

SMALL TALK: MLM

(MARTIN MARIETTA MATERIALS INC.)

Rocky Mountain BI Board
March 20, 2018
Presented by: Shirley Pfister

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DISCLAIMER:

- All stock References are meant to be used for EDUCATIONAL purpose!
- No recommendation for purchase or sale is intended or implied.
- Please perform your own due diligence.

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Leading provider of natural resource-based building material

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Natural resource-based building material:

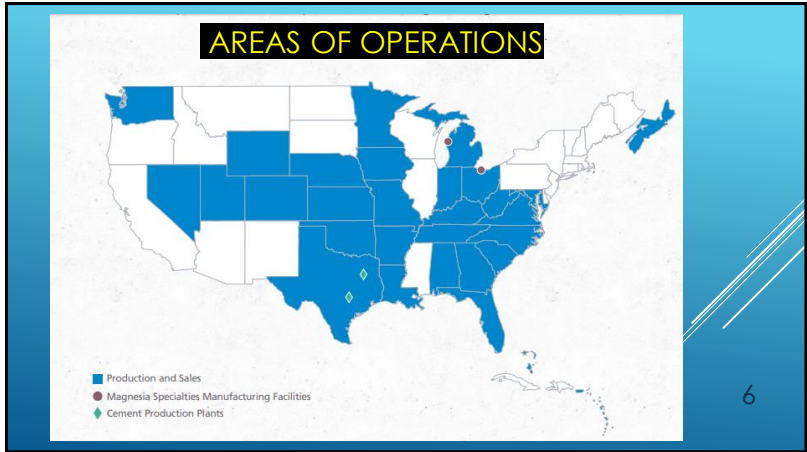
- Aggregates
- Ready Mix concrete
- Cement
- Cement treated material
- Magnesium chemicals & lime

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- HQ =Raleigh, NC
- Has 270 quarries & distribution facilities operating in 26 states, Canada, Bahamas, Caribbean Islands
- CEO = Mr. Ward Nyes (see his Earnings Commentary & Market Perspective on the Company Website)
- 2017 had Best Safety Performance in the history of the company For 1st time EBITDA exceeded \$1B in 2017

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HISTORY OF COMPANY

- 1939: Aggregate company Superior Stone founded in Raleigh, NC
- 1959: Superior Stone merged with American Marietta Corp. producer of construction material, paint, chemicals & building products

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HISTORY OF COMPANY

- 1961: Merger of American-Marietta Corp & Glenn L. Martin Comp =Martin-Marietta Corp = leader in aerospace, cement, aggregates, electronics & chemicals
- 1993: Martin Marietta Materials incorporated as part of Martin Marietta Corp

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Natural resource-based building material:

- Aggregates
- Cement
- Ready Mix concrete = mixture of sand & cement used in paving
- Cement treated material
- Magnesium chemicals & lime

Base (Dense-Graded Base Course)

Common Size
1.5" and smaller; Other DOT sizes available

Designation
Base Base Course, Graded Base Course (GB), Aggregate Base Course (ABC)

Common Applications

- Foundations, Highways and Structures
- Road Shoulder Stabilization
- Improved Road Stabilization
- Driveways
- Alignment Backfill
- Concrete-Related Uses
- Equipment Support/Pad on Jobsites
- Other Applications




Coarse

Common Size
4", 3/4", Other DOT and Special Sizes Available at Most Locations

Designation
Common ASTM and AASHTO Designations #1, #2, #3, #4, #5, #5.5, #6, #6.5, #7, #8, #9

Common Applications

- Concrete
- Asphalt
- MSE Wall Backfill
- Backfill/Retention
- Seawall Check Dams
- Runoff Water Containment Cells
- Run Aggregate Pads
- Driveways
- Construction Entrance Roads
- Other Applications



Rip Rap

Common Size
4" and larger; Rip Rap sizes and designations vary by State

Designation
Please contact us for more information

Common Applications

- Erosion Control
- Channel Flow Control
- Snow Protection
- Shore Stability
- Shoreline Protection
- Jettes
- Landmarking
- Architectural Applications
- Safety Barriers
- Other Applications



AGGREGATES

Fine

Fine aggregate, often referred to as sand, screenings, or rock dust, is engineered for use in asphalt concrete, and select backfill, as well as many other construction applications.

