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## PARTICIPANTS

### Corporate Participants

**C. Howard Nye** – President, Chief Executive Officer & Director

### Other Participants

**Arnie Ursaner** – Analyst, CJS Securities, Inc.
**Kathryn I. Thompson** – Analyst, Thompson Research Group LLC
**Adam Rudiger** – Analyst, Wells Fargo Securities LLC
**Todd Vencil** – Analyst, Sterne, Agee & Leach, Inc.
**Jack F. Kasprzak** – Analyst, BB&T Capital Markets
**Jerry D. Revich** – Analyst, Goldman Sachs & Co.
**Trey Grooms** – Analyst, Stephens, Inc.
**Garik Shmois** – Analyst, Longbow Research LLC
**Ted Grace** – Analyst, Susquehanna Financial Group LLP

## MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Martin Marietta Materials Third Quarter 2012 Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow that time. [Operator instructions] As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Mr. Ward Nye, President and CEO. You may begin.

### C. Howard Nye, President, Chief Executive Officer & Director

Good afternoon, and thank you for joining the Martin Marietta Materials quarterly earnings call. With me today is Anne Lloyd, our Executive Vice President and Chief Financial Officer. We're pleased to discuss our third quarter 2012 results as well as our full year expectations. We'll also share our preliminary view of the macro indicators for our Aggregates product line end use markets in 2013.

As an initial reminder, this discussion may include forward-looking statements as defined by securities laws in connection with future events or future operating or financial performance. Such statements are subject to risks and uncertainties which could cause actual results to differ materially. Except as legally required, we undertake no obligation publicly to update or revise any forward-looking statements, whether resulting from new information, future developments, or otherwise. We refer you to the legal disclaimers contained in our press release relating to our third quarter 2012 results and to our other filings with the Securities and Exchange Commission, which are available on the SEC's website. Finally, any margin references in our discussion are based on net sales, excluding freight and delivery revenue. These and other non-GAAP measures are also explained in our SEC filings.

Third quarter earnings per diluted share of $1.36 exceeded the consensus by $0.10 and represented an improvement of 27% over the prior year quarter. Earnings growth was driven by a 4.1% increase in heritage Aggregates product line pricing and the contribution from our acquired operations in the Denver, Colorado market. Additionally, our Specialty Products business posted record third quarter earnings from operations.

For the quarter, consolidated net sales increased more than 20%, primarily attributable to our Denver area businesses acquired in the fourth quarter of 2011. In fact, our West Group had $300 million of third quarter net sales, with 30% attributable to our Denver acquisitions. We continue to see indications of increasing construction activity in the Denver market, including the rate of growth in highway contract awards and construction-related employment, both of which exceed national averages.

Quarterly net sales were also positively affected by the continuation of strong pricing trends, as evidenced by the average selling price increase in our heritage Aggregates product line. Pricing growth was reported in each of our groups, led by a 5.1% increase in the Southeast Group aided by favorable product mix. The West Group's 4.8% price increase was the result of increased shipments to the energy sector. Finally, our Mideast Group reported a 3.5% increase in heritage pricing, with growth in North Carolina, Virginia and West Virginia.We see these positive trends in our business despite the current economic uncertainty which first arose in June of this year and has continued to negatively affect demand. Accordingly, Aggregates product line shipments decreased 3.8% in the quarter. Geographically, our Mideast and West groups experienced shipment declines of 2.6% and 2.3%, respectively, while our Southeast group reported a 10.7% reduction as economic growth in this region still lags national trends.

The infrastructure market continues to account for more than half of our business and shipments to this end-use sector declined 6% compared with the prior-year quarter. The passage of the Moving Ahead for Progress in the 21st Century Act, or MAP-21, ended a three-year period in which states were hesitant to commit to long-term capital projects due to funding uncertainty. States can now competently utilize MAP-21 dollars as well as other funding options to support vital infrastructure projects.

Although July's passage of MAP-21 was too late to provide a demand boost in the current construction season, we believe it should provide momentum into 2013. In addition to MAP-21, another positive sign for infrastructure activity is the Transportation Infrastructure Finance and Innovation Act, also known as TIFIA. TIFIA applications now exceed $27 billion and span 11 states.

Notably, several key Martin Marietta states, specifically Texas and North Carolina, have now applied for TIFIA funding assistance on identified large multi-year projects. To put this in some context, thus far Texas alone has put forward potential TIFIA projects with investments exceeding $6 billion. Of further significance, the timing of these proposed TIFIA projects actually coincides with fiscal year 2013's more than doubling of Texas' traditional Department of Transportation spending. Two other key states, Iowa and Florida, have also initiated strong state-level programs to finance major projects.

As mentioned earlier, while these factors provide some momentum heading into 2013, our full-year 2012 infrastructure end-use market volumes are expected to be down slightly. The non-residential market, our second largest end use, continued to enjoy quarterly growth in energy sector shipments. Our South Texas market has been the primary beneficiary of this energy-related activity. Their third quarter volumes were up 49%. In fact, South Texas is the only market reporting increased volume in each month of 2012. Other markets have continued to manage their way through erratic month-to-month shipment levels, driven largely by sporadic commercial construction activity. Many developers are simply hesitant to begin new projects given the current economic and political uncertainty.

Overall, heritage shipments to the non-residential end-use were flat compared with the prior year quarter. For the full year, we expect 2012 heritage Aggregates product line shipments to the non-residential market to increase in the high-single digits. Heritage Aggregates product line shipments to the residential end-use market grew 14% over the prior-year quarter, reflecting increased housing starts. For the full year, we expect shipments to this end-use market to have a higher rate of growth compared with that of 2011. Although the residential market is recovering, it nonetheless

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remains depressed compared to historical averages. Still, September's seasonally-adjusted annual housing start rate of 872,000 marked the first time that number had exceeded 800,000 since September of 2008.

