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INDUSTRY OUTLOOK

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North American Building Materials

End Markets Pave Recovery Road as Private, Public Spending Converge for Positive Outlook

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We changed our outlook for the North American Building Materials sector to positive from stable. This outlook reflects our expectations for the fundamental business conditions in the industry over the next 12 to 18 months.

» **The recovery is taking hold in the North American Building Materials Industry and we expect to see the industry's operating income grow by more than 7%** for the remainder of 2014 and into at least mid-2015. Industry fundamentals are supporting our expectations. This has prompted us to change our outlook to positive from stable.

» **Companies in the industry are reporting increases in volume and pricing for the first half of 2014 for building materials including aggregates, cement and ready-mixed concrete.** This growth is coming from the continued residential construction recovery, coupled with improving non-residential construction activity. Public construction is also stabilizing.

» **Public construction spending received some much needed stability when Congress passed a bill to add $10.8 billion to the Highway Trust Fund in August.** Public construction is also drawing strength from state initiatives that fund their infrastructure needs without federal dollars.

» **Private non-residential construction spending has been a positive for the building material companies in our coverage universe, up 14.1% year-over-year as of July.** Private residential building, while inconsistent in 2014, has produced growth with spending up 8% year-over-year and housing starts also rising 21.7% year-over-year through July. We expect private residential to remain healthy through 2015 and private non-residential to continue to improve.

» **Proppant companies continue to reap the benefits from increased oil and natural gas production** in North America. Changes to drilling methods that use sand more intensively are benefitting the group.

A negative industry outlook indicates our view that fundamental business conditions will worsen. A positive outlook indicates that we expect fundamental business conditions to improve. A stable industry outlook indicates that conditions are not expected to change significantly. Since industry outlooks represent our forward-looking view on conditions that factor into ratings, a negative (positive) outlook indicates that negative (positive) rating actions are more likely on average.

Momentum in End Markets Will Drive Operating Income Growth

We have changed our outlook for the Building Materials Industry to positive from stable in light of the improved volumes and prices reported by the companies in our coverage universe, along with government spending developments and positive economic indicators. We expect to see the industry report operating income growth of more than 7% for the next 12-18 months.

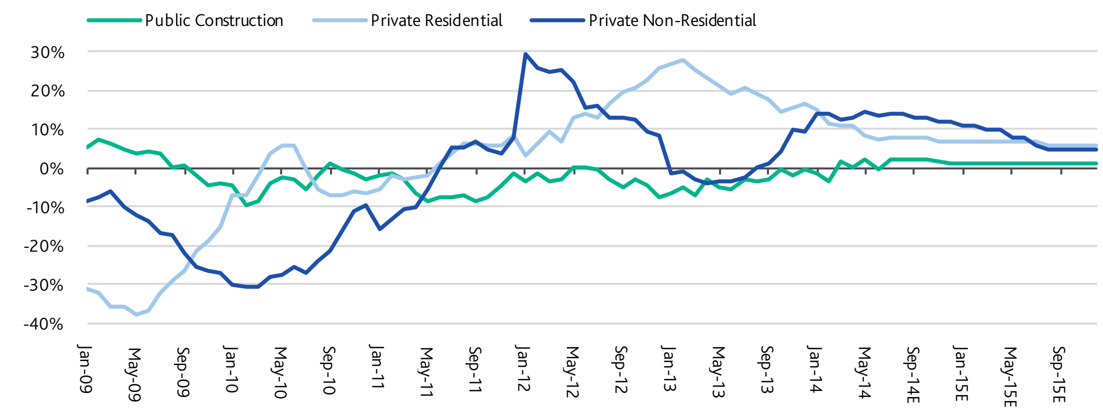
The three segments of the industry's construction end markets are all showing signs of strength. While the private residential end market was the primary driver of the building materials industry over the past year, positive trends are developing in private non-residential construction and public construction which, at least for now, is on more confident footing with an infusion of cash for depleted federal transportation spending.

Improving end market fundamentals are driving volume growth. Building materials companies, with high fixed cost structures, are positioned to benefit from the operating leverage they receive with increasing volumes. This will translate into higher operating income and margins, as well as improved profitability and credit metrics. We expect input cost inflation to remain manageable.

We could change our outlook for the North American Building Materials Industry to stable if our expectation for operating income growth falls below 7%. A loss of momentum in the private construction segments, or a renewed emphasis on fiscal tightening at all levels of government, could lead to a change in outlook.

EXHIBIT 1

Percent Change in Construction Put in Place, Year over Year



Source: Based on seasonally adjusted data from the U.S. Census Bureau, compiled by Moody's Economy.com; Figures for 8. 2014-9.2015 are Moody's estimates

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Higher Volumes and Prices Point to Broad Recovery

Volumes and prices for all building materials – including aggregates, cement and ready-mixed concrete – have picked up pace from the low-single-digit rates seen in 2013. Product volumes stopped declining in 2012 after a multi-year period that saw many of the building materials companies lose about half of their total tonnage, and the positive reversal is gaining momentum. The improvements in volume are broad geographically and representative of the wider economic recovery.

Martin Marietta Materials Inc. (Ba1 stable), which recently purchased Texas Industries, reported that in the second quarter aggregates volume was up 12.7% versus the year before and prices rose 5%. The company's ready-mixed concrete volume rose 27% year-over-year and prices were up 12% in the second quarter. Meanwhile, Texas Industries' operations are benefitting from strong cement demand, led by the residential recovery, in California and Texas.

Vulcan Materials Co. (Ba3 stable) also reported better volume and prices for aggregates during the second quarter compared to one year ago. Aggregate volume was up 10% and prices 3%. Supporting demand recovery, Vulcan also increased its full year guidance for aggregates shipment to be 7% to 9% higher in 2014 than 2013, versus its prior estimate of a 4% to 7% increase. We expect pricing will also experience upward momentum.

U.S. Concrete Inc. (B3 stable), which has a larger exposure to non-residential construction than its rated peers, reported an increase in aggregates volume of 20.9% and an increase in ready-mixed concrete volume of 6.9% year-over-year during the second quarter. Prices also increased 7.3% and 7.4%, respectively, over the same period. Furthermore, the company's ready-mixed concrete backlog was up year-over year.

Summit Materials, LLC (B3 stable) also reported increased volumes in aggregates, cement, ready-mixed concrete and asphalt during the second quarter as compared to the same quarter one year ago. The majority of its growth was driven primarily by 2014 and 2013 acquisitions; however, organic growth in aggregates was healthy, indicative of the improvement in end market fundamentals.

New Enterprise Stone & Lime Co. (Caa1 stable), which relies heavily on demand from public construction, will benefit from Pennsylvania's transportation bill in 2015. In November 2013, Pennsylvania passed a transportation bill providing an additional $2.3 billion per year by 2017/2018 for highway, bridge, public transit and local governments' infrastructure, of which $1.65 billion per year by 2017 will be allocated specifically for highways and bridges.

Public Construction Takes a Turn for the Better With Highway Funding

In August, President Obama signed legislation extending additional funding to the federal Highway Trust Fund (HTF) through May 2015 with an infusion of $10.8 billion. The money provides much needed stability and ensured transportation grant dollars continued to flow during the busy summer construction season.

Public construction spending fell by almost 2% in June from May, with highway and street construction spending tumbling 6.7%. We believe this was a result of states beginning to slow spending or put projects on hold as the deadline for Congress to put additional money into the HTF approached. July spending rebounded. Public construction spending increased 3% from June and 2.1% year-over-year, with highway and street construction spending up 6.9% from June and 3% year-over-year.

The 10-month extension is shorter than previous multi-year authorizations and maintains the uncertainty over a long-term solution as the issue remains and will need to be addressed again next year. A broader solution to the HTF underfunding problem seems unlikely in that time frame. Even with bi-partisan legislative support for a solution, one agreeable to both parties is seemingly elusive. The lack of a multi-year program will continue to weigh on the sector's confidence in planning long-term projects.

Public construction is drawing strength from state initiatives that are funding their infrastructure needs without federal dollars. States, with improved budgets, are taking a much more active role in addressing their infrastructure needs. Virginia raised its gas tax, which increases funding $800 million per year. Florida's Department of Transportation approved a $10.2 billion budget for FY 2014/2015 in addition to the state's public-private partnerships. Federally funded Transportation Infrastructure Finance & Innovation Act (TIFIA) projects are beginning to drive additional aggregates shipments. TIFIA funding is estimated to support $30 billion -$50 billion in new construction, stimulating private capital investment for projects of national or regional significance in key growth areas through the US. The program provides low-cost credit assistance in the form of secured loans, loan guarantees and lines of credit to major transportation infrastructure projects for up to 49% of a project's estimated cost.

Private Residential Construction: Choppy Short-Term, Stays Positive Long-Term

While the pace of recovery in private residential construction has been ebbing, the sector is still a positive for building material producers. Through July, total housing starts were up 21.7% year-over-year. Private residential construction, while choppy during the first half of 2014, has now shown year-over-year gains for the last four months.

We expect private residential construction to remain healthy through 2015, with falling unemployment and continued low mortgage-interest rates keeping the housing recovery intact. We forecast housing starts will be in the 975,000 to 1 million range for the year, rising to 1.1 million to 1.2 million in 2015.

Private Non-Residential Construction: Bumpy but Building

Private non-residential construction, which has also experienced monthly choppiness since the beginning of 2014, grew by 14.1% in July from one year ago. Non-residential infrastructure spending, which accounts for 36% of private non-residential construction spending, increased 19.3% in July. Non-residential commercial, which accounts for 15%, grew 8.6%. During the second quarter of 2014, non-residential construction demand for the building materials companies primarily reflected growth in the commercial and energy sectors.

