



## Concrete Manufacturing

### Finance & Investment Club

*Materials Sector*

*Spring 2016*

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# Recommendation Summary

## Recommendation Summary

Company (Ticker) USCR  
Current Trading Price (4-11-2016) \$ 64.00

**Recommendation** **BUY**   
Target Price \$ 74.54  
Upside Potential 16.5%

## Valuation Summary

Method	Price	Weight
<b>Discounted Cash Flow</b>		
Perpetuity Growth Method	\$ 72.00	70%
Exit Multiple Method	\$ 169.89	0%
<b>Comparable Company Analysis</b>		
P/E	\$ 63.76	10%
EV/EBITDA	\$ 107.85	10%
EV/Revenue	\$ 204.77	0%
Analyst Target Price	\$69.83	10%
<b>Target Price</b>	<b>\$ 74.54</b>	

**US**   
**CONCRETE**

Core market strategy

Rising revenues and cutting costs

Acquisitions in new markets

# Industry Definition

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Firms in this industry manufacture ready mixed concrete by mixing additives, water, cement and other aggregates. Concrete is mainly used for the construction of industrial, residential and commercial buildings

It can also be used for beams, tiles, soil solidification, pavers, roads, parking areas and overpasses.



**Summit Materials Inc**  
(NYSE: SUM)  
Mkt Cap: 2.35B



**Vulcan Materials**  
(NYSE: VMC)  
Mkt Cap: 14B



**Martin Marietta Materials**  
(NYSE: HW)  
Mkt Cap: 9.89B



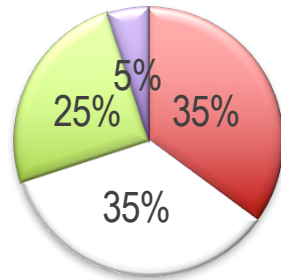
**US Concrete Inc**  
(NASDAQ: USCR)  
Mkt Cap: 950M



**Eagle Materials Inc**  
(NYSE: EXP)  
Mkt Cap: 3.5B

# Industry Breakdown: Ready Mixed Concrete

## ReadyMix Concrete Breakdown



■ Residential ■ Commercial ■ Infrastructure ■ Other

## Industry Factors

- Competition: **High**
- Market Concentration: **Low**
- Barriers to Entry: **High**
- Capital Intensity: **Medium**
- Regulation Level: **Medium**

## Industry Statistics

- Market size is 29.1 billion dollars
- Ready mixed concrete producers in US: 2,000
- Ready mix concrete plants in US: 5,500
- Industry Growth CAGR of 5.7% (2011-2015)

Company	Market Cap
Vulcan Materials	14b
Martin Marietta	9.89b
Eagle Materials	3.5b
Summit Materials	2.35b
US Concrete	970m

# Company Information

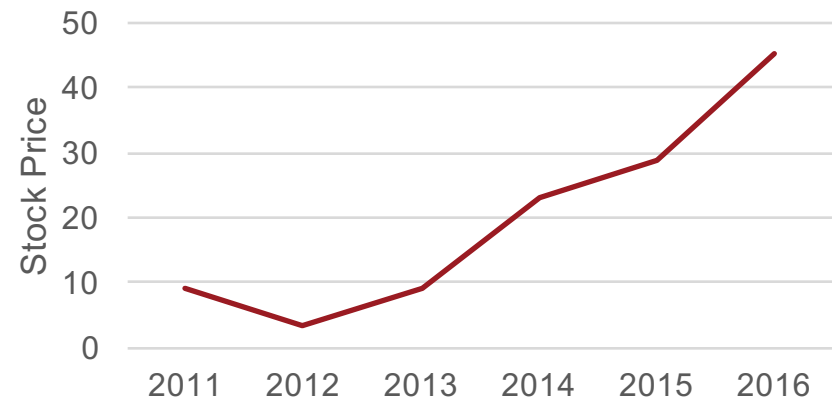


William J Sandbrook, CEO

- 25 years of industry leadership
- Joined US Concrete in 2011
- Previously served as CEO for Oldcastle NA
- Exceeded Oldcastle revenue by \$2.7b in 2007

- Company Headquarters: Euless, TX
- Founded in 1948
- Sells ready mix concrete and aggregates
- Entered bankruptcy in April 2010, exits August 2010
- New executive team hired post bankruptcy, including CEO (2011), CFO (2016), COO (2015), General Counsel (2013)
- Company revenue has increased from 495m (2011) to 974m (2015)
- EBITDA has increased from 2.45m (2011) to 118m (2015)
- Company is well positioned to exceed growth estimates of ready mixed concrete industry due to unique, defensible strategy

## USCR Historic Stock Price



# Revenue Generation--Value Chain

Material Sourcing  
(20% of Revenues)



- Survey the quarry for aggregates
- Blast and drill if quarry is suitable
- Use trucks to remove aggregates and send to processing plant
- Sell aggregates to local concrete producer

