

Fitch Affirms Martin Marietta's IDR at 'BBB-'; Outlook Stable

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the ratings of Martin Marietta Materials, Inc. (NYSE: MLM), including the company's Issuer Default Rating (IDR) at 'BBB-', following the completion of the company's merger agreement with Texas Industries, Inc. (NYSE: TXI).

The Rating Outlook is Stable. A complete list of rating actions follows at the end of this release.

MERGER AGREEMENT

On July 1, 2014, Martin Marietta and Texas Industries completed the previously announced definitive merger agreement under which Martin Marietta acquired all of the outstanding shares of Texas Industries common stock in a tax-free, stock-for-stock transaction. Under the terms of the transaction, Texas Industries shareholders received 0.7 Martin Marietta shares for each Texas Industries share.

KEY RATING DRIVERS

The rating for Martin Marietta reflects Fitch's view that the merger has good strategic rationale as the combined company creates a market leading supplier of aggregates and heavy building materials with vertically integrated aggregates and targeted cement operations.

Fitch projects that the transaction will initially increase Martin Marietta's debt to EBITDA from 2.6x for the latest-twelve months (LTM) ending March 31, 2014 to approximately 3.6x on a combined pro forma basis. The rating affirmation reflects Fitch's expectation that leverage will fall below 3.0x within twelve months following the close of the merger.

The rating for Martin Marietta is also supported by the relatively substantial demand for

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construction products prompted by federal and state government funding of transportation projects, the company's leading market position, geographically diverse quarry network, consistent free cash flow generation, and adequate liquidity. The rating also takes into account the operating leverage of the company and the high level of fixed costs. Fitch's concerns also include weather-related risks, the volatility of state and federal spending on highway construction, and the cyclical nature of the construction industry.

The rating also reflects management's willingness to opportunistically pursue a more aggressive growth strategy and consequently higher leverage levels as demonstrated by this transaction and Martin Marietta's previous hostile bid for Vulcan Materials Company (Vulcan) in 2011. (That proposed business combination was not consummated.)

The Stable Outlook reflects Fitch's macro view of the company's various end-markets for 2014. Fitch forecasts total construction spending as measured by the Census Bureau (Value of Construction Put in Place) will increase approximately 7.2% in 2014.

LEADING MARKET POSITION

The combined company is a leading producer of construction aggregates with a network of more than 400 quarries, mines, distribution yards and plants spanning 36 states, Canada and the Bahamas.

The company is vertically integrated in certain markets and derives a portion of its revenues from asphalt, ready-mixed concrete and road paving operations. The addition of Texas Industries' cement operations in Texas and California will further diversify the company's product and customer mix. The company also has a comparatively small but very profitable specialty products business that manufactures and markets magnesia-based chemicals products for industrial, agricultural and environmental applications and dolomitic lime for use primarily in the steel industry.

LIQUIDITY

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Martin Marietta has adequate liquidity with cash of \$35.8 million and about \$327 million of borrowing availability under its revolving credit facility as of March 31, 2014.

On June 20, 2014, the company entered into an amendment to the credit agreement governing its revolving credit facility in order to temporarily amend the leverage ratio requirement to a maximum of 3.75x for the quarter ended Sept. 30, 2014. The ratio will revert back to the 3.50x maximum requirement by year-end 2014. The amendment also revises certain definitions to account for merger-related expenses in the calculation of EBITDA.

On June 23, 2014, Martin Marietta completed the issuance of \$700 million of senior unsecured notes made up of two tranches: \$400 million of 4.25% senior unsecured notes due 2024 and \$300 million of floating rate notes due 2017. Proceeds from the notes issuance, along with cash on hand and drawings under its trade receivables and/or revolving credit facility, will be used to redeem all \$650 million of principal amount of Texas Industries' outstanding 9.25% senior unsecured notes due 2020, plus a make whole premium as well as unpaid interest accrued.

Martin Marietta continued to generate positive free cash flow (FCF) during 2008 - 2011 despite the weak operating environment. The company was slightly FCF negative during 2012 (\$2.1 million), which included about \$35.1 million in business development expenses related to its hostile bid for Vulcan. For 2013, the company generated \$79.6 million of FCF. Fitch expects Martin Marietta will generate FCF of approximately 1%-3% of revenues in 2014.

Martin Marietta has taken a more cautious stance on share repurchases during the past few years. Fitch expects the company will refrain from making meaningful share repurchases until it is within its leverage target. The company has not repurchased any stock since 2007. Martin Marietta currently has 5.04 million shares remaining under its repurchase authorization.

CREDIT METRICS

The company has been operating above its normalized target leverage of 2.0x - 2.5x

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debt-to-EBITDA since 2008 and ended the 2014 first quarter with Fitch-calculated debt-to-LTM EBITDA of 2.6x. This compares to 2.6x during 2013 and 2.8x during 2012.

On a combined pro forma basis, Fitch estimates Martin Marietta's leverage at approximately 3.6x. The rating reflects Fitch's expectation that leverage will fall below 3.0x within twelve months following the close of the merger.

EBITDA-to-interest expense remains strong at 8.0x for the LTM period ending March 31, 2014. This compares to 7.4x during 2013 and 7.0x during 2012. On a combined pro forma basis, interest coverage weakens to about 4.5x. Fitch expects this ratio will settle at or above 6.0x within twelve months following the close of the merger.

CONSTRUCTION SECTOR OUTLOOK

Fitch expects total industry construction spending will increase 7.2% during 2014. Private residential construction spending is projected to advance 14.5% while private non-residential construction is expected to grow 5% this year. Public construction spending is projected to increase 1%.

Fitch expects industry aggregates shipments will grow at a low to mid-single-digit percentage this year, with robust gains in the residential construction sector and slightly higher volumes directed to the private non-residential and public infrastructure construction segments. Fitch also expects industry aggregates pricing will grow in the low-single-digits, similar to the historical long-term industry average annual price growth of 2% - 3%.

RATING SENSITIVITIES

Future ratings and Outlooks will be influenced by broad construction market trends, as well as company specific activity, including FCF trends and uses. Fitch will monitor the company's progress in deleveraging its balance sheet, particularly management's goal to lower debt to EBITDA levels below 3x within twelve months following the close of the

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merger.

A positive rating action is unlikely in the next 12 months due to the increase in leverage associated with the merger. However, one may be considered if Martin Marietta's debt-to-EBITDA is comfortably and consistently in the 2x - 2.5x range, FFO-adjusted leverage is at or below 3.0x, and interest coverage is steadily above 7.5x.

Negative rating actions could occur if the company's leverage is consistently in the 3.0x - 3.5x range and FFO-adjusted leverage is routinely above 4.0x. Additionally, Fitch may also consider negative rating actions if the company resumes meaningful share repurchases while its leverage is above its targeted levels.

Fitch affirms MLM as follows:

--Long-term IDR at 'BBB-';

--Senior unsecured debt rating at 'BBB-';

--Unsecured revolving credit facility at 'BBB-';

--Short-term IDR at 'F3';

--Commercial Paper at 'F3'.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (May 28, 2014);

--'Rating Basic Building Materials Companies' (Aug. 9, 2012).

Applicable Criteria and Related Research:

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393

Rating Basic Building Materials Companies

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682315

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=837619

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