



Merger Mania

Will it Continue?

Presented to:

Texas Aggregate and Concrete Association

June 22, 2001

New Orleans, Louisiana

THE GREYSTONE GROUP LLC

INVESTMENT BANKING



Presentation Outline

- I. Merger & Acquisition Activity
 - A. U.S. Merger & Acquisition Activity
 - B. Consolidation of the Construction Materials Industry

- II. Economic Overview
 - A. U.S. (Macro) Economic Assessment
 - B. Texas Economic Assessment

- III. Texas Construction Materials Consumption
 - A. Aggregate Consumption 1980-2010
 - B. Ready Mix Consumption 1980-2010



I. Merger & Acquisition Activity



U.S. Merger & Acquisition Activity

- After a record breaking decade of U.S. merger and acquisition activity, the volume and value of business combinations have now moderated.
- During 1999, M&A transactions reached an all time high with the number of deals recorded at 9,278 and the total value measured at \$1.4 trillion.
- However, during 2000 announced M&A activity sent mixed signals as the number of deals grew modestly to 9,566, but the aggregate value fell by \$100 million to “only” \$1.3 trillion.

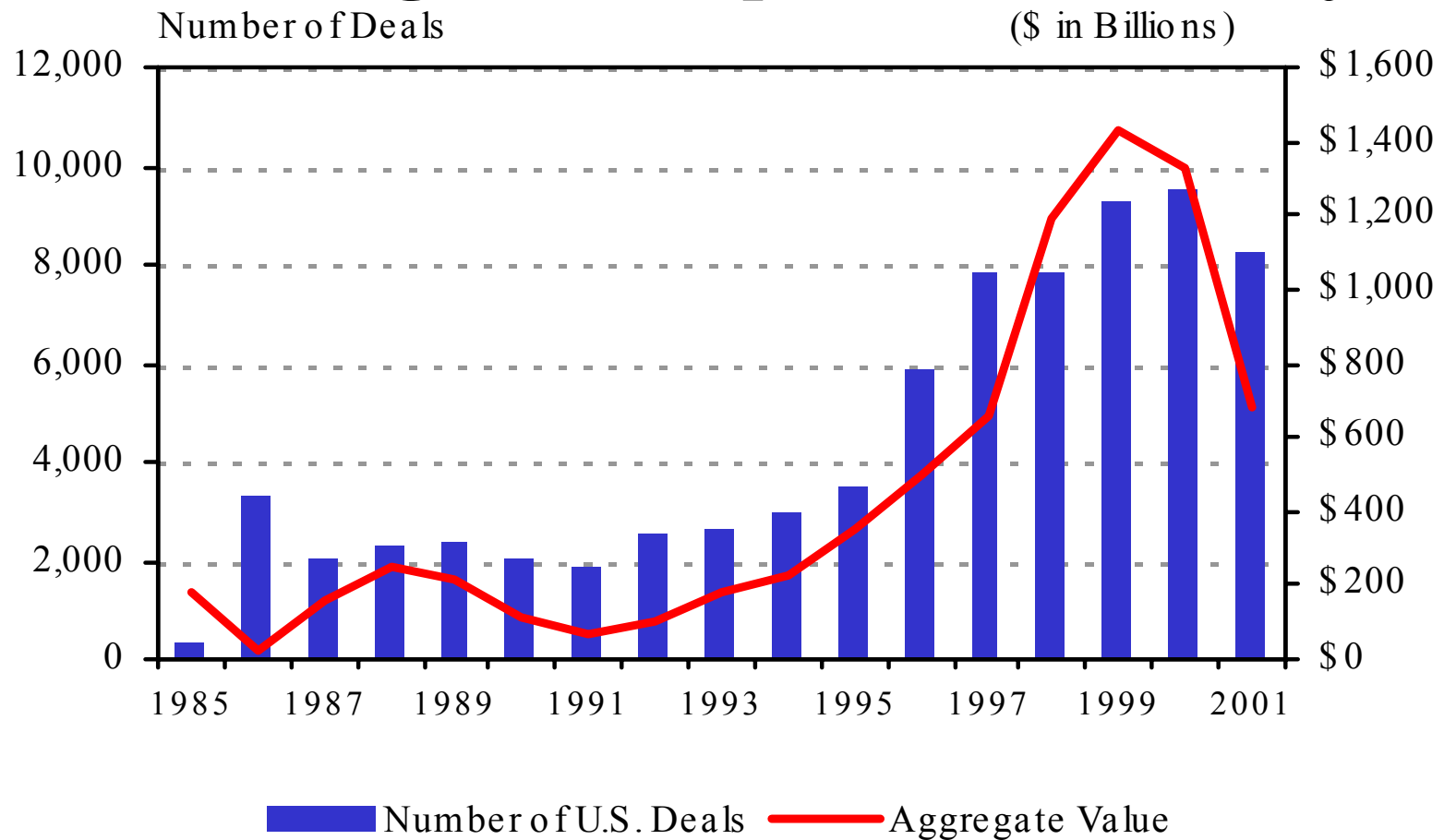


U.S. Merger & Acquisition Activity

- Clearly, a slowdown in the U.S. economy, combined with significant stock market corrections, have had an impact on deal flow.
- With further across-the-board downward pressure on share prices, it is not surprising that M&A activity has continued to cool off during the first half of 2001.
- In fact, during the first five and a half months of 2001, M&A value was only \$311.5 billion based on 3,783 announced transactions.
- Annualizing the results for the first half of 2001 yields a cautionary outlook for M&A activity for the full year.



U.S. Merger & Acquisition Activity



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



U.S. Merger & Acquisition Activity

- Assuming the trend during the first half of 2001 is an indication of M&A Activity for the rest of the year, we will see a 14 percent reduction in the number of transactions and a 49 percent drop in the aggregate transaction value in 2001.
- For most companies and industries, however, the outlook is somewhat skewed because the anticipated reduction of the “mega-deals” causes the dramatic decline in the projected total value.
- Equally important is the notion that the reduction in total M&A value is skewed by the dramatic loss of value in technology related industries, including internet, telecommunications, and computer related sectors.



U.S. Merger & Acquisition Activity

Jan 1 - Jun 11, 2001

Rank	Classification	Deals	Value (\$Mil)	Percent
1	Banking & Finance	124	\$49,839	16.0%
2	Drugs, Medical Supplies & Equipment	113	\$40,221	12.9%
3	Insurance	127	\$30,715	9.9%
4	Oil & Gas	55	\$24,937	8.0%
5	Brokerage, Investment & Mgmt. Consulting	260	\$18,039	5.8%
6	Computer Software, Supplies & Services	853	\$17,955	5.8%
7	Broadcasting	63	\$15,575	5.0%
8	Food Processing	60	\$15,549	5.0%
9	Miscellaneous Services	359	\$15,060	4.8%
10	Electronics	81	\$10,788	3.5%
	Other Industries	1,688	\$72,779	23.4%
	Total	3,783	\$311,456	100.0%

THE GREYSTONE GROUP LLC

INVESTMENT BANKING



U.S. Merger & Acquisition Activity

- Accordingly, while there has been some reduction in the number of M&A transactions and valuations in the construction materials industry during the past 12 months, the impact has been, and will continue to be, much less dramatic due to a number of factors:
 - Industry still largely fragmented.
 - Buyers still have access to cash.
 - M&A activity is based more on DCF valuations than multiples.
 - Better forecasting drives more reasonable cash flow assumptions.
 - Companies have greater tangible (asset) values.
 - Positive long-term outlook with a solid economy yields strong public construction spending.



Recent Transactions in C&M Industry

- During 2000, nearly every large construction materials company was involved in an acquisition or divestiture.
- While there were a large number of “middle-market” deals consummated during 2000, the valuations sky-rocketed as a result of a few “Big Bertha’s” such as Lafarge-Blue Circle & Cemex-Southdown.
- We believe that the industry will continue to evaluate mergers, acquisitions and divestitures for strategic growth and realignment of assets during 2001 and beyond. However, with the valuations tempering, we anticipate a reduction in “irrational” deals during the next several years.

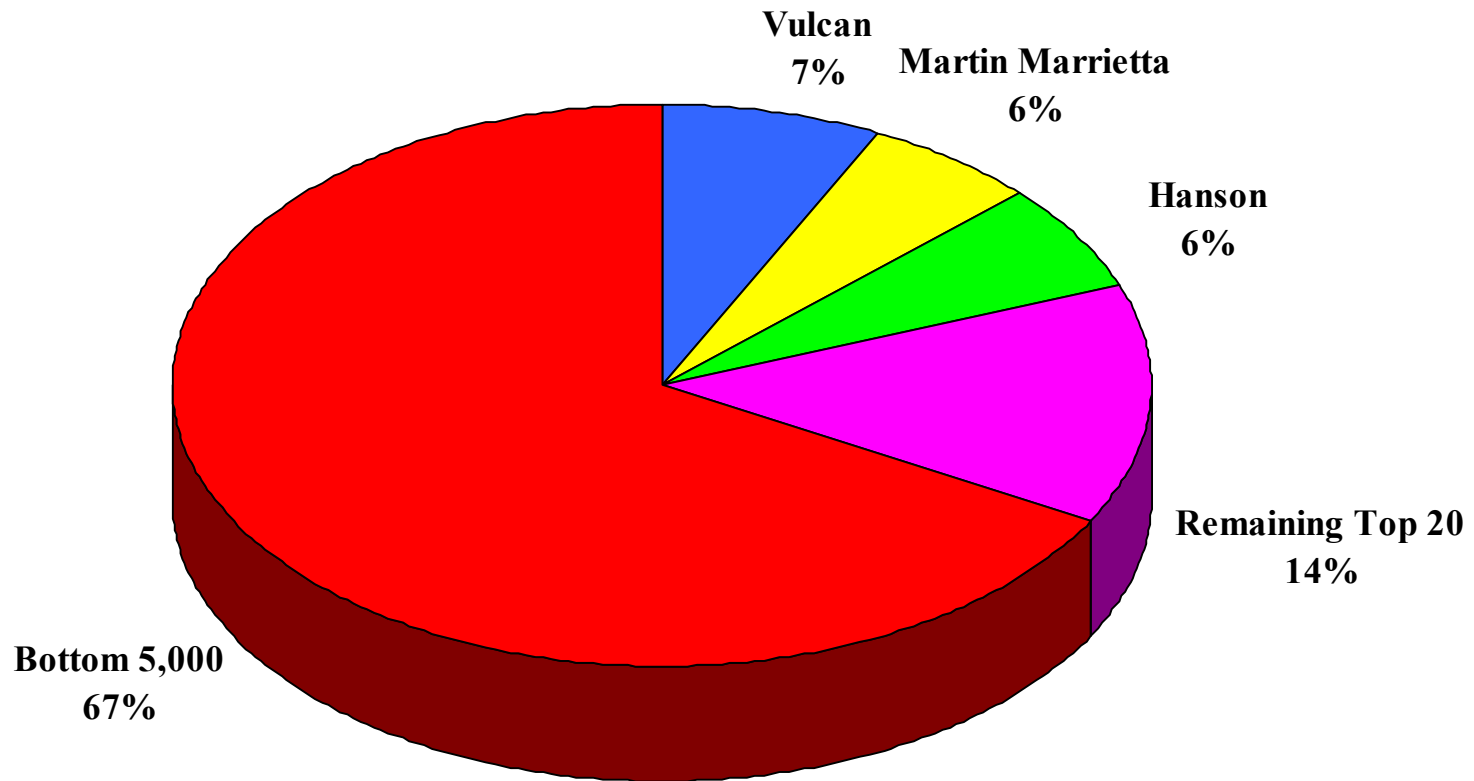


Continued Consolidation in C&M Industry?

