



Texas Construction Materials Consumption 2000 - 2010

Presented to:

Texas Aggregate and Concrete Association

June 23, 2000

Incline Village, Nevada

The Greystone Group LLC

Investment Banking



Presentation Outline

- I. U.S. Economic Overview & the Impact on the Construction Materials Industry
- II. Texas Economic Overview
- III. Texas Construction Materials Consumption 2000-2010
 - A. Aggregate
 - B. Ready Mix
 - C. Cement
- IV. Growth Through Acquisitions



I. U.S. Economic Overview & the 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, "consumer spending and business fixed investment were still trending upward strongly, and housing demand was holding at a high level."
- 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 it's forthcoming 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 view a 2.5 - 3.0 percent average annual GDP growth rate as the sustainable long-term trend.
- According to preliminary estimates released by the Commerce Department's Bureau of Economic Analysis, the GDP increased at an annual rate of 5.4 percent in the first quarter of 2000, continuing the nation's high growth trend.



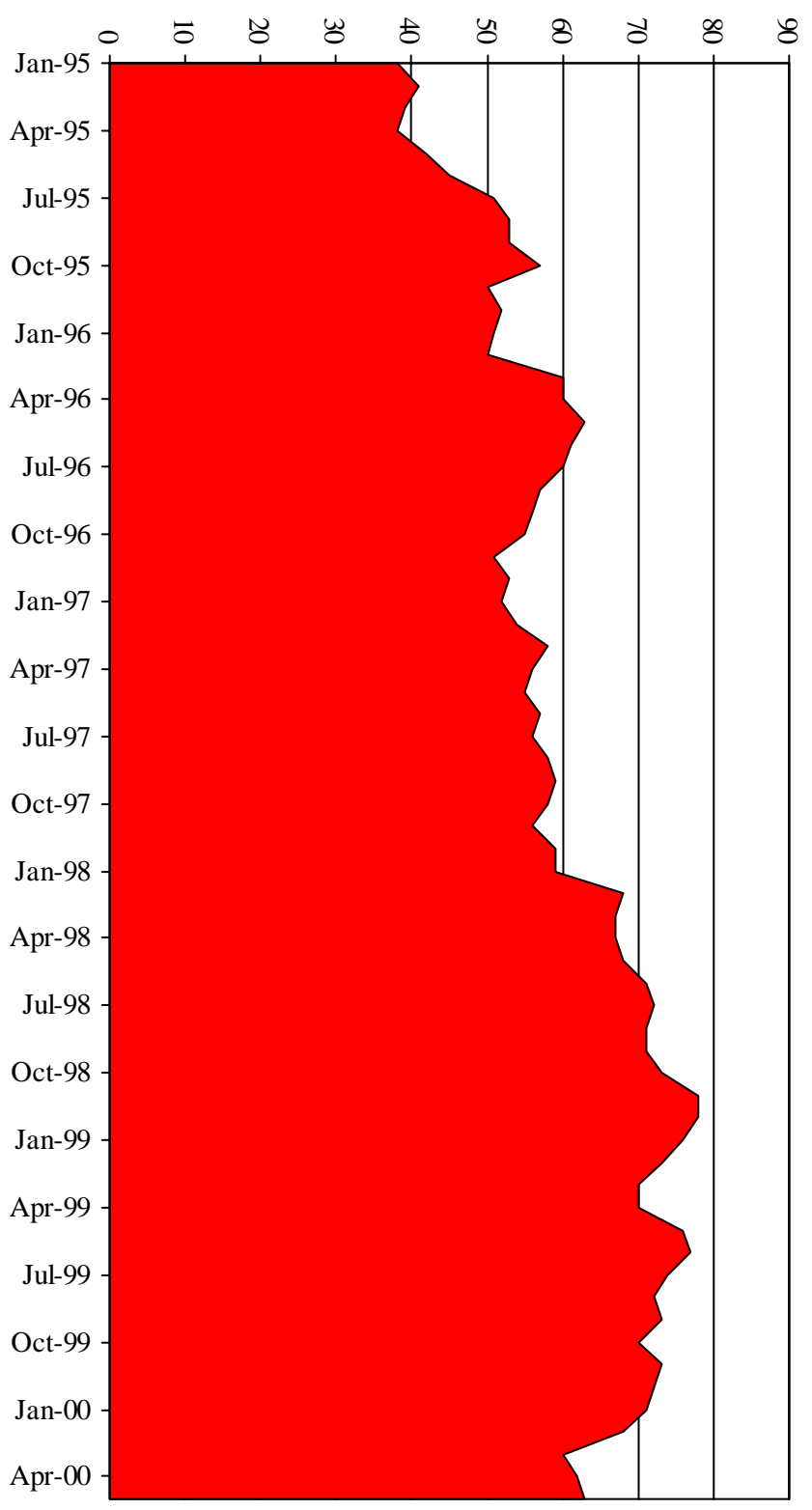
U.S. Economy

- Surprising to many, the rise in interest rates during 1999 did not slow down big-ticket purchases during the second half of the year, but continued hikes during the past five months appear to have finally made an impact on the housing market.
- For example, the Housing Market Index prepared by the NAHB dropped to 62 points in April and inched upward to 63 points in May.
- The Index, which measures present 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 continues to deteriorate.
- While the overall traffic is positive, May'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 of continued economic expansion, the Conference Board's Consumer Confidence Index rose 4.9 percent between April and May. This is significant in light of the previously trailing trend during the first four months of the year.
- Consumers' assessment of current business conditions is overall upbeat in May. The percentage of consumers calling business conditions good edged up to 44.7 percent, from 44.5 percent 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.



