U.S. CONCRETE 2012 FOURTH QUARTER AND FULL YEAR RESULTS CONFERENCE CALL TRANSCRIPT

Moderator: Matt Brown
March 7, 2013
10:00 a.m. ET

Operator: Good day, ladies and gentlemen, and welcome to the U.S. Concrete Incorporated Fourth Quarter and Full-Year 2012 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 be given at that time. If anyone should require operator assistance, please press star and then zero on your touchtone telephone.

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

Matt Brown: (Vice President & CFO) Thank you, Ashley. Good morning and welcome to U.S. Concrete's Fourth Quarter and Full-Year 2012 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 the call over to Bill, I would like to cover a few administrative items. The 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'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 that such expectations will prove to have been being 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 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 8K filed earlier today and in the Investor Relation section of our website.

This morning, we issued a detailed press release which contains information regarding our fourth quarter and full-year 2012 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'd like to turn the call over to Bill Sandbrook, our President and CEO, to discuss the highlights for the fourth quarter and full-year 2012.

Bill Sandbrook: (President & CEO) Thanks, Matt. I'm pleased to announce that the positive momentum we built in the first half of the year continued through the end of the fourth quarter. Our year was marked with significant progress on many fronts.

We successfully completed the acquisition of three ready-mixed operations that complement our existing markets, executed the sale of non-core assets allowing us to focus on our core ready-mixed business, accomplished the move of our corporate headquarters from Houston to Euless, Texas, opportunistically refinanced our ABL facility, and grew both volumes and pricing in all regions.

In the fourth quarter, we acquired Bode Concrete located in San Francisco as I discussed on our last call. Additionally, we completed the sale of substantially all of our assets associated with Smith Precast, which is located in Phoenix, Arizona, to Jensen Precast for $4.3 million in cash and the assumption of certain obligations.

This marks the sale in 2012 of 6 out of the 7 precast plants owned by the company. We continue to evaluate our strategic alternatives for our remaining precast operation in Pennsylvania.

In our press release issued earlier today, we informed the market that in the fourth quarter of 2012, we made changes to our reportable segments to better align them with our overall strategy in the manner in which we organize and operate our business.

As a result of this change, our new reportable segments will be ready-mixed concrete and aggregate products. Our previously reported precast concrete products segment was eliminated when six of the company's seven precast plants were sold during 2012.

Our remaining precast plant, as well as other products and services that were previously associated with the ready-mix concrete and concrete-related products segment, are no longer associated with a reportable segment.

These other products and services that include our building material stores, hauling operations, lime slurry, Aridus rapid-drying concrete technology, brokered product sales and our recycled aggregates operation.

All historical segment results discussed on the call today will be restated to conform with these changes. Now, let me cover a few highlights of our fourth quarter and full-year results.

Our fourth quarter ready-mix volume and revenue were up 15.7 percent and 16.8 percent respectively compared to the fourth quarter of 2011. This marks our ninth consecutive quarter for year-over-year revenue growth and the sixth consecutive quarter for year-over-year volume growth.

Adjusted EBITDA of $5.7 million was up $1.1 million, or 24.3 percent, compared to the fourth quarter of 2011. For the year, our ready-mix volume and revenue were up 19.6 percent and 22.1 percent respectively compared to 2011.

Ready-mix pricing also improved with average selling prices rising 1.1 percent for the fourth quarter and 3.3 percent for the year compared to 2011. We remain encouraged by the improvement in all of our construction markets and continue to focus on operational improvements and strategic enhancements to further our success.

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

Matt Brown: Thanks, Bill. This morning, we reported consolidated revenue of $134.9 million and a net loss of $12 million for the fourth quarter of 2012. This compares to consolidated revenue of $117.8 million and net income of approximately $900,000 for the fourth quarter of 2011.

Before I discuss the key aspects of our results, such as price and volume trends, I want to point out that the fourth quarter 2012 reported net loss includes a $13.2 million 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 $6.48 per share on September 30th, 2012, to $9.05 per share on December 31st, 2012, is the primary driver of the loss we recorded on the derivative during the fourth quarter.

Also included in our fourth quarter 2012 net loss were approximately $200,000 in non-stock or non-cash stock compensation expense and $200,000 of expense related to the corporate headquarters relocation.

