Eaton Capital CORPORATION

News & Views

Construction Materials Industry
Investment Banking

U.S. Aggregate Production Up Substantially

Total U.S. aggregate production (crushed stone and construction sand & gravel) was approximately 410 million metric tons in the first quarter of 1998 and 678 tons in the second quarter, up 6.1% and 7.5% from the same periods last year, according to the USGS. These large increases were due to the continuing strength of the general economy and the construction sector, possibly aided by initial increases in Federal funding under TEA-21. As shown in the following chart, every region of the country reported second quarter increases, with the New England, West South Central and Mountain regions leading in percentage increases. The Pacific region's record setting winter rains caused first quarter production to be down, but second quarter looked a little better.

Lessons from the CalMat & Hanson Asset Trade

The CalMat & Hanson asset exchange announced in July provides some interesting lessons on public announcements, anti-trust, and company strategy. Here's a quick overview of the situation. CalMat announced in mid-July that it had entered into a letter of intent to exchange certain assets with Cornerstone Construction & Materials, Hanson PLC's U.S. subsidiary. CalMat will exchange its aggregate reserves and plant in Pleasanton, CA, while Hanson will exchange eight aggregate facilities, eleven ready mix plants, nine asphalt plants, eight recycling locations and a construction contracting business, located in California, Idaho and Washington. So why would CalMat

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1998 Regional Aggregate Production
(million metric tons) (% change from 1997)

Region/Division	1st Quarter Production	1st Quarter % Change	2nd Quarter Production	2nd Quarter % Change	First Half Production	First Half % Change
Northeast						
New England	9.7	14.1%	23.9	18.9%	33.6	17.5%
Middle Atlantic	31.9	11.5%	66.2	3.4%	98.1	5.9%
Midwest						
East North Central	58.7	5.2%	133.2	5.9%	191.9	5.7%
West North Central	37.7	2.4%	79.3	2.1%	117.0	2.2%
South						
South Atlantic	83.5	0.1%	112.8	4.1%	196.3	2.3%
East South Central	41.5	11.3%	60.0	5.8%	101.5	8.0%
West South Central	55.2	19.2%	68.3	11.4%	123.5	14.8%
West						
Mountain	41.7	7.8%	63.7	24.4%	105.4	17.2%
Pacific	50.1	-1.6%	70.7	7.6%	120.8	3.6%
Total	410.0	6.1%	678.1	7.5%	1,088.1	7.0%

Source: USGS

Top 25 Aggregate Producers

The USGS recently compiled their 1997 rankings of the top 25 U.S. aggregate producers, along with the number of active operations for each producer, as summarized in the chart below. The chart also shows last year's rankings, which makes for some interesting observations. The top three producers (Vulcan, Martin Marietta, and Cornerstone) continue to grow through acquisitions, adding a total of 99 locations to their operations. Most other companies grew a little, but CSR reduced their operations substantially, especially sand & gravel, dropping their ranking from 4th to 9th. Dolese Brothers. of Oklahoma is the only new entrant in the Top 25, replacing Lone Star Industries on the list.

We expect some changes for the 1998 list, as recent large acquisitions like Morse Bros. and Fenton shuffle the deck somewhat. But the biggest producers will keep getting bigger and the total number of companies in the industry will keep shrinking as consolidation continues...

Top 25 Aggregate Producers

1997 Rank	Company	'97 Nr. Oper.	1996 Rank	'96 Nr. Oper.
1	Vulcan Materials	199	1	151
2	Martin Marietta	277	2	230
3	Cornerstone/Hanson	134	3	130
4	Redlands Aggregates	61	5	51
5	Florida Rock Indus.	29	6	29
6	CalMat Company	30	8	24
7	Rogers Group	44	7	46
8	Tarmac America	13	9	12
9	CSR America	16	4	46
10	Meridian Aggregates	24	13	20
11	Oldcastle	37	15	32
12	Blue Circle America	18	10	17
13	Ashland Oil/APAC	32	14	31
14	General Dynamics	12	11	12
15	TXI Operations	19	12	19
16	Lafarge	12	16	10
17	Luck Stone	15	17	15
18	Southdown	13	18	13
19	Michigan Limestone	2	19	2
20	Medusa	17	20	16
21	National Lime & Stone	10	22	10
22	CAMAS America	13	23	13
23	RMC Industries	14	24	12
24	Dolese Brothers	12	--	9
25	Peter Kiewit & Sons	21	21	18

Source: USGS

CalMat / Hanson Continued from Page 1

make a public announcement if there's only a letter of intent? And why would these companies trade assets?

Companies generally do not like to make public announcements about possible transactions while they are still being negotiated. Deals sometimes go awry, so a previous announcement can be pretty embarrassing if something does go wrong. Additionally, announcements of ownership changes may raise significant concerns for customers, suppliers and employees, so management should have an action plan to deal with these important business partners before any public announcements. Public companies must be especially careful about their announcements, given their need to keep the public informed about significant business changes, but also not mislead the public or raise unrealistic expectations. Therefore, most public companies choose not to make a public announcement based on a non-binding letter of intent, but instead wait until the transaction is much more certain, usually when a binding agreement is signed. Public companies also try to prevent any "leaks" about potential transactions, because such information might not be available to the general public and might therefore be considered "inside information", with all the potential problems attendant thereto.

