U.S. CONCRETE, INC.

Moderator: Matt Brown
May 8, 2014
10:00 a.m. ET

Operator: Good day, ladies and gentlemen, and welcome to the U.S. Concrete 1st Quarter 2014 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will follow at that time.

If you require any assistance during the call, please press star, then zero on your touchtone telephone. As a reminder, today's call is being recorded. I would now like to turn the conference over to Matt Brown, Senior Vice President and Chief Financial Officer.

Sir, you may begin.

Matt Brown: Thank you, Shannon.

Good morning and welcome to U.S. Concrete's 1st Quarter 2014 Earnings Conference Call. We appreciate your interest in U.S. Concrete and we are pleased to share our results with you. Joining me on the call today is Bill Sandbrook, our President and Chief Executive Officer. Before I turn the call over to Bill, I would like to cover a few administrative items.

Information recorded on this call speaks only as of today and therefore, you are advised that time-sensitive information may no longer be accurate as of the date of any replay. We will discuss certain topics that contain forward-looking information. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995.

Forward-looking statements include, but are not limited to, statements related to: projected revenues, volumes and pricing and other financial and operating results; capital expenditures; strategies; expectations; intentions; plans; future events; performance; underlying assumptions; and other statements that do not relate to historical or current facts. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can provide no assurance that such expectations will prove to have been correct. Such statements are subject to certain risks, uncertainties and assumptions that are discussed in the Company's filings with the Securities and Exchange Commission.

If you would like to be on an email distribution list to receive future news releases, please sign up in the Investor Relations section of our website, under Email Alerts. If you would like to listen to a replay of today's call, it will be available in the Investor Relations section of our website, under Events and Presentations.

Please also note that you can find the reconciliation to non-GAAP financial measures that we will discuss on this call in the Form-8K filed earlier today and in the Investor Relations section of our website.

Now, I would like to turn the call over to Bill Sandbrook, our President and CEO, to discuss the highlights for the first quarter of 2014.

Bill Sandbrook: Thanks, Matt. We entered 2014 with high expectations for our team given our recent successes and momentum generated over the past two years. Although sales volumes are typically at their lowest point during the first quarter, everyone knows how impactful a strong start to the year can be. The first quarter did not come without challenges, but I am pleased to announce that we delivered that strong start that we needed and our first quarter results were a marked success. Despite significantly lower than average temperatures and the fourth highest snowfall totals on-record for the first quarter in the New York market, we were still able to generate higher volumes, revenues and profitability from both of our business segments: Ready-mixed concrete and

Aggregates. Our strong positioning in key markets allowed us to capitalize on the seasonably favorable weather and high demand in the Texas and California markets. The timing of the expansion and development of our Red River sand and gravel operation on the Texas/Oklahoma border has ideally positioned us for the highly publicized sand shortage in North Texas. As the weather normalizes in our Northeast market, the pent up demand and robust backlog should also begin to further enhance our profitability. We actively manage and monitor our ability to price forward in anticipation of any price increases to our source raw materials. To that point, in the first quarter of 2014, we were able to expand our material spread and gross profit margins year-over-year. This is particularly encouraging given the increased mix of volumes coming from our lower margin Dallas/Fort Worth market.

Our recent successes, our continued focus on operational excellence and our improved liquidity, which gives us the flexibility to take advantage of the opportunities and demand in our markets, all give us significant optimism for the year.

With that, I would like to turn the call back over to Matt to discuss our first quarter results in more detail.

Matt Brown: Thanks, Bill.

Consolidated revenue of $146.3 million was up 16.6 percent year-over-year for the quarter. Ready-mix revenue increased by $18.7 million or 16.3 percent, year-over-year, as we continue to show improvement in both volumes and average sales prices per cubic yard. Aggregate products revenue increased by $1.7 million, or 26.5 percent, for the same period. This marks the 14th consecutive quarter where we have reported an increase in consolidated revenue on a year-over-year comparative basis.

Ready-mixed volume for the quarter increased by 10.7 percent compared to the first quarter of 2013. We are pleased to see that ready-mixed volumes have now increased year-over-year for the last eleven consecutive quarters.

On the price side, we realized an increase in our average ready-mixed sales price of 5.1 percent from $101.40 per yard in the first quarter of 2013 to $106.53 per yard in the first quarter of 2014.

