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USCR - Q2 2014 U.S. Concrete, Inc. Earnings Call

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Matthew Dodson *JWEST - Investor*

Robert Donald *Stora Capital - Investor*

Sean Wondrack *Deutsche Bank - Analyst*

Kevin Sonnett *R.K. Capital - Investor*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the U.S. Concrete, Inc. Second 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 anyone should require assistance during the conference, please press star, then zero on your touchtone telephone. I would now like to introduce your host for today's conference, Senior Vice President and Chief Financial Officer, Mr. Matt Brown. You may begin, sir.

Matt Brown ***- U.S. Concrete, Inc. - SVP & CFO***

Thank you, Andrew. Good morning and welcome to U.S. Concrete's Second Quarter 2014 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.

Information recorded on this call speaks only as of today and therefore, you're advised that time-sensitive information may no longer be accurate as of the date of any replay. We'll 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 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 on 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'd like to turn the call over to Bill Sandbrook, our President and CEO, to discuss the highlights of the second quarter of 2014.

William Sandbrook *- U.S. Concrete, Inc. - President & CEO*

Thank you, Matt. As we reported in our earnings release this morning, we once again overcame significant weather related headwinds to produce superior results in all areas of our business. June saw a 30 percent sequential decline in housing starts in the Southern United States, the worst such monthly decline on record for that part of the country. Home builders attributed the decline to the region's unusually wet weather. Our Dallas/Fort Worth region, in fact, experienced the wettest second quarter since 2009. Despite this challenge, we were able to capitalize on our strong key market positions and robust construction demand. We reported strong growth in volume, pricing, revenue and profitability in both segments of our business, ready-mixed concrete and aggregates. In addition, our continued focus on forward pricing and diligent cost management once again drove expansion in our material spread and gross profit margins year-over-year. We are very pleased with our second quarter results and remain optimistic in continued improvement in the construction recovery we're experiencing in all of our markets.

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

Matt Brown *- U.S. Concrete, Inc. - SVP & CFO*

Thanks, Bill.

Consolidated revenue of $180.4 million was up 14.6 percent year-over-year for the quarter. Ready-mixed revenue increased by $20.9 million, or 14.6 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 $3.0 million or 29.5 percent for the same period. This marks the 15th consecutive quarter for which we have reported increased consolidated revenue on a year-over-year comparative basis.

Ready-mixed volume for the quarter increased by 6.9 percent compared to the second quarter of 2013. Aggregate product sales volume increased by 20.9 percent for the same period.

On the price side, we realized an increase in our average ready-mixed sales price of 7.4 percent from $102.71 per yard in the second quarter of 2013 to $110.27 per yard in the second quarter of 2014. Our aggregate products average sales price increased by 7.3 percent to $9.63 per ton for the same period.

Despite increases to our raw material inputs, our ready-mixed concrete raw material spread increased by $4.31 per yard to $52.43 per yard in the second quarter of 2014 compared to 2013. This represents an 80-basis point expansion in our material spread margin to 47.5 percent in the second quarter of 2014 compared to 46.7 percent in the prior year quarter.

Our SG&A expenses decreased by $1.8 million during the second quarter of 2014 compared to the second quarter of 2013. The decline was due primarily to lower stock compensation expense in the current year quarter. As a percentage of total revenue, SG&A expenses decreased to 8.0 percent in the second quarter of 2014 compared to 10.3 percent in the second quarter of 2013.

Consolidated adjusted EBITDA increased by 32.5 percent to $22.2 million in the second quarter of 2014, compared to $16.7 million in the second quarter of 2013. Adjusted EBITDA as a percentage of revenue was 12.3 percent for the second quarter of 2014 compared to 10.6 percent for the prior year quarter. Ready-mixed concrete adjusted EBITDA increased by 29.0 percent to $23.3 million with a 160-basis point expansion in margin. Aggregate products adjusted EBITDA increased by 53.5 percent to $3.3 million with a 390-basis point expansion in margins.

During the second quarter of 2014, we had cash provided by operations of $8.2 million compared to $14.9 million in the second quarter of 2013. The decrease in operating cash flow year-over-year for the quarter was entirely related to changes in trade working capital and the timing of our senior secured notes interest payment. Interest on our new senior secured notes is paid semiannually in the second and fourth quarters of the year compared to our previous notes where interest was paid quarterly.

For the second quarter of 2014, we spent $9.7 million on capital expenditures, up approximately $3.5 million compared to the second quarter of 2013. The increase in capital expenditures was due to higher spending on mixer trucks, ready-mixed plant capacity expansions in California and plant equipment and improvements, all to support the growing demand in our markets.

