

Planning For The Future

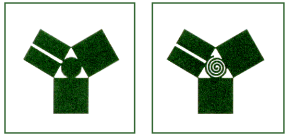
Presented to:

Southern California Rock Products Association
Southern California Ready Mixed Concrete Association

June 7, 1999
Lake Tahoe, California

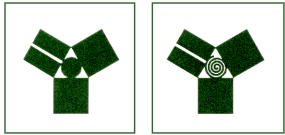
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Investment Banking

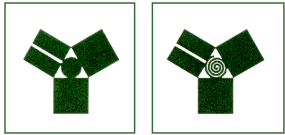


Discussion Outline

- I. The Cyclical Nature of the U.S. Construction Materials Industry
- II. Materials consumption/Production (1980-2008)
 - A. United States
 - B. California
 - C. Southern California
 - D. Los Angeles Basin
 - E. San Diego
- III. Planning for the Next Downturn
 - A. Impact to Ready Mix Concrete Industry
 - B. Impact to Aggregate Industry
- IV. Conclusion

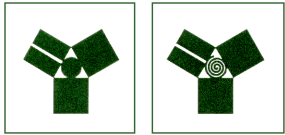


I. The Cyclical Nature of the U.S. Construction Materials Industry



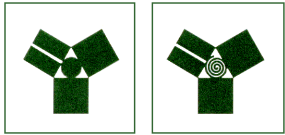
The U.S. Economy Today

- The United States trade deficit jumped to more than \$21 billion in February, the widest gap ever and a solid \$3 billion more than economists were predicting according to the April 21, 1999 Wall Street Journal.
- A much higher-than-expected reading slowed economic growth in the first quarter according to the Federal Open Market Committee (FOMC).
- "The rest of the world is not in good shape and exporting to them is a tough slog," Maureen Allyn, chief economist at Scudder Kemper Investments.



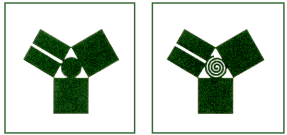
The U.S. Economy Today

- During all of 1998, exports fell for the first time in 13 years and imports grew 5.5 percent.
- Most analysts expect the deficit to hit another record this year as U.S. exports remain weak and countries abroad try to export their way out of trouble.
- “The world's problems are starting to infect the U.S. economy,” according to former Federal Reserve governor Lawrence Lindsey.



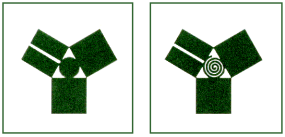
The Cyclical Nature of the U.S. Construction Materials Industry

- "And the situation overseas is getting worse, not better, both in Asia and Europe," he said, adding that should help keep the Fed "on hold" on interest rates.
- However, a serious downturn will not occur in 1999 as suggested by the IMF's upgraded U.S. Economic Outlook (1999 inflation adjusted GDP revised from 1.8% to 3.3%). "The U.S. will remain the well-tuned engine of an otherwise sputtering world economy in 1999."
- Since 1964, the U.S. construction industry has seen four primary cycles, and the current cycle has now entered the eighth year of steady growth in construction spending.



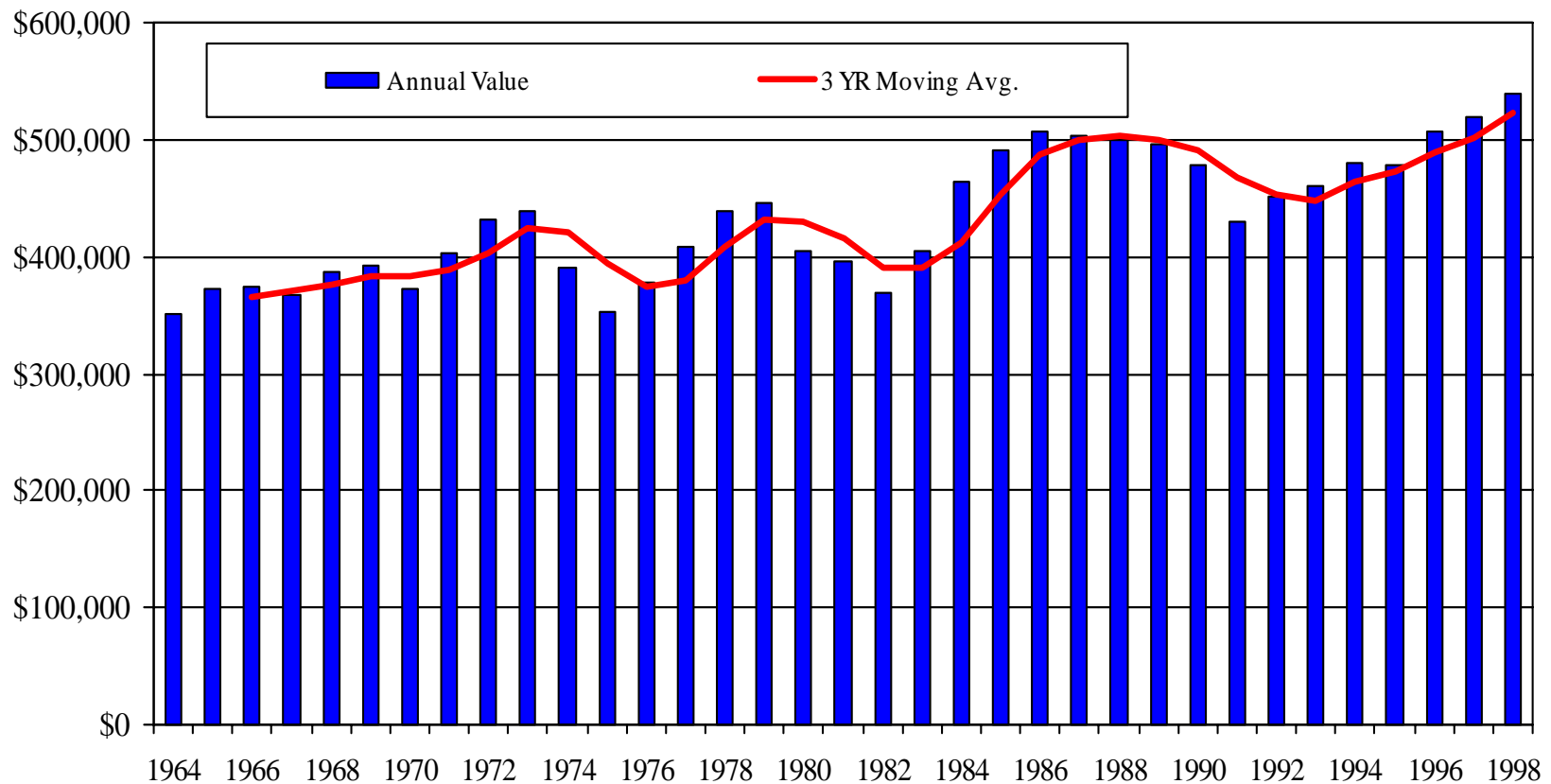
The Cyclical Nature of the U.S. Construction Materials Industry

- Conversely, the prior three cycles either saw a shorter and more aggressive growth curve (75-82 and 82-91), or a longer but less consistent expansion (64-75).
- We suggest the current up-cycle has sustained this long, and will see less of a down cycle in the next dip, because:
 - ➔ it started more moderately,
 - ➔ is seeing moderation affected by varying regional pacing,
 - ➔ will continue to benefit from a strong economy driven by improved productivity and smarter fiscal policy,
 - ➔ and will enjoy smoothing due to new federal spending programs (i.e. TEA-21).



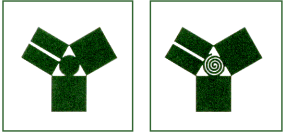
The Cyclical Nature of the U.S. Construction Materials Industry

Total Value Put in Place - Constant 1992 Billion Dollars



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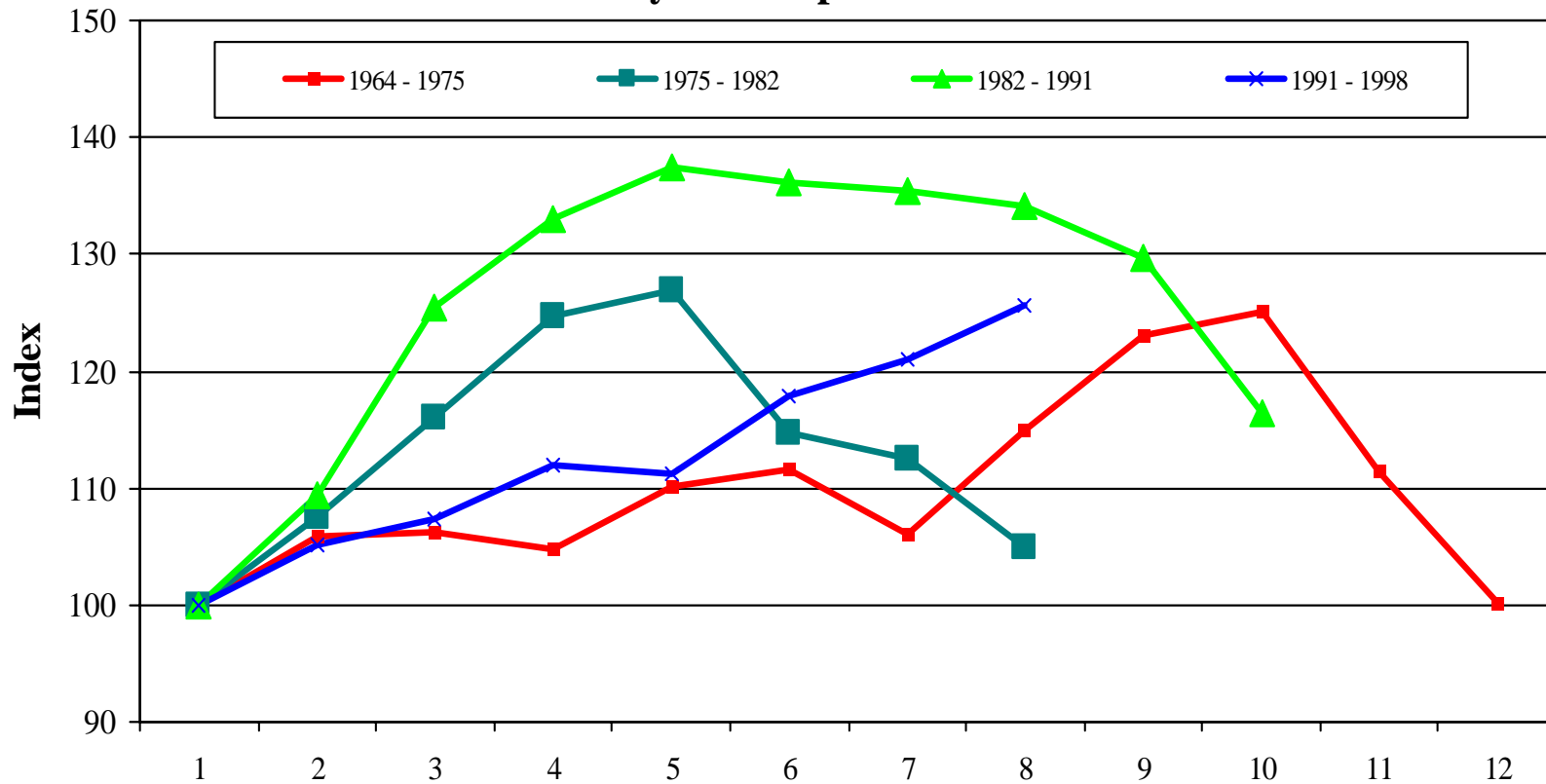
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The Cyclical Nature of the U.S. Construction Materials Industry

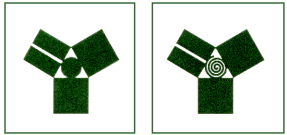
Total Value Put in Place - Constant 1992 Billion Dollars

Cycle Comparisons



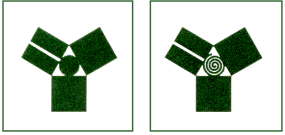
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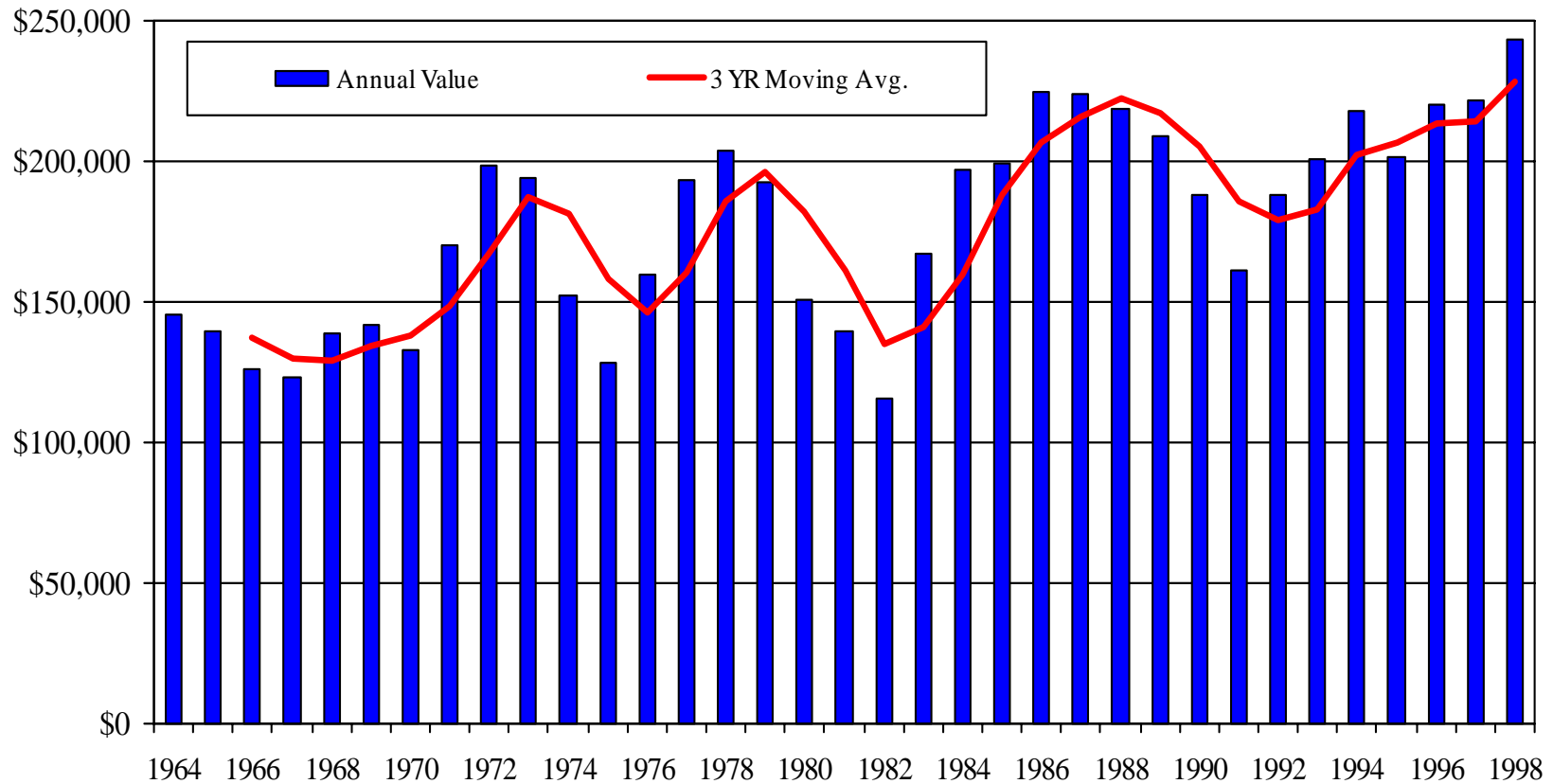
The Cyclical Nature of the U.S. Construction Materials Industry

- Historical data clearly indicates a cyclical trend for construction spending.
- It should be noted, however, that residential construction spending supports the majority of the gyrations in construction spending, and accounts for approximately 45 percent of total construction spending.
- Historical spending in non-residential and public construction has been less cyclical than historical residential spending, as illustrated in the following graphs.



