U.S. Concrete Second Quarter 2013 Earnings Conference Call

Moderator: Matt Brown
August 8, 2013
10:00 a.m. ET

Operator: Good day, ladies and gentlemen, and welcome to the U.S. Concrete second quarter 2013 earnings conference call.

At this time, all participants are on a listen only mode. Later, we'll conduct a question and answer session and instructions will be given at that time. If anyone should require operator assistance during the conference call, please press star, then 0, on your touchtone telephone.

As a reminder, this conference call is being recorded.

I will now like to turn the conference over to Mr. Matt Brown, Senior Vice President and Chief Financial Officer. Sir, you may begin.

Matt Brown: Thank you, Sayid. Good morning and welcome to U.S. Concrete's second quarter 2013 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 it 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 included on an e-mail distribution list to receive future news releases, please sign up in the Investor Relations section of our web site under Email Alerts. If you would like to listen to a replay of today's call, this will be available in the Investor Relations section of our web site, under Events and Presentations, later today.

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

Now, I would like to turn the call over to Bill Sandbrook, our President and CEO, to discuss the highlights for the second quarter of 2013.

Bill Sandbrook: Thank you, Matt. As the conclusion of the second quarter leads us into what are typically the highest volume months of the year for ready-mixed concrete, I'm pleased to announce that we have continued to see strengthening in our markets year-over-year.

Inclement weather presented challenges during the quarter, particularly during June in New York, New Jersey, Washington, D.C and Texas. Nevertheless, we generated year-over-year volume and revenue growth in all regions of our business for the quarter.

Our relentless focus on customer satisfaction, pricing discipline, and operating efficiencies are driving improved results that continue to support our position that we are in the right markets, at the right time, with the right leadership and strategy in place.

Now let me cover a few highlights of our second quarter results. Our second quarter ready-mixed volume and revenue were up 8.5 percent and 16.8 percent, respectively, compared to the second quarter of 2012. This marks our 11^{th} consecutive quarter for year-over-year revenue growth and the 8^{th} consecutive quarter for year-over-year volume growth. Adjusted EBITDA of 17.0 million dollars was up 8.3 million dollars, or 96 percent, compared to the second quarter of 2012. Ready-mixed pricing also improved, with average selling prices rising 7.6 percent for the second quarter, compared to 2012.

As I mentioned previously, we are pleased with our success during the second quarter, particularly in light of the poor weather experienced in June. We are very excited about the opportunities that continue to develop in our markets.

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

Matt Brown: Thanks Bill.

This morning we reported consolidated revenue of 162.5 million dollars and net income from continuing operations of 7.9 million dollars for the second quarter of 2013. This compares to consolidated revenue of 138.2 million dollars and net income from continuing operations of 54 thousand dollars for the second quarter of 2012.

Before I discuss the key drivers of our results, such as price and volume trends, I want to point out that the second quarter 2013 reported net income from continuing operations includes a 1.9 million dollar loss related to fair value changes in our embedded derivative related to the Convertible Notes and warrants. This is a non-cash loss that is calculated, revalued and recorded each quarter based on several inputs, one of which is our stock price.

The increase in our stock price from 13 dollars and 81 cents per share on March 31, 2013 to 16 dollars and 42 cents per share on June 30, 2013 is the primary driver of the loss we recorded on the derivative during the second quarter. Also included in our second quarter 2013 net income from continuing operations was approximately 2.8 million dollars of non-cash stock compensation expense and 288 thousand dollars of expense related to the corporate headquarters relocation. Included in the second quarter 2012 net income from continuing operations was a non-cash loss related to the Company's derivatives of 577 thousand dollars, 785 thousand dollars of non-cash stock compensation expense, and 470 thousand dollars of expense related to the corporate headquarters relocation. Excluding these items, our net income improved to 11.6 million dollars in the second quarter of 2013 compared to 1.5 million dollars in the prior year quarter.

Now let's turn to the key operating measures for the second quarter:

Total revenues from continuing operations were up by 17.6 percent year-over-year for the quarter. Ready-mixed revenue increased by 20.6 million dollars, or 16.8 percent, year-over-year, due to a combination of higher volumes and higher average sales prices per cubic yard.

Aggregate products revenue increased by 2.5 million dollars, or 32.0 percent, for the same period. This marks the 11th consecutive quarter in which we have reported an increase in consolidated revenue on a year-over-year comparative basis.

