Martin Marietta Materials

US, Building materials

Accounting		Climate Assumptions		Audit		Date of analysis: April 30 2021
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in CAMs	Consistency check	Year end: December 2020 Report date: February 19 2021 AGM: May 13 2021
Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	CA 100+ company, so seen by investors as key to driving global net zero emissions

Summary view:

- A building materials business, predominantly aggregates, Martin Marietta's climate change exposures come predominantly from its smaller cement and magnesia operations, which produce significant CO2 emissions.
- Its reduction ambitions for these businesses appear limited, and are not reflected in its financial reporting.
- Significant physical risks from climate change also do not appear to be reflected in the financials.

Background

The Business

- Martin Marietta is a building materials business. Its main segments are aggregates (58% of revenues, 68% of profits), cement (10% and 14% respectively) and ready mixed concrete (20% and 6%) with much smaller operations in asphalt, paving and magnesia. Its operations are almost entirely in the US, with small aggregates operations in Canada and the Bahamas.
- The largest portions of Martin Marietta's GHG emissions come from its cement and magnesia operations, both of which involve calcination chemical processes that produce substantial CO2 emissions. According to the Sustainability Report, the cement business was the source of 2.6m tonnes of CO2 in 2020, of the company's 4.5m total; it does not disclose the total from the magnesia business, but it may be calculated as around 1.3m tonnes. Emissions from cement production are often assessed by the clinker factor[1]; a lower factor representing lower emissions. US Department of Transport rules currently limit clinker substitution; the company notes that industry associations are seeking changes to these rules, and it discloses more about hypothetical outputs at a potential different clinker factor than it does about actual emissions from its magnesia operations.
- The company acknowledges the negative implications of physical climate change, including weather reducing the useful life of assets and issues around the availability of water. Over 100 of the company's sites are in areas of high water stress or extremely high water stress.

Approach to climate change

- The company has set 2030 Scope 1 GHG emission intensity reduction targets (against a 2010 baseline) for its two most intensive businesses: 15% for cement and 10% for magnesia. The cement baseline in 2010 was 0.836 tonnes of CO2 emissions per tonne produced meaning the 2030 target is 0.71; 2020 performance was 0.75. It makes clear that changes to the permitted clinker factor or permitted fuel mix would lead it to outperform the target significantly. Equivalent numbers for magnesia do not seem to be disclosed.
- Martin Marietta reports that the carbon intensity of its cement production is lower than US peers, though it appears higher than international levels. Even delivering on its stated 2030 ambitions would leave it higher than global peers – though the company argues that calculations are different, at least for European companies.
- There are no GHG emission targets for the company as a whole. Instead it highlights piecemeal operational steps. Its 2020 Scope 2 emissions data were the first such disclosures.
- The discussions of water stress issues are anecdotal and do not appear to include specific targets or any overall strategy.

[1] Reflects the extent to which clinker is substituted with materials having lower CO2 emissions profiles.

Accounting: judgements and consistency with other reporting

Accounting judgements		Some concerns

- A US company so subject to US GAAP standards.
- There appears to be no reference to climate change in the notes to the US GAAP financials. It is not apparent that any consideration of climate has been built into the numbers.
- Martin Marietta's operations are long-lived assets: aggregates reserves average 90 year lives at 2020 production levels. Mineral assets and quarry developments are depreciated straight-line over the expected lives of the reserves or on a units of production basis. Building lives are up to 30 years, machinery and equipment up to 20.

Consistency with other reporting		Significant concerns

- As with most US companies, the 10-K report is issued independently of other reporting. Nonetheless, a proxy statement, glossy annual report and sustainability report are also available.
- The risk discussion covering climate change in the 10-K narrative reporting states that "we cannot at this time reasonably predict what the costs of any future requirements may be", yet notwithstanding this unpredictability the company goes on to say "we do not believe it will have a material adverse effect on the financial condition or results". This appears to be based on a belief that any additional costs could be passed on to customers.
- Reporting on climate change in the sustainability report is largely anecdotal and mostly reveals piecemeal operational steps. Disclosure of emissions data is not systematic or complete. 2030 GHG emissions reduction targets are set only for the cement and magnesia businesses (collectively representing 87% of total Scope 1 emissions), are based on intensity relative to 2010 levels, and are already a long way to being delivered.
- 100 operating sites are in places of high water stress or extremely high water stress, and the company acknowledges some physical impacts from climate change are already being experienced.

Climate assumptions in accounts: visibility and Paris alignment

Visibility of climate assumptions in accounts		Significant concerns

- There are no apparent climate-related assumptions. There is thus no sensitivity analysis.

Paris alignment		Significant concerns

- With no visibility, there can be no alignment with the goals of the Paris Agreement.

Audit: visibility in CAMs and consistency check

Audit firm: PricewaterhouseCoopers LLP	Responsible partner: Laura Robinette
Audit standards: PCAOB standards	

Visibility in Critical Audit Matters		Significant concerns

- There is no explicit reference to climate change in the auditor's report.
- There is only one CAM in the audit report: defined benefit obligations.
- The absence of a discussion of climate-related factors in relation to this CAM is perhaps unsurprising, but given the number of accounting judgements and the ways in which climate interacts with valuations and the future profitability of the business, the absence of any consideration of climate in the auditor's report is concerning.

Stripes image credit: Prof. Ed Hawkins   www.showyourstripes.info

Consistency check		Significant concerns

- PCAOB audit standards require the auditor to read other information that is presented together with financial statements and the auditor's report thereon. The auditor's report is silent on the outcome of the review, which implies that no material inconsistency was identified in the other information within the 2020 10-K.
- The 10-K appears to be internally consistent, given the minimal discussion on climate change in the narrative reporting and the fact it appears to be ignored in the financial statements. The company's approach seems based on the assumption that any additional costs from climate change regulation can be passed on to customers.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the [IASB](#) and [IAASB](#) that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.		**Key**
		Good practice
		Few concerns
		Some concerns
		Significant concerns

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