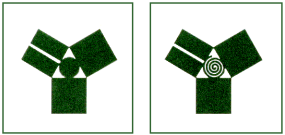
The Cyclical Nature of the U.S. Construction Materials Industry

Residential Value Put in Place - Constant 1992 Billion Dollars



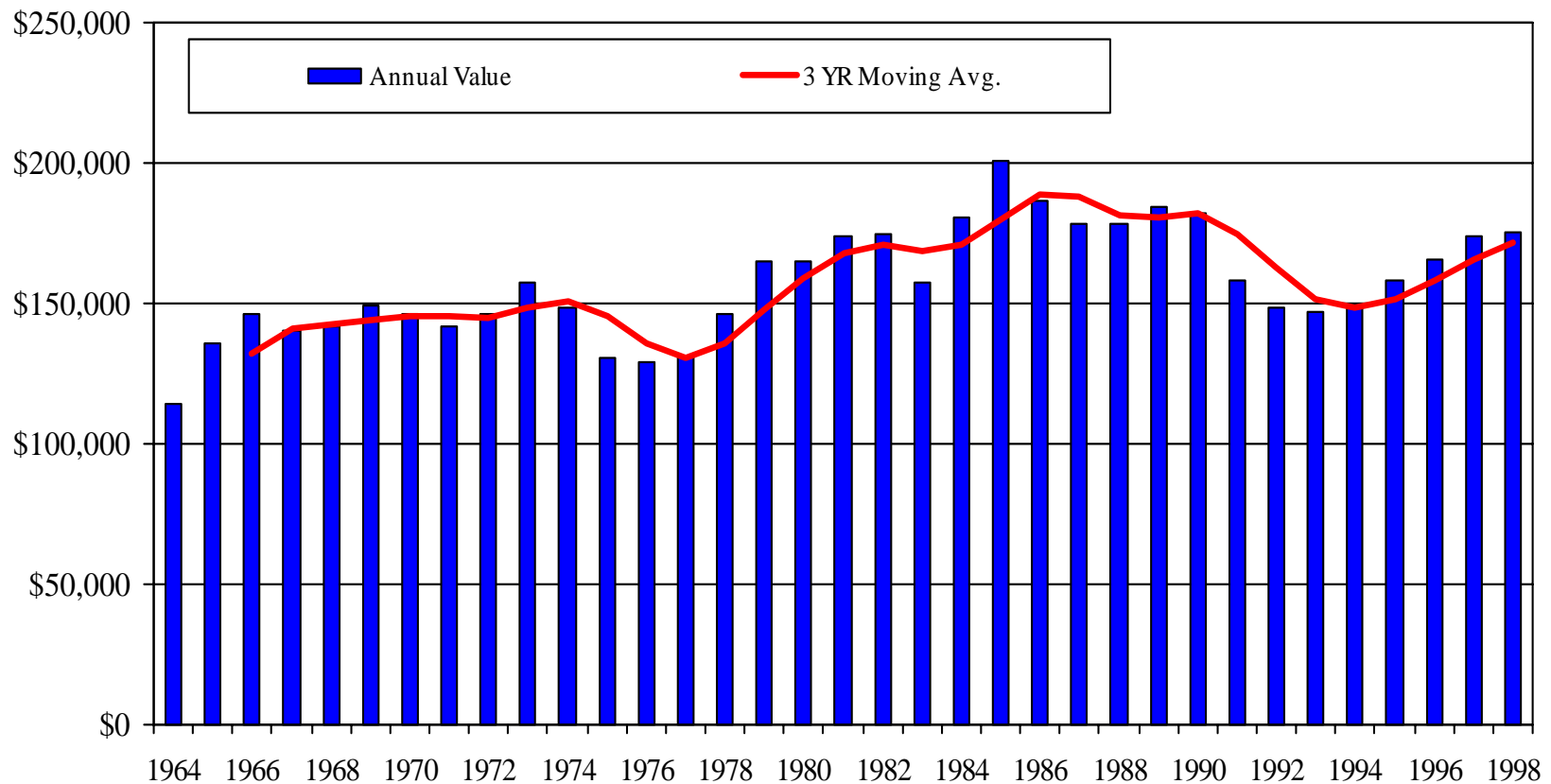
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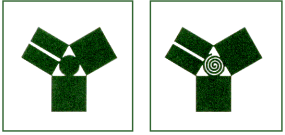
The Cyclical Nature of the U.S. Construction Materials Industry

Non-Residential Value Put in Place - Constant 1992 Billion Dollars



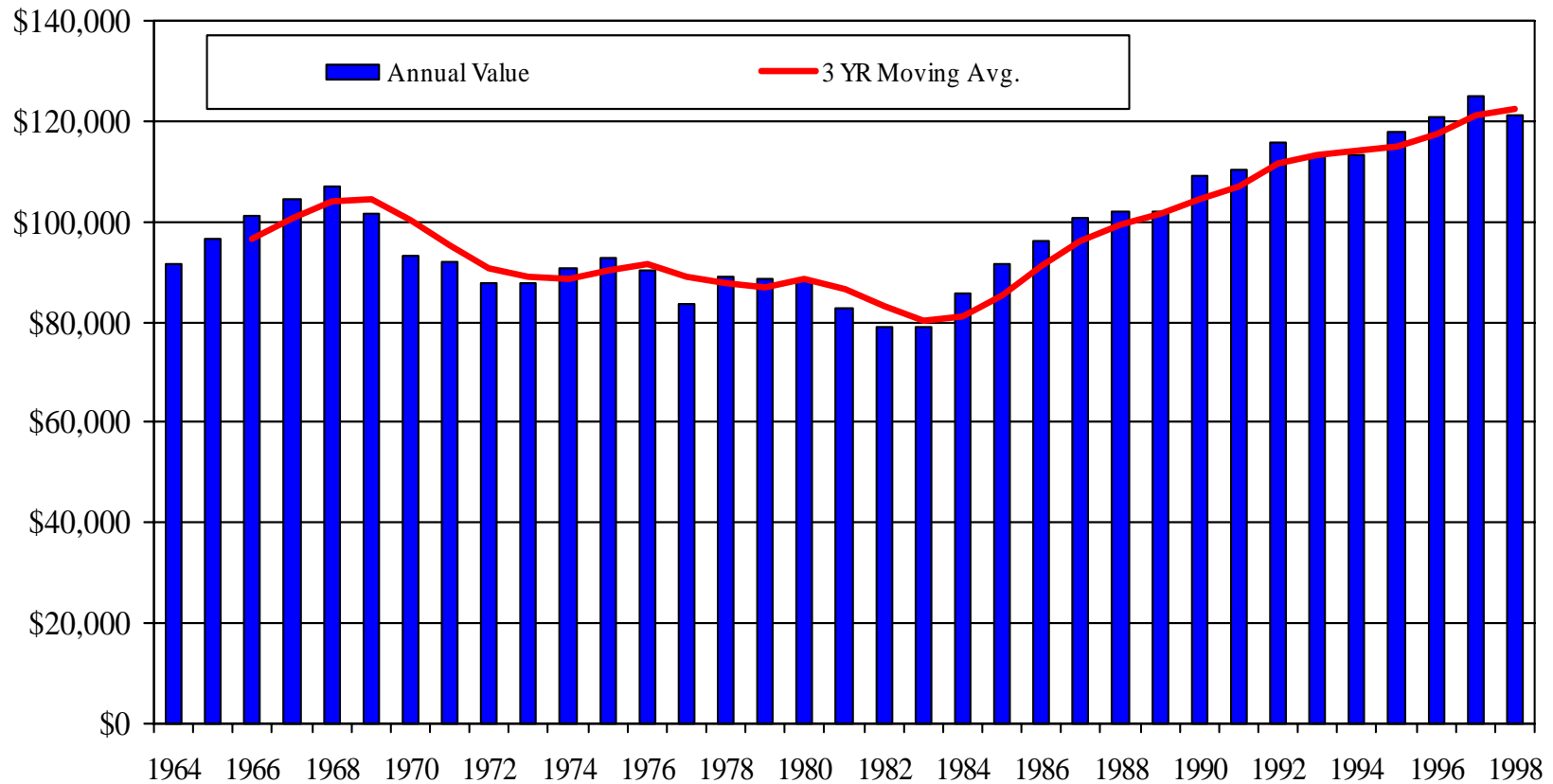
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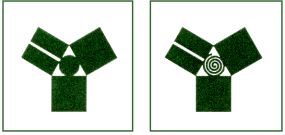
The Cyclical Nature of the U.S. Construction Materials Industry

Public Value Put in Place - Constant 1992 Billion Dollars



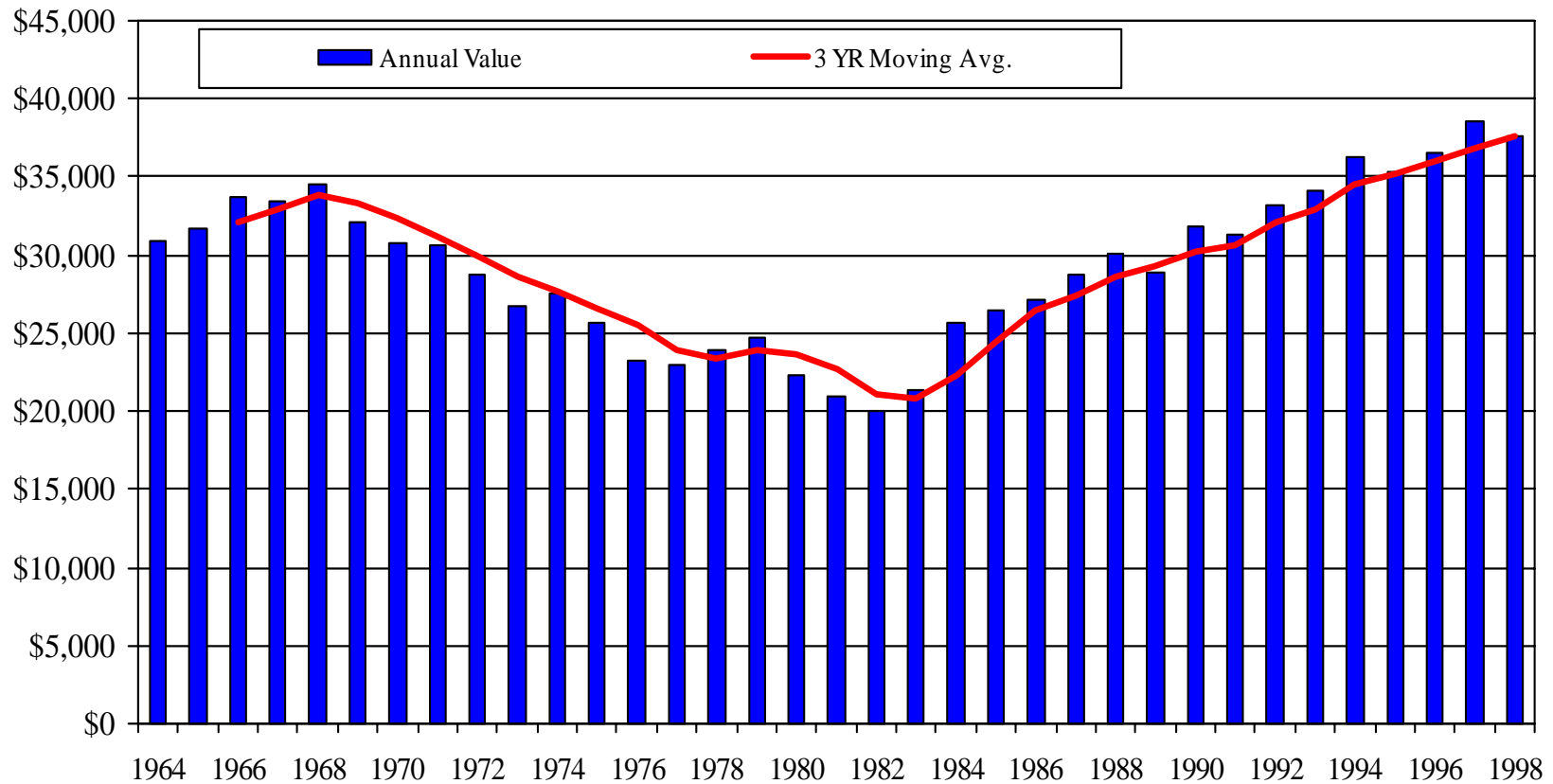
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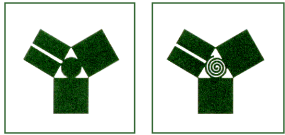
The Cyclical Nature of the U.S. Construction Materials Industry

Highways & Streets Put in Place - Constant 1992 Billion Dollars



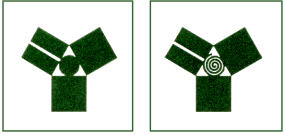
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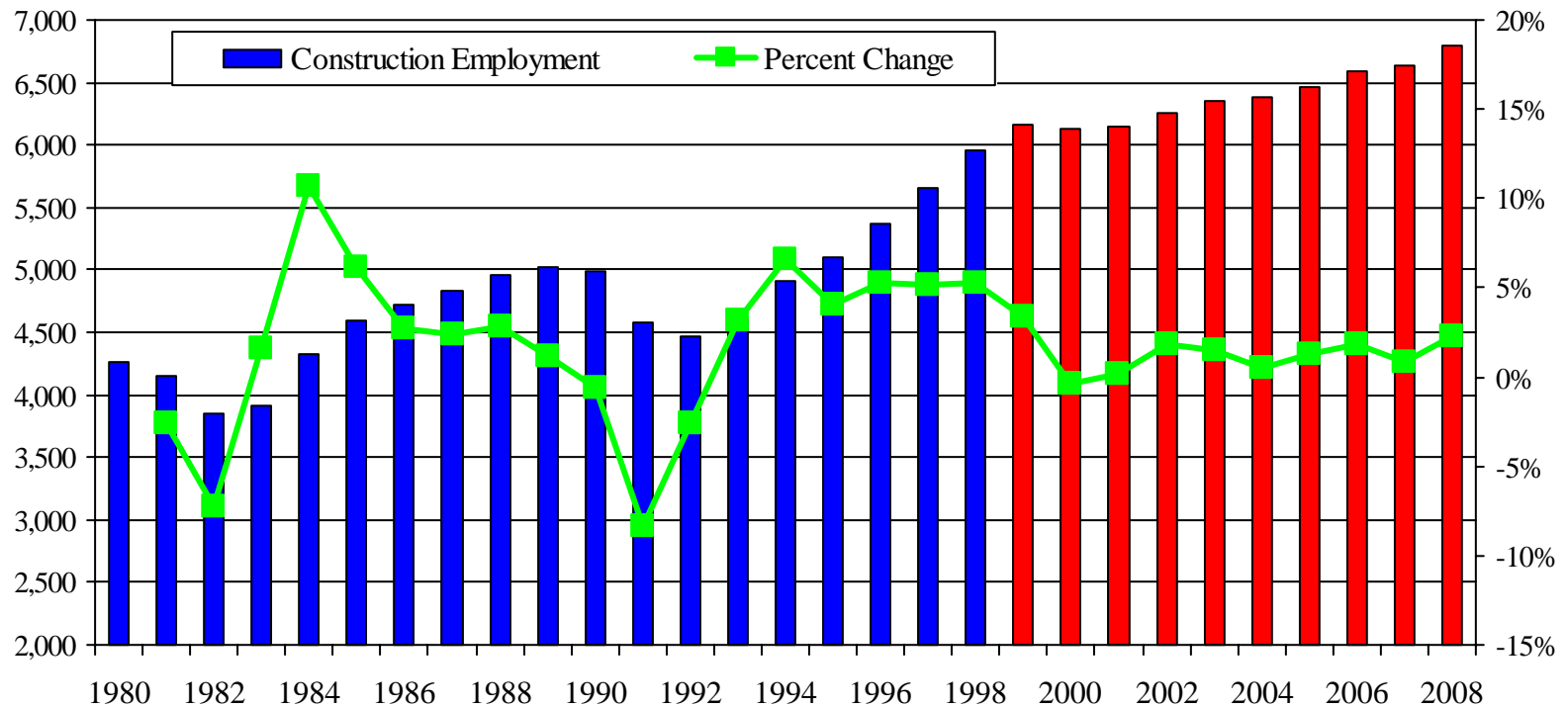
The Cyclical Nature of the U.S. Construction Materials Industry

- It is apparent to us that the U.S. construction industry has been, and will continue to be, a cyclical industry.
- Despite a smoothing national cycle in the future, regional and local cycles will still occur, albeit with somewhat less dramatic gyrations than in the past.
- Consequently, materials producers, including aggregate manufacturers, should be prepared for managing the inevitable future down- and up-cycles.



