Martin Marietta Materials, Inc. (NYSE: MLM)
Sector: Construction Materials

<table>
<thead>
<tr>
<th>Target Price</th>
<th>Current Price</th>
<th>52 Week High</th>
<th>52 Week Low</th>
<th>P/E</th>
<th>Market Cap.</th>
<th>Dividend Yield</th>
<th>Beta</th>
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</thead>
<tbody>
<tr>
<td>$254.05</td>
<td>$205.90</td>
<td>$244.32</td>
<td>$191.09</td>
<td>30.7x</td>
<td>$13.0 B</td>
<td>0.85%</td>
<td>1.32</td>
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Business Description
Martin Marietta is a leading supplier of aggregates products, cement, ready mixed concrete, and asphalt and paving services. An active participant in industry consolidation, Martin Marietta has completed 85 acquisitions since its IPO in 1994. These have strengthened its position as a major player in key markets. The company’s business model stresses identifying attractive markets to enter as well as invest in present markets to drive organic growth. Government infrastructure spending drives half of the business’ volumes while the more cyclical residential and non-residential construction industries make up the remainder of revenues.

Industry Trends
The construction aggregates industry is fragmented in the U.S., consisting of over 5,600 companies. The 10 largest companies comprise 35% of the market share. Martin Marietta is second to only Vulcan Materials. The concretes and aggregates market sales in the U.S. is historically broken down between half public and half private. The public sector sales look to be increasing from federal government infrastructure spending through the increased highway spending from the FAST Act, passed in Dec. 2015. Municipalities are looking to contribute to this growth from state’s DOT funding. The U.S.’s infrastructure report card from the ASCE gives the U.S. a D+ grade. This demonstrates the need for public investment in the country’s infrastructure. The private sector looks to bolster growth through accelerated housing starts in residential construction and continued growth from non-residential construction.

Investment Thesis
The failure of Washington to deliver on infrastructure promises as well as record precipitation in key geographies have depressed MLM’s valuation. These pressures are neglecting present strong fundamentals that are poised to drive durable growth through the remainder of the construction industry’s recovery. We believe MLM’s presence in financially strong states will drive demand. They have seen strong pricing power in the face of externally-pressured volumes and management has made gathering plentiful reserves a long-term capital focus.

Valuation Assumptions
WACC: 9.40%
Terminal FCF Growth Rate: 2.5%
Intrinsic Value: $254.05
Upside: 19.0%
Sources: Bloomberg, Annual reports

Corporate Social Responsibility
ESG Disclosure Score: 26.86 (Industry Average: 26.18)
Percent Female on Board: 20.00% (Industry Average: 8.65%)
Percent Ind. Directors on Board: 80.00% (Industry Average: 42.65%)
CEO Tenure as of FYE: 7.00 (Industry Average: 4.96)

5-Year Stock Performance

Competitive Analysis
Martin Marietta’s main competitors are Vulcan Materials, Eagle Materials, and CRH. These are all publicly traded concrete and aggregates companies that operate in slightly different geographies.

Competitive Advantages
Martin Marietta produces 73% of their revenue from TX, CO, NC, IA, GA. These geographies all have high demand for road spending and the financial strength to support it. Martin Marietta’s management has been diligent in expanding their geographical footprint with a roll-up strategy due to the importance of location in the industry. Quarries need to be within 70 miles of the aggregate’s destination otherwise they become unprofitable due to the transportation costs. This is difficult because of the environmental and zoning regulations that make it increasingly difficult to develop new quarries and expand existing ones. Martin Marietta’s reserves near the Texas Triangle and other key geographies give them a competitive advantage.

Risks
Any construction materials company is going to experience some cyclicalilty. However, the concretes and aggregates market receives 50% of their sales from the public sector. This allows for better visibility with multi-year contracts and less sensitivity to the cyclicality of the private sector. Another possible risk is government standstill not allowing increasing funds towards infrastructure. This is mitigated by the fact that Martin Marietta has private sector exposure and they operate in states that have the need for infrastructure investment and the stability to support it from their state’s DOT budgets.

Report Prepared By:
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