MARTIN MARIETTA MATERIALS INC
Form 10-Q
May 08, 2018

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-12744

MARTIN MARIETTA MATERIALS, INC.

(Exact name of registrant as specified in its charter)

North Carolina	56-1848578
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2710 Wycliff Road, Raleigh, NC	27607-3033
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 919-781-4550

Former name: None

Former name, former address and former fiscal year, if changes since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Class	Outstanding as of May 2, 2018
Common Stock, $0.01 par value	62,951,453

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended March 31, 2018

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

(UNAUDITED) CONSOLIDATED BALANCE SHEETS

	March 31, 2018	December 31, 2017	March 31, 2017
	(Dollars in Thousands)		
ASSETS			
Current Assets:			
Cash and cash equivalents	$1,422,373	$1,446,364	$55,418
Accounts receivable, net	466,465	487,240	479,215
Inventories, net	606,794	600,591	537,000
Other current assets	106,298	96,965	51,609
Total Current Assets	2,601,930	2,631,160	1,123,242
Property, plant and equipment	6,523,364	6,498,067	6,211,813
Allowances for depreciation, depletion and amortization	(2,940,870)	(2,905,254)	(2,744,168)
Net property, plant and equipment	3,582,494	3,592,813	3,467,645
Goodwill	2,160,290	2,160,290	2,159,398
Operating permits, net	437,438	439,116	440,411
Other intangibles, net	61,338	67,233	67,318
Other noncurrent assets	104,560	101,899	135,777
Total Assets	$8,948,050	$8,992,511	$7,393,791
LIABILITIES AND EQUITY			
Current Liabilities:			
Accounts payable	$162,328	$183,638	$188,399
Accrued salaries, benefits and payroll taxes	23,329	44,255	22,760
Pension and postretirement benefits	12,812	13,652	8,136
Accrued insurance and other taxes	52,413	64,958	49,535
Current maturities of long-term debt and short-term facilities	300,006	299,909	290,048
Accrued interest	39,720	19,825	23,649
Other current liabilities	60,371	67,979	49,031
Total Current Liabilities	650,979	694,216	631,558
Long-term debt	2,728,102	2,727,294	1,556,246
Pension, postretirement and postemployment benefits	248,501	244,043	252,568
Deferred income taxes, net	413,570	410,723	667,160
Other noncurrent liabilities	227,068	233,758	210,305
Total Liabilities	4,268,220	4,310,034	3,317,837

Equity:			
Common stock, par value $0.01 per share	628	628	626
Preferred stock, par value $0.01 per share	—	—	—
Additional paid-in capital	3,381,280	3,368,007	3,349,813
Accumulated other comprehensive loss	(127,485)	(129,104)	(128,425)
Retained earnings	1,422,207	1,440,069	851,354
Total Shareholders' Equity	4,676,630	4,679,600	4,073,368
Noncontrolling interests	3,200	2,877	2,586
Total Equity	4,679,830	4,682,477	4,075,954
Total Liabilities and Equity	$8,948,050	$8,992,511	$7,393,791

See accompanying notes to the consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

(UNAUDITED) CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

	Three-Months Ended March 31, 2018	2017
	(In Thousands, Except Per Share Data)	
Products and services revenues	$753,305	$792,316
Freight revenues	48,699	51,543
Total Revenues	802,004	843,859
Cost of revenues - products and services	641,620	644,617
Cost of revenues - freight	49,992	52,175
Total Cost of Revenues	691,612	696,792
Gross Profit	110,392	147,067
Selling, general & administrative expenses	70,121	69,535
Acquisition-related expenses	711	22
Other operating expense, net	479	360
Earnings from Operations	39,081	77,150
Interest expense	35,087	20,851
Other nonoperating income, net	(8,503)	(536)
Earnings before income tax expense	12,497	56,835
Income tax expense	2,457	14,528
Consolidated net earnings	10,040	42,307
Less: Net earnings (loss) attributable to noncontrolling interests	17	(27)
Net Earnings Attributable to Martin Marietta Materials, Inc.	$10,023	$42,334
Consolidated Comprehensive Earnings: (See Note 1)		
Earnings attributable to Martin Marietta Materials, Inc.	$11,642	$44,596
Earnings (Loss) attributable to noncontrolling interests	17	(26)
	$11,659	$44,570
Net Earnings Attributable to Martin Marietta Materials, Inc. Per Common Share:		
Basic attributable to common shareholders	$0.16	$0.67
Diluted attributable to common shareholders	$0.16	$0.67
Weighted-Average Common Shares Outstanding:		
Basic	62,957	63,024

Diluted	63,222	63,319
Cash Dividends Per Common Share	$0.44	$0.42

See accompanying notes to the consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

(UNAUDITED) CONSOLIDATED STATEMENTS OF CASH FLOWS

	March 31,	
	2018	2017
	(Dollars in Thousands)	
Cash Flows from Operating Activities:		
Consolidated net earnings	$10,040	$42,307
Adjustments to reconcile consolidated net earnings to net cash provided by operating activities:		
Depreciation, depletion and amortization	76,821	70,376
Stock-based compensation expense	9,760	10,275
(Gain) Loss on divestitures and sales of assets	(951)	73
Deferred income taxes	2,029	2,827
Other items, net	(2,269)	(179)
Changes in operating assets and liabilities, net of effects of acquisitions and divestitures:		
Accounts receivable, net	20,951	(21,305)
Inventories, net	(8,873)	(15,375)
Accounts payable	7,925	8,536
Other assets and liabilities, net	(10,421)	(23,670)
Net Cash Provided by Operating Activities	105,012	73,865
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(96,259)	(102,095)
Proceeds from divestitures and sales of assets	2,528	539
Payment of railcar construction advances	(8,430)	(37,011)
Reimbursement of railcar construction advances	8,430	37,011
Investments in life insurance contracts, net	99	181
Net Cash Used for Investing Activities	(93,632)	(101,375)
Cash Flows from Financing Activities:		
Borrowings of debt	—	205,000
Repayments of debt	(13)	(45,012)
Payments on capital lease obligations	(829)	(761)
Debt issuance costs	(3,194)	—
Contributions by owners of noncontrolling interest	129	—
Dividends paid	(27,885)	(26,560)
Proceeds from exercise of stock options	2,801	3,917
Shares withheld for employees' income tax obligations	(6,380)	(3,695)
Repurchases of common stock	—	(99,999)
Net Cash (Used for) Provided by Financing Activities	(35,371)	32,890

