US CONCRETE INC
Form 10-Q
August 07, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2018

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to _________.

Commission File Number: 001-34530
U.S. CONCRETE, INC.
(Exact name of registrant as specified in its charter)

Delaware	76-0586680
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

331 N. Main Street, Euless, Texas 76039
(Address of principal executive offices, including zip code)
(817) 835-4105
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

There were 16,817,964 shares of common stock, par value $.001 per share, of the registrant outstanding as of August 1, 2018.

U.S. CONCRETE, INC.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
U.S. CONCRETE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$21,511	$22,581
Trade accounts receivable, net of allowances of $5,399 as of June 30, 2018 and $5,785 as of December 31, 2017	247,634	214,221
Inventories	48,784	48,085
Prepaid expenses	8,281	5,297
Other receivables	12,197	19,191
Other current assets	7,282	2,310
Total current assets	345,689	311,685
Property, plant and equipment, net of accumulated depreciation, depletion and amortization of $205,249 as of June 30, 2018 and $178,168 as of December 31, 2017	674,192	636,268
Goodwill	217,316	204,731
Intangible assets, net	122,187	118,123
Other assets	7,191	5,327
Total assets	$1,366,575	$1,276,134
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$130,279	$117,070
Accrued liabilities	85,928	65,420
Current maturities of long-term debt	28,753	25,951
Total current liabilities	244,960	208,441
Long-term debt, net of current maturities	721,801	667,385
Other long-term obligations and deferred credits	78,523	93,341
Deferred income taxes	3,493	4,825
Total liabilities	1,048,777	973,992
Commitments and contingencies (Note 13)		
Equity:		
Preferred stock	—	—
Common stock	18	18
Additional paid-in capital	324,243	319,016
Accumulated deficit	(1,377)	(13,784)
Treasury stock, at cost	(26,668)	(24,799)
Total shareholders' equity	296,216	280,451
Non-controlling interest	21,582	21,691
Total equity	317,798	302,142
Total liabilities and equity	$1,366,575	$1,276,134

The accompanying notes are an integral part of these condensed consolidated financial statements.

U.S. CONCRETE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	$404,200	$340,926	$731,987	$640,059
Cost of goods sold before depreciation, depletion and amortization	320,238	263,574	587,470	499,333
Selling, general and administrative expenses	31,875	30,200	64,151	56,017
Depreciation, depletion and amortization	22,142	16,350	42,717	32,209
Change in value of contingent consideration	(1,626)	720	(1,258)	1,328
Impairment of assets	1,299	—	1,299	—
Gain on sale of assets, net	(371)	(198)	(561)	(390)
Operating income	30,643	30,280	38,169	51,562
Interest expense, net	11,514	10,368	22,823	20,510
Derivative loss	—	15,766	—	13,910
Other income, net	(1,441)	(596)	(3,060)	(1,304)
Income from continuing operations before income taxes	20,570	4,742	18,406	18,446
Income tax expense	4,292	6,911	5,944	13,613
Income (loss) from continuing operations	16,278	(2,169)	12,462	4,833
Loss from discontinued operations, net of taxes	—	(180)	—	(302)
Net income (loss)	16,278	(2,349)	12,462	4,531
Less: Net income attributable to non-controlling interest	(13)	—	(55)	—
Net income (loss) attributable to U.S. Concrete	$16,265	$(2,349)	$12,407	$4,531
Basic income (loss) per share attributable to U.S. Concrete:				
Income (loss) from continuing operations	$0.99	$(0.14)	$0.75	$0.31
Loss from discontinued operations, net of taxes	—	(0.01)	—	(0.02)
Net income (loss) per share attributable to U.S. Concrete - basic	$0.99	$(0.15)	$0.75	$0.29
Diluted income (loss) per share attributable to U.S. Concrete:				
Income (loss) from continuing operations	$0.99	$(0.14)	$0.75	$0.29
Loss from discontinued operations, net of taxes	—	(0.01)	—	(0.02)
Net income (loss) per share attributable to U.S. Concrete - diluted	$0.99	$(0.15)	$0.75	$0.27
Weighted average shares outstanding:				
Basic	16,477	15,703	16,450	15,601
Diluted	16,506	15,703	16,518	16,531
Net income (loss) attributable to U.S. Concrete:				
Income (loss) from continuing operations attributable to U.S. Concrete	$16,265	$(2,169)	$12,407	$4,833
Loss from discontinued operations, net of taxes	—	(180)	—	(302)
Total net income (loss) attributable to U.S. Concrete	$16,265	$(2,349)	$12,407	$4,531