The book value of our long-term debt, including current maturities, was $213.3 million on June 30, 2014. This included $200 million of senior secured notes through 2018, $11.3 million of equipment financing for new mixer trucks, and $2.0 million of other notes payable. As of June 30, 2014, we had zero drawn on our credit facility with $11.3 million of undrawn letters of credit outstanding. This left us with $110.4 million of availability as of June 30, 2014 compared to $67.8 million available as of June 30, 2013. Our availability is net of a $14.6 million availability reserve for outstanding letters of credit and sales tax reserves. We had $86.9 million of cash and cash equivalents on our balance sheet for total liquidity of $197.3 million as of June 30, 2014.

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

William Sandbrook *- U.S. Concrete, Inc. - President & CEO*

Thanks again, Matt.

All of our regional markets remain strong with encouraging construction trends and robust backlogs supported by pent up demand from weather in the first half of the year. Our ready-mixed backlog at the end of the second quarter was 4.2 million cubic yards, which is 22 percent higher than it was at the same time last year and 5 percent higher than at the beginning of the year. In addition, our acquisition pipeline is steadily growing and we have a strong cash position to execute on our development and expansion strategy.

To wrap things up, we are extremely enthusiastic about our opportunities, both organically and strategically. The increased levels of construction and demand we are seeing in our markets remain among the highest in the nation. The disciplined execution on our strategic plan should expand our vertical integration into aggregates and broaden our footprint in our existing markets, as well as other high growth markets in the United States. We remain focused on capitalizing on these opportunities, which will continue to drive improvements in operating results and further enhance 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.

QUESTION AND ANSWER

Operator

Certainly. Ladies and gentlemen, if you have a question or a comment at this time, please press star, then one on your touchtone telephone. Once again, if you have a question or comment, please press star, then one on your touchtone telephone. And if your question has been answered or you wish to remove yourself from the cue, please press the pound key. One moment while we wait for our first question.

And I'm showing our first question or comment comes from the line of Seth Yeager with Jefferies. Your line is now open.

Seth Yeager *- Jefferies - Analyst*

Hey, good morning, guys. Nice quarter.

William Sandbrook *- U.S. Concrete, Inc. - President & CEO*

Good Morning Seth.

Seth Yeager - ***Jefferies - Analyst***

Can you talk about how weather has been subsequent to quarter-end in Texas and what are the trends that you're seeing specifically in that market on volume and pricing?

William Sandbrook - ***U.S. Concrete, Inc. - President & CEO***

The weather subsequent to the quarter, I would characterize as more seasonal than in the first half, i.e., I think it's been drier than the first half of the year in July and August in the North Texas market.

The volume trends remain intact as you've been reading from the other public company announcements. Texas remains strong and we foresee that well into the future at this point by looking into our backlog.

Seth Yeager - ***Jefferies - Analyst***

OK. And maybe to follow-up on that specifically for Texas, one of your competitors mentioned a price letter that had gone out on cement that sounded pretty significant for next year. How absorbable are all these increases? Obviously, your gross margins and material spreads have seen a nice improvement, at what point do you think you might start to see some pushback, if at all, and, you know, are more imports coming into Houston that may help offset some of these letters?

William Sandbrook - ***U.S. Concrete, Inc. - President & CEO***

I know that more imports are beginning to show up; however, it really doesn't affect us in our markets other than pushing fixed plant volume north. You know, we are concerned about the magnitude of the announced price increases.

Now, announced price increases and actual effectual price increases are two different things, but I would like to comment on that a little more deeply. Our philosophy is that regular and responsible price increases throughout the entire value chain and, in fact, throughout the economic cycle lead to long-term market stability and customer loyalty and we will be in the process of aligning our long-term supplier base in all products with those that share that same responsible philosophy.

Seth Yeager - ***Jefferies - Analyst***

All right. I appreciate it. And if I back out non-cash comp, SG&A fell below eight percent of revenue during the quarter. You had previously mentioned the target of eight, so obviously, nice improvement there.

Any updates to think about on the SG&A level or should we see a little bit of less leverage going forward? Any comments there, please?

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

I don't think you'll see less leverage necessarily. We're actually hoping to get better than eight percent as we go forward and have revised our target to 7.5 percent of revenue for SG&A at this point as we've already achieved our original target this quarter.

