

October 11th, 2017

Eagle Materials Inc.: EXP

Paul Martinez

Sector: Industrial Goods

Industry: Cement

Current Price: \$107.25

Target Price: \$144.04

BUY

Current Price: \$107.25
 Target Price: \$144.04
 Market Cap: 5.2B
 Average Volume: .610M
 ROE: 18.05%
 Ke: 9.7%

Company Description: Eagle Materials Inc. operates in 5 different segments exclusively in the United States. Eagle Materials Inc. manufactures and distributes Cement, Gypsum Wallboard, Recycled Paperboard, Concrete and Aggregates, and Oil and Gas Proppants from 40 facilities across the United States.



Thesis: Eagle Materials Inc. is an industry leader in manufacturing and distributing cement and other goods and services throughout the U.S. Currently Eagle Materials Inc. is experiencing large double-digit growth in a booming industry. Eagle Materials Inc. generates value through their large growth in majority of their segments, and by continuously striving to be the lowest cost producer. Eagle Materials Inc. consistently has had acquisitions and has continuously gained value and synergies from them. This platform is allowing Eagle Materials Inc. to excel past all of their competitors and benchmarks.

Catalysts:

- **Short Term (within the year):** Acquisition and integration of Fairborn Cement Company allows for new exposure in a different geographic market while increasing revenues and synergies.
- **Mid Term (1-2 years):** President Donald Trump's \$1 Trillion infrastructure plan will bring a large amount of construction projects, which will bring business to Eagle Materials Inc.
- **Long Term (3+):** Expanding distribution channels, by increasing number of factories and plants. Therefore decreasing freight cost and overall operating costs and increasing margins.

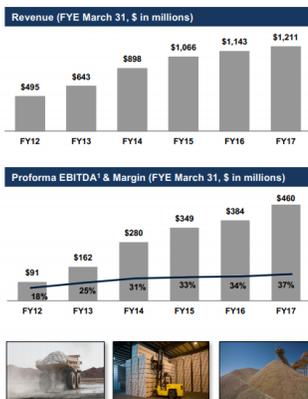
Business Description:

Eagle Materials Inc. is a leading supplier of construction products, building materials, and materials used for oil and gas extraction in the United States.

Eagle Materials Company Overview



- Founded in 1963 as a subsidiary of Centex Corporation
 - In 2004, Centex spun off Centex Construction Products which became Eagle Materials Inc. (NYSE: EXP)
- Diversified producer of basic building products used in residential, industrial, commercial and infrastructure construction
- Well-recognized as a low cost producer through cycles
- Five geographically diverse business segments
- 40 production facilities / plants
- 40 distribution facilities
- No one customer accounts for 5% of revenue with top 10 customers representing less than 25%
- 100% of revenues are generated within the US



¹ Proforma EBITDA is a non-GAAP measure; see appendix for reconciliation

Construction products are used primarily in residential, industrial, commercial, and infrastructure projects. Eagle Materials Inc. only operates in the United States and is currently headquartered in Dallas, Texas. Eagle Materials Inc. produces majority of their revenue from their cement segment in which they operate 24 facilities in geographically diverse locations. In addition to this segment, Eagle Materials Inc. also operates in the segments of Gypsum Wallboard, Recycled Paperboard, Concrete and Aggregates, and Oil and Gas Proppants. Eagle Materials Inc. is well known across the industry as a low cost

producer and continues to uphold this strategy going forward. To continue to implement this strategy, management plans to take advantage of their geographically diverse production, and distribution facilities. Currently Eagle Materials Inc. operates through more than 40 production and distribution facilities. This strategy is supported by the fact that no one account contributes more than 5% of revenue. Furthermore, out of the top 10 accounts, these accounts contribute to less than 25% of total revenue. This shows that there is a wide range of consumers that are continuously choosing Eagle Materials Inc. due to their low cost compared to competitors. This also shows that Eagle is not dependent upon any one major account and is continuing to grow and drive revenues with their current platform.

