



## CEO Commentary and Market Perspective

### *Another Record Year Positions Us for Continuing Success*

February 11, 2020

Martin Marietta had another milestone year in 2019. We proudly marked 25 years as a public company, set new performance records, and delivered the most profitable year in our Company's history.

We achieved consolidated total revenues of \$4.7 billion (an increase of 12 percent over the prior year); Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation, Depletion and Amortization) margin of 26.5 percent (an 80-basis-point improvement); Adjusted EBITDA of \$1.255 billion (an increase of 15 percent); and earnings per diluted share of \$9.74 (an increase of 31 percent).

In addition to record profitability and outstanding returns, we also delivered industry-leading safety metrics. Operating our business safely is the foundation of our strong financial performance and key to the success of our business. Importantly, our commitment to operational excellence and workplace safety is both good for business and for our employees and stakeholders in the many communities in which we live and work. Our companywide safety performance, inclusive of our more recently acquired operations, continues to trend near or better than world-class safety levels. Ninety percent of our sites worked without a reportable incident and 98 percent worked without a lost time incident, resulting in an overall lost time incident rate of 0.20, which is impressive by any standard.

#### **2019 ACCOMPLISHMENTS SUPPORT CONTINUED MOMENTUM IN 2020**

We strive to sustain a high level of performance by seeking further improvement and excellence in all that we do. In keeping with this goal, we are proud of our 2019 accomplishments:

- We established our eighth consecutive year of growth for consolidated revenues, gross profit, Adjusted EBITDA, net earnings and fully diluted earnings per share (excluding the one-time benefit from the *Tax Cuts and Jobs Act of 2017* on that year's reported per share amount).
- We successfully executed on our longstanding and balanced capital allocation priorities:
  - Returning to our target leverage range in less than 18 months after the Bluegrass Materials transaction, our Company's second largest acquisition;
  - Marking more than a quarter-century of successive quarterly cash dividends without ever reducing the payment;
  - Increasing our cash dividend by 15 percent, one of the largest percentage increases in our Company's history; and
  - Opportunistically repurchasing 416,000 shares as part of our ongoing share repurchase program.

- We generated strong earnings growth that drove a total shareholder return, or TSR, that outperformed the *S&P 500* and the majority of our peer group.
- We strengthened our Guardian Angel-branded safety culture,
  - Achieving a companywide world-class lost time incident rate for the third consecutive year;
  - Reducing total reportable cases and lost time incidents 62 percent and 83 percent, respectively, at our legacy Bluegrass Materials operations acquired in 2018; and
  - Demonstrating zero is possible, as evidenced by nearly 25 percent of our sites that have worked more than 500,000 hours with no lost-time injuries.
- We ranked in the top 25 places to work according to both *The Dallas Morning News*' Top 100 Places to Work and the *Denver Post*'s Top Workplace of 2019.

Building on these accomplishments, we are extremely optimistic about Martin Marietta's future. The Company is well positioned to continue outperforming through the disciplined execution of our Strategic Operating Analysis and Review (SOAR) plan and our team's commitment to the world-class attributes of our business – safety, ethics, cost discipline and operational excellence.

### **STEADY GROWTH EXPECTED TO CONTINUE WITH INFRASTRUCTURE UPSIDE**

We are confident the ongoing construction cycle will continue to promote sustainable and steady shipment and pricing growth across each of our three primary construction end-use markets for the near- to medium-term, with notable upside for the infrastructure market. *Where you are matters*, both in terms of cycle and geography, and we are confident Martin Marietta is in the right markets and poised to benefit from economic and demographic trends.

The U.S. is undergoing the longest economic expansionary period in our nation's history. For the first time, the U.S. economy experienced an entire decade without a recession. While unusual in duration, this expansion has been slow and steady. Since 2010, the U.S. averaged 2.3 percent annual GDP growth, with no single year exceeding 3.0 percent, compared to an annual average of 3.4 percent from 1950 to 2009. We believe GDP growth will continue, albeit at this moderate rate, in the foreseeable future, supported by the Federal Reserve's commitment to economic expansion and recent macroeconomic trends and forecasts. This measured pace is likely to extend the current construction cycle and support continued shipment and pricing gains in key Martin Marietta-served markets.

We continue to generate record profitability on shipment levels much lower than our peak in 2005 and with a geographic footprint that has changed in a dramatically attractive fashion since then. We have thoughtfully executed on our initial SOAR plan over the past ten years, carefully positioning our business through aggregates-led expansion in high-growth markets with attractive fundamentals, most notably in megaregions in Texas, Colorado, Georgia and Maryland. We will continue to focus on geographies that exhibit a) population growth and/or population density, both of which are drivers of heavy-side building materials consumption; b) business and employment diversity, drivers of greater economic stability; and c) a superior state financial position, a driver of public infrastructure growth and support.

