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MLM - Q3 2014 Martin Marietta Materials Inc Earnings Call

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OVERVIEW:

Co. reported 3Q14 adjusted consolidated earnings from operation of $153m.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Martin Marietta Materials, Inc. Third-Quarter 2014 Financial Results conference call.

(Operator Instructions)

As a reminder, today's program is being recorded. I would now like to introduce your host for today's program, Mr. Ward Nye, Chairman and CEO.

Please go ahead, sir.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Good afternoon and thank you for joining Martin Marietta's quarterly earnings call. With me today is Anne Lloyd, our Executive Vice President and Chief Financial Officer.

The results we reported for the third quarter 2014 reflect the successful TXI acquisition and, frankly, underscores the value and timing of the transaction. Bringing TXI into Martin Marietta not only continues to enhance our overall presence in the Western United States, but importantly, augments our significant heritage position in Texas, which as you know, leads the nation in job growth, a clear stimulus for construction activity. Texas is also operating with a robust Department of Transportation budget, having many embraced alternative financing with a vision and vigor unlike any other. Allowing the state to commit to numerous major multiyear projects that should benefit our business in 2015 and beyond.

To give you some examples of the value of TXI, the acquired operations contributed $274 million of net sales, an increase of 53%, and $44.5 million of adjusted gross profit to our third-quarter results. And for the nine months ended September 30, 2014, we generated $202 million of operating cash flow compared with $166 million for the prior-year period.

But what are the initial and critical takeaways? We view them largely as four-fold. First, the acquired operations provide a powerful complement to our strong heritage business and has Martin Marietta ready to supply the increasing demand for building materials.

Second, by our refinancing of TXI's public debt, we're now positioned to reduce legacy TXI's annual interest expense by $34 million. Third, our original estimates of synergies of $70 million over three years now seem too low and too slow. We anticipate doing considerably better.

Finally, the $400 million of NOL carry-forwards we originally estimated have increased by nearly $100 million. We will discuss the specifics of all of these value-enhancing factors and more during this teleconference.

Additionally, we're also pleased to see increased demand in our Heritage business during the third quarter, resulting in a 130-basis-point expansion of our consolidated gross margin. This improvement was driven by volume and pricing growth in our aggregate product line, despite costs and various inefficiency headwinds from rail transportation. Further, the Specialty Products business contributed record third quarter net sales and earnings from operations.

Before discussing the quarterly results further, as a reminder, today's teleconference may include forward-looking statements, as defined by Securities Laws, in connection with future events or future operating or financial performance. Like other businesses, we're subject to risks and uncertainties which could cause actual results to differ materially. Except as legally required, we undertake no obligation to publicly update or revise any forward-looking statement whether resulting from new information, future developments or otherwise. We refer you to the legal disclaimers contained in our third-quarter earnings release and our other filings with the Securities and Exchange Commission, which are available on both our own and the SEC websites.

Also, any margin references in our discussion are based on net sales and exclude freight and delivery revenues. These and other non-GAAP measures are also explained in our SEC filings and on our website.

As a preface, let me offer that it's not easy to fully understand, calibrate, and compare this quarter's results with other periods due to the TXI acquisition, as well as TXI-related nonrecurring items. Simple comparisons to prior periods for either Martin Marietta or legacy TXI will not provide an adequate understanding of a business that's been transformed with a 53% increase in net sales.

That said, we've classified legacy TXI reporting to conform to Martin Marietta. As a result of the reclassification and the impact of business combination accounting, direct comparison to legacy TXI's publicly available data from prior years does not reflect same-on-same performance results.

In addition, because TXI's fiscal year ended May 31, whereas ours ends December 31, the reporting periods are not the same. Still, we have provided reference to prior-year legacy TXI data where relevant to the understanding of the underlying business. So on today's call, and in future presentations we will be making, we will endeavor to be as transparent as possible so you can more easily track and evaluate our progress.

In our Earnings Release and in the charts made available both during this webcast and on our website, we supplied supplemental financial information through the lens we used to analyze the business in light of the TXI acquisition. First, as detailed on slide 2, our heritage Martin Marietta business, which includes specialty products, provides same-on-same comparisons to the prior-year third quarter.

Second, as detailed on slide 4, our acquired operations include a view of performance in the acquired businesses product lines. And, finally, we provide an overview of TXI-related nonrecurring items. We believe this approach provides meaningful data and makes the performance in our business more transparent for the quarter.

Let's begin with a look at our EPS. Consensus estimates vary considerably as analysts attempted to predict the impact of the TXI acquisition on quarterly results. Based on Wall Street estimates as reported by FirstCall, we believe two key differences, totaling $0.17, reconcile these estimates to reported EPS.

First, analysts assumed weighted average outstanding shares of 62.6 million versus a reported 67.5 million. This alone reduced EPS by $0.07. The 67.5 million shares include shares issued in the acquisition, as well as the impact of conversion of TXI stock-based awards.

Second, business combination accounting rules dictated a fair value markup of acquired aggregates and cement inventory, effectively eliminating nearly $11 million of profit in inventory sold during the third quarter, a $0.10 per share negative impact on EPS.

Next, let's review our heritage Martin Marietta business. Slide 3 provides you key metrics for our heritage operation. Our Aggregates business continues to improve, led by robust activity in our West Group, primarily in Texas and Colorado.

Aggregates product line shipments in the West Group increased more than 5%. Notably, Aggregates volumes in the West Group would have increased 9% over the prior year quarter if the required TXI-related divestiture had been included for the full three-month period.

The Midwest and Eastern part of the country was negatively affected by unseasonably wet weather during the quarter. Notwithstanding this short-term impact, we are seeing signs of increased Southeastern construction activity, led by job growth in Atlanta, Georgia and Florida. as well as TIFIA-supported infrastructure projects.

Heritage Aggregates product line shipments reflect growth in our thee largest end use markets. The infrastructure market represented 47% of quarterly volumes, and shipments to the sector increased 3%. Public sector work in Texas includes the benefits of nearly $20 billion of construction investment from 2013 through 2015.

We recently began serving the Interstate 35 East project in Dallas, and are positioned to serve upcoming sections of the TIFIA-funded Grand Parkway project in Houston. These and other major projects have contributed to a multiyear backlog in Texas.

Colorado is also experiencing growth, driven by the responsible acceleration of maintenance and partnerships or ramp programs, as well as reconstruction work resulting from last year's flooding. For the quarter, infrastructure shipments in Colorado were up more than 20% over the prior-year period.

