Measuring Wheel

The U.S. Nonresidential Construction Industry — 2013

Special Report

Slow Growth Ahead

Modest Improvement in Commercial Construction: Fitch Ratings currently expects new construction activity will remain positive during the remainder of the year and into 2014 despite weak growth in the U.S. economy, lingering problems of key European economies and continued challenges in the CRE capital markets. Fitch currently expects moderate growth in commercial construction spending during the second half of 2013 after a slow start this year. Fitch projects private nonresidential construction will grow 2% in 2013 and 5% in 2014.

Credit Somewhat Easing: Various surveys suggest that while credit standards for CRE transactions remain tight, there is recently some easing from lending institutions. Moreover, activity in the CMBS market is picking up from the lows seen during 2008–2010, although issuances are still significantly below the record levels reached in 2007. Fitch believes that credit availability will remain constrained in the near term as institutions continue to be selective in their lending activities, which will likely moderate growth in the commercial construction sector.

Public Construction Remains Constrained: Public construction, and highway and street spending in particular, are expected to remain weak during the full year of 2013 as wet weather conditions hampered construction activity during the first half of the year, leading to a 6.5% decline in public construction spending during the period. Assuming more normal weather patterns, Fitch expects a pick-up in construction activity during the second half of the year. Fitch currently projects public construction spending will remain flat this year and grow 3% in 2014.

New Highway Bill: Last year's passage of a new highway bill, which expires on Sept. 30, 2014, provides state and local governments with the certainty to plan longer term projects, given that the previous authorization had 10 short-term extensions following its September 2009 expiration. Nevertheless, the benefits of the new highway bill will likely be more evident in 2014 as it will take some time to start larger, longer term projects. Additionally, the new highway bill does not increase federal funding from current levels, which will likely moderate the growth in spending.

Stable Construction Materials Prices: Overall prices for construction materials grew modestly on a year-over-year basis during 2012 and this trend continued so far this year. The Producer Price Index (PPI) for construction materials has remained relatively stable during the first half of 2013. Fitch currently expects construction materials prices will continue to rise moderately during the second half of the year. Should overall construction activity increase significantly relative to Fitch's expectations, inflation in construction input costs might also accelerate at a higher rate.

Varied Performance: Financial performance among building materials companies is likely to differ again in 2013 as demand varies across construction end markets. Building products used in the private residential construction sectors are likely to see higher year-over-year volume and pricing comparisons this year due to strong growth in housing activity. Building materials companies with exposure to the public infrastructure segment will continue to be challenged as spending in this sector remains weak.

Related Research

U.S. Homebuilding/Construction: The Chalk Line — Summer 2013 (July 2013)

Building Materials Volume and Pricing Trends — First-Quarter 2013 (May 2013)

2013 Outlook: U.S. Building and Home Products and Services (December 2012)

2013 Outlook: U.S. Housing and Homebuilders (December 2012)

The Tale of the Measuring Tape — US Home Improvement Industry (August 2012)

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Coverage

	IDR	LT Sr. Unsec. Rating	Outlook
Martin Marietta Materials, Inc[a]	BBB–	BBB–	Stable
Mohawk Industries, Inc[a]	BBB–	BBB–	Stable
Owens Corning[a]	BBB–	BBB–	Stable
PPG Industries Inc.[a]	A–	A–	Stable
The Sherwin-Williams Company[a]	A–	A–	Stable
Stanley Black & Decker Inc.[a]	A–	A–	Stable
USG Corporation[a]	B–	B	Stable
Fluor Corporation.[b]	A–	A–	Stable

[a]Covered by Robert Rulla. [b]Covered by David Petu. IDR – Issuer Default Rating. LT – Long-term.
Source: Fitch Ratings.

Related Criteria

Corporate Rating Methodology (August 2013)

Short-Term Ratings Criteria for Non-Financial Corporates (August 2013)

Rating Basic Building Materials Companies (August 2012)

Public Construction

Recent Trends

Spending on public construction declined mildly during 2010 and 2011. Public construction, particularly highway and street spending, remained under pressure in 2012 as state and local budgets, although improving, continued to be constrained. The absence of a long-term highway bill made it difficult for states to plan long-term projects and the sector faced a winding down of funds available under the American Recovery and Reinvestment Act of 2009, which boosted spending during the 2009–2011 period. Total public construction spending fell 2.6% during 2012. Through the first six months of 2013, expenditures declined 6.5% compared to the same period last year.

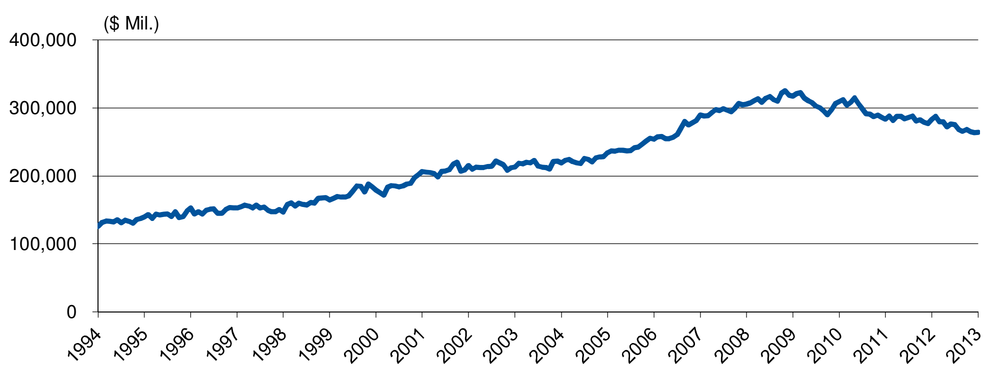
Highway and Street Construction

Government spending on highway and street construction grew 1.4% during 2012 after falling 3.8% in 2011. During the first six months of the year, highway and street construction spending fell 6.9% compared with the same period last year. The decline so far this year was due to severe weather conditions and tougher year-over-year comparisons versus the same period during 2012, which had unseasonably warm and dry weather conditions.

Growth Expectations

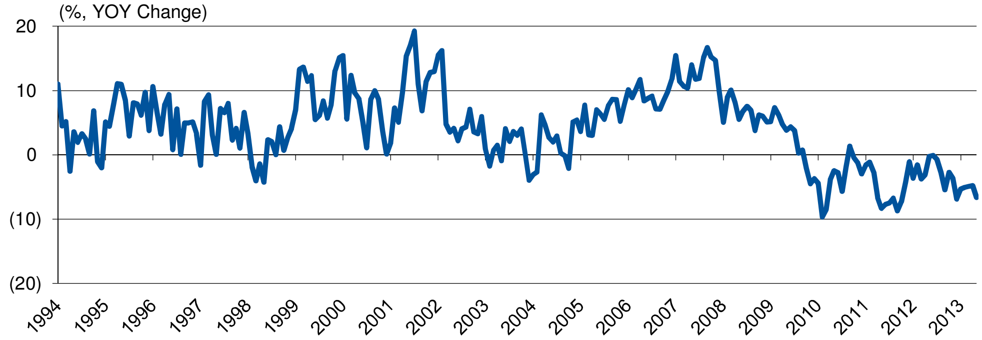
Public construction, and highway and street spending in particular, are expected to remain weak during 2013. Last year's passage of a new multiyear highway bill, which expires on Sept. 30, 2014, provides state and local governments with the certainty to plan long-term projects, given that the previous authorization had 10 short-term extensions following its September 2009 expiration. However, the benefits of the new highway bill will be more evident as the year progresses because of the time needed to start larger, longer-term projects. Additionally, the new highway bill does not increase federal funding from current levels, which will likely moderate the growth in total government spending. Fitch currently projects public construction spending will be flat in 2013 and grow 3% during 2014.

Public Construction — Value of Construction Put in Place (SAAR)



SAAR – Seasonally Adjusted Annual Rate.
Source: U.S. Bureau of the Census.

Public Construction — Value of Construction Put in Place



YOY – Year–over–year.
Source: U.S. Bureau of the Census.

Economic Stimulus Bill

President Barack Obama signed the American Recovery and Reinvestment Act of 2009 into law on Feb. 17, 2009. The $787 billion stimulus package included an estimated $506 billion in federal spending and $281 billion in tax cuts for individuals and businesses. The bill allocated more than $48 billion for highway and transportation spending, including $27.5 billion for bridge and highway funding, $8.4 billion for transit funding, $8 billion for construction of high-speed and intercity rail projects, and $1.1 billion for airport improvement grants. To encourage states to use these funds quickly to stimulate the economy, a “use-it-or-lose-it” provision was included in the legislation, requiring states to obligate 100% of the funds by March 5, 2010. The stimulus funds differ from regularly provided federal funding in that they do not require state or local governments to provide matching funds to receive federal money. This allowed states to get projects under construction quickly without using their own funds.

Highway Projects Obligated Under the Stimulus Bill

According to the latest Federal Highway Administration (FHWA) report (March 2013), approximately 13,000 highway projects have been obligated, of which 1,700 are currently under construction and roughly 11,500 projects have been completed. According to a May 31, 2013 report by the American Road & Transportation Builders Association, approximately $26.1 billion, or roughly 96.8%, of the stimulus funds have been spent through May 2013, including $438.5 million paid out so far in 2013. Annual totals include $5.6 billion paid out during calendar 2009, $11.5 billion during 2010, $6.1 billion in 2011 and approximately $2.5 billion during 2012. Roughly $1.4 billion of funds remain to be paid out as of May 31, 2013.

State Spending on Transportation

According to the latest edition of NASBO’s State Expenditure Report (examining fiscal 2010–2012 state spending), transportation expenditures totaled $122.8 billion during fiscal 2011, a 0.8% increase from the $121.8 billion spent during fiscal 2010. The report estimates that fiscal 2012 spending surged 9.1% to $134 billion. A significant portion of the growth was due to California, which saw total state transportation expenditures increase by 62.5%. (Note: California’s transportation spending fell 23.2% during 2010 and declined 15.2% during 2011.) Additionally, North Dakota also experienced a significant increase, with total state spending growing 46.3% during fiscal 2012.

During fiscal 2011, transportation spending accounted for roughly 7.4% of total state expenditures. Approximately 55.5% of transportation expenditures during the year were funded from earmarked revenues placed in special transportation funds, the largest of which is the gasoline excise tax. Federal funds accounted for 32.1% of transportation spending while bonds and general funds contributed the remaining 10.2% and 2.3%, respectively.

Spending on Highways

Capital outlays are those costs associated with highway improvements, including land acquisition and other right-of-way costs; preliminary and construction engineering; construction and reconstruction; resurfacing, rehabilitation and restoration costs of roadway and structure; system preservation activities; and installation of traffic service facilities such as guardrails, fencing, signs and signals.

SAFETEA-LU and Extensions

Federal highway law is the principal source of highway funding for public-sector construction projects. The previous law, SAFETEA-LU, expired on its own terms on Sept. 30, 2009. SAFETEA-LU provided $286.4 billion in guaranteed funding for federal surface transportation programs for a period of six years, which included approximately $228 billion for highway programs, $52 billion for transit programs and $6 billion for highway safety programs. Since the bill's expiration in 2009, SAFETEA-LU has been extended 10 times through continuing resolutions, with the last extension through July 6, 2012.

MAP-21

On July 6, 2012, President Obama signed into law a new transportation bill — Moving Ahead for Progress in the 21st Century Act (MAP-21). The new bill will expire on Sept. 30, 2014, after a total duration of 27 months. The $105 billion, two-year bill provides guaranteed funding for transportation projects for fiscal 2013 and 2014. The bill provides current funding levels plus inflation, totaling $39.7 billion in fiscal 2013 and $40.25 billion in fiscal 2014. The bill also authorizes the transfer of approximately $18.8 billion from the general fund of the Treasury to the Highway Trust Fund. This provision would transfer $6.2 billion to the Highway Trust Fund in 2013 and $12.6 billion in 2014.

MAP-21 consolidates 87 programs under SAFTETEA-LU to less than 30 programs, creating greater efficiencies and reducing administrative costs. The new highway bill also includes a provision that streamlines the lengthy and often duplicative review process, which currently averages roughly 15 years. This measure expedites the environmental review process for highway proposals to improve the states' ability to move forward with the project. In addition, earmarks — set asides for Congress members' pet projects — have been eliminated under the new highway bill.

The new highway bill also expanded the Transportation Infrastructure Finance and Innovation Act (TIFIA), which provides direct loans, loan guarantees and lines of credit to certain surface transportation projects at favorable terms. The goal of this program is to leverage federal funds by attracting private and nonfederal investment in transportation projects. Availability of funding authorized under this program was increased from $610 million under SAFETEA-LU to $1.75 billion under MAP-21. According to the DOT, each dollar of federal funds can provide approximately $10 in TIFIA credit assistance, which means roughly $17 billion in loans through TIFIA, which in turn can leverage $20 billion–$30 billion in transportation infrastructure investment. Altogether, the expanded federal loan program could result in up to $50 billion in federal, state, local and private sector investment across the country. According to the FHWA, about 30 TIFIA letters of interest and applications with an estimated project cost of $42 billion have been submitted for fiscal year 2013 under the provisions of MAP-21.

State Matching Requirements

States are required to match funds at a predetermined rate to receive federal funds for highways. Matching levels vary depending on the type of project. In most cases, states are required to contribute 20% of the total cost of the project to receive federal matching funds of 80% of the total project cost. Most federal funds remain available for expenditures for up to four years, so spending for a given year may include funds committed in previous periods. In addition to matching federal funds, state and local governments raise funds to invest in highway capital projects and to maintain existing local roadways.

The FHA calculates that government expenditures, by all levels of government, including federal, state and local agencies for highway programs totaled $206.4 billion in fiscal 2011, the most recent data available. This was a 0.5% increase from 2010 ($205.3 billion). Of the total amount spent in 2011, $101.6 billion was spent on capital projects, $80.3 billion was allocated to noncapital expenditures, and $24.6 billion went to interest payments and bond retirement. Capital outlays for 2011 grew 1.4% compared with 2010 ($100.2 billion).

Funding for Highway Spending

The public sector is primarily responsible for the funding of highway projects, wherein local and state governments pay for the expenditures with some combination of their own funds, grants provided by the federal government, and borrowed money that is subsequently repaid by revenues from taxes or tolls.

State and local governments account for most of the funding for highway expenditures, particularly for noncapital outlays such as maintenance and traffic services. State and local governments combined $41.7 billion of federal funds with $106.2 billion of state and local funds to make direct highway expenditures (capital outlays and maintenance and traffic services) of $147.9 billion in 2011. States derive funding for highway spending from a variety of sources, including tolls, fuel taxes, vehicle registration fees, and proceeds from bond issuances. Additionally, states sometimes use general fund appropriations to support highway expenditures. As a result, the fiscal health of individual states is important in matching federal funds, and funding other capital and noncapital expenditures.

Continued Improvement in State Fiscal Conditions

Tax collections for states have improved from the lows experienced during the most recent recession. According to the Spring 2013 Fiscal Survey of States published by the National Association of State Budget Officers (NASBO) and the National Governors Association, general fund

State Nominal Annual Budget Increases

(Fiscal 1979–2014)

Fiscal Year	State General Fund (% Change)
1979	10.1
1980	10.0
1981	16.3
1982	6.4
1983	(0.7)
1984	8.0
1985	10.2
1986	8.9
1987	6.3
1988	7.0
1989	8.7
1990	6.4
1991	4.5
1992	5.1
1993	3.3
1994	5.0
1995	6.3
1996	4.5
1997	5.0
1998	5.7
1999	7.7
2000	7.2
2001	8.3
2002	1.3
2003	0.6
2004	3.0
2005	6.5
2006	8.7
2007	9.4
2008	4.9
2009	(3.8)
2010	(5.7)
2011	3.8
2012	4.2
2013E	4.0
2014E	4.1
1979-2014 Average	**5.5**

E – Estimate.
Source: The Fiscal Survey of States — Spring 2013.

revenues are expected to increase 4.2% during fiscal 2013 to $703.4 billion following a 3.8% improvement in fiscal 2012 and a 6.6% growth in fiscal 2011. Aggregate general fund revenues are projected to reach $723.4 billion in fiscal 2014, a 2.8% increase over the estimated fiscal 2013 revenue levels.

Restraint in State Spending

Despite the improvement in general fund revenues over the past few years, many state budgets remain challenged due to the relatively weak economic recovery and still high unemployment rates. According to the Spring 2013 Fiscal Survey of States report, state general fund expenditures are projected to grow 4% in 2013 and 4.1% during 2014. The estimated increase in general fund spending for fiscal 2014 will be the fourth consecutive yearly increase (+4.2% in fiscal 2012 and +3.8% in fiscal 2011) following back-to-back declines in fiscal 2009 (–3.8%) and fiscal 2010 (–5.7%). Prior to the spending declines in fiscal 2009 and 2010, actual state general fund spending had only declined one other time, in 1983, by 0.7%. The fiscal 2013 estimated general fund expenditure of $699.2 billion has now surpassed the pre-recession high of $687.3 billion in 2008. Governors' recommended budgets show general fund spending increasing to $728 billion in fiscal 2014, a 4.1% improvement over 2013 levels. However, according to the report, fiscal 2014 budgets in 19 states still have general fund expenditure levels below pre-recession highs, reflecting an economic recovery that remains uneven across the country.

Funding for Highways

	Funding for Total Highway Expenditures					Funding for Capital Outlay		
($ Bil.)	Federal	State	Local	Total	Federal (%)	Federal	Total	Federal (%)
1981	11.9	20.1	10.4	42.4	28.1	11.5	19.7	58.4
1982	10.4	21.4	11.5	43.3	24.0	9.9	19.0	52.3
1983	11.0	23.1	12.0	46.1	23.8	10.6	20.2	52.5
1984	12.6	25.2	12.9	50.7	24.9	12.2	23.1	52.7
1985	14.7	27.9	14.9	57.5	25.7	14.3	26.6	53.8
1986	16.0	29.9	16.4	62.3	25.7	15.5	29.2	53.1
1987	14.4	33.3	17.6	65.2	22.0	13.9	30.7	45.2
1988	15.4	34.4	18.7	68.6	22.5	15.0	32.9	45.5
1989	14.5	36.4	19.9	70.9	20.5	14.1	33.1	42.5
1990	15.5	39.4	20.5	75.4	20.6	15.1	35.2	42.8
1991	15.7	41.8	21.1	78.6	20.0	15.3	36.6	41.8
1992	16.8	43.9	22.9	83.6	20.1	16.3	38.3	42.6
1993	17.6	46.5	22.3	86.4	20.4	16.9	39.5	42.7
1994	19.9	45.1	25.3	90.2	22.0	19.0	42.4	44.8
1995	19.9	48.8	24.7	93.5	21.3	18.9	44.2	42.6
1996	20.5	51.5	26.1	98.1	20.9	19.3	46.8	41.2
1997	21.2	54.2	26.6	102.0	20.8	20.1	48.4	41.6
1998	20.5	59.7	27.8	108.0	19.0	19.4	52.3	37.1
1999	23.3	61.0	31.7	116.0	20.1	22.1	57.2	38.6
2000	27.5	62.7	32.6	122.7	22.4	26.1	61.3	42.6
2001	30.0	66.3	34.5	130.8	23.0	28.5	66.7	42.8
2002	32.8	69.0	34.1	135.9	24.1	31.5	68.2	46.1
2003	33.0	71.9	38.7	143.6	23.0	31.1	70.0	44.4
2004	33.1	72.8	41.6	147.5	22.4	30.8	70.3	43.8
2005	33.3	76.6	42.8	152.7	21.8	32.1	75.2	42.7
2006	35.8	81.5	43.8	161.1	22.2	34.0	78.7	43.2
2007	36.4	83.4	52.0	171.8	21.2	34.6	81.1	42.7
2008	40.0	90.6	51.5	182.1	22.0	37.8	91.4	41.5
2009	42.4	99.5	53.7	195.6	21.7	40.6	94.5	43.0
2010	47.1	105.3	52.9	205.3	22.9	44.4	100.2	44.3
2011	45.5	105.1	55.8	206.4	22.1	42.7	101.6	42.0

Source: Highway Statistics Summary to 1995, Highway Statistics (Various Years), Tables HF-10 and HF-10A.

The projected growth in expenditures for fiscal 2013 and 2014 is also below the average seen during the past three decades. The average annual general spending growth rate for 1979–2013 was 5.5%. (Note: This survey presents data on the states' general fund receipts, expenditures and balances. Although the general fund does not make up all of the states' spending, these funds are used to finance most broad-based services and are the most important elements in determining the states' fiscal health. The states' general fund accounted for about 39.8% of total spending for fiscal 2011. As recently as fiscal 2008, general fund spending represented about 45.9% of total state spending.)

Federal Government's Contribution

The federal government provided approximately 22.1% of total highway expenditures for 2011 and has averaged 22.3% of the total for the past 31 years. The majority of these contributions consist of grants made to state and local governments. Direct federal spending on highway programs totaled $3.8 billion in 2011, with the remaining $41.7 billion in the form of transfers to state and local governments. The federal government's share of capital expenditures totaled $42.7 billion, or 42%, of the $101.6 billion in capital outlays for highways in fiscal 2011. The federal share of highway capital outlays has ranged from 41.5% to 44.3% over the past five years of available data.

