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MLM - Q2 2014 Martin Marietta Materials Inc Earnings Call

EVENT DATE/TIME: JULY 29, 2014 / 6:00PM GMT

OVERVIEW:

Co. reported 2Q14 net sales of $602m and earnings from operations of $96.2m.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Martin Marietta Materials Inc. second-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 Ward Nye, Chairman and CEO. Please go ahead.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

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

As we announced in our earnings release this morning, second quarter 2014 results reflect record net sales at $602 million, and earnings improvement. Net sales growth was driven by a 13% increase in aggregates product line shipments and a 5% increase in aggregates pricing compared to the second quarter of last year.

Additionally, our specialty products business again achieved new quarterly records for net sales and earnings. Importantly, it is significant to note that our growth was achieved in both public and private sectors, a sign of economic stability and further recovery. Our performance through the first half of the year, combined with positive trends in key economic indicators of construction activity, has led us to raise our aggregates product line volume guidance for the year to an increase of 6% to 8%, over 2013.

Earlier this month, we successfully completed our acquisition of Texas Industries. This transaction was overwhelmingly approved by shareholders of both Companies and enhances our strategic position in major aggregates and concrete markets in Texas. It also provides us with participation in the growing cement markets in Texas and California at a very opportune time.

However, before further discussion of the events of the quarter, let me remind that you today's teleconference 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 second-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.

Now, for additional commentary on our quarterly performance. We experienced aggregates product line volume growth in all of our end-use markets with notable strength in private construction. Shipments to the nonresidential market represented 31% of our volumes and increased 16% over the prior-year quarter, led by both the energy and commercial sectors.

We continue to benefit from our industry-leading position and participation in supplying building materials to the nation's major shale energy developments. We are also benefiting from growth in commercial construction, driven partly by the ongoing residential construction recovery in a host of our markets.

The residential construction market, which comprised 14% of our quarterly aggregates volume, led private sector construction activity, as shipments to this end use increased 20% over the prior-year quarter. On a year-to-date basis, housing starts are up approximately 7%, an encouraging sign for the durability of the housing recovery. The ChemRock and Rail market comprised 10% of aggregate shipments, an increase of 13%.

We were pleased to see a 9% increase in volume to the public sector, which represented the remaining 45% of our aggregates product line shipments. Growth was notable in the west and southeast groups, which experienced increases of 16% and 21% respectively.

The west group improvement was driven by activity in Texas and Colorado, where state department of transportation budgets have been positively affected by the ability to secure alternative financing sources. Texas volumes reflect the ongoing benefit of nearly $8 billion in multi-year transportation projects, awarded by the state department of transportation in 2013.

Our Colorado operations are benefiting from continued reconstruction efforts following last year's historic flooding. Additionally, earlier this year, Colorado approved its first public-private partnership project to renovate and expand the US highway 36 corridor.

Growth in the southeast group reflects early signs of recovery in Georgia after many years of under-investment. The Georgia Construction Aggregates Association reports Metro Atlanta aggregates shipments increased 29% in the first half of the year and Georgia DOT aggregates consumption increased over 11%, both compared to the prior-year period.

Additionally, Florida governor Rick Scott announced a $10.2 billion DOT budget for fiscal year 2014 and 2015, the highest level of infrastructure investment in Florida's history. This budget, together with the state's public-private partnerships, provides a solid multi-year outlook for infrastructure activity. As we've often said, geographic location is critical and we believe we are well positioned to capitalize on continued recovery.

Growth in infrastructure shipments was achieved despite the overhang of the then-pending expiration of Map-21, the current Federal Highway Bill. We believe this demonstrates a strong underlying demand for infrastructure investment, a fact that was underscored recently when the US House of Representatives passed legislation to provide $10.8 billion for the highway trust fund and extend the provisions of Map-21 through May 31, 2015.

The Senate is expected to address highway legislation before the August recess. The President, of course, is already on record in favor of the Bill. We believe these are the first steps toward the full reauthorization of a new multi-year Federal Highway Bill.

Geographically, growth in aggregates product line shipments was led by the west group, which increased 22% over the prior-year quarter. Encouragingly, the southeast and mid-America groups achieved improvement of 7% and 5%, respectively.

Recovery is accelerating in the east, particularly in North Carolina, Georgia and Florida, all fueled by strong employment numbers. We continue to believe this growth pattern will be experienced on a more widespread basis in the eastern United States.

We were pleased to achieve aggregates product line pricing increases in each geographic group, which led to an overall increase of 5% over the prior-year quarter. The growth was led by a 10% increase in the southeast group, which benefited from both improved and improving market conditions. We recently implemented mid-year price increases in many areas across the business, and are also reaffirming our annual price and guidance.

Aggregates product line production increased 10% in response to higher demand. Greater operating leverage led to a 5% reduction in cost per ton, in both the west and southeast groups. Production costs for the mid-America group were hampered by challenging weather conditions in the midwest, best illustrated by Iowa's third wettest June in 141 years.

Midwest operations battled the elements throughout much of the quarter and experienced correspondingly higher repair costs. Still, direct aggregates product line cost per ton decreased slightly compared with the prior quarter.

Finally, consolidated cost of sales were adversely affected by over $13 million when compared with the prior-year quarter, due to the impact of changes in inventory levels. In the second quarter of 2014, we reduced finished goods by 1 million tons. By comparison, in the second quarter of 2013, we built over 2 million tons of inventory.

