

CONSTRUCTION MATERIALS

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*Important Disclosures Found In Appendix
2/22/13*

Eagle Materials (EXP: \$61.05 – NEUTRAL)

EXP: Stable Wallboard Prices Still Visible In Our Work; We Expect This Segment To Drive Almost 50% Of EPS Growth During FY2014 (Cleveland Research)

Key Points

1. There has been continued deterioration in the overall wallboard demand growth since 3Q. We have recorded two consecutive downticks in order activity, with the national growth rate now @ +5-6% which compares to +7-8% in 4Q (3Q was +11-12%). On the positive side, January appeared to end below expectations but most distributors have seen a rebound in February.
2. There has been no change to the wallboard pricing environment. The 25% increase for 2013 deliveries is still holding in the market with no indications it could drop in the foreseeable future.
3. The private non-residential construction outlook is starting to improve with expectations for 2013 @ +5-7%. This assumes a 2H demand outlook of +10-12%.
4. There has not been a large impact from the Hurricane reconstruction of the Northeast. The distributors and lumber yards believe excessive red tape and financing delays for insurance companies have slowed the overall reconstruction process. We previously forecasted a potential impact of 1 BSF.

EAGLE MATERIALS			Price	\$61.05	Rating:	NEUTRAL	Target: \$85	Upside:	39%	
March FY	EPS	Street	P/E	EBITDA	EV/EBITDA	FCF	2013 Estimates		FY14	
2015E	\$3.86	\$4.01	15.8x	\$7.79	9.1x	\$2.73	CRC	Street	CRC	
2014E	\$2.99	\$2.80	20.4x	\$6.50	10.9x	\$1.53	1Q-	\$0.32	-	\$0.76
2013E	\$1.74	\$1.63	35.0x	\$4.03	17.6x	\$1.26	2Q-	\$0.51	-	\$0.85
2012A	\$0.61		100.1x	\$2.31	30.6x	\$0.38	3Q-	\$0.43	-	\$0.71
2011A	\$0.58		105.7x	\$2.11	33.5x	\$0.21	4Q-	\$0.48	\$0.41	\$0.67
Historical Valuation States			Avg. Trading	1,868,155	Book Value	\$14	Market Cap (000)		\$3,007	
	P/E	EV	Dividend	\$0.40	EV/Share	\$71	Enterprise Value (000)		\$3,486	
Normalized	13.0x	7.5x	Yield	0.66%	Debt/Share	\$10	Net Debt (000)		\$474	
Peer Avg.	15-16x	7-8x	EBIT Margin	19.8%	Shares	49,250	Mid-Cycle Earning/shr		\$4.00	
Peak	5.0x	3.0x	<i>Cement/Aggregates Group</i>		E13 Sales	\$989	Peak Earnings/shr		\$7.00	
Cal year estimates:			2010-	\$0.61	2011-	\$0.41	2012E-	\$1.46	2013E-	\$2.80
Cal year EBITDA			2010-	\$2.28	2011-	\$1.94	2012E-	\$3.52	2013E-	\$6.13

Near-Term Conclusion

Our latest national research supports a continued favorable outlook for the Eagle Materials (EXP) Wallboard segment (representing 37% of consolidated revenues) over the next 12 months. The net conclusion from our analysis of the key data points during 1Q suggest this segment remains on track to meet our 30% revenue growth outlook and 25-26% EBIT margin target for FY2014. Ultimately, we believe the recovery in wallboard market fundamentals will lead to \$0.55 of the incremental EPS, or 44% of the improved earnings power for the entire portfolio versus FY2013 (\$2.99 versus \$1.74).

Long-Term Conclusion

There are four drivers in place that could support much stronger earnings potential through the cycle: (1) stronger wallboard volumes driven by 1.5 million housing starts; (2) the long-term contribution from the fracking sand investment; (3) selling more paper to wallboard competition; and (4) shifting the cement production mix to more well-grade products (Class-G and -H). Our estimation of the long-term impact from these drivers translates into a peak earnings outlook of \$7 per share, or \$12.50 of EBITDA. On the negative side, this would be discounting the earnings potential out to 2017.

Read Through To The Model

- The current EXP portfolio breakdown by revenue is: cement (40%); wallboard (37%); paperboard (15%); and concrete/aggregates (7%).
- We believe the recovery in wallboard market fundamentals will lead to \$0.55 of the incremental EPS, or 44% of the improved earnings power for the entire portfolio versus FY2013 (\$2.99 versus \$1.74).