- Despite continued M&A activity, the construction materials industry remains fragmented.
- The top twenty U.S. aggregate producers still only own one-third of the total domestic aggregate production.
- Furthermore, the top three producers, Vulcan, Martin Marietta and Hanson, control less than 20 percent of the total U.S. production.
- Accordingly, an estimated 5,000 companies control the remaining two-thirds of the U.S. aggregate production, providing substantial opportunity for further consolidation.



2000 Estimated Aggregate Production



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



Continued Consolidation in C&M Industry?

- Given the fact that only one-third of all U.S. aggregate production is in the hands of the top twenty aggregate producers, significant consolidation opportunities still exist.
- However, transaction activity will fluctuate with economic trends, construction cycles and the annual appetite of the large consolidators.
- Current transaction activity is the result of:
 1. Strong Cash Flow
 2. Dividends vs. Expansion
 3. Cash – “A Non-Performing Asset”
 4. Foreign Ownership
 5. Strong Long-Term U.S. Markets



Continued Consolidation in Texas?

- The fragmentation found on the national level holds true on the regional level as well, including the state of Texas.
- Despite some consolidation within the larger metropolitan areas fragmentation still exists in rural markets and several metropolitan areas.
- As the industry continues to evolve and see new cycles, Texas will experience further consolidation in the construction materials industry.



II. Economic Overview



Macro Economic Assessment

- According to the most recent data available, the current economic expansion has run for 121 consecutive months (April 2001), and has become the longest period of economic growth in U.S. history.
- However, it is also becoming increasingly clear that the fantastic period of economic growth we have experienced during the decade of the 1990s has begun to slow.
- As a number of economic indicators attest, the growth in the domestic economy started to decelerate during the third quarter of 2000, and appears to have continued to moderate through the first two quarters of 2001.
- This has been particularly accentuated by the recent declines of the stock market, which have added further gloom to the already lackluster forecasts of the nation's economy.



Macro Economic Assessment

- However, notwithstanding a further correction in the market value of the technology industry, the overall economy is still relatively healthy and resilient, and the possibility of a repeat of the crash of 1987 remains low.
- The U.S. posted a low unemployment rate (4.4 percent in May 2001), inflation is tame, job creation is continuing to grow (0.9% growth in non-farm employment between March 2000 and March 2001) and interest rates continue to fall, lowering the cost of mortgages and car loans.
- Moreover, a general economic slowdown has been overdue in our opinion, in order to establish a more sustainable pace of long-term economic growth.
- Despite a slowdown in the Gross Domestic Product (GDP) during the second half of 2000, the total real GDP increase for the year was 5.0 percent, compared with an increase of 4.2 percent in 1999.



Macro Economic Assessment

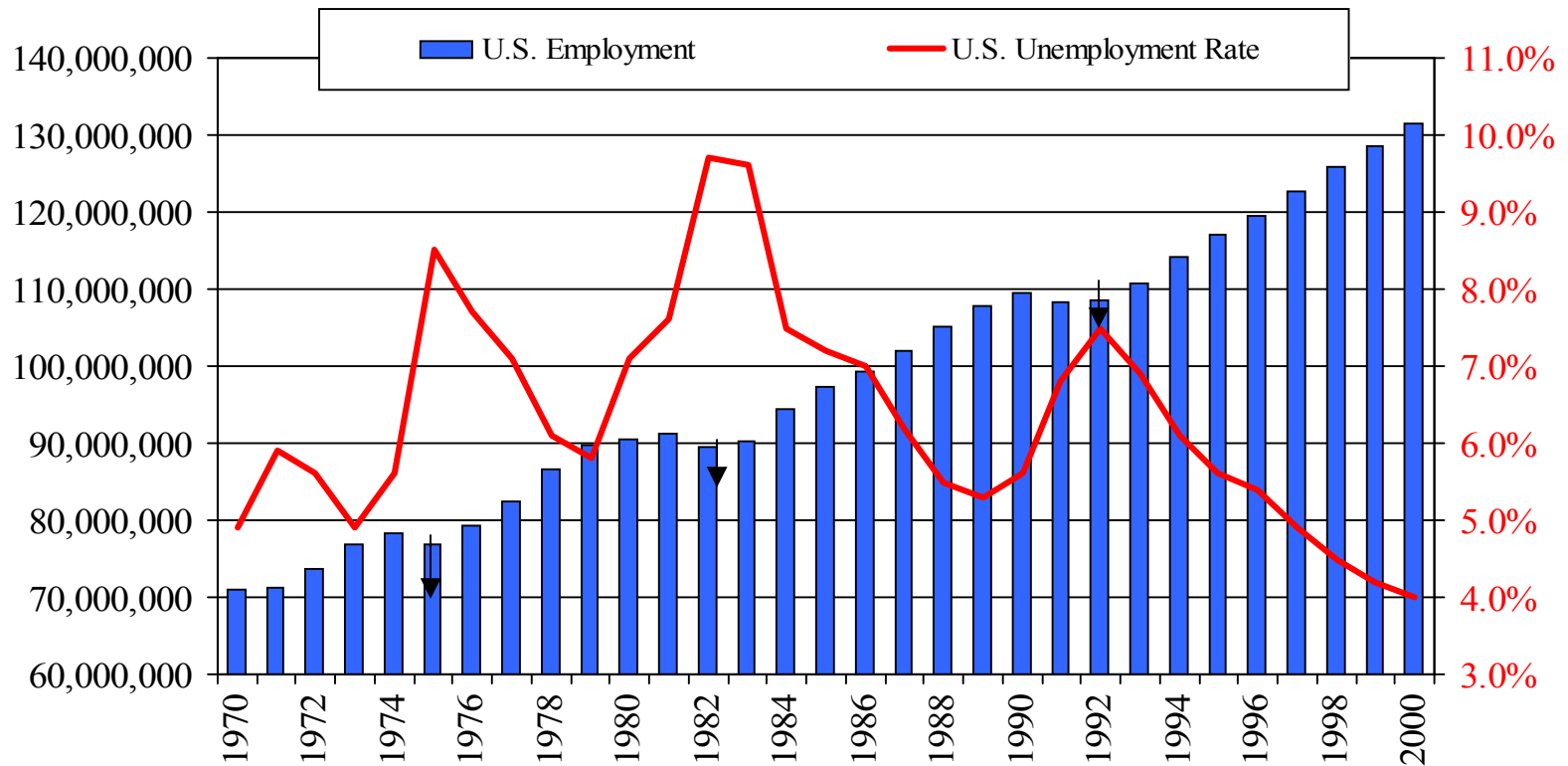
- This performance is impressive when recalling that economists typically view a 2.5 - 3.0 percent average annual GDP growth rate as the sustainable long-term trend.
- Accordingly, once again we see proof that our national economy expands in a cyclical fashion, with several years of growth (typically 5-10) followed by a a few years of moderation (typically 1-3).
- This “old school” economic thought had seen some challenge during the last few years, as select economists argued that continued increases in productivity and technological improvements could support long-term linear growth at above average historical rates.
- A brief look at past U.S. employment figures and unemployment rates offer some insight to the cyclical history of the U.S. economy.



Macro Economic Assessment

U.S. Employment & Unemployment Rate

1970-2000



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



Macro Economic Assessment

- As it appears that the U.S. economy is transitioning to moderate to slow growth, or perhaps even negative growth, we are currently closing the chapter on the fourth and strongest period of economic growth since the 1960s.
- But a correction and realignment in certain industries, stock markets, local metropolitan economies, political policies, tax laws and employment trends does not pose a threat to the long-term health of the economy.
- In fact, it is this slowdown that the Federal Open Market Committee (FOMC), headed by Chairman Alan Greenspan, has tried to foster through its conservative interest rate policies.
- After maintaining the target federal funds rate at 6.5 percent during the previous six meetings, the Fed dropped the target rate by a cumulative 2.5 basis points during its first five meetings of 2001. With the federal funds rate at a low 4.0 percent, Greenspan is hoping to alleviate some of the accumulating pressures of the declining economy.



Macro Economic Assessment

- The Fed's move also gave a clear indication that the risks of inflation and price pressure have subsided, and that they are now preparing for the historically sought after, but often absent "soft landing."
- According to the Federal Reserve's Beige Book dated June 13, 2001, an economic slowdown has begun with a majority of Federal Reserve Districts reporting sluggish to modest economic growth during the first five months of the year.
- The report confirms that retail sales have slowed, inventories are beginning to rise, manufacturing activity is weakening, and some pressure is beginning to ease in labor markets.



Macro Economic Assessment

Construction Industry Outlook

- So what does this mean for the construction industry?
- Driven by strong economic and demographic growth, the U.S. construction industry had a record year in 2000 with continued growth in population, construction employment, construction spending and construction materials consumption.
- Accordingly, construction spending and construction materials consumption once again outperformed the prior year in terms of total numbers, although growth rates appear to be moderating in line with the overall economy.