Seth Yeager - ***Jefferies - Analyst***

OK. Excellent. And then last one for me. Still sitting on a lot of cash from the bond offering. You mentioned the M&A pipeline being still pretty robust. Can you talk about what is your R.P. capacity for share buybacks and just as far as acquisitions?

I mean, anything over the next couple of quarters that we could look forward to? Thanks, guys.

Matt Brown *- U.S. Concrete, Inc. - SVP & CFO*

Yes, with respect to restricted payments and the share buybacks, we are fairly limited particularly by the indenture and I'm not going to get into what that capacity's going to be going forward, but at this point we've used roughly half of our capacity there based on one share buyback.

So, given that the acquisition pipeline is extremely robust at this point, the primary focus for us in using our cash is going to be on acquisitions as well as capex to grow capacity versus share repurchases.

Seth Yeager *- Jefferies - Analyst*

All right. Great. Thanks a lot, guys. Good luck.

William Sandbrook *- U.S. Concrete, Inc. - President & CEO*

Thanks.

Matt Brown *- U.S. Concrete, Inc. - SVP & CFO*

Thank you.

Operator

Once again, ladies and gentlemen, if you have a question or a comment, please press star, then one on your touchtone telephone. And our next question or comment comes from the line of Matthew Dodson with JWEST. Your line is now open, sir.

Matthew Dodson *- JWEST - Investor*

Hey. Congratulations on a great quarter. Can you help me understand this TXI/MLM deal? Have you seen any more discipline in the Dallas/Fort Worth area yet?

William Sandbrook *- U.S. Concrete, Inc. - President & CEO*

What do you mean by discipline, Matt?

Matthew Dodson *- JWEST - Investor*

In pricing.

William Sandbrook *- U.S. Concrete, Inc. - President & CEO*

Well, you know, they only took over at the beginning of July, and so I think they're still trying to get their arms around organizational changes and strategies. I would anticipate that over time Martin will follow through with their strategy that they effectuate in other markets.

I really don't want to characterize it as more or less disciplined than the previous TXI management, but I do think the Martin philosophy will be imparted into the TXI markets.

Matthew Dodson - ***JWEST - Investor***

And how much exposure do you have of your revenue to that Dallas/Fort Worth market?

William Sandbrook - ***U.S. Concrete, Inc. - President & CEO***

On the revenue side, I would say close to a third, maybe a little bit less.

Matthew Dodson - ***JWEST - Investor***

And pricing there can -- you know, you did 110 ASP in your ready-mixed. What is pricing in Dallas/Fort Worth? Did you guys break that out?

William Sandbrook - ***U.S. Concrete, Inc. - President & CEO***

No, we don't break that out and it varies from region to region and from project to project.

Matthew Dodson - ***JWEST - Investor***

But is it fair to assume the MLM way that you'd actually see price increase rise there?

William Sandbrook - ***U.S. Concrete, Inc. - President & CEO***

Well, I think in any market where you have some semblance of consolidation-remember, the consolidation for Martin/TXI was on the aggregate side because they weren't vertically integrated, i.e. Martin wasn't in cement or ready-mixed in these markets. So there is consolidation on the aggregate side. I would expect to see increased pricing, but it's going to be difficult to assess if that's a result of Martin's philosophy, the natural integration and the microeconomics that ensue, or it's just the relative strength of the overall Texas market.

So it's going to be a little difficult to break that all out.

Matthew Dodson - ***JWEST - Investor***

Got you. And then last question, they have to sell, I think, two or three plants in the Texas region and I think they're aggregate plants. Are you guys interested in those plants?

William Sandbrook - ***U.S. Concrete, Inc. - President & CEO***

We would be interested in growing our vertical integration footprint in all of our markets, but I don't want to comment specifically on any one.

Matthew Dodson - ***JWEST - Investor***

Got you. Perfect. Thank you.

Operator

And our next question or comment comes from the line of Robert Donald with Stora Capital. Your line is now open, sir.

Robert Donald - ***Stora Capital - Investor***

Good morning, Bill and Matt. Thanks for taking the call.

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

Good morning.

William Sandbrook - ***U.S. Concrete, Inc. - President & CEO***

Morning, Robert.

Robert Donald - ***Stora Capital - Investor***

Good morning again. Just a brief couple of questions. One is capacity. Can you just update us whether your mixer expansion plan could change and where are you right now in terms of incremental change?

William Sandbrook - ***U.S. Concrete, Inc. - President & CEO***

On ready-mixed capacity in our existing markets?

Robert Donald - ***Stora Capital - Investor***

Yes.