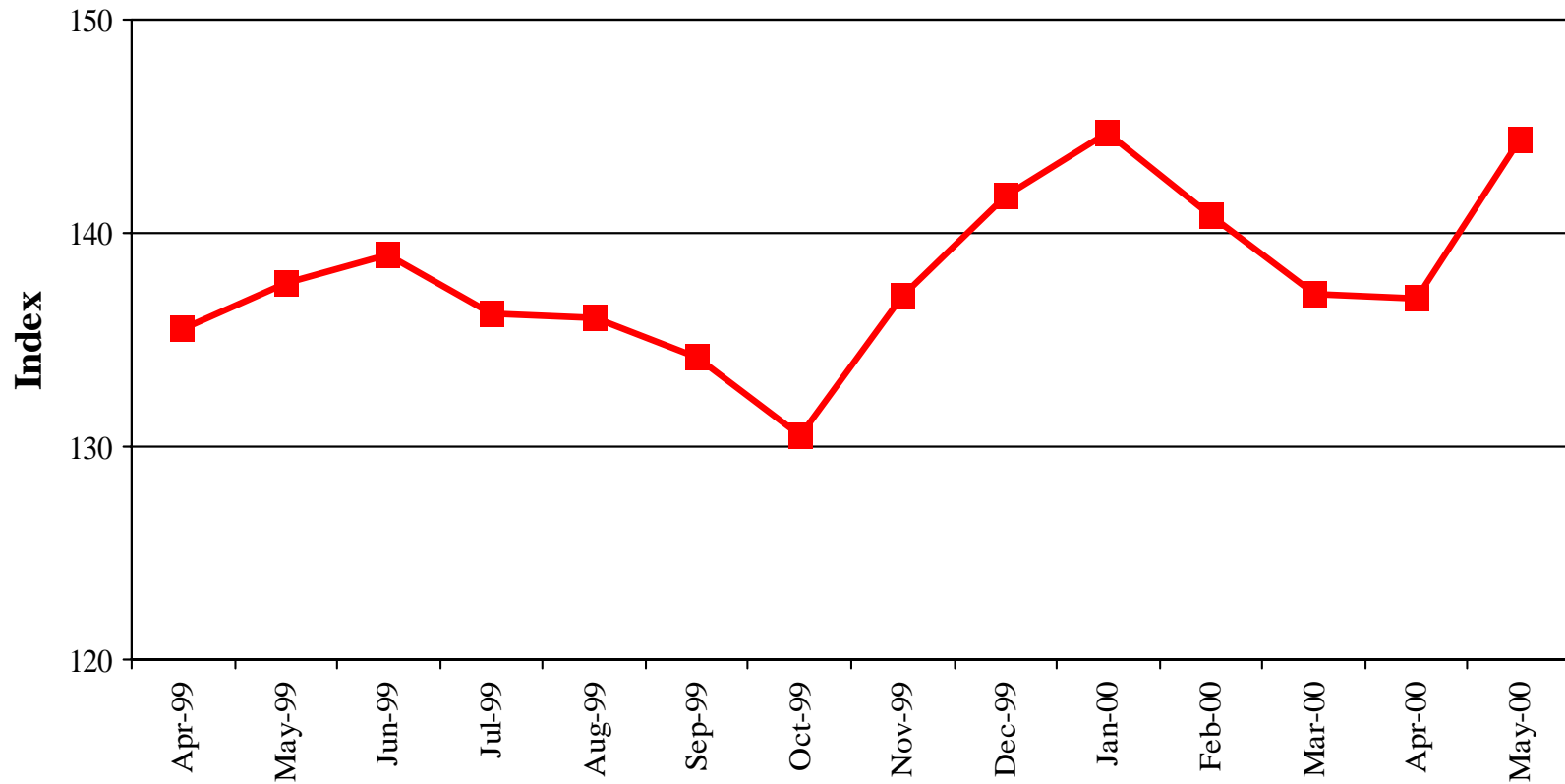
U.S. Economy

- For instance, the share of households planning to purchase a home fell 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 jobs are hard to get totaled 10.2 percent in May.
- 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

So what does this mean for the construction materials industry?

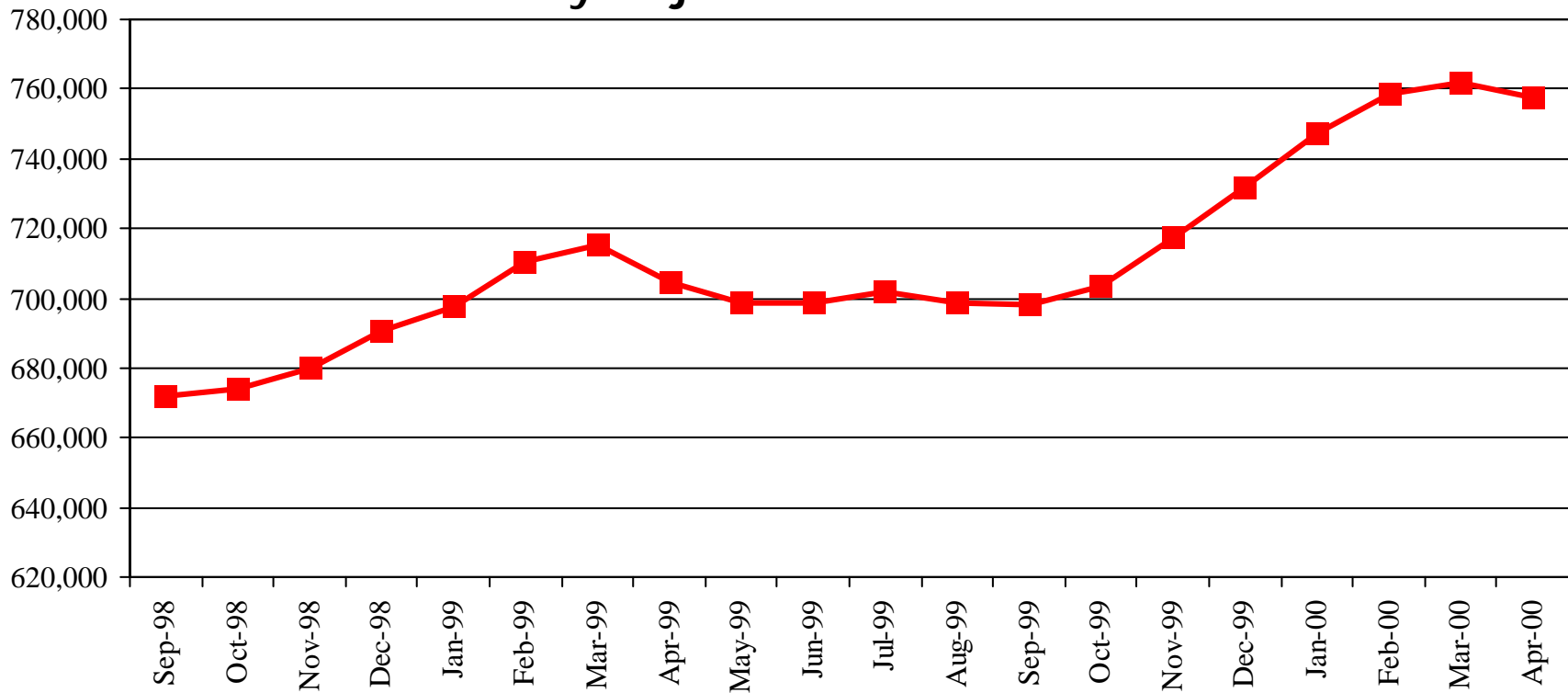
- The U.S. construction industry continues to benefit from strong economic activity, and construction spending rose to \$757.3 billion in April.
- Additionally, the April figure represents a 7.0 percent increase over April 1999.
- During the first four months of this year \$215.21 billion of construction was put in place, a 7.0 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