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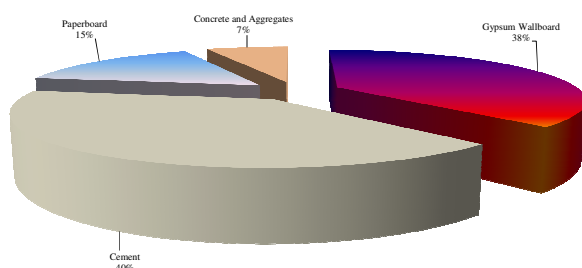
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- We are looking for total Wallboard EBIT in 2013 @ \$63 million (20-21% margin) which compares to \$9 million in FY12. The main drivers to our assumptions include +19% volume growth, 9.8% market share, and +24% price realization. Our FY2014 outlook is supported by 11% volume growth and \$155 per MSF (+24%).
- We project 2012 industry demand @ 19.7 billion sqft (up 15%). The current 2013 outlook is 20.8 billion sqft, which does not include our Hurricane Sandy after-effect calculations.
- Wallboard industry demand breakdown is: residential construction (35-40% of volume); commercial construction (25-30%), and remodel (35-40%).

Our latest national research supports a continued favorable outlook for the Eagle Materials (EXP) Wallboard segment (representing 37% of consolidated revenues) over the next 12 months. The net conclusion from our analysis of the key data points during 1Q suggest this segment remains on track to meet our 30% revenue growth outlook and 25-26% EBIT margin target for FY2014. Ultimately, we believe the recovery in wallboard market fundamentals will lead to \$0.55 of the incremental EPS, or 44% of the improved earnings power for the entire portfolio versus FY2013 (\$2.99 versus \$1.74).

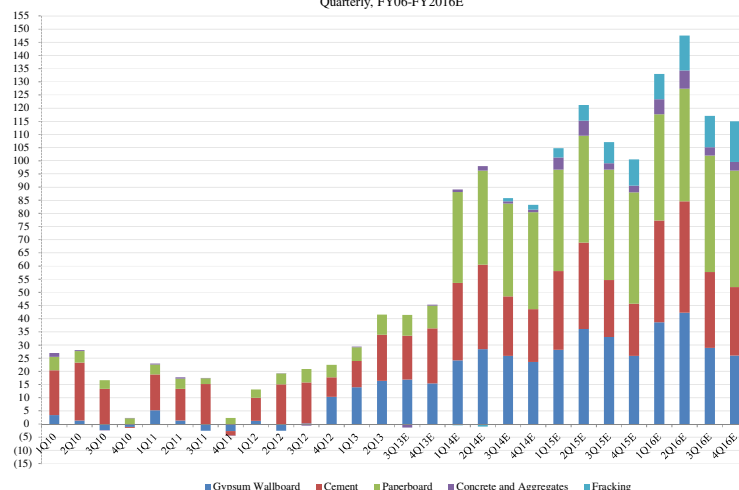
We also see the relative demand strength driving the continued mix shift @ the Paperboard segment (15% of total sales) as the mill can now ship more paper to the wallboard producers, increasing the total volume outlook to 280K tons (up 11%).

**Eagle Materials (EXP)
Sales By Segment**



Source: Company Reports

**Eagle Materials (EXP)
Segment EBIT Contribution**
Quarterly, FY06-FY2016E



There has been a moderate pullback in the U.S. order growth rate in 1Q versus 4Q with the comp @ +5-6% (versus +7-8%). However, the brief pullback appears to be related to the impact from demand pull forward (ahead of the price increases) and tougher weather comps. Also, our regional analysis supports a more favorable outlook for the Texas and southern markets, which support a positive outlook for the American Gypsum (EXP) operations (80% of the capacity is located west of the Mississippi River). Accordingly, we are leaving our full year volume outlook unchanged @ 1.9 BSF (up 11%). Here are some other key points to consider:

1. There has been no change to the pricing environment. The 25% increase is still holding in the market with no indications it could drop in the foreseeable future.
2. The private non-residential construction outlook is starting to improve (representing 20% of current demand) with expectations for 2013 @ +5-7%. This assumes a 2H demand outlook of +10-12%.
3. There has not been a large impact from the Hurricane reconstruction of the Northeast. The distributors and lumber yards believe excessive red tape and financing delays for insurance companies have slowed the overall process. We previously forecasted a potential impact of 1 BSF. This will not impact EXP directly, but it will keep pulling supply further east, opening new markets for the plants in in the middle part of the country.