Company Performance:

Eagle Materials Inc. as well as some other industrial companies experience some seasonality due to weather conditions and other factors that do not allow for construction and overall production. With this being said, Eagle Materials Inc. has laid down a platform to allow them to mitigate these seasonality slopes and perform well. By expanding across the United States and increasing distribution and production facilities, Eagle Materials Inc. has allowed hedging against these factors and perform consistently throughout the year. This platform has been working extremely well so far with overall revenue increases of about 23% LTM. Quarterly earnings per share also improved 22% to raise EPS to \$1.13. Most importantly, Eagle Materials Inc. has seen very positive signs in their largest segments, with revenue growth of approximately 30% in their cement, concrete, and aggregates segment. This segment drives about 52% of total revenue. Furthermore, in this

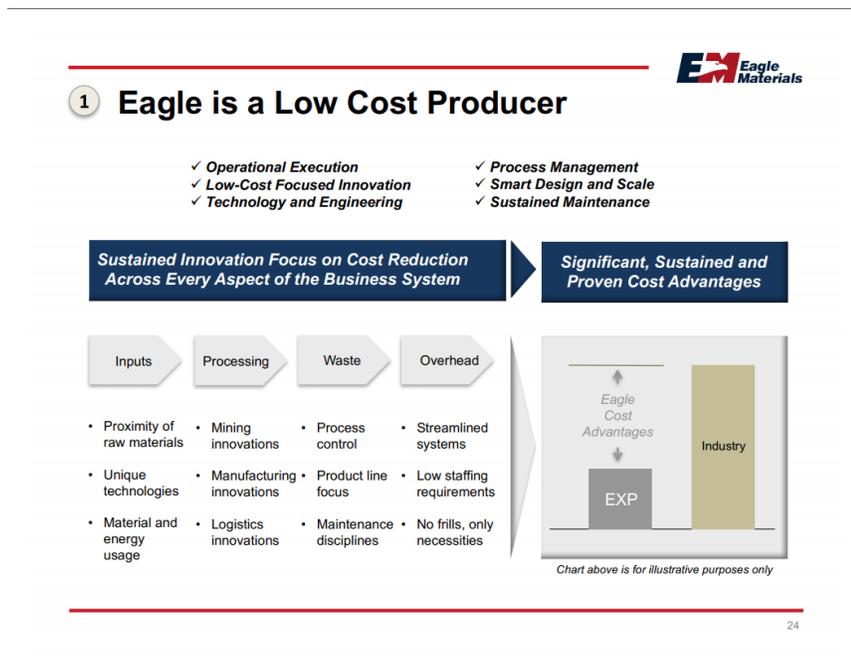
Measure	Q2/18 Est	4Wk Chg	YoY Gr	Growth vs Comps	Past Surprise
11) EPS, Adj+	1.571	0.07%	25.7%	Stronger	Beat 4 of 8
12) EPS, GAAP	1.586	0.70%	26.9%	Stronger	Missed 5 of 8
13) Revenue	413.571M	0.07%	24.3%	Stronger	Missed 6 of 8
14) Net Income, Adj+	76.167M	0.46%	26.4%	Stronger	Beat 4 of 8
15) Operating Profit	116.000M	0.43%	--	--	--
16) EBITDA	149.400M	-0.27%	27.2%	Stronger	Beat 4 of 8

segment, operating income has increased 40% LTM. Eagle Materials Inc. has also been able to increase their margins in this successful segment as well as overall in the company to blow past their competitors. Eagle Materials Inc. currently has an EBITDA margin of approximately 31% compared to its competitor's average which is around 19%. This is due to their cost savings that were gained through some key acquisitions that will be explained further on. As mentioned Eagle Materials Inc. operates in five different segments and is currently seeing large growth in each segment. Their largest growth is currently in their oil and gas proppant segment. Oil and gas proppants saw an increase of revenue of 271% from same quarter last fiscal year. Revenues increasing from 5 million to 19 million in this segment, and is expecting to see larger growth with new facilities acquired.