2019 product demand was robust across Martin Marietta's footprint and we see no signs of either a slowdown or markets that are overbuilt. In fact, we believe significant runway exists to return to normalized mid-cycle levels of per capita aggregates consumption across our current footprint. The exact timing, however, is uncertain.

A closer look at end-use trends demonstrates that the combination of strong levels of infrastructure funding and healthy private-sector activity bodes well for steady construction growth in our key regions.



Following nearly a decade of lackluster growth, the *infrastructure* market is expected to meaningfully grow in 2020. This is our single most aggregates-intensive end use on a dollar-for-dollar basis. Healthy state Department of Transportation (DOT) budgets, coupled with an expected extension or replacement for the Fixing America's Surface Transportation (FAST) Act, will drive multi-year growth. Passage of a comprehensive federal infrastructure package provides multi-year infrastructure upside. As highlighted earlier, we have intentionally positioned our business in states with superior DOT programs, as these programs tend to be less dependent on federal support for transportation projects. Our top five states – Texas, Colorado, North Carolina, Georgia and Iowa – have a combined 2020 DOT budget of nearly \$30 billion to fund highways, roads and streets. While a comprehensive federal infrastructure package is a strategic priority for our country and one that has bipartisan support, we believe it is unlikely a successor bill will be passed before the November 2020 election. Assuming this is the case, we fully expect Congressional continuing resolutions will maintain federal highway funding, at status-quo levels during any interim period.

*Nonresidential* shipments, on a percentage basis, are at higher levels than we have historically experienced. Nonetheless, a pullback in nonresidential is not expected in our markets in the foreseeable future. We have focused our geographic footprint along significant transportation corridors, particularly where land is readily available for the construction of fulfillment and data centers. We expect to see another year of healthy commercial activity in 2020, supported by projects for data centers, warehouses, distribution centers and corporate relocations. A sustainable commercial construction outlook is further supported by the recent upward movements in the Architectural Billings and Dodge Momentum Indices. Within the heavy industrial sector, the next wave of large energy-sector projects, particularly along the Texas Gulf Coast, is expected to contribute to increased heavy building materials consumption over the next several years. The one potential near-term headwind to overall nonresidential activity may come from a slowdown in wind energy projects resulting from the 2019 expiration of related tax subsidies.





**Residential** construction has outperformed relative to the overall construction market over the past several years. However, we do not believe that housing is nearing peak levels in our markets. According to the 2019 *Forbes* ranking of The Best Places for Business and Careers, six of the top ten ranked metros were in key Martin Marietta regions – Dallas, Raleigh, Denver, Charlotte, Austin and Des Moines.

Importantly, people migrate to attractive employment opportunities and notable population growth drives increased housing demand, which also supports future construction for retail, office and roads. Through an economic cycle, multi-family construction generally begins early in the cycle and then transitions to single-family construction. We are currently seeing healthy multi-family housing trends across our footprint. We expect our leading southeastern and southwestern states to experience continued residential construction growth in both single- and multi-family housing, driven by favorable population demographics, employment growth, land availability, attractive mortgage rates and efficient permitting.

### **SOAR 2025 POSITIONS COMPANY FOR CONTINUED SUCCESS**

We begin the new year with the next phase of SOAR. This phase, referred to internally as SOAR 2025, builds on the accomplishments and lessons learned since our initial SOAR launched in 2010 and will define our strategic initiatives over the next five years. As we move forward, Martin Marietta remains committed to being aggregates led in high-growth geographies and aligning our product offerings to leverage strategic cement and targeted downstream opportunities. With our thoughtfully developed and consistently executed strategic plan and commitment to the world-class attributes of our business, Martin Marietta is confident in our ability to capitalize on attractive market fundamentals that support sustainable and long-term construction growth to extend our track record of superior shareholder value creation.

### **GENERATING STRONG RETURNS FOR OUR STAKEHOLDERS**

Our 2019 financial and safety results underscore our team's commitment to excellence in all that we do, as well as the importance of continued responsible investment in our facilities to maintain a safe and healthy workplace. Equally important is our steadfast investment of time and resources to ensure our employees, customers, vendors and communities are taken care of and protected. This value is and will continue to be ingrained in our culture.

While there has been a recent push for companies to more thoughtfully consider the needs of both stakeholders and shareholders, this has always been at the forefront for Martin Marietta. Throughout our quarter century as an independent, publicly-traded company, our Board of Directors and leadership teams have always focused on advancing the best interests of ALL our constituents. That is, at least in part, how we maintain a license to operate our over 400 industrial locations across the nation. We believe it is both the smart and right thing to do.

***Martin Marietta has positioned itself to continue to outperform.*** We remain focused on maximizing value for all stakeholders as we build on our strong momentum and strive to realize the Company's full potential, consistent with our positive outlook about the future of Martin Marietta.