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# Summit Materials, Inc. (SUM)

Q3 2020 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Ladies and gentlemen, my name is Simon and I will be your conference operator today. At this time, I would like to welcome everyone to the Summit Materials Third Quarter 2020 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Ms. Anderson, you may begin your conference.

### Karli Schumaker Anderson

Vice President-Investor Relations, Summit Materials, Inc.

Welcome to Summit Materials' third quarter 2020 results conference call. We issued a press release yesterday afternoon detailing our financial and operating results. This call is accompanied by our third quarter 2020 Investor Presentation and an updated supplemental workbook highlighting key financial and operating data, all of which are posted on 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' latest Annual Report on Form 10-K and supplemented 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 our CEO, Anne Noonan; then our CFO, Brian Harris will provide a financial review and Anne 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.

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

### Anne Noonan

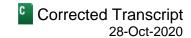
President and Chief Executive Officer; Director, Summit Materials, Inc.

Good morning, everyone, and thank you for joining our third quarter earnings call. Before we begin talking about operating and financial results, consistent with our normal practices at Summit, I would like to start by providing an update on safety.

Safety is the single most important core value driving the daily actions of all Summit employees. Enhanced safety and distancing protocols are still in place throughout the organization, in response to COVID-19. These measures are vital to our operations, as Summit is engaged in essential construction activity throughout all of its markets.

As we see cases rise nationally, Summit has redoubled its efforts to ensure that we are vigilantly following best practices for the health and safety of our customers, community stakeholders, and our over 6,000 dedicated

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employees. We thank all of our employees for the commitment to a zero-incident safety culture. This focus is evidenced by our year-to-date safety metrics, which have improved in nearly every performance indicator for the first nine months of 2020.

We'll begin on slide 3 of the presentation with an overview of our third quarter. The headline is that Americans are moving in large numbers to southern and western suburbs and exurbs. Many of the highest growth markets are markets where Summit participates with leading assets of strong operating companies. This migration requires new single-family homes and ultimately will require new roads, schools, distribution centers and medical centers.

All of this new construction will create demand for the aggregates and cement that we supply directly to customers. It will also drive demands for the aggregates that will hold through our ready-mix concrete, asphalt and paving operations, where we capture margin at every stage of the value chain.

This migration scenario drove performance in Q3, particularly in our West segments, which posted record net revenue and adjusted EBITDA. Residential construction growth drove higher consumption of aggregates and ready-mix. In our high growth markets such as Houston and Salt Lake City, single-family permits increased by double-digits year-over-year in August.

We recently closed on two acquisitions that will expand our materials base positions in important West segment markets. We acquired Multisources located in Houston, Texas in July and in August we acquired Valley Gravel located near Vancouver, British Columbia. Both transactions have good strategic rationale as they are pure-play aggregates businesses that bolster our presence and scale in attractive markets and increase existing reserves by more than 175 million tons.

The East segment delivered mixed results. We reported higher aggregates volumes in Kansas and Virginia. Missouri returned to more normalized run rates after last year's levee repair work and Kentucky completed less road repair work due to the fiscal challenges in that state.

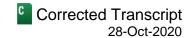
Net revenue and adjusted EBITDA were both lower than a year-ago, but if you exclude the one-time event of levee work from 100-year flood in Missouri, each segment aggregates volumes and price were higher year-over-year.

The Cement segment is reporting favorable demand trends in residential construction, though several of its southern markets on the Mississippi River have been a bit slower to recover in light of COVID outbreaks and the recent weakness in oil pricing. Lower demand in these markets led to lower net revenue and adjusted EBITDA relative to a year-ago, despite achieving a price increase on June 1, 2020.

Year-to-date the Cement business continues to deliver strong free cash flow conversion, despite challenging conditions. Our profitable Green America Recycling facility operated on a limited basis in Q3 due to an explosion earlier in the year, which impacted adjusted EBITDA by \$4.3 million. We look forward to Green America resuming normal operations sometime in the fourth quarter.

Turning to slide 4, we've provided more details on our financial results for Q3 2020 relative to Q3 2019, as well as some early Q4 indicators. Net revenue was down 3.1% as record West segment revenue was offset by lower Cement and East segment revenue. Reported net income attributable to Summit Inc. was up 63% on the reversal of an unrecognized tax benefits and adjusted diluted net income was up 10%.

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Our adjusted EBITDA of \$177.7 million was down 8% on the tough comp relative to the prior-year period. However, quarterly cash from operations was up 6%, our free cash flow was up 5%. Summit continues to prioritize cash flow and working capital management throughout the organization, that focus on cash helped us keep our leverage ratios steady at 3.5 times in the third quarter, even though Summit acquired two companies during the period.

Looking at the early results from the month of October and the possible read-through for the fourth quarter 2020; residential demand is strong particularly in Texas, Utah and the Central US. Non-residential activities being fueled by wind farms and distribution centers. However, airport and retail projects have been delayed or deferred with uncertainty around when those projects will resume.

Public activity remains resilient in Texas, Kansas, Utah and Virginia. However, the fiscal situation in Kentucky, the Carolinas and British Columbia is still challenging. While the budgetary conditions in those locations, unfortunately hasn't changed, there is optimism that we may see improvements in 2021.

Our executive summary continues on slide 5 with year-to-date results. Despite uncertain economic conditions, Summit's year-to-date 2020 performance is in line with 2019. This is an accomplishment that our company can take pride in, as we have maintained business continuity throughout the pandemic and served our customers safely and without interruption.

We also believe the year-to-date results provide a more fulsome picture, since our year-ago results included one-time very profitable levee work from 100-year flood. Net revenue is up 2.5% year-to-date 2020 versus prior-year. Net income is up substantially and adjusted cash gross profit margin expanded by 120 basis points as we achieved volume growth in aggregates, ready-mix and asphalt. We also reported price growth in cement, ready-mix and asphalt.

