G&S

Gonzalez-Sanel Research

NORTH AMERICAN DIVISION
Max Sanel – max.sanel@yale.edu
Patricio Gonzalez – patricio.gonzalez@yale.edu

United States

Building Materials Industry

12 Month Rating	**BUY**
	Initiating Coverage
12 Month price target	US$ 121.48
	Prior: -
Current Price	US$ 79.75
Ticker: MLM US	
	October 28, 2010

Martin Marietta Materials

We are issuing a buy rating on Martin Marietta Materials Co. (NYSE: MLM) and we believe **the market is undervaluing the stock price**. After analysis we feel that **the fair 12 month target price is US$121.48 per share**. We believe in the short term the stock price will continue to be undervalued until the market regains confidence on the building materials industry. We put significant emphasis on MLM's risk factors in our analysis and we remain bullish on the stock.

We believe that federal spending will remain constant and that the current stimulus will fade in 2012. The state and local spending issue is more complex. As most states are dealing with budget concerns, **there could be a decrease in state infrastructure spending going forward**. According to The Fiscal Survey of States, 21 states will make or have made fiscal program cuts in transportation for 2010.

The private sector continues to stumble, only showing a slight uptick in **overall** construction values since the beginning of the year. **Our conclusion here is that MLM is highly dependent on public spending.** We expect this dependency will only increase if private construction weakens. **In terms of risk factors, a delay in stimulus or ongoing state fiscal troubles could have a significantly negative impact on MLM's sales.**

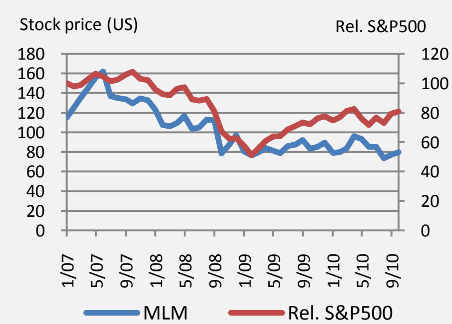
One final concern is the extended price softening on all of MLM's product lines. We believe that the main reason prices remained so elevated in the past involved the government as a major buyer in the market. As demand has fallen, firms have become much more competitive in both the public and private sectors. This delay or stickiness in pricing, along with continuing weak private sector demand, may indicate a lower price hangover for the next several quarters. With this in mind, **we do not expect prices to increase significantly until the private sector assumes a recovery.**

Our analysis factored in all risk factors above. **While these risks should cause concern, we believe the market is currently too pessimistic in regard to MLM's stock price.** Furthermore, we feel that there is significant opportunity for MLM to vertically integrate other product lines, for example cement, to expand their business.

Key Financial Data

Market Cap	US$3.63 B
52 wk range	US$71.50 – 100.73
Volume	93 ,306
Enterprise Value	US$4.68B
Price/Sales	2.14
Price/Book	2.65
EV/Revenues	2.74
EV/EBITDA	12.43
Total Debt	1.06B
Total Cash	32.10M
Shares o/s	45.52M

Stock Performance



Quarterly EPS

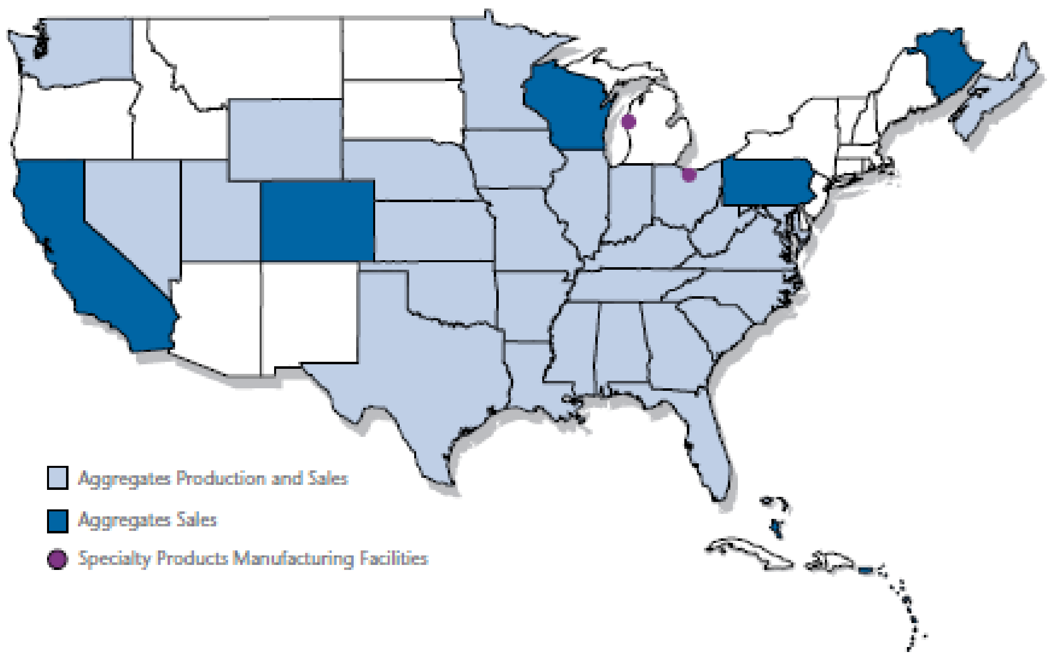
	1Q	2Q	3Q	4Q
2009A	($0.14)	$0.86	$1.23	($0.07)
2010E	($0.54)A	$1.16A	$1.32E	$0.61E

Please read the disclaimer at the end of this report for important information

Company Description

Martin Marietta Materials, Inc. (MLM) is a producer of aggregates for the construction industry, including infrastructure, commercial, agricultural and residential. The Company also manufactures and markets magnesia-based chemical products used in industrial, agricultural, and environmental applications and dolomitic lime sold primarily to customers in the steel industry. The Company operates in four business segments: the Mideast Group, Southeast Group, and West Group, collectively the Aggregates business, and the Specialty Products segment. During the year ended December 31, 2009, the Company's Aggregates business accounted for 84% of the Company's total net sales, and the Specialty Products segment accounted for 16% of the Company's total net sales. MLM is considered a pure play aggregates player.

Exhibit 1
Martin Marietta Materials U.S. Geographic Footprint



Source: MLM Company

MLM has 13.5 billion tons of aggregates reserves, which are valued approximately at $9.7 billion. This amount of reserves accounts for 109 years of production available. The company has grown its aggregates base through 69 acquisitions in 15 years. Today the firm has 289 operating facilities. There are substantial barriers to entry to the aggregates industry. These barriers include quantity and quality of resources, the location of the quarries, and the fact that regulatory requirements limit new quarry openings. This positions Martin Marietta as one of the leading national aggregates players.

