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Summit Materials, Inc. (SUM)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Summit Materials Second Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to Karli Anderson, Vice President-Investor Relations. Thank you. Please go ahead.

Karli Schumaker Anderson
Vice President-Investor Relations, Summit Materials, Inc.

Welcome to Summit Materials' second quarter 2020 results conference call. We issued a press release yesterday detailing our financial and operating results. This call is accompanied by our second quarter 2020 investor presentation and an updated supplemental workbook highlighting key financial and operating data, all of which are posted to the Investors section of our website.

Management's commentary and responses to questions on today's call may include forward-looking statements, which by their nature are uncertain and outside of Summit Materials' control. Although these forward-looking statements are based on management's current expectations and beliefs, actual results may vary in a material way.

For a discussion of some of the factors that could cause actual results to differ, please see the Risk Factors section of Summit Materials' annual report on Form 10-K and in our quarterly report on Form 10-Q for the first quarter of 2020, each of which is filed with the SEC. You can find reconciliations of the historical non-GAAP financial measures discussed in today's call in our press release.

Today's call will begin with a business update from Tom Hill. Then Brian Harris will provide a financial review and Tom will provide concluding remarks. We will then open the line for questions. Please limit your questions to one question and one follow-up and then return to the queue, so we can accommodate as many analysts as possible in the time we have available. In compliance with Summit's safety and distancing protocols, our management team members are dialing into today's call from their home offices. Slight delays in audio or background noise may occur during the prepared remarks and the Q&A session.

With that, I'll turn the call over to Tom.

Thomas W. Hill

President, Chief Executive Officer & Director, Summit Materials, Inc.

Good morning, everyone, and thank you for joining our call. We'll begin on slide 3 of the presentation with an executive summary. Safety is always our first priority. Though COVID-19 has presented new challenges, Summit employees have certainly risen to the occasion. We continue to be vigilant in practicing safety and distancing protocols, so our employees, families and communities can be safe and healthy. We view COVID-19 safety as an integral part of our safety program, everyone, including visitors, customers, vendors and subcontractors is required to comply with these safety standards. Whether it involves implementing paperless ticketing in our scale houses, driving hours to deliver hand sanitizer to colleagues or donating our stock of N95 masks to healthcare workers, our team has proven to be creative and thoughtful in developing solutions to these extraordinary new working conditions. And we thank them for their commitment.

Construction continues to be designated an essential service in the markets we serve, and we have been working with stakeholders to enhance operations under these new working conditions in the 23 states and the province of British Columbia. To summarize at a high level, demand has been very strong in our largest markets, such as Texas and Utah and steady in Kansas and Missouri. These [ph] helped us (00:03:38) offset weaker demand we've experienced in some of our smaller markets, such as Kentucky, Nevada and North Carolina, and also in our cement business, particularly in their Southern markets.

As we told you last quarter, Summit's costs are mostly variable in nature and we have seen better execution and reduction in transportation, G&A and hydrocarbons. This is reflected in our Q2 adjusted EBITDA margin, which expanded 250 basis points to 27.9%, the highest it's been in nearly three years.

Our executive summary continues on slide 4. We set second quarter records for net revenue, operating income, net income and adjusted EBITDA. Demand for ready mix and aggregates was resilient; and our West region, in particular, benefited from more favorable weather conditions than a year ago. The trend thus far in July appears to be more of the same. Two weeks ago, we completed an acquisition of a pure-play aggregates business and we will tell you more about that in a moment.

While demand for our products and services has not yet been materially impacted by COVID-19 in most of our markets, the future impact to construction activity is less clear.

Net revenues may decrease as the economy slows and ultimately some infrastructure projects may be delayed or deferred. And though public infrastructure enjoys bipartisan support and many of the states where we operate are in a reasonably good financial condition today, we still do not have a passage of a new transportation bill or a continuing resolution.

Looking forward to the rest of 2020, we just don't have a clear enough picture to reinstate adjusted EBITDA guidance at this time. However, we are maintaining our 2020 capital expenditure guidance of $145 million to $160 million. While the future is uncertain, we continue to believe Summit is in the most favorable strategic and financial position in the company's history. This value proposition has only improved in the last quarter.

First, Summit is made up of entrepreneurial, locally operated companies run by managers with extensive ties to the communities they serve. They have the freedom to make real-time decisions to respond to fluctuations in demand. For example, where we have seen pockets of weaker demand in our smaller markets, operating company leaders have in some cases offered relocations to employees to give them the opportunity to temporarily assist the operating companies in a higher growth markets. In other situations operating companies are sharing resources across organizations or functions, these economies of scale are particularly beneficial in times of uncertainty and are reflected in our margin expansion.

Second, entering this crisis our end markets were structurally sound and not oversupplied. As of June 2020 every Summit residential market had below average inventory, in some cases less than two months versus the national average of nearly five months. As we mentioned last quarter, our 2020 public construction book of business is already funded in some states into 2021. The nature of work that we do is repair and replace, which tends to be required even in times of financial stress.

Finally, we believe Summit is in the most favorable financial position in its history with over $580 million of available liquidity at quarter end. On a pro forma basis net of the Multisources acquisition, which closed in early July, available liquidity was approximately $490 million.