Our vertically integrated operations, consisting of asphalt, concrete and road paving, each achieved sales growth over the prior-year quarter. Notably, the ready-mix concrete product line improved 48%, reflecting both pricing and volume growth. On a combined basis, gross profit for these businesses increased more than $5 million over the prior-year quarter.

Overall, the aggregates business leveraged 20% increase in net sales into a 170-basis point expansion of gross margin to 20.7%. Notably, the mid-Atlantic and mid-east divisions achieved an incremental gross margin consistent with our publicly stated expectations.

The specialty products business again generated quarterly records for net sales and earnings from operations. Net sales were $61.9 million, an increase of 9%, primarily driven by growth in the chemicals product line. The business reported a gross margin of nearly 38%, which was up slightly versus the prior-year quarter.

As expected, consolidated SG&A as a percentage of net sales was 6.1%, a decline of 140 basis points. The reduction reflects lower pension expenses, and the absence of information systems upgrade costs that were incurred in 2013.

As previously mentioned, we closed the TXI acquisition earlier this month by issuing 20.3 million shares of common stock. I want to publicly welcome our new members from TXI and look forward to their contributions to our Company and shareholders.

I would be remiss though not to acknowledge and thank all of our employees for their extraordinary work in connection with this transaction, as well as the integration of TXI into our southwest division, managed by Larry Roberts, and now headquartered in Dallas. The collaborative team work that was exhibited throughout this transaction and at every level of the organization enabled us to move forward smoothly, and greatly enhances our aggregates and ready-mix concrete positions by adding operations in Texas, Louisiana, and Oklahoma.

We also acquired three cement manufacturing plants and several distribution terminals in Texas and California. Our cement business, also headquartered in Dallas, represents a separate operating segment for our Company, and is managed by newly hired division president Bob Kidnew, who joins us with more than 20 years of cement industry experience.

We are pleased that our internal day-one operating targets were met and our teams are working hard on integration and synergy realization. We expect annual synergies of $70 million by 2017.

We recently issued $700 million of senior year notes consisting of $400 million of 4.25% 10-year senior notes and $300 million of 3-year variable rate senior notes. The proceeds, along with available cash and incremental borrowings, under our amended trade accounts receivable facility were used to refinance the public debt we assumed from TXI, which carried an annual interest rate of 9 1/4%.

Based on current interest rate, we expect to save $34 million of interest expense as a result of the refinancing. We also expect to realize additional value from TXI through the sale of non-operating real estate.

TXI also provided more than $400 million of net operating loss carry-forwards, as of May 31, 2013. We expect to utilize these NOLs as well as NOLs generated during fiscal 2014, over the next few years. Overall, we expect the acquisition to be accretive to earnings per diluted share this year, excluding one-time costs, as well as cash flow in the first full year following integration.

Shortly before the closing of the transaction, we announced an agreement with the United States Department of Justice, under which we would divest our North Troy quarry in Oklahoma and two rail yards, one in Dallas and the other in Frisco, Texas. This agreement resolves all competition issues with respect to the TXI acquisition.

As of the acquisition day and our market capitalization was nearly $9 billion. Further, Standard and Poor's Dow Jones indices, announced our inclusion in the S&P 500 index.

We view this as an endorsement of our financial stability, and prospects for future growth. We are delighted to welcome new shareholders as index space investment funds add our common stock to their portfolio.

In anticipation of closing the TXI transaction, we incurred $5.3 million, or $0.07 per share, of acquisition and integration-related costs, during the second quarter. For the quarter, earnings from operations were $96.2 million. Excluding TXI-related costs, adjusted earnings from operations were $101.5 million, an improvement of more than 30% over the prior-year quarter.

On a year to date basis, we have generated $70 million of operating cash flow, a 45% improvement over the prior-year period. This increase is directly tied to our earnings growth.

We remain in compliance with our leveraged covenant. And in that regard our consolidated debt to consolidated EBITDA ratio was 2.5 times at June 30, within our targeted leverage range. We recently modified the leverage covenant to exclude one-time acquisition and integration costs during the next 12 months.

We also increased our trade receivables facility by $100 million. As amended, the facility has maximum borrowings of $250 million, subject to the level of receivables.

Looking at the balance of the year, please note that our full guidance excludes the impact of TXI operations. As mentioned earlier, we fully expect the acquisition to meet the financial and strategic goals we set.

We'll provide you with more specific information about the impact of these new operations and their benefit to our results on our third-quarter earnings call, after we have had a full quarter of that business under our belt. As to the guidance, we are continuing to see the positive impact from a macro perspective. Moreover, the favorable trends in our business and markets, especially growth in employment and general construction activity, auger well for increased revenues and profits for us.

The Dodge Momentum Index continues to forecast growth in non-residential construction and we expect further growth in both the heavy industrial and commercial sectors. Shale development and related follow-on public and private construction activities, are anticipated to remain strong.

Furthermore, the commercial building sector should benefit from improved market fundamentals, including higher occupancies in rents, strength in property values and increased real estate lending. Based on these factors, we anticipate non-residential end-use shipments to increase in the high single digits.

Residential construction should continue to grow in our primary markets, driven by rising employment, near historically low mortgage rates, and pent-up demand. For the first time since 2007, total annual housing starts are anticipated to exceed 1 million units. We believe this trend will lead to double-digit volume growth in residential end-use shipments.