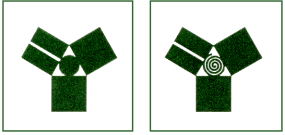
The Cyclical Nature of the U.S. Construction Materials Industry

Construction Employment - 000 Persons



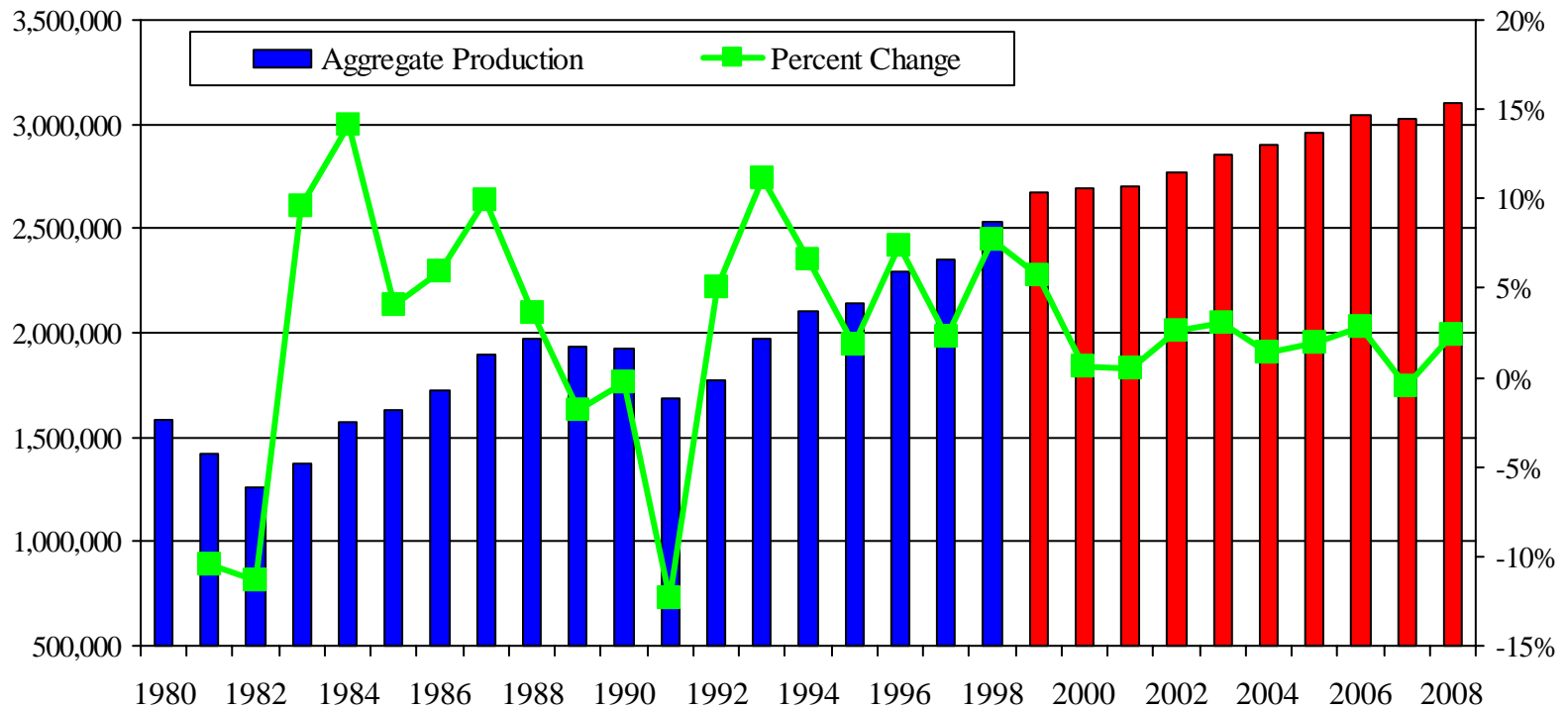
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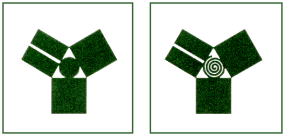
The Cyclical Nature of the U.S. Construction Materials Industry

Aggregate Production - 000 Metric Tons



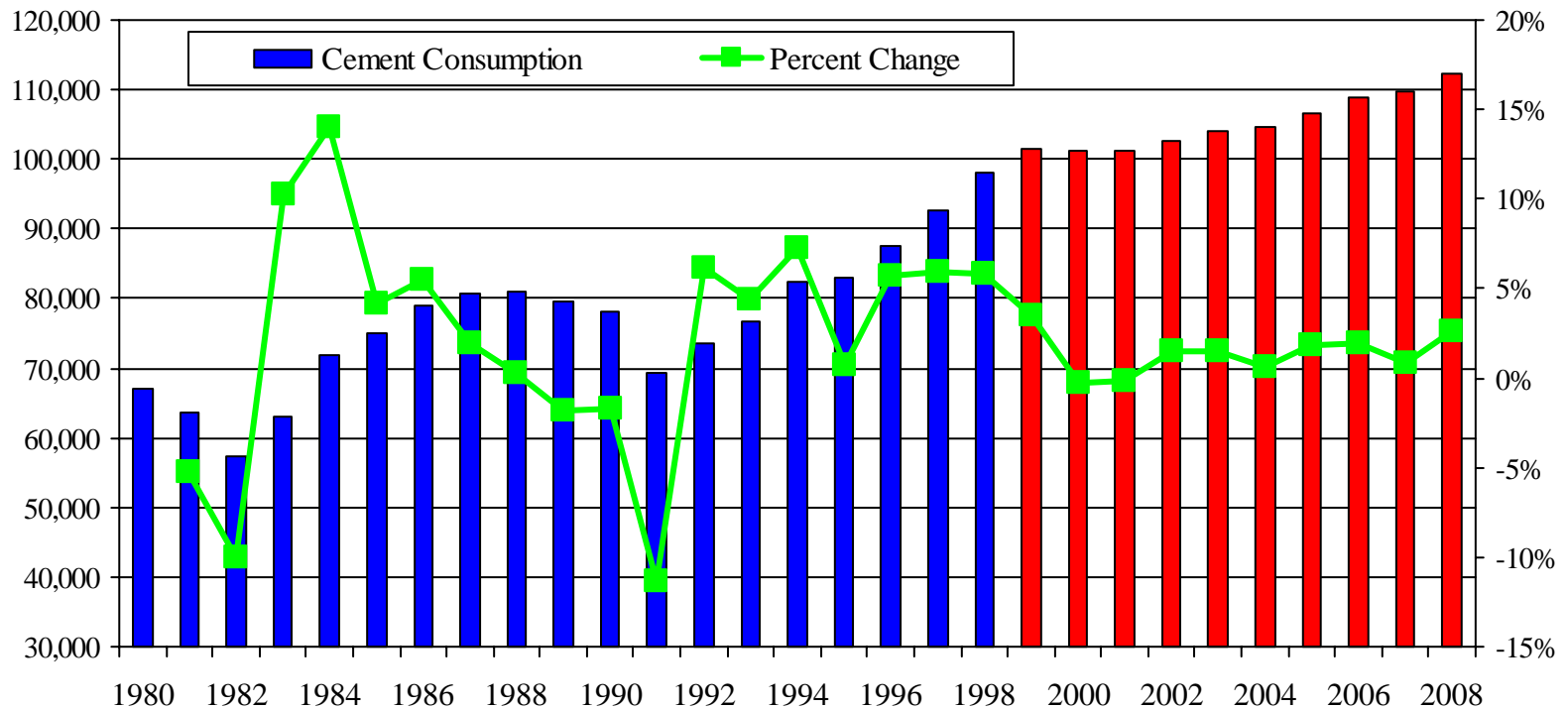
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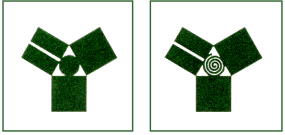
The Cyclical Nature of the U.S. Construction Materials Industry

Cement Consumption - 000 Metric Tons



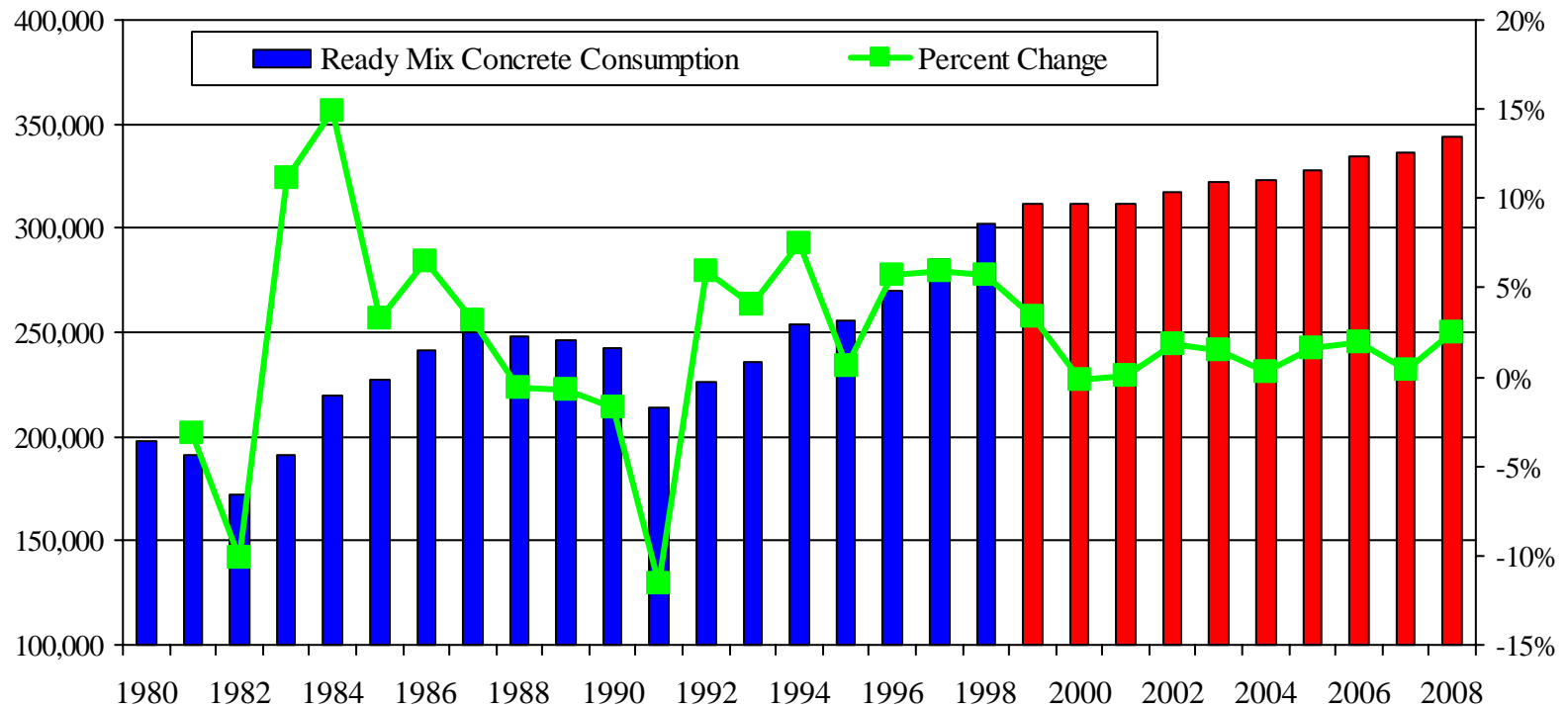
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Investment Banking



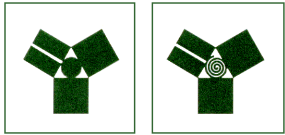
The Cyclical Nature of the U.S. Construction Materials Industry

Ready Mix Concrete Consumption - 000 Cubic Yards



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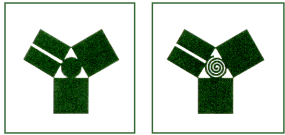
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The Cyclical Nature of the U.S. Construction Materials Industry

Summary

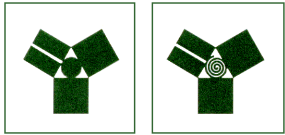
- With an expected slowdown in the U.S. economy during 2000 and 2001, we will finally experience the famous “soft landing.”
- Continued economic growth at current growth rates (3.9 percent) is not sustainable long-term when employment is as strong as it is today. There simply are not enough workers to fuel continued expansion above the long-term trend rates of 2.0-2.5 percent.
- However, there is no threat of serious unemployment either because even a dramatic slowdown is unlikely to push the jobless rate above five percent. Thus, consumer spending should not be materially affected by corporate layoffs.



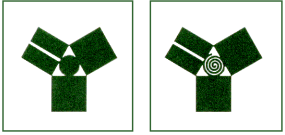
The Cyclical Nature of the U.S. Construction Materials Industry

Summary

- A recession (negative GDP) is extremely unlikely unless we see a combination of grossly irrational consumers, inept politicians and poor fiscal policymaking, converging all at once.
- Nevertheless, a slowdown in the general economy, whether soft or sudden, should encourage companies to once again visit the notion of recession planning. Particularly in cyclical industries such as ours.
- After eight years of expansion, the U.S. economy is enjoying a solid footing, and it has plenty of fat to sustain an expected moderate diet for a few years.