Cement Processing

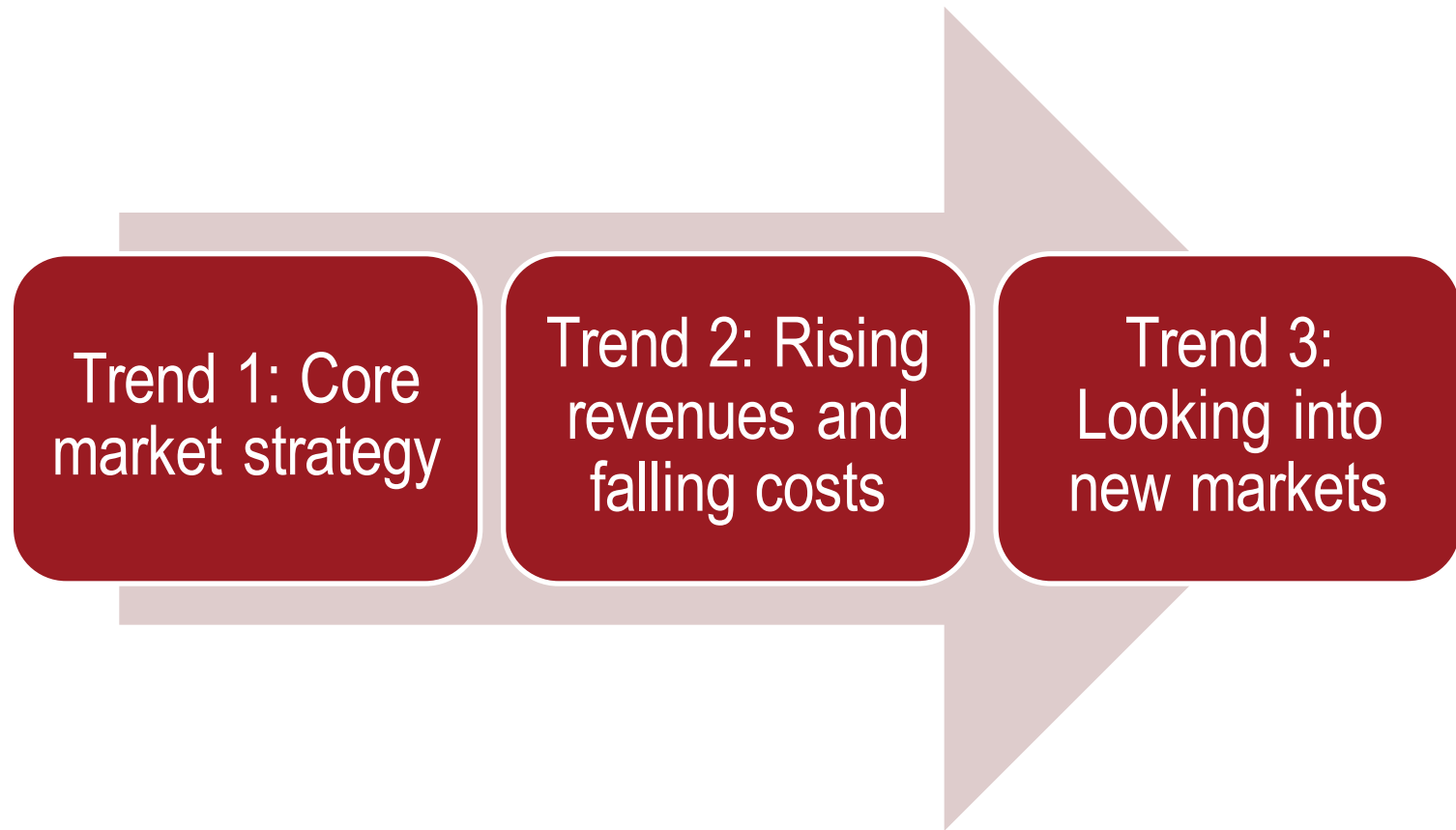


- Crush and grind the material
- Smelt the material into a semi liquid material called clinker
- Cool off the clinker and add additives for strength

Concrete Production  
(80% of Revenues)



- Crush more aggregates
- Add cement and water to crushed aggregates
- Transport mixture to transportation vehicle
- Start mixer and begin transportation to job site

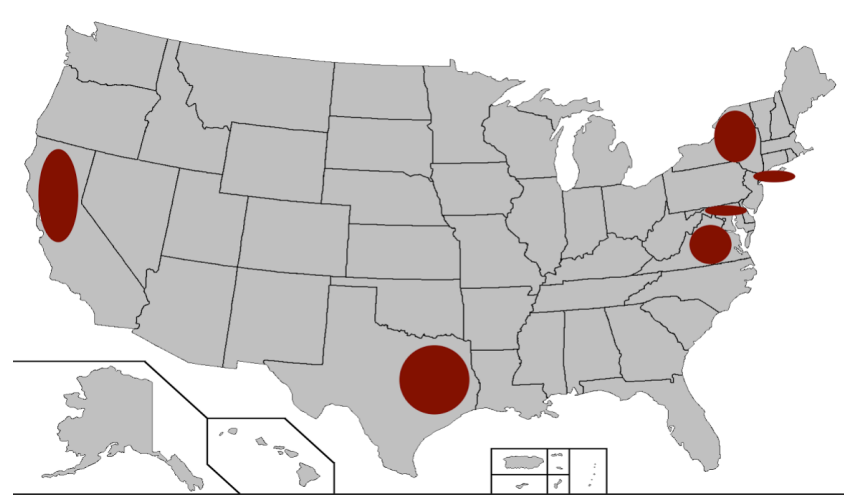




# Trend 1: Core markets tied to high growth metro zones

- USCR's core markets (30%+ market share) :
  - San Francisco Bay Area (Tech)
  - Texas (Diversified)
  - NY Metro (Finance)
- Core markets consist of approximately 30% of country wide ready mix concrete usage (Portland Cement Association)