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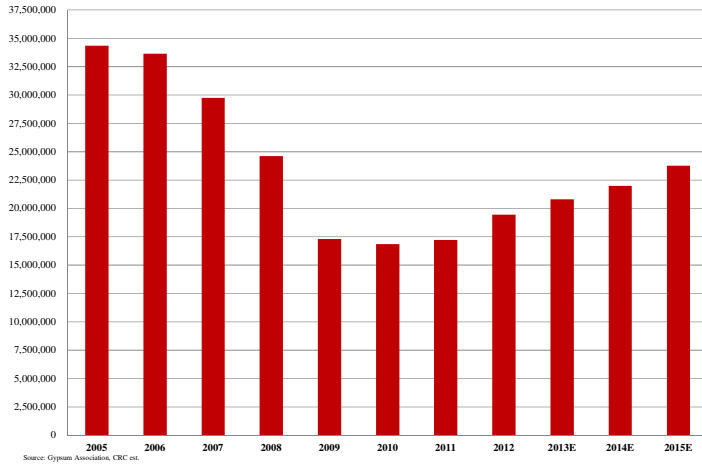
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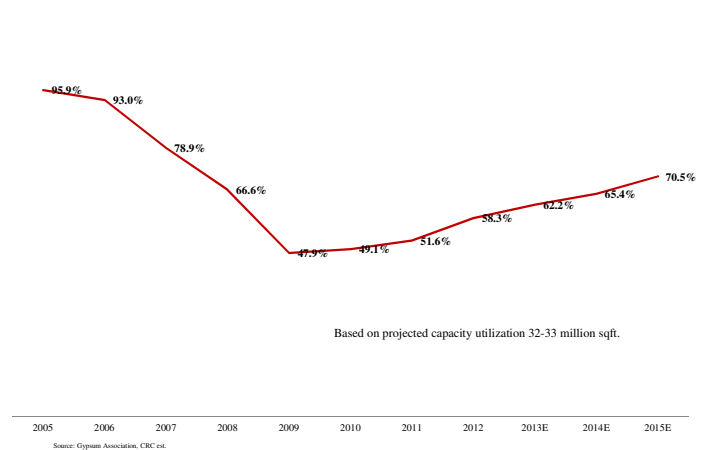
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Total Wallboard Industry Shipments - U.S.
Annual 2005 to 2015E



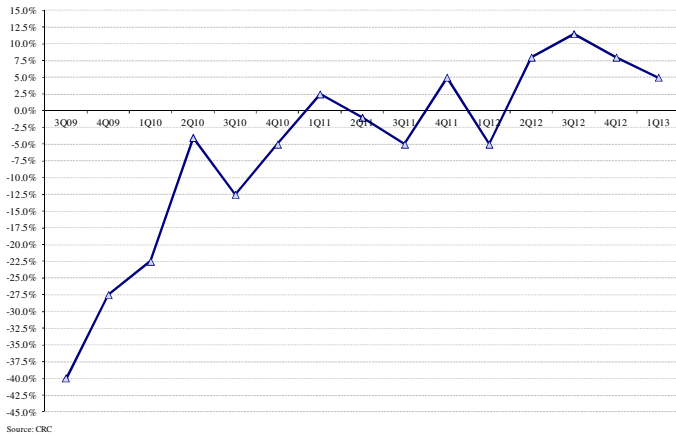
U.S. Wallboard Operating Rates
Estimated Average 2005 to 2015



