

Northbridge Materials Corporation - Form 10-Q

Rendered from the document filed with the U.S. Securities and Exchange Commission. The filing as submitted remains the authoritative version.

FORM TYPE	10-Q
FILED	2019-10-30
PERIOD	2019-09-30
ACCESSION NO.	0001564590-19-038626
FILER	Northbridge Materials Corporation (CIK 0000916076)

mlm-10q_20190930.htm

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 September 30, 2019

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, former address and former fiscal year, if changes since last report: None

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Trading Symbol(s)

Name of each exchange on

which registered

Common Stock (Par Value \$0.01)

MLM

NYSE

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth 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 October 24, 2019

Common Stock, \$0.01 par value

62,500,533

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

Page

Part I. Financial Information:

Item 1. Financial Statements

Consolidated Balance Sheets - September 30, 2019 and December 31, 2018

3

Consolidated Statements of Earnings and Comprehensive Earnings - Three and Nine Months Ended September 30, 2019 and 2018

4

Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2019 and 2018

5

Consolidated Statement of Total Equity - Three and Nine Months Ended September 30, 2019 and 2018

6

Notes to Consolidated Financial Statements

8

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

29

Item 3. Quantitative and Qualitative Disclosures About Market Risk

50

Item 4. Controls and Procedures

51

Part II. Other Information:

Item 1. Legal Proceedings

52

Item 1A. Risk Factors

52

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

52

Item 4. Mine Safety Disclosures

52

Item 6. Exhibits

53

Signatures

54

Page 2 of 54

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

(UNAUDITED) CONSOLIDATED BALANCE SHEETS

September 30,

December 31,

2019

2018

(Dollars in Thousands)

ASSETS

Current Assets:

Cash and cash equivalents

\$

49,087

\$

44,892

Accounts receivable, net

763,878

523,276

Inventories, net

649,716

663,035

Other current assets

115,717

134,613

Total Current Assets

1,578,398

1,365,816

Property, plant and equipment

8,476,830

8,294,963

Allowances for depreciation, depletion and amortization

(3,344,683

)

(3,137,734

)

Net property, plant and equipment

5,132,147

5,157,229

Goodwill

2,396,955

2,399,118

Other intangibles, net

491,623

501,282

Operating lease right-of-use assets

484,853

-

Other noncurrent assets

139,509

127,974

Total Assets

\$

10,223,485

\$

9,551,419

LIABILITIES AND EQUITY

Current Liabilities:

Accounts payable

\$

238,559

\$

210,808

Accrued salaries, benefits and payroll taxes	
56,837	
51,434	
Pension and postretirement benefits	
9,064	
9,942	
Accrued insurance and other taxes	
67,127	
63,543	
Current maturities of long-term debt and short-term facilities	
190,044	
390,042	
Operating lease liabilities	
51,751	
-	
Other current liabilities	
75,600	
60,981	
Total Current Liabilities	
688,982	
786,750	
Long-term debt	
2,732,815	
2,730,439	
Pension, postretirement and postemployment benefits	
100,076	
134,469	
Deferred income taxes, net	
725,096	
705,564	
Noncurrent operating lease liabilities	
436,698	
-	
Other noncurrent liabilities	
235,380	
244,785	
Total Liabilities	
4,919,047	
4,602,007	
Equity:	

Common stock, par value \$ 0.01 per share

624

624

Preferred stock, par value \$ 0.01 per share

-

-

Additional paid-in capital

3,414,466

3,396,059

Accumulated other comprehensive loss

(134,765

)

(143,579

)

Retained earnings

2,021,647

1,693,259

Total Shareholders' Equity

5,301,972

4,946,363

Noncontrolling interests

2,466

3,049

Total Equity

5,304,438

4,949,412

Total Liabilities and Equity

\$

10,223,485

\$

9,551,419

See accompanying notes to the consolidated financial statements.

Page 3 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

(UNAUDITED) CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE EARNINGS

Three Months Ended

Nine Months Ended

September 30,

September 30,

2019

2018

2019

2018

(In Thousands, Except Per Share Data)

Products and services revenues

\$

1,323,160

\$

1,142,218

\$

3,397,599

\$

3,024,300

Freight revenues

97,086

77,422

241,069

199,747

Total Revenues

1,420,246

1,219,640

3,638,668

3,224,047

Cost of revenues - products and services

901,844

828,110

2,474,333

2,282,159

Cost of revenues - freight

97,757

78,546

243,917

202,595

Total Cost of Revenues

999,601

906,656

2,718,250

2,484,754

Gross Profit

420,645

312,984

920,418

739,293	
Selling, general & administrative expenses	
78,281	
68,441	
228,955	
209,632	
Acquisition-related expenses, net	
-	
89	
190	
12,925	
Other operating (income) and expense, net	
(2,899	
)	
3,792	
(9,092	
)	
(26,960	
)	
Earnings from Operations	
345,263	
240,662	
700,365	
543,696	
Interest expense	
32,436	
35,468	
98,680	
103,526	
Other nonoperating (income) and expense, net	
(1,973	
)	
(4,248	
)	
9,690	
(19,873	
)	
Earnings before income tax expense	
314,800	
209,442	
591,995	

460,043	
Income tax expense	
66,178	
29,089	
111,077	
84,147	
Consolidated net earnings	
248,622	
180,353	
480,918	
375,896	
Less: Net earnings attributable to noncontrolling interests	
49	
132	
17	
275	
Net Earnings Attributable to Martin Marietta Materials, Inc.	
\$	
248,573	
\$	
180,221	
\$	
480,901	
\$	
375,621	
Consolidated Comprehensive Earnings:	
Earnings attributable to Martin Marietta Materials, Inc.	
\$	
251,142	
\$	
184,613	
\$	
489,715	
\$	
383,234	
Earnings attributable to noncontrolling interests	
49	
132	
17	
276	

\$

251,191

\$

184,745

\$

489,732

\$

383,510

Net Earnings Attributable to Martin Marietta Materials, Inc.

Per Common Share:

Basic attributable to common shareholders

\$

3.97

\$

2.86

\$

7.67

\$

5.95

Diluted attributable to common shareholders

\$

3.96

\$

2.85

\$

7.65

\$

5.93

Weighted-Average Common Shares Outstanding:

Basic

62,510

62,932

62,552

62,970

Diluted

62,679

63,167

62,725

63,224

See accompanying notes to the consolidated financial statements.

Page 4 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES
(UNAUDITED) CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended

September 30,

2019

2018

(Dollars in Thousands)

Cash Flows from Operating Activities:

Consolidated net earnings

\$

480,918

\$

375,896

Adjustments to reconcile consolidated net earnings to net cash
provided by operating activities:

Depreciation, depletion and amortization

276,974

253,200

Stock-based compensation expense

28,414

23,084

Gain on divestitures and sales of assets

(4,950

)

(35,167

)

Deferred income taxes

18,352

68,833

Other items, net

11,422

(2,107

)

Changes in operating assets and liabilities, net of effects of
acquisitions and divestitures:

Accounts receivable, net

(240,602

)

(132,176

)

Inventories, net

13,573
 (8,015
)
 Accounts payable
 65,897
 42,995
 Other assets and liabilities, net
 (200
)
 (145,005
)
 Net Cash Provided by Operating Activities
 649,798
 441,538
 Cash Flows from Investing Activities:
 Additions to property, plant and equipment
 (282,998
)
 (262,155
)
 Acquisitions, net
 -
 (1,640,698
)
 Proceeds from divestitures and sales of assets
 6,981
 63,460
 Payment of railcar construction advances
 -
 (56,033
)
 Reimbursement of railcar construction advances
 -
 56,033
 Investments in life insurance contracts, net
 559
 771
 Other investing activities, net
 (1,214
)
 -

Net Cash Used for Investing Activities

(276,672

)

(1,838,622

)

Cash Flows from Financing Activities:

Borrowings of debt

245,000

875,000

Repayments of debt

(445,042

)

(695,039

)

Payments of deferred acquisition consideration

-

(6,707

)

Payments on financing leases

(2,651

)

-

Payments on capital leases

-

(2,589

)

Debt issuance costs

-

(3,194

)

Distributions to owners of noncontrolling interest

(600

)

-

Repurchases of common stock

(57,288

)

(60,377

)

Dividends paid

(95,227

)
 (86,190
)
 Proceeds from exercise of stock options
 12,295
 6,993
 Shares withheld for employees' income tax obligations
 (25,418
)
 (10,416
)
 Purchase of remaining interest in existing joint venture
 -
 (12,800
)
 Net Cash (Used for) Provided by Financing Activities
 (368,931
)
 4,681
 Net Increase (Decrease) in Cash and Cash Equivalents
 4,195
 (1,392,403
)
 Cash and Cash Equivalents, beginning of period
 44,892
 1,446,364
 Cash and Cash Equivalents, end of period
 \$
 49,087
 \$
 53,961

See accompanying notes to the consolidated financial statements.

Page 5 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

(UNAUDITED) CONSOLIDATED STATEMENTS OF TOTAL EQUITY

(In Thousands, Except Per Share Data)

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 June 30, 2019	
62,433	
\$	
623	
\$	
3,416,590	
\$	
(137,334	
)	
\$	
1,814,974	
\$	
5,094,853	
\$	
2,417	
\$	
5,097,270	
Consolidated net earnings	
-	
-	
-	
-	
248,573	
248,573	
49	
248,622	
Other comprehensive earnings,	
net of tax	
-	
-	
-	
2,569	
-	
2,569	
-	
2,569	

Dividends declared (\$ 0.55 per share)

-

-

-

-

(34,612

)

(34,612

)

-

(34,612

)

Issuances of common stock for stock
award plans

96

1

4,956

-

-

4,957

-

4,957

Shares withheld for employees'
income tax obligations

-

-

(13,244

)

-

-

(13,244

)

-

(13,244

)

Repurchases of common stock

(29

)

-

-

-

(7,288
)
 (7,288
)
 -
 (7,288
)
 Stock-based compensation expense
 -
 -
 6,164
 -
 -
 6,164
 -
 6,164
 Balance at September 30, 2019
 62,500
 \$
 624
 \$
 3,414,466
 \$
 (134,765
)
 \$
 2,021,647
 \$
 5,301,972
 \$
 2,466
 \$
 5,304,438
 Balance at December 31, 2018
 62,515
 \$
 624
 \$
 3,396,059
 \$
 (143,579

)
 \$
 1,693,259
 \$
 4,946,363
 \$
 3,049
 4,949,412
 Consolidated net earnings
 -
 -
 -
 -
 480,901
 480,901
 17
 480,918
 Other comprehensive earnings,
 net of tax
 -
 -
 -
 8,814
 -
 8,814
 -
 8,814
 Dividends declared (\$ 1.51 per share)
 -
 -
 -
 -
 (95,227
)
 (95,227
)
 -
 (95,227
)
 Issuances of common stock for stock
 award plans

246

2

15,411

-

-

15,413

-

15,413

Shares withheld for employees'

income tax obligations

-

-

(25,418

)

-

-

(25,418

)

-

(25,418

)

Repurchases of common stock

(261

)

(2

)

-

-

(57,286

)

(57,288

)

-

(57,288

)

Stock-based compensation expense

-

-

28,414

-

-

28,414

-

28,414

Distributions to owners of
noncontrolling interest

-

-

-

-

-

-

(600

)

(600

)

Balance at September 30, 2019

62,500

\$

624

\$

3,414,466

\$

(134,765

)

\$

2,021,647

\$

5,301,972

\$

2,466

\$

5,304,438

See accompanying notes to the consolidated financial statements.