During the quarter, Congress passed an extension of Map-21 through May 31, 2015, and also authorized $11 billion of transfers to maintain the Highway Trust Fund solvency. We believe these are the first steps towards reauthorization of a multiyear Federal Highway Bill.

The nonresidential end-use market represented 30% of quarterly heritage volumes, and shipments increased 3% over the prior-year quarter. Growth was driven by shipments to support shale energy expansion projects, notably in South Texas.

Recently, there have been market concerns about the sustainability of these projects, primarily due to the decline in the global price of oil. However, there are over $100 billion of anticipated energy projects along the Gulf Coast and over $1 billion of needed infrastructure repairs on roads damaged by heavy construction vehicles used in energy projects over the past several years. Early portions of this repair work are now underway.

Given this level of ongoing activity, we expect a ramping up in construction materials demand for these projects. Consistent with that expectation, on the November 2014 ballot, the Texas legislature has advanced Proposition 1, a proposed constitutional amendment to address needed road repairs.

If approved by the voters, Proposition 1 would authorize annual disbursements from the state's existing oil and gas production tax collections to the State Highway Fund. An estimated $1.7 billion would be transferred in the first year alone. Current polling data indicates Proposition 1 is expected to pass in next week's elections.

The residential end-use market represented 14% of quarterly heritage Aggregates product line volume, and shipments increased 9% over the prior-year quarter. We experienced significant residential construction growth in our Western markets in direct contrast to national trends.

By way of example, for the trailing 12 months ending September 30, 2014, residential starts were up 31% in San Antonio; 11% in both Houston and Austin; and 27% in Fort Collins, Colorado, along the Front Range, north of Denver. This reaffirms our view of the value of the Company's strategic growth initiatives made over the past several years, which should continue to benefit our future demand.

Finally, to conclude the discussion of end-use markets, the ChemRock and Rail market, representing the remaining 9% of our heritage Aggregates product line volume and shipments, declined 9% versus the prior-year quarter. The performance of Class 1 railroads, both in terms of capital maintenance and operational efficiency, has led to continued weakness in ballast sales and is the primary driver for the decrease in shipments.

Heritage Aggregates product line pricing remains strong, and we were pleased to achieve increases in each geographic group. Prices increased 5% over the prior-year quarter, led by an 8% increase in the West Group. Product mix did not have a material impact on the quarterly pricing comparison.

Aggregates product line production increased 4% in response to higher demand. However, direct production costs per ton increased slightly as greater leverage was offset by higher repair and supply costs and the productivity impact of certain weather constraints. Cost of sales was also negatively affected by higher transportation costs related to our long-haul distribution network, principally rail inefficiencies.

We estimate these increased third-quarter costs to be over $12.7 million, a cost headwind likely to continue in the fourth quarter. However, energy costs, which were essentially flat during the quarter, should mitigate ongoing production costs as the effect of declining diesel fuel prices work through the business.

The heritage Aggregates-related downstream product lines provided an enhanced quarterly contribution. The ready mix concrete product line experienced volume and pricing increases of 17% and 14% respectively, which led to an 840-basis-point increase in the product line gross margins. Additionally, the asphalt business reported a 13% increase in net sales.

Gross profit for the heritage Aggregates business increased 16%, to over $142 million, yielding a gross margin percentage to net sales of 24.3%, an improvement of 170 basis points from the prior-year quarter. The incremental contribution from each dollar of net sales would have been in line with stated expectations, excluding the impact of higher rail transportation costs.

Our Specialty Products business again posted strong quarterly results, delivering record net sales of $58.7 million and a gross margin of 34%. The business contributed earnings from operations of $17.7 million, also a third-quarter record.

The first 90 days post TXI acquisition have been both busy and invigorating. Our Aggregates and ready mix concrete operations teams have worked diligently on integration into the existing West Group structure.

Specifically, we've completed the back-office integration of the Aggregates business, including closing our former district office in Louisville, Texas, as well as moving the Southwest Division's leadership team from San Antonio. Both groups have relocated to TXI's former Dallas headquarters.

Simultaneously, our cement group team, also based in our Dallas office, has been refining the sales and operational strategies of that business. We plan to complete systems integration for the cement and ready mix concrete businesses no later than June 2015. Accordingly, and as planned, certain duplicative corporate overhead costs will continue through that time.

We're pleased with the progress to date and are especially proud of the response from the combined workforce as we forge a new, unified accountability and performance culture on every front, leading with safety through operational and profitability expectations. Our team is energized and enthusiastic about solidifying the foundation for future growth and shareholder return.

A key area of focus is increasing and accelerating the synergistic value of the acquisition. When we announced our planned acquisition of TXI, we said that we expected annual synergies of $70 million by 2017. We were conservative in our estimates.

As our integration efforts progress, we now expect synergies will be higher; and the benefits will occur sooner than originally expected. Over the next few years, we also fully anticipate utilizing the income tax benefits from legacy TXI's net operating loss carryforwards, as well as incremental value from the expected divestiture of identified nonoperating real estate assets.

After completing initial estimates of legacy TXI's FY14 tax provision, the NOLs now exceed $500 million. Also, the completed refinancing of legacy TXI's outstanding debt is expected to reduce annual interest expense by $34 million, based on current interest rates. This amount is incremental to the previously-stated synergy target.

Slides 4 and 5 provide you financial information and key metrics for our acquired operations. The acquired Aggregates business reported net sales of nearly $37 million on shipments of 3.2 million tons. Average selling price was $11.83 per ton, driven by increased rail distribution yard and sand and gravel shipments.

After adjustment for the nonrecurring impact of the markup of inventory to fair value during the quarter, the acquired Aggregates business generated $8 million of gross profit, a 21% adjusted gross margin. Performance in the Aggregates business should improve at an accelerated pace given the strength of the underlying market demand coupled with synergy expectations.

The acquired ready mix concrete business shipped 1.5 million cubic yards during the quarter, at an average selling price of $86.10. When compared to the legacy TXI quarter ended August 31, 2013, shipments increased 20% and pricing, when adjusted for comparable legacy TXI presentation, increased 4.5%.

The business contributed nearly $10 million of gross profit. A $6 per cubic yard price increase was announced in the north Texas market on August 1. The full realization of this increase will likely take six months as we work through the current backlog.

As a reminder, we acquired a leading position in the Texas cement markets and the state-of-the-art rail located cement plant in Southern California. These plants produce specialty cements with combined annual capacity of 6.6 million tons, as well as the current permit that provides an 800,000-ton expansion opportunity at the Midlothian plant near DFW.