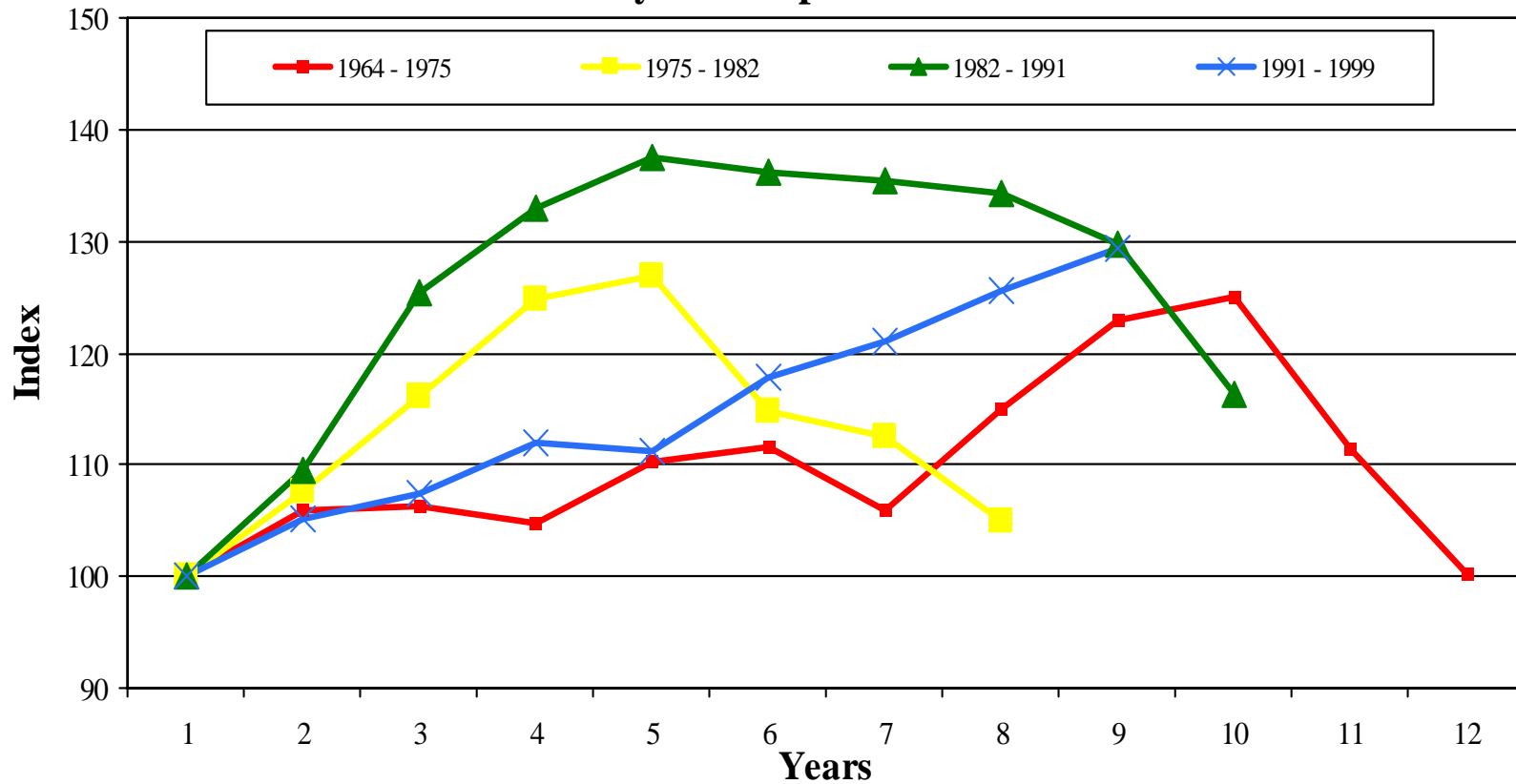
- If the activity during the last five months sustains through the remainder of 2000, this year will be the ninth consecutive year of growth in construction spending.
- Moreover, the current up-cycle has seen a very tempered and consistent expansion in contrast to the prior three cycles.
- While this 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

- In April, the latest month from which data is available, homebuilding remained robust, despite a run-up in mortgage rates which now averages around 8.5 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 quarter of the year was caused by a 6.7 percent drop in the South region, which canceled the gains in the Northeast, Midwest and West regions.



U.S. Construction Materials Industry

<u>Housing Units Authorized</u>			
<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 April 2000 measured \$203 billion at a seasonally adjusted annual rate, a 10.0 percent improvement from the \$184 billion in expenditures recorded during April 1999.
- Public construction grew to a seasonally adjusted annual value of \$173 billion during April 2000, a 10.7 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 6.7 percent did not keep up with the public sector as a whole.



U.S. Construction Materials Industry

- As the investment in residential, nonresidential and public construction has reached a new high 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%
Texas Industries, Inc. (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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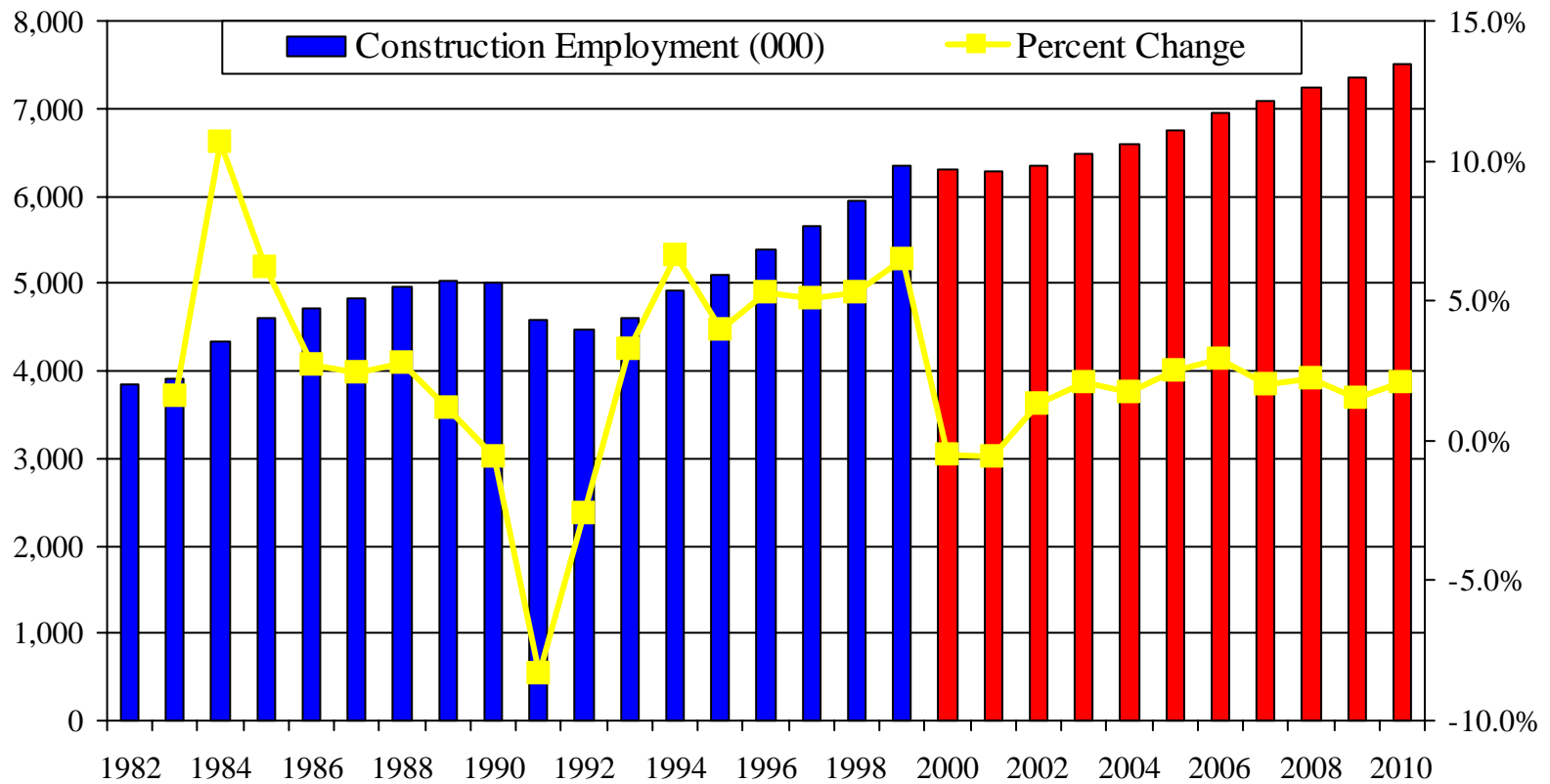
U.S. Construction Materials Industry