SIZE RANGE: 3/16" AND SMALLER; OTHER DOT AND SPECIAL SIZES AVAILABLE





ADDITIONAL ITEMS:

- Primary business = Serve customers in Construction
- So level of demand, raw material, cost of diesel fuel, equipment, tires, conveyor belts, condition of railroad rail all impact MLM performance

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STRENGTHS:

- Has a heavy footprint in states that have a strong need & financial capability for increased road work
- Has a strong balance sheet that will allow company to consider future acquisitions when other building companies have higher leverage
- Even at peak production MLM has more than 50 yrs. of aggregate production at current reserve levels. MLM's competitive advantage is sustainable for about 10 yrs.

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STRENGTHS:

- Strong employment expansion = strong private & non-private residential construction
- Just announced a sizeable acquisition in 10/2017 = Bluegrass Material/largest private pure-play aggregate company in the US.
- MS gives MLM an Exemplary rating for stewardship

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WEAKNESSES:

- Narrow moat: Aggregates sell for \$10-15 or more a ton (extremely low value/weight ratio). About ¾ of the aggregates are shipped by truck & transportation costs= \$0.15-0.35/ton/mile so range of deliveries is roughly 70 miles or less before transportation cost outweigh cost of the aggregate itself.

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OPPORTUNITIES:

- "Not-in-my-backyard" tendencies make the permitting process incredibly difficult for new quarries so actually forms a high barrier to entry & protecting MLM's aggregate business from incoming entrants.
- Federal highway spending is expected to get a major boost with the long-term highway bill & infrastructure continues to be driven by state-level programs
- Increases from the housing market will be a positive for MLM

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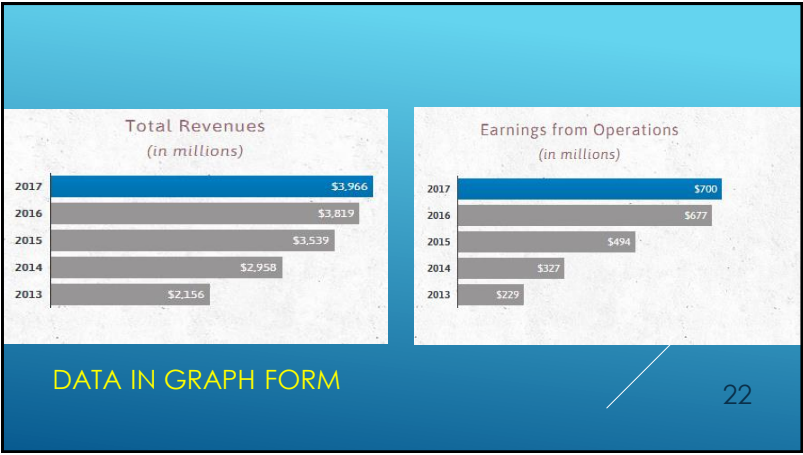
THREATS:

- "Not-in-my-backyard" tendencies make the permitting process incredibly difficult for new quarries
- MLM's earning depend on volatile outside factors : US economic performance, government budgets, & lending availability, higher fuel & energy costs.
- Public heavy construction hindered by project delays & uncertain regulator & reform issues
- Weather related risks

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THREATS:

- Price , volume, decline in aggregates
- Slow down in residential area
- Decreased capital investment in railroads
- Construction Industry Problems (labor decrease or equipment failure)