As discussed earlier, the economic climate in Texas has moved beyond recovery into an expansion phase in infrastructure, nonresidential and residential construction. As such, Texas cement demand currently exceeds available local supply, a trend that's expected to continue for the near future.

In the third quarter, we shipped 1.525 million tons of cement. Volumes were 16% higher than 2013, when compared with legacy TXI's publicly-disclosed data for the three months ended August 31, 2013, a period prior to our ownership of these assets, and reflecting a quarter based on TXI's fiscal year ended May 31, versus our fiscal year ended December 31.

Cement pricing of $85.95 per ton is $6.52, or 8.2%, higher than legacy TXI prices reported for the three months ended August 31, 2013. For the third quarter, the Cement business contributed $110 million of net sales and generated nearly $28 million in adjusted gross profit, yielding an adjusted margin of 25%. The adjusted gross profit excludes the nonrecurring impact of a required markup of inventory to fair value.

The Texas plants are operating between 75% and 85% utilization. And the California plant is operating in the low 70%s utilization, reflective of a slower recovery in the Southern California construction economy. We anticipate California markets should reach a demand/supply equilibrium during 2016.

Our Cement group leadership, in collaboration with the Aggregates and Ready Mix Concrete teams, developed strategic plans regarding interplant efficiency, as well as tactical plans addressing plant utilization and efficiency, providing incremental supply for a sold-out Texas cement market and a road map for significantly improved profitability for 2015 and beyond. Further, on October 1, 2014, we announced a $10 per ton price increase for both the Texas and California markets.

Our results for the quarter also underscore the continuing discipline we bring to managing our business. Consolidated SG&A was 5.3% of net sales, a 90-basis-point reduction compared to the prior-year quarter.

The improvement reflects transaction synergies, lower pension expense, and the absence of information systems upgrade costs incurred in 2013 but does not reflect nonrecurring transaction costs. We incurred net acquisition expenses of $26.1 million, which includes transaction and integration costs and a gain on the required divestiture of assets.

As detailed on slide 6, our adjusted consolidated earnings from operations, which excludes the costs related to the markup of acquired inventory as well as net acquisition-related expenses, was $153 million. This compares to $109 million in the prior-year quarter, and represents improvement of more than 40%.

On a year-to-date basis, we generated $202 million of operating cash flow, compared with $166 million for the prior-year period. This increase is primarily due to earnings before depreciation, depletion and amortization expense, coupled with cash flow generated from working capital -- all in relation to the prior year.

Further, the ratio of consolidated debt to consolidated EBITDA for the trailing 12 months ended September 30, 2014, was 2.91 times, in compliance with our leverage covenant. As to full year 2014 guidance, we expect continued growth in our markets, particularly in the areas with strong employment gains. And reaffirm our guidance for heritage aggregates product line shipments to increase 6% to 8% and product line pricing to be up 3% to 5%.

Heritage Aggregates product line direct production cost per ton is expected to remain relatively flat compared with 2013. And lastly, we expect the TXI acquisition to essentially breakeven to earnings per diluted share, excluding nonrecurring costs in corporate overhead allocations.

We have now completed our initial planning for 2015 and are in the process of formulating our definitive guidance, which we will provide to you in our year-end earnings release. Broadly speaking, we continue to see our end-use markets growing, albeit at varying degrees depending on geography. Importantly, the Eastern United States continues to recover year over year.

Meanwhile, economic expansion in the Western United States will continue to outpace recovery in the East. Of course, the acquired TXI business will contribute significant incremental growth in 2015, driven in part by the realization of a full year of operations, coupled with continued synergy realization and operational improvement.

In Martin Marietta geographies, the infrastructure market is expected to increase mid single digits. Nonresidential construction should increase in high single digits. The residential market should experience a double-digit increase. And ChemRock and Rail should remain relatively flat. Our Company's outlook for the cement industry is largely consistent with PCA's forecast and should increase in the high single digits.

To conclude, we're grateful to our shareholders for their support of the TXI acquisition. We are already benefiting from this transformational transaction and the growing demand for building materials. Job growth should continue to serve as a catalyst for construction activity and provide opportunities for us to increase earnings and create additional shareholder value.

Thanks very much for your interest in Martin Marietta.

If the operator will now give the required instructions, we will turn our attention to answering your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And our first question comes from the line of Arnie Ursaner from CJS Securities. Your question, please.

Arnie Ursaner - *CJS Securities - Analyst*

Good afternoon, Ward and Anne. You gave us some detail about the heritage aggregates business.

Could you expand a little bit more about the balance of 2014 and into 2015 by geographies of where you're seeing particular strength or weakness and maybe highlight your outlook for the various end markets. Because I know you do it bottoms up for various geographies.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Sure, Arnie, thank you for your question. As we look at it topside, the west will continue to outperform. What we're seeing both in Texas and Colorado is pretty exciting.

And we see that staying very strong through the balance of this year. We see that staying very strong into next year.

I think part of what we discussed in the earnings release in the is telecon is infrastructure work as well as non-res and res in Texas is all very, very attractive right now. Same story is true in Colorado.

The fact is, all of those are getting better in the Eastern United States, but it's lumpier and it's a little bit slower. So for example, in the quarter we saw volumes nicely up in parts of North Carolina.

So Charlotte looked better quarter-over-quarter, but here's the lumpiness of it. Greensboro and Raleigh were actually modestly down.

I do think weather had something to do with that, and I think timing of some infrastructure work had something to do with that. But as you're aware, when we have that type of movement in North Carolina, we discussed for years that we feel that rather disproportionate.

So as we look at the business, Arnie, it's progressing in a recovery phase how I would have thought. Part of what I was pleased with as I looked at the quarter is really the I component of the quarter that I think was clearly unplanned is the cost that we incurred relative to rail freight. So as we pause and step back from that and look at it, rail freight all by itself was somewhere probably $8.5 million to $9 million worth of cost for the quarter.

And the reason that I called that out in particular, maintenance and repair is a cost that's going to ebb and flow, depending on what's happening with volume. But what happened with rail is extraordinary, and for the quarter coming back to your question, if we pull that extraordinary cost out, what I like about the quarter is we were seeing incrementals in our heritage business very much in line with what we've been anticipating. So I hope that's responsive to your question.

Arnie Ursaner - *CJS Securities - Analyst*

That's great. And as an obvious second question from me, if you don't mind, on the synergies, you mentioned $70 million over three years and in your prepared remarks you said greater and sooner and used a term considerably better. So I guess it's fair to ask, can you try to quantify what the savings you hope to get are and the timing?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Let's think of it in these terms, Arnie. We talked originally about $100 million -- basically $70 million of operational synergies, and let's call it $34 million of interest rate synergies. That gets you over $100 million all by itself.