Turning to slide 5 for a highlights of our second quarter and early indication of our Q3. A combination of strong demand and good weather, particularly in our West region, drove record Q2 net revenue of $575.2 million, up 4.1% from a year ago. Adjusted EBITDA increased 14.1% to $160.2 million, which is also a record. We reported pricing growth in ready mix, asphalt and cement, aggregate prices were down slightly, but that doesn't really tell the whole story. We lapped a very difficult comp in aggregates, which reported an 8% increase in average selling price last year, reflecting levee repair work in Missouri. While we are continuing with flood repair work in Missouri, the nature of the current repairs calls for a product with a much lower selling price, yet, it still has very attractive margins. This is one contributing factor to why our aggregates margin expanded by 250 basis points to 63.9% in the second quarter.

While the third quarter has just begun, I'll make a few comments about what we're seeing in the first three weeks of the quarter. First of all, residential demand in our markets is nearly as active as it was prior to COVID-19. Las Vegas, which was a relatively small market for Summit, generating only 2% of our 2019 revenue, is the only market where we have seen a sustained negative impact from high unemployment.

Nonresidential activity has been fueled by wind farm and distribution center work, particularly in the Midwest. This is partially offset by delays and deferrals of some airport and retail projects, Summit does not participate in the much more volatile high-rise office construction.

Cement demand varies widely across the Mississippi River system. For example customers are facing tariffs and supply chain uncertainty in agricultural communities in the North, while volatility in the oil and gas market is affecting cement demand in the South. We believe it is likely that cement volumes in the second half of 2020 will be lower than the same period in 2019.

And finally, public activity is resilient in Texas, Kansas, Utah, Virginia and Colorado. Transportation budgets are, however, constrained in Kentucky, North Carolina and in the province of British Columbia.

Now, I'll turn our focus to the cement segment on slide 6. Our second quarter adjusted EBITDA for cement was flat relative to a year ago, though adjusted cash gross margin expanded by 500 basis points to 50.8%. Weather and shipping conditions were normal relative to a year ago. As we indicated in our first quarter 10-Q, an explosion occurred at our Green America Recycling facility in April. No one was seriously hurt, but repairs are expected to continue until the fourth quarter. We estimated the impact was approximately $3.8 million of adjusted EBITDA in the second quarter. We expect that there will be an impact of similar magnitude in the third quarter.

Price increases took effect on June 1 as planned, so they are not entirely reflected in the Q2 average selling price. We continue to monitor cement demand conditions on a daily basis and adjust production to meet that demand. Cement volume was down approximately 6.3% in Q2, reflecting slower growth in certain markets. We currently expect cement volume in the second half of 2020 to be lower than volume levels reported in the second half of 2019.

On slide 7, we provided an update of the current market conditions in our top states. Summit's end-use markets are 38% public, 31% residential, and 31% nonresidential. Geographically, our markets are working well for us right now. We serve customers in ex-urban and rural areas where pubic highway work is essential and demand for housing wind farm and distribution centers has been strong through the first half of the year.

Fuel taxes and sales taxes are coming in flat to slightly lower than the same period a year ago. But at this time, we cannot estimate the impact, if any, to public transportation funding since each state approaches funding decisions differently. In Texas, our public highway work is booked through 2020 and into 2021, most of which is in our North Texas operation. TXDOT continues to avoid jobs and our backlog has not been interrupted. The Texas State Comptroller recently announced that the state highway fund will receive its full allocation of Prop 7 funding of $2.5 billion for fiscal year 2021.

From a private construction standpoint, Houston residential activity continues to grow with new residential permits up 7.6% in May. At our Midland Odessa operation in the Permian Basin, which represented only 2% of Summit's net revenue in 2019 bidding for residential and nonresidential projects has slowed.

In Kansas, Governor Kelly's office unveiled her plan for dealing with the estimated over $1 billion state budget shortfall anticipated at the end of fiscal year 2021. Fortunately the plan does not impact the state highway fund. Despite the recent dip in travel, [ph] traffic accounts (00:13:45) have rebounded quickly and over the last 12 months, fuel tax revenues remained flat year-over-year through May. Total state tax revenue for May 2020 came in $28 million higher than the consensus estimate, mostly driven by higher sales tax upon reopening. Nonresidential activity is steady with wind farm and warehouse projects continuing to progress.

Our Utah operation is having a terrific year as the state continues to experience population growth. Salt Lake City has the second lowest unemployment in the country and it continues to attract new residents. Its housing inventory was only 1.5 months in June and our nonresidential end-market had backlog through fall 2020. While Missouri's Department of Transportation initially estimated a decline in tax revenue of up to 30%, fuel consumption was down only 4.7% in May versus the prior year. Our public book of business has proven resilient thus far in 2020, with a backlog roughly in line with 2019. We continue to participate in flood repairs, so the activity is on a smaller scale and requires lower priced products than what we supplied in 2019, provided construction remains strong in this area with steady residential construction activity combined with wind farm and warehouse work.

