Presentation Focus

1. Macroeconomic & Covid Data
2. Macroeconomic, Construction, & Cement Outlook
3. Longer Term Considerations
Macroeconomic & Covid Data
Covid-19 Timeline
IHME Data

Significant rise in Infections will cause states to reconsider Covid safety protocols.

These state protocols, by themselves, have an adverse impact on economic activity.
Are you Comfortable Going to…..

Point 2.

Consumers vote with their feet.

Significant rise in Infections will cause consumers to retract and reduce spending.

Setting the stage for a domino effect reducing other spending.

Economic activity is reduced.

- As Covid infections increase, consumer confidence in returning to their "normal" spending activity reverses.
- Recent months showed a stabilization from early August levels – neither improving nor worsening.
- When consumers return to “normal” spending activity will play a key role in the speed at which the economy recovers.
- Consumer spending accounts for 70% of overall economic activity. The slower return to “normal” suggests slower than expected interim growth.

Source: Morning Consult
Scarring: Business Closures

Point 3.

The recovery is proceeding.

The longer sub-normal conditions remain in place, more scarring occurs.

Economy’s problems evolve from Covid to economic fundamentals.
By any measure, economic activity crashed during the second half of March through April. GDP suffered a 32% decline. 20 million jobs were lost overnight.

With the states re-opening business, the economy has shown significant growth. That growth is becoming less robust over the past several months.

September’s job report reinforced this trend. Sector re-openings (hospitality & retail) played key role in the improvement but can not be counted as a longer term driver of jobs.

Government shed 216,000 jobs. A trend that could grow larger.

The economy may be at a crossroads.

With the gradual expiration of the CARES act, in the context of weak economic conditions – risks exist that the recent momentum of the recovery could be lost.

Point 4.

Despite the highly touted gains in economic activity….

The economy is not healthy.
Point 4.

Federal Support has been spectacularly successful in preventing a deeper and more prolonged decline.

Insufficient federal support over the next two quarters could hinder the recovery.

37 monthly & high frequency variables included in the index from home prices, rail traffic, business confidence, seated diners, etc.
Covid-19 Timeline
IHME Data & Projections

Point 5.
According to IHME, the worst of Covid lies ahead.

- Covid Gains National Attention


- Third Peak Projected January 1 Daily Deaths (3,050)

Note: High Case January 1st = 6,430

Covid declining slowly. Daily Infections: (135K) Daily Deaths 860
If the Virus Returns with Aggression…

- What policies would you support to fight it.

Suprisingly, 78% of those surveyed say that they would support another round of shutdowns to fight an aggressive return of the virus later this year or early next.

This surprising result cuts across political lines with 69% of Republicans in support of state shutdowns as a policy response.
Construction & Cement Outlook
Regional Cement Trends

August year-to-date

Source: USGS/PCA

West North Central: 8.3%
West South Central: -2.3%
New England: 5.7%
East North Central: 1.7%
Middle Atlantic: -5.7%
South Atlantic: -1.9%
East South Central: 0.6%
Pacific: -3.9%
Mountain: 9.2%
United States: 0.1%
**Cement Consumption Scenarios: 2020**

**Fourth Quarter Considerations**
- Hurricanes, Wildfires potentially impacting high cement consuming states.
- Federal support lapses for some/all of 4th Quarter.
- State budgeted for fiscal 2021 absent ongoing federal support (timing).
- Covid increases significantly (Per IHME 3X increase in daily deaths)
- Uncertainty and adverse economic news increases.
- Election & aftermath uncertainty.
- Order books become leaner.

**SAAR = 2019**
- +0.1%

**August Decay SAAR**
- -3.4%
- -4.6%

**Accelerated SAAR Decay**
Macroeconomic Risks & Assumptions
The Alphabets of Recovery

**U**
A Sharp deep decline, followed by a period of slow recovery.

- Some scarring.
- Many business foreclosures. Consumer spending is hurt by debt, and lacks confidence.
- Economic growth is enhanced by relaxation of state policies aimed at restraining the spread of the virus.
- After initial reopening phase, jobs come back slowly reflecting modest growth.
- Fourth quarter increase in Covid (IHME Base Case) – 3,059 daily death rate January 1st compared to 730 currently.
- Federal Support continues. $1.5 trillion additional funding. $500 billion to states.
- Consumer confidence slowly improves as Covid deaths ebb throughout 2021.
- Growth slows/pauses in 4th quarter. A slow process of gradual & sustained recovery thereafter.

