The Wisman Fund
John L. Grove College of Business
Cody Willoughby

HOLD MARTIN MARIETTA MATERIALS, INC. (MLM) 4.10.2024

INVESTMENT THESIS

I recommend holding Martin Marietta Materials (MLM). The Wisman Fund has held MLM for just over 6 years. During this time, MLM has expanded its market segmentation through mergers and acquisitions, and provided building materials to infrastructure projects around the globe. Currently, Martin Marietta Materials is priced at a 72% premium.[3] This is an alarming statistic for the Investment Management Program. However, it can be justified by metrics like holding return, yearly performance, industry performance, and demand for aggregates. The holding period return for MLM is about 187%, averaging roughly 30% per year since its purchase in late 2017. MLM has outperformed the index and industry over the long term. Its industry, building materials, outperforms the S&P 500 index across the YTD, 1-year, 3-year, and 5-year intervals. These performances are supported by the production, sale, and usage of aggregates in the global pursuit for better infrastructure. In a global economic environment where an ever-changing infrastructure battle is taking place, early investment into those "who sell shovels" is crucial to the benefit of the Wisman Fund. This will be heavily discussed in the investment thesis portion of this analysis. It is important that the Wisman Fund realizes the value to be had in not only this company, but also, the sector and the aggregates industry.

DRIVERS OF THESIS

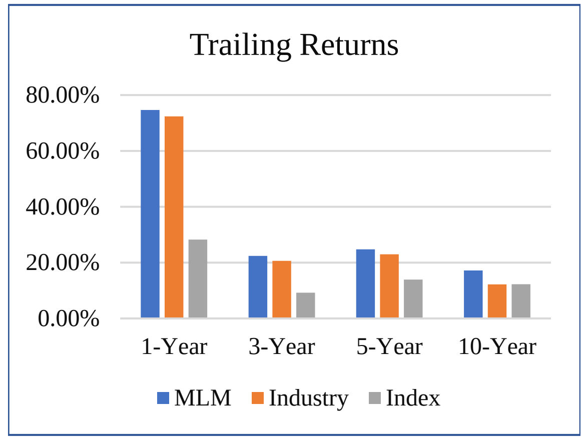
- Building Materials Industry Consistent Performance
- Increased Aggregates Demand
  - Seasonal Infrastructure Projects
  - Global Infrastructure Projects
  - Infrastructure Development and Economic Stimulus
  - Aggregates industry CAGR of 4.9% to 2032
- Ride the Wave, Early to the Party
- EPS Growth Estimates

FIVE YEAR PERFORMANCE

Data Source: Yahoo Finance

Martin Marietta Materials, Inc.

NYSE	MLM
Price	$604.09
Fair Value	$350.00
Sector	Materials
Industry	Building Materials

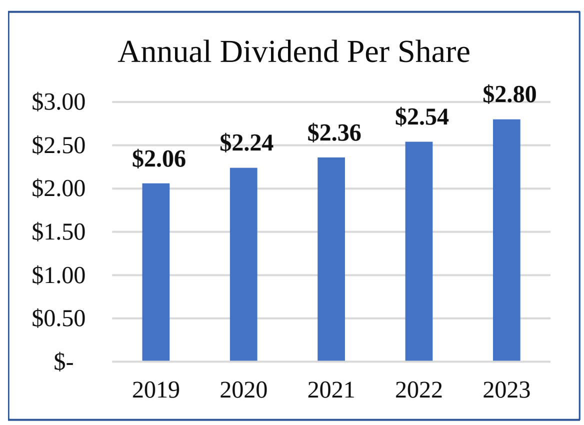


Wisman Fund Characteristics

Shares	7
Holding Period	6.33 Years
Holding Period Return	187.4%
YTD Return	21.2%

Key Statistics

Market Cap	$37.3463 B
Shares Outstanding (M)	61.82
EBITDA (TTM)	$2.17 B
Five Year Beta	0.95
Forward Dividend Yield	0.48%
Price/Earnings	31.59
Price/Sales	5.59
Price/Book	4.70
Price/Cash Flow (TTM)	22.59



COMPANY SUMMARY

Martin Marietta Materials, Inc. is a leading natural resource-based building materials company operating across the United States and internationally. With five distinct operating divisions, Martin Marietta supplies aggregates and heavy-side building materials essential to the construction industry. Its extensive product range includes crushed stone, sand, and gravel, as well as ready mixed concrete, asphalt, and paving products and services. Catering to diverse sectors such as infrastructure projects, residential and nonresidential construction, railroad, agricultural, utility, and environmental industries, the company also offers Portland and specialty cement, magnesia-based chemicals, dolomitic lime, and cement treated materials. Martin Marietta Materials, Inc. prioritizes continuous improvement in employee health and well-being, world-class safety, commercial and operational excellence, and sustainable business practices. This commitment, as stated by MLM, positions the company to deliver compelling results for the foreseeable future.[2]

BUSINESS MODEL

Martin Marietta Materials, Inc. operates on a multifaceted business model, leveraging its expertise in resource extraction, manufacturing, distribution, and diversification. Primarily, however, MLM acts as a supplier of essential building materials to the construction industry. This begins with the mining, processing, and selling of natural resources such as crushed stone, sand, gravel, cement, and magnesia. These materials form the backbone of various construction projects, ranging from infrastructure development to residential and commercial building construction. With a strong emphasis on operational excellence, sustainability, and continuous improvement, MLM remains poised to meet the evolving demands of the construction industry while ensuring long-term viability and success.[2]

Aggregates

Martin Marietta produces aggregates in the form of fine, base, coarse, rip rap, and other specialty aggregates products. Aggregates are better defined as construction materials like sand, gravel, stone, and slag. Fine aggregates are more refined versions of these materials used for concrete, asphalt, and snow and ice control. Base aggregates are slightly larger materials used for the foundations of highways and structures, driveways, and infrastructure stabilization, Coarse aggregates are even larger than these small materials and they are used for concrete, asphalt, railroads, and runoff water construction projects. Rip rap aggregates are larger materials used in erosion control, jetties, landscaping, and shoreline protection. Aggregates are used from the foundation to the final product of infrastructure projects.[2]

Cement

MLM utilizes six different types of cement ranging from Portland cement, Portland limestone cement, Masonry cement, lightweight cement, class C cement, and type 3 cement. Their individual purposes range from soil stabilization, general construction, foundation walls, oil well infrastructure, road paving, and infrastructure foundations.[2]

Asphalt

Martin Marietta is a large producer of asphalt materials used in driveways, sidewalks, roads, and parking lot construction. Their product mix of asphalt ranges from cold mix, warm mix, hot mix, and paving services.[2]

Concrete

Martin Marietta Materials produces concrete, a building material created through the proper mixing of cement, water, sand, and rock. These concrete products are used in the foundation of infrastructure projects, driveways, patios, pools, foundation walls, bridge decks, municipal sidewalks, and highways.[2]

Magnesia

Martin Marietta Magnesia Specialties, a subsidiary of Martin Marietta, is a leading producer of high purity magnesium oxide, magnesium hydroxide and dolomitic lime products, which are used in a variety of environmental, industrial, chemical, and specialty applications. These applications include projects involving agricultural, electrical sleep, fuel, mining, industrial, glass, power generation, rubber and plastic, and water treatment.[2]

BUSINESS SEGMENTS – BUILDING MATERIALS

As discussed, Matin Marietta Materials Inc. is very diversified in terms of products. This section will examine the importance of aggregates and cement products as reported by MLM across 2023.