Our ready-mixed concrete raw material spread increased $3.13 per yard to $50.13 per yard in the first quarter of 2014 compared to 2013. This represents a 70 basis point expansion in our material spread margin to 46.9 percent in the first quarter of 2014 compared to 46.2 percent in the prior year quarter.

Our SG&A expenses decreased by $700,000 during the first quarter of 2014 compared to the first quarter of 2013. As a percentage of total revenue, SG&A expenses decreased to 9.3 percent in the first quarter of 2014 compared to 11.4 percent in the first quarter of 2013.

Consolidated adjusted EBITDA increased by 138.9 percent to $9.5 million in the first quarter of 2014, compared to $4.0 million in the first quarter of 2013. Adjusted EBITDA as a percentage of revenue was 6.5 percent for the first quarter of 2014, compared to 3.2 percent for the prior year quarter.

During the first quarter of 2014 we used cash from operations of $1.9 million compared to $5.5 million used in the first quarter of 2013. The increase in operating cash flow year-over-year for the quarter was related to our improved profitability.

For the first quarter of 2014, we spent $10.2 million on capital expenditures, up approximately $8.3 million compared to the first quarter of 2013. The increase in capital expenditures was due to higher spending on mixer trucks, ready-mixed plant capacity expansions in California, a new aggregates plant in New Jersey, and the development of our new Red River sand and gravel operation on the border of Texas and Oklahoma, all to support the growing demand in our markets.

The book value of our long-term debt, including current maturities, was $214.5 million on March 31, 2014. This included $200 million of senior secured notes due 2018, $11.9 million of equipment financing for new mixer trucks, and $2.6 million of other notes payable. As of March 31, 2014, we had zero drawn on our credit facility, with $11.3 million of undrawn letters of credit outstanding. This left us with $96.6 million of availability as of March 31, 2014, compared to $53.5 million available as of March 31, 2013. Our availability is net of a $14.9 million availability reserve for outstanding letters of credit and sales tax reserves. It is also limited by the eligible amount of our accounts receivable, inventory and rolling stock, which was $111.4 million as of March 31, 2014. We had $96.2 million of cash and cash equivalents on our balance sheet for total liquidity of $192.8 million as of March 31, 2014.

Now, let me turn the call back over to Bill.

Bill Sandbrook: Thanks, Matt.

We remain encouraged by our organic growth driven by the robust construction activity in all of our markets. Our ready-mixed backlog at the end of the first quarter was 4.3 million cubic yards, which was 23 percent higher than first quarter of last year and 8 percent higher than the beginning of the year. We will also continue to evaluate and strategically expand our operations within our core markets and we remain prepared to deploy our available capital judiciously as we identify accretive opportunities for potential expansion into new markets.

To wrap things up, we are very excited about the level of construction activity and underlying demand we are seeing in all of our regional markets and both of our business segments and we are highly optimistic about the Company's prospects for continued growth during 2014. Thank you for your interest in U.S. Concrete. We look forward to reporting on our future successes.

We would now like to turn the call back over to the operator for the question and answer session.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please press the star and the number one key on your touchtone telephone. If your question has been answered or you wish to remove yourself from the cue, please press the pound key. Once again, ladies and gentlemen, if you wish to ask a question at this time, please press the star and the number one key on your touchtone telephone.

Our first question is from Seth Yeager of Jefferies. You may begin.

Seth Yeager: Hey. Good morning, guys. Nice quarter.

Bill Sandbrook: Thank you.

Seth Yeager: So, you know, obviously we've been hearing a lot about weather from all of your construction peers. Can you help us try to quantify the impact that you had in maybe DFW and New York versus higher shipments, throughout the quarter in California?

And is there some catch-up volume that you can make up during this current quarter?

Bill Sandbrook: Yes, I'll take that, Seth. Obviously, the weather had the most significant impact in New York and New Jersey. We were impacted by 25 days in the first quarter of this year compared to 14 days in the first quarter of 2013.

And our New York/New Jersey ready-mix volumes were down about 5 percent as a result of that weather impact. Moving to California, there was the same number of weather-impacted days in Q1 '13 and Q1 '14 and a significant increase in weather-impacted days in North Texas.

