



Merger Mania

Presented to:

**NRMCA Pacific Southwest Region
Promotion Plus Forum**

**October 28, 1999
San Jose, California**

The Greystone Group LLC

Investment Banking



Presentation Outline

- I. Current M&A Market Conditions
- II. Consolidation of the U.S. Construction Materials Industry
 - A. Recent Transaction Activity
 - B. Most Active Buyers
 - C. Greystone's Outlook for Continued M&A Activity
- III. Today's Valuation Methodology
- IV. Greystone's Ready Mix Concrete Consumption Forecast
 - A. United States
 - B. Pacific Southwest Region
 - C. California
 - D. San Francisco Bay Area
 - E. Los Angeles Basin
 - F. San Diego
 - G. Nevada
 - H. Arizona



I. Current M&A Market Conditions



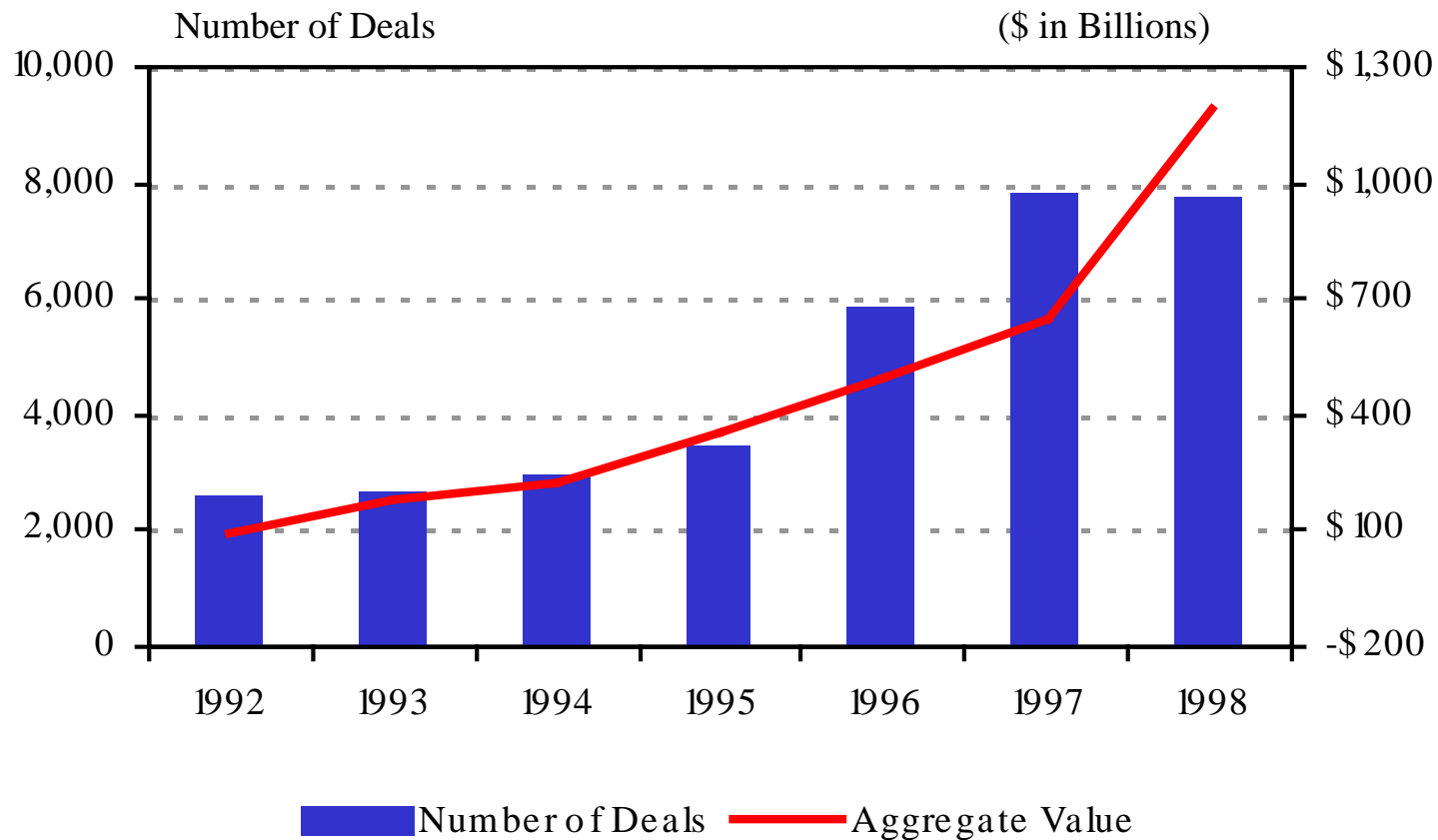
Current M&A Market Conditions

- In 1998, announced U.S. Transactions set an all-time high for a fifth consecutive year, with 7,308 announced transactions valued at \$1.3 trillion.
- Strategic combinations continued to dominate, with strategic buyers paying more for acquisitions.
- Purchase price multiples continue to skyrocket, reflecting the upward pressure of astronomical buyout fundraising, and the preponderance of consolidation within select industry groups.



Current M&A Market Conditions

(Continued)



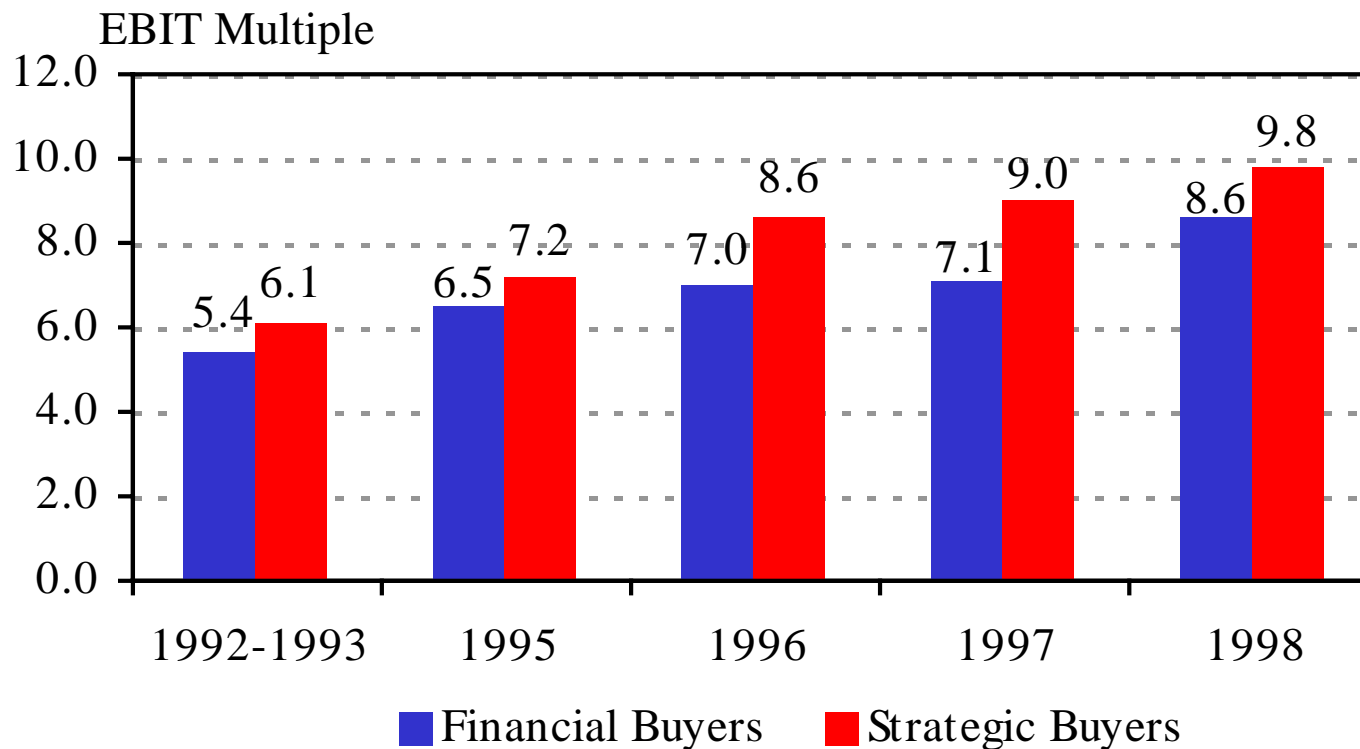
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Current M&A Market Conditions

(Continued)



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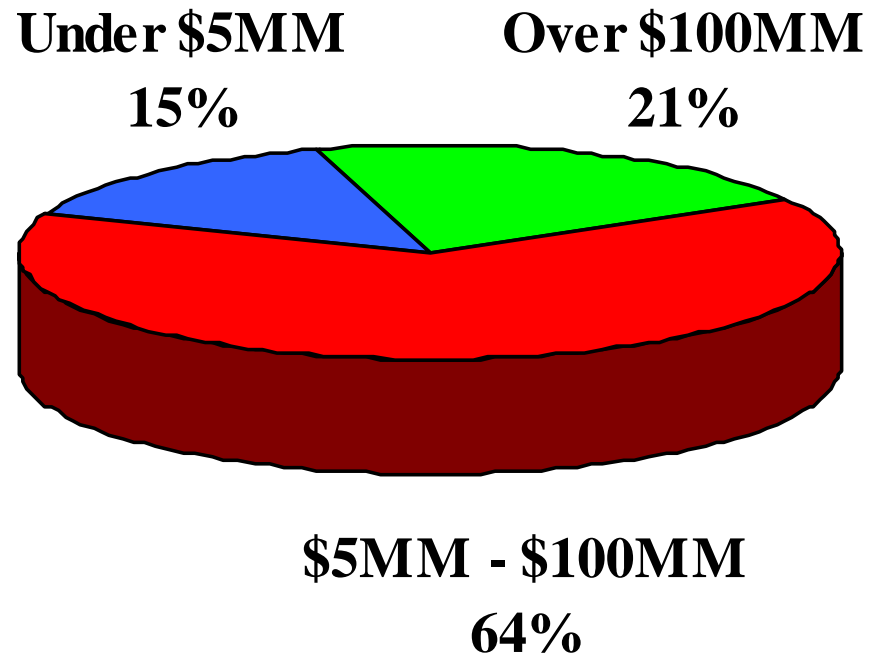
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Current M&A Market Conditions

(Continued)

- While the “mega deals” of \$500 million and over dominate the financial press, clearly the most active market in the past few years has been in the \$5 million to \$100 million revenue category.





Current M&A Market Conditions

(Continued)

- Following a strong 1998, U.S. merger and acquisition activity continues to grow during 1999.
- During the first three months of 1999, the value of domestic M&A transactions totaled approximately \$343 billion, compared to only \$131 billion during the first quarter of 1997, itself a record quarter.
- Continuing this strong trend, the second quarter of 1999 clocked in at a total value of \$548 billion, a 60% increase over the first quarter - making it the second busiest quarter in history.



Current M&A Market Conditions

(Continued)

- With \$891 billion in M&A value during the first half of 1999, last year's \$1.6 trillion record for U.S. deals is beginning to look like an easily surpassable target.
- At the current rate, the domestic marketplace accounts for roughly 60% of total world-wide M&A value, measured at approximately \$1.5 trillion for the first six months of 1999.