Included in the fourth quarter 2011 net income with a non-cash gain relates to company's derivatives of approximately $3.6 million, approximately $700,000 of non-cash stock compensation expense and approximately $400,000 of costs related to the departure of our former president and CEO and the hiring of our new president and CEO.

Excluding these items, our net income improved to a positive $1.6 million in the fourth quarter of 2012 compared to a loss of $1.6 million in the prior year quarter. Now, let's turn to the key operating measures for the fourth quarter.

Total revenues were up by 14.5 percent year-over-year for the quarter. Ready-mix revenue increased by $17.5 million, or 16.8 percent, year-over-year due to a combination of higher volumes and higher average sales prices per cubic yard.

Aggregate products revenue increased by $2.2 million or 34.2 percent for the same period. As Bill mentioned previously, this marks the ninth consecutive quarter where we've reported an increase in consolidated revenue on a year-over-year comparative basis.

Ready-mixed volume for the quarter increased by 15.7 percent compared to the fourth quarter of 2011. We are pleased to see that the ready-mix volumes have now increased year-over-year for the last 6 consecutive quarters.

On the price side, we realized an increase on our average ready-mix sales price of 1.1 percent, from $97.70 per yard in the fourth quarter of 2011 to $98.81 per yard in the fourth quarter of 2012.

This remains particularly encouraging since the larger 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 seventh consecutive quarter with consolidated year-over-year increases.

To that point, our ready-mixed concrete raw material spread was 47.5 percent in the fourth quarter of 2012 compared to 44.1 percent in the fourth quarter of 2011. We saw increases in material spread in all of our major markets for the quarter as we were able to effectively pass through increased costs of cement and aggregates in the form of increased pricing and additional sales of value-added products.

The actual raw material spread in dollars per yard increased by $3.90 for the fourth quarter of 2012 compared to the fourth quarter of 2011. Fuel costs increased once again during the fourth quarter of 2012 and we paid an average of 2 percent more in fuel costs per yard of concrete delivered compared it to the fourth quarter of 2011.

Operational efficiencies from increased volume, however, combined with our fuel surcharge mechanisms, were able to more than offset higher fuel costs as ready-mixed concrete operating margins for the fourth quarter of 2012 increased by 4.9 percentage points over the fourth quarter of 2011.

Our SG&A expenses increased by $4.6 million during the fourth quarter of 2012 compared to the fourth quarter of 2011 primarily due to the expenses related to the recently completed relocation of the corporate headquarters, increased incentive compensation accruals and increased legal and professional fees related to the sale of our Arizona precast operations, the acquisition of Bode Concrete in San Francisco and our ongoing strategic review of our capital structure, which I will touch on more later in the call.

We continue to focus on aggressively managing our SG&A costs. The incremental costs incurred during the fourth quarter of 2012 were substantially either non-recurring in nature or were incurred to enable accretive acquisitions or to provide ongoing improvements in operating margins.

Consolidated adjusted EBITDA increased by 24.3 percent to $5.7 million in the fourth quarter of 2012, compared to $4.6 million in the fourth quarter of 2011. Adjusted EBITDA as a percentage of revenue was 4.3 percent for the fourth quarter of 2012 compared to 3.9 percent for the prior year quarter.

For the fourth quarter of 2012, ready-mixed yards per truck increased by 8.1 percent from the fourth quarter of 2011 and yards per man hour increased by 7.6 percent for the same period year-over-year.

As to operating cash flow, during the fourth quarter of 2012, we generated cash from operations of $18.7 million, compared to $8.2 million for the fourth quarter of 2011. This increase was primarily the result of working capital improvements.

The company generated free cash flow, defined as cash from operations less capital expenditures, plus proceeds from asset disposals, of $22.4 million in the fourth quarter of 2012, an increase of $12.9 million from the $9.5 million generated in the fourth quarter of 2011.

Included in our fourth quarter 2012 free cash flow, was $4.3 million in cash proceeds received from the sale of our Arizona Precast operations. For the fourth quarter of 2012, we spent $3.9 million on capital expenditures, up approximately $3.5 million compared to the fourth quarter of 2011.

As volumes continue to increase with demand, we will continue to adjust spending to reflect our current outlook for future production requirements. The book value of our long-term debt, including current maturities, was $63.5 million on December 31st, 2012. This included $46.1 million of convertible notes through 2015, and $13.3 million of borrowings under the Senior Secured Credit Facility, plus $4 million of other notes payable.

