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OUTLOOK
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Building Materials - North America

Volume, Price Momentum Endure; Private and Public Spending Lift End Markets

Our outlook for the US Building Materials Industry is positive. We forecast that organic operating income will grow in excess of 10% over the next 12-18 months.

» **Building materials companies, including those that produce aggregates, cement and ready-mixed concrete, remain bullish on volume and pricing.** Construction end markets are improving, economic indicators are favorable and underlying demand is strong. Indicative of these positive trends, we raised the ratings or outlooks of five building material companies so far this year.

» **Private construction spending is solid.** Residential construction will continue to post good growth metrics, driven by employment gains, pent-up demand from historically low levels of construction activity over the past several years, low mortgage rates, and higher multi-family rental rates. Non-residential spending will moderate in 2016 from a strong 2015, following weakening infrastructure and manufacturing spending.

» **The Fixing America's Surface Transportation Act (FAST Act) supports long-term public construction spending.** Public construction spending is improving, and the passing of the FAST Act in December should support increased long-term transportation infrastructure spending by 2017, which will benefit all of the building materials companies we rate.

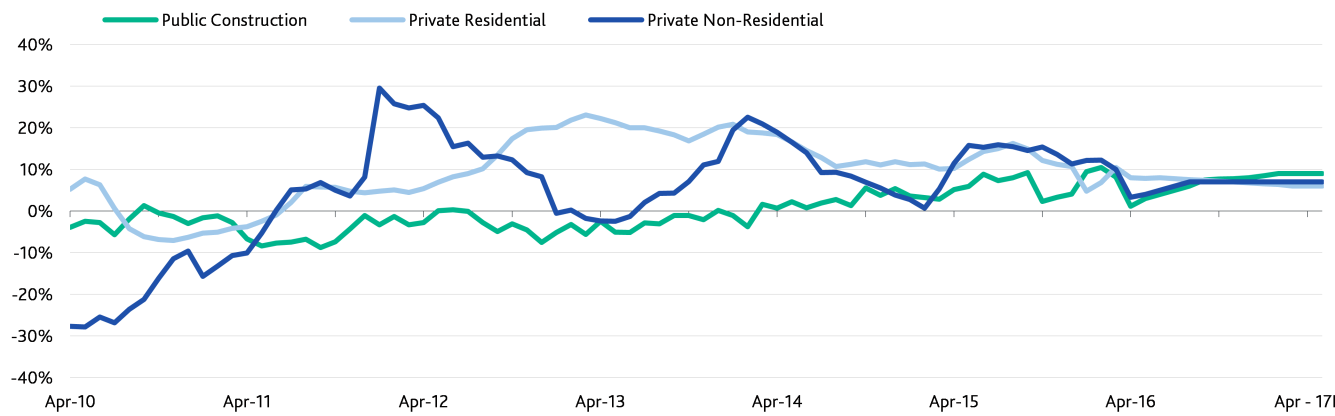
» **What could change our outlook?** We could change our outlook for the North America Building Materials Industry to stable if our expectation for operating income growth falls below 7%. A loss of momentum in more than one construction end market resulting from declining GDP, rising unemployment or event-driven shocks could also lead to a change in outlook. At this time, we do not foresee any threats to our positive outlook in 2016.

Increasing Volume and Pricing Underpins Positive Outlook

Our outlook for the US Building Materials Industry remains positive and we forecast organic operating income will grow in excess of 10% over the next 12-18 months. Shipment volumes and prices continue to rise, supported by increased construction spending. Employment gains, higher housing starts, early signs of wage growth, and favorable interest rates reinforce our outlook for private construction spending. Public spending is also solid. The rate of growth will increase from recent state and local funding initiatives and, toward the later part of 2016 and into 2017, the federal FAST Act.

We expect total construction spending to improve moderately over the next year as the US economy continues growing at a measured pace. All construction end markets are posting gains in spending (see Exhibit 1.) Private residential spending leads with an 8% year-over-year increase as of April 2016. Non-residential construction spending was up 3.4%. That is a decline from a strong 2015, resulting from weakness in manufacturing and non-residential infrastructure spending. Public construction increased 1.2% in April 2016 from one year ago, but we expect to see demand growth increase as we move into 2017.