Current M&A Market Conditions

(Continued)

- Some causes for the current explosive M&A market include:
 - The U.S. economy is strong and Asian economies are on the rebound
 - Fears have dissipated – confidence among CEO's are back
 - Mergers and acquisitions are the fastest avenue for growth
 - Largeness is in – executives believe in economies of scale
 - Companies have the means for large deals through high market caps (strong currency and ability to raise cash)



II. Consolidation of the Construction Materials Industry

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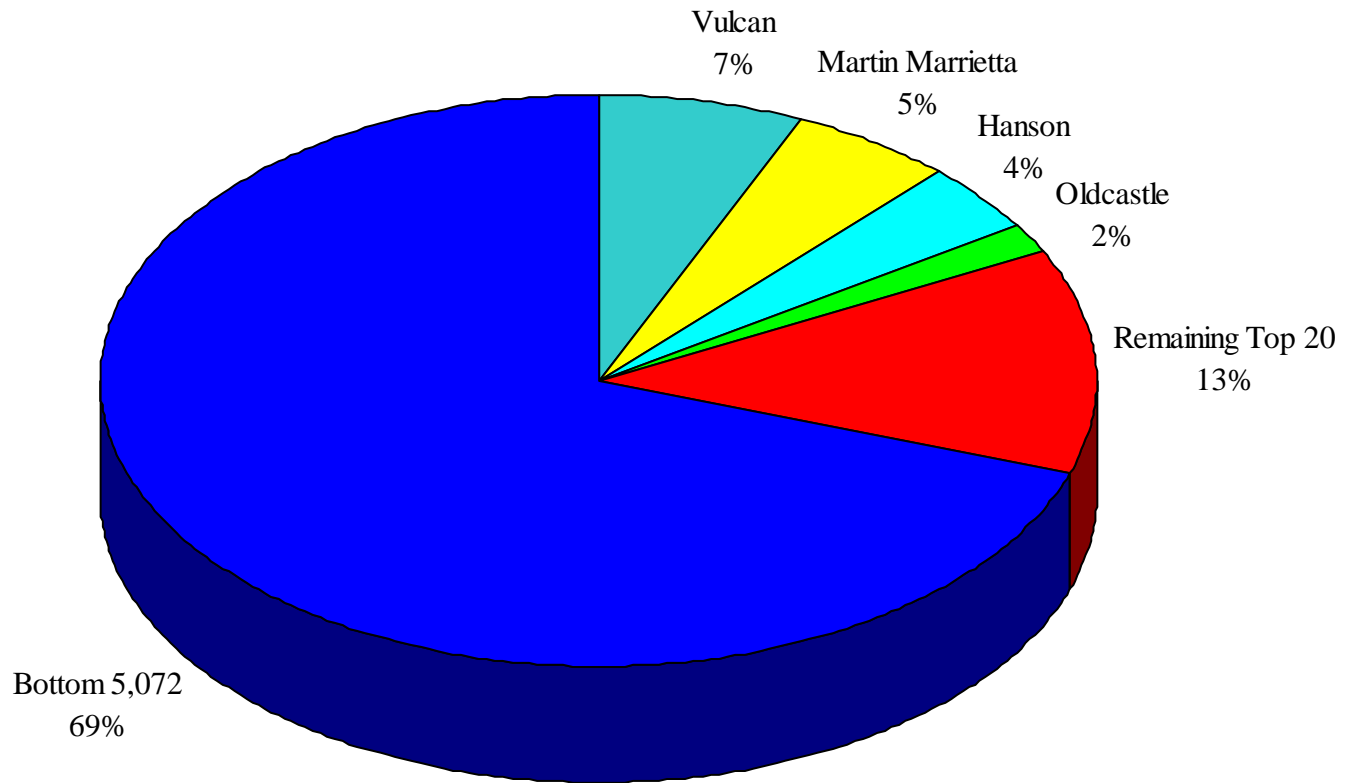


Consolidation Summary

- As of December 31, 1998, the top twenty U.S. aggregate producers owned approximately 30 percent of the total domestic aggregate production.
- Furthermore, the top three producers, Vulcan, Martin Marietta and Hanson, controlled less than 16 percent of the total U.S. production.
- Accordingly, over 5,072 companies control the remaining 70 percent of the U.S. aggregate production, providing substantial opportunity for further consolidation.



1998 U.S. Aggregate Production



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Recent Transaction Summary

Vulcan Materials Co.

Major Acquisitions

<u>Target</u>	<u>Geographic Location</u>	<u>Purchase Price</u>
CalMat Co.	Southwest	\$890M
Columbia Quarry	Illinois	NA
C. W. Mathews Quarries	Atlanta, GA	NA
Burn Stone Company	Tennessee	NA
Maryland Stone Company	North Carolina	NA
R.C Fulfer Company	San Antonio, TX	NA

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Recent Transaction Summary

Martin Marietta Materials, Inc.

Major Acquisitions

<u>Target</u>	<u>Geographic Location</u>	<u>Purchase Price</u>
Mid-State Construction & Materials	Arkansas	NA
Caldwell Stone Company, Inc.	North Carolina	NA
Geismer Underground, Inc.	Missouri	NA
Redland Stone Products Company	San Antonio, TX	\$272M
Meridian Aggregates Co.	Western U.S.	NA
Fogle Quarry Company, Inc.	Kansas	NA
Greenbrier Aggregate, Inc.	West Virginia	NA
Tri City Concrete	Little Rock, AR	NA
Acme Limestone Co., Inc.	West Virginia	NA
Marock, Inc.	Dallas, Fort Worth	\$41.0M
Menefee Crushed Stone	Nashville, TN	NA

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Recent Transaction Summary

Hanson Building Materials America

Major Acquisitions

<u>Target</u>	<u>Geographic Location</u>	<u>Purchase Price</u>
Lopke Granite	Las Vegas, NV	\$11.2M
Nelson & Sloan	San Diego, CA	\$37.3M
Becker Minerals	N. Carolina & S. Carolina	\$122.5M
H.G. Fenton	San Diego, CA	\$83.0M
Gifford Hill (50%)	Concrete Pipe	\$25.0M
Condux Corp.	Concrete Pipe	\$77.1M
Tidewater Sand & Gravel	San Francisco, CA	\$44.0M
Jannock Limited	N. American Brick Unit	\$265.9M
Opelika Materials, LLC	Alabama	NA

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Recent Transaction Summary

Pioneer USA, Inc.

Major Acquisitions

<u>Target</u>	<u>Geographic Location</u>	<u>Purchase Price</u>
Gilliam-Lowery, Inc.	S.W. Arkansas	NA
Gilliam Brothers, Inc.	Little Rock, AR	NA
Texoma Sand & Gravel, Inc.	Oklahoma	NA
Western Aggregates	Amarillo, TX	NA
Metro West Ready Mix	Salt Lake City, UT	NA
Eagle Ready Mix	Las Vegas, NV	\$25.0M
Phoenix Redi-Mix, Inc.	Phoenix, AZ	NA
[Prescott] Materials Co.	Prescott, AZ	NA
Asphalt, Inc.	San Diego, CA	NA

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Recent Transaction Summary

Other Significant Transactions

<u>Target</u>	<u>Buyer</u>	<u>Geographic Location</u>	<u>Purchase Price</u>
Morse Bros., Inc.	MDU Resources Group	Oregon	\$93.0M
Angell Bros., Inc.	MDU Resources Group	Oregon	NA
Hap Taylor & Sons	MDU Resources Group	Oregon	NA
Bend Agg. & Paving	MDU Resources Group	Oregon	NA
JTL Group, Inc.	MDU Resources Group	Montana, Wyoming	NA
Hotmix, Inc.	CAMAS inc.	Denver, CO	NA
Redland PLC	Lafarge Corp.	North America	\$690M
Medusa Corp.	Southdown Inc.	U.S.	+ \$1.0 B
P.W. Gillibrand Co.	CalMat Co.	L.A. Basin	N/A
Los Banos Gravel Co.	CalMat Co.	Central Calif.	NA
Hammer Group	Aggregate Industries	Denver Co.	\$18.7M
Jobe Concrete	RMC Industries	Texas & New Mexico	NA
Harper Bros.	Florida Rock	Florida	\$87.0M
United Building Materials	National	L.A. Basin	NA
United Building Materials	Colas	L.A. Basin	NA

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U.S. Construction Materials Industry

Most Active Buyers

<u>Company</u>	<u>Estimated Recent Transaction Value</u>	<u>Number of Major Transactions</u>
Vulcan Materials Co.	\$1.1 Billion	6
Martin Marietta	\$800 Million	11
Hanson Building Materials	\$675 Million	9
Oldcastle, Inc.	NA	NA
Pioneer USA, Inc.	+ \$200 Million	9
MDU Resources Group	+ \$200 Million	5
Southdown, Inc.	NA	NA
Aggregate Industries	NA	NA
Lafarge Corp.	NA	NA
Centex Construction Products	NA	NA
RMC Industries	NA	NA

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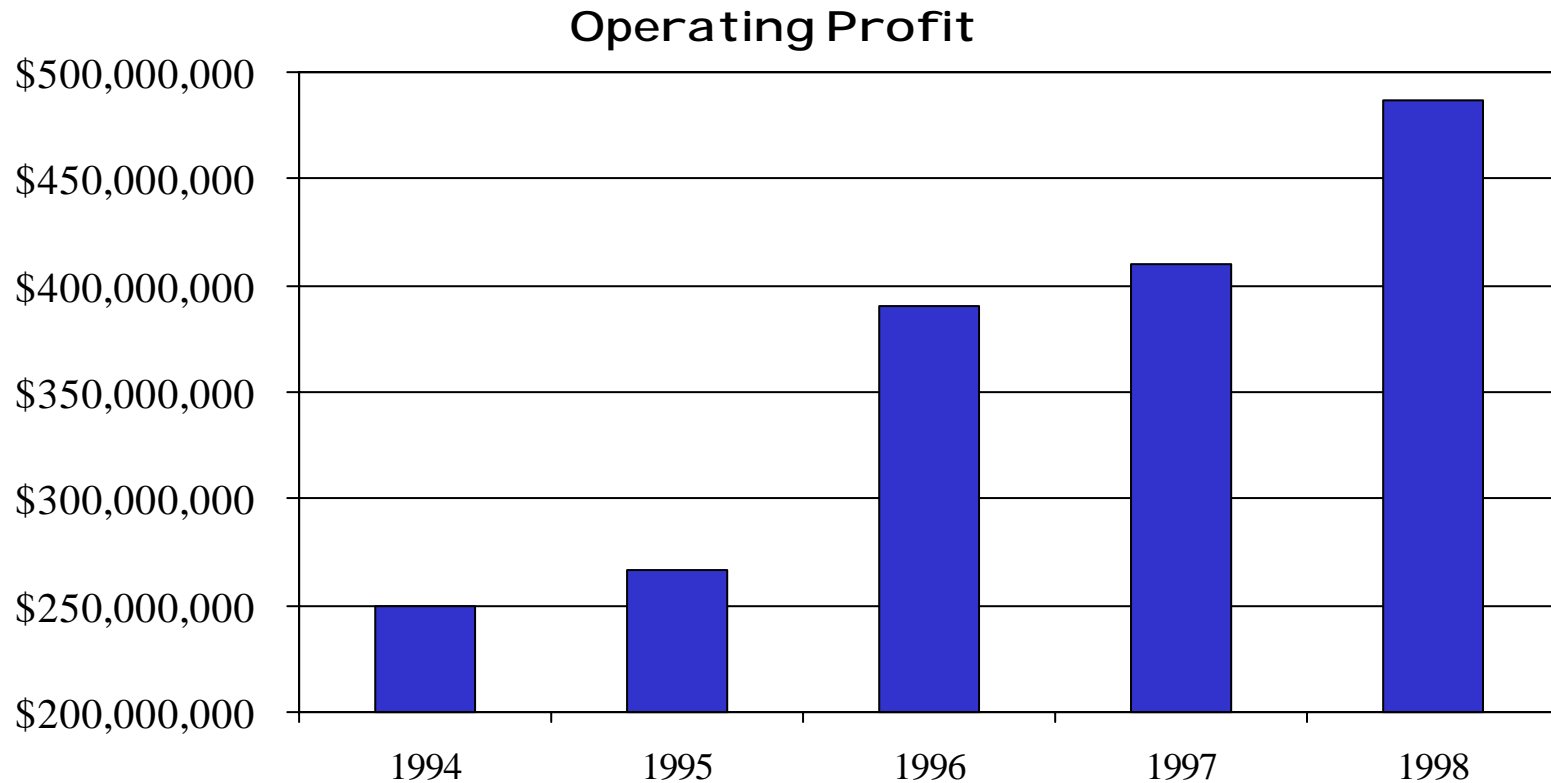
Greystone's Outlook for Continued M&A Activity

- Given the fact that only 30 percent of U.S. aggregate production is in the hands of the top twenty aggregate producers, significant consolidation opportunities exist.
- However, current transaction activity cannot sustain forever.
- Current transaction activity is the result of:
 1. High Industry Earnings
 2. Dividends vs. Expansion
 3. Cash – “A Non-Performing Asset”
 4. Foreign Ownership
 5. Strong U.S. Markets



