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CHAIRMAN, PRESIDENT AND CEO

CEO Commentary and Market Perspective

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Martin Marietta had another remarkable year of growth and value creation in 2018. We achieved new financial and safety performance records, overcame challenges and positioned the Company for even greater success in 2019 and beyond.

Outstanding 2018 results bode well for 2019

Due to our steadfast attention to extending Martin Marietta's industry-leading safety record, and the continued disciplined execution of our Strategic Operating Analysis and Review (SOAR) process, we once again achieved record financial results. Specifically, in 2018, we set new milestones in revenues, EBITDA (Earnings Before Interest, Taxes, and Depreciation and Amortization), net earnings and fully diluted earnings per share, excluding the one-time benefit in 2017 from the *Tax Cuts and Job Act of 2017*. Building on our accomplishments in 2017, we achieved the best heritage safety performance in our Company's history with many of our heritage operations trending near or better than world-class safety levels.

We strive for revenue and profitability growth each year, whether achieved organically through cost control, increased volume and pricing or value-enhancing acquisitions. Our 2018 consolidated results benefitted from the Bluegrass Materials acquisition, the second largest transaction in our Company's history, as well as from price increases across our Building Materials business. While we are pleased with our progress and remain focused on driving growth, we are committed to building the foundation for longer-term success through prudent capital allocation and ongoing portfolio rationalization.

In 2019, emerging infrastructure activity and continued private-sector gains are expected to support sustainable construction growth and contribute to a more favorable pricing environment across Martin Marietta's geographic footprint. This outlook contemplates better weather than the extreme conditions we experienced in 2018, but nonetheless wetter than historic norms. Even modestly improved weather should lead to steadier and increased shipment, production and efficiency levels. These dynamics, taken together with muted cost inflation, should drive efficiencies and profit gains, positioning Martin Marietta once again for another record year in 2019.

Robust underlying demand, customer optimism and third-party forecasts underpin our positive 2019 outlook. However, the recent news of political gridlock, a possible economic slowdown and other external factors have resulted in cautious investor sentiment for the building materials industry. Weather aside, here are our observations relative to the potential challenges the industry may face and what it means for Martin Marietta.

Infrastructure outlook

The partial federal government shutdown recently created noise and confusion about federal highway investment. As a reminder, the Federal Highway Administration (FHWA) and other core federal highway programs remained operational during the shutdown with funding secured through a multi-year reauthorization bill, currently, the *Fixing America's Surface and Transportation Act* (FAST Act), as opposed to the federal general fund.

In our view, the shutdown did not meaningfully delay current awarded contracts or construction spending in the near term, particularly during the already seasonally-slow first quarter. In January 2019, the FHWA afforded states the authority to commit their remaining highways funds authorized by the FAST Act for fiscal year 2019, which should provide the necessary confidence for states to move planned projects forward. That said, state Departments of Transportation (DOT), particularly those that rely heavily on federal funding, are likely to reduce the amount of new contracts awarded going forward should a second and prolonged shutdown occur. Potential project delays always put demand for heavy building materials at risk. Importantly, our key states tend to be less dependent on federal support for highway capital projects. Notably, federal fund provides less than 50 percent of state DOT outlays for Texas and North Carolina, two of our largest states by revenues.

In the medium term, Martin Marietta should continue to see improved construction activity from funding provided by both the FAST Act, which authorizes highway program funding through fiscal year 2020, and numerous state and local initiatives. States continue to play an expanded role in infrastructure investment. We believe financing vehicles at the state level, such as bond issuances, toll roads and tax initiatives, will continue to garner voter approval at historically high levels and grow at a faster rate than federal funding. In fact, our top ten states, which accounted for 85 percent of the Building Materials' 2018 total revenues, have all introduced incremental transportation funding measures within the last five years. State spending on infrastructure construction generally leads to increased growth opportunities for the Company.

Longer term, elected officials must put in place a comprehensive and sustainable funding mechanism commensurate with the nation's undeniable need for infrastructure investment. Given bipartisan support, the biggest challenge to passing a future infrastructure bill will be its funding source. We are encouraged that pro-infrastructure supporters in Congress, the U.S. Chamber of Commerce and the American Road and Transportation Builders Association are actively engaged in funding mechanism discussions. While new funding typically takes 18 months to 24 months before building materials producers see a meaningful uplift in shipments, it should provide better visibility for large aggregates-intensive projects and further extend the construction cycle over the next several years.