Exhibit 1
Both Public and Private Construction Spending Continue to Grow on a Year-Over-Year Basis



Source: U.S. Census Bureau

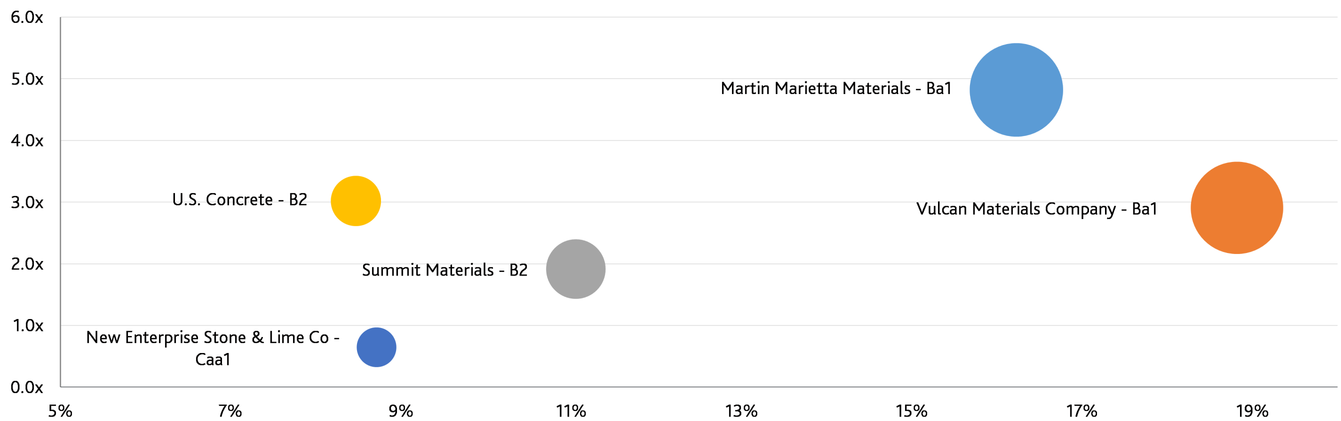
Solid and improving end-market fundamentals continue to drive volume and price growth for aggregates, ready-mixed concrete and cement. Demand for building materials is strong across the US, though it varies by region. The Atlantic coast and Southeast markets, which lagged other areas in recent years, are beginning to participate more fully in the recovery. West Texas is experiencing oil-related weakness, but this region is not material to any of the building materials companies in our rated universe. The passage of the FAST Act and key state-level transportation-funding measures have not yet spurred significant construction activity, but conditions are in place for a gradual, multi-year recovery in demand.

Building materials companies, with high fixed costs, have benefited from improved leverage of fixed costs through higher production, lower average diesel costs and favorable pricing. These benefits have translated into higher profits and improved overall credit metrics. This trend will continue in 2016 and into 2017. Input costs are rising, but should remain manageable through 2016.

Recent Positive Rating Actions Driven by Profitability Gains

A combination of improved profitability and, to a smaller extent, reduced balance sheet debt has led to positive rating actions across the board for our North American rated building materials companies. We expect further improvements in cash flow and profitability, as evidenced by margin expansion, through 2016 as the recovery continues. Employment growth, strong contractor backlogs and normal weather patterns are also supporting an improved outlook for 2016 EBITDA and cash flow. Excess cash flow will be used for acquisitions and we do not anticipate any material pay-down of balance sheet debt. Leverage will decline through EBITDA growth as we move through the recovery, but we expect companies to manage to their "optimal" capital structure through leveraged acquisitions and share repurchases. Dividend growth will largely be in line with any rise in earnings.