Finally, in Kentucky, the smallest of our top five states in terms of revenue, the state legislature continues to grapple with budget shortfalls, resulting from fiscal issues that preceded the COVID-19 outbreak. However, recent comments from Governor Beshear suggest that the budget issues may be less severe than originally estimated, with a shortfall of only $59 million, instead of the original projection of $161 million. While Kentucky cancelled bidding activity in May and June, the state resumed limited activity in July. Private spending, which is a small part of our Kentucky business is steady.

On slide 8, we provided an outlook by end-market. The future outlook is bit of a mixed bag as it is difficult to predict the impact of future stimulus, employment trends and federal funding. In the residential end-markets, the National Association of Homebuilders Index returned to pre-pandemic levels in July. Mortgage rates are at all-time lows and local reports in Houston and Salt Lake City, our two largest residential markets, suggests that buyer traffic and pricing is robust. However, unemployment remains stubbornly high, which could impact housing markets in the longer term.

In the nonresidential end-market, we note that May architectural billings are still significantly lower than a year ago and several airport expansions have been delayed or deferred. By contrast, our core nonresidential business which includes low-rise construction that follows residential development remained steady. In addition, demand for wind farms, distribution centers and data centers, which we also serve, remained strong.

Finally, turning to the public end-market, it's difficult to make a prediction pending a decision on federal funding. Both of the current proposals, the House INVEST Act and the Senate's Environmental and Public Works America's Transportation Infrastructure Act would present an increase over current FAST Act funding levels and would be a positive catalyst for our sector. There is also the possibility of a short-term stimulus flowing to the State Departments of Transportation. Absent a successful outcome to increase funding, our base case scenario follows historic trends, which is a continuing resolution to extend the current FAST Act beyond its expiration date of September 30, 2020.

Turning to slide 9, I'd like to summarize our recent acquisition of Multisources Sand & Gravel, we closed subsequent to quarter end on July 10. This transaction was several years in the making and it's a strategic acquisition of a pure-play, 100% aggregates business at an attractive multiple. Combined with our existing Alleyton operation in Houston, this acquisition creates the leading aggregate supplier in Houston, with a total of 14 plants. The combined entity will have strategic positioning in the North and West of Houston, which are the fastest growing segments of that metro area.

Concluding the business update on slide 10, we continue to make progress on our greenfield strategy. We have completed five aggregates greenfields to-date, with another five aggregates greenfields under development. So we deferred some spending to 2021. We continue to estimate that we will generate $45 million of adjusted EBITDA on an annualized basis by 2024. We expect to spend $50 million to $60 million on greenfields in 2020 and another $35 million to $45 million in 2021.

With that, I'll turn the call over to Brian for a discussion of our financial results. Brian?

Brian J. Harris

Executive Vice President & Chief Financial Officer, Summit Materials, Inc.

Thank you, Tom. Turning to slide 12. I'll start with a summary of Summit's capital structure. Today we are reporting our most favorable second quarter financial position in company history, with over $580 million in available liquidity at the end of Q2. On a pro forma basis net of the Multisources acquisition, which closed in early July, available liquidity was approximately $490 million. We've reduced our leverage by more than 1 turn in a year. Our leverage ratio is now 3.5 times net debt to adjusted EBITDA which is a substantial improvement from 4.7 times a year ago. We reported $60.2 million of free cash flow at the end of the second quarter, as we benefited from higher net income and a continued focus on working capital management.

On slide 13, we've highlighted our 2020 capital expenditure guidance of $145 million to $160 million, which includes $50 million to $60 million for greenfields. We've also updated our current considerations for CapEx. We elected to defer approximately $10 million to future periods, which does not change our estimated 2024 adjusted EBITDA contribution from greenfields. We also deferred $20 million to $35 million of discretionary projects to future periods. We currently expect to spend approximately $45 million of CapEx in the third quarter and approximately $10 million in the fourth quarter. At the bottom of the slide, we've provided a chart depicting the seasonal variability in our cash and liquidity for the past 12 quarters.

On slide 14, you'll see the net revenue bridge, comparing Q2 2020 to Q2 2019. Net revenue increased 4% to a record $575.2 million. Performance was led by our West region, which contributed an incremental $25.7 million on higher aggregates and asphalt volumes, particularly in Utah as well as higher average sales prices in ready mix and asphalt. Our East region contributed an incremental $5.8 million of net revenue driven by higher aggregates and ready mix volumes in Kansas.

Turning to slide 15, we've provided a Q2 adjusted EBITDA bridge. We set a Q2 record with adjusted EBITDA of $160.2 million, an increase of 14% from a year ago. The improvement was driven by strong performance from our West region.

Turning to slide 16, you'll see our key GAAP financial metrics. Net revenue increased 4% in the second quarter due to higher volume in aggregates, ready-mix and asphalt, as well as higher average selling prices for ready-mix, asphalt and cement. Of the increase in net revenue, $23.8 million was from increased sales of products and $2 million from increased service revenue offset by decreased sales of materials of $3.2 million. The resulting adjusted EBITDA margin of 27.9% reflects the underlying quality of earnings in our aggregates business and the strength of our diversified product portfolio and our vertically integrated model.