To complete our end-use market discussion, ChemRock and Rail experienced a 14% reduction of heritage Aggregates product line shipments. Declining coal traffic and the comparison with an unusually strong 2011 third quarter tied to Midwestern flood repairs were the primary drivers of this reduction. For the full year, we expect heritage ChemRock and Rail shipments to decline by high single-digits.

For the quarter, we reduced heritage Aggregates product line production to match shipment levels. As a result, heritage Aggregates product line direct production costs declined 2.7% compared with the prior-year quarter. Reductions in both personnel and repair costs allowed us to hold the increase in heritage Aggregates product line cost per ton to 1%. In fact, on a per ton basis, our third quarter 2012 personnel costs were the lowest in four years. I'm extremely proud of the accomplishments of our operating team in managing this critical cost component. Other than personnel, energy is the largest piece of our direct production costs. For the quarter, we pay diesel fuel costs averaging $3.08 per gallon compared with an even $3 per gallon in the prior-year quarter.

Consolidated gross margin for the quarter was 22.9%. Excluding the effect of acquired businesses, our consolidated gross margin would have been 25.6%, an increase of 50 basis points over the prior-year quarter. Of note, our Mideast group, which is not affected by vertical integration, leveraged an increase in net sales and cost control to expand its gross margin by 180 basis points.

Our Specialty Products business repeatedly makes significant contributions to our quarterly performance. Strong demand for both chemical and dolomitic lime products generated net sales of $49.4 million. From a cost perspective, this business effectively leveraged lower price natural gas and generated earnings from operations of $17 million, a third quarter record. This result represents a 350 basis point increase in operating margin over the prior-year quarter.

I'm also pleased to report that the construction of our new dolomitic lime kiln in Woodville, Ohio has been substantially completed, on budget, ahead of schedule and already producing lime. The customary debugging process is underway, but we expect this new kiln to generate net sales in the fourth quarter and ongoing, anticipate incremental annual net sales of $22 million to $25 million with margins comparable to existing operations.We continue to focus on selling, general and administrative, or SG&A, costs. For the quarter, SG&A expenses represented 6% of our net sales, a 140 basis point reduction compared with comparable prior-year period. We incurred approximately $1 million in costs during the quarter relating to our planned information system software upgrade. This initiative has a total budgeted cost of $8 million and is expected to be complete in 2013. We believe our information systems continue to be industry-leading and provide us with a great resource to perpetuate our outstanding cost management.

Consolidated earnings from operations for the quarter were $91.1 million compared with $80 million in the prior-year quarter. For the first nine months of the year, cash provided by operating activities, excluding the impact of business development expenses, was $160 million. Days sales outstanding was 45 days, comparable with 2011. Including the $32 million for the new lime kiln, we invested $106 million in various capital initiatives through the third quarter. We also maintained our quarterly dividend rate of $0.40 per common share.

At September 30, 2012 our ratio of consolidated debt to consolidated EBITDA was 3.58 times, compliant with the limits under our debt covenant. We recently amended this covenant to provide incremental liquidity cushion. As amended, the debt covenant limit remains at 3.75 times through June 30, 2013. The limit will then return to 3.5 times beginning September 30, 2013.

For the full year 2012, we expect heritage Aggregates product line volume to increase 1% to 2%, pricing to increase 2% to 4%, and direct production costs per ton to increase slightly. SG&A expenses exclusive of the incremental expense for our Denver operations and cost related to our information systems upgrade are expected to decline slightly compared with 2011.

Earnings for our Specialty Products segment are expected to range from $68 million to $70 million. We expect interest expense to be approximately $5 million less than in 2011. Our effective tax rate is expected to be approximately 23%, inclusive of discrete events, and capital expenditures are forecast at $155 million.

To conclude, we are encouraged by our future prospects and believe we are well-positioned to capitalize on increased construction activity as funding stability returns. Looking ahead to 2013, we have started to frame our preliminary view of the macro indicators affecting our end-use markets. Our preliminary view assumes the U.S. Congress will resolve budget issues and additional or automatic budget cuts that the sequestration process will not occur.

Given that assumption, we expect the infrastructure end-use market to increase in the mid-single digits, driven by the impact of MAP-21, TIFIA and state-sponsored programs. Alone, TIFIA's potential $50 billion impact exceeds the total stimulus dollars awarded by the U.S. Department of Transportation in the American Recovery and Reinvestment Act. We anticipate our non-residential end-use market to increase in the high-single digits. We believe the residential end-use market will experience double-digit volume growth. Finally, we expect our ChemRock and Rail end-use market will be flat compared with 2012. We remain confident that our disciplined operating approach will deliver results, enhancing long-term shareholder value. Thanks very much for your interest in Martin Marietta Materials.

And if the operator will now give the required instructions, we'd be happy to address your questions.

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## QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Arnie Ursaner of CJS Securities. Your line is open.

**<Q – Arnie Ursaner – CJS Securities, Inc.>:** Hi, good afternoon, Howard, and good afternoon, Anne. Can you comment on the factors that are driving the margin improvement in your heritage Aggregate operation? And how we should think about it, or your expectations for that on a go-forward basis?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Arnie, really, there are three drivers that are doing that right now. If you take a look at it, it's going to be pricing, which was actually nicely up for the quarter, again, pretty close to 4% up despite volumes that are down almost at that same percentage.

I'm really pleased with what we've done on cost control. Arnie, if we take a look at the cost that we have, if I look at labor, energy, [ph] MNR (16:37), go through the entire list, the only place that I saw anything that was negative was really in supplies. And that was largely driven by energy, in other words rubber, conveyor belts and tires, et cetera. So as I look at pricing, it's in the right direction. As I look at cost control, we talked about the fact this was the lowest cost per ton on personnel we had seen in four years. And what all that adds up to is what we see in productivity. If I'm looking at our tons produced per working man-hour, and that's the primary productivity metric that we'll use, that was up over 4% for the quarter.

