29-Apr-2020

# Summit Materials, Inc. (SUM)

## Q1 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 First 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]

I would now like to hand the conference over to your speaker today, Karli Anderson. Thank you. Please go ahead.

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

Welcome to Summit Materials' first quarter 2020 results conference call. We issued a press release this morning detailing our financial and operating results. This call is accompanied by our first 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 differ 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' latest annual report on Form 10-K, which is filed with the SEC, and in our quarterly report on Form 10-Q for the first quarter of 2020, which we expect to file with the SEC after this call, that will include a discussion of certain risks to our business related to COVID-19. 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 an 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.

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### Thomas W. Hill

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

Thanks, Karli. Good morning, everyone, and thank you for joining our call. We'll begin on slide 4 of the presentation to discuss Summit's response to COVID-19. Under any business conditions, safety is always our first priority. While COVID-19 has presented new challenges, Summit is fortunate to have a world-class safety team that helped us act quickly and decisively. In early March, we adopted safety and distancing protocols for all employees. Construction has fortunately been deemed essential, and business continues in all the markets that Summit serves, which includes 23 states and the province of British Columbia.

Our work is mostly done outdoors and our employees such as those pictured on slide 4 are setting a good example. We've implemented extensive safety, hygiene and distancing protocols for ourselves, our vendors, and our customers, and encourage their use both at the job site and at home. Our employees have demonstrated their dedication to safety and quality at a time when our company, our customers and communities need it most, and we thank them.

On slide 5, we provided an executive summary of today's remarks. We set first quarter records for net revenue and adjusted EBITDA on higher demand for ready-mix and aggregates as well as more favorable weather conditions relative to a year ago. Q1 is traditionally our smallest quarter of the year due to seasonality.

Though demand from our product and services has not yet been materially impacted by COVID-19, the near-term impact to construction activity is less clear. We believe that it is prudent to withdraw our previously announced 2020 adjusted EBITDA guidance until we have better visibility into the extent of COVID-19-related disruption and the inevitable resumption of normal business conditions. While we cannot predict, much less control, the potential impact of COVID-19 to our business, we can control our capital expenditures.

As a result, we are reducing our CapEx guidance to $145 million to $160 million. This reduction is mostly related to greenfield activities that we have elected to defer until later periods. We expect these deferrals to be limited in duration, through, our long-term estimates for EBITDA contribution from our greenfields remains unchanged. While the near-term impact of the global health and economic crisis is uncertain, we believe Summit is in the strongest strategic and financial position in the company's history. Several elements make up our unique value proposition.

First of all, Summit is made up of entrepreneurial locally operated companies, run by managers with decades of experience navigating tough business conditions. Our operating company leaders are empowered to make local decisions and leverage economies of scale through Summit's support and back-office functions. They have a flexibility to make real-time decisions to respond to fluctuations in demand.

Second, entering this crisis, our end markets were structurally sound, not oversupplied and well-funded. Private residential and non-residential construction was steady through the first quarter in most of our markets, and those trends have been continuing into Q2 as demand for homes, wind farms and warehouses continues, notwithstanding the impact of COVID-19. Through the end of March, housing inventories in each of Summit's markets were well below long-term averages.

While we have not yet experienced a slowdown in private construction activity, we recognize that those markets may be more vulnerable should there be a prolonged economic contraction. By contrast, most of our 2020 public construction book of business is already funded, in some cases, well into 2021. Overall, our backlogs for aggregates, ready-mix and asphalt are about 20% ahead of where they were at the same point in 2019.

States have taken the lead on transportation and infrastructure funding. Earlier this month, the Kansas state legislature approved a 10-year $10 billion transportation plan, [ph] while West (00:07:21) Virginia General Assembly approved a new gas tax and authorized over $800 million in highway construction bonds. In Texas, 2020 transportation funding is supported in part by a sales and use tax based on receipts collected two years ago. In Utah, the new gas tax is expected to generate millions for transportation investment. On a national scale, we hear that there is potential for a federal infrastructure bill that could add billions to state and local transportation funds for projects such as road construction and repair.

Finally, we believe Summit is in the strongest financial position in its history. Our last 12 months adjusted EBITDA has grown steadily over the last five quarters. Our nearest debt maturity is over three years away, which limits our financial risk. And Summit currently has over $500 million of liquidity. Our net senior secured leverage ratio is 1 times versus our covenant of 4.75 times. In other words, we have over $300 million of EBITDA headroom under our only financial maintenance cover.