Exhibit 2
Martin Marietta Materials Aggregates Business

AGGREGATES BUSINESS			
Reportable Segments	Mideast Group	Southeast Group	West Group
Primary Markets	Indiana, Maryland, North Carolina, Ohio, South Carolina, Virginia and West Virginia	Alabama, Florida, Georgia, Illinois, Kentucky, Louisiana, Mississippi, Tennessee, Nova Scotia and the Bahamas	Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, Nevada, Oklahoma, Texas, Utah, Washington and Wyoming
Primary Product Lines	Aggregates (stone, sand and gravel)	Aggregates (stone, sand and gravel)	Aggregates (stone, sand and gravel), asphalt, ready mixed concrete and road paving
Primary Types of Aggregates Locations	Quarries	Quarries and Distribution Yards	Quarries and Distribution Yards
Primary Modes of Transportation for Aggregates Product Line	Truck	Truck, Water and Rail	Truck and Rail

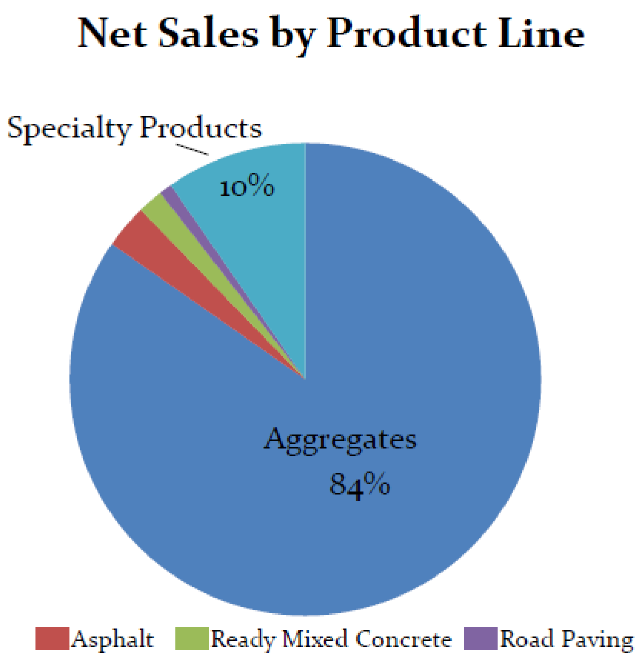
Source: MLM Company

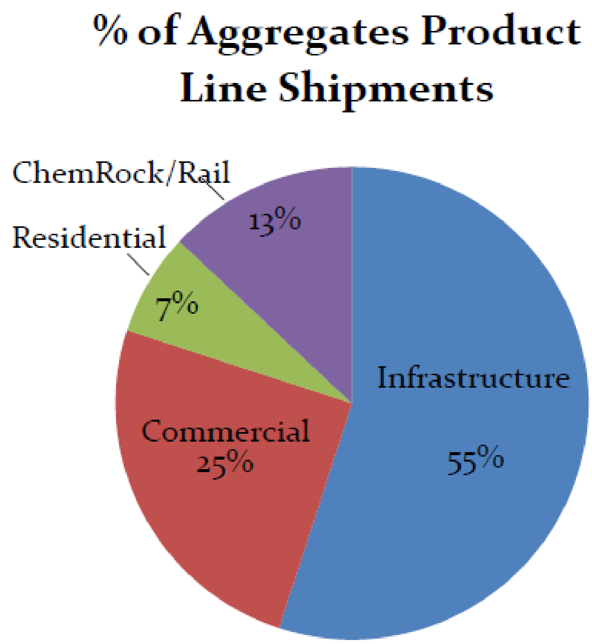
Key Insight news

MLM: Understanding the Key Drivers. We believe there are 4 main forces that affect MLM: federal spending (non-stimulus), state and local spending, federal stimulus and the private sector. We think that annual federal spending will either stay constant or see a slight uptick. Additionally, we consider that federal stimulus and private sector growth are, for the most part, mutually exclusive. That is, if there is no private sector growth, we may see a stimulus package. However, if private sector growth increases, we will most likely not see a stimulus. The state and local spending issue is more complex; as most states are dealing with budget concerns, we might expect a decrease in state infrastructure spending; this decrease may accelerate if federal stimulus packages are extended where there are no matching state fund provisions.[1] The following graph shows the exposure of MLM's aggregates business to infrastructure. MLM's top 5 states account for 21% of total apportioned ARRA highway funds.

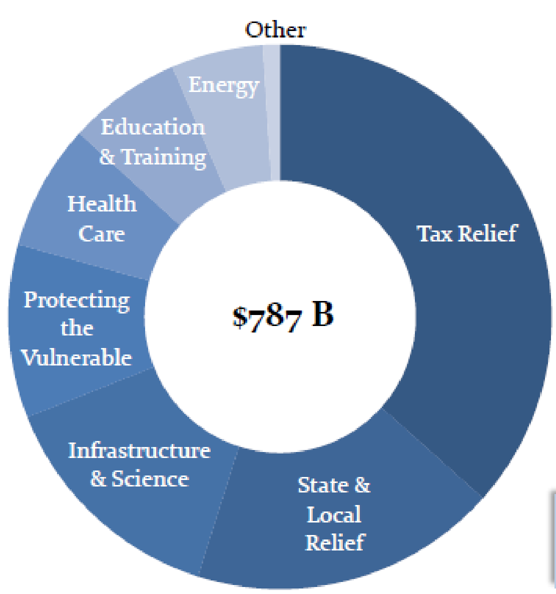
Exhibit 3

MLM Key Drivers for Year ended 2009





American Recovery & Reinvestment Act (ARRA)



- $27.5 B for highways & bridges
- $9.3 B for rail transportation
- $8.4 B for public transit
- $4.6 B to Army Corps of Engineers

MLM's top 5 states account for 21% of total apportioned ARRA highway funds

Source: MLM 10k for Year ended December 2009, Martin Marietta Investor Presentation March 2010

[1] American Recovery and Reinvestment Act of 2009 (ARRA) Action Plans: http://www.georgia.gov/vgn/images/portal/cit_1210/60/13/144564719DOT%20Action%20Plan-%206.18.09.pdf

No Future Stimulus Guarantee. The possibility of future government spending and/or stimulus is uncertain. To quote Keith Hughes of Suntrust Robinson Humphrey:

> SAFETEA-LU, the previous 6-year highway bill that expired September 30, 2009, was effectively extended in March till year end 2010 after numerous shorter-term rollovers. Several in Congress have called for a new 6-year bill with substantially higher funding for some time and the issue was brought back to the table by President Obama calling for $50 billion in more spending. **With Republicans most likely gaining seats and deficit spending on the "outs" with the public, the chance of any new 6-year highway bill seems remote much less one at significantly higher funding rates**.

However, while we believe a 6-year bill to be renewed, we are not sure whether we will see another infrastructure stimulus in the future.[2] We think the way to assess this situation could be the following: either a stimulus is implemented again or the economy recovers enough not to warrant another stimulus. Either way, the temporary revenue "boost" (or crutch) that MLM experiences (through 2009-2011) will stay constant going forward—either in the form of continued stimulus (the government continues to step in), or a hand-off to a recovering economy (the private sector steps in). However, if political, fiscal conservatism prevents another stimulus from taking place, while the private sector does not recover commensurately, this could have a substantial negative impact on MLM.