The difference between the book value of the convertible notes and the face amount of $55 million 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 December 31st, 2012, we had $13.3 million drawn on our credit facility with $12.2 million of undrawn letters of credit outstanding. This compares to December 31st, 2011, when we had $15.1 million drawn on our credit facility with $18.7 million of undrawn letters of credit outstanding.

This left us with $52.4 million of availability as of December 31st, 2012, compared to $31.2 million available as of December 31st, 2011. Our availability is net of a $2.0 million reserve for sales and use tax, which reduces availability in accordance with the credit agreement.

We also had $4.8 million of cash and cash equivalents on the balance sheet at the end of 2012. In accordance with our credit agreement, upon the occurrence of certain events, we must maintain a fixed charge coverage ratio of at least one-to-one for the trailing 12-month period.

For the 12 months ended December 31st, 2012, our fixed charge coverage ratio was 2.97 to 1. Also, in accordance with the indenture governing our convertible notes, we must maintain a consolidated secured debt ratio of no more than 7.5 to 1.

As of December 31st, 2012, our consolidated secured debt ratio was 3.22 to 1. As I briefly discussed earlier, we have been focused on the health of our balance sheet and the overall capital structure that will allow us to best achieve our short-term and long-term strategic goals.

You may have seen that we recently filed a registration statement and corresponding tender offer documents with the SEC with the intent to exchange our $55 million of convertible notes for $69.3 million of new senior secured notes.

The senior secured notes, which will mature in October 2015, will not be convertible to the company's common stock, will have a call feature that allows us to purchase the notes at par during 2013 with certain premiums to par thereafter, and will allow us to increase the availability under our revolving credit facility from $80 million to $102.5 million.

The exchange, if consummated, will provide us with more liquidity and flexibility to execute our operational and strategic plan going forward. The expiration date of the exchange offer is March 21st and if consummated, we expect to close on March 22nd.

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

Bill Sandbrook: Thanks, Matt. We are encouraged by the initial signs of market recovery that we saw during 2012. The continued rebound in residential construction markets is benefiting all of our regions.

The Architectural Billings Index, a leading economic indicator of non-residential spending, indicated the strongest growth in billing since the end of 2007. We continue to believe we are in the right geographic markets to capitalize on these trends as the pace of growth in our markets appears stronger than the national average.

Both pricing and volume growth trends have continued and we have seized the opportunity provided to us by favorable weather patterns in our markets in 2012.

Our ready-mix backlog at the end of the year was 5.7 percent higher than at the end of last year. We continue to aggressively pursue our strategic goals and assess and manage internal activity within our control such as pricing, cost containment and overhead reductions and fully expect the investments we have made in these areas to benefit our performance in the coming year.

To wrap things up, our team's hard work and disciplined execution delivered improved results for 2012. We remain committed to strengthening our current market conditions and capitalizing on the positive economic trends we are experiencing in our markets.

We believe our focused attention on the delivery of ready-mix concrete across the organization 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, if you have a question at this time, please press star and then one on your touchtone telephone. If your question has been answered or you wish to remove yourself from the cue, please hit the pound key.

Our first question is from Matthew Dodson of J West, LLC. Your line is open.

Matthew Dodson: Can you talk about your incremental margins you're seeing right now? You've done a great job of pushing price. How much of that price, you know, flows through to the bottom line and when you get your capacity utilization up, how much of that extra volume kind of flows through the bottom line?

Bill Sandbrook: It depends on region and the underlying cost structure of the region, and what the raw material costs are, obviously, but I would say, on average, it's between 20 and 30 percent.

Matthew Dodson: Twenty to thirty percent? And then can you kind of give us an idea of the run rate for SG&A? What is a good run rate to model?

Bill Sandbrook: Well, we'd be targeting between eight and nine percent on sales. Now, we had significant one-off expenditures there for the transactions we were accomplishing throughout the year, some of our refinancing operations, as well as different health care and comp costs due to our relocation.

But I would start targeting our internal target was -- be eight percent, although, we might a year or two off from that. And remember, a lot of that is dependent on the top line growth as opposed to further reductions in the underlying SG&A.

Matthew Dodson: My last question for you guys is you've done a fantastic job of pushing price. Can you kind of give us an idea of what you've been able to do in the first quarter so far on your price increases?