Highway Trust Fund

Federal funding for highway expenditures is derived primarily from revenues generated by the Highway Trust Fund (HTF). The HTF was established in 1956 to provide a dedicated source of funding for highways. The HTF is composed of two separate accounts, one for highways and one for mass transit. Currently, more than 85% of the HTF's revenues go to the highway account. The HTF draws receipts from two main sources: federal excise taxes on motor fuels (gasoline, diesel and special fuels taxes) and truck-related taxes (truck and trailer sales, truck tires and heavy-vehicle use taxes). The largest contributor of revenues to the HTF is the $0.183-per-gallon tax on gasoline and gasohol, accounting for about 65% of the fund's revenues. The second-largest source is the levy of $0.243 per gallon on diesel, which accounts for about one-quarter of revenues. The federal motor fuel taxes have not been increased since 1993.

Travel in Millions of Vehicle Miles — All Roads and Streets

Year	Miles	YOY % Change
1983	1,649,108	3.6
1984	1,716,770	4.1
1985	1,774,763	3.4
1986	1,838,240	3.6
1987	1,924,328	4.7
1988	2,025,586	5.3
1989	2,107,040	4.0
1990	2,147,501	1.9
1991	2,172,214	1.2
1992	2,247,152	3.4
1993	2,296,705	2.2
1994	2,357,587	2.7
1995	2,422,776	2.8
1996	2,482,201	2.5
1997	2,560,373	3.1
1998	2,625,363	2.5
1999	2,679,459	2.1
2000	2,747,523	2.5
2001	2,795,611	1.8
2002	2,855,509	2.1
2003	2,890,222	1.2
2004	2,964,789	2.6
2005	2,989,430	0.8
2006	3,014,371	0.8
2007	3,031,124	0.6
2008	2,976,528	(1.8)
2009	2,956,762	(0.7)
2010	2,966,486	0.3
2011	2,929,480	(1.2)
2012	2,938,535	0.3
YTD — May 2012	1,204,053	—
YTD — May 2013	1,203,551	(0.04)

YOY – Year-over-year.
Source: U.S. Department of Transportation.

Lower Gas Tax Revenues

The HTF's highway account has been strained over the past few years as motorists have cut back on their driving and are buying more fuel-efficient cars, resulting in lower gas tax revenues for the fund. After increasing slightly during 2009 and 2010, total vehicle miles traveled (VMT) fell again in 2011 as higher gas prices during the year affected driving patterns. Total VMT increased slightly during 2012, growing 0.3% from 2011 levels. Through the first five months of 2013, total VMT declined slightly compared with the same period in 2012. According to the U.S. DoT, VMT for the LTM period ending May 31, 2013 remains approximately 3% below pre-recession levels.

Need for Alternative Funding Sources

The combination of higher spending, inflation, lower VMT and gasoline consumption resulting from the recent recession and increased vehicle fuel efficiency has created a large gap between revenues flowing into the HTF and highway spending. According to a Congressional Budget Office (CBO) report published in March 2011, federal spending on highways exceeded the revenues available under the HTF during 2008–2010, and the government supplemented the fund with approximately $30 billion from the Treasury's general revenues. MAP-21 also provides for general fund transfers of $6.2 billion for fiscal 2013 and $12.6 billion for fiscal 2014. The highway account (under the HTF) had a balance of $8.7 billion as of June 30, 2013. Under the CBO's baseline projections, the highway account of the HTF will have a balance of roughly $4 billion at the end of fiscal 2014. The CBO estimates that the HTF will have insufficient revenues to meet all obligations starting in fiscal 2015 absent additional government transfer of funds.

Increase and Restructure Current Fuel-Tax Structure

One alternative proposed to bring revenue and spending in line is to increase taxes on gasoline and motor fuels. As mentioned earlier, gasoline and motor fuel taxes have not been increased since 1993.

On Feb. 26, 2009, the National Surface Transportation Infrastructure Financing Commission (the Financing Commission) released its final report recommending that Congress institute a $0.10 increase in the federal gasoline tax and a $0.15 increase in the federal diesel tax to help finance highway construction and repairs until the government finds another way for motorists to pay for the use of public roads and highways. The Financing Commission is the second commission to advocate an increase in gas taxes to bridge the gap between actual revenues and the investment needed to improve the existing highway system.

A December 2007 report published by the National Surface Transportation Policy and Revenue Study Commission also recommended that the federal fuel tax be increased from $0.05 per gallon to $0.08 per gallon annually over the next five years, after which it should be indexed to inflation.

User-Based Charges

Another alternative to replace or supplement current user fees is the concept of mileage-based fees. According to a December 2012 report (Highway Trust Fund: Pilot Program Could Help Determine Viability of Mileage Fees for Certain Vehicles) published by the U.S. Government Accountability Office (GAO), mileage-based user fee initiatives in the U.S. and abroad show that such fees can lead to more equitable and efficient use of roadways by charging drivers based on their actual road use and by providing incentives to reduce road use.

The user-based concept was also suggested by the Financing Commission in its 2009 report. To position federal funding for the longer term, the Financing Commission recommended that Congress commence the transition to a new, more direct user charge system as soon as possible and commit to deploying a comprehensive system by 2020. This system will encompass a user charge system based more directly on miles driven (and potentially on factors such as time of day, type of road and vehicle weight and fuel economy) rather than indirectly on fuel consumed.

State Initiatives to Fund Highway Spending

Similar to the HTF, states also depend on gas taxes to fund highway spending. According to the American Petroleum Institute, state per-gallon tax rates on gasoline average about 31 cents per gallon while tax rates on diesel average roughly 30 cents per gallon. The National Conference of State Legislatures indicated that gas taxes are the single largest source of revenue for highway projects in about half of the states and provide close to 40% of state revenues for highways. Similar to revenues from federal gas and motor fuel taxes, revenues generated from state fuel taxes have not kept up with highway spending. As a result, governors and state lawmakers are also seeking alternative revenue sources to fund highway projects.

According to the National Conference of State Legislatures, states are once again taking the lead in figuring out immediate and long-term solutions. Since the 2013 legislative sessions began, at least 35 states have introduced legislation to fund and finance transportation projects. Various approaches have been proposed to match current and anticipated spending with revenues. Proposals include increasing state gas and motor fuel taxes, mileage-based fees and sales taxes as possible sources of funds to address the need for infrastructure improvement.

In February 2013, Wyoming increased its gas tax by 10 cents per gallon to 24 cents a gallon. The tax hike is expected to raise about $70 million a year after it took effect on July 1, 2013. In Pennsylvania, Gov. Tom Corbett unveiled a plan earlier this year that would generate roughly $1.8 billion of revenues each year by lifting a cap on wholesale gasoline taxes. The Pennsylvania state Senate has passed and sent to the House a bill that would raise $700 million a year more than the plan proposed by Governor Corbett. The plan would lift a cap on wholesale gasoline taxes and would increase vehicle fees and fines for moving violations.

In Virginia, the state eliminated its per-gallon tax in favor of a percentage tax as part of its $6 billion transportation bill. Starting on July 1, 2013, the tax rate for gasoline will be 11.1 cents a gallon, based on 3.5% of the statewide average wholesale price for a gallon of gasoline. Previously, Virginia levied a tax of 17.5 cents per gallon on all fuels. At the same time, the bill will also raise the state sales tax from 5% to 5.3%.

In January 2013, the Wisconsin Transportation Commission recommended that the state increase the state gas tax by 5 cents per gallon (the first increase since 2006) and create a new mileage-based registration fee for passenger vehicles.

Private Sector Funding

In addition to state and federal funds, some states and cities also have tapped the private sector to supplement funding for highway expenditures. Indiana signed a $3.85 billion, 75-year lease with private investors in 2006 to maintain the state turnpike and collect tolls. The city of Chicago similarly signed a 99-year lease for the Chicago Skyway toll road for $1.83 billion. Most of the proceeds from these transactions were used to pay off debt and fund road projects. As states have problems raising additional revenues and gasoline taxes are likely to remain at current levels (gasoline taxes were last raised in 1993), the privatization of toll roads provides a potential source of revenue for states to use for highway projects.

State of the Nation's Highways and Bridges

2013 ASCE Report Card

A 2013 report card published by the American Society of Civil Engineers (ASCE) rates the nation's bridges a "C+" (up from the "C" grade assigned in 2009, 2005 and 2001) and its roads a "D" (compared with the "D-" in 2009, "D" in 2005 and "D+" in 2001). The ASCE report card indicated that 1 in 9 of the nation's bridges are rated as structurally deficient and the average age of the nation's 607,380 bridges is currently 42 years. The FHWA estimates that the current cost to repair or replace only the deficient bridges is almost $76 billion. The report suggests that a $20.5 billion annual investment is needed to substantially improve current bridge conditions, which is significantly higher than the $12.8 billion spent annually on the construction and maintenance of bridges.

The ASCE report concluded that 42% of the nation's major urban highways remain congested, costing the economy about $101 billion in wasted time and fuel each year. Currently, 32% of major roads are in poor or mediocre condition, costing U.S. motorists who are travelling on deficient pavements $67 billion a year in additional repairs and operating costs. The report indicated that while road conditions have improved in the near term and capital investments have increased, the level of investment remains insufficient and is still projected to result in a decline in conditions and performance in the long term. The ASCE said that the current spending level ($91 billion annually during 2008) for highway capital improvements is well below the estimated $170 billion needed annually to substantially improve the nation's highways.

2012 DoT Report

In March 2012, the U.S. DoT released its report to Congress, titled "2010 Status of the Nation's Highways, Bridges, and Transit: Conditions and Performance." This biennial report is based primarily on data through 2008. It is intended to provide decision-makers with an objective appraisal of the physical conditions, operational performance and financing mechanisms of highways, bridges and transit systems, based both on the current state of these systems and on their projected future state under a set of alternative investment scenarios.

U.S. Roads

According to the report, the percentage of VMT on pavements with "good" ride quality increased to 46.4% in 2008 from 42.8% in 2000. On the National Highway System, the percentage of VMT with good ride quality has risen sharply over time, from approximately 48% in 2000 to approximately 57% in 2008. The percentage of VMT on pavements with "acceptable" ride quality (a lower standard that includes roads classified as "good") fell from 85.5% in 2000 to 85.4% in 2006. On the National Highway System, the percentage meeting the "acceptable" standard of ride quality increased from 91% in 2000 to 92% in 2008.

U.S. Bridges

Approximately 26.5% (159,859) of the nation's 603,310 bridges were either structurally deficient (12%) or functionally obsolete (14.5%) as of 2009, compared with approximately 30.1% in 2001 (about 14.6% were structurally deficient and 15.5% were functionally obsolete). Structural deficiencies are characterized by deteriorated conditions of significant bridge elements and reduced load-carrying capacity. Functional obsolescence is a function of the geometrics of the bridge not meeting current design standards. (Note: Neither type of deficiency indicates that a bridge is unsafe.)

Project Funding Requirements

The 2012 DoT report presents a set of illustrative capital investment scenarios over a period of 20 years. The DoT does not endorse or recommend any particular scenario.

Sustain Current Spending

This scenario assumes that capital spending is sustained in constant dollar terms at base year 2008 levels between 2009 and 2028. This level of annual spending would rise by the rate of inflation during this period. This level of funding is projected to result in a worsening of overall system performance in 2028 relative to 2008, including a 2.8% increase in pavement roughness and a 6.7% increase in average delay per VMT.

Maintain Conditions and Performance

This scenario assumes that capital investment gradually changes in constant dollars over 20 years to the point at which selected measures of highway and bridge performance in 2028 are maintained at their base year 2008 levels.

Improve Conditions and Performance Scenario

This assumes that capital investment gradually rises in constant dollar terms to the point at which all potentially cost-beneficial investments could be implemented by 2028. This scenario can be thought of as an "investment ceiling," above which it would not be cost beneficial to invest. According to the DoT report, investing at these levels could bring the share of federal-aid highway VMT on pavements with good ride quality up from 46.4% in 2008 to 74.1%. This level of funding is projected to reduce pavement roughness by approximately 24.3% and reduce average delay per VMT by 7.7%.

Average Annual Investment Levels for Selected Highway Scenarios

(Billions of 2008 Dollars)

System Subset	Sustain Current Spending	Maintain Conditions and Performance	Improve Conditions and Performance
Interstate	20.0	24.3	43.0
National Highway System	42.0	38.9	71.8
Federal-Aid Highways	70.6	80.1	134.9
All Roads	91.1	101.0	170.1

Source: 2010 Status of the Nation's Highways, Bridges, and Transit: Conditions and Performance.

Considerations for the Next Multiyear Highway Bill

The state of the nation's roads and bridges, as well as the state of the HTF, will be important considerations when lawmakers start working toward a new multiyear surface transportation bill upon the expiration of MAP-21 in September 2014. When Congress passed SAFETEA-LU in 2005, the FHA estimated that it needed $375 billion to fund repair and improvement projects, compared with the final authorization of $286 billion. The DoT report suggests that in order to improve the nation's highways, investment would need to rise to $170 billion annually, roughly $79 billion above current investments.

Commercial Construction

CRE Fundamentals Improving

The fundamentals of the U.S. CRE continue to improve at a moderate pace following the most recent economic recession. CRE vacancy rates are falling modestly and rents are moderately rising as the economy slowly picks up. Fitch currently expects continued, positive property-level fundamentals across most asset classes.

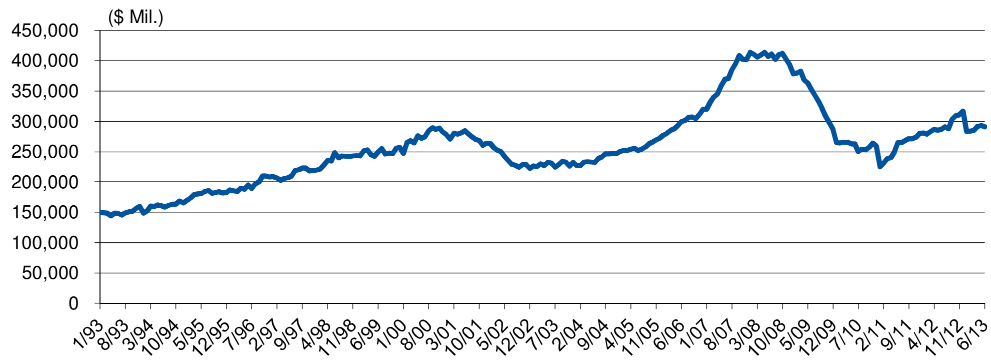
Growth in Spending

Private nonresidential spending as measured by the U.S. Census Bureau (Value of Construction Put in Place) increased during the second half of 2011, and the rate of growth accelerated during 2012. Non-residential spending advanced 15.6% to $297.7 billion during 2012 compared with $257.5 billion during 2011. The power segment showed the biggest improvement, growing 29.4% to $83.2 billion during 2012. Excluding the power sector, private nonresidential expenditures grew 11% during the year. The lodging sector had the next most robust improvement, advancing 28.4% to $10.8 billion. The manufacturing sector also showed strong growth, increasing 17.9% to $45.8 billion, while the office sector advanced 17.8% to $28 billion. Spending retail and warehouse properties improved 8.7% to $43.2 billion.

Spending growth has decelerated significantly so far in 2013, with private nonresidential expenditures increasing 1.4% to $137.9 billion during the first six months of the year compared with $136 billion during the same period last year. The lodging sector continues to be the best performer, advancing 26.5% so far this year. Office construction improved 9.1% while other commercial properties (retail and warehouse) grew 4.3% so far this year. Spending on power structures and communications fell 2.8% and 13.7%, respectively. Excluding the power sector (24.5% of total private nonresidential construction YTD) private nonresidential construction spending increased 2.8% during the first six months of 2013.

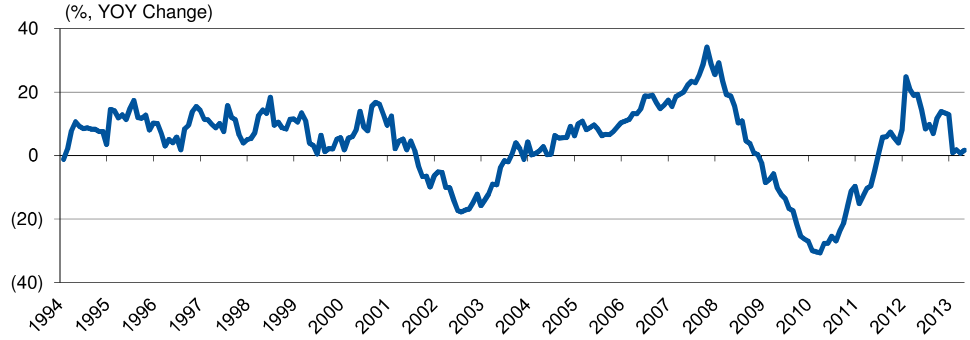
Fitch currently expects new construction activity to remain positive during the remainder of the year and into 2014 despite weak growth in the U.S. economy, lingering problems of key European economies, and continued challenges in the CRE capital markets. Fitch currently projects private nonresidential construction will grow 2% in 2013 and 5% in 2014.

Private — Nonresidential — Value of Construction Put in Place (SAAR)



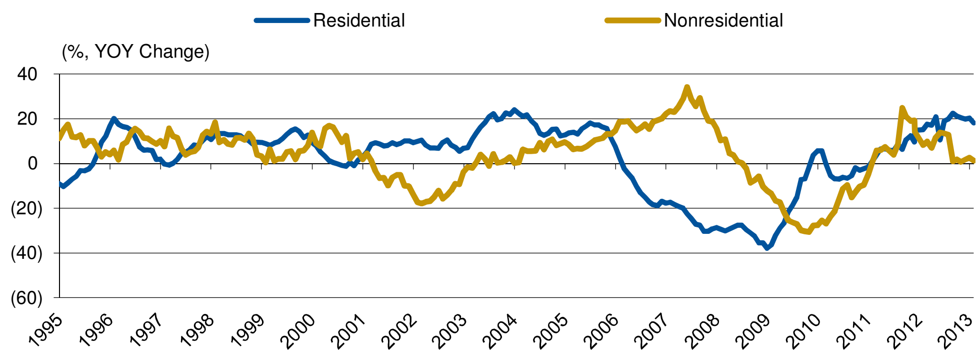
SAAR – Seasonally Adjusted Annual Rate. Source: US Bureau of the Census.

Private — Nonresidential — Value of Construction Put in Place



YOY – Year–over–year.
Source: U.S. Bureau of the Census.

Private Residential Versus Private Nonresidential Construction Put in Place



YOY – Year–over–year.
Source: U.S. Bureau of the Census.

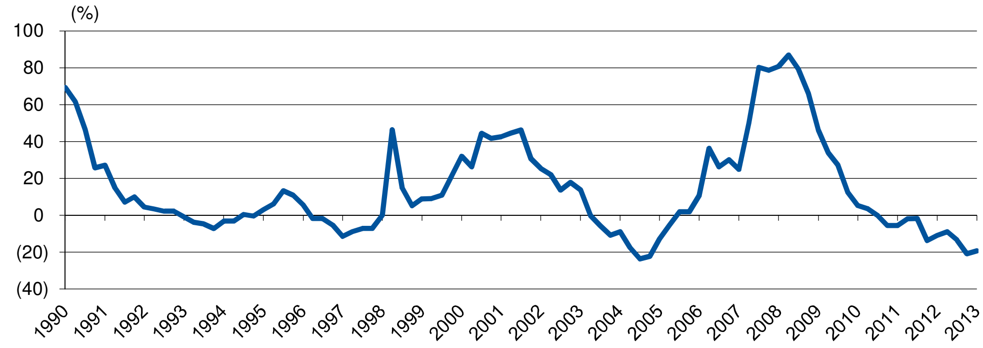
CRE Capital Markets

Some Easing in Bank Credit Lending Standards

The Federal Reserve Board's latest (July 2013) quarterly Senior Loan Officer Opinion Survey of Bank Lending Practices indicated that approximately 21.9% of banks have eased standards somewhat for approving CRE loans over the previous three months while 2.7% tightened standards. This is the tenth consecutive quarter wherein respondents have reported a net easing of standards for CRE loans following 20 quarters of net tightening. The latest survey also indicated that approximately 49.3% of the respondents reported that demand for CRE loans was stronger over the survey period, while 49.3% indicated no change in demand and 1.4% reported moderately weaker demand.

According to the REALTORS® 2013 Commercial Lending Survey, the lending spigot for CRE opened a little wider during 2012 after several years of difficult lending environment. The survey indicated that capital availability has shown some easing, but tight lending standards remain the norm in many markets. Approximately 31% of those surveyed said that capital availability eased during 2012, while 32% reported that conditions were unchanged and 37% indicated that standards tightened. During the same period, 52% of commercial realtors indicated that loan underwriting standards are just as stringent as in 2011, while 24% said that standards have eased while 20% reported more stringent standards last year compared with 2011. According to those surveyed, 57% of transactions closed had a down payment larger than 20% to secure financing, and cash transactions accounted for roughly 33% of sales. The survey also suggested that 52% of CRE sales failed due to lack of sufficient financing.

Net Percentage of Domestic Respondents Tightening Standards for Commercial Real Estate Loans



Source: The Federal Reserve Board Senior Loan Officer Opinion Survey on Bank Lending Practices.

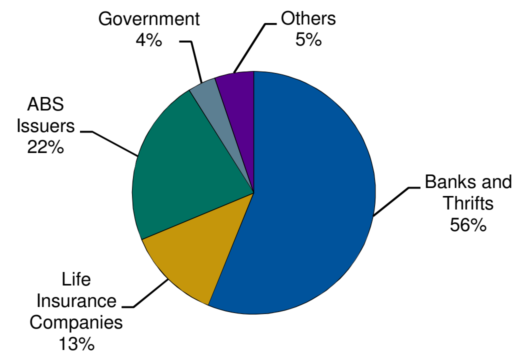
Lending Sources

According to the latest Flow of Funds Report from the Federal Reserve, total commercial mortgages declined 1.5% during the first quarter of 2013 compared with the first quarter of 2012. Total commercial mortgages also fell 0.6% on a sequential basis compared with the fourth quarter of 2012.