Q2 operating income of $100.1 million increased by $19.6 million as compared to the second quarter of 2019 on higher revenue and was the primary driver of the $0.18 increase in basic earnings per share. Our second quarter 2020 net income attributable to Summit Inc. increased by $20.7 million to $57.1 million.

Turning to slide 17, we've presented several non-GAAP financial metrics where we compare Q2 2020 to the prior year, as well as year-to-date. Adjusted cash gross profit margin expanded by 300 basis points in the second quarter and 250 basis points year-to-date on expanding margins in aggregates and ready-mix. Adjusted EBITDA margins grew by 250 basis points in the second quarter to 27.9% and by 210 basis points year-to-date on higher net income.

Turning to slide 18, we've presented a comparison of our price and volume year-to-date. Organic average selling prices increased 0.6% for aggregates, 1.6% for cement, 5.6% in ready-mix and 2.7% in asphalt. Volumes increased by 5.5% for aggregates, 7.9% for ready-mix concrete and 7.2% for asphalt. Cement volume contracted by 4.1%.

Turning to slide 19, our efforts to expand margins are reflected in adjusted cash gross margin expansion in the quarter and year-to-date in all lines of business, except the first half of the year in cement. Aggregates margins expanded by 250 basis points in the second quarter and 300 basis points year-to-date on higher demand and price from Utah, Kansas and Missouri.

Our products business expanded by 310 basis points for second quarter and 370 basis points year-to-date on a combination of volume and pricing strength, particularly in Utah and Texas.

Margins in our service business expanded 810 basis points in Q2 and 560 basis points year-to-date on pricing gains, lower fuel and trucking costs in Kansas and Texas, as well as volume in the North Texas and Intermountain West geographies.

Cement margins expanded 500 basis points in the second quarter on lower storage and distribution costs than a year ago. Year-to-date cement margins have contracted by 220 basis points as that segment experienced higher maintenance and winter storage costs early in the year together with the impact of the explosion at the Hannibal recycling facility. Materials and products still comprise 88% of our adjusted cash gross profit and we continue to expect that the contribution from materials will be an increasing proportion of our EBITDA, especially in the light of our greenfield strategy and pure-play aggregates acquisitions like Multisources.

For quarterly modeling purposes for 2020, we estimate that interest expense should be in a range of $26 million to $28 million. We anticipate paying minimal state and local cash taxes and no US federal income taxes. In addition to minimal cash taxes, we do not expect to have any significant TRA payments until 2025.

Finally, with regards to total equity interest outstanding, we had 114.1 million Class A shares outstanding and 3.1 million LP units held by investors, resulting in total equity interest outstanding of 117.2 million at June 27, 2020. This is the share count that should be used in calculating adjusted diluted earnings per share.

And with that, I'll turn the call back to Tom for his closing remarks.

Thomas W. Hill

President, Chief Executive Officer & Director, Summit Materials, Inc.

Thanks, Brian. I'll conclude my prepared remarks on slide 21. When we reported our 2019 year-end results back in February, I said that Summit is set up for success in 2020. I cited our improved financial ratios, margin expansion and greenfield opportunities. Despite unprecedented circumstances, we are delivering on these promises. I am confident that Summit has the tools to succeed, because we are positioned for stability today and growth when conditions return to normal.

First, our financial results continue to improve. The chart on the upper left side shows our trailing 12-months adjusted EBITDA, which has grown steadily for the last five quarters. Our available Q2 liquidity, net of the Multisources acquisition, is $490 million. Most of our costs are variable and our entrepreneurial culture allows managers to flex costs to meet demand as evidenced by our expanding EBITDA margins that we are reporting today.

Second, we are still positioned for growth. We are developing aggregates greenfields projects that will be accretive to adjusted EBITDA. We have acquired a 100% aggregates business in Houston that gives us a leading position in one of the fastest growing metro areas in the country.

And finally, we are optimistic that Congress will pursue an infrastructure or transportation bill which would result in more aid flowing to states.

As we look forward to the second half of 2020, we'll be watching for progress in Washington on a new expanded or continuing resolution to fund highway work. For updates on housing inventory in our markets and for signs of growth in low-rise nonresidential, which tends to follow residential activity by 12 to 18 months.

When I founded Summit in 2009, I could not have imagined the growth and success the company would achieve over the following 11 years. And it has been an honor to serve as CEO throughout this remarkable period. Severing this company alongside all of our talented team members has been the greatest privilege and the highlight of my professional career, and I am extremely proud of all that we have accomplished. I believe that now is the right time for the company transition to its next leader. And as we announced yesterday, I will be stepping down from my role on September 1, 2020. At that time, Anne Noonan will be appointed President and Chief Executive Officer. I have great confidence in Anne, the strength of our team and the great opportunities ahead. I look forward to working closely with Anne, over the next few months and for Summit's continued success for many years to come.

With that, I'd like to turn it over to the operator for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question is from Kathryn Thompson with Thompson Research Group. Your line is open.

Kathryn Ingram Thompson
Analyst, Thompson Research Group LLC

Q

Hi. Thank you for taking my questions today. And Tom congratulations, [indiscernible] (00:30:30) TRG, we have really enjoyed working with you for over a decade, both as a private company and as a public company.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Thanks, Kathryn.

