



# EDITED TRANSCRIPT

USCR – Q1 2015 U.S. Concrete, Inc. Earnings Call

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## Corporate Participants

**Bill Sandbrook** *U.S. Concrete, Inc. – President & CEO*

**Matt Brown** *U.S. Concrete, Inc. – Sr. Vice President & CFO*



## Conference Call Participants

**Drew Lipke** *Stephens Inc. – Analyst*

**Craig Bibb** *CJS Securities – Analyst*

**David Cohen** *Midwood Capital – Investor*

### Operator:

Good morning ladies and gentlemen and welcome to the U.S. Concrete first quarter 2015 earnings conference call. This call is being recorded. At this time I would like to turn the call over to Mr. Matt Brown, Senior Vice President and CFO. Please go ahead sir.

### Matt Brown:

Thank you Tina. Good morning and welcome to U.S. Concrete's first quarter 2015 earnings conference call. 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.

U.S. Concrete would like to take advantage of the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Certain statements in this conference call may be considered forward-looking statements within the meaning of that Act. Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially. For a list of these factors, please refer to the legal disclaimers contained in our filings with the Securities and Exchange Commission.

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

If you would like to be on an e-mail distribution list or see future news releases, please sign up in the Investor Relations section of our website under E-mail 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.

Now I would like to turn the call over to Bill Sandbrook, our President and CEO, to discuss the highlights of the first quarter of 2015.

### Bill Sandbrook:

Thanks Matt.

During the first quarter of 2015, we delivered on the high expectations set for our team to continue building on the recent successes and positive momentum generated over the past three years. We produced another quarter of strong improvement in our pricing and margins to start the full year 2015. This progress was largely driven by the focused execution of our growth plan and our efforts to continue to capitalize on the favorable operating leverage we have created in our business.

We have made great strides in our acquisition strategy to strengthen our core market positions across the United States. Since the beginning of 2015, we have acquired two leading ready-mixed producers in key markets to further enhance the Company's presence in the San Francisco and New York metro regions. These acquisitions added four new sites in each area, with a total of ten plants. Most recently, in April, we completed the acquisition of Ferrara Bros. Building Materials Corporation, which significantly expanded U.S. Concrete's footprint in the New York metropolitan market. As a result, we are now even better positioned to serve additional construction projects throughout the borough of Manhattan and we are energized to deliver on our growth objectives in this very important Atlantic market. Collectively, our recent acquisitions have further established our leadership positions in our markets and improved our ability to raise our profitability on a consolidated basis through the addition of higher margin operations like the volumetric businesses in Texas and the Ferrara Bros. operations in New York. As we consider our strong pipeline of strategic growth opportunities, we remain disciplined with our long-term capital allocation approach and we are committed to maximizing shareholder value by executing accretive acquisitions of best-in-class assets, while simultaneously strengthening our balance sheet metrics.

Overall, the economic fundamentals across our markets are very positive. The first quarter marked the 17th consecutive quarter where we have reported an increase in consolidated revenue on a year-over-year comparative basis. In the first quarter, the strength of our platform in our well-structured markets supported a favorable pricing environment across our operations to more than offset the volume impact from the inclement weather we experienced, which was mainly in our Texas markets.

To be clear, the demand for our products and services remains firm in Texas but weather had a significant impact on our volumes. In the first quarter, in Texas, especially in the Dallas-Fort Worth area, we estimate that we sold approximately 150,000 to 200,000 less cubic yards than we would have under more normalized weather conditions. According to the National Climatic Data Center, Texas experienced the 17th wettest first quarter on record, with 7.1 inches of precipitation, which was more than 2 times as great as precipitation during the first quarter of 2014. In March, which is typically the largest volume month in the first quarter for us, the precipitation was more than double compared to March 2014. As an example of the flow through to project activity, in the Dallas-Fort Worth area, weather impacted days increased to 36 compared to 22 days in the prior year quarter.

Aside from weather, the Texas market remains a diverse and growing market with attractive long term fundamentals. The Dallas Federal Reserve estimates growth of approximately 235,000 to 295,000 jobs in Texas during 2015, or 2.0% to 2.5%, which is higher than the national average. The Texas unemployment rate was 4.3% for February 2015, down from 5.7% in February 2014. The Texas unemployment rate has been at or below the national average rate for 98 consecutive months. Because Texas has a favorable tax and regulatory environment for businesses as well as broad economic sector diversification, the security of the state's prosperity is now less dependent on the oil and gas extraction industry than ever before. As a result, the rippling effects of lower oil prices and decreased activity in the oilfields have yet to negatively impact our backlog or bidding opportunities in Texas. We believe that the positive demographic trends and substantial backlog of major construction projects, bolstered by the recent approval of Proposition 1, represent a strong foundation for future growth in Texas.