Residential market outlook

New residential construction experienced a "tale of two halves" in 2018 - housing starts increased nearly 8 percent in the first half before decelerating to low-single-digit growth by year end. Rising material costs and mortgage rates exacerbated affordability concerns, while the extended duration of the current housing recovery has sparked fears of housing nearing a cyclical peak.

We believe the slowdown in new residential construction is temporary. Since late last year, the increases in mortgage rates have abated. A stable interest rate environment at current levels, coupled with full employment and growing wages, is conducive to residential construction. Furthermore, the U.S. ended November 2018 with annual housing starts of 1.2 million, a five percent improvement over 2017 levels, but significantly below the 50-year historical average of 1.5 million. In over four decades, the U.S. has never experienced a housing decline following a year in which starts improved but were below the historical average. Rather, declines, regardless of length, have always followed a year of above-average starts.

Within Martin Marietta's geographic footprint, residential construction, which accounted for 22 percent of our 2018 aggregates shipments, should continue to grow. We believe a shortage of single-family housing units exists, particularly for entry-level homes - a need the homebuilding industry is now beginning to address. Moreover, notable population growth, increased household formations and low inventories should continue to drive demand in many of Martin Marietta's leading southeastern and southwestern states, particularly now that mortgage rates have stabilized. These states offer superior opportunities for gains in single-family housing driven by available land, business-friendly environments and fewer regulatory barriers.

Tariffs and trade disputes

The President implemented or proposed several tariffs throughout 2018, including those on Chinese steel, aluminum and cement imports. By and large, the U.S. heavy building materials industry – including Martin Marietta – is not directly exposed to Chinese import tariffs. That said, the Company's Magnesia Specialties business should continue to benefit from enacted steel tariffs. This business ships 80 percent of its dolomitic lime products to the steel industry to be used as a fluxing agent in the purification process. This business runs most profitably when domestic steel capacity utilization exceeds 70 percent - capacity utilization averaged 78 percent in 2018. Customer optimism and reduced steel imports support higher domestic steel production.

Although steel is a major component of nonresidential construction projects, the heavy building materials industry is only indirectly exposed to steel tariffs either through equipment prices or through its customer base. That said, the potential for increased steel prices to reduce overall construction budgets and/or the number of projects put in place exists. To date, steel tariffs have not negatively impacted the Company in terms of the cost or availability of operating equipment and supplies. However, in the longer term, increased outlays for capital spending and repair and supply parts may materialize.

Recession risk

While the U.S. economy's extended recovery – the longest since the Great Depression – has raised the possibility of a U.S. economic recession in the next few years, current macroeconomic signals are mixed. The bull case points toward continued GDP growth, robust employment levels, a construction market that is not overbuilt and either a single Federal Reserve interest rate hike or a rate pause. The bear case cites rising public and private debt, residential slowing, global trade tensions and political uncertainty to justify fears of a looming recession.

From our viewpoint, we expect the current construction recovery to continue unabated in the near to medium term. While economic growth could moderate, we believe years of pent-up demand, together with lower tax rates and an improving regulatory environment, provide support for steady and sustainable construction growth. That said, whenever the next downturn occurs, the effects to the construction industry as a whole should be much less severe than in 2008. A consensus of economists appear to share this view and believe the next recession, should one occur in the near term, will look more like a historically modest recession with recovery in a relatively short period of time, particularly as neither a housing nor investment bubble will be the culprit for the downturn. Specifically, Martin Marietta's recessionary exposure should be limited. First, on a comparable basis, aggregates volumes today are only modestly above 2010 trough levels. Any volume decline from a downturn will not be anywhere near as sharp of a reduction in aggregates volume as we experienced during the Great Recession. Additionally, we have strategically positioned our business to build critical mass in high-growth markets. Critical mass allows us to temporarily idle sites and serve these markets with other open facilities that are in close proximity, thereby responsibly managing headcount and other production costs in periods of lower demand.

Conclusion

Martin Marietta is confident in its outlook and prospects for continued growth and value creation. We will continue to strategically position our business in aggregates-led high-growth geographies and generate industry-leading operational and financial performance through the disciplined execution of SOAR. We believe increased infrastructure activity, combined with continued private-sector strength, will support sustainable growth in 2019. We anticipate construction activity in our key markets to outpace the nation as a whole, driven by attractive population trends and diverse economic drivers. With a relentless focus on world-class attributes across our company – including safety, efficiency and operational excellence – Martin Marietta is well-positioned for continued success. Based on these trends and expectations, we believe 2019 will be another record year for Martin Marietta.