Kathryn Ingram Thompson
Analyst, Thompson Research Group LLC

Q

Yeah. So, diving into questions, just first on the margin side, could you give a little bit more color on puts and takes and the margin expansion between the products and material segments? And could you clarify differences by products and perhaps even by geography? And there are going some large buckets where you – even three or four buckets, but being to understand what were the puts and takes, but also what is really more one-time and what is more sustainable? Thank you.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Yeah, Kathryn. I will deal with the overall margin picture and then I'll let Brian get into some of the particulars. Overall, we are just executing extremely well, especially on the aggregate side. Our costs and our throughputs and so on are extremely good. And we also have some reduced costs, certainly third-party transportation, hydrocarbons and G&A without – with almost no travel going on, all those have improved. Brian, do you want to touch on some of the product specifics?

Brian J. Harris
Executive Vice President & Chief Financial Officer, Summit Materials, Inc.

A

Yeah. Sure, Tom, and thanks Kathryn for the question. The products is the combination of ready-mix and asphalt together. Frankly, the margin profile of those two product groups is not very different, but key in the variable costs were the hydrocarbons, fuel, we're seeing fuel, whether it be on-road, off-road or gasoline prices are running at about 10% to 15% below the costs that we incurred last year. As you know we hedged some of those costs. So we buy the balance spot and we're expecting that pace of cost improvement on the hydrocarbons and fuel to continue.

Third-party trucking is a big portion of our spend. We typically spend about $175 million, $180 million a year on the third-party trucking. I think another contributing factor on the asphalt side would be in Texas, where we're able to take advantage of lower liquid asphalt costs. And maybe just be that we've been a little bit more efficient as a result of the quieter roads, we're not seeing as much idle time, start-stop a fuel consumption is more – it has been more efficient in the first half of the year. And of course, the products, our big products markets for ready-mix were Salt Lake and the Houston markets, they both account for about a third each of our volumes and then the rest of the country accounts for the other third, but they're all benefiting from those favorable cost reductions.

And I think they'll continue. There is really not many one-time, one-off was US, but I don't think there's many one-offs. So, until the fuel prices recover, I think we'll continue to see the benefit of those lower costs.

Kathryn Ingram Thompson
Analyst, Thompson Research Group LLC

Q

Okay. That's helpful. And the follow-up question is more on the nonres or the commercial end-market and appreciate the color you gave in your prepared commentary. But the feedback that we've gotten from [ph] just Longbow (00:34:11) construction value chain is just not surprisingly a shift away from certain types of projects into the more kind of tech related, warehousing data centers. And it seems to be covering demand at least for some companies. Knowing that you have more – yours is more low-rise with resi following, really following residential demand, I guess two part, one, are you seeing any demand increase from more that tech driven volumes on nonres? And then two, given the backdrop of residential, which certainly is brighter, what does that mean for Summit over the next 24 to 48 months?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Yeah. Thanks, Kathryn. I think that we are, by design, in the right area in nonresidential. We serve the low-rise that follows residential. That seems to be continuing at pre-COVID levels. I think if res continues its strong surge here, we might even see that pick up. But we also have good backlogs and lots of activity in the data centers, in the tech side and also in wind farms. We're in states in Kansas and Missouri, in North Texas and Oklahoma, where wind farms continue to be a bigger source of demand. And I think most importantly when we look at nonresidential, we just don't service the large downtown office buildings, that's really something we almost do none of. I think the outlook for that is probably pretty tough for the next few years.

I am shocked by the strength of residential. Both our Houston and Utah markets are basically on fire on the residential side. I mean, we have our customers who're incredibly optimistic for the rest of this year and into next.

Interest rates continue to be sub-3%. And I think when you look at Summit and you look at really positive residential outlook, you look at the nonres area where we're not exposed to the weakest parts of that. And we have pretty consistent demand on the highway side. I mean, I think it means a very positive outlook for Summit here in the medium term. And look the wildcard is this pandemic, if that fires up really in the fall and we have to shut down, that's certainly a risk. Hopefully I don't see that happening, but I think residential really – the residential positive outlook really underpins both our nonres and our res. And then we feel that the states we're in are pretty well-funded, our three big highway states are Kansas, Texas and Utah, they're in pretty good shape. So, I think the next 12 to 24 month Kathryn should be positive for Summit.

Kathryn Ingram Thompson
Analyst, Thompson Research Group LLC
Q

Great. Thank you so much. And best of luck.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.
A

Okay. Thank you, Kathryn. Cheers.

Operator: And again ladies and gentlemen, please limit yourself to one question and one follow-up. Your next question is from Trey Grooms with Stephens, Inc. Your line is open.

Trey Grooms
Analyst, Stephens, Inc.
Q

Hey, good morning, everybody. And first off, I want to echo what Kathryn had said earlier in congratulating Tom, wish you the best in whatever your next chapter brings and we really enjoyed working with you over the years.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.
A

Thanks, Trey. Cheers.

