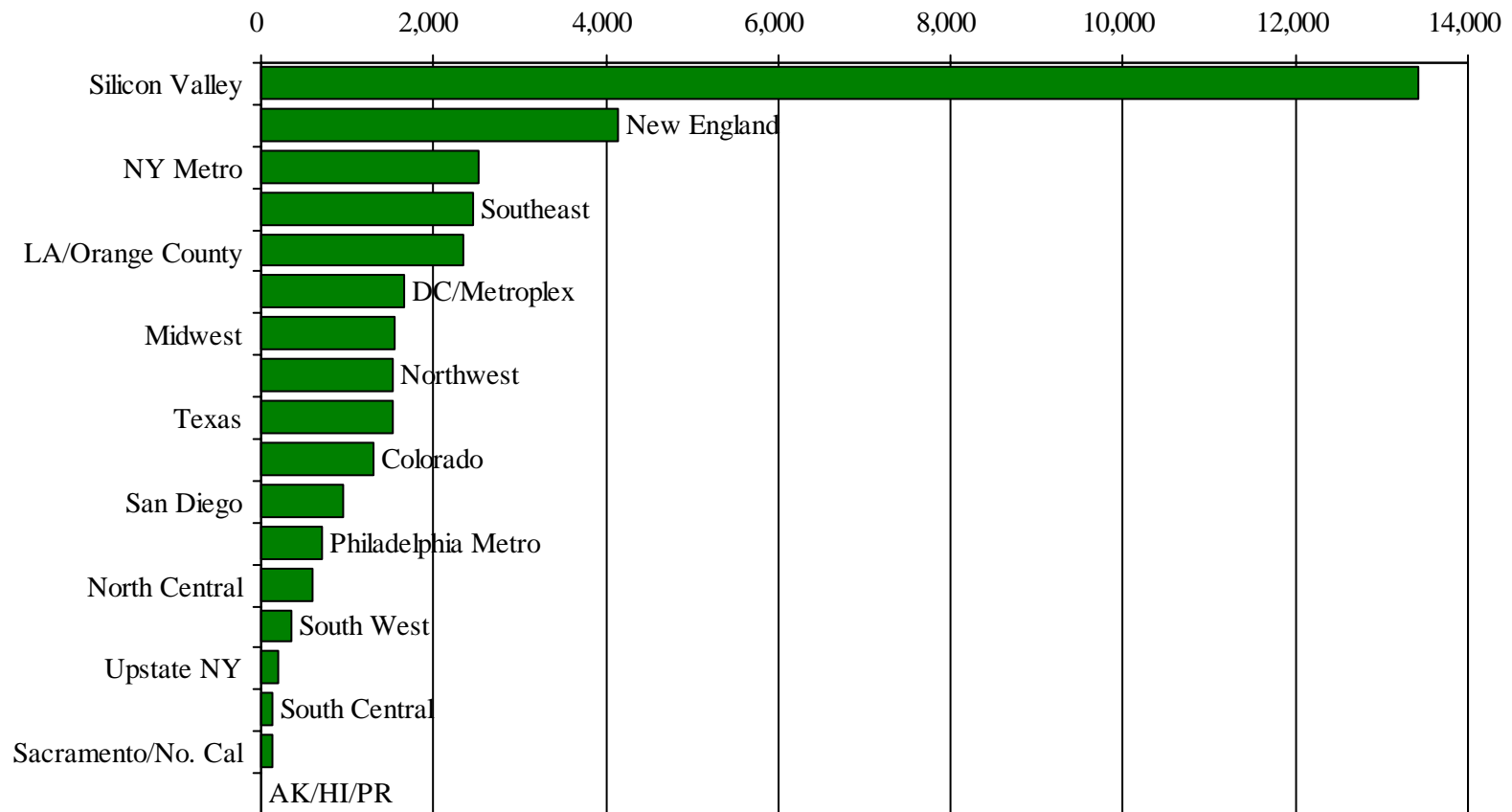


California

- California ranks first among the fifty states in personal income, and during the third quarter of 1999, the state's personal income level reached an all time high of 969 million dollars.
- During 1999, California led the nation in venture capital investment, recording nearly \$16.9 billion dollars in total investment, a 192 percent advance from 1998.
- The second highest market for VC money was Massachusetts with “only” \$3.7 billion in investment.
- Regionally, Silicon Valley captured a stunning \$13.4 billion in new VC infusions during 1999.



Venture Capital Investments By Region 1999 (\$000)



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California

- In contrast to a relatively slow construction market in California throughout the mid 1990s, during the last few years the state has experienced very impressive growth.
- Advancing with full force in 1997, 1998 and 1999, construction employment jumped by 9.6 percent, 8.5 percent, and 9.2 percent respectively.
- Favorable market conditions continue to impact residential construction activity and drive both volume and prices for homes. Low mortgage interest rates, increased wages, and consumer confidence have particularly benefited entry-level buyers.
- During 1999, California recorded an all-time high of approximately 135,000 authorized housing units, a 9.2 percent increase over 1998. Advancing job growth rates will continue to attract higher population gains and will, consequently, create a natural requirement for more housing.