Macro Economic Assessment

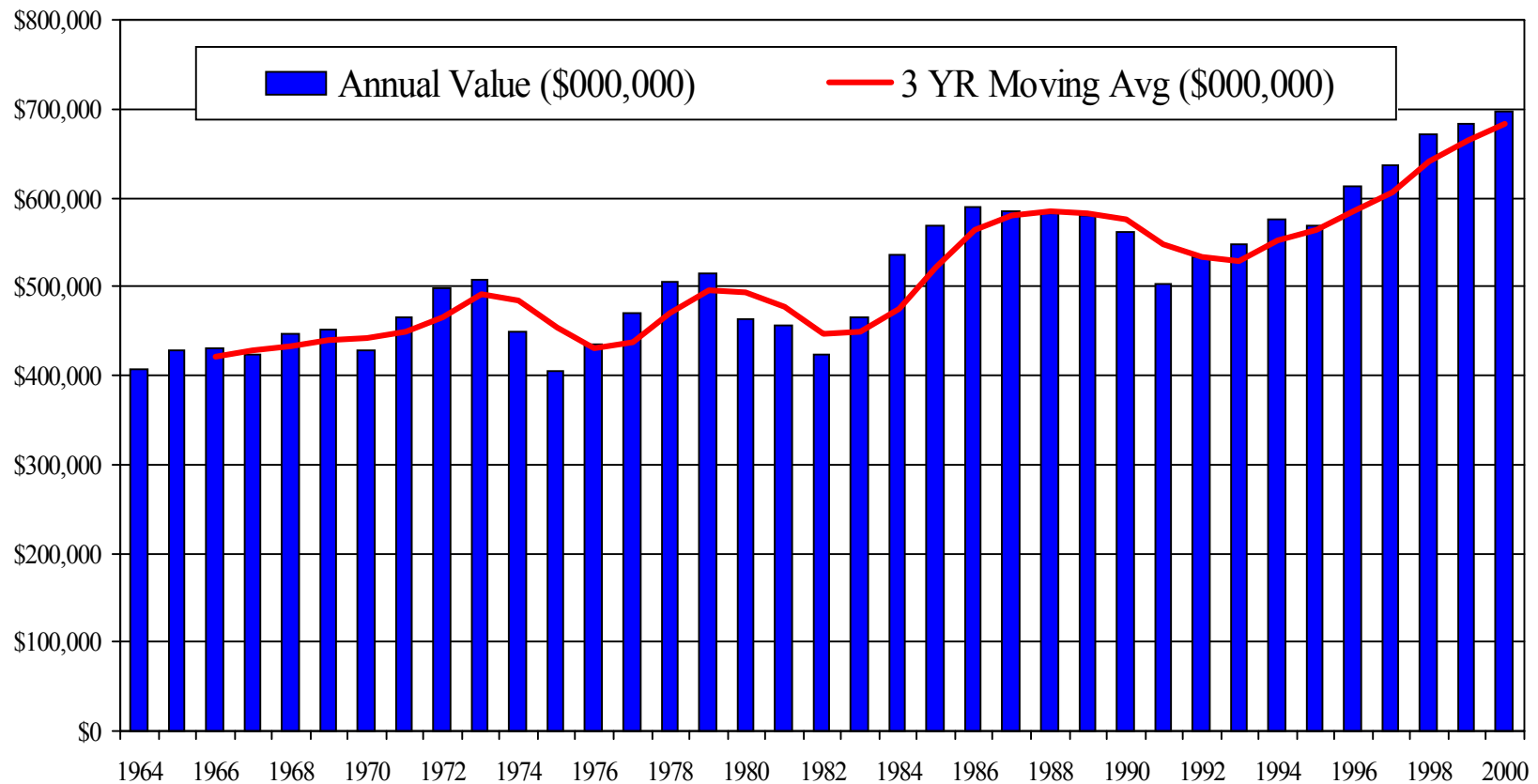
Construction Industry Outlook

- Just as the U.S. economy has gone through periods of fast growth, followed by periods of moderation or correction, the U.S. construction industry has been predictably cyclical.
- The current expansion has been particularly favorable given its consistent strong growth compared to the prior three cycles which either saw a shorter and more aggressive growth curve (75-82 and 82-91), or a longer but less consistent expansion (64-75).
- The current expansion has sustained this long, and will see less of a down cycle in the next dip, because (1) it started more moderately, (2) is seeing moderation affected by varying regional pacing, (3) will continue to benefit from a strong and diversified economy driven by improved productivity and smarter fiscal policy, and (4) will enjoy smoothing due to new federal spending programs (i.e. TEA-21).



U.S. Construction Cycles

Total Value Put in Place (Constant 1996 Dollars)



THE GREYSTONE GROUP LLC

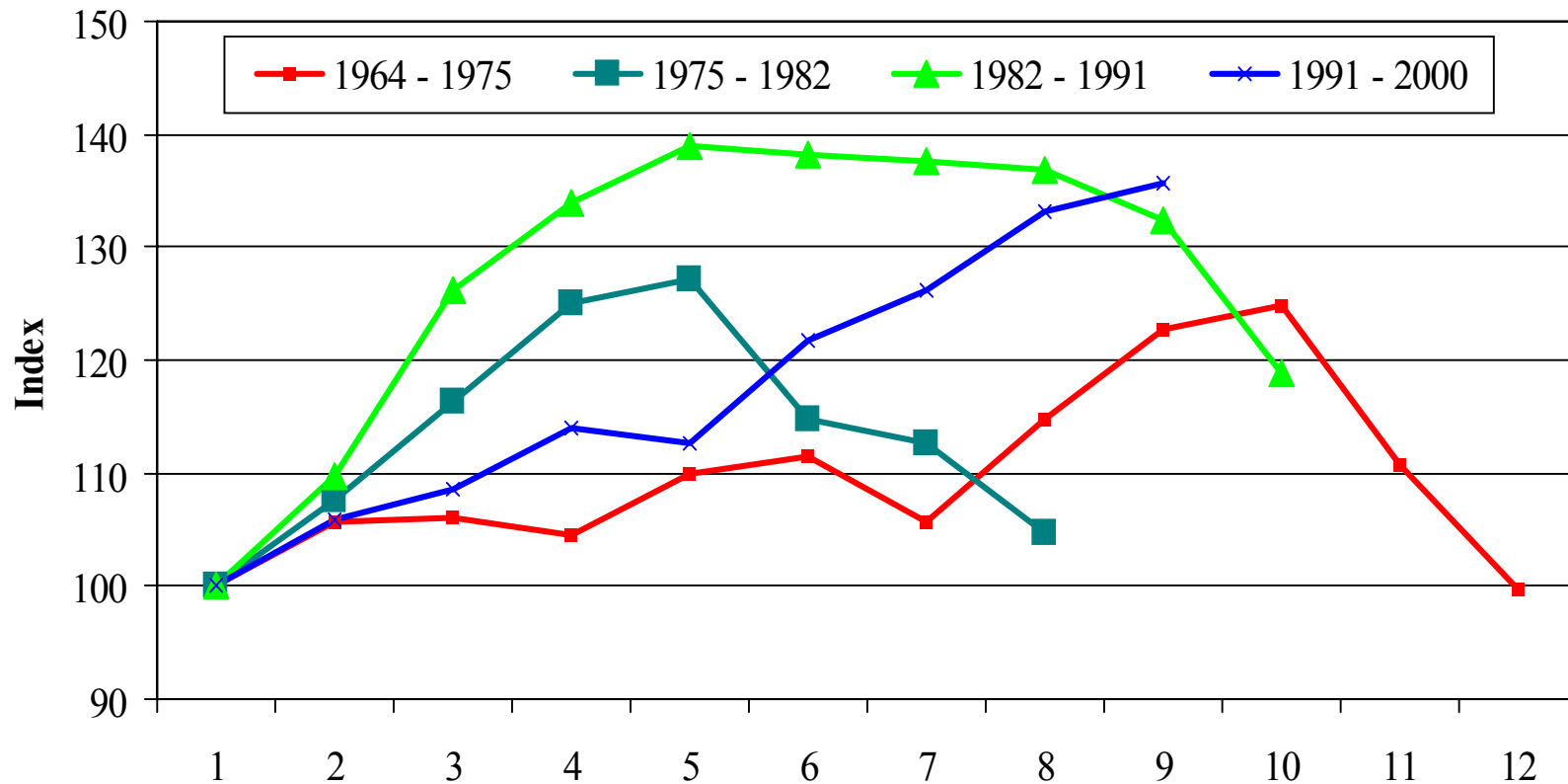
INVESTMENT BANKING



U.S. Construction Cycles

Total Value Put in Place

Indexed Cycle Comparisons



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



Macro Economic Assessment

Construction Industry Outlook

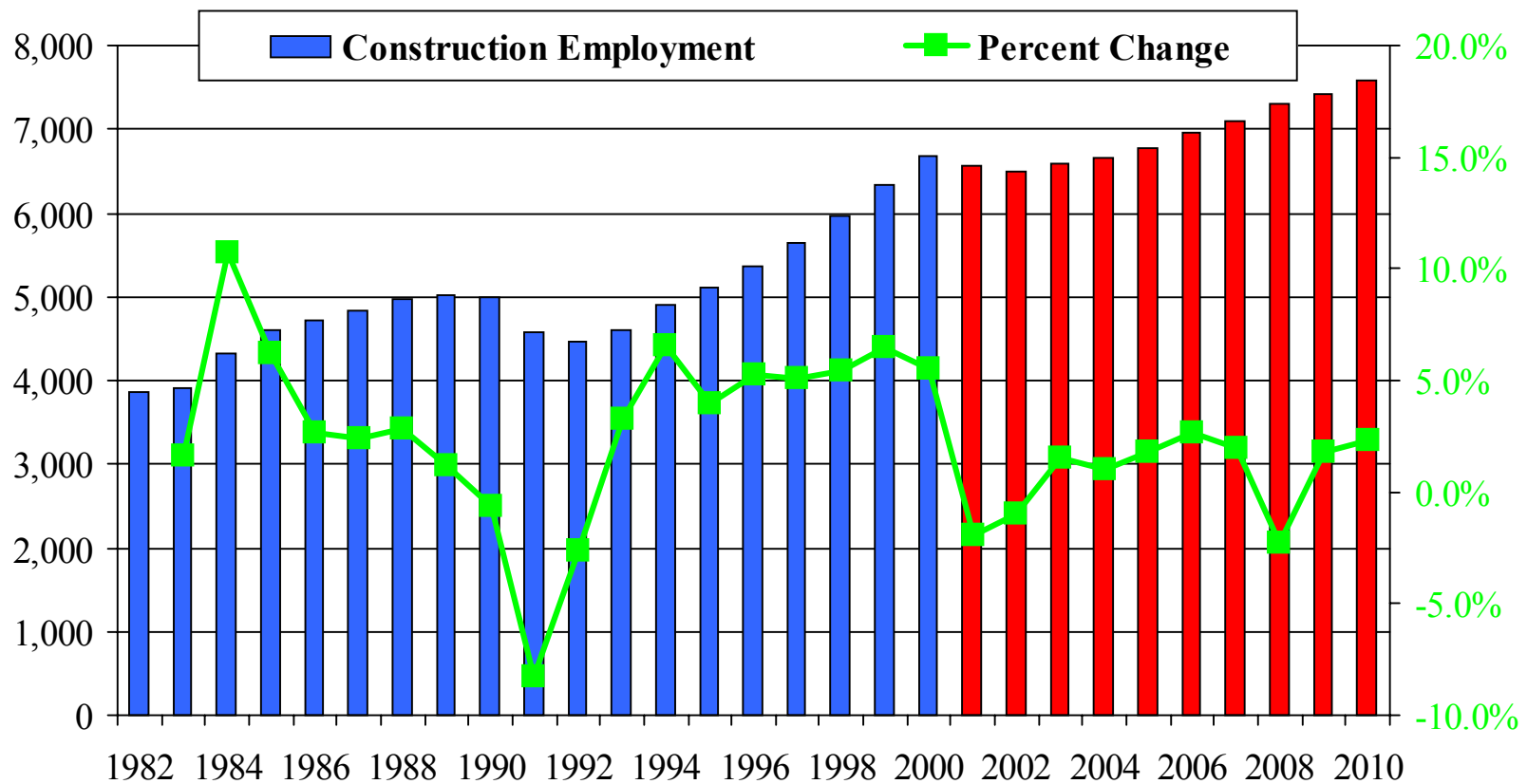
- Currently, the United States is home to an estimated 275 million residents filling 131 million non-farm jobs. Approximately 6.4 million, or 4.8 percent of total non-farm employment, are employed in the construction industry.
- During the past eighteen years, U.S. construction employment has recorded overall positive and cyclical growth, averaging a compound annual growth rate (CAGR) of 3.1 percent per year.
- The next decade is cast to record a 1.6 percent CAGR, bringing construction employment to a record high 7.6 million employees by 2010. A more tempered growth rate reflects today's current high levels of activity.