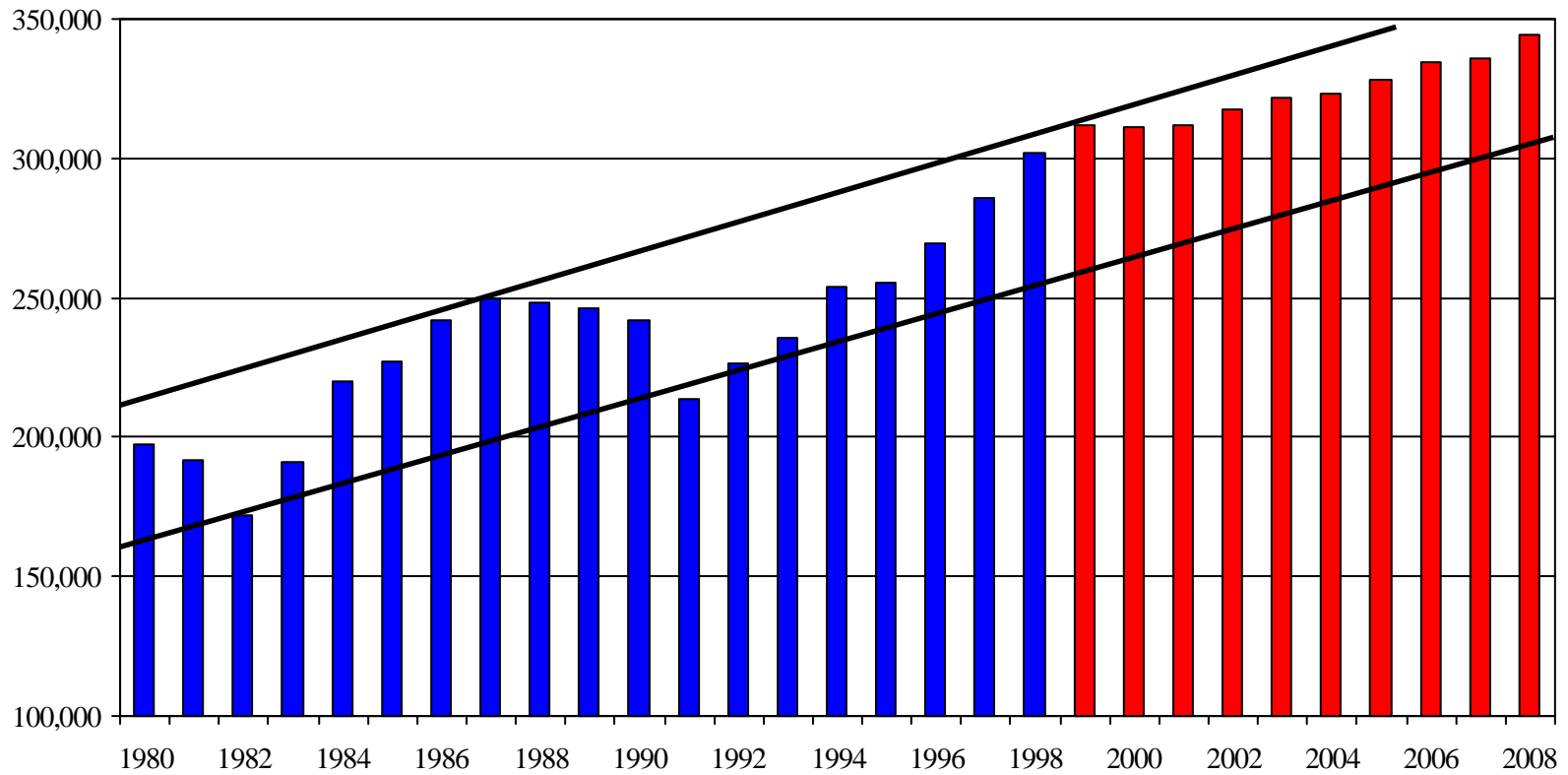


II. Materials Consumption / Production (1980-2008)



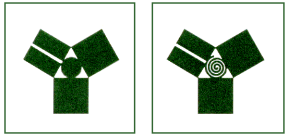
United States

Ready Mix Concrete Consumption (000 CYD)



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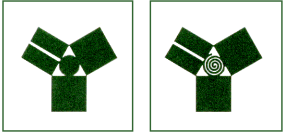
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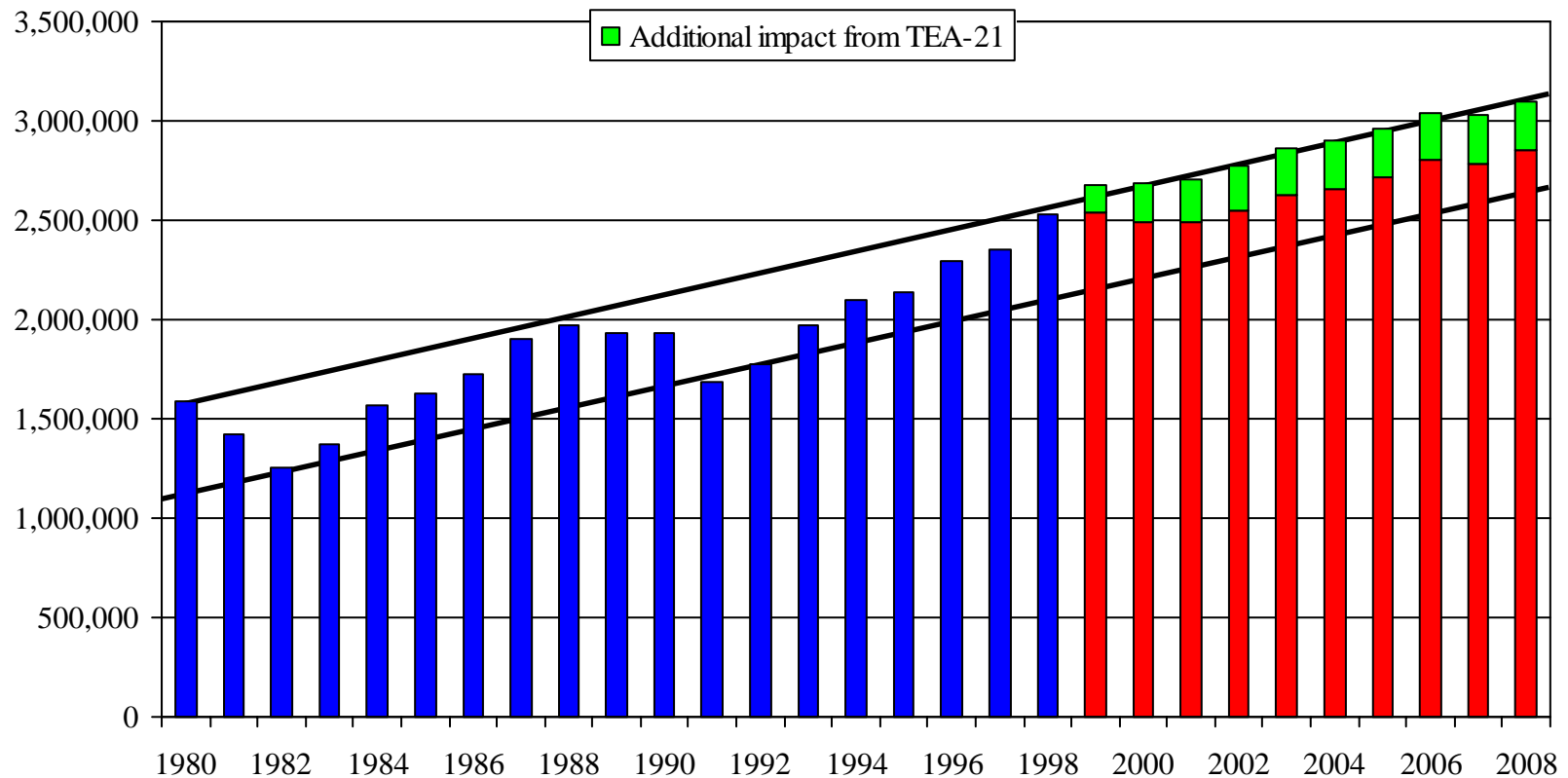
United States

Ready Mix Concrete Consumption (000 CYD)

	<u>1989-1998</u>	<u>1999-2008</u>	<u>Avg. Annual % Change</u>
High	301,812	344,294	1.4%
Low	214,017	311,425	4.6%
Average	253,129	324,070	2.8%

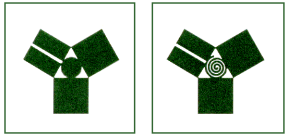


United States Aggregate Production (000 MT)



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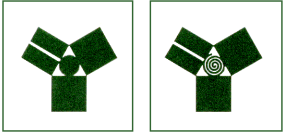
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United States

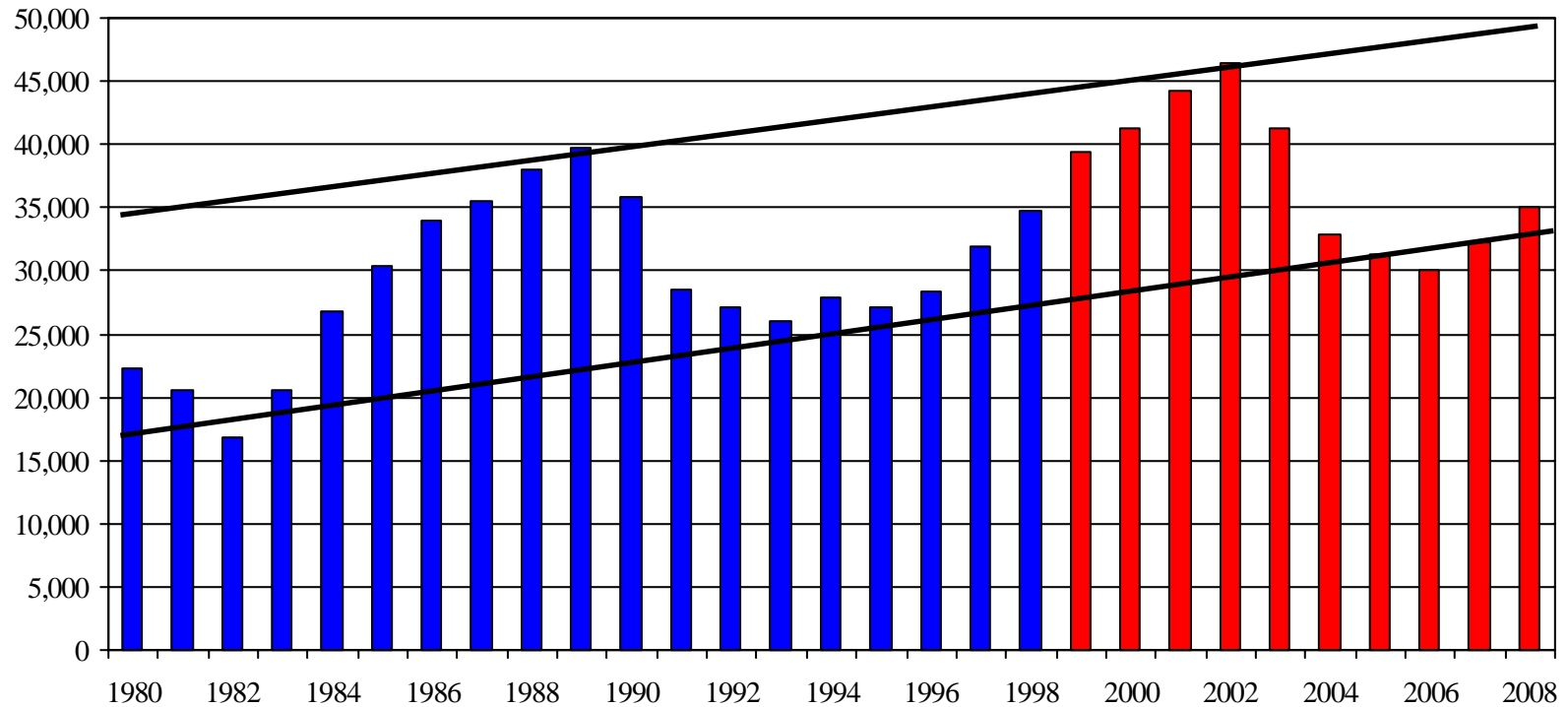
Aggregate Production (000 MT)

	<u>1989-1998</u>	<u>1999-2008</u>	<u>Avg. Annual % Change</u>
High	2,531,398	2,857,650	1.3%
Low	1,689,744	2,487,082	4.7%
Average	2,071,287	2,652,327	2.8%



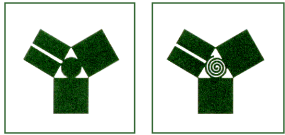
California

Ready Mix Concrete Consumption (000 CYD)



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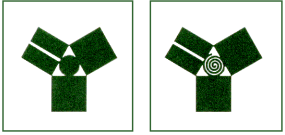
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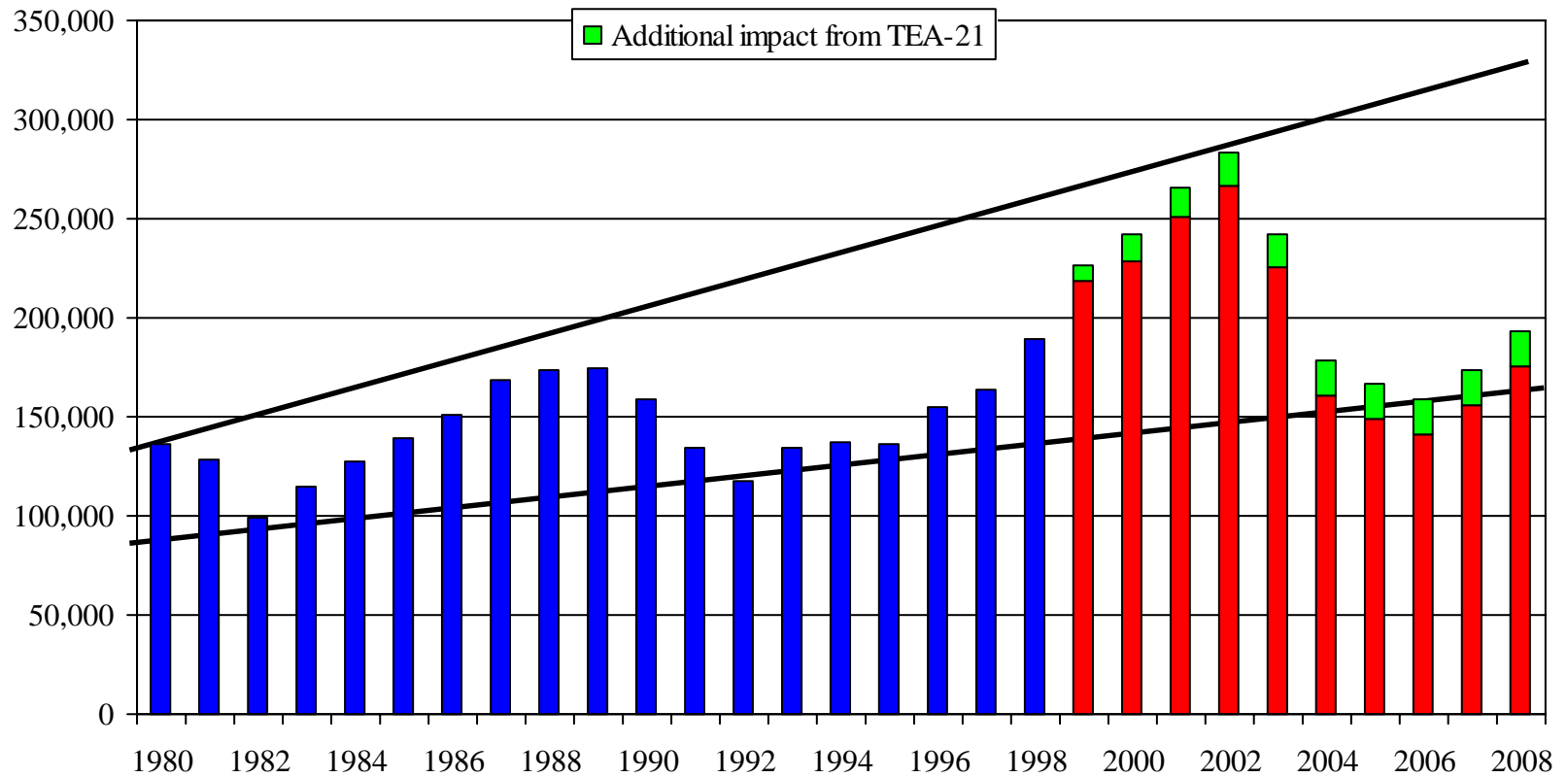
California

Ready Mix Concrete Consumption (000 CYD)

	<u>1989-1998</u>	<u>1999-2008</u>	<u>Avg. Annual % Change</u>
High	39,656	46,441	1.7%
Low	26,047	30,040	1.5%
Average	30,714	37,404	2.2%

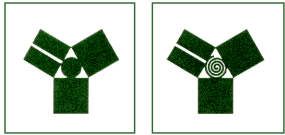


California Aggregate Production (000 MT)



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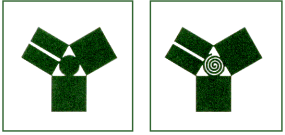


California

Aggregate Production

(000 MT)