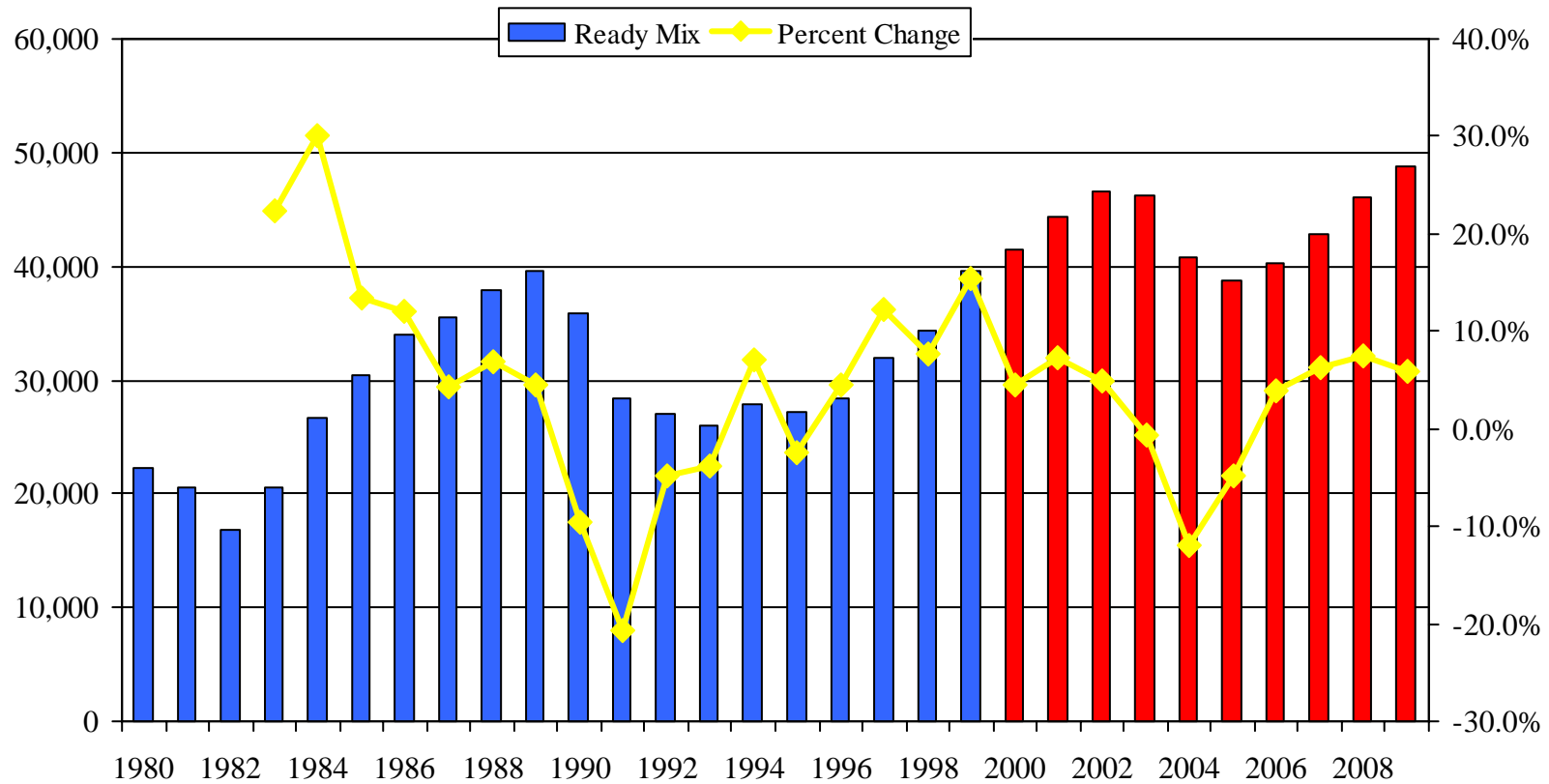
California

- Resulting from rapid growth in residential, commercial and public construction, California consumed 39.6 million cubic yards of ready mix concrete during 1999, up 15.4 percent from 1998.
- While every region in California experienced growth in concrete consumption during 1999, Southern California grew at an estimated 18.1 percent compared to Northern California's 11.0 percent improvement.
- As a result of the economic upswing in the past four years, combined with a strong and well-balanced economic platform conducive to continued growth, California ready mix consumption is forecast to grow at an average annual rate of 2.1 percent through 2009.



California

Ready Mix Consumption (000 Cubic Yards)



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Nevada

- Since 1982, Nevada's population and employment have grown at average annual rates of 4.3 percent and 5.4 percent respectively, far exceeding national average annual population and job growth rates of 1.0 percent and 2.1 percent, respectively, during the same period.
- During 1999, Nevada's 1.8 million residents filled approximately 985,000 non-farm jobs distributed across eight primary industry segments, a 3.8 percent increase from 1998.
- Additionally, a small share of the population are involved in farming, which accounts for about 1.0 percent of the annual gross state product in Nevada.



Nevada

- Nevada ranks 15th in the nation for personal income.
- During the third quarter of 1999, venture capital spending in the state reached an all-time high of 52.4 billion dollars.
- Another important indication of Nevada's economic development is the state's rapidly declining unemployment rate, which was at 3.6 percent during March 2000. The low unemployment rate coupled with solid, albeit slowing, statewide job growth, supports our hypothesis that Nevada's economy is peaking.
- During the decade ahead, Nevada's economy is expected to experience a market correction during the first few years, followed by renewed strength and accelerated growth through 2009.



Nevada

- Despite its reliance on tourism and entertainment as the prime drivers of the state's growth, Nevada is achieving an increasingly diversified economic base with employment distributed across primary sectors from manufacturing and mining to trade and construction.
- Among the eight primary non-farm industry sectors, the service industry is by far the largest employment sector in Nevada, accounting for 43.2 percent of all non-farm jobs.
- As the economic base becomes more diversified and there is increasing growth outside of the traditional tourism industry, Nevada's other service segments, such as business services, health services and engineering services, will come to represent the most rapid growth within the overall service industry.



Nevada

- According to the 1990 census, Nevada had 1,201,833 residents, an increase of 50.1 percent over 1980. During 1999, Nevada led all states with a population growth rate of 3.6 percent, supporting a population base of more than 1.8 million.
- Nevada population growth has historically stayed well above national growth rates, and is expected to continue to outperform the nation in the long-term.
- In line with expected population growth during the forthcoming decade, the state of Nevada will require additional home construction over the long haul to accommodate an increasing number of residents and households.
- However, residential construction is expected to cool dramatically during the next two to four years.