Macro Economic Assessment

U.S. Construction Employment

(000 Persons)



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



Macro Economic Assessment

Construction Industry Outlook

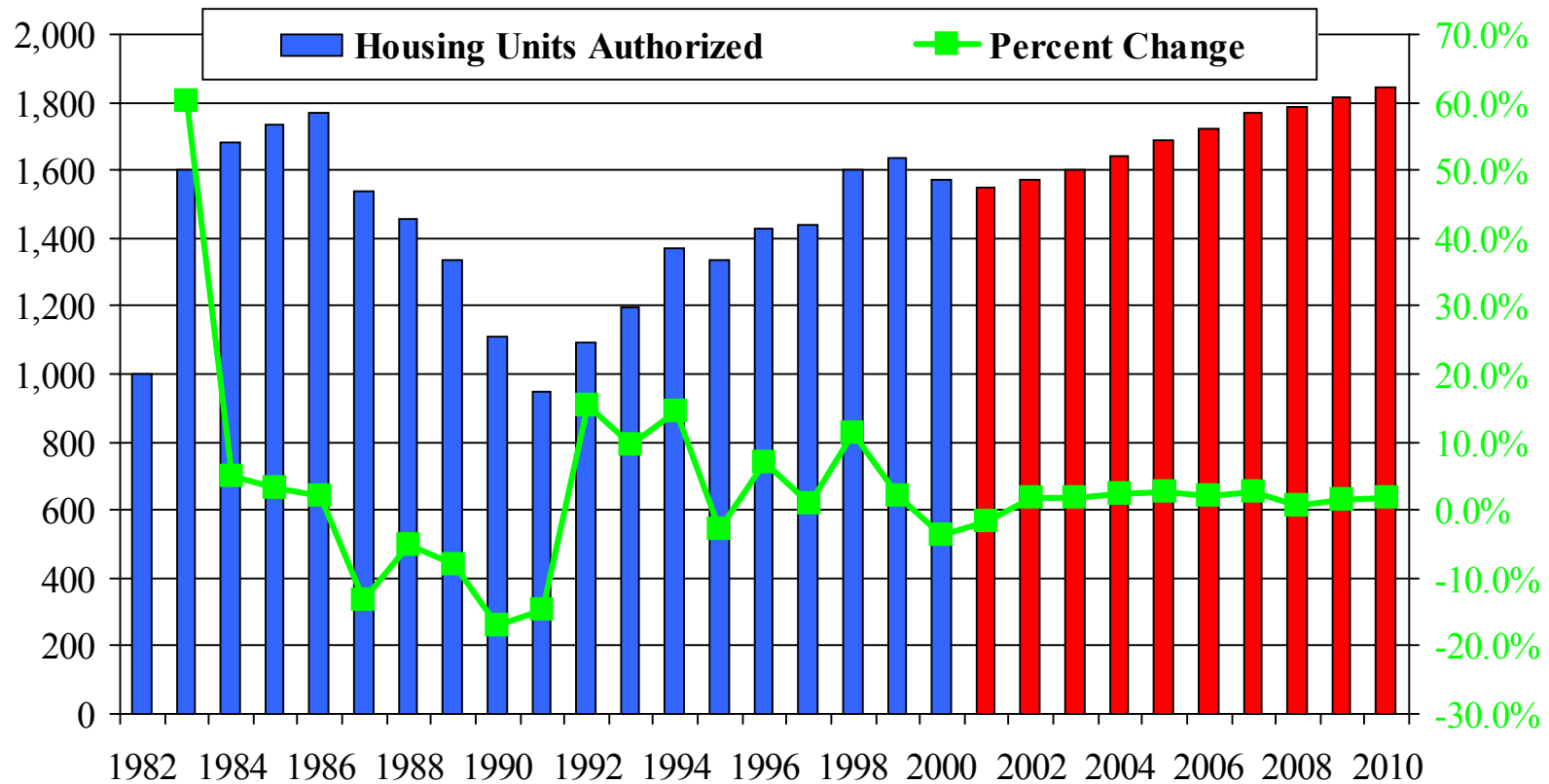
- In the 2000 residential sector, housing starts, although not as robust as 1999, remained strong with just under 1.6 million units authorized.
- As lending rates have come down during the first half of 2001, residential activity is expected to remain strong for the balance of the year.
- Housing starts, as well as Housing Units Under Construction, through May 2001 (released June 19), exceeded those for the same period in both 1999 and 2000, both of which were exceptionally strong years. Current housing data suggests an annualized rate of 1.62 million units, approximately 3.0 percent of 2000. WE ARE STILL FORECASTING 1.58 MILLION UNITS.
- Housing units are expected to expand at an average annual compound rate of 2.0 percent during the next ten years to exceed 1.8 million units by 2010.



Macro Economic Assessment

U.S. Housing Permits

(000 Units)



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



Macro Economic Assessment

Construction Industry Outlook

- Total construction, measured by value put in place also remains strong. During 2000 the industry recorded \$704.0 billion of construction laid in place (constant 1996 dollars), a 2.0 percent increase over the 1999 total.
- Private construction accounts for 77.6 percent of all spending, with residential building representing nearly two-thirds of all private building.
- For the first four months of 2001, the total value put in place has remained high, at levels similar to those posted in 2000.



Macro Economic Assessment

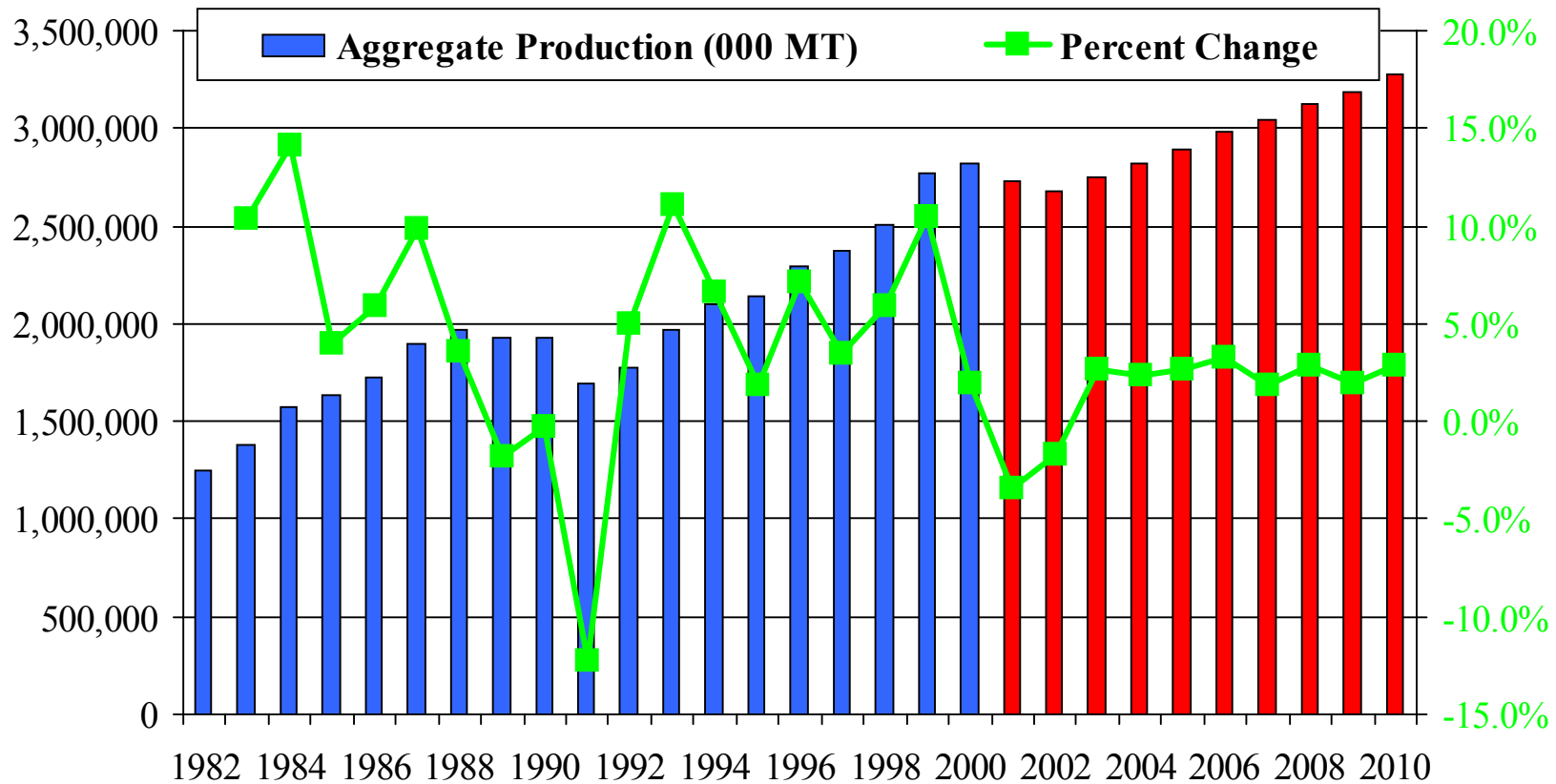
Construction Industry Outlook

- With continued growth in population, residential, commercial and public building during the next decade, construction services and construction materials will continue to be in high demand.
- And while the forecast period will continue to see cyclical growth in construction activity, the gyrations during the forthcoming decade should be less extreme than they have been in the past.
- Aggregate production is cast grow to 3.3 billion tons by 2010, recording an average annual compound growth rate of 2.1 percent.
- In the same fashion, the demand for ready mix concrete is estimated to grow at an average annual compound growth rate of 1.6 percent.