Coming back and just speaking to the targeted synergies that we spoke of, the $70 million that we thought we would have at the end of 2017, based on what I'm seeing right now, I think we will likely have $70 million probably by mid-year 2016. So we're going to capture that at least 18 months in advance. And as I look at what's going on, what I like about that is that's really going on primarily within what we're pulling out in the operations.

And keep in mind, we've got quarries that are literally next door to each other. The pure operational efficiencies that we're seeing in the transaction are going nicely ahead of where we thought they would be and again, I think what we said is right.

Our original estimates were too low and too slow. They're going to be higher. They're going to be faster. I think we will hit that $70 million 18 months early.

Arnie Ursaner - *CJS Securities - Analyst*

Thank you very much.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Thank you, Arnie.

Operator

Thank you. Our next question comes from the line of Kathryn Thompson from Thompson Research Group. Your question, please.

Kathryn Thompson - *Thompson Research Group - Analyst*

Hi, thanks for taking my questions today. In the 8-K you filed mid-quarter, it was helpful in giving some sense of the magnitude of the contribution of divested assets related to TXI transaction.

For the quarter end, what was the revenue and gross profits contribution impact of those divested assets? Also tagging you a little bit early with the freight impact in the quarter, have you taken a stab at what contribution margins would have been with a clean year-over-year comp taking into account those divested assets? Thank you.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Let me look at it this way, Kathryn. If we look at the divested assets, as I look at the tonnage that came out for the quarter, it was probably around 570,000 some tons for the quarter. So that's probably a good way for you to go back and really sort out what that means.

I think to the second part of your question, I think it really goes back to what we were talking about before. If we're simply looking at the change in cost quarter-over-quarter, the rail freight and the adjustment there is the primary driver on where we're seeing the difference. And again, if that's $9 million, if you take that $9 million, bring it back into the adjusted gross margin of [1.62%], and then go back and at least work with call it 575,000 tons that were historically coming out of north Troy, I think that gives you your bridge.

Kathryn Thompson - *Thompson Research Group - Analyst*

Great. Thank you. Looking at some of the certain regions in the Southeast, particularly more patchiness in certain markets like Alabama, which received some more feedback not only from our base and material contracts but also our building product distributors, so completely different construction end markets.

What had been the feedback or the driver of just the puddle in those certain markets? Is it more end market focused? Weather-driven? Or is there something else we should take into consideration, and where do you see long-term trends.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

As far as what you're seeing in Alabama and the entity south, that is your question, Kathryn?

Kathryn Thompson - *Thompson Research Group - Analyst*

Yes, it is.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

I think the primary issue that we're seeing there, and principally more in Florida for the quarter, remember, we're not all things to all people in Florida. We're really infrastructure play in Florida, and our positions in Alabama are really more headed toward Birmingham and headed south as well.

I think what we're seeing particularly in Florida is we have a timing issue, and the timing issue's relative to larger projects. We know for example the I-4 ultimate work is going to begin in 2015. That's going to be significant work for multi years inside of a record Florida DOT program.

So as we're looking at that portion of the Southeast, we think it's more of a timing issue. Part of what I was particularly heartened to see though is we do continue to see a nice recovery in north Georgia.

And as you will recall, we've changed our footprint in that Atlanta market pretty considerably over the last five or six years and have a very attractive number two position in Atlanta today which is very different from number four and number five position we would have had there six or seven years ago. So what I would say in direct response is we think Florida's a timing issue for us on infrastructure, and we think north Georgia continues to recover.

Kathryn Thompson - *Thompson Research Group - Analyst*

Great. You spoke about this a little bit in your prepared comments, but have you seen any change in pace of orders or change in conversation in energy focused regions in response to the decline in oil prices?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

We have not. The simple fact is that we go and take a look at what's going on in shale with our business, I can tell you, our shale related tonnage, and again, this isn't frac material. This is what's going into roads. It's going into pads, et cetera, was up 424,000 tons third quarter last year to third quarter this year.

My guess is at the end of this year we're going to see tonnage going to those different shale plays in excess of 7 million tons. What I would remind you of is I think most people last year thought it had probably peaked out, and if we're right, this year's going to be higher than last year was.

Here's what we're seeing in the different plays. Niobrara is better. Marcellus is better. Eagle Ford is better. Haynesville is better. And Barnett is off. So that's really the way that stacks up right now, Kathryn.

Kathryn Thompson - *Thompson Research Group - Analyst*

Thanks. My final question today, just to clarify what you said in your prepared comments regarding interest expense. Is interest expense reported in Q3 a good run rate going forward, or there will be additional decline on the quarterly run rates go forward?

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

Kathryn, I think the interest rate in the third quarter is a pretty solid run rate.

Kathryn Thompson - *Thompson Research Group - Analyst*

Thank you so much.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Thank you, Kathryn.

Operator

Thank you. Our next question comes from the line of Jack Kasprzak from BB&T.

Jack Kasprzak - *BB&T Capital Markets - Analyst*

With regard to the rail congestion and the increased cost there, Ward, isn't it likely to persist at least for a little while longer?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

I think it is. I said as much in my prepared remarks. I think several things are affecting Class 1 railroads. I think a lot of them came out of a very difficult winter behind the eight ball.

I think they have had a lot of traffic this year in large part driven by what's going on on their rails. I think some of their infrastructure needs some work right now. We've certainly seen evidence of that. So I do think that continues to go on.

I think part of the evidence of it is Class 1 railroads this year by my data will use about 20% less ballast in 2014 than they did in 2013, and our ballast shipments are down a little bit less than that year-over-year. It's not for lack of need that they're not taking that ballast. They've got that much activity on the ballast.

The quick response to it as well, Jack, I think the way that we will likely respond to that is two-fold. One, we have the ability to run distributed power and bring more cars into our yards and make up for inefficiency by sheer volume coming through.

The other component of it is transportation is going to be tight for everyone by both rail and by truck, and that's likely to end up being a price point. And I think if we continue to see that type of headwind, I think we're going to come back and we're going to adjust prices accordingly.

Jack Kasprzak - *BB&T Capital Markets - Analyst*

Got you. Thanks for the color. Going to ask about corporate overhead in the quarter which I think you even take out the acquisition costs that you reported is up substantially in the high $50 millions versus a little less than $6 million in the same period last year.