## USCR Geographic Control



- USCR higher focus on commercial projects leading to higher margins
- Differentiation is customization not price
- High barrier to entry, USCR utilizes long term relationships
- Reduced focus on infrastructure mitigates reliance on infrastructure funding politics

## USCR Market Strategy vs Industry

	Commercial	Residential	Infrastructure
USCR	58%	28%	14%
Industry Average	40%	30%	30%

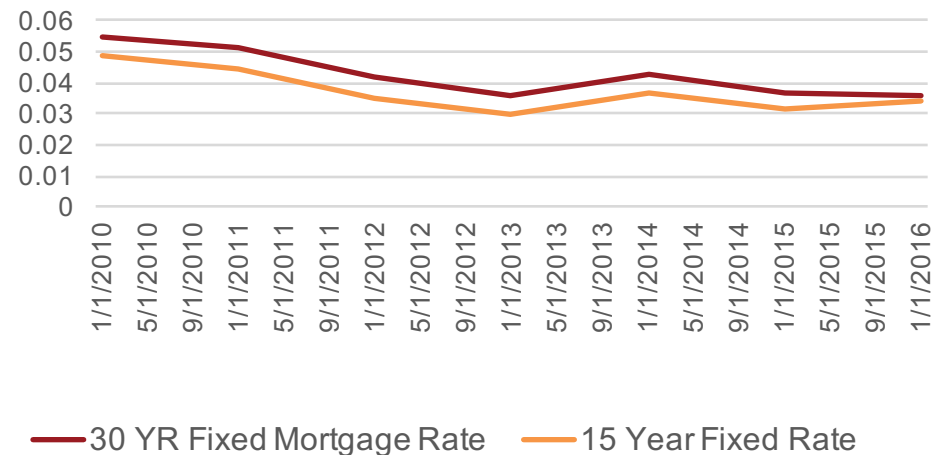
# Trend 1: Core markets tied to high growth metro zones

- PCA ready mixed concrete usage  
CAGR outlook for 2016-2020
  - Texas: 4.6% CAGR
  - SF Bay Area: 7.5% CAGR
  - NY Metro: 4.8% CAGR
- Construction market in core market regions driven by:
  - Housing demand
  - Expansion of jobs and related facilities
  - Repairing old infrastructure

## Core Market Projections vs National Average

Metro Area	Population Growth (2010-2020)	Job Growth (2012-2022)
National Average	7.4%	10.8%
SF Bay Area	11.2%	13.15%
Texas	14.3%	21.3%
NY Metro	10.1%	13.2%