Net (Decrease) Increase in Cash and Cash Equivalents	(23,991)	5,380
Cash and Cash Equivalents, beginning of period	1,446,364	50,038
Cash and Cash Equivalents, end of period	$1,422,373	$55,418

See accompanying notes to the consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

(UNAUDITED) CONSOLIDATED STATEMENT OF TOTAL EQUITY

(in thousands)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2016	63,176	$ 630	$ 3,334,461	$ (130,687)	$ 935,574	$ 4,139,978	$ 2,612	$ 4,142,590
Consolidated net earnings	—	—	—	—	42,334	42,334	(27)	42,307
Other comprehensive earnings, net of tax	—	—	—	2,262	—	2,262	1	2,263
Dividends declared	—	—	—	—	(26,560)	(26,560)	—	(26,560)
Issuances of common stock for stock award plans	60	1	5,077	—	—	5,078	—	5,078
Repurchases of common stock	(458)	(5)	—	—	(99,994)	(99,999)	—	(99,999)
Stock-based compensation expense	—	—	10,275	—	—	10,275	—	10,275
Balance at March 31, 2017	62,778	$ 626	$ 3,349,813	$ (128,425)	$ 851,354	$ 4,073,368	$ 2,586	$ 4,075,954
Balance at December 31, 2017	62,873	$ 628	$ 3,368,007	$ (129,104)	$ 1,440,069	$ 4,679,600	$ 2,877	$ 4,682,477
Consolidated net earnings	—	—	—	—	10,023	10,023	17	10,040
Other comprehensive earnings, net of tax	—	—	—	1,619	—	1,619	—	1,619
Dividends declared	—	—	—	—	(27,885)	(27,885)	—	(27,885)
Issuances of common stock	75	—	9,893	—	—	9,893	—	9,893

for stock award plans								
Shares withheld for employees' income tax obligations	—	—	(6,380)	—	—	(6,380)	—	(6,380)
Stock-based compensation expense	—	—	9,760	—	—	9,760	—	9,760
Contributions from owners of noncontrolling interest	—	—	—	—	—	—	306	306
Balance at March 31, 2018	62,948	$ 628	$ 3,381,280	$ (127,485)	$ 1,422,207	$ 4,676,630	$ 3,200	$ 4,679,830

See accompanying notes to the consolidated financial statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies
Organization

Martin Marietta Materials, Inc. (the Company or Martin Marietta) is a natural resource-based building materials company. The Company supplies aggregates (crushed stone, sand and gravel) through its network of 282 quarries, mines and distribution yards to its customers in 30 states, Canada, the Bahamas and the Caribbean Islands. In the western United States, Martin Marietta also provides cement and downstream products, namely, ready mixed concrete, asphalt and paving services, in vertically-integrated structured markets where the Company has a leading aggregates position. The Company's heavy-side building materials are used in infrastructure, nonresidential and residential construction projects. Aggregates are also used in agricultural, utility and environmental applications and as railroad ballast. The aggregates, cement, ready mixed concrete and asphalt and paving product lines are reported collectively as the "Building Materials" business.

The Company's Building Materials business includes three reportable segments: the Mid-America Group, the Southeast Group and the West Group.

BUILDING MATERIALS BUSINESS			
Reportable Segments	Mid-America Group	Southeast Group	West Group
Operating Locations	Indiana, Iowa, northern Kansas, Kentucky, Maryland, Minnesota, Missouri, eastern Nebraska, North Carolina, Ohio, South Carolina, Virginia, Washington and West Virginia	Alabama, Florida, Georgia, Tennessee, Nova Scotia and the Bahamas	Arkansas, Colorado, southern Kansas, Louisiana, western Nebraska, Nevada, Oklahoma, Texas, Utah and Wyoming
Product Lines	Aggregates	Aggregates	Aggregates, Cement, Ready Mixed Concrete, Asphalt and Paving

The Company has a Magnesia Specialties business with manufacturing facilities in Manistee, Michigan, and Woodville, Ohio. The Magnesia Specialties business produces magnesia-based chemicals products used in industrial, agricultural and environmental applications, and dolomitic lime sold primarily to customers in the steel and mining industries.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)
Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and in Article 10 of Regulation S-X. Other than the required adoption of two new accounting pronouncements described below, the Company has continued to follow the accounting policies set forth in the audited consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, the interim consolidated financial information provided herein reflects all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the results of operations, financial position and cash flows for the interim periods. The consolidated results of operations for the three-months ended March 31, 2018 are not indicative of the results expected for other interim periods or the full year. The consolidated balance sheet at December 31, 2017 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by GAAP for complete financial statements. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

New Accounting Pronouncements

Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which changes the evaluation and accounting for revenue recognition under contracts with customers and enhances financial statement disclosures. The Company implemented ASU 2014-09 using the modified retrospective approach. The adoption resulted in insignificant changes to the Company's policies in reporting revenues and had an immaterial impact on the Company's financial position and results of operations but required new disclosures (see Note 2).