We experienced what many of the other companies have reported; that on good weather shipping days, we had an extraordinarily high level of activity and were able to catch up most of that except in New York and New Jersey, which showed that the underlying demand trends are very significant.

We estimate that about 65,000 yards or so was negatively impacted and is going to shift into quarter 2, but our backlog is so strong, it's going to be a little bit more difficult to start ascertaining, as we pick up more of the backlog volume into the quarter, what's really shifted.

We know project-by-project, but that's being overshadowed by the current dynamics of our existing markets.

So the short answer to your question is yes, we had some impacts. Some has shifted forward, but our underlying backlog is overshadowing that shift. I hope that answers your question.

Seth Yeager: Yes. That's excellent and very helpful. Thank you. Maybe on pricing, obviously still heading up in outpacing some of your input costs, which is good to see, can you talk about some of the traction on letters that are out there maybe for April, I think, with some of the larger cement increases?

And I had noticed that pricing on a dollar basis came off more or less was flat sequentially. Was that just a function of timing of the increases or mix, anything you can maybe comment on there?

Bill Sandbrook: Sure. Let me go sequentially on pricing. That was solely the effect of geographic shift. Our higher price market is New York and California as well, but California as I stated earlier was about flat on weather impacts.

But we did have the decline in New York and that was picked up by extra shipments in the Dallas/Fort Worth market and that is our lowest price market. So while it was somewhat flat sequentially, that was solely a result of the geographic shift to lower priced markets in Texas.

And as far as the price increases that we're seeing primarily in cement, obviously the most pressure is in Texas. There have been price increases that have stuck. I would say not necessarily to the magnitude of the initial ask, but there is inflationary pressure and demand-driven pressure on cement pricing in

Texas, which we feel confident that we're going to be able to pass it on and we're in the process of passing it on.

Seth Yeager: OK. Great. And on the M&A side, can you talk about the pipeline and does the pending Holcim/Lafarge transaction create any opportunities for pockets of ready-mixed or other assets that you guys have maybe identified as coming onto the market and is that an opportunity for you at this point?

Bill Sandbrook: Sure. On the Holcim/Lafarge merger and possible divestitures, if you really look at those footprints, we think there might be some overlap in Eastern Canada, up in the upper Midwest, maybe a little bit in the Northeast. We don't see many opportunities for us in that process at all, specifically in Texas.

We don't think anything's going to happen in California, so we don't see much effect on our markets from that merger. On the pipeline, we do have an active pipeline for bolt-on and fill-in acquisitions in all of our regions, and as I said in my prepared marks, we are looking for expansion opportunities that replicate our strategy of defensible ready-mixed positions supported by aggregates in regions that we do not currently operate and I would characterize that primarily in the southern tier of the United States.

But the pipeline is very active.

Seth Yeager: OK. Great. And just last one for me, any change to the composition of your backlog as far as end market exposure and is that still around 75 percent or so contractual? Thanks, guys. Good luck.

Bill Sandbrook: Yes, thanks, Seth. Yes, it's about 75 percent contractual. There is a minor shift to more residential as you can imagine in all of our markets, specifically in Texas and New York, but the primary focus of the company and the makeup of our backlog still is heavily weighted to commercial and industrial construction.

Operator: Thank you. Our next question is from Philip Volpicelli of Deutsche Bank. You may begin.

Philip Volpicelli: Good morning.

Matt Brown: Good morning, Philip.

Philip Volpicelli: So good quarter obviously. The capital leases or, I guess, the financing for the truck fleet, what kind of rates are you getting for that and how much more do you think you're going to spend on trucks this year and, you know, have more of that debt on the balance sheet?

Matt Brown: The capital leasing is around 4 percent in terms of equivalent interest rate. In terms of what we're looking at for trucks this year, we bought about 80 trucks last year and much of those were replacements.

So we actually replaced about 44 trucks out of that. This year, we're looking at adding slightly more than 80 trucks and I would say only a handful of those will be for replacement.

So you're going to have a net add to the fleet of around 80 trucks and at this point given the amount of cash on the balance sheet and the amount of debt we have on the company, we're not leasing those anymore for the foreseeable future and we'll be paying for those with cash for that reason.

Philip Volpicelli: Great. And then when you look at the acquisitions, can you give us a little color on what's happened with multiples? Are they expanding? Are they contracting? Is it becoming easier or harder for you guys to execute that strategy?

Bill Sandbrook: The way I'd categorize that, Philip, is that obviously the economies in the regions that we operate in are outpacing the economic growth of the rest of the country. Thus, buyers' expectations are reflective of that.

So I would say that as a general statement, not as a specific, but as a general statement that expectations in Texas/California, for instance, are expanding, but there are always unique circumstances that the sellers find themselves in for the need to sell.

So I wouldn't characterize that as all of our opportunities are getting more expensive.

Philip Volpicelli: OK. Great. Thank you very much. Good luck.

Bill Sandbrook: Thank you.

Operator: Thank you. Our next question is from Yilma Abebe of J.P. Morgan. You may begin.

Yilma Abebe: Thank you. Good morning.

Bill Sandbrook: Good morning, Yilma.

Yilma Abebe: In terms of the nature of the projects that you're picking up, anything of note versus you see more bigger projects coming up? Anything of note in the current quarter and as you look at out versus what you saw mostly in 2013?

Bill Sandbrook: I would say that the types of projects are very similar. There's a heavy weighting of warehousing-type projects, big slab construction in Dallas/Fort Worth, as it becomes a transportation hub. West Texas remains the same with ever-expanding needs to support the oil field, which would be in residential, small motels, gas stations, restaurants, et cetera.

The California market stays very robust in Downtown San Francisco and Silicon Valley and San Jose with office building and multi-family condominium developments. New York/New Jersey, it's similar to San Francisco with very large multi-family and multi-residential housing and office construction and a smattering of infrastructure projects around the entire portfolio.

But very similar to what we've experienced in the past year.

Yilma Abebe: OK. Thank you. That's helpful. And then my final question: In terms of, I guess, you know, with the outlook looking even better and better, are you seeing more capital being invested in the sector, you know expanded capacity? Anything around that that may be of note?

Bill Sandbrook: I would say nothing out of the ordinary and I would say most competitors are reinvesting in maintenance capital and additional ready-mix trucks similar to us. No major greenfield projects to note on the competitive front in any of our markets in the ready-mixed side or the aggregate side.

So I would say it's reinvesting in assets for them to take advantage of the market dynamics that they find themselves operating in.

Yilma Abebe: Thank you. That's all I had.

Bill Sandbrook: Thank you, Yilma.

Operator: Thank you. Our next question is from Matthew Dodson of J. West, LLC. You may begin.

Matthew Dodson: Hey. Congratulations on a great quarter.

Bill Sandbrook: Hey, Matthew.

Matthew Dodson: Can you help me understand on your backlog kind of the spread in how that's trending?

Bill Sandbrook: As far as the material spread?

Matthew Dobson: Yes.

Bill Sandbrook: As we said in our prepared remarks, we do feel that material spread is expanding due to our success in passing on the increased input costs.

Matthew Dodson: And so it was -- I think the dollar spread was up to 50.13. I mean, as we look out to the full year, can it get up to the 51 or 52?

Bill Sandbrook: I would say that's possible. Aspirational, but possible.

Matthew Dodson: And then finally, can you help me understand the SG&A? It went down year-over-year. I believe it was 13.6. Is that a good run rate for us to use?

Matt Brown: Yes, I would say that aspirationally we really target 8 percent of revenue for SG&A. So I would expect SG&A to continue on a dollar basis, as the company expands, to probably increase somewhat, but I would expect the percentage of revenue to continue to decrease and trend toward that 8 percent area as we move forward.

Matthew Dodson: Got you. Perfect. Thank you and congratulations for a great quarter.

Bill Sandbrook: Thank you.

Matt Brown: Thank you.

Operator: Thank you. Once again, ladies and gentlemen, if you wish to ask a question at this time, please press the star and the number one key on your touchtone telephone. I'm showing no further questions at this time.

I would like to turn the conference back over to Bill Sandbrook for closing remarks.

Bill Sandbrook: Thanks, Shannon. Thank you, everyone, for participating in the call this morning and for your support of U.S. Concrete. We look forward to discussing our second quarter 2014 results with you in August.

Operator: Ladies and gentlemen, this concludes today's conference. Thanks for your participation and have a wonderful day.

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