Macro Economic Assessment

U.S. Aggregate Production (000 Metric Tons)



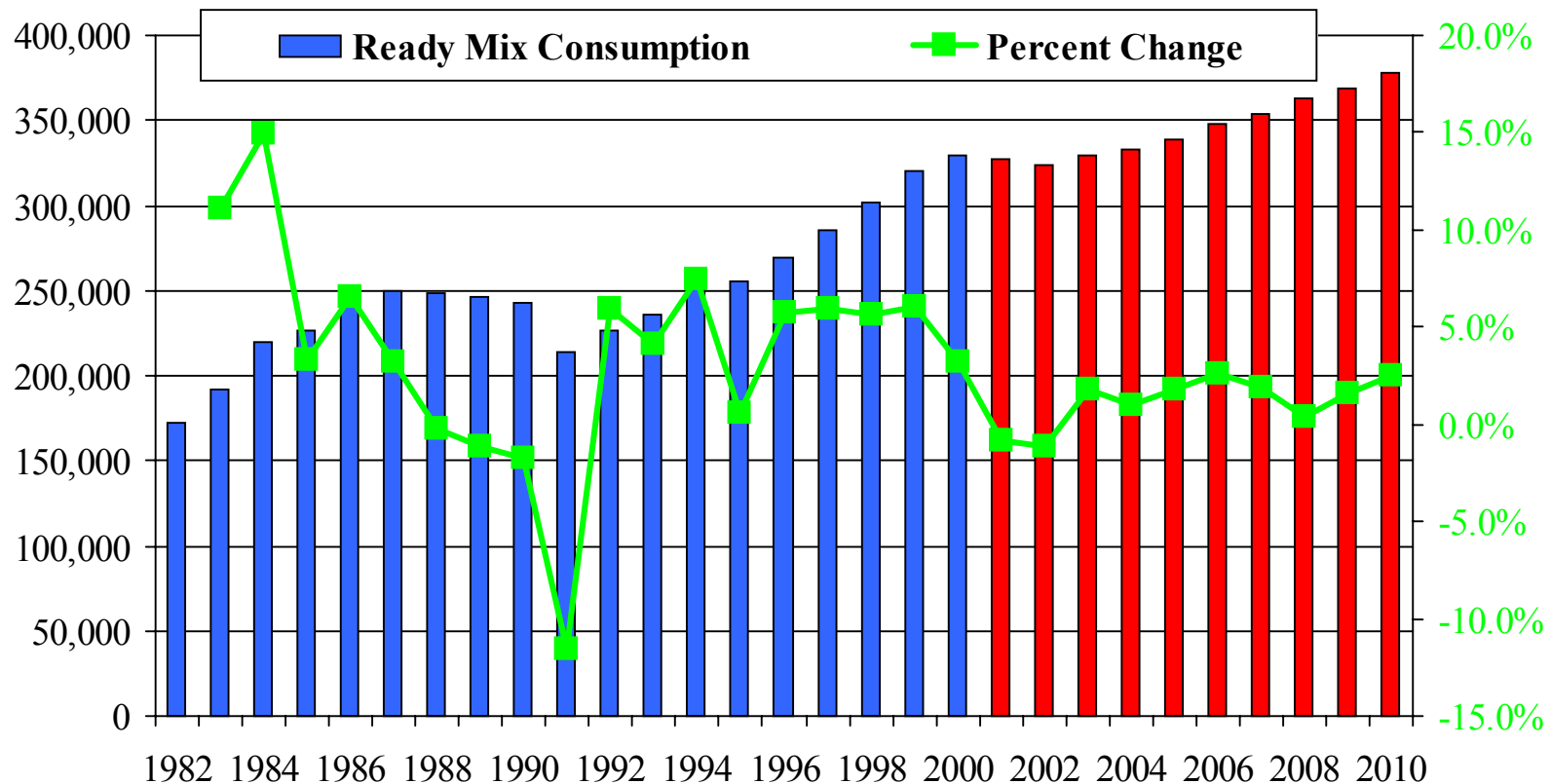
THE GREYSTONE GROUP LLC

INVESTMENT BANKING



Macro Economic Assessment

U.S. Ready Mix Concrete Consumption (000 Cubic Yards)



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



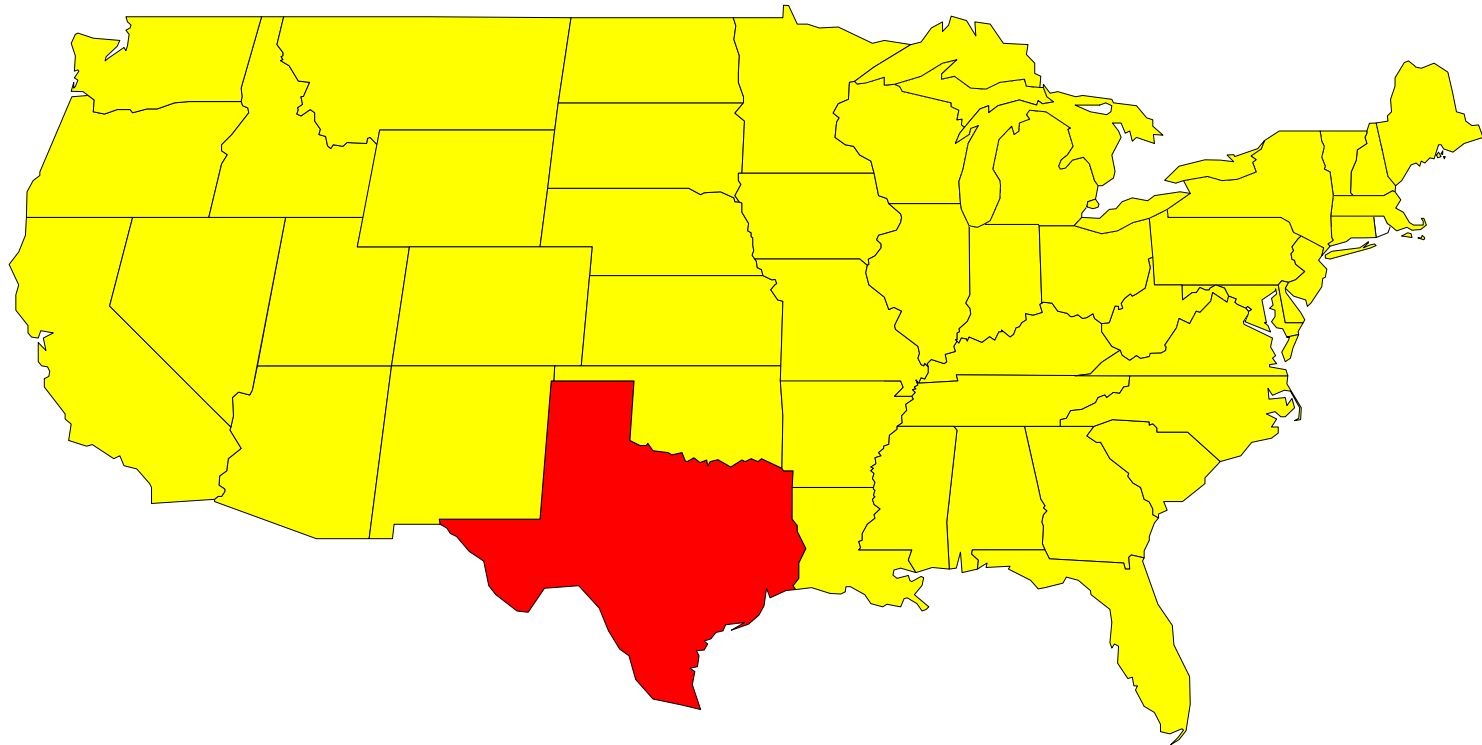
Macro Economic Assessment

Conclusion

- In summary, construction materials companies will experience record consumption levels during the next decade, well above any previous ten-year period.
- However, we don't think 2001 will be as strong as 1999 and 2000 because of last year's incredible growth on top of an already long expansion period.
- Despite a smoothing effect on the national level, regional and local materials consumption will continue to fluctuate from year to year.
- Additionally, during the decade ahead we believe that construction activity in Texas will grow at above average rates as the state offers a series of economic advantages.



Texas Economic Assessment



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



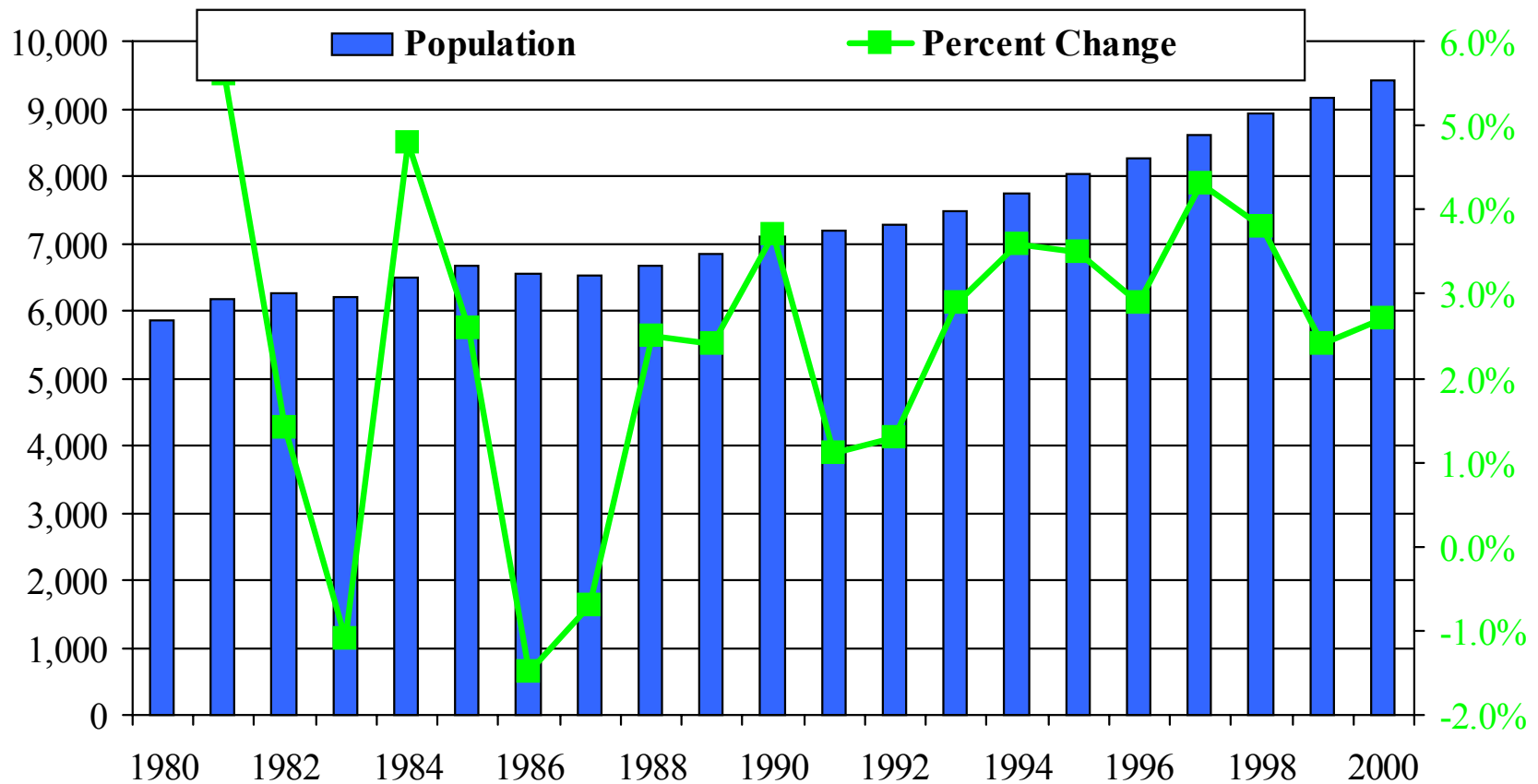
Texas Economic Assessment

- Home to 20.3 million people (2000 Census estimate), Texas is the second most populous state in the nation and hosts two of the ten most populous U.S. cities.
- The Lone Star state also represents one of the most influential U.S. state economies.
- Its estimated \$737.4 billion gross state product (2000) ranks third in the nation, superseded only by California and New York.
- The state also offers a tremendous workforce with 9.6 million (April 2001, not seasonally adjusted) well-educated non-farm workers.