William Sandbrook - ***U.S. Concrete, Inc. - President & CEO***

I've answered that before in the following manner: that we can expand our capacity based on our economic incentives, i.e., pricing to have concrete customers accept deliveries in off-peak hours.

How successful we are at that is relative to the contractor's needs, wants and desires and ability to do that. Now, having said that, our demand is lumpy. We have significant excess capacity in some of our markets that do not have the velocity of volume such as West Texas and then there are other places in the heart of San Francisco and downtown Dallas where we are stretched and are having to bring in product from a little bit more distant plants to satisfy the construction demands.

And as I've said in the first quarter, we have initiated and now have completed a few plant capacity additions specifically in our California markets that have added an incremental 10 or 15 percent to our volume capacity in the San Francisco/Silicon Valley area.

Robert Donald - ***Stora Capital - Investor***

I think in the previous call you kind of gave a figure of number of mixers that you are planning to expand under CAPEX. I'm just really curious to know whether you have raised that aspiration or is it still the same figure?

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

Robert, it's Matt. No, we have not raised that since the last call. It's still approximately 80 trucks that will be added to the fleet and I would tell you that at this point, halfway through the year, we have added about one-third of that budgeted amount.

Robert Donald *- Stora Capital - Investor*

OK. And just on the subject of the spread, which has been very reliable in the way that it's been improving, and in Q2 with a particularly strong sequential increase -- I think it was over $2 per yard, which was one of the strongest sequential improvements, and I was just wondering whether that was skewed to any particular region or would you say that was experienced equally across all of your geographies?

And also, when you think about different clients between infrastructure, commercial and residential whether it was also similarly experienced, was there a big waiting effect that drove that in Q2?

William Sandbrook *- U.S. Concrete, Inc. - President & CEO*

I would say it's fairly equally spread across our sectors because our pricing strategies are through increased raw material inputs. They all have to be passed on equally in all segments.

I would say that Northern California had an outstanding performance, but the others were healthy as well.

Robert Donald *- Stora Capital - Investor*

Just coming back to the earlier question about raw material input questions and your concern that the industry may go too far too quickly, in that dialogue with your suppliers, do you feel that your ability to improve the spread from here is at material risk or is it just a manageable challenge?

William Sandbrook *- U.S. Concrete, Inc. - President & CEO*

I would characterize it as a manageable challenge. Remember, we're a national company with strong local footprints that have their own unique buying capabilities and capacities, i.e. we're usually the power buyer in each of our regions and we are not seeing the same degree of inflationary cost pressures across our entire footprint.

So our risk is somewhat limited by that factor, as well as that we have been successful in our pricing as you can see quarter after quarter and I have no indication at this point that we won't be successful going forward.

Robert Donald *- Stora Capital - Investor*

Right. And just (inaudible) those imprints of the weather was rather challenging in Q2. Would you suggest that the sequential improvement in Q3 over Q2 should be slightly stronger than the normal seasonal effect because of that weather in Q2 or are we just saying that that's a rounding error?

William Sandbrook *- U.S. Concrete, Inc. - President & CEO*

I would more assess it as a rounding error. Any of the volumes that would've been pushed from Q2 to Q3 will probably just end up pushing Q3 volume to Q4 because of the ability of contractors to get the work done.

Robert Donald *- Stora Capital - Investor*

Great. Bill and Matt, thank you very much for your time. Thank you.

William Sandbrook *- U.S. Concrete, Inc. - President & CEO*

Thank you, Robert.

Matt Brown *- U.S. Concrete, Inc. - SVP & CFO*

Thanks, Robert.

Operator

And our next question or comment comes from the line of Philip Volpicelli with Deutsche Bank. Your line is now open, sir.

Sean Wondrack *- Deutsche Bank - Analyst*

Good morning, gentlemen. This is Sean Wondrack on for Phil today.

William Sandbrook *- U.S. Concrete, Inc. - President & CEO*

Hi, Sean.

Matt Brown *- U.S. Concrete, Inc. - SVP & CFO*

Hey, Sean.

Sean Wondrack *- Deutsche Bank - Analyst*

Hi. I just have a couple of questions for you. Kind of building off the last gentleman’s question, one of your peers with cement is experiencing increasing costs at approximately $25 a ton due to new EPA regulations and cited that to maintain margins, you need to increases prices 7 to 9 percent per year just to cover their costs.

How confident are you that with these kind of robust supplier increases that you'll be able to maintain margins, you know, in the medium term, as housing continues to recover?

William Sandbrook *- U.S. Concrete, Inc. - President & CEO*

Well, if we look historically over the past eight quarters, we haven't had the raw material increases that have been announced to-date; however, historically the raw material price increases that were announced were aspirational and in all likelihood were never fully effectuated.