Aggregates

Throughout the year, 2023, aggregates shipments saw fluctuations: Q1 shipments decreased by 0.8%, Q2 by 5.7%, Q3 by 7.3%, and Q4 by 2.1%. However, pricing steadily increased: Q1 by 22.6%, Q2 by 18.6%, Q3 by 20.0%, and Q4 by 15.0%. Despite lower shipments, gross profit soared: Q1 to $238.1 million (131.7% increase), Q2 to $370.9 million (20.7% increase), Q3 to $440.6 million (32.1% increase), and Q4 to $328.6 million (36.8% increase). This reflects the company's effective pricing strategy and commercial philosophy prioritizing value over volume. This also emphasizes the importance of aggregates in Martin Marietta's business model.[2]

Cement

Throughout the year, 2023, the cement segment experienced varying trends. In Q1, despite robust demand, shipments declined by 6.8% due to adverse weather conditions in Texas. However, pricing surged by 32.2%, setting a record for Martin Marietta. Q2 saw an increase in shipments by 21.8%, with pricing continuing to rise. Q3 shipments remained relatively flat while pricing increased by 18.9%, reflecting sustained pricing momentum. In Q4, Texas shipments decreased by 8.1% due to weather, but pricing increased by 16.6%, driven by favorable supply dynamics. Despite shipment declines, gross profit consistently soared: Q1 to $47.1 million (75.4% increase), Q2 to $93.3 million (84.0% increase), Q3 to $108.7 million (61.5% increase), and Q4 to $84.5 million (46.0% increase), with gross margin significantly expanding each quarter. [2]

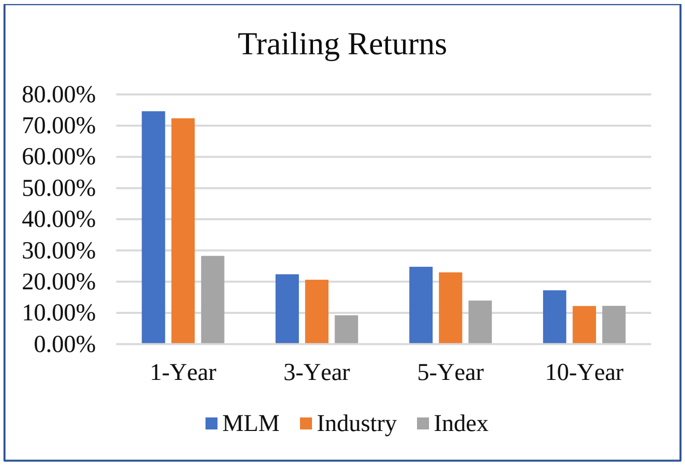
BUSINESS SEGMENTS – MAGNESIA SPECIALTIES

Magnesia

In the Magnesia Specialties sector, revenues saw a steady rise throughout the year. Q1 recorded a revenue increase to $83.4 million, while Q2 remained stable at $80.5 million. Q3 revenues held at $75.5 million, and Q4 surged to $76.0 million. Despite fluctuations in demand, pricing strategies led to consistent gross profit growth, reaching $23.0 million in Q4, a 14.9% improvement over the previous year, supported by energy efficiencies. [2]

STOCK PERFORMANCE

Martin Marietta Materials, Inc.'s stock return has outperformed the S&P 500 index, and building materials industry over the past 1, 3, 5 and 10 years. YTD, MLM has a return of 21.2%, outperforming the S&P 500, building materials industry, and materials sector.



Data Source: Morningstar.com

Data Source: Yahoo Finance

As discussed in the investment thesis portion of the analysis, Martin Marietta Materials, Inc.'s stock has returned the Wisman Fund roughly 187%. This consistent performance from MLM cannot go unnoticed. As mentioned, many times throughout meetings and discussion, stock prices are not always related to the company. In this case, yes, the stock price is deemed overvalued by analysts across different investment platforms, but the company and what they produce has room to grow.

RECENT DEVELOPMENTS

News & Acquisitions

CRH Divestment:

On November 21st, 2023, Martin Marietta Materials announced its agreement to sell its South Texas cement business and some concrete operations to CRH Americas Materials, Inc., a competitor in the industry. According to the CEO of Martin Marietta Materials, this sale is '"Consistent with [their] SOAR (Strategic Operating Analysis and Review) 2025 objectives, [they] continually examine ways to optimize [their] portfolio and product mix through asset purchases, exchanges and/or divestitures. After thorough evaluation, [they] believe that monetizing these operations is in the Company's best interests to maximize near-, medium- and long-term stakeholder value"' [2]

Albert Frei & Sons Acquisition:

On January 16th, 2024, MLM announced that they completed the acquisition of Albert Frei & Sons, Inc ("AFS"). AFS was a leading aggregates producer in Colorado. Thiis acquisition expanded MLM's hard rock reserves "to better serve new and existing customers." The CEO stated, "The acquisition, wholly consistent with [their] strategic plan, enhances [their] aggregates platform in the high-growth, Denver metropolitan area and strengthens [their] ability to deliver significant value for shareholders and customers."[2]

Blue Water Industries LLC Acquisition:

On February 11th, 2024, Martin Marietta Materials announced its definitive agreement to acquire 20 active aggregates operations in Alabama, South Carolina, South Florida, Tennessee, and Virginia from affiliates of Blue Water Industries LLC (BWI Southeast) for $2.05 billion in cash.

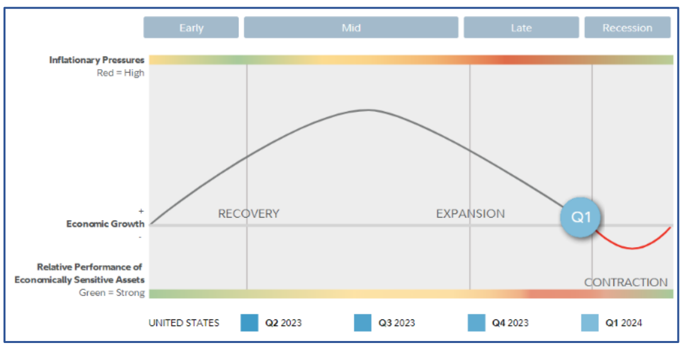
INVESTMENT THESIS

The investment thesis is based on a top-down analysis of economic drivers, aggregates demand, ESG ratings, financial analysis, and the constant growth dividend discount model (Gordon growth model) to calculate fair value.

ECONOMIC DRIVERS

Economic Analysis

Fidelity expresses that the United States is currently in the late expansion phase of the business cycle.



Data Source: Fidelity.com

Currently, the United States and the world is keeping close attention to the actions of the FED and Chairman Powell, will they cut interest rates?

This is the question that is on the top of the minds of institutional and retail investors alike. However, it is important to address other economic factors first before this can be answered. The 2024 change in real GDP trumped December projections, the unemployment is projected to remain steady for the next two years, PCE inflation is expected to fall, and the market has performed extraordinarily well across 2023 and into the early stages of 2024.[4] The Investment Management Program analysts have interpreted these facts and projections and concluded the FED will not cut interest rates as many times as projected in the beginning of the year. The following graph shows a correlation between federal rate cuts and recessionary periods in the United States. The gray bars notate a recessionary period.

Source: FRED

This correlation has been ever present since 1955. The economic outlook that was determined by the analysts ultimately questions, why would the FED cut rates in a time of prosperity for the United States. This is ultimately the narrative that the analysts are following in preparing the Wisman Fund for the passive management period.