For the public sector, authorized highway funding from Map-21 will increase slightly compared with 2013. Furthermore, state initiatives to finance infrastructure projects are expected to grow, and continue to play a more enhanced role in public sector activity. Based on these trends and expectations we anticipate aggregate shipments to the infrastructure end-use market to increase slightly.

Finally, our ChemRock and Rail end-use market is expected to have mid to high single-digit growth compared with the prior year. As previously mentioned, we increased our volume guidance, and now expect aggregates product line shipments to increase 6% to 8% compared with 2013. Our outlook assumes that Congress approves measures to provide federal highway funding beyond the expiration of Map-21 in September, and an additional revenue source for the highway trust fund.

We also expect aggregates product line pricing to increase 3% to 5% over 2013. Aggregates product line direct production costs per ton are expected to decrease slightly compared with 2013. Our vertically integrated businesses should generate between $385 million and $405 million of net sales, and $40 million to $45 million of gross profits.

Net sales from the specialty products segment should range from $225 million to $235 million, generating $85 million to $90 million of gross profit. Steel utilization and natural gas remain two key drivers for this business.

SG&A expenses as a percentage of net sales are expected to decline compared with 2013, driven in part by nearly $8 million of non-recurring costs incurred in 2013, primarily related to the information systems upgrade, as well as lower pension costs in 2014. Interest expense should remain consistent with 2013.

Our estimated effective income tax rate is 29%, excluding discrete events. And capital expenditures are forecast to be $155 million.

To conclude, we are excited about our business and how it's positioned. Important key drivers for us are getting better. We expect to see further stability in the public sector, which combined with continuing growth in private construction, provides a great opportunity for us to continue our margin and profitability improvement.

In addition, the timely acquisition of TXI enhances our ability to leverage and grow the dynamic western markets. As we look ahead, we remain focused on completing the integration of the acquired operations, capturing synergies and creating additional shareholder value. Thanks very much for your interest in Martin Marietta. If the operator will now give the required instructions, we'll turn our attention to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Kathryn Thompson from Thompson Research. Your question, please.

Kathryn Thompson - *Thompson Research Group - Analyst*

Hi, thanks for taking my questions today. First, focusing on the public end markets, are you seeing any DOT slowing down in light of the uncertainty in DC? We have not seen that based on our industry work with state DOTs.

But first we'd like to see what are you are seeing on your end. And then also, if you could clarify which states are accepting more responsibility for funding versus relying solely on federal. Thank you.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Katherine, to answer your question, the short answer is we are not seeing state slowdown. We're hearing states talk about slowing down. So our take is the talk is more prevalent right now than the action is.

As you may recall, states like Colorado, earlier in the year came out and definitively said that they would move more slowly on public works. We haven't necessarily seen that, but in some instances, where we have seen edges of that, what is happening is private work has been so robust that pushing off public work in 2015 is actually something that we would welcome.

That's the primary take that we are seeing. But as we look at the states in which we are most active, Texas, Colorado, Iowa, North Carolina, Florida, we don't see it.

Obviously, public works in Georgia has been under some degree of duress over the last several years, period. And if you look at what is going on there, Katherine, the TIFIA project in Georgia right now on the Northwest Parkway, is as large as the Georgia DOT budget is.

Coming back and answering the other part of your questions, states like Georgia, with TIFIA; North Carolina soon, with what we believe is going to be an I-77 hot lane; Florida with I-4; Colorado on highway 36; obviously a lot of Texas T3 work right now. Those are the states that we are principally seeing that type of public-private partnership.

We see a lot of those projects going now and believe that they will turn actually into TIFIA projects in the fullness of time. But that's what we're seeing and I hope that's responsive to your question.

Kathryn Thompson - *Thompson Research Group - Analyst*

Sure, it is. Moving on to the price, last quarter, you discussed having a mixed impact of pricing. This quarter, put up 5% pricing, which was ahead of expectations. Can you discuss the dynamic of mix to pricing in Q2? And how we should think about that over the next 9 to 12 months?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Well, I'll tell you, when we looked at Q1, several things really happening. We saw a geographic shift to the west. And you were seeing more base activity, particularly in markets like Houston, That was the primary shift that we were seeing.

I think you saw that shift, aside from the volume, I mean obviously you had much more volume in the west, at 22% up in the west. That's a notable number. I think you had to take that into account.

But from a pure mix perspective, on product mix, we didn't see that much of a shift, or something that I would say is notable, with one exception, and that is in Colorado. Because we are selling a lot of fill material in that market, as they come behind a lot of the flooding work.

Now, what's important is when we're seeing the fill material go out, we're going to have specification material come back behind that. So if we look at what's going on with specification material in Colorado, and pricing, we're seeing clean stone up 4.5%, we're seeing base stone up nearly 9%.

So Katherine, what we're seeing across the enterprise is good, solid, steady price increases. And of course I mentioned in our commentary as well, that we saw a good number of mid-year price increases.

Kathryn Thompson - *Thompson Research Group - Analyst*

What's the driver for the greater relative increase in base stone versus clean stone pricing?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

I think several things. I think you're just seeing more new work. And I think you're seeing more new work in two different dimensions.