The San Francisco, San Mateo and Redwood City metro area is projected to have an 18% jump in construction starts from 2014 to 2015, rising to about \$7.1 billion this year according to construction research firm CMD. Most notably, the area is expected to see a significant increase in multi-family building construction.

The New York City construction market is equally vibrant, with high demand for multi-family luxury apartments, nonresidential projects and large high-rise office buildings. The Portland Cement Association projects a compound annual growth rate from 2015 through 2018 of 8.4% for New York City and 8.9% for Manhattan.

As the weather normalizes in each of our markets, the large backlog will combine with the pent-up demand of the work pushed forward from the first quarter delay and enable a very robust remainder of the year. We are very

pleased with our first quarter results and the progress made in support of our strategic plan. Now I would like to turn the call back over to Matt to discuss our first quarter results in more detail.

**Matt Brown:**

Thanks Bill.

We are pleased with the progress we have made during the first quarter to grow our revenue, improve our profitability and strengthen our balance sheet.

Total revenue from continuing operations of \$171.3 million was up \$25.1 million or 17.1%, year-over-year for the quarter. Acquisitions completed during 2014, plus the acquisition of Right Away Redy Mix in February 2015, accounted for \$21.8 million in incremental revenue during the first quarter of 2015. Ready-mixed revenue increased by \$21.1 million, or 15.8%, year-over-year, due primarily to higher average sales prices per cubic yard and additional volume from acquisitions, partially offset by the impact of weather on volume. In addition, acquisitions completed during 2014 plus Right Away accounted for \$18.4 million of incremental ready-mixed concrete revenue during the first quarter of 2015. Aggregate products revenue increased by \$0.7 million, or 8.1%, for the same period.

Ready-mixed volume for the quarter increased by 1.8% compared to the first quarter of 2014. We are pleased to see that ready-mixed volumes have now increased year-over-year in the last 15 consecutive quarters.

On the price side, we realized an increase in our average ready-mixed sales price of 13.6%, from \$106.53 per yard in the prior year quarter to \$121.04 per yard in the first quarter of 2015.

Estimated annual run-rate ready-mixed volumes acquired in 2014 totaled approximately 700,000 cubic yards, with the majority of this being added in the fourth quarter. During 2015, the Right Away and Ferrara Bros. acquisitions added an additional 700,000 cubic yards, for a total of 1.4 million cubic yards in run-rate volume added since the beginning of 2014.

Our ready-mixed concrete raw material spread increased \$11.34 per yard to \$61.47 per yard, compared to the prior year quarter. This represents a 370 basis point expansion in raw material spread margin year-over-year, to 50.6%. Part of the substantial improvement in material spread this quarter was due to the regional volume distribution, as volumes in Texas, where material spread is lower, were adversely impacted by weather. Also, the addition of our volumetric business has enhanced the material spread in Texas compared to the same period in 2014.

Consolidated adjusted EBITDA increased by 62.7% to \$15.4 million in the first quarter of 2015, compared to \$9.5 million in the first quarter of 2014. Acquisitions completed during 2014 plus Right Away accounted for \$2.0 million in incremental adjusted EBITDA during the first quarter of 2015. Adjusted EBITDA as a percentage of revenue was 9.0% for the first quarter of 2015, compared to 6.5% for the prior year quarter.

Our SG&A expense was \$18.1 million, or 10.5% of revenue, in the first quarter of 2015 compared to \$13.6 million, or 9.3% of revenue, in the prior year quarter. Excluding non-cash stock compensation, severance, and acquisition related costs, SG&A expense as a percentage of revenue was 9.3% in the first quarter of 2015 compared to 8.9% in the prior year quarter. Adjusted SG&A as a percentage of revenue increased year-over-year due to additions to our workforce to support and sustain our growth going forward, coupled with lower than expected volumes due to challenging weather conditions during the first quarter of 2015. We continue to aggressively manage our SG&A margin but we do anticipate that we will continue to incur transactional related expenses as we pursue additional acquisitions.

During the first quarter of 2015 we improved our free cash flow by \$7.7 million to a \$2.1 million outflow, compared to a \$9.8 million outflow in the prior year quarter. The improvement in free cash flow was mainly due to lower

capital expenditures and an improvement in our cash from operations. On an LTM basis we generated free cash flow of \$29.7 million as of March 31, 2015, compared to LTM free cash flow of \$1.8 million as of March 31, 2014.

We spent \$3.5 million on capital expenditures during the first quarter of 2015, primarily to purchase plant machinery and equipment in support of growing demand in our markets.

As of March 31, 2015, the book value of our long term debt, including current maturities, was \$221.4 million. This included \$200 million of senior secured notes due 2018, \$19.0 million of equipment financing for new mixer trucks and mobile equipment and \$2.4 million of other notes payable.