- In line with the overall rapid pace of economic growth during the past decade, U.S. construction employment reached an all-time high of 6.4 million workers during 1999, representing a 6.4 percent increase over the 1998 total of 6.0 million workers.
- Following a trend similar to that of the overall economy, however, the construction industry is expected to moderate during the next two years, as the industry cools off from the fast pace of the last decade.
- Despite signs of a market moderation, construction employment is expected to return to high growth by 2003 and continue with rapid acceleration throughout the decade ahead. In fact, between 2000 and 2010, the construction industry is forecast to support an average of nearly 6.8 million workers per year, comparing favorably to the annual average of 5.2 million workers between 1989 and 1999.



U.S. Construction Materials Industry

Construction Employment



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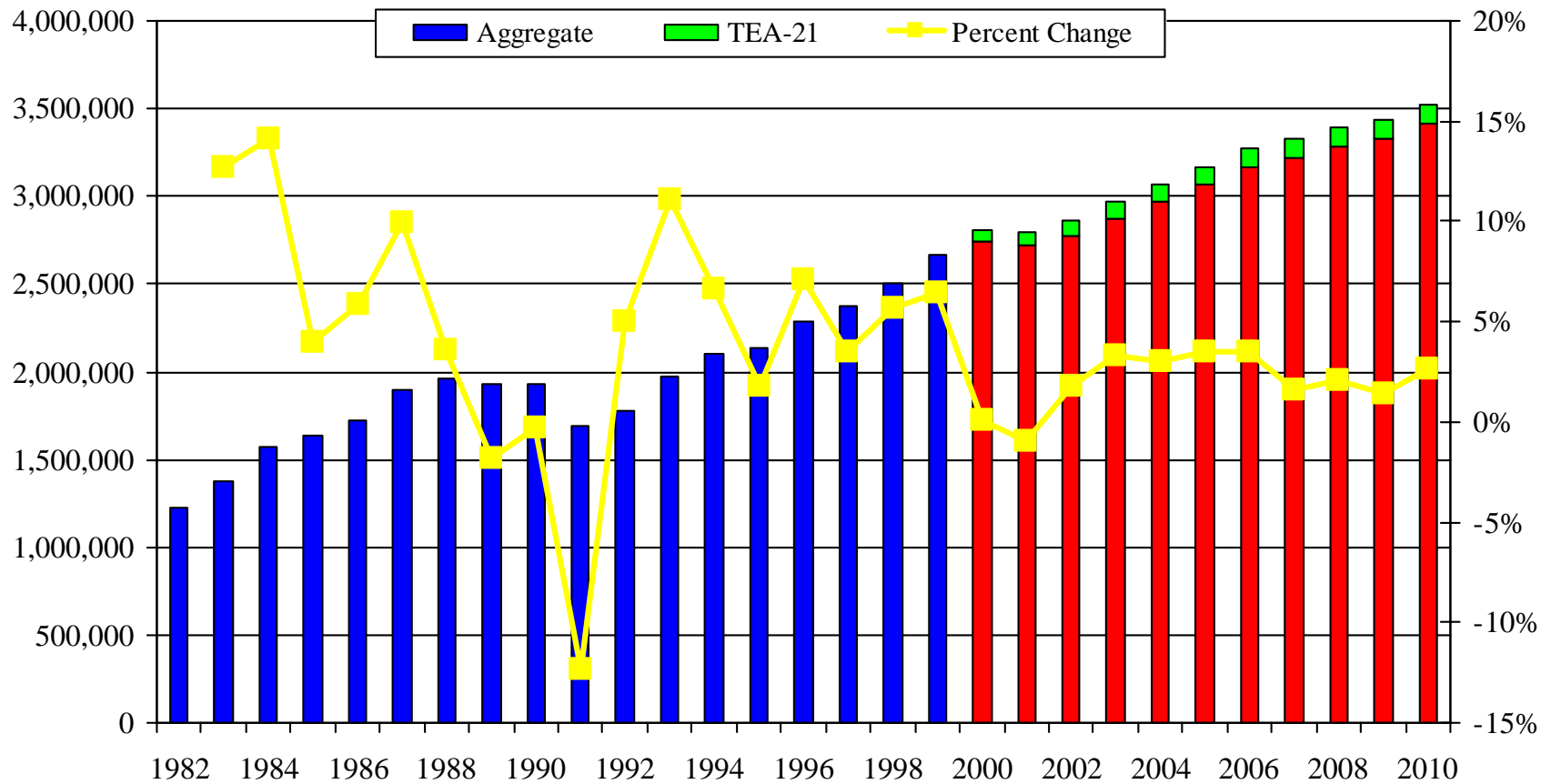
U.S. Construction Materials Industry

- 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 3.4 billion metric tons by 2010, equivalent to an average annual compound growth rate of 2.6 percent.
- U.S. ready mix concrete consumption is cast to escalate from an estimated 319 million cubic yards in 1999 to 378 million yards in 2010, equivalent to an average annual compound growth rate of 2.1 percent.



U.S. Construction Materials Industry

Aggregate Production (000 Metric Tons)