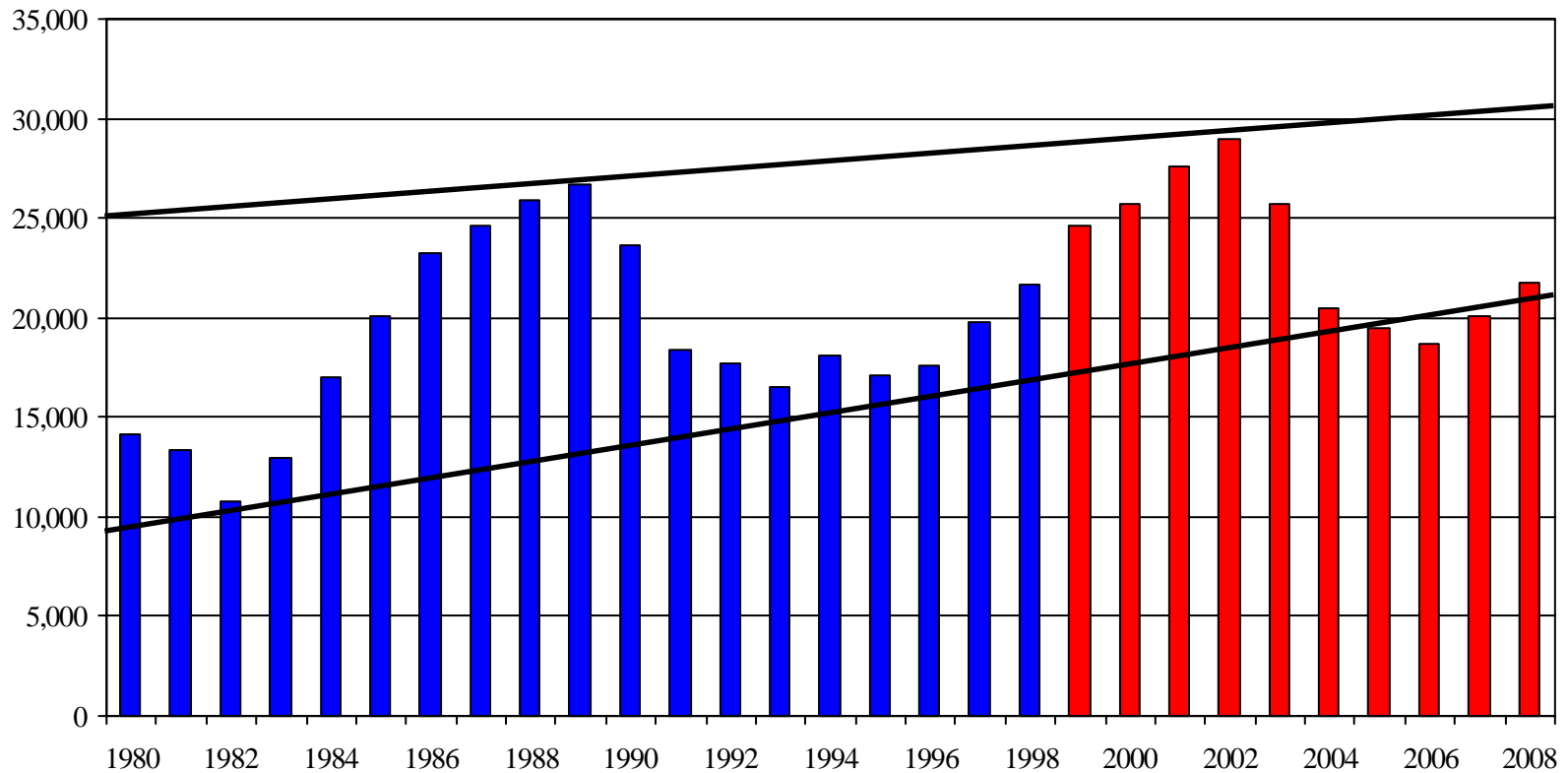
	<u>1989-1998</u>	<u>1999-2008</u>	<u>Avg. Annual % Change</u>
High	189,500	282,919	4.9%
Low	117,819	158,695	3.5%
Average	150,110	213,033	4.2%



Southern California

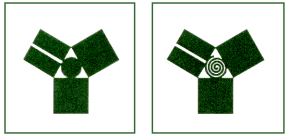
Ready Mix Concrete Consumption

(000 CYD)



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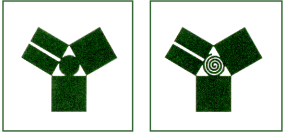


Southern California

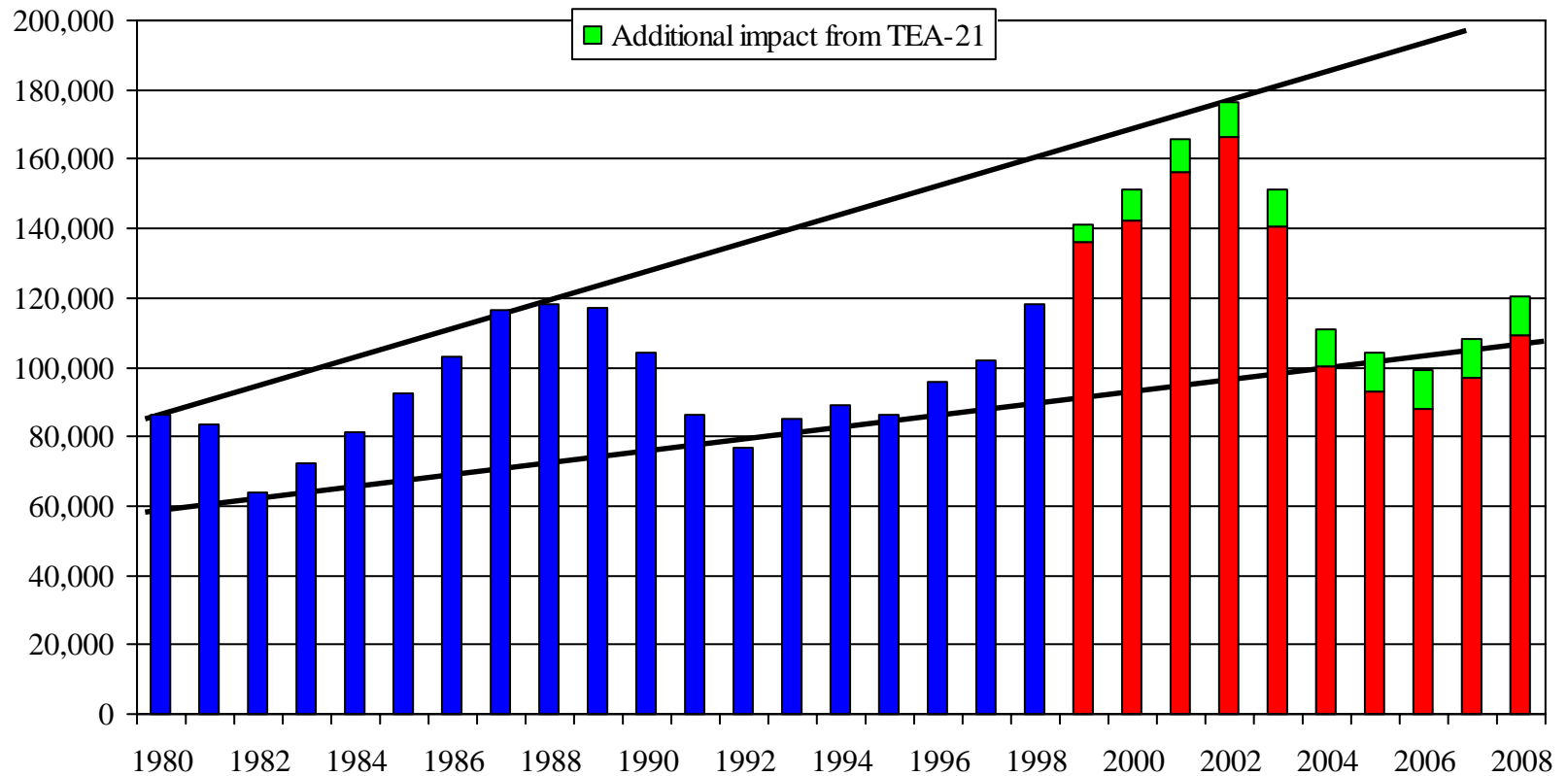
Ready Mix Concrete Consumption

(000 CYD)

	<u>1989-1998</u>	<u>1999-2008</u>	<u>Avg. Annual % Change</u>
High	26,698	28,945	0.8%
Low	16,463	18,723	1.4%
Average	19,711	23,313	1.8%

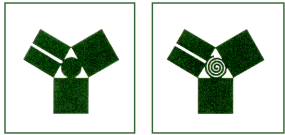


Southern California Aggregate Production (000 MT)



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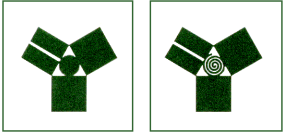


Southern California

Aggregate Production

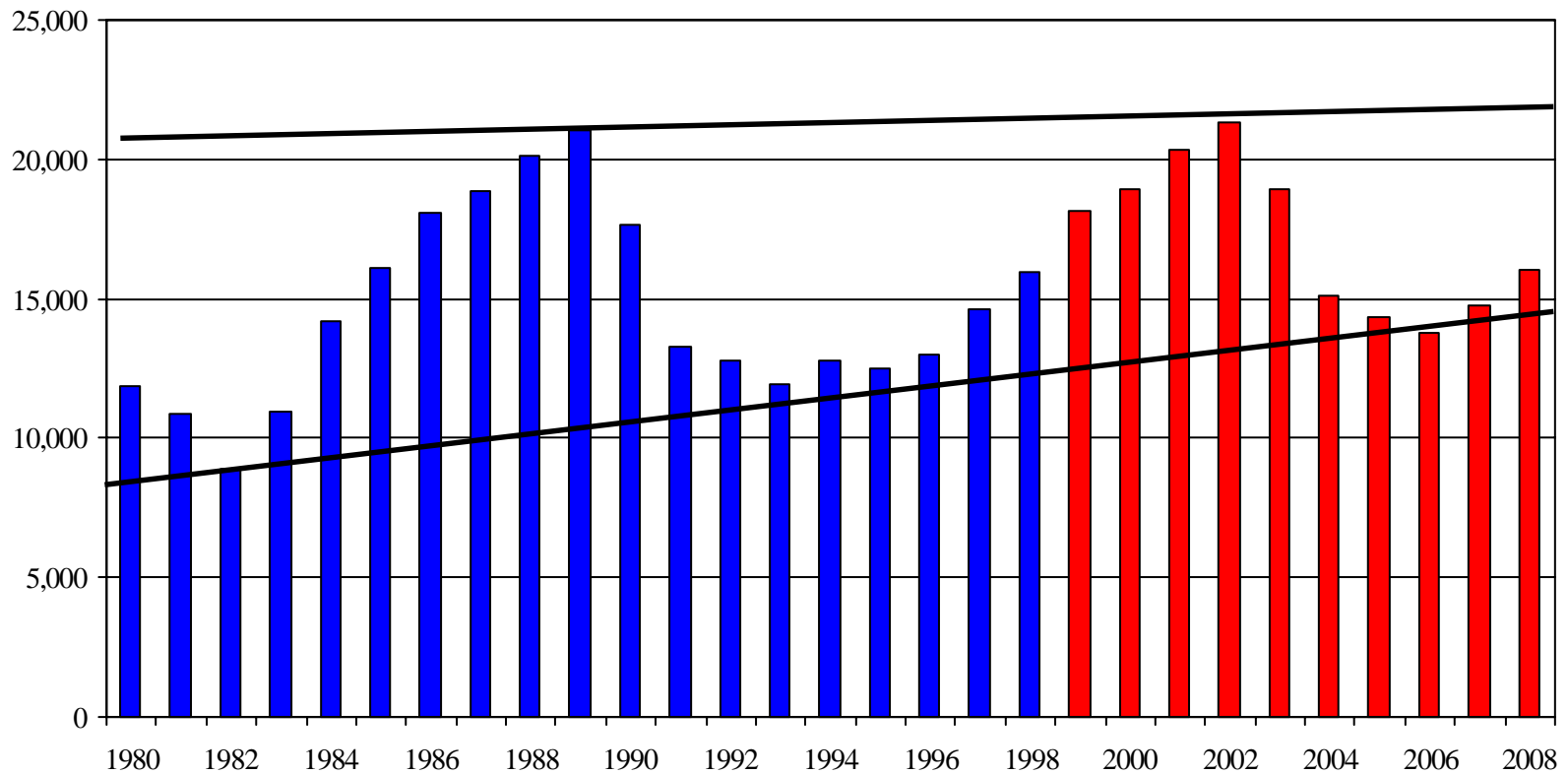
(000 MT)

	<u>1989-1998</u>	<u>1999-2008</u>	<u>Avg. Annual % Change</u>
High	118,109	176,334	4.9%
Low	76,817	98,910	2.9%
Average	96,126	132,777	3.8%



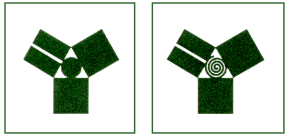
Los Angeles Basin

Ready Mix Concrete Consumption (000 CYD)



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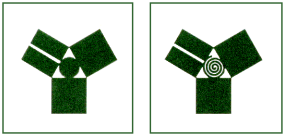


Los Angeles Basin

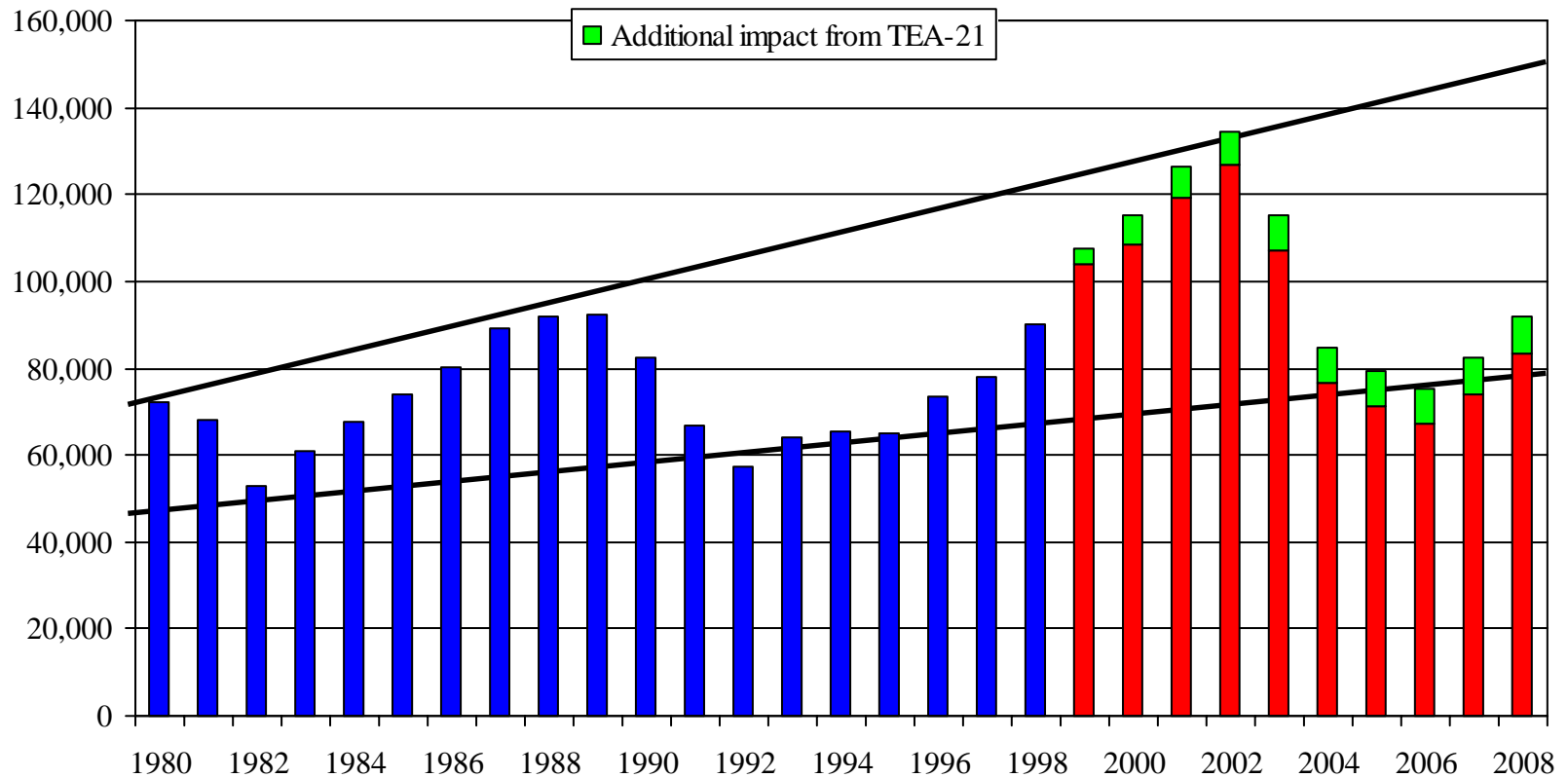
Ready Mix Concrete Consumption

(000 CYD)