The accompanying notes are an integral part of these condensed consolidated financial statements.

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U.S. CONCRETE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF TOTAL EQUITY
(Unaudited)
(in thousands)

	Common Stock							
	# of Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total Shareholders' Equity (Deficit)	Non-controlling Interest	Total Equity (Deficit)
BALANCE, December 31, 2017	16,652	$ 18	$ 319,016	$ (13,784)	$ (24,799)	$ 280,451	$ 21,691	$ 302,142
Stock-based compensation expense	—	—	5,149	—	—	5,149	—	5,149
Restricted stock vesting	6	—	—	—	—	—	—	—
Restricted stock grants, net of cancellations	180	—	—	—	—	—	—	—
Stock options exercised	6	—	78	—	—	78	—	78
Other treasury share purchases	(28)	—	—	—	(1,869)	(1,869)	—	(1,869)
Measurement period adjustments for prior year business combinations	—	—	—	—	—	—	(125)	(125)
Payments to non-controlling interest						—	(39)	(39)
Net income	—	—	—	12,407	—	12,407	55	12,462
BALANCE, June 30, 2018	16,816	$ 18	$ 324,243	$ (1,377)	$ (26,668)	$ 296,216	$ 21,582	$ 317,798

The accompanying notes are an integral part of these condensed consolidated financial statements.

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U.S. CONCRETE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$12,462	$4,531
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	42,717	32,209
Amortization of debt issuance costs	909	1,041
Amortization of discount on long-term incentive plan and other accrued interest	285	374
Amortization of premium on long-term debt	(775)	(775)
Derivative loss	—	13,910
Change in value of contingent consideration	(1,258)	1,328
Net gain on disposal of assets	(561)	(390)
Impairment of assets	1,299	—
Deferred income taxes	(177)	4,816
Provision for doubtful accounts and customer disputes	2,007	1,896
Stock-based compensation	5,149	4,253
Unrealized foreign exchange gain	(67)	—
Changes in assets and liabilities, excluding effects of acquisitions:		
Accounts receivable	(35,523)	(12,856)
Inventories	(25)	(1,942)
Prepaid expenses and other current assets	2,434	98
Other assets and liabilities	(1,276)	(22)
Accounts payable and accrued liabilities	20,260	4,684
Net cash provided by operating activities	47,860	53,155
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(20,837)	(18,692)
Payments for acquisitions, net of cash acquired	(61,111)	(32,836)
Proceeds from disposals of property, plant and equipment	1,085	841
Proceeds from disposal of businesses	158	873
Insurance proceeds from property loss claims	2,134	—
Net cash used in investing activities	(78,571)	(49,814)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolver borrowings	228,613	—
Repayments of revolver borrowings	(177,213)	—
Proceeds from issuance of debt	—	211,500
Proceeds from exercise of stock options and warrants	78	494
Payments of other long-term obligations	(3,540)	(4,536)
Payments for other financing	(13,709)	(8,778)
Debt issuance costs	—	(3,231)
Other treasury share purchases	(1,869)	(2,825)
Payments to non-controlling interest	(249)	—
Other proceeds	464	—
Net cash provided by financing activities	32,575	192,624
EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	(98)	—
NET INCREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	1,766	195,965

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	22,581	75,774
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH AT END OF PERIOD	$24,347	$271,739

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U.S. CONCRETE, INC. AND SUBSIDARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(Unaudited)
(in thousands)

	Six Months Ended June 30,	
	2018	2017
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$22,667	$20,155
Cash paid for income taxes	$2,678	$12,302
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Capital expenditures funded by capital leases and promissory notes	$20,046	$24,393
Acquisitions funded by contingent consideration	$893	$—

The accompanying notes are an integral part of these condensed consolidated financial statements.