High Industry Earnings

Vulcan Materials Company



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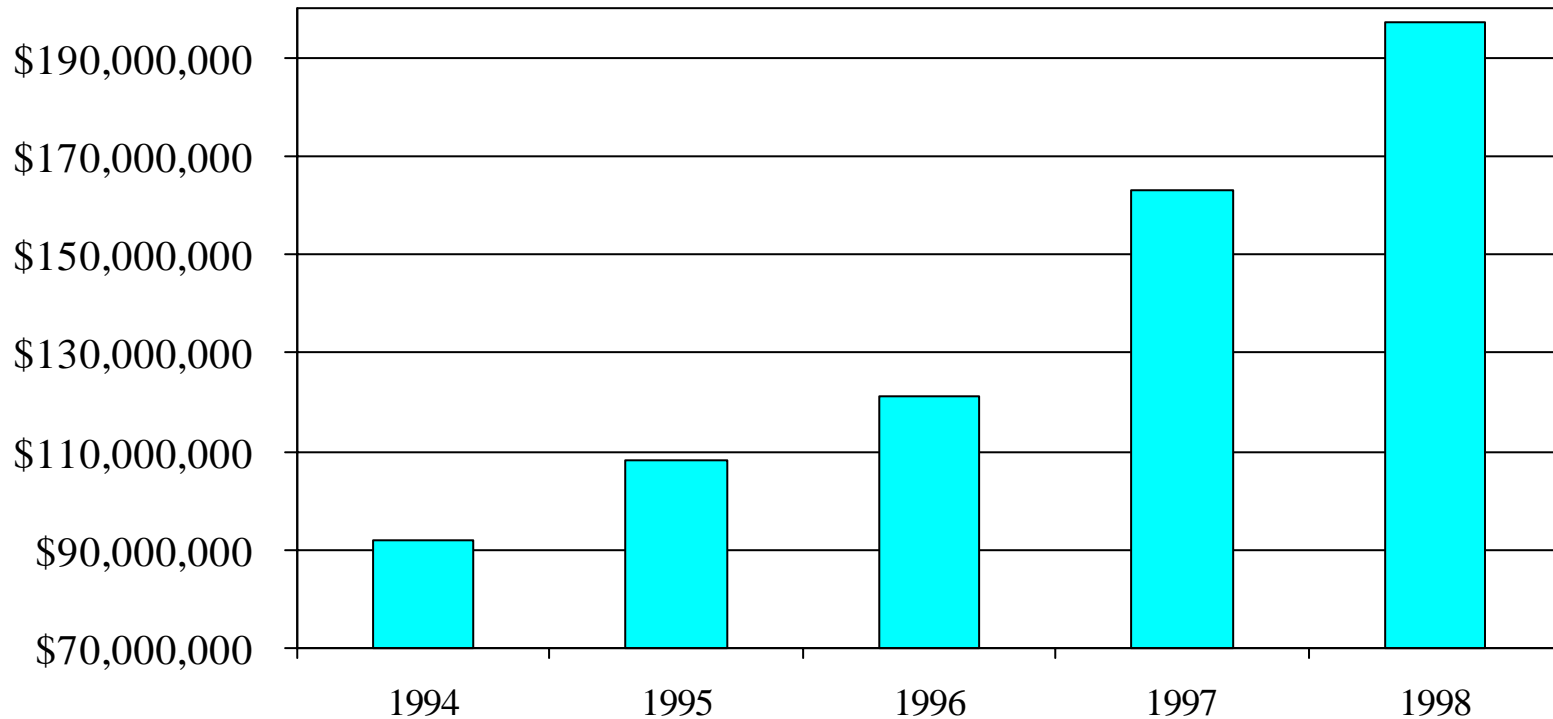
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High Industry Earnings

Martin Marietta materials

Earnings from Operations



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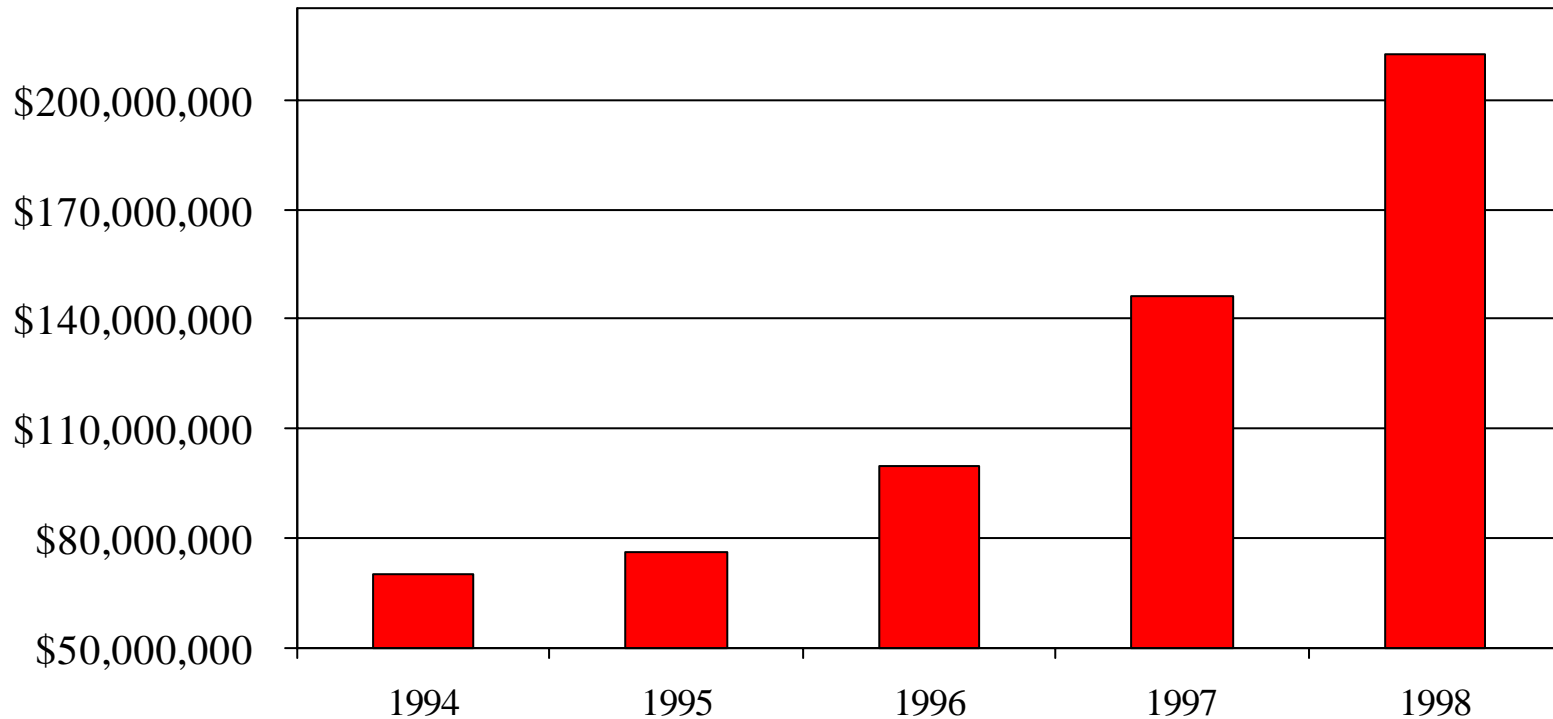
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High Industry Earnings

Hanson Building Materials America

Trading Profit



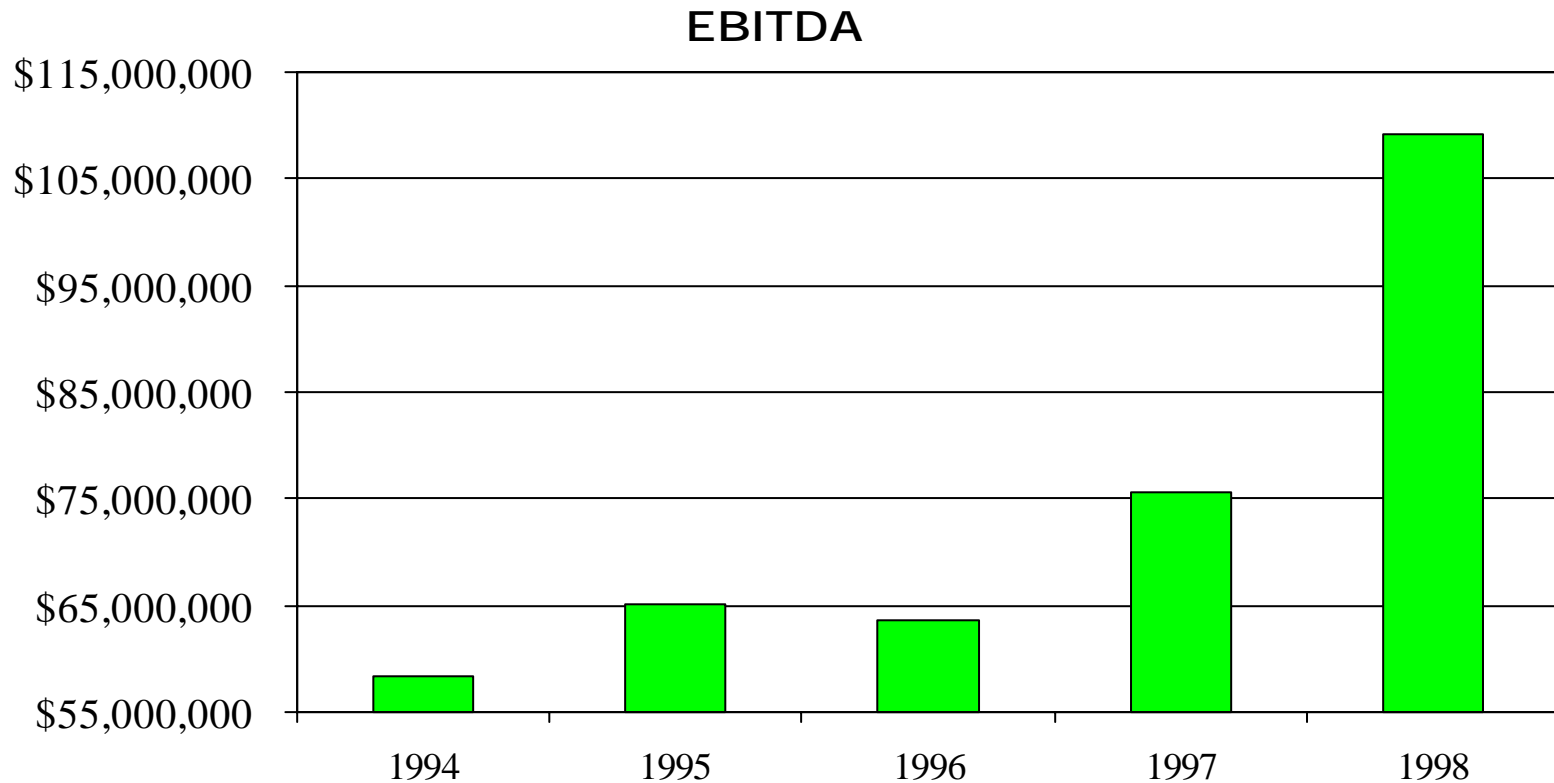
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High Industry Earnings

Pioneer USA, Inc.



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III. Today's Valuation Methodology

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Greystone Methodology

Today's valuation methodology incorporates three separate disciplines:

1. Market Assessment
2. Operational Review
3. Financial Analysis



Market Assessment

- A target's entire relevant market is carefully scrutinized to quantify its existing position as it relates to its competition.
- Additionally, relevant factors that influenced historical consumption of construction materials are examined and thereafter, an economic model is architected which is assumed to 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 is generated and unit prices are estimated, cast over a period of ten years. The forecast is then included in the financial review described below.



Operational Review

- Typically, an on-site inspection is conducted for each of the target's operating facilities and are scrutinized from an analytical perspective, enabling the investor 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 can be identified, as well as mandatory and discretionary capital expenditures. This part of the review allows an investor to comprehend the operational capabilities of the target in order to more accurately forecast its financial performance.



Financial Analysis

- The financial review includes, among other things, an extensive review of the target's historical financial records, inclusive of volume, price and cost information.
- As a result of consolidating each of the above mentioned disciplines, an integrated financial model can be generated that can be utilized to forecast the operating results of the target.
- This model is used to quantify the fair market value of the target.



Valuation Methodology

- Today, the construction materials industry primarily utilizes the discounted cashflow methodology (“DCF”) which is based upon the assumption that all future cash flow is totally paid out to the selling shareholders in the form of cash dividends.
- 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 cashflow continues over the economic life of the assets and/or mineral reserves.
- In order to calculate the residual value, the tenth year’s cashflow is typically capitalized at a specific discount rate and thereafter, discounted to a present value.



Net Cash Flow Definition

- Net Cash Flow is defined as net after-tax income, plus non-cash expenses (i.e. depreciation), plus/minus changes in working capital, minus capital expenditures and principal debt service:

Net Cash Flow Definition	
	Pre-Tax Earnings
Less:	Corporate Income Taxes
Equals:	Net Income
Plus:	Non-Cash Expenses
Plus/Minus:	Changes in Working Capital
Minus:	Capital Expenditures
	Debt Service (if any)
Equals:	Net Cash Flow *
<i>* The amount available to dividend to shareholders.</i>	



Discount Rate Definition

A Discount Rate is used to convert amounts earned in the future (Future Values) to Present Values. Discount rates are determined based on an investor's cost of capital and its rate of return necessary to reward investors for assuming the risk of generating future cash flow. Discount rates are generally a function of the following:

- Length of the Investment
- Risk Associated with the Investment
- General Economic Conditions
- Cost of Capital



Present Value Definition

Present Value is based upon the principle that a dollar today is worth more than a dollar tomorrow.

$$\text{Present Value} = \frac{\text{Future Value}}{(1 + \text{Discount Rate})^{\text{Years}}}$$



Present Value Example

- Assume that a target's forecast Net Cash Flow for the year 2001 was precisely \$2,800,000.
- An investor would be willing to pay the Present Value of \$2,117,202 today (12/31/99) in order to receive \$2,800,000 in 2001, as noted below:

If an investor's cost of capital is 15.0 percent, and if he were to receive \$2,800,000 in 2001 (two years), he would be willing to pay no more than \$2,117,202 today (Present Value).

$$\text{\$2,117,202 (present Value)} = \frac{\text{\$2,800,000 (Future Value)}}{(1 + 0.15 \text{ (Discount Rate)})^2 \text{ (Years)}}$$



Net Present Value of Forecast Net Cash Flow

- The Discounted Cash Flow methodology applies the Present Value concept over a stream of future cash flows, identical to the example previously described.
- Assume that a target's forecast Net Cash Flow was as follows:

	Year	Future Value	Present Value at 15.0 Percent
2000	1	\$2,600,000	\$2,260,870
2001	2	2,800,000	2,117,202
2002	3	3,200,000	2,104,052
2002	4	3,500,000	2,001,136
2004	5	3,800,000	1,889,272
2005	6	3,700,000	1,599,612
2006	7	3,500,000	1,315,780
2007	8	3,300,000	1,078,776
2008	9	3,600,000	1,023,345
2009	10	4,400,000	1,087,613
Total		\$34,400,000	\$16,477,657

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Net Present Value of Forecast Net Cash Flow

(Continued)

- Consequently, the Net Present Value of the Forecast Net Cash Flow stream is \$16,477,657 when applying a discount rate of 15.0 percent.
- That means that an investor would be willing to pay \$16,477,657 today, in order to receive the anticipated Cash Flow Stream in the future.
- When an investor evaluates the risk associated with the investment, together with the general economic conditions, the Discount Rate will fluctuate accordingly.
- An investment subject to greater risk will result in the application of a higher discount rate, hence lower Net Present Value.