**W**
A Sharp deep decline, followed by a slow recovery and a slide back into recession due to a significant rise in infections, limited Federal support & pause in state re-openings

- More scarring, particularly in 2021.
- More business foreclosures. More building space is vented into the market. Consumer spending is hurt. Consumers lacks confidence.
- Initially, economic growth is initially enhanced by relaxation of state policies aimed at restraining the spread of the virus.
- Consumer fear and uncertainty re-appear.
- Substantial fourth quarter increase in Covid (IHME High Case) – 6,430 daily death rate January 1st.
- Some state re-opening retrenchment. Some state pausing of re-opening schedule.
- Federal Support continues, but at a lower level. $1 trillion added in further support in early 2021. $333 billion to states.
- The slow shallow process of recovery is interrupted, followed by a two quarter retrenchment in 1st half 2021 GDP growth.
GDP – “U, W & Vaccine” Scenarios

Pre-Covid Peak Reached:

“Vac” Scenario: 2021
“U” Scenario: 2022
“W” Scenario: 2023
Residential
Housing – “U, W & Vaccine” Scenarios

Mortgage Rates Remain Low

Average New Home Monthly Payment

Thousand Units
Nonresidential
Nonresidential: A Long Recovery

Bank Lending Officer Survey:
More Banks Tightening Lending Standards Since 2008

Working Capital Factor:
The longer below "normal" economic conditions persist – the more pressure occurs on working capital and ability to stay open.

Structural Factors Contribute to Vacancy Rates:
- Work-At-Home
- E-Retail
- Virtual Meeting
- E-Learning
- Urban Trend Slows

Nonresidential Construction Decline
Scarring & Bankruptcies
Vacancy Rates Increase
NOI Declines
Sq Feet Vent onto Market
Banks Tighten Lending Standards

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Nonresidential Order Books

Commercial Contract Awards
Y-O-Y % Change

Nonresidential Construction
Multi-Retail Nonresidential PIP Millions, SAAR

Sector Decline During Covid
Average Monthly Decline

- Commercial Total: -40%
- Retail: -27%
- Industrial: -40%
- Office: -46%
- Hotel/Motel: -58%
Nonresidential – “U, W & Vaccine” Scenarios

Nonresidential Cement Consumption
Thousand Metric Tons

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Composition of the Decline
Metric Tons

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<th>Category</th>
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<tr>
<td>Retail</td>
<td>-700</td>
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<tr>
<td>Office</td>
<td>-600</td>
</tr>
<tr>
<td>Hotel</td>
<td>-500</td>
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<tr>
<td>All Other</td>
<td>-400</td>
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<td>Total Decline</td>
<td>-300</td>
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Composition: Retail 55%, Office 17%, Hotel 17%, All Other 20%
Energy Exposure

Energy Intensive States

Oil & Gas Drilling
Public
State Revenues: 2020

Revenue Decline Compared to 2019 Levels

Given our Macroeconomic Projection
- Estimate Income by State
- Consumer Spending by State
- VMT By State
- Real Estate Values

We Calculate State Revenues
- Individual & Corporate Income Taxes
- Sales Taxes
- Fuel Taxes
- Property & All Other
- Add CARES
- Assume drawdown of rainy day fund
Lacking additional support to the states, public cement consumption represents downside risk.

**Lacking Adequate Federal Support**

- Huge Deficits will emerge among some states.
- Balanced Budget Amendments will force spending prioritizations.
- Entitlements Win Over infrastructure resulting in risk to cement consumption.
Total
Scenario Probabilities

- **Gradual & Sustained Recovery ("U") – 40%**
  - Covid-19 infections rise, economic growth slows/pauses, but does not turn negative.

- **Growth Interrupted ("W") – 25%**
  - Covid-19 infections rise dramatically, states & consumers react, economic growth turns negative.

- **Vaccine Scenario – 35%**
  - A vaccine with at least 70% effectiveness widely distributed beginning Q3 2021.
Cement Consumption—“U, W & Vaccine” Scenarios

Cement Consumption
Metric Tons

Cement Consumption Growth
%, Y-O-Y

Projections

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<tr>
<th>Scenario</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
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<tbody>
<tr>
<td>“U”</td>
<td>-1.3%</td>
<td>-0.5%</td>
<td>1.6%</td>
<td>2.7%</td>
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<tr>
<td>“W”</td>
<td>-1.8%</td>
<td>-3.4%</td>
<td>1.3%</td>
<td>4.3%</td>
</tr>
<tr>
<td>“Vac”</td>
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<td>0.7%</td>
<td>5.1%</td>
<td>2.4%</td>
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Weighted Average

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<th>2020</th>
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<th>2023</th>
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<tbody>
<tr>
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<td>-1.5%</td>
<td>-0.9%</td>
<td>2.9%</td>
<td>3.0%</td>
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Beyond the Near Term Outlook
Federal Deficit

$2.4 trillion
How much the federal government has committed to coronavirus relief

1st relief bill $8 billion
2nd relief bill $192 billion
3rd relief bill $1.7 trillion CARES Act
4th relief bill $483 billion

That $3.5 trillion deficit would have a noticeable effect on the total national debt

A $3.5 trillion increase in the debt would push it to levels not seen since World War II

SOURCE Federal Reserve Bank of St. Louis

Total debt as a percentage of GDP
- World War II
- Great Recession
- 88-year low 1974

122%