U.S. Concrete First Quarter 2013 Earnings Conference Call

Moderator: Matt Brown
May 9, 2013
10:00 a.m. ET

Operator: Good day, ladies and gentlemen, and welcome to the U.S. Concrete First Quarter 2013 Earnings Conference Call.

At this time all participants are on a listen-only mode. Later we will conduct a question-and-answer period and instructions will be given at that time. If anyone should require operator assistance during the conference call, please press star then zero on your touchtone telephone. As a reminder, this conference call may be recorded.

At this time I'd like to hand 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 first 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 contact Laura Russell at 817-835-4111. If you would like to listen to a replay of today's call, it’s available in the investor relations section of our website.

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 website.

This morning we issued a detailed press release which contains information regarding our first quarter 2013 results. So, during the call this morning, we will provide a brief overview and leave as much time as possible for Q&A.

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 2013.

Bill Sandbrook: Thanks Matt. We all knew the comps were high heading into the first quarter of 2013 given the strong results and favorable weather in the first quarter of last year. I’m pleased to announce that the positive momentum from the end of last year has continued. We offset weaker, weather impacted volumes in the Northeast with robust increases in our Texas markets and significant acquisition volume related gains in California. Last year’s acquisition of Bode Concrete, in San Francisco, has performed extremely well and the integration has proceeded according to plan. We remain committed to the execution of our strategic plan which entails both opportunistic bolt-on acquisitions to augment our current geographical footprint combined with enhancing the operational effectiveness of our existing businesses.

On the financing front, we recently completed a tender offer in which we exchanged $48.5 million of our existing convertible notes for $61.1 million of new senior secured notes. Matt will touch on the details of the transaction a little later, but among other things, the exchange allowed us to increase the borrowing capacity of our revolving credit facility by $22.5 million. This will provide additional liquidity and flexibility to execute our strategic plan.

Now let me cover a few highlights of our first quarter results. Our first quarter ready mixed volume and revenue were up 11.7 percent and 16.1 percent, respectively, compared to the first quarter of 2012. This marks our 10th consecutive quarter for year-over-year revenue growth and the 7th consecutive quarter for year-over-year volume growth. Adjusted EBITDA of 3.5 million dollars was up 2 million dollars, or 130 percent, compared to the first quarter of 2012. Ready-mixed pricing also improved, with average selling prices rising 4.1 percent for the first quarter, compared to 2012. As I mentioned previously, we are pleased with the success enjoyed in the first quarter and are encouraged by our strong start to the year. Our construction markets are exhibiting encouraging signs of growth and we have sufficient capacity in these markets to satisfy the increased demand. We will continue to leverage our unique ability to service our customers in each of our markets and thus drive improved shareholder value. With that, I would like to turn the call back over to Matt to discuss our first quarter results in a little more detail.

Matt Brown: Thanks Bill. This morning we reported consolidated revenue of 127.7 million dollars and a net loss from continuing operations of 14.0 million dollars for the first quarter of 2013. This compares to consolidated revenue of 110.9 million dollars and a net loss from continuing operations of 10.4 million dollars for the first 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 first quarter 2013 reported net loss from continuing operations includes an 18.4 million dollar loss from 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 9 dollars and 5 cents per share on December 31, 2012 to 13 dollars and 81 cents per share on March 31, 2013 is the primary driver of the loss we recorded on the derivative during the first quarter. Also included in our first quarter 2013 net loss from continuing operations were approximately 750 thousand dollars of non-cash stock compensation expense and 200 thousand dollars of expense related to the corporate headquarters relocation. Included in the first quarter 2012 net loss from continuing operations was a non-cash loss related to the Company's derivatives of approximately 3.4 million dollars, approximately 700 thousand dollars of non-cash stock compensation expense, and approximately 1.1 million dollars of expense related to the corporate headquarters relocation. Excluding these items, our net income improved to 754 thousand dollars in the first quarter of 2013 compared to a net loss of 5.0 million dollars in the prior year quarter.