Residual Value - Definition

- The Residual Value of an enterprise is calculated to assume that the Cash Flow continues perpetually.
- In order to calculate the Residual Value, the tenth year's Net Cash Flow is capitalized at a specific Discount Rate and thereafter, discounted to a Present Value.



Residual Value - Example

- Assuming a target's Net Cash Flow in year 10 was \$4,400,000 the Residual Value would be calculated as follows:

$$\frac{\$4,400,000}{15.0\%} = \$29,333,333$$

- Since the investor would not recognize the Residual Value for ten years, it must be converted to a Present Value as follows:

$$\text{Present Value of } \$29,333,333 \text{ at } 15.0\% \text{ in } 10 \text{ Years} = \$7,250,751$$



Total Net Present Value

- Based on the aforementioned hypothetical assumptions, the Total Net Present Value of the Forecast Net Cash Flow of the target including the Residual Value, and applying a 15.0 percent discount rate, would be calculated as follows:

Total Net Present Value	
Net Present Value of Forecast Net Cash Flow	\$16,477,657
Present Value of Residual Value	\$7,250,751
Total Net Present Value	<u>\$23,728,408</u>

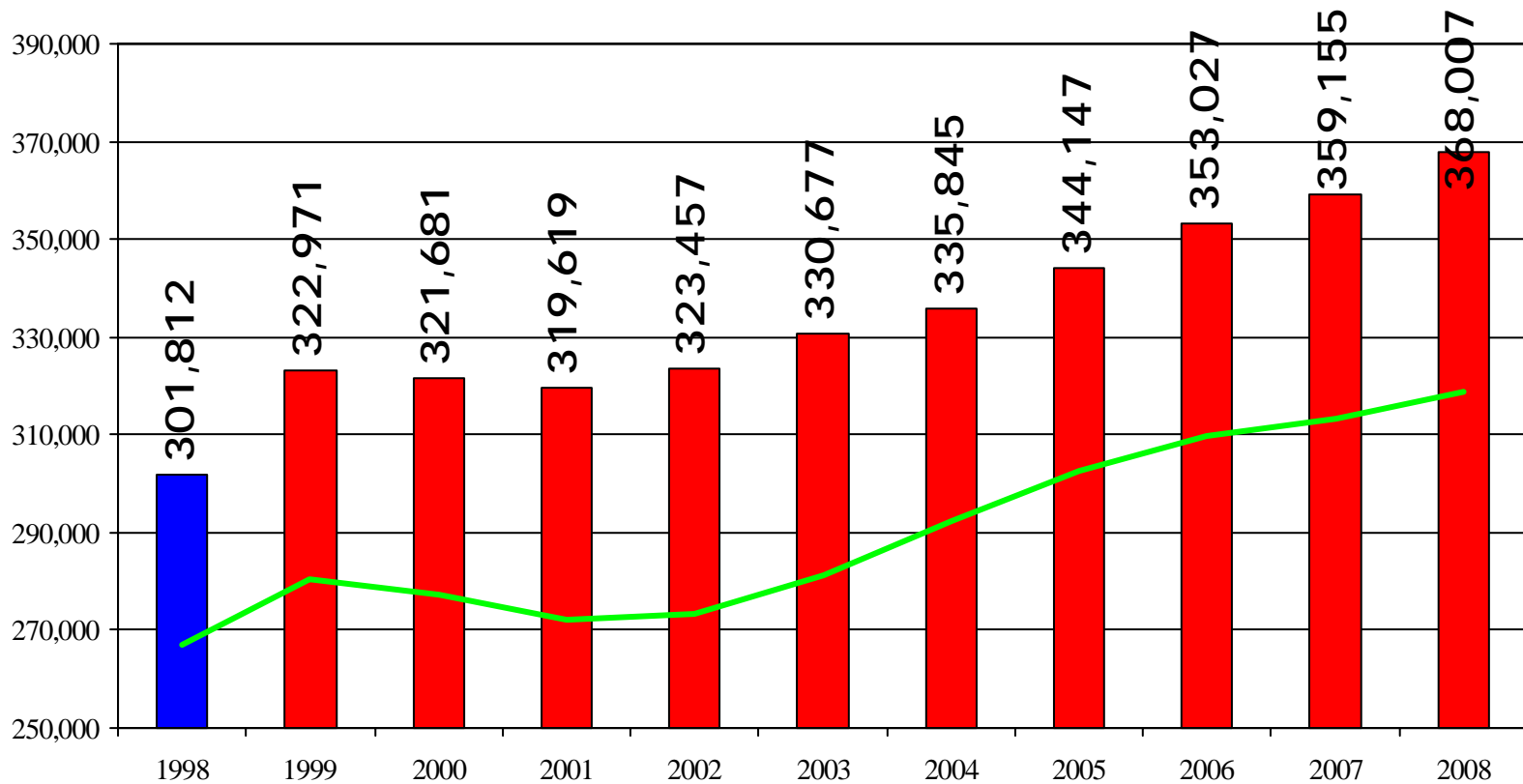


IV. Greystone's ready mix concrete consumption forecast



United States

Ready Mix Concrete Consumption (000 CYD)



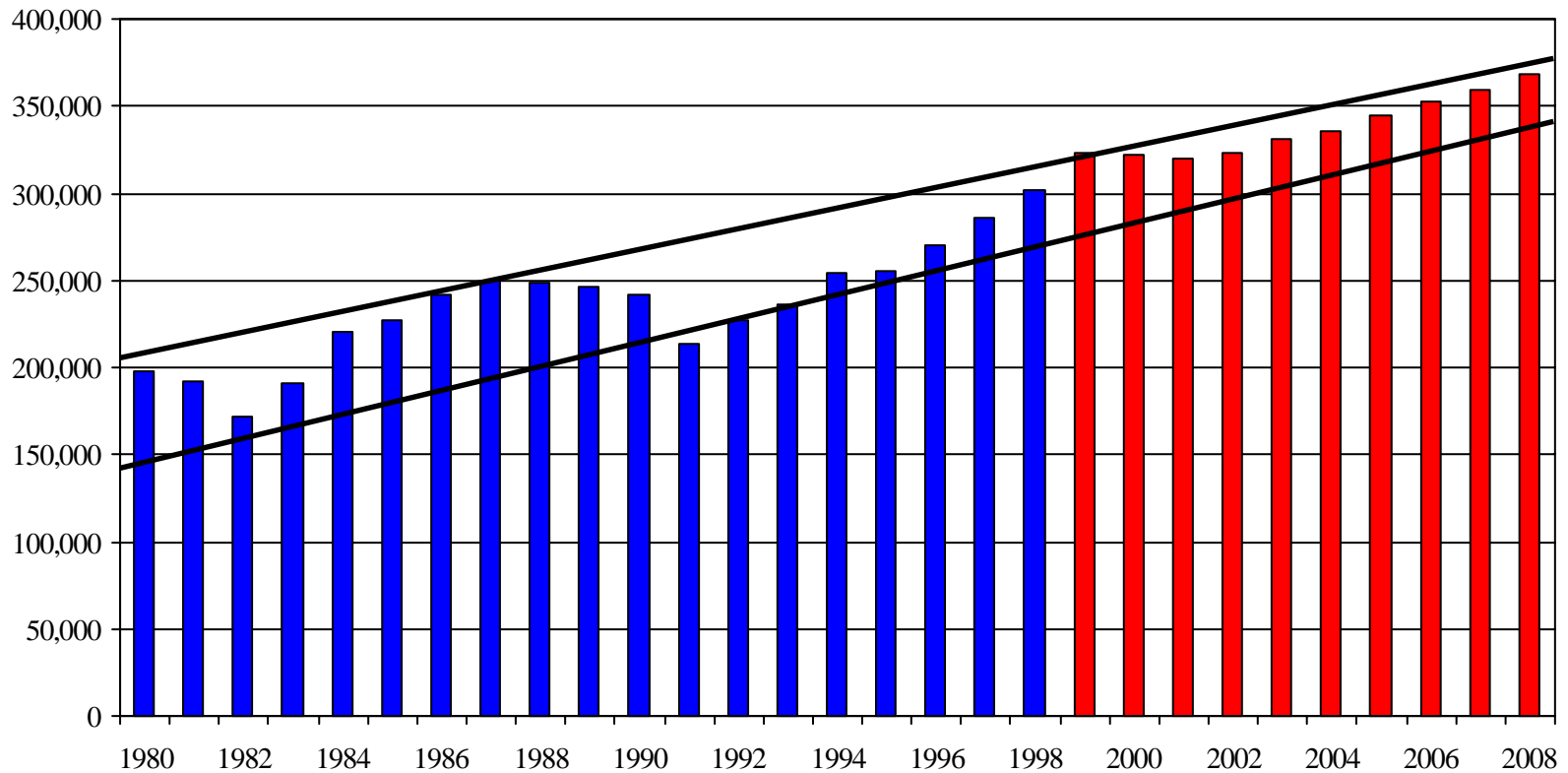
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United States

Ready Mix Concrete Consumption (000 CYD)



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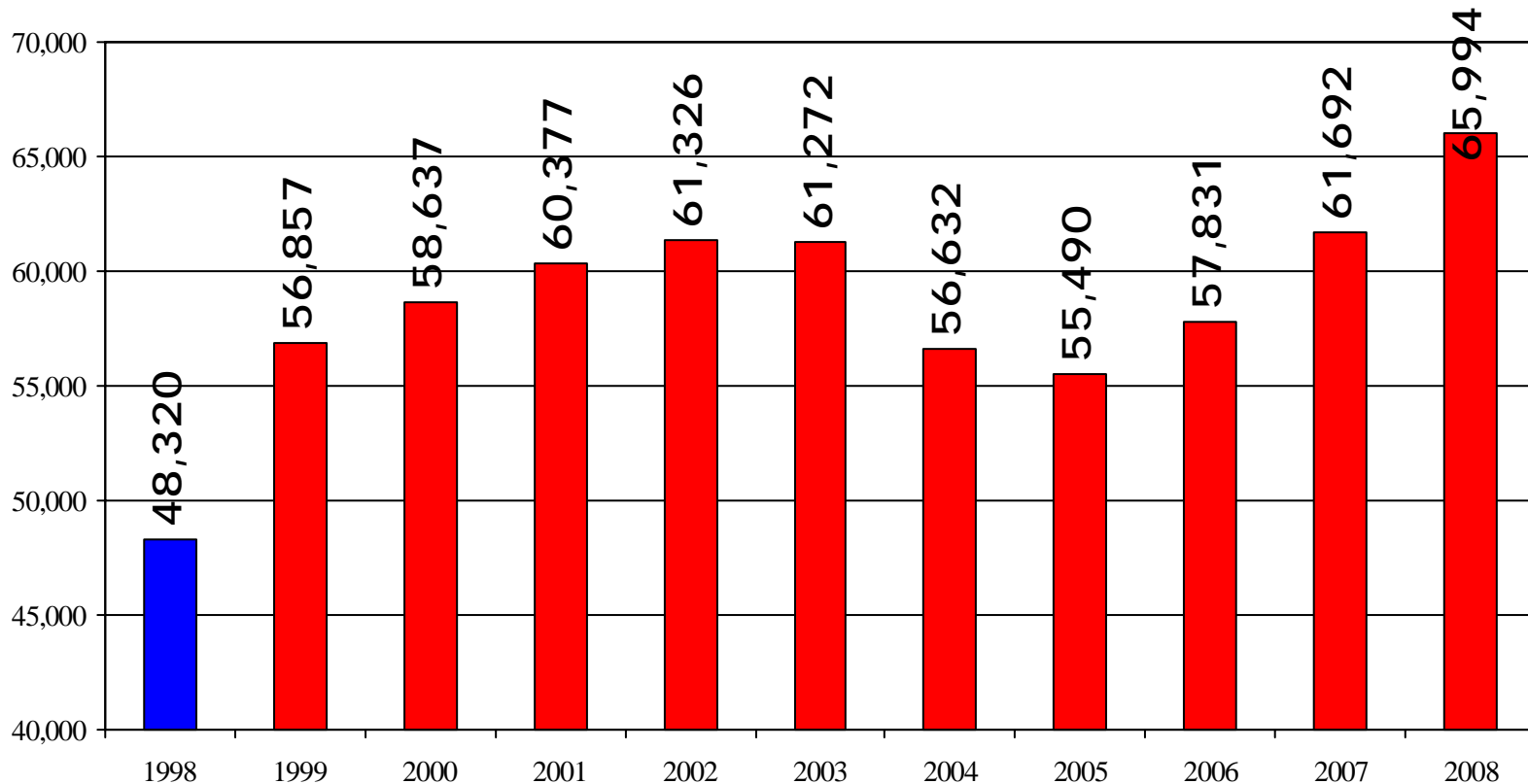