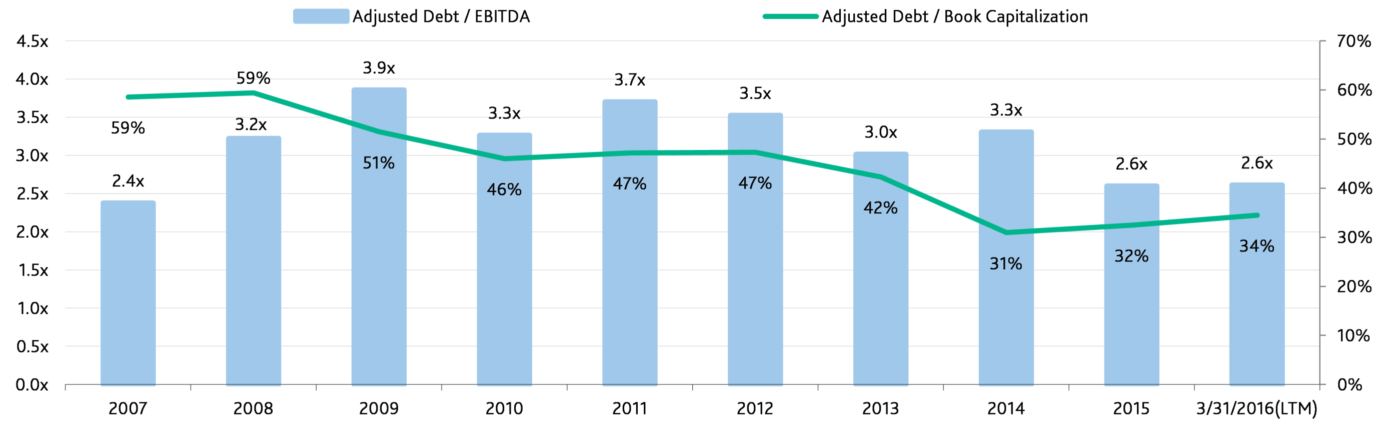
Exhibit 2
Adjusted Operating Margin and Adjusted EBIT to Interest Expense



Results for Martin Marietta Materials, Vulcan Materials and U.S. Concrete are as of 03/31/2016. Results for Summit Materials are as of 04/02/2016 and New Enterprise Stone and Lime are as of 02/29/2016.
The size of each bubble represents revenue for each company.
Source: Company reports and Moody's Financial Metrics

Martin Marietta Materials Inc.'s (Ba1 positive) credit metrics improved substantially in recent years. Adjusted debt-to-EBITDA declined to 2.6x for the trailing 12 months ended March 31, 2016 from 3.3x at year-end 2014, and operating margin improved to 16.2% from 13.2% over the same period. The company's ratings were placed on positive outlook on May 3, 2016, reflecting our expectation operating performance and key credit metrics will continue to improve with the recovery in construction spending. In the first quarter 2016, aggregates products volume grew over 13% and prices increased over 8%. Ready-mixed concrete shipment volumes climbed 31% and the average selling price rose 11.7%. Cement shipments increased 13.8% with prices up 3.6%. (Martin Marietta's cement business is now entirely in Texas.) The company projects 6% to 8% aggregate products volume growth in 2016, along with prices that are 6% to 8% higher. Cement volume is forecast to grow 8% to 11%, with prices up 6% to 8%. The company expects margins to expand in all of its business lines, and as a result, Martin Marietta raised its full-year EBITDA guidance in its first quarter earnings release.