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

Effective January 1, 2018, the Company adopted ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which provides clarification or additional guidance on certain transactions and its classification on the statement of cash flows on a retrospective basis. Notably, ASU 2016-15 states settlement proceeds from corporate-owned life insurance policies should be classified as investing activities and premiums paid may be presented as either investing or operating activities or a combination of both. At March 31, 2017, the Company reclassified $181,000 from operating activities to investing activities.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)
Pending Accounting Pronouncement

Lease Standard

In February 2016, the Financial Accounting Standards Board (FASB) issued a new accounting standard, Accounting Codification Standard 842 – Leases, intending to improve financial reporting of leases and to provide more transparency into off-balance sheet leasing obligations. The guidance requires virtually all leases, excluding mineral interest leases, to be recorded on the balance sheet and provides guidance on the recognition of lease expense and income. The new standard is effective January 1, 2019. The FASB recently proposed to eliminate the need for retrospective presentation of comparative financial statements and to allow the use of certain practical expedients in the adoption of the new standard. The Company is currently assessing the impact of the new standard on the Company's financial statements. The Company believes the new standard will have a material effect on its balance sheet but has not quantified the impact at this time.

Consolidated Comprehensive Earnings/Loss and Accumulated Other Comprehensive Loss

Consolidated comprehensive earnings/loss and accumulated other comprehensive loss consist of consolidated net earnings or loss; adjustments for the funded status of pension and postretirement benefit plans; foreign currency translation adjustments; and the amortization of the value of terminated forward starting interest rate swap agreements into interest expense, and are presented in the Company's consolidated statements of earnings and comprehensive earnings.

Comprehensive earnings attributable to Martin Marietta is as follows:

	Three-Months Ended March 31, 2018	2017
	(Dollars in Thousands)	
Net earnings attributable to Martin Marietta Materials, Inc.	$10,023	$42,334
Other comprehensive earnings, net of tax	1,619	2,262
Comprehensive earnings attributable to Martin Marietta Materials, Inc.	$11,642	$44,596

Comprehensive earnings attributable to noncontrolling interests, consisting of net earnings and adjustments for the funded status of pension and postretirement benefit plans, is as follows:

	Three-Months Ended March 31,	
	2018	2017
	(Dollars in Thousands)	
Net earnings (loss) attributable to noncontrolling interests	$ 17	$ (27)
Other comprehensive earnings, net of tax	—	1
Comprehensive earnings (loss) attributable to noncontrolling interests	$ 17	$ (26)

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)
Consolidated Comprehensive Earnings/Loss and Accumulated Other Comprehensive Loss (continued)

Changes in accumulated other comprehensive earnings (loss), net of tax, are as follows:

	(Dollars in Thousands)			
	Pension and Postretirement Benefit Plans	Foreign Currency	Unamortized Value of Terminated Forward Starting Interest Rate Swap	Accumulated Other Comprehensive Loss
	Three-Months Ended March 31, 2018			
Balance at beginning of period	$(128,802)	$(22)	$(280)	$(129,104)
Other comprehensive loss before reclassifications, net of tax	—	(587)	—	(587)
Amounts reclassified from accumulated other comprehensive earnings, net of tax	1,996	—	210	2,206
Other comprehensive earnings (loss), net of tax	1,996	(587)	210	1,619
Balance at end of period	$(126,806)	$(609)	$(70)	$(127,485)
	Three-Months Ended March 31, 2017			
Balance at beginning of period	$(128,373)	$(1,162)	$(1,152)	$(130,687)
Other comprehensive earnings before reclassifications, net of tax	—	137	—	137
Amounts reclassified from accumulated other comprehensive earnings, net of tax	1,910	—	215	2,125
Other comprehensive earnings, net of tax	1,910	137	215	2,262
Balance at end of period	$(126,463)	$(1,025)	$(937)	$(128,425)

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)
Consolidated Comprehensive Earnings/Loss and Accumulated Other Comprehensive Loss (continued)

Changes in net noncurrent deferred tax assets recorded in accumulated other comprehensive loss are as follows:

	(Dollars in Thousands)		
	Pension and Postretirement Benefit Plans	Unamortized Value of Terminated Forward Starting Interest Rate Swap	Net Noncurrent Deferred Tax Assets
	Three-Months Ended March 31, 2018		
Balance at beginning of period	$79,938	$ 178	$ 80,116
Tax effect of other comprehensive earnings	(658)	(137)	(795)
Balance at end of period	$79,280	$ 41	$ 79,321
	Three-Months Ended March 31, 2017		
Balance at beginning of period	$82,044	$ 749	$ 82,793
Tax effect of other comprehensive earnings	(1,185)	(141)	(1,326)
Balance at end of period	$80,859	$ 608	$ 81,467

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)
Consolidated Comprehensive Earnings/Loss and Accumulated Other Comprehensive Loss (continued)

Reclassifications out of accumulated other comprehensive loss are as follows:

	Three-Months Ended March 31,		Affected line items in the consolidated statements of earnings and comprehensive earnings
	2018	2017	
	(Dollars in Thousands)		
Pension and postretirement benefit plans			
Amortization of:			
Prior service credit	$ (585)	$ (357)	
Actuarial loss	3,239	3,452	
	2,654	3,095	Other nonoperating income, net
Tax benefit	(658)	(1,185)	Income tax expense
	$ 1,996	$ 1,910	
Unamortized value of terminated forward starting interest rate swap			
Additional interest expense	$ 347	$ 356	Interest expense
Tax benefit	(137)	(141)	Income tax expense
	$ 210	$ 215	

Earnings per Common Share

The numerator for basic and diluted earnings per common share is net earnings attributable to Martin Marietta Materials, Inc. reduced by dividends and undistributed earnings attributable to certain of the Company's stock-based compensation. If there is a net loss, no amount of the undistributed loss is attributed to unvested participating securities. The denominator for basic earnings per common share is the weighted-average number of common shares outstanding during the period. Diluted earnings per common share are computed assuming that the weighted-average number of common shares is increased by the conversion, using the treasury stock method, of awards to be issued to employees and nonemployee members of the Company's Board of Directors under certain stock-based compensation arrangements if the conversion is dilutive. For the three-months ended March 31, 2018 and 2017, the diluted per-share computations reflect the number of common shares outstanding to include the number of additional shares that would have been outstanding if the potentially dilutive common shares had been issued.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