Pacific Southwest Region

California, Nevada, Arizona

Ready Mix Concrete Consumption

(000 CYD)



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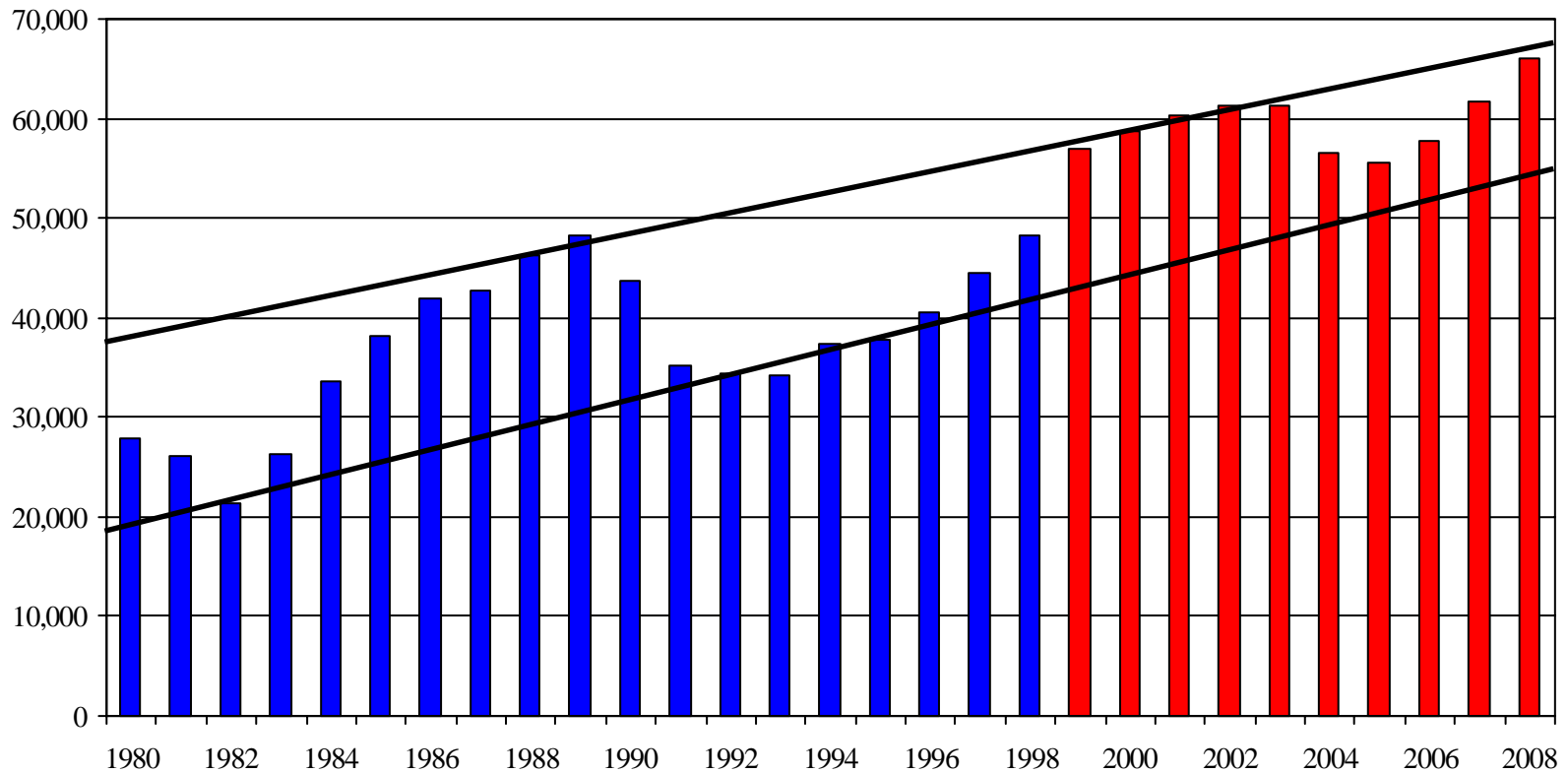
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Pacific Southwest Region

California, Nevada, Arizona

Ready Mix Concrete Consumption (000 CYD)



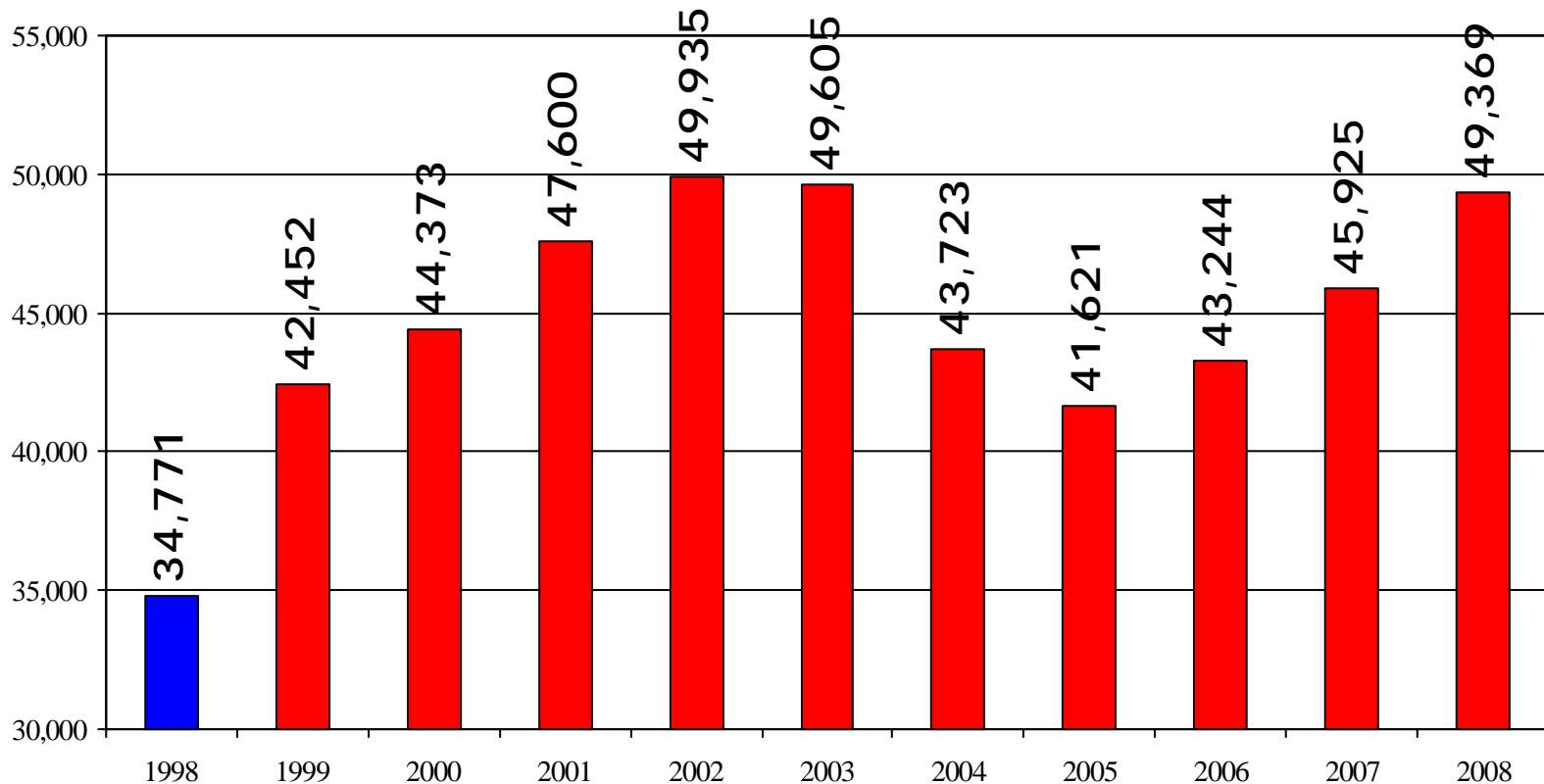
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California

Ready Mix Concrete Consumption (000 CYD)



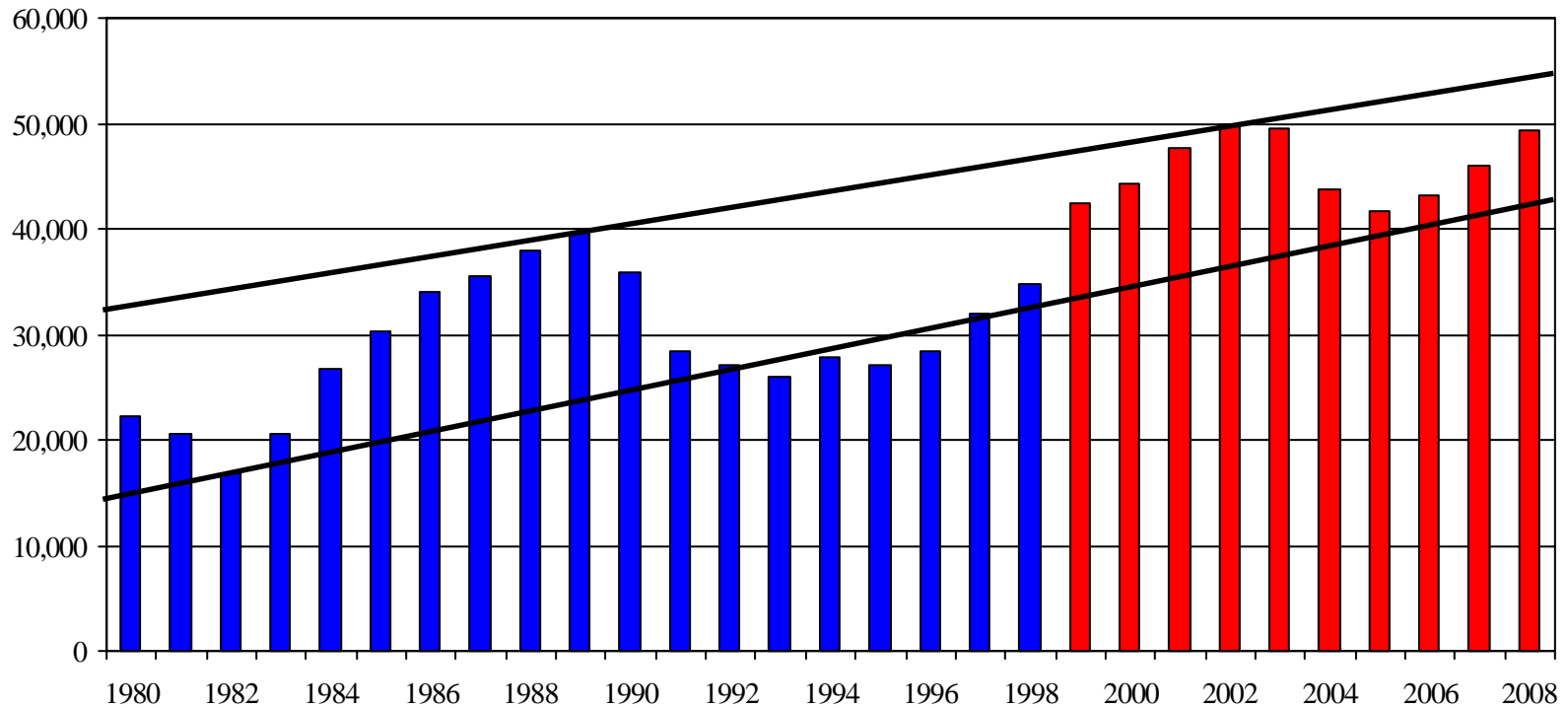
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California

Ready Mix Concrete Consumption (000 CYD)