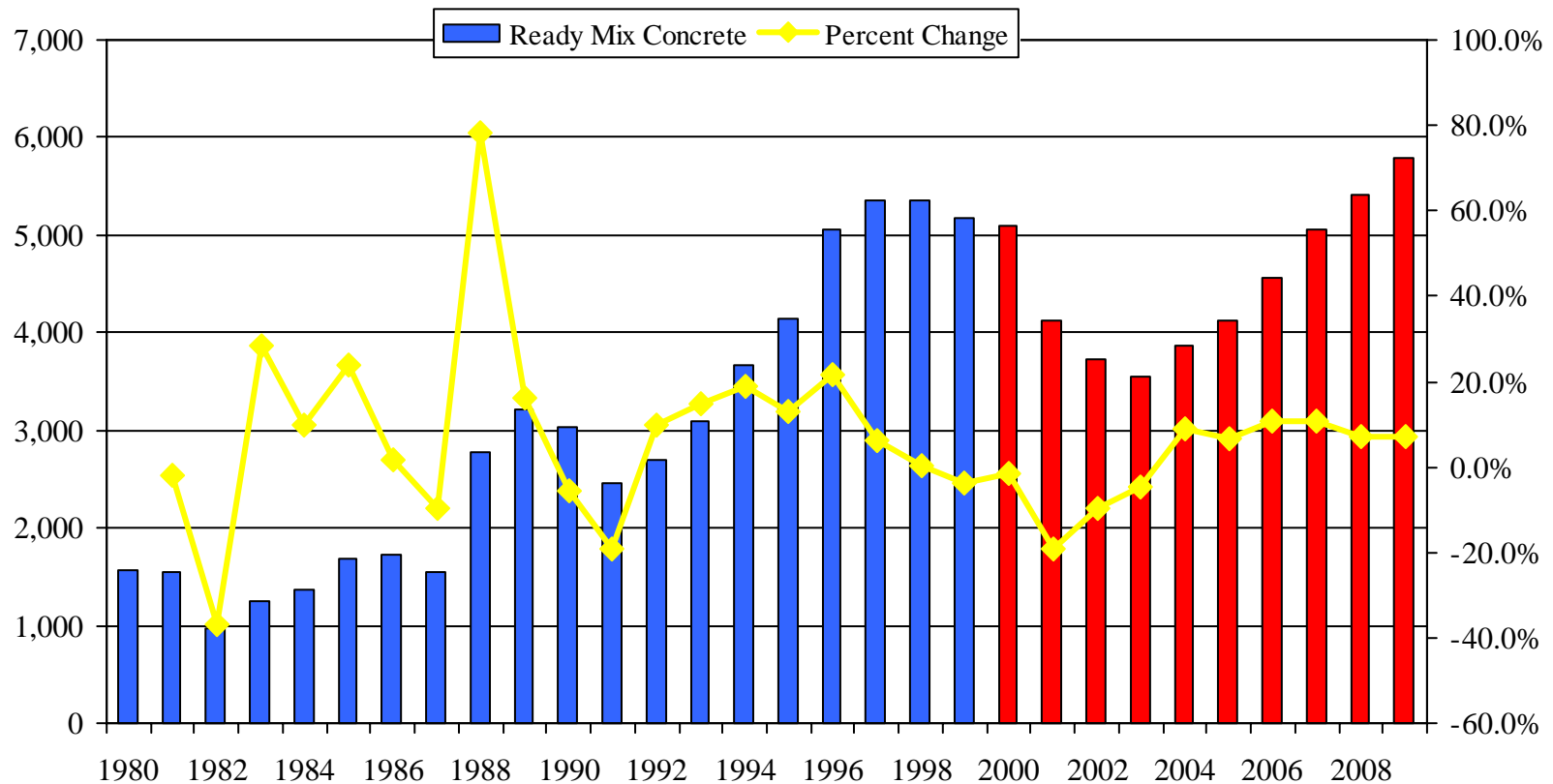
Nevada

- Nevada's construction industry is a significant employment sector accounting for an almost unheard of 9.2 percent of the state's total 1999 employment. At this share, the construction industry weighs twice as heavy in Nevada as it does on a national average where the sector usually accounts for 4.0 to 6.0 percent of total employment.
- During 1999, Nevada's ready mix industry produced an all time high of 5.2 million cubic yards of concrete.
- During the ten-year forecast period, consumption trends for ready mix concrete, cement and aggregate in Nevada are expected to experience more moderate growth rates, associated with a short-term market correction. By 2004, however, Nevada's economy will begin its next up-cycle and will once again grow rapidly through the end of the next decade.



Nevada

Ready Mix Concrete Consumption (000 Cubic Yards)



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Arizona

- Arizona is currently one of the top five economic performing states in the nation.
- With a population of over 4.7 million and a non-farm employment base of approximately 2.2 million workers, Arizona has one of the fastest growing job rates in the country.
- Unemployment in Arizona has been below the national average for eleven out of the last seventeen years.
- This can be attributed to the rapid employment growth rates in areas such as Phoenix, which has maintained an unemployment rate significantly below the national average for the last ten consecutive years.



Arizona

- While the economy in Arizona is strong, it is expected to experience slightly more moderate growth in 2000 and 2001 after the high pace of 1999.
- Despite this potential correction during the next few years, however, Arizona is projected to achieve overall high growth rates through the new decade.
- With a rapidly growing population base, employment in services, wholesale and retail trade, and manufacturing are booming.
- The single largest employment sector is services, with over 679,500 non-farm jobs or 31.5 percent of all non-agricultural employment.
- During 1999, construction jobs represented 7.0 percent of all non-farm jobs.



Arizona

- Many trade businesses benefit from the number of people who come to the desert climate of Arizona to escape the cold winters of their hometown.
- With over 200 golf courses, Arizona also offers a golf haven for avid golfers, which again supports trade and tourism.
- Arizona scores high marks in the “new economy,” one marked by a shift to innovation and technology as opposed to mass production manufacturing.
- Population trends have been a strong supporter of growth in construction activity in Arizona during the past seventeen years and the state’s population growth rate has been far above that of the nation.



Arizona

- Between 1982 and 1999, Arizona's population expanded at an average annual rate of 2.9 percent, compared to the U.S. average annual rate of 1.0 percent during the same time period.
- The rapidly advancing population in Arizona can be at least partially attributed to the state's role as an affordable retirement destination, with a constant influx of retirees relocating into the area.
- The high levels of in-migration have fueled a growing residential housing industry. During 1999, Arizona recorded 64,000 new authorized housing units, a 1.0 percent gain over 1998 values.