So I think what I would tell you is our teams are watching the business from a very fundamental perspective and they're executing well. And I think that execution as well as pricing is what's driving that margin expansion that you're seeing.

**<Q – Arnie Ursaner – CJS Securities, Inc.>:** And you spoke to volume improvement for next year. If that were to occur, what's your view of how that could impact the margin on a go-forward basis?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** You know what, Arnie, the beauty of what we're seeing right now when you can see what price is doing to this cost basis right now, yeah, I think if we end up putting any degree of volume to this business, I think what you can see is it's going to drop to the bottom line in very significant percentage, and that's how we get to the incremental margins that we discussed. Again, volume coming back and volume coming back across the enterprise is what's important to that.

But I think if the macro indicators that we've talked about are right, it's going to be one those few times I think in a career when we can say we're seeing infrastructure, res and non-res all moving up at the same time. And, as odd as it is, that hasn't happened that often, and next year might be one of those years.

**<Q – Arnie Ursaner – CJS Securities, Inc.>:** Okay. And you spoke very specifically about the demand in the Denver market. Could you speak to the integration and what you've called the Martinizing opportunity you see in Denver and where are we in the process?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** We are working our way through the process. We feel like as we come into 2013, we'll really have that process where we want to see it. Obviously, that's a significant transaction for us. It's a vertically integrated marketplace in which we're operating there. So we feel that we're entirely where we thought we would be with respect to integration. The business is performing, frankly, ahead of our expectations.

And separate and apart from what we're doing internally to the business, I like what I see in Denver. If we're sitting here looking at that market and I'm looking at a 32% increase in highway demand there, we're watching commercial markets all of which are improving, office, industrial and the retail sectors all have declining vacancy rates. Wage and salary growth in Denver is somewhere between 4.5% and 5%. That's clearly better than the U.S.

And you heard me speak in my prepared remarks to housing generally, but we're seeing single-family housing permits up in Denver 25%, we're seeing multi-family up there 40% and we're seeing an increasingly high ability to participate in the Niobrara activity in that market as well. So do we have some internal work to finish Martinizing the business? Absolutely. Will we be done by year end? We believe so. Is the business performing better than we thought? Yes. And do we like the way the market's behaving? The answer to that is yes as well.

**<Q – Arnie Ursaner – CJS Securities, Inc.>:** Thank you very much.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Arnie, thank you.

Operator: Our next question comes from Kathryn Thompson of Thompson Research. Your line is open.

**<Q – Kathryn Thompson – Thompson Research Group LLC>:** Hi, thanks for taking my questions today. You discussed a little bit in your prepared comments and press release about your Texas outlook, but I was hoping you can go into perhaps a little bit more detail as related to your outlook for next year in terms of the overall budget and parceling out how much of the incremental upside is driven by TIFIA funding for infrastructure projects versus core budget or other bonding-related projects?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Kathryn, what I'll do, I'll speak to at least what we're seeing as far as spending is concerned and Texas for next year, obviously, we'll give you much more detail on what we think will happen in that market when we come into 2013 and talk to you again in February.

But what's nice about Texas right now, Kathryn, is I think the biggest issue TxDOT has is really can they get out and spend all the money that they're talking about spending there this year? I mean, the types of numbers that we're seeing are in excess of $7 billion and, on occasion, in excess of $8 billion. What I'm encouraged by is probably several things. If you're looking at San Antonio right now, construction employment is up 7% in San Antonio, much of it is energy-driven and we think we're in a good place there for that. Multi-family is at near historic highs.

Here's a factoid for you. Between January and June, 9,400 homes were sold in San Antonio, that's 500 more than there were in the prior year. And part of what we're seeing now is just a lot of subdivision work as well, that's clearly different. Even when we move from San Antonio to Houston, the best way to describe Houston is Houston right now just looks back. I mean, it's at levels that are clearly pre-recession. Housing is tight in Houston. That's not a word you would use in much of the Southeast, but we are using it in the Southwest. Inventory on housing there is around 4.9 months. That's the lowest since April 2002. And August year-on-year sales are up 20%. That's the 15th straight month of improvement there.

The only market that we're not seeing dramatic improvement in that respect is what we're seeing in North Texas right now, Kathryn. But even when we move to North Texas, and keep in mind, they're not getting the energy tailwind that South Texas is. What we're seeing in North Texas from an infrastructure perspective is still pretty considerable. I mean, the DFW Connector is still underway at Interstate 635, which is the LBJ, is underway, will go into not just next year, but at least through 2015. And we've got a number of jobs on both Southwest Parkway, which is really closer to Tarrant County, and another series of jobs there as well.

Keep in mind, even these numbers, though, that we're talking about in TxDOT that are $7 billion, $8 billion, that doesn't necessarily include the comprehensive development agreements in North Texas. So I'm trying to give you at least some factoids that you can look at, Kathryn, in building your model going forward. But as we're sitting here looking at what we think at 2013 DOT letting schedule could be in Texas, we're seeing it positive by around 130%.**<Q – Kathryn Thompson – Thompson Research Group LLC>:** Okay, great. Thank you. Maybe moving a little bit over to pricing, and you gave some segments, particularly in the Southeast, that benefited from mix versus price increases, But on aggregate as a total, if you were to look just in rough percentages, how much was the increase mix versus natural pricing increases in the market?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Even the Southeast, the mix effect was only about 40 bps, so it wasn't that profound. If we looked at it all-in, it was probably around 30 bps. So what I would tell you is most of it is just genuine pricing, so it's not so much a mix effect.