1. Significant Accounting Policies (continued)
Earnings per Common Share

The following table reconciles the numerator and denominator for basic and diluted earnings per common share:

	Three-Months Ended March 31,	
	2018	2017
	(In Thousands)	
Net earnings attributable to Martin Marietta Materials, Inc.	$10,023	$42,334
Less: Distributed and undistributed earnings attributable to unvested awards	63	153
Basic and diluted net earnings available to common shareholders attributable to Martin Marietta Materials, Inc.	$9,960	$42,181
Basic weighted-average common shares outstanding	62,957	63,024
Effect of dilutive employee and director awards	265	295
Diluted weighted-average common shares outstanding	63,222	63,319

2. Revenue Recognition
Total revenues include sales of products and services to customers, net of any discounts or allowances, and freight revenues. Product revenues are recognized when control of the promised good is transferred to the customer, typically when finished products are shipped. Intersegment and interproduct revenues are eliminated in consolidation. Service revenues are derived from the paving business and recognized using the percentage-of-completion method under the revenue-cost approach. Under the revenue-cost approach, recognized contract revenue is determined by multiplying the total estimated contract revenue by the estimated percentage of completion. Contract costs are recognized as incurred. The percentage of completion is determined on a contract-by-contract basis using project costs incurred to date as a percentage of total estimated project costs. The Company believes the revenue-cost approach is appropriate as the use of asphalt in a paving contract is relatively consistent with the performance of the paving service. Paving contracts, notably with governmental entities, may contain performance bonuses based on quality specifications. Given the uncertainty of meeting the criteria until the performance obligation is completed, performance bonuses are recognized as revenues when and if determined to be achieved. Performance bonuses are not material to the Company’s consolidated results of operations for the three-months ended March 31, 2018 and 2017. Freight revenues

reflect delivery arranged by the Company using a third party on behalf of the customer and are recognized consistent with the timing of the product revenues.

Performance Obligations. Performance obligations are contractual promises to transfer or provide a distinct good or service for a stated price. The Company's product sales agreements are single-performance obligations that are satisfied at a point in time. Performance obligations within paving service agreements are satisfied over time, primarily ranging from one day to 20 months. For product revenues and freight revenues, customer payment terms are generally 30 days from invoice date. Customer payments for the paving operations are based on a contractual billing schedule and are due 30 days from invoice date.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2.Revenue Recognition (continued)

Future revenues from unsatisfied performance obligations at March 31, 2018 and 2017 were $88,054,000 and $145,921,000, respectively, where the remaining periods to complete these obligations ranged from one day to 20 months and one day to 11 months, respectively.

Sales Taxes. The Company is deemed to be an agent when collecting sales taxes from customers. Sales taxes collected are initially recorded as liabilities until remitted to taxing authorities and are not reflected in the consolidated statements of earnings as revenues and expenses.

Revenue by Category. The following table presents the Company's total revenues by category for each reportable segment:

	Three-Months Ended March 31, 2018		
(Dollars in Thousands)	Products and Services	Freight	Total
Mid-America Group	$167,890	$10,891	$178,781
Southeast Group	77,563	2,676	80,239
West Group	442,983	30,739	473,722
Total Building Materials Business	688,436	44,306	732,742
Magnesia Specialties	64,869	4,393	69,262
Total	$753,305	$48,699	$802,004

	Three-Months Ended March 31, 2017		
(Dollars in Thousands)	Products and Services	Freight	Total
Mid-America Group	$177,407	$11,612	$189,019
Southeast Group	86,726	3,556	90,282
West Group	463,881	32,100	495,981
Total Building Materials Business	728,014	47,268	775,282
Magnesia Specialties	64,302	4,275	68,577
Total	$792,316	$51,543	$843,859

Service revenues, which includes paving operations located in Colorado, were $11,143,000 and $16,000,000 for the three-months ended March 31, 2018 and 2017, respectively.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

2.Revenue Recognition (continued)

Contract Balances. Costs in excess of billings relate to the conditional right to consideration for completed contractual performance and are contract assets on the consolidated balance sheets. Costs in excess of billings are reclassified to accounts receivable when the right to consideration becomes unconditional. Billings in excess of costs relate to customers invoiced in advance of contractual performance and are contract liabilities on the consolidated balance sheets. The following table presents information about the Company's contract balances:

(Dollars in Thousands)	March 31, 2018	December 31, 2017	March 31, 2017
Costs in excess of billings	$2,827	$ 1,310	$1,815
Billings in excess of costs	$6,136	$ 7,204	$5,953

Revenue recognized from beginning balance of contract liabilities for the three-months ended March 31, 2018 and 2017 were $4,199,000 and $3,835,000, respectively.

Retainage represents amounts that have been billed to customers but payment withheld until final acceptance of the performance obligation by the customer. Included on the Company's consolidated balance sheets, retainage was $4,824,000, $9,029,000 and $5,759,000 at March 31, 2018, December 31, 2017 and March 31, 2017, respectively.

Warranties. The Company's construction contracts contain warranty provisions generally for a period of nine months to one year after project completion and cover materials, design or workmanship defects. Historically, the Company has not experienced material costs for warranties. The ready mixed concrete product line carries longer warranty periods, for which the Company has accrued an estimate of warranty cost based on experience with the type of work and any known risks relative to the project. In total, warranty costs were not material to the Company's consolidated results of operations for the three-months ended March 31, 2018 and 2017.

Policy Elections. When the Company arranges third party freight to deliver products to customers, the Company has elected the delivery to be a fulfillment activity rather than a separate performance obligation. Further, the Company acts as a principal in the delivery arrangements and the related revenues and costs are included in the consolidated statements of earnings.