U.S. CONCRETE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of U.S. Concrete, Inc. and its subsidiaries (collectively, "we," "us," "our," the "Company," or "U.S. Concrete") and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for reporting interim financial information. Some information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") have been condensed or omitted pursuant to the SEC's rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K"). In the opinion of our management, all material adjustments necessary to state fairly the information in our unaudited condensed consolidated financial statements have been included. All adjustments are of a normal or recurring nature. All amounts are presented in United States dollars, unless otherwise noted. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year.

The preparation of financial statements and accompanying notes in conformity with U.S. GAAP requires the use of estimates and assumptions by management in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions that we consider significant in the preparation of our financial statements include those related to our allowance for doubtful accounts, business combinations, goodwill, intangible assets, valuation of contingent consideration, accruals for self-insurance programs, income taxes, the valuation of inventory and the valuation and useful lives of property, plant and equipment.

Certain reclassifications have been made to prior period balances to conform with the current year presentation.

2. RECENT ACCOUNTING PRONOUNCEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Standards/Updates Adopted This Year

Revenue Recognition. In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance that outlines a single comprehensive model for accounting for revenue arising from contracts with customers, which supersedes most of the existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. We adopted this guidance and related amendments as of January 1, 2018, applying the modified retrospective transition approach to all contracts. Adoption of the new guidance did not result in changes in the amount of revenue recognized or the timing of when such revenue is recognized.

Clarification of the Definition of a Business in Business Combinations. In January 2017, the FASB issued an update under business combinations in an effort to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or as business combinations. The amendments in this update provide a screen to determine when a set of assets is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. The adoption of this standard did not have a material impact on our financial condition and results of operations.

Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued guidance to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Adoption of this standard did not result in any material changes to our statements of cash flows.

Restricted Cash in the Statement of Cash Flows. In November 2016, the FASB issued guidance to reduce diversity in the presentation of restricted cash in the statement of cash flows. The standard has certain disclosure requirements related to restricted cash and requires that restricted cash be included with cash balances in the statement of cash flows. Adoption of this standard did not have a material impact on our statement of cash flows.

U.S. CONCRETE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Standards/Updates Not Yet Adopted

Lease Accounting. In February 2016, the FASB issued a new lease accounting standard intended to increase transparency and comparability among organizations by reorganizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees will be required to recognize a right-of-use asset and a lease liability, measured on a discounted basis, at the commencement date for all leases with terms greater than twelve months. Additionally, this guidance will require disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. We expect to adopt the guidance using the recently approved transition approach that permits application of the new standard at the adoption date instead of the earliest comparative period presented in the financial statements, with a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We have established a cross-functional coordinated team to implement the standard. The implementation process includes reviewing all leases, performing a completeness assessment over the lease population, analyzing the practical expedients and identifying a new lease accounting technology system. We will also evaluate our processes and internal controls to meet the new accounting, reporting and disclosure requirements. This guidance will be effective for us beginning with the first quarter of 2019. Although we have not yet completed our evaluation of the impact on our financial statements, we expect that our adoption of the standard will have a significant impact on our consolidated balance sheet.

For a description of our significant accounting policies, see Note 1 of the consolidated financial statements in our 2017 Form 10-K.