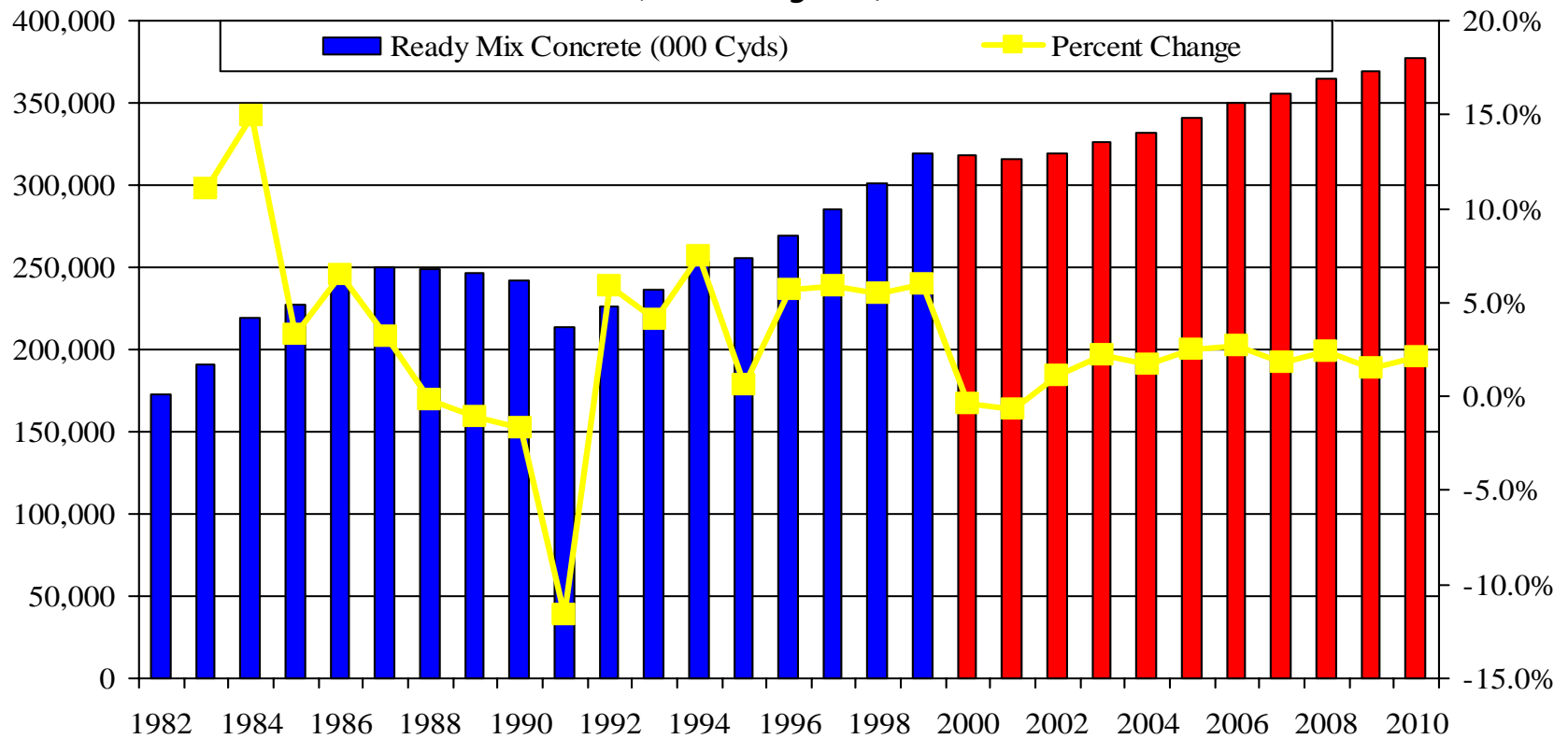
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U.S. Construction Materials Industry

Ready Mix Concrete Consumption (000 Cyds)



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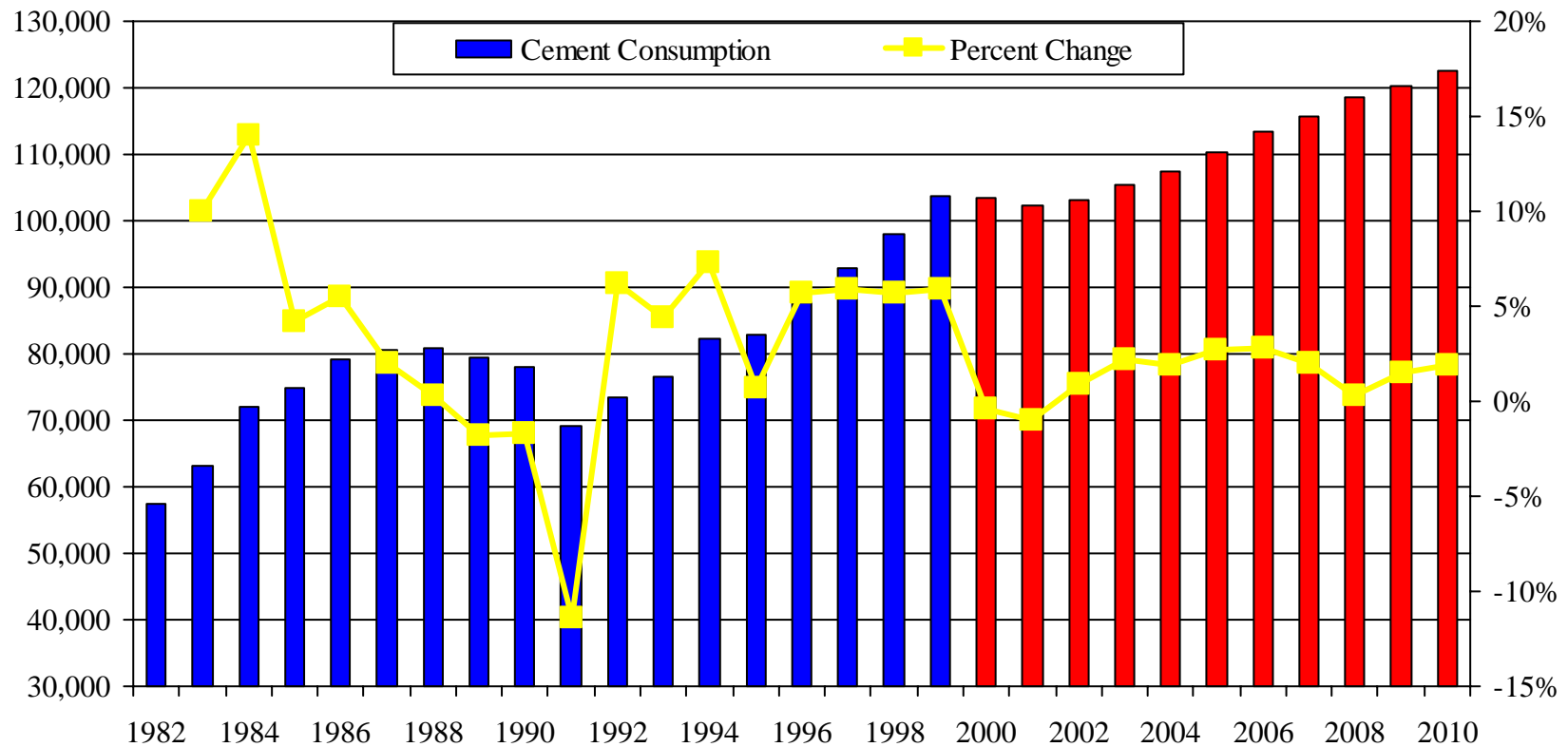
U.S. Construction Materials Industry

- Cement consumption has also achieved high growth during the past eighteen years, growing at an average annual rate of 3.6 percent since 1982.
- During 1999, the Portland Cement Association reported 103.9 million metric tons of cement consumption nationwide. This represents a 5.9 percent increase over 1998 levels.
- During 2000 and 2001, the U.S. cement industry is expected to experience a slight market correction after the high growth of 1999. This moderating trend, however, will be short-lived, and by 2003 cement consumption is expected to return to high growth rates.
- Between 2000 and 2010, cement consumption is expected to average 111.2 million metric tons per year, comparing favorably to the 84 million tons consumed on average during the previous ten year period.



U.S. Construction Materials Industry

Cement Consumption (000 Metric Tons)



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II. Texas Economic Overview



Texas Economic Assessment

- Home to nearly 20 million people by the end of 1999, Texas is the second most populous state in the nation, hosts three of the ten most populous U.S. cities, and represents one of the most influential U.S. state economies.
- As the Texas economy keeps humming, all business sectors, including construction materials companies, are benefiting. Between 1990 and 1999, ready mix consumption increased by an average 5.7 percent per year and cement consumption escalated at an average annual rate of 5.6 percent.
- With its broad based economic platform represented in almost every MSA throughout the state, Texas is in a position to experience above average (national) economic growth in the long-term.



