FC IAAO Conference
Tangible Personal Property

Inutility – It's Real

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Ready-Mix and Concrete Block Industries

- Ready-Mix:
  - mixture of:

    cement, water, fly ash and chemical admixture (25% - 40%)

    aggregate - sand, gravel, and/or crushed stone (60% - 75%)

- Concrete Block:
  - mixture of cement, water and sand or fine aggregate aka Concrete Masonry Units (CMUs) or Cinder Block

Ready-Mix and Concrete Block Industries

Ready-Mix and Concrete Block Industries

Ready-Mix and Concrete Block Industries

Two of several segments of the Construction Industry hit hard by the economic downturn

- Cement Industry one of leading indicators of an economy's decline or growth
- Nearly one in four construction workers are unemployed – 1/8/2010 Associated General Contractors of America
- Of the American Recovery and Reinvestment Act of 2009's "Recovery Act") $787B expenditures, DOT's allotment is $48B (6%) for transportation infrastructure

Ready-Mix and Concrete Block Industries

TXI Reports Second Quarter Results

January 07, 2010: 08:30 AM ET

DALLAS, Jan. 7, 2010 (GLOBE NEWSWIRE) -- Texas Industries, Inc. (NYSE:TXI) today reported financial results for the quarter ended November 30, 2009. Net income was a loss of $3.7 million (<$.13> per share) and included after tax gains from sales of emission credits of $2.1 million ($.08 per share). Net income for the quarter ended November 30, 2008 was $3.1 million ($.11 per share).

General Comments

"We were able to maintain our gross profit margin compared to last year despite sales being down 36%," stated Mel Brekhus, President and Chief Executive Officer. "Abnormally inclement weather in our Texas market and the continuing impact of the recession led to cement, aggregate and ready-mix concrete volumes being down 32%, 43% and 35%, respectively."