Obviously you have TXI layered in there and you told us not to compare legacy TXI numbers, but that's the only point of reference we have. And it seems like an outsized increase even after adjusting for the acquisition costs, taking them out. Is there something else in there or how should we think about the corporate line going forward?

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

We look at corporate overhead and, Jack, I want to make sure I'm following you, where you are. We look at total SG&A costs of $48 million versus $37 million last year.

The corporate pieces principally have all the acquisition related costs in them. And if you look at TXI as a whole, so if you look at the acquired operations, we picked up about -- rounding about $16 million of SG&A from the acquired businesses. Included in that $16 million is about $4.5 million of basically overhead we allocated here from the corporate office.

There was some unallocated overhead that remained that we allocated to that business. There's about $6 million of what I will call duplicative overhead, and that is the remaining SG&A really left as we continue to integrate the ready mix concrete and the cement businesses, which as Ward's comment had indicated, we are expecting to be done by June of next year. So that cost should begin to work its way out of the system.

So as we look at the pure SG&A that we picked up from TXI, we picked up around $5 million of SG&A on a go forward basis against their corporate run rate in the third quarter or the quarter ended August 31 of about $18.5 million. That's what we're looking at. If you've got some other specific questions, maybe we can unpack that offline.

Jack Kasprzak - *BB&T Capital Markets - Analyst*

That's helpful to get it directionally. Thank you. And diesel fuel, can you tell us the price change maybe for the heritage operations, if you have that, versus last year?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

I will tell you what I've got. I've got [$309 million] in Q3 versus]$322 million] last year in the same quarter.

So we're seeing a nice decline. And obviously what we've got is about two weeks' worth of storage at facilities.

That helped I'm going to say a little bit for Q3. If it continues like that, it really is going to be much more of a player in Q4 than it was in 3.

Jack Kasprzak - *BB&T Capital Markets - Analyst*

Very good. Okay. Thank you.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

All right. Thank you, Jack.

Operator

Thank you. Our next question comes from the line of Garik Shmois from Longbow Research. Your question, please.

Garik Shmois - *Longbow Research - Analyst*

I have a follow-up question to the last one, with respect to diesel costs and your expectation that it should offset the higher anticipated rail congestion expenses. Just wondering if you could maybe provide some clarification. Are you expecting that the lower diesel is going to fully offset or just be a partial offset moving forward?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

I think it will be a partial offset. I think the word I used was mitigate, not offset. I think it will make it easier going forward, but I don't think it makes up the whole.

Garik Shmois - *Longbow Research - Analyst*

Okay. And with respect to cement price increases that you've mentioned for October in both of your states, could you provide maybe a little bit more color on how those are sticking at this point?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

I can't. We don't see any retraction on those at all. We went into both Texas and California resolute that we need needed to have those -- particularly needed to have that in California.

Our intention is to make that plant profitable, and that's exactly what we intend to do. And the other thing that we intend to do is come back with a very similar looking increase in 2015 as well.

Garik Shmois - *Longbow Research - Analyst*

Okay. Thanks. And then just a question for Anne. On the tax guidance of 39% for the full year, obviously in the fourth quarter. How should we be thinking about the tax rate moving forward?

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

The tax rate. Take out, extract out all of the really TXI related costs that were nondeductible, including the goodwill we wrote off for the divested assets, some of the change of control costs that were not allowed tax deductibility and some of the transaction costs that weren't tax deductible.

If you strip all of that out, the ongoing tax rate for the core business including TXI is 29% which is really where our guidance thought it would be. If you recall back in the second quarter we indicated we thought we'd have a 29% tax rate excluding discrete events.

All of those TXI issues are what drove the tax rate to that from the 29% to 39%. So I expect it to continue to be 39% for the fourth quarter because of those discrete events, but the run rate's 29%.

Garik Shmois - *Longbow Research - Analyst*

Okay. That makes sense. I guess just one last question. On the TXI accretion guidance for this year, it's expected to be flat. Correct me if I'm wrong.

I thought previously when you had announced the deal, you had anticipated accretions to earnings for this year and for year one of closing somewhere along the lines of mid to high teens accretion. Just wondering if you could speak to the changes and just a timing issue around the closing, and if you are still contemplating the year one accretion levels that you previously outlined.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Thanks for the question. I think we're sticking with was we thought full year one would look like.

I'm going to quote one of my colleagues who has looked at this and said -- this is all subject to the tyranny of purchase price accounting. And candidly, that's exactly what we're dealing with. When you look at the inventories and the other odd things that go through purchase price accounting, therein lies your delta.

I think we could end this year with this deal being accretive. I think it depends on what the fourth quarter looks like, and I'm hopeful that that's where we will be. But if we come back and really look at what the delta is, I would point you to purchase price accounting and what's tied up in that.

Garik Shmois - *Longbow Research - Analyst*

Thanks so much. Best of luck.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Thank you.

Operator

Thank you. Our neck question comes from the line of Jerry Revich from Goldman Sachs. Your question, please.

Matt Rybak - *Goldman Sachs - Analyst*

Good afternoon. It's Matt Rybak on behalf of Jerry. It sounds like you had some pockets of soft demand overall.

Just wondering if you could talk about whether volumes improved in October. And maybe say more about your confidence in the mid single digit infrastructure growth next year.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

I guess a couple of things on that. We will tell you more about Q4 when we're together in February.

But here's what I've always said about October. It should be the busiest month that the aggregates industry in this country sees, and if you've got good weather, it ought to work reasonably well.

And what I will tell you is I'm not sure what it's doing where you are, but it's sunny and clear in Raleigh today. But I will talk more about October when we get together in February.

As we come back and address your question relative to infrastructure next year, here's what I would say on that as well. We're showing infrastructure up. It's all about where you are.

And here's why we see infrastructure up. It's going to be another good year in Colorado. It's going to be another steady year in Iowa. It's going to be another great year in Texas.

I think we've got probably four years of great infrastructure work ahead of us in the Texas. We've got Florida clearly getting better year-over-year with record DOT program, and we're seeing a good, steady program right now in North Carolina.

The governor's come back. He's laid out his 20 plus year vision of transportation here. It's more urban focused than it's been historically. But he's also looking at a considerable bonding program that could come back and have more rural initiatives as well.

So when we come back and say Colorado feels better, Iowa feels fine, Texas feels better, Florida feels better, and North Carolina feels steady, that gives us a good start. I think if we, again, we're northeastern or more Great Lakes focused, I would probably have more concern, but as I look at where we are, I feel good about infrastructure next year.