	<u>1989-1998</u>	<u>1999-2008</u>	<u>Avg. Annual % Change</u>
High	21,040	21,329	0.1%
Low	11,962	13,796	1.5%
Average	14,560	17,178	1.8%

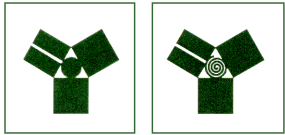


Los Angeles Basin Aggregate Production (000 MT)



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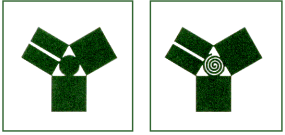


Los Angeles Basin

Aggregate Production

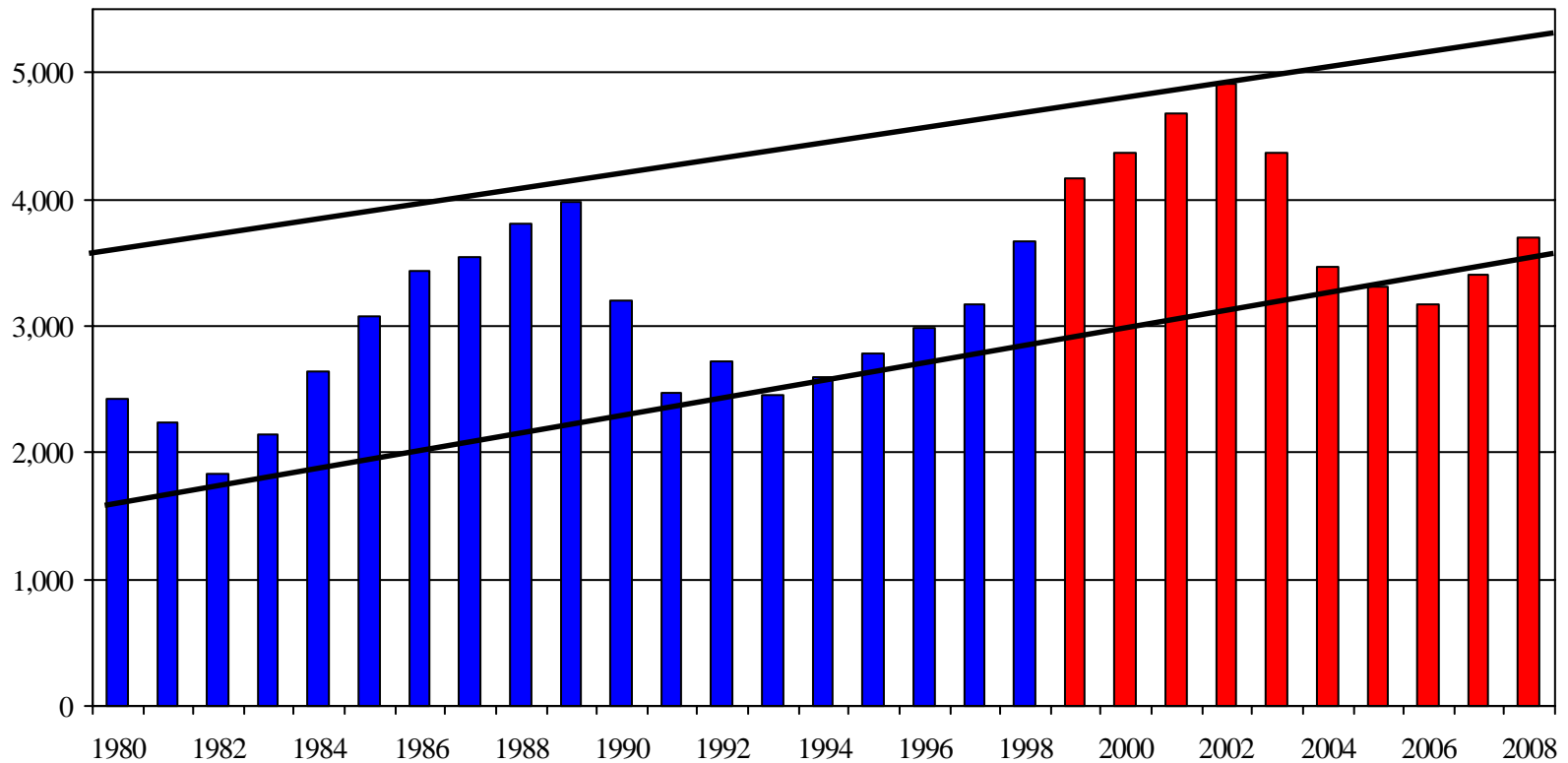
(000 MT)

	<u>1989-1998</u>	<u>1999-2008</u>	<u>Avg. Annual % Change</u>
High	92,265	134,610	4.6%
Low	57,557	75,505	3.1%
Average	73,487	101,359	3.8%



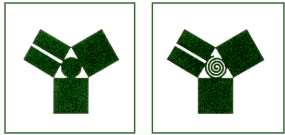
San Diego

Ready Mix Concrete Consumption (000 CYD)



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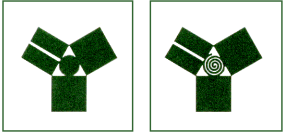
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San Diego

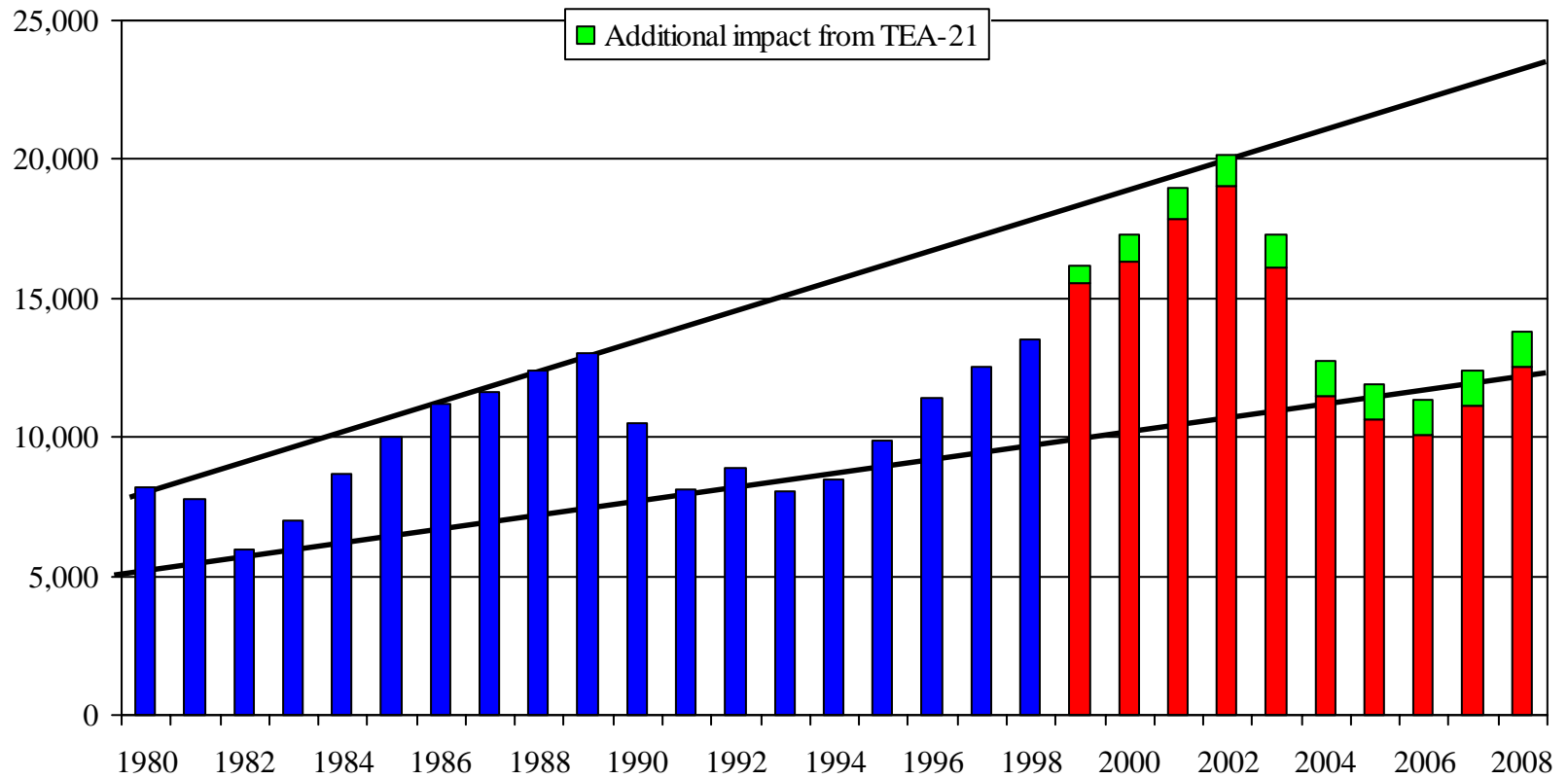
Ready Mix Concrete Consumption (000 CYD)

	<u>1989-1998</u>	<u>1999-2008</u>	<u>Avg. Annual % Change</u>
High	3,980	4,906	2.3%
Low	2,461	3,173	2.9%
Average	3,005	3,951	3.1%



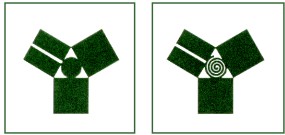
San Diego

Aggregate Production (000 MT)



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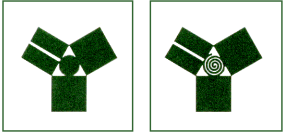


San Diego

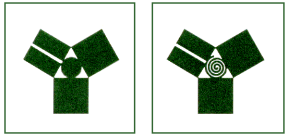
Aggregate Production

(000 MT)

	<u>1989-1998</u>	<u>1999-2008</u>	<u>Avg. Annual % Change</u>
High	13,529	20,199	4.9%
Low	8,044	11,330	4.1%
Average	10,431	15,209	4.6%

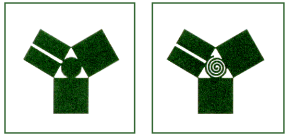


III. Planning for the Next Downturn



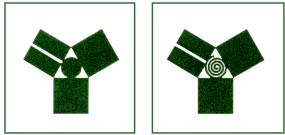
Planning for the Next Downturn

- In the year 2003, we anticipate that Southern California will experience a decline in both aggregate and ready mix consumption following 8-9 consecutive years of consumptive growth.
- Other contiguous markets, including Nevada and Arizona, are expected to experience a market correction prior to California.
- Being prepared for the inevitable downturn will prove valuable to aggregate and ready mix producers, as well as cement suppliers.



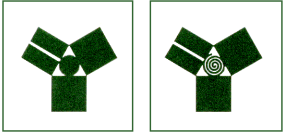
Planning for the Next Downturn

- In order to illustrate the benefits of prudent planning, we have generated three hypothetical scenarios as follows:
 1. Base Case
 2. “Attempt” to Maintain Volume Case
 3. “Attempt” to Maintain Price Case



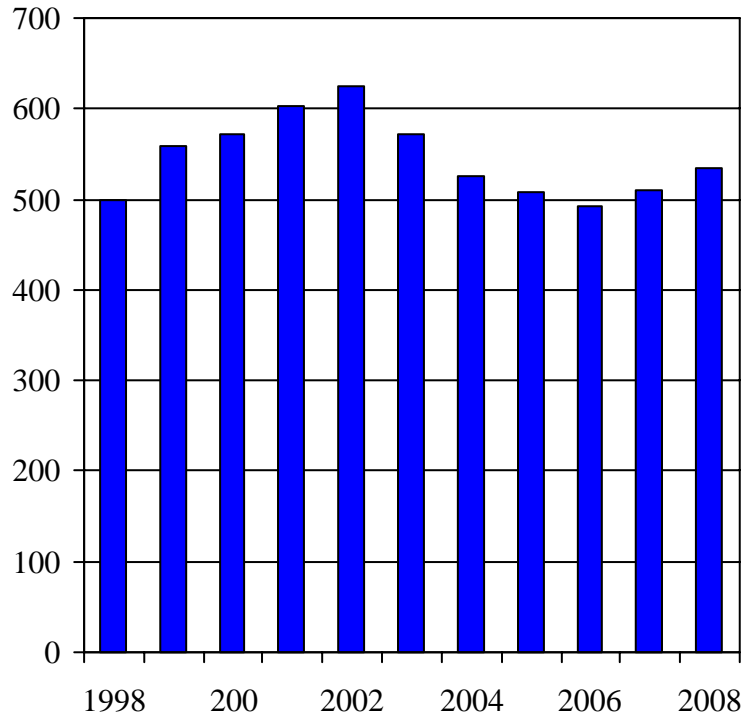
Baseline Assumptions

- Example company is located in Southern California.
- Example company produced 500,000 cubic yards of ready mix during 1998.
- All price and cost projections were cast in constant 1999 dollars.

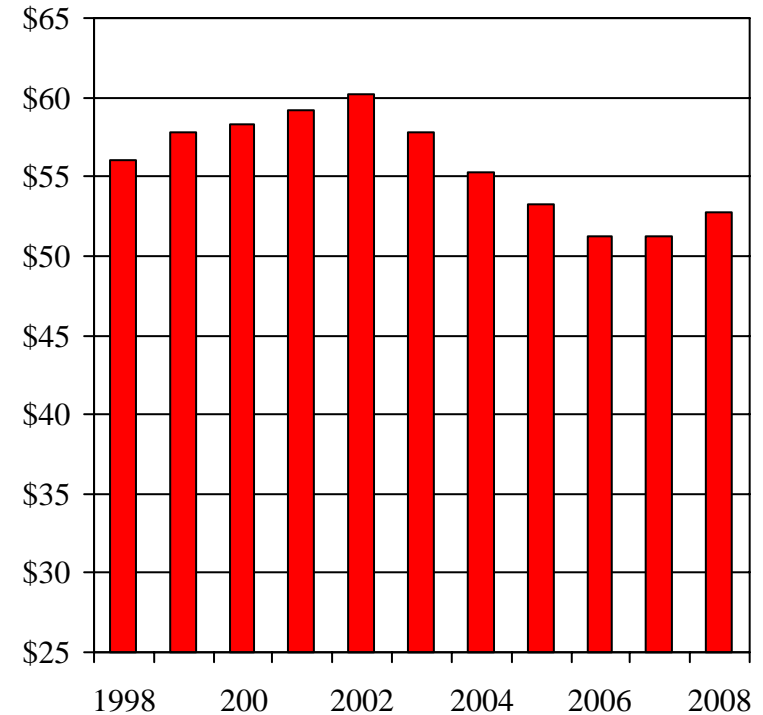


Sample Ready Mix Co. Base Case

Volume (000 CYDS)

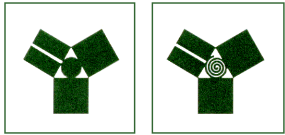


Price (\$/CYD)



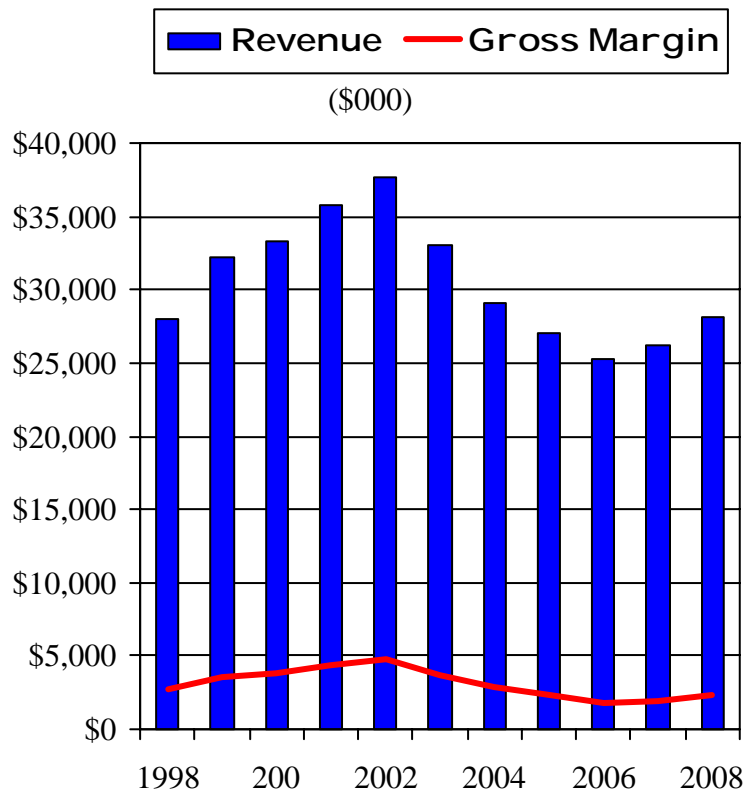
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Investment Banking



Sample Ready Mix Co.

