

## U.S. Concrete, Inc.

NasdaqCM:USCR

**Analyst:** Daniel Bacchi

**Sector:** Industrials

**BUY**

Price Target: \$58.24

### Key Statistics as of 10/15/2015

Market Price:	\$53.56
Primary Industry:	Construction Materials
Market Cap:	\$781.02 M
52-Week Range:	\$21.60-57.57
5Y Beta:	1.46

### Thesis Points:

- Vertical integration in the industry through key acquisitions in the aggregates market.
- Greater margin potential through reduced materials costs while maintaining or increasing quality.
- The industry strength will be a key factor to continued growth.

### Company Description:

U.S. Concrete, Inc., through its subsidiaries, produces and sells ready-mixed concrete, aggregates, and concrete-related products and services for the construction industry in the United States. It operates through two segments, Ready-Mixed Concrete and Aggregate Products. The Ready-Mixed Concrete segment is involved in the formulation, preparation, and delivery of ready-mixed concrete to customers' job sites; and the provision of various services that include the formulation of mixtures for specific design uses, on-site and lab-based product quality control, and customized delivery programs. The Aggregate Products segment offers crushed stone, sand, and gravel for use in commercial, industrial, and public works projects. The company also engages in the operation of building materials stores; provision of lime slurry and Aridus rapid-drying concrete technology; sale of brokered products; hauling and recycled aggregates operation activities; and operation of drum mixer trucks, as well as transfer trucks for transporting cement and aggregates. It primarily serves concrete sub-contractors, general contractors, governmental agencies, property owners and developers, architects, engineers, and home builders in north and west Texas, California, New Jersey, New York, Washington, D.C., and Oklahoma. U.S. Concrete, Inc. was founded in 1948 and is headquartered in Euless, Texas. (From YAHOO! Finance)



## Thesis

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U.S. Concrete, Inc. is positioned in the top 3 in the major markets the firm serves. The firm has focused on vertical integration through key acquisitions in the ready-mixed concrete segment and the aggregates market. The vertical integration assisted U.S. Concrete, Inc. in reducing cost by using the aggregates as a primary source for the ready-mixed business division. The reduction in cost has produced a greater margin for U.S. Concrete, Inc. in the current financial period along with the increased activity in construction in the U.S. that has increased demand for materials such as ready-mixed concrete. A BUY of U.S. Concrete, Inc. (USCR) is suggested with a one-year target price of \$58.24.

## Industry Performance & Outlook

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U.S. Concrete, Inc. provides ready-mix concrete and aggregates for the construction materials sector. The past year's market increase of 25.33% due to the growing economy leaves investors with a positive outlook into the future. The construction materials sector is heavily tied to future GDP growth; economists have predicted that, overall, the U.S. GDP will continue to grow, barring any extraordinary events in the economy. Forecasters see a 25% chance of growth over 3%, defined as an economic boom, before election day of 2016. Overall the forecaster have a consensus of 2.8% growth in the period between now and election day. The forecast bodes well for the new construction market.

Economists forecast an average increase in industrial construction, the main driver of change in the construction materials sector, of 10.1% for 2016. Industrial and commercial projects provide the largest opportunity for U.S. Concrete, Inc. to offer value-added products that meet the requirements requested by those projects. Office construction is forecasted to increase 12.0% for 2016, other construction is estimated between 2.5% and 11.5%. The key factor is the strength of the market continuing forward. The Fed and economists look for continued growth that we have seen in 2015. U.S. Concrete, Inc. expects an increase with sustainable construction; a main market segment of the business. They predict green construction at 55% of non-residential construction in 2016. With increases in construction, it can be assumed that competition will be fierce and new entrant may appear as low cost

alternatives in the primary construction market. The key to success will depend on the strategies of the competitors in the market.

## Vertical Integration & Acquisitions

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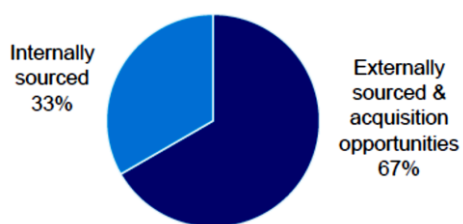
U.S. Concrete, Inc. completed 17 acquisitions of ready-mixed concrete and aggregate firms since 2014, building U.S. Concrete, Inc.'s position within the market and providing cost reductions due to economies of scale along with integrating firms providing the primary material, aggregate (about 60-75%), of ready-mixed concrete. The inorganic growth that has been achieved through acquisitions has expanded U.S. Concrete, Inc. into new arenas and grew market share in current markets. The primary market for U.S. Concrete Inc. is in West Texas where they are currently positioned at #1. The average market share in key regions is about 30%, with an opportunity to grow both organically, through increased sales, and inorganically, through more acquisitions.