Matt Rybak - *Goldman Sachs - Analyst*

Just a follow-up on pricing. Pricing's been well ahead of your guidance. Can you talk about what surprise to the upside and maybe why you're not changing the pricing guidance range for the full year?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Keep in mind, we had a lot of mix issues and timing at the beginning of the year. So we thought we would see a makeup as we came through the year.

I think part of what's giving us some tailwind on that right now is we did see more mid-year price increases this year than we had seen last year. As a reminder, we actually saw mid year price increase in the Dallas/Fort Worth market this year and that's a market for years that we did not see a midyear price increase.

Again, I think the pricing is doing exactly what we thought the price would do in a volume recovery. We always said there was going to be a lag there, but I feel good about it. Feel good about it as we look into 2015.

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

The fourth quarter pricing is very much affected by mix of agricultural lime shipments and that will obviously be dependent on -- it's very weather dependent as to whether that ag line goes down.

Matt Rybak - *Goldman Sachs - Analyst*

Perfect. Thank you very much.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Thanks, Matt.

Operator

Thank you. Our next question comes from the line of Trey Grooms from Stephens. Your question, please.

Trey Grooms - *Stephens Inc. - Analyst*

Thanks. Good afternoon.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Hi, Trey.

Trey Grooms - *Stephens Inc. - Analyst*

Kind of back to the costs in the quarter, you pointed to the rail, but also I think you said $8 million to $9 million in the quarter from congestion there. But you expect diesel should mitigate this.

So just for clarity, so the impact in 4Q from this net of diesel should be less than the $8 million to $9 million that you realized in 3Q. Am I thinking about that right?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

I think you're thinking about it right. Directionally you're in the right place on that.

I think the maintenance and repair spike that we're seeing is not a surprise. We talked about it the last quarter.

It's not going to be something that goes away in a quarter or two. But I think you will see that come back into a more normal place. But I do think if we have diesel down and we have a normal Q4, it will certainly serve to mitigate some of the congestion and related issues that we're seeing in rail.

Trey Grooms - *Stephens Inc. - Analyst*

I'm sorry if I missed it, but the higher repair and supply costs, what was that in the quarter?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

That was about $4 million.

Trey Grooms - *Stephens Inc. - Analyst*

Okay. And then looking at your initial guidance range for 2015 volume, or I guess kind of the directional range for 2015 volume, I appreciate you giving us an insight into that a little early.

And you have made a few comments but didn't really get into a whole lot of detail about pricing. But just given the backdrop of volume, could you give us any directional sense or any color on how you think about pricing in that demand environment?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

As you've heard us say before, Trey, I think pricing tends to follow volume up with a lag. And I think we clearly feel the benefit of increased mid year pricing this year more next year.

I think if we come back and take a look at where we particularly see strong economies and we have leadership positions in Texas and what we can do in Colorado, keep in mind, even as we look at the quarter we're looking at price increases on a percentage basis in the west that are going up higher than they are in the east. So there is your volume and your price link. So I think we will continue to see that.

Obviously we will give more definitive guidance on pricing when we come out in February with our full year results, and I'm sure we will talk about that at the Investor Day that we're planning in February as well. I think the pricing stories continues to be a very good one and a very appropriate one for this industry, given the reserves that are incredibly valuable and hard to permit.

Trey Grooms - *Stephens Inc. - Analyst*

Okay. Thanks for that, Ward. And then you mentioned the October $10 price increase in cement. Sounds like that's coming along pretty well.

But there's some announcement from some of your competition in those markets, California and Texas, for price increases substantial price increases as we look into 2015. What are your thoughts as we look into those announcements?

Have you guys put anything out in those markets for that time frame? Just general thoughts on increases on cement as we look into next year especially in the Texas and California markets.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

I guess this is what I would say. Texas is sold out. I mean, Texas is sold out. I think when you're operating in a sold out market, obviously you're going to see pricing do what pricing will do in a sold out market.

I think the other thing that's perfectly apparent is California is working its way back to equilibrium. I think one of the things that we're most excited about is coming back and increasing the efficiencies in all of our plants, Trey, within the permit limits to make sure we can really meet this rising demand need. Also in a situation of Texas where we do see pricing going up very nicely.

So I guess my point would be this. In a sold out market, you would expect pricing to go up. In a market in which frankly we need to make that plant profitable, you're going to see us push price at Riverside and because we need to do that.

But what I think as well is we can come back and add as much as 250,000 some additional tons of cement to our business next year, just through efficiencies. And I spoke in my prepared remarks of what our teams were doing to ramp those up, and simply getting a place like Hunter and Hunter 1 that's operating in the high 70%s up to something closer that feels like 85% working its way toward 90%, which is the type of theoretical world class capacity that we're looking to, giving us that type of volume in that type of pricing environment is where we think we need to be, Trey.

Trey Grooms - *Stephens Inc. - Analyst*

Thanks for the response, Ward, and good luck.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Thank you very much, Trey.

Operator

Our next question comes from the line of Timna Tanners from Bank of America-Merrill Lynch. Your question, please.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Good afternoon, Ward. Hey, Anne.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Timna, welcome back.

Timna Tanners - *BofA Merrill Lynch - Analyst*

I wanted to take a step back and ask a little bit since this acquisition didn't burden you too much on the balance sheet, I wanted to hear a little bit more about your thoughts of uses of cash down the road as we look into 2015. So you touched on some optionality perhaps of expanding at Midlothian.

You have -- clearly the acquisition environment seems to be heated up a little bit for aggregates. Just wanted to get your panorama of opportunities and how you're thinking about it.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

That's a fair question, Timna. I think we're going to have a nice problem going forward because I think we've got what is going to be a remarkably cash generative business. I think the opportunity to continue to grow our business responsibly is one that we're excited about.

So number one, we look at it from that lens. Number two, we are going to come back and look very carefully at the way we put capital into the business as well.

Part of what we've seen over the last several quarters, and we talked about it, as volume ramps up, rolling stock needs some help. We're going to make sure we're putting appropriate and sensible capital into rolling stock.

The other thing we're going to be sensitive to and always look at is coming back and looking at share repurchase and where we are. We've got an authorization from our Board right now that we're mindful of. We like acquisitions. We like Martin Marietta too.

We're going to be looking at that going forward. Part of what I'm grateful for is shareholders through the deal. We didn't put our balance sheet in any form of duress at all.

Our balance sheet's in a very good place. At the same time, shareholders would like to see some of the natural dilution that occurred from that go away, and we're sensitive to that.

We're going to be looking basically at what we're going to do with acquisitions. We're going to be looking at what we're doing with capital, and we're going to be looking at really what we can do with extra cash.

