U.S. Concrete Third Quarter 2013 Earnings Conference Call

U.S. CONCRETE, INC.

Moderator: Matt Brown
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10:00 a.m. ET

Operator: Good day, ladies and gentlemen, and welcome to the U.S. Concrete third quarter 2013 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 and then zero on your touchtone telephone.

As a reminder, this conference call is being recorded. I now would like to introduce your host for today's conference, Senior Vice President and Chief Financial Officer, Matt Brown. You may begin.

Matt Brown: Thank you, Tamira. Good morning and welcome to U.S. Concrete's third 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 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 our e-mail distribution list to receive future news releases, please sign up in the Investor Relations section of our Web site under e-mail 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. 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'd like to turn the call over to Bill Sandbrook, our President and CEO, to discuss the highlights for the third quarter of 2013.

Bill Sandbrook: Thank you, Matt. I'm pleased to report that the positive trends we have experienced over the past 12 quarters continued in the third quarter. We continue to deliver improved results in revenue, volumes, pricing, material spread, and margins in both of our reportable segments; ready-mixed concrete and aggregates.

At the same time, we remained disciplined on our management of overhead and are experiencing a continued decline in SG&A as a percentage of sales. We have firmly established ourselves in our Euless headquarters location with a top-notch team in place to continue to capitalize on the increasing opportunities available as the construction economy continues to expand in our core markets.

Now let me cover a few highlights of our third quarter results. Our third quarter ready-mixed volume and revenue were up 9.6 percent and 16.1

percent respectively compared to the third quarter of 2012. This marks our 12th consecutive quarter for year-over-year revenue growth and the ninth consecutive quarter for year-over-year volume growth. Adjusted EBITDA of $18.6 million was up $9.7 million or 109 percent compared to the third quarter of 2012. Ready-mixed pricing also improved with average selling prices rising 5.9 percent for the third quarter compared to 2012.

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

Matt Brown: Thanks, Bill. This quarter while operating performance was significantly stronger than in the year ago quarter and also improved over Q2 of this year, our net loss included some large non-cash expenses related to the derivative valuation as well as the tax accounting. We will address these items specifically later in the call, but we encourage you to look deeper than reported unadjusted net loss and in particular to focus on adjusted EBITDA as a more representative measure of performance.

This morning we reported consolidated revenue of $173.6 million and net loss from continuing operations of $7.2 million for the third quarter of 2013. This compares to consolidated revenue of $147 million and net loss from continuing operations of $3.9 million for the third 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 third quarter 2013 reported net loss from continuing operations included a $5.5 million loss related to the fair value change in our 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 $16.42 per share on June 30, 2013 to $20.06 per share on September 30, 2013 is the primary driver of the loss we recorded of the derivative during the third quarter. Also included in our third quarter 2013 net loss from continuing operations was approximately $1.7 million of expense related to the extinguishment of debt, $1.2 million in non-cash stock compensation expense, and $245,000 of officer related severance.

Included in the third quarter 2012 net loss from continuing operations was a non-cash loss related to the Company's derivatives of $2.6 million, $2.6 million of expense related to the extinguishment of debt, $805,000 of non-cash stock compensation expense, and $729,000 of expense related to the corporate headquarters relocation. Excluding these items, our pre-tax net income increased to $11.2 million in the third quarter of 2013 compared to $3.1 million in the prior year quarter. In addition, our third quarter 2013 net loss included a $10 million non-cash tax expense compared to a $472,000 tax benefit in the third quarter of 2012. This large tax expense in 2013 was due to a reversal of tax benefits recorded during the first two quarters of the year and we expect it to normalize during the fourth quarter.

Now let's turn to the key operating measures for the third quarter. Total revenues from continuing operations were up by 18 percent year-over-year for the quarter. Ready-mix revenue increased by $21 million 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 $1.7 million or 17.2 percent for the same period.

This marked the 12th consecutive quarter in which we've reported increase in consolidated revenue on a year-over-year comparative basis. Ready-mix volume for the quarter increased by 9.6 percent compared to the third quarter of 2012. Ready-mix volumes have now increased year-over-year in the last nine consecutive quarters. On the pricing side, we realized an increase in our average ready-mix sales price of 5.9 percent from $98.67 per yard in third quarter of 2012 to $104.47 per yard in third 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 except for the Northeast where our mix of business is more heavily weighted toward our lower priced New Jersey market versus the higher priced New York market.

This is the ninth consecutive quarter with consolidated year-over-year increases. Our ready-mix concrete raw material spread increased to 46.8 percent for the third quarter of 2013 compared to 45.7 percent in the third 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 $3.82 for the third quarter of 2013 compared to third quarter of 2012.

Our SG&A expenses decreased by $462,000 during the third quarter of 2013 compared to the third quarter of 2012 primarily due to expenses related to the relocation of the corporate headquarters of $729,000 in the third quarter of 2012, partially offset by higher non-cash stock compensation expense and officer severance in the third quarter of 2013.

Excluding the expenses related to our corporate headquarters relocation, non-cash stock compensation expense and officer severance; as a percentage of revenue SG&A expenses decreased to 7.6 percent of revenue in the third quarter of 2013 compared to 9.2 percent in the prior year quarter. Consolidated adjusted EBITDA increased by 109 percent to $18.6 million in the third quarter of 2013 from $8.9 million in the third quarter of 2012.

Adjusted EBITDA as a percentage of revenue was 10.7 percent for the third quarter of 2013 compared to 6.1 percent for the prior year quarter. Adjusted EBITDA in Q3 of 2013 was also a 9.4 percent improvement sequentially compared to adjusted EBITDA in Q2 of 2013 which was $17 million. The ready-mix concrete segment drove most of the improvement year-over-year with adjusted EBITDA of $19.4 million for the third quarter of 2013 compared to $12.1 million in the third quarter of 2012. Adjusted EBITDA as a percentage of revenue for the ready-mix concrete segment improved to 12.8 percent for the third quarter of 2013 compared to 9.3 percent in the prior year quarter. Operational efficiencies and pricing continue to drive improved margins.

As to operating cash flow, during the third quarter of 2013 we had cash provided by operations of $17.4 million compared to $2.3 million used in operations for the third quarter of 2012. This increase was primarily the result of increased earnings combined with proactive management of trade working capital. For the third quarter of 2013, we spent $5.2 million in capital expenditures, up approximately $3.7 million compared to the third quarter of 2012. The increase in CapEx was due primarily to higher spending on mixer trucks and plant equipment and improvements. Last week we announced that we amended and restated our asset-based credit agreement.

The amendment gives us improved pricing and upon the qualified refinancing of our senior secured notes, will increase the total commitments under our credit facility from $102.5 million to $125 million and extend the expiration of the credit facility from July 1, 2015 to the earlier of October 29, 2018 or 60 days prior to the maturity of the indebtedness incurred in refinancing the senior secured notes. In addition, the amendment increases the uncommitted accordion feature to $50 million increasing the total commitments that be allowable under the facility to $175 million. The amendment provides us with additional flexibility and contingent liquidity that will help us better execute our strategic plan for growth.

The book value of our long-term debt including current maturities was $84 million on September 30, 2013. This included $61.1 million of senior secured notes, $18 million of borrowings under the senior secured credit facility, and $4.9 million of other notes payable. As of September 30, 2013, we had $18 million drawn on the credit facility with $11.3 million of undrawn letters of credit outstanding and tax and other reserves of $3.8 million. This left us with $69.4 million of availability. We also had $7.7 million of cash and cash equivalents on our balance sheet as of September 30.

In accordance with our credit agreement, upon the occurrence of certain events, we must maintain a fixed charge coverage ratio of at least 1:1 for the trailing 12-month period. For the 12 months ended September 30, 2013 our fixed charge coverage ratio was 4.25:1. In accordance with the indenture governing our senior secured notes, we must also maintain a consolidated secured debt ratio of no more than 7:1. As of September 30, 2013, our consolidated secured debt ratio was 2.05:1. We continue to make strides in the improvement of our balance sheet and overall capital structure and we believe we are positioned to take advantage of opportunities that will drive our short and long-term success.

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

Bill Sandbrook: Thanks, Matt. Our ready-mix backlog at the end of the third quarter 2013 was 11.2 percent higher than it was at the same time last year and 20.8 percent higher than at the beginning of the year. As I stated before, despite our continued organic and acquisitive growth; we remain grounded, disciplined, and focused on our day-to-day responsibilities of delivering ready-mix concrete of the highest quality and with the highest service levels to our customers. We'll continue to seek out opportunities for further growth at a pace that we can both support and sustain for the long term.

To conclude, we are pleased with the third quarter results and look forward to continue to capitalize on the positive momentum we are seeing in our markets. We believe that our model focusing on our core ready-mix business supported with organic aggregate operations provides us with significant competitive advantages in the markets we choose to participate in. I look forward to reporting our year-end results to you in a few months.

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

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

Again, if you have a question, please press star, then the number one key on your touchtone telephone.

And our first question comes from John Messenger.

John Messenger: Hi, Bill and Matt. It's John Messenger over here in London. Just to say impressive numbers first of all. I'm not used to the kind we are seeing on these calls, but I got to hand it to you. Bill, just on the picture in terms of geographies and that point, obviously you gave a comment on the call around the differences between New Jersey and what you've seen overseas when you bought Bode. Could you give me a bit of flavor just around the U.S. in terms of how pricing is evolving?

And then when we think about particularly looking up at New York, how quickly and over what time frame the land-based work on the Tappan Zee is? Is that something that will be a slight depressant on pricing or is that something that you secured and actually what you deem a relatively normal price in that market? And then my second question and please remind me. Matt, you mentioned I think your material yield margin 46.8 percent versus 45.7 percent. Could you just give your latest view on potentially where you would hope to drive that to if that's something you're prepared to share with me? Thanks.

Bill Sandbrook: On your question about pricing geographically, John, we're seeing the same pricing trends basically throughout our four main geographies being Northern Texas, West Texas, Central California the Bay Area, and New York, New Jersey. What you've seen though and what we've talked about in our prepared remarks is that structurally the pricing in New York because of the cost of doing business there and the cost of securing raw materials there is higher than it is in New Jersey for instance.

And this is a bit of a mix shift to more weighted business in New Jersey that would have depressed the overall average selling price somewhat as compared to a higher volume in New York. So we're seeing very healthy pricing trends across our mix of businesses.

On your question about material margins, we were up year-over-year significantly and sequentially we were up moderately. But now as we get the prices up into the areas where we're reporting, obviously the small incremental increases in margin are giving us larger absolute dollar increases in material margin. I would say aspirationally, we're trying to get up to the 50 percent range; we're not there yet, some of our markets are. But that would be our aspirational goal and target for material margins over the cycle.

John Messenger: And just coming back on it, when you look around your key geographies and the way that is evolving, clearly moving price as much as it's moving is one big ingredient. But behind that, do you sense that actually there is a bit more across the integrated players and others who don't match up with you on service? But certainly if I look at the rest of the Heidelbergs, the CEMEXs, the Holcims, and the Lafarges; there is more push from those guys maybe because they're managing their businesses more holistically to make sure they're trying to tap in and secure dollar margin. But do you think there is a genuine kind of improvement in the way those guys are approaching this and making life a little bit more helpful for yourself also?

Bill Sandbrook: That's a very good question and I would answer that in the affirmative. But I do think that the multinational and national publicly traded vertically integrated companies that we're competing against are showing needed discipline in their approach to pricing and margins probably because of the underperformance through the cycle that we've had in our business over the last four years.

John Messenger: Yes, absolutely. Thank you very much. Great numbers.

Operator: Thank you. And our next question comes from Mr. Tom Koch with Turnaround Capital. Your line is now open.

Tom Koch: It looks like in the sources and uses, there is some money that was spent for treasury stock purchases and it also looks like the average number of shares are down for the quarter versus where you ended the last quarter in the 10-Q. Can you talk about that?

Matt Brown: As far as the treasury stock, that's basically just vesting events for the employees who had restricted stock. And when that occurs, there's a tax withholding for a certain number of shares that they get unless they choose to pay for those taxes out of their own pocket. So, that's what's going on there. And as far as the number of shares go, we haven't actually released the number of shares. On the front of the Q, the number you'll see will be down a little bit and that's for the vesting as per that same phenomenon as the shares being withheld.

Tom Koch: So it's essentially reducing the share count via this withholding?

Matt Brown: Correct.

Tom Koch: OK. So you expect to be under 14 million shares?

Matt Brown: No. And you'll see that in the 10-Q when it comes out later today.

Tom Koch: OK. And then qualitatively, can you talk about the increase in the backlog and how does the backlog look relative to the pricing and the mix that you've experienced over the last six months?

Bill Sandbrook: I'll take that, Tom. I would say that the backlog continues the trends that we've been experiencing. As you know as some raw material prices are increasing, we're passing that along to our customers and that is evidenced in our backlog. We're not going backwards there.

Tom Koch: OK. And any major shifts in geographies?

Bill Sandbrook: No, I would say the basic geographic spread remains intact with all backlogs healthy. I would say that the level of intensity of business in the Bay Area is still increasing, which we're pleased to see. And so we're very pleased with the spread of backlog.

Tom Koch: And then on the discontinued ops line, there is a loss for the nine months which is about $1.7 million and I actually couldn't find an entry on the balance sheet for the discontinued operations. But I'm assuming that's the precast plant in Pennsylvania and if it's losing money, why don't you want to just shut it down?

Bill Sandbrook: The numbers that you're seeing are actually in reference to our sale of the California and Arizona precast operations. The Pennsylvania one is still a continuing operation, it's an ongoing business. We continue to evaluate its short-term performance and its long-term strategic value to the Company. But at this point, we have no intention of shutting it down. But the numbers you're referencing are Arizona and California precast numbers.

Tom Koch: And they had a loss for 2013?

Bill Sandbrook: Yes. That's because we had incentive payments and liabilities that we had to pay to Oldcastle subsequently.

Matt Brown: And with respect to the balance sheet, we don't break out discontinued ops in the balance sheet, Tom.

Tom Koch: OK. What are your at this point continuing obligations for either asset sales or earnouts, the Bode transaction and things of that nature?

Bill Sandbrook: For the Bode transaction, we published the earnout opportunities; over a number of years basically it is $7 million and that's been priced out and costed out in our acquisition model. And the continuing liabilities for it, they're are not in Arizona as far as precast. In California we still have some properties that we are leasing and one property that we're attempting to sell. So there's some minor ongoing costs associated with the California precast operations.

Tom Koch: OK. So I guess where I'm going, Bode you've owned it for a year now, have you already made some payments to them on the earnout?

Bill Sandbrook: No, that would be due subsequent to the close of this year and the performance of that business over this current calendar 12-month period.

Tom Koch: OK. Thanks. And then one more just general question, Bill. You've been talking for quite some time about an acquisition or acquisitions and reading through this new credit agreement, you've obviously now got lots of room in there to do an acquisition, to do a refinancing, to pay a dividend. I'm wondering if you can give us a little bit more color on your thoughts as far as how you see this coming together in light of the fact that the premium on the call on the bonds will start to go up on January 1, I believe?

Matt Brown: Tom, I'll take that one. That's true we can take the bonds out at par this year. That goes up by a delta of about $1.2 million actually in the call price if we wait till next year. That's one factor that we're considering in terms of total transaction costs in whatever we might do with the senior secured notes. We're always looking for opportunities to improve our capital structure. We have amended the ABL facility to allow for greater flexibility and liquidity.

And with respect to senior notes, we plan to take those out well in advance of the maturity date of October 1, 2015. So we'll leave it at that.

Tom Koch: OK. Thanks, guys.

Operator: Thank you. Again, ladies and gentlemen, if you have a question at this time, please press star and then the number one key on your touchtone telephone.

We have a follow-up question from Mr. Messenger with Redburn.

John Messenger: Sorry to come back with one more, Bill and Matt. In terms I took your point earlier, Matt, around the income tax line in terms if the ins and outs and the reversal I think from Q1 and Q2. But if I was sitting here today looking at the group in terms of the charge through the P&L and then your cash tax rate, is there over the next couple of years in terms of losses that you can take against trading profitability for the business ongoing? What is the right kind of rate to use both on a cash tax number and then just on what we'll see through the profit and loss account?

Sorry to be a bit of a (inaudible), but just trying to understand on a kind of cleaned out basis. Are you up at 39 percent on a charge to the P&L where the cash tax will be lower or have you got losses that actually haven't been recognized that will bring down the (reported) rates for the P&L?

Matt Brown: Well, we have about $70 million of NOLs and that should last us several years. Now in the out years when we do start paying taxes, the tax between federal and state will be in the 39 percent area. But between now and then and for example for this year, it's going to be much, much less than that. We're paying a little bit of AMT and a little bit of state taxes. So the tax expenses you've seen on the P&L so far this year are non-cash. We had benefits totaling $8.3 million in the first half of the year and then essentially what amounted to a reversal of that with a $10 million expense in the third quarter. We expect that to normalize by the end of the year and the full-year tax expense will be a fairly nominal number.

John Messenger: Just going forward actually, it's not as if you recognize deferred tax in the balance sheet that will go back through the P&L as in the charge will look low and the cash will be low. Is that the correct way to understand that?

Matt Brown: That is not the case.

John Messenger: All right. Because you'll be unwinding deferred tax on the balance sheet, it will appear in the P&L. But I see we should just think of a very low cash tax rate here. Is that the right way to think about it?

Matt Brown: That's correct.

John Messenger: Brilliant. Thanks very much.

Operator: Our next question is from Mr. Jason Bernzweig with Zelman Capital. Your line is now open.

Jason Bernzweig: I just had a question of clarification on something you mentioned earlier. You talked about the spread for material costs on your gross margin line. Are you implying that from your aspirational perspective you could be moving up to a gross margin through the cycle somewhere in the 20 percent range? Is that a good takeaway of that?

Bill Sandbrook: I wouldn't necessarily extrapolate that. I'm more interested in attacking the material spread line and attacking the operational aspects of the remainder of the gross margin line separately. I think that would be somewhat aspirational as well.

Jason Bernzweig: OK. But it does imply gross margin expansion or am I wrong by concluding that?

Bill Sandbrook: No, that's correct.

Jason Bernzweig: OK. As we come through the cycle from a revenue standpoint, you guys have obviously been acquisitive. We're still arguably at kind of cyclical lows and you guys have a different type of asset configuration. Where are you in terms of kind of asset utilization rates? What kind of revenue base can you derive from your existing asset base? Would you have to invest in capacity kind of as demand grows through the cycle?

Matt Brown: I'll take that, Jason. There are two components to the capacity utilization for a ready-mix company; one is the plants themselves and that varies somewhat from region to region. But generally our plants are only utilized let's say 30 percent to 60 percent or 70 percent. Really where we need to add capacity is on the truck side; you add mixer trucks to flex with capacity as demand increases.

So that's where our focus is. And taking it back to the peak of the cycle which was 2007, the Company was doing over $800 million in revenue. Having said that, the ASP at that time was between $91 and $92 per cubic yard. Now at least for the last quarter, it's at $104. So there is an improvement in pricing that makes it difficult to compare just revenue as far as how that's going to get down to profitability. Does that answer your question on the capacity utilization?

Jason Bernzweig: It does. So obviously when we're talking about the utilization rate of trucks then, are we stretched where you'd have to invest and I'm assuming that level of investment is considerably lower than the expanding cement capacity or ready-mix capacity?

Matt Brown: As opposed to adding plants, that's correct. We're still looking at a CapEx target of 4 percent of revenue and we think we can meet demand at that level even while we're adding mixer trucks.

Jason Bernzweig: So maybe summing that up a little bit, we're talking about comparing to prior peak maybe the total revenue opportunity of the existing asset base kind of getting up $800 million plus with maybe gross margin expansion at least that's barely up from where we are now based on the spreads. Is that kind of a not necessarily aspiration, but mid-cyclish outlook?

Matt Brown: I would say that's generally fair. You also have to consider we did acquire the Bode operation in San Francisco so the asset base is a little bit different and the precast operations have been divested substantially. So the asset base is little bit different, but I don't think you're far off.

Jason Bernzweig: All right. It sounds like pretty incredible opportunity. Glad we're shareholders. Thank you.

Matt Brown: We appreciate your support.

Operator: Thank you, again ladies and gentlemen, if you have question at this time, please press star and then the number one key on your touchtone telephone.

I'm not showing any questions at this time, I'd like to turn the call over for any further remarks.

Bill Sandbrook: All right. Thank you, Tamira, and thank you, everyone, for participating in the call this morning and for your support of U.S. Concrete. We look forward to talking to you at the beginning of the year.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.

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