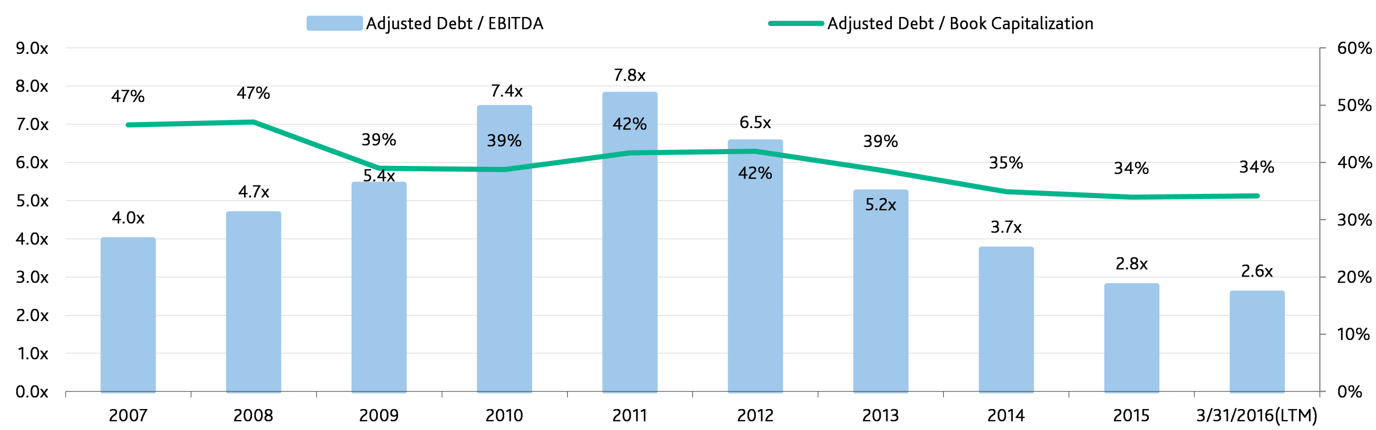
Exhibit 3
Martin Marietta Materials Inc.



Source: Company reports and Moody's Financial Metrics

Vulcan Materials Co.'s (Ba1 positive) financial ratios have improved substantially from debt reduction and improved operating performance over the past few years. Adjusted debt-to-EBITDA declined to 2.6x for the trailing 12 months ended March 31, from 3.7x at year-end 2014 and 5.2x at year-end 2013. Adjusted operating margin also improved over the same periods, increasing to 18.8%, from 11.4% and 6.7%, respectively. The ratings were upgraded from Ba2 and placed on positive outlook on May 4, reflecting our expectation that construction end markets and key credit metrics will improve further. Vulcan projects its full year 2016 aggregates shipments to be 8% to 9% higher than 2015, up from a prior estimate of 7% growth. The company indicated during its first quarter earnings call that it is tracking toward the high end of their 2016 adjusted EBITDA guidance range of $1.0 billion to $1.1 billion.

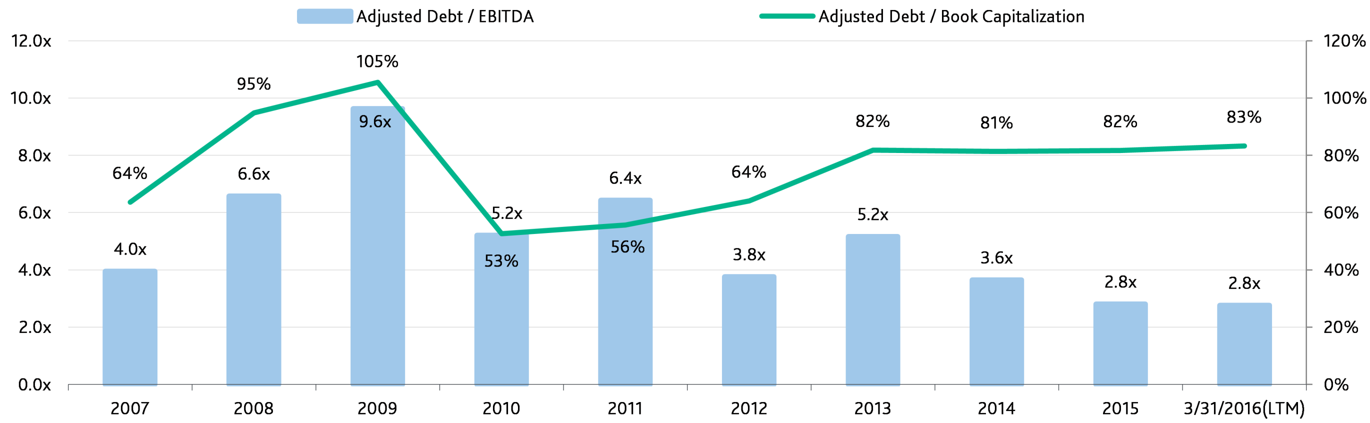
Exhibit 4
Vulcan Materials Co.