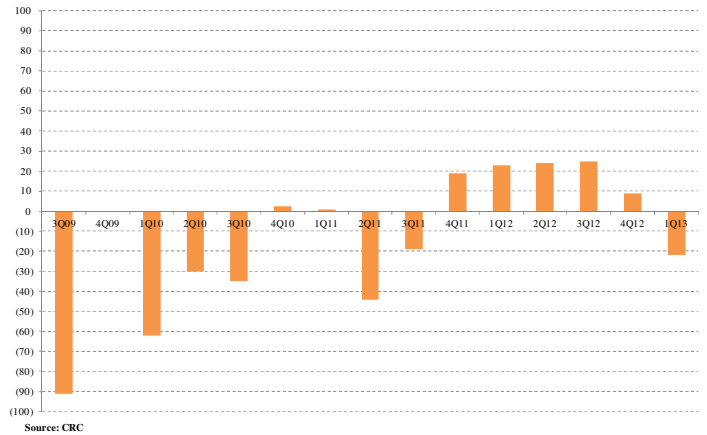
Demand Overview

There has been continued deterioration in the overall demand growth since 3Q. We have now recorded two consecutive downticks in order activity, with the national growth rate now @ +5-6%, which compares to +7-8% in 4Q (3Q was +11-12%). January ended well below expectations for most distributors, but, on the positive side, most in the distribution channel saw a nice sequential rebound in February. We attribute the deterioration in annual growth rates to: (1) some demand pull-forward into 2012 as buyers looked to build inventories into the January price increase; (2) difficult comparisons which included a better weather-pull in early 2012; and (3) a disappointing commercial construction environment. Based on the current volume flow, we estimate inventory speculation contributed 100 basis points of lower growth, suggesting underlying consumption growth is in the +6-7% range.

CRC Wallboard Survey
Order Rate Comps (y-y)



Quarterly Dry wall Distribution Demand Update
Better Demand Minus Weaker Demand



Residential Construction Breakdown

The commentary surrounding the residential market remains bullish, but more difficult comps are starting to cycle through. We estimate the growth rate to be +10%, which is down from +14-16% in 4Q, but on 2-3% more difficult comparisons from the prior year. The rest of the weakness appears related to harsher weather trends vs. 2012 as most of the softness appears to be coming from the Midwest and Northeast. The outlook for residential volumes for 2013 continues to be in the double-digit range.

Underlying Residential Construction Demand (35-40% of Wallboard Volumes)

Quarter	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
CRC Estimated Comp	Down 0-5%	Up 0-5%	Up 4-5%	Up 8-10%	Up 16-18%	Up 14-16%	Up 10%

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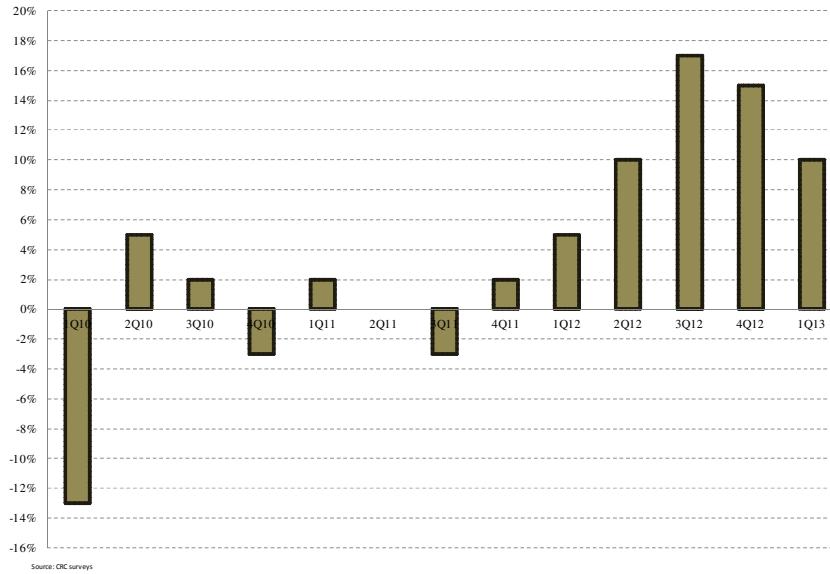
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CRC Wallboard Industry Analysis
 Estimated Residential Construction Comps 2010 to Present (Quarterly)



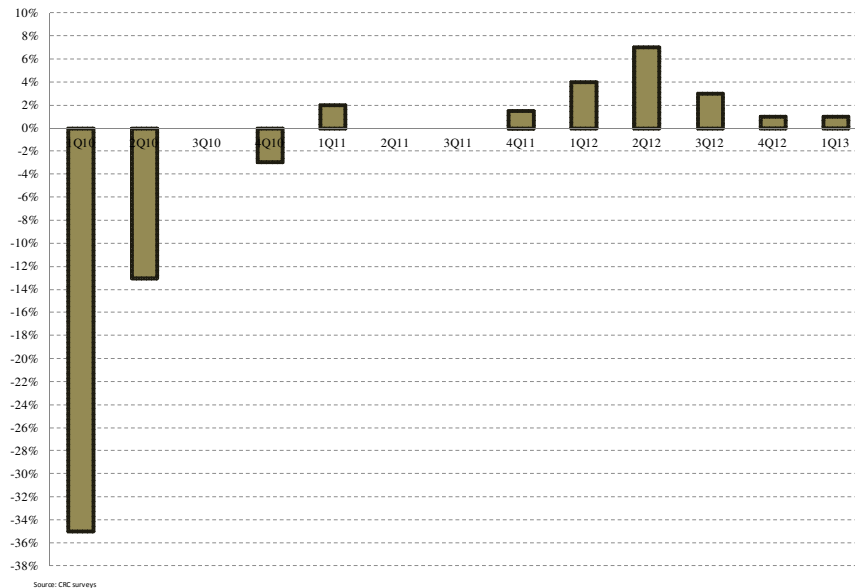
Non-Residential Construction

There has been no change to the commercial construction demand environment. Volumes are still running in the +0-2% range, which is consistent with our 4Q update report. There are some tougher weather comparisons influencing the numbers, but the main theme within the channel has been the improving 2H13 outlook. The confidence in better shipment levels looking out 6-12 months appears to be supported by the recent ABI readings and increased number of retail jobs getting bid on today. The full-year growth outlook is +5-7%, which implies a +10-12% 2H outlook (there was a similar outlook conveyed within aggregates).

Underlying Non-Residential Construction Demand (25-30% of Wallboard Volumes)

Quarter	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
CRC Estimated Comp	Flat	Up 1-2%	Up 3-5%	Up 6-8%	Up 2-4%	Up 0-2%	Up 0-2%

CRC Wallboard Industry Analysis
 Estimated Non-Residential Construction Comps 2010 to Present (Quarterly)



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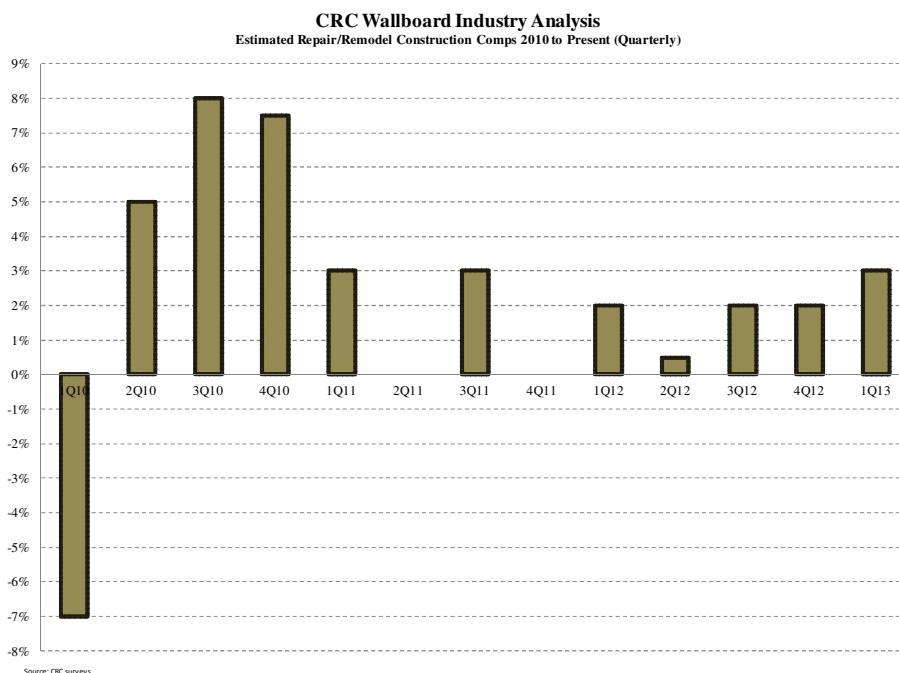
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Remodel/Repair

The repair/remodel sub-segment has been characterized as steady, except for the moderately stronger data points coming out of the Northeast region (Hurricane rebuild). We estimate the 1Q comp @ +1-3% growth. Some of our contacts have reported stronger activity from Sandy, but the ultimate impact may be spread out over multiple years due to “red tape” and other insurance funding issues. The Sandy impact has been limited to smaller-sized repair jobs (including basement-related damages) as opposed to the massive reconstruction effort that we estimate could drive up to 1 billion square feet of demand.

Underlying Repair/Remodel Construction Wallboard Demand (35-40% Of Demand)

Quarter	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
CRC Estimated Comp	Up 0-5%	Flat	Up 1-3%	Up 0-1%	Up 1-3%	Up 1-3%	Up 2-4%



The biggest downticks were recorded in the Midwest and Northeast related to more difficult weather comps, each down 200 basis points versus 4Q. However, there was a mostly broad-based slowdown in January related to all of the pre-buy activity in December. Texas and the South were the strongest areas for the 3rd straight quarter. We see this supporting a better volume outlook for the EXP operations versus the peer group. EXP has 80% of its wallboard capacity west of the Mississippi River.

Estimated Wallboard Volume Growth By Region (Excluding Major Distribution Inventory Adjustments)

Region	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
Northeast	(0-2%)	+0-2%	+0-2%	+5-7%	+2-4%	+4-6%	+4-6%	+2-4%
Midwest	+2-4%	+2-4%	+2-4%	+6-8%	+5-6%	+3-5%	+2-4%	+0-2%
West	(3-5%)	+0-2%	+0-2%	+4-5%	+8-10%	+12-14%	+10-12%	+8-10%
Southeast	+0-2%	(3-5%)	(3-5%)	+2-4%	+10-12%	+8-10%	+5-7%	+4-6%
South	(0-2%)	(3-5%)	(3-5%)	(3-5%)	+2-3%	+14-16%	+10-12%	+10-12%
Total U.S.	(0-2%)	+0-2%	+0-2%	+2-4%	+7-8%	+11-12%	+7-8%	+5-6%

Outlook

The wallboard distribution channel is maintaining 2013 volume growth expectations, with most projecting volume to be up +5-10%. This translates into a 20-21 billion square foot market outlook, the highest level since 2008 (24 billion sq ft). We remain comfortable with our current industry projection for 2013 @ +7%, or 20.8 billion square foot. By end-market, the outlook is +10-11% for residential; +6-7% for commercial construction; and +3-4% for the remodel market.

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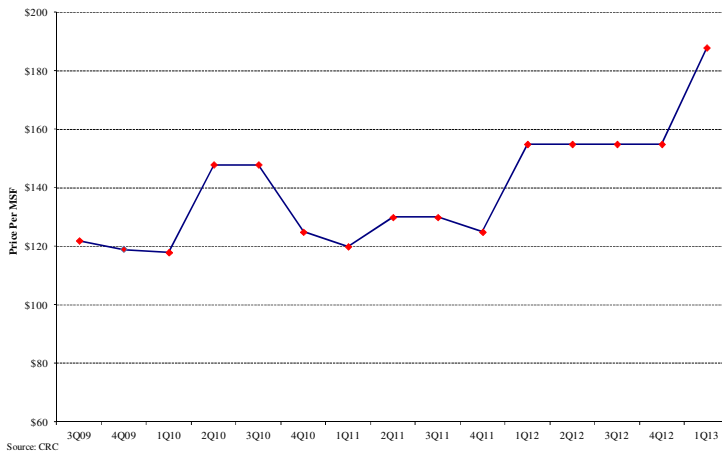
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Pricing Update

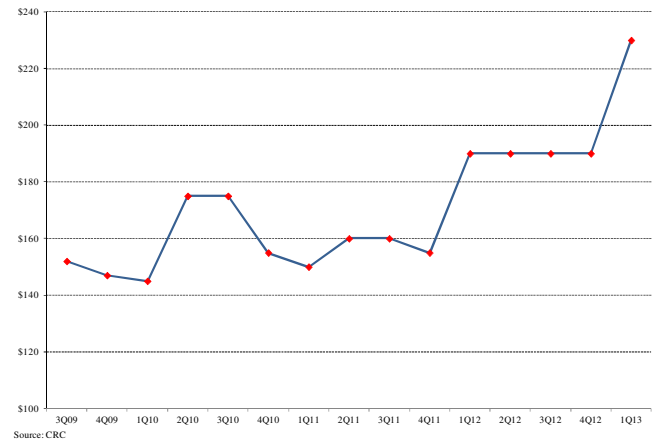
The Jan 1 industry-wide wallboard price increases are still holding and this is the most important industry data point. We see average realizations up 25%, or \$30 per MSF, to a base price level of \$150-155. We raised our modeling assumptions for EXP in January to reflect this change, driving our \$2.99 FY2014 outlook versus the Street @ \$2.80. Our average realization for FY2014 is \$151 per MSF, which represents a 24% increase, adjusted for mix.

Despite some apparent weakness in 1Q order books, our contacts continue to tell us that the manufacturers are sticking to the increases. There has apparently been less of a push to gain pricing in the distribution space – suggesting some pressure on the distributors. Despite some recent dialogue about the producers bringing back a third shift or potentially restating lines, there is no indication that prices are likely to tick back down in 2013.

Average 1/2 Inch Wallboard Price
CRC Drywall Survey Results



Average 5/8 Inch Wallboard Price
CRC Drywall Survey Results



Inventory

The most consistent theme is that manufacturers are no longer placing customers on allocation. Supply appears to be relatively loose as there was some pre-buy in late 2012. If our industry wallboard consumption (20.8 billion square feet) and adjusted capacity outlook (22.5 billion square feet adjusted for rationalized supply) remains consistent, the effective utilization rates would be near 90-92% for 2013. This assumes the industry is working @ roughly 67% of listed capacity.

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U.S. Wallboard Industry MacroModel

Annual Supply/Demand Balance and Forecasts
Wallboard Data in 000 square feet, Crude Gypsum in tons

Annual Breakdown	2005	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E	2015E
New Single Family Residential	17,000,000	15,000,000	10,800,000	6,600,000	4,420,000	4,300,000	4,523,296	5,066,091	5,522,040	6,184,684	7,236,081
% Change		-11.8%	-28.0%	-38.9%	-33.0%	-2.7%	5.2%	12.0%	9.0%	12.0%	17.0%
% of total shipments	47.9%	43.4%	36.1%	26.9%	25.1%	25.5%	26.3%	25.7%	26.4%	28.1%	30.5%
-- Single Family Housing Starts	1,719	1,474	1,036	616	441	471	434	555	605	700	850
% Change		-14.3%	-29.7%	-40.5%	-28.4%	6.9%	-7.8%	27.8%	9.0%	15.7%	21.4%
New Multi-Family Residential	1,500,000	1,400,000	1,400,000	1,200,000	950,000	1,000,000	1,496,299	1,945,189	2,159,160	1,943,244	1,710,055
% Change		-6.7%	0.0%	-14.3%	-20.8%	5.3%	49.6%	30.0%	11.0%	-10.0%	-12.0%
% of total shipments	4.2%	4.0%	4.7%	4.9%	5.4%	5.9%	8.7%	9.9%	10.3%	8.8%	7.2%
-- Multi-Family Housing Starts	354	338	306	285	113	115	177	295	315	285	250
% Change		-4.5%	-9.5%	-7.1%	-60.4%	1.6%	54.4%	66.7%	6.8%	-9.5%	-12.3%
New Commercial	6,500,000	7,600,000	7,200,000	7,000,000	4,900,000	3,800,000	3,611,757	3,792,345	4,361,197	4,710,093	5,228,203
% Change		16.9%	-5.3%	-2.8%	-30.0%	-22.4%	-5.0%	5.0%	15.0%	8.0%	11.0%
% of total shipments	18.3%	22.0%	24.1%	28.6%	27.8%	22.6%	21.0%	19.2%	20.8%	21.4%	22.0%
-- Private Non Res Spending (growth)	9.4%	18.1%	20.3%	6.1%	-22.4%	-18.4%	13.2%	8.0%	3.5%	10.0%	13.0%
Repair and Remodel	10,500,000	10,600,000	10,500,000	9,700,000	7,372,000	7,740,600	8,444,632	8,909,087	8,909,087	9,176,360	9,543,414
% Change		1.0%	-0.9%	-7.6%	-24.0%	5.0%	9.1%	5.5%	0.0%	3.0%	4.0%
% of total shipments	29.6%	30.6%	35.1%	39.6%	41.8%	46.0%	49.1%	45.2%	42.5%	41.7%	40.2%
-- Existing Home Sales	74.17	68.44	59.49	58.72	61.97	58.96	52.25	52.00	55.00	65.00	70.00
% Change		-7.7%	-13.1%	-1.3%	5.5%	-4.9%	-11.4%	-0.5%	5.8%	18.2%	7.7%
Manufactured Housing	700,000	400,000	300,000	300,000	250,000	200,000	200,000	202,000	204,020	206,060	208,121
% Change		-42.9%	-25.0%	0.0%	-16.7%	-20.0%	0.0%	1.0%	1.0%	1.0%	1.0%
% of total shipments	2.0%	1.2%	1.0%	1.2%	1.4%	1.2%	1.2%	1.0%	1.0%	0.9%	0.9%
Estimated U.S. Wallboard Consumption	35,500,000	34,600,000	29,900,000	24,500,000	17,642,000	16,840,600	17,198,844	19,712,713	20,951,484	22,014,381	23,717,753
% Change		-2.5%	-13.6%	-18.1%	-28.0%	-4.5%	2.1%	14.6%	6.3%	5.1%	7.7%
Exports	542,318	631,231	654,172	802,593	107,547	108,729	120,600	150,000	150,000	150,000	150,000
% Change		16.4%	3.6%	22.7%	-86.6%	1.1%	10.9%	24.4%	0.0%	0.0%	0.0%
% of total shipments	1.5%	1.8%	2.2%	3.3%	0.6%	0.6%	0.7%	0.8%	0.7%	0.7%	0.6%
Imports	1,700,000	1,600,000	800,000	700,000	449,947	88,023	90,000	100,000	100,000	100,000	100,000
% of total shipments		4.8%	2.7%	2.8%	2.6%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%
Net Mill Shipments	34,342,318	33,631,231	29,754,172	24,602,593	17,299,600	16,861,306	17,229,444	19,762,713	21,001,484	22,064,381	23,767,753
% Change		-2.1%	-11.5%	-17.3%	-29.7%	-2.5%	2.2%	14.7%	6.3%	5.1%	7.7%
Industry Capacity	37,000,000	37,200,000	37,900,000	36,800,000	36,800,000	34,300,000	33,300,000	33,300,000	33,300,000	33,300,000	33,300,000
% Change		0.5%	1.9%	-2.9%	0.0%	-6.8%	-2.9%	0.0%	0.0%	0.0%	0.0%
Capacity Utilization	95.9%	93.0%	78.9%	66.6%	47.9%	49.1%	51.6%	59.2%	62.9%	66.1%	71.2%
-- new capacity						0	0	0	0	0	0
-- retired capacity						2,500,000	1,000,000	0	0	0	0