Texas Economic Assessment

- Texas is home to 36 of the 1999 *Fortune 500* companies, ranking fourth in the nation. A closer look at the Fortune list reveals companies in a variety of industries, from heavy industrial sectors, such as metals, and forest and paper products, to high-tech and services.
- Texas' position as one of the most successful *Fortune 500* states is an indication of the quality workforce and conducive business environment supported by the state economy. The state will also benefit directly from not only the taxes paid, but also the employees supported by these titan companies.
- The state's services sector, in particular, has benefited from the influx of high-tech companies expanding their operations within the state. In fact, the services sector's share of Gross State Product increased from 14.6 percent in 1986 to a projected 19.4 percent in 1999.



Texas Economic Assessment

- Despite its sizable population, Texas has added residents at a brisk pace during the past eighteen years. Between 1982 and 1999, the state added 4.6 million new residents, equivalent to an average annual growth rate of 1.6 percent. This high growth compares favorably to the U.S. average growth rate of 1.0 percent during the same period.
- During the next decade, Texas population growth is expected to continue at high levels, adding an estimated 2.7 million new residents, equivalent to an average annual growth rate of 1.3 percent. By 2010, Texas is forecast to be home to 22.9 million residents. Consequently, demographics will support healthy construction levels in Texas well into the next century.
- With the second largest non-farm labor force in the nation, Texas has one of the most productive and labor intensive markets in the United States. During 1999, Texas recorded approximately 9.2 million non-farm workers, a 3.8 percent increase over the 1998 total of 8.9 million workers.



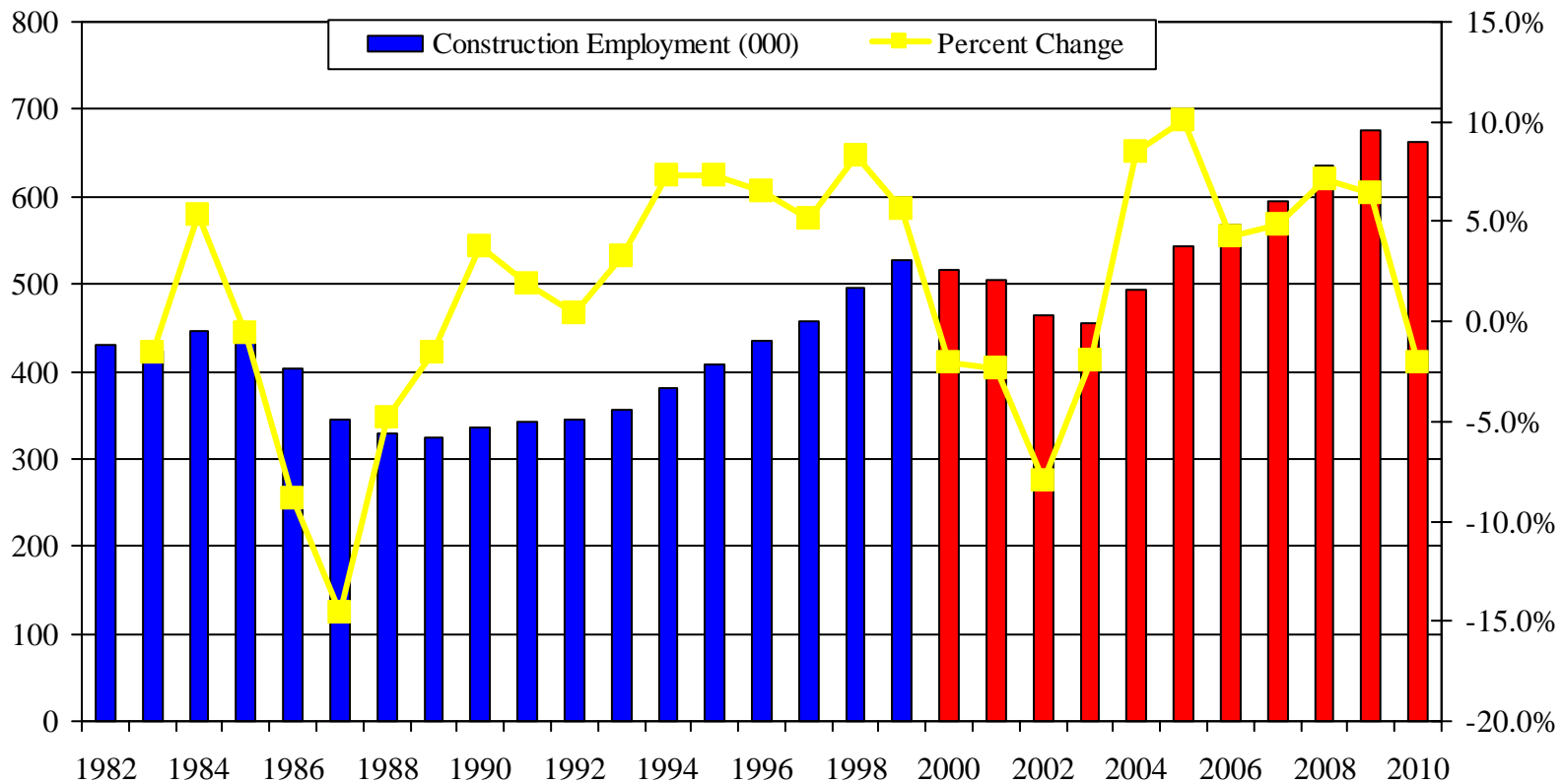
Texas Economic Assessment

- Overall, Texas jobs have grown at an average annual growth rate of 3.0 percent per year during the past ten years, and are expected to continue expanding at high and steady growth rates during the ten-year forecast period.
- The state's construction industry has experienced particularly high growth during the past ten years, with construction employment growing at an average annual rate of 5.2 percent per year since 1990. This high growth compares favorably to the U.S. average of 2.7 percent per year during the same period.
- With ten years of steady growth, the Texas construction sector seems to have reached the peak of its current cycle, recording an all-time high of 527,900 workers during 1999. During the next four years, the state is expected to experience a slight market correction before the next up-cycle begins in 2004.



Texas Economic Assessment

Construction Employment



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Texas Economic Assessment

- The Federal Transportation Equity act for the 21st Century (TEA-21) has re-authorized the federal highway, transit, safety, research and motor carrier programs for the six-year period 1998-2003.
- Of the total national TEA-21 budget of \$215 billion, Texas has been apportioned an average \$1.9 billion annually, including \$770 million per year for the Interstate Maintenance/National Highway System, \$518 million a year for the Surface Transportation Program and \$155.9 million a year in bridge work.
- The state will benefit tremendously from the corresponding anticipated increases in state highway construction, both through its heavy construction services and its construction materials sector.