3. REVENUE

We derive substantially all of our revenue from the production and delivery of ready-mixed concrete, aggregates and related building materials. Revenue from the sale of these products is recognized when control passes to the customer, which generally occurs at the point in time when products are delivered. We do not deliver product unless we have an order or other documentation authorizing delivery to our customers. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods. Sales and other taxes we collect concurrently with revenue-producing activities are excluded from revenue. Incidental items, such as mix formulation and testing services that are immaterial in the context of the revenue contract and completed in close proximity to the revenue-producing activities, are recorded within cost of goods sold as incurred. We generally do not provide post-delivery services, such as paving or finishing. Customer dispute costs are recorded as a reduction of revenue at the end of each period and are estimated by using a combination of historical customer experience and a customer-by-customer analysis.

Amounts billed to customers for delivery costs are classified as a component of total revenue. Our payment terms vary by the type and location of our customer and the products offered. The term between invoicing and when payment is due is not significant. As permitted under U.S. GAAP, we have elected not to assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods to the customer will be one year or less.

See Note 14 for disaggregation of revenue by segment and product as we believe that best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

We do not have any customer contracts that meet the definition of unsatisfied performance obligations in accordance with U.S. GAAP.

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U.S. CONCRETE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. BUSINESS COMBINATIONS

The accounting for business combinations requires the significant use of estimates and is based on information that was available to management at the time these condensed consolidated financial statements were prepared. The estimates used for determining the fair value of certain liabilities related to acquisitions are considered Level 3 inputs (as defined in Note 8). We utilized recognized valuation techniques, including the income approach, sales approach, and cost approach to value the net assets acquired. See Note 8 for additional information related to contingent consideration obligations, including maximum payout amounts and how the fair value was estimated. Any changes to the provisional business combination accounting will be made as soon as practical, but no later than one year from the respective acquisition dates.

2018 Acquisitions

We completed three acquisitions during the six months ended June 30, 2018 that expanded our ready-mixed concrete operations in the Atlantic Region (which we define to include New York, New Jersey, Washington, D.C. and Pennsylvania), and expanded our ready-mixed concrete and aggregate products operations in West Texas. The aggregate fair value consideration for these acquisitions, which were all accounted for as business combinations, was $60.8 million. The acquisitions included the assets and certain liabilities of the following:

- On Time Ready Mix, Inc. ("On Time") located in Flushing, New York on January 10, 2018;
- Cutrell Trucking, LLC., Dumas Concrete, LLC., Pampa Concrete Co., Inc., Panhandle Concrete, LLC., Texas Sand & Gravel Co., Inc. (collectively "Golden Spread") located in Amarillo, Texas on March 2, 2018; and
- One individually immaterial ready-mixed concrete operation in our Atlantic Region on March 5, 2018.

The aggregate fair value consideration for these three acquisitions included $59.9 million in cash and fair value contingent consideration of $0.9 million. We funded the cash portion of the 2018 acquisitions through a combination of cash on hand and borrowings under our Revolving Facility (as defined in Note 7). The combined assets acquired through these 2018 acquisitions included 140 mixer trucks, 19 ready-mix concrete plants and one aggregates facility. During the three months ended June 30, 2018, we incurred no transaction costs to effect the 2018 acquisitions. During the six months ended June 30, 2018, we incurred $0.5 million of transaction costs to effect the 2018 acquisitions, which are included in selling and general administrative expenses in our condensed consolidated statements of operations.

Our accounting for the 2018 business combinations is preliminary. We expect to record adjustments as we accumulate information needed to estimate the fair value of assets acquired and liabilities assumed, including working capital balances, estimated fair value of identifiable intangible assets, property, plant and equipment, total consideration and goodwill.

The following table presents the total consideration for the 2018 acquisitions and the preliminary amounts related to the assets acquired and liabilities assumed based on the estimated fair values as of the respective acquisition dates (in thousands):

	2018 Acquisitions
Inventory	$ 674
Other current assets	77
Property, plant and equipment	30,235

Definite-lived intangible assets	15,450
Total assets acquired	46,436
Total liabilities assumed	153
Goodwill	14,556