**<Q – Kathryn Thompson – Thompson Research Group LLC>:** And speaking of pricing, shifting over to your Denver market, Denver pricing, as you talked about, has been lower versus your legacy products, and Martin's been making concerted effort to push pricing out West. How are these efforts progressing? Is the market receptive in light of improved volumes to higher pricing? Any color you might give just on, broadly speaking, not just specific pricing in the quarter in Denver, but how your efforts really play out as we look forward over the next 12 months to 24 months?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Well, Kathryn, if we're looking in an average selling price across the company of around [ph] 10.57 (25:01) Denver is considerably lower than that. So the fact is, at least from where I sit, there is considerable room there for that. And actually what I'll tell you is we've already put out pricing increases in that market in Aggregates, but we're also looking at price increase in Ready Mix and across our products. And so far, particularly with respect to what we're seeing in Ready Mix, we think the biggest piece of price increases that we're putting out there will be sticking.

And, again, I think if we go back to some of the data that I was sharing with Arnie in his first call, as volume continues to come back to that market, I think we will likely see pricing even grow in a more robust way.

**<Q – Kathryn Thompson – Thompson Research Group LLC>:** Do you think you'll be able to be successful in changing the overall philosophy on pricing in that market, because it was a bit different than other markets that you currently compete?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** The only thing that we can do is we can control what we do. I mean, we can look at our business and try to make the independent decisions that we think are the right decisions to make in that market and others. The thing that I like about Denver and what we've talked with you and others about is we want to be in markets where we can have a number one or a number two position, and we think that does give us the ability to be a leader in that market, and that's what we intend to do.

**<Q – Kathryn Thompson – Thompson Research Group LLC>:** And final question. What gives you the greatest concern about your preliminary guidance for next year? And what gives you confidence that those concerns may be ill-founded? Thank you.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Well, Kathryn, as I look at res, I feel pretty confident with that. As I look at non-res on the heavy side, I'm comfortable with that. That's been so energy-driven, as we look at that, that looks good and solid to me. It certainly seems to me that we should see the lighter side of non-res get some legs. I think that's probably the space if you wanted to put some degree of risk out there that may have the highest degree of risk. But, keep in mind, by the time we get into next year, we will have had about just year and a half of pretty good housing

numbers. And by then, you should start to see the office and retail portion pick up just a bit and go forward.

Again, what we're talking about relative to ChemRock and Rail for next year is something that feels much more like a three-year to five-year average, so I feel relatively comfortable there and I hope that is responsive to your question.

**<Q – Kathryn Thompson – Thompson Research Group LLC>:** That is. Thank you very much.

Operator: Our next question come from Adam Rudiger of Wells Fargo Securities. Your line is open.

**<Q – Adam Rudiger – Wells Fargo Securities LLC>:** Hi, thank you. I just wanted to go back to Denver for a little bit. I was trying to understand the full impact of that operation on the company's overall profile. And so, I understand the mix, but can you talk about what the contribution margin would be in the West segment going forward do you think? And then you mentioned if there was – going back to the question about Martinizing, if there was any negative impact this quarter you think that you will be able to a quarter or two from now that would have been reversed as it's fully Martinized, so to speak?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Let me give you some numbers, Adam, and I think this probably will lead you to what you're looking at in large part. There's $90 million in revenue in Denver. The best way to think about that is around half of that $90 million is going to be in some downstream form of business, so either hot mix or ready mix. And, again, from a hot mix perspective, when we bought that business in Denver, we just about doubled our hot mix exposure. I want to share heritage business usually around 1.3 million tons this last few years. We picked up around 1.5 million tons in Denver.

If you go back and look at our heritage business on ready mix, usually that's going to be somewhere between over the last several years 0.5 million cubic yards and 600,000 cubic yards. We're going to somewhere just north probably of 800,000 cubic yards in Denver in ready mix.

So from that perspective, it is a different look there. I do think as we move forward with the balance of the integration, it will make a nice difference there. Keep in mind what we had said was we had planned for the acquisition in Denver to be accretive in 2013, and that is still our plan to have that business accretive in 2013.

**<Q – Adam Rudiger – Wells Fargo Securities LLC>:** Okay, thank you. And then just, secondly, I think it's been a while since I've publically heard anything. Is there any update you care to share with any plans to either proceed or not proceed with Vulcan?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Yes, you're right. It's been very quiet on that. And what I'll tell you is this, obviously we are focused on running our business and we're focused on creating shareholder value. And if that's creating shareholder value through doing what we do organically and otherwise, that's where we're going to look at, and if we can create shareholder value by looking at acquisitions, we're going to look at acquisitions.

So for us, I think you know what our track record is, I think you know we look for continuous improvement and we look to grow our business in any number of ways. So I know that's a relatively vague answer, but that's probably the best that I can do for you at this time.

**<Q – Adam Rudiger – Wells Fargo Securities LLC>:** Okay, thank you.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Thank you, Adam.

Operator: Our next question comes from Todd Vencil with Sterne, Agee. Your line is open.

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**<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>:** Hi, thanks very much. Good afternoon, guys.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Hey, Todd.

**<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>:** Big picture and then smaller picture. Let's go to big picture first. As you look at your outlook for 2013, I mean, obviously, that's a key item that everybody is focused on. You've had a questions about it. But can you talk a little bit about how you formulated that and then where your sort of – where you're looking at an order book, your level or your customers' level and where's a little more sort of nebulous?**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Well, Todd, again, big picture, I think that's really the way that we're looking at that right now is from a big picture. And, again, we'll probably give you much more detail that you can really sink your teeth into come February. But, again, if we're looking at sitting in a place with a Highway Bill that we haven't been for years. I mean, Todd, you've heard me say we're now sitting in a spot from a forward-looking view perspective we haven't been since 2007, and that is we've at least got two years of knowing what we have ahead of us. I think knowing that there's something that's solid with MAP-21 that states and others can count on, we think is significant.

Seeing what's coming in TIFIA, we also think is pretty significant. Again, if you take a look at what's going on relative to TIFIA in some of the markets that are [indiscernible] (32:03) to us, it's a pretty big deal. I mean, we've looked at 16, 17 almost 19 different projects that are out there. If you look at $27 billion worth of projects that have been bid so far, I said five of them in Texas, two in North Carolina, that puts us in a spot that we feel like we can be more than competitive on more than $9 billion worth of that work.