Housing and Private Sector Slow to Recover. Housing starts (the number of privately owned new houses on which construction has been started in a given period) have experienced an unprecedented negative shock in the past 3 years. While, the pace of new home construction in the U.S. made a modest rebound in July 2010, building still remains weak as the housing market struggles to gain momentum. Builders in the U.S. turned pessimistic in August this year, with the sign that expiration of a government tax credit will keep depressing home construction. The National Association of Home Builders/Wells Fargo confidence index dropped to 13 in August as well, the lowest level since March 2009, from 14 in July. This uncertainty is underscored by a previous July decline in building permits, which fell 3.1 per cent from June to 565,000. Permits signal future construction and are down 3.7 per cent year-on-year. According to the Associated General Contractors of America:

> Federal investments from the stimulus and other programs are protecting some construction workers from a devastating downturn in private construction activity," said Ken Simonson, the association's chief economist. **"But the industry will continue to be at risk of greater economic hardships as long as private demand for construction continues to shrink."**[3]

Our conclusion is that MLM is highly dependent on public spending. We expect this dependency will only increase if private construction weakens. **More concerning, a delay in stimulus or state fiscal troubles could be devastating to the firm.**

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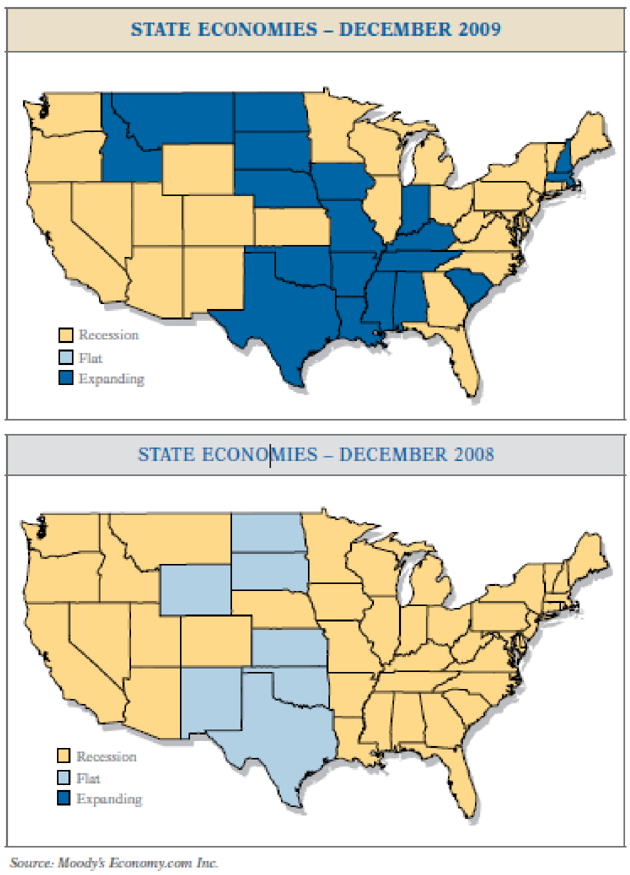
[2] We saw $27 billion in highway stimulus with the ARRA act in 2009, roughly 50% will be spent in 2010 and the remaining has been allocated for 2011.

[3] Private Construction Spending Continues "Devastating" Decline
http://www.realestaterama.com/2010/10/01/stimulus-base-realignment-other-federal-programs-drive-total-construction-spending-up-04-percent-to-812-billion-in-august-ID07906.html

MLM Main States. In 2009, the Corporation shipped 123.4 million tons of aggregates to customers in 31 states, Canada, the Bahamas and the Caribbean Islands from 274 quarries, underground mines and distribution yards. While the Corporation's aggregates operations cover a wide geographic area, financial results depend on the strength of the applicable local economies because of the high cost of transportation relative to the price of the product. The Aggregates business' top five revenue-generating states– Texas, North Carolina, Georgia, Iowa and Louisiana –accounted for approximately 56% of its 2009 net sales by state of destination. To be sure, many states are struggling with weak demand and substantial oversupply in the housing market. While, in the long-run these states may become once again fast-growing, we believe that they will not see a recovery to warrant new development until 2015.[4] Beyond the private sector, MLM's states have significant budget concerns; this translates into tremendous pressure on the construction industry.

Exhibit 3
State Economies



Source: MLM, Annual Report 2009

[4] Latest Housing Recovery Prediction: 2015: http://blogs.wsj.com/developments/2009/05/13/latest-housing-recovery-prediction-2015/

According to The Fiscal Survey of States by National Governors Association and National Association of State Budget Officers, 21 states will make or have made fiscal program cuts in transportation for 2010.[5] For context, only 15 states made cuts in 2009.

Pricing Concerns. MLM has seen ongoing decreases in product pricing. According to the last quarterly analyst call, CEO Ward Nye states: "Our average aggregates selling price declined 3.8% compared with the prior year quarter. Our average sales price continues to reflect competitive pressure in a number of markets. As Residential and non-residential construction markets declined significantly over the past four years, some contractors who historically serve these end markets modify their focus and moved into portions of the infrastructure sector, capitalizing on stimulus opportunities. This dynamic put increased pricing pressure on stimulus-funded projects. As a result, our traditional local customers looked to their long-term suppliers for price relief. All that said, product mix is also negatively impacting our pricing on stimulus jobs. It's difficult to precisely separate and quantify the effect of product mix from the effect of competitive pressure. Nonetheless, it is clear that the average selling price on stimulus-funded projects for the second quarter was approximately 10% lower than the average selling price for the overall company."

Later during the call, an analyst questions the CEO about pricing trends:

> **Trey Grooms (Stephens Research):** Okay. And then kind of a follow-up to that, with that improvement in volume in the second half, I mean, is that going to be what is needed to get the – kind of get that market back on track as far as pricing is concerned?
>
> **Howard Nye (MLM CEO):** You know what? I think it's going to help. And I think what's going to have to happen, Trey, is there's going to have to be a period of stability, and again, I don't think it's going to be a quarter of stability. I don't think it's going to be a month of stability. I think the volumes simply have to be there for some period of time to have the pricing behave in a more normalized way. That's certainly the view that I have.

We believe the pricing puzzle can be explained by the economics of the industry and the government as a major customer. To understand the supply/demand economics of the industry, the production of aggregates is a process that does not require high start-up costs. Beyond this, firms already oversee immense inventory. This would normally indicate weak supplier power; however, because of the substantial barriers to entry, the industry has stronger supplier among firms. We think that building material companies may be building their reserves in preparation to environmental regulations that could prevent new quarries to be exploited. A counter-acting force is that the industry is a highly fragmented industry with approximately 5,000 companies managing more that 10,000 operations.

We believe that the main reason prices remained so elevated given industry fragmentation was that the government was a major buyer in the market. As the government is not known for frugality or disciplined budgeting, we believe that bureaucracy allowed for higher prices than would have normally arisen in a private market. As demand began to fall, firms became much more competitive in both the public and private sectors. This delay or stickiness in pricing, along with weak demand, may indicate a lower price hangover for the next several quarters. With this in mind, we do not expect prices to

[5] The Fiscal Survey of States http://www.nasbo.org/LinkClick.aspx?fileticket=gxz234BlUbo%3d&tabid=65

increase significantly *until the private sector assumes a recovery*.[6] Indeed, if we presume that public spending has stayed constant over time, or has gone slightly up—the only reason to explain the decrease in price is the absence of private sector demand.

M&A Activity

Given that most of the large building materials companies are suffering from the construction downturn and some even from financial distress, we do not think that MLM will suffer a hostile takeover in the near future. However, we do believe that once the economy recovers, MLM is the perfect target for Cement and Readymix companies that may want to vertically integrate into the aggregates business. Additionally, large vertically integrated multinationals may be attracted to the aggregate reserves that MLM currently owns.

