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November 4th, 2017

U.S. Concrete: USCR

JT Jennings

Sector: Real Estate Construction
Industry: Building Materials/Products
Current Price: $77.35
Target Price: $88.93

U.S. Concrete, Inc. engages in the business of producing Ready-Mixed concrete and Aggregate Products segments. The ready-mixed concrete segment focuses on the formulation, preparation, and delivery of ready-mixed concrete to the job sites of customers. The aggregate products segment produces crushed stone, sand, and gravel from aggregates facilities located in New Jersey and Texas. The company was founded in July 1997 and is headquartered in Euless, TX. U.S. Concrete conducts business in key metropolitan areas throughout the United States, and they currently employ over 2,900 individuals.

BUY

Current Price:	$77.35
Target Price:	$89.93
Market Cap:	$1.3B
ROIC	22.5%
WACC	11%
EBITDA	$148.05M
Opp. Margin	7.98%

Catalysts:

- **Short Term**(within the year): Top 3 position in each market served.
- **Mid Term**(1-2 years): About 1/3 vertically integrated aggregates-Acquisition of Polaris will only improve the company.
  Long Term(3+): Infrastructure spending is going to significantly increase in NYC and nationally through Trump's executive order.

Source: Bloomberg

Thesis:

U.S. Concrete is situated in the top position of each major Ready-Mix and Aggregate concrete supplies market. USCR currently services the fastest growing residential, commercial, and infrastructural real estate markets in the United States. They provide their patented quick drying and eco-friendly mix of concrete to

the markets in New York City, Dallas-Fort Worth, and the San Francisco Bay area. The quality of their product and their ability to distribute Ready-Mix concrete in a timely fashion has granted them the ability to sell their concrete at a premium over the industrial average. Still, US Concrete has agreed to contracts with high margin commercial companies such as Google, Facebook, Toyota, and LaGuardia International Airport. Their current strategy of organic and acquisition growth has led to consistent revenue and margin growth.

Earnings Performance:

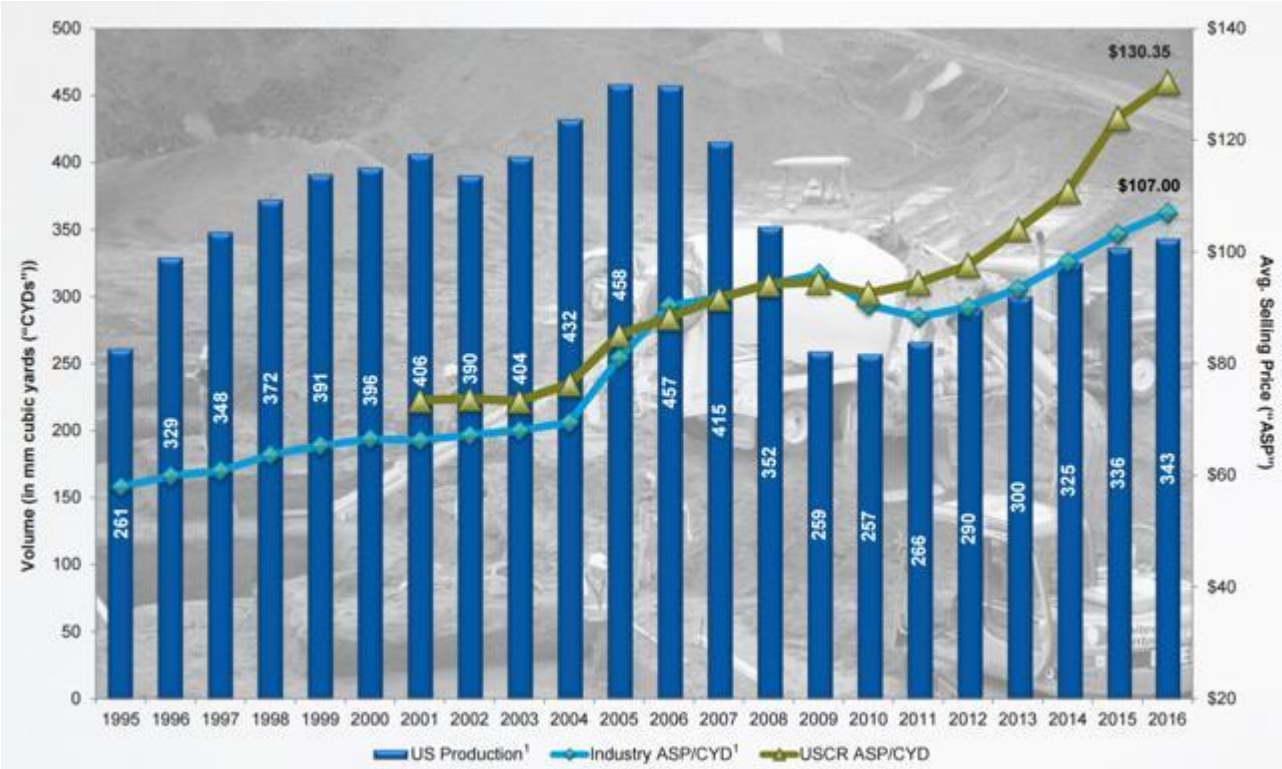
U.S. Concrete is currently slightly above the trends of the Construction Materials and Products sector index. However, that does not tell the whole story. I am not suggesting buying the index; I am suggesting a buy that, within the year will outperform the index significantly. Despite a dip in Q3 performance due to two major acquisitions, inclement weather, and the effects of three major Hurricanes that effected sales and demand growth. USCR was still able to increase consolidated revenue 7.9% year over year, to $354.6M, which was lighter than estimated, but not concerning. Total revenue has increase 18% to $1.313B, and the total adjusted EBITDA increased 1.3% to $54.7M. The reason behind USCR's success is the position they hold in the fastest growing commercial, residential, and industrial real estate markets. USCR has an agreement to be the top supplier to commercial projects with high margins. A few examples are Facebook Data Center in Fort Worth, LaGuardia Airport in Queens, and Google Bayview Campus in Mountain View Ca. Due to these contracts and the positive outlook the Industrial sector has seen under the Trump administration, there is an extremely positive attitude for current and future revenue and margin growth.