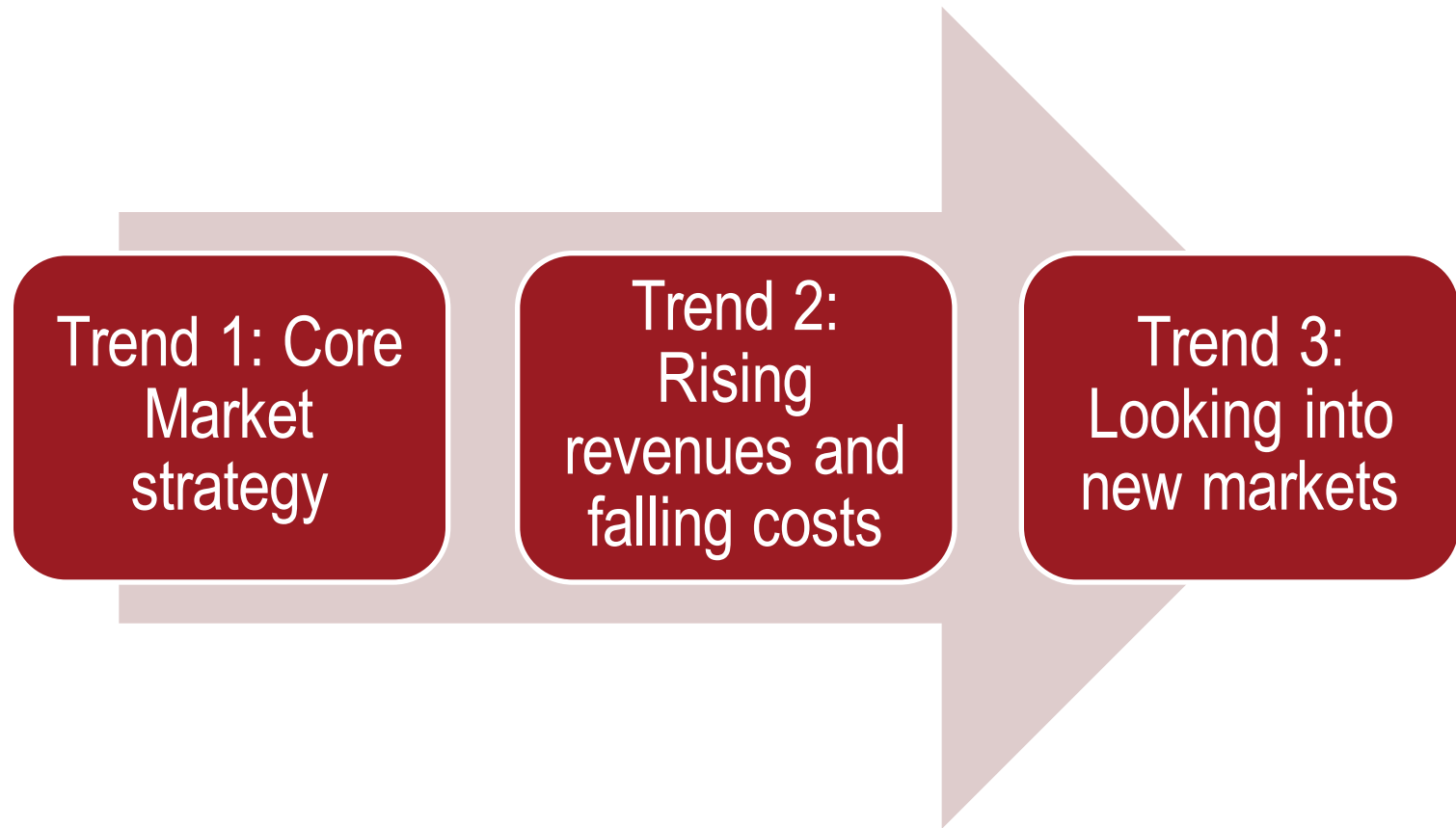
## Mortgage Rates 2010-2016



Takeaway: USCR has dominant market share in growth regions and focuses on high margin projects, giving the company a competitive strategic edge.

# US Concrete Trends

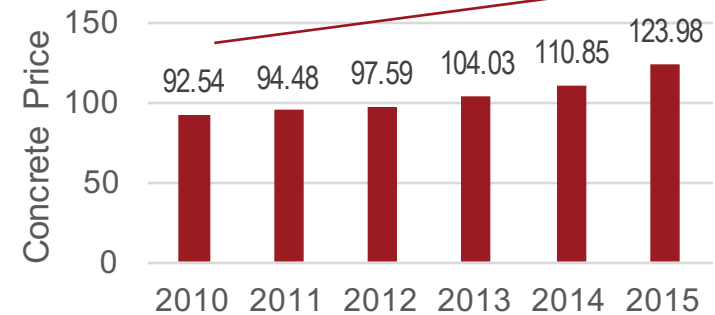
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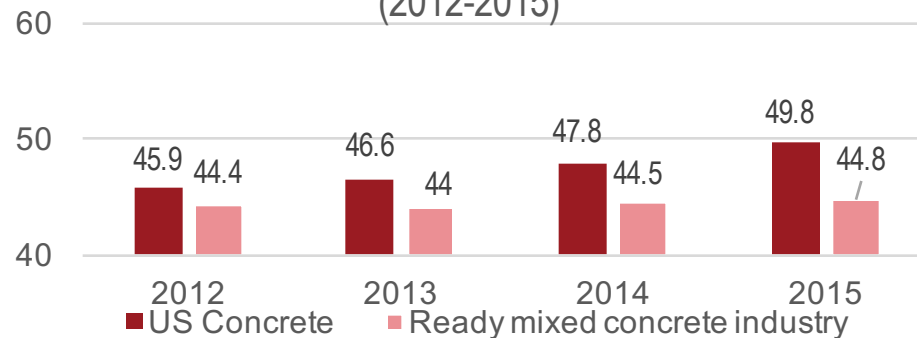
## Trend 2: Profit margin growth is driven by rising prices and falling costs

- USCR prices of ready mixed concrete have increased by a CAGR of 6.02%
- USCR prices of aggregates have increased by a CAGR of 5.25%
- Driven by growing demand in core markets
- Material spread margin has increased for USCR in past 4 years vs Industry average
  - Result of vertical integration and synergistic acquisitions

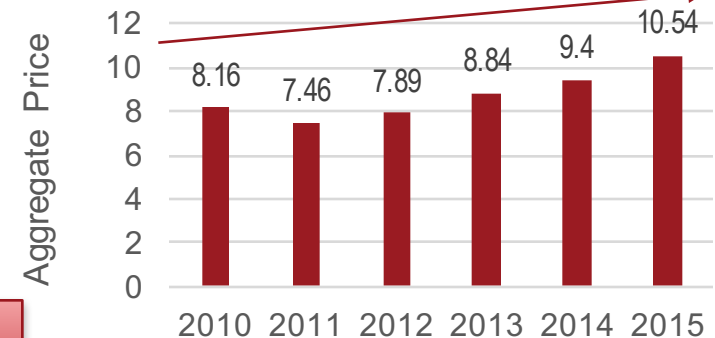
Ready Mixed Concrete (\$/CYD)