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

Total revenues from continuing operations were up by 15.2 percent year-over-year for the quarter. Ready-mixed revenue increased by 16.0 million dollars, or 16.1 percent, year-over-year, due to a combination of higher volumes and higher average sales prices per cubic yard. Aggregate products revenue increased by 751 thousand dollars, or 13.0 percent, for the same period. This marks the 10th 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 11.7 percent compared to the first quarter of 2012. Stripping out the impact of the acquisition activity that occurred after the first quarter of 2012, like-for-like volumes increased by approximately 5 percent despite extremely poor weather in our northeastern markets. Ready–mixed volumes have now increased year-over-year in the last seven consecutive quarters.

On the pricing side, we realized an increase in our average ready-mixed sales price of 4.1 percent, from $97.44 per yard in the first quarter of 2012 to $101.40 per yard in the first quarter of 2013. This continues to be extremely encouraging since a large portion of our increased volume for the quarter was in our lower priced markets, principally in Texas. On a market-by-market comparison, the average selling price per cubic yard increased in all of our major markets and this is the eighth consecutive quarter with consolidated year-over-year increases.

Our ready-mixed concrete raw material spread was flat to the prior-year quarter at 46.2 percent. We saw increases in cement and aggregate prices in all of our major markets for the quarter but we continued to pass through these increased costs in the form of increased pricing and additional sales of value-added products. The actual raw material spread in dollars per yard increased by 1 dollar and 70 cents for the first quarter of 2013 compared to the first quarter of 2012.

Our SG&A expenses increased by 900 thousand dollars during the first quarter of 2013 compared to the first quarter of 2012, primarily due to increased incentive compensation accruals. As a percentage of revenue, SG&A expenses decreased to 11.4% of revenue in the first quarter of 2013 compared to 12.3% in the prior year quarter.

Consolidated adjusted EBITDA increased by 130 percent to 3.5 million dollars in the first quarter of 2013, compared to 1.5 million dollars in the first quarter of 2012. Adjusted EBITDA as a percentage of revenue was 2.8 percent for the first quarter of 2013, compared to 1.4 percent for the prior year quarter. The ready-mixed concrete segment drove all of the improvement year over year with adjusted EBITDA of 9.2 million dollars for the first quarter of 2013 compared to 7.1 million dollars in first quarter of 2012. Adjusted EBITDA as a percentage of revenue for the ready-mixed concrete segment improved to 8 percent for the first quarter of 2013 compared to 7.1 percent in the prior year quarter. Operational efficiencies and pricing continue to drive improved margins.

As to operating cash flow, during the first quarter of 2013 we used cash in operations of 5.5 million dollars, compared to 4.4 million dollars for the first quarter of 2012. This increase was primarily the result of working capital changes to support increased volume and revenues.

For the first quarter of 2013, we spent 1.8 million dollars on capital expenditures, up approximately 1.3 million dollars compared to the first quarter of 2012. As volumes continue to increase with demand, we will continue to adjust spending to reflect our current outlook for future production requirements.

As Bill briefly mentioned earlier, in March of this year, we completed an offer to exchange all 55 million dollars aggregate principal amount of our outstanding Convertible Secured Notes due August 31, 2015, for up to 69.3 million dollars aggregate principal amount of 9.5 percent Senior Secured Notes due October 1, 2015. At the time of settlement, we issued 61.1 million dollars aggregate principal amount of the new notes in exchange for 48.5 million dollars aggregate principal amount of the Convertible Notes. After giving effect to the exchange, 6.5 million dollars aggregate principal amount of Convertible Notes remained outstanding. In connection with the exchange offer, we entered into a Supplemental Indenture which eliminated substantially all of the restrictive covenants in the Convertible Note Indenture and released the liens on the collateral securing the Convertible Notes and related guarantees under the Convertible Note Indenture. In addition, the exchange allowed us to increase the capacity of our revolving credit facility from 80 million dollars to 102.5 million dollars, which we did through an amendment to the facility in March.