	12/31/2013	12/31/2014	12/31/2015	9/30/2017							
Business Segment	Revenues				LTG	Est. 2027	2013	2014	2015	2017	Est. 2027
Ready-Mixed Concrete	$ 473.81	$ 545.30	$ 632.79	$ 1,060.99	4.0%	$ 1,570.53	92%	91%	90%	91%	91%
Aggregate Products	$ 32.00	$ 38.21	$ 52.62	$ 76.33	4.0%	$ 112.99	6%	6%	7%	7%	7%
Other Products and Eliminations	$ -	$ -	$ 18.31	$ 30.84	4.0%	$ 45.64			3%	3%	3%

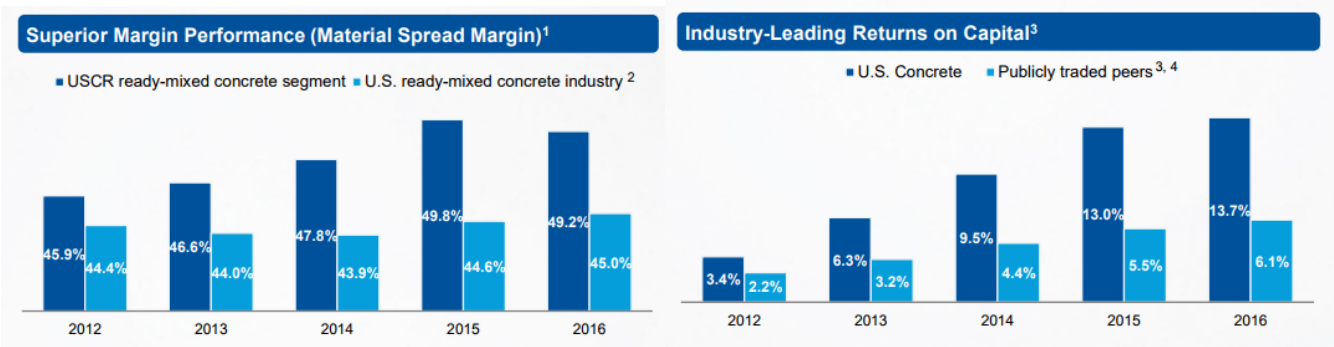
Industry Outlook:

U.S. Concrete is well positioned in the construction products industry because of the markets that they currently serve. USCR is an industry leading ready-mixed concrete and aggregate supplier in the New York metropolitan, Dallas Fort Worth, and San Francisco markets. These three metropolitan areas are some of the fastest growing industrial and residential areas in the country. Due to USCR's specific regional dominance, they have a large competitive advantage in their industry. Additionally, USCR has the ability to provide a superior ready-mixed concrete that uses their EF Technology and Aridus Technology to allow a stronger, quicker drying and eco-friendly product. Because USCR offers a superior product than its competitors, they have the ability to sell their ready-mixed concrete at a premium price of $136.62 per cubic yard vs. the industry average of $107.17. Below is a graph showing the 2016 price per cubic yard vs. the industry average, and the spread has only increased into 2017.

Market Position	
New York Metro	#1
Western Texas	#1
San Francisco Bay Area	#1(Tie)
Dallas	Top-2
D.C. & Dulles Corridor	Top-3
U.S. Virgin Islands	#1

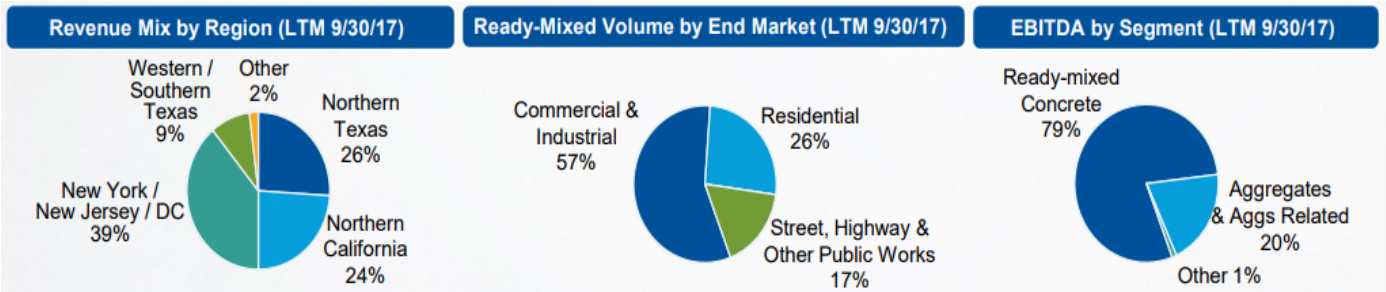


U.S. Concrete has utilized vertical integration approach in order to increase their margins and return on capital. Although they are second to Vulcan Materials in aggregate ownership, USCR's recent acquisitions have allowed them to increase their internal aggregate sourcing helping to reduce costs and improve margins.



Segment Analysis:

U.S. Concrete focuses on two key segments, Ready-Mix Concrete and Aggregate supplies. USCR's Ready-Mix segment has seen its 26th straight quarter of year over year growth, and its backlog has grown 7.7% since the beginning of 2017. The outlook for Ready-Mix is extremely positive considering that the construction spending is estimated to outpace the national average for the next 18 months in San Francisco, Dallas-Ft. Worth, and the five boroughs of New York. Compared to 2016 the Ready-Mix sales volume has grown 13.9% to 8.91 million cubic yards. The Ready-Mix segment should see continued growth due to their market positon in the New York Metro area that has just passed a $32 billion budget to increase infrastructure spending that highlights US Concrete as the main Ready-Mix supplier. Currently USCR is the main supplier for World Trade Center Construction (400,000 Cubic Yards), Hudson Yards (375,000 Cubic Yards), LaGuardia Airport (375,000 Cubic Yards), Goethals Bridge (80,000 Cubic Yards), Tappan Zee Bridge (~45,000 Cubic Yards), and the Bayonne Bridge (40,000 Cubic Yards). This is solely the NYC market, but it provides US Concrete with existing and future large commercial projects.



The Aggregate segment took a bit of a dip in 2017 due to the inclement weather and three major hurricanes that shut down a quarry. It was expected that sales volume would decrease, and it did by 5.8% in quarter three. However, the rise in Aggregate price by 2.7% to $12.25 somewhat offset the dip in sales. Overall, the year over year revenue increased 18% to $1,313B despite the shortcomings in Aggregates.

In Millions of USD except Per Share	FY 2013		FY 2014		FY 2015		FY 2016	
12 Months Ending	12/31/2013		12/31/2014		12/31/2015		12/31/2016	
Revenue	598.2	100.0%	703.7	100.0%	974.7	100.0%	1,168.2	100.0%
Ready-mixed concrete and con...	545.3	91.2%	632.8	89.9%	876.6	89.9%	1,061.0	90.8%
Aggregates	38.2	6.4%	52.6	7.5%	60.4	6.2%	76.3	6.5%
Other Products & Eliminations	14.6	2.4%	18.3	2.6%	37.6	3.9%	30.8	2.6%

Acquisition Growth:

US Concrete is constantly looking for ways to expand their robust plant layout. They are no strangers to acquisitions, and have recently locked in a deal with Polaris Materials located in British Columbia to be approved Nov. 15th. USCR has also acquired Action Supply located in Philadelphia, which has the potential to infiltrate a new market, but really offers the ability to synergize their recently acquired Corbett Aggregates Companies in New Jersey, which focuses on supplying Aggregates for concrete production. The main focus for their acquisitions is companies that produce Aggregates. Aggregates provide roughly 6.5% of revenue, but really allow USCR to vertically integrate their internal production. The ability to vertically integrate allows USCR to reduce costs by limiting the need to purchase from the open market. USCR currently sources roughly 1/3 of their Aggregates internally, but the acquisition of Polaris is estimated to increase their Aggregate production significantly. Estimates project the ability to produce nearly double the amount of internal Aggregate sourcing. CEO Bill Sandbrook said that the Polaris deal will provide the company with more Aggregate reserves that will help the company's strategic operations in northern California markets. Additionally, Polaris currently operates in Long Beach California, which could potentially allow US Concrete to expand into the Los Angles market. USCR is able to finance their acquisitions through long-term debt. The book value of long-term debt is $688.4M, and $610.3M is due in 2024. However, due to the organic acquisitions, the steady increase in revenues and the limitation of costs, long-term debt is not a significant liability.

Competitors:

Although US Concrete may be small in regard to market capitalization when compared to its competitors, they make up for it in the contracts that they have with large commercial companies, as well as the markets in which they operate. USCR significantly beats their competitors in return on equity and return on assets, due to their contracts with high margin companies. Their adjusted EBITDA is steadily growing, but is limited due to their acquisition costs that they finance in part by revenue but the majority long-term debt. Considering USCR's market capitalization is much smaller than its nearest competitor, their EBITDA is comparable to the median in terms of size.

Overview | Comp Sheets | Markets | EPS Preview | Ownership | Credit | Custom

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Name (BICS Best Fit)	Mkt Cap (USD)	ROE	Revenue:Y	EBITDA Adj:Y	ROA:Y	GM:Y
Median	4.15B	9.10%	1.63B	658.60M	4.73%	23.80%
100) US CONCRETE INC	1.32B	23.51%	1.17B	148.05M	9.13%	21.04%
101) MARTIN MARIETTA MAT...	13.39B	10.00%	3.82B	954.67M	5.99%	23.80%
102) VULCAN MATERIALS CO	16.49B	8.20%	3.59B	980.53M	4.73%	27.86%
103) SUMMIT MATERIALS INC...	3.42B	6.08%	1.63B	362.53M	3.13%	34.07%
104) ASH GROVE CEMENT CO	4.15B	--	872.55M	--	1.71%	15.81%

(Accounting Adjustments: Adjusted for Abnormal Items When Applicable) 10) Analyze List

300) Edit Panel 301) Expand Panel

USCR's gross margin is slightly below the median, however this should rise as the budget for spending in the New York Metro area has been set at $32B over the next ten years. Most importantly, USCR's revenue is slightly below the median, however it is greater than Ash Grove Cement Co., and is slightly trailing Summit Materials. Both of these competitors are nearly three times the size of USCR, but generate similar revenues. It is important to consider the types of projects that USCR is undertaking as well as the projects in their backlog.

Top Supplier to Commercial Projects with High Margins

Selected precedent commercial projects

US CONCRETE

Project and Location	Cubic Yards	Status
1. Facebook NA-4 Data Center – Fort Worth, TX	382,000	In Progress
2. LaGuardia Airport[1] – Queens, NY	375,000	In Progress
3. I-35W – Ft. Worth, TX	160,000	In Progress
4. Google Bayview Campus – Mountain View, CA	125,000	In Progress
5. The Union Tower – Dallas, TX	110,000	In Progress
6. Wade Park – Frisco, TX	105,000	In Progress
7. Legacy West – Plano, TX	100,000	In Progress
8. Dallas Love Field Parking Garage – Dallas, TX	87,000	In Progress
9. Goethals Bridge – Staten Island, NY	85,000	In Progress
10. Charles Schwab Westlake Campus – Westlake, TX	80,000	Backlog
11. 655 NY Avenue – Washington, D.C.	71,000	In Progress
12. Workday Campus – Pleasanton, CA	70,000	In Progress
13. Gotham 1 & 3 – Queens, NY	70,000	In Progress
14. Manhattan West Tower – Manhattan, NY	70,000	In Progress
15. Hudson Yards Tower E – Manhattan, NY	65,000	In Progress

Conclusion:

In conclusion, I am proposing a BUY for US Concrete (USCR). USCR is well positioned in their primary markets of New York Metro, Dallas-Fort Worth, and San Francisco Bay. USCR has constantly managed to grow its revenue and number of high margin projects because of their organic and acquisition growth strategy. USCR will continue to benefit from an increase in infrastructure spending while decreasing their costs by improving vertical integration. They have industry leading return on assets and return on equity although they have the smallest capital expenditure compared to competitors. I believe that a one-year target return of 14.97% is extremely achievable for USCR.

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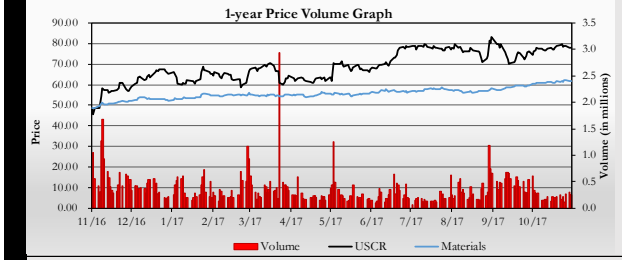
U.S. Concrete, Inc. (USCR) — CENTER FOR GLOBAL FINANCIAL STUDIES — NEUTRAL

Analysis by JT Jennings	Current Price:	$77.35	Intrinsic Value	$76.48	Target 1 year Return: 14.97%
11/9/2017	Divident Yield:	0.0%	Target Price	$88.93	Probability of Price Increase: 89.67%



Description

U.S. Concrete, Inc. produces and sells ready-mixed concrete, aggregates, and concrete-related products and services for the construction industry in the United States.

General Information

Sector	Materials
Industry	Construction Materials
Last Guidance	November 3, 2015
Next earnings date	November 3, 2017
Estimated Country Risk Premium	6.54%
Effective Tax rate	24%
Effective Operating Tax rate	24%

Market Data

Market Capitalization	$1,226.75
Daily volume (mil)	0.39
Shares outstanding (mil)	15.86
Diluted shares outstanding (mil)	17.06
% shares held by institutions	116%
% shares held by investments Managers	103%
% shares held by hedge funds	8%
% shares held by insiders	5.67%
Short interest	25.46%
Days to cover short interest	11.48
52 week high	$83.85
52-week low	$45.05
Volatility	37.99%

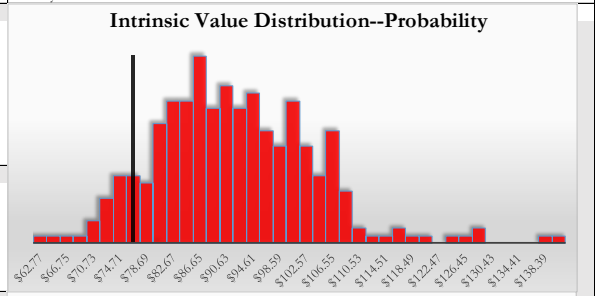
Past Earning Surprises

Quarter ending	Revenue	EBITDA
6/30/2016	-6.80%	-27.32%
9/30/2016	-2.83%	-7.42%
12/31/2016	1.33%	2.96%
3/31/2017	10.32%	31.58%
6/30/2017	-1.94%	-4.96%
Mean	0.02%	-1.03%
Standard error	2.9%	9.6%

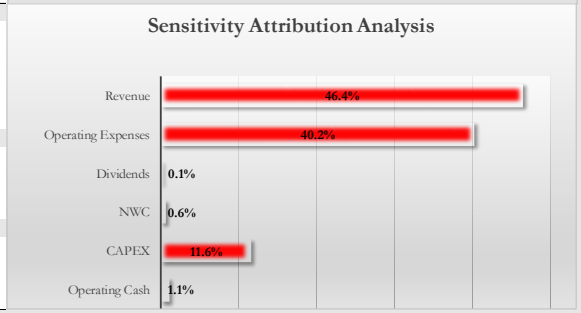
Peers

Eagle Materials Inc.
Summit Materials, Inc.
Martin Marietta Materials, Inc.
Vulcan Materials Company
Forterra, Inc.

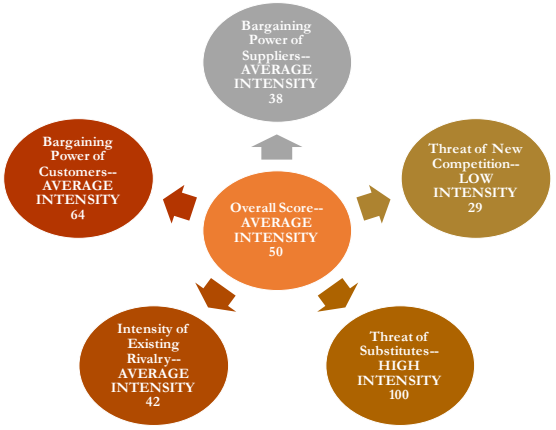
Management	Position	Total compensations growth	Total return to shareholders
Sandbrook, William	Vice Chairman, President & C	-9.75% per annum over 4y	48.6% per annum over 4y
Pruitt, Ronnie	Chief Operating Officer and	N/M	N/M
Kohutek, Kevin	Chief Accounting Officer and	N/M	0% per annum over 0y
Jolas, Paul	Senior Vice President, Gener	23.87% per annum over 1y	85.1% per annum over 1y
Kunz, John	Senior VP & CFO	N/M	N/M
Johnson, Wallace	Vice President of Marketing	N/M	0% per annum over 0y



Profitability	USCR (LTM)	USCR (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	13.7%	5.39%	5.19%
Operating Margin	6%	1.04%	7.56%
Revenue/Capital (GAAP)	2.48	5.16	0.69
ROE (GAAP)	22.5%	11.1%	11.9%
Net margin	2.0%	2.4%	10.7%
Revenue/Book Value (GAAP)	11.31	4.66	1.10
Invested Funds	**USCR (LTM)**	**USCR (5 years historical average)**	**Peers' Median (LTM)**
Cash/Capital	22.9%	6.7%	5.1%
NWC/Capital	2.0%	-5.2%	14.3%
Operating Assets/Capital	54.9%	91.9%	54.1%
Goodwill/Capital	20.2%	6.7%	26.5%
Capital Structure	**USCR (LTM)**	**USCR (5 years historical average)**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	1.04	0.50	0.59
Cost of Existing Debt	6.8%	12.6%	5.6%
CGFS Rating (F-score, Z-score, and default Probability)	BBB	BBB	BBB
WACC	11.0%	14.8%	9.9%



Porter's 5 forces (scores are out of 100)



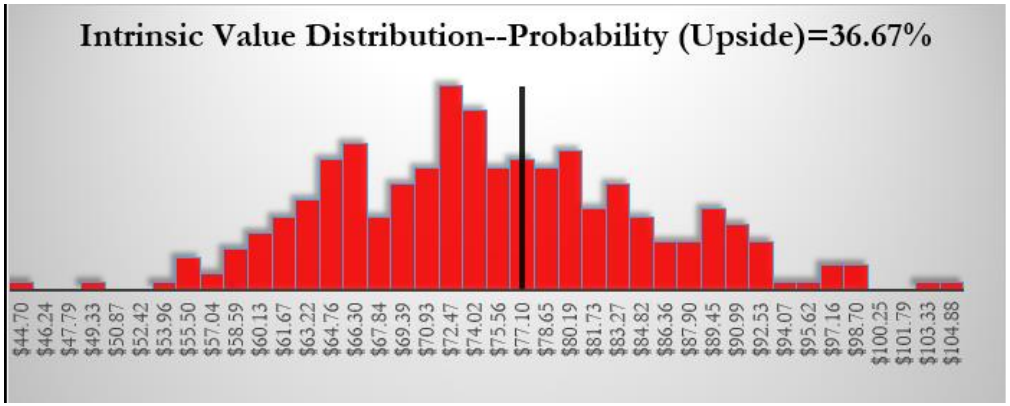
Valuation

Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	18%	9.2%	2.44
9/30/2018	13%	5.9%	1.29
9/30/2019	3%	5.2%	1.20
9/30/2020	3%	5.7%	1.16
9/30/2021	3%	6.2%	1.13
9/30/2022	3%	9.8%	1.08
9/30/2023	2%	10.2%	1.01
9/30/2024	2%	10.6%	0.94
9/30/2025	2%	11.0%	0.88
9/30/2026	2%	11.4%	0.82
9/30/2027	2%	11.8%	0.78
Continuing Period	2%	12.2%	0.73

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	22.5%	11.0%	$76.33
9/30/2018	7.6%	9.1%	$88.61
9/30/2019	6.3%	9.2%	$98.72
9/30/2020	6.7%	9.3%	$109.43
9/30/2021	7.0%	9.4%	$120.70
9/30/2022	10.6%	9.5%	$132.55
9/30/2023	10.2%	9.6%	$144.72
9/30/2024	9.9%	9.7%	$157.20
9/30/2025	9.6%	9.9%	$169.98
9/30/2026	9.4%	10.0%	$183.03
9/30/2027	9.1%	10.1%	$196.33
Continuing Period	8.9%	10.3%	

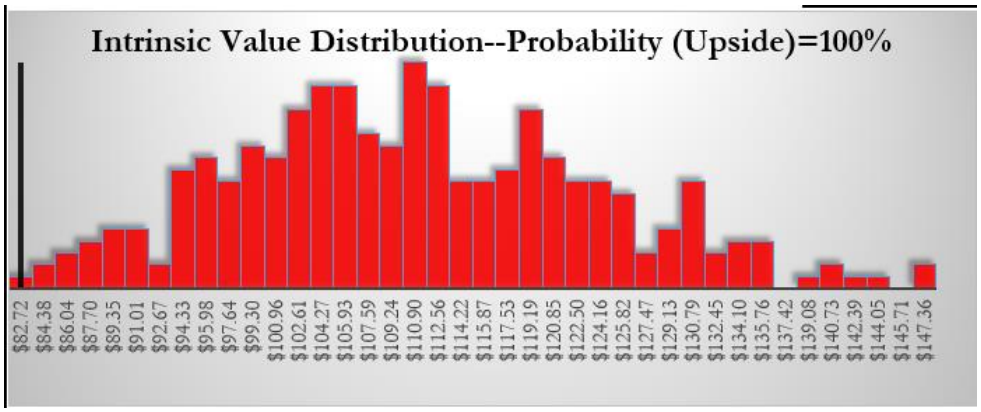
Worst Case-

The worst-case scenario for USCR would be that operating costs for the continuing period are 76.5%, which is possible, and should be an area of concern for USCR. I assumed that revenue growth would remain at 2%. The target price for this scenario would be $72.41 and the total 1 year return would be -6.5%.



Best Case-

The best-case scenario for USCR would be that operating costs for the continuing period are 70%, which is realistic, but not probable. I assumed that the revenue growth would level out to be 2% for the continuing period. The target price in this scenario would be $107.76 and the total 1 yr. return would be 39%.



If USCR is able to increase revenue growth and decrease operating costs then there will be a total return of 39%. If USCR does not increase revenue growth and increases operating costs then there will be a return of -6.5%. There is greater upside than downside for USCR. However, they need to continue to reduce operating costs in the future to increase their upside probability.