3. Inventories, Net

	March 31,	December 31,	March 31,

	2018	2017	2017
	(Dollars in Thousands)		
Finished products	$563,315	$ 552,999	$495,793
Products in process and raw materials	62,857	62,761	61,815
Supplies and expendable parts	128,754	128,792	120,054
	754,926	744,552	677,662
Less: Allowances	(148,132)	(143,961)	(140,662)
Total	$606,794	$ 600,591	$537,000

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. Long-Term Debt

	March 31, 2018	December 31, 2017	March 31, 2017
	(Dollars in Thousands)		
6.60% Senior Notes, due 2018	$299,967	$ 299,871	$299,579
7% Debentures, due 2025	124,203	124,180	124,112
6.25% Senior Notes, due 2037	228,048	228,033	227,989
4.25% Senior Notes, due 2024	395,959	395,814	395,392
4.250% Senior Notes, due 2047	591,416	591,688	—
3.500% Senior Notes, due 2027	494,402	494,352	—
3.450% Senior Notes, due 2027	296,705	296,628	—
Floating Rate Senior Notes, due 2019, interest rate of 2.70% and 2.13% at March 31, 2018 and December 31, 2017, respectively	298,704	298,102	—
Floating Rate Notes, due 2020, interest rate of 2.55% and 2.10% at March 31, 2018 and December 31, 2017, respectively	298,408	298,227	—
Floating Rate Notes, due 2017, interest rate of 2.10% at March 31, 2017	—	—	298,878
Revolving Facility, due 2022, interest rate of 1.89% at March 31, 2017	—	—	210,000
Trade Receivable Facility, interest rate of 1.51% at March 31, 2017	—	—	290,000
Other notes	296	308	344
Total debt	3,028,108	3,027,203	1,846,294
Less: Current maturities of long-term debt and short-term facilities	(300,006)	(299,909)	(290,048)
Long-term debt	$2,728,102	$ 2,727,294	$1,556,246

The Company, through a wholly-owned special-purpose subsidiary, has a $300,000,000 trade receivable securitization facility (the Trade Receivable Facility) that is scheduled to mature September 26, 2018. The Trade Receivable Facility, with SunTrust Bank, Regions Bank, PNC Bank, N.A., The Bank of Tokyo-Mitsubishi UFJ, LTD., New York Branch, and certain other lenders that may become a party to the facility from time to time, is backed by eligible trade receivables, as defined, and is limited to the lesser of the facility limit or the borrowing base, as defined, of $349,283,000, $338,784,000 and $362,693,000 at March 31, 2018, December 31, 2017 and March 31, 2017, respectively. These receivables are originated by the Company and then sold to the wholly-owned special-purpose subsidiary by the Company. The Company continues to be responsible for the servicing and administration of the receivables purchased by the wholly-owned special-purpose subsidiary. Borrowings under the Trade Receivable Facility bear interest at a rate equal to one-month London Inter-bank Offered Rate, or LIBOR, plus 0.725%, subject to change in the event that this rate no longer reflects the lender's cost of lending. The Trade Receivable Facility contains a cross-default provision to the Company's other debt agreements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4. Long-Term Debt (continued)

The Company has a $700,000,000 five-year senior unsecured revolving facility (the Revolving Facility) with JPMorgan Chase Bank, N.A., as Administrative Agent, Branch Banking and Trust Company (BB&T), Deutsche Bank Securities, Inc., SunTrust Bank and Wells Fargo Bank, N.A., as Co-Syndication Agents, and the lenders party thereto. The Revolving Facility requires the Company's ratio of consolidated debt-to-consolidated earnings before interest, taxes, depreciation and amortization (EBITDA), as defined by the Revolving Facility, for the trailing-twelve months (the Ratio) to not exceed 3.50x as of the end of any fiscal quarter, provided that the Company may exclude from the Ratio debt incurred in connection with certain acquisitions during such quarter or the three preceding quarters so long as the Ratio calculated without such exclusion does not exceed 3.75x. Additionally, if no amounts are outstanding under both the Revolving Facility and the Trade Receivable Facility, consolidated debt, including debt for which the Company is a co-borrower, may be reduced by the Company's unrestricted cash and cash equivalents in excess of $50,000,000, such reduction not to exceed $200,000,000, for purposes of the covenant calculation. The Company was in compliance with this Ratio at March 31, 2018.

Available borrowings under the Revolving Facility are reduced by any outstanding letters of credit issued by the Company under the Revolving Facility. The Company had $2,301,000 of outstanding letters of credit issued under the Revolving Facility at March 31, 2018 and December 31, 2017 and $2,507,000 at March 31, 2017.

Accumulated other comprehensive loss includes the unamortized value of terminated forward starting interest rate swap agreements. For the three-months ended March 31, 2018 and 2017, the Company recognized $347,000 and $356,000, respectively, as additional interest expense. The amortization of the terminated value of the forward starting interest rate swap agreements will be complete with the maturity of the related debt in April 2018.

5. Financial Instruments

The Company's financial instruments include cash equivalents, accounts receivable, notes receivable, bank overdrafts, accounts payable, publicly-registered long-term notes, debentures and other long-term debt.

Cash equivalents are placed primarily in money market funds, money market demand deposit accounts and Eurodollar time deposits. The Company's cash equivalents have original maturities of less than three months. Due to the short maturity of these investments, they are carried on the consolidated balance sheets at cost, which approximates fair value.

Accounts receivable are due from a large number of customers, primarily in the construction industry, and are dispersed across wide geographic and economic regions. However, accounts receivable are more heavily concentrated in certain states (namely, Texas, Colorado, North Carolina, Iowa and Georgia). The estimated fair values of accounts receivable approximate their carrying amounts due to the short-term nature of the receivables.