After giving effect to the exchange offer, the book value of our long-term debt including current maturities was 95.6 million dollars on March 31, 2013. This included 61.1 million dollars of new senior secured notes due 2015, 5.5 million dollars of convertible notes due 2015 and 25.4 million dollars of borrowings under the senior secured credit facility, plus 3.6 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 March 31, 2013, we had 25.4 million dollars drawn on our credit facility, with 11.3 million dollars of undrawn letters of credit outstanding and a tax reserve of 2.9 million dollars. This left us with 53.5 million dollars of availability, including a limitation on capacity from our borrowing base of 93 million dollars. We also had 4.7 million dollars of cash and cash equivalents on our balance sheet as of March 31.

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 March 31, 2013, our fixed charge coverage ratio was 2.49 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 7.50 to 1.00. As of March 31, 2013 our consolidated secured debt ratio was 3.86 to 1.00.

As I have mentioned on previous calls, we have been focused on the health of our balance sheet and achieving the overall capital structure that will allow us to best achieve our short term and long term strategic goals. The recently completed exchange offer is a significant step in that process.

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

Bill Sandbrook: We are extremely encouraged by the continued improvements in the regional construction markets in the geographies we serve. The level of construction activity in our markets continues to appear stronger than the national average and we remain confident that we are in the right markets, with the right products, at the right time. Our ready-mixed backlog at the end of the first quarter 2013 was 8.6 percent higher than prior year quarter and 14.3 percent higher than the beginning of the year. Rest assured that we remain focused on our long-term strategic objectives while aggressively managing the day to day tactical plan within our control. The portfolio restructuring and corporate realignments enacted last year are not only enhancing our current returns but have positioned U.S. Concrete well to take full advantage of the upturn in the domestic construction cycle.

To wrap things up, our team's hard work and disciplined execution continues to pay dividends. We remain committed to strengthening 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 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. Ladies and gentlemen on the phone line, if you have a question at this time, please press star then one 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, if you have a question at this time, please press star then one on your touchtone telephone. One moment while our participants queue up.

Our first question comes from Jim Barrett from CL King and Associates.

Jim Barrett: Good morning everyone.

Bill Sandbrook: Good morning...

Jim Barrett: Bill, could you touch upon two topics for me. The first would be you know as we look at your key markets and as we look at their economies recovering, and specifically within the ready mix segment, can you rank the markets in terms of what you expect your margins and returns are likely to be based upon the industry market structuring in those markets?

Bill Sandbrook: Hey, Jim, I'm really not going to be able to comment on that. I mean that is a very sensitive topic in our competitive landscape. Obviously the returns vary depending on the market structure in each of those markets but I'm not going to be able to comment specifically on that. I'm sorry.

Jim Barrett: OK. And then a more market specific question, if you didn't mention it, are you seeing any indications that the impact or the rebuilding post Hurricane Sandy is helping your New Jersey, Staten Island, Metro New York business?

Bill Sandbrook: We are seeing increased activity in weather related construction damaged projects. I would say it has not been felt in the first quarter primarily, one, because it was a fairly recent event being in November and December of the previous year and also because the weather was so poor in the northeast. But we are seeing increased bidding activity primarily along the coastal regions of northern New Jersey and the weather affected boroughs of New York City.

Jim Barrett: And as I recall, a number of your ready mix and aggregate assets are in northern New Jersey. Are they close enough to the Jersey shore to benefit from any rebuilding as we move down the Garden State Parkway?

Bill Sandbrook: Yes. Obviously we have a footprint that goes from the coast into central New Jersey but we're well positioned in northern New Jersey and specifically Staten Island which was heavily damaged as well. So yes, we are positioned to take advantage of that.

Jim Barrett: Thank you very much.

Operator: Thank you. Our next question comes from the line of Matthew Dodson from JWest.

Matthew Dodson: Can you talk just a little bit maybe to help us understand the pricing that you're seeing currently in the month of April in your different markets?