According to the Mortgage Bankers Association (MBA), there was a 9% overall increase in commercial/multifamily lending volume during the first quarter of 2013 compared to the same period last year. According to the MBA, the dollar volume of loans originated for conduits for CMBS grew 170% from last year's first quarter, while GSE loans increased 36% year-over-year. Loan volumes from commercial banks grew 8% while loan originations from life insurance companies fell 21% during the quarter.

The Commercial Mortgage Backed Securities (CMBS) market regained some ground during 2011 and 2012. According to the CRE Finance Council's Compendium of Statistics, CMBS issuances grew 172% during 2011 to $28 billion from $11 billion during 2010. CMBS issuances gained a further 48.2% and reached $44.4 billion during 2012. Through the first half of 2013, total CMBS issuances were $41.4 billion, 149.2% above the levels recorded during the first half of 2012.

Commercial Mortgages Outstanding
(As of 1Q13, By Investor Group)



ABS – Asset-Backed Securities.
Source: Federal Reserve Flow of Funds Report.

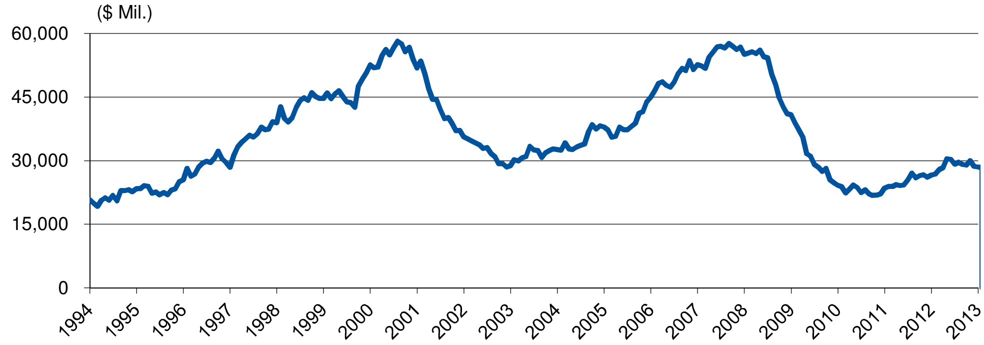
Rising Interest Rates

Interest rates have been rising over the past few months, with ten-year treasury rates climbing more than 100 bps to 2.58% during the month of July from 1.53% from a year-ago level. Higher interest rates are likely to increase the borrowing costs for new commercial construction, which can lower returns for potential projects. However, if interest rates are rising because the overall economy is becoming more robust, this could also lead to further improvement in real estate fundamentals, including higher rents and lower vacancy rates.

Office Sector

The value of private office construction grew 17.9% to $28 billion in 2012 following a 2.6% decline in 2011, a 34.6% decrease in 2010, and a 32.8% fall in 2009. The recent positive trend has continued so far this this year as office construction spending increased 9.1% to $11.6 billion during the first six months of the year compared with the same period last year.

Office Construction — Value of Construction Put in Place (SAAR)



SAAR – Seasonally Adjusted Annual Rate.
Source: U.S. Bureau of the Census.

Fundamentals Continue to Improve

According to the National Association of Realtors (NAR), vacancy rates in the office sector are projected to decline from an estimated 16.7% during the fourth quarter of 2012 to 15.6% during the fourth quarter of 2013. Vacancy rates are forecast to remain in the 15.6% range during all of 2014. Net completions of office space are projected to total 23.7 million square feet this year and 31.9 million square feet next year. Demand is expected to grow during the 2013–2014 periods, with net absorption for office space forecast to be 31.7 million square feet during 2013 and 42.1 million square feet during 2014. The NAR also expects rental rate growth to accelerate, increasing by 2.6% in 2013 and 2.8% in 2014 following an estimated 2% improvement during 2012.

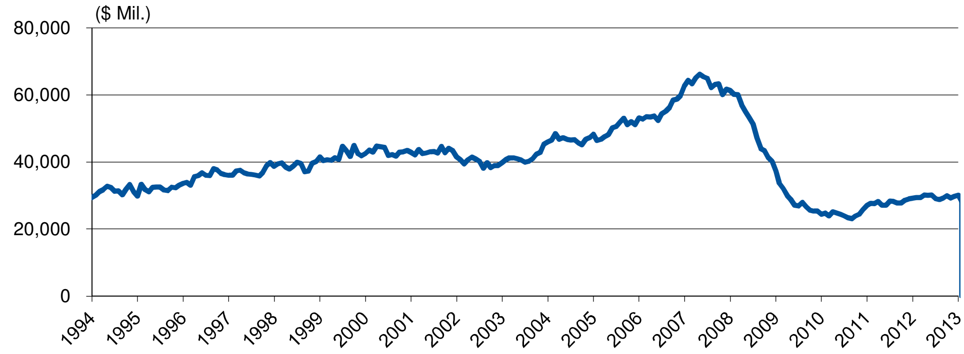
Employment

Nonfarm payroll employment continued to edge up in July, adding 162,000 jobs during the month. Over the prior twelve months, nonfarm employment growth averaged 189,000 per month. Additionally, the unemployment rate dipped to 7.4% from 7.6% in June. Fitch currently projects the unemployment rate to average approximately 8.2% in 2012 and decline to 7.8% in 2013.

Retail Sector

The value of commercial construction related to retail-type structures grew 9.8% to $29.2 billion during 2012 following a 7.1% increase during 2011. Construction spending for retail-type structures fell 27.1% during 2010, 40.9% during 2009 and 7.9% during 2008.

Retail Construction — Value of Construction Put in Place (SAAR)



SAAR – Seasonally Adjusted Annual Rate.
Source: U.S. Bureau of the Census, Commercial Construction (Automotive, Food/Beverage, Multi-Retail and Other).

Continued Improvement in Fundamentals

The retail sector has shown positive net absorption rates since 2010, leading to lower vacancy rates. According to the NAR, vacancy rates have declined steadily from 13% during 2010 to 12.5% during 2011 and 10.8% in 2012. The NAR projects further positive net absorption rates in 2013 and 2014, resulting in vacancy rates declining to 10.5% this year and 10.1% in 2014. The NAR also expects rental rate growth to accelerate, increasing by 1.4% in 2013 and 2.2% in 2014 following an estimated 0.8% improvement during 2012.

Growth in Retail Sales

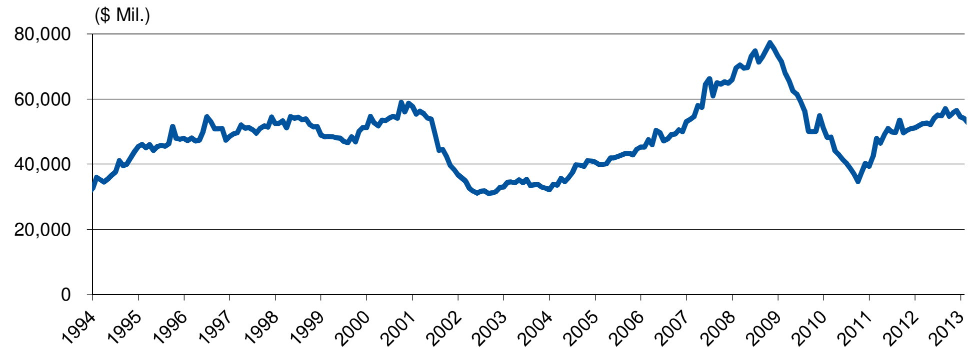
Advanced estimates of U.S. retail and foodservice sales (excluding motor vehicles and parts) for the month of June improved 0.4% on a seasonally-adjusted basis compared with May and grew 5.7% relative to June 2012. For the three-month period ending June 2013, retail sales increased 0.4% versus the January 2013–March 2013 period and grew 3.6% compared with the same period last year.

After a weak start to the year, Fitch expects total retail sales growth (excluding autos) to continue the positive momentum seen over the last couple of months and finish the year in the 4% range. May's advance estimate revealed a year-over-year increase of 4% (unadjusted basis), adding to the positive trend of increasing monthly year-over-year increases since February's low of 0.3%, indicating that the effects of the payroll tax hike are waning. Retail sales in the year-to-date period through June 2013 are up 3%. As the key spending seasons such as back-to-school and the year-end holidays approach, year-over-year comparisons will be easier.

Industrial Sector

The value of private manufacturing and warehouse construction grew 16.3% in 2012 to $52.8 billion following a 0.1% drop in 2011, a 31.2% decline in 2010 and a 4.9% decrease in 2009. The significant decline in 2010 was due primarily to decreased spending on petroleum/coal manufacturing sites compared with 2009 levels. Excluding the petroleum/coal construction value, private manufacturing and warehouse construction spending fell 19.9% in 2010 and had a similar decline in 2009.

Warehouse and Manufacturing Construction — Value of Construction Put in Place (SAAR)



SAAR – Seasonally Adjusted Annual Rate.
Source: U.S. Bureau of the Census, Commercial Construction (Automotive, Food/Beverage, Multi-Retail and Other).

Vacancy Rates Declining

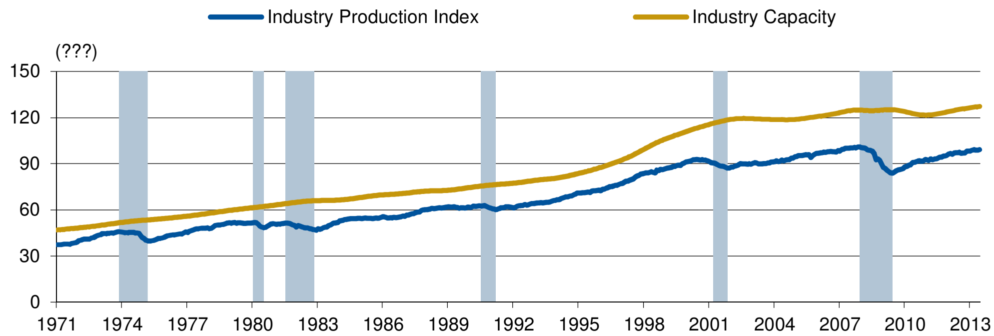
According to the NAR, vacancy rates are projected to decline to 9.3% during the fourth quarter of 2013 from roughly 10.1% during the fourth quarter of 2012. Vacancy rates are expected to improve further to about 8.8% during the fourth of 2014 as demand for industrial space continues to outpace new supply coming on line. The NAR also expects rental rate growth to accelerate, increasing by 2.4% in 2013 and 2.6% in 2014 following an estimated 1.7% improvement during 2012.

Manufacturing Activity Expands in Latest Report

The Institute for Supply Management (ISM) reported that economic activity in the manufacturing sector expanded in July for the second consecutive month. The decline during the month of May was preceded by 5 months of growth activity. The ISM's Purchasing Manager's Index (PMI) registered 55.4%, an increase of 4.5 percentage points from June's reading of 50.9%, indicating expansion in the manufacturing sector. (A PMI reading above 50 indicates growth, while a reading below 50 indicates contraction in the manufacturing sector.) The New Orders Index advanced 6.4 percentage points in July registering 58.3% and indicating expansion in new orders. The New Order Index has also registered growth for the second straight month.

The Federal Reserve also reported that industrial production was flat in July after increasing 0.2% in June, having been relatively flat in May, declining 0.4% in April and having gained 0.2% in March and 0.7% in February. Output for the month of January was flat. The capacity utilization rate was 77.6% in July, down from the 77.7% recorded during the months of May and June and the 77.8% reading in April. The level of capacity utilization is below the 80.2% average recorded between 1972 and 2012.

Industrial Production and Capacity



Note: The shaded areas are periods of business recession as defined by the National Bureau of Economic Research (NBER).
Source: Federal Reserve.

Building Materials Prices

Materials Prices Continue Moderate Year-Over-Year Growth

Overall, the July 2013 PPI for materials and components for construction increased 1.9% compared with the previous year and was flat relative to the prior month. The index has been generally higher on a year-over-year basis since 2010 but has remained relatively stable on a sequential basis during the first seven months of 2013.

2004–2009

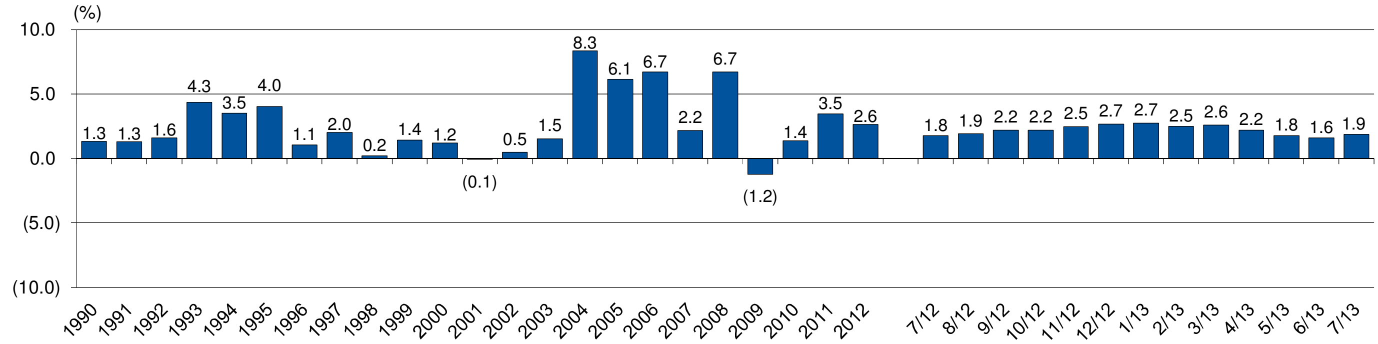
The construction industry experienced steep price increases for a variety of materials during 2004–2006. Prices for materials and components for construction, as compiled by the U.S. Bureau of Labor Statistics' PPI, grew 8.3%, 6.1% and 6.7% in 2004, 2005 and 2006, respectively. (During 1990–2003, prices for construction materials and components increased, on average, by about 1.7% per year.) Price increases eased to 2.2% in 2007, but resumed their upward momentum, rising to 6.7% in 2008. The run-up in crude-oil prices in early 2008 pushed the price of petroleum-based raw materials significantly higher, prompting producers to raise prices.

In 2009, the steep decline in new housing starts and the drop in nonresidential construction significantly decreased demand for building materials. The drop in demand, combined with reduced input costs, resulted in lower prices for building products, particularly during second-half 2009. For all of 2009, the PPI for materials and components for construction fell 1.2%.

2010–2013

In 2010, prices for construction materials rose 1.4% compared with the previous year. The PPI for materials and components for construction increased 3.5% during 2011 and 2.6% during 2012. A similar trend has continued at the beginning of 2013. Prices grew moderately for a range of construction components in July 2013. Gypsum prices were 14.5% higher compared with July 2012, while prices for lumber and plywood, insulation, and concrete products expanded 9.7%, 1.7% and 3.2%, respectively, on a year-over-year basis. Prices for steel mill products fell 6.1%, while copper and brass products declined 6.2% and aluminum mill products dropped 2.3% during the month. Overall, the July PPI for materials and components for construction increased 1.9% compared with the previous year and was flat relative to the prior month.

Materials and Components for Construction
(Annual Change in Producer Price Index)



YOY – Year-over-year.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Aggregates

During second-quarter 2013, total aggregates (stone, sand and gravel) shipments were generally higher for producers covered in this report, except for Martin Marietta Materials, Inc. (Martin Marietta). Pricing trends were positive for most producers starting in second-quarter 2011 and continuing through second-quarter 2013.

Volume Trends

Aggregates Volume and Pricing: Year-Over-Year Change — 2013

	June 30, 2013		March 31, 2013	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing
Martin Marietta Materials, Inc.	(1.6)	1.6	(8.7)	5.7
Vulcan Materials	2.2	3.6	(5.4)	4.6
Cemex SAB de CV[a]	8.0	3.0	15.0	(2.0)
Eagle Materials, Inc.	39.4	31.1	41.3	19.5
Texas Industries, Inc.[b]	15.0	9.5	28.2	2.1

[a]U.S. operations. [b]Three months ended Feb. 29, 2013 and May 31, 2013.
Source: Company reports.

Aggregates Volume and Pricing: Year-Over-Year Change — 2012

	12/31/12		9/30/12		6/30/12		3/31/12	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing	Volume	Pricing	Volume	Pricing
Martin Marietta Materials, Inc.	5.0	1.0	(3.8)	4.1	2.8	2.4	9.6	2.8
Vulcan Materials	(3.4)	3.8	(7.5)	3.8	(1.3)	0.2	10.4	(0.7)
Cemex SAB de CV[a]	20.0	(3.0)	14.0	(4.0)	5.0	2.0	14.0	4.0
Eagle Materials, Inc.	38.0	2.3	5.1	0.5	6.5	1.7	(19.5)	4.1
Texas Industries, Inc.[b]	35.1	(2.3)	24.5	1.8	17.7	0.4	(4.3)	(3.5)

[a]U.S. operations. [b]Three months ended Nov. 30, 2012, Aug. 31, 2012, May 31, 2012 and Feb. 28, 2012.
Source: Company reports.

Aggregates Volume and Pricing: Year-Over-Year Change — 2011

	12/31/11		9/30/11		6/30/11		3/31/11	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing	Volume	Pricing	Volume	Pricing
Martin Marietta Materials, Inc.	(1.2)	6.0	(2.2)	2.8	(9.3)	2.6	(1.2)	0.4
Vulcan Materials	2.6	1.2	(1.9)	0.6	(8.9)	2.5	(2.8)	(0.2)
Cemex SAB de CV[a]	0.0	6.0	(10.0)	12.0	(12.0)	9.0	(11.0)	5.0
Eagle Materials, Inc.	(31.6)	19.3	(2.9)	1.4	(2.4)	(2.8)	19.5	(9.1)
Texas Industries, Inc.[b]	(6.9)	(0.4)	(12.3)	(4.8)	(10.9)	(3.7)	26.9	(3.1)

[a]U.S. operations. [b]Three months ended Nov. 30, 2011, Aug. 31, 2011, May 31, 2011 and Feb. 28, 2011.
Source: Company reports.

Aggregates Volume and Pricing: Year-Over-Year Change — 2010

	12/31/10		9/30/10		6/30/10		3/31/10	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing	Volume	Pricing	Volume	Pricing
Martin Marietta Materials, Inc.	14.4	(3.1)	6.3	(3.1)	8.6	(3.8)	(11.9)	(3.1)
Vulcan Materials	0.4	(4.2)	(2.6)	(0.2)	5.8	(2.3)	(14.4)	0.9
Cemex SAB de CV[a]	(7.0)	1.0	(4.0)	(4.0)	(2.0)	(1.0)	(15.0)	(5.0)
Eagle Materials, Inc.	44.7	(19.7)	(10.1)	(4.5)	8.7	(9.8)	(12.6)	(10.5)
Texas Industries, Inc.[b]	14.5	(2.2)	4.7	(8.6)	(1.4)	(8.7)	(40.4)	(7.4)

[a]U.S. operations. [b]Three months ended Nov. 30, 2010, Aug. 31, 2010, May 31, 2010 and Feb. 28, 2010.
Source: Company reports.

Aggregates Volume and Pricing: Year-Over-Year Change — 2009

	12/31/09		9/30/09		6/30/09		3/31/09	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing	Volume	Pricing	Volume	Pricing
Martin Marietta Materials, Inc.	(24.3)	(1.1)	(22.1)	1.3	(25.6)	3.7	(21.1)	3.5
Vulcan Materials	(22.9)	4.8	(20.0)	2.4	(31.0)	3.0	(30.0)	2.0
Cemex SAB de CV[a]	(29.0)	(9.0)	(33.0)	(7.0)	(40.0)	(6.0)	(41.0)	(2.0)
Eagle Materials, Inc.	(36.3)	(1.7)	(32.2)	(0.5)	(27.7)	(7.7)	(19.0)	(7.0)
Texas Industries, Inc.[b]	(42.6)	(1.2)	(34.2)	3.8	(37.4)	7.0	(34.8)	9.4

[a]U.S. operations. [b]Three months ended Nov. 30, 2009, Aug. 31, 2009, May 31, 2009 and Feb. 28, 2009.
Source: Company reports.

Martin Marietta reported that heritage aggregates volume fell 1.6% during second-quarter 2013 following an 8.7% drop during first-quarter 2013. Management indicated that the decline in shipments during the first half of 2013 was due to severe weather conditions and tougher year-over-year comparisons versus first-half 2012, which had unseasonably mild weather conditions. During second-quarter 2013, the company reported a 7% increase in aggregates volume directed to the private non-residential construction sector, which represented about 30% of 2Q13 aggregates shipments. Shipments to the residential construction sector improved 4% and accounted for 13% of 2Q13 shipments. The infrastructure construction market, which accounted for 47% of shipments, saw an 8% drop in quarterly volumes during the 2Q13. Finally, the ChemRock/Rail end use market, which accounted for about 10% of 2Q13 shipments, improved 2% versus the prior-year quarter.

Vulcan Materials Co. (Vulcan) reported a 2.2% growth in shipments during second-quarter 2013 following a 5.4% decrease during first-quarter 2013. Management indicated that shipments in a number of the company's markets increased sharply versus the prior year. Shipments in Arizona and Florida increased more than 50% due mostly to strong private construction demand. Shipments in Texas grew more than 20% while volumes in North Carolina and California also improved 10%–20% compared to the prior year. Shipments in the Midwest and Virginia were sharply lower due to wet weather conditions.