The Architecture Billings Index, which is a predictive measure of future non-residential construction activity, jumped to 55.8 in July – the highest level since 2007 – from 53.5 in June (readings above 50 indicate increased activity versus the prior month). The ABI reading for commercial and industrial projects was 51.2 in July. Though down from 53.1 in June, it was the seventh consecutive month of increasing activity.

Non-residential construction activity has historically lagged residential construction activity by 12-18 months, so it is no surprise that we are now seeing evidence of growth. However, similar to recent experience with residential construction, we expect growth in non-residential activity to be bumpy over the near term.

Rising Tide Lifting All Proppant Producers

Proppant companies in our rated universe generate substantial revenues, and in some cases all revenues, from oil and gas exploration applications, where uncoated and coated sand products are used as proppants in hydraulic fracturing. Exploration and production (E&P) spending rose in 2014 from 2013 and is expected to increase further in 2015. High oil prices and relatively stable gas prices are supporting drilling activity.

Frac-sand demand has increased substantially in 2014 primarily due to advancements in hydraulic fracturing technology. This advanced technology requires a substantial increase in the amount of frac sand used per rig due to more wells drilled per rig, an increase in the number of fracturing sites within each well, an increase in the length of the horizontal distance covered in lateral wells and an increase in proppant used per foot completed in each fracturing stage. U.S. Silica (B1 positive), Fairmount Minerals (B1 stable), Hi-Crush Partners (B2 stable) and Preferred Proppants (Caa1 stable) are all benefitting from this accelerated demand.

In addition to demand, capacity expansions, acquisitions, product mix, logistical capabilities all drive the operating results of the rated proppant companies. These companies continue to focus on enhancing sand capacity, in particular Northern White sand capacity. Demand for frac sand is outpacing supply, which in turn is driving up prices.

Sand is a commodity product with virtually no product differentiation, therefore it is essential for the proppant companies to operate plants efficiently and to be logistically advantaged. In early 2014, the proppants supply chain was slowed by extreme winter-related mining and bottlenecked railroad issues, which emphasized the benefit of logistical and destination terminal advantages. U.S. Silica was able to avoid significant disruptions and meet customer demand from having inventory staged in basin. Beyond weather-related delays, in basin sales have become a greater percentage of sales in 2014 to accommodate the just-in-time nature of sand delivery. U.S. Silica and Fairmount, who have more production and trans-load facilities than their rated peers, will generate higher profits as they are better able to optimize their supply chain pairing by matching up origins with destinations. Hi-Crush Partners continues to benefit from its premium Northern White sand product and its logistical access to the active Marcellus and Utica shale plays.

Strong energy prices are also lifting demand for higher-margin, resin-coated sand products. Preferred Proppants and Fairmount Minerals have benefitted from volume increases in 2014, though prices have remained stable given supply relative to demand. E&P companies remain focused on well costs, however, which will continue to support demand for lower-cost frac sand. This leaves the resin-coated sand product more vulnerable to changes in drilling trends.

Appendix: Rated Issuers in the North American Building Materials Industry

Company Name	Corporate Family Rating	Outlook	Net Sales (in millions)	Cash (in millions)	Adj. EBIT/ Interest Expense	Adj. Total Debt (in millions)	Adj. Debt / EBITDA	Adj. Debt/ Book Capitalization
Construction Materials								
Martin Marietta Materials, Inc.	Ba1	Stable	$2,308	$34	4.0x	$1,410	2.9x	43.4%
Votorantim Cement North America	Ba1	Stable			Private Company			
Vulcan Materials Company	Ba3	Stable	$2,859	$228	0.8x	$2,714	4.5x	35.8%
Summit Materials Holdings, LLC	B3	Stable	$1,030	$21	0.9x	$1,038	6.9x	77.8%
U.S. Concrete	B3	Stable	$659	$87	1.8x	$319	4.7x	82.5%
New Enterprise Stone & Lime Co. *(1)	Caa1	Stable	$674	$2	0.0x	$731	13.4x	115.0%
Proppants								
Fairmount Minerals, Ltd.	B1	Stable			Private Company			
U.S. Silica Company, Inc.	B1	Positive	$680	$106	5.9x	$499	2.7x	53.9%
Hi-Crush Partners LP**	B2	Stable	$223	$31	7.8x	$235	2.4x	61.4%
Preferred Proppants, LLC	Caa1	Stable			Private Company			

* Financials Result are for June 2014 unless otherwise noted; May 2013 *(1)

** Pro Forma for Augusta Facility Acquisition (as if it took place January 31, 2013)

Source: Quarterly and Audited Annual Financials

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