Turning to slide 6 for highlights of our Q1 and early indications of our Q2, we began 2020 as building permits were increasing, housing inventories well below historical averages, and State Department Of Transportation budgets were in their best shape in years. Those market conditions are reflected in our record Q1 net revenue of $342.4 million, up 12% from Q1 2019. Aggregates volumes increased 9.7% on higher demand in markets such as Missouri, Kansas and Texas. Ready-mix volumes increased 14% and our average sales prices increased 6% on stronger demand across the company and better weather in the intermountain region relative to Q1 2019.

Adjusted EBITDA was especially strong at $16.4 million, up 149% from the first quarter of 2019. We experienced pricing growth in all lines of business in Q1 as 2020 began with growth in demand for residential, non-residential and public construction activity.

And finally, we exited our first quarter 2020 with over $300 million of EBITDA headroom between our current net senior secured leverage ratio and our covenant. While US economic conditions began to deteriorate in late March and early April, it has generally been business as usual in our markets, albeit with extraordinary, yet necessary, safety precautions.

I'll make a few comments about what we're seeing in the first four weeks of Q2. The construction season has begun and demand for aggregates, asphalt and ready-mix has been typical for April. There were a small number of projects delayed or deferred around the edges of our business, but we have been able to replace these with other projects. We have been flexing cement production to meet demand. Cement price increases have been postponed from April 1 to June 1.

Public highway activity seems to be resilient in our largest public markets, such as Texas, Kansas, Missouri, Virginia and Georgia. Two of our smaller markets, North Carolina and Kentucky, which comprise a much smaller proportion of our public works revenue, are facing some fiscal issues that preceded the COVID-19 pandemic.

I'll discuss our cement business on slide 7. In 2019, cement contributed 22% of Summit's adjusted EBITDA. As we plan for 2020, we plan to flex production with demand. Price increases will take effect on June 1. The majority of our volumes ships north of St. Louis and shipping conditions on the river have been normal since the river opened northbound in mid-March. Southbound traffic opened in early April. We continue to monitor demand conditions on a daily basis.

The chart on slide 7 is from the Portland Cement Association and features a projection of cement demand for March through June 2020. As you'll see, demand projections vary considerably amongst the markets served within the Mississippi River distribution area. The PCA projects anywhere from a zero to a 30% decline in cement demand over the 120-day period in the state's report of the river.

On slide 8, we provided a snapshot of our current market conditions. Summit's end-use markets are 38% public, 31% residential, and 31% non-residential. Geographically, our markets tend to be in ex-urban and rural areas. To-date, our markets have had lower density and fewer outbreaks than some of the more populated areas in North America. The information in the chart on slide 8 is based on feedback from our top-five states in terms of 2019 revenue. These comments reflect their business conditions today.

In Texas, our public highway work is booked through 2020 and halfway into 2021, most of which is in our North Texas operation. From a private construction standpoint, Houston residential was steady through April. We haven't seen a clear trend emerge on spec building as some builders have pulled back, but others have continued with new projects. Residential demand continues to be resilient in Austin where inventories are low and the metro area continues to attract new residents.

Our Odessa/Midland operation in the Permian Basin, which represented only 2% of Summit's net revenue in 2019, continues to operate as usual and they are still very busy despite the collapse in oil price. We have no direct oil and gas customers in the Permian.

In Kansas, we've seen additional lettings related to the state's new transportation bill. That legislation was structured to prevent the transportation funds from being used for other purposes. Non-residential activity is steady with wind farm and warehouse projects continuing to add to demand.

In Utah, we've seen fairly consistent demand for aggregates, asphalt and ready-mix, that is typical of the early construction season for public work, while private residential construction have seen a small decline. Housing inventory was only 1.3 months in March. So, there appears to be no overbuilding in this market.

Missouri continues to reflect demand for a state Department of Transportation work and flood repair activity, though, the flood work is on a smaller scale than in 2019. Private construction remains resilient in this area with additional wind farm and warehouse work.

Finally, in Kentucky, which is the smallest of our top-five states in terms of revenue, a change in administration and overall state budget shortfalls are resulting in flat to slowing public spending. The Kentucky transportation authority recently canceled its May and June lettings, resulting from fiscal issues that preceded the COVID 19 outbreak. Private spending, which is a small part of our Kentucky business, is also flat to lower, reflecting tightening fiscal conditions.

Wrapping up the business update on slide 9, you'll see that Summit's value proposition includes a flexible cost structure and diverse end-use markets in rural and ex-urban areas. Coupled with our strong financial position, these elements gives Summit the ability to thrive despite market uncertainty.

For example, most of our cost of goods sold is variable. Of our $1.3 billion in cost of goods sold in 2019, we estimate over 75% of it was comprised of items that adjusts with demand such as labor, fuel, material, hauling and energy. Those costs are controlled at the operating company level where local management has the freedom to adjust these costs to reflect demand conditions.