Aggregates shipments continued to be higher for the regional producers featured in this report. Cemex S.A. reported an 8% growth in aggregates shipments during the second quarter, while Texas Industries, Inc. (Texas Industries) and Eagle Materials, Inc. (Eagle Materials) reported volume growth of 15% and 39.4%, respectively. These producers also reported healthy gains during the first quarter. These producers' operations are concentrated in Texas, California and Florida, which were less affected by harsh winter conditions this year. Eagle Materials' volume growth also included the effect of recently acquired assets that were not included in first-quarter 2012 results.

Pricing Trends

During second-quarter 2013, pricing was higher for the major aggregates producers covered in this report. Martin Marietta's average aggregates pricing improved 1.6% during second-quarter 2013 after advancing 5.7% during first-quarter 2013, 1% during fourth-quarter 2012, 4.1% in the third quarter, 2.4% in the second quarter and 2.8% in the first quarter.

Vulcan's aggregates prices improved 3.6% during second-quarter 2013 after increasing 4.6% during first-quarter 2013, 3.8% during fourth-quarter 2012, 3.8% during the third quarter, 0.2% during the second quarter and falling 0.7% during the first quarter. Eagle Materials reported a 31.1% increase in aggregates pricing during second-quarter 2013 after a 19.5% improvement during first-quarter 2013. The company also realized higher prices on a year-over-year basis in each of the four quarters in 2012 following improved pricing during second-half 2011. Texas Industries reported a 9.5% price improvement during second-quarter 2013 and a 2.1% price growth during first-quarter 2013. Average aggregates prices fell 2.3% during fourth-quarter 2012. The year-over-year pricing decline during the fourth quarter was due primarily to product mix. Cemex S.A.'s U.S. prices were 3% higher during second-quarter 2013. Its aggregates prices were 2%, 3% and 4% lower during first-quarter 2013, fourth-quarter 2012 and third-quarter 2012, respectively, primarily as a result of changes in product and market mix. Prices increased 2% in second-quarter 2012 after advancing 4% in the first quarter. Cemex S.A.'s aggregates prices advanced 6% during the fourth quarter, 12% during the third quarter, 9% during the second quarter and 5% during first-quarter 2011.

2013 Expectations

Fitch expects industry aggregates shipments will grow in the low-single-digit percentage range this year, with gains in residential and non-residential construction and a slight decline in volumes directed to the public infrastructure construction segment. Aggregates volume during the first half of 2013, particularly shipments to the public infrastructure sector, was negatively affected by wet weather conditions. Assuming more normal weather patterns, Fitch expects slightly stronger volume gains during the second half of the year. Fitch also expects industry aggregates pricing will grow in the low-single-digit range, similar to the historical long-term industry average annual price growth of 2%–3%.

For all of 2013, Martin Marietta expects heritage aggregates volume will improve 1%–3% compared with 2012 (down from the expected 4%–6% improvement projected during first-quarter 2013) while Vulcan expects a 1%–1.5% growth this year.

Martin Marietta currently expects aggregates pricing to increase between 2% and 4% in 2013. Vulcan expects pricing for aggregates to grow 4% from last year's level.

Cement

The U.S. cement industry experienced a steep contraction during 2006–2010, following strong growth fueled by record demand and a robust pricing environment during 2004–2005. U.S. cement consumption improved slightly during 2011.

2004–2009

According to the U.S. Geological Survey (USGS), U.S. cement shipments to final customers, including exports, increased 6.9% in 2004, 5.5% in 2005 and 0.4% in 2006. Cement shipments dropped 9.3% in 2007, 17% during 2008 and 26.5% during 2009 as the housing slump intensified. According to the Portland Cement Association (PCA), cement volumes declined by 54 million metric tons through 2009 from peak 2005 levels. The PCA estimates that about 30 million metric tons, or 55% of the total decrease, was attributable to the collapse of the residential construction industry. The 79% decline in single-family housing starts during 2005–2009 accounted for approximately 87% of the drop in residential cement consumption, with the other 13% attributable to decreases in multifamily housing starts and in the home repair and remodel segment.

Cement Volume and Pricing: Year-Over-Year Change — 2013

	June 30, 2013		March 31, 2013	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing
Vulcan Materials	20.1	6.5	14.3	5.9
Cemex SAB de CV[a]	3.0	4.0	2.0	5.0
Eagle Materials, Inc.[b]	46.3	6.3	45.3	4.4
Texas Industries, Inc.[c]	32.0	3.2	25.6	0.8

[a]U.S. operations.[b]Includes joint venture. [c]Three months ended Feb. 29, 2013 and May 31, 2013.
Source: Company reports.

Cement Volume and Pricing: Year-Over-Year Change — 2012

	12/31/12		9/30/12		6/30/12		3/31/12	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing	Volume	Pricing	Volume	Pricing
Vulcan Materials	8.0	11.5	17.2	7.2	28.8	(0.8)	23.3	2.8
Cemex SAB de CV[a]	9.0	3.0	8.0	2.0	19.0	1.0	22.0	—
Eagle Materials, Inc.[b]	16.9	3.3	5.8	1.9	25.8	(0.2)	19.6	2.1
Texas Industries, Inc.[c]	17.0	2.2	15.5	(0.4)	4.7	(1.3)	5.5	1.3

[a]U.S. operations. [b]Includes joint venture. [c]Three months ended Nov. 30, 2012; Aug. 31, 2012; May 31, 2012 and Feb. 28, 2012.
Source: Company reports.

Cement Volume and Pricing: Year-Over-Year Change — 2011

	12/31/11		9/30/11		6/30/11		3/31/11	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing	Volume	Pricing	Volume	Pricing
Vulcan Materials	13.6	(10.0)	1.4	(8.7)	(30.3)	2.3	1.1	(10.8)
Cemex SAB de CV[a]	5.0	1.0	2.0	0.0	(10.0)	0.0	(4.0)	(3.0)
Eagle Materials, Inc.[b]	13.1	0.1	5.4	1.5	(4.0)	(0.2)	0.9	0.2
Texas Industries, Inc.[c]	12.8	(0.5)	11.0	0.7	0.6	(1.5)	10.2	(6.2)

[a]U.S. operations. [b]Includes joint venture. [c]Three months ended Nov. 30, 2011; Aug. 31, 2011; May 31, 2011 and Feb. 28, 2011.
Source: Company reports.

Cement Volume and Pricing: Year-Over-Year Change — 2010

	12/31/10		9/30/10		6/30/10		3/31/10	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing	Volume	Pricing	Volume	Pricing
Vulcan Materials	43.2	(18.2)	22.5	(14.7)	67.1	(22.4)	3.6	(12.0)
Cemex SAB de CV[a]	3.0	(8.0)	0.0	(7.0)	8.0	(7.0)	(8.0)	(8.0)
Eagle Materials, Inc.[b]	6.0	(4.6)	(1.9)	(6.9)	7.7	(8.4)	(3.9)	(11.6)
Texas Industries, Inc.[c]	6.2	(6.2)	(4.6)	(9.5)	4.1	(10.5)	(23.7)	(9.3)

[a]U.S. operations. [b]Includes joint venture. [c]Three months ended Nov. 30, 2010; Aug. 31, 2010; May 31, 2010 and Feb. 28, 2010.
Source: Company reports.

Cement Volume and Pricing: Year-Over-Year Change — 2009

	12/31/09		9/30/09		6/30/09		3/31/09	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing	Volume	Pricing	Volume	Pricing
Vulcan Materials	(31.9)	(1.1)	(27.9)	(3.6)	(51.0)	2.3	(42.1)	(1.2)
Cemex SAB de CV[a]	(25.0)	(7.0)	(31.0)	(7.0)	(37.0)	(6.0)	(33.0)	(5.0)
Eagle Materials, Inc.[b]	(16.7)	(11.6)	(4.8)	(11.5)	(21.9)	(8.9)	(24.0)	(3.1)
Texas Industries, Inc.[c]	(31.9)	(8.0)	(24.9)	(6.3)	(30.2)	(4.6)	(26.7)	(0.9)

[a]U.S. operations. [b]Includes joint venture. [c]Three months ended Nov. 30, 2009; Aug. 31, 2009; May 31, 2009; and Feb. 28, 2009.
Source: Company reports.

2010–2013

USGS data suggest that cement shipments fell 0.4% during 2010 and volume is estimated to have increased 3.1% during 2011 and 7.8% during 2012. Several producers reported higher shipments during second-half 2010 and first-quarter 2011, but this trend reversed during second-quarter 2011 due to severe weather patterns and slower construction activity during the period. During third- and fourth-quarters 2011, volume comparisons were positive for the cement manufacturers covered in this report. This trend continued during 2012, as most manufacturers reported strong growth in each of the quarters. The USGS estimates that shipments of cement in the U.S. and Puerto Rico were about 29.7 million metric tons through the first five months of the year, up 1% compared to the same period last year.

Expectations for 2013

The PCA anticipates moderate cement consumption improvement this year. The PCA currently projects a 6.2% increase in cement consumption during 2013, followed by 9.2% growth in 2014. Fitch's expectations are in line with the PCA's projections for 2013 and 2014.

Cement Prices

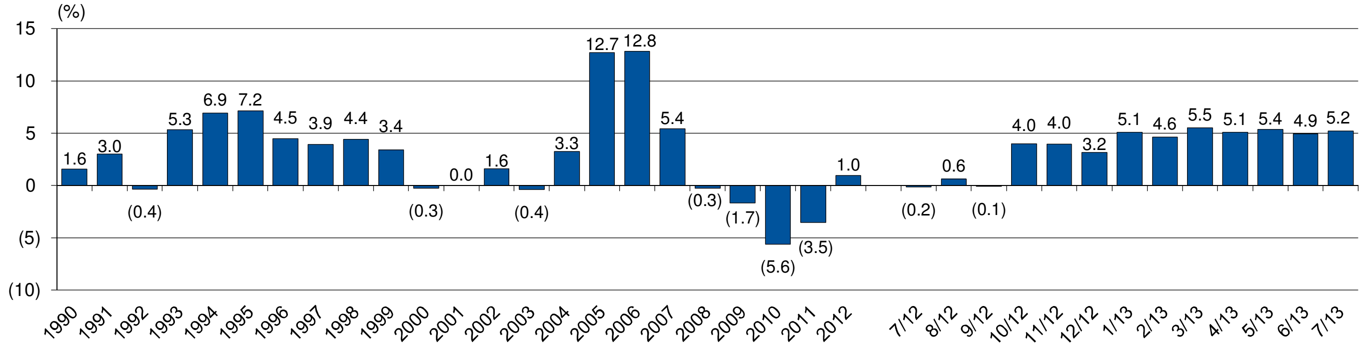
Cement prices soared during 2005 and 2006 as construction activity remained robust. Based on the PPI for cement, prices rose 12.7% and 12.8% in 2005 and 2006, respectively, and growth then slowed to 5.4% in 2007. Pricing for cement was flat in 2008 compared with 2007 as total construction activity moderated. Cement pricing was relatively stable for most of first-half 2009, but declined each month during the second half of the year and on into 2010, and during 2011. Based on PPI numbers, cement prices increased slightly during 2012 compared to 2011 levels, although more robust pricing gains were reported during fourth-quarter 2012. So far in 2013, the PPI for cement has increased in the mid-single digit range on a year-over-year basis, with June prices up 4.9% vs. June 2012.

Pricing Actions

Eagle Materials indicated that winter price increases of about $5 per ton to $8 per ton were implemented in all of its markets during January and April 2013. The company has announced additional price increase for later this year in the range of $6 per ton to $8 per ton. Texas Industries also implemented price increases during the month of January and April ranging from $2 per ton to $5 per ton. The company also indicated that they will be announcing a $5 per ton increase effective September 1 for Texas.

Cemex S.A. also announced a price increase for its cement products of roughly $8.80 per ton during January 2013 in all its markets, except Texas, which had a pricing increase during the latter part of 2012. Management also said that a price increase of $3.30 per ton to $8.80 per ton has been implemented in April in southern California, Texas and the mid-South states.

Cement
(Annual Change in Producer Price Index)



YOY – Year-over-year.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Wallboard

Wallboard Shipments Stabilizing

Industry wallboard shipments in the U.S., as reported by the Gypsum Association, grew 6.3% to 9.48 billion square feet during the first half of 2013, compared with 8.92 billion square feet during the first six months of 2012. Fitch expects wallboard shipments will increase in the mid-single-digit percentage range during 2013 compared with 2012 levels. USG estimates that industry capacity utilization rates remained very low at approximately 58% during the first half of 2013, compared with 63% during fourth-quarter 2012 and 55% during the first half of 2012.

For all of 2012, shipments improved approximately 10% to 19.3 billion square feet compared with 17.5 billion square feet during 2011. USG estimates that industry capacity utilization rates were 58% during 2012, compared with 53% during 2011. Wallboard shipments grew 1.2% to 17.5 billion square feet during 2011 from 17.3 billion square feet during 2010. Wallboard shipments grew roughly 15% during fourth-quarter 2011 and advanced 4% during third-quarter 2011 compared with the same periods in 2010. Prior to this, the industry had been reporting year-over-year quarterly declines in shipments since third-quarter 2006. Industry capacity utilization rates remained quite low at 53% during 2011.

The Gypsum Association estimates that industry shipments fell 6% to 17.3 billion square feet in 2010, following a 27% decline in 2009, a 17.9% drop in 2008 and a 15% decrease in 2007. The industry capacity utilization rate was approximately 51% in 2010, compared with 52% in 2009, 62% in 2008 and 77% in 2007.

USG's wallboard shipments in the U.S. grew 12.2% during the second quarter of 2013 to 1.29 billion square feet. During the first half of 2013, USG's wallboard shipments grew 3.5% to 2.39 billion square feet. The company's volume growth is lower than the estimated 6.3% increase in industry shipments reported during the first two quarter of 2013 due to seasonality in the retail channel where USG has a larger market share. USG estimates that it had a 27% market share during the first half of 2013, flat compared to year-ago levels.

Wallboard Pricing Trends

2012

At the end of 2011, major manufacturers announced that they were eliminating the practice of job quotes. In the past, job quotes provided pricing protection for customers, particularly for large projects. However, this practice limited the realization of price increases implemented by manufacturers. Lafarge S.A., National Gypsum Company, CertainTeed Corporation and American Gypsum Company all announced the elimination of job quotes and announced a 35% increase in wallboard prices effective at the beginning of 2012. USG also announced the elimination of job quotes, although it did not provide the magnitude of the 2012 price increase. Fitch believes that a similar price increase of 35% was announced by USG.

These pricing increases have generally been successful, as evidenced by the significant year-over-year improvement in average wallboard prices reported by USG and Eagle Materials. During 2012, USG's average wallboard price was $131.70 per thousand square feet, a 17.9% improvement from the $111.66 average price during 2011. Similarly, Eagle Materials reported a 31.7% improvement in its wallboard prices during calendar year 2012. Both of these companies' wallboard prices were generally stable during 2012, reflecting the single price increase implemented last year.

2013

Eagle Materials announced in August 2012 a 25% price increase for its wallboard products, effective Jan. 1, 2013. The company said that many commercial jobs have long lead times and the guidance for 2013 wallboard prices allows drywall contractors to bid for jobs next year using higher prices for wallboard. Similarly, LaFarge and National Gypsum announced a 30% price increase on all wallboard products effective at the beginning of 2013. USG has also increased prices at the beginning of the year but has not specified the amount of percentage increase. Fitch believes that USG's price increase ranged from 20%–30% for the year. The price increase announced by wallboard producers is also intended to be in effect for all of 2013. So far, it appears that the announced price increases are gaining traction, as evidenced by the improvement in average wallboard prices so far this year.

2013 Expectations

Fitch projects wallboard shipments will increase in the mid-single-digit percentage range during 2013, slightly below the growth rate reported in 2012. This sector should continue to benefit from strong new home construction activity, as well as moderate improvement in the repair and remodel and commercial construction sectors. Fitch estimates that about a third of industry shipments are directed to the new home construction market. Fitch also expects manufacturers will realize higher pricing this year, particularly if industry participants remain disciplined and stick to their pricing strategy. Based on announced pricing increases ranging from 25%–30% effective at the beginning of 2013, average realized wallboard prices could improve in the mid-to-upper teens this year (net of discounts and rebates.

Wallboard Volume and Pricing: Year-Over-Year Change —2013

	June 30, 2013		March 31, 2013	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing
USG Corporation	12.2	16.4	(4.3)	17.3
Eagle Materials, Inc.	16.4	23.3	9.1	22.6

Source: Company reports.

Wallboard Volume and Pricing: Year-Over-Year Change — 2012

	Dec. 31, 2012		Sept. 30, 2012		June 30, 2012		March 31, 2012	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing	Volume	Pricing	Volume	Pricing
USG Corporation	11.9	17.5	14.0	18.2	17.0	18.4	16.9	19.5
Eagle Materials	23.3	27.4	24.1	29.7	10.9	31.8	(7.2)	38.7

Source: Company reports.

Wallboard Volume and Pricing: Year-Over-Year Change — 2011

	Dec. 31, 2011		Sept. 30, 2011		June 30, 2011		March 31, 2011	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing	Volume	Pricing	Volume	Pricing
USG Corporation	15.3	0.6	1.9	(2.4)	(7.8)	(2.3)	(13.7)	2.4
Eagle Materials	9.1	9.5	1.5	(4.2)	(9.2)	(8.3)	(4.5)	(0.7)
Temple-Inland	N.A.	N.A.	(22.0)	7.0	(8.0)	1.0	7.2	6.0

N.A. – Not available
Source: Company reports.

Wallboard Volume and Pricing: Year-Over-Year Change — 2010

	Dec. 31, 2010		Sept. 30, 2010		June 30, 2010		March 31, 2010	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing	Volume	Pricing	Volume	Pricing
USG Corporation	(10.8)	1.9	(12.0)	(0.8)	(9.3)	(5.5)	(12.2)	(12.2)
Eagle Materials	(0.5)	(2.6)	(15.4)	3.6	2.0	(1.8)	0.2	(21.5)
Temple-Inland	5.8	3.3 a	5.8	4.0	26.0	(3.0)	8.0	(19.0)

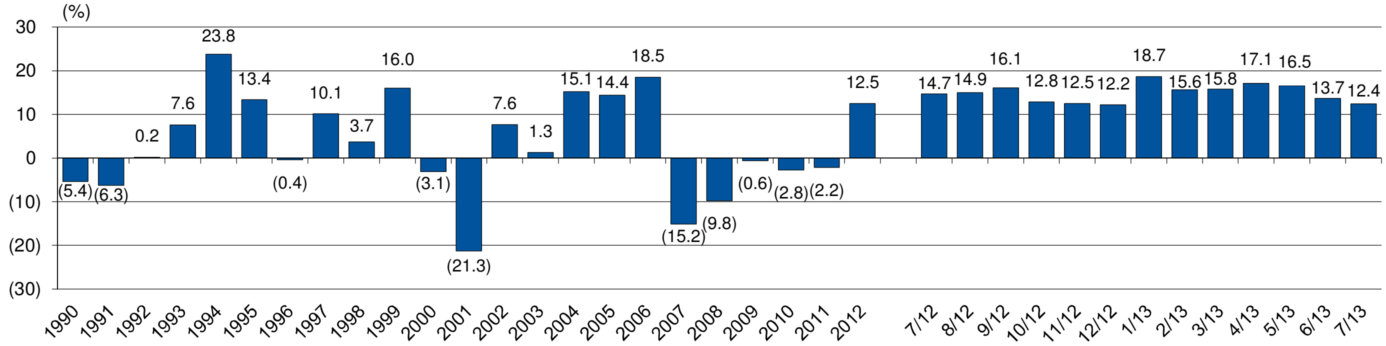
[a]Fitch estimate.
Source: Company reports.

Wallboard Volume and Pricing: Year-Over-Year Change — 2009

	Dec. 31, 2009		Sept. 30, 2009		June 30, 2009		March 31, 2009	
(%, Three Months Ended)	Volume	Pricing	Volume	Pricing	Volume	Pricing	Volume	Pricing
USG Corporation	(26.4)	(7.8)	(31.6)	0.8	(37.6)	10.0	(37.6)	16.3
Eagle Materials	(14.4)	(14.2)	(15.7)	(5.8)	(31.1)	12.0	(25.0)	18.9
Temple-Inland	17.7	(20.0)a	28.6	(12.0)	(6.8)	4.0	1.0	13.0

[a]Fitch estimate.
Source: Company reports.

Gypsum Product Manufacturing
(Annual Change in Producer Price Index)



YOY – Year-over-year.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Coatings

Second-Half 2011 and 2012 Volume Trends

The U.S. Census Bureau ended the collection of domestic coatings data after second-quarter 2011. Fitch estimates that architectural coatings volume during second-half 2011 increased slightly compared with the same period in 2010 as housing turnover improved relative to the weak activity seen during second-half 2010, following the expiration of the federal housing tax credit. Additionally, new commercial construction activity was stronger during second-half 2011 compared with the same period in 2010.

The American Coatings Association estimates that 2012 paint volume increased approximately 3.5% compared to 2011 levels. The management team at Sherwin-Williams estimates that architectural coatings volume grew 3% during the year.