Overall Cement Industry

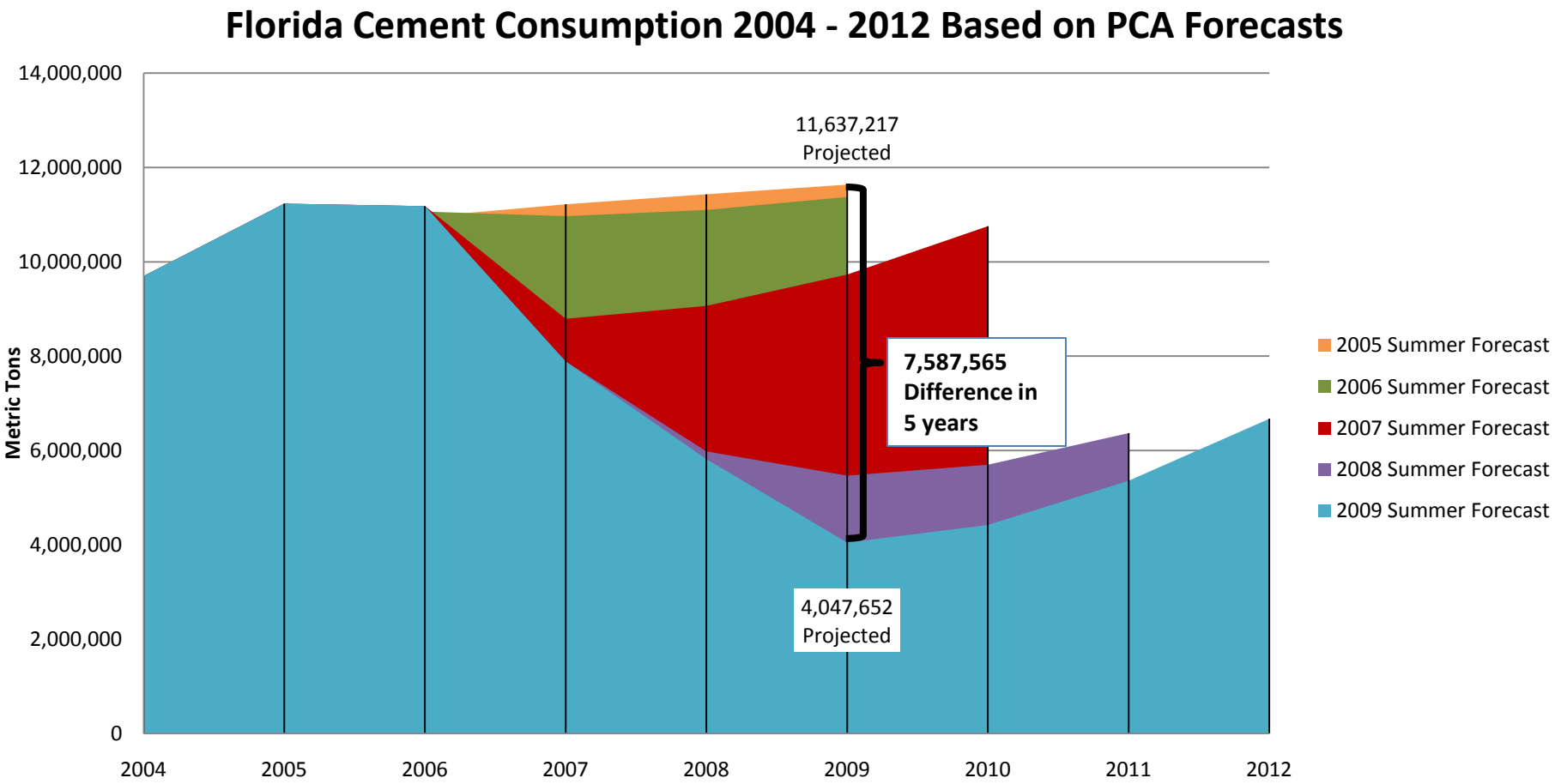
Cement Demand and Consumption

Forecast	Description	2004	2005	2006	2007	2008	2009	2010	2011	2012
2005 Summer Forecast *	Florida Cement Consumption-Metric Tons	**9,697,929**	*10,423,138*	*10,956,297*	*11,219,385*	*11,432,367*	*11,637,217*			
	US Cement Consumption - Metric Tons									
	US Cement Imports - Metric Tons									
	Import Share (%)									
2006 Summer Forecast *	Florida Cement Consumption-Metric Tons	**9,697,929**	**11,232,570**	*11,065,315*	*10,968,262*	*11,100,373*	*11,375,168*			
	US Cement Consumption - Metric Tons	**120,060,000**	**126,764,000**	*129,619,000*	*131,226,000*	*134,494,000*	*137,712,000*	*141,293,000*		
	US Cement Imports - Metric Tons	**27,305,000**	**33,652,000**	*37,437,000*	*38,513,000*	*36,158,000*	*30,918,000*	*30,631,000*		
	Import Share (%)	**23.80%**	**27.70%**	*30.20%*	*30.70%*	*28.00%*	*23.40%*	*22.60%*		
2007 Summer Forecast *	Florida Cement Consumption-Metric Tons	**9,697,929**	**11,232,572**	**11,180,456**	*8,792,038*	*9,066,019*	*9,730,718*	*10,755,556*		
	US Cement Consumption - Metric Tons		**127,997,000**	**127,218,000**	*121,585,000*	*124,035,000*	*128,756,000*	*134,230,000*	*139,178,000*	
	US Cement Imports - Metric Tons		**33,652,000**	**35,895,000**	*28,153,000*	*28,715,000*	*25,348,000*	*26,111,000*	*27,265,000*	
	Import Share (%)		**27.50%**	**29.50%**	*24.20%*	*24.10%*	*20.50%*	*20.30%*	*20.40%*	
2008 Summer Forecast *	Florida Cement Consumption-Metric Tons	**9,697,929**	**11,232,572**	**11,180,428**	**7,886,434**	*5,981,491*	*5,467,372*	*5,699,068*	*6,368,642*	
	US Cement Consumption - Metric Tons				**114,706,000**	*100,952,000*	*94,796,000*	*97,332,000*	*105,238,000*	*113,247,000*
	US Cement Imports - Metric Tons				**22,729,000**	*11,045,000*	*6,761,000*	*6,681,000*	*6,675,000*	*6,675,000*
	Import Share (%)				**20.60%**	*11.30%*	*7.40%*	*7.10%*	*6.60%*	*6.10%*
2009 Summer Forecast *	Florida Cement Consumption-Metric Tons				**7,886,434**	**5,816,294**	*4,047,652*	*4,422,199*	*5,358,822*	*6,673,578*
	US Cement Consumption - Metric Tons					**96,545,000**	*75,345,000*	*83,581,000*	*94,557,000*	*104,779,000*
	US Cement Imports - Metric Tons					**11,519,000**	*6,212,000*	*6,000,000*	*6,000,000*	*7,000,000*
	Import Share (%)					**11.90%**	*8.50%*	*7.40%*	*6.60%*	*6.90%*

Source: Portland Cement Association's Forecasts

*** Actual Consumption figures in Bold - Forecasted Consumption figures in Italics**

Florida Cement Industry



Ready-Mix Industry

2004 – 2010 Trend of Ready-Mix Usage

Florida

(0,000s Cubic Yards)