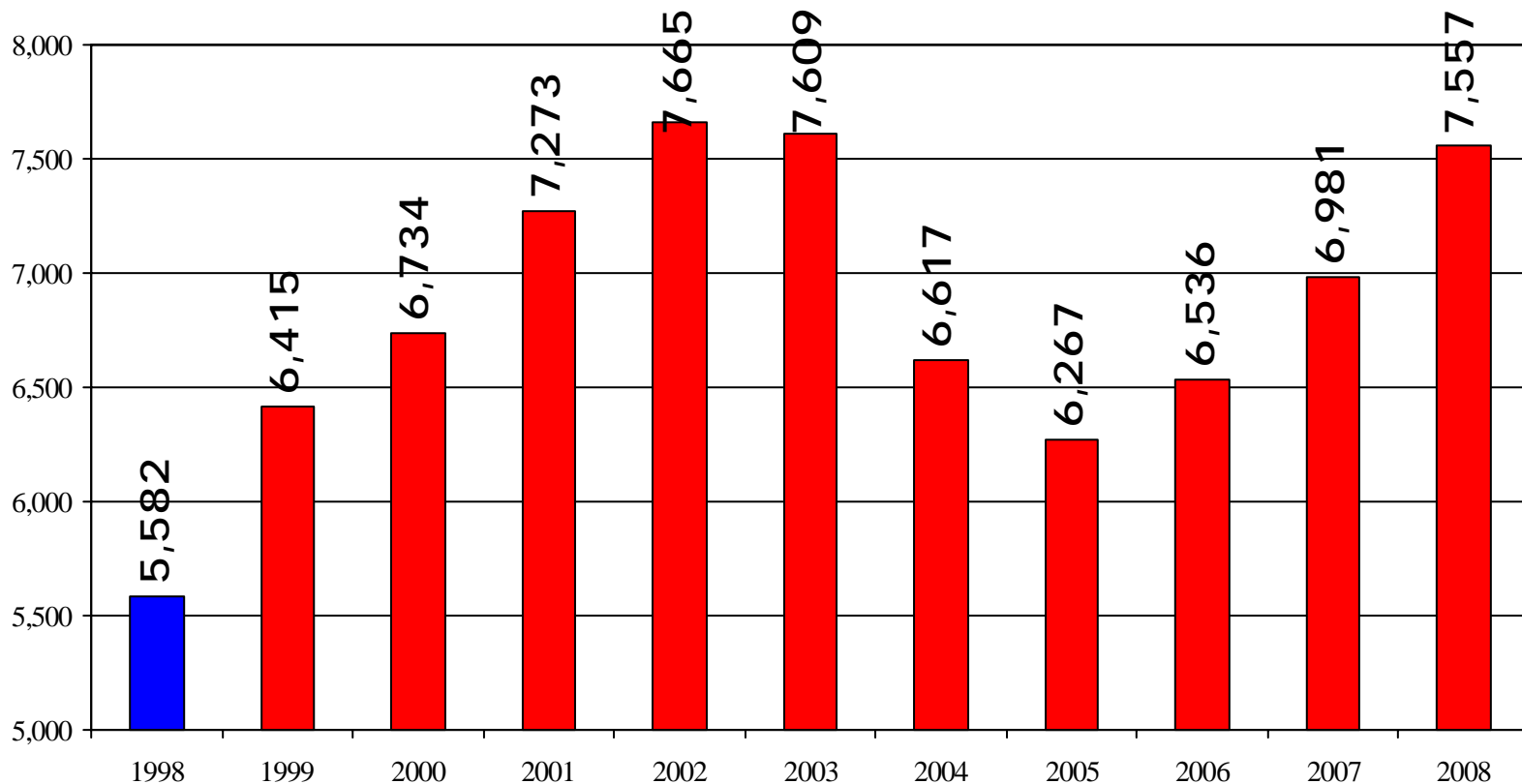
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San Francisco

Ready Mix Concrete Consumption (000 CYD)



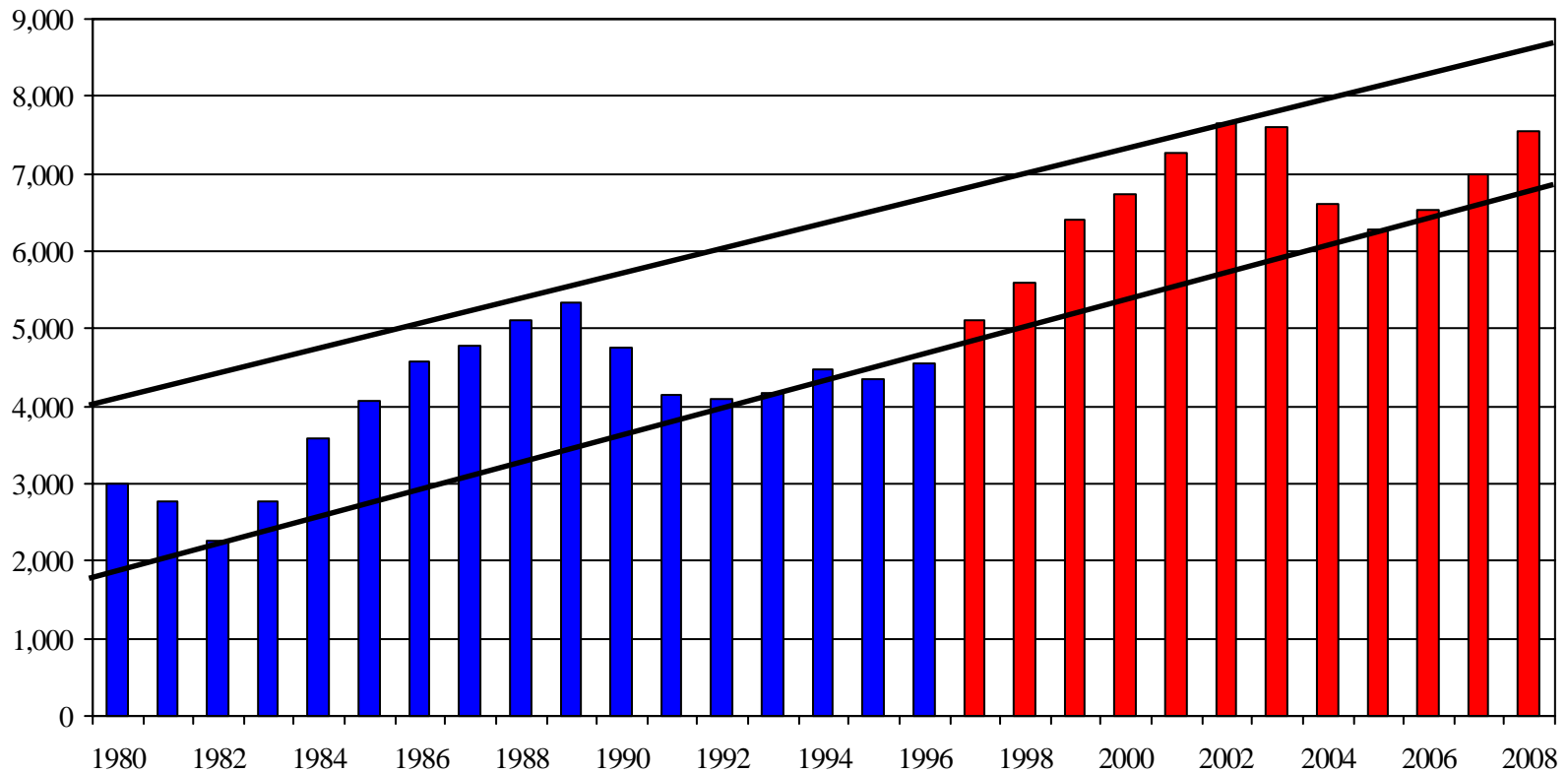
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San Francisco

Ready Mix Concrete Consumption (000 CYD)



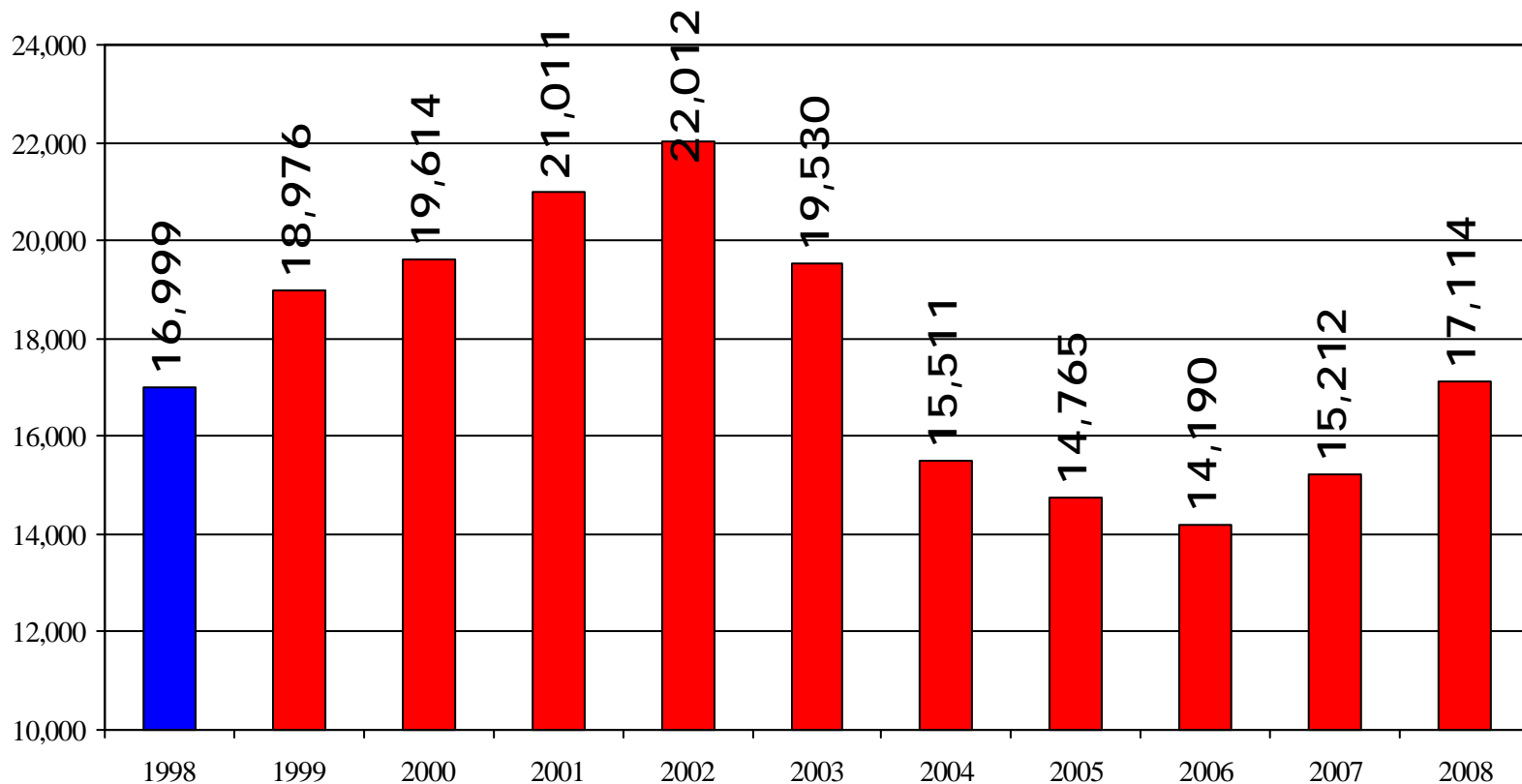
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LA Basin

Ready Mix Concrete Consumption (000 CYD)