It is likely that MLM may take advantage of its current financial strength to acquire currently undervalued aggregates quarries and continue to work on consolidating the US aggregates industry. In June 2009, MLM acquired three quarries plus the remaining 49% interest in an existing joint venture from CEMEX, Inc at a total purchase price of $65 million (estimated reserves 255 million tons). Based on 2008 results without synergies, this represents a multiple of 6.8x EBITDA. [7] CEMEX acquired these assets through Rinker's hostile takeover where it had paid 10.4x EBITDA.[8] During the six months ending June 30, 2010, MLM spent $28.1 million on acquisitions, primarily on the acquisition of a deep-water port operation located at Port Canaveral in Florida. This facility is currently the only developed deep-water aggregates import terminal located on the central east coast of Florida. From this location, the Corporation can ship product into the greater Orlando area, the second-largest aggregates consuming area in Florida.[9]

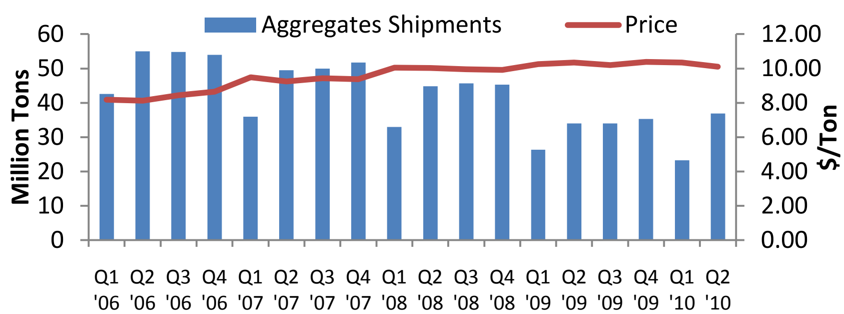
Additionally, MLM may start looking to vertically integrate by acquiring Readymix companies to help the firm shield their aggregates margins once the construction industry picks up again.

[6] We believe this will be in 2015.
[7] http://ir.martinmarietta.com/releasedetail.cfm?releaseid=389577
[8] http://www.santander.com.mx/PDF/canalfin/documentos/cemex100407i.pdf
[9] Company 10Q for quarter ended June 2010

Product Shipment and Price Analysis

Although, first quarter of 2010 showed weak volume results in a YoY basis, second quarter volumes started to pick up. Historically, sales are higher in the second and third quarter given that weather conditions favor the construction industry. Prices for all value segments are trending lower. We believe this is due to the fall in demand.

Exhibit 4
MLM's Aggregates Shipments and Price
Million Tons and US $/Ton



Source: MLM Materials Company

Aggregates are the main revenue segment, however the specialty product segments have grown in the past two years. According to the CEO, "Record quarterly profitability from our Specialty Products business contributed significantly to second quarter results. Net sales of $48 million for the quarter represented a 44% increase compared with the prior year quarter. This sales increase, driven by inventory restocking and heightened steel production, combined with outstanding cost control to generate a gross profit margin of 41%, a 990 basis point improvement versus the prior year quarter." In terms of its main business, historically MLM has been able to maintain stable shipments from Q2 to Q4, where most of the industry players experience higher sales in Q2 and Q3. This may be a result of the concentration of infrastructure projects which are easier to plan the aggregates shipments. We therefore believe that sales for 2010 Q3 and Q4 would be very similar to the current Q2 sales. Our estimates indicate that the total aggregates shipments for 2010 will grow 3.8% in comparison to 2009 levels, which is a very slow recovery. Our regression shows that aggregates consumption will grow in a 2% CAGR from 2009 to 2015.

Ownership[10]

Breakdown	
% of Shares Held by All Insider and 5% Owners:	1%
% of Shares Held by Institutional & Mutual Fund Owners:	107%
% of Float Held by Institutional & Mutual Fund Owners:	108%
Number of Institutions Holding Shares:	262

Major Direct Holders (Forms 3 & 4)

Holder	Shares	Reported
ZELNAK STEPHEN P JR	90,851	Sep 30, 2010
SIPLING PHILIP J	60,601	Dec 1, 2009
NYE C HOWARD	57,390	May 27, 2010
STEWART JONATHAN T	50,814	May 26, 2010
SHEPHERD DANIEL G	46,449	May 27, 2010

Top Institutional Holders

Holder	Shares	% Out	Value*	Reported
SOUTHEASTERN ASSET MANAGEMENT, INC.	2,628,617	5.77	$222,933,007	Jun 30, 2010
RS Investment Management Co., LLC	2,581,158	5.67	$218,908,009	Jun 30, 2010
CI Investments Inc.	2,350,000	5.16	$199,303,500	Jun 30, 2010
MORGAN STANLEY	2,137,296	4.69	$181,264,073	Jun 30, 2010
HARRIS ASSOCIATES L.P.	2,079,400	4.57	$176,353,914	Jun 30, 2010
VANGUARD GROUP, INC. (THE)	1,780,045	3.91	$150,965,616	Jun 30, 2010
GARDNER RUSSO & GARDNER	1,508,246	3.31	$127,914,343	Jun 30, 2010
First Eagle Investment Management, LLC	1,395,310	3.07	$118,336,241	Jun 30, 2010
DAVIS SELECTED ADVISERS, LP	6,197,865	13.61	$525,640,930	Jun 30, 2010
SPO ADVISORY CORP	5,381,235	11.82	$456,382,540	Jun 30, 2010

Top Mutual Fund Holders

Holder	Shares	% Out	Value*	Reported
DAVIS NEW YORK VENTURE FUND	4,009,093	8.81	$342,376,542	Jul 31, 2010
OAKMARK EQUITY AND INCOME FUND	1,900,000	4.17	$161,139,000	Jun 30, 2010
LONGLEAF PARTNERS SMALL-CAP FUND	1,277,124	2.81	$108,312,886	Jun 30, 2010
FIRST EAGLE GLOBAL FUND	1,177,340	2.59	$100,544,836	Jul 31, 2010
FIDELITY MAGELLAN FUND INC	1,000,000	2.20	$73,200,000	Aug 31, 2010
SELECTED AMERICAN SHARES INC	930,600	2.04	$78,924,186	Jun 30, 2010
MORGAN STANLEY INST FD TR-MID CAP GROWTH PORT	873,232	1.92	$74,058,805	Jun 30, 2010
AMERICAN FDS INSURANCE SER-ASSET ALLOCATION FD	840,000	1.85	$71,240,400	Jun 30, 2010
RS INVESTMENT TRUST-GLOBAL NATURAL RESOURCES FUND	694,002	1.52	$58,858,309	Jun 30, 2010
RS INVESTMENT TRUST-VALUE FUND	685,660	1.51	$58,150,824	Jun 30, 2010

[10] Yahoo Finance

Regression Analysis

We regressed product shipments of aggregates against GDP and unemployment. Next, we projected shipments using the Economist Intelligence Unit projections of GDP and unemployment. We multiplied these shipment values by our projected price values to estimate the revenues of MLM from 2010 to2015.

Assumptions in Regressions:

GDP: From 1947 until 2010 the United States' average quarterly GDP Growth was 3.31 percent reaching an historical high of 17.20 percent in March of 1950 and a record low of -10.40 percent in March of 1958. While the economy is in recovery, we do not expect average growth (3.31%) for the next 5 years—most economists are expecting below average growth for the next 5 years. Consensus appears to average at 3% . The Congressional Office Budget director Doug Elmendorf explains their projections for future GDP growth:

Projected growth from 2015 to 2019 is also below historical average growth rates, a difference that is more than accounted for by slower growth in the labor force because of the retirement of the baby boom generation.