If we look at some of the jobs that were out there in previous TIFIA submissions but have not yet been resubmitted, I mean, some of those were in North Carolina and, specifically, the Garden Parkway near Charlotte. If we look at Texas, San Antonio Loop 1604 and State Highway 550 in the Valley are all jobs that we would be looking at. In Florida, I-75.

So, again, if we're looking big picture and you're looking MAP-21 and you're looking at TIFIA, I think those are pretty considerable. Go back and go through the rest of the buckets and you assume that shale has been awfully good work for us this year in the energy sector. I'll let you draw your own conclusions on where you see energy going. But, clearly, if you've got infrastructure that's moving where we think it is, if you've got energy that you think may be pretty solid next year, if you've got another year of housing, I think those are the building blocks that leads you to at least some of the macro indicators that we put out there, Todd.

**<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>:** Great. Thanks for that color. Drilling down a little bit on the Denver market, you talked some about the downstream businesses. How are those businesses and, again, the non-aggregates, the paving and the asphalt and the ready mix, how are those operating relative to what you would have expected? How is the demand? I assume the demand has come along pretty good based on some of your other comments. But how is that going? And what are the profitability look like for those business? Which ones are you making money and which ones are tougher?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** I mean, clearly, downstream businesses tend to be tougher businesses in this type of market period. I think if you wanted to come back and say which ones look tougher and which ones look better, I think it's not a Denver issue, I think it's probably a U.S. issue to come back and say ready mix is the tougher animal than anything else is today.

At the same time, what I will tell you is what we are seeing relative to activity in that market is actually better than we thought it would be, Todd. Ready mix is going to be driven disproportionately when things start building up. So when we start seeing that form of vertical

construction that we're seeing now in Denver, that's a good sign. At the same time, the hot mix business in some markets has been pretty good this year, in other markets it has struggled more.

What I will tell you is we're seeing a lot of project work in Denver. Through September we bid on 1,700 projects in that market. I mean, that's a lot. And we've got a success rate on those projects that I won't give you, that I do know but I won't give it to you. But I'm pretty excited about the type of success rate we have on those, keeping in mind we want to have a leadership position. So we're bidding those projects very carefully, and we're trying to be responsive in that market.

**<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>:** Good. You're just teasing me on the success rate, by the way.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** [indiscernible] (35:24)

**<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>:** Just a final question, thinking about the seasonality, we haven't been through a full fourth quarter with these guys yet. Any color on how to think about that? I mean, do we think about the – maybe if we compare it to the first quarter, how should we think about the downstream activity there relative to what we saw in the first quarter?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Well, that's a great question, and, Todd, what I'll always tell you is the first quarter out there is always going to be tough. I mean, it's January, February and March. And what happens at the end of March [ph] isn't going to (35:55) make or break that. Usually in most of these places, October is going to be a pretty good month. I mean, across the industry, October is usually the single biggest month that the industry sees. It's usually not horribly cold and it's usually relatively dry, so I'll send you to the NOAA forecast to see what it looks like in the neighborhood near you.

But, yeah, I think if you look at what October is and you assume that in any of these cold markets, if you can have a good solid run up to Thanksgiving, really that's doing pretty well and anything you get after Thanksgiving is almost gravy. So that's probably the best way to think about it.

**<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>:** I will go take a look at the NOAA forecast, but given that it's now November, any color on whether we might have a good solid run so far as we approach Thanksgiving?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Well, I'll tell you what, Todd, I'll tell you all about that in February.

**<Q – Todd Vencil – Sterne, Agee & Leach, Inc.>:** All right. Thanks a lot, Ward.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** All right, Todd. Thank you.

Operator: Our next question comes from Jack Kasprzak from BB&T. Your line is open.

**<Q – Jack Kasprzak – BB&T Capital Markets>:** Thanks. Good afternoon, everyone.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** How are you, Jack?

**<Q – Jack Kasprzak – BB&T Capital Markets>:** I'm doing fine. Thanks, Ward. My first question is the volumes were down in Q3. I guess that led a bit of a reduction in volume guidance for the year. Sitting here today, do we think that the really mild first quarter accelerated shipments and there just wasn't enough left in backlog for 2012 to maintain guidance?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** I think it did a number of things. So I think the early start did probably rob a little bit coming back-end of the year. I think that's fair. And I think the

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protracted process of MAP-21 and the uncertainty that came from that did a bit of a number on it as well. It's funny, if you look at the first five months of the year, Jack, it was up 10%. If you look at June through September, it was down 4%. I think there was a confidence issue somewhere in there as well. I think you have several things, I think you did have an early start of the year, but I do think the MAP-21 process and things relative around confidence was pretty tough.

The other thing that I'm sensing as I sit here as we head into the end of the year, too, is when I'm talking with you at some point next year, we're going to have to be dealing with what was a pretty tough comparable back in Q1. So I'm sitting here right now thinking it probably did do a little bit of harm to us in the latter part of the year, and then you and I will probably have another conversation along that line as we talk about Q1 next year.

**<Q – Jack Kasprzak – BB&T Capital Markets>:** Sure. That's a good heads up for model building. On the subject of infrastructure, if we would go back in time and big highway bills happened like T21 and people got excited, and obviously the stimulus program, which was a shot in the arm to infrastructure thought to be a big increment at the time, probably not such a big increment.

And now we're looking at not just this MAP-21 program but the TIFIA program, which seems to have generated some excitement. What's the chances that it's kind of a disappointment and that there are offsets like we've seen in the past and is there a chance that the money is spent on larger projects that may be less aggregates intensive?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** The only time I think you'll see money spent on larger projects who would be less aggregate intensive is if you have a lot of bridgework. If there's a lot of bridgework, it's going to have a lot of concrete. It's going to have a lot of cement, but it's not going to have a lot of aggregates.