So having said that, we have to discount a little bit the initial price letters, but nonetheless, we've been successful in passing along and increasing our margins significantly over the last three years and rising input costs whether they be cement, the aggregates sand and gravel or ad mixtures traditionally through the economic cycle have led to increased pricing and increased margins for ready-mixed producers.

As long as the whole market is treated the same, these costs have to be passed on because nobody in the entire value chain, including our concrete contractor customers can afford the margin squeeze.

So it's critical that we pass through the whole value chain, which historically has happened.

Sean Wondrack *- Deutsche Bank - Analyst*

OK. Great. Thank you for that. And I have to ask, how much CAPEX have you spent on mixer trucks year-to-date and how much is left in fiscal 2014?

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

I would say that, as far as how much is left, we have about $9 million left. As far as how much of that we actually buy and becomes CAPEX and how much we lease, that remains to be seen.

We like to preserve availability on the revolver by leasing. So given the size of the acquisition pipeline, that's probably the route we'll be going at this point. For total spend thus far this year on mixer trucks, it's about $3.2 million.

Sean Wondrack - ***Deutsche Bank - Analyst***

$3.2 million? And you said you've basically added about a third of the amount of that one-third? How many of those did you lease versus purchase?

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

That was almost all purchased so far this year.

Sean Wondrack - ***Deutsche Bank - Analyst***

OK. Great. And when you mentioned acquisitions, is there a ceiling to the size of an acquisition that you would do or, you know, whether that be leverage or a dollar value?

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

Well, at this point if you look at our capacity, we basically have $197 million of liquidity between cash and the revolver. Beyond that, we have other avenues to access capital, whether that's a tack-on to our existing notes or expanding the revolver. So there's a couple of near-term ways we can do it, and we also have the alternative of using equity either as consideration or doing equity offering and using the proceeds for a deal.

So I wouldn't put a limit right now on any type of acquisition size. I would say that the deals we're looking at now range anywhere from a million dollars up through over $100 million.

Sean Wondrack - ***Deutsche Bank - Analyst***

OK. Great. And is there a net leverage target or a total leverage target that you would want to proceed with or is it not really as much of a factor as the pace is more on the quality of the assets to be purchasing?

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

Well, right now at 6/30 our gross leverage is 3.6 times and net leverage is about 2.1 times. Longer term, we would like to get that down as those converge and we use our cash. We'd like those both to be between 2 and 3 times.

Having said that, at this point given the supply of acquisitions out there, you could see it go up to between 4 and 5 times in the short-term as we do some acquisitions, particularly the aggregates acquisitions with significantly higher prices. But those also increase your vertical integration and your margins.

Sean Wondrack - ***Deutsche Bank - Analyst***

Great.

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

And so that's our plan at this point.

Sean Wondrack - ***Deutsche Bank - Analyst***

Right. No, that makes perfect sense. And just to clarify, when you say, you know, short-term, is that 2014/2015 you're thinking or 2014?

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

That will be 2014/2015.

Sean Wondrack - ***Deutsche Bank - Analyst***

OK. Great. All right. Thank you very much.

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

Thank you.

William Sandbrook - ***U.S. Concrete, Inc. - President & CEO***

Thank you.

Operator

Once again, ladies and gentlemen, if you have a question or a comment, please press star, then one on your touchtone telephone. And I'm showing we have a question or comment coming from the line of Kevin Sonnett with R.K. Capital. Your line is now open, sir.

Kevin Sonnett - ***R.K. Capital - Investor***

Thanks. Hi, guys. Hey, was that four to five times comment you just made net?

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

That would be gross.

Kevin Sonnett - ***R.K. Capital - Invetor***

Gross? OK. Thanks.

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

That's gross leverage, yes.

Kevin Sonnett - ***R.K. Capital - Investor***

OK. Thanks.

Matt Brown - ***U.S. Concrete, Inc. - SVP & CFO***

All right, Kevin.

William Sandbrook - ***U.S. Concrete, Inc. - President & CEO***

Thank you.

Operator

And I'm showing no further questions or comments at this time. So I would like to turn the conference back over to Mr. Bill Sandbrook for any further remarks.

William Sandbrook - ***U.S. Concrete, Inc. - President & CEO***

Thank you, Andrew. Thank you everyone for participating in the call this morning and for your support of U.S. Concrete. We look forward to discussing our third quarter 2014 results with you in November.

Have a great day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect.