G&S

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United States

Building Materials Industry

12 Month Rating	**HOLD**
	Initiating Coverage
12 Month price target	US$ 26.27
	Prior: -
Current Price	US$ 26.31
Ticker: EXP US	

Eagle Materials Inc.

November 14, 2010

We are issuing a hold rating on Eagle Materials Co. (NYSE: EXP) and we believe **the market is appropriately valuing the stock**. After analysis we feel that **the fair 12 month target price a range of US$26-27 per share**. We believe in the short term the stock price will continue to be float until the market regains confidence on the building materials industry. We put significant emphasis on EXP's risk factors in our analysis and we remain neutral on the stock.

EXP represents a unique building materials firm given that it has a more diversified product line. Cement, concrete and aggregates lend themselves to infrastructure and public spending, while gypsum and paperboard are more utilized in the private sector (commercial and residential construction). **While this diversification will protect EXP if we see continued softening in the economy, EXP will not benefit significantly if the market recovers** (as compared to Martin Marietta Materials NYSE: MLM, who has a heavier concentration in aggregates and readymix).

In terms of infrastructure, 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.

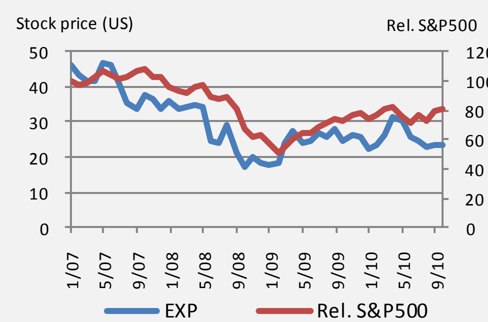
One final concern is the extended price softening on all of EXP's product lines. We believe that the main reason prices remained so elevated in the past involved the government as a major buyer in the market. As demand has fallen, firms have become much more competitive in both the public and private 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 correct in regard to EXP's stock price.**

Key Financial Data

Market Cap	US$1.16 B
52 wk range	US$15.91 – 34.99
Volume	212,344
Enterprise Value	US$1.47 B
Price/Sales	2.55
Price/Book	2.54
EV/Revenues	3.17
EV/EBITDA	19.81
Total Debt	295 M
Total Cash	8 M
Shares o/s	44.18 M
Short % of Float	10.10%

Stock Performance



Quarterly EPS

	1Q	2Q	3Q	4Q
2009A	$0.16	$0.27	$0.24	$0.11
2010E	$0.04A	$0.24A	$0.22A	$0.29E

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

Company Description

Eagle Materials Inc. produces building materials and construction products used in residential, industrial, commercial, and infrastructure construction in the United States. It operates in four segments: Gypsum Wallboard, Cement, Recycled Paperboard, and Concrete and Aggregates. The Gypsum Wallboard segment engages in the mining and extraction of gypsum from the ground; conversion of gypsum into plaster; mixing plaster with various chemicals and water to produce a mixture, known as slurry; and sale of gypsum sheets in appropriate lengths, dried, and bundled form. The Cement segment involves in the manufacture, production, distribution, and sale of Portland cement. Its Recycled Paperboard segment produces gypsum liner; alternative products, including containerboard grades and lightweight packaging grades; and recycled industrial paperboard grades. The Concrete and Aggregates segment engages in the mixing of cement, sand, gravel, or crushed stone and water to form concrete; and mining, extraction, production, and sale of crushed stone, sand, and gravel, as well as lightweight aggregates, such as expanded clays and shales. Its products are used in the construction and renovation of houses, roads, bridges, and commercial and industrial buildings, as well as structures, such as wind farms. The company, formerly known as Centex Construction Products, Inc., was founded in 1963 and is based in Dallas, Texas.

EXP products are commodities that are essential in the construction and renovation of houses, roads, bridges, commercial and industrial buildings and other, newer generation structures like wind farms. Demand for these products is generally cyclical, depending on economic and other geographic factors. EXP operations are geographically diverse, which subject the firm to the economic conditions in each such geographic market as well as the national market. General economic downturns or localized downturns in the regions where they have operations could have a material adverse effect on their business, financial condition and results of operations. EXP gypsum wallboard and paperboard operations are more national in scope and shipments are made throughout the continental U.S., except for the northeast, and therefore are more impacted by national downturns.