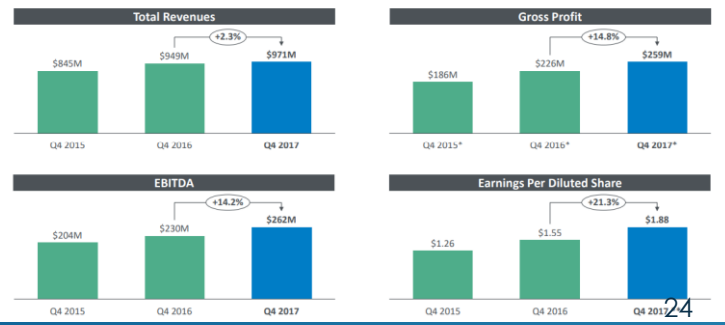


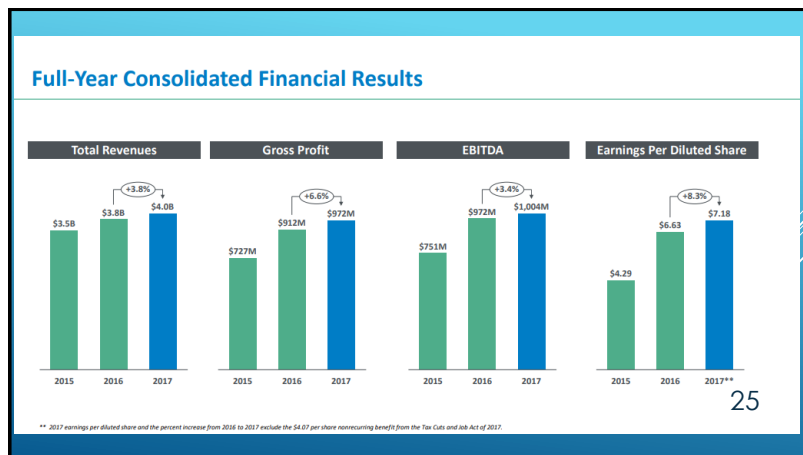
TOTAL RETURN COMPARISON GRAPH

Total Return
(Inclusive of Dividends)
as of December 31, 2017

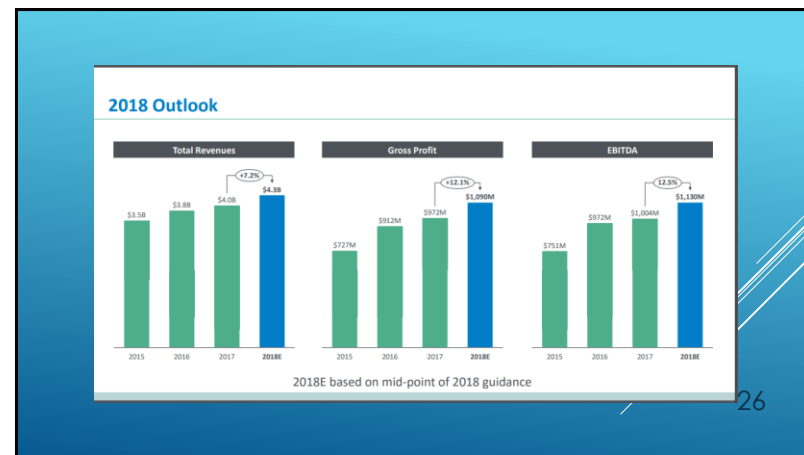
	Martin Marietta Common Stock	S&P 500 Index	S&P 500 Materials Index
1 Yr.	0.6%	21.8%	23.8%
3 Yr.	105.9%	38.3%	32.4%
5 Yr.	148.0%	108.1%	77.8%
10 Yr.	93.7%	126.0%	82.0%

Fourth-Quarter Consolidated Financial Results





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Tax Cuts and Jobs Act of 2017 (2017 Tax Act)

Tax reform provides long-term benefits to Martin Marietta and our industry ...