In addition, over half of our G&A is overhead specific to our lines of business. Like our cost of goods sold, this overhead can flex with demand. Interest expense comprised only about 6% of our net revenue last year, so we are well-equipped to cover debt service and we have no maturities forthcoming for over three years.

Finally, there is value to having end markets anchored by public spending. Infrastructure work is in the public interest and enjoys bipartisan political support. Of the 23 US states and the province of British Columbia where we do business, the majority of them entered this crisis with well-funded transportation budgets. While there is a likely reduction in tax revenue related to the economic slowdown, we believe that there is a good chance that federal government stimulus funding will fill a lot of those gaps.

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

## Brian J. Harris

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

Thank you, Tom. Turning to slide 11, I'll start with a summary of Summit's capital structure. Our nearest maturity is not until July 2023. On the left side, you'll see a cap table. We only have a financial maintenance covenant with respect to our senior net secured leverage. And at the end of Q1, we were at 1 times. This means we have over $300 million of EBITDA headroom under our covenant which is shown in more detail in the sensitivity table on the right side.

Essentially, Summit would have to exhaust its $500 million of current liquidity and see annual adjusted EBITDA fall by more than 60% from current levels to risk violating this financial covenant. We currently have no plans to draw down our revolver. As Tom discussed, our business has not yet been materially impacted by the economic slowdown. Most of our costs are variable and our cash flows are well-defined.

Further to that point, on slide 12, we've highlighted updates to our 2020 CapEx guidance. While we have not yet seen a significant impact to our business from COVID-19, we have opted to defer some of our greenfields and maintenance CapEx spending to maximize our flexibility. Those revisions yielded a reduction of approximately $40 million to $50 million, and our revised 2020 CapEx guidance is $145 million to $160 million, which includes $50 million to $60 million for greenfields.

Our estimated cash outflows for 2020 totaled approximately $300 million. These cash outflows include the aforementioned $145 million to $160 million of CapEx, about $102 million of interest, $5 million of cash taxes, $17 million to $20 million of lease obligations and roughly $30 million for acquisition liabilities related to prior transactions. At the bottom of the slide, we've provided a chart showing the seasonal variability in our cash and liquidity for the last 12 quarters. We've begun 2020 with the highest Q1 liquidity ever.

On slide 13, we have our full year net revenue bridge comparing Q1 2020 to Q1 2019. Net revenue increased 12% to $342.4 million and was led by our East region, which contributed an incremental $19.6 million on higher aggregates volumes, and the average sales prices in Missouri and parts of Kansas. Ready-mix concrete revenue and average selling prices also increased in East region due in part to wind farm work in Kansas and commercial work in Arkansas. Our West Region contributed an incremental $16.3 million of net revenue driven by higher aggregates and ready-mix volumes in Utah and parts of Texas.

Turning to slide 14, you'll see the year-over-year adjusted EBITDA bridge. While the first quarter is typically our smallest due to seasonality, we still had our strongest-ever Q1 2020 adjusted EBITDA with $16.4 million, an increase of 149% from a year ago. The larger EBITDA contributions from the East and West regions more than offset higher maintenance and logistical costs in our cement business.

Turning to slide 15, you'll see our key GAAP financial metrics. Net revenue increased 12% in the first quarter due to higher volume and price in aggregates, cement and ready-mix. Of the $36.5 million increase in net revenue, $8.7 million was from materials, $25 million from products, and $2.8 million from services.

Our Q1 2020 operating loss improved by $16 million as compared to the first three months of 2019 on higher net revenue and lower DD&A. On a trailing 12 months basis, operating income has increased 47% relative to the 12 months ended March 30, 2019.

Our first quarter 2020 net loss attributable to Summit Inc. decreased $23.8 million from the first quarter 2019. In the year ago quarter, we incurred charges of $14.6 million related to the offering of 2027 notes to redeem all of the outstanding 2022 notes. The first quarter 2020 did not have any such charges and also had lower interest expense. Our Q1 2020 reported basic loss per share was $0.40, an improvement of $0.22 per share from the first quarter 2019.

Turning to slide 16, we've presented several non-GAAP financial metrics. Adjusted cash gross profit margin expanded by 220 basis points in Q1 2020 and 200 basis points over the last 12 months or LTM on strengthening margins in aggregates and ready-mix. Adjusted EBITDA margins expanded by 260 basis points in Q1 2020 and by 160 basis points LTM on higher net revenue and net income. Adjusted diluted net income improved by $0.01 per share from a year ago. While we started with a lower net loss than the year ago quarter, we recognized a $9.5 million change in unrecognized tax benefits related to the CARES Act passed in March 2020, which was unfavorable to adjusted earnings.