First-Half 2013 Volume Trends

Based on financial reports from various paint manufacturers, Fitch estimates that architectural coatings volume expanded in the mid-single-digit percentage range during first-half 2013. Manufacturers with owned-store networks reported mid-to-high-single digit unit growth while sales volume to national retailers was mixed. The industry faced tough year-over-year comparisons versus first-half 2012 as unit shipments, particularly for exterior paints, increased due in part to milder weather conditions, which led to an early start to the exterior painting season last year.

Raw Materials Costs

Coatings raw materials costs escalated in 2010, and this trend continued and accelerated during 2011. According to Sherwin-Williams Co.'s (SHW) management team, coatings raw materials costs increased in the high teens to the low 20% range in 2011 compared with 2010. While raw material price inflation appeared to level off relative to the previous quarter, the industry continued to report higher year-over-year cost increases in fourth-quarter 2011.

Quantity and Value of Coatings Shipments

	Total Coatings				Architectural Coatings			
	Quantity (Mil. Gal.)	YOY % Change	Value ($ Mil.)	YOY % Change	Quantity (Mil. Gal.)	YOY % Change	Value ($ Mil.)	YOY % Change
1989	1,239.7	—	12,331.6	—	537.5	—	4,525.3	—
1990	1,281.9	3.4	12,898.4	4.6	558.4	3.9	4,913.6	8.6
1991	1,226.8	(4.3)	13,009.4	0.9	537.9	(3.7)	4,900.7	(0.3)
1992	1,236.0	0.7	13,595.1	4.5	575.6	7.0	5,294.3	8.0
1993	1,336.5	8.1	14,630.1	7.6	608.1	5.6	5,615.3	6.1
1994	1,431.1	7.1	15,645.2	6.9	644.8	6.0	5,888.3	4.9
1995	1,408.3	(1.6)	15,951.6	2.0	621.1	(3.7)	6,041.3	2.6
1996	1,468.2	4.3	16,554.7	3.8	640.3	3.1	6,246.3	3.4
1997	1,472.8	0.3	16,559.5	0.0	655.6	2.4	6,264.9	0.3
1998	1,443.7	(2.0)	17,298.2	4.5	631.6	(3.7)	6,115.2	(2.4)
1999	1,466.2	1.6	17,813.4	3.0	660.2	4.5	6,617.9	8.2
2000	1,467.2	0.1	17,724.7	(0.5)	650.6	(1.5)	6,461.4	(2.4)
2001	1,392.9	(5.1)	17,274.7	(2.5)	667.0	2.5	7,038.3	8.9
2002	1,433.9	2.9	17,465.8	1.1	709.8	6.4	7,610.1	8.1
2003	1,473.5	2.8	18,092.0	3.6	762.0	7.4	8,006.2	5.2
2004	1,534.3	4.1	19,233.2	6.3	803.6	5.5	8,623.3	7.7
2005	1,570.3	2.3	19,945.2	3.7	759.3	(5.5)	8,485.8	(1.6)
2006	1,549.7	(1.3)	20,870.1	4.6	767.6	1.1	9,003.1	6.1
2007	1,530.5	(1.2)	21,157.6	1.4	776.7	1.2	9,065.2	0.7
2008	1,357.6	(11.3)	19,834.4	(6.3)	682.2	(12.2)	8,639.6	(4.7)
2009	1,226.3	(9.7)	17,930.0	(9.6)	642.5	(5.8)	8,604.7	(0.4)
2010	1,301.3	6.1	19,315.5	7.7	651.6	1.4	8,778.1	2.0
1H10	N.A.	—	N.A.	—	347.1	—	4,612.1	—
1H11	N.A.	—	N.A.	—	319.4	(8.0)	4,712.3	2.2

NA – Not available. YOY – Year-over-year.
Source: U.S. Census Bureau.

For 2012, SHW estimated that raw materials cost inflation for the coatings industry was in the mid-single-digit percentage range. According to SHW, the price of high-grade titanium dioxide (TiO_2) eased somewhat during second-half 2012 due to declining global demand. PPG Industries, Inc. (PPG) estimated its coatings raw materials cost inflation to be 3%–5% during 2012. (Note: PPG has significant exposure to industrial coatings, which generally use lower amounts of TiO_2 than architectural coatings.) The industry has experienced similar inflationary trends in the recent past, when coatings raw materials costs increased for three consecutive years from 2004–2006.

In 2013, SHW expects year-over-year raw material costs will decline in the low-single-digit percentage range this year, which is slightly better than the company's outlook earlier in the year.

Pricing Actions

Industry participants have been able to implement price increases in the past following escalations in coatings raw materials costs, albeit on a lagged basis. In 2010 and 2011, several manufacturers announced numerous price increases to offset higher raw materials costs.

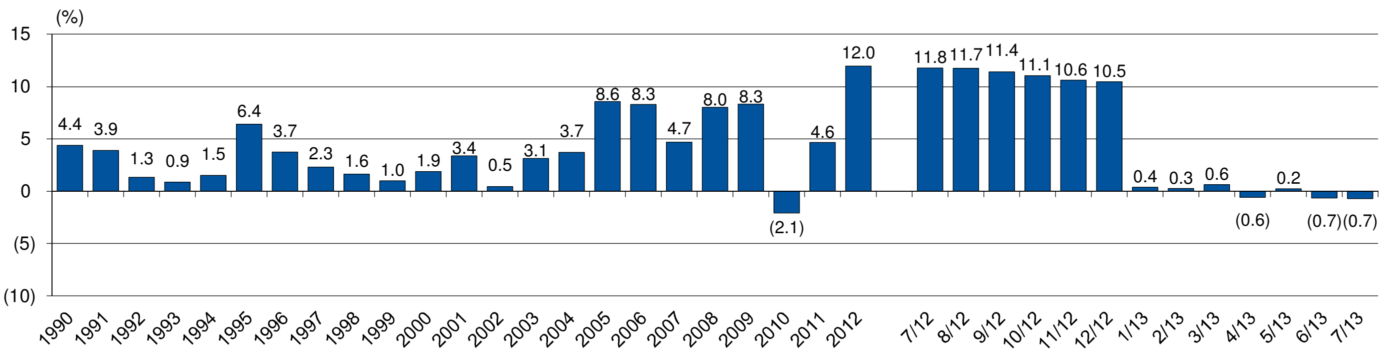
In 2012, SHW announced an 8% increase in coatings prices across its paint stores, effective Feb. 1. This was the company's sixth price increase during the 2010–2012 period. Cumulatively, the six increases amounted to roughly 38%. However, SHW has not announced additional across the board pricing increases since February 2012. Masco Corp.'s management said that pricing increases for its paint products were completed in early April 2012 with all of its customers.

Additional pricing increases may be unlikely in the near term as coatings raw materials costs appear to have stabilized. However, manufacturers may selectively seek additional price increases during 2013 if inflation pressures are above current expectations.

2013 Expectations

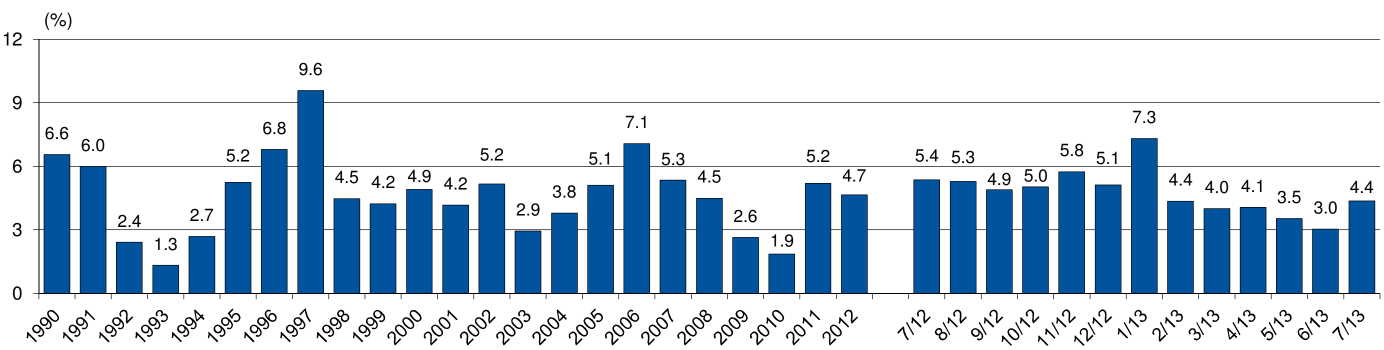
Fitch projects U.S. architectural coatings volume will improve mid-single-digits during 2013. While total housing starts are projected to increase in the upper teens in 2013, the impact on coatings will be somewhat limited. Fitch estimates that architectural coatings volume directed to new residential construction represents less than 15% of overall volume. Fitch estimates that approximately 65%–70% of architectural coatings volume is directed toward the repaint market, which is expected to improve only modestly during 2013. Selling prices are expected to improve only slightly this year as raw materials costs appear to have stabilized.

Architectural Paint
(Annual Change in Producer Price Index)



YOY – Year-over-year.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Special Purpose Paint — Including Marine, Industrial, Construction and Maintenance Coatings
(YOY Annual Change in Producer Price Index)



YOY – Year-over-year.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

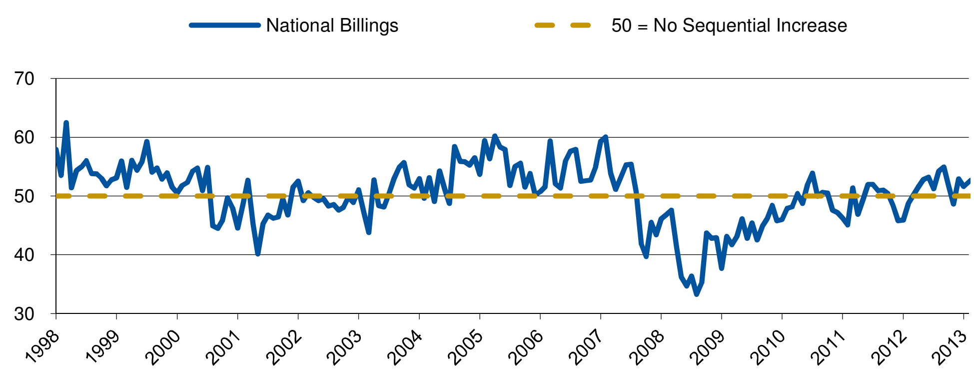
Construction Indicators

Architectural Billings Index

One leading indicator for nonresidential construction is the Architectural Billings Index (ABI). The ABI is derived from a monthly Work-on-the-Boards Survey and produced by the American Institute of Architects' (AIA) Economics & Market Research Group. The ABI is a leading economic indicator that provides an approximately nine- to 12-month glimpse into the future of nonresidential construction activity. A score above 50 indicates that firms (surveyed by the AIA) in aggregate are reporting an increase in activity compared to the previous month, while a score below 50 indicates that firms are reporting a decrease in activity.

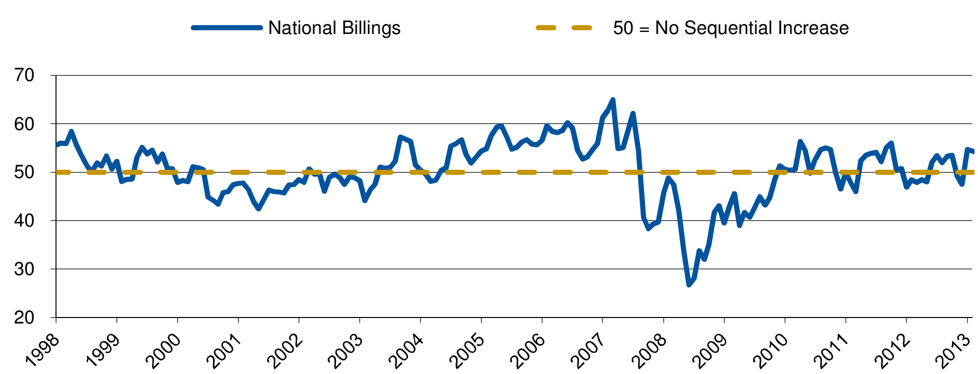
The ABI was positive during the months of May, June and July after declining during the month of April, the first negative reading since July 2012. The ABI recorded a score of 52.7 during the month of July compared with 51.6 during the month of June, 52.9 in May and 48.6 in April. The AIA also reported that the New Project Inquiry index increased to 66.7 in July from 62.6 the previous month. The index for commercial/industrial properties also remained positive during the month of July, recording a score of 54.2 compared with 54.7 in June, 47.5 in May and 49.2 in April. The commercial/industrial properties index had previously been above 50 from November 2012 to March 2013.

Architecture Billings Index — National Billings (All Sectors)



Source: The American Institute of Architects.

Architecture Billings Index — Commercial/Industrial



Source: The American Institute of Architects.

Other Indicators

According to McGraw-Hill Construction, total new construction starts totaled $479.1 billion on a seasonally adjusted annual rate (SAAR) basis in July 2013, down 2% compared with the June 2013 total. For the first seven months of 2013, total construction starts on an unadjusted basis came in at $281.7 billion, a 1% increase compared with the same period in 2012. According to McGraw-Hill, the year-to-date activity was restrained by a sharp drop in construction for electric utilities compared with 2012. If construction starts for electric utilities were excluded, the year-to-date construction starts would have increased 11% compared with the same period last year. The Dodge Index (2000=100) of New Construction Contracts was 101 for the month of July compared to a score of 103 for June. During the first seven months of 2013, the index averaged 102, slightly above the full year average of 101 reported during 2012.

Nonresidential building starts grew 8% to a SAAR of $161.3 billion in July following a 2% decline in June and a 9% increase in May. According to McGraw-Hill, commercial categories during the month of July fell 2%. Office construction declined 15% after advancing 44% in June, while store construction improved 2% in July following a 6% decline in June and warehouse construction increased 36% after falling 7% the previous month. The manufacturing plant category declined 31% in July. Total nonresidential construction starts through July 2013 were 3% lower compared with the same period last year, with the declines in the institutional sector (down 8%) and manufacturing plant sector (a 9% decline) offset in part by improvement in the commercial sector (up 6%).

Construction starts for nonbuilding structures on a SAAR was $113.8 billion in July, an 18% drop from the month of June. The public works portion of this sector saw a 20% drop in July after increasing 38% in June. Bridge construction starts declined 54% after gaining 164% during the month of June. Highway construction also fell 22% following a 25% growth during the previous month. For the first seven months of 2013, nonbuilding construction fell 22% compared with the same period last year. Highway and bridge construction starts for the January-July 2013 period improved 12% compared with the same period last year.

Industry Outlook

Fitch expects total construction spending will increase 7.3% in 2013 following 8.7% growth during 2012, a 2.1% drop in 2011 and a 10.9% decrease in 2010. Construction spending during the first half of 2013 increased 5.1% compared to the same period last year. Private residential spending is projected to grow 20.9% while private non-residential construction is expected to advance 2% during 2013. Public non-residential construction spending is projected to remain flat this year.

For calendar year 2014, Fitch projects total construction spending will increase 10.7% compared with 2013. Private residential construction spending is projected to advance 22.7% while private non-residential construction is expected to grow 5% in 2014. Public construction spending is projected to increase 3% next year.

U.S. Economy

Real GDP expanded by an annual rate of 1.7% in the second quarter of 2013 based on the advance estimate by the Bureau of Economic Analysis. In the first quarter of 2013, real GDP growth was revised to 1.1%. The increase in real GDP in the second quarter reflected positive contributions from personal consumption expenditures, exports, nonresidential fixed investment, private inventory investment, and residential investment that were partly offset by a negative contribution from federal government spending. Imports, which are a subtraction in the calculation of GDP, increased. For 2013 as a whole, Fitch forecasts GDP growth of 1.9%.

The main downside risk to the economic outlook in the near term is the drag on the economy from the tax rises at the beginning of the year associated with the resolution of the ‘fiscal cliff’ and cuts in federal government spending (the ‘sequester’), which are now beginning to bite. However, the growth momentum in the private sector appears to be well-supported by the recovery in the housing market, improving household balance sheets as well as the strong profitability of the corporate sector.

Slow Growth for Public Construction Spending

Public construction, and highway and street spending in particular, are expected to remain weak during 2013. Construction for highways was negatively affected by wet weather conditions during the first half of the year, leading to a 6.5% decline in public construction spending and a 6.9% drop in construction for highways and streets. Assuming more normal weather patterns, Fitch expects increased construction activity during the second half of the year.

Last year’s passage of a new multiyear highway bill, which expires on Sept. 30, 2014, provides state and local governments with the certainty to plan longer-term projects, given that the previous authorization had 10 short-term extensions following its September 2009 expiration. However, the benefits of the new highway bill will be more evident as the year progresses because of the time needed to start larger, longer-term projects. Additionally, the new highway bill does not increase federal funding from current levels, which will likely moderate the growth in total government spending. Fitch currently projects public construction spending will remain flat this year and grow 3% during 2014.

Continued Improvement in Commercial Construction

Fitch currently expects new construction activity to remain positive during the remainder of the year and into 2014 despite weak growth in the U.S. economy, lingering problems of key European economies, and continued challenges in the CRE capital markets. Fitch currently expects moderate growth in commercial construction spending during the second half of 2013 after a slow start so far this year. Indicators such as the ABI and construction starts appear to be pointing to continued growth in the sector for the remainder of the year. Moreover, the growth in overall commercial construction moderated significantly during the second half of 2012, allowing for more favorable year-over-year comparisons. Fitch currently projects private nonresidential construction will grow 2% in 2013 and 5% in 2014.

Building Materials Prices

Overall prices for construction materials grew moderately on a year-over-year during 2012 and this trend continued so far this year. The PPI for construction materials have remained relatively stable during the first half of 2013 as strong growth in residential construction are somewhat countered by weak commercial and public construction activity. Fitch currently expects construction materials prices to continue rising moderately during the second half of the year. Should overall construction activity increase significantly relative to Fitch’s expectations, inflation in construction input costs could also accelerate at a higher rate.

Fitch Economic and Construction Forecasts

	2008	2009	2010	2011	2012	2013E	2014E	2010–2011	2011–2012	2012–2013	2013–2014
Gross Domestic Product ($ Bil.)	14,291.5	13,973.7	14,498.9	15,075.7	15,681.5	16,350.0	17,120.0	4.0	4.0	4.3	4.7
Real Gross Domestic Product ($Bil. 2005)	13,161.9	12,757.9	13,063.0	13,299.1	13,591.1	13,901.0	14,290.0	1.8	2.2	1.9	2.8
Consumer Price Index (CPI-U) (1982-84=100)	215.3	214.5	218.1	224.9	229.6	234.2	238.9	3.1	2.1	2.0	2.0
Real Disposable Personal Income ($Bil. 2005)	10,119.5	9,836.7	10,016.5	10,149.7	10,306.0	10,492.0	10,681.0	1.3	1.5	1.8	1.8
Construction Expenditures ($ Bil.)											
Private Residential	350.3	245.9	238.8	244.1	280.3	321.8	394.8	2.2	9.1	14.8	22.7
Private Nonresidential	408.6	342.4	261.8	257.5	297.7	303.6	318.8	(1.6)	15.6	2.0	5.0
Public	308.7	314.9	304.0	286.4	279.0	279.0	287.4	(5.8)	(2.6)	0.0	3.0
Total	1,067.6	903.2	804.6	788.0	857.0	904.4	1,001.1	(2.1)	7.0	7.3	10.7
% Gross Domestic Product	7.47	6.46	5.55	5.23	5.38	5.53	5.85	—	—	—	—
Housing (Million Units)											
Starts	0.905	0.554	0.587	0.609	0.781	0.940	1.110	3.7	28.2	20.4	18.1
+ Beginning Under Construction	1.025	0.781	0.495	0.445	0.469	0.601	0.758	(10.1)	5.4	28.1	26.1
– Completions	1.120	0.794	0.652	0.585	0.649	0.755	0.891	(10.3)	10.9	16.3	18.0
= Ending Under Construction	0.810	0.541	0.430	0.469	0.601	0.786	0.977	9.1	28.1	30.8	24.3
Single-Family											
Starts	0.622	0.445	0.471	0.431	0.535	0.633	0.775	(8.5)	24.1	18.3	22.4
Avg. Square Feet	2,463	2,367	2,382	2,504	2,504	2,555	2,580	5.1	0.0	2.0	1.0
Total Square Feet (Bil.)	1,532	1,053	1,122	1,079	1,340	1,617	2,000	(3.8)	24.1	20.7	23.7
Multifamily											
Starts	0.283	0.109	0.116	0.178	0.246	0.307	0.335	53.4	38.2	24.8	9.1
Avg. Square Feet	1,164	1,167	1,179	1,133	1,116	1,133	1,150	(3.9)	(1.5)	1.5	1.5
Total Square Feet (Bil.)	329	127	137	202	274	348	385	47.5	35.9	27.0	10.6
Grand Total Square Feet (Bil.)	**1,861**	**1,181**	**1,259**	**1,281**	**1,614**	**1,965**	**2,385**	**1.8**	**26.0**	**21.7**	**21.4**
New Home Sales (000)	485	375	323	306	367	455	565	(5.3)	19.9	24.0	24.2
Existing Home Sales (000)	4,110	4,340	4,190	4,260	4,660	5,010	5,260	1.7	9.4	7.5	5.0
Manufactured Housing Ship. (000)	82	50	50	52	55	60	65	4.0	5.8	9.1	8.3
Home Improvement Products Market ($ Bil.)	—	—	251.5	261.1	273.9	284.9	299.1	3.8	4.9	4.0	5.0

E – Estimated. 2006 manufactured housing data includes FEMA shipments.
Source: Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; U.S. Bureau of the Census; National Association of Realtors; Home Improvement Research Institute. Fitch estimates.