2004	2005	2006	2007	2008	2009F	2010F
35,194	39,392	40,471	27,818	20,409	15,460	16,806

Source: Portland Cement Association

Ready-Mix Industry

Example 1

Scale Factor For Ready Mix

To calculate the exponent *n* in the cost-to-capacity relationship

Mfg	As of	Cost (Rounded)	Capacity - Cubic Yards per Hour
Souther	2009	$202,000	110
Souther	2009	$162,000	80

Solution:

$$\left(\frac{\$202,000}{\$162,000}\right) = \left(\frac{110}{80}\right)^{n}$$

$$1.247 = 1.375^{n}$$

Natural Log of	1.247 =	0.220741
Natural Log of	1.375 =	0.318454
Scale Factor	n =	.220741/.318454
Scale Factor	n =	0.693
Scale Factor	*n* rounded	0.70

Source: 2009 Souther Equipment cost plus installation for Ready-Mix batch plants

Ready-Mix Industry

Example 1

- Typical plant operation (normal times)
  - 5.5 Days per Week; 10- to 12-Hour Days; 50 Weeks/Year

- Capacity of 110 CY/Hr Plant
  - 110 CY x 10-Hours/Day x 5.5 Days x 50 Weeks = 302,500 CY/Year

Ready-Mix Industry

Example 1

- Production (Cubic Yards)

2004	2005	2006	2007	2008	2009
190,000	225,000	325,000	178,000	98,000	125,000

Ready-Mix Industry

Example 1

ReadyMix

Inutility Penalty, percent = [1- (Capacity A/Capacity B)n] x 100

Actual Production for 2009		**2009** Annual Production (CY)
ACTUAL UNITS SHIPPED- (B)		125,000
RATED CAPACITY (A)		**302,500**
B/A		0.4132
SCALE FACTOR (n)		0.7000
B/A RAISED TO n		0.5387
1 - B/A RAISED n		0.4613
TIMES		100
INUTILITY, PERCENT		46.13%
	Rounded	45.00%

(B) Units Shipped-Total production on annual basis
(A) Rated Capacity - Cubic Yards ("CY")

Ready-Mix Industry

Example 1

- Solution:

$202,000 x % Good x Inutility (1-.45) =

Just Value ?

Concrete Block Industry

- Close to 50% of Florida's Concrete Block plants have been idled/closed in last 2 years

- Remaining "Open" Plants are running at less than 50% percent utilization

Concrete Block Industry

Example 2

Scale Factor For Concrete Block

To calculate the exponent *n in* the cost-to-capacity relationship

Mfg	As of	Cost (Rounded)	Capacity - 8" Block Equivalents/Shift
Besser	2004	$3,785,000	16,000
Besser	2004	$2,725,000	10,000

Solution:

$$\left(\frac{\$3,785,000}{\$2,725,000}\right) = \left(\frac{16,000}{10,000}\right)^{n}$$

$$1.389 = 1.6^{n}$$

Natural Log of	1.389 =	0.328584
Natural Log of	1.6 =	0.470004
Scale Factor	n =	.328450/.470004
Scale Factor	n =	0.699
Scale Factor	*n* rounded	0.70

Source: 2004 Besser's cost plus installation for concrete block machines

Concrete Block Industry

Example 2

- Typical plant operation (normal times)
  - 5 to 6 Days per Week; two 8-hour shifts; 50 Weeks/Year

- Capacity of 10,000 8” Block Equivalent (“BEU”)/Shift Plant
  - 10,000 BEU/Shift x 2 shifts x 5 Days x 50 Weeks = 5,000,000 BEU/Year

Concrete Block Industry

Example 2

- Production (BEU)

2004	2005	2006	2007	2008	2009
4,250,000	4,800,000	6,250,000	3,000,000	1,200,000	250,000

Concrete Block Industry

Example 2

		Concrete Block
Inutility Penalty, percent	= [1- (Capacity A/Capacity B)n] x 100	
Actual Production for 2009		**2009** Annual Production (BEU)
ACTUAL UNITS SHIPPED- (B)		**250,000**
RATED CAPACITY (A)		5,000,000
B/A		0.0500
SCALE FACTOR (n)		0.7000
B/A RAISED TO n		0.1228
1 - B/A RAISED n		0.8772
TIMES		100
INUTILITY, PERCENT		87.72%
	Round	85.00%

(B) Units Shipped-Total production on annual basis
(A) Rated Capacity - 8" Block Equivalent Units ("BEU")

Concrete Block Industry

Example 2

- Solution:

$3,450,000 x % Good x (1-.85) =

Just Value ?

Inutility - Questions

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