Materials Sector

The materials sector is essential to the global economy due to its role in producing the raw materials and commodities necessary for the construction, manufacturing, and infrastructure development across various industries. A thriving materials sector is often a sign of economic growth and development. Investment in infrastructure and construction stimulates economic activity, creating jobs and driving demand for materials. The materials sector contains industries involved with chemicals, construction, containers & packaging, metals & mining, and paper & forest products. The materials sector is highly sensitive to changes in global supply and demand dynamics. Economic growth, industrial production, and infrastructure development influence the demand for commodities like metals, minerals, and energy resources like oil and gas.

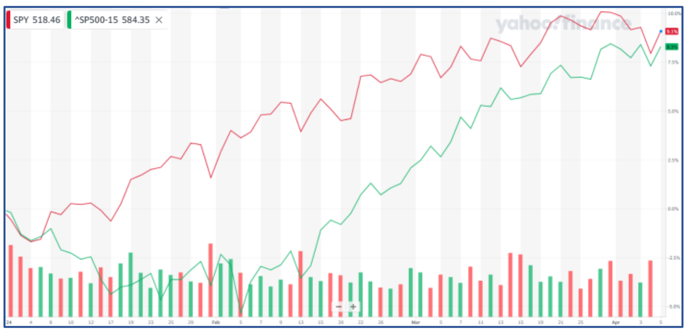
The materials sector has historically underperformed. The sector is the third lowest weighted in the S&P 500 with a 2.4% allocation as of March 28th, 2024. During this business cycle phase, the materials sector tends to earn returns similar to the market, confirmed by the chart and graph below.

Business cycle

Historical performance of sectors during business cycle phases.

Sector	Early	Mid	Late	Recession
Materials	+	– –		–

Data Source: Fidelity.com

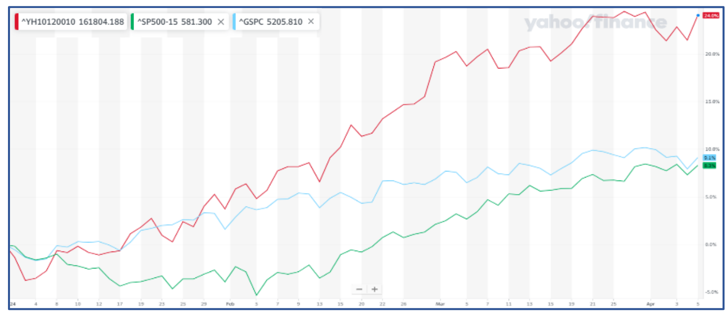


Data Source: Yahoo Finance

Building Materials Industry

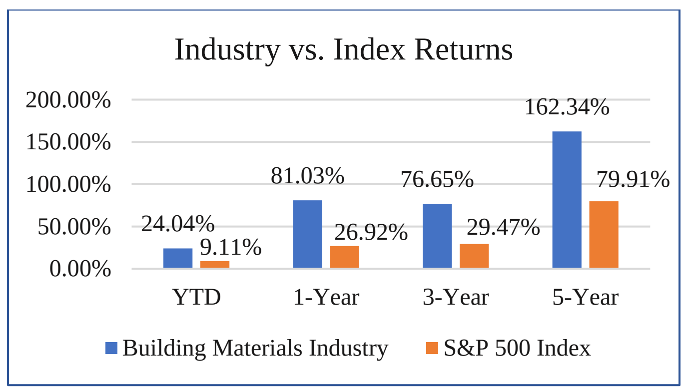
The construction and infrastructure industries, and the building materials industry share a critical and interdependent relationship. Infrastructure projects depend heavily on the building materials sector to furnish essential supplies such as aggregates, cement, asphalt, timber, and glass. These materials serve as the foundation for constructing buildings, roads, bridges, and other structures. Among these components, aggregates stand out as a crucial element. Aggregates, such as gravel, sand, and crushed stone, form the bulk of concrete mixes, providing strength and stability to structures. Their availability and quality profoundly impact construction projects, making them a cornerstone of the building materials sector.

Martin Marietta Materials is one of the largest producers of aggregate products in the building materials industry. It is crucial for this analysis to not only address the importance and consistent outperformance of the building materials industry, but also examine the overall aggregates industry when addressing the company specific factors. The YTD total return chart below reflects the return trends of the building materials industry (red), the materials sector (green), and the S&P 500 index (blue).



Data Source: Yahoo Finance

The below graph shows the trailing returns for the building materials industry compared to the S&P 500 index.

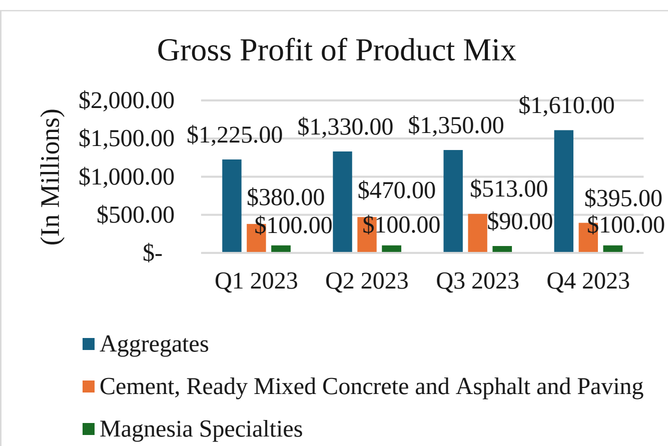


Source: Yahoo Finance

The building materials industry's impact on the other 10 sectors is hard to overstate because nothing gets manufactured, built, or packaged without them. On top of this symbiotic relationship, the industry constitutes the production of aggregates, a key portion to infrastructure projects around the globe. This is confirmed by the industry's staggering overperformance across each time interval.

Company Specific Factors

According to research completed by Capstone Partners' rock products and aggregates industry analysis. They found that Martin Marietta Materials achieved a significant 32.1% year-over-year growth in gross profit within its aggregates segment during Q3. This growth was supported by a notable 20% rise in prices, as detailed in its earnings report. Similarly, Martin Marietta's cement segment experienced a parallel trend, with gross profit soaring by 61.5% year-over-year, driven by an 18.9% increase in pricing despite relatively stable shipment volumes. The pricing strength exhibited by Martin Marietta in the aggregates industry underscores its resilience, allowing them to achieve substantial profit growth even amid lower volume levels. Looking ahead to 2024, "the company expects that aggregates demand for infrastructure, large-scale energy and domestic manufacturing projects will be strong, largely offsetting weaker residential demand and anticipated softening in light nonresidential activity. That said, as mortgage rates stabilize and affordability headwinds recede, the company fully expect single-family residential construction to recover, as demand still far exceeds supply particularly in its key markets. The company expects 2024 to be an even better year with guidance in the $6.7-7.2 billion range for total revenues."[6]



Source: Martin Marietta Materials

AGGREGATES DEMAND

In 2023 the aggregates market was valued at $534.94 billion and is projected to reach $837.3 billion by 2030, with a CAGR of 5.71%.

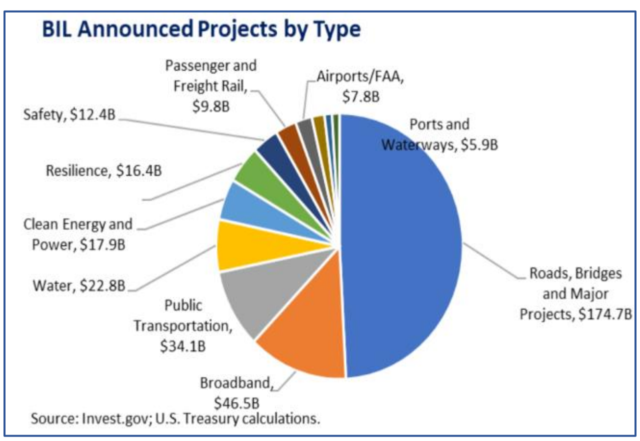
With a steady growth forecast for the aggregates industry, this section will look at the overall importance, and supply and demand of aggregates in a multifaceted way.

Aggregates and Infrastructure

Infrastructure development globally is a driving force behind the construction aggregates market, fueled by ongoing projects such as roads, bridges, and urban infrastructure, which contribute to consistent demand for aggregates, propelling market growth. The aggregates industry serves as a fundamental component of infrastructure development, providing the basic building blocks essential for various projects. Crushed stone, sand, and gravel are utilized in constructing roads, bridges, airports, railways, and dams, forming foundational layers for durable and stable structures. Aggregates play a primary role in road construction, being integral to the base, subbase, and surface layers, ensuring strength, stability, and drainage capabilities. Moreover, aggregates constitute a significant portion of concrete and asphalt mixtures essential for infrastructure projects, maintaining safety and operational efficiency in railway infrastructure. Additionally, aggregates are crucial in water, utility, and environmental infrastructure projects, providing support, stability, and erosion control measures. Overall, the aggregates industry is indispensable to infrastructure development, facilitating the construction and maintenance of reliable and resilient infrastructure networks essential for economic growth and quality of life.

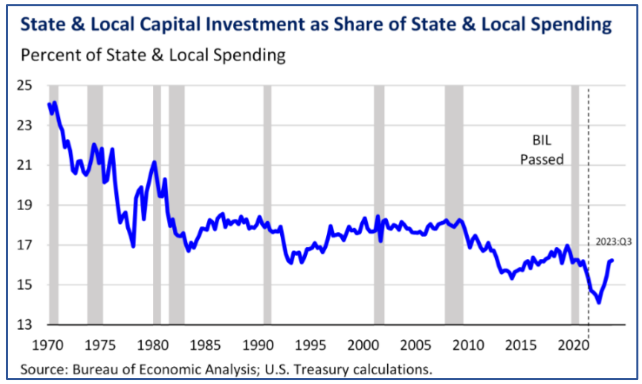
Infrastructure and the Economy

Infrastructure projects, often utilized as prominent forms of fiscal stimulus, hold immense significance for both the economy and the overall well-being of a nation. Integral to the development of infrastructure are aggregates, foundational materials indispensable for constructing vital structures such as roads, bridges, and transportation networks. The utilization of aggregates in these projects not only ensures their structural integrity but also plays a pivotal role in sustaining economic activity. Consequently, investments in infrastructure, supported by the utilization of aggregates, serve as potent drivers of economic growth, while concurrently fostering social development and enhancing national security. There is a clear symbiotic relationship between infrastructure, aggregates, and the economy. This is critical to propel overall societal advancement and prosperity.



Source: Invest.gov; U.S. Treasury calculations.

BIL stands for Bipartisan Infrastructure Law, a significant piece of legislation passed by the US Congress. This will be addressed in the politics and infrastructure portion of this analysis, but the previous graph highlights where these governmental funds are being allocated for infrastructure projects. Most notably, nearly half of this budget is used for roads, bridges, and other major projects. These projects are all backed by aggregate materials.



Source: Bureau of Economic Analysis; U.S. Treasury calculations.

The above graph depicts a downward trend in infrastructure spending in state and local municipalities. However, since 2023, there has been an upward trend in this spending.

As investors have seen, the building materials industry has performed extremely well during the recent market runs. It is also important to note that this industry, that supports infrastructure, which has a direct correlation to the economy, can be used to stimulate the economy during bearish and recessionary periods. Ultimately, aggregates are utilized in all market conditions.

Seasonal Demand

Spring and summer are peak seasons for construction activity in many regions, leading to heightened demand for aggregates. As temperatures rise and weather conditions improve in the spring, outdoor construction projects resume, including road construction, residential building projects, and infrastructure development. Major infrastructure projects, road repairs, and large-scale construction endeavors typically reach their peak activity levels during the summer, further driving up the demand for aggregates to support these projects.

Source: Yahoo Finance

The above graph confirms this seasonal demand for MLM. During the spring and summer months, ranging from March through July, MLM returned 27.15%, compared to the S&P 500's 13.92, and the materials sector's 1.89%.

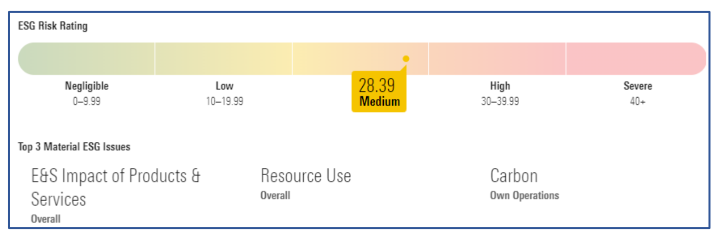
Politics and Infrastructure

In the wake of the 2024 presidential election, investors must become aware of how the new political landscape may impact their individual investments. This section addresses how both political parties tend to invest in infrastructure. It is important to note that both parties put emphasis on infrastructure spending.

Infrastructure spending priorities can vary significantly between political parties, reflecting their distinct policy agendas and ideological perspectives. Democrats often advocate for increased public investment in infrastructure as a means to stimulate economic growth, create jobs, and address societal needs. They prioritize spending on transportation, renewable energy, broadband expansion, and social infrastructure like schools and healthcare facilities. They may also support public-private partnerships (PPPs) with strong regulatory oversight to ensure public accountability and equity. On the other hand, Republicans typically favor private sector involvement in infrastructure development and may prioritize policies that encourage private investment, deregulation, and streamlined project approval processes. They often emphasize traditional infrastructure projects such as roads, bridges, and highways, prioritizing efficiency and cost-effectiveness while advocating for measures to reduce waste and bureaucracy in infrastructure spending.

In terms of the current administration's focus on infrastructure spending, as of November 2023, w White House press release shared that, the Biden administration announced almost $400 billion in BIL funding for a vast array of infrastructure project around the United States. In January 2024, the administration also announced $4.9 billion in funding for new transportation infrastructure projects. This surge in demand for these projects will keep driving demand for aggregates and building materials into 2024 and beyond.

ESG RATING



Source: Morningstar.com

ESG stands for environmental, social, and governance factors. This rating helps investors understand certain nonfinancial aspects of a company that may make it an attractive investment. As of April 5th, 2024, Martin Marietta had an ESG rating of 28.39, which is a medium level on the risk scale. The top 3 ESG issues are E&S Impact of Products & Services, Resource Use, and Carbon.