2017 Impacts	Future Impacts
<ul style="list-style-type: none"> One-time, non-cash income tax benefit of \$258.1 million due to remeasurement of net deferred tax liabilities \$4.07 diluted earnings per share benefit Effective tax rate of 26.4% excluding one-time benefit 	<ul style="list-style-type: none"> Estimated effective tax rate ranging from 20% to 22% for 2018 Retention of percentage depletion deduction Repeal of domestic production deduction Full and immediate deduction of short-lived capital investments for income tax purposes for five years

... positive impact to 2018 effective tax rate

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Definitions and Reconciliations of Non-GAAP Financial Measures

Earnings per diluted share excluding the impact of the 2017 Tax Act is a non-GAAP measure. The Company presents this measure to provide an earnings per diluted share measure that is comparable to prior periods as the impact of the 2017 Tax Act is a nonrecurring, non-cash benefit. The following reconciles earnings per diluted share in accordance with generally accepted accounting principles to earnings per diluted share excluding the impact of the 2017 Tax Act for the quarter and year ended December 31, 2017:

	Three Months Ended December 31, 2017	Year Ended December 31, 2017
Earnings per diluted share in accordance with generally accepted accounting principles	\$ 5.95	\$ 11.25
Less: Per diluted share impact of the 2017 Tax Act	(4.07)	(4.07)
Earnings per diluted share excluding the impact of the 2017 Tax Act	\$ 1.88	\$ 7.18

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In December 2017, the company issued \$1.4 billion of debt in anticipation of closing the bluegrass materials company acquisition in the first half of 2018, which remain subject to the customary regulatory process and other closing conditions. The newly-issued debt reflects a weighted-average interest rate of 3.5%.

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QUESTIONS?

COMMENTS?

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SSG

Frist, let's do the first poll and see how many have completed a SSG on the company.

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► FUTURE SALES GROWTH

- Morningstar 5 year = 6%
- Historic 10 year average = 10.5%
- VL 3-5 year = 11%
- ACE 2 year estimate on SSG = 11.2%
- Historic 5 year average = 15.9%

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▶ FUTURE EARNINGS GROWTH

- 10 year SSG average = 12.3%
- ACE 2 year estimate on SSG = 14.2%
- VL 3-5 year = 17.5%
- CFRA 3 year projection = 18%
- 5 year SSG average = 33.7%

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▶ ESTIMATED HIGH P/E

- Average high P/E = 28.2
- 3 Outliers deleted = 34.8
- 2 Outliers deleted = 37.0
- 5 Year average = 41.0
- Current P/E = 28.6

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ESTIMATED LOW P/E

- 3 Outliers deleted = 21.5
- 2 Outliers deleted = 22.4
- 2017 low P/E = 26.6
- 5 yr. AVG P/E = 27.8

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LOW PRICE NEXT 5 YEARS

- \$xxx.xx - Results from tonight's polls (4.a.b.)
- Price dividend will support = \$102.30
- Recent severe market low (2016) = \$108.30
- 5 year average low price = \$119.00
- Price Variant Quotient (PVQ) = \$159.90

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►Thinking Points:

- Does a company in this sector fit in your portfolio?
- Does the company size fit a need in your portfolio?
- Will the products be in demand in the next 5-10 years?
- Does the company have a growth plan?

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Buy or not
to
buy????

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YOUR THOUGHTS:

1. I have no interest in this company
2. I have no interest in this sector
3. Interesting company with good long term prospects.
4. Will research it for further consideration.
5. Will put it on watch list.

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REFERENCES

- 4th Quarter & Annual Report for MLM = www.martinmarietta.com
- Value Line
- Morningstar
- CFRA

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Our next small talk
April 17, 2018
rmchapter.org

Thank you for attending!!!