Company Summaries

Martin Marietta Materials, Inc. (Analyst: Robert G. Rulla)

Company Overview

Martin Marietta (NYSE: MLM) is the second largest producer of crushed stone, sand and gravel in the U.S. The company generates the majority of its revenues from aggregates production and sales (principally granite, limestone, sand and gravel). In 2011, the company shipped 128.1 million tons of aggregates to its customers in 33 states, Canada, the Bahamas and the Caribbean Islands from 300 quarries, underground mines and distribution yards. The company is vertically integrated in certain markets and derives a portion of its revenues from asphalt, ready-mixed concrete and road-paving operations. Its Specialty Products segment manufactures and markets magnesia-based chemicals products for industrial, agricultural and environmental applications, and dolomitic lime for use primarily in the steel industry.

Markets and Customers

Martin Marietta's aggregates division markets its products primarily to the construction industry, with approximately 51% of its 2012 shipments made to contractors in connection with highway and other public infrastructure projects; 30% to commercial construction contractors; 8% to contractors of residential construction projects; and the balance of its shipments to chemical, railroad ballast and other projects. Fitch currently expects aggregates shipments will be slightly higher in 2013, with volume gains in residential and nonresidential construction and a slight decline in volumes directed to the public infrastructure construction sector.

Volumes and Pricing

Martin Marietta reported that heritage aggregates volume fell 1.6% during the second quarter of 2013 following an 8.7% decrease during the first quarter. Aggregates volume grew 5% during the fourth quarter, decreased 3.8% during the third quarter, advanced 2.8% during the second quarter and increased 9.6% during the first quarter. For all of 2012, heritage aggregates volume grew 2.9% compared with 2011. Martin Marietta's average aggregates pricing improved 1.6% during the second quarter of 2013 following a 5.7% growth in the first quarter, a 1% increase during the fourth quarter of 2012, a 4.1% gain in the third quarter, a 2.4% improvement in the second quarter, and a 2.8% increase during the first quarter. Additionally, mid-year price increases that were recently implemented provide further support for continued pricing momentum.

Credit Metrics

Martin Marietta has been operating above its normalized target leverage of 2x-2.5x debt-to-EBITDA since 2008 and ended the second quarter of 2013 with Fitch-calculated debt-to-LTM EBITDA of 3.1x. This compares to 2.8x during 2012 and 3.0x during 2011. Fitch expects this leverage ratio will remain above 2.5x through 2013 and will be within the company's target range during 2014. Funds from operations (FFO)-adjusted leverage also remains elevated at 3.8x for the LTM period ending June 30, 2013. Fitch expects this leverage ratio will improve slightly to 3.7x by year-end 2013.

EBITDA-to-interest expense remains strong at 6.7x for the LTM ending June 30, 2013. This compares to 7.0x during 2012 and 6.1x during 2011. Fitch expects this ratio to settle at or slightly above 7.0x by year-end 2013. FFO interest coverage was 6.4x for the June 30, 2013

LTM compared with 5.9x during 2012 and 5.3x during 2011. Fitch expects this ratio will be roughly 6.0x at the conclusion of 2013.

Liquidity

The company has adequate liquidity with cash of $43.7 million and roughly $297 million of borrowing availability under its revolving credit facility as of June 30, 2013. However, Fitch estimates that actual borrowing capacity was closer to $207 million based on the requirements under the revolving credit facility's maximum leverage covenant. The company ended the second quarter with a debt-to-EBITDA ratio of 3.17x (based on MLM's credit facility covenant calculation), compared with the maximum required ratio of 3.75x. The maximum required ratio steps down to 3.5x at Sept. 30, 2013.

Martin Marietta continued to generate positive free cash flow (FCF) during 2008–2011 despite the weak operating environment. The company was slightly FCF negative during 2012 ($2.1 million), which included about $35.1 million in business development expenses related to its hostile bid for Vulcan. For the LTM ending June 30, 2013, MLM generated $34.3 million of FCF. Fitch expects the company will generate between $40 million–$75 million of FCF during 2013.

The company has taken a more cautious stance on share repurchases during the past few years. Fitch expects the company will refrain from making meaningful share repurchases until it is within its leverage target. The company has not repurchased any stock since 2007. Martin Marietta currently has 5.04 million shares remaining under its repurchase authorization.

Financial Summary — Martin Marietta Materials, Inc.

($ Mil., Fiscal Years Ended Dec. 31)	2009	2010	2011	2012	LTM 6/30/13
Profitability					
Operating EBITDA	387.5	392.5	358.0	372.5	357.7
Operating EBITDA Margin (%)	22.8	22.0	20.9	18.3	17.5
FFO Return on Adjusted Capital	13.6	13.8	12.4	12.6	13.2
FCF Margin (%)	6.3	3.4	1.8	(0.1)	1.7
Coverages (x)					
FFO Interest Coverage	5.0	5.1	5.3	5.9	6.4
Operating EBITDA/Gross Interest Expense	5.3	5.7	6.1	7.0	6.7
FFO Fixed-Charge Coverage	3.3	3.4	3.4	3.7	4.0
FCF Debt-Service Coverage	0.6	0.4	1.3	0.9	1.5
Cash Flow from Operations/Capital Expenditures	2.3	2.0	1.7	1.5	1.8
Leverage (x)					
Long-Term Secured Debt/Operating EBITDA	—	—	—	—	—
Long-Term Secured Debt/FFO	—	—	—	—	—
Total Debt with Equity Credit/Operating EBITDA	**3.2**	**2.6**	**3.0**	**2.8**	**3.1**
FFO Adjusted Leverage	4.0	3.6	4.0	3.9	3.8
Total Adjusted Debt/Operating EBITDAR	**3.8**	**3.2**	**3.5**	**3.4**	**3.6**
FCF/Total Adjusted Debt (%)	6.5	4.3	2.1	(0.2)	2.4
Balance Sheet					
Short-Term Debt	226.1	248.7	7.2	5.7	6.2
Long-Term Senior Secured Debt	—	—	—	100.0	150.0
Long-Term Senior Unsecured Debt	1,023.5	782.0	1,048.6	940.6	941.4
Long-Term Subordinated Debt	—	—	—	—	—
Other Debt	—	—	4.3	1.6	2.0
Equity Credit	—	—	—	—	—
Total Debt with Equity Credit	1,249.6	1,030.7	1,060.1	1,047.9	1,093.4
Off-Balance-Sheet Debt	413.6	382.4	370.4	352.0	352.0
Total Adjusted Debt with Equity Credit	**1,663.2**	**1,413.1**	**1,430.5**	**1,399.9**	**1,445.4**
Cash Flow					
Funds from Operations	292.9	280.9	253.5	261.3	286.0
Change in Working Capital	25.5	(11.1)	5.9	(38.6)	(43.6)
Cash Flow from Operations	318.4	269.8	259.1	222.7	242.4
Total Non-Operating/Nonrecurring Cash Flow	0.0	0.0	0.0	0.0	0.0
Capital Expenditures	(139.2)	(135.9)	(155.4)	(151.0)	(135.0)
Dividends	(71.2)	(73.5)	(73.6)	(73.8)	(73.1)
FCF	108.0	60.4	30.1	(2.1)	34.3
Net Acquisitions and Divestitures	(41.8)	(38.3)	(83.6)	9.8	4.7
Net Debt Proceeds	108.5	(219.7)	22.4	(13.3)	(55.7)
Net Equity Proceeds	294.2	3.0	1.5	7.0	18.2
Other (Inv. and Fin.)	(26.1)	1.3	(14.7)	(2.0)	0.8
Total Change in Cash	225.8	(193.3)	(44.3)	(0.6)	2.3
Ending Cash and Securities Balance	263.6	70.3	26.0	25.4	43.7
Short-Term Marketable Securities	—	—	—	—	—
Income Statement					
Revenue	1,702.6	1,782.9	1,713.9	2,037.7	2,045.8
Revenue Growth (%)	(19.7)	(4.7)	(3.9)	18.9	13.4
Operating EBIT	208.1	211.0	184.6	195.3	183.7
Gross Interest Expense	73.5	68.5	58.6	53.3	53.1

Source: Company reports.

Mohawk Industries, Inc. (Analyst: Robert G. Rulla)

Company Overview

Mohawk Industries, Inc. (NYSE: MHK) is a leading producer of floor covering products for residential and commercial applications. Mohawk operates in three business segments: Carpet (40% of 2012 sales); Ceramic (35%); and Laminate and Wood (25%). The company is the second largest carpet and rug manufacturer and one of the largest manufacturers, marketers and distributors of ceramic tile, natural stone and hardwood flooring the U.S., as well as a leading producer of laminate flooring in the U.S. and Europe.

The company markets its products primarily to the construction industry, with a majority of sales directed to the residential construction market. Management estimates that roughly 24% of its worldwide sales are directed to the commercial construction market. Sales in the U.S. accounted for about 70% of its pro forma 2012 sales.

Growth Strategy

Mohawk completed three major acquisitions during the first half of 2013. These acquisitions facilitated the company's geographic expansion and diversification, broadened its product offerings, and also provided the company with a strong profitable position in growing emerging markets.

On Jan. 10, 2013, Mohawk completed its acquisition of Pergo, a leading manufacturer of laminate flooring in the U.S. and the Nordic countries with sales of $334 million during 2012. The total purchase price was $150 million.

On April 3, 2013, the company completed the purchase of Marazzi, a global manufacturer, distributor and marketer of ceramic tile with 2012 sales of EUR858 million. The acquisition price was approximately $1.5 billion. The Marazzi acquisition makes Mohawk the global leader in ceramic tile.

On May 3, 2013, the company completed the acquisition of Spano, a Belgian panel board manufacturer with sales of EUR183 million during 2012. The total value of the acquisition was roughly $160 million. Spano extends the company's Laminate and Wood segment's customer base into new channels of distribution.

While Fitch views these transactions as strategically positive for Mohawk, the company's credit protection measures are expected to weaken in the near term due to the increased debt load associated with these acquisitions. Furthermore, there are risks as the company integrates these acquisitions.

Credit Metrics

Leverage as measured by debt-to-EBITDA was 3.3x for the LTM period ending June 30, 2013, compared with 2.0x during fiscal 2012 and 2.5x during fiscal 2011. EBITDA-to-interest remains strong at 9.3x compared with 8.7x during fiscal 2012 and 6.0x during fiscal 2011.

Fitch currently expects leverage will remain elevated but will be closer to 2.5x at year-end 2013 as the company gets more contribution from the recent acquisitions. Interest coverage is expected to weaken to 6.5x–7.0x at the conclusion of 2013 as interest expense related to debt incurred in the acquisitions is annualized.

Mohawk has demonstrated in the past that it has the discipline to reduce leverage levels following a major acquisition. Following the Unilin acquisition in 2005, leverage increased from 1.2x at year-end 2004 to 4.3x at the end of 2005. Leverage was reduced to 2.5x at the end of

2006 and to 2.1x at year-end 2007. Fitch expects Mohawk to focus on debt reduction during the next few years, although the company may use excess FCF for smaller, bolt-on acquisitions.

Liquidity

The company has adequate liquidity with cash of $168.7 million and roughly $318 million of borrowing availability under its revolving credit facility as of June 30, 2013. Mohawk continued to generate positive free cash flow (FCF) during 2009–2012 despite the weak operating environment. The company had FCF of $379.3 million during 2012, $25.4 million during 2011, $163.5 million during 2010 and $563.3 million during 2009. For the LTM period ending June 30, 2013, FCF was $339 million.

Financial Summary — Mohawk Industries, Inc.

($ Mil., Fiscal Years Ended Dec. 31)	2009	2010	2011	2012	LTM 6/30/13
Profitability					
Operating EBITDA	418.0	631.0	646.7	692.5	764.5
Operating EBITDA Margin (%)	7.8	11.9	11.5	12.0	12.0
FFO Return on Adjusted Capital	8.9	13.4	12.1	12.4	10.5
FCF Margin (%)	10.5	3.1	0.4	6.6	5.3
Coverages (x)					
FFO Interest Coverage	3.4	4.9	5.6	8.0	8.3
Operating EBITDA/Gross Interest Expense	3.2	4.6	6.0	8.7	9.3
FFO Fixed-Charge Coverage	2.1	3.2	3.4	4.1	4.4
FCF Debt-Service Coverage	3.8	0.6	0.3	3.4	2.5
Cash Flow from Operations/Capital Expenditures	6.2	2.0	1.1	2.8	2.3
Leverage (x)					
Long-Term Secured Debt/Operating EBITDA	—	—	—	0.4	0.4
Long-Term Secured Debt/FFO	—	—	—	0.5	0.5
Total Debt with Equity Credit/Operating EBITDA	**4.4**	**2.6**	**2.5**	**2.0**	**3.3**
FFO Adjusted Leverage	5.3	3.2	3.4	3.0	4.3
Total Adjusted Debt/Operating EBITDAR	**5.3**	**3.4**	**3.2**	**2.7**	**3.9**
FCF/Total Adjusted Debt (%)	19.5	6.5	1.1	17.5	10.2
Balance Sheet					
Short-Term Debt	52.9	350.6	386.3	55.2	83.2
Long-Term Senior Secured Debt	—	—	—	280.0	300.0
Long-Term Senior Unsecured Debt	1,801.6	1,303.0	1,200.2	998.7	2,042.6
Long-Term Subordinated Debt	—	—	—	—	—
Other Debt	—	—	—	49.0	108.0
Equity Credit	—	—	—	—	—
Total Debt with Equity Credit	1,854.5	1,653.6	1,586.5	1,382.9	2,533.8
Off-Balance-Sheet Debt	1,041.6	848.0	827.2	780.8	780.8
Total Adjusted Debt with Equity Credit	**2,896.1**	**2,501.6**	**2,413.7**	**2,163.7**	**3,314.6**
Cash Flow					
Funds from Operations	281.7	537.8	497.7	554.6	602.3
Change in Working Capital	390.5	(218.1)	(196.7)	33.0	3.4
Cash Flow from Operations	672.2	319.7	301.0	587.6	605.7
Total Non-Operating/Nonrecurring Cash Flow	0	0	0	0	0
Capital Expenditures	(108.9)	(156.2)	(275.6)	(208.3)	(266.7)
Dividends	0	0	0	0	0
FCF	563.3	163.5	25.4	379.3	339.0
Net Acquisitions and Divestitures	(5.9)	(79.9)	(24.1)	0	(449.5)
Net Debt Proceeds	(127.3)	(200.8)	(77.7)	(203.6)	(55.6)
Net Equity Proceeds	0.9	2.4	3.8	16.2	39.5
Other (Inv. and Fin.)	7.0	(62.5)	30.3	(26.2)	(24.3)
Total Change in Cash	438.0	(177.3)	(42.3)	165.7	150.9
Ending Cash and Securities Balance	531.5	354.2	311.9	477.7	168.7
Short-Term Marketable Securities	—	—	—	—	—
Income Statement					
Revenue	5,344.0	5,319.1	5,642.3	5,788.0	6,372.3
Revenue Growth (%)	(21.7)	(0.5)	6.1	2.6	11.8
Operating EBIT	115.0	334.2	349.0	412.2	488.3
Gross Interest Expense	131.5	137.4	107.8	79.3	82.5

Source: Company reports.

Owens Corning (Analyst: Robert G. Rulla)

Company Overview

Founded in 1938, Owens Corning (OC) is a leading global producer of residential and commercial building materials, glass fiber reinforcements, and engineered materials for composite systems. OC operates in two general reportable segments: Composites (35% of 2012 sales) and Building Materials (65%, which includes its Insulation Systems and Roofing businesses). Fitch estimates that approximately 21% of OC's 2012 sales were directed toward the U.S. and Canadian commercial and industrial construction sectors.

Roofing

OC is one of the largest U.S. producers of asphalt roofing shingles and industrial, specialty, and roofing asphalts. OC sells shingles and roofing accessories primarily through home centers, lumberyards, retailers, distributors and contractors in the U.S. It also sells other products internally to manufacture residential roofing products and externally to other roofing manufacturers. In 2012, U.S. and Canadian residential repair and remodeling revenues accounted for 73% of sales, while new residential construction and commercial/industrial each represented 11% and 16% of sales, respectively.

Insulation

OC is the largest producer of residential, commercial, and industrial insulation in North America, which is sold under well-recognized brand names and trademarks such as Owens Corning PINK FIBERGLAS Insulation. OC sells its insulation products primarily to insulation installers, home centers, lumber yards, retailers and distributors in the U.S. and Canada. Demand for the company's insulating products is driven by U.S. and Canadian new residential construction (37% of 2012 sales), residential repair and remodel activities (20%), and the commercial and industrial sector (24%). International operations accounted for 19% of insulation products revenues for the year.

Composites

OC's glass fiber materials can be found in more than 40,000 end-use applications, including sporting goods, computers, telecommunications, boats, aircrafts, defense, automotive, industrial containers and wind energy. Demand for composites is driven by general global economic activity and by the increasing replacement of traditional materials such as aluminum, wood and steel with composites, which offer lighter weight, improved strength and less corrosion. International sales represent the largest end market, accounting for 62% of this segment's 2012 sales. The U.S. and Canadian commercial and industrial sectors represented 26% of sales, while residential construction made up the remaining 12% of sales.

Credit Metrics

OC's leverage remains elevated. Debt to EBITDA was 3.4x for the LTM period ending June 30, 2013, compared with 3.4x during fiscal 2012 and 2.5x during fiscal 2011. EBITDA to interest remains strong at 5.8x for the LTM period ending June 30, 2013, compared with 5.4x during fiscal 2012 and 7.1x during fiscal 2011. Fitch expects these credit metrics to improve by year-end 2013 as OC benefits from increased housing and commercial construction activity, albeit at still low absolute levels, and an improved global economy.

Liquidity

The company has solid liquidity with $72 million of cash as of June 30, 2013, and $620 million available under its $800 million revolver that matures in 2016. The company should have continued access to its revolver, as Fitch expects OC to continue to have sufficient cushion under its financial covenants. The company has been moderately active with share repurchases over the past few years, buying back approximately $113 million of stock during 2012, $138 million during 2011 and $120 million during 2010. For the first six months of 2013, share repurchases totaled $9 million. Fitch expects the company will continue with moderate share repurchases, financed primarily from FCF. Share repurchases likely will be adjusted depending on the level of investment opportunities (internal growth or acquisition opportunities) that are available to OC. At June 30, 2013, the company had 10 million shares remaining under its repurchase programs.

Financial Summary — Owens Corning

($ Mil., Fiscal Years Ended Dec. 31)	2009	2010	2011	2012	LTM 6/30/13
Profitability					
Operating EBITDA	649.0	722.0	770.0	611.0	667.0
Operating EBITDA Margin (%)	13.5	14.4	14.4	11.8	13.0
FFO Return on Adjusted Capital	11.0	11.0	12.3	8.1	9.3
FCF Margin (%)	6.2	3.5	(2.9)	(0.0)	1.2
Coverages (x)					
FFO Interest Coverage	4.6	5.3	6.5	3.8	4.6
Operating EBITDA/Gross Interest Expense	5.4	6.6	7.1	5.4	5.8
FFO Fixed-Charge Coverage	3.2	3.6	4.3	2.7	3.1
FCF Debt Service Coverage	3.0	2.4	(0.3)	0.9	1.3
Cash Flow from Operations/Capital Expenditures	2.2	1.6	0.7	1.0	1.2
Leverage (x)					
Total Secured Debt/Operating EBITDA	—	—	—	—	—
Total Secured Debt/FFO	—	—	—	—	—
Total Debt with Equity Credit/Operating EBITDA	3.4	2.3	2.5	3.4	3.4
FFO Adjusted Leverage	4.4	3.4	3.3	5.3	4.8
Total Adjusted Debt/Operating EBITDAR	3.8	2.8	3.0	3.9	3.9
FCF/Total Adjusted Debt	10.8	7.9	(6.0)	(0.1)	2.2
Balance Sheet					
Short-Term Debt	20.0	6.0	32.0	9.0	24.0
Long-Term Senior Secured Debt	0.0	0.0	0.0	141.0	212.0
Long-Term Senior Unsecured Debt	2,177.0	1,629.0	1,930.0	1,935.0	2,038.0
Long-Term Subordinated Debt	—	—	—	—	—
Other Debt	—	—	—	—	—
Equity Credit	—	—	—	—	—
Total Debt with Equity Credit	2,197.0	1,635.0	1,962.0	2,085.0	2,274.0
Off-Balance-Sheet Debt[a]	568.0	560.0	592.0	632.0	633.6
Total Adjusted Debt with Equity Credit	**2,765.0**	**2,195.0**	**2,554.0**	**2,717.0**	**2,907.6**
Cash Flow					
Funds from Operations	431.0	468.0	594.0	321.0	413.0
Change in Working Capital	110.0	20.0	(305.0)	9.0	(55.0)
Cash Flow from Operations	541.0	488.0	289.0	330.0	358.0
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—
Capital Expenditures	(243.0)	(314.0)	(442.0)	(332.0)	(294.0)
Dividends	—	—	—	—	—
FCF	298.0	174.0	(153.0)	(2.0)	64.0
Net Acquisitions and Divestitures	39.0	65.0	81.0	59.0	52.0
Net Debt Proceeds	(11.0)	(602.0)	304.0	55.0	(28.0)
Net Equity Proceeds	(3.0)	(120.0)	(138.0)	(113.0)	(40.0)
Other (Inv. and Fin.)	5.0	(29.0)	(94.0)	4.0	(30.0)
Total Change in Cash	328.0	(512.0)	—	3.0	18.0
Ending Cash and Securities Balance	564.0	52.0	52.0	55.0	72.0
Short-Term Marketable Securities	—	—	—	—	—
Income Statement					
Revenue	4,803.0	4,997.0	5,335.0	5,172.0	5,132.0
Revenue Growth (%)	(17.9)	4.0	6.8	(3.1)	(4.7)
Operating EBIT	324.0	402.0	452.0	262.0	341.0
Gross Interest Expense	121.0	110.0	108.0	114.0	116.0

[a]Includes 8.0x gross rent.
Source: Company reports.