Turning to slide 17, we've provided a comparison of our price and volume in Q1 2020 relative to Q1 2019. During the first quarter 2020, we experienced solid demand in our markets [ph] that are active (00:24:38) in the first three months of the year, particularly in Missouri, Kansas and Utah. Average selling prices increased 2.2% for aggregates, 2.6% for cement, 6% in ready-mix, and 4.1% in asphalt. Volumes increased 9.7% for aggregates, 0.7% for cement, and 14% for ready-mix. Asphalt volume contracted by 2.9% during what is typically a very light volume part of the year.

Turning to slide 18, our progress towards higher margins continues in our aggregates and products lines of business, both of which demonstrated adjusted cash gross margin expansion in Q1 and LTM. Aggregates margins expanded by an impressive 450 basis points in Q1 and 210 basis points LTM on demand and price strength in Missouri, Kansas and Utah. Our products business expanded by 490 basis points for Q1 and 200 basis points LTM on good performance in our West region, where pricing is finally catching up to volume.

Margins in our services business were flat relative to the year-ago quarter and up 120 basis points LTM, while cement margins declined in Q1 and LTM as that segment experienced higher maintenance and winter storage costs. Materials and products still comprise 89% of our adjusted cash gross profit, unchanged from last quarter. And we continue to expect that the contribution from materials will be an increasing proportion of our EBITDA.

For quarterly modeling purposes for 2020, we estimate that interest expense should be in a range of $27 million to $29 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 interests outstanding of 117.2 million at March 28, 2020. This is the share count that should be used in calculating the adjusted diluted earnings per share.

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 20. As we developed our original 2020 outlook, we expected a continuation of the economic conditions we experienced at the end of 2019. While this year has arrived with unprecedented challenges and uncertainty, Summit is well-positioned to face them. Though, most of our company is engaged in business as usual with extraordinary safety precautions, we also continue to refine contingency plans as the economic slowdown begins to affect construction activity.

Three things give us great confidence in 2020. First, our strengthening financial results. The chart on the upper-left side demonstrates consistent growth in our trailing 12 months adjusted EBITDA over the last five quarters. These steady returns provides Summit with a strong foundation that includes over $500 million of liquidity. Our revolving credit facility is there, if we need it. But right now we don't think we will. Most of our costs are variable and we will adjust to meet demand.

Second, we have a great deal of room on our only financial covenant. On the upper-right side, you'll see the sensitivity analysis that Brian discussed. We'd have to exhaust our current cash of nearly $200 million, our $329 million of available revolver, and see adjusted EBITDA fall by more than 60% to risk of breaching our only financial maintenance cover.

And finally, we believe that our end markets were structurally sound, not oversupplied and well-funded entering this crisis. Early year aggregates and ready-mix price increases were adopted in several markets, reflecting the health of the private construction business. March US housing inventories were still well below historical averages in all of Summit's markets with some markets, like Salt Lake City, reporting less than two months supply. Low interest rates have continued to attract homebuyers despite social distancing rules, thanks to virtual home tours and open houses.

States such as Kansas just passed a major new highway plan with funds specifically ring-fenced for State Department of Transportation use. Our backlog of Texas public highway work takes us into the middle of 2021, and most states are continuing with [ph] or (00:30:11) accelerating lettings activity during the COVID-19 crisis.

To conclude, we believe Summit is positioned to thrive in the uncertainty of today and the inevitable return to normal. We have a strong financial position, flexible cost structure and a very entrepreneurial culture. Low interest rates and low inventory will drive the long-term residential growth in our markets. We believe non-residential construction is also poised for long-term growth as Americans continue to order goods online, seek alternative forms of energy, and consider locating their homes and businesses beyond city centers.

We believe there is high bipartisan support for public highway work, which we expect will result in more federal aid flowing to states in the form of an infrastructure or transportation bill in the near future. Summit is built on a strong foundation that reflects the dedication of its employees. We thank them for their commitment, enthusiasm and creativity in upholding high safety standards at work and at home. Their dedication helps Summit continue to be an essential business that is building critical infrastructure and generating value for our shareholders.

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

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Thank you. First question here comes from the line of [Technical Difficulty] (00:32:12-00:32:27).

Q

Okay. Thanks, operator. You were coming in and out, operator. So, thank you for taking my questions today, and thank you again for the flexibility during these highly unusual times. First question is going to be on the policy side, really two-part question. First, do you see or do you expect to see any business from the CARES Act, which is – had $25 billion set for transit and $10 billion for aviation? That's a first part of the question. And then the second, do you have any color on future lettings? And is there any way to measure how much volume is pulled forward to states accelerating projects? Thank you.