I think you're seeing more new work in subdivisions. You're seeing more new work in commercial construction. And you're seeing more new work in these T3-type projects going forward.

So I think simply that's a product that's more in demand and demand tends to drive price. So I think that's primarily what we're seeing, Katherine.

Kathryn Thompson - *Thompson Research Group - Analyst*

And final question, what are the markets where you are pushing through a mid-year price increase?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

As we look at mid years this year, I'm happy to report that we have seen mid-year price increases in all divisions, including specialty products. We actually saw a wider swath of mid-year price increases this year, in sheer number, than we saw last year.

The blend goes anywhere from a low of up $0.30 a ton, up to, in some instances, as high as $2.00 a ton in aggregates. We've seen changes in $5 to $10 per cubic yard in ready-mix. And of course, I talked in our commentary that we'll talk more about TXI after we've had it under our belt for a quarter.

One thing we have had under our belt is the ability to go and put in a cement price increase in both Texas and California. We're looking for $10 a ton in both of those markets effective October 1.

Kathryn Thompson - *Thompson Research Group - Analyst*

Thank you.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Thank you, Kathryn.

Operator

Our next question comes from the line of Arnie Ursaner from CJS Securities. Your question, please.

Lee Jagoda - *CJS Securities - Analyst*

This is actually Lee Jagoda for Arnie. Good afternoon.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Hi, Lee.

Lee Jagoda - *CJS Securities - Analyst*

Ward, you can expand a little bit on the $13 million negative impact of profitability from selling product out of the inventory? Were there any segments in particular or any product line that may have been impacted more than another?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Look, the quick answer is, during the quarter we reduced aggregates finished goods by 1 million tons. What you do when you do that is you effectively release the related capitalized costs into earnings.

So as operations principally in our west and southeast groups used inventory stockpiles to meet demand, that's what we saw happen. That was pulled down.

As a reminder, during the second quarter of last year, we built over 2 million tons of inventory. And again, that was primarily in the west group. So when have you that type of swing in inventories, what we saw at the end of the day was consolidated cost of sales were adversely affected by a little bit north of $13 million. That was your swing.

Lee Jagoda - *CJS Securities - Analyst*

Okay. And then as a follow-up, could you quantify the impact of the higher maintenance and repair costs in the quarter? And maybe discuss some of the factors that led to the increased expense?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Sure. Here's the way I would think about that, Lee. If we look at maintenance and repair in the part of our Company that has seen volumes going well for a while, and let's focus on the west group, because that's where volume recovery has been more constant. Our M&R numbers in the west group are actually favorable.

Now, what's happening is we are seeing, now granted it is not horribly robust, but we are seeing volume go up, in both the southeast, and in mid-America. So again, mid-America up 5.1, southeast up 7.3.

What happens when you see that for the first time in a while, is basically you're recommissioning rolling stop. And you're going to have certain costs as you recommission it and then push it forward for some period of time. And hopefully you won't see that costs recur.

So as we come back and look at that, clearly we saw a rise in that in portions of the southeast and in portions of mid America, as volumes came through. It tended to be focused really on rolling stocks, so primarily loaders. And I think that is the primary issue.

The other thing that I did mention in my commentary, and I think it probably hit a spitoon of a couple million bucks, was purely what was happening with some of costs that were inherent in the weather that we were seeing in the midwestern United States. A lot of wind, some conveyor damage that came from that. Literally softball-sized hail in part of that. As I mentioned, one of the wettest Junes in nearly 150 years. So that does have an effect, particularly when you are entering Q2, as we were.

Lee Jagoda - *CJS Securities - Analyst*

Thanks very much.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Thank you, Lee.

Operator

Our next question comes from the line of Jack Kasprzak from BB&T. Your question, please.

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

Good afternoon, Ward.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Hi, Jack.

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

Congrats on a good quarter. Relative to residential commentary, which is strong for you guys in the quarter. However housing starts lately have flattened out, in particular in the east. Basically flat in the second quarter.

Should that not give us a little cause for concern, with regard to housing activity in general? What it might do for your volumes in the back half of the year, knowing in the south is a key market for you guys? Or are you guys seeing something different that might give you more optimism than what's represented in the macro numbers right now?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

I think, Jack, I think you said it. I think we are in a time, and you've heard us say it over the last, really, year. That where are you today, matters more than it has at any other time in our industry.

As I sit and pause and look at housing in our markets right now, some of the numbers that I see, and these are percentage changes over the last 12 months. North Georgia, clearly a market that has suffered disproportionately, up 27%. San Antonio, a market that's seen a lot of growth over the last several years, still up 27%; Virginia, up 26%; Florida, up 23%; parts of North Carolina, up 21%.

Greensboro, the triad, has really had a tough time in this downturn. Those numbers are up 12%. And even as I go to a market like Houston, that we would have told you a year ago, is not in recovery but was in expansion. Even during that period of time that it's been in expansion, we are seeing numbers there up 11% right now.

I think part of what's happening, is you're seeing two things in residential right now. You continue to see good multi-families. So if we're riding around here in Raleigh, just anecdotally, looking at what is going on, I am going to see a lot more multi-family in this market than I am going to see single-family in this market. But what that tell me is the single-family is likely coming behind that, Jack.

So I think as we look at our individual markets, I'm not particularly alarmed by the more macro trends. I think it is about where you are.