As of March 31, 2015, we had total liquidity of \$113.1 million, including \$7.4 million of cash and cash equivalents. We had zero drawn on our credit facility, with \$11.3 million of undrawn letters of credit outstanding. This left us with \$105.7 million of availability as of March 31, 2015, compared to \$96.6 million available as of March 31, 2014. Our availability is net of a \$13.6 million availability reserve for outstanding letters of credit and sales tax and other reserves. It is also limited by the eligible amount of our accounts receivable, inventory and rolling stock, which was \$119.3 million as of March 31, 2015. We ended the quarter with a strong capital position to continue investing in our business and deploying capital on strategic growth opportunities to further grow our business and improve our balance sheet metrics over time.

Now let me turn the call back over to Bill.

**Bill Sandbrook:**

Thanks Matt.

To wrap things up, we are pleased with another solid quarter of strong price momentum and growth and we look forward to building on that momentum throughout 2015. We have created market leading positions in all of our regions and we have begun an aggressive campaign to strategically deploy capital that will further enhance these positions and potentially expand our operations into new high growth markets. The disciplined execution of our strategic plan remains a focus of the entire team as we continue to relentlessly execute on our vision of making U.S. Concrete the preeminent value-added supplier of ready-mixed concrete and related construction materials in the markets we serve, while simultaneously delivering superior returns for our shareholders.

Thank you for your interest in U.S. Concrete. We look forward to reporting on our continued successes. We would now like to turn the call back over the operator for the question and answer session.

**QUESTION AND ANSWER**

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**Operator:**

Thank you. If you would like to ask a question please signal by pressing star 1 on your telephone keypad. If you are using a speakerphone please make sure your mute function is turned off to allow the signal to reach our equipment.

Again star 1 to ask a question and I will pause one moment to let everyone have an opportunity.

We will go first to Drew Lipke with Stephens.

**Drew Lipke:**

Good morning Matt. Good morning Bill.

**Bill Sandbrook:**

Good morning.

**Drew Lipke:**

First question I wanted to ask you guys, you mentioned the lost days in Texas with the weather and the 150,000 to 200,000 cubic yards that were impacted there.

How should we think about you guys being able to make up this volume and, with the passage of the wet weather, can you talk about the trends that you have seen thus far in April and May?

**Bill Sandbrook:**

Sure. It is kind of moving on from the trends in April and May. The volume has not been lost it has just been pushed back. Our ability to catch up in the second quarter is somewhat limited just by capacity.

But I am confident that throughout the course of the second, third and fourth quarters we will make up all that volume.

There have been no project cancellations. Our backlog has increased as our ability to execute projects has been affected negatively just like it has been for everybody else in our space in Texas.

The backlog and bidding opportunities continue to increase, while we were not able to, at the same robust level, supply product because of the weather. Thus our backlog increased and, like I said there have been no project cancellations. So I am very confident that all this will be made up but it will probably take the rest of the year.

**Drew Lipke:**

Okay. And then you called out multi-family being strong in both Texas and New York. Can you talk about the trends you are seeing in your other end markets? And then also your other geographies?

**Bill Sandbrook:**

Sure, multi-family obviously because of the dynamics in the housing sector and the cost of construction on both coasts we are seeing significant additional multi-family projects being pushed from San Francisco over into the East Bay, for instance, in the Oakland area. And the same dynamic is transpiring in New York with apartment buildings and square footage cost being so significant. In Manhattan there is an ongoing resurgence for multi-family housing on the West Shore of the Hudson River, specifically in Jersey City and Hoboken.

And the amount of new units being built in the Metroplex is staggering. The amount of construction cranes there are as numerous as in past peaks, in mostly building apartment buildings or condominiums.

Likewise, in the more distant suburbs of all of those metro areas, there is significant resurgence in single family housing construction underway in all of our major markets.

**Drew Lipke:**

Okay that is helpful. And then on the materials spread you mentioned that was, I think you said, \$61.50 or so in the quarter and a lot of that was due to geographic mix impact. Obviously still improving in a very nice clip.

How should we think about material spread going forward? How far can you guys really push this?

**Bill Sandbrook:**

We are not putting any limit on our ability to push the materials spread. We have been very successful over the last 17 quarters in passing on our increased cost to our customers and likewise in the supply chain.

Then passing it on to the general contractors and general contractors passing it on to the ultimate owners. I am not looking for any artificial cap on this, and rest assured that all of our raw material price increases are going to be passed on.

**Drew Lipke:**

Okay thanks guys. I will hop back in queue.

**Bill Sandbrook:**

Thanks Drew.

**Operator:**

We will go next to Craig Bibb of CJS Securities.

**Craig Bibb:**

Guys, is \$121 a yard sustainable? I know some of that is coming from the geographic mix away from Texas. Now New York will be rising in the mix going forward. How should we look at that?