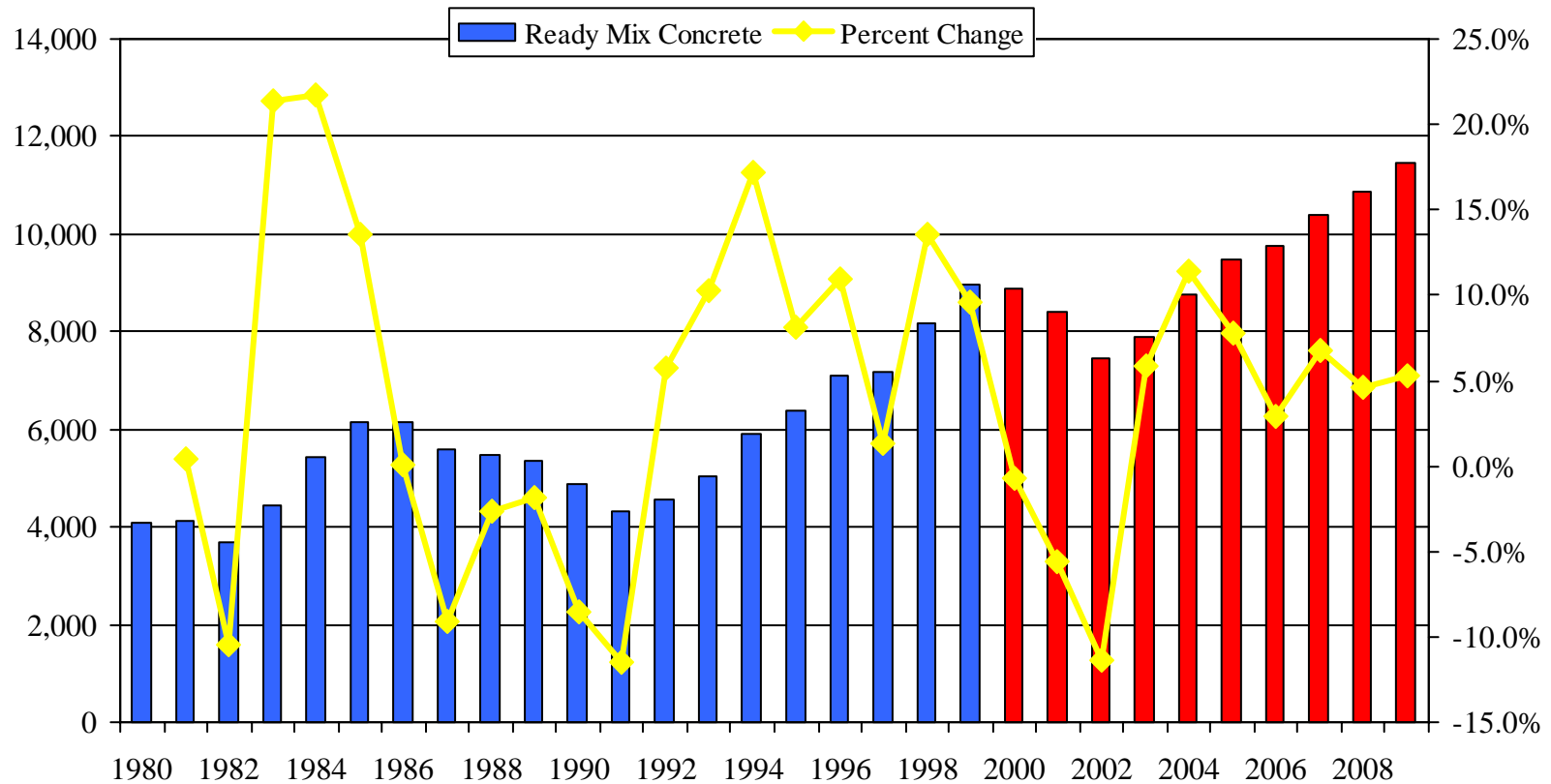
Arizona

- Construction employment in Arizona is also indicative of the state's strong economic performance and healthy level of construction materials consumption.
- Supporting 154,600 construction jobs in 1999, the sector is at its historical high and compares favorably with the 1986 peak of the last cycle when the sector employed approximately 113,000 workers.
- Reflecting the already buoyant economy in Arizona when the national economy started its long upward climb in 1992, state ready mix concrete consumption has grown at an average annual compound rate of 5.1 percent during the past ten years to nearly 9.0 million cubic yards in 1999.
- With an anticipated long-term increase in construction activity, ready mix concrete consumption will also continue to grow during the next ten years. Overall during the forthcoming decade, Arizona is cast to record average annual ready mix consumption of 9.3 million cubic yards.



Arizona

Ready Mix Concrete Consumption (000 Cubic Yards)



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III. Growth Through Acquisitions

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Why Grow Through Acquisitions?

- Enhance shareholder value
- Limited opportunities for organic growth
- Gain rapid access to new markets
- Posturing for financial markets and competitors
- Achieve horizontal integration – expand product offering
- Achieve vertical integration – capture synergies



Alternative Approaches to Acquisitions

- Select Big Berthas (reactive and proactive)
- Sequential Acquisition Strategy (proactive)
 - Base Targets
 - Bolt on Targets
- Act on Random Opportunities (reactive)



Select Big Berthas

Characteristics:

- Typically exceeds \$100 million in transaction value
- Often involves public entities on both sides
- Operations in several MSA markets, often several state markets
- Most frequently the result of seller's initiative
- Involves discussions at top executive level
- Typically involves use of professional advisors on both sides
- Can be completed in unfriendly environment (hostile takeover)
- Buyers often require external financing or use stock
- Recent examples include:
 - Southdown + Medusa
 - Vulcan + CalMat
 - Hanson + Pioneer
 - Lafarge + Blue Circle (pending)



Select Big Berthas

Pros

- Yield Fast Results
- Significant Market Positions
- Strong Market Visibility
- Pitch to Financial Community

Cons

- Heightened Competition
- Typically Requires a Premium
- By Definition Requires FTC Approval
- Often Requires External Financing
- Greater Concentration of Risk



Sequential Acquisition Strategy

Characteristics:

- Usually \$10 million to \$50 million transaction values
- Usually in a single MSA market, at least a single state market
- Most frequently the result of buyer's initiative
- Cannot be completed in unfriendly environment
- Buyers typically pay cash
- Sellers categorized as either Base Targets or Bolt-on-Targets
- Examples:
 - U.S. Concrete + Bealle Industries + Butler Ready Mix Concrete
 - Hanson + H.G. Fenton Companies + Nelson & Sloan
 - MDU Resources + LTM + Morse Bros.