With these issues in mind, for our analysis, we felt that using the Economist Intelligence Unit GDP estimates would be most prudent for industry projections instead of the consensus. According to the Economist Intelligence Unit:

> The private sector is creating far fewer jobs than would be the case in a typical recovery. Retail sales are sluggish, with three consecutive monthly falls in May-July. The housing market, which had showed signs of revival in late 2009, has weakened again following the expiry of temporary tax credits in April. **In light of the disappointing data, we have further revised down our GDP forecast for 2010 to 2.3% (2.7% previously). We maintain our forecast of a further slowdown to 1.5% in 2011 but believe downside risks dominate.** The slowdown in growth reflects the withdrawal of fiscal stimulus and the end of the boost from restocking. Export growth will slow in 2011, as base effects from extremely low exports in 2009 fall out of the equation. Consumers will still be rebuilding their balance sheets, and a marked improvement in the labor market is unlikely, with companies set to continue to meet higher demand by squeezing higher productivity out of existing staff rather than taking on new hires.

We decided to use the EIU's estimates because their previous projections have been impressively accurate. For full disclosure, the EIU's estimates were within 0.6% accuracy from 2000 to 2005 where the economy was not under stress. However, during the crisis period of 2006-2009, EIU's predictions were more inaccurate, within 1.2% accuracy. For comparison, the Philadelphia Federal Reserve Bank predictions over the last ten years have fallen within 1.26% accuracy[11]. We also analyzed GDP predictions from the National Institute of Economic and Social Research and it showed that their predictions fall within 3.4% of accuracy.[12]

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[11] Specialty Apparel Industry Report, Caplan and Mathivanan
[12] http://www.thefreelibrary.com/An+assessment+of+NIESR+forecast+accuracy--US+and+Euro+Area+GDP+and...-a0145572382

Unemployment: The concrete industry is strongly correlated with unemployment; much of this has to do with infrastructure efforts and fiscal policy—in times of how unemployment the government will typically seek to stimulate the economy by pursuing infrastructure development, thereby creating jobs.

As part of the annual budget, the Obama Administration released underlying economic assumptions earlier in the year. For unemployment, the forecast is for an average of 10% in 2010, with a decline to 9.2% in 2011, 8.2% in 2012 and 7.3% in 2013. However, we have used the EIU values in our regression, these values are much more conservative: with 9.4% in 2011, 9% in 2012, 8.7% 2013 and 8.4% in 2014.

Product Prices: For 2010's average price, we averaged the 1st and 2nd 2010 quarter prices for 2010 (in all cases lowering the price). For the future projections, we returned to 2009 prices for 2011 (recovery and volume growth raises prices). From here, we used the PPI from the Economist Intelligence unit for 2010 and 2011, keeping the 2011 PPI constant throughout the next 5 years up to 2015.

Valuation Analysis

Given that MLM's debt to equity level is not constant, we decided to value the business using an Adjusted Present Value model. The base case scenario which considers a terminal growth of 2.4% results in an enterprise value of US$6.5B and a US$121.48 price per share. Today, MLM is trading at US$79.75, which means that the market is undervaluing MLM by 34%.

Valuation Sensitivity Analysis

The following tables show the sensitivity analysis for MLM's APV valuation. The analysis shows that even with a 2.2% growth rate, the company is still undervalued.

Enterprise Value

	Million US			Equity Beta		
		0.94	1.00	1.06	1.12	1.18
Growth Rate	2.20%	6,925.57	6,645.31	6,391.06	6,159.35	5,947.31
	2.30%	7,004.30	6,716.18	6,455.21	6,217.71	6,000.64
	2.40%	7,085.80	6,789.43	6,521.42	6,277.88	6,055.58
	2.50%	7,170.21	6,865.19	6,589.81	6,339.96	6,112.21
	2.60%	7,257.69	6,943.57	6,660.49	6,404.03	6,170.60

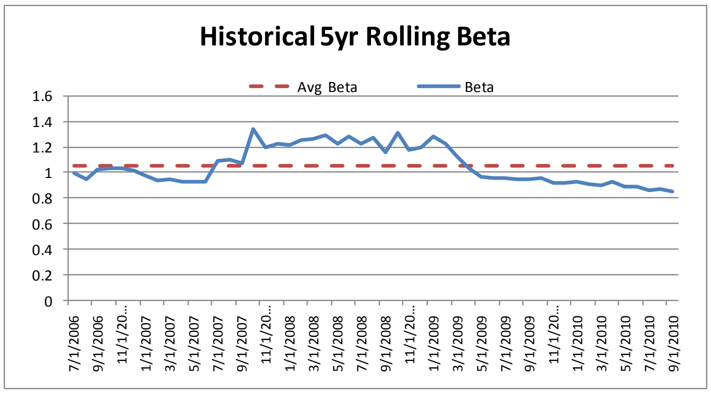
Price per Share

	Million US			Equity Beta		
		0.94	1.00	1.06	1.12	1.18
Growth Rate	2.20%	130.04	123.89	118.30	113.21	108.55
	2.30%	131.77	125.44	119.71	114.49	109.72
	2.40%	133.56	127.05	121.16	115.81	110.93
	2.50%	135.42	128.72	122.67	117.18	112.18
	2.60%	137.34	130.44	124.22	118.59	113.46

Cost of Capital and Equity Beta Analysis

Industry Beta Analysis		
Risk Free	2.65%	Source: St. Louis Fed, 10 yr risk free rate
Risk Premium	6.20%	= 7.2% minus 1% to account for Historical Risk Premium
Marginal Tax Rate	28.0%	Source: Company Conference call Aug 3rd 2010

	Martin Marietta
Beta Equity	1.06
Beta Debt	0.70
D/E	27.71%
Beta Asset	1.00
WACC	8.30%
Unlevered cost Equity (Ra)	8.83%
Levered cost Equity (Re)	9.20%



Valuation Model

Martin Marietta Materials Valuation Model

Tax rate	28.00%	Effective Tax Rate - Company Conference Call
Rm - rf	6.20%	= 7.2% minus 1% to account for Historical Risk Premium
rf	2.65%	Source: St. Louis Fed, 10 yr risk free rate
Rd	7.00%	Average cost of debt 10K
βd	0.70	Implied debt beta
βE	1.06	from Stock return analysis
Re	9.20%	Cost of Equity
βa	1.00	Asset Beta (unlevered beta)
Average D/E	27.71%	Current D/E ratio
WACC	8.30%	
Ra	8.83%	unlevered cost of equity
Terminal Growth rate	2.40%	(Sensitivity analysis 2.20% - 2.60%)