Bill Sandbrook: Sure. As you know, we operate in five specific regions, and I count Washington D.C. as one of those five. It's specific to each region and it's usually tied to when we're seeing increases in our major raw material inputs, namely cement and aggregates.

So, depending if we were seeing those increases at the beginning of the year, we would've immediately followed-up with price increase announcements; however, a lot of those additional costs haven't been incurred yet and are due to hit our operations in April.

So, I would say 75 percent of our price increase announcements are going to be effective April 1st and frankly, the markets are prepared for price increases this year because the cement companies have been signaling all through the fourth quarter and into the first quarter this year their intentions to increase pricing.

Matthew Dodson: Just to clarify, that means you are staying ahead of their price increases, correct?

Bill Sandbrook: Correct.

Matthew Dodson: All right. Thank you very much.

Operator: Thank you. Again, ladies and gentlemen, to ask a question, please hit star and then one. We have a question from Austin Hopper of AWH Capital. Your line is open.

Austin Hopper: Hey, guys. Good morning. Thanks for taking the question. Nice quarter. I just hope you could maybe comment more specifically on the Dallas and DFW market and just kind of tell us a little bit more about that lately. Thank you.

Bill Sandbrook: Sure, Austin. For those of you that live in the DFW are a or follow it, it's a very robust construction market that's starting to hit on all cylinders with many, many transportation infrastructure projects on I-35, on I-635, and it seems like there are major projects underway throughout the entire metroplex.

That's carrying over into the commercial sector and the multi-family sector with a lot of building in downtown Dallas, downtown Fort Worth and in the suburbs, and the suburbs are getting much healthier as you see a lot of new projects coming online in the residential sector.

The Dallas/Fort Worth market has suffered for a number of years, but it is getting healthy very quickly.

Austin Hopper: Thank you.

Operator: Thank you. We have a question from Jason Bernswerg of Zelman Capital. Your line is open.

Jason Bernswerg: Can you talk about your business and the context it has in recovery? If I look at one of your most recent investor presentations, it looks like your residential exposure is kind of sub-20 percent, but if we go back to, you know, the 2006 area, it's 2 to 3 times that. Is that the kind of growth trajectory we can expect if we get back to a million housing starts for your business?

Bill Sandbrook: We aren't specifically focused on residential, and historically, if you look at the company's performance during the peak residential build between '03 and '06, the margins were somewhat depressed because of an overweighting of the residential construction segment in our book of business.

So subsequent to that and coming out of the downturn, we're more focused on the commercial industrial and recently some street and highway because of the large amount of projects available in our market areas.

Now, having said that, as residential comes back, we will use excess capacity in our plants into that segment, but traditionally, it's been a much lower priced market for us with limited barriers to entry and we've chosen to compete outside of that market for higher returns; although as res comes back, you can expect more volume growth for us, which then covers -- carries over our fixed costs a little more.

But I wouldn't say that it's an overwhelming priority for us; although, we will benefit from it.

Jason Bernswerg: OK. Appreciate that. The second question relates to the fragmentation of the industry. Is M&A a strategic priority for you for growth and if so, when you look at the landscape out there, are there attractive valuations to acquire new assets relative to where you trade in the public market?

Bill Sandbrook: I would say that acquisitions are part of our strategic plan; however, we are focused on our underlying businesses for organic improvement and feel that we still have room to go there; although, we're looking in all our markets for attractive tuck-in and bolt-on acquisitions, and there are opportunities in all of our markets that we are looking at and it will be part of our strategy going forward.

Jason Bernswerg: Thank you.

Operator: Thank you. Our next question is from Craig Bernson of Watermill Institutional. Your line is open.

Craig Bernson: Good morning. Congratulations on another strong quarter and everything that you guys continue to accomplish. My question is could you remind us on where we are in the exchange offer and what is necessary for it to be successful?

Matt Brown: Sure, Craig. It's Matt Brown. There's a threshold in the support agreements that we've agreed to with two of the large holders that we need 82.5 percent of the existing holders to tend to their notes.

So that's the threshold we're dealing with, and we have two of the major holders basically who have agreed to tender their notes, and that represents $34.7 million principal amount out of the $55 million total.

So doing the math, the remainder is 10.7 million principal amount that we need and typically, you won't see that come in until the last couple of days of the offer. So that's where we stand at this point.

The expiration date is now March 21st and we expect to close on the 22nd.