I think what we're seeing and where we have certainly sensed most of the pent-up demand and what we're seeing in most of the TIFIA projects is adding some form of lane capacity. And I think when we come back and add lane capacity, that's going to be awfully important to us. As I look at the big jobs that are out there right now that we're seeing in TIFIA, what I'm seeing is I-77 HOT lanes in Charlotte, I'm seeing I-83 or State Highway 183 in Dallas, I'm seeing State Highway 288 in Houston, 183 in Austin, again, the Grand Parkway in Houston, Interstate 35 in Dallas, all of these are big dirt, big lane addition projects.

So I think as we sit here and look at it, I think TIFIA, from where I sit, Jack, I think is going to be the real deal. And I think the other difference that we have relative to the underlying program is we have two years of knowing that we have something. I mean, if we go back and look at the stimulus deal or others, you still had an environment which you were operating that didn't have any degree of consistency or forward view to it. Now, am I crazy about a two-year forward view? Not as crazy as I would be about a six-year forward view, but, believe me, it feels a lot better than 60 days.

**<Q – Jack Kasprzak – BB&T Capital Markets>:** Sure. Certainly part of the general uncertainty you were referring to. Okay, that's great. Thanks a lot, Ward.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Thank you, Jack.

Operator: Our next question comes from Jerry Revich of Goldman Sachs. Your line is open.

**<Q – Jerry Revich – Goldman Sachs & Co.>:** Hi, good afternoon.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Jerry.

**<Q – Jerry Revich – Goldman Sachs & Co.>:** Ward, Anne, excellent pricing in the quarter. Can you just talk about what surprise to the upside presumably realizations were somewhat higher than

you expected? Can you just give us some color?**<A – Ward Nye – Martin Marietta Materials, Inc.>:** I'm not sure that they were all that higher really than expected. I mean, it was kind of right in – it was toward the upper end of the range that we thought it would be. As I said, it probably got a little bit of help candidly, not an enormous amount of help, from at least some of the geography that was going on in South Texas going to the rail yards, and I mentioned around 40 bps that helped a bit in the Southeast. But, Jerry, as I look here across our different areas of business, what I'm seeing is a lot of green. And part of what helped here, too, is we saw some pricing in Carolina. And you and I have talked about the fact that that's a market that's awfully important to us, and when we're seeing pricing in South Texas and when we're seeing pricing in a place like Charlotte, it really helps and drops to the bottom line pretty quickly.

**<Q – Jerry Revich – Goldman Sachs & Co.>:** And I know seasonality can skew things in the fourth quarter, but you still have a pretty wide guidance range for pricing. I'm wondering how you expect pricing on a year-over-year basis to stack up in the fourth quarter compared to what we just saw for the third?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** I'll tell you more about that when we come in for the full year. But, obviously, given what our range is, Jerry, you've got a pretty good feel for where that is. There's not much math left to the year.

**<Q – Jerry Revich – Goldman Sachs & Co.>:** Sure. And as you think 2013, presumably you're having the Jan 1 price increase announcements with your customers. If you've sent out any notices, can you just share with us what you're targeting for January 1?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Do you know what, Jerry, obviously, the prices that will go out are going to vary enormously by market and what we may see in a market in one part of Texas or another part of Texas could swing dramatically. The same story could be in North Carolina, so it's hard to come back and put any specifics to it. But, obviously, we're in the process of really finalizing a lot of that right now.

**<Q – Jerry Revich – Goldman Sachs & Co.>:** Okay. And, lastly, now that you've had a couple of quarters with the Denver assets under your belt, can you just talk about how you expect the margin progression to compare versus the rest of the business over the next, call it, one to two years? If your volume forecasts play out, how do you expect margin expansion in the Denver assets to compare with the rest of the aggregates footprint?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Sure, Jerry. I mean, clearly, we're going to have to look at that market on an integrated basis because that's the way that market is built. And because it's built on more of an integrated basis, it's not going to have the same type of margin number at the end of the day that we have come to expect in a more pure play market.

So from that perspective, will it lag other markets? I think that's entirely fair to say because, again, you can't have that much hot mix and ready mix and have that happen. At the same time, if we look at Denver and look at the currency that we used in River, what I'll tell you is Denver at peak was about 3x where River was in peak, and it all comes back to our notion that we're looking to be one or two in markets that we think have near-term and long-term attractive demographics to it, and Denver falls entirely into that. And Denver is a market that when volume returns to that market, will be very attractive to this company.

**<Q – Jerry Revich – Goldman Sachs & Co.>:** Thank you.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Thank you, Jerry.

Operator: Our next question comes from Trey Grooms with Stephens. Your line is open.

**<Q – Trey Grooms – Stephens, Inc.>:** Hi, Ward and Anne.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Hey.

**<Q – Trey Grooms – Stephens, Inc.>:** On 2013, I was trying to look out there. Historically, you've said – and I think you touched on this again today, that you'd need to see kind of an improvement across the enterprise I guess kind of from a geographic standpoint in order to see the kind of incremental margins you've outlined for the business. But kind of looking into next year given your outlook, would you expect some of these markets that seem to still be trying to kind of find bottom here, would you expect to see them finally start to see demand improvement as well?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Again, just be clear, we're really just talking about the pure aggregates business. And, Trey, the markets that have suffered the most had clearly been the markets in Southeastern United States. And, again, we'll come back and talk with some degree of specificity around all of those.

I think there are a couple things that are probably worth thinking about because if you really go back and look at them, some of the states in the Southeast are getting better. I mean, from a housing perspective, foreclosures in North Carolina have improved pretty considerably year-over-year. If you look at Georgia last year, in August of 2011, the percent of homes with mortgages somewhere in the foreclosure process was almost 3%, today it's around 2%. So things are getting better in the Southeast. They're not great, but they're getting better.