Notes receivable are not publicly traded. Management estimates that the fair value of notes receivable approximates the carrying amount due to the short-term nature of the receivables.

Bank overdrafts, when applicable, represent amounts to be funded to financial institutions for checks that have cleared the bank. The estimated fair value of bank overdrafts approximates its carrying value due to the short-term nature of the overdraft.

Accounts payable represent amounts owed to suppliers and vendors. The estimated fair value of accounts payable approximates its carrying amount due to the short-term nature of the payables.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

5. Financial Instruments (continued)

The carrying values and fair values of the Company's long-term debt were $3,028,108,000 and $3,037,069,000, respectively, at March 31, 2018; $3,027,203,000 and $3,144,902,000, respectively, at December 31, 2017; and $1,846,294,000 and $1,937,310,000, respectively, at March 31, 2017. The estimated fair value of the publicly-registered long-term notes was estimated based on Level 1 of the fair value hierarchy using quoted market prices. The estimated fair value of other borrowings, which primarily represents variable-rate debt, was based on Level 2 of the fair value hierarchy using quoted market prices for similar debt instruments, and approximates their carrying amounts as the interest rates reset periodically.

6. Income Taxes

The Company's effective income tax rate for the three-months ended March 31, 2018 was 19.7%. The effective income tax rate reflects the effect of federal and state income taxes and the impact of differences in book and tax accounting arising from the net permanent benefits associated with the statutory depletion deduction for mineral reserves. For the three-months ended March 31, 2018, the effective income tax rate also reflects two discrete events: a favorable impact of $1,325,000, or 1,060 basis points, related to the vesting and exercise of stock-based compensation awards and an unfavorable impact of $1,097,000, or 880 basis points, related to an estimate of the transition tax on undistributed foreign earnings, a provision of the Tax Cuts and Jobs Act of 2017 (2017 Tax Act). The enactment of the 2017 Tax Act reduced the federal statutory corporate income tax rate from 35% to 21% beginning in 2018. Therefore, the effective income tax rate of 25.6% for the three-months ended March 31, 2017 is not comparable.

The Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (SAB 118) to address situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Act. As such, due to the timing of the enactment date and the Company's reporting periods, the Company recognized provisional amounts for the remeasurement of deferred tax assets and liabilities as of December 31, 2017 and transition tax on undistributed foreign earnings as of March 31, 2018, and continues to analyze and assess other provisions of the 2017 Tax Act. In accordance with SAB 118, the Company may record additional provisional amounts during the measurement period not to extend beyond one year of the enactment date and expects the accounting to be complete when the Company's 2017 U.S. corporate income tax return is filed in 2018. Any future measurement period adjustments will be recognized as income tax expense or benefit in 2018.

The Company records interest accrued in relation to unrecognized tax benefits as income tax expense. Penalties, if incurred, are recorded as operating expenses in the consolidated statements of earnings and comprehensive earnings.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

7. Pension and Postretirement Benefits

The estimated components of the recorded net periodic benefit cost (credit) for pension and postretirement benefits are as follows:

	Three-Months Ended March 31,			
	Pension		Postretirement Benefits	
	2018	2017	2018	2017
	(Dollars in Thousands)			
Service cost	$8,148	$6,572	$22	$24
Interest cost	8,361	9,008	125	185
Expected return on assets	(10,629)	(9,936)	—	—
Amortization of:				
Prior service cost (credit)	26	78	(611)	(435)
Actuarial loss (gain)	3,296	3,524	(57)	(72)
Net periodic benefit cost (credit)	$9,202	$9,246	$(521)	$(298)

The service cost component of net periodic benefit cost (credit) is included in cost of revenues – products and services and selling, general and administrative expenses while all other components are included in other nonoperating income, net, in the consolidated statements of earnings and comprehensive earnings.

8. Commitments and Contingencies

Legal and Administrative Proceedings

The Company is engaged in certain legal and administrative proceedings incidental to its normal business activities. In the opinion of management and counsel, based upon currently-available facts, it is remote that the ultimate outcome of any litigation and other proceedings, including those pertaining to environmental matters, relating to the Company and its subsidiaries, will have a material adverse effect on the overall results of the Company’s operations, its cash flows or its financial position.

Borrowing Arrangements with Affiliate

The Company is a co-borrower with an unconsolidated affiliate for a $15,500,000 revolving line of credit agreement with BB&T with a maturity date of March 2020. The affiliate has agreed to reimburse and indemnify the Company for any payments and expenses the Company may incur from this agreement. The Company holds a lien on the affiliate's membership interest in a joint venture as collateral for payment under the revolving line of credit.

In addition, the Company has a $6,000,000 interest-only loan, due December 31, 2019, outstanding from this unconsolidated affiliate as of March 31, 2018, December 31, 2017 and March 31, 2017. The interest rate is one-month LIBOR plus 1.75%.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

9. Business Segments

The Building Materials business contains three reportable business segments: Mid-America Group, Southeast Group and West Group. The Company also has a Magnesia Specialties segment. The Company's evaluation of performance and allocation of resources are based primarily on earnings from operations. Consolidated earnings from operations include total revenues less cost of revenues, selling, general and administrative expenses, acquisition-related expenses, other operating income and expenses, net, and exclude interest expense, other nonoperating income and expenses, net, and taxes on income. Corporate loss from operations primarily includes depreciation on capitalized interest, unallocated expenses for corporate administrative functions, acquisition-related expenses, and other nonrecurring income and expenses excluded from the Company's evaluation of business segment performance and resource allocation. All debt and related interest expense is held at Corporate.

The following table displays selected financial data for the Company's reportable business segments. Total revenues, as well as the consolidated statements of earnings and comprehensive earnings, exclude intersegment revenues which represent sales from one segment to another segment, which are eliminated. Prior-year information has been reclassified to conform to current year revenue presentation.