Low Cost Producer:

As stated in their annual report, Eagle Materials' strategy is the following, "Through continuous improvement to be the lowest cost producer in each of the markets that we compete". This is evident through their current organizational strategy. Eagle Materials Inc. has realized where their costs have been coming from and have

been pursuing solutions to reduce these costs. In example, Eagle Materials Inc. realizes that they are in a business where it is a "low-value-to-weight". This means that their product/service that they are producing and shipping is relatively cheap compared to the weight of the product. Expenses from this dilemma come in the form of freight and long travelling distances. Eagle Materials Inc. has strategically acquired companies with facilities and plants in new geographical locations to cut these freight costs by not having to ship products as far. Another prime example of their cost savings efforts



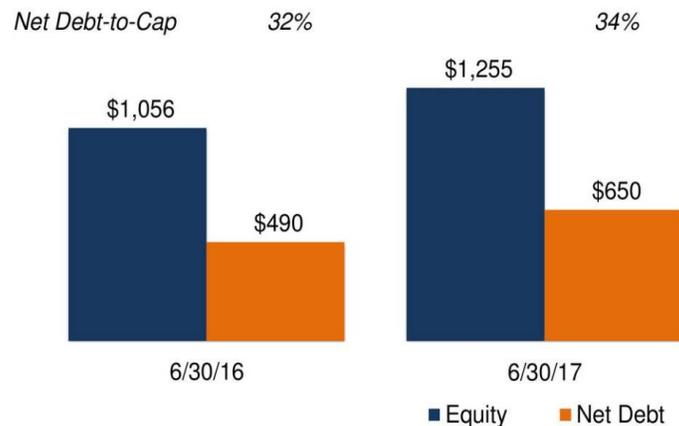
comes into place in one of their larger plants, their cement plant in Nevada. This Nevada plant recently installed new pollution control equipment that allows certain waste from the plant to be eliminated, this therefore will reduce future costs drastically in cement produced in Nevada and will drive their margins up in this successful segment more. These are just two examples of cost savings efforts and strategies that have been implemented. Overall, the company is realizing these cost savings efforts and seeing real results going forward.

Growth Strategy:

Eagle Materials Inc. has a strong grip on their growth strategy and is currently implementing it very efficiently. In a recent report, CEO, Dave Powers said, “We are a fiscally conservative company. Allowing us to be profitable in protracted downturns and even more profitable in industry up cycles, such as the ones we are enjoying today”. Eagle Materials Inc. has seen a lot of its growth through successful acquisitions of small and large companies, as well as through strong organic growth across all segments. Eagle Materials Inc. acquired Fairborn Cement Company in February of this year, and has seen large synergies throughout the year so far, and is expecting much more to come in the future. This acquisition was to further develop and expand their strongest segment, cement. Eagle Materials Inc. growth strategy is broken down into three main pillars. The first one being to continue to implement cost savings efforts to remain the lowest cost producer in the industry. Secondly, to increase organic growth in all segments and begin to see larger margins due to these cost savings. Finally, to increase and expand synergies through acquisitions of other companies and integrate them into their already successful business plan. Eagle Materials Inc. growth and sustainability has been recognized in the business world as of recent when Moody’s upgraded their debt rating to BBB, investment grade. This will lower their interest expense going forward, which would allow for more savings if they were to restructure their debt breakdown since they have recently taken on more debt for key acquisitions. Expressed in the diagram below, Eagle Materials Inc. has been successful in growing revenue in all of their segments and is experiencing very appealing growth rates in those respected segments.