Texas Economic Assessment

Non-Farm Employment - 000 persons



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



Texas Economic Assessment

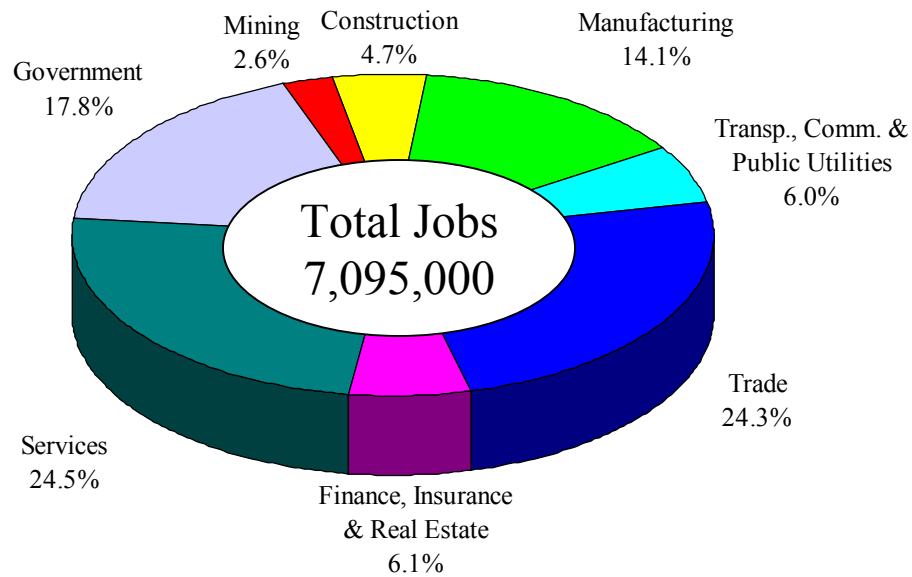
- Moreover, this large workforce is the result of a surge in business activity during the decade of the 1990s, which provided Texas an average annual job growth rate of 3.0 percent.
- In terms of total employment, Texas passed the 7.0 million mark in 1990, reached 8.0 million jobs in 1995, and increased to 10.0 million jobs in late 2000.
- To put this in context, Texas added more jobs during the past decade than any other state in the nation, including California, which has a 50 percent larger population base.
- With its broad based economic platform represented in almost every MSA throughout the state, Texas is in a position to experience above national average economic growth during the next decade.



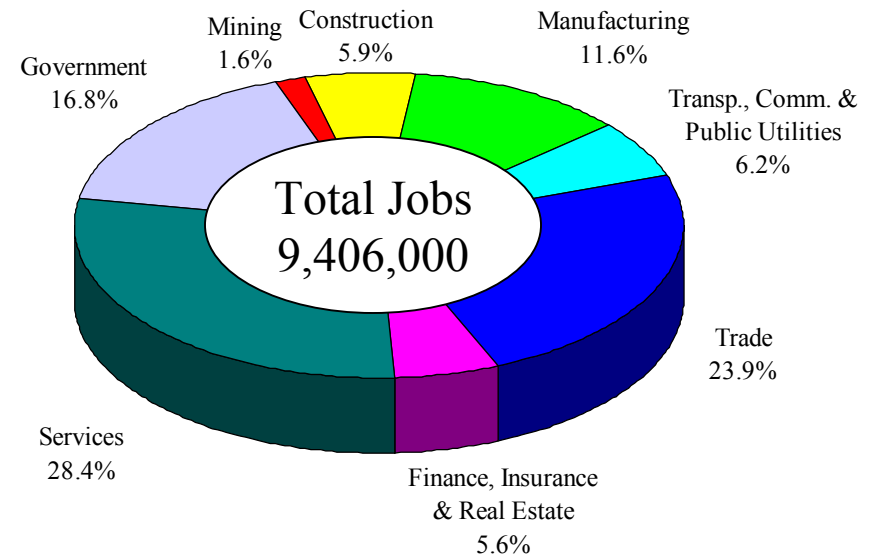
Texas Economic Assessment

Non-Farm Employment Distribution

1990



2000



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



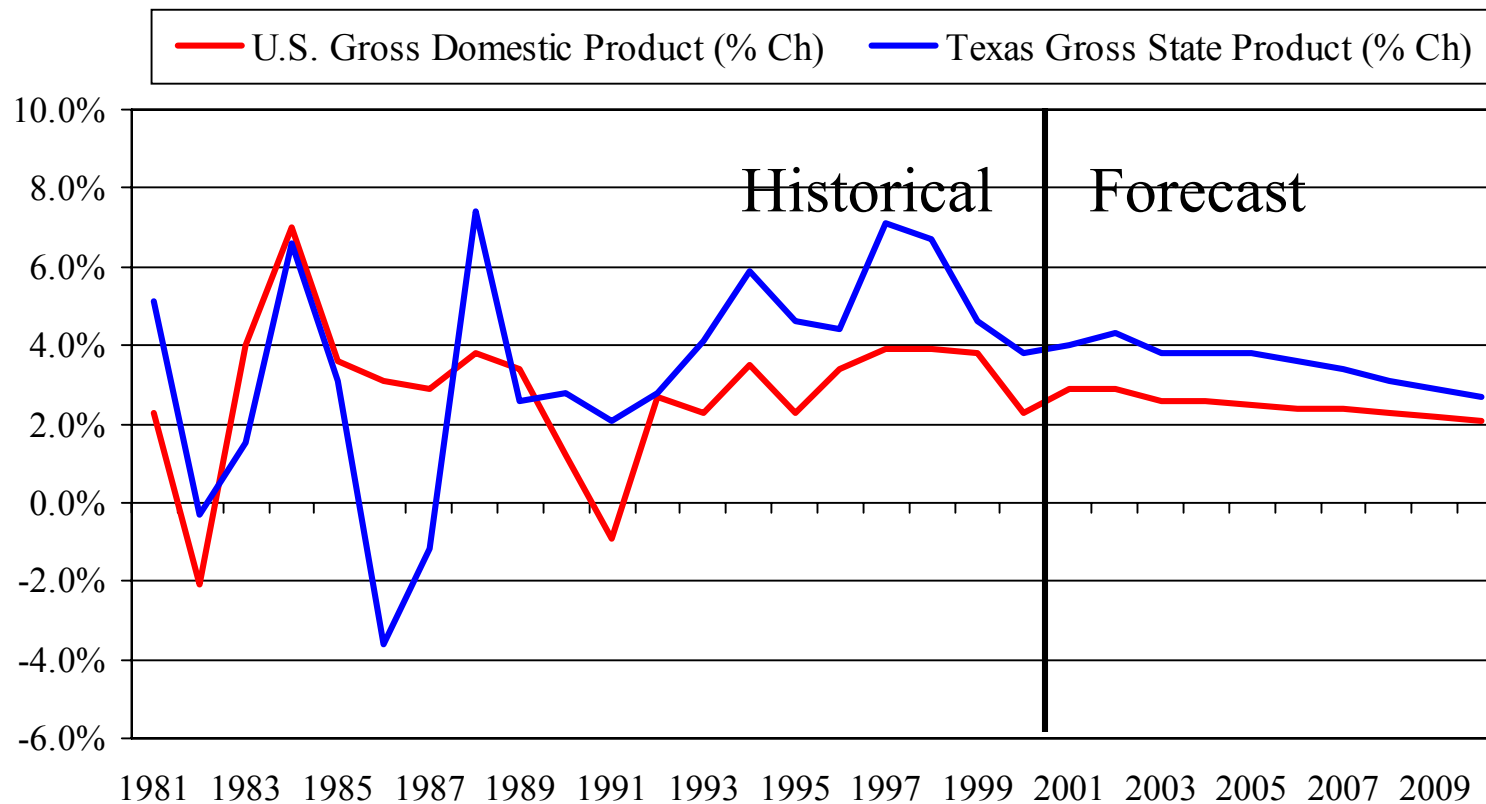
Texas Economic Assessment

- Since 1992, the Texas Gross State Product has increased at a greater rate than that of the national Gross Domestic Product, averaging a compound annual growth rate (CAGR) of 4.9 percent compared to the nation at 3.1 percent.
- More importantly, the Texas economy will likely continue to outperform the national rate throughout the forthcoming decade, as the state has a higher representation in those industries that are forecast to grow above average (high technology, communications, engineering, research and business services, and trade).
- The Texas Comptroller estimates that Texas' GSP will grow at a CAGR of 3.5 percent during the forthcoming decade compared to the Nation's GDP at a CAGR of 2.5 percent.