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

Okay, great. And second question is, within your non-res segment, how much of your volume is related to oil and gas activity, shale activity?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

If you want to go back and take a look, obviously, non-res for us last year was around 30%. If we look at what non-res was for the quarter, again, it's lining up in a pretty healthy place, it was about 31% for the quarter.

If we look at shale for all of last year, Jack, shale for last year was around 6.7 million tons. And as we look at where we are this year, we see shale being healthier in 2014 than it was in 2013.

For example, we're expecting annual growth in the Niobrara all by itself, of 10% to 15%. And we continue to see good strength in Eagle Ford. And surprising strength right now in Haynesville.

I guess the one that continues to surprise me, we saw over a million tons last year simply going to the Marcellus. So that gives you a rack-up of what is going on in those shale plays and how that fits into the overall non-res.

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

Okay, great. That does it for me, thanks.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Thank you, Jack.

Operator

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

Jerry Revich - *Goldman Sachs - Analyst*

Good afternoon.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Hi, Jerry.

Jerry Revich - *Goldman Sachs - Analyst*

Can you please talk about, out of the T3 projects that you alluded to, what proportion of your infrastructure business would you estimate that's today? Presumably your visibility is reasonably good on those projects going forward. I'm wondering if you have a rough sense of how significant part of your infrastructure volumes that could be a year from now, based on the long data project.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Jerry, I think that can be a more considerable portion next year. If we look at what's out there next year, and markets that matter to us, in Georgia it's Northwest Corridor, in Texas, Grand Parkway, that's TIFIA money. In California, there are going to be a few that's going forward I think we can have some impact on.

But if we look at what the likely next round of approvals is going to be, that's much more meaningful to us. So in Texas, interstate 35 East is in queue; in North Carolina, I-77 is; in Ohio, the Portsmouth Bypass is. In Florida, we know I-4 ultimate is going forward, but it is going to get TIFIA dollars.

Those are the ones that we think we'll see in the next round of approvals. Even beyond that, if we pause and take a look at what I think is in the queue but we're uncertain on the level of timing, there are a couple of projects in Florida, really in that Tampa corridor. If you combine those two, you've got about $2.3 billion worth of projects.

You still got the Mid-Currituck Bridge in North Carolina. That's a $611 million project. And then by my last count, there were at least five other projects, state highway 288, 183, and South Padre Island, and route 4 -- I'm sorry, those four in Texas, and then two more in Virginia.

So as we tally up what the work is that we think is, A, likely next round, we think those are pretty big and impactful projects to us. And then when we look at the ones that have a more uncertain future timing, we think those too can be impactful to us, given the fact that much of it, a disproportionate number of it, is either in Florida where we are the infrastructure people, or in Texas, where we're a market leader.

Jerry Revich - *Goldman Sachs - Analyst*

Any chance you have the total project value out of the ones that you think are likely to move forward in those markets?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Okay, if we look at I-35 East in Texas, that is $1.4 billion. I-77 in North Carolina, the TIFIA funding is over $0.5 billion. The bypass in Ohio was $819 million. And I-4, again the TIFIA funding, $2.7 billion.

Jerry Revich - *Goldman Sachs - Analyst*

Thank you for sharing that. And I'm wondering, on the TXI cement business, you were kind enough to talk about the price increase announcements you've laid out. I'm wondering if you could update us on what the realized cement pricing was for the business in July or in calendar 2Q? If you're willing to share that?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Here's the way that we're going to approach that, Jerry. And part of what I think I need to explain is the way the process works when you're in a DOJ-governed transaction like this. Because part of what we recognize is until we had DOJ approval to close this deal, we couldn't be certain that the deal was going to go.

We felt confident that it would, but you can't ever bet on it. So what we never did is take our local management and put them in that business. We had people here at our headquarters looking at that, but Larry Roberts, I mentioned to you, and Bob Kidnew, in particular, who is running our cement business, have literally had 30 days of hands-on time in that business.

So what we are focused on right now is recognizing that the TXI Martin Marietta business that's combined together going forward is a very different business than the TXI business was in the rear-view mirror. And in fact, the management team that was there and responsible for that business is in large part not a part of the business going forward.

So what we are going to do is really get this under our belt, come back and talk to you about it at the next earnings call. But what I'll tell you is this, we have found nothing in our integration activities, we have found nothing in anything that we have done that has in any way diminished how good we feel about this transaction. And we feel very, very confident and comfortable that the numbers and strategies that we've laid out are very achievable.

Jerry Revich - *Goldman Sachs - Analyst*

And then if I could ask, on the inventory de-stock, is there any additional room to go? Or was this the biggest chunk we saw this quarter? We'll talk about that a little bit more in the third quarter. Part of what we said for a while is particularly on base products. Again, I don't think it is Martin Marietta issue, I think it's an industry issue.

As the industry was going through the downturn, and we were having to play more for clean washed stone, because that's what a lot of the stimulus work was and otherwise, people were genuinely building base. And then part of the earlier questions we had is, why are we seeing base pricing going up? Part of what we are seeing is more base activity out there.

So again, it is not something that I lament. I think being able to go and rebalance the inventories is actually a very responsible and appropriate thing for us to do. And in some respects, Jerry, I hope we are faced with that problem. And I put problem in quotation marks.