So why did CalMat make a public announcement so early in the life of the transaction? It is our understanding that they were indirectly forced to make an announcement by the Federal Trade Commission. The companies had filed a premerger notification with the FTC to satisfy the requirements of the Hart-Scott Rodino Antitrust Improvements Act. This HSR information filing is required in acquisitions over a certain size (generally $15 million, although there are exceptions), and is designed to notify the FTC of an impending acquisition so the FTC can examine the potential transaction for antitrust implications. Generally, there is a 30-day waiting period after filing and if the FTC does not request any additional information during this period, the transaction can proceed. However, in the CalMat / Hanson situation, the FTC asked for some additional information regarding the market shares of the two companies and also told CalMat that their investigation of market shares might include discussions with some of CalMat's customers. This presented CalMat with a real dilemma. Should they make a public announcement, even though the discussions with Hanson were still very preliminary? They would rather not, but if they did not announce, some of their customers might learn of the transaction via contact with the FTC. In the end, we believe that CalMat felt they had to make their announcement to prevent any non-public knowledge of the transaction.

The FTC's information request was apparently not the much dreaded, "second request" because it came well before the end of the 30 day waiting period and asked for only a limited amount of information. If the FTC has significant anti-trust concerns, it usually notifies the parties right at the end of the waiting period, extends the waiting period and asks for extensive additional information. In fact, responses to second requests can be quite expensive to prepare in terms of company personnel's time and legal fees (hence the "dreaded" second request). Over the past couple years, the consensus in the aggregate industry has been that the FTC will begin to express anti-trust concerns if the market share of the combined companies is over 40% and will definitely have significant concerns if the market share is over 50%. These concerns do not necessarily mean that the transaction cannot proceed, because the FTC may allow the transaction but require divesting of certain assets. For example, when Martin Marietta Materials acquired American Aggregates in 1997, the FTC required that MMM dispose of its Harding Street Quarry in Indianapolis.

As to the companies' strategies, we were not involved in the transaction, so we don't know all the thinking, but here are some potential reasons. Hanson already has an aggregate plant in Pleasanton, in fact right next door to CalMat's plant. It is our understanding that Hanson's plant is the largest volume plant in Hanson's system and may even be their most profitable. Unfortunately, their aggregate reserves at that site are dwindling rapidly, with reportedly as few as three years of aggregate remaining. CalMat's reserves are substantial, possibly as many as 80 million tons. From Hanson's perspective, acquisition of CalMat's reserves is important to preserving their Pleasanton operations. CalMat has been actively seeking to expand its construction materials operations, both in California and other western states, so the acquisition of Hanson California, Idaho, and Washington operations may be a good fit with their growth plans. CalMat recently purchased an aggregate operation in Sacramento, purchased an aggregate, ready mix and asphalt company near Fresno and, interestingly, sold their Tucson operations to Cemex, so management is apparently examining all their operations and repositioning their capital in order to improve financial performance. CalMat has also recently hired a new President from outside the industry, so there may be more changes ahead for CalMat. Hanson has also been pretty busy lately, purchasing Fenton in San Diego and also reportedly negotiating to purchase Nelson Sloan, also in San Diego, although industry scuttlebutt indicates the FTC may have a significant anti-trust problem with the combination of Fenton and Nelson Sloan assets in that market.

Will the CalMat / Hanson transaction be completed as planned? There is lots of due diligence yet to be done, but discussions between CalMat and Hanson have been going on for a long time already, so there is a good chance the transaction will be successful. Are there any lesson to be learned from this situation? Certainly the importance of looking well into the future and maintaining adequate aggregate reserves is one lesson. This is clearly one of the most important issues facing the industry and one of the primary reasons industry consolidation activity is so strong. Another lesson is that acquisitions can be complex transactions, with "little" issues like regulatory filings and public announcement strategy requiring considerable attention. Owners of small and medium sized companies may not have the transaction experience required to stay on top of all these issues, so the services of an investment banker can be of great help. Eaton Capital Corporation has the experience and expertise to assist company sellers with the big, strategic thinking, as well as the little details required to insure a successful transaction. C.E.

Turmoil and Uncertainty

World economic slowdown, gyrating equity markets, political uncertainty - turmoil seems to surround us. Although the U.S. economy will undoubtedly reflect some of the world recession, we expect increased Federal highway spending and very low interest rates to mitigate the effect on our industry. Companies will continue to make good profits and look attractive to buyers. Although lower stock prices may make offering stock as part of the purchase price less attractive to many buyers, their cost of funds is still very low, and most buyers are still flush with cash. Therefore, we do not expect any substantial reduction in industry consolidation activity, although buyers may be a bit more price sensitive given the general level of uncertainty.

Current Engagements

Eaton Capital has just been engaged by a highly profitable, small but growing, privately-owned aggregate and ready mix company in the Northwest to provide valuation services, possibly leading to sale. Should we be helping your company, too?

Recent Articles by Chuck Eaton

Chuck Eaton, President of Eaton Capital, recently authored three articles which appeared in *Rock Products* magazine. The first article was in the February 1998 issue and is titled "Family-Owned Companies in a Consolidation-Hungry Industry". The second article appeared in the March issue and is titled "Fitting Together Pieces of the Acquisition Puzzle". The third, "How Taxing is Selling Your Operation?", appeared in the August issue. Please call if you would like to receive copies of these articles.

Attention Recipients

If you've received this newsletter, you're in our construction materials industry database. We would very much like to have other senior managers, and especially the owners of your company, see this newsletter, too, so please pass it on. And if you are not the right person in your company to receive our newsletter, please call or write to tell us to whom in your organization we should send future newsletters. Thanks.

Eaton Capital CORPORATION
7 Fielding Circle
Mill Valley, California 94941
Phone 415-381-4300
Fax 415-381-6570