Craig Bernson: Very good. Keep up the good work. Thanks, guys.

Matt Brown: Thank you.

Operator: Thank you. We have a follow-up question from Matthew Dodson of J West, LLC. Your line is open.

Matthew Dodson: A follow-up question for you guys. Can you talk about your EBITDA margins and where they are in the cycle and if you were successful, you know, in the cycle where those EBITDA margins can go?

Bill Sandbrook: Yes, I'll take that, Matthew. Now, we're still early in the cycle and the EBITDA margins, I believe, were about four percent for the quarter and that's still less than we'd like them to be.

We're targeting, within a short to intermediate term, to be fairly healthy, I would say 10 percent. But with the markets we're operating in, the opportunity will be to go north of 10 percent when the recovery's in full steam.

Matthew Dodson: So can you kind of help us then? You know, you said the short-term 10 -- should we kind of forecast 10 percent EBITDA margins next quarter as a run rate?

Bill Sandbrook: Yes. I mean, I really can't comment on that and remember, we're still at the beginning of the cycle. You're seeing our run rate on price increases you are seeing from the cement companies what they're looking for on their cost -- on their price increases to us. So it's not going to be that quick.

Matthew Dodson: Let me ask you a different way: What revenue target would you need to get to to get that EBITDA to 10 percent?

Bill Sandbrook: You know, that's really a hard question to answer. The way I would respond to that, if you look at historical U.S. Concrete results, you would need to be -- and I'm just speaking historically and things have changed since then -- up around the $700 million range historically for this company.

Is this cycle going to be similar to the last one? Perhaps, perhaps not, but from a historical perspective, that's where it was.

Matthew Dodson: All right. Thank you very much. Congratulations on a great quarter.

Bill Sandbrook: Thank you.

Matt Brown: Thank you.

Operator: Again, ladies and gentlemen, to ask a question, please hit star and then one. We have a question from John Messenger of Redburn. Your line is open.

John Messenger: Hi, Bill and Matt. It's John here in London. Sorry, just a couple of quick questions, if I could. The first one is just, Bill, you mentioned there in terms of spending in the year ahead and a lot will clearly depend on how the market evolves, but related to CAPEX that obviously has moved up a couple of million year-over-year, are you looking at spending kind of around that this year or is it something that will move north of that?

And when we think about how obviously EBITDA margin moving through to EBIT margin, there's clearly been a benefit of your depreciation has been dropping off by about $3 million year-over-year. When we look at the fourth quarter, the depreciation just moved up somewhat; is that driven by the acquisitions, the back-end of the year, or just when we think about your modeling where you're going to be in terms of that EBITDA?

Obviously, it's better to see EBIT rather than EBITDA, but if you could just -- if you could give us any help on those two, that would be great.

Bill Sandbrook: Sure. You know, there has been a reluctance to spend capital as the financial condition of the company deteriorated in '09, '10, and '11. So we do have some catch-up to go there. We're targeting as a long-term run rate about 4 percent of revenue. So that would help your modeling on that.

And on the depreciation in the fourth quarter, it did pick up because of the acquisitions that we had undertaken.

John Messenger: Great. And then just one follow-on. You mentioned earlier the -- obviously the backlog is there, price increases from the 1st of April, but just thinking around the first quarter, given that the cement producers are all claiming that they put through price increases from the 1st of January, do you have any issue at all in terms of capturing margin improvement in Q1 or were you already pricing for that increase coming through from the 1st of January?

Bill Sandbrook: Remember, towards the end of last year, and I've mentioned this on previous conference calls, part of our strategy on pricing is not to rely necessarily on a single price announcement or two price announcements based throughout the year. That really only covers a portion of your total revenue stream or total customer base project by project and remember, we're a project-driven industry. We have been increasing prices all through last year including outside of our announced price increases.

So you're going to continue to see that we're staying ahead of our raw material input increases, but we will officially -- we have officially announced in some of our markets the January 1st price increase and the other is April 1st, but that's not our only means to increase prices.

John Messenger: Great. Thank you.

Operator: Thank you. I'm not showing any other questions. I'd like to turn the call back over to management for any further remarks.

Bill Sandbrook: Thank you, Ashley. Thank you, everyone, for participating in the call this morning and for your support of U.S. Concrete. We look forward to discussing our first quarter 2013 results with you in May.

Thanks again for your support.

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

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