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Adjustments for the TCJA

Cal-endar	EARNINGS PER SHARE ^A				Full Year	2017	2018	2019	© VALUE LINE PUB. LLC	21-23	
	Mar.31	Jun.30	Sep.30	Dec.31							
2015	.07	1.22	1.72	1.25	4.26	63.07	67.50	73.35	Sales per sh	90.90	
2016	.69	1.90	2.49	1.55	6.63	11.97	13.65	15.10	"Cash Flow" per sh	18.10	
2017	.67	2.25	2.37	1.88	7.17	7.17	8.60	9.90	Earnings per sh ^A	11.90	
2018	.52	2.38	2.90	2.80	8.60	1.72	1.76	1.84	Div'ds Decl'd per sh ^B	2.12	
2019	.80	2.60	3.30	3.20	9.90	6.53	7.35	7.60	Cap'l Spending per sh	9.45	
						74.43	79.15	83.35	Book Value per sh	100.00	
						62.87	60.00	60.00	Common Shs Outst'g ^C	55.00	
						30.2	<i>Bold figures are Value Line estimates</i>			Avg Ann'l P/E Ratio	25.0
						1.50			Relative P/E Ratio	1.40	
						.8%			Avg Ann'l Div'd Yield	.7%	
						3965.6	4050	4400	Sales (\$mill)	5000	
						25.4%	26.0%	26.5%	Operating Margin	28.0%	
						297.2	305	310	Depreciation (\$mill)	340	
						455.2	545	605	Net Profit (\$mill)	655	
						26.4%	26.0%	21.0%	Income Tax Rate	21.0%	
						11.5%	12.5%	13.5%	Net Profit Margin	13.1%	

Adjustments for the TCJA

Quarterly Data

Update Quarterly Data (click cell to edit)

Year	Quarter	Sales	EPS	PTP	Tax Rate (%)	Status	Lk
2015	4	844.6	1.26	122.5	32.1	F	<input type="checkbox"/>
2016	1	788.7	0.69	64.8	30.4	F	<input type="checkbox"/>
2016	2	977.3	1.90	175.5	30.4	F	<input type="checkbox"/>
2016	3	1,103.9	2.49	230.3	30.8	F	<input type="checkbox"/>
2016	4	948.8	1.55	136.4	27.6	F	<input type="checkbox"/>
2017	1	843.9	0.67	56.8	25.6	F	<input type="checkbox"/>
2017	2	1,063.5	2.25	194.2	26.8	F	<input type="checkbox"/>
2017	3	1,087.7	2.39	204.3	25.8	F	<input type="checkbox"/>
2017	4	970.5	1.88	163.6	26.0	U	<input checked="" type="checkbox"/>

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Adjustments for the TCJA

Annual Data

Update Annual Data (click cell to edit)

Year	High Price	Low Price	EPS	Div	Book Value	Cash Flow	Sales	PTP	Net Income	Tax Rate (%)	Diluted Shares	LT Debt	Total Debt	St	Lk
2008	132.5	58.6	4.09	1.49	24.7	2.0	2,120.1	243.3	176.3	29.5	42.0	1,152.4	1,359.6	F	<input type="checkbox"/>
2009	105.5	67.3	1.90	1.60	30.1	4.1	1,702.6	115.3	85.5	23.8	44.2	1,023.5	1,251.3	F	<input type="checkbox"/>
2010	100.3	71.5	2.10	1.60	31.3	2.9	1,782.9	127.7	97.0	22.9	45.7	782.0	1,032.9	F	<input type="checkbox"/>
2011	94.3	59.9	1.69	1.60	31.6	2.3	1,713.8	100.6	82.4	20.9	45.8	1,052.9	1,060.1	F	<input type="checkbox"/>
2012	95.9	63.6	1.84	1.60	30.7	1.6	2,037.7	102.9	84.5	16.5	46.0	1,042.2	1,047.9	F	<input type="checkbox"/>
2013	113.7	93.0	2.63	1.60	31.6	3.3	2,155.6	164.2	121.3	26.8	46.3	1,018.5	1,033.5	F	<input type="checkbox"/>
2014	136.4	98.6	2.71	1.60	65.0	2.6	2,958.0	249.2	155.6	38.1	57.1	1,571.1	1,585.6	F	<input type="checkbox"/>
2015	178.7	104.2	4.29	1.60	65.9	3.8	3,539.6	413.8	288.8	30.2	67.0	1,553.6	1,583.1	F	<input type="checkbox"/>
2016	236.4	108.3	1.64	65.8	4.6	3,818.7	607.0	423.6	63.9	56.8	1,568.2	1,686.2	F	<input type="checkbox"/>	
2017	244.3	191.1	7.16	1.72	68.9	3.9	3,965.6	618.9	713.3	26.0	63.2	2,727.3	3,027.7	U	<input checked="" type="checkbox"/>

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