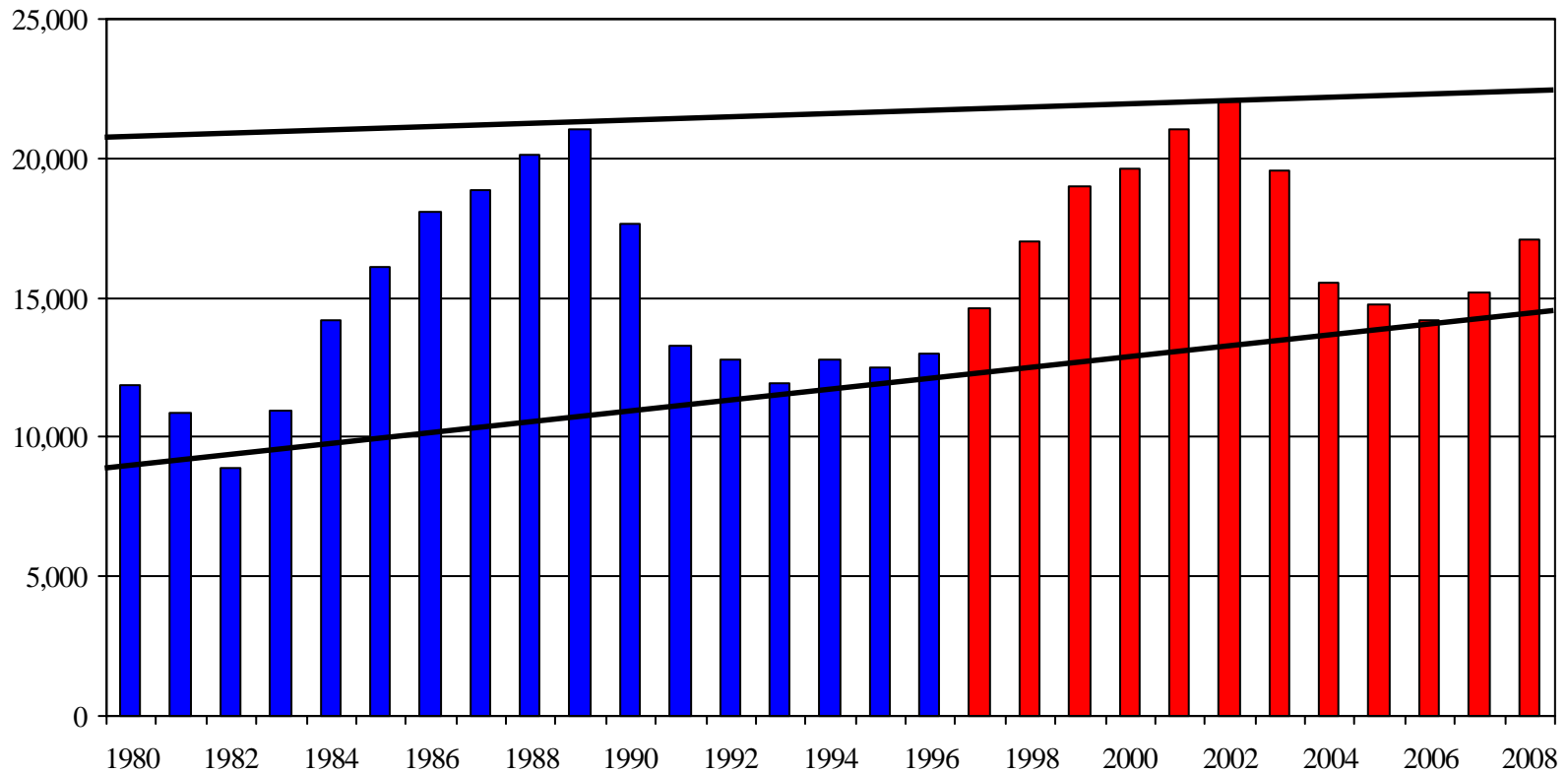
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LA Basin

Ready Mix Concrete Consumption (000 CYD)



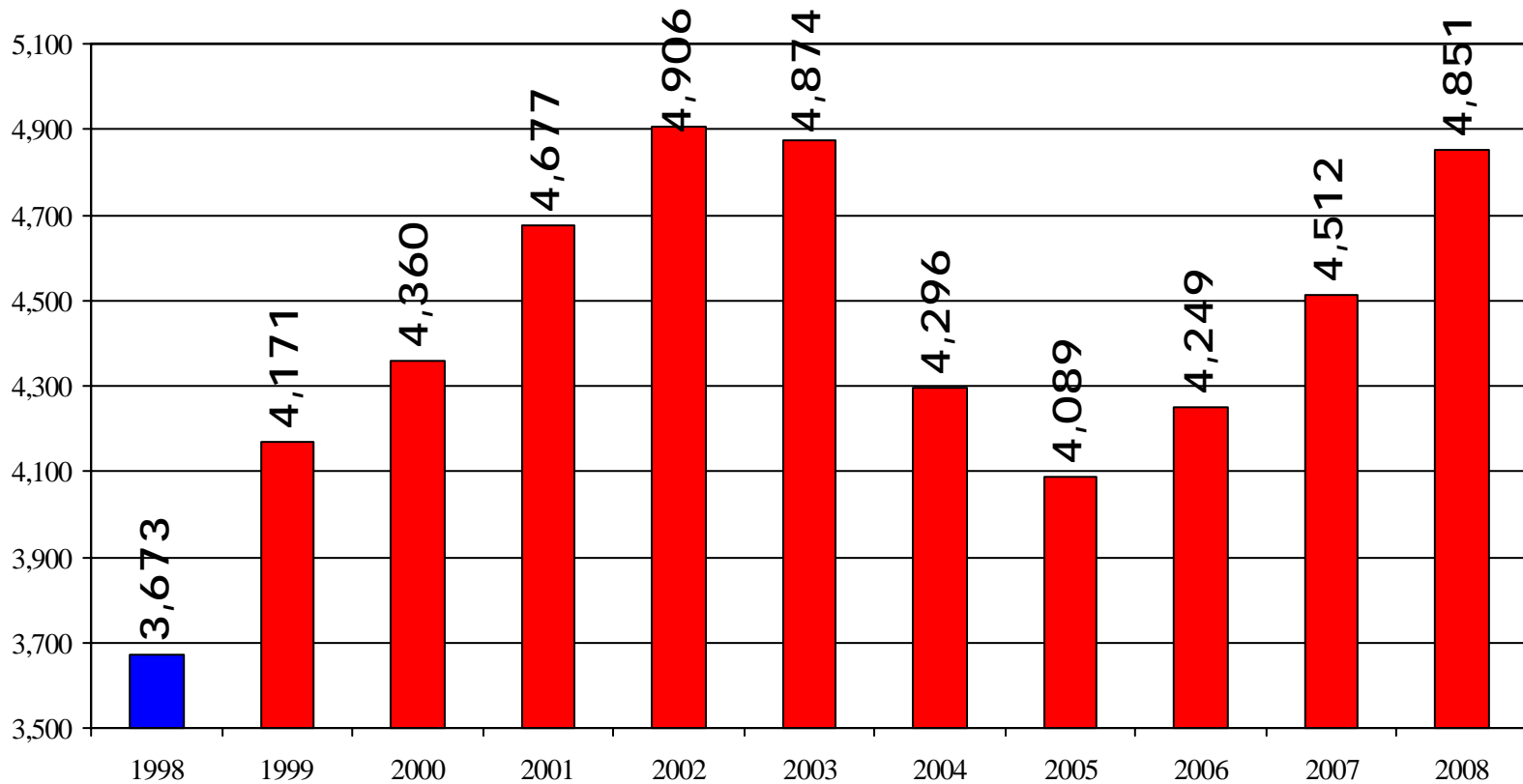
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San Diego

Ready Mix Concrete Consumption (000 CYD)



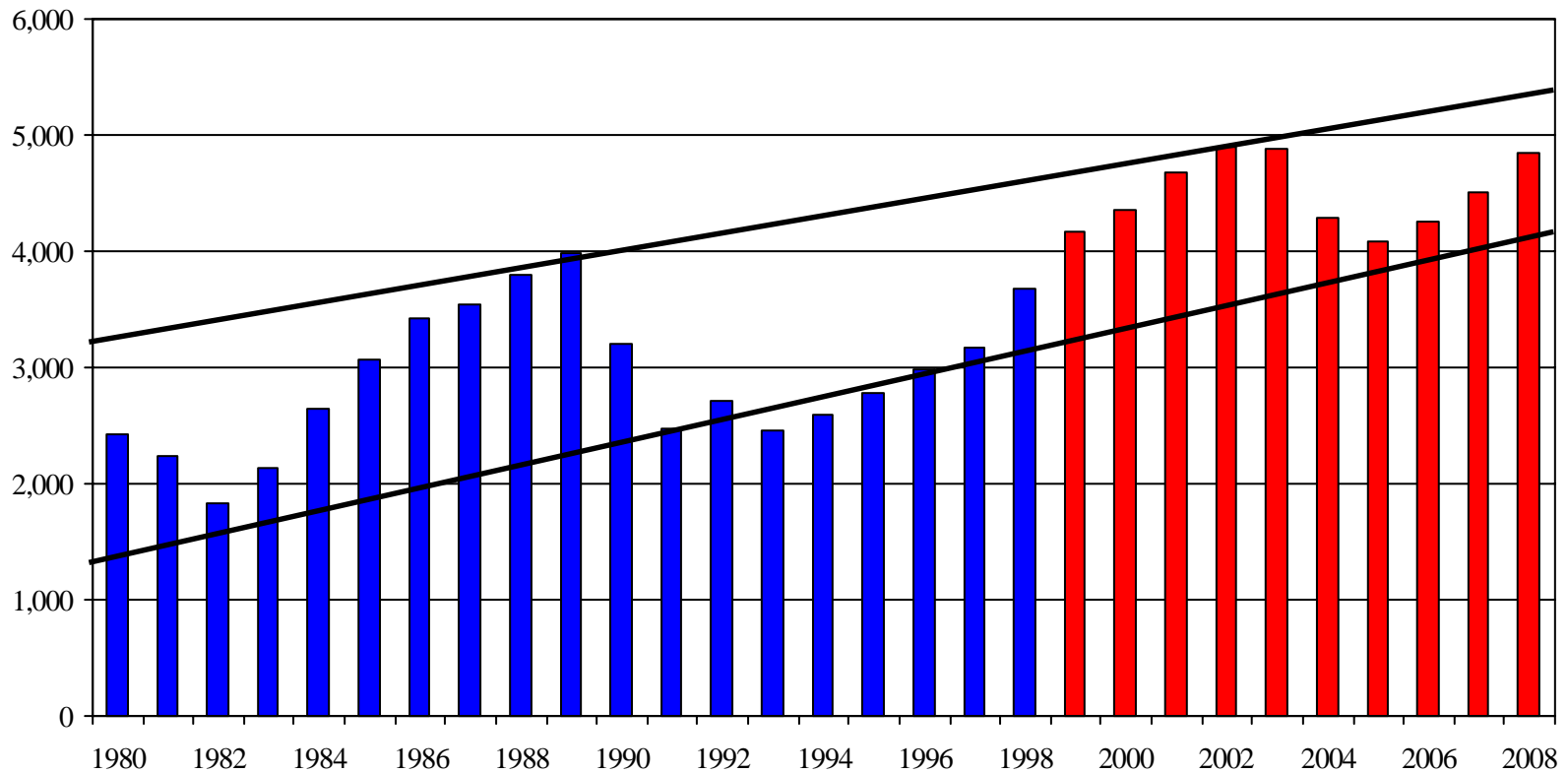
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San Diego

Ready Mix Concrete Consumption (000 CYD)



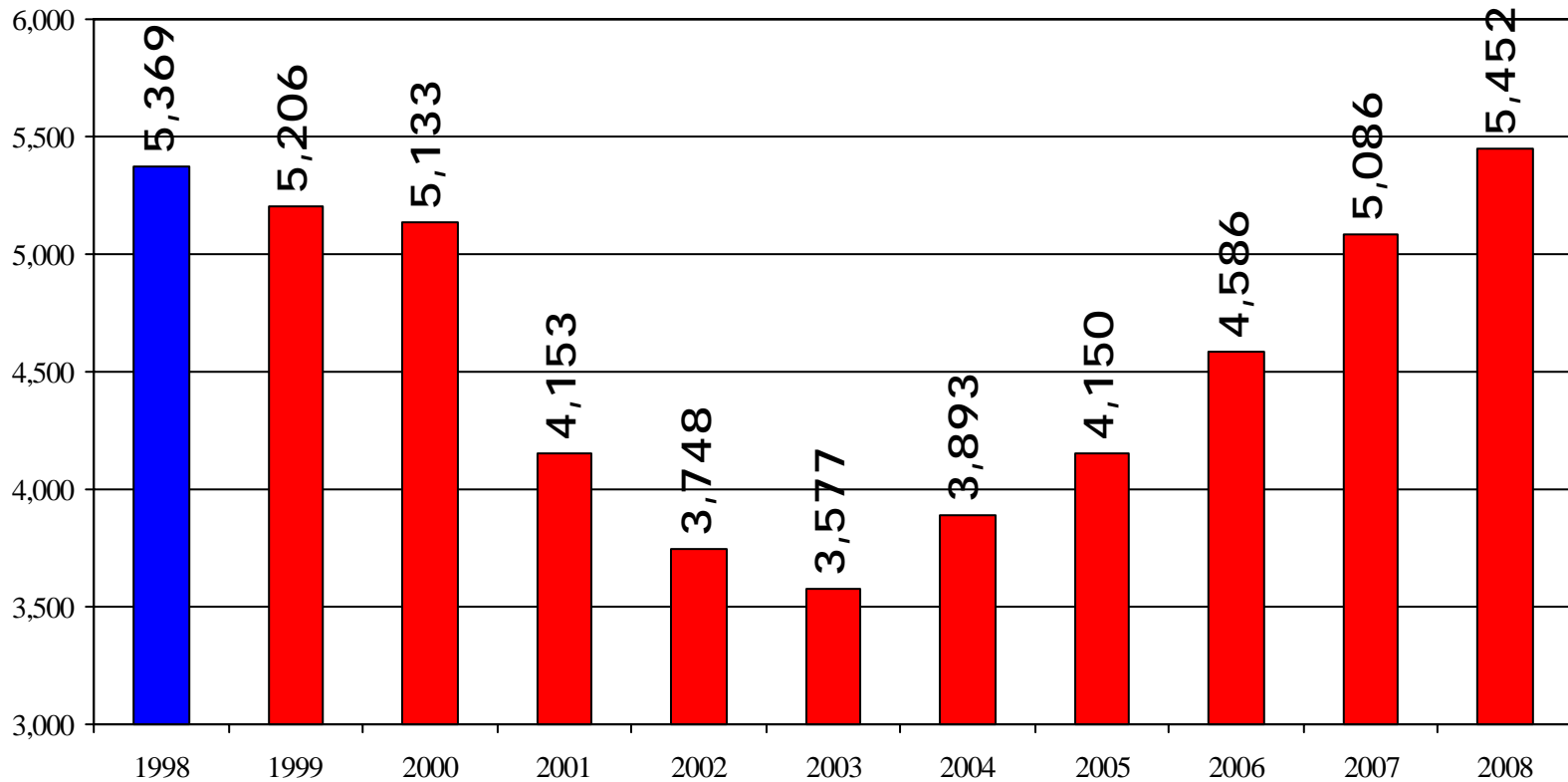
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Nevada