Trey Grooms
Analyst, Stephens, Inc.
Q

So, I guess I wanted to touch first on the cement price, cement price increase was implemented in June. Of course, it didn't really impact the quarter too much, I guess. But how has that been received and how should we be thinking about cement pricing going into the back half?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.
A

I think that, it's been very successful. As with all price increases you don't get all of it. But we've got a higher percentage than we have certainly in the last couple of years. It will be there for seven months. We hope overall it's really hard to say, but it should be north of $2 on an annual basis of an increase.

Trey Grooms
Analyst, Stephens, Inc.
Q

Okay. North of $2, okay. That's helpful. Thanks for that. And then from a follow-up, I just wanted to dive in a little bit more on the Multisources acquisition, maybe any more detail there, or any color on how much EBITDA, that's bringing to the table on its own? And I know you mentioned synergies, any color you can give us around synergies you're targeting there? And then is – I know the focus has been more on de-levering and this has been a massive deal by any means, but with demand continuing to hold in much better than feared, has your stance on M&A changed at all with this acquisition?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

I'll give you just an overview of our overall M&A. We still have a few smaller bolt-ons in the pipeline, but it's been – as you can probably understand, it's been very, very quiet during this pandemic, it's very hard to run a process or to negotiate a deal when you're not traveling. So, I would say, we've got a couple of small ones out there. I suspect when this gets closer to the end of this situation that we will see a, I don't want to use the word flood, but we'll see a lot of activity when things get a little bit more opened up and people are traveling.

Multisources itself is a deal that, let's say, I think this one had about a six year tail on it with a long negotiation. We have multiple sites that fit very well with our existing sites I think it brings over a 160 million tons of reserves. We really now in Houston have [ph] an (00:41:43) 11 million ton business, the leading aggregates player there with a very useful downstream outlet in our ready-mix business. And we also – by the way that the ready-mix business that we have in Houston is certainly one of the best I've ever run across. They've been there for 60, 70 years and have a great reputation.

We're not giving specific EBITDA guidance. It's a very attractive multiple and with synergies it's definitely in the high-single digits and over time, we'll be less than that. Synergies with multiple sand and gravel sites are that you can source out at different locations, you get one location that gravel is really the scarce resource there, so if you hit a pocket of higher gravel content you can move volumes there. Its tremendous logistic transportation synergies, we are the leading sand and gravel player there. I would see a very positive pricing trend in that business as other sources deplete. It's sort of the classic aggregates play where you have positive pricing outlook, volume seems like it's going to hang in there with strong residential and our downstream certainly complements our business there quite a bit.

Trey Grooms
Analyst, Stephens, Inc.

Q

Okay. Thanks for taking my questions and congrats on the nice results. Good luck, Tom.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Thanks, Trey. Cheers.

Operator: Your next question is from Anthony Pettinari with Citi. Your line is open.

Anthony Pettinari
Analyst, Citigroup Global Markets, Inc.

Q

Good morning and congratulations to Tom for all of your accomplishments at Summit.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Thanks, Anthony.

Anthony Pettinari
Analyst, Citigroup Global Markets, Inc.
Q

Yeah. You talked about expectations for a year-over-year declines in the second half in Summit and I was just wondering if you could give any more color about expectations for aggregates volumes in the second half directionally and any kind of additional color on how backlogs look right now?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.
A

Sure. I mean, our aggregates and backlogs are actually quite strong and well up over the last year. Our aggregate demand is – remains quite strong through the day and we're very optimistic. Now, we do have the comp. Last year, we had some incredible levee work in Missouri. We still have some levee work, but it's not – it's of much less materiality. So, we're still optimistic about our Missouri operations. They have great backlogs. So, but overall, I would be with better backlogs and strong demand in almost all our markets, very optimistic about volumes in the second half on the aggregates side.

Anthony Pettinari
Analyst, Citigroup Global Markets, Inc.
Q

Okay. Okay. That's very helpful. And then just following up on private nonresidential, I mean, is it possible to quantify what percentage of your business is to end-markets like retail and travel that are seeing some pressure versus that kind of core of as commercial and other categories that are holding up better and is there any big margin difference between the two in terms of the minority of projects that maybe you're seeing delays or cancellations, do they have a higher margin profile, lower margin profile, sort of average margin profile you look at your private business?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.
A

We don't break our nonres out between retail and so forth. I mean – and our primary nonresidential businesses low-rise, the strip malls and so on that, that follow residential construction. Some of that is retail, but it's not the retail that's getting crushed, people are still going to the Starbucks, they're still going to Walmarts, they are still going to the things that we service. And then also we have the Amazon Distribution Centers and those things which are actually accelerating. But I don't know if that answers your question Anthony, but that's...

Anthony Pettinari
Analyst, Citigroup Global Markets, Inc.
Q

Yeah.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.
A

...I think we're in the right place, at the right time on our non-res end use.

Anthony Pettinari
Analyst, Citigroup Global Markets, Inc.
Q

That's helpful. I'll turn it over.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Cheers. Thanks, Anthony.

Operator: Your next question is from Phil Ng with Jefferies. Your line is open.

Philip Ng
Analyst, Jefferies LLC

Q

Good morning, everyone. And it's been a pleasure working with you, Tom. Thanks for all the help.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Thank you.