Sequential Acquisition Strategy

Pros

- Avoid Direct Competition
- Create Greater Value Over Time
- No Waiting - Create Opportunities
- Control Timing
- Generate Dialog with Targets
- Gain Better Market Insight
- Less Concentration of Risk

Cons

- Requires a Defined Plan
- Requires Patience
- Implementation Takes Longer
- Requires Targets' Willingness to Talk
- May require FTC Approval



Sequential Acquisition Strategy

Typical Steps

1. Define Objective
2. Phase 1
 - Assessment of Target Market
 - Assessment of Target Producers
3. Phase 2
 - Initiate Contact with Target Ownership
 - Conduct Business Review
 - Prepare Executive Presentation
 - Implement Transaction Negotiation/ Management
4. Other Activities
 - Continuous Market Research
 - Post Acquisition Review
 - Asset Utilization
 - Financing



IV. Sequential Acquisition Strategy



Sequential Acquisition Strategy Objective

- Develop and implement a sequential acquisition strategy designed to expand a Buyer's materials business, within defined geographic and economic parameters, in order to enhance shareholder value.



Sequential Acquisition Strategy

Phase One

- Initially, complete an economic assessment of the Target Geographic Market, including but not limited to, a macro economic overview of the U.S. economy and corresponding impact on the Target Geographic Market.
- The micro economic assessment should include an in-depth overview of each state within the Target Geographic Market, together with an assessment of each major metropolitan area within the Target Geographic Market.
- The analysis must incorporate those items that specifically influence the consumption of cement, sand & gravel, crushed stone, ready mix concrete, asphalt, and other concrete products.
- Such information will include, among other things, population statistics, housing starts, construction employment, non-residential construction activity and major construction projects.



Sequential Acquisition Strategy

Phase One - Continued

- Additionally, one should gather the necessary demographic data so that the Buyer can comprehend the market's potential. Demographic data can include such things as the area's largest employers, job creation, household formation, etc.
- As part of Phase One, it is paramount to identify all major construction materials producers within the defined Geographic Market, together with those specific companies that could be an acquisition Target.
- Thereafter, acquisition priorities are developed based on a preliminary assessment of timing, potential synergies with Buyer, transaction size (base company vs. bolt-on company), anticipated forecast market conditions, etc.



Sequential Acquisition Strategy

Phase Two

- When agreement is established on the proposed priorities, meetings are arranged with the Target's ownership in order to identify interest and to review the objectives of the Buyer's plan.
- To the extent that mutual interest is developed, the suitor completes a thorough business review of the critical elements of the Target company and develop a value range.



Sequential Acquisition Strategy

Phase Two - Continued

- A comprehensive business review must be completed for each acquisition Target, and should incorporate the following disciplines:
 1. Market Assessment
 2. Operational Review
 3. Financial Analysis



Sequential Acquisition Strategy

Phase Two - Continued

- The Target's entire relevant market is carefully scrutinized to quantify its existing position as it relates to its competition and compatibility with the Buyer.
- Relevant factors are examined that influenced historical consumption of the Target's products and thereafter, architect an economic model which will track the salient factors that influence future consumption. Market share, competitive reserves and cost efficiencies are also reviewed.
- At the conclusion of the market assessment, a consumption forecast and unit price estimates are generated, cast over a period of ten years, and then included in the financial analysis.



Sequential Acquisition Strategy

Phase Two - Continued

Leading economic indicators typically include, but are not limited to:

1. Population
2. Housing Starts
3. Construction Employment
4. Non-Residential Construction Activity
5. Major Construction Projects
6. Highway Program (TEA21)



Sequential Acquisition Strategy

Phase Two - Continued

- The Target's operating facilities are thoroughly reviewed and inspected, a requisite procedure enabling the Buyer to review costs, by location, and forecast potential efficiencies inclusive of identifying all non-continuing expenses.
- As a result of the operational assessment, efficiencies and inefficiencies are identified, as well as mandatory and discretionary capital expenditures.
- This part of the review allows Buyer to fully comprehend the operational capabilities of the company in order to more accurately project its financial performance.



Sequential Acquisition Strategy

Phase Two - Continued

- At the appropriate time, outside firms are utilized to perform geological and environmental testing in order to express an opinion as to the quantity and quality of the Target's mineral reserves, when relevant.



Sequential Acquisition Strategy

Phase Two - Continued

- While the marketing and operational inspections are being completed, the parties commence financial due diligence.
- This phase includes, among other things, an extensive review of the Target's historical financial records, including plant-by-plant volume, price and cost information.
- As a result of consolidating the marketing, operational and financial disciplines, an integrated financial model is generated which is utilized to project the operating results of the Target.
- Most sophisticated Buyers employ the discounted cash flow methodology ("DCF") which assumes that all future cash flow is paid out to the company's owners in the form of cash dividends.



Sequential Acquisition Strategy

Phase Two - Continued

- Financial results are expressed in constant dollars and the ultimate enterprise value is quantified as net present values utilizing various discount rates.
- The residual value, or value of the business at the end of the ten year projection period, is calculated to assume that the cash flow continues over the economic life of the reserves.
- To the extent the Buyer determines that the Target should be pursued further, they then work toward generating an offer (including proposed structure, terms, conditions, etc.) which they consider to represent fair market value.



Sequential Acquisition Strategy

Asset Utilization

- A critical component to any expansion program is the full utilization of existing assets.
- As an alternative to certain acquisitions, Buyers should perform feasibility studies to determine whether certain non-performing assets should be utilized, such as undeveloped or un-permitted aggregate deposits.
- Additionally, Buyers should assess the market for the introduction of supplementary products at its existing locations. An example of this type of activity would include recycle products, specialty products, and landscaping materials which typically offer attractive margins.