The thing that I would remind you, we're 120 days in. So it all sounds exciting. And it is exciting. And we think it's a great story but I will say again, we're 120 days in.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay. That makes sense. Just to be a little more granular real quick.

I know there's been a lot of discussion around this, but on the rail side our folks are expecting this isn't a temporary situation, this could last into the next year, even two years. I wanted to understand how the mechanism would be if you were to pass along price hikes. Would that be a lag effect? Could you do it on a case by case basis or how might that look?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

I think it would be several fold. I think you could look at just a pure price increase. I think you could look at surcharges, although that's never been a mechanism that we'd prefer.

And again, I think part of what we can do to mitigate that, because of the way that we build our rail yards, if the traffic is going down, we can put in longer trains. If we're going with distributed power and by that meaning really two locomotives, one at the front, one in the middle, we can go in with considerably more than 100 cars, and that's a dialogue we will be having with all the Class 1 railroads.

Timna Tanners - *BofA Merrill Lynch - Analyst*

Okay. Sounds like you're on it. Thank you for your help.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Thank you, Timna.

Operator

Thank you. Our next question comes from the line of Ted Grace from Susquehanna. Your question, please.

Ted Grace - *Susquehanna Financial Group / SIG - Analyst*

Hey, guys, how you doing?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Hi, Ted.

Ted Grace - *Susquehanna Financial Group / SIG - Analyst*

I was wondering if you could go through the EBITDA bridge that we historically done on the legacy side. I know you made comments I think you've outlined $8 million or $9 million of headwinds winds on rail and maybe $4 million of R&M on the legacy side.

Could we go through that? I know on slide 6 you had a $49 million bucket. Could we maybe disaggregate what that is?

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

Okay. So the $49 billion -- excuse me, the $49 million bucket, didn't we have a detail of that in the back? Excuse me, Ted. That's going to include -- has it been adjusted?

There's been no detail provided on that, excuse me. But those cost increases are going to include the -- for the aggregates product line the $9 million on rail that we've been talking about, the $4 million on maintenance and supply and then the normal cost increase that come along with the volume on the business.

Ted Grace - *Susquehanna Financial Group / SIG - Analyst*

So when you go into the cost, could you just help us understand -- last quarter you guys were very helpful in explaining inventory dynamics. Was there a repeat of that at all in the legacy business this quarter?

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

Not at all. As we indicated in the last quarter, we didn't think it would be. No, there was not.

Inventories -- we made the conscious decision to reduce inventories in the second quarter. And now inventories we think are in good balance.

Ted Grace - *Susquehanna Financial Group / SIG - Analyst*

Okay. So those are the key factors that you would bridge on the legacy aggregates business?

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

Yes.

Ted Grace - *Susquehanna Financial Group / SIG - Analyst*

Okay. And then on the specialty products I guess, we've come to expect incrementals in that 30% range. It was a little low this quarter. Were there any discrete cost items that would have weighed on incrementals that would be helpful to be aware of.

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

You've got two things there, Ted. You've got natural gas pricing year-over-year up but 2Q to Q3 down. That's the quick way to think about that.

The other issue that we were faced with in that is we did have a kiln shutdown that affected that business to the tune comparatively about $1.2 million. If you look at the Nat gas and the kiln down for a period of time, which happens, that's just the way that business is run, planned outage, that's entirely the difference.

Ted Grace - *Susquehanna Financial Group / SIG - Analyst*

Okay. And then the last thing I was hoping to ask before I jump back. When you talk about infrastructure being up potentially mid double digits, sorry, mid single digits next year, could you walk through how much of that is public versus private and how you're thinking about the public piece of infrastructure?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

That's all public in our domain, although there may be pieces of it that have a P3 component to it. Because as you know, on all major infrastructure projects now in the United States, under Map-21, they have to go and look at whether a P3 element would make sense to go with it. As we're looking at that, just to be clear, it's all public infrastructure.

Ted Grace - *Susquehanna Financial Group / SIG - Analyst*

And then so are you making any assumptions on the federal highway Bill, the highway bill, or is that all driven by other programs mostly state and local?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

I guess the primary -- it's primarily driven on the upside by what's going on at the states right now because they're clearly taking more and more charge of what they're doing. On the federal side, Ted, the primary thing we're assuming is it's just going to keep on keeping on. It's relatively flat in our view, and that's the assumption that we're making.

Ted Grace - *Susquehanna Financial Group / SIG - Analyst*

That was the last thing I wanted to ask, what's the latest you're hearing on the highway bill, optimism you have or lack thereof and then I will get back in queue.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Here's the take I've got, Ted. Nobody's ever been right on it. You can probably add me to that queue as well.

I think legislative fatigue is going to take this over. If we look back to the last $11 billion that got sured up, every time they go to the well looking for whatever the next $11 billion is, it gets harder to get.

I think one of the things that I was most moved by as I was reading this week is this notion that if the Republicans for example take the House and the Senate, one of the issues that they're concerned about is that they don't demonstrate an ability to govern. They don't feel like they will get a shot at the White House in 2016.

As we're looking at things that are simply fundamental to job creation and economic growth, a transportation bill is one of them. And part of what we've seen, there's been a recent study that actually Duke put out earlier in the month or last month, saying a sustainable bill like this would add 2 million jobs of construction jobs in the United States.

So I think as we sit here and consider the fact that they've kicked the can down the road, but there's just not a lot of road to kick the can down, I think our sense is we do end up getting a fix. They do have to deal with the revenue side of it. Nobody necessarily want to do that.

But simply gasoline going down as much as it has over the last several weeks and months and the fact that it's likely to continue going down may give people an opportunity to do that. That's probably a long answer, Ted. I'm not sure that it's precise, but it's probably as good as anyone can offer right now.

Ted Grace - *Susquehanna Financial Group / SIG - Analyst*

Very helpful, guys. Best of luck this quarter.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Thanks, Ted.

Operator

Thank you. Our next question comes from the line of Keith Hughes from SunTrust. Your question, please.

Keith Hughes - *SunTrust Robinson Humphrey - Analyst*

Couple questions. First on the NOLs, you raised your estimate to $500 million. Can you give us any kind of update on timing of how the shape or form that you will be realizing those?

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

Yeah. We actually think over the next several years -- if you look in the press release, this year we will be -- yes, we indicated that in 2014 we will actually be able to use $84 million of those NOLs.

Keith Hughes - *SunTrust Robinson Humphrey - Analyst*

Do you have a 2015 estimate at this point?

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

We do not have a -- well, I do, but we haven't talked about it. We will talk about that when we release guidance for the balance of the year.