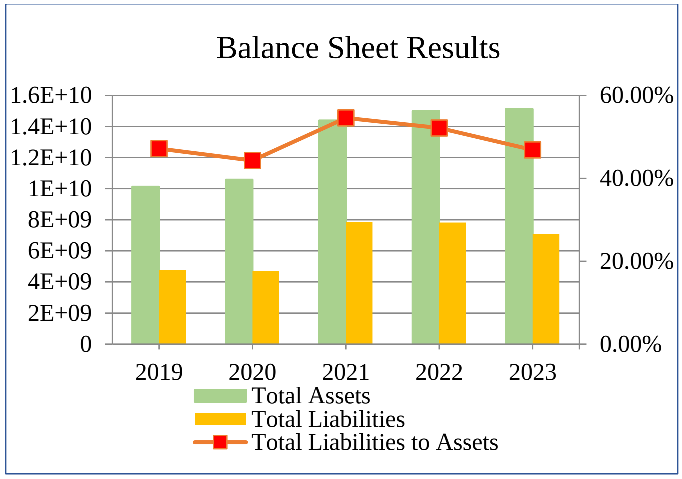
FINANCIAL ANALYSIS

Companies in the materials sector, and more specifically the building materials and aggregates industries, exhibit distinctive characteristics that influence the financial assessment process. These companies face specific considerations such as economic, political, and environmental regulatory factors. Financial evaluation for materials companies involves crucial performance metrics like ROE (return on equity), ROA (return on assets), and profit margins. Ratios like the P/E (price-to-earnings) ratio and the P/B (price-to-book) ratio are also crucial when comparing Martin Marietta to other companies in the sector and industry. Additionally, revenue growth and EPS growth, and dividend growth, are integral components of the analysis. The ensuing section of the report will concentrate on key financial indicators derived from the income statement, balance sheet, and statement of cash flows, all of which are detailed in the Appendix, providing insights into the financial health of materials sector entities.

Current Financial Ratios	
P/E	31.59
P/B	4.70
P/S	5.59
P/CF	22.59
ROA	7.97%
ROI	15.78%
ROE	10.51%

Source: Morningstar.com

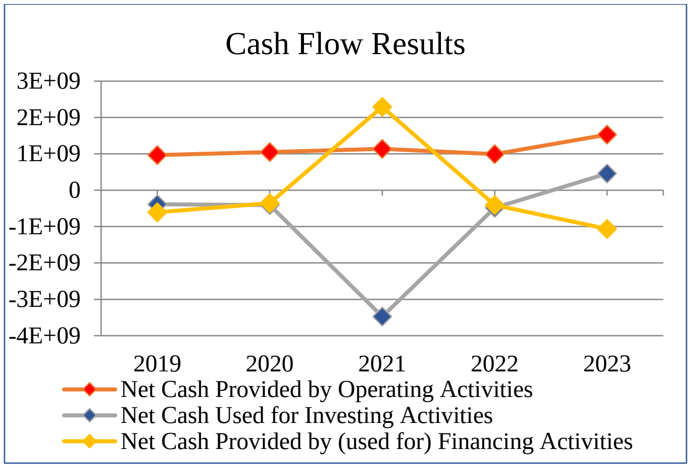
Balance Sheet Analysis



Source: Morningstar.com

The balance sheet data reveals a consistent growth trend in total assets over the five periods, starting at $10.132 billion and reaching $15.125 billion. Simultaneously, total liabilities have also increased, albeit at a slower pace, rising from $4.778 billion to $7.089 billion. The Total Liabilities to Assets ratio provides valuable insights into the company's leverage, demonstrating a declining trend from 47.2% to 46.9% after a small spike in 2021. This indicates a favorable financial position, as the proportion of liabilities to assets has decreased over time, suggesting improved solvency and potential risk management. The declining ratio signifies that a smaller portion of the company's assets is financed by liabilities, reflecting a positive trend in financial stability. In terms of addressing the large levels of liabilities, by utilizing the debt-to-EBITDA ratio, analysts can uncover how long it would take to pay these obligations. Across the 5-year period, MLM has an average debt-to-EBITDA ratio of 2.33, meaning their current earnings justify their debt and can be covered in a short time. Generally, a ratio less than 3 is deemed a positive one. Overall, the balance sheet depicts a scenario of growing assets, controlled liabilities, and improving financial health.

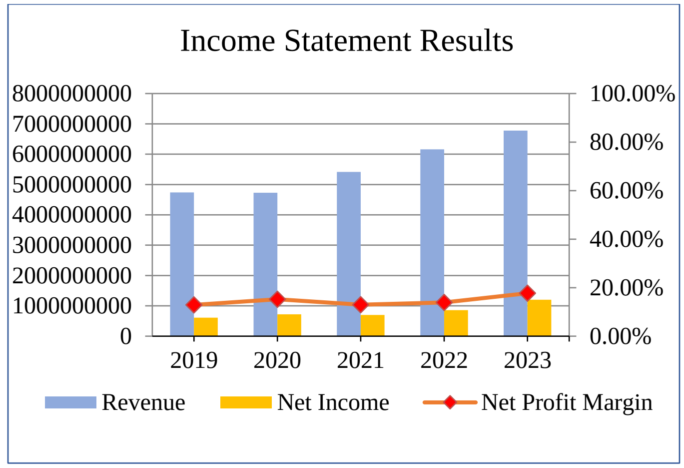
Statement of Cash Flows Analysis



Source: Morningstar.com

Net cash provided by operating activities; the company experienced a steady increase from $966.1 million in 2019 to $1.528 billion in 2023. This upward trend suggests improving operational efficiency and cash generation capabilities over the period. Conversely, net cash provided by financing activities fluctuated, with negative values indicating cash outflows, primarily driven by activities such as debt repayments or dividends. Notably, there was a significant cash inflow of $2.291 billion in 2021, likely attributed to financing activities such as debt issuance or equity financing. Meanwhile, net cash used for investing activities fluctuated over the years, with negative values indicating cash outflows for investments in assets such as property, plant, and equipment, or acquisitions. Notably, there was a substantial decrease in cash used for investing activities from 2021 to 2022, followed by a moderate increase in 2023.

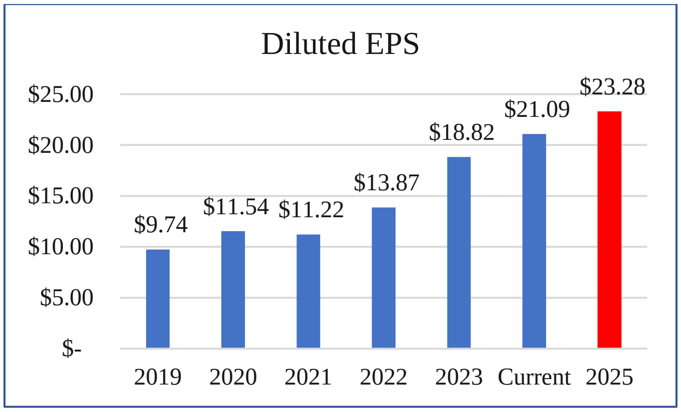
Income Statement Analysis



Source: Morningstar.com

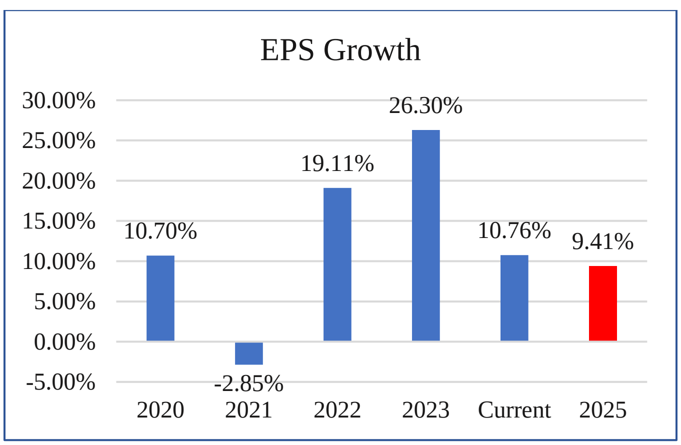
Total revenue remained relatively stable between 2019 and 2020, with a slight decrease from $4.739 billion to $4.73 billion. However, there was a notable increase in revenue in subsequent years, reaching $5.414 billion in 2021, $6.161 billion in 2022, and $6.777 billion in 2023, indicating a consistent growth trajectory over the period. Concurrently, net income followed a similar trend, with fluctuations in the earlier years followed by substantial increases in later years. Net income grew from $611.0 million in 2019 to $1.12 billion in 2023, reflecting the company's improved profitability and financial performance. Additionally, the net profit margin, representing the percentage of revenue retained as profit after all expenses, showed variations over the period, ranging from 12.9% to 17.7%.

EPS Analysis

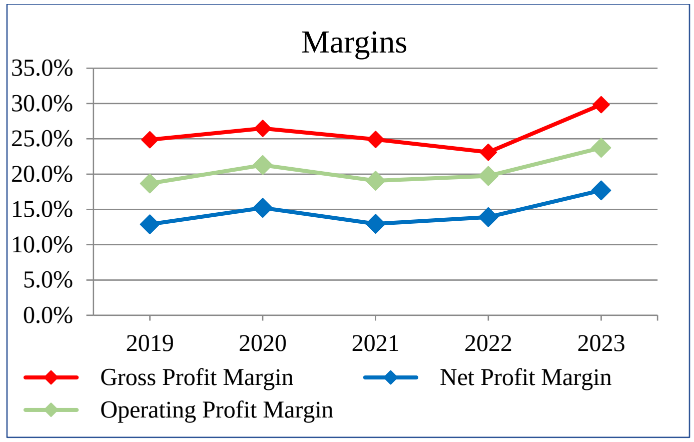


Source: Morningstar & Zack's

The table presents diluted earnings per share (EPS) figures and their year-over-year growth rates for the periods 2019 through 2025. Beginning with a diluted EPS of $9.74 in 2019, the company experienced steady growth, with diluted EPS figures increasing to $23.28 by 2025. Year-over-year growth rates fluctuated, with notable increases in some years, such as 19.11% in 2022 and 26.30% in 2023, indicating strong performance and increasing profitability. Despite a slight decline of -2.85% in 2021, the company rebounded with double-digit growth rates in subsequent years, demonstrating resilience and consistent expansion.



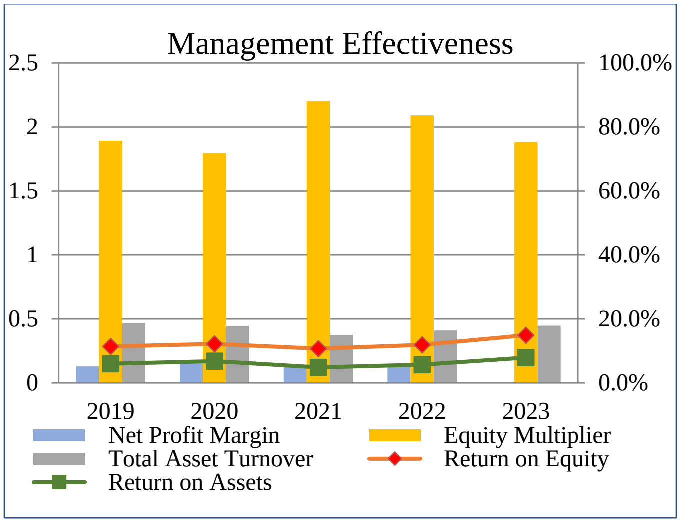
Profit Margin Analysis



Source: Morningstar.com

The margins analysis spanning from 2019 to 2023 provides a comprehensive view of the company's profitability trends. Starting with the gross profit margin, which represents the percentage of revenue retained after deducting the cost of goods sold, there was a fluctuating trajectory over the period. Beginning at 24.9% in 2019, the margin experienced peaks and troughs, reaching its highest point at 26.5% in 2020 before returning to 24.9% in 2021 and subsequently declining to 23.1% in 2022. However, it rebounded significantly to 29.8% in 2023. Similarly, the operating profit margin, indicating the percentage of revenue remaining after deducting operating expenses, displayed a similar pattern of fluctuations. Beginning at 18.7% in 2019, it peaked at 21.3% in 2020, declined to 19.1% in 2021, then rose to 19.7% in 2022, and finally reached 23.7% in 2023. The net profit margin, representing the percentage of revenue remaining after all expenses, also exhibited variations, starting at 12.9% and climbing to 17.7% over the same period.

Management Effectiveness

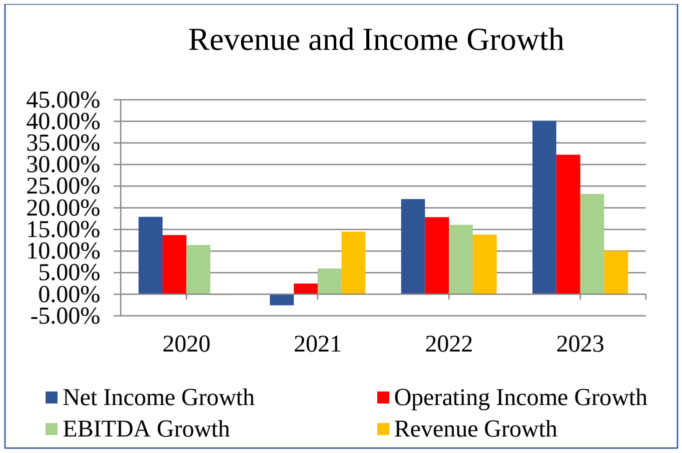


Source: Morningstar.com

Beginning with the equity multiplier, which signifies the proportion of assets financed by equity relative to debt, fluctuations from 1.80 to 2.20 over the period are observed. These variations suggest changes in the company's capital structure and leverage, possibly influenced by strategic financing decisions. Moving on to return on assets (ROA), which gauges the profitability of assets utilized in operations, there is a range from 4.9% to 7.9%. This indicates the company's ability to generate profits relative to its total assets. Correspondingly, return on equity (ROE), reflecting the profitability of shareholder equity, fluctuates between 10.7% and 14.9%, indicating changes in the company's ability to deliver returns to its shareholders over the period. Total asset turnover, a measure of asset utilization efficiency in revenue generation, fluctuates between 0.38 and 0.47, indicating changes in the company's ability to generate revenue from its assets. Lastly, the net profit margin, representing the percentage of revenue retained as profit after all expenses, exhibits variations between 12.9% and 17.7%, indicating changes in profitability levels over the period.

Growth Rates

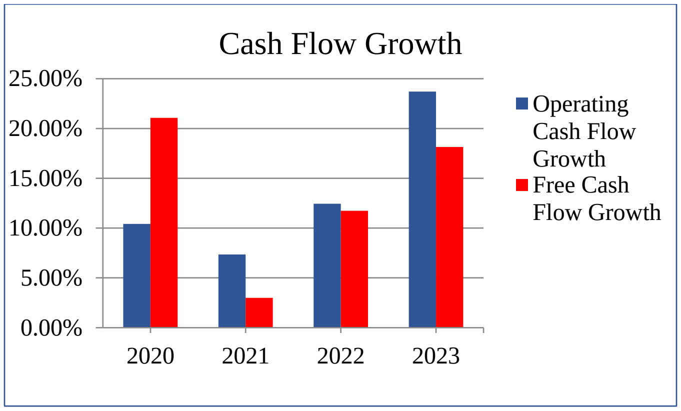
Revenue & Income:



Source: Morningstar.com

In 2020, the company experienced a marginal decline in revenue growth by -0.19%, hinting at the momentary setback influenced by COVID-19. However, this downturn was swiftly overturned in 2021, with revenue growth surging impressively to 14.46%. This positive momentum carried forward into subsequent years, with revenue growth rates maintaining strong figures of 13.79% in 2022 and 10.01% in 2023. Similarly, operating income growth displayed a consistent upward trajectory, starting at 13.70% in 2020 and steadily climbing to a substantial 32.28% in 2023. This progression underscores the company's commendable efforts in enhancing operational efficiency and profitability, translating into significant improvements in its bottom line. Moreover, EBITDA growth, a key indicator of earnings performance, mirrored this positive trend, with growth rates ranging from 11.40% to 23.21% over the same period, reflecting a strong financial footing and operational resilience. Despite minor fluctuations, net income growth showcased an overall upward trajectory, ranging from -2.58% in 2021 to an impressive 40.11% in 2023, signifying improved profitability and financial health.

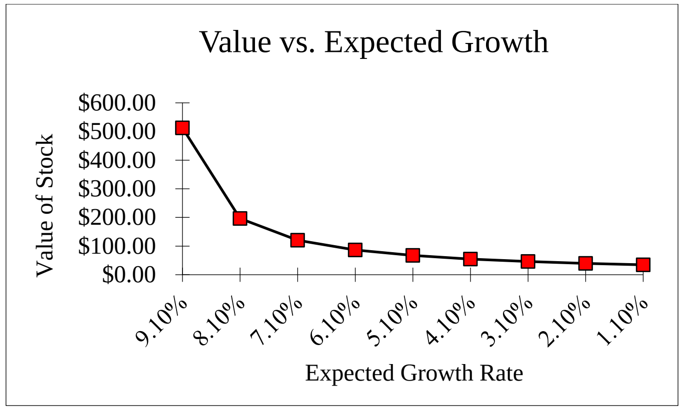
Cash Flow:



Source: Morningstar.com

Over the course of the four-year period from 2020 to 2023, the company demonstrated commendable growth in both operating cash flow and free cash flow, reflecting its robust financial performance and adept management of cash resources. Starting with operating cash flow, the company saw consistent increases, with growth rates ranging from 10.42% in 2020 to a significant surge of 23.70% in 2023. This upward trajectory underscores the company's ability to efficiently manage working capital and generate sustainable cash flows from its core business operations. Similarly, free cash flow exhibited a strong growth trend, with growth rates ranging from 21.07% in 2020 to 18.16% in 2023, highlighting the company's capacity to generate excess cash after meeting operating expenses and capital expenditures.

Gordon Growth Model:



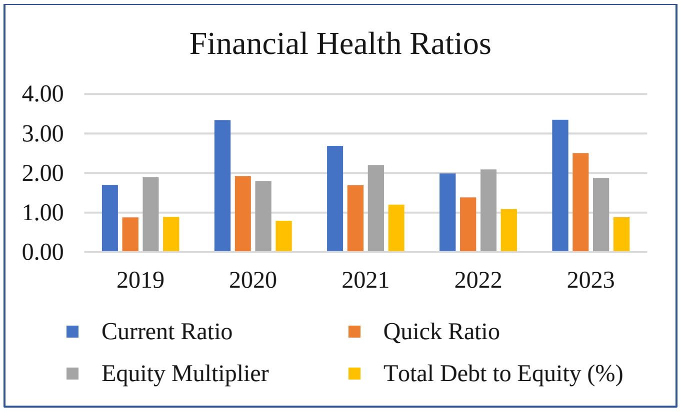
Source: Bloomberg, Morningstar.com & Value Line

Using data from Bloomberg, the Value Line Investment survey, and Morningstar, the current EPS is $21.09, and the current payout ratio is 14.80%, resulting in an estimated dividend per share of $3.12. These calculations using the Gordon Growth Model considered the Cost of Equity, 9.73%, current dividends per share $2.96, and expected growth rate 7.10%. Through calculations based on the current metrics listed above, the stock has an anticipated fair value of $609.65.

As shown in a previous graph, the expected EPS for MLM in 2025 is $23.28, a 9.41% growth rate YoY. However, through the use of a constant growth DDM, this was not a realistic growth pattern for a company that has had fluctuating EPS growth over the past 5 years. So, this 9.41% was given a 25% margin of safety equaling a lower bound of 7.10%. This 7.10% was then used as the expected growth rate in the Gordon Growth Model.

This fair value can be compared to different analyst's analyses. Morningstar suggests MLM should be valued around $350.00. Simply Wall Street suggests the fair value should be valued around $577.54. Valueinvesting.io suggests a fair value of $392.14. Guru focus suggests MLM should be fairly valued at $278.90. All of these metrics were calculated through a range of fair value estimate calculations. However, given the current trading price of MLM on the NYSE, the consensus is Martin Marietta is slightly overvalued.

Financial Health Analysis



Source: Morningstar.com

In analyzing the current ratio, which assesses the organization's capacity to settle short-term obligations with its short-term assets, fluctuations throughout the period become apparent. Commencing at 1.70 in 2019, the ratio signifies that the company possessed $1.70 in current assets for every $1 of current liabilities, ultimately peaking at 3.35 in 2023. This pinnacle suggests an enhancement in liquidity and an overall improvement in short-term financial stability. Similarly, the quick ratio, a more stringent liquidity metric excluding inventory from current assets, depicted variances, spanning from 0.88 to 2.50 across the same timeframe. These fluctuations signify an escalating capability to fulfill short-term obligations independent of inventory sales. Transitioning to leverage ratios, the equity multiplier, indicating the ratio of assets funded by equity to debt, fluctuated between 1.80 and 2.20 over the observed period. Such shifts imply alterations in the company's capital structure and financing strategies, likely influenced by strategic endeavors or economic circumstances.

Concurrently, the total debt to equity ratio, assessing leverage by contrasting total debt to shareholder equity, showcased akin fluctuations, oscillating from 79.5% to 120.2%.

Cross-Sectional Analysis

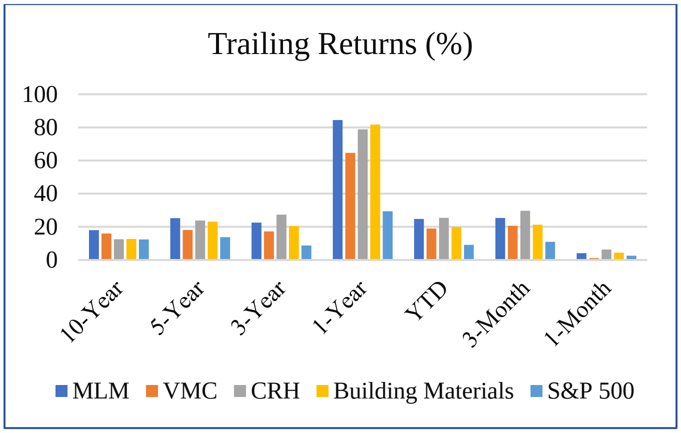
This analysis will compare Martin Marietta's returns to its closest competitors, the materials sector, and the S&P 500. The cross-sectional analysis allows for investors to examine different performance attributions across different time frames to make informed investment decisions.

This chart compares the returns of Martin Marietta to two of its largest competitors in the building materials industry, the materials sector and the S&P 500 index and gold industry ETFs. The below graph further compares these values in terms of overall percentage growth from April 2019.

Source: Yahoo Finance

The blue line represents Martin Marietta Materials. The total returns data from April 8th, 2019, provides a perspective on the performance of the various companies and indexes. Martin Marietta stands out with an impressive total return of 202.46%, outperforming VMC (160.05%), CRH (125.15%), the materials sector (61.35%) and the S&P 500 (79.73%). This suggests that investments in Martin Marietta, have yielded substantial returns compared to the broader stock market indices and their competitors.

Trailing Returns



Source: Morningstar.com

Over the trailing return periods, Martin Marietta Materials consistently outperforms both VMC, the building materials industry and the S&P 500 index. The most notable return for MLM is illustrated by their one-year performance, a staggering 84.41% return. However, one company, CRH, proves to return similar if not greater returns over the period. In the three-year, YTD, 3-month and 1-month return periods, CRH beats MLM by as much as 5%. The building materials industry must also be recognized here. The industry has historical towering performances over the S&P 500 index, a gem inside of a traditionally underperforming sector. These variations highlight the important nature of the building materials industry, with MLM, and CRH, both aggregates producers, leading the way and market share of the industry.

Financial Health

Financial health ratios to measure a company's debt level structure and its ability to satisfy their debt obligations. Debt to equity is a measure of debt financing to equity financing. Lower ratios are desirable as this indicates a company's financing that comes from its own operations. Martin Marietta's total debt to equity ratio was 0.49 in 2023, which is lower than the industry's average debt to equity ratio of 0.64. One of Martin Marietta's main competitors, Vulcan Materials (VMC) had a D/E ratio of 0.52. As a percentage of its overall capital, Martin Marietta relies less on debt financing than equity financing compared to the building materials industry and VMC. Next, the current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations. Martin Marietta's current ratio is 3.35 compared to the industry's current ratio of 3.09. This shows that Marin Marietta is highly capable of paying its liabilities as they come due and has a low risk of becoming insolvent.

FAIR VALUE

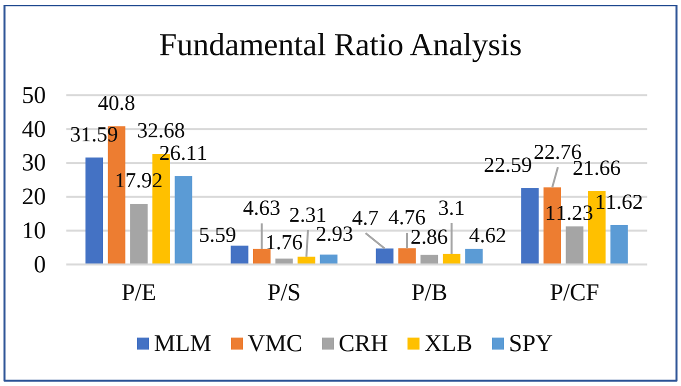
Absolute Stock Valuation

Martin Marietta Materials has current free cash flow according to Morningstar is $1.155 billion, a 18.16% increase from the previous year. MLM's total equity is $8.03 billion. When assessing these together investors can determine the free cash flow to equity ratio to equal 14.4%. This ratio determines if dividends payments and stock repurchase are paid for with free cash flow or other financing.

Because MLM pays dividends to its shareholders, an appropriate analysis of intrinsic value can be calculated using the Gordon Growth Model. The information for these calculations, and other analyst projections, can be found in the Gordon Growth Model section of this analysis.

Relative Stock Valuation

A relative valuation model is different from an absolute valuation model in that it refers to other companies and benchmarks. This relative valuation looks at valuation ratios, from Morningstar, like price-to-earnings (P/E), price-to-sales (P/S), price-to-cash flow (P/CF), and price-to-book (P/B). P/S, for example, shows a company's share price as a multiple of its sales, P/E shows a company's share price as a multiple of its earnings, and so on. Higher relative valuation ratios than peers may suggest that a company is overvalued. The chart below compares the fundamental relative valuation ratios of Martin Marietta, Vulcan Materials (VMC) (an industry peer), CRH Inc. (CRH) (an industry peer) the materials sector and the S&P 500. Martin Marietta appears to be overvalued compared to its industry peer, CRH. However, MLM is close to fair value on all metrics compared to the materials sector.



Source: Morningstar.com

Source: Yahoo Finance

This graph, reused from the cross-sectional analysis portion, also shows the sheer over performance of this stock in comparison to its peers, the industry and, the S&P 500. This analysis is positive for MLM.

OUTLOOK

This section will address projections and outlook for MLM over the next 12 months and beyond.

Simply Wall Street deems MLM fairly valued, and any price sensitive news is already priced into its current all-time highs. They also say that profits are expected to grow by 29% over the next couple of years, and that the future seems bright for Martin Marietta Materials. This growth stems from an increase in revenue and ultimately positively impacts free cash flow. Ultimately, higher cash flow will feed into a higher share valuation.

Institutional investors are noticing this and sharing countless buy ratings across platforms like Tip Ranks, Wall Street Zen, and many others. These investors represent some of the largest investment banks across the globe like JP Morgan, Barclays, Raymond James, Citi Group, and Goldman Sachs. Forecasts have provided a vast spread of price targets, but its 12-month high is on average $695 per share, a nearly 12% price increase from its current value.

RISKS

Economic Conditions and Aggregates Demand:

One significant risk for Martin Marietta is the potential for an economic downturn or recession, which could lead to reduced construction activity. The company's revenue heavily relies on demand for construction aggregates, which are essential materials for infrastructure and building projects. A slowdown in construction activity due to economic challenges could negatively impact Martin Marietta's sales and profitability.

Regulatory and Environmental Changes:

As a provider of construction aggregates, Martin Marietta may face regulatory and environmental challenges. Stricter regulations related to environmental protection, land use, or permitting processes could increase compliance costs or restrict the company's ability to operate in certain areas. Environmental concerns, such as habitat preservation or water usage, may also pose challenges to obtaining permits for quarry operations or expanding existing facilities.

Competitive Pressures:

Martin Marietta operates in a competitive industry, facing competition from other suppliers of construction materials. Intense competition could put pressure on pricing and margins, particularly if competitors engage in price wars or undercutting to win contracts. Additionally, the entry of new competitors or consolidation within the industry could further intensify competitive pressures, potentially impacting Martin Marietta's market share and profitability.

RECOMMENDATION

I recommend the hold of Martin Marietta Materials, Inc. (MLM). My recommendation is based on an analysis of economic drivers, demand for aggregates, financial analysis, institutional analysts' outlooks, and the constant growth dividend discount (Gordon growth) model, which generated a fair value of $609.65 when provided with the appropriate inputs. Holding Martin Marietta Materials aligns with the Wisman Fund's objectives to buy and hold securities that are deemed fairly valued by the fund's analysts. This recommendation comes from a highly weighted analysis of both the demand for aggregates across the globe and the financial analysis. It is also important for the fund to realize potential growth opportunities for not only Martin Marietta, but also the overall building materials industry. With staggering performances across every time period, this is a hidden gem in a sector that has historically underperformed the S&P 500.

REFERENCES

1. Yahoo Finance
2. Martin Marietta Report
3. Morningstar
4. FRED
5. Simply Wall Street
6. Rock Products
7. Value Line
8. Bloomberg

DISCLOSURES

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