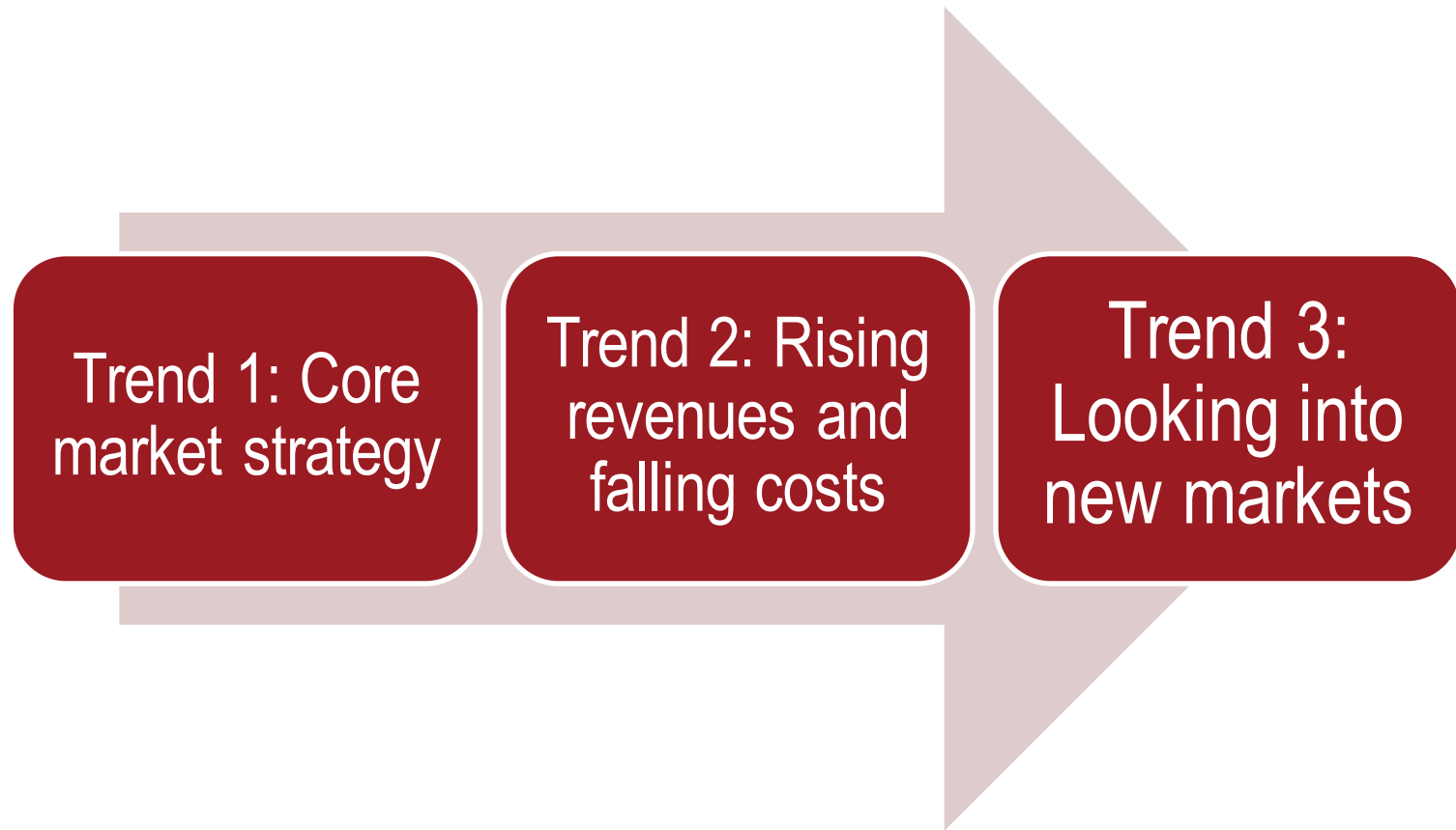
Material Spread Margin Percentage (2012-2015)



Aggregates (\$/per ton)



Takeaway: USCR has been raising their prices due to market demand and is looking to reduce their costs by pursuing vertical integration



# Trend 3: Acquisition in Virgin Islands blazes path to new markets

- In 2016 USCR acquires Spartan Concrete and Heavy Materials in St. Croix, VI
- Caribbean tourism 4% growth for 2015, up 0.7% from 2014
  - Construction activity in region is highly dependent on tourism and infrastructure expansion
- Relations with Cuba have improved under Obama administration in 2015
  - Embassy re-opens
  - In 2014, Cuban government steps back from direct involvement in construction to attract investment
  - Market opportunity for concrete in Cuba is 6.9 billion USD



- Fastest city job growth in US belong to Florida
- Naples (4.6%), Myrtle Beach (4.5%), Cape Coral (4.4%), Orlando (4.2%), Ocala (3.9%)
- Economy boosted by 4.2% increase in professional services, 4.1% in hospitality and 4.1% in education and health services

Takeaway: USCR is looking to new geographic regions as a part of their growth strategy. CEO sees growth opportunities in this region and is looking to expand.