Philip Ng
Analyst, Jefferies LLC

Q

I guess your business is showing – yeah, your business is showing incredible resiliency, particularly in aggregate side, but based on your backlog and lettings, how that's progressing? How do you kind of see the public piece playing out in 2021? Is the resiliency in some of your bigger states kind of enough to offset some of these weaker markets like Kentucky without any [ph] federal aid (00:47:07)? And lastly, is this – if there is an air pocket, is this more of a 2021 event or you see this kind of carrying out and it being an overhang in the outer years?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

On the public side we have – our asphalt backlogs, for instance, are pretty stable, but at a very high level. And bidding activity continues to be very strong in Texas and Kansas and Utah. We even got some, what I will have to say, less bad news out of Kentucky, where they announced that they thought, and let's see, what were the numbers there, it was, they thought they're going to have a shortfall in the roads fund of – let's say I don't know it was $160 million I think Karli is and it's only like $59 million in the shortfall, so there's an...

Karli Schumaker Anderson
Vice President-Investor Relations, Summit Materials, Inc.

A

That's right.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

...extra $100 million. Yeah. That should be turned into additional lettings. And we'll see it in the second half. That will most likely be 2021 work in Kentucky. We've had to make some hard decisions in Kentucky. We've got to really find business there in the Hinkle business, but it's -that's been around. And we've expanded into a little bit more private construction there. We've taken a couple of jobs in Tennessee that we can reach. So we are going to make the best for the bad situation in Kentucky, but elsewhere we just – it just continues to be business as usual in our major highway states. Kansas is going to see a significant increase in 2020 over 2019. And I really believe that we're going to see a significant increase in activity on highways in Kansas 2021 over 2020.

Philip Ng
Analyst, Jefferies LLC

Q

Okay. It sounds like 2021, I mean obviously no guarantees. It sounds like all your major states are holding up pretty well. So, it sounds like it's in a good spot. I guess my follow-up would be on – around pricing. Certainly noise in the quarter was in that levee work dynamic. If you kind of strip that out in the back half, are you still kind of on track to kind of hit that 4% price mix target that you had coming into year? And as we look at 2021, how do you – how you think about pricing momentum in your major markets for aggregates?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

The pricing has been – I think on a mixed adjusted basis we were at 2.5%. We would see some momentum there. Whether we can get to the 3.5%, 4% on a mixed adjusted basis, if that does, I think we have a shot at it, but that's we've got everything to play for there.

Philip Ng
Analyst, Jefferies LLC

Q

Okay. What about the [indiscernible] (00:50:13) 2021 how you think about the momentum on pricing there?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

I'm sorry, Phil. I didn't hear that.

Philip Ng
Analyst, Jefferies LLC

Q

Your thoughts on broader pricing momentum as we kind of look out to 2021 for aggregates?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

I think, again, I'm very optimistic, I'd be very optimistic and our biggest market is Houston. Utah, the economy in Utah continues to just be incredibly strong, big influx of people. It's really a very positive outlook in our major markets. So I can't see why we shouldn't continue with strong pricing.

Philip Ng
Analyst, Jefferies LLC

Q

Okay. Thanks a lot. Really appreciate the color.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Okay. Thanks, Phil.

Operator: Your next question is from Stanley Elliott with Stifel. Your line is open.

Stanley Stoker Elliott
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hey. Good morning, everyone. Thank you all for taking the question. Could you all talk a little bit about how volumes and to pick the product what have you, but trended through the quarter on a monthly basis and then also just trying to get a sense when you say July you're still trending in line, is that really more in line with the full quarter or more in line with what's happened in June?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc. A

Our volumes are actually – so far are actually better than the prior year and better than June. So demand is quite strong, that's not in cement, cement tailed off in June and it continues at a slightly lower level than the prior year. But in the other three products in aggs, ready-mix and asphalts it continues to be just very strong.

Stanley Stoker Elliott
Analyst, Stifel, Nicolaus & Co., Inc. Q

So you're basically saying that June was stronger than some of the other quarters in the month and the July was even stronger than June, and I'm just trying to make sure that I'm hearing exactly what you guys were saying?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc. A

Well, we've got a couple of weeks. We're only – this is what week three...

Brian J. Harris
Executive Vice President & Chief Financial Officer, Summit Materials, Inc. A

Yeah.

Stanley Stoker Elliott
Analyst, Stifel, Nicolaus & Co., Inc. Q

Yeah.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc. A

...in July and that continues to be stronger. And June was a really good month outside of cement, cement had some issues, especially in their Southern markets that are really impacted by oil and gas and in fact a lot of those Southern markets are in Louisiana is more impacted by oil and gas than Huston. It's just a bigger percentage of that economy.

Stanley Stoker Elliott
Analyst, Stifel, Nicolaus & Co., Inc. Q

Perfect. I will leave it there. And Tom congratulations and best wishes to you.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc. A

Thanks, Stanley.

Operator: Your next question is from Seldon Clarke with Deutsche Bank. Your line is open.