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

A

Yeah. Thanks, [ph] Kathryn (00:33:05). As far as the CARES Act, it's really hard to tell if there'll be direct money that goes to transportation construction. But certainly, that $25 billion will relieve some strain on the states' budgets which should result in less pressure on their transportation construction budgets. But it's pretty hard to make a direct connection, but it's very helpful. Second, on lettings, we are very busy in Texas, Kansas, Utah, Colorado. We haven't seen a lot pulled forward in our states, but we're optimistic, for instance, in Virginia with their recent gas tax increase that there we'll get some more – get some more work there. South Carolina continues to let work on a regular basis. So, outside of North Carolina and Kentucky, our states continue letting work on a regular basis. But we haven't seen the pull forward, for instance, that you're seeing in Florida. We hope that that will happen in due course, but right at the moment [audio gap] (00:34:22-00:34:30).

Q

Okay. You still there?

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

A

Yeah.

Q

Okay. I lost you for a little bit. Then just following up on cement production, and just really for clarification, this is a higher fixed cost business for you and there could be concerns about any type of slowdown, even though it certainly does not appear to be the case today. Do you – if you could give more color on what you're seeing in terms of backlog of demand for your cement business. And have you seen any type of downtime in response to COVID-19? And really, kind of what are your broader expectations based on what you're seeing with the [ph] flow (00:35:11) business now? Thank you.

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

A

Yeah. [ph] Kathryn (00:33:05), as far as cement goes, I mean, it's early in the year. We had a pretty tough start with some cost overruns on our winter shutdown. And also entering the year, we actually were very optimistic about demand. So, we actually did import cement into our Louisiana terminal. That has turned out to be problematic. We had a good recovery in April in cement. It is probably a business that we don't have much backlog. You just have customers, it's not really a backlog business like asphalt or even like aggregates, actually. It's a fairly customer-oriented business. Our customers are all over the map. We have many of them that are very optimistic, some of them not so much. So, I'd say our cement business is the one that we – probably is the most uncertain for us. We [ph] act with two plants (00:36:21) in nine terminals. We do flexibility to flex our production with minimal impact. And if we do see a slowdown, we'll be able to reduce production appropriately. So, we'll just wait and see. Pretty encouraged in April, but we'll see where it goes from here.

Q

Great. Encouraging to see that, when everyone else is slowing down in April to see recovery in April for that business is fairly unprecedented. Thank you.

**Operator**: Your next question comes from the line of Rohit Seth with SunTrust. Please go ahead. Your line is now open.

**Rohit Seth**
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Hi. Thanks for taking my question. Just on the aggregates, your margin's really strong, little bit of pricing [ph] here (00:37:17) sequentially lower. Just curious was there any mix impact and do you anticipate pricing to improve sequentially in the next quarter?

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

A

Our mix-adjusted price increase was about 3% in Q1 2020 versus about 4.5% in 2019. It is our lowest volume quarter, so sometimes it's not the best indicator. We would hope that this differential narrows as the year progresses, but we've had very successful price increases. Again, there may be some impacts in 30, 60, 90 days from COVID-19. But as of now, we're optimistic on our agg prices and that that the difference between the 3% this year and 4.5% last year now is over time.

**Rohit Seth**
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Okay. And then building on what you just said, I mean, so if demand were to deteriorate, and I've always known aggregate pricings to kind of hold up once the price is set for the year, are you suggesting now if demand does pull back that you might have to [ph] get weighs on cement (00:38:32) prices?

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

A

I don't think you give a lot back, but I think if there is a significant decline in volume, it's hard to have absolutely no impact on pricing. It is the most resilient commodity product probably in the world as far as pricing goes, but....

**Rohit Seth**
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

All right.

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

A

...there is some impact.

**Rohit Seth**
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

Okay. All right. And then on your slides, the PCA forecast, am I reading this right? They're projecting double-digit growth across the country, except for in Mississippi River.

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

A

Brian, do you want to take that one? Brian, I can't hear you. I don't know if you're on mute.

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

A

Sorry. It's a very wide range of projections from the PCA. We've focused on the ones that are in the Mississippi River markets. Again, it's a pretty broad range from...

**Rohit Seth**
*Analyst, SunTrust Robinson Humphrey, Inc.*

Q

It's huge.

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

A

...a zero to 10% decline, so – I mean, that just gives you a sense of just how much, as Tom said, customers are reporting a wide range of differences. These are the PCA numbers. And yeah, it's a pretty wide range across most end markets.

[indiscernible] (00:40:06)

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

And I think that we're expecting the PCA to update their forecast fairly shortly, maybe even this week.

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

Yeah. And also...

**Rohit Seth**
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

Okay. I mean, I'm [ph] thinking like about 30% to (00:40:16) 40% in the quarter for some places, is that...