Texas Economic Assessment

Texas GSP vs. U.S. GDP Growth Rates





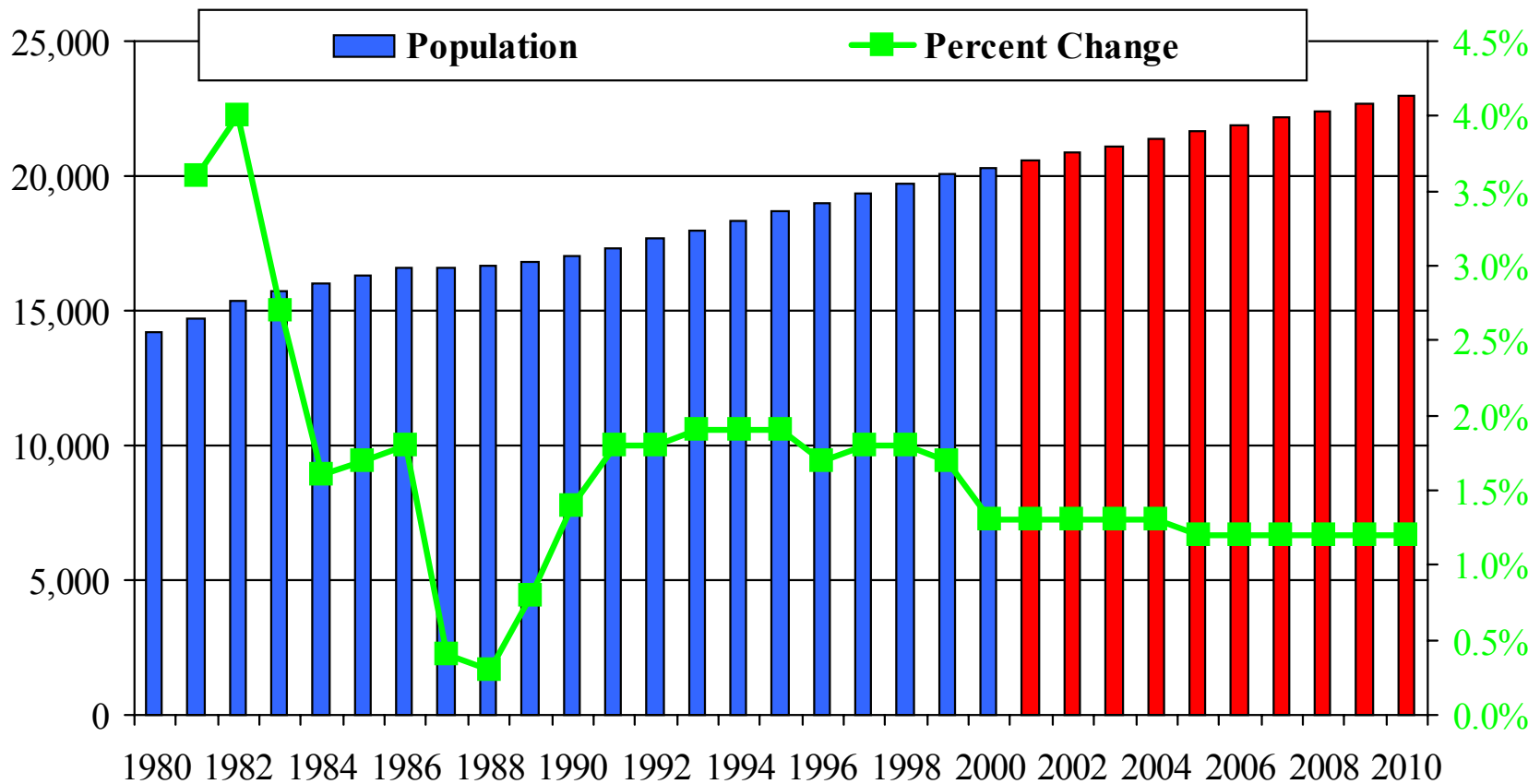
Texas Economic Assessment

- Supporting growth in the general economy, Texas demographics have also been a baseline driver for escalating construction activity and materials consumption.
- Indicating a cyclical trend with correlation to the general economy, Texas population growth slowed during the late 1980s and picked up pace subsequent to the 1990-1991 national recession.
- During each of the last two decades, the state recorded an average annual population gain of approximately 1.8 percent, comparing favorably with the national rate of 1.0 percent during the same period.
- During the next decade U.S. population growth is expected to slow to an average of 0.8 percent, while Texas moderates to an average pace of 1.2 percent.



Texas Economic Assessment

Population - 000 persons



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



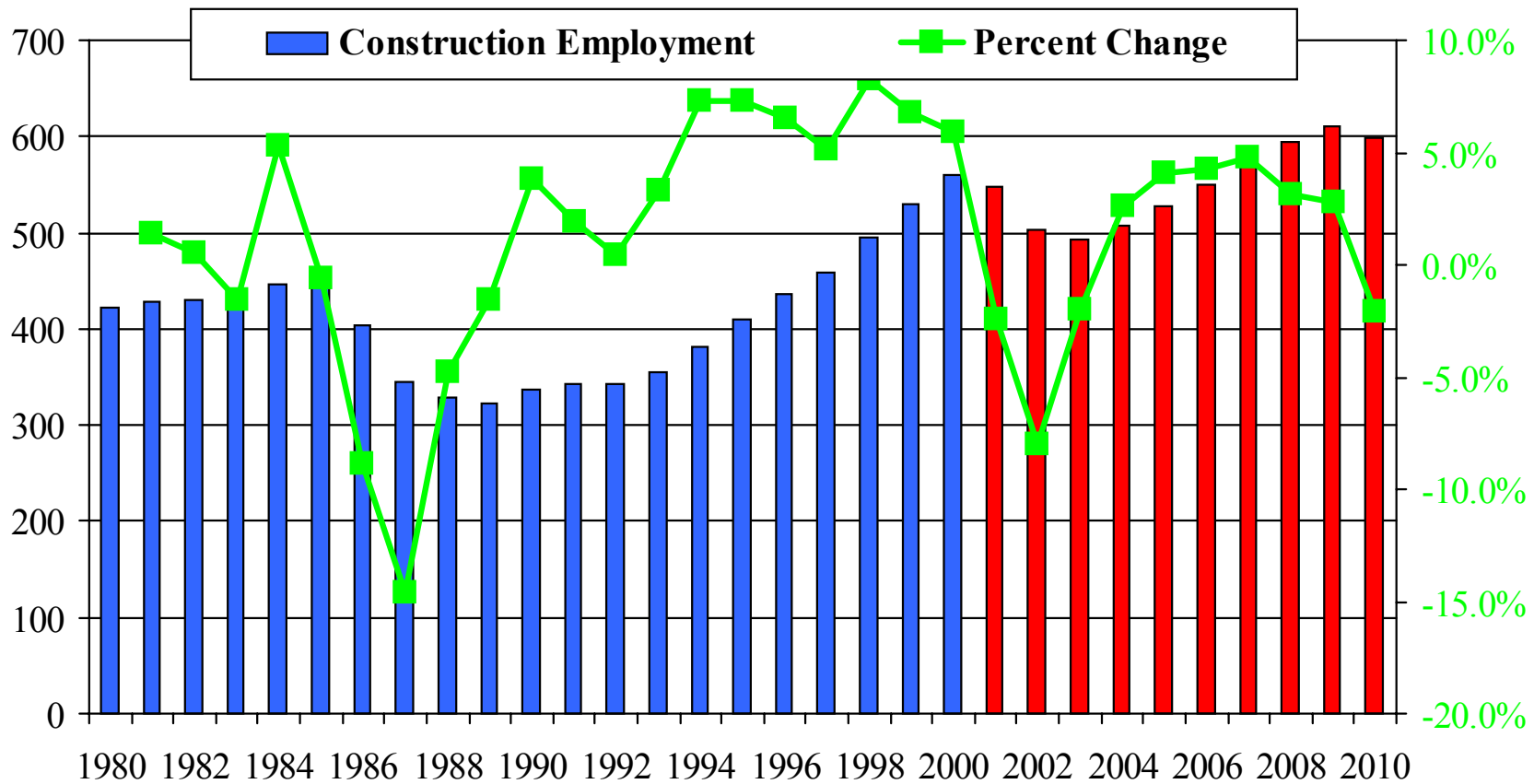
Texas Economic Assessment

- Construction employment, another strong indicator of construction activity, is estimated at an all-time high of 576,000 workers (April 2001, not seasonally adjusted), representing 6.0 percent of Texas' workforce.
- The construction boom in the state during the past several years is evident in the construction employment numbers, which grew at an average annual compound rate of 6.8 percent between 1993 and 2000.
- This rate compares favorably with the long-term historical (1981-2000) growth rate of only 1.3 percent and emphasizes the current construction boom in Texas.
- Reflecting continued economic expansion during the next few years, construction employment is cast to average approximately 607,000 workers during the next decade compared to 431,000 workers during the past decade.