Anne Lloyd - *Martin Marietta Materials Inc - EVP & CFO*

Jerry, it's Anne. I would say that possibly you could see some in Q3. If volumes continue to be as strong as they were in the second quarter, you could likely begin to see some inventory build as we hit the last part of the year, to get ready for a strong construction season in 2015. But again, we'll see that as we move through the balance of the quarter, and complete our planning for 2015.

Jerry Revich - *Goldman Sachs - Analyst*

Okay. And then lastly, if I could, on the capital deployment side, now that the TXI deal has closed, can you calibrate us on how you're thinking about capital deployment going forward in terms of buyback, versus acquisitions? How does each path look to you? And I appreciate it might be a couple of quarters before you are willing to put capital to work after closing that transaction. But I would appreciate you giving us an update on your framework. Thank you.

Anne Lloyd - *Martin Marietta Materials Inc - EVP & CFO*

Thank you, Jerry. That's a great question. I think one of the beauties of this transaction is it throws off tremendous amounts of cash. That, as we've said, we thought we would be cash flow accretive within the year after the transaction was complete.

So that will give us the opportunity to continue to look at capital deployment strategies. As always, we look at the strategies as the opportunities present themselves. But it's always looking at acquisitions to see in those places where we can continue to execute against our strategic plan to gain leading market positions across the US.

Obviously, we have some organic capital needs. We have estimated about $50 million this year, for TXI on top of the capital deployment that we will do here.

And then we do have an outstanding authorization for share buyback. We firmly believe that a share buyback plan is an important part of the capital allocation strategy, as we continue to realize the cash on this transaction.

We have committed to maintain an investment-grade balance sheet, and I think that's important to our public debt holders. But I do think we will have plenty of opportunity there.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Jerry, as a reminder, we do have an authorization, as Anne said, to repurchase up to 5 million shares. So just as a reminder, that is there.

Jerry Revich - *Goldman Sachs - Analyst*

Okay. Thank you.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Thank you, Jerry.

Operator

Thank you. Our next question comes from the line of Chris Olin from Cleveland Research Company. Your question, please?

Chris Olin - *Cleveland Research Company - Analyst*

Good afternoon.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Hi, Chris.

Chris Olin - *Cleveland Research Company - Analyst*

Just wanted to ask, on transportation, there has been some talk that either cement or aggregate volumes had been running a little bit softer because people couldn't get the rail or trucking necessary. I'm wondering if that impacted you all during the quarter? And will it have any type of impact in the next quarter or so?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Short answer, I think it is impacting some of the industry or much of the industry right now, particularly with respect to trucking. I think as you get in areas where there is a great deal of shale activity, so if you're looking in parts of the Niobrara, or you're looking in parts of South Texas, where there is a lot of trucking that is being utilized in those shale plays, and by the way, pretty well-paid trucking activities, it is hard at times to get the trucking.

So I think when you factor that in, realistically, it is a challenge in some markets. It is not a challenge in all of them. But if we look at trucking today, versus where trucking was a year ago, it is a more difficult component today.

The rail business is spotty. I mean there are going to be some places that you're going to see services that are going to go very well, there are going to be others in services going to be more challenged.

I wish I could tell you there was a clear method to the way that that works. I don't know that there is. In fact I'm relatively confident that there's not.

So Chris, if I'm sitting where you are, I would factor a little bit of trucking difficulty into these markets, some of them. Probably not just for this year, that's probably a multi-year issue that the industry has to be sensitive to and plan around.

Anne Lloyd - *Martin Marietta Materials Inc - EVP & CFO*

What we do see, Chris, though, is historically as activity picks up and demand picks up, rail shortage, rail movement shortage is not uncommon. I kind of take it as a good sign that economic recovery is expanding beyond just the construction materials business.

So while that rail shortage can create challenges, it also creates opportunities. Because we've got a nice rail network that we can leverage and it also gives you the opportunity to realize the value of the product that you're moving.

Chris Olin - *Cleveland Research Company - Analyst*

Okay, that's all I had, thank you.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Thank you, Chris.

Operator

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

Trey Grooms - *Stephens Inc. - Analyst*

Good afternoon, Anne and Ward.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Hi, Trey.

Trey Grooms - *Stephens Inc. - Analyst*

I appreciate some of the color you have given us on the mid-year or I guess the fall price increase for cement, $10 a ton, for California and then also Texas. But how do we think about the roll-out there, and how it impacts the overall cement pricing, as far as timing?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

I think it's a practical matter. I think the timing is going to be relatively immediate. There's going to be some protection that is going to be in various markets, but at the same time, I think one of the reasons that we are talking this far in advance is to let people know this is coming.

Part of what we had been very focused on is making sure that we are running that new TXI business absolutely as efficiently as we can. And I think what this is indicative of is we see a very good market in both Texas and California.

Not measured by a period of months, but I think in particular, measured by a period of years. And I think we have an opportunity to make sure we are capturing value of that product.

Anne Lloyd - *Martin Marietta Materials Inc - EVP & CFO*

And Trey, we'd indicated in earlier comments, as we rolled out all of the public, required public, disclosures for the TXI transaction, that about a third of TXI's existing volume was covered under some form of longer-term agreement. Those should be substantially gone by the end of this calendar year.

Trey Grooms - *Stephens Inc. - Analyst*

Okay, great. That's real helpful. And then one last question. Looking at, and I know it is early in the process, but I think TXI's Midlothian plant had the opportunity or the permitting, however you want to talk about it, to expand by about 800,000 tons.