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

Yeah. Keep in mind, Rohit, it's been out [ph] for 90 day (00:40:22). It's a March through June projection from the PCA at this point. They will be updating those numbers regularly, I'm sure.

**Rohit Seth**
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

Okay. And then, your view on prices for cement, pushing into June. Just any color on that, is that customers kind of suffering, so kind of moving to June? And what gives you any confidence that you're going to have the ability to execute on that?

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

Well, we were very optimistic about the April 1 increase. And certainly, the uncertainty around COVID-19, really the industry just put it pause for a couple of months. We continue to be optimistic. Everyone is at $8 in June 1. Let's – we'll – and the relative strength we had in April gives us some optimism. But we'll just have to wait and see. It's certainly a part of the unprecedented uncertainty we have from COVID-19. But again, April made us somewhat optimistic.

**Rohit Seth**
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

Got you. And Brian, on hydrocarbons, is there a strategy there to take advantage of the decline in diesel and [ph] actual (00:41:46)?

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

Yeah. Well, on the diesel, as you know, we always buy forward a portion of our diesel requirements, on and off-road diesel. Last year, in 2019, we consumed about 32 million gallons of diesel. And at this point, we have about – in the remainder of the year between May and December, we have about 10.5 million gallons already pre-purchased at prices that are lower than the 2019 [ph] actuals (00:42:18). So, we'll be able to take advantage of the lower spot prices as we go through the year. And yes, that will be a tailwind for us compared to the prior year. As far as the liquid goes, it's pretty much a pass-through in most states. We don't have an enormous amount of liquid asphalt storage, but we do have some in Kentucky and in Texas for San Antonio, Austin business. So, yes, we should be able to see some benefit from liquid asphalt pricing, but for the most part, it is a pass-through and indexed with state DOTs.

**Rohit Seth**
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

All right. Great. Thank you.

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

Hey, Rohit. This is Karli Anderson. And I just want to clarify, on slide 7, those are all – those are declines for all of those percentages from the zero and 10% and the 41% or above based on the states that are pictured there. That's what the [ph] slide depicts (00:43:18).

**Rohit Seth**
*Analyst, SunTrust Robinson Humphrey, Inc.*
Q

Okay. It read differently to me. Thank you for clarifying that

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

Yeah, of course.

**Operator**: Your next question comes from the line of Trey Grooms with Stephens. Please go ahead. Your line is now open.

**Trey Grooms**
*Analyst, Stephens, Inc.*
Q

Hi. Good morning. So, no significant impact that you're seeing in your markets, pretty remarkable. About 30% of your business is non-res. So, how are the discussions going there with some of your non-res customers? Are you starting to see any of these folks kind of push out or even discuss pushing out new projects in your markets? I mean, some of the leading indicators would suggest that we might start to see that at some point. But just wondering how those discussions are going specifically with non-res customers.

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

Yeah, Trey. In Las Vegas, we certainly have seen a number of projects deferred, delayed, cancelled. That's a pretty small part of our businesses, less than 2% of our revenue. But certainly, that's our hardest hit, and that would be really led by the non-res customer. So far in our big – the Salt Lake area, Houston area, some conversation, some worry, but we really haven't seen a lot of cancellations. It's still early, it's still uncertain, but as of right now, we just really haven't seen it.

**Trey Grooms**
*Analyst, Stephens, Inc.*
Q

That's pretty interesting and encouraging. So, I guess, kind of switching gears a little bit here. I know you touched on it a little bit, but you don't have much direct oil and gas exposure, but Houston is an important market for you. And right now, as you mentioned, it sounds like the res side is still strong. But this move that we've seen in energy prices is [ph] clearly (00:45:39) pretty intense. So, can you talk about what kind of impact you've seen in prior shocks to oil prices, maybe the last, I guess most recent one in the 2015-2016 timeframe? And how this go-around might be different?

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

A

Well, 2015, when the oil collapsed at the end of 2014 and early 2015, we were very concerned about our Houston operation, which is roughly two-thirds residential. We did remarkably well in 2015 post that crash – oil and gas crash. We were down, but it was low-single digits. And I think Houston is a different place. It's pretty diversified. And I actually think that the impact this time may be less because oil and gas, after 2015, they really [ph] dipped (00:46:39) in the ranks of employment there in the oil and gas field. The combination of $10 oil and COVID-19, yeah, I'm worried about Houston. But as of today, it has remained remarkably strong.