PPG Industries, Inc. (Analyst: Robert G. Rulla)

Company Overview

Founded in 1883, PPG is a global supplier of paints, coatings, optical products, specialty materials, chemicals, glass and fiberglass. Fitch estimates that PPG's exposure to the construction market represents between 20% and 30% of its end markets' sales, with less than half of the total directed to the U.S. construction market. PPG comprises five business segments: Performance Coatings (41.2% of fiscal 2013 YTD sales and 41.2% of operating profit); Industrial Coatings (30.3% and 30.9%); Architectural Coatings EMEA (13.9% and 11.1%); Optical and Specialty Materials (8.0% and 15.5%); and Glass (6.6% and 1.3%).

Portfolio Transformation

Over the past decade, PPG has revamped its business portfolio to achieve faster growth, less cyclical growth and lower capital intensity. The acquisition of SigmaKalon (SK) in 2008 reflects PPG's transformation into primarily a coatings and specialty products company, and enhanced its geographic footprint.

On Jan. 28, 2013, PPG completed the separation of its commodity chemicals business in a tax efficient Reverse Morris Trust transaction. This business unit had 2012 sales of $1.7 billion (11.1% of total company sales) and $368 million of pretax earnings. PPG received $900 million of cash as well as $67 million in cash for a preliminary post-closing working capital adjustment.

On April 1, 2013, PPG completed the acquisition of the North American architectural coatings business of Akzo Nobel N.V. Amsterdam, for $957 million, net of cash acquired. AkzoNobel's North American architectural coatings business is the second largest in the United States and has a leading market position in Canada. This business had $1.5 billion of sales during 2011, with roughly 60% derived from the U.S. and the remaining 30% and 10% from Canada and the Caribbean. Similar to PPG's U.S. architectural coatings business, AkzoNobel has strong participation in all three distribution channels. AkzoNobel has 600 company-owned stores and also markets its products through major national home centers and independent distributors. The combined operations will increase PPG's company-owned stores from 400 to roughly 1,000 and expand the company's branded paint product offerings to a total of more than 8,000 retail outlets and 6,000 independent distributors.

On July 28, 2013, PPG reached an agreement to divest its 51% interest in Transitions Optical to Essilor International, which currently holds a 49% interest in the venture. In 2012, Transitions Optical had net sales of approximately $800 million. PPG will receive cash of roughly $1.73 billion pretax ($1.5 billion after-tax) upon closing of the transaction, which is expected to occur during the first half of 2014.

Liquidity and FCF

The company maintains solid liquidity with cash of $1.24 billion and short-term investments of $538 million. As of June 30, 2013, the company had not borrowings under its $1 billion commercial paper program. PPG has no major debt maturities until 2015, when EUR300 million of unsecured notes mature.

PPG continues to generate significant FCF, reporting FCF of $1.03 billion for the LTM ending June 30, 2013. This compares with FCF of $1.02 billion during fiscal 2012, $691 million during fiscal 2011, $643 million during fiscal 2010, and $753 million during fiscal 2009. Fitch expects FCF this year to be comparable to 2011 levels. FCF will likely be lower in 2013 due to the loss of cash flow from the separation of the commodity chemicals business.

Credit Metrics

The company's leverage (a Fitch-calculated ratio of debt to EBITDA) was 1.5x for the LTM period ending June 30, 2013. This compares to 1.7x in 2012 and 1.7x at the conclusion of 2011. Fitch expects leverage to remain below 2.0x during 2013.

Interest coverage remains strong at 10.7x for the June 30, 2013 LTM period compared with 11.1x during 2012 and 10x during 2011. Fitch expects this ratio to remain above 10x this year.

Asbestos Litigation

PPG has been a defendant in lawsuits involving asbestos claims for more than 30 years, mostly related to its 50% ownership of Pittsburgh Corning Corporation (PC), a 50-50 venture owned by PPG and Corning Incorporated. Under the terms of the current settlement arrangement, PPG would make aggregate cash payments of approximately $825 million (payable according to a fixed payment schedule over a period ending 2023), contribute 1.4 million shares of its stock and convey the stock it owns in PC to a trust. The company has taken charges totaling $942 million for the estimated cost of the settlement arrangement. If the asbestos settlement becomes effective, Fitch believes that PPG has sufficient cash and CP/bank revolver availability to meet the required cash payments.

On May 24, 2013, the U.S. Bankruptcy Court for the Western District of Pennsylvania issued a revised opinion and final order confirming the current PC plan of reorganization. The final confirmation order is subject to a customary appeals process and, if the confirmation order is upheld and all conditions are met, the plan of reorganization would become effective.

Financial Summary — PPG Industries Inc.

($ Mil., Fiscal Years Ended Dec. 31)	2009	2010	2011	2012	LTM 6/30/13
Profitability					
Operating EBITDA	1,410.0	1,888.0	2,176.0	2,414.0	2,314.0
Operating EBITDA Margin (%)	11.5	14.1	14.6	15.9	15.5
FFO Return on Adjusted Capital	14.8	15.2	20.7	19.2	18.2
FCF Margin (%)	6.2	4.8	4.6	6.7	6.9
Coverages (x)					
FFO Interest Coverage	6.1	7.1	8.4	8.7	8.7
Operating EBITDA/Gross Interest Expense	7.0	9.6	9.9	11.1	10.7
FFO Fixed-Charge Coverage	3.3	3.8	4.5	4.7	4.7
FCF Debt-Service Coverage	2.0	3.7	2.8	1.4	5.2
Cash Flow from Operations/Capital Expenditures	5.6	4.3	3.7	4.3	4.4
Leverage (x)					
Long-Term Secured Debt/Operating EBITDA	—	—	—	—	—
Long-Term Secured Debt/FFO	—	—	—	—	—
Total Debt with Equity Credit/Operating EBITDA	2.4	2.2	1.7	1.7	1.5
FFO Adjusted Leverage	4.1	4.2	3.2	3.2	3.0
Total Adjusted Debt/Operating EBITDAR	3.7	3.2	2.7	2.6	2.5
FCF/Total Adjusted Debt (%)	12.5	9.4	10.5	14.8	16.4
Balance Sheet					
Short-Term Debt	272.0	28.0	108.0	642.0	24.0
Long-Term Senior Secured Debt	—	—	—	—	—
Long-Term Senior Unsecured Debt	3,074.0	4,043.0	3,574.0	3,368.0	3,355.0
Long-Term Subordinated Debt	—	—	—	—	—
Other Debt	—	—	—	—	—
Equity Credit	—	—	—	—	—
Total Debt with Equity Credit	3,346.0	4,071.0	3,682.0	4,010.0	3,379.0
Off-Balance-Sheet Debt[a]	2,700.0	2,771.0	2,916.0	2,880.0	2889.6
Total Adjusted Debt with Equity Credit	**6,046.0**	**6,842.0**	**6,598.0**	**6,890.0**	**6,286.6**
Cash Flow					
Funds from Operations	1,030.0	1,189.0	1,616.0	1,678.0	1,660.0
Change in Working Capital	315.0	121.0	(180.0)	109.0	183.0
Cash Flow from Operations	1,345.0	1,310.0	1,436.0	1,787.0	1,843.0
Total Non-Operating/Nonrecurring Cash Flow	0.0	0.0	0.0	0.0	4.0
Capital Expenditures	(239.0)	(307.0)	(390.0)	(411.0)	(420.0)
Dividends	(353.0)	(360.0)	(355.0)	(358.0)	(390.0)
FCF	753.0	643.0	691.0	1,018.0	1,037.0
Net Acquisitions and Divestitures	17.0	(8.0)	(23.0)	(80.0)	(1,041.0)
Net Debt Proceeds	(646.0)	736.0	(391.0)	193.0	(246.0)
Net Equity Proceeds	(47.0)	(440.0)	(777.0)	30.0	(44.0)
Other (Inv. and Fin.)	(41.0)	(647.0)	616.0	(1,312.0)	520.0
Total Change in Cash	36.0	284.0	116.0	(151.0)	226.0
Ending Cash and Securities Balance	1,057.0	1,341.0	1,457.0	1,306.0	1,243.0
Short-Term Marketable Securities		637.0	25.0	1,087.0	538.0
Income Statement					
Revenue	12,239.0	13,423.0	14,885.0	15,200.0	14,919.0
Revenue Growth (%)	(22.8)	9.7	10.9	2.1	(1.0)
Operating EBIT	930.0	1,418.0	1,709.0	1,949.0	1,850.0
Gross Interest Expense	202.0	196.0	219.0	218.0	217.0

[a]Includes 8.0x gross rent and asbestos liabilities. Note: The LTM figures include six months of financial results (second-half 2012) from the commodity chemicals business, which was divested in January 2013.
Source: Company reports.

The Sherwin-Williams Company (Analyst: Robert G. Rulla)

Company Overview

Founded in 1866, SHW is one of the world's leading companies engaged in the manufacture, distribution and sale of coatings and related products to professional, industrial, commercial and retail customers. The company is structured in four business segments: the Paint Stores Group (57% of 2012 sales); Consumer Group (14%); Global Group (21%); and Latin America Coatings Group (9%). The Paint Stores Group is the exclusive North American distributor of Sherwin-Williams branded paints and related products. The Consumer Group sells paints, coatings and related products under various branded names (Dutch Boy, Pratt & Lambert, Martin-Senour, Thompson, Minwax, Krylon, etc.) and private labels. The Global Group develops, manufactures, distributes and sells a variety of paint and coatings products worldwide. Fitch estimates that 70% of SHW's sales are to the home and nonresidential buildings improvement markets.

Distribution Network

SHW has a network of roughly 3,520 company-operated paint stores and 575-plus company-operated branches. The company is unique in that most of its competitors distribute their products primarily through "big box" retailers, hardware stores and mass merchandisers. The networks for competitor paint companies that distribute through company-owned stores are not nearly as extensive as those of SHW. Fitch views this as an advantage, as the company can directly control marketing, merchandising, service and price decisions. Additionally, SHW also distributes through "big box" home centers and mass merchandisers, primarily reaching the do-it-yourself customer segment. An estimated 70% of SHW's sales are through its controlled distribution platform, with the remaining 30% through independent retailers.

Comex Acquisition

In November 2012, SHW entered into a definite agreement to acquire Consorcio Comex, S.A. de C.V. (Comex) for $2.34 billion, including assumed debt. Comex is a privately held business with operations in Latin America, the U.S. and Canada. In 2011, the company had $1.4 billion of sales, 66% of which was generated in Mexico and the remaining 34% in the U.S. and Canada. Comex manufactures and sells architectural and industrial coatings in Mexico through 3,300 points of sale operated by 750 independent concessionaires. In the U.S., Comex sells paint and coatings products under a variety of brand names through 240 company-operated paint stores. In Canada, the company markets multiple brands of paint and coatings through 78 company-operated paint stores and approximately 1,500 independent paint dealers.

The proposed acquisition has good strategic rationale for SHW. The acquisition augments its current business mix and provides the company with a meaningful controlled distribution platform in Mexico, the western U.S. and Canada, where its store count is currently low. The acquisition also improves SHW's scale throughout Latin America and provides the company with strong brand names in that region.

On July 17, 2013, the Federal Competition Commission of Mexico (FCCM) informed SHW that the acquisition was not authorized by the FCCM by a 3-2 vote of its members. The company is reviewing the rationale for the FCCM's decision and expects to respond to the FCCM's concerns.

Credit Metrics

Leverage, as measured by the ratio of debt to EBITDA, as calculated by Fitch, was 1.2x for the LTM ending June 30, 2013, compared with 1.35x at year-end 2012 and 1.0x at the conclusion of 2011.

The leverage ratios for the 2012 and the June 2013 LTM period includes $1 billion of debt incurred in December 2012 in anticipation of the Comex acquisition. Interest coverage was 25.7x for the LTM period ending June 30, 2013, compared with 29.4x during 2012 and 23.8x during 2011. FFO interest coverage was 20.6x during the LTM period versus 23.4x for fiscal 2012 and 17.9x for fiscal 2011.

Leverage is projected to increase to the mid-2x range if SHW is successful in completing the Comex acquisition. Fitch expects the company to reduce debt levels 24 months following the acquisition and lower its leverage levels below 1.5x.

Liquidity and FCF

SHW maintains ample liquidity with cash of $741.1 million as of June 30, 2013 and no borrowings under its $1.05 billion CP Program (that is backed by SHW's $1.05 billion revolving credit facility). SHW also has three revolving and letter of credit facilities totaling $1 billion, a EUR95 million five-year Euro credit facility and a CAD150 Canadian credit facility.

Cash flow generation remains strong, with FCF totaling $644.9 million for the LTM period ending June 30, 2013. FCF totaled $569.8 million in fiscal 2012, $428.6 million in fiscal 2011, $425 million in fiscal 2010, $605.3 million in fiscal 2009, $593.9 million in 2008 and $546.3 million in 2007.

Management Discipline

SHW has a long track record of adhering to a disciplined financial strategy and Fitch expects this to continue. The company has also demonstrated in the past that it can successfully delever its balance sheet following major acquisitions. In 2004, SHW completed two large acquisitions totaling $640 million, which resulted in its debt to EBITDA ratio increasing from 0.7x for the LTM period ending June 30, 2004, to 1.25x for the LTM period ending March 31, 2005. The company quickly reduced its leverage to 0.7x by the end of 2005.

Lead-Based Paint Litigation Risks

The company (and other companies) are or were defendants in legal proceedings seeking recovery based on public nuisance liability theories, among other theories, brought by the state of Rhode Island; the city of St. Louis, Missouri; various cities and counties in the State of New Jersey; the state of Ohio and various cities in the state of Ohio; the city of Milwaukee, Wisconsin; and the county of Santa Clara, California and other public entities in the state of California. Except for the Santa Clara County case, all of these legal proceedings have been concluded in favor of the company and other defendants at various stages in the proceedings. The trial for the Santa Clara case began in July 2013. The potential liability related to this legal proceeding cannot be determined at this time.

Financial Summary — The Sherwin-Williams Company

($ Mil., Fiscal Years Ended Dec. 31)	2009	2010	2011	2012	LTM 6/30/13
Profitability					
Operating EBITDA	897.8	970.6	1,012.9	1,260.2	1,354.4
Operating EBITDA Margin (%)	12.7	12.5	11.6	13.2	14.0
FFO Return on Adjusted Capital	21.4	20.1	21.7	21.9	23.3
FCF Margin (%)	8.5	5.5	4.9	6.0	6.6
Coverages (x)					
FFO Interest Coverage	17.4	10.0	17.9	23.4	20.6
Operating EBITDA/Gross Interest Expense	22.4	13.7	23.8	29.4	25.7
FFO Fixed-Charge Coverage	3.0	2.8	3.1	3.7	3.8
FCF Debt-Service Coverage	8.6	1.1	1.2	5.3	6.6
Cash Flow from Operations/Capital Expenditures	8.9	5.2	4.4	5.6	6.2
Leverage (x)					
Long-Term Secured Debt/Operating EBITDA	—	—	—	—	—
Long-Term Secured Debt/FFO	—	—	—	—	—
Total Debt with Equity Credit/Operating EBITDA	0.9	1.1	1.0	1.4	1.2
FFO Adjusted Leverage	3.2	3.3	3.2	3.2	3.0
Total Adjusted Debt/Operating EBITDAR	2.6	2.6	2.6	2.7	2.5
FCF/Total Adjusted Debt (%)	19.6	12.9	12.9	13.6	15.5
Balance Sheet					
Short-Term Debt	35.0	396.5	354.1	72.7	53.3
Long-Term Senior Unsecured Debt	782.7	648.3	639.2	1,632.2	1,632.0
Other Debt	216.8	216.8	160.3	101.1	68.0
Equity Credit	216.8	216.8	160.3	101.1	68.0
Total Debt with Equity Credit	817.7	1,044.8	993.3	1,704.9	1,685.3
Off-Balance-Sheet Debt	2,272.8	2,258.4	2,340.0	2,480.8	2,480.8
Total Adjusted Debt with Equity Credit	**3,090.5**	**3,303.2**	**3,333.3**	**4,185.7**	**4,165.3**
Cash Flow					
Funds from Operations	654.6	635.5	717.3	959.2	1,033.7
Change in Working Capital	161.8	17.7	(43.9)	(71.4)	(45.8)
Cash Flow from Operations	816.4	653.2	673.4	887.8	987.9
Total Non-Operating/Nonrecurring Cash Flow	42.8	53.4	62.5	0.0	0.0
Capital Expenditures	(91.3)	(125.2)	(153.8)	(157.1)	(159.2)
Dividends	(162.6)	(156.4)	(153.5)	(160.9)	(183.8)
FCF	605.3	425.0	428.6	569.8	644.9
Net Acquisitions and Divestitures	(9.8)	(289.9)	(31.6)	(89.5)	(56.9)
Net Debt Proceeds	(23.4)	191.0	(52.4)	700.9	432.8
Net Equity Proceeds	493.8	(273.5)	(297.9)	(336.7)	(254.2)
Other (Inv. and Fin.)	35.2	(63.3)	(72.6)	(14.6)	(71.9)
Total Change in Cash	43.1	(10.7)	(25.9)	829.9	694.7
Ending Cash and Securities Balance	69.3	58.6	32.7	862.6	741.1
Income Statement					
Revenue	7,094.2	7,776.4	8,765.7	9,534.5	9,706.3
Revenue Growth (%)	(11.1)	9.6	12.7	8.8	4.8
Operating EBIT	726.9	795.3	832.0	1,081.0	1,171.3
Gross Interest Expense	40.0	70.6	42.5	42.8	52.7

Source: Company reports.

Stanley Black & Decker, Inc.

Company Overview

Incorporated in 1852, Stanley Black & Decker, Inc. (SWK, formerly The Stanley Works) is a diversified global supplier of hand tools, power tools and related accessories, mechanical access solutions and electronic security solutions. On Mar. 12, 2010, the company completed its merger with The Black & Decker Corporation (BDK), a leading global manufacturer and marketer of power tools and accessories, hardware and home improvement products, and technology-based fastening systems.

End Markets

The company's operations are classified into three business segments: Security, Industrial and Construction and DIY. SWK supplies security solutions for commercial and industrial use, professional industrial tools and branded consumer products. Management estimates that the U.S. commercial construction sector accounted for roughly 9% of its 2012 pro forma revenues.

Growth Strategy

The company has pursued a growth strategy that has resulted in geographic, end-market and customer diversification. Sales outside of the U.S. now account for roughly 52% of total revenues, up from roughly 43% in 2008.

In December 2012, SWK sold its Hardware & Home Improvement Group (HHI) to Spectrum Brand Holdings, Inc. for approximately $1.4 billion in cash. HHI is a provider of residential locksets, residential builders' hardware and plumbing products. Approximately 90% of the revenues from these businesses are generated from North America and more than 50% of the revenues are from U.S. home centers. The net proceeds from this divestiture were used to repurchase $850 million of the company's common stock and for debt reduction.

On Feb. 27, 2013, the company acquired Infastech for a total purchase price of $826.4 million. Infastech is a leading global manufacturer and distributor of specialty engineered fastening technologies based in Hong Kong. With revenues of approximately $500 million, Infastech is one of the largest Asia-based global players in the specialty mechanical fastener market. More than half of Infastech's 2011 revenues were generated in the Asia-Pacific region and once combined with SWK's engineered fastening platform, the combined business will generate about 36% of its revenues from the high growth region. Total company revenues from emerging markets will increase to approximately 16%, which is an important step towards SWK's mid-decade goal of 20+%.

Fitch is somewhat concerned that the company continues to do acquisitions at a time when it is still integrating large acquisitions. The sizeable Black & Decker (BDK) acquisition, which was completed in 2010, has only been recently fully integrated. Yet, since 2010, the company has completed 21 other acquisitions, including the purchase of two sizeable entities. During the third quarter of 2011, the company completed the $1.2 billion acquisition of Niscayah, a commercial security firm based in Sweden specializing in electronic security systems. In July 2010, SWK also completed the $451.6 million acquisition of CRC-Evans, a supplier of specialized tools, equipment and services used in the construction of large-diameter oil and natural gas transmission pipelines.

The integration risks are mitigated by management's integration expertise as well as the fact that assimilation activities will occur in different business segments, allowing each segment's management team to focus specifically on each individual acquisition. Furthermore, integration remains a top priority, and management has now indicated that it plans to curtail any other major bolt-on acquisition activity for a period of at least 12 to 18 months while it completes its ongoing integration activities.

Leverage

SWK's leverage currently remains high at 2.8x for the LTM period ending June 29, 2013. This ratio only includes 4 months of financial contribution from Infastech. SWK's leverage metrics are expected to remain elevated in the next 12 months. Fitch currently projects debt to EBITDA will be above 2.0x by year-end 2013. Interest coverage is projected to be roughly 10.0x for fiscal 2013.

While these credit metrics are weak for the rating category, Fitch expects SWK's financial results and credit metrics will improve in 2014 as the U.S. housing and commercial construction markets continue their moderate recoveries. Additionally, SWK's profitability should benefit from restructuring and integration initiatives that have been implemented. Fitch projects leverage will be below 2.0x by the end of 2014.