Source: Company reports and Moody's Financial Metrics

U.S. Concrete Inc.'s (B2 positive) ratings were placed on positive outlook on May 17, reflecting our expectation that key credit metrics, including U.S. Concrete's operating margin and earnings, will continue to improve as prices rise, volume increases and private construction activity expands. The positive outlook also assumes U.S. Concrete will make accretive acquisitions with the excess proceeds from an offering of $400 million of senior notes due 2024. For the trailing 12 months ended March 31, adjusted operating margin improved to 8.5%, from 7.1% at year-end 2014. Pro forma for the $400 million senior notes offering, adjusted debt-to-EBITDA was 3.6x for the trailing 12 months ended March 31, the same as at year-end 2014. As of the first quarter 2016, ready-mixed concrete sales volume was up 38.1% year-over-year through a combination of organic and acquisition growth. Organic ready-mix volume increased 18.4% and average sales price rose 1.0%.

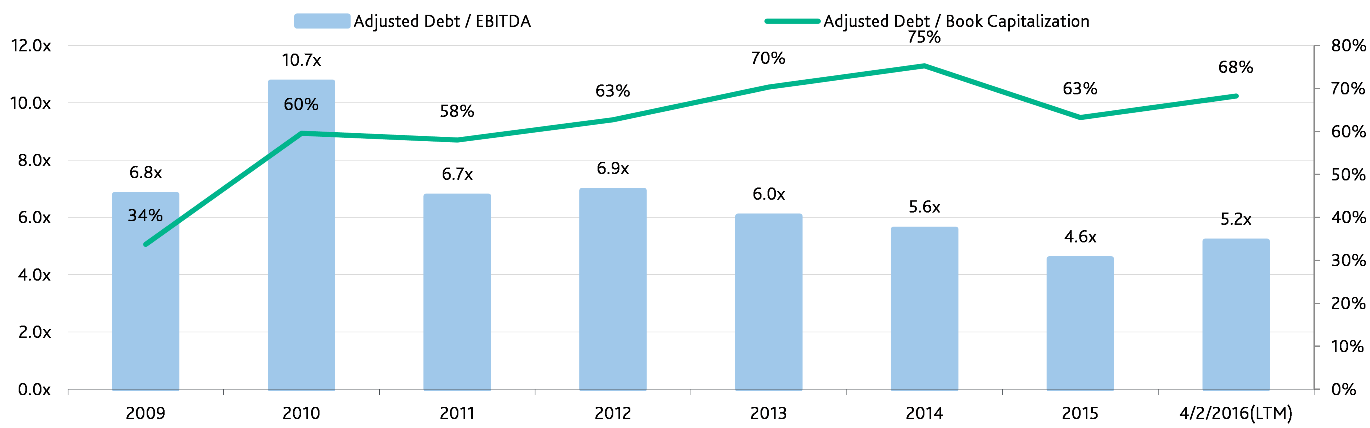
Exhibit 5
U.S. Concrete Inc.



Source: Company reports and Moody's Financial Metrics

Summit Materials LLC's (B2 stable) ratings were upgraded from B3 on February 24, reflecting Summit's growth in scale, expanded geographic diversity and improvement in key metrics over the past two years. Total revenue has risen to $1.5 billion for the trailing 12 months ended April 2, from $916 million for the fiscal year ended December 28, 2013, and adjusted operating margin improved to 11.1%, from 4.1% over the same period. Adjusted debt-to-EBITDA was 5.2x, compared to 6.0x for the 2013 fiscal year. We expect continued operating improvement in 2016, supported by healthy construction spending. Key credit metrics will also improve. Aggregates volume and price increased 14.3% and 8.6%, respectively. Cement volume and price increased 142.7% (largely due to the purchase of some assets from Lafarge in 2015) and 6.7%, respectfully. Ready-mixed concrete volumes were up 10% on increased demand and prices rose 4.1%, benefiting mostly from the pass-through of higher cement prices. The company's full-year 2016 adjusted EBITDA outlook increased 7.5% at the midpoint, to a range of $350 million to $370 million, in Summit's first quarter earnings release to account for organic improvement as well as contribution from acquisitions.