III. Texas Construction Materials Consumption 2000-2010



A. Texas Aggregate Production

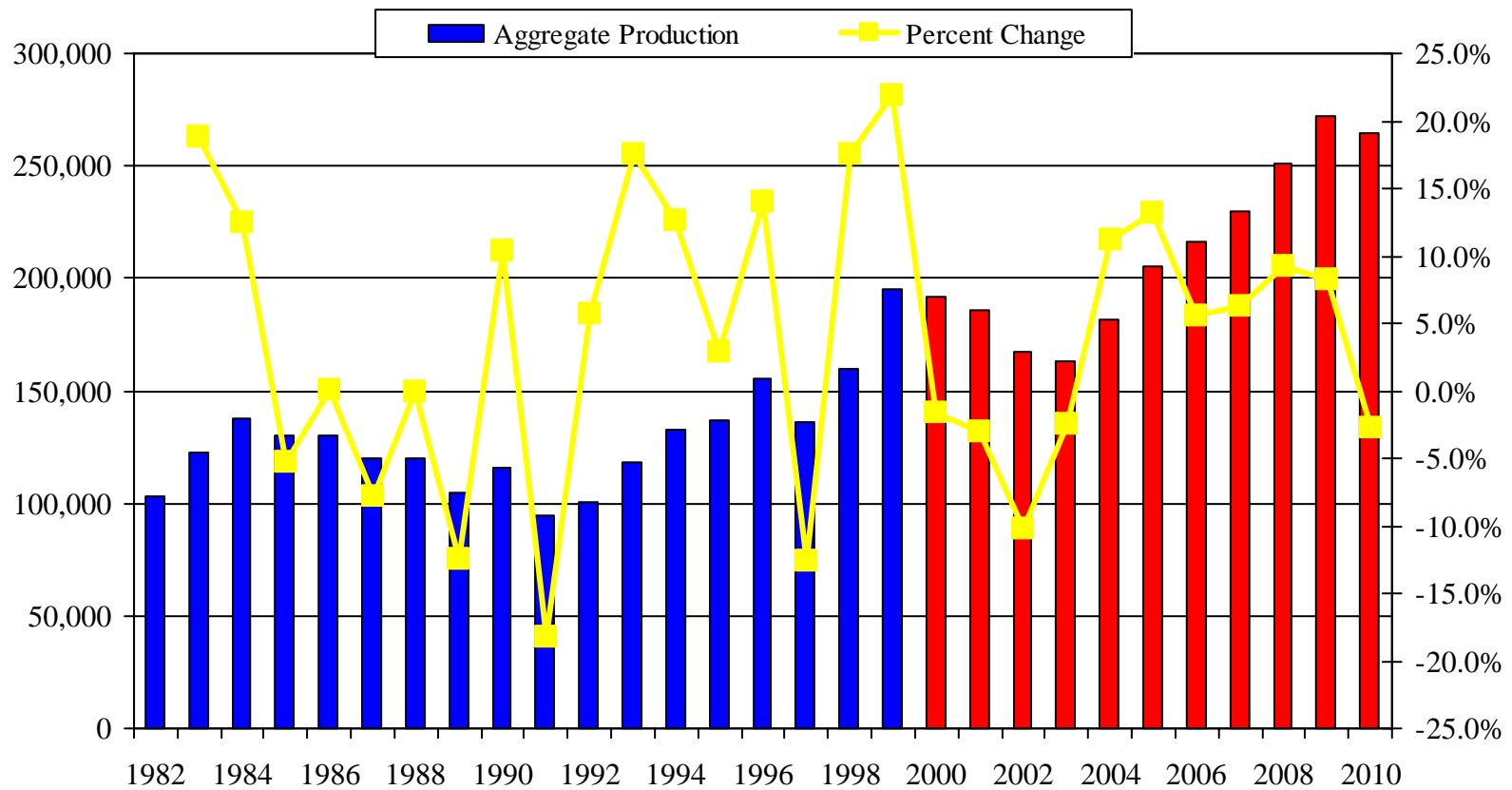


Texas Aggregate Production

- The state's aggregate industry has also experienced high growth during the past eighteen years, growing from 103 million metric tons in 1982 to 195 million metric tons in 1999. This large expansion is equivalent to an average annual growth rate of 3.8 percent per year.
- Texas aggregate production includes crushed stone, which totaled 125 million metric tons in 1999, equivalent to 64 percent of all aggregate produced for the year.
- During the decade ahead, aggregate consumption is expected to continue growing at a high and steady pace. Between 2000 and 2010, the state is expected to expand its aggregate production levels at an average annual rate of 3.3 percent, reaching 265 million tons by 2010.



Texas Aggregate Production (000 Metric Tons)



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Texas Aggregate Production (000 Metric Tons)

	<u>1990-1999</u>	<u>2000-2010</u>	<u>Avg. Annual % Change</u>
High	195,000	272,256	4.0%
Low	94,884	162,991	7.2%
Average	134,550	206,455	5.3%