Just anecdotally, I can tell you that we have a great business there, number one, probably one of the really best ready-mix businesses I've ever been associated with in my career. And the sales force, they're very in touch with their customers. And when start – oh, three weeks ago, when COVID was just starting to really get [ph] hot (00:47:27), all top 15 of their builders said that they were going to stop spec building. Well, last week, five of them started again. And again, we just get conflicting reports from our customers. But the fact that 5 of our top 15 customers have started spec building again, again, it's somewhat encouraging, but certainly Houston is an area that I would worry about. But so far, it's hanging in there.

**Trey Grooms**
*Analyst, Stephens, Inc.*

Q

Fair enough. If I could throw one big-picture question in there just real quick. Historically, for aggregates producers, when volumes declined in prior recessions, the pricing typically does not follow. Directionally, maybe it can move around, but you don't usually see pricing slip in any significant way in the aggregates business. So, just from where we sit today in your markets, I guess, and how they're structured, do you see any reason that wouldn't be the case, if we were to enter a fairly severe recession for your aggregates business?

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

A

No. And look, in a lot of our markets, I think it's better positioned as markets are – continue to be well-structured. And I agree with what you said, prices might go up a little less, but they're going to go up.

**Trey Grooms**
*Analyst, Stephens, Inc.*

Q

Fair enough. Thanks for the color, Tom, and I'm glad to hear everybody is well.

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

A

[ph] All right, cheers (00:49:08).

**Operator**: [Operator Instructions] Thank you. Your next question comes from Jerry Revich with Goldman Sachs. Please go ahead. Your line is now open.

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

Q

Yes. Hi. Good morning, everyone, and glad to hear you're doing well.

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

A

Thanks, Jerry.

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

Q

Tom, I'm wondering – Tom, wondering if you could talk about how you see this cycle comparing to the 2009 downturn, especially in your markets? Obviously, the industry has been consolidating, so can you just give us a snapshot what's different today versus a decade ago based on your experience here?

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

A

Yeah. I mean, I think the biggest difference, Jerry, is the fact that going into 2009, markets were pretty significantly overbuilt, and I think it made the cycle significantly deeper. And we knew at the end of 2006 that the cycle was turning down. And especially on the residential side, it got way overbuilt. Even on the non-res side, it was overbuilt. So, I think that's the primary difference, whereas really in general, our markets right now are underserved and I think that will certainly have an impact. I mean, in some of our markets, again, our customers are all over the place. But a lot of our residential customers in places like Utah are saying, hey, this is going to give us a chance to catch up because we've been behind, we see this is transitory, so we're going to use this as an opportunity to get some products on the ground. That's not everybody, but that's certainly some of the things we hear.

The other part of that I want to say on the cycle is that when we – on the cement side of things, I don't know if you remember [ph] me chat (00:51:16), but...

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

Q

Sure.

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

A

...we went into a contraction as the cement industry was shutting plants, moving volume around from old [ph] west style (00:51:25) plants that were being shut to their new plants. And it really put a bunch of uncertainty into the marketplace on the cement side. We don't have that now, and that should certainly help to support pricing on the cement side versus the cycles in 2009.

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

Q

And Tom, the follow-up there, can you talk about your [ph] competitive (00:51:53) position in your biggest concrete and asphalt markets today compared to what the predecessor companies would have seen five years ago? The concern is when construction spending slows that you see greater margin compression from the vertically integrated positions in those markets and you folks have certainly improved the competitive position there. So, I'm wondering if you could just flesh that out as well, if you don't mind.

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

A

Yeah. I mean, look, we're in two major ready-mix markets, in the Salt Lake and Houston markets. The Salt Lake market is very structured. I again worry a little bit about Houston, it's got a number of competitors. We'll see what happens there. Asphalts hasn't really changed very much, it's pretty much just the same. We like and always have liked the vertically integrated positions we have. It gives us some flexibility to – when the downturn, to go get work and maintain some volume. So, [ph] we like it (00:53:04), but I don't think the competitive situation in the product side has really changed very much overall. It's pretty much the same as it has been.

**Jerry Revich**
*Analyst, Goldman Sachs & Co. LLC*

Q

Okay. I appreciate the discussion. Thanks.

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

A

Okay. Thanks, Jerry.

**Operator**: Your next question comes from the line of Phil Ng with Jefferies. Please go ahead. Your line is now open.

**Philip Ng**
*Analyst, Jefferies LLC*

Q

Hey. Good afternoon, everyone. Based on your slide deck, it looks like the PCA is forecasting a 20% decline in cement for 2Q. Is that your view in terms of how your business is going to hold up? And I'm just curious why that cement business is delineating from the trends you're seeing across the rest of your portfolio?

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

A

Well, first off, it's a forecast. So, it's unclear. We do – our volumes were okay in Q1. April has been pretty good. So, it's all to play for. We'll see as PCA updates their forecast. We'll see if it's true. If volumes do go down 20%, it will be very different than what we've seen in the rest of our business. But again, it's just a forecast, Phil, and we'll see how it plays out in these pretty uncertain times.