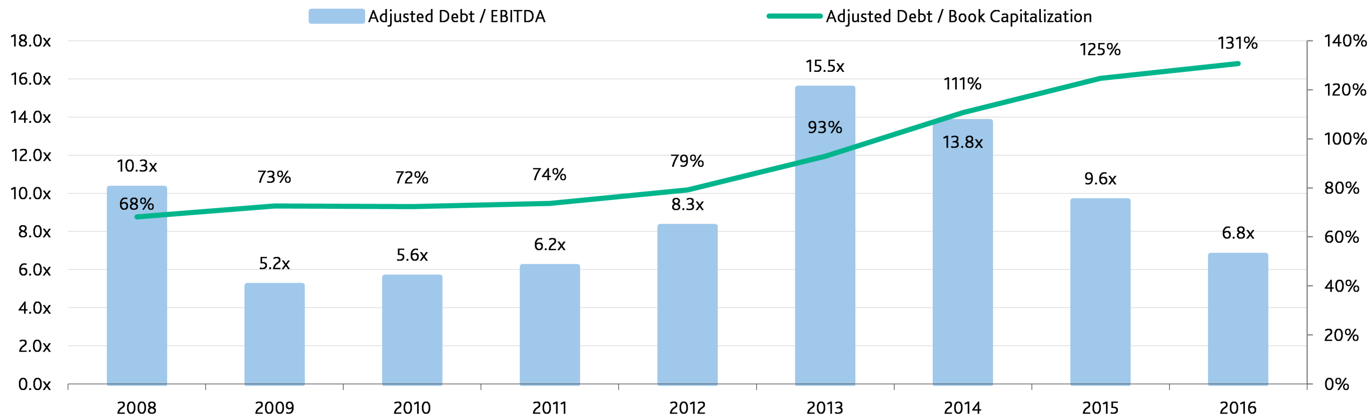
Exhibit 6
Summit Materials LLC



Source: Company reports and Moody's Financial Metrics

New Enterprise Stone & Lime Co.'s (Caa1 stable) outlook was revised to stable from negative on June 2, reflecting improved operating performance during its fiscal year ended February 29. Over the period, adjusted EBITDA increased by 45%, and adjusted operating margin expanded to 8.7%, from 3.1% in fiscal 2015. We expect New Enterprise's credit metrics to improve in 2016, supported by improving fundamentals in its markets. However, adjusted EBIT-to-interest expense remains significantly below 1.0x and is not expected to reach 1.0x in fiscal 2017, despite the operational improvements.

Exhibit 7
New Enterprise Stone & Lime Col, Inc.