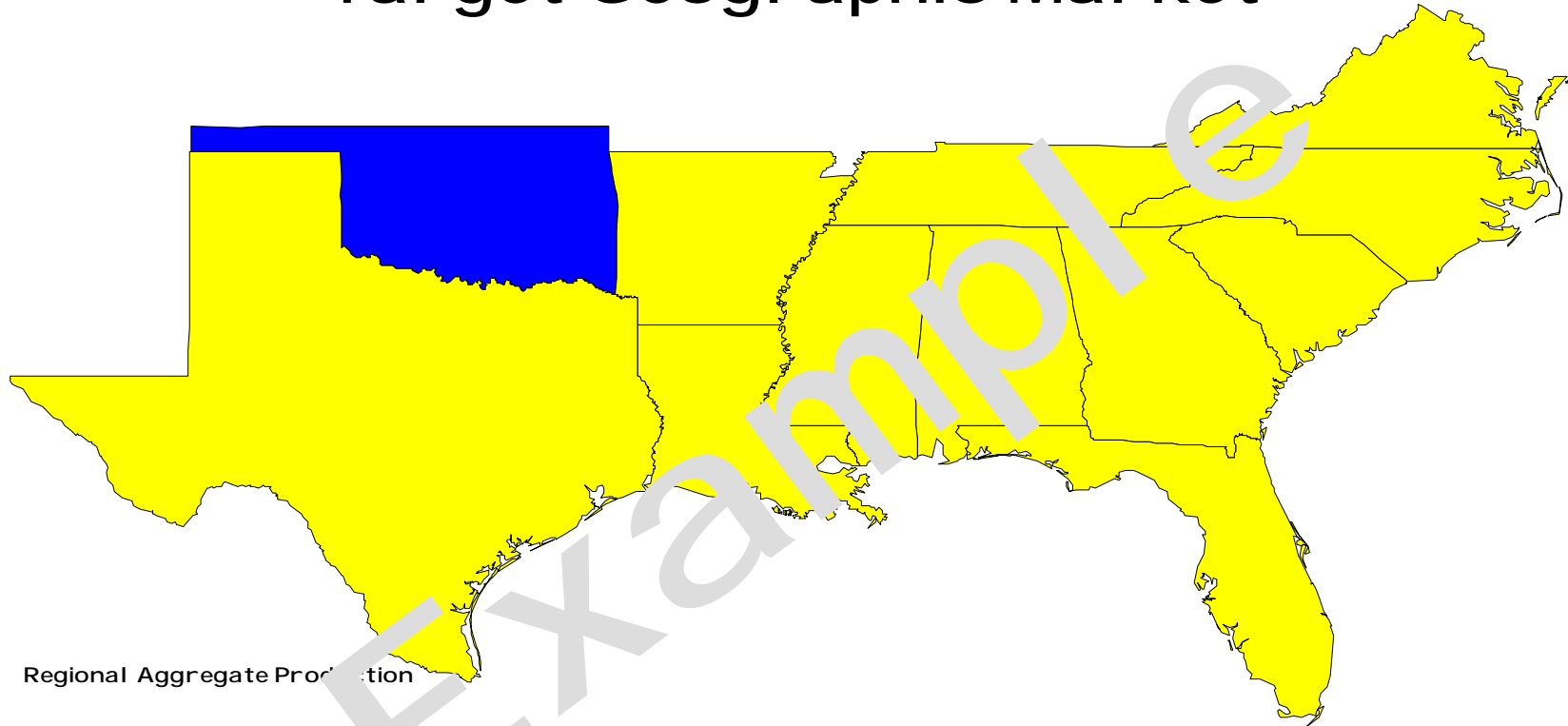
V. Sequential Acquisition Strategy

Example – Phase 1

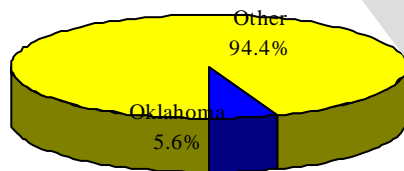


Oklahoma

Target Geographic Market



Regional Aggregate Production



Regional Aggregate Production Ranking = 9

The Greystone Group LLC

Investment Banking



Oklahoma Economic Profile

	1982 to 1997	1998 to 2007
Population		
Average Annual % Change	0.2%	0.7%
Real Annual Increase	7.3	22.3
Housing (Units)		
Average Annual Starts	12.1	11.0
Cement Consumption (000 ST)		
High	1,877.6	1,522.7
Low	999.3	1,251.0
Average	1,273.9	1,360.8
Aggregate Production (000 ST)		
High	44,500	54,016
Low	31,358	41,915
Average	38,391	46,776

The Greystone Group LLC

Investment Banking



Oklahoma

Macro Economic Assessment

- Oklahoma has grown to be home to 3.3 million people and support an estimated 1998 gross state product of \$80.3 billion. In population and employment terms, the state represents 4.0 percent and 3.7 percent of Pioneer's twelve-state Target Market.
- There are four MSAs among Oklahoma's 77 counties, and at least 50 percent of state economic activity occurs in Oklahoma City and Tulsa, the two largest metropolitan areas.
- With an unemployment rate of only 3.5 percent, Oklahoma's growth currently exceeds national growth. However, the business cycle is still not dead, and economists view the recent strong economic growth as unlikely to be sustainable, both nationally and on the state level.



Oklahoma

Macro Economic Assessment

- In particular, given unemployment rates at their lowest levels in 24 years, current population growth, and labor force participation trends, employment growth will likely be constrained by labor supply.
- Between 1982 and 1997, Oklahoma's average annual growth measured 0.9 percent when the nation recorded a 2.4 percent growth rate. The explanation lies in the oil bust that took place in the early and mid 1980s, which had a dramatic impact on employment in the state's metropolitan areas.
- Between 1982 and 1987, the state lost more than 100,000 jobs net, of which 60,000 were represented in the mining sector which today only accounts for 2.6 percent of total employment compared to 8.7 percent in 1982.



Oklahoma

Macro Economic Assessment

- The ten-year projection period suggests that Oklahoma non farm employment will experience an average annual growth rate of only 1.0 percent as the fundamental industry sectors of manufacturing, mining and trade are less dominant in the state than in other robust economies.
- While Oklahoma benefits from having lower labor costs, a lower cost of living, and a tax burden comparable to other states, Cognetics, Inc., an entrepreneurial magazine, argues that cost advantages are becoming irrelevant in determining new entrepreneurial activity, and ranked Oklahoma 41st among all states in the 1990s for entrepreneurs.
- Additionally, the Corporation for Enterprise Development, a Washington DC economic development think tank, reported that Oklahoma ranked near the bottom in university research and development, federal research and development, and small business innovation research grants.