**Bill Sandbrook:**

It is sustainable. You need to be careful in this quarter because as our Texas volumes or DFW volumes were negatively affected, there was a mix shift to both coasts where our pricing is significantly higher.

But you have to take into account now that our underlying business mix has shifted a little bit. The volumetric businesses that we bought in Texas, in the fourth quarter of 2014, are at a significantly higher average selling price and higher margin than traditional ready mix. But nonetheless, it is ready mix none the same, just delivered and produced through a different mechanism.

And as you see our acquisitions in the latter part of last year and the first quarter and in fact into April this year have been on both coasts, where pricing is stronger than in Texas on an absolute basis.

So I would say it is sustainable. There have been underlying price increases in each of our markets including Texas. So we are not putting any artificial caps on our pricing capacity at this point.

**Craig Bibb:**

And then could you give us a little guidance on the two acquisitions here today? In terms of revenue.

**Matt Brown:**

Well, we don't want to get too granular on those. What we did disclose is that between the two of them we have added run-rate volume of 700,000 cubic yards annually. And that is between Ferrara Brothers and Right Away. Both of those are in high priced markets, New York and San Francisco. So you can imagine the fairly high ASP, higher than our consolidated average, to get you to a revenue number.

You could assume, I would say, an EBITDA margin a little bit higher than our consolidated average as well for both of those.

**Craig Bibb:**

Okay. And then the 14% increase in your backlog volumes should we look at that as kind of a proxy for what volume growth could be later in the year?

**Bill Sandbrook:**

Potentially, because we do have good visibility into it. All of our markets are very vibrant right now. I don't want to project out because don't give guidance on it but that is a pretty good metric.

**Matt Brown:**

Yes I would say that general backlog is a good directional indicator. It is very difficult to quantitatively go from backlog to what projected volumes will be. There is a lot of seasonality in it as well, but directionally I think it is a good indicator of strong demand.

**Craig Bibb:**

And then when you were reporting \$5.1 million in backlog, how long does it take you to work through that? How forward is that looking?

**Bill Sandbrook:**

That backlog is absolute backlog. There are some projects in there that would be forwarded to 2016.

**Craig Bibb:**

Okay.

**Bill Sandbrook:**

But by far the largest majority of that is within six months.

**Craig Bibb:**

Okay. Great thanks a lot guys.

**Bill Sandbrook:**

Thanks Craig.

**Operator:**

As a reminder, star 1 to ask a question. And next we will go to David Cohen with Midwood Capital.

**David Cohen:**

Yes, two questions unrelated to one another. CAPEX being down materially year-over-year. What are your expectations around CAPEX for '15?

**Matt Brown:**

Yes, I would say that CAPEX was down in the first quarter, especially compared to last year, and that is really just a matter of timing. We had some big plant improvements that were done early in the year last year as well as a new aggregate facility coming online.

This year I would say that we have things going on that will come and hit later in the year. So I would say for a full year CAPEX you would be looking at something between 4% and 4.5% of revenue. Most likely closer to 4% and that is assuming that we lease all of our trucks and finance all of our trucks, which we plan to do at this point.

**David Cohen:**

Is there any catch up you have to do on PP&E and the acquired businesses?

**Matt Brown:**

No. A lot of the acquired businesses that we bought the trucks from are in great shape. So there is really no CAPEX catch up involved there.

**David Cohen:**

Okay. And then I know there are moving pieces and some relatively new assets in the portfolio. But just to get some sense of the demand versus capacity considerations. Maybe you could just give a range, low end, high end of sort of how far out you are quoting?



So if the contract has got to wait five weeks in the DFW market versus two weeks in another market. I mean can you give us a sense of sort of the again, demand versus capacity as it relates just how far out you are quoting?

**Bill Sandbrook:**

Sure and it is very weather dependent as we have discussed the impacts in Dallas. Nobody was doing much during this rainy season. I would say as we get into our busier season, our average in our busiest plants within each region, that would be San Francisco and New York and the Metroplex would probably be two to three weeks on average for your orders. That is going to vary basically on weather and location of the project. And that is the beauty of having a significant coverage in each of these Metroplexes. So if you have redundancy of a plant, we would be able to service a critical project from a sub-optimal location, but you still have capacity to serve.

**David Cohen:**

And those would be the busiest plants in those regions.

**Bill Sandbrook:**

Correct.

**David Cohen:**

And so how has that trended say over the last couple of quarters?

**Bill Sandbrook:**

I would say it has been consistent.

**David Cohen:**

Great okay thanks guys.

**Bill Sandbrook:**

Thank you.

**Operator:**

Once again star 1 to ask a question. We have no further questions and I would like to now turn the call back over to Mr. Bill Sandbrook for any additional or closing remarks.

**Bill Sandbrook:**

Thanks Tina. 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 2015 results with you in August. Have a great day.

**Operator:**

This does conclude today's conference call. Thank you for your participation.

**END**