Numbers in Million $	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Total Revenue	**2,189.25**	**2,116.42**	**1,702.60**	**1,377.77**	**1,420.89**	**1,527.99**	**1,626.31**	**1,729.32**	**1,807.20**	**1,843.34**
Cost of Goods Sold	**(1,621.04)**	**(1,645.91)**	**(1,364.87)**	**(1,104.47)**	**(1,136.71)**	**(1,222.39)**	**(1,301.05)**	**(1,383.46)**	**(1,445.76)**	**(1,474.68)**
Gross Profit	**568.21**	**470.52**	**337.73**	**273.30**	**284.18**	**305.60**	**325.26**	**345.86**	**361.44**	**368.67**
SG&A (incl D&A and other income)	(137.98)	(147.13)	(150.16)	(124.00)	(127.88)	(137.52)	(138.24)	(146.99)	(162.65)	(165.90)
Operating Income (EBIT)	**430.23**	**323.39**	**187.58**	**149.30**	**156.30**	**168.08**	**187.03**	**198.87**	**198.79**	**202.77**
Taxes on EBIT	**(131.65)**	**(93.78)**	**(43.14)**	**(41.80)**	**(46.89)**	**(57.15)**	**(65.46)**	**(69.61)**	**(69.58)**	**(70.97)**
NOPLAT	**298.58**	**229.60**	**144.43**	**107.50**	**109.41**	**110.93**	**121.57**	**129.27**	**129.21**	**131.80**
Depreciation & Amortization	150.34	171.13	179.39	110.22	113.67	106.96	97.58	138.35	144.58	147.47
Change in Working Capital	157.89	(197.00)	(166.92)	92.02	21.86	33.27	27.16	(2.28)	(14.02)	(6.51)
Net CAPEX	(264.92)	(258.25)	(139.23)	(137.78)	(142.09)	(137.52)	(195.16)	(172.93)	(180.72)	(221.20)
Free Cash Flow	**461.33**	**262.03**	**501.27**	**563.53**	**472.54**	**450.02**	**360.34**	**403.86**	**404.53**	**383.54**
Terminal Value										**6,103.34**
Discount Factor				**1.00**	**0.92**	**0.84**	**0.78**	**0.71**	**0.65**	**0.60**
PV FCF				**563.53**	**434.18**	**379.93**	**279.51**	**287.84**	**264.92**	**3,903.25**
NPV FCF	**6,113.15**									
Debt Benefits										
Debt Balance	579.31	848.19	1,152.41	1,023.49	828.49	778.49	808.49	888.49	868.49	848.49
Increase	545.02	506.75		25.00		40.00	100.00			
Amortization	(276.14)	(202.53)	(128.92)	(220.00)	(50.00)	(10.00)	(20.00)	(20.00)	(20.00)	(20.00)
Ending Balance	848.19	1,152.41	1,023.49	828.49	778.49	808.49	888.49	868.49	848.49	828.49
Interest on debt	60.89	74.30	73.46	71.64	57.99	54.49	56.59	62.19	60.79	59.39
Tax Shield	18.63	21.55	16.90	20.06	17.40	18.53	19.81	21.77	21.28	20.79
Free Cash Flow	18.63	21.55	16.90	20.06	17.40	18.53	19.81	21.77	21.28	20.79
Terminal Value										462.76
Discount Factor				1.00	0.93	0.87	0.82	0.76	0.71	0.67
PV Tax Shield				**20.06**	**16.26**	**16.18**	**16.17**	**16.61**	**15.17**	**322.21**
NPV Tax Shield	**422.66**									

Enterprise Value	**6,535.81**	
Outstanding Debt	1,006.00	as of Oct 28th 2010
Equity Value	**5,529.81**	
Shares Outstanding	**45.52**	million shares
Price per share	**$ 121.48**	

Notes on valuation model

- Depreciation includes quarry depletion, depreciation on equipment, and amortization
- Long-term debt
  - In April 2010, repaid $217M Floating Senior Notes using of cash and short-term borrowings
  - In June 2010, it had outstanding borrowings of $25 M under its $100M AR Credit Facility
  - MLM's $325M 5-yr revolving credit agreement, $130M unsecured term loan, and $100M AR Credit Facility are subject to a Debt to EBITDA leverage ratio covenant of 3.5 – 1.0, currently MLM has a 2.8x Debt to EBITDA
  - Projected amortization schedule assumes the use of cash and debt restructuring to maintain the leverage ratio according to covenants

Conclusions

Our Adjusted Present Value valuation analysis shows that both the enterprise value and the price per share are above the market data. We are issuing a buy rating on Martin Marietta and we believe **the market is undervaluing the stock price considering a 12 month horizon**.

To summarize our views, we believe that federal spending will remain constant and that the current stimulus will fade in 2012. As most states are dealing with budget concerns, **there could be a further decrease in state infrastructure spending going forward**. Compounding this, the private sector may continue to stumble, only showing a slight uptick in overall construction values since the beginning of the year.

One final concern is the extended price softening on all of MLM's product lines. We believe that the main reason prices remained so elevated in the past involved the government as a major buyer in the market. As demand has fallen, firms have become much more competitive in both the public and private sectors. This delay or stickiness in pricing, along with continuing weak private sector demand, may indicate a lower price hangover for the next several quarters. With this in mind, **we do not expect prices to increase significantly until the private sector assumes a recovery.**

Our conclusion here is that MLM is highly dependent on public spending and faces negative pricing pressure. We expect public dependency and pricing hardship will only increase if private construction weakens. More concerning, a delay in stimulus or ongoing state fiscal troubles could have a significantly negative impact on Martin Marietta's sales. **However, after completing our valuation with this negativity factored in, the stock price is still significantly undervalued.**

After analysis we feel that **the fair price is US$121.48**. MLM is trading at US$79.75, which means that **the market is undervaluing MLM by 34%**.

Back-ups

MLM 2009 Annual Report for discussion of reserves evaluation

State	Number of Producing Quarries 2009	Tonnage of Reserves for each general type of aggregate at 12/31/08 (Add 000)		Tonnage of Reserves for each general type of aggregate at 12/31/09 (Add 000)		Change in Tonnage from 2008 (Add 000)		Percentage of aggregate reserves located at an existing quarry, and reserves not located at an existing quarry.		Percentage of aggregate reserves on land that has not been zoned for quarrying.	Percent of reserves owned and percent leased	
		Hard Rock	S & G	Hard Rock	S & G	Hard Rock	S & G	At Quarry	Not at Quarry		Owned	Leased
Alabama	7	85,112	10,337	82,630	10,163	(2,482)	(174)	100%	0%	0%	23%	77%
Arkansas	3	213,591	0	239,761	0	26,170	0	96%	4%	0%	58%	42%
Florida	2	120,543	0	119,902	0	(641)	0	100%	0%	0%	0%	100%
Georgia	13	1,165,596	0	1,241,080	0	75,484	0	92%	8%	0%	76%	24%
Illinois	2	809,494	0	750,405	0	(59,089)	0	59%	41%	0%	53%	47%
Indiana	10	482,464	35,042	478,497	33,010	(3,967)	2,968	100%	0%	15%	41%	60%
Iowa	28	658,531	54,953	656,618	54,390	(1,913)	(563)	99%	1%	1%	12%	88%
Kansas	12	123,122	0	120,739	0	(2,383)	0	100%	0%	0%	35%	65%
Kentucky	3	562,614	45,626	556,310	45,533	(6,304)	(93)	100%	0%	0%	8%	92%
Maryland	2	96,173	0	95,347	0	(826)	0	100%	0%	0%	100%	0%
Minnesota	2	449,185	0	447,144	0	(2,041)	0	77%	23%	0%	69%	31%
Mississippi	1	0	83,861	0	83,645	0	(216)	100%	0%	0%	100%	0%
Missouri	8	371,240	0	346,885	0	(24,355)	0	88%	12%	0%	21%	79%
Montana	0	50,000	0	50,000	0	0	0	100%	0%	0%	100%	0%
Nebraska	4	77,484	0	188,975	0	111,491	0	100%	0%	0%	49%	51%
Nevada	1	158,502	0	156,477	0	(2,025)	0	100%	0%	0%	84%	16%
North Carolina	43	3,281,063	0	3,374,396	0	93,333	0	82%	18%	3%	64%	36%
Ohio	15	181,939	194,897	181,509	194,399	(430)	(498)	100%	0%	3%	92%	8%
Oklahoma	9	736,185	38,174	728,065	37,688	(8,120)	(486)	100%	0%	0%	83%	17%
South Carolina	6	405,842	0	406,173	0	331	0	89%	11%	19%	16%	84%
Tennessee	1	38,167	0	37,273	0	(894)	0	100%	0%	0%	100%	0%
Texas	9	991,042	111,369	1,177,978	109,782	186,936	(1,587)	65%	35%	33%	19%	90%
Utah	1			15,649	0	15,649	0	100%	0%	0%	0%	100%
Virginia	4	408,569	0	383,152	0	(25,417)	0	86%	14%	1%	76%	24%
Washington	2	47,300	0	27,484	0	(19,816)	0	46%	54%	0%	72%	28%
West Virginia	1	59,204	0	59,161	0	(43)	0	31%	69%	0%	90%	10%
Wyoming	2	68,944	0	118,582	0	49,638	0	100%	0%	0%	0%	100%
U. S. Total	191	11,641,906	574,259	12040,192	573,610	398,286	(649)	89%	11%	9%	53%	47%
						0	0					
Non-U. S.	2	916,445	0	845,108	0	(71,337)	0	100%	0%	0%	99%	1%
Grand Total	193	12,558,351	574,259	12885,300	573,610	326,949	(649)					