	Three-Months Ended March 31,	
	2018	2017
	(Dollars in Thousands)	
Total revenues:		
Mid-America Group	$178,781	$189,019
Southeast Group	80,239	90,282
West Group	473,722	495,981
Total Building Materials Business	732,742	775,282
Magnesia Specialties	69,262	68,577
Total	$802,004	$843,859
Products and services revenues:		
Mid-America Group	$167,890	$177,407
Southeast Group	77,563	86,726
West Group	442,983	463,881
Total Building Materials Business	688,436	728,014
Magnesia Specialties	64,869	64,302
Total	$753,305	$792,316

Earnings (Loss) from operations:		
Mid-America Group	$6,167	$13,342
Southeast Group	2,041	10,115
West Group	34,951	61,232
Total Building Materials Business	43,159	84,689
Magnesia Specialties	21,237	19,881
Corporate	(25,315)	(27,420)
Total	$39,081	$77,150

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

10. Revenues and Gross Profit

The Building Materials business includes the aggregates, cement, ready mixed concrete and asphalt and paving product lines. All cement, ready mixed concrete and asphalt and paving product lines reside in the West Group. The following table, which is reconciled to consolidated amounts, provides total revenues and gross profit by product line.

	Three-Months Ended March 31, 2018	2017
	(Dollars in Thousands)	
Total revenues:		
Building Materials Business:		
Products and services:		
Aggregates	$425,016	$451,055
Cement	89,183	93,554
Ready mixed concrete	218,537	222,378
Asphalt and paving services	16,365	21,737
Less: interproduct revenues	(60,665)	(60,710)
Products and services	688,436	728,014
Freight	44,306	47,268
Total Building Materials Business	732,742	775,282
Magnesia Specialties:		
Products and services	64,869	64,302
Freight	4,393	4,275
Total Magnesia Specialties	69,262	68,577
Total	$802,004	$843,859
Gross profit (loss):		
Building Materials Business:		
Products and services:		
Aggregates	$53,002	$78,954
Cement	23,734	30,780
Ready mixed concrete	15,641	19,790
Asphalt and paving services	(7,639)	(4,740)
Products and services	84,738	124,784
Freight	(119)	407

Total Building Materials Business	84,619	125,191
Magnesia Specialties:		
Products and services	25,063	23,354
Freight	(1,174)	(1,039)
Total Magnesia Specialties	23,889	22,315
Corporate	1,884	(439)
Total	$110,392	$147,067

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11. Supplemental Cash Flow Information

The components of the change in other assets and liabilities, net, are as follows:

	March 31, 2018	2017
	(Dollars in Thousands)	
Other current and noncurrent assets	$ (9,032)	$ (22,914)
Accrued salaries, benefits and payroll taxes	(13,833)	(21,335)
Accrued insurance and other taxes	(12,545)	(10,557)
Accrued income taxes	7,357	3,330
Accrued pension, postretirement and postemployment benefits	6,273	6,421
Other current and noncurrent liabilities	11,359	21,385
	$ (10,421)	$ (23,670)

Noncash investing and financing activities are as follows:

	March 31, 2018	2017
	(Dollars in Thousands)	
Noncash investing and financing activities:		
Accrued liabilities for purchases of property, plant and equipment	$ 35,639	$ 34,666
Acquisition of assets through capital lease	$ 192	$ 149

Supplemental disclosures of cash flow information are as follows:

March 31,

	2018	2017
	(Dollars in Thousands)	
Cash paid for interest	$ 12,458	$ 12,216
Cash (refund of) paid for income taxes	$ (7,527)	$ 6,240

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter Ended March 31, 2018

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

12. Subsequent Events

Debt Repayment

The Company repaid the $300,000,000 of 6.60% Senior Notes with cash on hand on April 16, 2018, the maturity date.

Facility Limit Increase

On April 17, 2018, the Company and its wholly-owned subsidiary amended its Trade Receivable Facility to increase the facility limit to $400,000,000.

Bluegrass Acquisition

On April 27, 2018, the Company successfully completed its previously announced acquisition of Bluegrass Materials Company (Bluegrass), the largest privately-held, pure-play aggregates company in the United States, for $1,625,000,000 in cash. Bluegrass' operations include 23 active sites with more than 125 years of strategically-located, high-quality reserves, in Georgia, South Carolina, Tennessee, Maryland, Kentucky and Pennsylvania. These operations complement the Company's existing southeastern footprint and provides a new growth platform within the southern portion of the Northeast Megaregion. The Company reached an agreement with the U.S. Department of Justice (DOJ), approved by the district court for the District of Columbia, which resolves all competition issues with respect to the acquisition. Under the terms of the agreement with the DOJ, Martin Marietta divested its Forsyth aggregates quarry north of Atlanta, Georgia, and will divest Bluegrass' Beaver Creek aggregates quarry in western Maryland.

The acquisition reflects a stock transaction where the Company acquired 100% of the voting interest. The Company acquired accounts receivable; inventories; property, plant and equipment; intangible assets; prepaid and other assets; and assumed accounts payable; accrued liabilities and deferred tax assets and liabilities. The Company did not acquire any of Bluegrass' cash and cash equivalents nor did it assume any of Bluegrass' outstanding debt. The Company is in the process of determining the fair value of assets acquired and liabilities assumed, and as of May 8, 2018, the initial accounting for the business combination has not been completed.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended March 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

First Quarter Ended March 31, 2018

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

Martin Marietta Materials, Inc. (the Company or Martin Marietta) is a natural resource-based building materials company. The Company supplies aggregates (crushed stone, sand and gravel) through its network of 282 quarries, mines and distribution yards to its customers in 30 states, Canada, the Bahamas and the Caribbean Islands. In the western United States, Martin Marietta also provides cement and downstream products, namely, ready mixed concrete, asphalt and paving services, in vertically-integrated structured markets where the Company has a leading aggregates position. The Company's heavy-side building materials are used in infrastructure, nonresidential and residential construction projects. Aggregates are also used in agricultural, utility and environmental applications and as railroad ballast. The aggregates, cement, ready mixed concrete and asphalt and paving product lines are reported collectively as the "Building Materials" business.