Oklahoma

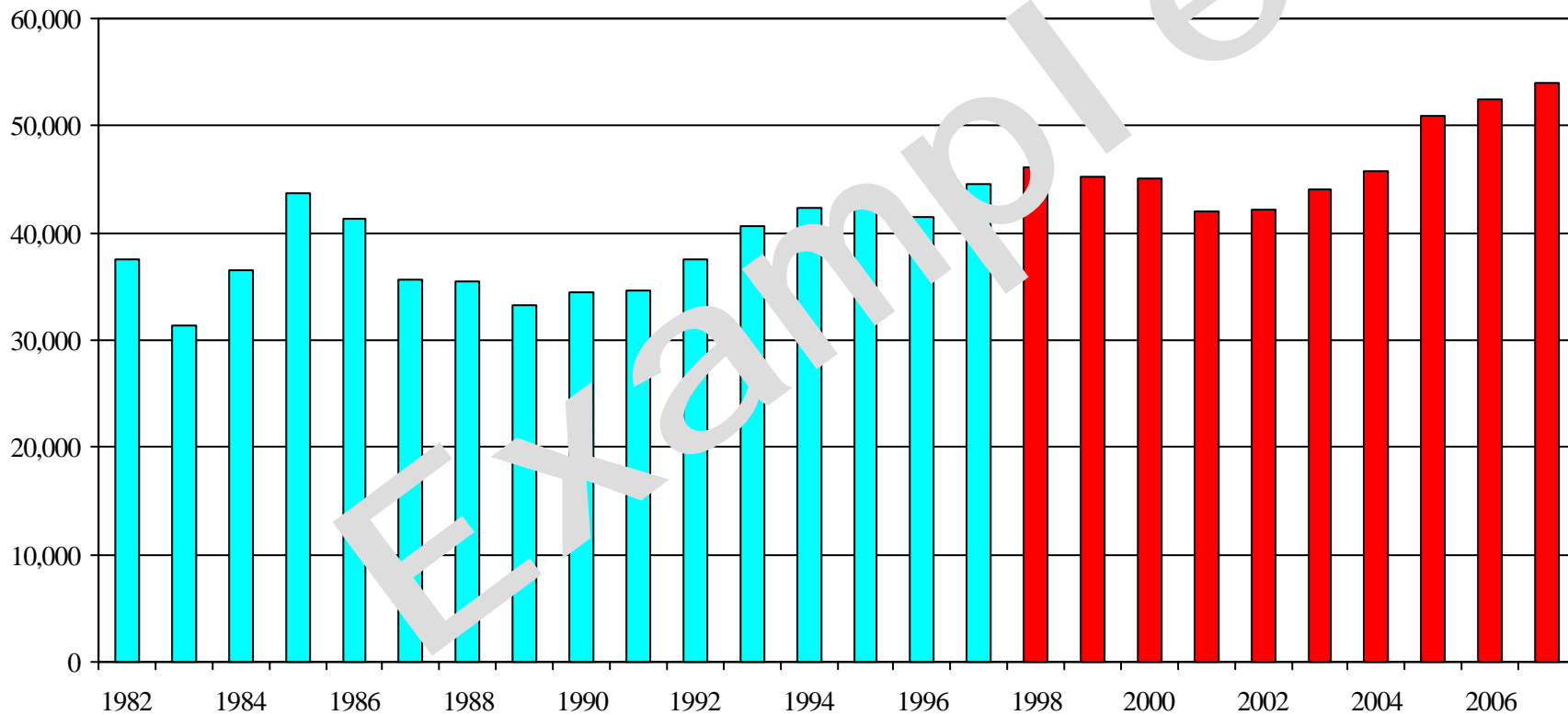
Macro Economic Assessment

- During the past fifteen years, Oklahoma experienced very modest population gains, adding only 110,000 residents, or an average annual growth of 0.2 percent. The slow growth is explained by net out-migration between 1983 and 1990, when the state lost 20,700 residents on average each year.
- Construction employment in the state was at its high in 1982 when the sector supported approximately 55,700 jobs. As the economy folded, spurred by the oil crisis in the early 1980s, construction employment dropped to 34,600 workers in 1987.
- While today's construction employment level is still not back to the 1982 level, it is indicative of an expanding economy. Yet, growth during the last year has been nearly flat and suggests that construction activity in the state has leveled off.



Okla homa

Aggregate Production (000 ST)



The Greystone Group LLC

Investment Banking



A. Oklahoma City

Example



Oklahoma City



Oklahoma Aggregate Consumption Ranking = 2

The Greystone Group LLC

Investment Banking



Oklahoma City Economic Profile

	1982 to 1997	1998 to 2007
Population		
Average Annual % Change	0.4%	0.7%
Real Annual Increase	3.7	6.8
Housing (Units)		
Average Annual Starts	5.0	5.7
Cement Consumption (000 ST)		
High	504.0	391.3
Low	272.0	322.7
Average	343.1	350.5
Aggregate Consumption (000 ST)		
High	6,475.2	7,413.4
Low	4,501.3	5,774.7
Average	5,523.0	6,433.4