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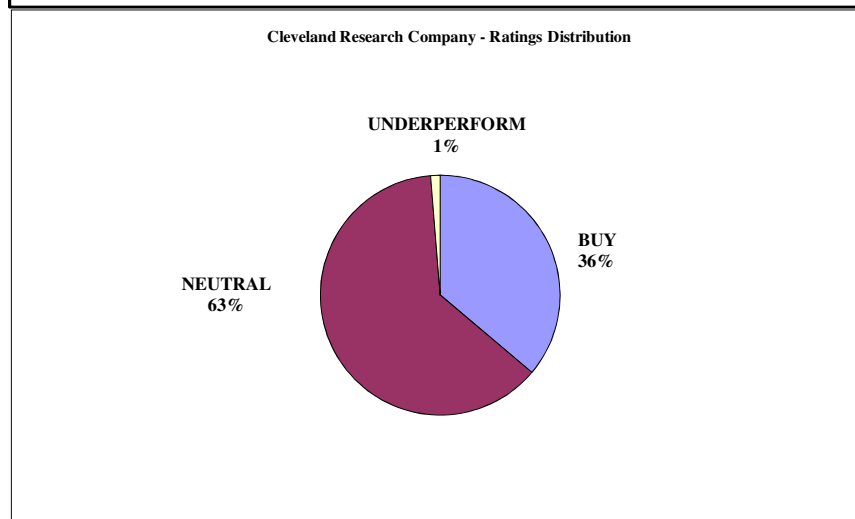
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Companies Mentioned

Eagle Materials (EXP: \$61.05 – NEUTRAL)



Disclosures

Buy: The stock's return is expected to exceed the market due to superior fundamentals and positive catalysts.

Underperform: The stock's total return is expected to underperform the market due to weak fundamentals and a lack of catalysts.

Neutral: The stock is expected to be in line with the market due to full valuation and/or a lack of catalysts.

Valuation and Risk: Price targets are established under various valuation methods including P/E, P/S, EV/EBITDA on financial estimates based on forward earnings. Price targets are not established for every stock. The price target's effectiveness may be affected by various outside factors. Risk assessments can be found in the most recent research on these stocks.

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