Bill Sandbrook: Yes. I'm not going to be able to comment specifically on April. We'll have to wait until the quarterly results come in at the end of June. However I will say that there are, and it's been well documented on the previous calls of the publicly reported materials companies, there is significant inflationary pressure right now in the supply chain, specifically in raw materials. And we're able to pass that on into our customers segment as well.

Matthew Dodson: So do you think, I guess the real question I wanted to get to is, do you think you're able to stay ahead of the raw material increases or are you getting squeezed at all?

Bill Sandbrook: No, we're staying ahead.

Matthew Dodson: OK. And then the other question is, can you just talk a little bit about as the cycle starts to mature where do you think you guys can drive your EBITDA or your EBITDA margin over time. You have like what a 2.7 today. I know seasonally it's as tough quarter with the weather being bad, et cetera, but as the cycle matures where do you think EBITDA margins can go to.

Bill Sandbrook: As I've answered this in the past on other quarterly conference calls, at the peak in the 2005 and 2006 time period when U.S. Concrete was doing about $700 million of revenue, the EBITDA percentage then was about 10 percent and I think that's well within reach in this cycle because we have repositioned the company to take advantage of the higher margin segments of the ready mix industry. Specifically we're targeting more commercial and infrastructure as opposed to residential that they had in 2005 and in 2006. And those segments traditionally have provided a better return.

Matthew Dodson: And the last question is, can you just talk a little bit about the acquisition pipeline? What you see and do you think you'll be potentially successful on closing any acquisitions this year?

Bill Sandbrook: Sure. In all of our major markets, there are bolt on opportunities to augment our existing footprint both within the market and concentrically around all of our markets and specifically we're targeting ready mix concrete acquisitions and sand and gravel or aggregate acquisitions to help our vertical integration. And there are opportunities in all of our markets and I'm optimistic that we will be able to accomplish some deals this year.

Matthew Dodson: OK. Thank you.

Operator: Thank you. Our next question comes from Thomas Koch from Turnaround Capital.

Thomas Koch: Yes, good morning, Bill and Matt. How are you?

Bill Sandbrook: Great, Tom. How are you?

Matt Brown: Good morning.

Thomas Koch: Good I just had a couple of questions. So the first one, it looks like in the first quarter of last year there was gain on asset sales of about a half of million bucks. So am I thinking about this correctly that the year-on-year EBITDA adjusted for that is really up about 2-1/2 million bucks?

Bill Sandbrook: That would be correct.

Thomas Koch: OK. And then I was interested in the mix in your backlog. The backlog looks like it's moving up. The mix affects price tremendously in your business. So as you look forward into the second, third and fourth quarters, do you think you will be able to maintain the level of pricing that you're seeing based on that mix of backlog. I mean can you elaborate a little bit on that mix and how that is the same or differs from the, the percentages that were given out in the 10-K at the end of the year as far as your mix in the three different buckets.

Bill Sandbrook: Sure, the percentages are basically still intact. What we are seeing is a larger total pool but I would characterize the percentage within that overall backlog to be similar, which is still beneficial to us because we're not over weighting backlog with residential development at this point.

Thomas Koch: So your pricing your pricing going forward over the next quarters through the year should be relatively similar from a mix standpoint as you saw in the first quarter?

Bill Sandbrook: From a mix standpoint I'd say that would be correct.

Thomas Koch: OK. So if we see a variance in your price it's only going to be because prices go up, is what it sounds like, not down. OK. I mean I know the average is obviously eschewed tremendously by the mix. Then the other thing I was going to ask you, the concrete price increases, I think on your last call, you mentioned that you all expected to pass on only about 25 percent of the concrete price increases at the beginning of the year and that the other 75 percent would be passed on kind of now April 1st and onward? Can you give us a little more detail on how you know year prices are in fact staying ahead of these concrete and raw materials price increases?

Bill Sandbrook: Sure. Remember that in the bulk of our markets we do project pricing so our pricing is very specific to the characteristics of an individual project. A very small percentage of our business is conducted off a list price, however there is a portion and traditionally when cement manufacturers specifically or area producers announce an increase to the market we will follow it up with a price announcement as well.