Given the tightness that's in the market now, at what point does it make sense to start thinking about that expansion? And then on that as well, how long would the process be? If you decided to green light it hypothetically tomorrow, how quickly could that capacity come on?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Trey, I think that is something that we would talk more with you about going forward. I think the primary thing that we're focused on, just making sure that we are making money.

I mean that is what that game is about. And that's what we are going to do. And that's what the focus is going to be and Bob Kidnew and his team understand that very well.

Trey Grooms - *Stephens Inc. - Analyst*

That's fair enough. And then on concrete, very strong pricing and volume. Can you talk about the markets you're seeing there? Which geographics markets you're really seeing the strength there, both from a volume and pricing standpoint?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Listen, most of the volume and price strength that we're seeing right now is really more driven in what we're seeing in our Colorado operations. If we are looking at what is going on there, pricing has moved very, very nicely. Volume equally has moved well in that market.

Again the housing market is performing; the non-residential market is performing. Keep in mind, that's going to be disproportion-driven in some instances, particularly Rocky Mountains, by private work anyway. So that continues to be solid for us. We continue to feel like that is going to be very good.

We believe that if we're looking at what is going on in the Dallas-Forth Worth area, in particular right now, there is just an immense amount of infrastructure work that is going on in DFW. If you look at what's going on, with respect to single-family homes, they've got the lowest foreclosure rates in Dallas today that they have had 10 years.

Sales were up 7% in June with over 9,000 sold. That was really an all-time high. So as we're seeing that type of massive infrastructure work that's underway in that market, when we're seeing more and more commercial work, I mean to give you a sense of it right now, there's about 4.3 million square feet of construction underway just in Dallas.

So if we're seeing that in non-res, we're seeing that in res. And then we're coming back and seeing I-35 East, 635, state highway 183, and a lot of Dallas-area rapid transit, or DART work in that area as well, I think that bodes awfully well for what the ready-mix can look like in DFW. And that's the other big market that we have post-TXI.

Trey Grooms - *Stephens Inc. - Analyst*

That's very encouraging. Thanks a lot, guys, and congrats on a good quarter.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Trey, thank you very much.

Operator

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

Garik Shmois - *Longbow Research - Analyst*

To follow up on the maintenance and rolling stock expenses you had in the quarter, just how we should think about that, moving forward, as demand improves. Should these be gradual expenses that we layer in, presumably as the cycle rebounds? Or will they be more as step function increases to get your rolling stock and capacity where it needs to be?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Garik, As we go back in time and look at cycles, the latter is what it's almost always been. It's always been a step function increase. And then you go ahead and address the issues and it evens out and you move forward. I think that's what we saw during the quarter.

Garik Shmois - *Longbow Research - Analyst*

Okay, thanks. And shifting to pricing for a second. In the southeast group, if we can dig in there, double-digit price increases. How much of that was mix versus realized full price increases?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

That's an easy one to say because mix was actually not our friend in the southeast this quarter. We are going by the notion that you see a lot of new construction there. So actually everything that you see in that number is the real McCoy.

Garik Shmois - *Longbow Research - Analyst*

Okay. Wow, okay. So lastly, two questions on TXI. Can you update us with respect to where you are in the divestment process of the North Troy quarry and the rail yards?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Absolutely, and thanks for the question on that. As you know, the assets that we would divest as part of the transaction are actually heritage Martin Marietta assets, which means from a timing perspective, we recognized going in that was likely to be the result.

So if we were in a position to go ahead and start looking at options with respect to those sites earlier as opposed to later, because they weren't TXI sites, they were our own, so we could have the conversations. Our aim is this, Garik, we're mature in that process. We believe it's moving in a very constructive fashion right now.

And if we're still talking about a process at the next quarterly call, I'll be disappointed. I think we'll have that done before you and I have a conversation like this again.

Garik Shmois - *Longbow Research - Analyst*

Okay, that makes sense. Is it fair to assume that you're going to keep the North Troy results within the third quarter operations within the legacy business? Or is that going to be stripped out as a one-time?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

What we're doing is we do have a whole separate order, so we are looking at North Troy separately from the rest of our business. If you go back to what I've said about our teams and the fact that we had to operate them in a very bifurcated fashion going through the diligence, we're having to do the same thing with North Troy right now. So you understand it, Garik.

Anne Lloyd - *Martin Marietta Materials Inc - EVP & CFO*

But they are in our legacy operations, Garik.

Garik Shmois - *Longbow Research - Analyst*

Okay. That's what I was getting at. And lastly, you previously identified $70 million of operational synergies with the TXI deal. Now that it's closed, wondering, you only have a month in there, but I was wondering if you can provide any guidance, if you could, at this point, on any revenue synergy opportunities that you may have identified?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Obviously, we are looking at that, trying to finish up really a lot of just the pure integration right now, Garik. I'll tell you, there's not a component of this business that has been a surprise to us. There is nothing that has been a negative headwind.

Obviously, I think we can come back and talk about what we think next year is going to look like, what pricing is going to look like and a host of markets, including DFW, at some point later in the year. I think that's probably the best thing for us to do right now.

Garik Shmois - *Longbow Research - Analyst*

Okay. Thanks so much.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Thank you, Garik.

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*

Good afternoon.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Hello, Ted.

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

Anne and Ward, I was hoping to dig into the inventory dynamics a little more. I know you said you'll talk more about it in the third quarter. But as it relates to calibrating our models and expectations, could you walk through at least as it pertains to 3Q and maybe 4Q, how you would expect to either draw from inventories or build?

I think you made the comment that you may draw in the third quarter and build in the 4Q. As a starting point, did I hear that correctly?

Anne Lloyd - *Martin Marietta Materials Inc - EVP & CFO*

Yes did you did, Ted. But I'm not going to walk through those dynamics, because that would in some ways having us give quarterly volume guidance, which we don't do. I was just giving you a macro direction as to what I would infer that could potentially happen, based on the seasonality of the business and expectations for thinking about demand in 2015.

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

Absolutely understood and appreciated. The challenge we have is a year ago you over-produced but didn't call it out. So now a year later when you have the reversal, it is just hard to figure out how we should normalize for this dynamic. Asked a little differently, could you walk through where your inventories are now on a tons basis? And where you exited 2Q, compared to 1Q and a year ago?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

If we -- go ahead.

Anne Lloyd - *Martin Marietta Materials Inc - EVP & CFO*

If you look at inventory today, at, for the aggregates business, we are at about 64 million tons as of June 30. And last year, we were about 65.4 million tons.

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

Okay. And 1Q, if you don't mind.

Anne Lloyd - *Martin Marietta Materials Inc - EVP & CFO*

I apologize, Ted, I don't have 1Q in front of me. I usually look at inventory based on what is going on from a 12/31 perspective.

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

Sure.

Anne Lloyd - *Martin Marietta Materials Inc - EVP & CFO*

But I would be happy to -- we can answer that for you offline.

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

Okay. And again, and this will be the last thing I will ask and we can go through it offline. But in terms of how to think about what you target either as a percent of LPM or forward 12 months or annualized quarterly volumes, what do you target in terms of running the business? And where are we relative to the peak and trough in absolutely inventories?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

The aim is 4 to 6 turns per year, Ted. That's where we would like to be. It's clearly not where the industry has been over the last several years, but I think as volume comes back, that is the more normalized process that you should expect from us.

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

Okay. And we're right now, like 2 turns?

Anne Lloyd - *Martin Marietta Materials Inc - EVP & CFO*

In some areas, you're getting into that 4 range. But you're in that probably 2 to 3 turns, yes.

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

Okay. And then the other thing I wanted to ask about, I know you mentioned aggregate pricing increases ranging from $0.30 to $2.00 a ton. Do you have an average that you put through at the mid year?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Every market is different, Ted. And it may move within a 50-mile radius, so no, we did not. We deal, as we always do, with each market very much on an individual basis.

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

But you don't have a bottoms-up consolidated average?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

No, we don't, not right now. Not that we want to talk about.

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

Okay. And I think you said it was up in, was it most markets or all markets?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

What I said was, it was up in all divisions. And it was up in more areas this year than it was last year. And when I said all divisions, I also meant specialty products.

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

Okay. And the last thing I'll ask, could quantify when you say more areas this year than last, what those numbers are?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Last year, we said it was, from a division perspective, it is all open. Last year we said it was going to be about half of our districts and this year it's comfortably more than half of our districts.

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

Okay, great. I'll get back in line. Thanks, guys. Good luck this quarter.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Thanks, Ted.

Operator

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

Stanley Elliott - *Stifel Nicolaus - Analyst*

Thank you for fitting me in here. Real quick, so when we think about the NOLs, a few years, is there a way to get a little bit better handle on how the pacing of the NOLs will be on a go-forward basis?

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

I'll let Anne talk NOLs here.

Anne Lloyd - *Martin Marietta Materials Inc - EVP & CFO*

Yes, Stanley, we have indicated that we thought we would realize those NOLs over about a 2- to 3-year period. And from a pacing perspective, it is going to depend on the earnings dynamic.

Of course, we've not provided any -- well, and I can tell you, if you think about TXI's legal entities for both the fiscal year, the short period, and for the calendar year, you are probably going to actually increase the NOLs this year. Think about the one-time costs related to the transaction, et cetera, that all have deductibility. So I think the pacing of those really begins to pick up in 2015, and probably realizes over the 3-year period.

Stanley Elliott - *Stifel Nicolaus - Analyst*

And then, I apologize if I missed it, you talked about the North Troy assets, but what about some of the other assets that TXI had that were up for potential divestiture, the noncore? Have you started making any progress with those? Any color there would be helpful.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

We have said we thought there was probably about $100 million worth of excess property there. We continue to feel very comfortable around that number. It is something that we are focused on.

I don't want to give you a precise timing on when that will go, because real state deals are real estate deals. But again, we feel comfortable within a couple of years we will have dealt with that.

Stanley Elliott - *Stifel Nicolaus - Analyst*

Perfect. Well, thanks very much and best of luck.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

All right, thanks so much.

Operator

Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Mr. Nye for any further remarks.

Ward Nye - *Martin Marietta Materials Inc - Chairman & CEO*

Thanks again for joining our second-quarter earnings call and for your interest in our Company. As you know, we are committed to a very disciplined approach. And our aim is to grow long-term shareholder value. We look forward to talking more about our heritage business and our new business with you when we meet next in October. Until then, take care and thank you for your interest.

Operator

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