Enhancing the value chain in the NY/NJ region has been achieved through aggregate acquisition of Wantage Stone. A single site of 38 million tons of reserves will reduce costs in the region. Value chain enhancement in the region near Texas has been achieved with the acquisition of E&A Materials in Wichita Falls; that will provide 15+ million tons of reserves.

Along with aggregate acquisitions, U.S. Concrete Inc. has expanded their ready-mixed concrete capacity in the NY/NJ region with the acquisitions of Colonial Concrete Company (NJ) and Ferrara Bros. (NY) providing 10 more ready-mixed plants and 129 mixer trucks allowing U.S. Concrete Inc. to provides a wider range of service and a larger proportion of service in the NY/NJ region. Other recent acquisitions have provided U.S. Concrete with 7 plants and 91 trucks in both the San Francisco Bay Area and Northern Virginia.

The recent acquisitions have proven that U.S. Concrete Inc. has the ability to consolidate markets, integrate their operations, in turn increasing margins and producing attractive returns for the firm.

Aggregates used in U.S. Concrete ready-mixed operations, 2015



Business Cores

U.S. Concrete, Inc. provides technology and innovations that provide the development of engineered mixes that are able to reduce the carbon footprint, while maintaining the high performance that customers look for in concrete, as compared to traditional concrete. They are able to reduce the material cost by using a low CO<sub>2</sub> level but at the same time offer an equal or higher performing product as compared to traditional manufacturing procedures. Just like competitors, U.S. Concrete, Inc. remains focused on cement production and utilization.

Continuing expansion into current markets through organic growth along with acquisitions and partnerships is a goal of U.S. Concrete, Inc. Along with expansion into new markets that allow for new streams of revenue and supply and to better serve customers. Coupled with optimizing the performance of their ready-mixed concrete they will continue to differentiate themselves from competitors that focus solely on cost and price rather than quality.

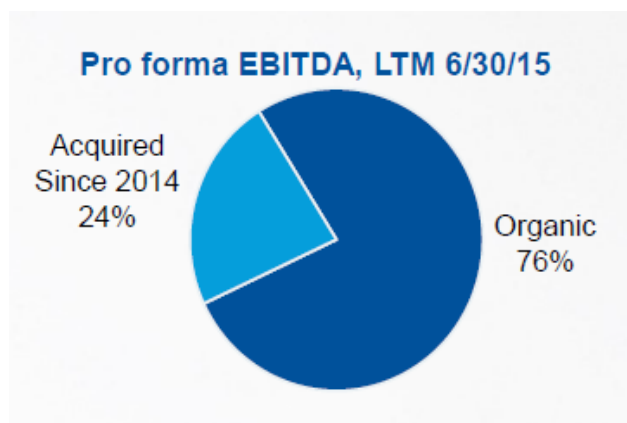
Financials

Through the recent year U.S. Concrete, Inc. has grown financially stronger through increases in revenue to reductions in costs. Those do not come without any cost however. In order to expand markets and control supply U.S. Concrete, Inc. required financing; primarily, they used debt in their acquisitions.

Currently the cost of borrowing for the firm is 8.54%, correlating with the debt rating of B+ by S&P. It will be imperative that U.S. Concrete, Inc. is able to wisely use debt to finance their future expansion, management believes that they will use a blend of equity and debt to finance future growth. The key factor is not only how they finance but the return brought on by the asset they finance. At the current period net property plant and equipment as a percentage of sales is well below the industry average of 85.0%, with an NPPE/Rev. of 26.0% it is apparent that U.S. Concrete is able to do more with the assets the firm owns.

For the current period U.S. Concrete produced a NOPLAT margin of 5.5%, forecasts show that by 2022 that margin will reach 7.9% into the continuing period placing U.S. Concrete at a prime position and allowing for future reinvestment through the company's earnings.

Increasing Margins



By vertically integrating their operations with aggregate and ready-mixed concrete acquisitions U.S. Concrete has managed to increase revenue and margins, costs of goods sold as a percentage of sales for the LTM have dropped to 80% from the average of 85% in the period from 2010 to 2014. Coupled with revenue growth of 23.5%, U.S. Concrete Inc has managed to produce an EBITDA margin of 7.7%, up from the 3% average in the years from 2010 from 2014. The key consideration is U.S. Concrete, Inc. has beat past estimates for revenue and EBITDA in the last few quarters, and the future of U.S. Concrete looks strong into the following quarters.

	Past Earning Surprises	
	Revenue	EBITDA
Last Quarter	7.40%	26.73%
Last Quarter-1	6.62%	45.19%
Last Quarter -2	4.50%	8.47%
Last Quarter -3	3.45%	13.33%

Investors can only expect the margin to increase as the acquisitions and backlog allow for anticipated growth into 2016. U.S. Concrete, Inc. is looking to expand into a 5<sup>th</sup> geographic area, if they are successful they are looking at more revenue growth and an increase in margins for 2016.

## Conclusion

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It is imperative that U.S. Concrete, Inc. maintains or increases current margins into the next year. The most sensitive aspects to their value are revenue and operating costs.

Sensitivity Analysis
Revenue growth variations account for 42.1% of total variance
Risk premium's variations account for 3% of total variance
Operating expenses' variations account for 32.7% of total variance
Continuing period growth variations account for 24.9% of total variance

The consensus and predictions, along with past performance in the year indicate that the firm will continue to grow revenue and find avenues to reduce costs. That is why I recommend a BUY for U.S. Concrete, Inc.

### Sources:

- U.S. Concrete Inc., 10-K
- U.S. Concrete Inc., Investor Presentations
- The American Institute of Architects
- Capital IQ
- Bloomberg
- SEC
- NY Times

**CENTER FOR GLOBAL FINANCIAL STUDIES**

U.S. Concrete, Inc.		USCR	Analyst Daniel Bacchi	Current Price \$53.56	Intrinsic Value \$55.16	Target Value \$58.24	Divident Yield 0%	1-y Return: 8.74%	<b>NEUTRAL</b>		
General Info		Peers	Market Cap.	Management							
Sector	Materials	Martin Marietta Materials, Inc.	\$9,997.93	Professional Title							
Industry	Construction Materials	Eagle Materials Inc.	\$3,413.49	Sandbrook, William Chief Executive Officer, President, Chief Ope							
Last Guidance	(Invalid Identifier)	Vulcan Materials Company	\$12,185.22	Jolas, Paul Vice President, General Counsel and Corpora							
Next earnings date	November 6, 2015	Summit Materials, Inc.	\$1,023.32	Roberts, Jeffrey Vice President of Ingram Concrete LLC and C							
Enterprise value		\$1,046.52		Poulsen, Niel Vice President of Redi-Mix LLC and General							
Market Capitalization		\$781.02		Kolrotek, Kevin Chief Accounting Officer and Vice President							
Daily volume		0.13		Johnson, Wallace Vice President of Marketing & Sales							
Shares outstanding		14.58		Past Earning Surprises							
Diluted shares outstanding		13.86		Revenue EBITDA Norm. EPS Standard Error of "Surprise"							
% shares held by institutions		94.65%		Last Quarter 7.40% 26.73% 77.03% 20.75%							
% shares held by insiders		7.54%		Last Quarter-1 6.62% 45.19% N/M 19.28%							
Short interest		6.02%		Last Quarter-2 4.50% 8.47% 60.00% 17.88%							
Days to cover short interest		4.16		Last Quarter-3 3.45% 13.33% 83.64% 25.24%							
52-week high		\$37.57		Last Quarter-4 0.00% 0.00% 0.00% 0.00%							
52-week low		\$21.60		Standard error 1.3% 7.9% 19.1% 7.98%							
5y Beta		1.46		Standard Error of Revenues prediction 1.3%							
6-month volatility		39.36%		Imputed Standard Error of Op. Cost predictio 7.8%							
						Imputed Standard Error of Op. Cost predictio 17.3%					
Convergence Assumptions		General Assumptions		Items' Forecast Assumptions			Other Assumptions				
All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years		Morrey market rate (as of today)	0.24%	Base year (LTM)	Convergence period (Sub-industry)	Adjustment per year	Tobin's Q	80%			
		Risk-Free rate (long term estimate)	2.84%	Operating Cash./Rev.	0.00%	0.0%	Excess cash reinvestment	Cost of capital			
		Annual increase (decrease) in interest rates	0.1%	NWV./Rev.	3.87%	1.5%	Other claims on the firm's assets	\$0.00			
		Marginal Tax Rate	37.5%	NPPE./Rev.	26.04%	5.9%	Capitalization				
		Country Risk Premium	5.4%	Dpr./NPPE	13.37%	-0.2%	100% of all rent expenses are capitalized and amortized 'straightline' over 10 years				
				NOPAT MARGIN	5.50%	0.4%	100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years				
				Op. Exp./Rev.	88.73%	-1.0%	E&P expenses are not capitalized				
				SBC./Rev.	0.59%	0.0%	SG&A expenses are not capitalized				
				Rent Exp./Rev.	1.50%	-0.2%	Valuation Focus				
				R&D./Rev.	0.00%	0.1%	DCF Valuation 100%				
				E&D./Rev.	0.00%	0.0%	Relative valuation 0%				
				SG&A./Rev.	8.59%	0.1%	Distress Valuation 0%				
				ROIC	13%	-0.37%	Monte Carlo Simulation Assumptions				
				EV./Rev.	0.97x	0.05x	Revenue Growth deviation Normal (-0.00350747037259827%, 1%)				
				EV/EBITDA	11.95x	-0.19x	Operating expense deviation Normal (0%, 1%)				
				Debt/Equity	230%	-103.00%	Continuing Period growth Triangular (5.335%, 5.42593856210061%, 5.665%)				
				Unlevered beta	0.31	0.02	Country risk premium Triangular (2.91%, 3.00917369157773%, 3.09%)				
				Cost of Borrowing	9%	-0.2%	Intrinsic value $\sigma(\epsilon)$ \$0.51				
				Dividends/REV	0%	0.4%	1-year target price $\sigma(\epsilon)$ \$0.34				
Forecast Year		Revenue Growth Forecast	Revenue (\$) Forecast	Valuation							
LTM			\$793.13	ROIC	WACC	Invested Capital	Implied Enterprise Value	Net Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share	Monte Carlo Simulation Results
FY2015	19.4%		\$943.74	13.5%	6.1%	\$337.52	\$1,185.87	\$385.02	14.58	\$55.77	The 3 $\sigma(\epsilon)$ -adjusted intrinsic value is \$55.16; the 3 $\sigma(\epsilon)$ -adjusted target price is \$58.24; and the analysts' median target price is \$62.25
FY2016	17.5%		\$1,105.24	17.1%	5.5%	\$449.47	\$1,305.54	\$459.43	14.58	\$58.91	
FY2017	11.8%		\$1,231.25	15.4%	6.2%	\$602.87	\$1,470.00	\$584.71	14.58	\$60.12	
FY2018	10.7%		\$1,358.15	13.3%	6.2%	\$756.03	\$1,634.48	\$709.07	14.58	\$61.75	
FY2019	9.6%		\$1,483.27	12.1%	6.4%	\$926.86	\$1,819.03	\$832.76	14.58	\$63.20	
FY2020	8.5%		\$1,603.69	11.2%	6.7%	\$1,113.52	\$2,022.80	\$1,015.94	14.58	\$64.44	
FY2021	7.4%		\$1,716.34	10.5%	6.8%	\$1,313.22	\$2,244.21	\$1,194.52	14.58	\$65.55	
FY2022	6.3%		\$1,818.13	9.9%	7.2%	\$1,522.28	\$2,484.93	\$1,395.38	14.58	\$66.46	
FY2023	5.2%		\$1,906.05	9.4%	7.5%	\$1,736.15	\$2,742.21	\$1,612.83	14.58	\$67.32	
FY2024	4.1%		\$1,977.38	9.0%	7.8%	\$1,949.55	\$3,012.73	\$1,843.55	14.58	\$68.19	
Continuing Period	3.0%		\$2,029.74	8.6%	8.0%	\$2,156.65	\$3,292.71	\$2,083.49	14.58	\$64.11	
				Continuing Period	9.8%	7.3%	\$1,881.86				\$64.11
Sensitivity Analysis											
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