However, the primary driver of our increased pricing is a negotiated project by project basis. And we are continually negotiating that price up. And as volumes are increasing in most of our markets, obviously the capacity is becoming a little bit scarcer in the entire market, not our own, which adds to the ability to pass on prices.

Thomas Koch: So, did I understand correctly in your last call that we're going to see some more price increases here April 1 that you put in place to, to catch up further in these concrete prices and therefore your raw materials spread could improve?

Bill Sandbrook: Well that, that's obviously our goal and as I said our price increases are basically continuous as projects, old projects fall off because these projects can be a year out. As old projects fall off and replaced by new projects obviously that, that year that has gone by effectuates a higher differential in pricing on that 12 month period. So I'd say that's a fair statement that the prices will continue to increase.

Thomas Koch: All right great. One last question Bill, can you give us any Bode contribution specifics?

Bill Sandbrook: No, it's very difficult now because we've integrated that business with our other San Francisco operations. So volumes that we would've done or projects we would've serviced out of the South San Francisco plant that would be downtown are now being serviced out of Bode. So the numbers become very, very difficult to break out. Let's just suffice to say as I said in my prepared comments that we are very, very pleased with that acquisition.

Thomas Koch: OK, great. Thanks so much.

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

Robert Donald: Bill, hi, it's Robert in London. Thank you for taking the call. Just a couple of questions. I'm sorry I didn't hear the question that was asked and you gave the explanation and there was a 2 million differential, can you just clarify what that relates to and then the other questions I have are the following.

You were asked about the spread on your raw materials and you answered by saying you're staying ahead. And I just want to understand how you're defining staying ahead, does that mean a static spread percentage or is that a static or better than static dollar per yard contribution?

Bill Sandbrook: Well to your second question, Robert, as, as we announced in the prepared revenues the percentage stayed static for the quarter year-on-year but the absolute spread increased by about $1.70 per yard. And I, I did not understand your first question, I'm sorry.

Robert Donald: It was the same on that point you were asked by one of the gentlemen on the call about whether you were able to stay ahead of raw material pressure. And you said yes, we're staying ahead. And when you answer that question are you thinking in your mind that you're staying ahead by holding that percentage spread at 46 and a bit percent or are you actually staying ahead by expanding that now?

Bill Sandbrook: We're attempting to expand it and we think we're going to be successful.

Robert Donald: Thank you. And the first question was relating to the, the $2 million figure which was mentioned as being needed to be adjusted for in those figures. I wasn't clear what that related to. Could you clarify?

Matt Brown: I think, this is Matt Brown, I think what the question was, was how much of the increase in adjusted EBITDA was due to a gain from the prior year. And it was a reported $2 million increase and the gain from the prior year was $500,000 so adding those two together is $2.5 million.

Robert Donald: If I could just, just two other questions, can you just give a flavor Bill for the backlog, just your sense of how the spread on the backlog looks relative to what you've reported in Q1 which may be just a repetition of the previous questions, apologies, and finally what proportion of your backlog is long term contracts beyond three months? In other words they're still stuck in the pricing regime of three/six months ago?

Bill Sandbrook: On the backlog, the long lead time backlog I would say it's approximately 50 percent that would be greater than three months, which will be realized later in the third and fourth quarter of this year. And your first question again?

Robert Donald: First question was, when you look at the backlog today, relative to what you've delivered in Q1 whether you will be looking at average price or whether you're looking at spread. Does it look in line with Q1 or does it look materially or usefully better than Q1?

Bill Sandbrook: I would say it aligns with Q1 with marginal improvements.

Robert Donald: OK, thank you very much Bill.

Bill Sandbrook: You're welcome Robert.

Operator: Thank you. Again ladies and gentlemen if you have a question at this time please press star, then one on your touchtone telephone. Again if you have a question, please press star then one. I'm showing no further questions at this time. And ladies and gentlemen thank you for participating in today's conference. This concludes our program for today. You may all disconnect and have a wonderful day.

Bill Sandbrook: Thanks Sayid. And 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 2013 results with you in early August.

END