The markets of their cement companies are more regional due to the low value-to-weight ratio of cement, which generally limits shipments to a 150 mile radius of the plants by truck and up to 300 miles by rail. Concrete and aggregates are primarily local businesses that serve the areas immediately surrounding Austin, Texas and north of Sacramento, California. Cement, concrete and aggregates demand may fluctuate more widely than gypsum wallboard because local and regional markets and economies may be more sensitive to changes than the national market, as well as increased seasonal impact due to adverse weather.

While each of EXP's segments has been impacted by the economic downturn, the impact has been different for each segment. Gypsum wallboard, which is a national business, has been negatively impacted by the decrease in new home starts throughout the United States, as well as the decline in commercial construction. Utilization of EXP's gypsum wallboard manufacturing facilities, including their idled Bernalillo plant, declined to approximately 50% during fiscal year 2010, which also adversely impacted our recycled paperboard business. Recycled paperboard division earnings declined due to the decrease in sales of higher margin gypsum paper; however, the impact of the decrease in gypsum paper sales was partially offset by efficiency improvements that reduced the amount of natural gas and fiber used in the production process. EXP expects the residential housing market to improve slightly in fiscal 2011, but does not expect this improvement to materially increase industry utilization.

Business Segments

Cement. The cement business represents 34% of EXP's revenues. EXP's four cement plants operate as separate entities and have been manufacturing cement under the Eagle Materials umbrella for over 40 years. EXP facilities have a combined annual capacity of nearly 4 million tons. According to Jefferies research:

> Cement operating profit including the company's joint venture was $12.2M vs. Q2'11 of $19.5M and our estimate of $16.0M. Earnings were affected by about $5M due to major maintenance costs that did not occur a year ago. Total cement revenue was $66.6M, down 6.9% and below our estimate of $71.1M. Management believes we have not yet seen the bottom in cement prices, although we do not expect significant downside from current levels. Some suppliers have announced price increases in the $5–$7 per ton range for next year to offset expected higher environmental compliance costs. Given the weak environment, we are skeptical that any price increase will hold.

The principal sources of demand for cement is infrastructure, commercial construction and residential construction, with public works contracts comprising over 50% of total demand. Cement consumption has steadily declined since its peak in 2005. This decline is due to the general condition of the economy as well as the poor condition of the state budgets. Additionally, demand for cement is seasonal, particularly in northern states where inclement winter weather often affects construction activity. Cement sales are generally greater from spring through the middle of autumn than during the remainder of the year. The impact to EXP's business of regional construction cycles may be mitigated to some degree by our geographic diversification.

Concrete and Aggregates. The concrete and aggregate business represents 10% of EXP's business. EXP's concrete and aggregates division has been part of the Eagle Materials' portfolio for over 35 years. The firm operates concrete plants and aggregates quarries in Texas and California. Demand for readymix concrete and aggregates largely depend on local levels of construction activity. Construction activity is also subject to weather conditions, the availability of financing at reasonable rates and overall fluctuations in local economies, and therefore tends to be cyclical.

Both the concrete and aggregates industries are highly fragmented, with numerous participants operating in each local area. Because the cost of transporting concrete and aggregates is very high relative to product values, producers of concrete and aggregates typically can profitably sell their products only in areas within 50 miles of their production facilities. Barriers to entry in each industry are low, except with respect to environmental permitting requirements for new aggregates production facilities and zoning of land to permit mining and extraction of aggregates.

Paperboard. The paperboard business represents 11% of EXP's business. The newest edition to the Eagle Materials family, Republic Paperboard, was purchased in late 2000. Its operating facility is located in Lawton, OK and has an annual production capacity of about 320,000 tons.

Gypsum Wallboard**.** The gypsum business represents 45% of EXP's business. Gypsum wallboard is used to finish the interior walls and ceilings in residential, commercial and industrial structures. EXP's gypsum wallboard division, American Gypsum Company, has been part of Eagle Materials for nearly 25 years. The firm has four gypsum wallboard plants and two distribution yards located throughout the U.S. EXP's gypsum wallboard plants have a combined annual production capacity of nearly 4 billion square feet.

The principal sources of demand for gypsum wallboard are (i) residential construction, (ii) repair and remodeling, (iii) non-residential construction, and (iv) other markets such as exports and manufactured housing, which EXP estimates accounted for approximately 37%, 52%, 10% and 1%, respectively, of calendar 2009 industry sales. The gypsum wallboard industry remains highly cyclical; and closely follows construction industry cycles, particularly housing construction. Also, demand for wallboard can be seasonal and is generally greater from spring through the middle of autumn.