Ready-mixed volume for the quarter increased by 8.5 percent compared to the second quarter of 2012 despite rainy weather in our northeastern and Texas markets for the month of June. Ready–mixed volumes have now increased year-over-year in the last eight consecutive quarters.

On the pricing side, we realized an increase in our average ready-mixed sales price of 7.6 percent, from $95.44 per yard in the second quarter of 2012 to $102.71 per yard in the second quarter of 2013. These gains were driven, in part, by significant volume increases in our higher priced northern California market during the quarter as our acquisition of Bode Concrete in the prior year continues to perform well.

It is important to note, however, that the average selling price per cubic yard increased in ALL of our major markets for the quarter and this is the ninth consecutive quarter with consolidated year-over-year increases.

Our ready-mixed concrete raw material spread increased to 46.7 percent for the second quarter of 2013 compared to 44.2 percent in the second quarter of 2012.

We continue to successfully stay ahead of any material cost increases we are experiencing. The actual raw material spread in dollars per yard increased by 5 dollars and 82 cents for the second quarter of 2013 compared to the second quarter of 2012.

Our SG&A expenses increased by 2.8 million dollars during the second quarter of 2013 compared to the second quarter of 2012, primarily due to increased non-cash stock compensation expense and incentive compensation accruals. Excluding the non-cash stock compensation expense and timing related incentive compensation accruals, as a percentage of revenue, SG&A expenses decreased to 8.4% of revenue in the second quarter of 2013 compared to 9.7% in the prior year quarter.

Consolidated adjusted EBITDA increased by 96 percent to 17.0 million dollars in the second quarter of 2013, from 8.7 million dollars in the second quarter of 2012. Adjusted EBITDA as a percentage of revenue was 10.5 percent for the second quarter of 2013, compared to 6.3 percent for the prior year quarter. The ready-mixed concrete segment drove most of the improvement year over year with adjusted EBITDA of 18.0 million dollars for the second quarter of 2013 compared to 11.1 million dollars in the second quarter of 2012. Adjusted EBITDA as a percentage of revenue for the ready-mixed concrete segment improved to 12.6 percent for the second quarter of 2013 compared to 9.0 percent in the prior year quarter. Operational efficiencies and pricing continue to drive improved margins.

As to operating cash flow, during the second quarter of 2013 we had cash provided by operations of 14.9 million dollars, compared to 1.2 million dollars used in operations for the second quarter of 2012. This increase was primarily the result of increased earnings combined with pro-active management of trade working capital.

For the second quarter of 2013, we spent 6.3 million dollars on capital expenditures, up approximately 3.8 million dollars compared to the second quarter of 2012. The increase in capital spend was due principally to higher spending on mixer trucks and plant equipment and improvements. As volumes continue to increase with demand, we will continue to adjust spending to reflect our current outlook for future production requirements.

As we previously reported, in March of this year, we completed an offer to exchange all of our convertible notes for new senior secured notes. After the effect of the exchange, 6.5 million dollars aggregate principal amount of convertible notes remained outstanding. On June 18, we reported that our common stock exceeded 150% of the conversion price, or 15 dollars and 75 cents, for 20 trading days out of a 30 day period, which constituted a Conversion Event pursuant to the Indenture.

The conversion rate applicable to the convertible notes was approximately 95.24 shares of common stock per 1 thousand dollar principal amount of notes. The right of holders to convert their notes to equity, as well as their right to receive interest payments, terminated on August third. As a result of the Conversion Event, 6.4 million dollars aggregate principal amount of convertible notes were converted to common stock resulting in the issuance of 608 thousand common shares to the note holders. The remaining 117 thousand dollars aggregate principal amounts of convertible notes were not converted and will remain outstanding at face value until maturity with interest no longer accruing on these notes.

The shares of common stock issued from the conversion are included in our diluted share count and earnings per diluted share for the second quarter of 2013. The Conversion Event reduces debt, helps to clean up the balance sheet, will result in run-rate annual cash interest savings of approximately six hundred thousand dollars, and will reduce volatility of earnings caused by the change in derivative valuation going forward.

The book value of our long-term debt including maturities was 90.8 million dollars on June 30, 2013. This included 61.1 million dollars of senior secured notes due 2015, 5.6 million dollars of convertible notes due 2015 and 21.0 million dollars of borrowings under the senior secured credit facility, plus 3.1 million dollars of other notes payable. The difference between the book value of the convertible notes and the face amount of 6.5 million dollars is due to the discount recorded on the convertible notes as a result of the separate valuation of the embedded derivative at issuance. As of June 30, 2013, we had 21.0 million dollars drawn on our credit facility, with 11.3 million dollars of undrawn letters of credit outstanding and a tax reserve of 2.4 million dollars. This left us with 67.8 million dollars of availability under the credit facility. We also had 7.1 million dollars of cash and cash equivalents on our balance sheet as of June 30.

In accordance with our Credit Agreement, upon the occurrence of certain events, we must maintain a fixed charge coverage ratio of at least 1.0 to 1.0 for the trailing twelve month period. For the twelve months ended June 30, 2013, our fixed charge coverage ratio is 3.14 to 1.0. In accordance with the indenture governing our senior secured notes, we must also maintain a consolidated secured debt ratio of no more than 7.0 to 1.0. As of June 30, 2013, our consolidated secured debt ratio is 2.83 to 1.0.

We continue to make strides in the improvement of our balance sheet and overall capital structure and believe we are positioned to take advantage of opportunities that will drive short term and long term success. Now, let me turn the call back over to Bill.

Bill Sandbrook: Thank you, Matt.

We recently announced the purchase of three ready-mixed concrete plants from Bodin Concrete located in Wylie, Rockwall and Forney, Texas. This acquisition will further enhance our position in the Dallas/Fort Worth market and position us to take advantage of the expected construction growth in the eastern corridor of the Metroplex. We will continue to search for strategic bolt-on opportunities such as this that complement our existing operations and believe this is one key to achieving our long term strategic goals.

We also remain encouraged by the continued organic growth in the regional construction markets in the geographies we serve. Our ready-mixed backlog at the end of the second quarter 2013 was 10.8 percent higher than it was at the same time last year and 14.4 percent higher than at the beginning of this year.

We will continue to tirelessly pursue our long-term strategic objectives while maintaining discipline within our day to day operations. We will continue to look for opportunities to grow within our existing markets and expand at a pace that we believe is supportable and sustainable.

To wrap things up, the positive momentum of the rebound in the construction market continues. We have shown resolve in the first half of the year, despite unfavorable weather patterns and are poised to capitalize on what we hope is more normalized weather in the back half of the year.

As we've shown, we remain committed to strengthening and expanding our current market positions and capitalizing on the positive economic trends we are experiencing in our markets. We believe our focused attention on the delivery of ready-mixed concrete across the organization, combined with selective growth and vertical integration opportunities, will drive superior financial performance and improve long term shareholder value.

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, Sir. Ladies and gentlemen on the phone line, if you would like to ask a question please press star, then 1 on your touchtone telephone. If your questions have been answered and you wish to remove yourself from the queue, please press the pound key.

Once again, ladies and gentlemen on the phone line, if you would like to ask a question, please press star, then 1 on your touchtone telephone.

And our first question comes from Ethan Steinberg from SG Capital.

Ethan Steinberg: Hey, guys. Thanks for taking the call; congrats on a phenomenal quarter. Could you give us a little more color – I've got a few questions – could you give us a little more color on what the weather impact, sort of how it played out through the quarter and has it gotten any better as you've gotten into July and August?

Bill Sandbrook: I'll take that, Ethan. Thanks for the question. You know, we saw exactly what everybody else is reporting in the public space right now, that the Northeast, Southeast, Upper Midwest and parts of Texas were significantly impacted.

In our operations, Texas was more impacted in June and New York and New Jersey and Washington, D.C. were impacted in June. In July, there was a minor effect in Texas for some unusual rain events and so far in August it's been benign. So, it's very good, more normalized, weather pattern here that we're seeing.

Ethan Steinberg: OK. And then I forget exactly how the seasonality should work. Should the third quarter be up from second quarter normally?

Bill Sandbrook: Normally that's correct.

Ethan Steinberg: OK. Is there anything unusual about seasonality this year or does it become more accentuated because of the weather dampening in June?

Bill Sandbrook: The only thing I'd say is some of that work would have been pushed into the third and fourth quarters. So, work that was not accomplished in that second quarter – and the first quarter wasn't great either – has just been pushed out into the third or fourth quarter, or if it's not able to be accomplished this year, into the first quarter of next year.

Ethan Steinberg: And then, how much does seasonality push stuff down in Q4 and then what is Q1 normal seasonality?

Bill Sandbrook: Q1 is our slowest season, obviously, and we are exposed in the Northeast with New York and New Jersey and Washington, D.C. If you remember back a couple of years ago, there is seasonality in North Texas as well when we had the unusual snow and ice events during that time period in January and February maybe two or three years ago.

Ethan Steinberg: OK. I mean, I'm just trying to get a sense of how much does stuff go down because obviously you had a huge Q2 even with a tough month of June; Q3 probably up nicely and then I'm just wondering how much does the P&L usually go down in Q4 and then down in Q1?

Bill Sandbrook: I would say marginally in Q4 and significantly in Q1. But if you look over our reports over the last four or five years, it pretty much averages out that Q3 is the busiest of all the quarters.

Ethan Steinberg: And you guys were already past the 10 percent EBITDA margin that I was looking for, past the old peak at least for the quarter. Does that mean given a stronger Q3, do you think we're already there on an annualized basis?

Bill Sandbrook: It's hard to say at this point but I would say we're closer than I had anticipated when I answered your question on the previous call.

Ethan Steinberg: OK. And then the interest expense savings of $600,000 a year. Was there any benefit in the quarter and should we see roughly 150 a quarter going forward?

Matt Brown: Well, the conversion event concluded basically at the beginning of August. So, no. No impact in the quarter.

Ethan Steinberg: OK, but we – and should we see roughly 150 a quarter going forward?

Matt Brown: Yes, though only two-thirds of that in Q3.

Ethan Steinberg: OK. And then I think lastly, the incremental margin. I thought you guys did a great job. It was – if I did the math right on the EBITDA, it was 34 percent. Is there anything unusual in that or is that a relatively reasonable way to think about incrementals if volume and pricing keep going at the rate they are?

Bill Sandbrook: I would say that that is to be expected at these volume and pricing levels.

Ethan Steinberg: OK. And is – you said backlog up by 10 percent year over year. Is pricing or volume any better or worse so far into August on a year over year sequential trend than we saw in the June quarter?

Bill Sandbrook: The trend continues.

Ethan Steinberg: OK, great, guys. Congrats, thanks.

Bill Sandbrook: Thank you.

Matt Brown: Thank you.

Operator: Thank you. Again, ladies and gentlemen, if you would like to ask a question please press star, then 1 on your touchtone telephone. And our next question comes from Matthew Dodson from JWest.

Matthew Dodson: Hey, congratulations on a great quarter. Just a couple of questions to kind of follow up after Ethan.

You guys have done 9.9 percent EBITDA margin and you said Q3 is going to be stronger than Q2 and Q4 is going to be down marginally from Q3. Why wouldn't you guys be at a 10 percent margin at yearend if we think about kind of the growth going forward?

Bill Sandbrook: I would think that's a fair assumption but at this point I don't want to put out any future guidance on it.

Matthew Dodson: All right, got it. And then, can you kind of help us understand the spread a little bit? You – I think you guys were up 50 basis points sequentially. With the pricing coming through and you said you were ahead of cost, can we expect that trend to continue into the third quarter?

Bill Sandbrook: I believe so, Matthew. We do have some price increases in our cement raw material coming through in certain markets in August 1 and September 1, but not to the effect that they were in the spring time period, but our efforts to continue to raise prices we believe are going to overcome that and we should be able to further expand that material margin at least marginally.

Matthew Dodson: And when you guys expand volumes, what is the flow through on that increase of spread?

Bill Sandbrook: Well, I would say that the increased revenue flow through on the incremental volume, as we talked about with Ethan, is in the high 20s to low 30 percentile area.

Matthew Dodson: But if you get that price and spread going through, that all flows through to the bottom line, correct?

Bill Sandbrook: Correct.

Matthew Dodson: Thank you. Congratulations on a great quarter.

Bill Sandbrook: Thank you.

Matt Brown: Thank you.

Operator: Thank you. Our next question comes from Robert Donald from Stora Capital.

Robert Donald: Thank you for taking the call and like the others, great strong quarter; well done.

I've just a few subjects I'd like to just clarify. Firstly on prices, can you just comment about either sequentially what you saw in prices during the quarter by your key regions because the overall figure where you saw a 6 cent increase in price or 2 percent sequential might hide some regional variations because Texas may have changed it's mix. So, could you just comment around that, please?

Bill Sandbrook: I can't put too much color on it, Robert, because we don't report by regions. However, as we said in our prepared remarks, that pricing was up in all regions and because of our strong California markets, which is our highest priced market that did add to the overall positive result. But I would say we had strong pricing in all regions.

Robert Donald: But just out of interest, was Texas the strongest volume growth region that's increasing its weighting?

Bill Sandbrook: I would say it's not necessarily increasing its weighting at this point because of California and the Bode acquisition and how strong that Bay Area is. So I would not make that assumption that Texas is over skewing the numbers at this point.

Robert Donald: OK. And just mentioning Texas again, on the acquisition that you just announced, could you summarize how much incremental volume that will add in a full year?

Bill Sandbrook: It will add incremental volume because we were underrepresented or not represented in that part of the Metroplex. These plants are in the southeastern quadrant of Dallas where we do not operate.

I would say, you know, in our total volumes, it's not that material.

Robert Donald: Are you talking 100,000 plus yards or less?

Bill Sandbrook: That would be approximately correct.

Robert Donald: OK. And just on the spread, it's good to see the trend and the improvement. I was surprised, however, that the momentum, the pace of improvement, wasn't that marked in the quarter. I just wondered if you could explain that. Is that a mix – is that, again, a mix effect? California may have a less generous spread and that took its weighting up and that diluted the momentum?

Bill Sandbrook: No, I wouldn't say that because we had very good spread performance in California. As far as our momentum, I'm not really following you because we think the spread was very, very strong sequentially and year over year.

Robert Donald: OK. But, your aspiration is to be over 50 percent on that spread, is that correct?

Bill Sandbrook: That would be aspirational, yes.

Robert Donald: And can you just comment about the shape of the spread in the backlog? Is the spread in the backlog similar to the Q2 or is it demonstrating some further momentum?

Bill Sandbrook: I would say it's demonstrating further momentum because, remember, the current projects with a long lead time are priced lower than the forward order book and we've seen strong momentum in pricing in all of our markets in the forward order book.

Robert Donald: Just mostly for Matt; just wondering if you could just walk us through the tax rate and when do you expect the group to start paying tax and what would the normalized tax rate be for the group?

Matt Brown: Well, we still have a large amount of NOLs on the books and we'll be going through some of that this year but it's going to be in at least next year or the year after that before we start seeing complete burn through all those NOLs.

Robert Donald: And when you do burn through them, do we go to a 35 percent tax rate or can you be moderately below that?

Matt Brown: It will be actually probably a little bit higher; something like 40 or 41 percent.

Robert Donald: Why so high, given the Texas effect?

Matt Brown: That's including state taxes.

Robert Donald: OK. Thank you very much for your time.

Matt Brown: Thank you.

Operator: Thank you. And we have a follow-up question from Ethan Steinberg from SG Capital. Your line is open, sir.

Ethan Steinberg: Hey, guys. I forgot to ask one thing; I think you said the ready-mixed EBITDA was 18 million? Did I get that right?

Bill Sandbrook: Correct.

Ethan Steinberg: And so, if the total EBITDA was 17, does that just have to do with how you're allocating corporate or does that mean everything else will have lost some money?

Matt Brown: The biggest piece of that from reconciling from the sum of the segment adjusted EBITDA is to consolidated adjusted EBITDA is corporate overhead and in the second quarter of 2013, that was about $8.7 million.

You have to pick out numbers from various places in the – both the queue and the earnings release to reconcile between those two numbers. And we can walk you through that offline; it's a little bit detailed for a call. But the biggest piece there is the corporate overhead.

Ethan Steinberg: Got it. And there was some allocated or nothing allocated in that $18 million?

Matt Brown: There is some overhead for the plants and all at the segment level but then there's also the corporate overhead. So the answer is, yes.

Ethan Steinberg: OK, great. Thanks.

Matt Brown: Thank you.

Operator: Thank you. And again, ladies and gentlemen, if you would like to ask a question please press star, then 1 on your touchtone telephone.

And I'm showing no one else in queue at this time.

Ladies and gentlemen, thank you for participating in today's conference. This concludes our program. You may all disconnect and have a wonderful day.

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