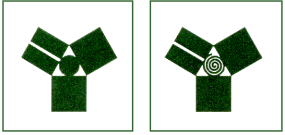
Base Case



(000)	2002	2003	2004	2005	2006
Volume (CYDS)	625	571	526	507	492
Price (\$/CYD)	\$60.25	\$57.75	\$55.25	\$53.25	\$51.25
Revenue	\$37,629	\$33,002	\$29,048	\$26,988	\$25,221
Net Realized (\$/CYD)	\$22.56	\$21.61	\$20.65	\$19.88	\$19.12
Gross Margin	4,746	3,697	2,804	2,274	1,797
Gross Margin (\$/CYD)	\$7.60	\$6.47	\$5.33	\$4.49	\$3.65
Gross Margin (%)	12.6%	11.2%	9.7%	8.4%	7.1%

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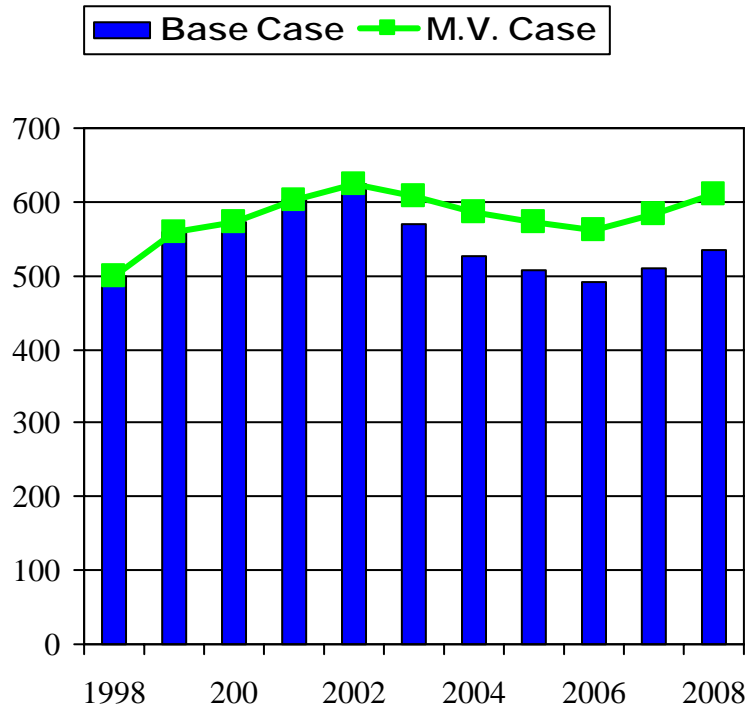
Investment Banking



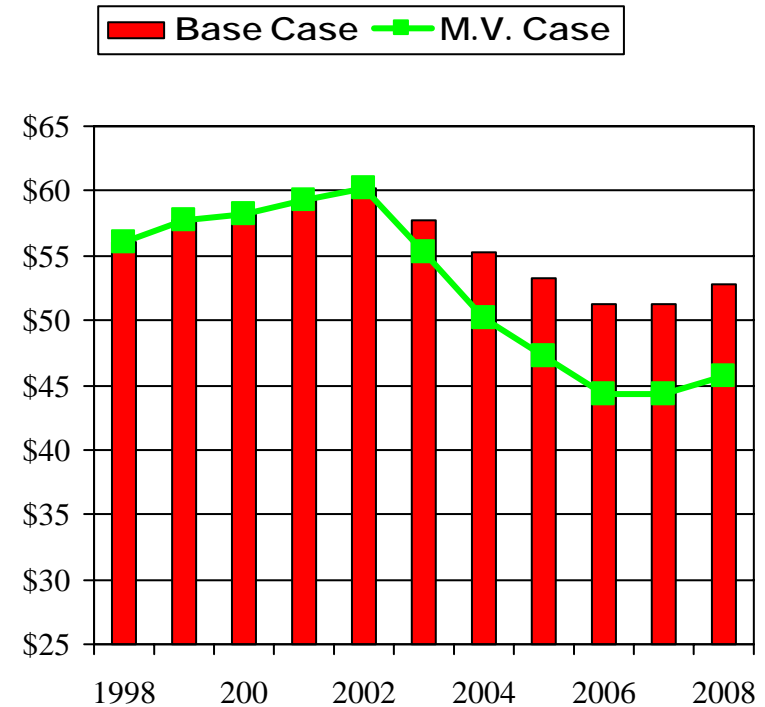
Sample Ready Mix Co.

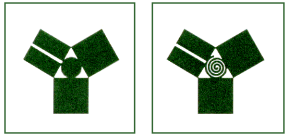
"Attempt" to Maintain Volume Case

Volume (000 CYDS)



Price (\$/CYD)

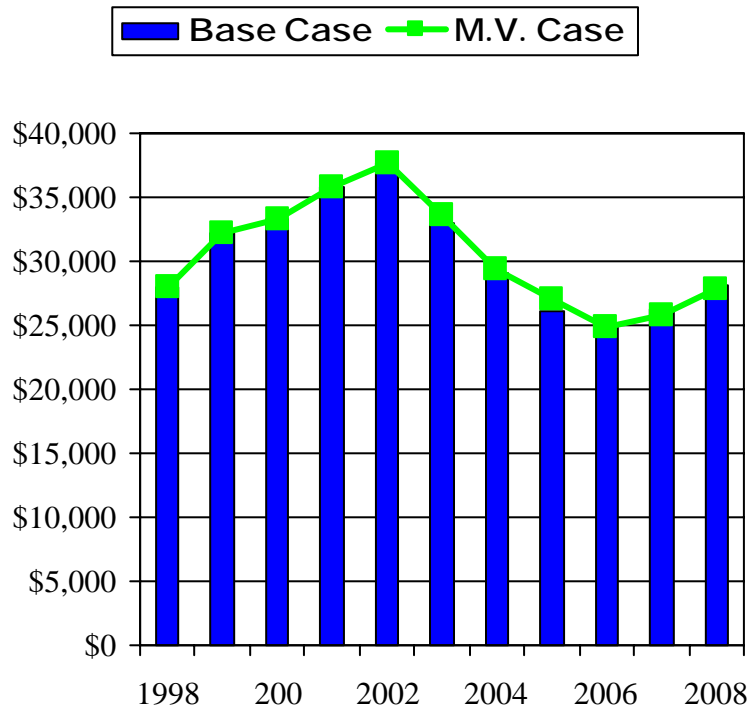




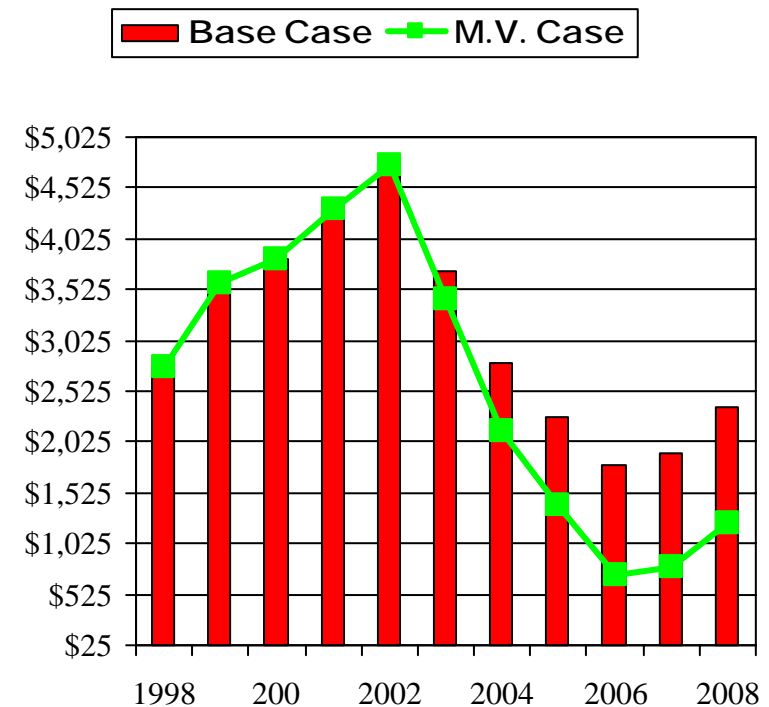
Sample Ready Mix Co.

"Attempt" to Maintain Volume Case

Revenue (\$000)

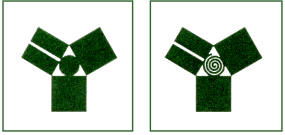


Gross Margin (\$000)



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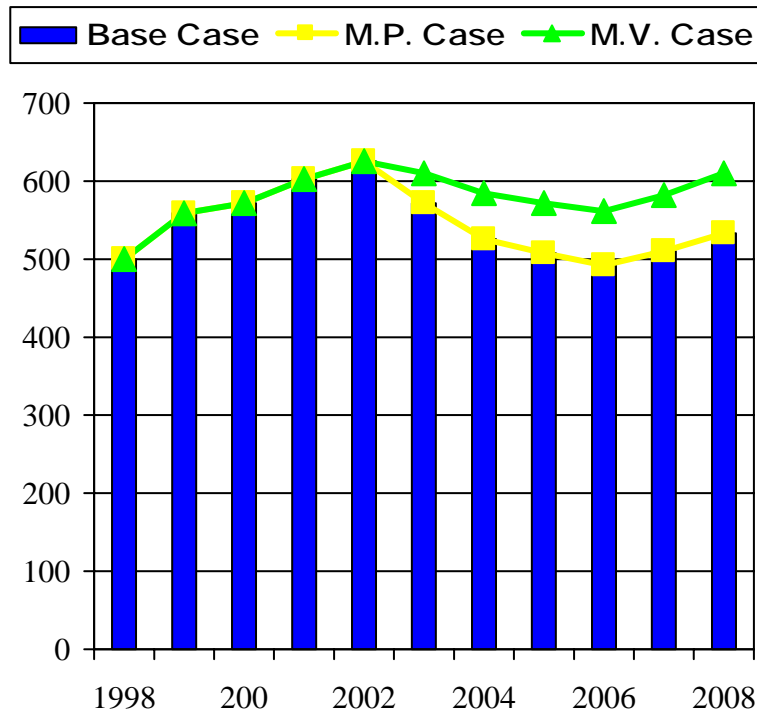
Investment Banking



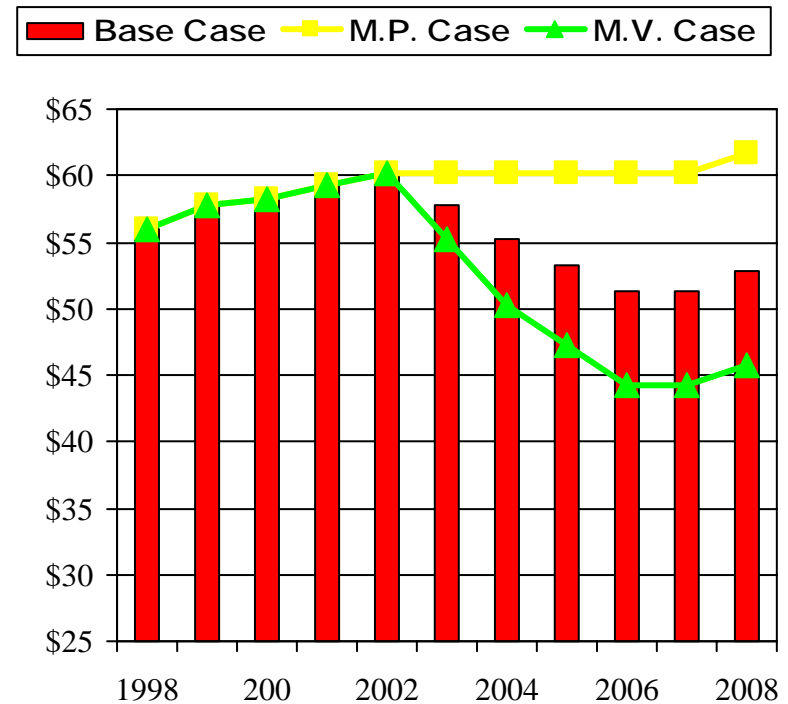
Sample Ready Mix Co.

"Attempt" to Maintain Price Case

Volume (000 CYDS)

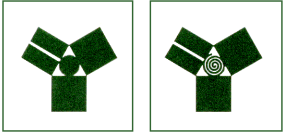


Price (\$/CYD)



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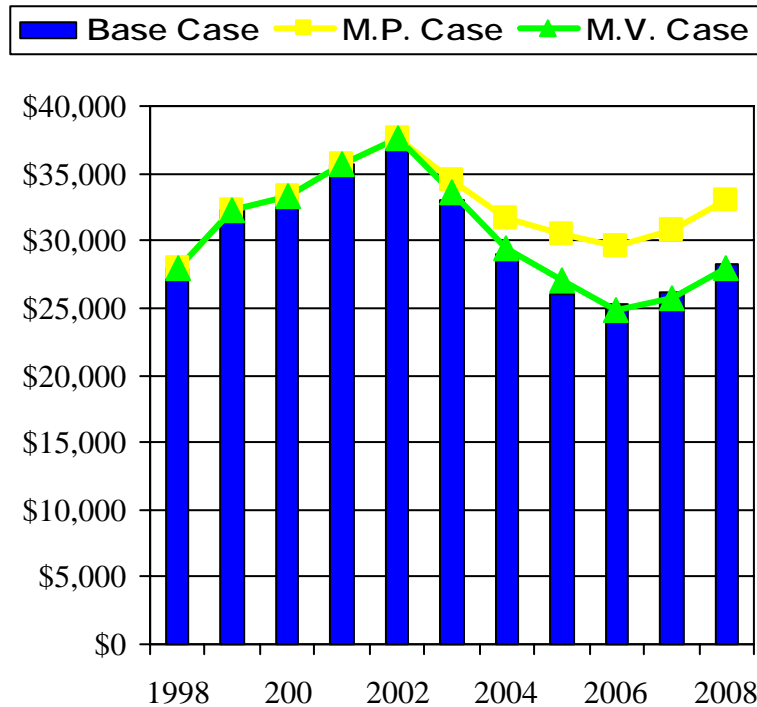
Investment Banking



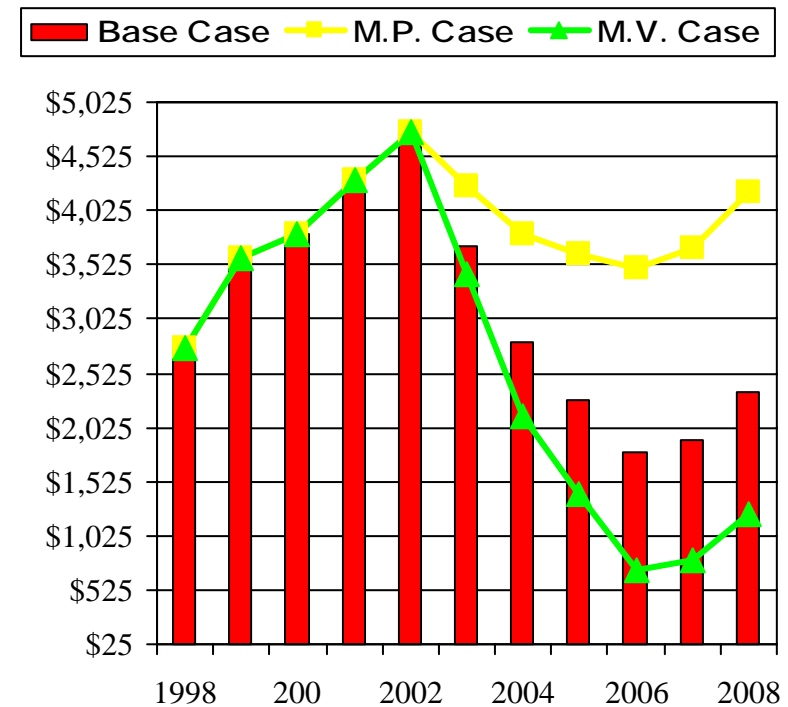
Sample Ready Mix Co.