Capital Structure

In Millions



9) Prod Seg FA PROD »	2017 Rev	3Yr Gr
Cement	566.3M	8.92%
Gypsum Wallboard	473.7M	6.97%
Paperboard	167.1M	8.67%
Concrete & Aggregates	154.6M	16.84%
Oil and Gas Proppants	34.6M	20.97%

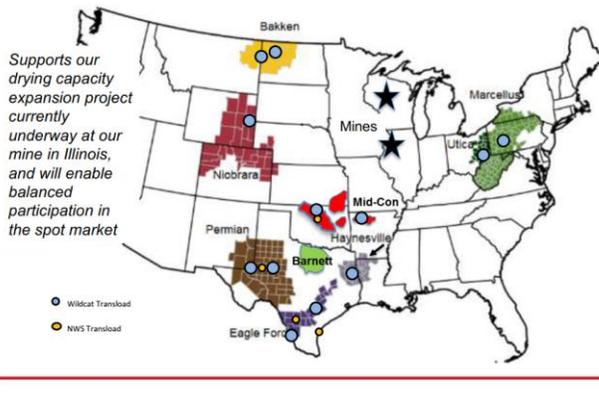
Acquisitions and Expansion:

Eagle Materials Inc. has been consecutively expanding their business. In the past year, Eagle Materials Inc. has made two major acquisitions that have been producing massive results and are expecting to continue to produce going forward. As of February 2017, Eagle Materials Inc. completed their acquisition of Fairborn

Cement Company. Majority of Fairborn’s business was focused in Ohio, an area where Eagle Materials had little to no presence. The acquisition was for approximately 400 million dollars, which was funded through cash as well as long-term notes as mentioned earlier. This acquisition was said to have an approximate NPV of 50 million, and would increase Eagle’s cement capacity by about 20%. The market had a positive reaction to this acquisition.

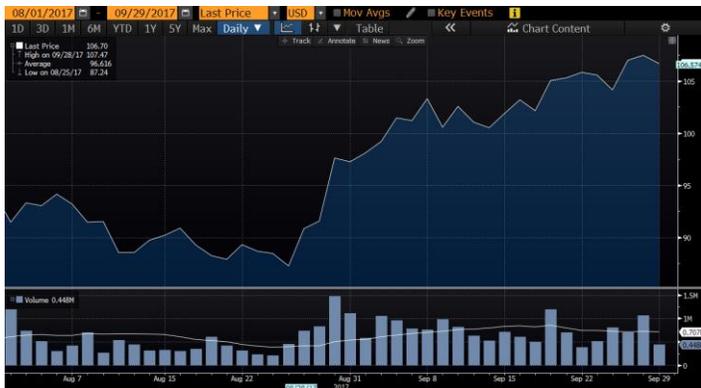
Announcement was made in mid-September when stock price was around 78 dollars, and by mid-November stock prices were up to about 95 dollars. Eagle Materials Inc. also recently

Recent Wildcat Minerals Logistics Acquisition Extends Our Distribution Network East and West



announced a definitive agreement to acquire Wildcat Minerals, a well-established frac sand distribution company. During Eagle’s last earnings call, CEO, Dave Powers said, “This acquisition reflects our continued commitment to invest in building out our network of low-cost reach to all strategically shale plays”. Eagle Materials Inc. made the purchase of Wildcat Minerals, with all distribution terminals for approximately 37 million dollars. Again, the market reacted favorably to this acquisition with the announcement being made in late August; stock price was around 93 dollars. By the next month, stock price reached triple digits at approximately 103 dollars. Dave Powers when talking about the acquisition stated, “an additional benefit of this distribution system, as it will help us meet our customers growing needs for cement and slag products”. Eagle Materials Inc. is very successful in their acquisitions and plans to continue to acquire companies to increase their distribution channels and cut costs to growth their company further.

WILDCAT MINERALS



FAIRBORN CEMENT COMPANY



Industry Outlook:

The industrial goods industry is currently a thriving industry due to many macroeconomic events that have been occurring. Many of these events both good and bad will have a positive impact on Eagle Materials Inc. One of the largest catalyst for Eagle as well as the industry as a whole is President Donald Trump's strive to revamp infrastructure, with plans of injecting 1 trillion dollars into infrastructure projects across the United States. Eagle Materials Inc. produces cement and concrete in various areas both of which are key components in infrastructure construction projects. Being the lowest cost producer, Eagle Materials Inc. has a great opportunity of successfully getting many of these jobs going forward. The recent hurricanes and natural disasters have left destruction and damage throughout many states, but has significantly damaged Texas. With this being said, Eagle Materials Inc. as mentioned is headquartered in Dallas and is very capable of supplying the two major components that go into reconstruction and remodeling. Gypsum Wallboard is one of the key components in reconstruction and is currently Eagle's second largest operating segment. Furthermore, Eagle recently has created a new low-cost ready-mix concrete that is used for nearly all construction projects. In addition to this, Eagle Materials' fastest growing segment of Oil and Gas Proppants have a strong segment outlook, which could allow for unexpected gains. John England from Deloitte said recently, "The oil and gas industry is incredibly resilient and has some of the brightest, most innovative people I have ever met. This is clearly what leads to my overall optimism about the industry for 2017 and beyond". As per Eagle Materials Inc. last earnings call, senior executives said, "There is huge upside with household formation trends, combined with the economic environment, low unemployment, healthy job growth, and low interest rates". Overall, the industry outlook is strong and even stronger for Eagle, more houses, more construction jobs, and more business for Eagle.



Ownership Summary:

Primarily Investment Advisors currently hold Eagle Materials Inc., at about 77% ownership. Out of this 77%, Vanguard, Fidelity, and JP Morgan Chase own cumulative approximately 20%. Hedge Fund Managers then follow in percentage of ownership at approximately 14%. I believe that this is a good indication because it shows that there is an interest in holding Eagle Materials Inc. for the long term. Another positive indication in regards to the ownership of Eagle is the fact that the percentage of short interest is below 5%. This shows that majority of owners believe that there is value in this stock and that they expect it to grow going forward. With this being said, management has been implementing a share repurchase of 100,000 shares a month. This plan is to buy back 1.2 million shares throughout the fiscal year. This is an indicator that internally management believes their company is undervalued. This is a positive for investors because this means that shares are now worth more and are less likely to be impacted by dilution.

Compare Current Stats Against		10/08/17		
Ownership Type		10/08/17	Curr ↓	Change
11) Investment Advisor		77.31	77.34	+0.03 <input checked="" type="checkbox"/>
12) Hedge Fund Manager		14.06	14.06	0.00 <input type="checkbox"/>
13) Pension Fund		3.00	3.00	0.00 <input type="checkbox"/>
14) Individual		1.75	1.75	0.00 <input type="checkbox"/>
15) Bank		1.26	1.26	0.00 <input type="checkbox"/>
16) Insurance Company		1.09	1.06	-0.03 <input type="checkbox"/>
17) Sovereign Wealth Fund		0.75	0.75	0.00 <input type="checkbox"/>
18) Brokerage		0.39	0.39	0.00 <input type="checkbox"/>
19) Government		0.28	0.28	0.00 <input type="checkbox"/>
20) Endowment		0.07	0.07	0.00 <input type="checkbox"/>
21) Holding Company		0.02	0.02	0.00 <input type="checkbox"/>

Conclusion:

Eagle Materials Inc. has huge upside potential based on their operating position. Eagle is by far a “best in class” company and will continue to be looking forward. By continuing to implement initiatives to increase revenues, cut costs, and widen margins. With the recent acquisitions and the implementation of new distribution costs, Eagle Materials Inc. will be able to cut costs more and will widen their margins and see even more profitability going forward. Eagle Materials Inc. is a buy and hold for the long term, we may have missed some of the gains, but there is a lot more room for growth and we should get on board sooner rather than later.



Eagle Materials Inc. (EXP)