Keith Hughes - *SunTrust Robinson Humphrey - Analyst*

Are these NOLs in the next let's call it 18 months or so, are they on foregoing capital gains taxes or are they on operating income?

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

It's operating income.

Keith Hughes - *SunTrust Robinson Humphrey - Analyst*

I think you said 39% tax rate in the fourth quarter, so that seems a little high considering you're getting an NOL. How does that all work out?

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

As I indicated earlier, this is the effective tax rate. The NOL only deals with your cash taxes.

Keith Hughes - *SunTrust Robinson Humphrey - Analyst*

Okay.

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

And we also indicated we estimate cash taxes for the full year are expected to be about $13 million.

Keith Hughes - *SunTrust Robinson Humphrey - Analyst*

Switching back to the previous question on assumption for infrastructure spending in 2015, you're assuming flat federal dollars. That would mean I assume states would have to be up double digits unless there's some kind of TIFIA offset in there. Can you reconcile that for me?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

I think we are seeing some TIFIA offset in there. If we're looking at I-77 hot lanes in Charlotte, if we're looking at I-4 in Charlotte, I mean in Florida right now, if we're looking at what's going on on interstate 35-E in Dallas and we're looking at more on the grand parkway in Houston, those are just some of the headline TIFIA projects. We also think we will see more of those come through as we enter into 2015.

Keith Hughes - *SunTrust Robinson Humphrey - Analyst*

I know you don't typically break out revenues by states; it's more geographies. Texas has become so important to you here, so many good things going on. Could you just give us a feel for how much of the Company revenues are in Texas?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

We will give you some more of that at the tend of the year. Here's a good way to think about it. I looked at what's going on in non-res in the United States. That's an area that I see getting considerably better year over year.

We've seen an additional $30 billion of non-res activity in the United States this year. What that means effectively is there are about $45 billion of areas that are up, about $15 billion that are down. Nets you to the $30 billion.

Here's your take-away. $15 billion of it is in Houston, all by itself. That gives you a sense of to your point how important and how dynamic Texas is, but at year end we will come back and give you a good snapshot.

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

Just a reminder, we obviously will have to -- likely be what we will give you is what we think 2015 looks like because obviously 2014 will only have half a year of TXI's operations in it.

Keith Hughes - *SunTrust Robinson Humphrey - Analyst*

I was looking for pro forma combined.

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

We will give that to you as we come out with annual guidance.

Keith Hughes - *SunTrust Robinson Humphrey - Analyst*

Thank you.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Thanks, Keith.

Operator

Thank you. Our next question comes from the line of Mike Betts from Jefferies. Your question, please.

Mike Betts - *Jefferies & Company - Analyst*

Thank you very much. I've just t got two questions left if I could.

Firstly, on SG&A, and I heard your comment, Anne, that TXI there was still about another $10 million to go out which would leave about $5 million in there. That seems extremely low on almost $1 billion of sales. Maybe I'm missing something.

I guess the real fund men fundamental question is with the new IT system and with cement requiring less SG&A, have we moved to a structurally lower level of SG&A as a percent of sales within the business? My second question just on the TXI heritage aggregates price, the $11.83, you gave an explanation, Ward, and thank you for it for why it was higher.

My question, is though, do you report the ago aggregates pricing any different from the way TXI reported that number? Is there I some kind of accounting difference or actually is that all mix. Where their numbers similar to what they would have looked like under your accounting.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Let's do it this way. I'm going to talk about pricing and aggregates. Anne's going to talk a little about SG&A. I think this is what's going on.

I do think you're seeing sand short in much of Texas to give you a sense of it, the sand and gravel numbers that we're seeing in much of Texas right now is actually ahead of our corporate average. So it's somewhere between $11 and $12 a ton.

We gave up those two yards at Frisco and Dallas. We picked up eight. So that's eight yards we picked up in Texas. The average selling price at those yards is in excess of $16 a ton.

Now, Mike, to answer your question directly when we come back and look at what's going on at the stone facilities that we picked up in north Texas, they do tend to be considerably lower than our corporate average. That's something that we're working on right now.

I'm not sure how TXI would have rolled all of that up. And you do have some dynamism the market right now, particularly relative to what's going on.

I hope that's responsive to your question. I will let Anne talk about the G&A.

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

Change in SG&A. I do believe that we are entering an area and an arena in time where we will have some structural change. As I think about 2015 and beyond, I don't believe a 5.3% SG&A level on this side of the business is sustainable. But neither do I think it's going to be 7.5%.

I think if I was modeling, I'd probably put in 6% to 6.5% of total sales as a pretty decent run rate on a business with this revenue base. Obviously, we like to always outperform against our target. So we will always work to keep that going down.

Mike Betts - *Jefferies & Company - Analyst*

That's great. Thanks both of you.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Thank you, Mike.

Operator

Thank you. Our next question comes from the line of Stanley Elliott from Stifel. Your question, please.

Stanley Elliott - *Stifel Nicolaus - Analyst*

Thanks for taking my question. Most of them have been answered.

Real quick on the specialty products. You mentioned the kiln shutdown. What happens in Q4 to get the gross profits ramp like it's scheduled to do according to guidance?

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

I think we just -- the pricing is working, we're seeing a lot of demand for. We're seeing a lot of demand for chemical products. As we come back and look at the types of margins that we're getting on that business in a record quarter.

I don't see anything disrupting that. And we won't have a kiln down. I think those are your primary differences, Stanley.

Stanley Elliott - *Stifel Nicolaus - Analyst*

Thanks very much.

Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

I've got to say, I kind of smile. We had a 34% margin on that business for the quarter. It's a darn good business.

Stanley Elliott - *Stifel Nicolaus - Analyst*

Listen, I think it's great too. But when you look at the sequential ramp relative to how it's done historically I was just curious, plus I was about out of questions, so --

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Anne Lloyd - *Martin Marietta Materials, Inc. - EVP and CFO*

(laughter) we will give you that.

Stanley Elliott - *Stifel Nicolaus - Analyst*

Thank you.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Thank you.

Operator

Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Ward Nye for closing comments.

Ward Nye - *Martin Marietta Materials, Inc. - Chairman and CEO*

Thanks again for joining our third quarter earnings call. We remain running this business in a world class fashion. We're convinced we're going to do it, and we're convinced that we're going to have the returns that accompany a world class business.

We look forward to talking about that when we're together in February, and we look forward to seeing you in New York in February. Thanks so much. Enjoy your weekend.

Operator

Thank you ladies and gentlemen for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.