Ready Mix Concrete Consumption (000 CYD)



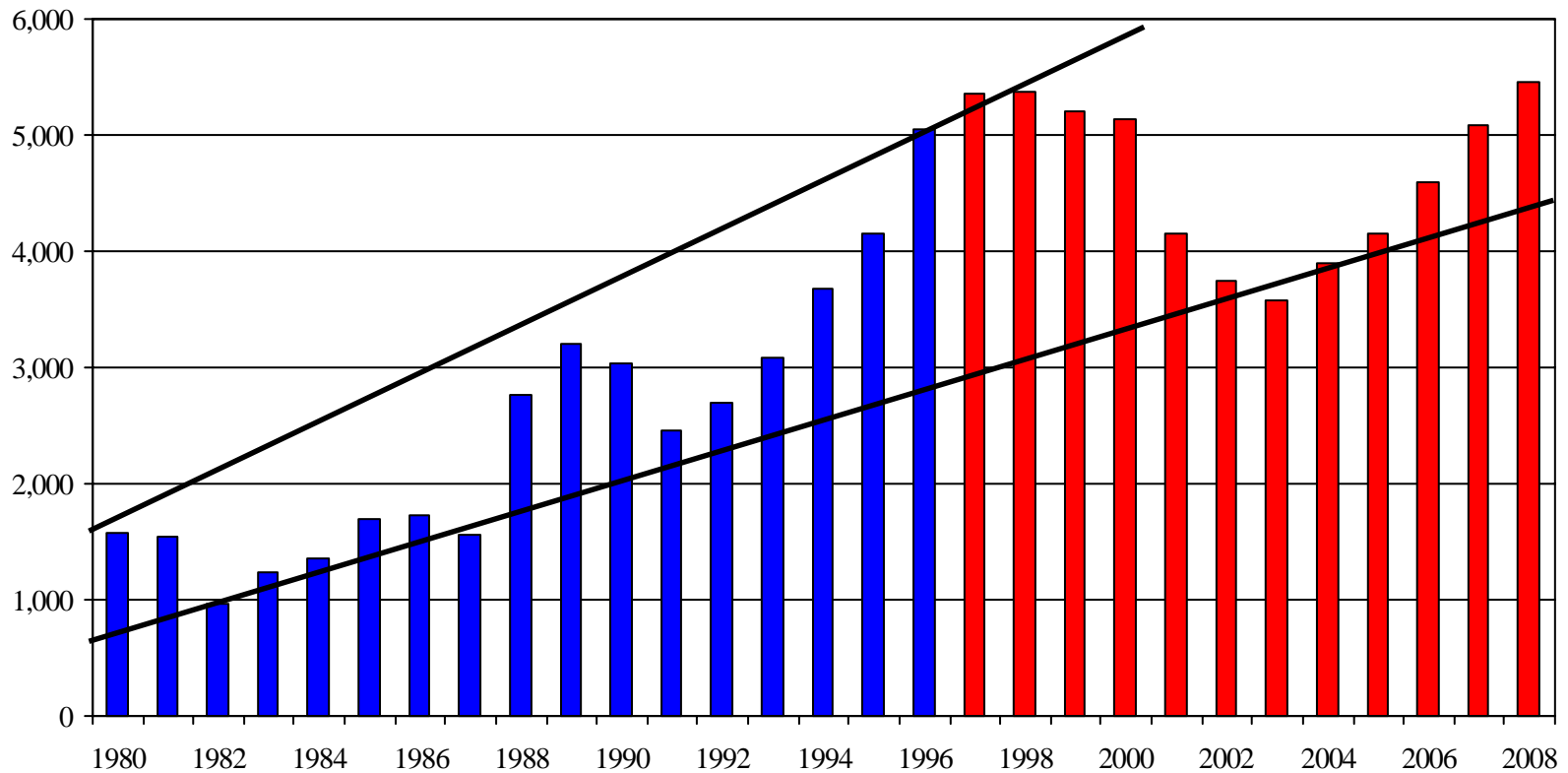
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Nevada

Ready Mix Concrete Consumption (000 CYD)



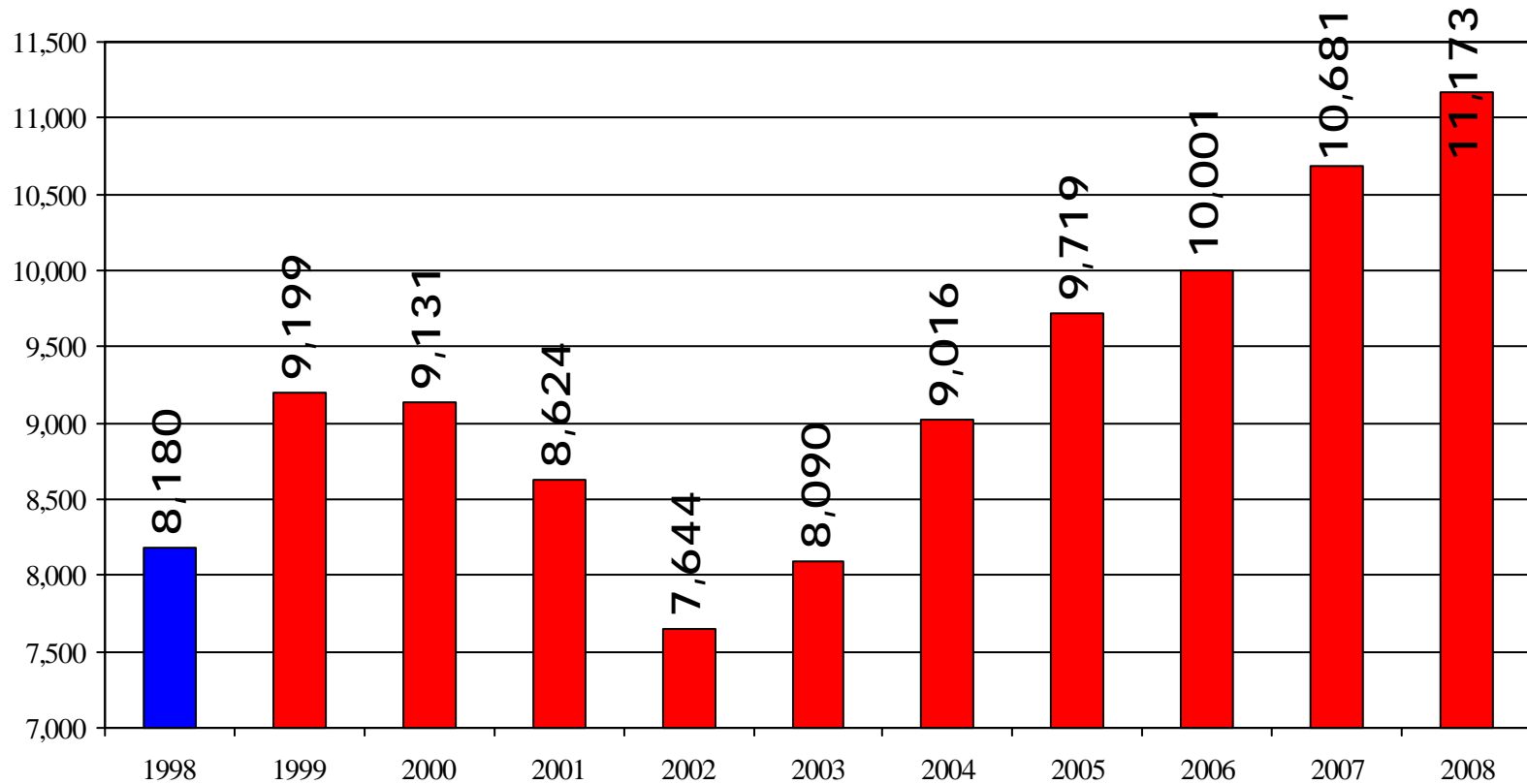
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Arizona

Ready Mix Concrete Consumption (000 CYD)



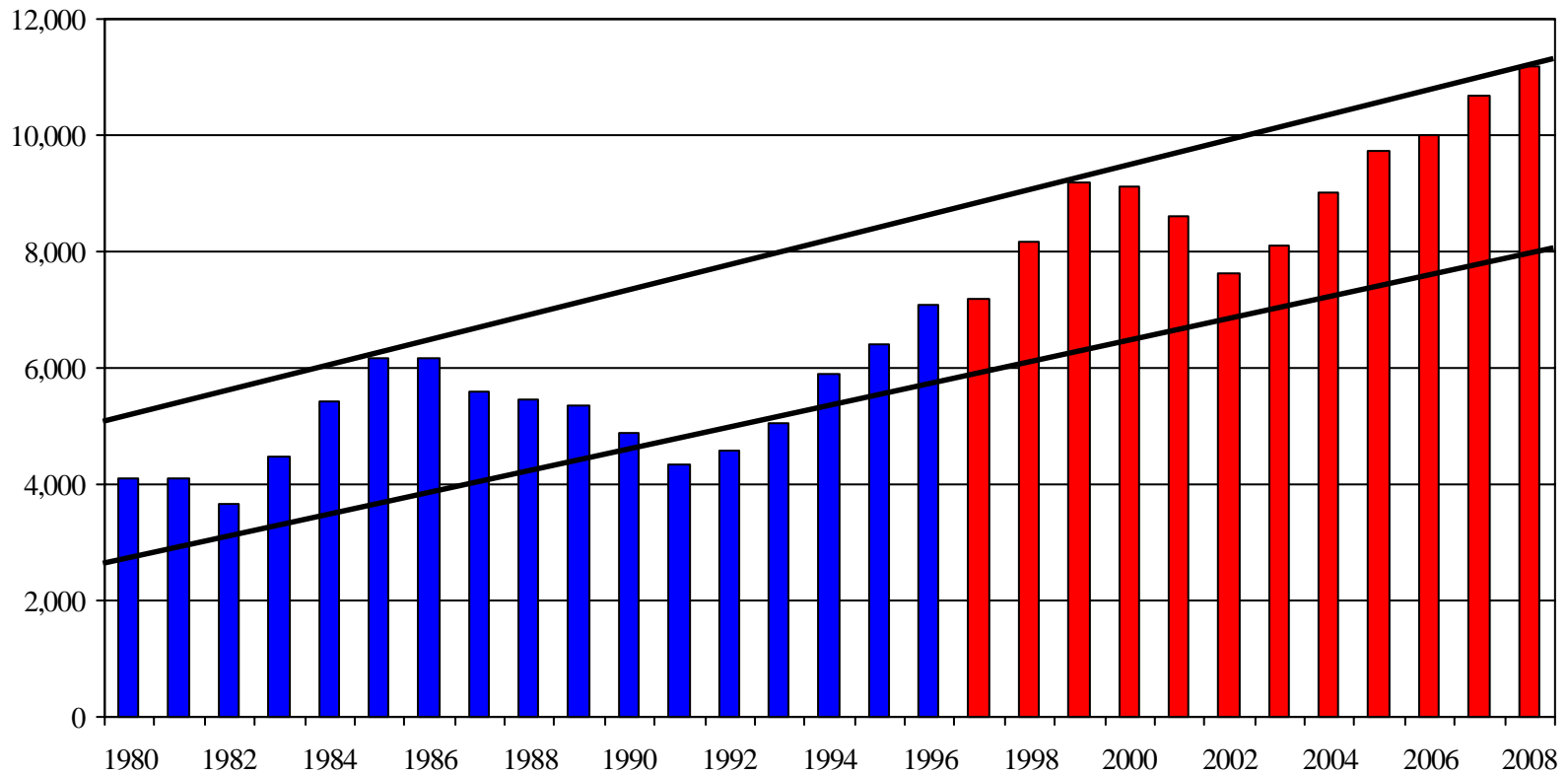
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Arizona

Ready Mix Concrete Consumption (000 CYD)



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