CENTER FOR GLOBAL FINANCIAL STUDIES

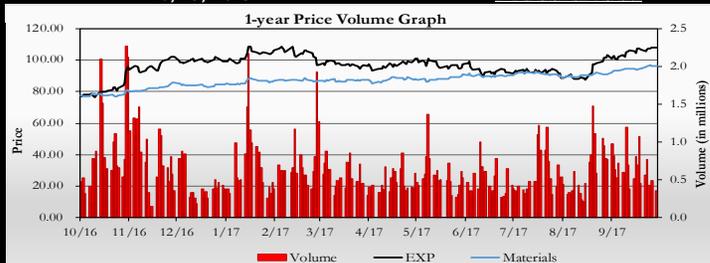
BULLISH

Analysis by Paul Martinez
10/13/2017

Current Price: **\$107.56**
Dividend Yield: **0.4%**

Intrinsic Value **\$133.95**
Target Price **\$144.04**

Target 1 year Return: **34.34%**
Probability of Price Increase: **100%**



Description	
Eagle Materials Inc. produces and sells construction products and building materials for use in residential, industrial, commercial, and infrastructure construction in the United States.	
General Information	
Sector	Materials
Industry	Construction Materials
Last Guidance	November 3, 2015
Next earnings date	October 27, 2017
Estimated Country Risk Premium	5.69%
Effective Tax rate	25%
Effective Operating Tax rate	26%

Market Data	
Market Capitalization	\$5,216.44
Daily volume (mil)	0.37
Shares outstanding (mil)	48.50
Diluted shares outstanding (mil)	48.39
% shares held by institutions	97%
% shares held by investments Managers	78%
% shares held by hedge funds	10%
% shares held by insiders	1.22%
Short interest	4.80%
Days to cover short interest	3.81
52-week high	\$110.64
52-week low	\$73.83
Volatility	29.41%

Past Earning Surprises			Peers	
Quarter ending	Revenue	EBITDA		
6/30/2016	-1.88%	-8.48%	U.S. Concrete, Inc.	
9/30/2016	-4.99%	-16.39%	Summit Materials, Inc.	
12/31/2016	-1.69%	-11.53%	Vulcan Materials Company	
3/31/2017	-7.85%	-10.76%	Martin Marietta Materials, Inc.	
6/30/2017	-10.48%	-11.35%	USG Corporation	
Mean	-5.38%	-11.70%	Forterra, Inc.	
Standard error	1.7%	1.3%	United States Lime & Minerals, Inc.	

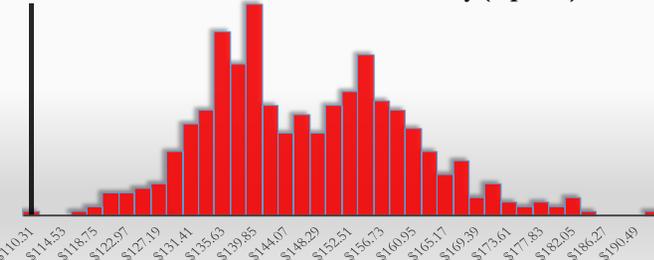
Management		Position		Total compensations growth		Total return to shareholders	
Powers, David	CFO, President & Director			17.88% per annum over 6y		12.6% per annum over 6y	
Kesler, D.	Executive VP of Finance & Ad			4.19% per annum over 6y		12.6% per annum over 6y	
Haack, Michael	Executive VP & COO			-8.67% per annum over 3y		-0.91% per annum over 3y	
Graass, James	Executive VP, General Counsel			-100% per annum over 4y		-1.58% per annum over 4y	
Stewart, Robert	Executive Vice President of			N/M		-4.45% per annum over 1y	
Devlin, William	Senior VP, Controller & Chief			N/M		N/M	

Profitability		EXP (LTM)		EXP (5 years historical average)		Peers' Median (LTM)	
Return on Capital (GAAP)	12.0%	12.0%	12.11%	12.11%	14.40%	14.40%	
Operating Margin	18%	18%	14.87%	14.87%	10.27%	10.27%	
Revenue/Capital (GAAP)	0.68	0.68	0.81	0.81	1.40	1.40	
ROE (GAAP)	17.3%	17.3%	17.8%	17.8%	11.8%	11.8%	
Net margin	16.2%	16.2%	13.8%	13.8%	9.2%	9.2%	
Revenue/Book Value (GAAP)	1.06	1.06	1.29	1.29	1.29	1.29	

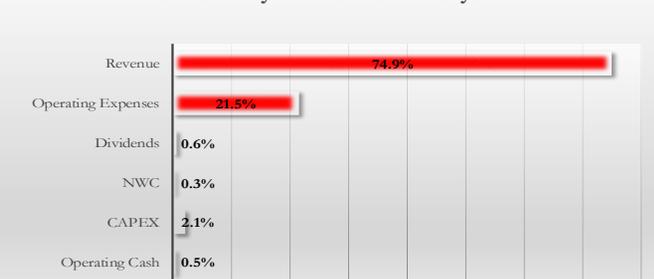
Invested Funds		EXP (LTM)		EXP (5 years historical average)		Peers' Median (LTM)	
Cash/Capital	0.6%	0.6%	0.4%	0.4%	15.9%	15.9%	
NWC/Capital	14.1%	14.1%	15.2%	15.2%	10.6%	10.6%	
Operating Assets/Capital	74.9%	74.9%	74.7%	74.7%	54.4%	54.4%	
Goodwill/Capital	10.3%	10.3%	10.7%	10.7%	19.0%	19.0%	

Capital Structure		EXP (LTM)		EXP (5 years historical average)		Peers' Median (LTM)	
Total Debt/Market Capitalization	0.35	0.35	0.35	0.35	0.45	0.45	
Cost of Existing Debt	4.3%	4.3%	4.0%	4.0%	5.6%	5.6%	
CGFS Rating (F-score, Z-score, and default Probability)	BBB	BBB	A	A	A	A	
WACC	7.5%	7.5%	8.9%	8.9%	9.4%	9.4%	

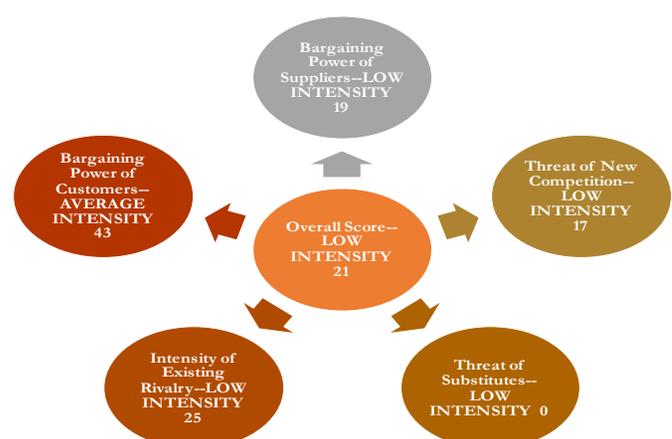
Intrinsic Value Distribution--Probability (Upside)=100%



Sensitivity Attribution Analysis



Porter's 5 forces (scores are out of 100)



Valuation		NOPAT Margin Forecast		Revenue to Capital Forecast	
Period	Revenue Growth Forecast				
Base Year	11%	18.5%		0.63	
6/30/2018	15%	18.1%		0.71	
6/30/2019	10%	18.6%		0.71	
6/30/2020	9%	17.9%		0.69	
6/30/2021	8%	17.5%		0.68	
6/30/2022	7%	17.2%		0.66	
6/30/2023	7%	18.8%		0.64	
6/30/2024	6%	18.9%		0.61	
6/30/2025	5%	19.2%		0.58	
6/30/2026	4%	19.8%		0.55	
6/30/2027	3%	20.7%		0.51	
Continuing Period	2%	21.8%		0.48	

Valuation		WACC Forecast		Price per share Forecast	
Period	Return on Capital Forecast				
Base Year	11.6%	7.5%		\$133.56	
6/30/2018	13.0%	7.7%		\$144.00	
6/30/2019	13.1%	7.7%		\$155.18	
6/30/2020	12.4%	7.7%		\$166.73	
6/30/2021	11.8%	7.6%		\$178.59	
6/30/2022	11.3%	7.8%		\$190.98	
6/30/2023	12.0%	7.9%		\$203.89	
6/30/2024	11.5%	7.9%		\$217.98	
6/30/2025	11.1%	8.0%		\$231.38	
6/30/2026	10.8%	8.2%		\$245.13	
6/30/2027	10.6%	8.3%		\$259.17	
Continuing Period	10.5%	8.5%			