B. Texas Ready Mix Consumption

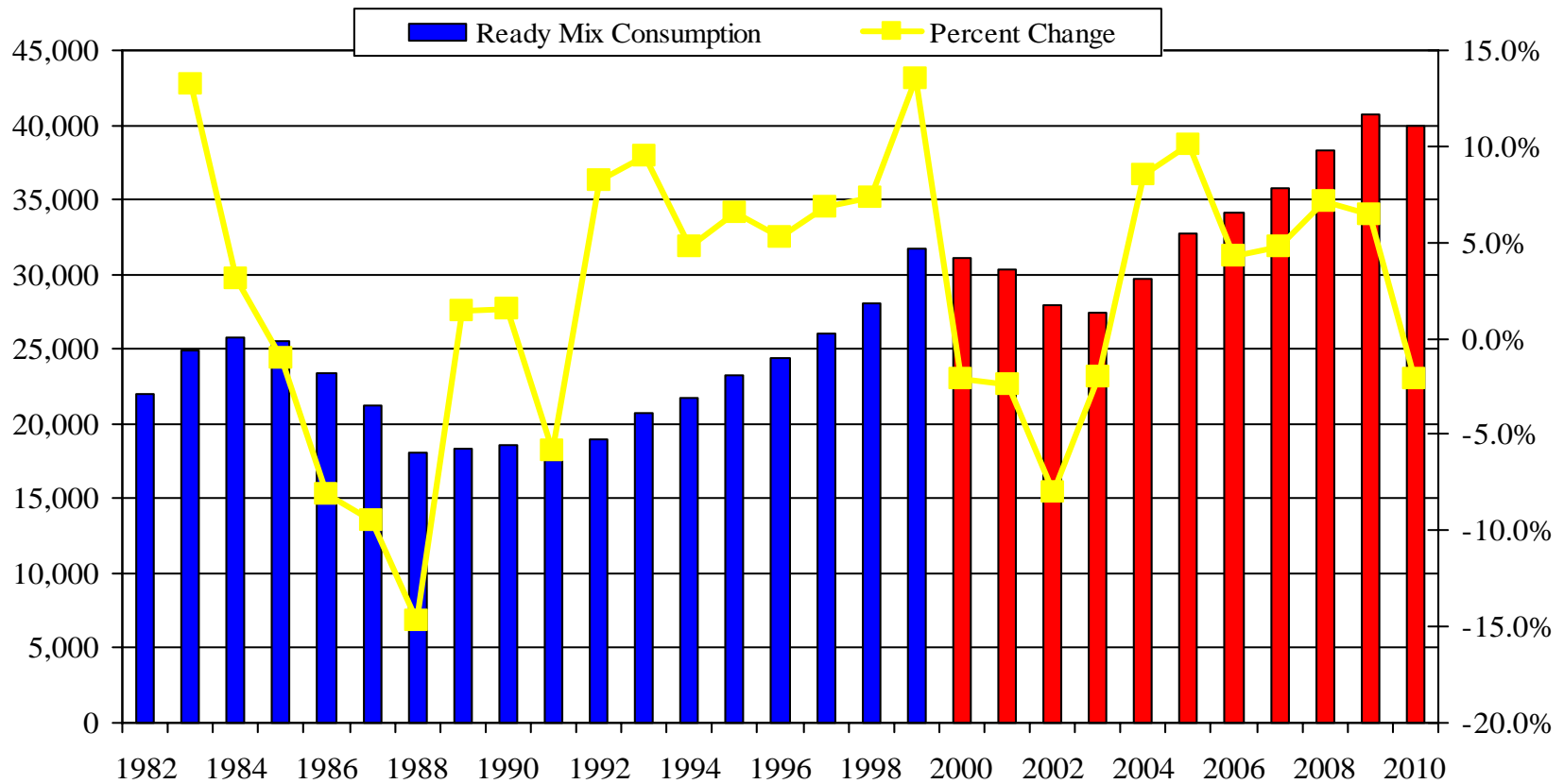


Texas Ready Mix Consumption

- Ready mix concrete consumption in Texas grew to 31.8 million cubic yards in 1999, up 13.5 percent from the 1998 level of 28.0 million cubic yards.
- Texas ready mix consumption, which typically mirrors the state's economic cycle, is expected to moderate somewhat during the next four years as the economy cools down from the rapid pace of growth during the 1990s.
- By 2004, however, ready mix concrete consumption is expected to regain momentum and continue expanding at high rates through the end of the decade. By 2009, the peak of the next cycle, Texas is forecast to record 40.8 million cubic yards of ready mix concrete consumption.



Texas Ready Mix Consumption (000 CYD)



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Texas Ready Mix Consumption (000 CYD)

	<u>1990-1999</u>	<u>2000-2010</u>	<u>Avg. Annual % Change</u>
High	31,775	40,750	2.8%
Low	17,535	27,376	5.6%
Average	23,121	32,809	4.2%



C. Texas Cement Consumption

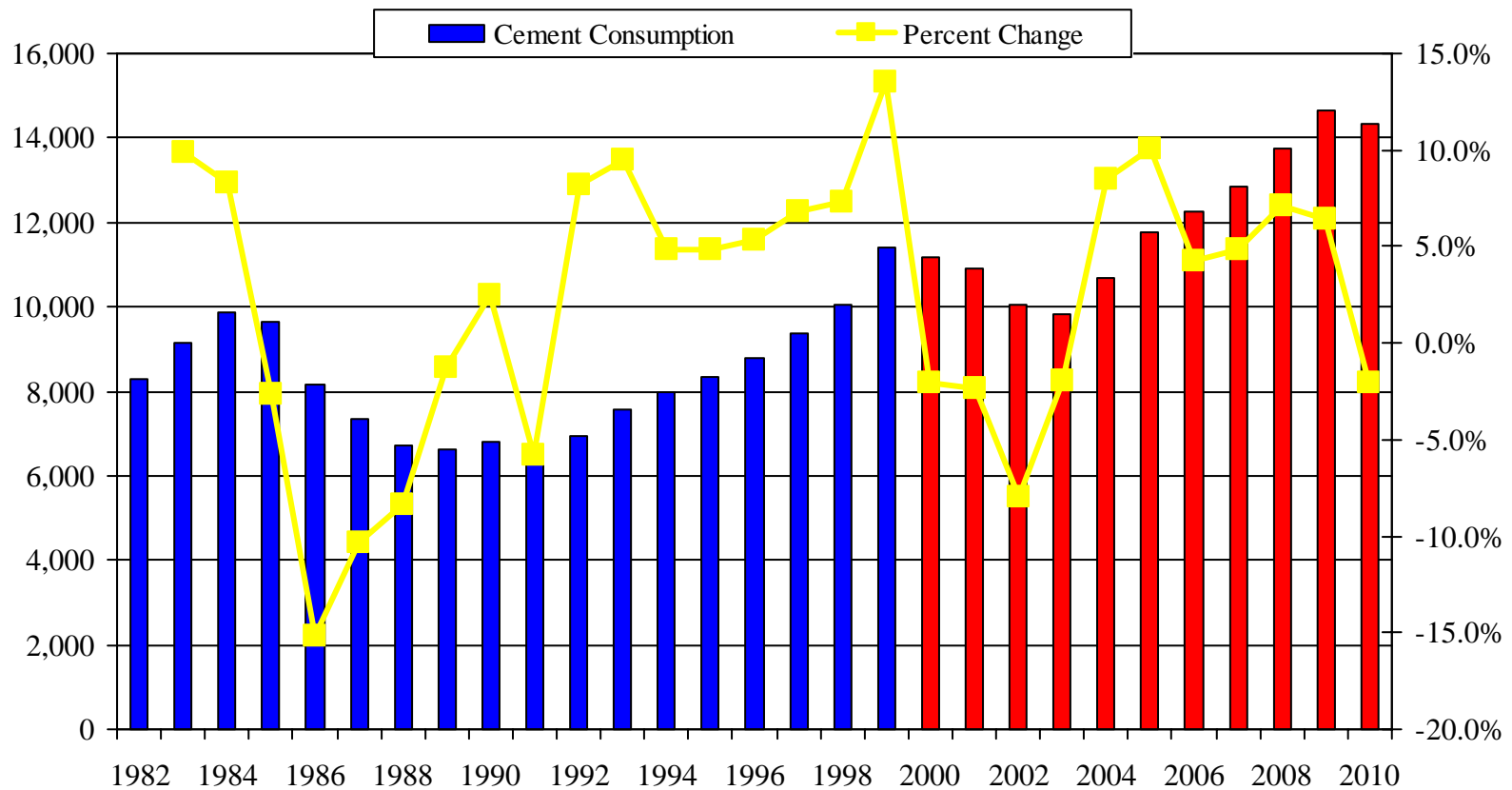


Texas Cement Consumption

- Cement consumption in Texas reached an all-time high of 11.4 million metric tons in 1999, equivalent to a 13.5 percent increase over the 1998 total of 10.1 million tons.
- The high level of growth achieved in other areas of the construction materials industry was also present in the cement sector. Between 1982 and 1999, Texas cement consumption grew at an average annual rate of 1.9 percent per year.
- During the decade ahead, cement consumption is expected to continue growing at high levels, averaging 2.5 percent growth per year between 2000 and 2010. By 2010, Texas is projected to consume approximately 14.3 million tons of cement.



Texas Cement Consumption (000 Metric Tons)



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Texas Cement Consumption (000 Metric Tons)

	<u>1990-1999</u>	<u>2000-2010</u>	<u>Avg. Annual % Change</u>
High	11,419	14,645	2.8%
Low	6,408	9,838	5.4%
Average	8,368	11,791	4.1%



IV. Growth Through Acquisitions



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
- 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
- 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