Here's what I would tell you, though. There's the Southeast and then there's Florida. I mean, Florida from a housing perspective is so much worse off than anybody else is. The percent of homes with mortgages in foreclosure in Florida last year in August was 12.1%. It's still today at almost 11%. And to give you a sense of it, when you go from Florida to whoever is next worst, in that case, you come to New Jersey and New Jersey is at around 6.5%. So there's still some tough slogging that people have to do in certain parts of the country.I mean, if we're sitting here today, you've still got one out of every 318 homes in Florida that are in some degree of foreclosure. Now, to give you a sense, Georgia's down to one in 532. The U.S. rate is one out of every 730. So, there's some parts of our footprint that I think you and I would look and say these are good markets, these markets when you want to be, but they are some markets that still have some curing that they need to go through.

What's remarkable though, and you know, Trey, it only takes a little bit of volume, just minimal volume, to suddenly start getting very strong incremental returns. And we joked about it in the past and literally said there's nothing wrong with this business that 5 million tons doesn't cure. And the odd thing is, if you and I were talking about 5 million tons back in 2006, it wouldn't have seemed like that much. Today, it seems like an enormous amount. But I hope that put some metrics around what we're seeing in parts of our business, particularly in the Southeast, because really that's where it needs to get well so you can see the volume across the enterprise to really propel us to those incremental margins that we will see.

**<Q – Trey Grooms – Stephens, Inc.>:** Yeah, that's helpful, Ward. Thanks. And I guess one other question again kind of on the outlook, just given the scenario that you've laid out for us, would you expect to see any product mix impact to pricing next year just given – if things shake out the direction that you've laid out for us there?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** I guess I would say a couple things in that respect. Number one, remember, Denver is going to come in and it won't be acquisition next year, it's going to be heritage. So when Denver pricing comes in, that geographic mix is going to pull it down. The other thing that I would tell you is, let's face it, the big thing that's going on right now is housing. I mean, so if we're looking at housing numbers August to August up 28%, that's a great

number, but we're going to be a laggard going into that housing market as well. So we're not going to feel some of the pop from that.

If we're seeing, too, though, more of these TIFIA projects, and I believe that we will, and if these TIFIA projects are building more new lane miles, we're going to send more base out. And sending more base out is something that we, as an organization, will obviously celebrate because it's going to be more volume, and we're producing base as we're producing a clean wash stone, but I think bringing Denver into heritage and seeing more base go out if you're having more new projects will give you at least somewhat of a mix effect that could optically look downward when downward is really not what you're seeing.

I think on a same quarry, same store, same product basis you won't see bad things happen. And I think that really is incumbent on us to make sure that we're explaining it very carefully. And as you'll recall, that was a process that we had to go through a couple of years ago as well.

**<Q – Trey Grooms – Stephens, Inc.>:** Thanks a lot, Ward. Very helpful good luck.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Take care, Trey.

Operator: Our next question comes from Garik Shmois of Longbow Research. Your line is open.

**<Q – Garik Shmois – Longbow Research LLC>:** Just a follow-up to Trey's previous question. Ward, you already mentioned that there could be some negative mix issues on pricing next year if you start shipping more base. But I was just wondering on the offset there, presumably, you're still working through some – maybe a modest backlog of stimulus projects that, when they come off, perhaps could provide a positive mix effect. I was wondering if you could speak to that and maybe provide some color on how many – or what percentage of projects in your backlog are still stimulus-related?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Hello, Garik. There's not going to be an enormous amount of stimulus work left, particularly when we get to the end of the year. If you go back and look at that $26 billion, $27 billion, 21% of that work was done in 2009, around 43% in 2010, around 22% last year. So as we came into the year, it's around $1.7 billion that was even left as we came into the year. So I think as a practical matter, you're not going to see much of an effect from that rolling off, in all candor.

And I think the bigger issue on the mix will be how much is going on in the East versus how much is going on in the West, and then how much is going on relative to brand new lane construction projects versus overlay.

**<Q – Garik Shmois – Longbow Research LLC>:** Okay. And I guess just one more question on that. With stimulus, we did see an incrementally more competitive pricing environment mix aside. You're still operating at fairly low utilization rates as is the industry relative to "normal levels." Is there any risk in your view that with some of these new big attractive projects coming on that the pricing environment could get incrementally more competitive as competitors chase additional volume?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** What I don't see, Garik, today is the sheer level of fear that I think was present in the minds of contractors and, frankly, others across the economy period back during the period of time the stimulus was really going. So I see something in the economy today and in the space that is much more steady than it's been. And my sense is that's not going to be a particularly big issue.

The other thing that strikes me on much of these larger jobs, keep in mind these are going to be bid differently. You're going to start to see a bit of a change in the way highway contracting works

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because these large designed bill jobs usually are going to built by a consortium of contractors who are coming forward, too, and relationships are going to matter here a lot. And a contractor recognizing on a job that may have enormous liquidated damages that they don't turn it on time that they have a producer who can really put the material on the ground is going to be important. So I see an entirely different paradigm going into a TIFIA-like world as opposed to what I saw going into a stimulus-like world.

**<Q – Garik Shmois – Longbow Research LLC>:** Okay, thanks. That's helpful. My last question is on the energy portion of your non-res business. You've seen good growth here in 2012. You've provided an optimistic outlook going forward with declining rig counts. Just wondering where your optimism is coming from and is it really coming from continued growth in the Eagle Ford, are you looking to expand your energy exposure? Just a little bit of color there would be helpful.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Absolutely. Garik, you're right. I mean, the drop I've seen in rig counts, the change from 2012 is around 9%. But at the same time, if I go back and look at the different shale plays in which we're involved, what we've seen from 2011 to 2012 in Niobrara is improvement. What we've seen from 2011 to 2012 in Barnett, relatively stable. What we've seen from 2011 to 2012 in Eagle Ford is improvement. What we've seen from 2011 to 2012 in Haynesville is actually down. And what we've seen in Marcellus is actually up.