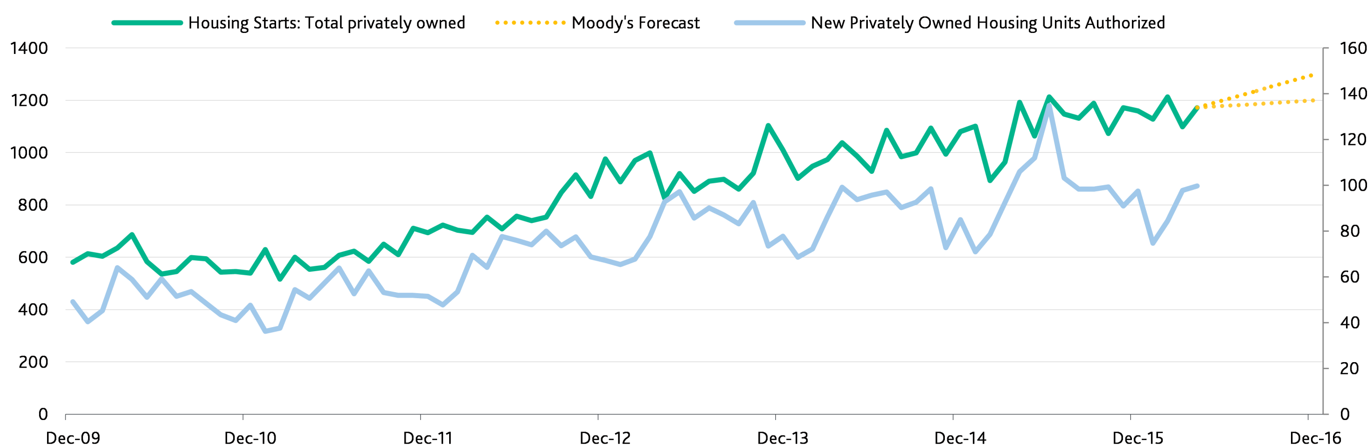
Source: Company reports and Moody's Financial Metrics

Private Residential Construction Leads Spending

Residential construction will continue to produce good growth metrics, driven by positive employment gains, pent-up demand from historically low levels of construction activity over the past several years, low mortgage rates, and higher multi-family rental rates. Private residential construction spending grew 8% year-over-year as of April 2016. New single-family home spending was 12.9% higher and spending on new multi-family homes was 21.4% higher over the same period. Private residential has posted year-over-year growth since 2011.

Growth in housing permits and housing starts has been choppy, but the long-term trend is positive. U.S. housing starts were approximately 1.12 million (seasonally annual adjusted rate) in April, well below the historical average of 1.5 million per year. We forecast housing starts will be between 1.2 million and 1.3 million in 2016.

Exhibit 8
Housing Starts and Building Permits



Source: U.S. Census Bureau and Moody's Investor Service

Private Non-Residential Spending Moderating

Private non-residential construction spending increased 3.4% year-over-year as of April 2016, lower than double-digit growth posted since April 2015. This segment of construction spending is the weakest link in our 2016 outlook. Non-residential spending will moderate in 2016 from strong spending in 2015, due to weaker infrastructure and manufacturing spending, which represented 28% and 19% of total non-residential spending, respectively. Commercial spending, representing 17%, remained solid at 5% year-over-year in April, but the overall pace is also moderating. The Architectural Billings Index, a leading indicator for non-residential construction activity, marked its third consecutive reading over 50, indicating activity will be expanding over the next 9 months to 12 months. Housing, which non-residential typically lags, along with recent ABI readings should support continued, moderate growth into 2017.

Public Construction Gaining Momentum, Highway Bill to Provide Further Lift

Public demand is beginning to strengthen, leading to volume gains in more regions. We expect modest growth in 2016, as 2015 legislation, both at the state and federal levels, begins to take effect. The passing of the FAST Act in December should support increased long-term transportation infrastructure spending more meaningfully by 2017, which will benefit all of the building materials companies we rate. Public construction spending increased 1.7% in April 2016 from one year ago - a decrease from recent trend. Highway and street spending, the largest component of public construction, was up 4% year-over-year. We expect a pick-up in announced public construction projects in the second half of 2016 as a result of the plan's passage, though no meaningful results will appear for building materials firms until 2017, due to the lag between project planning and funding. The legislation is an important stabilizer to public construction, removing uncertainty over federal funding for the next five years and giving states confidence to pursue long-term infrastructure projects that were postponed or canceled. The Transportation Infrastructure Finance and Innovation Act funding also supports growth in public-sector construction activity.

A Rise in Unemployment or Falling GDP Could Change the Outlook

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 more than once construction end market resulting from declining GDP, rising unemployment or shocks from Washington could lead to a change in outlook. At this time, we do not foresee any threats to our positive outlook in 2016.

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