# Company Risks

## US Economy Slowdown

- US Economy could pull back into recessionary conditions which would slow down construction
- Rising mortgage rates would also slow down construction growth

## Failed Market Entry and Defense

- Improper assessment of new markets could leave USCR with a weak geographic segment
- Competitors may try to compete with USCR in their core geographic regions

## Large Debt Obligations

- Bankruptcy debt due 2018, may be unable to pay off debt or refinance

# Comparable Company Analysis

## Comparable Company Analysis

4/16/2016

Company	Ticker	EV	Market Cap	Revenue	EBITDA	Net Income	P/E	EV/EBITDA	EV/Revenue
<b>US Concrete</b>	<b>USCR</b>	<b>1,227.8</b>	<b>950.0</b>	<b>974.7</b>	<b>117.9</b>	<b>25.5</b>	<b>37.3x</b>	<b>10.4x</b>	<b>1.3x</b>
1 Summit Materials	SUM	3,400.0	2,100.0	1,430.0	158.9	25.3	83.0x	21.4x	2.4x
2 Vulcan Materials C	VMC	16,130.0	14,430.0	3,420.0	846.9	232.9	62.0x	19.0x	4.7x
3 Martin Marietta Ma	MLM	12,090.0	10,690.0	3,540.0	756.3	288.8	37.0x	16.0x	3.4x
4 Eagle Materials	EXP	3,950.0	3,500.0	1,066.0	299.7	186.5	18.8x	13.2x	3.7x

High	83.0x	21.4x	4.7x
Mean	47.6x	16.0x	3.1x
<b>Median</b>	<b>37.3x</b>	<b>16.0x</b>	<b>3.4x</b>
Low	18.8x	10.4x	1.3x

### P/E

LTM EPS	\$	1.71
Implied Price Target	\$	63.76
Upside (Downside)		-0.4%

### EV/EBITDA

LTM EBITDA	\$	117.90
Implied Price Target	\$	107.8488
Upside (Downside)		68.5%

### EV/Revenue

LTM Revenue	\$	974.72
Implied Price Target	\$	204.7743
Upside (Downside)		220.0%

### Additional Information

Net Debt	\$	277.8
Share Price	\$	64.00
Shares Outstanding		14.90

## Key Highlights:

- EV/EBITDA and EV/Revenue ratio lower than competitors
- P/E ratio is approximately the median for comparable comps
- Ratios are promising compared to SUM, a comparable company most similar in size
- Multiples from comparable companies had less weight due to company differences



# DCF Analysis

## Discounted Cash Flow Analysis

### Key Statistics:

Current Trading Price (4-11-201	\$ 64.00
Market Cap	\$ 950.00
Net Debt	\$ 277.77
Beta	0.92
Shares Outstanding	14.90
Marginal Tax Rate	40.00%

### Perpetuity Growth Method

Growth Rate	2.50%
Undiscounted TEV	\$ 1,674.81
Discounted TEV	\$ 1,115.53
DCF Value	\$ 1,350.56
Equity Value	\$ 1,072.79
<b>Share Price</b>	<b>\$ 72.00</b>
Implied Exit Multiple	6.93x

### Exit Multiple Method

EBITDA Multiple	16.00x
Undiscounted TEV	\$ 3,864.72
Discounted TEV	\$ 2,574.17
DCF Value	\$ 2,809.19
Equity Value	\$ 2,531.42
<b>Share Price</b>	<b>\$ 169.89</b>
Implied Growth Rate	5.80%

### WACC Calculation:

Cost of Debt	4.46%
% Weight	23%
Cost of Equity	9.65%
% Weight	77%
<b>WACC</b>	<b>8.47%</b>

	2016	2017	Forecasted 2018	2019	2020
<b>EBIT</b>	\$ 107.41	\$ 142.36	\$ 157.45	\$ 176.18	\$ 192.40
- Taxes	(42.96)	(56.94)	(62.98)	(70.47)	(76.96)
	\$ 64.45	\$ 85.41	\$ 94.47	\$ 105.71	\$ 115.44
+ D&A	49.71	52.06	49.29	46.95	49.14
- CAPEX	(93.99)	(85.05)	(52.46)	(53.77)	(64.77)
- Δ in NWC	(1.10)	(22.82)	(18.07)	(2.05)	(2.32)
<b>Unlevered FCF</b>	<b>\$ 19.07</b>	<b>\$ 29.61</b>	<b>\$ 73.22</b>	<b>\$ 96.84</b>	<b>\$ 97.49</b>
<b>Net Present Value</b>	<b>\$235.03</b>				