So as we sit here and look at shale activity today, we see a number that's nicely up over last year. And I guess what I would suggest to you is if you look at the ones that are most impactful to us, which in today's world would be the Niobrara and would be Eagle Ford and to a certain degree what's going on in Haynesville and a growing role in Marcellus, I think those look pretty good going into the year. Remember, the areas that you're going to see most of the growth are going to be the areas that you're getting gas and you're getting oil at the same time. And based on what we're seeing, in particular, in South Texas, we feel like that's going to be stable. And, candidly, we're looking at ways to get into others at this time as well.

**<Q – Garik Shmois – Longbow Research LLC>:** Okay. Thanks so much.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Sure, Garik.

Operator: Our next question comes from Ted Grace with Susquehanna. Your line is open.

**<Q – Ted Grace – Susquehanna Financial Group LLP>:** Hi, guys. How are you doing?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Hey, Ted.

**<Q – Ted Grace – Susquehanna Financial Group LLP>:** I was hoping to come back to a couple of the margin questions just to better understand in the core aggregates business, what was happening. And maybe as the starting point, I apologize if I missed it, I think Arnie's first question asked about some of the comments on your heritage profitability. Could you just reiterate what those were?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** I mean, what I addressed with Arnie on what some of the drivers were, I mean, clearly, you had pricing that was helping in that respect. You had cost control that had actually taken costs up candidly a little bit less than 1% for the quarter, which we were pretty pleased with. And we were seeing tons produced per working man hour up somewhere north of 4% for the quarter as well. So those were the primary drivers, Ted, that I had gone through with Arnie.

**<Q – Ted Grace – Susquehanna Financial Group LLP>:** And so, did you speak to what the kind of the heritage incrementals looked like?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** I don't think we spoke specifically to what those numbers looked like. But I can tell you that there was growth in the heritage margin though.**<Q – Ted Grace – Susquehanna Financial Group LLP>:** Okay. Because I guess when I go through the numbers, obviously volume is down a little bit and pricing was a tailwind. But you said that on a reported basis you had a 6% incremental which included $7 million of better pricing. So now you'd say profits were down about $1 million on an $88 million increase in profitability. I think this gets at some of the questions around the impact of Denver, the downstream assets, maybe very specifically the paving business. But could you just help us understand, can you maybe bridge what happened to the underlying profitability of the business, because when we look at the reported numbers, the incremental pull-through probably was below people's expectations.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Look, I think if you look at the pricing strength, there was probably around $14 million of pricing strength that was there. If you look at the volume weakness, there was probably almost a similar number on the volume weakness as there was on the pricing. If you look at the decrease in production costs, that's probably going to get you somewhere north of $6 million. I think if we go through and simply take a look at what the acquired locations were and otherwise, I can certainly take you through that bridge in some more detail if you need to on a later call, but I think that in large part is what's going to get you there, Ted.

**<Q – Ted Grace – Susquehanna Financial Group LLP>:** Okay, that's really helpful, Ward. But in terms of just understanding the profitability of the downstream businesses, could you speak directly to what those – your profits or losses look like for the asphalt, for the concrete and for the paving business?

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** We've not done that specifically, Ted. And, obviously, we'll come back and talk about some of that at year end. But, as we said earlier on, an asphalt business in many respects is a very profitable, or at least a good, business in today's market. Our ready mix concrete business is going to be a challenged market in any market in the United States today. So you could certainly take that comment to be what you like it to be or want it to be with respect to Denver or portions of Texas or Arkansas, and those are the three areas in which we would have ready mix operations.

**<Q – Ted Grace – Susquehanna Financial Group LLP>:** Okay. Then just the last thing I was hoping to ask is your framework for 2013 was very helpful, but maybe even taking a step back and thinking let's just say over the next cycle, how would you just frame how you think about the cycle-over-cycle potential? If we were to try to look back at prior up cycles, do you think it would be fair to look for a similar intensity of growth? Would it be moderated by some of the leverage issues that are facing the nation? Just any commentary there would be super helpful.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** I don't think anything is going to be dramatic from a growth perspective. But here's what's different, I don't think it has to be dramatic for it to be dramatic to our business. I think where we're sitting with today's cost and with what we think tomorrow's pricing can be, any degree of volume to this business today is incredibly powerful.

As you and I discussed in the past, we're 80 million tons away from where we were at peak, and remarkably, if we recover half of that, we go past what our peak profitability was and I think it's those types of metrics that tell you, do we think it's going to be very uneven at times march out of this? Yes, we do. Do we feel like that we've seen the worst of it? Yes, I think we do. Do we feel like any degree of volume is going to be powerful and very quickly drop to our bottom line? Certainly. And do we feel like if we have growth across our geography, are we going to find the incremental margins that we've talked about? I think our confidence on that simply increases.

**<Q – Ted Grace – Susquehanna Financial Group LLP>:** Yeah, and it was that volume leverage I was trying to get at. So very helpful, guys. Congratulations. Good luck this quarter.

**<A – Ward Nye – Martin Marietta Materials, Inc.>:** Thanks a lot, Ted.

Operator: Thank you. I'm showing no questions in the queue at this time. I'll hand the call back to Mr. Nye for closing remark.

### C. Howard Nye, President, Chief Executive Officer & Director

Thanks again for joining our third quarter 2012 call and for your interest in Martin Marietta. As we said, we're encouraged by recent positive trends which should lead to increased construction activity in 2013 and beyond. We look forward to discussing our fourth quarter and full year 2012 results with you in February. Thanks for your time today and for your continuing support of Martin Marietta. Good day to all of you.

Operator: Thank you. Ladies and gentlemen, this concludes the conference for today. You may all disconnect, and have a wonderful day.

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