Page 6 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES
(UNAUDITED) CONSOLIDATED STATEMENTS OF TOTAL EQUITY (Continued)
(In Thousands, Except Per Share Data)

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 June 30, 2018

63,012

\$

629

\$

3,389,028

\$

(125,883

)

\$

1,579,674

\$

4,843,448

\$

12,022

\$

4,855,470

Consolidated net earnings

-

-

-

-

180,221

180,221

132

180,353

Other comprehensive earnings,
net of tax

-

-

-

4,392

-

4,392

-

4,392

Dividends declared (\$ 0.48 per share)

-
-
-
-
(30,394
)
(30,394
)
-
(30,394
)
Issuances of common stock for stock
award plans
5
-
49
-
-
49
-
49
Shares withheld for employees' income
tax obligations
-
-
(350
)
-
-
(350
)
-
(350
)
Repurchases of common stock
(305
)
(3
)
-
-

(60,375
)
 (60,378
)
 -
 (60,378
)
 Stock-based compensation expense
 -
 -
 5,986
 -
 -
 5,986
 -
 5,986
 Purchase of remaining interest in existing
 joint venture
 -
 -
 (3,580
)
 -
 -
 (3,580
)
 (9,220
)
 (12,800
)
 Balance at September 30, 2018
 62,712
 \$
 626
 \$
 3,391,133
 \$
 (121,491
)
 \$
 1,669,126

\$
 4,939,394
 \$
 2,934
 \$
 4,942,328
 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
 -
 -
 -
 -
 375,621
 375,621
 275
 375,896
 Other comprehensive earnings,
 net of tax
 -
 -
 -
 7,613
 -
 7,613
 1

7,614

Dividends declared (\$ 1.36 per share)

-

-

-

-

(86,190

)

(86,190

)

-

(86,190

)

Issuances of common stock for stock
award plans

144

1

14,038

-

-

14,039

-

14,039

Shares withheld for employees' income
tax obligations

-

-

(10,416

)

-

-

(10,416

)

-

(10,416

)

Repurchases of common stock

(305

)

(3

)

-

-

(60,374

)

(60,377

)

(60,377

)

Stock-based compensation expense

-

-

23,084

-

-

23,084

-

23,084

Noncontrolling interest acquired in
business combination

-

-

-

-

-

-

9,001

9,001

Purchase of remaining interest in existing
joint venture

-

-

(3,580

)

-

-

(3,580

)

(9,220

)

(12,800

)

Balance at September 30, 2018

62,712

\$

626

\$

3,391,133

\$

(121,491

)

\$

1,669,126

\$

4,939,394

\$

2,934

\$

4,942,328

See accompanying notes to the consolidated financial statements.

Page 7 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(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 more than 300 quarries, mines and distribution yards in 27 states, Canada and the Bahamas. 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,

Pennsylvania, South Carolina, Virginia, Washington and West Virginia

Alabama, Florida, Georgia, southwestern South Carolina, 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.

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (U.S. 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 Accounting Standards Codification 842 - Leases (ASC 842), 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, 2018. 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 and nine months ended September 30, 2019 are not indicative of the results expected for other interim periods or the full year. The consolidated balance sheet at December 31, 2018 has been derived from the audited consolidated financial statements at that date but does not

Page 8 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

include all of the information and notes required by U.S. 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, 2018 .

During the second quarter ended June 30, 2019, the Company identified a prior-period error that overstated its earnings from a nonconsolidated equity affiliate. The overstatement was not deemed material to the current period or any previously reported periods and was therefore corrected as an out-of-period expense of \$ 15.7 million during the quarter ended June 30, 2019. The pretax noncash adjustment is recorded in other nonoperating expenses, consistent with the recurring classification of equity earnings from the nonconsolidated affiliate.

New Accounting Pronouncement

Leases

Effective January 1, 2019, the Company adopted ASC 842, which requires virtually all leases, excluding mineral interest leases, to be recorded as right-of-use (ROU) assets and lease liabilities on the balance sheet and provides guidance on the recognition of lease expense and income. ASC 842 requires the modified retrospective transition approach, applying the new standard to all leases existing at the date of initial application. It further states that an entity may use either 1) its effective date or 2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. The Company used the effective date as the date of initial application. As such, financial information and disclosures required under ASC 842 will not be provided for dates and periods prior to January 1, 2019.

The lease standard provides a number of practical expedients for transition and policy elections for ongoing accounting. The

Company elected the "package of practical expedients", which permits the Company to not reassess its prior conclusions about lease identification, lease classification and initial direct costs. The Company elected the practical expedients pertaining to the use of hindsight and to land easements. Applying the hindsight practical expedient resulted in longer lease terms for many leases. The standard provides policy election options for recognition exemption for short-term leases and separation of lease and non-lease components. The Company elected the short-term lease recognition exemption and elected not to separate lease and non-lease components for all underlying asset classes, with the exceptions of railcars and fleet vehicle leases. The Company determines lease and non-lease components based on observable information, including rates provided by the lessor.

The adoption of ASC 842 resulted in the recognition of ROU assets and lease liabilities of \$ 502.5 million and \$ 501.6 million, respectively, for operating leases and \$ 10.9 million and \$ 12.1 million, respectively, for finance leases. The adoption did not have a material impact on the Company's consolidated statement of earnings or consolidated statement of cash flows.

Subsequent to the date of adoption, the Company determines if a contract is or contains a lease at inception of the agreement. Operating and finance leases are recognized as ROU assets and the related obligations are recognized as current or noncurrent liabilities on the Company's consolidated balance sheets. Leases with an initial lease term of one year or less are not recorded on the balance sheet.

ROU assets, which represent the Company's right to use an underlying asset, and lease liabilities, which represent the Company's obligation to make lease payments arising from the lease, are recognized based on the present value of the future lease payments over the lease term at commencement date. The ROU asset also includes any lease payments made at or before commencement date and any initial direct costs incurred and excludes lease incentives. Certain of the Company's leases contain renewal and/or termination options. The Company recognizes renewal or termination options as part of its ROU assets and lease liabilities when the Company has the unilateral right to renew or terminate and it is reasonably certain these options will be exercised. The Company determines the present value of lease payments based on the implicit rate, which may be explicitly stated in the lease if available or may be the

Page 9 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Company's estimated collateralized incremental borrowing rate based on the term of the lease. For operating leases, lease expense is recognized on a straight-line basis over the lease term.

Some leases require the Company pay non-lease components, which may include taxes, maintenance, insurance and certain other expenses applicable to the leased property, and are primarily considered variable costs. The Company generally accounts for lease and non-lease components as a single amount. However, for railcars and fleet vehicle leases, the Company separately accounts for the lease and non-lease components.

Pending Accounting Pronouncement

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-13, Financial Instruments - Credit Losses (ASU 2016-13), which is effective and will be adopted January 1, 2020. ASU 2016-13 includes a current expected credit loss (CECL) model that requires an entity to estimate credit losses expected over the life of an exposure or pool of exposures based on historical information, current information and reasonable and supportable forecasts at the time the asset is recognized and is remeasured at each reporting period. ASU 2016-13 primarily relates to the Company's receivables, but the scope also includes retainage and contract assets related to its paving business. The Company has evaluated ASU 2016-13 and the adoption will not have a material impact on its financial position or statement of earnings and comprehensive earnings.

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

Nine Months Ended

September 30,

September 30,

2019

2018

2019

2018

(Dollars in Thousands)

Net earnings attributable to Martin Marietta Materials, Inc.

\$

248,573

\$

180,221

\$

480,901

\$

375,621

Other comprehensive earnings, net of tax

2,569

4,392

8,814

7,613

Comprehensive earnings attributable to Martin Marietta

Materials, Inc.

\$

251,142

\$

184,613

\$

489,715

\$

383,234

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

Three Months Ended

Nine Months Ended

September 30,

September 30,

2019

2018

2019

2018

(Dollars in Thousands)

Net earnings attributable to noncontrolling interests

\$

49

\$

132

\$

17

\$

275

Other comprehensive earnings, net of tax

-

-

-

1

Comprehensive earnings attributable to
noncontrolling interests

\$

49

\$

132

\$

17

\$

276

Page 10 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Changes in accumulated other comprehensive 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 September 30, 2019

Balance at beginning of period

\$

(136,021

)

\$

(1,313

)

\$

-

\$

(137,334

)

Amounts reclassified from accumulated

other comprehensive loss, net of tax

2,726

(157

)

-

2,569

Balance at end of period

\$

(133,295

)

\$

(1,470

)

\$

-

\$

(134,765

)

Three Months Ended September 30, 2018

Balance at beginning of period

\$

(124,798

)

\$

(1,085

)

\$

-

\$

(125,883

)

Other comprehensive earnings before
reclassifications, net of tax

-

365

-

365

Amounts reclassified from accumulated
other comprehensive loss, net of tax

4,027

-

-

4,027

Other comprehensive earnings, net of tax

4,027

365

-

4,392

Balance at end of period

\$

(120,771

)

\$

(720

)

\$

-

\$

(121,491

)

Nine Months Ended September 30, 2019

Balance at beginning of period

\$

(141,505

)

\$

(2,074

)

\$

-

\$

(143,579

)

Amounts reclassified from accumulated

other comprehensive loss, net of tax

8,210

604

-

8,814

Balance at end of period

\$

(133,295

)

\$

(1,470

)

\$

-

\$

(134,765

)

Nine Months Ended September 30, 2018

Balance at beginning of period

\$

(128,802

)

\$

(22

)

\$

(280

)

\$

(129,104

)

Other comprehensive loss before

reclassifications, net of tax

-

(698

)

-

(698

)

Amounts reclassified from accumulated

other comprehensive loss, net of tax

8,031

-

280

8,311

Other comprehensive earnings (loss), net of tax

8,031

(698

)

280

7,613

Balance at end of period

\$

(120,771

)

\$

(720

)

\$

-

\$

(121,491

)

Page 11 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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 September 30, 2019

Balance at beginning of period

\$

82,417

\$

-

\$

82,417

Tax effect of other comprehensive earnings

(899

)

-

(899

)

Balance at end of period

\$

81,518

\$

-

\$

81,518

Three Months Ended September 30, 2018

Balance at beginning of period

\$

78,619

\$

-

\$

78,619

Tax effect of other comprehensive earnings

(1,326

)
 -
 (1,326
)
 Balance at end of period
 \$
 77,293
 \$
 -
 \$
 77,293
 Nine Months Ended September 30, 2019
 Balance at beginning of period
 \$
 84,207
 \$
 -
 \$
 84,207
 Tax effect of other comprehensive earnings
 (2,689
)
 -
 (2,689
)
 Balance at end of period
 \$
 81,518
 \$
 -
 \$
 81,518
 Nine Months Ended September 30, 2018
 Balance at beginning of period
 \$
 79,938
 \$
 178
 \$
 80,116
 Tax effect of other comprehensive earnings

(2,645

)

(178

)

(2,823

)

Balance at end of period

\$

77,293

\$

-

\$

77,293

Page 12 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Reclassifications out of accumulated other comprehensive loss are as follows:

Three Months Ended

Nine Months Ended

Affected line items in the consolidated

September 30,

September 30,

statements of earnings and

2019

2018

2019

2018

comprehensive earnings

(Dollars in Thousands)

Pension and postretirement benefit

plans

Settlement expense

\$

-

\$

2,692

\$

-

\$
2,692
Amortization of:
Prior service credit
(188
)
(492
)
(566
)
(1,479
)
Actuarial loss
3,813
3,153
11,465
9,463
3,625
5,353
10,899
10,676
Other nonoperating (income) and expense, net
Tax benefit
(899
)
(1,326
)
(2,689
)
(2,645
)
Income tax expense
\$
2,726
\$
4,027
\$
8,210
\$
8,031
Unamortized value of terminated

forward starting interest rate

swap

Additional interest expense

\$

-

\$

-

\$

-

\$

458

Interest expense

Tax benefit

-

-

-

(178

)

Income tax expense

\$

-

\$

-

\$

-

\$

280

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 and nine months ended September 30, 2019 and 2018, 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.

Page 13 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

Three Months Ended

Nine Months Ended

September 30,

September 30,

2019

2018

2019

2018

(In Thousands)

Net earnings attributable to Martin Marietta

Materials, Inc.

\$

248,573

\$

180,221

\$

480,901

\$

375,621

Less: Distributed and undistributed earnings

attributable to unvested awards

345

271

886

672

Basic and diluted net earnings available to common

shareholders attributable to Martin Marietta

Materials, Inc.

\$

248,228

\$

179,950

\$

480,015

\$

374,949

Basic weighted-average common shares outstanding

62,510

62,932

62,552

62,970

Effect of dilutive employee and director awards

169

235

173

254

Diluted weighted-average common shares outstanding

62,679

63,167

62,725

63,224

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. Freight revenues reflect delivery arranged by the Company using a third party on behalf of the customer and are recognized consistently 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.

Future revenues from unsatisfied performance obligations at September 30, 2019 and 2018 were \$ 133.9 million and \$ 111.7 million, respectively, where the remaining periods to complete these obligations ranged from one month to 15 months and one month to 27 months, respectively.

Page 14 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

Three Months Ended

September 30, 2019

Products and Services

Freight

Total

(Dollars in Thousands)

Mid-America Group

\$

411,045
\$
37,713
\$
448,758
Southeast Group
129,619
4,519
134,138
West Group
723,162
49,311
772,473
Total Building Materials Business
1,263,826
91,543
1,355,369
Magnesia Specialties
59,334
5,543
64,877
Total
\$
1,323,160
\$
97,086
\$
1,420,246
Three Months Ended
September 30, 2018
Products and Services
Freight
Total
(Dollars in Thousands)
Mid-America Group
\$
348,429
\$
28,576
\$
377,005

Southeast Group

121,661

3,886

125,547

West Group

603,763

39,802

643,565

Total Building Materials Business

1,073,853

72,264

1,146,117

Magnesia Specialties

68,365

5,158

73,523

Total

\$

1,142,218

\$

77,422

\$

1,219,640

Service revenues, which include paving operations located in Colorado, were \$ 110.9 million and \$ 82.2 million for the three months ended September 30, 2019 and 2018, respectively.

Page 15 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Nine Months Ended

September 30, 2019

Products and Services

Freight

Total

(Dollars in Thousands)

Mid-America Group

\$

1,024,069

\$

88,828

\$
1,112,897
Southeast Group
376,967
13,432
390,399
West Group
1,797,677
122,505
1,920,182
Total Building Materials Business
3,198,713
224,765
3,423,478
Magnesia Specialties
198,886
16,304
215,190
Total
\$
3,397,599
\$
241,069
\$
3,638,668
Nine Months Ended
September 30, 2018
Products and Services
Freight
Total
(Dollars in Thousands)
Mid-America Group
\$
841,897
\$
64,480
\$
906,377
Southeast Group
308,306
10,443

318,749
 West Group
 1,672,707
 110,467
 1,783,174
 Total Building Materials Business
 2,822,910
 185,390
 3,008,300
 Magnesia Specialties
 201,390
 14,357
 215,747
 Total
 \$
 3,024,300
 \$
 199,747
 \$
 3,224,047

Service revenues for the nine months ended September 30, 2019 and 2018 were \$ 191.8 million and \$ 162.9 million, respectively.

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)

September 30, 2019

December 31, 2018

Costs in excess of billings

\$

7,725

\$

1,975

Billings in excess of costs

\$

8,021

\$

6,743

Revenues recognized from the beginning balance of contract liabilities for the three months ended September 30, 2019 and 2018 were \$ 8.0 million and \$ 6.2 million, respectively, and for the nine months ended September 30, 2019 and 2018 were \$ 6.5 million and \$ 6.8 million, respectively.

Retainage, which primarily relates to the paving services, represents amounts that have been billed to customers but payment withheld until final acceptance by the customer of the performance obligation. Included in other current assets on the Company's consolidated balance sheets, retainage was \$ 11.0 million and \$ 7.5 million at September 30, 2019 and December 31, 2018.

Page 16 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Warranties. The Company's construction contracts generally contain warranty provisions typically 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 and nine months ended September 30, 2019 and September 30, 2018.

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, as required by the accounting standard, the related revenues and costs are presented gross and are included in the consolidated statements of earnings.

3 .

Inventories, Net

September 30,

December 31,

2019

2018

(Dollars in Thousands)

Finished products

\$

605,912

\$

615,719

Products in process and raw materials

65,928

66,920

Supplies and expendable parts

142,032

139,566

813,872

822,205

Less: Allowances

(164,156

)

(159,170

)

Total

\$

649,716

\$

663,035

4 .

Long-Term Debt

September 30,

December 31,

2019

2018

(Dollars in Thousands)

4.25 % Senior Notes, due 2024

\$

396,849

\$

396,398

7 % Debentures, due 2025

124,343

124,272

3.450 % Senior Notes, due 2027

297,178

296,939

3.500 % Senior Notes, due 2027

495,136

494,765

6.25 % Senior Notes, due 2037

228,142

228,094

4.250 % Senior Notes, due 2047

591,669

591,541

Floating Rate Senior Notes, due 2019 , interest rate of 2.66 % and 3.29 %
at September 30, 2019 and December 31, 2018, respectively

299,820

299,260

Floating Rate Senior Notes, due 2020 , interest rate of 2.80 % and 3.30 %
at September 30, 2019 and December 31, 2018, respectively

299,508

298,956

Trade Receivable Facility, interest rate of 2.83 % and 3.07 % at
September 30, 2019 and December 31, 2018, respectively

190,000

390,000

Other notes

214

256

Total debt

2,922,859

3,120,481

Less: Current maturities of long-term debt and short-term
facilities

(190,044

)

(390,042

)

Long-term debt

\$

2,732,815

\$

2,730,439

Page 17 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The Company, through a wholly-owned special-purpose subsidiary, has a \$ 400 million trade receivable securitization facility (the Trade Receivable Facility). 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. 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 Interbank 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. On September 24, 2019, the Company extended the maturity of the Trade Receivable Facility to September 23, 2020.

The Company has a \$ 700 million five-year senior unsecured revolving facility (the Revolving Facility), which expires on December 5, 2023, 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. Borrowings under the Revolving Facility bear interest, at the Company's option, at rates based upon LIBOR or a base rate, plus, for each rate, a margin determined in accordance with a ratings-based pricing grid. There were no borrowings outstanding of the Revolving Facility at September 30, 2019 and December 31, 2018. 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 3.50 x 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 3.75 x. 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 million, such reduction not to exceed \$ 200 million, for purposes of the covenant calculation. The Company was in compliance with this Ratio at September 30, 2019.

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 \$ 2.3 million of outstanding letters of credit issued under the Revolving Facility at September 30, 2019 and December 31, 2018.

The Floating Rate Senior Notes due 2019 and Floating Rate Senior Notes due 2020 are classified as noncurrent long-term debt on the consolidated balance sheets as of September 30, 2019 and December 31, 2018 as the Company has the intent and ability to refinance the notes on a long-term basis.

5 .

Financial Instruments

The Company's financial instruments include cash equivalents, accounts receivable, notes receivable, 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. No single customer accounted for 10 % or more of consolidated total revenues. The estimated fair values of accounts receivable approximate their carrying amounts due to the short-term nature of the receivables.

Page 18 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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.

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.

The carrying values and fair values of the Company's long-term debt were \$ 2.92 billion and \$ 3.07 billion, respectively, at September 30, 2019 and \$ 3.12 billion and \$ 3.01 billion, respectively, at December 31, 2018. The estimated fair value of the publicly-registered long-term notes was estimated based on Level 2 of the fair value hierarchy using quoted market prices. The estimated fair value of other borrowings approximate their carrying amounts as the interest rates reset periodically.

6 .

Income Taxes

The effective income tax rate reflects the effect of federal and state income taxes on earnings and the impact of differences in book and tax accounting arising from the permanent tax benefits associated with the statutory depletion deduction for mineral reserves. For the nine months ended September 30, 2019, the lower effective income tax rate of 18.8 % is primarily attributable to a \$ 13.2 million discrete benefit from a change in the tax status of a subsidiary from a partnership to a corporation.

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.

7 .

Pension and Postretirement Benefits

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

Pension

Postretirement Benefits

Three Months Ended September 30,

2019

2018

2019

2018

(Dollars in Thousands)

Service cost

\$

7,711

\$

7,911

\$

15

\$

19

Interest cost

9,424

8,307

131

130

Expected return on assets

(11,929

)

(11,516

)

-

-

Amortization of:

Prior service cost (credit)

2

27

(190

)

(519

)

Actuarial loss (gain)

3,927

3,206

(114

)

(53

)

Settlement charge

-

2,692

-

-

Net periodic benefit cost (credit)

\$

9,135

\$

10,627

\$

(158

)

\$

(423

)

Page 19 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Pension

Postretirement Benefits

Nine Months Ended September 30,

2019

2018

2019

2018

(Dollars in Thousands)

Service cost

\$

23,133

\$

23,732

\$
 44
 \$
 58
 Interest cost
 28,280
 24,921
 437
 389
 Expected return on assets
 (35,864
)
 (34,549
)
 -
 -
 Amortization of:
 Prior service cost (credit)
 5
 77
 (571
)
 (1,556
)
 Actuarial loss (gain)
 11,852
 9,621
 (387
)
 (158
)
 Settlement charge
 -
 2,692
 -
 -
 Net periodic benefit cost (credit)
 \$
 27,406
 \$
 26,494

\$
(477
)
\$
(1,267
)

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. All other components are included in other nonoperating income, net, in the consolidated statements of earnings and comprehensive earnings.

In the quarter ended September 30, 2019, the Company made \$ 50 million of discretionary contributions to its qualified pension plan. No additional contributions to the qualified pension plan are expected to be made for the remainder of 2019. The Company currently estimates that it will contribute a total of \$ 7.5 million for the year ending December 31, 2019 to satisfy required payments under the unfunded nonqualified pension plans.

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 \$ 15.5 million revolving line of credit agreement with BB&T, of which \$ 12.2 million was outstanding as of September 30, 2019 and has 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 \$ 6.0 million interest-only loan, due December 31, 2022 , outstanding from this unconsolidated affiliate as of September 30, 2019 and December 31, 2018. The interest rate is one-month LIBOR plus a current spread of 1.75 %.

Letters of Credit

In the normal course of business, the Company provides certain third parties with standby letter of credit agreements guaranteeing its payment for certain insurance claims, contract performance and permit requirements. At

Page 20 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

September 30, 2019 , the Company was contingently liable for \$ 35.3 million in letters of credit, of which \$ 2.3 million were issued under the Company's Revolving Facility .

Employees

The Company maintains collective bargaining agreements relating to the union employees within the Building Materials business and Magnesia Specialties segment. Of the Magnesia Specialties segment, 100 % of its hourly employees are represented by labor unions. The Woodville collective bargaining agreement expires June 2022 . The Manistee collective bargaining agreement expires in August 2023 .

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, net; 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, net; 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 are held at Corporate.

The following table displays selected financial data for the Company's reportable business segments. The Bluegrass Materials Company (Bluegrass) operations, acquired in April 2018, are located in the Mid-America Group and Southeast Group. Total revenues, as presented on the consolidated statements of earnings and comprehensive earnings, exclude intersegment revenues which represent sales from one segment to another segment, which are eliminated.

Page 21 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Three Months Ended

Nine Months Ended

September 30,

September 30,

2019

2018

2019

2018

(Dollars in Thousands)

Total revenues :

Mid-America Group

\$

448,758

\$

377,005

\$

1,112,897

\$

906,377

Southeast Group

134,138

125,547

390,399

318,749
West Group
772,473
643,565
1,920,182
1,783,174
Total Building Materials Business
1,355,369
1,146,117
3,423,478
3,008,300
Magnesia Specialties
64,877
73,523
215,190
215,747
Total
\$
1,420,246
\$
1,219,640
\$
3,638,668
\$
3,224,047
Products and services revenues:
Mid-America Group
\$
411,045
\$
348,429
\$
1,024,069
\$
841,897
Southeast Group
129,619
121,661
376,967
308,306
West Group

723,162
603,763
1,797,677
1,672,707
Total Building Materials Business
1,263,826
1,073,853
3,198,713
2,822,910
Magnesia Specialties
59,334
68,365
198,886
201,390
Total
\$
1,323,160
\$
1,142,218
\$
3,397,599
\$
3,024,300
Earnings (Loss) from operations :
Mid-America Group
\$
159,711
\$
120,344
\$
332,344
\$
235,221
Southeast Group
31,463
26,372
85,285
60,464
West Group
156,382
92,090

286,540
249,885
Total Building Materials Business

347,556

238,806

704,169

545,570

Magnesia Specialties

20,097

23,301

67,959

65,867

Corporate

(22,390

)

(21,445

)

(71,763

)

(67,741

)

Total

\$

345,263

\$

240,662

\$

700,365

\$

543,696

September 30, 2019

December 31, 2018

Assets employed:

(Dollars in Thousands)

Mid-America Group

\$

2,904,439

\$

2,788,454

Southeast Group

1,447,293

1,299,469
 West Group
 5,392,587
 4,989,639
 Total Building Materials Business
 9,744,319
 9,077,562
 Magnesia Specialties
 163,095
 156,106
 Corporate
 316,071
 317,751
 Total
 \$
 10,223,485
 \$
 9,551,419

Page 22 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(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. The Company's two cold mix asphalt plants have been reclassified from the asphalt and paving product line to the aggregates product line. These operations did not represent a material amount of product revenues and gross profit. Prior-year information has been reclassified to conform to the presentation of the Company's current reportable product lines.

Three Months Ended

Nine Months Ended

September 30,

September 30,

2019

2018

2019

2018

(Dollars in Thousands)

Total revenues:

Building Materials Business:

Products and services:

Aggregates

\$

818,693

\$

691,822

\$

2,121,443

\$

1,785,961

Cement

119,609

98,223

330,976

300,554

Ready mixed concrete

271,844

254,686

724,179

750,424

Asphalt and paving services

131,099

95,961

225,669

191,652

Less: interproduct revenues

(77,419

)

(66,839

)

(203,554

)

(205,681

)

Products and services

1,263,826

1,073,853

3,198,713

2,822,910

Freight

91,543

72,264
 224,765
 185,390
 Total Building Materials Business
 1,355,369
 1,146,117
 3,423,478
 3,008,300
 Magnesia Specialties:
 Products and services
 59,334
 68,365
 198,886
 201,390
 Freight
 5,543
 5,158
 16,304
 14,357
 Total Magnesia Specialties
 64,877
 73,523
 215,190
 215,747
 Total
 \$
 1,420,246
 \$
 1,219,640
 \$
 3,638,668
 \$
 3,224,047
 Gross profit (loss) :
 Building Materials Business:
 Products and services:
 Aggregates
 \$
 287,024
 \$
 209,666

\$
636,505
\$
461,912
Cement
48,519
32,543
104,526
97,582
Ready mixed concrete
28,948
20,632
62,454
66,226
Asphalt and paving services
31,102
25,022
38,519
35,191
Products and services
395,593
287,863
842,004
660,911
Freight
317
(47
)
378
432
Total Building Materials Business
395,910
287,816
842,382
661,343
Magnesia Specialties:
Products and services
23,997
26,823
79,816
76,756

Freight

(987

)

(1,076

)

(3,226

)

(3,280

)

Total Magnesia Specialties

23,010

25,747

76,590

73,476

Corporate

1,725

(579

)

1,446

4,474

Total

\$

420,645

\$

312,984

\$

920,418

\$

739,293

Page 23 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

11.

Leases

The Company has leases, primarily for equipment, railcars, fleet vehicles, office space, land and information technology equipment and software. The Company's leases have remaining lease terms of one year to 54 years, some of which may include options to extend the leases for up to 30 years , and some of which may include options to terminate the leases within one year .

Certain of the Company's lease agreements include payments based upon variable rates, including but not limited to hours

used, tonnage processed and factors related to indices. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The components of lease cost are as follows:

Three Months Ended

Nine Months Ended

September 30, 2019

September 30, 2019

(Dollars in Thousands)

Operating lease cost

\$

19,627

\$

59,024

Finance lease cost:

Amortization of right-of-use assets

755

2,325

Interest on lease liabilities

126

412

Variable lease cost

4,972

15,738

Short-term lease cost

8,897

25,157

Total lease cost

\$

34,377

\$

102,656

The balance sheet classifications of operating and finance leases are as follows:

September 30, 2019

(Dollars in Thousands)

Operating Leases:

Operating lease right-of-use assets

\$

484,853

Current operating lease liabilities

\$

51,751

Noncurrent operating lease liabilities

436,698

Total operating lease liabilities

\$

488,449

Finance Leases:

Property, plant and equipment

\$

10,800

Accumulated depreciation

(2,325

)

Property, plant and equipment, net

\$

8,475

Other current liabilities

\$

3,058

Other noncurrent liabilities

6,473

Total finance lease liabilities

\$

9,531

Page 24 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The estimated incremental borrowing rate range used was 3.5 % to 5.5 %. Weighted-average remaining lease terms and discount rates are as follows:

September 30, 2019

Weighted-average remaining lease term (years):

Operating leases

14.7

Finance leases

8.7

Weighted-average discount rate:

Operating leases

4.3

%

Finance leases

5.2

%

Future lease payments under leases as of September 30, 2019 are as follows:

Operating

Finance

Leases

Leases

(Dollars in Thousands)

2019

\$

18,253

\$

948

2020

68,838

3,196

2021

56,568

1,951

2022

51,600

1,094

2023

47,934

779

Thereafter

434,190

4,177

Total lease payments

677,383

12,145

Less: imputed interest

(188,934

)

(2,614

)

Present value of lease payments

488,449

9,531

Less: current lease obligations

(51,751

)

(3,058

)

Total long-term lease obligations

\$

436,698

\$

6,473

The following tables present supplemental cash flow and non-cash information related to leases:

September 30, 2019

(Dollars in Thousands)

Cash paid for amounts included in the measurement
of lease liabilities:

Operating cash flows used for operating leases

\$

57,193

Operating cash flows used for finance leases

\$

412

Financing cash flows used for finance leases

\$

2,651

Page 25 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Three Months Ended

Nine Months Ended (1)

September 30, 2019

September 30, 2019

(Dollars in Thousands)

Right-of-use assets obtained in exchange for new
operating lease liabilities

\$

11,034

\$

36,369

Right-of-use assets obtained in exchange for
new finance lease liabilities

\$

-

\$

217

(1)

Right-of-use assets obtained in exchange for new operating lease liabilities for the nine months ended September 30, 2019 exclude assets recorded on the balance sheet as part of the adoption of ASC 842 as disclosed in Note 1.

Leases entered into but not yet commenced for the quarter ended September 30, 2019 were immaterial.

Lease disclosures for the full year December 31, 2018, as reported:

Total lease expense for operating leases was \$ 122.5 million for the year ended December 31, 2018. Total royalties, principally for leased properties, were \$ 52.5 million, for the year ended December 31, 2018. The Company also has capital lease obligations for machinery and equipment. Future minimum lease and royalty commitments for all noncancelable agreements and capital lease obligations as of December 31, 2018 were as follows:

Capital

Leases

Operating Leases

Royalty Commitments

(Dollars in Thousands)

2019

\$

3,718

\$

105,955

\$

14,614

2020

2,695

70,478

11,364

2021

1,735

60,382

10,335

2022

1,004

57,531

9,545

2023

713

56,511

8,109

Thereafter

3,893

318,147

65,981

Total

13,758

\$

669,004

\$

119,948

Less: imputed interest

(2,879

)

Present value of minimum lease payments

10,879

Less: current capital lease obligations

(3,249

)

Long-term capital lease obligations

\$

7,630

12 .

Supplemental Cash Flow Information

Noncash investing and financing activities are as follows:

September 30,

2019

2018

(Dollars in Thousands)

Noncash investing and financing activities:

Accrued liabilities for purchases of property, plant and equipment

\$

28,840

\$

24,930

Acquisition of assets through swap

\$

1,114

\$

-

Acquisition of assets through capital lease

\$

-

\$

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Supplemental disclosures of cash flow information are as follows:

September 30,

2019

2018

(Dollars in Thousands)

Cash paid for interest

\$

82,268

\$

84,522

Cash paid for income taxes

\$

62,151

\$

7,253

13.

Bluegrass Acquisition

In April 2018, the Company acquired Bluegrass, the largest privately-held, pure-play aggregates company in the United States for \$ 1.62 billion. These operations complement the Company's existing southeastern footprint in its Mid-America and Southeast Groups and provide new growth platforms within Maryland and Kentucky.

The Company determined fair values of the assets acquired and liabilities assumed and the measurement period is closed as of April 2019. The following is a summary of the fair values of the assets acquired and the liabilities assumed as of the acquisition date (dollars in thousands):

Assets:

Cash

\$

1,159

Receivables

25,479

Inventory

46,635

Other current assets

1,029

Property, plant and equipment

1,519,289

Intangible assets, other than goodwill

20,150

Goodwill

242,981

Total assets

1,856,722

Liabilities:

Accounts payable and accrued expenses

17,914

Deferred income tax liabilities, net

212,450

Noncontrolling interest

9,001

Total liabilities

239,365

Total consideration

\$

1,617,357

Total revenues and earnings from operations attributable to Bluegrass, included in the consolidated earnings statements, for the three months ended September 30, 2019 were \$ 79.5 million and \$ 31.1 million, respectively, and for the nine months ended September 30, 2019 were \$ 202.7 million and \$ 60.6 million, respectively. Total revenues and earnings from operations attributable to Bluegrass in 2018 for the three months ended September 30, 2018 were \$ 68.7 million and \$ 11.5 million, respectively, and for the nine months ended September 30, 2018 were \$ 115.0 million and \$ 18.3 million, respectively.

The unaudited pro forma financial information summarizes the combined results of operations for the Company and Bluegrass as though the companies were combined as of January 1, 2017. The pro forma earnings does not reflect any cost savings or associated costs to achieve such savings from operating efficiencies or synergies that result from the combination. Consistent with the assumed acquisition date of January 1, 2017, expenses related to the acquisition are considered to have been incurred for the year ended December 31, 2017. The pro forma financial information does

Page 27 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(UNAUDITED) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

not purport to project the future financial position or operating results of the combined company. The pro forma financial information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of 2017.

The following presents pro forma results for the period ended September 30, 2018 (dollars in thousands, except per share data):

Total revenues

\$

3,279,455

Net earnings attributable to Martin Marietta

\$

399,113

Diluted EPS

\$

6.31

14.

Other Operating Income, Net

Other operating income, net, for the quarter ended September 30, 2018, includes a \$ 7.1 million asset and portfolio rationalization charge, which primarily consists of asset impairment charges and severance costs in the Company's Southwest ready mixed concrete operations, reported in the West Group reportable segment. For the nine months ended September 30, 2018, in addition to the asset and portfolio rationalization charge, other operating expenses and income, net, reflects a net gain on legal settlements of \$ 7.7 million and a gain on the sale of surplus land of \$ 16.9 million.

Page 28 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

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 more than 300 quarries, mines and distribution yards in 27 states, Canada and the Bahamas. 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, Pennsylvania, South Carolina, Virginia, Washington and West Virginia

Alabama, Florida,

Georgia, southwestern South Carolina, 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

Modes of Transportation

Truck and Railcar

Truck, Railcar and Ship

Truck and Railcar

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, 2018. There were no changes to the Company's critical accounting policies during the nine months ended September 30, 2019. Other than the required adoption of Accounting Standards Codification 842 - Leases (ASC 842), 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, 2018.

Page 29 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(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. Due to 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, depletion and amortization, the earnings/loss from nonconsolidated equity affiliates, Bluegrass acquisition-related expenses, net, the impact of selling acquired inventory after its markup to fair value as part of acquisition accounting and the asset and portfolio rationalization charge (Adjusted EBITDA) is an indicator used by the Company and investors to evaluate the Company's operating performance from period to period. Adjusted 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 Adjusted 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 Adjusted EBITDA excludes some, but not all, items that affect net earnings and may vary among companies, Adjusted EBITDA as 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 Adjusted EBITDA is as follows:

Three Months Ended

Nine Months Ended

September 30,

September 30,

2019

2018 (1)

2019

2018 (1)

(Dollars in Thousands)

Net Earnings Attributable to Martin Marietta

Materials, Inc.

\$

248,573

\$

180,221

\$

480,901

\$

375,621

Add back:

Interest expense

32,321

35,468

98,366

103,526

Income tax expense for controlling interests

66,143

29,051

111,019

84,070

Depreciation, depletion and amortization and

earnings/loss from nonconsolidated equity

affiliates

92,034

84,345

285,483

240,228

Bluegrass acquisition-related expenses, net

-

89

-

12,925

Impact of selling acquired inventory after markup
to fair value as part of acquisition accounting

-

8,349

-

18,516

Asset and portfolio rationalization charges

-

7,113

-

7,113

Consolidated Adjusted EBITDA

\$

439,071

\$

344,636

\$

975,769

\$

841,999

(1)

The calculation of Adjusted EBITDA was modified in 2019. 2018 amounts have been calculated consistently with the 2019 presentation.

Page 30 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

Significant items for the quarter ended September 30, 2019 (unless noted, all comparisons are versus the prior-year quarter):

Consolidated total revenues of \$1.42 billion compared with \$1.22 billion, an increase of 16%

Building Materials business products and services revenues of \$1.26 billion compared with \$1.07 billion and Magnesia
Specialties products revenue of \$59.3 million compared with \$68.4 million

Consolidated gross profit of \$420.6 million compared with \$313.0 million, an increase of 34%

Consolidated earnings from operations of \$345.3 million compared with \$240.7 million, an increase of 44%

Net earnings attributable to Martin Marietta of \$248.6 million compared with \$180.2 million

Consolidated Adjusted EBITDA of \$439.1 million compared with \$344.6 million

Earnings per diluted share of \$3.96 compared with \$2.85

The following tables present total revenues, gross profit (loss), selling, general and administrative (SG&A) expenses and earnings (loss) from operations data for the Company and its reportable segments by product line for the three months ended September 30, 2019 and 2018. In each case, the data is stated as a percentage of revenues of the Company or the relevant segment or product line, as the case may be. The aggregates products gross profit rollforward is presented following the gross profit table. In 2019, the Company reclassified its two cold mix asphalt plants from the asphalt and paving product line to the aggregates product line as they display characteristics more similar to aggregates than asphalt products. These operations did not represent a material amount of product revenues or gross profit. Prior-year information has been reclassified to conform to the presentation of the Company's current reportable product lines.

Page 31 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

Three Months Ended September 30,

2019

2018

Amount

% of Revenues

Amount

% of Revenues

(Dollars in Thousands)

Total revenues:

Building Materials Business:

Products and services

Mid-America Group

Aggregates

\$

411,045

100.0

\$

348,429

100.0

Southeast Group

Aggregates

129,619

100.0

121,661

100.0

West Group	
Aggregates	
278,029	
100.0	
221,732	
100.0	
Cement	
119,609	
100.0	
98,223	
100.0	
Ready mixed concrete	
271,844	
100.0	
254,686	
100.0	
Asphalt and paving	
131,099	
100.0	
95,961	
100.0	
Less: Interproduct revenues	
(77,419	
)	
(66,839	
)	
West Group Total	
723,162	
100.0	
603,763	
100.0	
Products and services	
1,263,826	
100.0	
1,073,853	
100.0	
Freight	
91,543	
72,264	
Total Building Materials Business	
1,355,369	

100.0

1,146,117

100.0

Magnesia Specialties Business:

Products

59,334

100.0

68,365

100.0

Freight

5,543

5,158

Total Magnesia Specialties Business

64,877

100.0

73,523

100.0

Total

\$

1,420,246

100.0

\$

1,219,640

100.0

Page 32 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

Three Months Ended September 30,

2019

2018

Amount

% of Revenues

Amount

% of Revenues

(Dollars in Thousands)

Gross profit (loss):

Building Materials Business:

Products and services

Mid-America Group

Aggregates

\$

174,121

42.4

\$

131,072

37.6

Southeast Group

Aggregates

37,099

28.6

30,899

25.4

West Group

Aggregates

75,804

27.3

47,695

21.5

Cement

48,519

40.6

32,543

33.1

Ready mixed concrete

28,948

10.6

20,632

8.1

Asphalt and paving

31,102

23.7

25,022

26.1

West Group Total

184,373

25.5

125,892

20.9
 Products and services
 395,593
 31.3
 287,863
 26.8
 Freight
 317
 (47
)
 Total Building Materials Business
 395,910
 29.2
 287,816
 25.1
 Magnesia Specialties Business:
 Products
 23,997
 40.4
 26,823
 39.2
 Freight
 (987
)
 (1,076
)
 Total Magnesia Specialties Business
 23,010
 35.5
 25,747
 35.0
 Corporate
 1,725
 (579
)
 Total
 \$
 420,645
 29.6
 \$
 312,984

25.7

Aggregates Products Gross Profit Rollforward

The following presents a rollforward of aggregates products gross profit (dollars in thousands):

Aggregates products gross profit, quarter ended September 30, 2018

\$

209,666

Volume

42,079

Pricing

40,876

Operational performance (1)

(5,597

)

Change in aggregates products gross profit

77,358

Aggregates products gross profit, quarter ended September 30, 2019

\$

287,024

(1)

Inclusive of cost increases/decreases, product and geographic mix and other operating impacts

Page 33 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

Three Months Ended September 30,

2019

2018

Amount

% of

Revenues

Amount

% of

Revenues

(Dollars in Thousands)

Selling, general & administrative expenses:

Building Materials Business:

Mid-America Group

\$
16,023
\$
14,113
Southeast Group
5,287
4,440
West Group
29,285
26,600
Total Building Materials Business
50,595
45,153
Magnesia Specialties
2,856
2,404
Corporate
24,830
20,884
Total
\$
78,281
5.5
\$
68,441
5.6
Earnings (Loss) from operations:
Building Materials Business:
Mid-America Group
\$
159,711
\$
120,344
Southeast Group
31,463
26,372
West Group
156,382
92,090
Total Building Materials Business
347,556

238,806

Magnesia Specialties

20,097

23,301

Corporate

(22,390

)

(21,445

)

Total

\$

345,263

24.3

\$

240,662

19.7

Page 34 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

Building Materials Business

The following tables present aggregates products volume and pricing variance data and shipments data by segment:

Three Months Ended

September 30, 2019

Volume

Pricing

Volume/Pricing variance (1)

Mid-America Group

14.0

%

3.5

%

Southeast Group

0.8

%

5.7

%

West Group

14.8

%

9.2

%

Total Aggregates Operations (2)

12.4

%

5.3

%

Three Months Ended

September 30,

2019

2018

(Tons in Thousands)

Shipments

Mid-America Group

29,851

26,194

Southeast Group

7,209

7,151

West Group

19,609

17,086

Total Aggregates Operations (2)

56,669

50,431

(1) Volume/pricing variances reflect the percentage increase/(decrease) from the comparable period in the prior year.

(2) Total aggregates operations include acquisitions from the date of acquisition and divestitures through the date of disposal.

Page 35 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

The following table presents shipments data for the Building Materials business by product line.

Three Months Ended

September 30,

2019

2018

Shipments

Aggregates (in thousands):

Tons to external customers

53,580

47,549

Internal tons used in other product lines

3,089

2,882

Total aggregates tons

56,669

50,431

Cement (in thousands):

Tons to external customers

733

587

Internal tons used in ready mixed concrete

327

292

Total cement tons

1,060

879

Ready Mixed Concrete (in thousands of cubic yards)

2,433

2,232

Asphalt (in thousands):

Tons to external customers

400

287

Internal tons used in paving business

936

709

Total asphalt tons

1,336

996

The average selling price by product line for the Building Materials business is as follows:

Three Months Ended

September 30,

2019

2018

% Change

Aggregates (per ton)

\$

14.37

\$

13.65

5.3

%

Cement (per ton)

\$

112.36

\$

110.63

1.6

%

Ready Mixed Concrete (per cubic yard)

\$

109.72

\$

112.14

(2.2

)%

Asphalt (per ton)

\$

46.67

\$

45.17

3.3

%

Aggregates Product Line End-Use Markets

Aggregates shipments to the infrastructure market increased 7%. As expected, transportation-related projects accelerated during the quarter, supported by funding provided by the Fixing America's Surface Transportation Act (FAST Act) and numerous state and local transportation initiatives and continued reconstruction efforts following flooding in the Midwest. For the quarter, the infrastructure market represented 38% of aggregates shipments, which is below the Company's most recent ten-year average of 46%.

Aggregates shipments to the nonresidential market increased 19%, driven by gains in commercial and heavy industrial construction activity. The Company continued to benefit from distribution center, warehouse, data center and wind

Page 36 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

energy projects in key geographies, including Texas, the Carolinas, Iowa and Maryland, as well as the early phases of several large energy-sector projects along the Gulf Coast. The nonresidential market represented 34 % of third-quarter aggregates shipments.

Aggregates shipments to the residential market increased 16%, driven by continued homebuilding activity in states such as Texas, Colorado, the Carolinas, Georgia and Florida. The residential construction outlook across the Company's geographic footprint remains positive for both single- and multi-family housing, driven by favorable demographics, job growth, land availability, low interest rates and efficient permitting. On a national level, housing starts remain below the 50-year annual average of 1.5 million despite notable population gains. The residential market accounted for 22% of third-quarter aggregates shipments.

The ChemRock/Rail market accounted for the remaining 6% of third-quarter aggregates shipments. Volumes to this end use increased 4%, driven by improved ballast shipments as the western Class 1 railroads continued to address repairs from the Midwest flooding earlier in the year.

Building Materials Business Product Lines

Aggregates product gross margin expanded 480 basis points to 35.1%, reflecting pricing gains, improved operating leverage from increased shipment and production levels and the absence of the \$8.3 million negative impact of selling acquired inventory after its markup to fair value as part of acquisition accounting incurred in 2018 as part of the Company's purchase of Bluegrass Materials.

Third-quarter cement shipments increased 20.6%, driven by strong underlying Texas demand and weather-deferred projects from second-quarter 2019. Unfavorable product mix constrained pricing growth to 1.6%. Production efficiencies from increased shipment and production levels, coupled with lower maintenance costs, contributed to the 750-basis-point expansion in cement product gross margin to 40.6%.

Ready mixed concrete shipments increased 9.0% and benefitted from healthy demand environments in Texas and Colorado and weather-impacted carryover projects. Ready mixed concrete selling prices declined 2.2%, reflecting unfavorable product mix. Gross margin improvement in ready mixed concrete was due to increased shipments and production efficiencies. Asphalt volume increased 34.1% attributable to favorable weather enabling commencement of delayed residential construction. Asphalt prices increased 3.3%.

Magnesia Specialties Business

Magnesia Specialties product revenues decreased 13.2% to \$59.3 million, compared with \$68.4 million, as international chemicals and domestic lime customers rationalized inventory levels. Product gross profit was \$24.0 million compared with \$26.8 million. Product gross margin improved 120 basis points to 40.4% due to lower costs for contract services and supplies and enhanced cost control measures. Earnings from operations were \$20.1 million compared with \$23.3 million.

Consolidated Operating Results

Consolidated SG&A was 5.5% of total revenues compared with 5.6% in the prior-year quarter. The dollar increase in expense is driven by higher incentive compensation expense, reflecting the Company's improved operating results. Earnings from operations for the quarter were \$345.3 million in 2019 compared with \$240.7 million in 2018.

Among other items, other operating income and expenses, net, includes gains and losses on the sale of assets; recoveries and writeoffs related to customer accounts receivable; rental, royalty and services income; accretion expense, depreciation expense and gains and losses related to asset retirement obligations. For the third quarter, consolidated

Page 37 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

other operating income and expenses, net, was income of \$2.9 million in 2019 and expense of \$3.8 million in 2018. The 2018 amount reflects \$7.1 million of asset and portfolio rationalization charges which primarily consists of asset impairment charges and severance costs in the Company's Southwest ready mixed concrete operations, reported in the West Group reportable segment.

Other nonoperating income and expenses, net, includes interest income; pension and postretirement benefit cost, excluding service cost; foreign currency transaction gains and losses; equity in earnings or losses of nonconsolidated affiliates and other miscellaneous income. For the third quarter, other nonoperating income, net, was income of \$2.0 million and \$4.2 million in 2019 and 2018, respectively.

Significant items for the nine months ended September 30, 2019 (unless noted, all comparisons are versus the prior-year period):

Consolidated total revenues of \$3.64 billion compared with \$3.22 billion, an increase of 13%

Building Materials business products and services revenues of \$3.20 billion compared with \$2.82 billion and Magnesia Specialties products revenue of \$198.9 million compared with \$201.4 million

Consolidated gross profit of \$920.4 million compared with \$739.3 million, an increase of 25%

Consolidated earnings from operations of \$700.4 million compared with \$543.7 million, an increase of 29%

Net earnings attributable to Martin Marietta of \$480.9 million compared with \$375.6 million

Consolidated Adjusted EBITDA of \$975.8 million compared with \$842.0 million

Earnings per diluted share of \$7.65 compared with \$5.93

The following tables present total revenues, gross profit (loss), SG&A expenses and earnings (loss) from operations data for the Company and its reportable segments by product line for the nine months ended September 30, 2019 and 2018. In each case, the data is stated as a percentage of revenues of the Company or the relevant segment or product line, as the case may be. The aggregates products gross profit rollforward is presented following the gross profit table. In 2019, the Company reclassified its two cold mix asphalt plants to the aggregates product line as they display characteristics more similar to aggregates than asphalt products. These operations were not material to product revenues or gross profit. Prior-year information has been reclassified to conform to the presentation of the Company's current reportable product lines.

Page 38 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

Nine Months Ended September 30,

2019

2018

Amount

% of Revenues

Amount

% of Revenues

(Dollars in Thousands)

Total revenues:

Building Materials Business:

Products and services

Mid-America Group

Aggregates

\$

1,024,069

100.0

\$

841,897

100.0

Southeast Group

Aggregates

376,967

100.0

308,306

100.0

West Group

Aggregates

720,407

100.0

635,758

100.0

Cement

330,976

100.0

300,554

100.0

Ready mixed concrete

724,179

100.0

750,424

100.0

Asphalt and paving

225,669

100.0

191,652

100.0

Less: Interproduct revenues

(203,554

)

(205,681

)

West Group Total

1,797,677

100.0

1,672,707

100.0

Products and services

3,198,713

100.0

2,822,910

100.0

Freight

224,765

185,390

Total Building Materials Business

3,423,478

100.0

3,008,300

100.0

Magnesia Specialties:

Products

198,886

100.0

201,390

100.0

Freight

16,304

14,357

Total Magnesia Specialties Business

215,190

100.0

215,747

100.0

Total

\$

3,638,668

100.0

\$

3,224,047

100.0

Page 39 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

Nine Months Ended September 30,

2019

2018

Amount

% of Revenues

Amount

% of Revenues

(Dollars in Thousands)

Gross profit (loss):

Building Materials Business:

Products and services

Mid-America Group

Aggregates

\$

374,849

36.6

\$

270,270

32.1

Southeast Group

Aggregates

101,684

27.0

57,543

18.7

West Group

Aggregates

159,972

22.2

134,099

21.1

Cement

104,526

31.6

97,582

32.5
Ready mixed concrete
62,454
8.6
66,226
8.8
Asphalt and paving
38,519
17.1
35,191
18.4
West Group Total
365,471
20.3
333,098
19.9
Products and services
842,004
26.3
660,911
23.4
Freight
378
432
Total Building Materials Business
842,382
24.6
661,343
22.0
Magnesia Specialties:
Products
79,816
40.1
76,756
38.1
Freight
(3,226
)
(3,280
)
Total Magnesia Specialties Business

76,590

35.6

73,476

34.1

Corporate

1,446

4,474

Total

\$

920,418

25.3

\$

739,293

22.9

Aggregates Products Gross Profit Rollforward

The following presents a rollforward of aggregates products gross profit (dollars in thousands):

Aggregates products gross profit, nine months ended September 30, 2018

\$

461,912

Volume

121,578

Pricing

79,069

Operational performance (1)

(26,054

)

Change in aggregates products gross profit

174,593

Aggregates products gross profit, nine months ended September 30, 2019

\$

636,505

(1)

Inclusive of cost increases/decreases, product and geographic mix and other operating impacts

Page 40 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

Nine Months Ended September 30,
2019

2018

Amount

% of Total Revenues

Amount

% of Total Revenues

(Dollars in Thousands)

Selling, general & administrative expenses:

Building Materials Business:

Mid-America Group

\$

47,158

\$

41,260

Southeast Group

16,040

13,689

West Group

86,280

79,892

Total Building Materials Business

149,478

134,841

Magnesia Specialties

8,518

7,512

Corporate

70,959

67,279

Total

\$

228,955

6.3

\$

209,632

6.5

Earnings (Loss) from operations:

Building Materials Business:

Mid-America Group

\$

332,344
 \$
 235,221
 Southeast Group
 85,285
 60,464
 West Group
 286,540
 249,885
 Total Building Materials Business
 704,169
 545,570
 Magnesia Specialties
 67,959
 65,867
 Corporate
 (71,763
)
 (67,741
)
 Total
 \$
 700,365
 19.2
 \$
 543,696
 16.9
 Building Materials Business
 The following tables present aggregates products volume and pricing variance data and shipments data by segment:
 Nine Months Ended
 September 30, 2019
 Volume
 Pricing
 Volume/Pricing variance (1)
 Mid-America Group
 19.2
 %
 1.9
 %
 Southeast Group
 15.9

%

5.4

%

West Group

7.4

%

5.5

%

Total Aggregates Operations (2)

14.2

%

3.9

%

Page 41 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

Nine Months Ended

September 30,

2019

2018

(Tons in Thousands)

Shipments

Mid-America Group

73,342

61,510

Southeast Group

20,819

17,967

West Group

53,042

49,389

Total Aggregates Operations (2)

147,203

128,866

(1) Volume/pricing variances reflect the percentage increase/(decrease) from the comparable period in the prior year.

(2) Total aggregates operations include acquisitions from the date of acquisition and divestitures through the date of disposal.

The following table presents shipments data for the Building Materials business by product line.

Nine Months Ended

September 30,

2019

2018

Shipments

Aggregates (in thousands):

Tons to external customers

139,423

120,713

Internal tons used in other product lines

7,780

8,153

Total aggregates tons

147,203

128,866

Cement (in thousands):

Tons to external customers

2,011

1,767

Internal tons used in ready mixed concrete

912

966

Total cement tons

2,923

2,733

Ready Mixed Concrete (in thousands of cubic yards)

6,530

6,799

Asphalt (in thousands):

Tons to external customers

666

601

Internal tons used in paving business

1,582

1,420

Total asphalt tons

2,248

2,021

Page 42 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

The average selling price by product line for the Building Materials business is as follows:

Nine Months Ended

September 30,

2019

2018

% Change

Aggregates (per ton)

\$

14.31

\$

13.78

3.8

%

Cement (per ton)

\$

112.53

\$

108.92

3.3

%

Ready Mixed Concrete (per cubic yard)

\$

108.75

\$

108.36

0.4

%

Asphalt (per ton)

\$

46.83

\$

44.98

4.1

%

Aggregates Product Line End-Use Markets

For the nine months ended September 30, 2019, aggregates shipments to the infrastructure market increased 6%, as improved weather, particularly along the eastern seaboard, allowed contractors to advance transportation-related projects. Funding provided by the FAST Act, combined with numerous state and local transportation initiatives, has resulted in an acceleration in lettings and contract awards in key states, including Texas, Colorado, North Carolina, Georgia, Florida, Maryland and Iowa. Additionally, the Midwest Division benefitted from shipments related to emergency flood repairs. Year-to-date infrastructure market represented 36% of aggregates shipments.