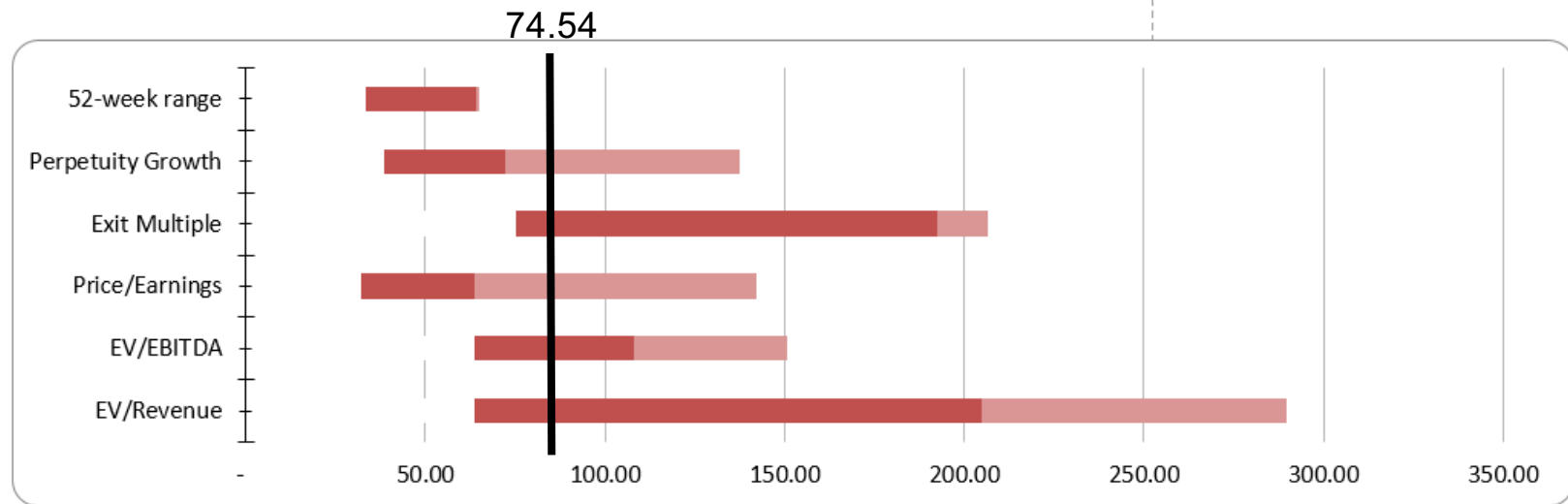
### Key Highlights:

- Net PPE % Sales (2016-2020) 25.5%→23.5%
- Depreciation % PPE (2016-2020) 17%->14%
- Terminal Growth Rate 2.5% to reflect edge above US economy
- Weighted perpetuity heavily due to assumptions taken to value free cash flows

# Valuation Table

## Valuation Range

	52-week rang	Perpetuity Growth	Exit Multiple	Price/Earning	EV/EBITDA	EV/Revenue
Low	33.29	38.57	75.33	32.12	63.76	63.76
Range	30.71	33.43	117.24	31.64	44.09	141.02
Base	64.00	72.00	192.58	63.76	107.85	204.77
Range	1.00	65.44	13.74	78.30	42.82	85.12
High	65.00	137.44	206.32	142.05	150.67	289.89



- Target Price of 74.54 is in the high range for perpetuity growth and price/earnings
- Target Price in base range for Exit multiple, EV/EBITDA and EV/Revenue

# Recommendation Summary

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Upside Potential 16.5%

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**US**   
**CONCRETE**

Core market strategy

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Acquisitions in new markets

# Ending Slide

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# Backup Slide

Balance Check OK OK OK OK OK OK OK OK OK OK

## Balance Sheet Assumptions

	Historical					Forecasted				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net Working Capital (FCF-style)	48.8	13.8	22.4	33.4	(14.6)	(13.5)	9.3	27.4	29.4	31.7
Accounts Receivable % Revenue	18.5%	16.7%	15.5%	16.3%	17.6%	16.9%	16.9%	16.9%	16.9%	16.9% <sup>*1</sup>
Other Receivables % Revenue	1.0%	0.5%	0.1%	1.5%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8% <sup>1</sup>
Inventory % COGS	8.4%	5.5%	5.4%	5.5%	4.8%	5.9%	5.9%	5.9%	5.9%	5.9% <sup>1</sup>
Prepaid Expenses % COGS	1.0%	0.8%	0.7%	0.7%	0.6%	0.7%	0.7%	0.7%	0.7%	0.7% <sup>1</sup>
Other Current Assets % COGS	1.5%	0.7%	0.5%	0.5%	0.3%	0.7%	0.7%	0.7%	0.7%	0.7% <sup>1</sup>
Net PP&E as a % of Sales	28.4%	22.8%	22.5%	25.1%	25.5%	25.5%	24.5%	24.0%	23.5%	23.5% <sup>1</sup>
					%					
Accounts Payable % COGS	11.9%	10.7%	7.5%	8.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5% <sup>2</sup>
Accrued Exp. % SG&A	63.6%	65.3%	71.3%	81.5%	90.9%	90.9%	85.0%	80.0%	80.0%	80.0% <sup>1</sup>
Curr. Inc. Taxes Pay. % Tax Experi	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0% <sup>1</sup>
ST Debt % of COGS	0.2%	0.4%	0.8%	0.9%	1.2%	0.7%	0.7%	0.7%	0.7%	0.7% <sup>1</sup>
Other Crt. Liabilities % COGS	0.6%	4.8%	4.2%	4.6%	8.8%	7.5%	6.0%	5.0%	5.0%	5.0% <sup>2</sup>