Economist Intelligence Unit – United States Annual data and forecast (http://www.eiu.com/)

Data and charts

Annual data and forecast

	2005[a]	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[b]
GDP							
Nominal GDP (US$ bn)	12,638	13,399	14,062	14,369	14,119	14,528	14,982
Real GDP growth (%)	3.1	2.7	1.9	0.0	-2.6	2.3	1.5
Expenditure on GDP (% real change)							
Private consumption	3.4	2.9	2.4	-0.3	-1.2	1.4	1.2
Government consumption	0.3	1.4	1.3	2.8	1.6	0.6	0.9
Gross fixed investment	6.5	2.3	-1.8	-6.4	-18.3	5.5	5.9
Exports of goods & services	6.7	9.0	9.3	6.0	-9.5	11.3	5.5
Imports of goods & services	6.1	6.1	2.7	-2.6	-13.8	14.4	5.2
Origin of GDP (% real change)							
Agriculture	8.6	-5.3	7.0	-0.6	2.0[c]	2.0	2.0
Industry	-2.2	2.6	-1.4	-1.1	-5.5[c]	3.3	1.7
Services	4.2	2.9	2.8	1.7	-2.0[c]	2.1	1.4
Population and income							
Population (m)	295.7	298.4	301.3	304.1	306.8[c]	309.6	312.3
GDP per head (US$ at PPP)	42,736	44,896	46,670	47,258	46,021[c]	46,931	47,965
Recorded unemployment (av; %)	5.1	4.6	4.6	5.8	9.3	9.7	9.4
Fiscal indicators (% of GDP)							
Public-sector balance[d]	-2.6	-1.9	-1.2	-3.2	-10.0	-9.0	-7.1
Public-sector debt interest payments	1.5	1.7	1.7	1.8	1.3	1.4	1.4
Public-sector primary balance	-1.1	-0.2	0.5	-1.4	-8.7	-7.6	-5.6
Net public debt	36.9	36.5	36.2	37.7	53.5	59.0	64.9
Prices and financial indicators							
Exchange rate ¥:US$ (end-period)	117.9	119.0	111.7	90.8	93.1	88.5	90.0
Consumer prices (end-period; %)	3.3	2.5	4.1	0.0	2.8	0.5	1.4
Producer prices (av; %)	4.9	2.9	3.9	6.4	-2.5	4.1	2.1
Stock of money M1 (% change)	-0.3	-0.7	0.5	16.1	6.4[c]	-8.5	0.5
Stock of money M2 (% change)	4.0	6.0	6.0	9.7	3.6[c]	2.9	4.7
Lending interest rate (av; %)	6.2	8.0	8.1	5.1	3.3	3.3	3.4
Current account (US$ m)							
Trade balance	-784	-839	-823	-835	-507	-634	-680
Goods: exports fob	909	1,036	1,160	1,305	1,068	1,267	1,375
Goods: imports fob	-1,693	-1,875	-1,984	-2,140	-1,575	-1,901	-2,055
Services balance	70	80	121	136	132	111	108
Income balance	72	48	100	152	121	79	111
Current transfers balance	-106	-91	-116	-122	-125	-129	-133
Current-account balance	-748	-803	-718	-669	-378	-572	-594
International reserves (US$ m)							
Total international reserves	65	66	71	78	131	-	-

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates. [d] Federal government, financial year (October - September).

Source: IMF, *International Financial Statistics*.

Economic growth

%	2009	2010	2011	2012	2013	2014
GDP	-2.6	2.3	1.5	1.9	2.2	2.4
Private consumption	-1.2	1.4	1.2	1.5	1.8	1.9
Government consumption	1.6	0.6	0.9	1.5	1.5	1.5
Gross fixed investment	-18.3	5.5	5.8	4.6	5.8	6.4
Exports of goods & services	-9.5	11.3	5.5	6.2	6.0	6.1
Imports of goods & services	-13.8	14.4	5.2	5.2	5.5	5.6
Domestic demand	-3.7	3.0	1.6	1.9	2.3	2.4
Agriculture	2.0	2.0	2.0	2.0	2.0	2.0
Industry	-5.5	3.3	1.7	2.5	2.5	2.5
Services	-2.0	2.1	1.4	1.8	2.2	2.4

Ready-mix Concrete Manufacturing Report 2002 – US Census Bureau

Table 1. Historical Statistics for the Industry: 2002 and Earlier Years

[Data based on the 2002 Economic Census and the 2002 Annual Survey of Manufactures (ASM). For information on confidentiality protection, sampling error, nonsampling error, and explanation of terms, see note at end of table. For meaning of abbreviations and symbols, see introductory text]

Industry and year[1]	Companies[2]	All establishments[3]	All employees		Production workers			Value added ($1,000)	Total cost of materials ($1,000)	Total value of shipments ($1,000)	Total capital expenditures ($1,000)
			Number[4]	Payroll ($1,000)	Number[4]	Hours (1,000)	Wages ($1,000)				
327320, Ready-mix concrete manufacturing . . . . 2002. .	2 596	5 570	98 360	3 640 427	79 582	160 454	2 794 396	10 286 897	11 299 472	21 573 773	[r]890 731
2001. .	N	N	102 790	3 709 915	81 370	172 852	2 716 372	10 017 236	11 459 783	21 472 894	838 234
2000. .	N	N	101 103	3 622 064	79 796	171 405	2 643 683	9 518 744	11 412 475	20 933 332	938 092
1999. .	N	N	102 044	3 529 981	81 141	173 135	2 592 088	9 475 861	11 081 867	20 569 578	985 361
1998. .	N	N	94 401	3 177 079	75 157	158 418	2 346 495	8 832 097	10 533 584	19 388 319	834 318
1997. .	2 888	5 221	93 136	2 965 346	72 464	147 770	2 153 268	7 780 774	9 418 330	17 219 886	798 851

[1]Statistics presented for years ending in 2 and 7 are census data. Interim census years are derived in a representative sample of manufacturing establishments canvassed in the Annual Survey of Manufactures (ASM).
[2]For the census, a company is defined as a business organization consisting of one establishment or more under common ownership or control.
[3]Includes establishments with payroll at any time during the year.
[4]Number of employees figures represent average number of production workers for pay period that includes the 12th of March, May, August, and November plus other employees for payroll period that includes the 12th of March.