Seldon Clarke
Analyst, Deutsche Bank

Q

Hey, thanks for the question. Could you just give us some more clarity on what's the biggest concern for you guys in terms of providing guidance, we're towards the end of July now, which you mentioned, has been pretty strong. You've got 2Q under your belt and have some pretty good visibility on your backlogs and pricing, so could you just give us some more clarity around your thought process here? And what's really driving the hesitation as it relates to providing back half guidance?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Yeah. I think it's – and I'll let Brian speak up on this also, but to me it's just strictly the pandemic. And what potential impact it could have, if there is a surge and things shut down. That's just a wildcard that I have no experience in and it has made us hesitant to give guidance. If we were giving guidance, it would probably be wider than you would like. So that's really – and I think if the – I would be very optimistic for the year if the pandemic doesn't get any worse. I don't know Brian what's your view there.

Brian J. Harris
Executive Vice President & Chief Financial Officer, Summit Materials, Inc.

A

Yeah, that's right, Tom, obviously the pandemic is hanging over everything, but if you recall, Seldon at the beginning of the year, we said, there were kind of three big wildcards for us, cement pricing, weather and levee works were our big wildcards. And although we've said that we've had some good continuing repair-type works, we haven't had that big levee job that we've got last year. We haven't had a repeat of that. We've talked about the cement pricing, where we expect to be there. And weather so far has been generally good in the Center and the Western half of the country but it's been quite cooler in – on the East Coast, particularly around the Carolina area. And just keep in mind that Q3 is, by far in a way, the biggest quarter of the year for us. If you recall the weather impact that we had in the third quarter in 2018, completely derailed us. So, we are not [indiscernible] (00:55:28) weather yet, we're coming into some of the biggest parts from a volume standpoint and there's still an element of uncertainty there, but COVID hanging over everything is the main reason for our hesitation at this point.

Seldon Clarke
Analyst, Deutsche Bank

Q

Okay. So, it sounds like that the biggest risk will be around states shutdowns as a result of like some of these COVID restrictions. Is that fair?

Brian J. Harris
Executive Vice President & Chief Financial Officer, Summit Materials, Inc.

A

Correct.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Yes.

Brian J. Harris
Executive Vice President & Chief Financial Officer, Summit Materials, Inc.

A

Yes.

Seldon Clarke
Analyst, Deutsche Bank

Q

Okay. And then so, I guess just kind of continuing on the same topic, you talked to us on this healthy backlogs. And obviously, you've got some longer term projects, but is there any way to just provide some quantitative context on what type of visibility this gives you, ignoring any risk of a construction shutdown? Is there any way to just kind of frame up what – how much visibility you have in terms of duration? And maybe what percentage of business is potentially at risk just from a macro perspective over the next several months?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

The backlog that has the highest percentage of annual sales is asphalt and paving. And that's well in excess of two-thirds of your next 12 months you have in backlog. And like I say, we – our asphalt backlogs are pretty steady from last year at very high levels that represent more than two thirds of our annual volume. Aggregates and ready-mix are much less of a backlog business, especially ready-mix, ready-mix we have – our ready-mix backlogs are down a little bit, but that's just because a couple of wind farms that we have supplied early in the year have run off and – but we still have lots of activity in the wind farm areas. So it's really the asphalt and paving, public side where we have really good visibility and we have really good backlogs.

Seldon Clarke
Analyst, Deutsche Bank

Q

Okay. It's helpful. Appreciate the time.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Okay. Thanks, Seldon.

Operator: Our last question comes from Garik Shmois with Loop Capital. Your line is open.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Thanks, and Tom congratulations on your retirement and best of luck. Wanted to ask...

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Thank you.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

...just on the cement outlook and some of the comments you made with respect to [ph] witnessed (00:58:05) in some of the Southern markets. Just wanted to be clear just one more time, is this mainly a function of some of the energy end-markets slowing? Are you seeing any, I guess, early signs of COVID related shutdown activity just given some of the Southern markets are starting to see spikes in cases?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

Yeah. I think the Southern markets had – Louisiana had an initial outbreak and I think that's certainly started the softer demand and then the collapse in the oil and gas markets had an another impact. Actually I think in Louisiana it's getting – this virus is getting a little better. Look PCA I think he came out yesterday with a 4% drop in national cement demand. We'll probably be a bit more than that just because of those weak Southern markets. We're pretty optimistic on St. Louis North actually for cement demand and hopefully that will offset some of the weakness in the Southern markets.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Okay. And I guess my follow-up question along those lines, you talked about securing north of $2 per ton in cement pricing last month. Do you see any risk of potential oversupply in the Southern markets, finding their way up north and disrupting perhaps some of the pricing gains that you've recently secured?

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

I don't think so. I think that the cement industry has been sort of balanced or pretty high utilization. People have been more patient this year and I'm pretty optimistic that the market won't be oversupplied.

Garik Shmois
Analyst, Loop Capital Markets LLC

Q

Okay. Thank you for that and again best of luck, Tom.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

A

All right, Garik. Cheers.

Operator: Ladies and gentlemen, we have reached our allotted time for questions-and-answers. I'll now turn it back over to Tom Hill for any closing remarks.

Thomas W. Hill
President, Chief Executive Officer & Director, Summit Materials, Inc.

Thank you, operator, and thanks everybody for joining us today. This concludes our call. Everybody stay safe and have a good day.

Operator: Ladies and gentlemen, this concludes today's conference call and thank you for your participation and you may now disconnect.