**Philip Ng**
*Analyst, Jefferies LLC*

Q

Any color on how April is trending for cement for you guys? Is it up, down, flat?

[indiscernible] (00:54:33)

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

A

Yeah, April was decent. We covered pretty well from a pretty tough first quarter.

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**Philip Ng**
*Analyst, Jefferies LLC*

Q

Got it. And then I guess, on the state DOT front, you've kind of alluded to it as well. Just due to the drop off in gas tax receipts, curious if you have a view how much of a decline your bigger states are going to see? And what that means for demand for your public business down the road, whether it's 2021, 2022, absent of a federal backstop? And Tom, it seems like your commentary on a potential infrastructure build seems a lot more upbeat than in the past. Any color on those few dynamics would be really helpful. Thanks.

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

A

Yeah. I'd say it's the first time in 20 years that I think we will get some type of infrastructure or highway bill out of the federal government. I think it's an essential business. We work outside. We can work safe. They're good jobs. There's just lots of good public policy reasons to support it. It's pretty early to tell what the impact is on – I would worry about 2021 if there's no federal bill. And it depends obviously on the nature of the recovery from COVID-19, if it's Z or U-shaped or whatever shape you want to name. I think a lot of times, they look forward and not back. But right now, I'm sure tax receipts are being hit pretty hard. Our big states, Texas, Kansas and Utah, I would be pretty optimistic that they're going to be able to weather the storm. Other states, Missouri, obviously, Kentucky is in pretty bad financial shape. I think we [ph] saw news – we saw it (00:56:38) in North Carolina. On the other hand, South Carolina and Virginia have had recent gas tax increases which may or may not make up the shortfall. They are issuing bonds in Virginia. So, it's really a patchwork that you really have to – we're just going to have to wait and see. But I feel okay about 2020. But without a federal highway bill, I would worry about 2021.

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**Philip Ng**
*Analyst, Jefferies LLC*

Q

Okay. Thanks a lot. Appreciate it.

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

A

Sure. Thanks, Phil.

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**Operator**: Your next question comes from the line of Stanley Elliott with Stifel. Please go ahead. Your line is now open.

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

Q

Hey. Good morning, everybody. Thank you all for taking the question, and good to hear your voices. A quick question and this may be tough, but it certainly sounds like business trends are hanging in there pretty well really across the portfolio. What are you going to be looking at before you would consider reinstating guidance kind of given where we are right now? How do you plan on communicating that? Just curious conceptually how you're thinking about that versus what you're seeing on the ground and then expectations for a recovery?

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

A

Yes, Stanley, you're right. That is a tough one. I think we have to get a clear picture about what the reopening looks like, what it looks like for the economy, when the growth in unemployment stops. And I think we may be 30, 60 days away from having a clear picture of that. We literally have daily calls with our senior team to talk about what trends they're seeing and what their customers are saying. And most importantly, we start out with how the virus is directly affecting our employees. And so, we're on top of it. We have all sorts of contingency plans that take into impact any – pretty much anything that happens over the next 90 days. So, I think we're on top of it, but it's really going to be how this virus impacts us over the next 60, 90 days, and whether and when we get a clear picture of what it looks like for [ph] I think to get it (00:59:19) behind us.

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

Q

Fair enough. And then, you guys have been on a journey, kind of moving from more of an M&A [ph] role story to certainly one (00:59:26) more of an operating company, and I think that's showing up in your margins. Maybe talk about kind of that journey, how that's positioning you both from managing the downturn and then also being able to drive profits on a go-forward basis?

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

A

Yeah. I don't think we were ever just an M&A company. I think we do focus on our operations. I think, obviously, as we age and, obviously, the amount of time we own a business, we're able to make more and more changes and to focus on improving those businesses and getting the economies of scale. Again, first principle of Summit is we believe in the local. We believe this is the ultimate local business. We keep a lot of decision-making local, but we do everything we can to derive benefit from scale. And I think as time goes on, we have gotten more and more benefit of that scale. And that's really where we're focused on. Obviously, right now is not the time for M&A until we see the end of this. And we are razor focused on getting those benefits of scale.

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

Q

That's perfect. Thanks, guys. Appreciate it.

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

A

Thanks, Stan.

**Operator**: And ladies and gentlemen, we have reached our allotted time. I will now turn the call back over to Mr. Tom Hill for closing comments.

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

Thanks, operator, and thanks everybody for joining us. That concludes our call. Everybody, stay safe and be well. And we'll talk to you at the end of Q2. [ph] Cheers (01:01:14).

**Operator**: And ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.