# Backup Slide

## Statement of Cash Flows

	Historical					Forecasted				
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net Income	(14.8)	(22.3)	(18.0)	20.1	25.3	31.9	52.8	61.9	73.1	82.9
Add: Depreciation & Amortization	19.7	15.7	19.0	23.8	43.6	49.7	52.1	49.3	47.0	49.1
Less: Change in Net Working Capital	48.8	35.0	(8.6)	(11.0)	48.0	(1.1)	(22.8)	(18.1)	(2.1)	(2.3)
Less: Capital Expenditures	(10.0)	(7.8)	(34.1)	(56.2)	(78.6)	(94.0)	(85.1)	(52.5)	(53.8)	(64.8)
<b>Operating Cash Flow</b>	43.7	20.5	(41.8)	(23.2)	38.2	(13.5)	(3.0)	40.7	64.3	64.9
Less: Deferred Taxes	2.0	(4.0)	0.8	0.9	(37.0)	(5.0)	-			
Add: Derivative Loss	(13.4)	19.7	30.0	3.5	60.0	50.0	40.0	40.0		
Initial Cash Balance	-	4.2	4.8	112.7	30.2	3.9	5.4	12.5	(26.9)	7.4
<b>Cash Available for Investors</b>	<b>32.2</b>	<b>40.4</b>	<b>(6.2)</b>	<b>93.8</b>	<b>91.4</b>	<b>35.4</b>	<b>42.5</b>	<b>93.1</b>	<b>37.4</b>	<b>72.3</b>
Debt Additions (Repayments)	(10.0)	(15.0)	(30.0)	(20.0)	(40.0)	(30.0)	(30.0)	(120.0)	(30.0)	(30.0)
Dividend Payments	-	-	-	-	-	-	-	-	-	-
Equity Additions (Share Repurchase)	-	-	-	-	-	-	-	-	-	-
Historical Cash Adjustment	(18.0)	(20.7)	148.9	(43.6)	(47.5)	-	-	-	-	-
<b>Ending Cash Balance</b>	<b>4.2</b>	<b>4.8</b>	<b>112.7</b>	<b>30.2</b>	<b>3.9</b>	<b>5.4</b>	<b>12.5</b>	<b>(26.9)</b>	<b>7.4</b>	<b>42.3</b>

# Backup Slide

DCF - Perpetuity Growth Sensitivity									
Terminal Growth Rate	WACC								
	6.97%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	
	3.5%	\$137.44	\$116.77	\$100.74	\$87.95	\$77.51	\$68.83	\$61.50	\$55.23
	3.0%	\$119.27	\$102.93	\$89.89	\$79.25	\$70.40	\$62.92	\$56.53	\$51.00
	2.5%	\$105.17	\$91.87	\$81.02	\$72.00	\$64.38	\$57.87	\$52.23	\$47.31
	2.00%	\$93.90	\$82.84	\$73.64	\$65.87	\$59.23	\$53.49	\$48.47	\$44.05
	1.50%	\$84.70	\$75.32	\$67.40	\$60.63	\$54.77	\$49.66	\$45.15	\$41.16
	1.00%	\$77.04	\$68.96	\$62.06	\$56.08	\$50.87	\$46.28	\$42.21	\$38.57

DCF - EV/EBITDA Exit Multiple Sensitivity									
		WACC							
		7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%
Terminal EBITDA Multiple	18.0 x	\$ 206.32	\$ 216.91	\$222.43	\$ 222.43	\$ 216.91	\$ 206.32	\$ 191.49	\$ 173.52
	17.0 x	\$ 197.37	\$ 207.35	\$212.55	\$ 212.55	\$ 207.35	\$ 197.37	\$ 183.38	\$ 166.40
	16.0 x	\$ 178.96	\$ 187.91	\$192.58	\$ 192.58	\$ 187.91	\$ 178.96	\$ 166.40	\$ 151.12
	15.0 x	\$ 153.61	\$ 161.26	\$165.24	\$ 165.24	\$ 161.26	\$ 153.61	\$ 142.87	\$ 129.79
	14.0 x	\$ 123.33	\$ 129.50	\$132.70	\$ 132.70	\$ 129.50	\$ 123.33	\$ 114.66	\$ 104.07
	13.0 x	\$ 89.70	\$ 94.29	\$ 96.67	\$ 96.67	\$ 94.29	\$ 89.70	\$ 83.23	\$ 75.33

# Backup Slide

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## Summary Statistics

Gross Margin	21.12%
EBITDA Margin	12.09%
ROA	19.44%
ROE	18.97%
Free Cash Flow Yield	29.80%
Price/Earnings (ttm)	3725.49%
Price/Book	578.22%
PEG Ratio	295.5525
EV/EBITDA (ttm)	1041.36%
EV/Revenue (ttm)	125.96%
Total Debt/EBITDA	231.05%
Current Ratio	95.49%
Quick Ratio	80.00%
Cash/Share	26.34%