Liquidity

The company has solid liquidity with cash of $561.7 million and approximately $700 million of borrowing availability under its $2 billion commercial paper (CP) program as of June 29, 2013. In June 2013, the company entered into a new $1.5 billion 5-year revolving credit facility, which replaced its $1.2 billion revolver. SWK also entered into a new $500 million 364-day credit facility, which contains a one year term-out provision. These facilities are designated to be a liquidity back-stock for the company's CP program. As of June 29, 2013, the company has not drawn on either of these facilities.

FCF weakened during the June 29, 2013 LTM period, totaling $29.9 million compared with $276.2 million during fiscal 2012 and $420.9 million during fiscal 2011. Fitch expects FCF for 2013 will be somewhat similar to 2012 levels.

European Exposure

The company's operations are exposed to the economic difficulties in Europe. Management estimates that approximately 25% of the company's second-quarter 2013 revenues were derived from EMEA. SWK's EMEA sales activities are somewhat concentrated in more stable economies such as France, the Nordic regions, Germany and the U.K. During the second quarter, organic growth in the EMEA region improved 2% compared to the second quarter of 2012.

Financial Summary — Stanley Black & Decker, Inc.

($ Mil.)	1/2/10	1/1/11	12/31/11	12/31/12	LTM 6/30/13
Profitability					
Operating EBITDA	561.6	1,291.0	1,630.1	1,598.7	1,537.9
Operating EBITDA Margin (%)	15.0	15.4	15.7	15.7	15.3
FFO Return on Adjusted Capital	12.9	6.9	9.9	10.2	7.6
FCF Margin (%)	9.2	4.2	4.1	2.7	0.3
Coverages (x)					
FFO Interest Coverage	6.9	6.0	7.2	7.1	5.3
Operating EBITDA/Gross Interest Expense	8.8	11.7	11.6	11.1	9.9
FFO Fixed-Charge Coverage	3.9	3.1	4.0	4.0	3.2
FCF Debt-Service Coverage	1.1	0.9	0.8	2.7	0.1
Cash Flow from Operations/Capital Expenditures	5.8	4.0	3.3	2.5	1.9
Leverage (x)					
Long-Term Secured Debt/Operating EBITDA	—	—	—	—	—
Long-Term Secured Debt/FFO	—	—	—	—	—
Total Debt with Equity Credit/Operating EBITDA	1.8	2.7	2.1	2.0	2.8
FFO Adjusted Leverage	3.0	5.8	4.0	3.7	5.7
Total Adjusted Debt/Operating EBITDAR	2.4	3.2	2.6	2.5	3.3
FCF/Total Adjusted Debt (%)	22.5	7.5	9.0	6.3	0.5
Balance Sheet					
Short-Term Debt	298.4	417.7	526.6	11.5	1,289.5
Long-Term Senior Secured Debt	—	—	—	—	—
Long-Term Senior Unsecured Debt	772.0	3,033.0	2,293.3	2,144.0	2,678.9
Long-Term Subordinated Debt	312.7	—	632.5	1,382.5	750.0
Other Debt	—	—	—	—	—
Equity Credit	381.4	—	—	375.0	375.0
Total Debt with Equity Credit	1,001.7	3,450.7	3,452.4	3,163.0	4,343.4
Off-Balance Sheet Debt	521.6	1,256.0	1,208.0	1,189.6	1,189.6
Total Adjusted Debt with Equity Credit	**1,523.3**	**4,706.7**	**4,660.4**	**4,352.6**	**5,533.0**
Cash Flow					
Funds from Operations	375.4	551.3	868.6	876.7	661.9
Change in Working Capital	164.0	188.0	130.3	89.5	74.1
Cash Flow from Operations	539.4	739.3	998.9	966.2	736.0
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—
Capital Expenditures	(93.4)	(185.5)	(302.1)	(386.0)	(383.4)
Common Dividends	(103.6)	(201.6)	(275.9)	(304.0)	(322.7)
FCF	342.4	352.2	420.9	276.2	29.9
Net Acquisitions and Divestitures	(21.8)	410.1	(1,123.1)	562.9	319.6
Net Debt Proceeds	(184.4)	233.8	(181.6)	82.2	883.7
Net Equity Proceeds	58.6	392.1	108.5	(950.7)	(1,076.8)
Other (Inv. and Fin.)	(5.7)	(42.6)	(63.2)	3.4	(7.6)
Total Change in Cash	189.1	1,344.7	(838.5)	(26.0)	148.8
Ending Cash and Equivalents Balance	400.7	1,745.4	906.9	716.0	561.7
Short-Term Marketable Securities					
Income Statement					
Revenue	3,737.1	8,409.6	10,376.4	10,190.5	10,079.9
Revenue Growth (%)	(15.6)	125.0	23.4	(1.8)	(7.0)
Operating EBIT	361.5	942.4	1,220.0	1,153.4	1,103.5
Gross Interest Expense	63.7	110.0	140.3	144.2	155.3

Source: Company reports.

USG Corporation (Analyst: Robert G. Rulla)

Company Overview

Established in 1902, USG is a vertically integrated manufacturer and distributor of building materials that are used in new residential, new commercial, and repair and remodel construction, as well as certain industrial products. USG is organized into three operating segments: North American Gypsum (53% of 2012 sales), Building Products Distribution (31%), and Worldwide Ceilings (16%). USG markets its products primarily to the construction industry, with 24% of the company's net sales directed toward new residential construction, 22% derived from new nonresidential construction, 52% from the repair and remodel segment (commercial and residential), and 2% from other industrial products.

Demand, Utilization, and Pricing

Industry wallboard shipments in the U.S., as reported by the Gypsum Association, grew 6.3% to 9.48 billion square feet during the first half of 2013, compared with 8.92 billion square feet during the first six months of 2012. Fitch expects wallboard shipments will increase in the mid-single-digit percentage range during 2013 compared with 2012 levels. USG estimates that industry capacity utilization rates remained very low at approximately 58% during the first half of 2013, compared with 63% during fourth-quarter 2012 and 55% during the first half of 2012.

For all of 2012, shipments improved approximately 10% to 19.3 billion square feet compared with 17.5 billion square feet during 2011. USG estimates that industry capacity utilization rates were 58% during 2012, compared with 53% during 2011. Wallboard shipments grew 1.2% to 17.5 billion square feet during 2011 from 17.3 billion square feet during 2010. Wallboard shipments grew roughly 15% during fourth-quarter 2011 and advanced 4% during third-quarter 2011 compared with the same periods in 2010. Prior to this, the industry had been reporting year-over-year quarterly declines in shipments since third-quarter 2006. Industry capacity utilization rates remained quite low at 53% during 2011.

At the end of 2011, major manufacturers announced that they were eliminating the practice of job quotes. In the past, job quotes provided pricing protection for customers, particularly for large projects. However, this practice limited the realization of price increases implemented by manufacturers. Lafarge S.A., National Gypsum Company, CertainTeed Corporation and American Gypsum Company all announced the elimination of job quotes and announced a 35% increase in wallboard prices effective at the beginning of 2012. USG also announced the elimination of job quotes, although it did not provide the magnitude of the 2012 price increase. Fitch believes that a similar price increase of 35% was announced by USG.

These pricing increases have generally been successful, as evidenced by the significant year-over-year improvement in average wallboard prices reported by USG and Eagle Materials, Inc. During 2012, USG's average wallboard price was $131.70 per thousand square feet, a 17.9% improvement from the $111.66 average price during 2011. Similarly, Eagle Materials reported a 31.7% improvement in its wallboard prices during calendar year 2012. Both of these companies' wallboard prices were generally stable during 2012, reflecting the single price increase implemented last year.

Second-Quarter 2013

Revenues improved 14.8% to $916 million during the second quarter of 2013 compared with the second quarter of 2012. The company reported an operating profit of $74 million during the second quarter of 2013, compared with an operating loss of $28 million last year.

USG's wallboard shipments in the U.S. grew 12.2% during the second quarter of 2013 to 1.29 billion square feet. During the first half of 2013, USG's wallboard shipments grew 3.5% to 2.39 billion square feet. The company's volume growth is lower than the estimated 6.3% increase in industry shipments reported during the first two quarter of 2013 due to seasonality in the retail channel where USG has a larger market share. USG estimates that it had a 27% market share during the first half of 2013, flat compared to year-ago levels.

During the second quarter of 2013, USG reported a 16.4% year-over-year increase in average wallboard price. The company's average wallboard price was relatively stable during the first six months of the year.

Liquidity

USG maintains strong liquidity with cash of $416 million, short-term marketable securities of $113 million, long-term marketable securities totaling $25 million, and $292 million of borrowing availability under its various credit facilities. The company has no major debt maturities until 2016, when $500 million of senior notes become due.

Financial Summary — USG Corporation

($ Mil., Fiscal Years Ended Dec. 31)	2009	2010	2011	2012	LTM 6/30/13
Profitability					
Operating EBITDA	65.00	51.00	65.00	264.0	324.0
Operating EBITDA Margin (%)	2.00	1.70	2.10	8.2	9.8
FFO Return on Adjusted Capital	5.80	3.60	3.50	10.5	12.2
FCF Margin (%)	2.90	(4.50)	(8.20)	0.2	(1.1)
Coverages (x)					
FFO Interest Coverage	0.70	0.20	0.10	1.1	1.4
Operating EBITDA/Gross Interest Expense	0.40	0.30	0.30	1.3	1.6
FFO Fixed-Charge Coverage	0.80	0.50	0.40	1.1	1.3
FCF Debt-Service Coverage	1.50	0.30	(0.20)	1.0	0.8
Cash Flow from Operations/Capital Expenditures	3.2	(2.4)	(3.5)	1.0	0.5
Leverage (x)					
Long-Term Secured Debt/Operating EBITDA	—	—	—	—	—
Long-Term Secured Debt/FFO	—	—	—	—	—
Total Debt with Equity Credit/Operating EBITDA	30.50	45.30	35.40	8.7	7.1
FFO Adjusted Leverage	13.00	23.30	27.00	9.5	8.0
Total Adjusted Debt/Operating EBITDAR	17.20	21.50	20.30	8.6	7.3
FCF/Total Adjusted Debt (%)	3.50	(4.40)	(8.50)	0.3	(1.3)
Balance Sheet					
Short-Term Debt	7.0	7.0	7.0	4.0	4.0
Long-Term Senior Secured Debt	—	—	—	—	—
Long-Term Senior Unsecured Debt	1,975.0	2,301.0	2,297.0	2,305.0	2,308.0
Long-Term Subordinated Debt	0	0	0	0	0
Other Debt	0	0	0	0	0
Equity Credit	0	0	0	0	0
Total Debt with Equity Credit	**1,982.0**	**2,308.0**	**2,304.0**	**2,309.0**	**2,312.0**
Off-Balance Sheet Debt	752.0	720.0	640.0	584.0	585.6
Total Adjusted Debt with Equity Credit	**2,734.0**	**3,028.0**	**2,944.0**	**2,893.0**	**2,897.6**
Cash Flow					
Funds from Operations	(51.0)	(143.0)	(182.0)	26.0	85.0
Change in Working Capital	190.0	49.0	(12.0)	42.0	(45.0)
Cash Flow from Operations	139.0	(94.0)	(194.0)	68.0	40.0
Total Non-Operating/Nonrecurring Cash Flow	0	0	0	10.0	10.0
Capital Expenditures	(44.0)	(39.0)	(55.0)	(70.0)	(88.0)
Common Dividends	0	0	0	0	0
FCF	95.0	(133.0)	(249.0)	8.0	(38.0)
Net Acquisitions and Divestitures	16.0	23.0	9.0	71.0	56.0
Net Debt Proceeds	124.0	343.0	(6.0)	(35.0)	3.0
Net Equity Proceeds	0	(1.0)	(3.0)	(2.0)	4.0
Other (Inv. and Fin.)	(16.0)	(293.0)	(15.0)	139.0	(9.0)
Total Change in Cash	219.0	(61.0)	(264.0)	181.0	16.0
Ending Cash and Equivalents Balance	690.0	629.0	365.0	546.0	416.0
Short-Term Marketable Securities	0	128.0	164.0	106.0	113.0
Income Statement					
Revenue	3,235.0	2,939.0	3,024.0	3,224.0	3,317.0
Revenue Growth (%)	(29.80)	(9.10)	2.90	6.6	4.3
Operating EBIT	(138.0)	(127.0)	(101.0)	108.0	170.0
Gross Interest Expense	168.0	183.0	211.0	206.0	202.0

Source: Company reports.

Fluor Corporation (Analyst: David Petu)

Company Overview

Fluor Corporation (Fluor) is among the world's largest engineering, procurement and construction companies. It also provides related operations and maintenance services to governmental and industrial clients. The company serves the energy, chemical, mining, manufacturing, infrastructure, life sciences and telecommunications markets. Segments include: Oil and Gas (approximately 34% of revenue in 2012; Industrial and Infrastructure (44%); Government (12%); Global Services (6%); and Power (3%). A significant portion of Fluor's revenues in 2012 were derived from outside the U.S. At June 30, 2013, approximately 70% of Fluor's backlog consisted of projects to be completed outside the U.S. Fluor has a strong franchise presence in its engineering and construction markets.

Revenue from the operations and maintenance business provides some diversification and tends to be more stable than construction. Fluor has a conservative capital structure that is important to maintaining its competitive position and helps to mitigate the risk of project losses inherent in the construction industry. This risk represents the primary credit concern, but it is offset by Fluor's comprehensive risk management process and experience in managing claims. Although material losses occur periodically, the company has a large capital base to absorb such losses.

Fluor generated approximately $427 million FCF during the last 12 months (LTM) ended June 30, 2013, up from approximately $150 million generated during the LTM ended June 30, 2012. Fluor consistently generates positive annual FCF; however, cash generation is lumpy and depends on the timing of project deliveries. Fluor's cash flows are significantly affected by changes in working capital requirements which depend on terms and types of projects. Fluor generated $245 million FCF during 2012, down from $464 million in 2011 driven by a decrease in cash provided by operating activities, primarily due to higher requirements in working capital.

At June 30, 2013, the company had strong backlog of $37 billion. The backlog is solid even though it exhibited year-over-year decline due to lower award activity in the mining sector of the Industrial & Infrastructure segment.

Liquidity and Cash

Fluor's ability to fund its project portfolio and other working capital requirements is supported by client advances and solid liquidity.

At June 30, 2013, liquidity comprised $2.3 billion of cash and marketable securities and substantial availability in a $1.8 billion bank revolving credit facility that matures in 2017. Even though a portion of the company's cash is associated with customer's advances, Fitch considers Fluor's liquidity adequate for the ratings. Fluor's liquidity is used primarily to fund project-related working capital and capital expenditures. Working capital requirements can be increased by disputes that delay the collection of receivables.

Cash deployment is largely directed toward capital expenditures; share repurchases, and pension contributions. Capital expenditures are primarily for equipment purchased by the AMECO business of the Global Services segment, which leases the equipment (internally and externally) for construction projects. Fluor's share repurchases are dependent on the annual operating cash flows and fluctuate significantly. The company decreased its share repurchases in 2012; spending $389.2 million compared to $639.8 million in 2011. On February 6, 2013, the Board of Directors approved an increase of 8 million shares to the share repurchase program, bringing the total number of shares available for repurchase to 11.8 million shares. The company did not buyback any shares in the first half of 2013.

Discretionary spending for acquisitions continues to be modest. Fluor is not interested in acquiring existing project backlogs, as profit margins and potential cost overruns can be difficult to identify. Acquisitions are typically used to augment Fluor's existing capabilities or gain access to certain markets. Pension contributions totaled $57 million in 2012, down from $122 million contributed in 2011. As of June 30, 2013, Fluor contributed $9 million to its pension plans and expects to contribute approximately $30 million to $60 million to fund ongoing pension expenses in 2013. Fluor's U.S. pension plans were overfunded by $10 million for U.S. plans at the end of 2011. Non-U.S. plans were overfunded by $60 million.

Revenue Trends By Segment

Oil & Gas Segment increased 30% during the first half of 2013 compared to the same period in 2012 driven by higher project execution activities for various projects, including a coal bed methane gas project in Australia, petrochemicals project in the Middle East and a grass roots oil sands bitumen facility in Canada. Sales in the Oil & Gas segment increased 19.5% in 2012 compared to 2011 as a result of higher project execution activities for several projects in Australia, Middle East, and Canada.

Industrial & Infrastructure Segment revenues decreased 6% in during the first half of 2013 primarily as a result of decline in the mining and metals business line.

Government Segment sales decreased 17% during the first half of 2013 driven mostly by the majority of the decrease was due to a reduction in project execution activities for the Logistics Civil Augmentation Program (LOGCAP IV) for the United States Army in Afghanistan. The segment was affected by the sequestration.

Global Services Segment experienced an 11% decline in sales during the first half of 2013, principally due to a one-time sale of equipment in Peru in the equipment business line during the first quarter of 2012 which positively impacted 2012 results. Additionally, a decrease in volume is due to project close-out activities in the United States and the Middle East, as well as softness in Mexico equipment rental activities for the same period. Revenues of

Power Segment more than doubled during the first half of 2013 due to construction progress on several large projects, including a new gas fired plant in Texas and two solar power projects in Arizona and California. The segment continues to be impacted by relatively weak demand for new power generation. Additionally, the segment has been losing money due to expenses associated with the company's continued investment in NuScale, a small modular nuclear reactor technology company.

Margins

Operating margins have remained within normal ranges, which can vary widely for a number of reasons, including the type of work, the amount of pass-through revenue and the timing of incentives or cost overruns recognized on the income statement. Competitive pressure could potentially dampen margins, particularly for oil and gas projects. This concern is partly mitigated by Fluor's size, experience, long-term client relationships and ability to perform large, complex projects.

Financial Summary — Fluor Corporation

($ Mil., Fiscal Years Ended Dec. 31)	2009	2010	2011	2012	LTM 6/30/13
Profitability					
Operating EBITDA	1,304.63	739.57	1,187.40	946.40	1,036.70
Operating EBITDA Margin (%)	5.93	3.55	5.08	3.43	3.63
FFO Return on Adjusted Capital (%)	23.70	15.67	23.17	10.34	10.73
FCF Margin (%)	2.62	0.94	1.98	0.89	1.50
Coverages (x)					
FFO Interest Coverage	101.23	59.18	65.66	13.43	15.31
Operating EBITDA/Gross Interest Expense	129.81	69.64	76.12	33.51	36.82
FFO Fixed-Charge Coverage	5.38	3.59	8.67	2.68	2.93
FCF Debt-Service Coverage	4.89	1.92	13.68	5.57	9.75
Cash Flow from Operations/Capital Expenditures	3.86	2.08	2.63	2.47	3.08
Leverage (x)					
Long-Term Secured Debt/Operating EBITDA	—	—	—	—	—
Long-Term Secured Debt/FFO	—	—	—	—	—
Total Debt with Equity Credit/Operating EBITDA	0.08	0.13	0.45	0.57	0.50
FFO Adjusted Leverage	1.51	2.24	1.56	3.55	3.21
Total Adjusted Debt/Operating EBITDAR	1.22	1.98	1.38	1.76	1.61
FCF/Total Adjusted Debt (%)	30.85	10.19	24.93	12.32	21.74
Balance Sheet					
Short-Term Debt	109.79	96.69	19.46	20.8	18.50
Long-Term Senior Secured Debt	—	—	—	—	—
Long-Term Senior Unsecured Debt	17.74	17.76	513.50	520.2	496.40
Long-Term Subordinated Debt	—	—	—	—	—
Other Debt	—	—	—	—	—
Equity Credit	21.72	21.18	—	—	—
Total Debt with Equity Credit	105.81	93.27	532.96	541.0	514.90
Off-Balance-Sheet Debt	1,760.00	1,824.00	1,328.00	1,448.00	1,448.00
Total Adjusted Debt with Equity Credit	**1,865.81**	**1,917.27**	**1,861.96**	**1,989.00**	**1,962.90**
Cash Flow					
Funds From Operations	1,007.27	617.82	1,008.72	350.90	402.70
Change in Working Capital	(107.95)	(66.91)	(118.95)	277.50	386.30
Cash Flow from Operations	899.32	550.91	889.77	628.40	789.00
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—
Capital Expenditures	(233.11)	(265.41)	(338.17)	(254.80)	(256.10)
Common Dividends	(90.69)	(90.09)	(87.68)	(128.70)	(106.30)
FCF	575.52	195.41	463.92	245.00	426.60
Net Acquisitions and Divestitures	37.57	53.69	37.44	113.60	81.00
Net Debt Proceeds	(23.79)	(44.26)	441.16	(4.80)	(30.90)
Net Equity Proceeds	(122.75)	(161.02)	(614.15)	(377.60)	(238.50)
Other (Investing and Financing)	(613.84)	404.15	(301.96)	17.10	63.40
Total Change in Cash	(147.29)	447.97	26.41	(6.90)	301.50
Ending Cash and Securities Balance	1,687.03	2,135.00	2,161.41	2,154.50	2,105.10
Short-Term Marketable Securities	603.59	193.28	96.44	137.10	192.20
Income Statement					
Revenue	21,990.30	20,849.35	23,381.40	27,577.10	28,534.70
Revenue Growth (%)	(1.50)	(5.19)	12.14	17.95	11.00
Operating EBIT	1,122.62	548.99	985.46	734.00	818.90
Gross Interest Expense	10.05	10.62	15.60	28.20	28.20

Source: Company reports.