Texas Economic Assessment

Construction Employment - 000 Persons



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



III. Texas Construction Materials Consumption



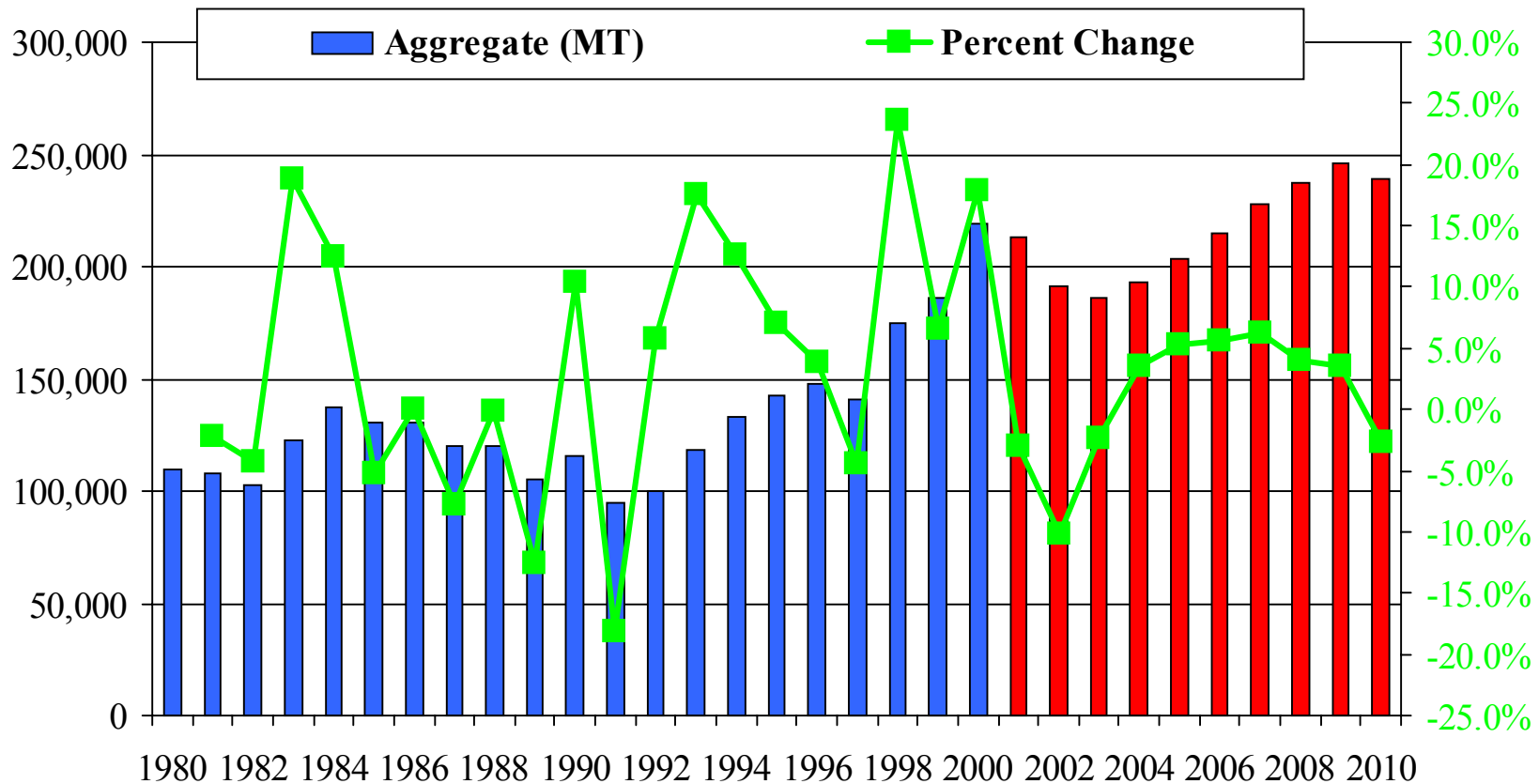
Texas

Construction Materials Consumption

- From a materials consumption perspective, Texas is also a formidable market.
- With aggregate consumption of 219.5 million tons (metric) during 2000, Texas has increased its output by nearly 90 percent since 1990.
- The long-term forecast for aggregate consumption reflects a more moderate, but optimistic, continuation of historical growth rates. Between 2001 and 2010, aggregate consumption is estimated to average 215.2 million tons per year compared to the average of 145.7 million tons per year during the past ten years.
- During 2000, the state consumed 11.5 million tons of cement (metric), compared to 6.8 million tons in 1990, and 31.9 million cubic yards of ready mix concrete, compared to 18.6 million yards in 1990.



Texas Aggregate Consumption



THE GREYSTONE GROUP LLC

INVESTMENT BANKING

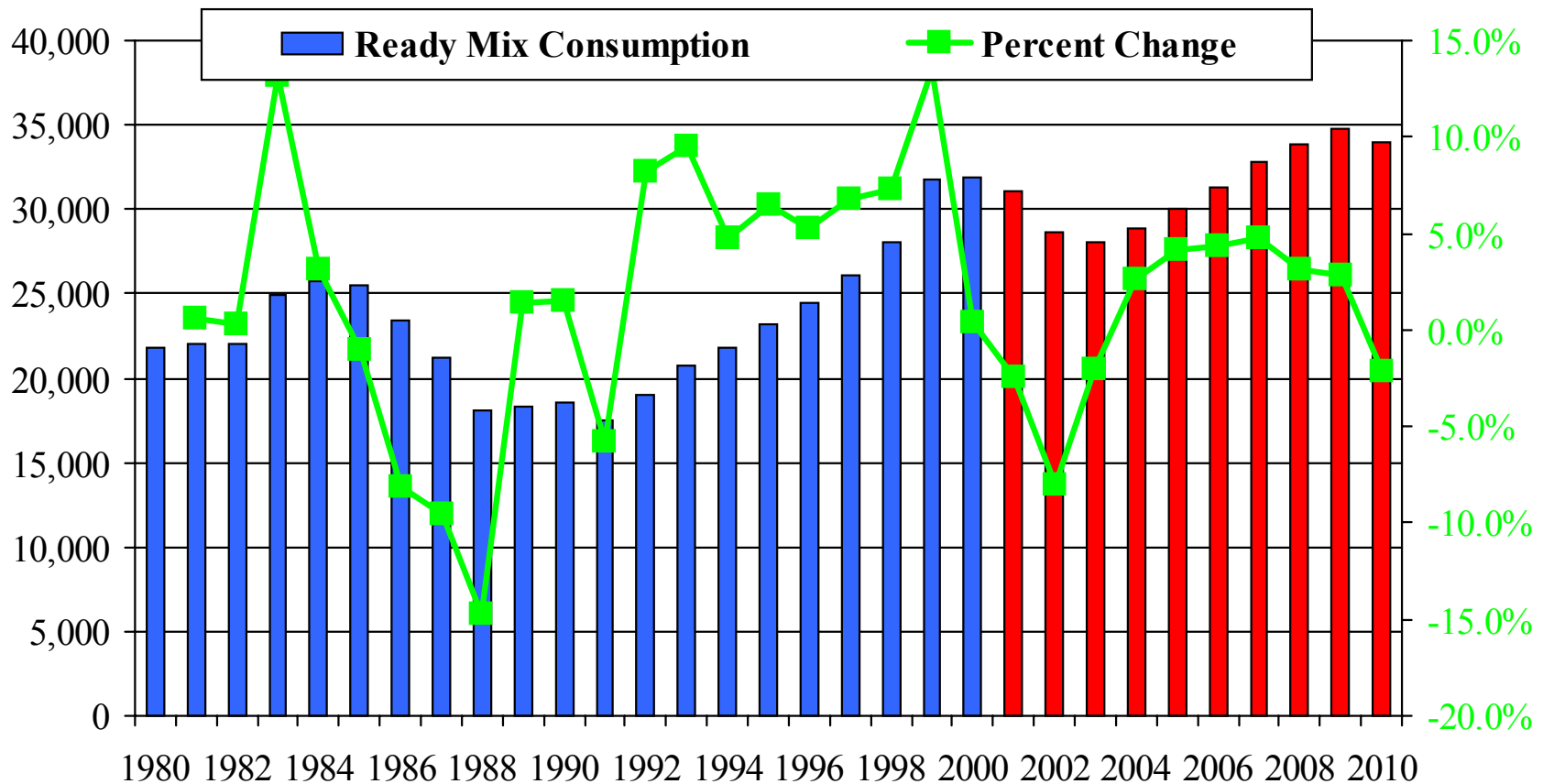


Texas Aggregate Consumption (000 MT)

	<u>1991-2000</u>	<u>2001-2010</u>	<u>Avg. Annual % Change</u>
High	219,500	245,977	1.2%
Low	94,884	186,520	9.7%
Average	145,740	215,242	4.8%



Texas Ready Mix Consumption



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



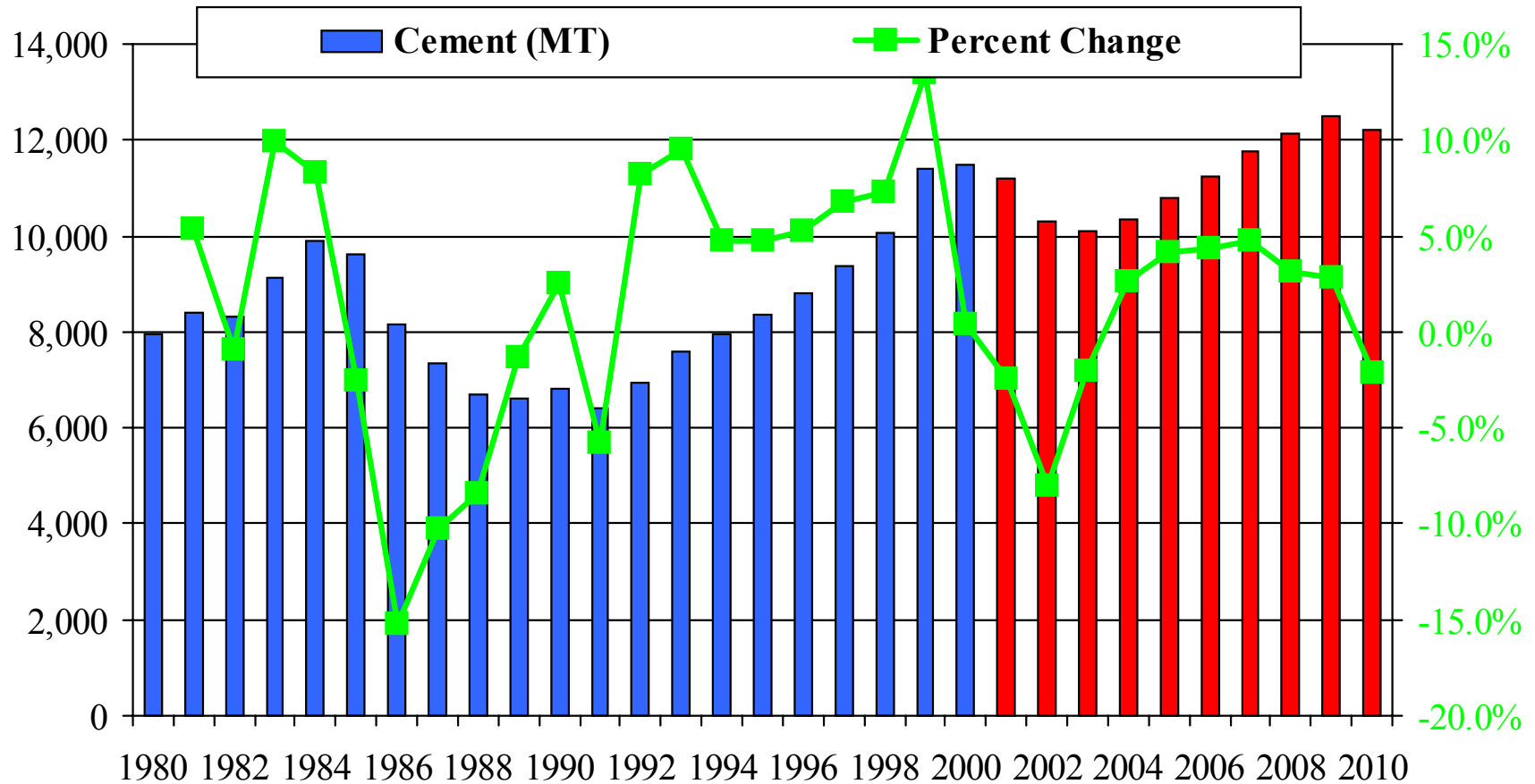
Texas Ready Mix Consumption

(000 cyds)

	<u>1991-2000</u>	<u>2001-2010</u>	<u>Avg. Annual % Change</u>
High	31,899	34,748	0.9%
Low	17,535	28,082	6.0%
Average	24,450	31,329	2.8%



Texas Cement Consumption



THE GREYSTONE GROUP LLC

INVESTMENT BANKING



Texas Cement Consumption (000 MT)

	<u>1991-2000</u>	<u>2001-2010</u>	<u>Avg. Annual % Change</u>
High	11,464	12,488	0.9%
Low	6,408	10,092	5.7%
Average	8,835	11,259	2.7%



To Receive a Copy of this Presentation

Visit

www.thegreystonegroup.com

Or email:

taca@greystonemail.com

THE GREYSTONE GROUP LLC

INVESTMENT BANKING