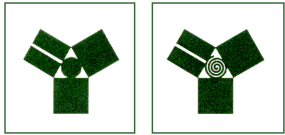
"Attempt" to Maintain Price Case

Revenue (\$000)



Gross Margin (\$000)



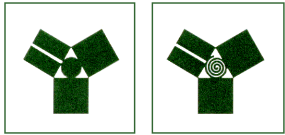


Sample Ready Mix Co.

Impact Summary

(to Ready Mix Co.)

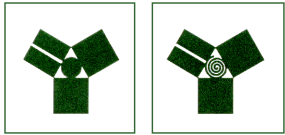
Base Case vs. Maintain Volume Case							
	1999						
(000)	- 2002	2003	2004	2005	2006	2007	2008
Volume (CYDS)	0	37	59	66	69	72	75
Price (\$/CYD)	\$0.00	(\$2.50)	(\$5.00)	(\$6.00)	(\$7.00)	(\$7.00)	(\$7.00)
Revenue	0	642	328	81	(378)	(392)	(298)
Cost of Sales	0	(906)	(1,002)	(948)	(709)	(736)	(840)
Gross Margin	0	(264)	(675)	(868)	(1,087)	(1,129)	(1,137)
Cumulative G.M.	0	(264)	(939)	(1,807)	(2,894)	(4,023)	(5,160)



Sample Ready Mix Co.

Impact Summary (to Material Suppliers)

Base Case vs. Maintain Volume Case							
	1999						
	- 2002	2003	2004	2005	2006	2007	2008
Cement Prices (\$/ton)	\$0.00	(\$3.66)	(\$7.31)	(\$8.78)	(\$10.24)	(\$10.24)	(\$10.24)
Sand Prices (\$/ton)	\$0.00	(\$0.49)	(\$0.98)	(\$1.18)	(\$1.38)	(\$1.38)	(\$1.38)
Aggregate Prices (\$/ton)	\$0.00	(\$0.32)	(\$0.65)	(\$0.78)	(\$0.91)	(\$0.91)	(\$0.91)

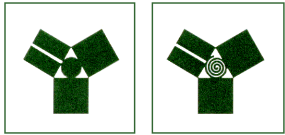


Sample Ready Mix Co.

Impact Summary

(to Ready Mix Co.)

Base Case vs. Maintain Price Case							
	1999						
(000)	- 2002	2003	2004	2005	2006	2007	2008
Volume (CYDS)	0	0	0	0	0	0	0
Price (\$/CYD)	\$0.00	\$2.50	\$5.00	\$7.00	\$9.00	\$9.00	\$9.00
Revenue	0	1,429	2,629	3,548	4,429	4,597	4,809
Cost of Sales	0	(882)	(1,622)	(2,190)	(2,734)	(2,838)	(2,968)
Gross Margin	0	547	1,006	1,358	1,695	1,760	1,841
Cumulative G.M.	0	547	1,553	2,911	4,606	6,366	8,207



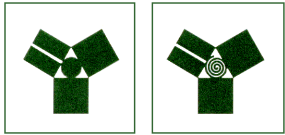
Sample Ready Mix Co.

Impact Summary (to Material Suppliers)

Base Case vs. Maintain Price Case							
	1999 - 2002	2003	2004	2005	2006	2007	2008
Cement Prices (\$/ton)	\$0.00	\$3.66	\$7.31	\$10.24	\$13.16	\$13.16	\$13.16
Sand Prices (\$/ton)	\$0.00	\$0.49	\$0.98	\$1.38	\$1.77	\$1.77	\$1.77
Aggregate Prices (\$/ton)	\$0.00	\$0.32	\$0.65	\$0.91	\$1.17	\$1.17	\$1.17

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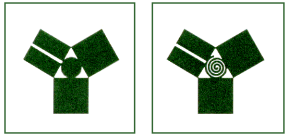


Sample Ready Mix Co.

Impact Summary

(to Ready Mix Co.)

Maintain Price Case vs. Maintain Volume Case							
	1999						
(000)	- 2002	2003	2004	2005	2006	2007	2008
Volume (CYDS)	0	(37)	(59)	(66)	(69)	(72)	(75)
Price (\$/CYD)	\$0.00	\$5.00	\$10.00	\$13.00	\$16.00	\$16.00	\$16.00
Revenue	0	787	2,301	3,467	4,807	4,990	5,106
Cost of Sales	0	24	(620)	(1,241)	(2,024)	(2,101)	(2,128)
Gross Margin	0	811	1,681	2,226	2,783	2,889	2,978
Cumulative G.M.	0	811	2,492	4,718	7,501	10,390	13,368



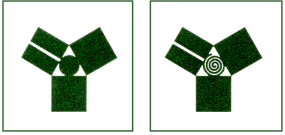
Sample Ready Mix Co.

Impact Summary (to Material Suppliers)

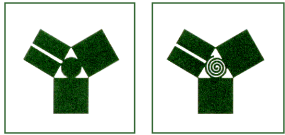
Maintain Price Case vs. Maintain Volume Case							
	1999 - 2002	2003	2004	2005	2006	2007	2008
Cement Prices (\$/ton)	\$0.00	\$7.31	\$14.63	\$19.01	\$23.40	\$23.40	\$23.40
Sand Prices (\$/ton)	\$0.00	\$0.98	\$1.96	\$2.55	\$3.14	\$3.14	\$3.14
Aggregate Prices (\$/ton)	\$0.00	\$0.65	\$1.29	\$1.68	\$2.07	\$2.07	\$2.07

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Investment Banking

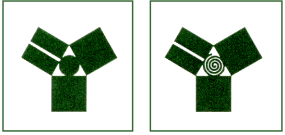


IV. Conclusion



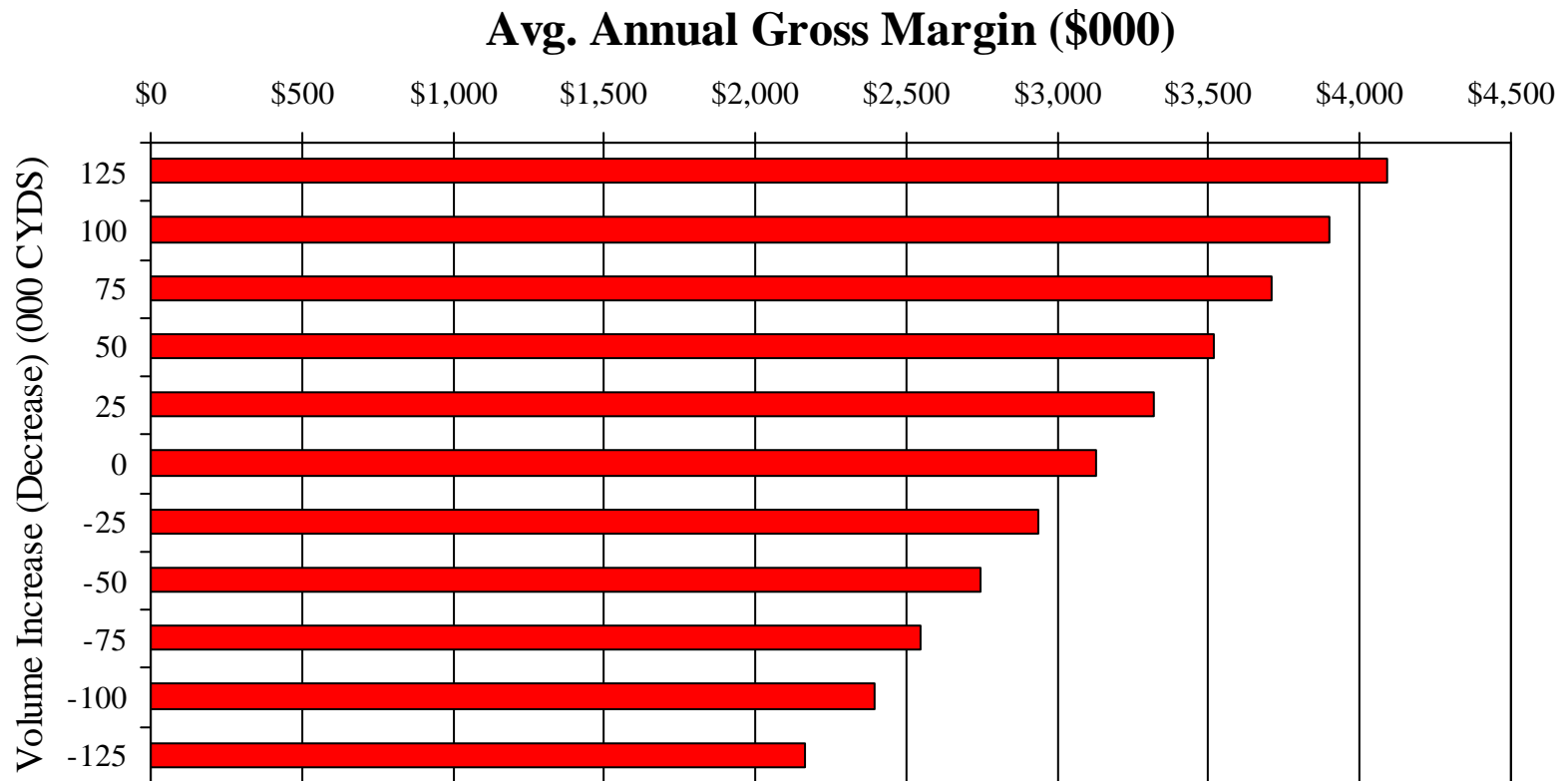
Sample Ready Mix Co. Volume Sensitivity

- In our Sample Ready Mix Co. example, for every 5% movement in ready mix volume, gross margin fluctuates \$213,000 or 5.9%.
- The cumulative impact over a ten-year period suggests that for every 5% movement in volume, gross margin will be impacted by approximately \$1.9 million.



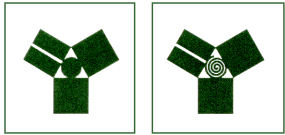
Sample Ready Mix Co.

Volume Sensitivity



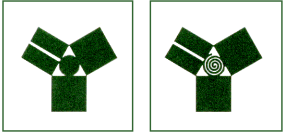
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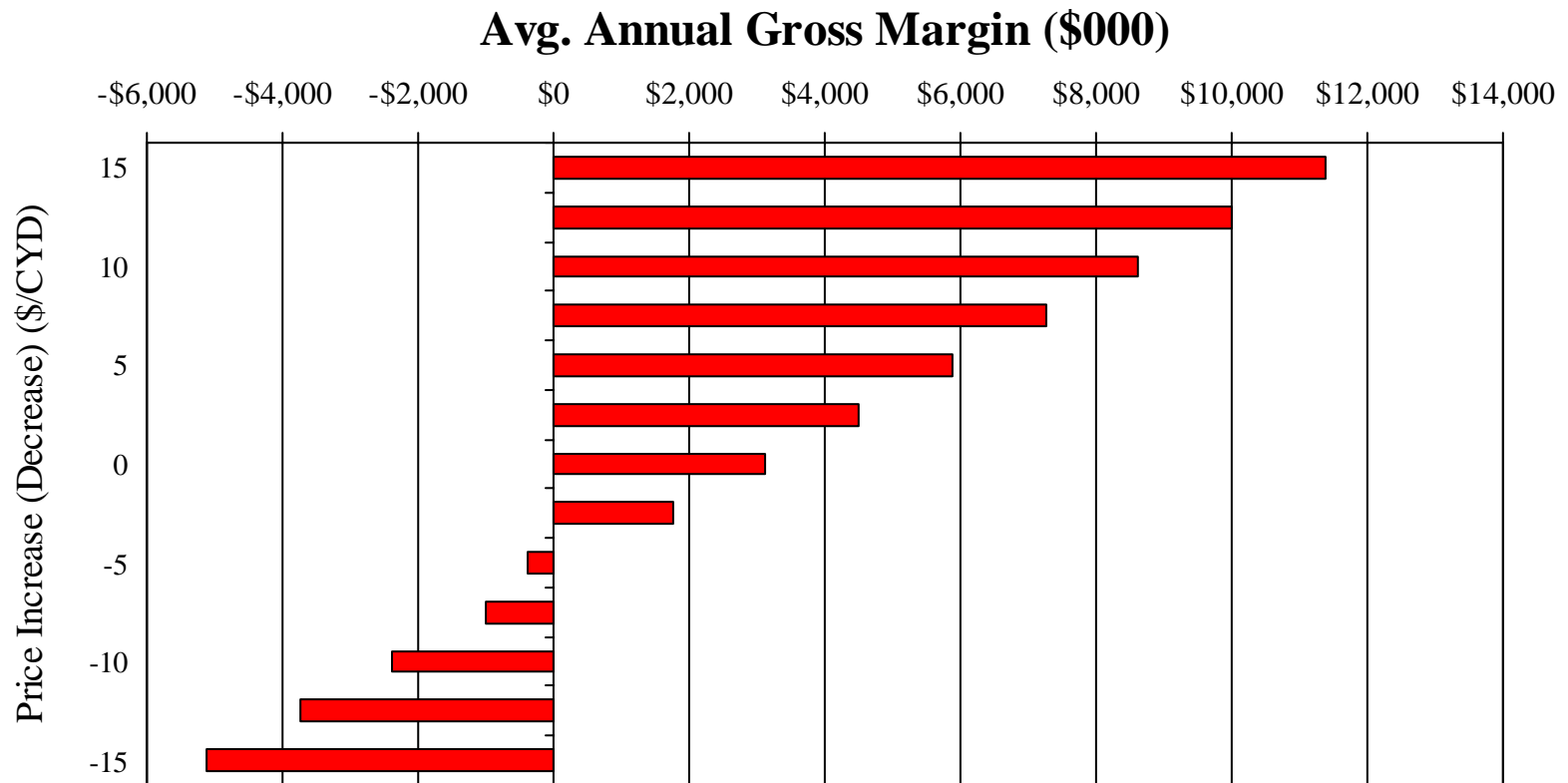


Sample Ready Mix Co. Price Sensitivity

- In our Sample Ready Mix Co. example, for every 5% movement in ready mix prices, gross margin fluctuates by approximately \$1.4 million or 39%.
- The cumulative impact over a ten-year period suggest that for every 5% movement in price, gross margin will be impacted by approximately \$13.7 million.

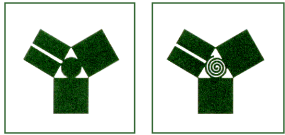


Sample Ready Mix Co. Price Sensitivity



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Investment Banking



Conclusion

- Ready mix and aggregate tend to be more sensitive to price fluctuations than volume fluctuations.
- Be prepared for the next downturn so that your company can be “pro-active” rather than “re-active.”