The Company conducts its Building Materials business through three reportable business segments: Mid-America Group, Southeast Group and West Group.

BUILDING MATERIALS BUSINESS

Reportable Segments	Mid-America Group	Southeast Group	West Group
Operating Locations	Indiana, Iowa, northern Kansas, Kentucky, Maryland, Minnesota, Missouri, eastern Nebraska, North Carolina, Ohio, South Carolina, Virginia, Washington and West Virginia	Alabama, Florida, Georgia, Tennessee, Nova Scotia and the Bahamas	Arkansas, Colorado, southern Kansas, Louisiana, western Nebraska, Nevada, Oklahoma, Texas, Utah and Wyoming
Product Lines	Aggregates	Aggregates	Aggregates, Cement, Ready Mixed Concrete, Asphalt and Paving
Plant Types	Quarries, Mines and Distribution Facilities	Quarries, Mines and Distribution Facilities	Quarries, Mines, Plants and Distribution Facilities
	Truck and Railcar		Truck and Railcar

Modes of Transportation	Truck, Railcar and Water

The Company also has a Magnesia Specialties business that produces magnesia-based chemicals products used in industrial, agricultural and environmental applications and dolomitic lime sold primarily to customers in the steel and mining industry.

CRITICAL ACCOUNTING POLICIES

The Company outlined its critical accounting policies in its Annual Report on Form 10-K for the year ended December 31, 2017. There were no changes to the Company's critical accounting policies during the three-months ended March 31, 2018.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

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For the Quarter March 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

First Quarter Ended March 31, 2018

(Continued)

RESULTS OF OPERATIONS

The Building Materials business is significantly affected by weather patterns and seasonal changes. Production and shipment levels for aggregates, cement, ready mixed concrete and asphalt and paving materials correlate with general construction activity levels, most of which occur in the spring, summer and fall. Thus, production and shipment levels vary by quarter. Operations concentrated in the northern and midwestern United States generally experience more severe winter weather conditions than operations in the southeast and southwest. Excessive rainfall, and conversely excessive drought, can also jeopardize production, shipments and profitability in all markets served by the Company. Because of the potentially significant impact of weather on the Company's operations, current period and year-to-date results are not indicative of expected performance for other interim periods or the full year.

Earnings before interest, income taxes, depreciation and amortization (EBITDA) is a widely accepted financial indicator of a company's ability to service and/or incur indebtedness. EBITDA is not defined by generally accepted accounting principles and, as such, should not be construed as an alternative to net earnings, operating earnings or operating cash flow. However, the Company's management believes that EBITDA may provide additional information with respect to the Company's performance or ability to meet its future debt service, capital expenditures or working capital requirements. Because EBITDA excludes some, but not all, items that affect net earnings and may vary among companies, EBITDA presented by the Company may not be comparable to similarly titled measures of other companies.

A reconciliation of net earnings attributable to Martin Marietta Materials, Inc. to consolidated EBITDA is as follows:

	Three-Months Ended March 31,	
	2018	2017
	(Dollars in thousands)	
Net Earnings Attributable to Martin Marietta Materials, Inc.	$10,023	$42,334
Add back:		
Interest expense	35,087	20,851
Income tax expense for controlling interests	2,438	14,522
Depreciation, depletion and amortization expense	75,714	70,007
Consolidated EBITDA	$123,262	$147,714

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter March 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

First Quarter Ended March 31, 2018

(Continued)

Significant items for the quarter ended March 31, 2018 (unless noted, all comparisons are versus the prior-year quarter):

- Consolidated total revenues of $802.0 million compared with $843.9 million
  - Building Materials business products and services revenues of $688.4 million compared with $728.0 million and Magnesia Specialties product revenues of $64.9 million compared with $64.3 million
- Consolidated gross profit of $110.4 compared with $147.1 million
- Consolidated earnings from operations of $39.1 million compared with $77.2 million
- Net earnings attributable to Martin Marietta of $10.0 million compared with $42.3 million
- EBITDA of $123.3 million compared with $147.7 million
- Earnings per diluted share of $0.16 compared with $0.67

The following table presents total revenues, gross profit (loss), selling, general and administrative expenses and earnings (loss) from operations data for the Company and its reportable segments for the three-months ended March 31, 2018 and 2017. In each case, the data is stated as a percentage of total revenues of the Company or the relevant segment, as the case may be. Prior-year information has been reclassified to conform to current year revenue presentation.

	Three-Months Ended March 31,			
	2018		2017	
	Amount	% of Total Revenues	Amount	% of Total Revenues
	(Dollars in Thousands)			
Total revenues:				
Building Materials Business				
Mid-America Group	$178,781	100.0	$189,019	100.0
Southeast Group	80,239	100.0	90,282	100.0
West Group	473,722	100.0	495,981	100.0
Total Building Materials Business	732,742	100.0	775,282	100.0
Magnesia Specialties	69,262	100.0	68,577	100.0
Total	$802,004	100.0	$843,859	100.0

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter March 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

First Quarter Ended March 31, 2018

(Continued)

	Three-Months Ended March 31,			
	2018		2017	
	Amount	% of Total Revenues	Amount	% of Total Revenues
	(Dollars in Thousands)			
Gross profit (loss):				
Building Materials Business				
Mid-America Group	$18,255	10.2	$26,285	13.9
Southeast Group	6,167	7.7	14,369	15.9
West Group	60,197	12.7	84,537	17.0
Total Building Materials Business	84,619	11.5	125,191	16.1
Magnesia Specialties	23,889	34.5		