Aggregates shipments to the nonresidential end-use market increased 28%, driven by growth in the commercial and heavy industrial markets. Notably, the increase reflects robust distribution center, warehouse, data center, wind turbine and energy-sector projects in key geographies, including Texas, the Carolinas, Georgia and Iowa. The nonresidential market represented 36% of the first nine months of aggregates shipments.

Aggregates shipments to the residential market increased 13%, driven by weather-deferred homebuilding activity in key states where the Company operates, namely Texas, Colorado, the Carolinas, Iowa and Maryland. The residential market accounted for 22% of aggregates shipments for the nine months ended September 30, 2019.

The ChemRock/Rail market accounted for the remaining 6% of aggregates shipments. Volumes to this sector increased 4%, driven by improved ballast shipments.

Building Materials Business Product Lines

For the nine months ended September 30, 2019, aggregates shipments increased 14.2%, reflecting robust underlying demand as improved weather in key states enabled contractors to advance weather-deferred projects. Average selling price increased 3.9%. Product gross margin improvement is reflective of better operating leverage from increased shipments and production levels, pricing gains and the absence of the \$18.5 million negative impact of selling acquired inventory after its markup to fair value as part of acquisition accounting that occurred in 2018.

Cement shipments increased 6.9% for the nine months ended September 30, 2019, despite unfavorable weather to start the construction season in second quarter 2019. The increase in shipments for the nine months ended reflects healthy Texas demand and favorable weather during the third quarter allowing progress on delayed construction projects. Cement pricing improved 3.3%. Cement product gross margin declined 90 basis points, attributable to higher transportation and energy costs.

Ready mixed concrete shipments decreased 4% despite growing customer backlogs as unfavorable weather conditions in Texas and Colorado hindered construction activity in these states during the first half of the year. Ready mixed concrete pricing improved 0.4%. Ready mixed concrete product gross margin was relatively flat compared with the prior-year

Page 43 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

period. Asphalt shipments increased 11.2% notwithstanding the unfavorable weather conditions earlier in the year as strong bidding activity continued. Asphalt and paving gross margin declined 130 basis points to 17.1%, attributable to a 26% increase in raw material costs, notably liquid asphalt.

Magnesia Specialties Business

For the nine months ended September 30, 2019, Magnesia Specialties reported product revenues of \$198.9 million, a decrease of 1.2%, compared with \$201.4 million. Product gross profit was \$79.8 million compared with \$76.8 million. Product gross margin improved 200 basis points to 40.1%. Earnings from operations were \$68.0 million compared with \$65.9 million.

Consolidated Operating Results

For the nine months ended September 30, consolidated SG&A was 6.3% of total revenues in 2019 compared with 6.5% in 2018. Earnings from operations for the nine months ended September 30 were \$700.4 million in 2019 compared with \$543.7 million in 2018.

For the nine months ended September 30, consolidated other operating income and expenses, net, was income of \$9.1 million and \$27.0 million in 2019 and 2018, respectively. The 2019 amount reflects the reversal of \$6.9 million of accruals for sales tax and unclaimed property contingencies and higher gains on the sales of assets. The 2018 amount reflects nonrecurring gains on the sale of surplus land of \$16.9 million and net gain on litigation and related settlements of \$7.7 million, partially offset by \$7.1 million in asset and portfolio rationalization charge which primarily consists of asset impairment charges and severance costs in the Company's Southwest ready mixed concrete operations, reported in the West Group reportable segment.

For the nine months ended September 30, other nonoperating income and expenses, net, was an expense of \$9.7 million in 2019 and income of \$19.9 million in 2018. The expense in 2019 is attributable to a \$15.7 million (\$12.0 million net of tax) out-of-period correction of a Company-identified overstatement of the investment balance for a nonconsolidated equity affiliate. The 2018 income reflects interest income of \$6.8 million due to cash on hand prior to the closing of the Bluegrass acquisition and approximately \$10 million of income from nonconsolidated subsidiaries.

Income Tax Benefit

For the nine months ended September 30, 2019, the effective income tax rate includes a \$13.2 million discrete benefit from a change in the tax status of a subsidiary from a partnership to a corporation .

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended September 30, cash provided by operating activities was \$649.8 million in 2019 compared with \$441.5 million in 2018, driven by growth in earnings before noncash expenses and lower contributions to the Company's pension plan, partially offset by higher working capital related to increased product revenues. Operating cash flow is

Page 44 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

primarily derived from consolidated net earnings before deducting depreciation, depletion and amortization, and the impact of changes in working capital. Depreciation, depletion and amortization were as follows:

Nine Months Ended

September 30,

2019

2018

(Dollars in Thousands)

Depreciation

\$

234,341

\$

219,019

Depletion

27,353

20,576

Amortization

15,280

13,605
Total
\$
276,974
\$
253,200

The seasonal nature of construction activity impacts the Company's quarterly operating cash flow when compared with the full year. Full-year 2018 net cash provided by operating activities was \$705.1 million.

During the nine months ended September 30, 2019, the Company paid \$283.0 million for capital investments. Full-year capital spending is expected to range from \$375 million to \$400 million.

The Company can repurchase its common stock through open-market purchases pursuant to authority granted by its Board of Directors or through private transactions at such prices and upon such terms as the Chief Executive Officer deems appropriate. The Company repurchased 261,634 shares of common stock during the first nine months of 2019, at an aggregate cost of \$57.3 million. At September 30, 2019, 13,886,117 shares of common stock were remaining under the Company's repurchase authorization. Future share repurchases are at the discretion of management.

The Company has a \$700 million five-year senior unsecured revolving facility (the Revolving Facility), which expires on December 5, 2023. The Revolving Facility requires the Company's ratio of consolidated debt-to-consolidated EBITDA, as defined, for the trailing-twelve-month period (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 the quarter or the three preceding quarters so long as the Ratio calculated without such exclusion does not exceed 3.75x. Additionally, if there are no amounts outstanding under the Revolving Facility and the \$400 million trade receivable securitization facility (the Trade Receivable Facility) held by the Company's wholly-owned special-purpose subsidiary, 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 million, such reduction not to exceed \$200 million, for purposes of the covenant calculation.

The Ratio is calculated as debt, including debt for which the Company is a co-borrower, divided by consolidated EBITDA, as defined by the Company's Revolving Facility, for the trailing-twelve months. Consolidated EBITDA is generally defined as earnings before interest expense, income tax expense, and depreciation and amortization expense. Additionally, stock-based compensation expense is added back and interest income is deducted in the calculation of consolidated EBITDA. During periods that include an acquisition, pre-acquisition adjusted EBITDA of the acquired company is added to consolidated EBITDA as if the acquisition occurred on the first day of the calculation period. Certain other nonrecurring items, if they occur, can affect the calculation of consolidated EBITDA.

Page 45 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES
FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

At September 30, 2019, the Company's ratio of consolidated debt-to-consolidated EBITDA, as defined by the Company's Revolving Facility, for the trailing-twelve months was 2.32 times and was calculated as follows:

October 1, 2018 to

September 30, 2019

(Dollars in Thousands)

Earnings from continuing operations attributable to Martin Marietta

\$

575,278

Add back:

Income tax expense

132,586

Interest expense

132,223

Depreciation, depletion and amortization expense and noncash

nonconsolidated equity affiliate adjustment

378,205

Stock-based compensation expense

34,583

Acquisition-related expenses, net

664

Noncash portion of asset and portfolio rationalization charge

11,725

Deduct:

Interest income

(511

)

Consolidated EBITDA, as defined by the Company's Revolving Facility

\$

1,264,753

Consolidated net debt, as defined and including debt for which the

Company is a co-borrower, at September 30, 2019

\$

2,935,066

Consolidated debt-to-consolidated EBITDA, as defined by the Company's

Revolving Facility, at September 30, 2019 for the trailing-twelve

months EBITDA

2.32 times

The Trade Receivable Facility contains a cross-default provision to the Company's other debt agreements. In the event of a default on the Ratio, the lenders can terminate the Revolving Facility and Trade Receivable Facility and declare any outstanding balances as immediately due. Outstanding amounts on the Trade Receivable Facility have been classified as a current liability on the Company's consolidated balance sheet.

Cash on hand, along with the Company's projected internal cash flows and availability of financing resources, including its access to debt and equity capital markets, is expected to continue to be sufficient to provide the capital resources necessary to support anticipated operating needs, cover debt service requirements, address near-term debt maturities, meet capital expenditures and discretionary investment needs, fund certain acquisition opportunities that may arise, allow the repurchase of shares of the Company's common stock and allow for payment of dividends for the foreseeable future. Any future significant strategic acquisition for cash would likely require an appropriate balance of newly-issued equity with debt in order to maintain a composite investment-grade credit rating. At September 30, 2019, the Company had \$907.7 million of unused borrowing capacity under its Revolving Facility and Trade Receivable Facility, subject to complying with the related leverage covenant. The Revolving Facility expires on December 5, 2023. On September 24, 2019, the Company extended the maturity of its Trade Receivable Facility to September 23, 2020. The Company has \$300 million of floating rate senior notes due in

December 2019 and \$300 million of floating rate senior notes due in May 2020. Both notes are classified as long-term debt on the Company's September 30, 2019 balance sheet as the Company has the intent and ability to refinance the notes on a long-term basis.

Page 46 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

TRENDS AND RISKS

The Company outlined the risks associated with its business in its Annual Report on Form 10-K for the year ended December 31, 2018. Management continues to evaluate its exposure to all operating risks on an ongoing basis.

OUTLOOK

Based on current trends and expectations, management has raised its full-year 2019 guidance. Specifically, aggregates shipments by end-use market compared with 2018 levels are as follows:

-

Infrastructure shipments to increase in the high-single digits.

-

Nonresidential shipments to experience a double-digit increase.

-

Residential shipments to experience a double-digit increase.

-

ChemRock/Rail shipments to be up slightly.

OTHER MATTERS

If you are interested in Martin Marietta stock, management recommends that, at a minimum, you read the Company's current annual report and Forms 10-K, 10-Q and 8-K reports to the Securities and Exchange Commission (SEC) over the past year. The Company's recent proxy statement for the annual meeting of shareholders also contains important information. These and other materials that have been filed with the SEC are accessible through the Company's website at www.martinmarietta.com and are also available at the SEC's website at www.sec.gov. You may also write or call the Company's Corporate Secretary, who will provide copies of such reports.

Investors are cautioned that all statements in this Form 10-Q that relate to the future involve risks and uncertainties, and are based on assumptions that the Company believes in good faith are reasonable but which may be materially different from actual results. These statements, which are forward-looking statements under the Private Securities Litigation Reform Act of 1995, give the investor the Company's expectations or forecasts of future events. You can identify these statements by the fact that they do not relate only to historical or current facts. They may use words such as "anticipate," "expect," "should be," "believe," "will," and other words of similar meaning in connection with future events or future operating or financial performance. Any or all of management's forward-looking statements here and in other publications may turn out to be wrong.