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Investment Banking



Oklahoma City

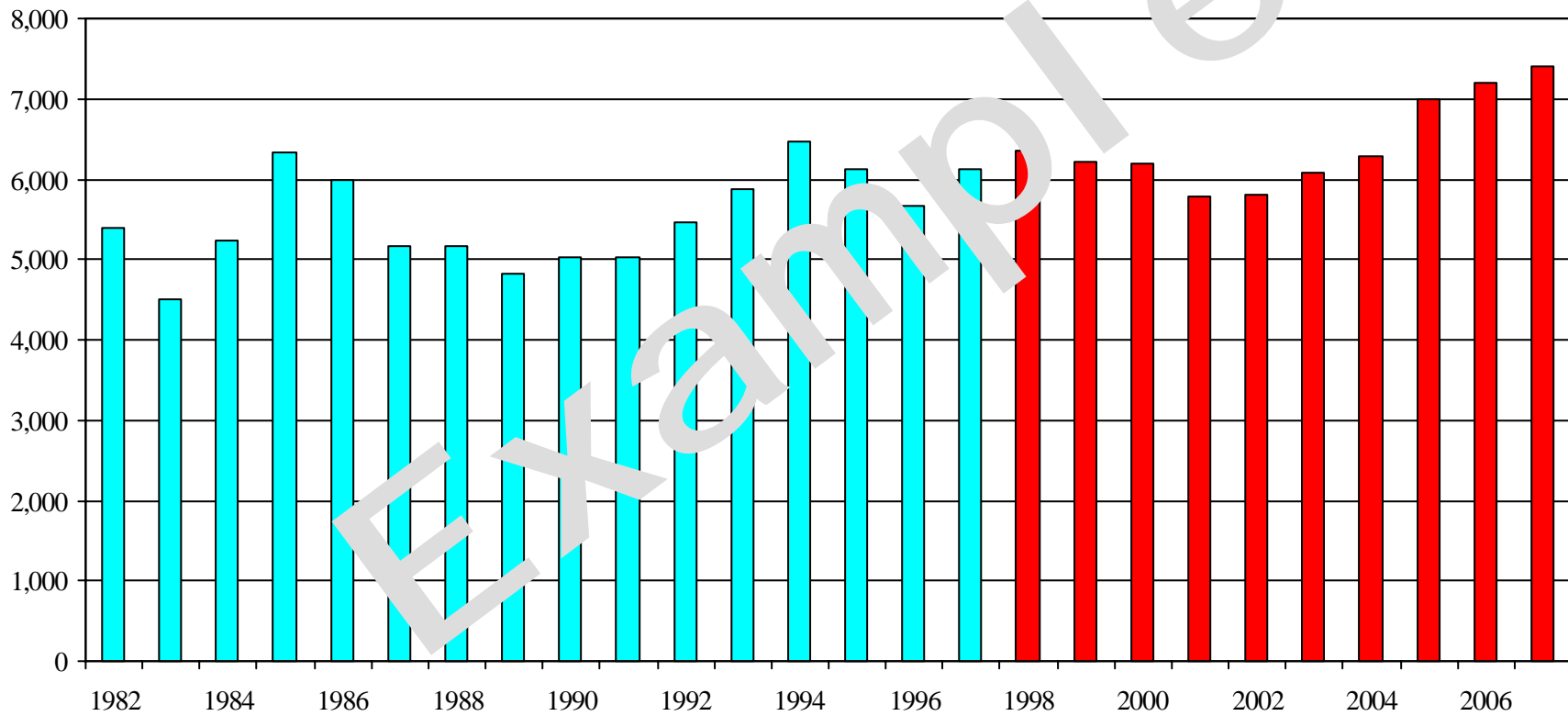
Macro Economic Assessment

- Oklahoma City is the largest MSA in Oklahoma and represents 31.1 percent of the state population and 36.0 percent of economic activity. While the forecast population growth of 0.7 percent is above the historical 0.4 percent advancement, it is still below both the twelve-state and national growth rate.
- Future growth in construction employment and housing starts, estimated at average annual rates of 2.0 and 2.2 percent, respectively, is a little better than the twelve-state area growth of 1.7 and 1.8 percent.
- Cement consumption in Oklahoma City, measured at 337,400 tons in 1997, is cast to increase at an average rate of 1.6 percent per year during the forthcoming decade, halfway in between the national growth rate and the twelve-state region growth rate.



Oklahoma City

Aggregate Consumption (000 ST)



The Greystone Group LLC

Investment Banking



Oklahoma City Major Producer Profile

Company	No. of Locations	Estimated Annual Production (000 ST)	Estimated Reserves	Integrated	Ownership
Dolese Bros.	3 Rock/4 Sand	3,150	Long-term	R/M C/P	Dolese Family
Western Rock	1	850 (i)	Davis (LT)	No	Hanson
Materials Producers	1	800	Davis (LT)	A/C	Gary Lone
WW Sand Co.	1	150	LT (Sand)	R/M	Private
General Material	2	600	LT (Sand)	A/C	Haskell-Lamon
R & M Resources	1	200	LT (Sand)	N/A	Private
Other	3	400	Sand	N/A	Private

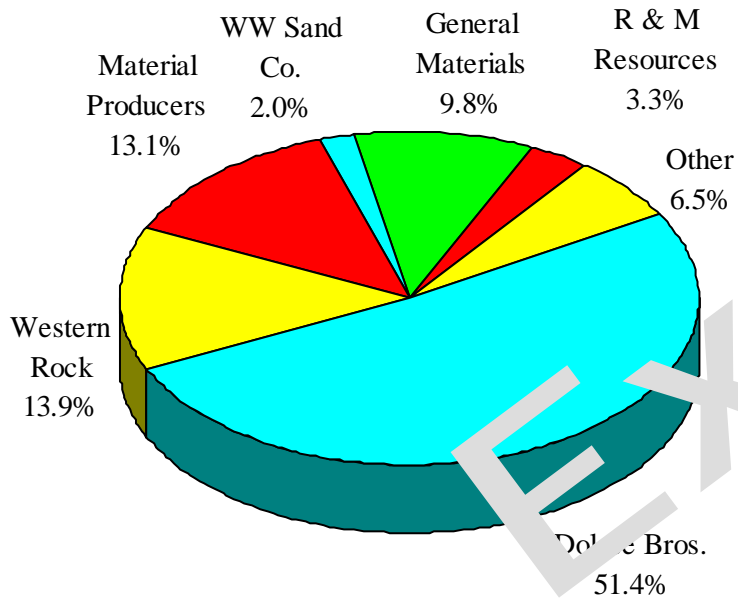
(i) Includes Ballast.



Okla homa City

Maj or Aggregate Producers

Estimated Market Share



Estimated Production

Producer	Volume (000 Tons)
Dole Bros.	3,150
Western Rock	850
Material Producers	800
WW Sand Co.	125
General Materials	600
R & M Resources	200
Other	400
Total	6,125