Note: The data in this table are based on the 2002 Economic Census and the 2002 Annual Survey of Manufactures (ASM). To maintain confidentiality, the Census Bureau suppresses data to protect the identity of any business or individual. The census results in this table contain sampling errors and nonsampling errors. Data users who create their own estimates using data from American FactFinder tables should cite the Census Bureau as the source of the original data only. For explanation of terms, see Appendix A. For full technical documentation, see Appendix C.

Producer Price Indexes Data – Bureau of Labor Statistics (http://www.bls.gov/ppi/)

PPI Index Cement

Producer Price Index Industry Data
Original Data Value

Series Id: PCU32731032731002
Industry: Cement manufacturing
Product: Portland cement ASTM type II, hydraulic
Base Date: 200506
Years: 2005 to 2010

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2005						100.0							
2007	119.5	119.9	116.6	120.5	119.5	119.4	121.8	121.1	120.8	119.5	119.1	118.6	119.7
2008	117.8	117.1	116.7	118.0	115.6	114.8	118.1	117.7	117.3	118.2	118.1	117.5	117.2
2009	121.1	117.9	115.1	116.1	114.1	113.0	110.9	111.1	111.6	111.0	110.5	110.5	113.6
2010	111.0	110.3	109.7	109.2	110.2	109.0	108.9						

PPI Index Aggregates

Producer Price Index Industry Data
Original Data Value

Series Id: PCU212321212321
Industry: Construction sand and gravel mining
Product: Construction sand and gravel mining
Base Date: 198206
Years: 2000 to 2010

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2000	171.0	172.5	172.6	175.2	176.1	176.2	176.7	177.3	177.1	177.3	177.2	177.0	175.5
2001	178.8	180.2	180.3	181.3	182.0	182.5	182.3	182.6	182.5	182.2	181.9	182.6	181.6
2002	184.6	185.0	184.8	185.6	186.0	186.3	186.3	186.2	186.2	186.3	186.2	186.4	185.8
2003	187.0	187.3	187.2	188.2	188.9	189.6	189.9	189.9	189.9	189.8	190.1	189.0	188.9
2004	191.0	191.5	191.9	194.5	194.8	195.7	195.9	196.0	196.6	196.9	197.7	197.6	195.0
2005	202.8	203.7	204.2	206.8	208.9	209.4	211.1	211.3	213.4	214.5	215.1	217.6	209.9
2006	222.4	222.4	223.2	227.5	228.8	230.1	231.2	232.1	232.3	232.3	233.5	233.7	229.1
2007	240.7	242.8	243.2	247.0	248.2	246.3	246.1	248.3	249.2	250.6	250.8	250.6	247.0
2008	255.2	256.5	258.7	261.4	261.6	262.1	263.0	265.4	265.7	266.1	267.3	268.7	262.6
2009	270.1	270.8	271.8	271.7	272.0	271.7	271.4	270.7	270.4	270.4	271.1	271.5	271.1
2010	269.8	270.2	271.7	270.9	271.6	271.0	269.7						

PPI Index Ready-mix Concrete

Producer Price Index Industry Data
Original Data Value

http://data.bls.gov

Series Id: PCU327320327320
Industry: Ready-mix concrete manufacturing
Product: Ready-mix concrete manufacturing
Base Date: 198106
Years: 1981 to 2009

Year	Annual
1981	98.9
1982	100.9
1983	102.3
1984	105.1
1985	108.6
1986	109.5
1987	109.2
1988	109.7
1989	111.5
1990	114.3
1991	116.9
1992	117.4
1993	121.0
1994	125.8
1995	131.3
1996	135.2
1997	138.0
1998	142.3
1999	145.6
2000	150.2
2001	153.4
2002	153.0
2003	153.9
2004	162.1
2005	181.9
2006	202.5
2007	210.3
2008	216.7
2009	222.1
2010	216.9

Discount rate calculation

Industry Beta Analysis		
Risk Free	2.65%	Source: St. Louis Fed, 10 yr risk free rate
Risk Premium	6.20%	= 7.2% minus 1% to account for Historical Risk Premium
Marginal Tax Rate	28.0%	Source: Company Conference call Aug 3rd 2010

	Martin Marietta
Beta Equity	1.06
Beta Debt	0.70
D/E	27.71%
Beta Asset	1.00
WACC	8.30%
Unlevered cost Equity (Ra)	8.83%
Levered cost Equity (Re)	9.20%

Quarterly EPS Forecast

Numbers in Million $	2010 Q3	2010 Q4
Total Revenue	**206.67**	**96.44**
Cost of Goods Sold	**(165.67)**	**(77.31)**
Gross Profit	**40.99**	**19.13**
SG&A	(18.60)	(8.68)
Operating Income (EBIT)	**22.39**	**10.45**
Taxes on EBIT	**(6.27)**	**(2.93)**
NOPLAT	**16.12**	**7.52**
Depreciation & Amortization	16.53	7.72
Change in Working Capital	13.80	6.44
Net CAPEX	(20.67)	(9.64)
Free Cash Flow	**25.79**	**12.04**
Net Income	**59.94**	**27.97**
Free Cash Flow	25.79	12.04
Interest expense	10.75	5.02
Depreciation	16.53	7.72
Change in WC	(13.80)	(6.44)
CAPEX	20.67	9.64
EPS	1.32	0.61

Aggregates Volume Regression

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.980713
R Square	0.961797
Adjusted R Square	0.942696
Standard Error	9.026352
Observations	7

ANOVA

	df	*SS*	*MS*	*F*	*gnificance F*
Regression	2	8204.957	4102.478	50.35258	0.001459
Residual	4	325.9001	81.47504		
Total	6	8530.857			

	Coefficients	*andard Err*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*ower 95.0%*	*pper 95.0%*
Intercept	370.2702	36.91296	10.0309	0.000555	267.7834	472.757	267.7834	472.757
GDP	-0.0027	0.003083	-0.87619	0.430394	-0.01126	0.005859	-0.01126	0.005859
Unemployment	-18.0235	2.067086	-8.71926	0.000953	-23.7626	-12.2843	-23.7626	-12.2843

Readymix Volume Regression

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.688412323
R Square	0.473911526
Adjusted R Square	0.263476137
Standard Error	1.07380016
Observations	8

ANOVA

	df	*SS*	*MS*	*F*	*gnificance F*
Regression	2	5.193444	2.596722	2.252052	0.200746
Residual	5	5.765234	1.153047		
Total	7	10.95868			

	Coefficients	*andard Err*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*ower 95.0%*	*pper 95.0%*
Intercept	-2.012780168	3.424745	-0.58772	0.582261	-10.8164	6.790807	-10.8164	6.790807
GDP	0.000274127	0.000285	0.961598	0.380415	-0.00046	0.001007	-0.00046	0.001007
Unemployment	0.342991765	0.238296	1.439349	0.209588	-0.26957	0.955552	-0.26957	0.955552

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