The Company's outlook is subject to various risks and uncertainties, and is based on assumptions that the Company believes in good faith are reasonable but which may be materially different from actual results. Factors that the Company currently believes could cause actual results to differ materially from the forward-looking statements in this Form 10-Q (including the outlook) include, but are not limited to: the performance of the United States economy; shipment declines resulting from economic events beyond the Company's control; a widespread decline in aggregates pricing, including a decline in aggregates volume negatively affecting aggregates price; the history of both cement and ready mixed concrete being subject to significant changes in supply, demand and price fluctuations; the termination, capping and/or reduction or suspension of

the federal and/or state gasoline tax(es) or other revenue related to infrastructure construction; the level and timing of federal, state or local transportation or infrastructure projects funding, most particularly in Texas, Colorado, North Carolina, Georgia, Iowa and Maryland; the United States Congress' inability to reach agreement among themselves or with the current Administration on policy issues that impact the federal budget; the ability of states and/or other entities to finance approved projects either with tax revenues or alternative financing structures; levels of construction spending in the markets the Company serves; a reduction in defense spending and the subsequent impact on construction

Page 47 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

activity on or near military bases; a decline in the commercial component of the nonresidential construction market, notably office and retail space; a decline in energy-related construction activity resulting from a sustained period of low global oil prices or changes in oil production patterns in response to this decline, particularly in Texas; a slowdown in residential construction recovery; unfavorable weather conditions, particularly Atlantic Ocean and Gulf Coast hurricane activity, the late start to spring or the early onset of winter and the impact of a drought or excessive rainfall in the markets served by the Company, any of which can significantly affect production schedules, volumes, product and/or geographic mix and profitability; the volatility of fuel costs, particularly diesel fuel, and the impact on the cost, or the availability generally, of other consumables, namely steel, explosives, tires and conveyor belts, and with respect to the Company's Magnesita Specialties business, natural gas; continued increases in the cost of other repair and supply parts; construction labor shortages and/or supply chain challenges; unexpected equipment failures, unscheduled maintenance, industrial accident or other prolonged and/or significant disruption to production facilities; increasing governmental regulation, including environmental laws; transportation availability or a sustained reduction in capital investment by the railroads, notably the availability of railcars, locomotive power and the condition of rail infrastructure to move trains to supply the Company's Texas, Colorado, Florida, North Carolina and the Gulf Coast markets, including the movement of essential dolomitic lime for magnesita chemicals to the Company's plant in Manistee, Michigan and its customers; increased transportation costs, including increases from higher or fluctuating passed-through energy costs or fuel surcharges, and other costs to comply with tightening regulations, as well as higher volumes of rail and water shipments; availability of trucks and licensed drivers for transport of the Company's materials; availability and cost of construction equipment in the United States; weakening in the steel industry markets served by the Company's dolomitic lime products; a trade dispute with one or more nations impacting the U.S. economy, including the impact of tariffs on the steel industry; unplanned changes in costs or realignment of customers that introduce volatility to earnings, including that of the Magnesita Specialties business that is running at capacity; proper functioning of information technology and automated operating systems to manage or support operations; inflation and its effect on both production and interest costs; the concentration of customers in construction markets and the increased risk of potential losses on customer receivables; the impact of the level of demand in the Company's end-use markets, production levels and management of production costs on the operating leverage and therefore profitability of the Company; the possibility that the expected synergies from acquisitions will not be realized or will not be realized within the expected time period, including achieving anticipated profitability to maintain compliance with the Company's leverage ratio debt covenant; changes in tax laws, the interpretation of such laws and/or administrative practices that would increase the Company's tax rate; violation of the Company's debt covenant if price and/or volumes return to previous levels of instability; continued downward pressure on the Company's common stock price and its impact on goodwill impairment evaluations; the possibility of a reduction of the Company's credit rating to non-investment grade; and other risk factors listed from time to time found in the Company's filings with the SEC.

You should consider these forward-looking statements in light of risk factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 and other periodic filings made with the SEC. All of the Company's forward-looking statements should be considered in light of these factors. In addition, other risks and uncertainties not presently known to the Company or that the Company considers immaterial could affect the accuracy of its forward-looking

statements, or adversely affect or be material to the Company. The Company assumes no obligation to update any such forward-looking statements.

Page 48 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter September 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Third Quarter Ended September 30, 2019

(Continued)

INVESTOR ACCESS TO COMPANY FILINGS

Shareholders may obtain, without charge, a copy of Martin Marietta's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2018, by writing to:

Martin Marietta

Attn: Corporate Secretary

2710 Wycliff Road

Raleigh, North Carolina 27607-3033

Additionally, Martin Marietta's Annual Report, press releases and filings with the Securities and Exchange Commission, including Forms 10-K, 10-Q, 8-K and 11-K, can generally be accessed via the Company's website. Filings with the Securities and Exchange Commission accessed via the website are available through a link with the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. Accordingly, access to such filings is available upon EDGAR placing the related document in its database. Investor relations contact information is as follows:

Telephone: (919) 510-4776

Website address: www.martinmarietta.com

Information included on the Company's website is not incorporated into, or otherwise create a part of, this report.

Page 49 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company's operations are highly dependent upon the interest rate-sensitive construction and steelmaking industries. Consequently, these marketplaces could experience lower levels of economic activity in an environment of rising interest rates or escalating costs.

Management has considered the current economic environment and its potential impact to the Company's business. Demand for aggregates products, particularly in the infrastructure construction market, is affected by federal and state budget and deficit issues. Further, delays or cancellations of capital projects in the nonresidential and residential construction markets could occur if companies and consumers are unable to obtain financing for construction projects or if consumer confidence continues to be eroded by economic uncertainty.

Demand in the residential construction market is affected by interest rates. The Federal Reserve lowered interest rates during the quarter ended September 30, 2019. The federal funds rate at September 30, 2019 was 1.9%. The residential construction market accounted for 22% of the Company's aggregates shipments in 2018.

Aside from these inherent risks from within its operations, the Company's earnings are also affected by changes in short-term interest rates. However, rising interest rates are not necessarily predictive of weaker operating results. Historically, the Company's profitability increased during periods of rising interest rates. In essence, the Company's underlying business generally serves as a natural hedge to rising interest rates.

Variable-Rate Borrowing Facilities. At September 30, 2019, the Company had a \$700 million Revolving Facility and a \$400 million Trade Receivable Facility. The Company also has \$600 million variable-rate senior notes. Borrowings under these facilities bear interest at a variable interest rate. A hypothetical 100-basis-point increase in interest rates on borrowings of \$790 million, which was the collective outstanding balance at September 30, 2019, would increase interest expense by \$7.9 million on an annual basis.

Pension Expense. The Company's results of operations are affected by its pension expense. Assumptions that affect pension expense include the discount rate and, for the qualified defined benefit pension plan only, the expected long-term rate of return on assets. Therefore, the Company has interest rate risk associated with these factors. The impact of hypothetical changes in these assumptions on the Company's annual pension expense is discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Energy Costs . Energy costs, including diesel fuel, natural gas, coal and liquid asphalt, represent significant production costs of the Company. The cement operations and Magnesia Specialties business have fixed price agreements covering 100% of its 2019 coal requirements. Energy costs for the nine months ended September 30, 2019 increased approximately 0.7% over the prior-year period. A hypothetical 0.7% change in the Company's energy prices for the full year 2019 as compared with 2018, assuming constant volumes, would change full year 2019 energy expense by \$2.1 million.

Commodity Risk. Cement is a commodity and competition is based principally on price, which is highly sensitive to changes in supply and demand. Prices are often subject to material changes in response to relatively minor fluctuations in supply and demand, general economic conditions and other market conditions beyond the Company's control. Increases in the production capacity of industry participants or increases in cement imports tend to create an oversupply of such products leading to an imbalance between supply and demand, which can have a negative impact on product prices. There can be no assurance that prices for products sold will not decline in the future or that such declines will not have a material adverse effect on the Company's business, financial condition and results of operations. Assuming total revenues for cement for full-year 2019 of \$420 million to \$450 million, a hypothetical 10% change in sales price would impact total revenues by \$42.0 million to \$45.0 million.

Page 50 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

(Continued)

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As of September 30, 2019, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and the operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2019. There were no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Page 51 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

PART II- OTHER INFORMATION

Item 1. Legal Proceedings.

Certain legal proceedings in which we are involved are discussed in Note O to the consolidated financial statements and Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2018. See also Note 8 Commitments and Contingencies, Legal and Administrative Proceedings, of this Form 10-Q.

Item 1A. Risk Factors.

Reference is made to Part I. Item 1A. Risk Factors and Forward-Looking Statements of the Martin Marietta Annual Report on

Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds .

ISSUER PURCHASES OF EQUITY SECURITIES

Total Number of Shares

Maximum Number of

Purchased as Part of

Shares that May Yet

Total Number of

Average Price

Publicly Announced

be Purchased Under

Period

Shares Purchased

Paid per Share

Plans or Programs

the Plans or Programs

July 1, 2019 - July 31, 2019

-

\$

-

-

13,915,340

August 1, 2019 - August 31, 2019

26,223

\$

249.43

26,223

13,889,117

September 1, 2019 - September 30, 2019

3,000

\$

249.50

3,000

13,886,117

Reference is made to the press release dated February 10, 2015 for the December 31, 2014 fourth-quarter and full-year results and announcement of the share repurchase program. The Company's Board of Directors authorized a maximum of 20 million shares to be repurchased under the program. The program does not have an expiration date.

Item 4. Mine Safety Disclosures.

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104) is included in Exhibit 95 to this Quarterly Report on Form 10-Q.

Page 52 of 54

MARTIN MARIETTA MATERIALS, INC. AND CONSOLIDATED SUBSIDIARIES

FORM 10-Q

For the Quarter Ended September 30, 2019

PART II- OTHER INFORMATION

(Continued)

Item 6. Exhibits.

Exhibit No.

Document

10.01

Eleventh Amendment to Credit and Security Agreement, dated as of September 24, 2019, among Martin Marietta Funding LLC, as borrower, Martin Marietta Materials, Inc., as servicer, and SunTrust Bank, as lender together with the other lenders from time to time party thereto, and SunTrust Bank, as administrative agent for the lenders (incorporated by reference to Exhibit 10.01 to the Martin Marietta Materials, Inc. Current Report on Form 8-K, filed on September 24, 2019) (Commission File No. 1-12744)

31.01

Certification dated October 30, 2019 of Chief Executive Officer pursuant to Securities and Exchange Act of 1934 rule 13a-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.02

Certification dated October 30, 2019 of Chief Financial Officer pursuant to Securities and Exchange Act of 1934 rule 13a-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.01

Written Statement dated October 30 2019 of Chief Executive Officer required by 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.02

Written Statement dated October 30, 2019 of Chief Financial Officer required by 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

95

Mine Safety Disclosures

101.INS

Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

101.SCH

Inline XBRL Taxonomy Extension Schema Document

101.CAL

Inline XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB

Inline XBRL Taxonomy Extension Label Linkbase Document

101.PRE

Inline XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF

Inline XBRL Taxonomy Extension Definition Linkbase

104

Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

Page 53 of 54

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MARTIN MARIETTA MATERIALS, INC.

(Registrant)

Date: October 30, 2019

By:

/s/ James A. J. Nickolas

James A. J. Nickolas

Sr. Vice President and

Chief Financial Officer

Page 54 of 54