There are eight manufacturers of gypsum wallboard in the U.S. operating a total of approximately 65 plants. The three largest producers - USG Corporation, National Gypsum Company and Koch Industries - account for approximately 60% of gypsum wallboard sales in the U.S. Due to the commodity nature of the product, competition is based principally on price, which is highly sensitive to changes in supply and demand.

The U.S. wallboard industry continues to be adversely impacted by the current downturn in the residential and commercial construction markets, resulting in industry capacity utilization declining to approximately 50%. The reduction in capacity utilization continues to negatively impact gypsum wallboard pricing. Wallboard consumption during calendar 2009, as reported by the Gypsum Association, decreased approximately 27% from consumption in calendar year 2008. EXP does not anticipate wallboard consumption to improve significantly during calendar 2010. According to Jefferies research:

> Wallboard revenue and earnings were both below our recently lowered estimates. The wallboard segment revenue was down 11.3% yr/yr to $50.3M. Both prices and volumes were below expectations. Despite the lower sales, earnings were basically flat yr/yr at $1.3M, yielding an operating margin of 2.6%. Volumes and prices are expected to fall yr/yr next quarter.

Distribution

In total, EXP has four gypsum wallboard plants and two distribution yards located throughout the U.S. EXP sells gypsum wallboard to numerous building materials dealers, gypsum wallboard specialty distributors, lumber yards, home center chains and other customers located throughout the United States. Gypsum wallboard is sold on a delivered basis, mostly by truck. EXP generally utilizes third-party common carriers for deliveries. Two customers with multiple shipping locations accounted for approximately 20% of EXP's total gypsum wallboard sales during fiscal 2010. The loss of these customers could have a material adverse effect on the financial results of the gypsum wallboard segment.

Key Drivers

We believe there are 4 main forces that affect EXP: 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]

***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 EXP 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 EXP.

***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

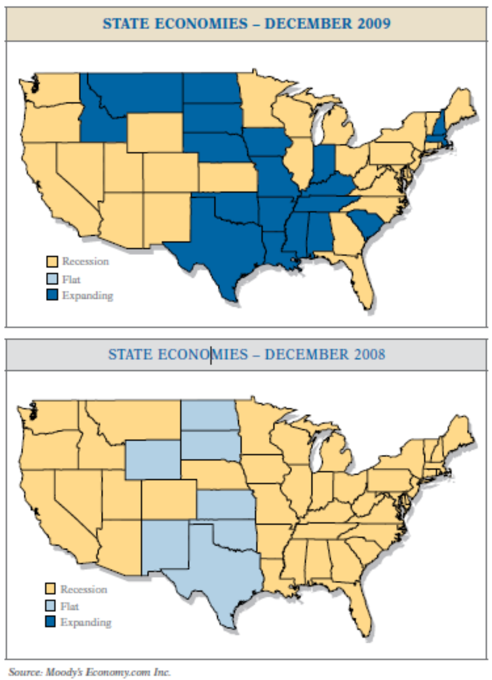
[1] American Recovery and Reinvestment Act of 2009 (ARRA) Action Plans: http://www.georgia.gov/vgn/images/portal/cit_1210/60/13/144564719DOT%20Action%20Plan-%206.18.09.pdf

[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.

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]

In terms of state budgets, 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. For context, only 15 states made cuts in 2009.

Exhibit 1
State Economies



Source: Martin Marietta Materials, Annual Report 2009

***Pricing Concerns*.** EXP has seen ongoing decreases in product pricing. This 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.

[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

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 increase significantly *until the private sector assumes a recovery*.[4] 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

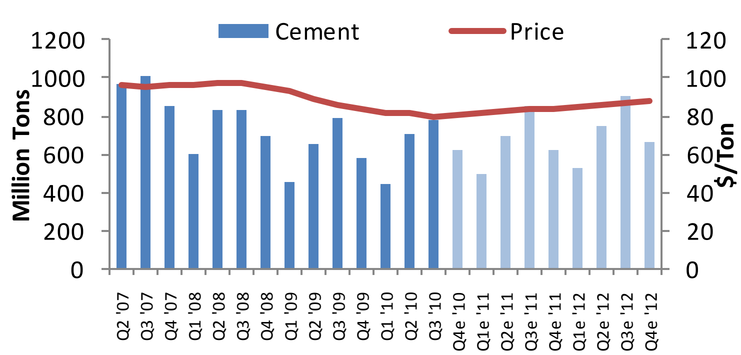
Given that most of the large building materials companies are suffering from the construction downturn and some even from financial distress, we do not think that EXP will suffer a takeover in the near future. But, as the economy recovers, it could be a perfect target for local or national building material companies looking to expand their footprint in Texas. In November 2009, EXPs stock had a slight upswing do to rumors that a competitor (USG) could be taken private by Knauf International.

EXP strategy has been more focused in organic growth rather than acquisitions. They have only participated in 4 acquisitions in the past 13 years.

Product Shipment and Price Analysis

EXP's building material shipments have been pretty cyclical, the analysis below shows that Q2 and Q3 are the highest selling periods. Recently, EXP announced their Q3 volumes, and their numbers fell below expectations. Q3 volume was 2% lower than 2009 in a YoY basis. We believe that EXP's shipments will not experience a substantial recovery during 2010, but we expect volumes to start rising in 2011. All of the products have experienced a decrease in average selling over the past quarters. Our regression analysis suggests that revenues will return to 2007 levels until 2015.

Exhibit 2
EXP's Cement Shipments and Price (M Tons and US $/Ton)



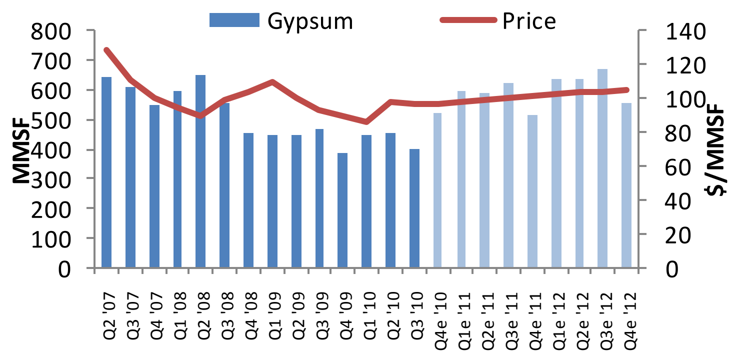
Source: EXP Materials Inc., G&S forecasts for 2010-2012

[4] We believe this will be in 2015.

Exhibit 3

EXP's Gypsum Wallboard Shipments and Price

Million Square Foot and US $/MMSF

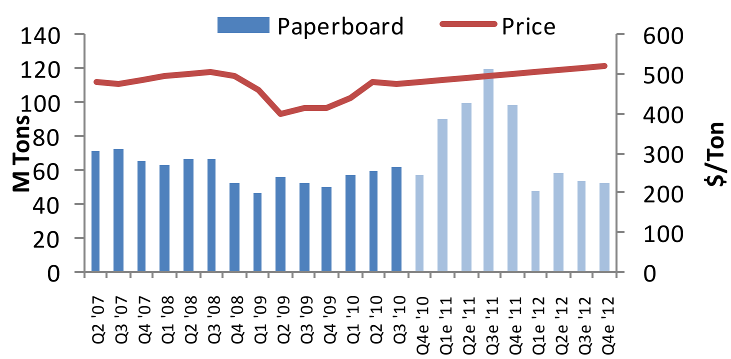


Source: EXP Materials Inc., G&S forecasts for 2010-2012

Exhibit 4

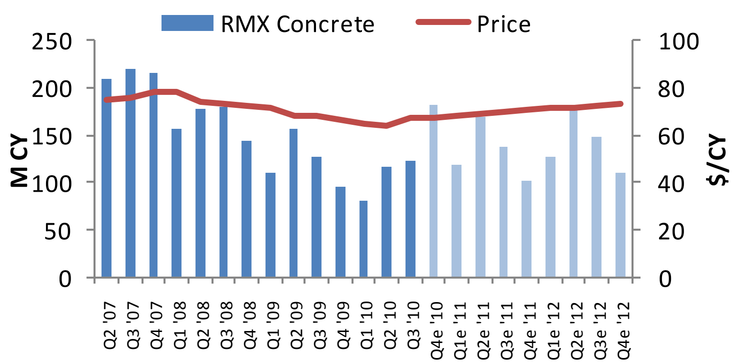
EXP's Paperboard Shipments and Price

Million Tons and US $/Ton



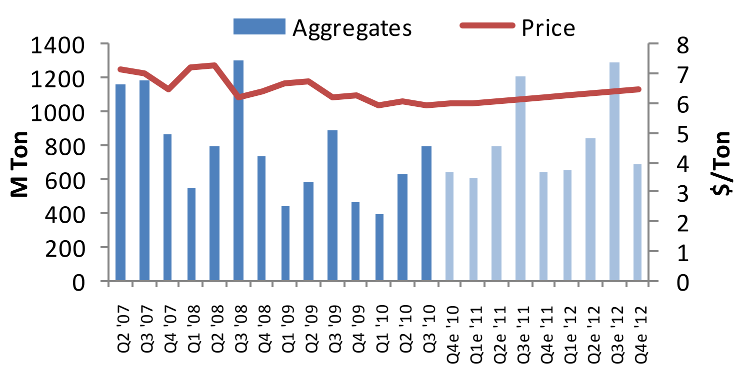
Source: EXP Materials Inc., G&S forecasts for 2010-2012

Exhibit 5
EXP's Readymix Shipments and Price
Million Cubic Yards and US $/CY



Source: EXP Materials Inc., G&S forecasts for 2010-2012

Exhibit 6
EXP's Aggregates Shipments and Price
Million Tons and US $/Ton



Source: EXP Materials Inc., G&S forecasts for 2010-2012

Ownership[5]

Breakdown	
% of Shares Held by All Insider and 5% Owners:	17%
% of Shares Held by Institutional & Mutual Fund Owners:	79%
% of Float Held by Institutional & Mutual Fund Owners:	95%
Number of Institutions Holding Shares:	147

Major Direct Holders (Forms 3 & 4)

Holder	Shares	Reported
ROWLEY STEVE	320,598	Sep 18, 2010
GRAASS JAMES H	37,158	Sep 10, 2010
ESSL GERALD J	29,546	Aug 21, 2009
KESLER DALE CRAIG	13,988	Aug 21, 2009
DEVLIN WILLIAM R	13,984	Aug 21, 2010

Top Institutional Holders

Holder	Shares	% Out	Value*	Reported
FMR LLC	4,319,630	9.78	$112,008,005	Jun 30, 2010
MORGAN STANLEY	4,067,593	9.21	$105,472,686	Jun 30, 2010
WELLINGTON MANAGEMENT COMPANY, LLP	2,695,970	6.11	$69,906,502	Jun 30, 2010
VANGUARD GROUP, INC. (THE)	1,975,647	4.47	$51,228,526	Jun 30, 2010
FIDUCIARY MANAGEMENT, INC.	1,535,670	3.48	$39,819,923	Jun 30, 2010
BlackRock Fund Advisors	1,501,929	3.40	$38,945,018	Jun 30, 2010
THOMSON HORSTMANN & BRYANT, INC.	1,206,650	2.73	$31,288,434	Jun 30, 2010
OPPENHEIMER FUNDS, INC.	1,093,575	2.48	$28,356,399	Jun 30, 2010
WEITZ (WALLACE) R. & COMPANY	1,011,670	2.29	$26,232,603	Jun 30, 2010
BlackRock Institutional Trust Company, N.A.	949,595	2.15	$24,622,998	Jun 30, 2010

Top Mutual Fund Holders

Holder	Shares	% Out	Value*	Reported
FIDELITY MAGELLAN FUND INC	3,800,000	8.61	$87,210,000	Aug 31, 2010
MORGAN STANLEY INST FD INC-SMALL COMPANY GROWTH PORT	1,326,408	3.00	$34,393,759	Jun 30, 2010
OPPENHEIMER MAIN STREET SMALL CAP FUND	753,810	1.71	$19,546,293	Jun 30, 2010
BARON SMALL CAP FUND	600,000	1.36	$15,558,000	Jun 30, 2010
ISHARES S&P SMALLCAP 600 INDEX FD	598,922	1.36	$13,745,259	Aug 31, 2010
VANGUARD SMALL-CAP INDEX FUND	577,477	1.31	$14,973,978	Jun 30, 2010
FMI COMMON STOCK FD	530,900	1.20	$13,766,237	Jun 30, 2010
WEITZ PARTNERS INC. - PARTNERS VALUE FUND	525,000	1.19	$13,613,250	Jun 30, 2010
FIDELITY CANADIAN GROWTH COMPANY FUND	500,000	1.13	$11,475,000	Aug 31, 2010
VANGUARD TOTAL STOCK MARKET INDEX FUND	440,028	1.00	$11,409,926	Jun 30, 2010

[5] Yahoo Finance

Regression Analysis and Assumptions

We regressed the product revenues from the different business segments against GDP and unemployment (refer to regression results on the backups). The regression assumptions are the following:

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[6]. We also analyzed GDP predictions from the National Institute of Economic and Social Research and found that their predictions fall within 3.4% of accuracy.[7]

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.

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

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 EXP's debt to equity level is not constant, we decided to value the business using an APV model. The base case scenario which considers a terminal growth of 2.4% results in an enterprise value of US$1.4B and a US$26.27 price per share. Today, EXP is trading at US$26.64, which means that the market is undervaluing EXP by 1.4%, which is not significant.

Valuation Sensitivity Analysis

The following tables show the sensitivity analysis for EXP's APV valuation.

Enterprise Value

	Million US	Equity Beta				
		1.00	1.25	1.52	1.75	2.00
Growth Rate	2.20%	2,069.54	1,705.00	1,430.85	1,259.93	1,114.67
	2.30%	2,096.31	1,722.57	1,442.83	1,269.02	1,121.65
	2.40%	2,123.99	1,740.63	1,455.12	1,278.32	1,128.79
	2.50%	2,152.61	1,759.21	1,467.71	1,287.84	1,136.09
	2.60%	2,182.22	1,778.33	1,480.63	1,297.60	1,143.56

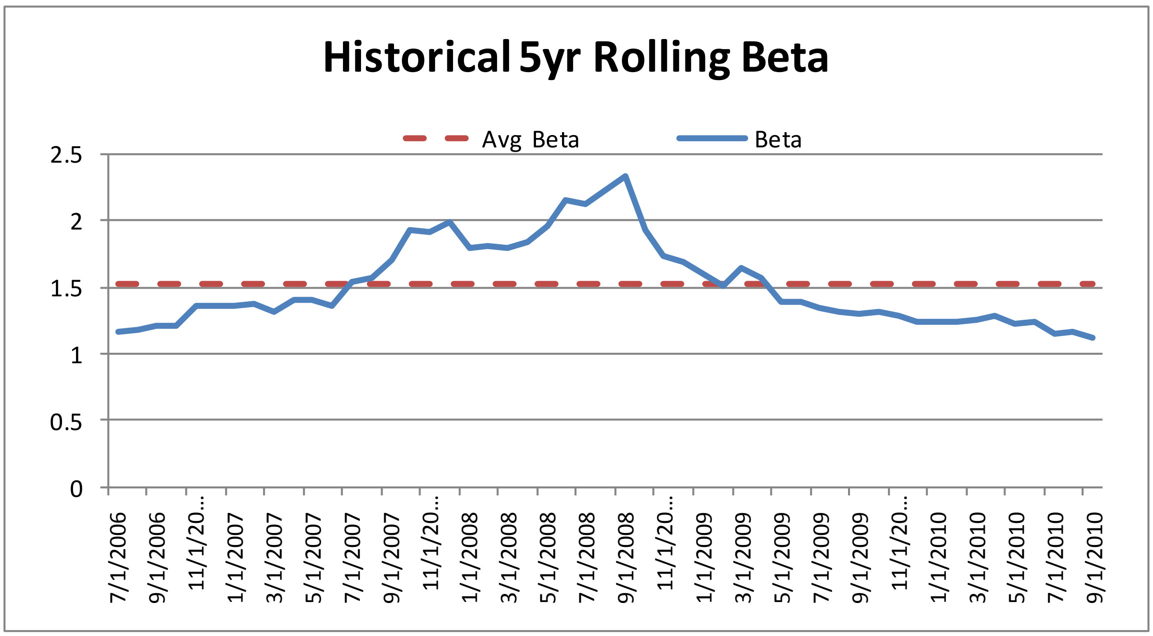
Price per Share

	Million US	Equity Beta				
		1.00	1.25	1.52	1.75	2.00
Growth Rate	2.20%	40.18	31.93	25.72	21.85	18.56
	2.30%	40.79	32.33	25.99	22.06	18.72
	2.40%	41.42	32.74	26.27	22.27	18.88
	2.50%	42.07	33.16	26.56	22.48	19.05
	2.60%	42.74	33.59	26.85	22.70	19.22

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	25.0%	Source: Company 10K

	Eagle Materials
Beta Equity	1.52
Beta Debt	0.60
D/E	24.79%
Beta Asset	1.38
WACC	10.63%
Unlevered cost Equity (Ra)	11.19%
Levered cost Equity (Re)	12.08%



Valuation Model

Eagle Materials Inc. Valuation Model

Tax rate	25.00%	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	6.40%	Average cost of debt 10K
βd	0.60	Implied debt beta
βE	1.52	from Stock return analysis
Re	12.08%	Cost of Equity
βa	1.38	Asset Beta (unlevered beta)
Average D/E	24.79%	Current D/E ratio
WACC	10.63%	
Ra	11.19%	unlevered cost of equity
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	**908.80**	**751.40**	**559.29**	**547.43**	**596.05**	**659.75**	**720.65**	**785.68**	**859.97**	**928.76**
Cement	345.20	289.50	213.57	206.39	225.65	250.73	276.48	304.41	335.09	361.90
Gypsum Wallboard	342.60	279.30	220.95	205.54	225.80	252.44	276.68	302.28	332.36	358.95
Paperboard	133.40	116.40	76.12	94.45	99.71	106.64	112.81	119.30	127.01	137.18
Concrete and Aggregates	87.60	66.20	48.65	41.05	44.89	49.94	54.67	59.69	65.50	70.74
Cost of Goods Sold	**(726.12)**	**(646.92)**	**(501.45)**	**(481.74)**	**(518.57)**	**(570.69)**	**(605.34)**	**(644.25)**	**(687.97)**	**(733.72)**
Gross Profit	**182.68**	**104.48**	**57.84**	**65.69**	**77.49**	**89.07**	**115.30**	**141.42**	**171.99**	**195.04**
SG&A (incl D&A and other income)	(18.76)	(16.90)	(15.89)	(16.42)	(17.88)	(17.81)	(18.02)	(18.86)	(19.78)	(27.86)
Operating Income (EBIT)	**163.92**	**87.58**	**41.95**	**49.27**	**59.61**	**71.25**	**97.29**	**122.57**	**152.21**	**167.18**
Taxes on EBIT	**(46.62)**	**(20.42)**	**(10.39)**	**(12.32)**	**(14.90)**	**(17.81)**	**(24.32)**	**(30.64)**	**(38.05)**	**(41.79)**
NOPLAT	**117.30**	**67.16**	**31.56**	**36.95**	**44.70**	**53.44**	**72.97**	**91.92**	**114.16**	**125.38**
Depreciation & Amortization	44.85	51.23	50.78	38.32	41.72	44.86	49.00	55.00	60.20	63.16
Change in Working Capital	(50.89)	(27.10)	21.64	12.75	(12.77)	(9.56)	(10.58)	(10.67)	(17.39)	(11.01)
Net CAPEX	(96.86)	(16.08)	(13.78)	(16.42)	(17.88)	(19.79)	(21.62)	(23.57)	(25.80)	(27.86)
Free Cash Flow	**14.41**	**75.21**	**90.21**	**71.60**	**55.78**	**68.96**	**89.77**	**112.68**	**131.17**	**149.67**
Terminal Value										**1,743.48**
Discount Factor				**1.00**	**0.90**	**0.81**	**0.73**	**0.65**	**0.59**	**0.53**
PV FCF				**71.60**	**50.16**	**55.77**	**65.31**	**73.72**	**77.18**	**1,001.79**
NPV FCF	**1,395.53**									
Debt Benefits										
Debt Balance	200.00	400.00	355.00	303.00	285.00	285.00	247.00	247.00	169.80	169.80
Increase	200.00	-	-	-	-	-	-	-	-	-
Amortization	-	(45.00)	(52.00)	(18.00)	-	(38.00)	-	(77.20)	-	-
Ending Balance	400.00	355.00	303.00	285.00	285.00	247.00	247.00	169.80	169.80	169.80
Interest on debt	21.07	28.92	21.46	16.19	15.23	15.23	13.20	13.20	9.07	9.07
Tax Shield	5.99	6.74	5.31	4.05	3.81	3.81	3.30	3.30	2.27	2.27
Free Cash Flow	5.99	6.74	5.31	4.05	3.81	3.81	3.30	3.30	2.27	2.27
Terminal Value										58.10
Discount Factor				1.00	0.94	0.88	0.83	0.78	0.73	0.69
PV Tax Shield				**4.05**	**3.58**	**3.36**	**2.74**	**2.57**	**1.66**	**41.61**
NPV Tax Shield	**59.58**									
Enterprise Value	**1,455.12**									
Outstanding Debt	295.00	as of Nov 14th 2010								
Equity Value	**1,160.12**									
Shares Outstanding	**44.16**	million shares								
Price per share	**$ 26.27**									

Conclusions

Our APV analysis shows that both the enterprise value and the price per share are only slightly below the market data. **We are issuing a hold rating on EXP and we believe the market is correctly valuing the stock price considering a 12 month horizon.**

EXP represents a unique building materials firm given that it has a more diversified product line. Cement, concrete and aggregates lend themselves to infrastructure and public spending, while gypsum and paperboard are more utilized in the private sector (commercial and residential construction).

In terms of infrastructure, 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.

One final concern is the extended price softening on all of EXP'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 accurate in regard to EXP's stock price.**

After analysis we feel that the fair 12 month target price a range of US$26-27 per share. We believe in the short term the stock price will continue to be float until the market regains confidence on the building materials industry. **Today, EXP is trading at US$26.64, which means that the market is undervaluing EXP by 1.4%, which is not significant.**

Back-ups

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

Quarterly EPS Forecast

Numbers in Million $	**2010 Q4**
Total Revenue	**54.74**
Cost of Goods Sold	**(48.17)**
Gross Profit	**6.57**
SG&A	(1.64)
Operating Income (EBIT)	**4.93**
Taxes on EBIT	**(1.23)**
NOPLAT	**3.70**
Depreciation & Amortization	3.83
Change in Working Capital	1.28
Net CAPEX	(1.64)
Free Cash Flow	**7.16**
Net Income	**12.98**
Free Cash Flow	7.16
Interest expense	1.62
Depreciation	3.83
Change in WC	(1.28)
CAPEX	1.64
EPS	0.29

Concrete and Aggregates Revenues Regression

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.950217739
R Square	0.902913752
Adjusted R Square	0.838189586
Standard Error	7065.648127
Observations	6

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	1392880357	696440178.6	13.95017986	0.03025078
Residual	3	149770150.4	49923383.45		
Total	5	1542650508			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-3357.03598	42592.41387	-0.078817697	0.942140538	-138905.1061	132191.0341	-138905.1061	132191.0341
GDP	9.786704794	3.486607813	2.80694168	0.067463459	-1.309237358	20.88264695	-1.309237358	20.88264695
Unemployment	-8943.880307	1695.137683	-5.27619697	0.013274376	-14338.56496	-3549.195652	-14338.56496	-3549.195652

Cement Revenues Regression

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.964246229
R Square	0.92977079
Adjusted R Square	0.882951317
Standard Error	22994.25428
Observations	6

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	20999938878	10499969439	19.85863418	0.018611298
Residual	3	1586207190	528735729.9		
Total	5	22586146068			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-481087.9803	138611.6004	-3.470762757	0.040324062	-922211.9559	-39964.00479	-922211.9559	-39964.00479
GDP	67.50068359	11.34672222	5.948914784	0.00949846	31.39034937	103.6110178	31.39034937	103.6110178
Unemployment	-26107.24371	5516.610256	-4.732479275	0.017883636	-43663.55963	-8550.927781	-43663.55963	-8550.927781

Gypsum Revenues Regression

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.808878944
R Square	0.654285147
Adjusted R Square	0.423808578
Standard Error	76860.36603
Observations	6

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	33540935657	16770467828	2.838835851	0.203271765
Residual	3	17722547597	5907515866		
Total	5	51263483253			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	100167.4504	463321.7592	0.216194142	0.842702458	-1374329.17	1574664.071	-1374329.17	1574664.071
GDP	37.37782213	37.92744104	0.985508674	0.397037854	-83.32422245	158.0798667	-83.32422245	158.0798667
Unemployment	-43773.12345	18439.76666	-2.373843674	0.098162224	-102456.6907	14910.44383	-102456.6907	14910.44383

Paperboard Revenues Regression

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.972697135
R Square	0.946139716
Adjusted R Square	0.91023286
Standard Error	6167.659456
Observations	6

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	2004696638	1002348319	26.34983461	0.012499797
Residual	3	114120069.5	38040023.16		
Total	5	2118816708			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	81470.05725	37179.25085	2.191277538	0.11611542	-36850.91224	199791.0267	-36850.91224	199791.0267
GDP	7.411111234	3.043487202	2.435072252	0.092908007	-2.274623366	17.09684583	-2.274623366	17.09684583
Unemployment	-10585.14109	1479.698928	-7.153577589	0.005625517	-15294.20348	-5876.078705	-15294.20348	-5876.078705

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