Adjusted EBITDA is up 4% relative to the first nine months of 2019. Pricing trends are favorable year-to-date resulting in margin expansion in many parts of the business. On a mixed adjusted basis, aggregates pricing is up 2.1%. Ready-mix pricing is up 5.2%. And asphalt up 1.2%.

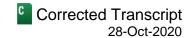
Adjusted cash gross profit margin for products expanded 240 basis points to 23.8%. And for services, the margin expanded 510 basis points to 29.2%.

On slide 6, we've provided an update of the current market conditions in our top five states by revenue. Summit's end-use markets are roughly 38% public, 31% residential and 31% non-residential. The good news is that with the exception of Kentucky, which represents only 7% of our revenue, we have not seen major disruptions in tax collections reported from most of the states that we serve. However, each state approaches funding decisions differently, so we've done our best to highlight the latest data points.

In Texas, [indiscernible] (00:10:23) is awarding jobs and the backlog has not been interrupted. They expect to receive their full prop seven allocation in fiscal year 2021. Our public highway work is booked into 2021, most of which is served by our North Texas operation. Houston is one of the country's most diverse and highest growth residential markets and single-family home permits were up 13.9% in August year-over-year.

Non-residential construction activity has been resilient in many of the suburban and exurban markets. In Kansas, July through September tax collections were 5.1% higher than expected and Kadosh [ph] (00:11:01) has several 2021 projects planned. Non-residential projects, such as wind farms, warehouses and distribution centers are typically less and completed in the same calendar year. Residential activity has been steady.

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For the third quarter, our Utah operation delivered record results as the state attracts new residents with the second lowest unemployment rate in the country. Single-family permits in Salt Lake City were up 10% in August year-over-year. It is a strong immigration market and had very low new home inventory levels in September.

While Missouri's Department of Transportation initially estimated a decline in tax revenue of up to 30%, its activity has been steady for now, though the longer term impact is less clear. As with Kansas, most non-residential projects are less and completed in the same calendar year. So, our visibility into 2021 is limited at this time. Residential activity is steady.

Finally, in Kentucky, the smallest of our top five states in terms of revenue. The state legislature continues to struggle with budget shortfalls resulting from fiscal issues that preceded the COVID-19 outbreak. While the Kentucky Transportation Cabinet has acknowledged that budgetary impacts to its road fund are less severe than originally estimated, they are proceeding cautiously and lettings have not rebounded to normal levels yet.

On slide 7, we've provided an outlook by end-market. The residential end-market is experiencing accelerated demand. The National Association of Home Builders reports that the supply of single-family homes for sale is the lowest in three decades. Homebuilder sentiment is at all-time highs and mortgage rates are near all-time lows. Thus, we believe that conditions are right for a period of expansion, particularly for suburban and exurban homes in affordable markets such as those served by Summit.

The non-residential market has less near-term visibility, but we are long-term bullish. The Architectural Billings Index suggests that new project developments have stalled. We've seen several airport expansion projects be delayed or deferred. By contrast, we've still been busy with wind farm and distribution center projects. And given the strength in residential, we believe a corresponding period of growth in non-residential construction shouldn't be far behind.

With regards to public infrastructure, we now have more certainty about the FAST Act, a continuing resolution to fund highways through 2021 was passed at 2020 funding levels. Each state is evaluating its own budget needs. The funding sources and revenue impact vary by state. The outcome of the general election may also influence infrastructure spending. Both the House and Senate infrastructure bills would increase federal funding significantly over current levels.

Concluding the business update on slide 8, we continue to pursue our aggregate greenfield investment strategy to drive future sustainable organic growth. Five aggregates greenfield investments have been completed to-date with another five aggregates greenfield investments under development. It is estimated that Summit will generate \$45 million of adjusted EBITDA on an annualized basis by 2024 from these projects once they are all in full operation. Expected investment in greenfields is \$50 million to \$60 million in each of 2020 and 2021.

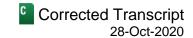
With that, I'll turn the call over to Brian for a discussion of financial results.

### **Brian J. Harris**

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

Thank you, Anne. Turning to slide 10, I'll start with a summary of Summit's capital structure. In July, we strengthened our balance sheet by redeeming all of the outstanding \$650 million 6.125% notes due 2023, which was our nearest term maturity, with proceeds from \$700 million of 5.250% notes due 2029.

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We ended Q3 with \$289 million in cash, an increase of over \$100 million from the year-ago quarter. Combined with our undrawn revolver, Summit had over \$617 million of available liquidity at the end of the third quarter.

Our leverage ratio is now 3.5 times net debt to adjusted EBITDA, which is a good improvement from 4.2 times a year-ago. By completing two strategic acquisitions, totaling \$123 million in the quarter, we demonstrated our ability to balance M&A with efforts to improve our liquidity ratio. We reported a \$124.3 million of free cash flow for the third quarter 2020, an increase of 5% from the year-ago quarter, as we continued to improve our working capital management.

On slide 11, we've provided a bridge showing our updated 2020 capital expenditure guidance. We increased the projected range to \$175 million to \$185 million from \$145 million to \$160 million. The projection for \$50 million to \$60 million spend on greenfields in 2020 remains unchanged. Increased CapEx has been deployed to invest in reserves and to add additional equipment in some of our highest growth markets.

On slide 12, you'll see the net revenue bridge comparing Q3 2020 to Q3 2019. Net revenue decreased 3.1% to \$645.2 million. Performance was led by our West segment, which contributed an incremental \$10.6 million organic net revenue on higher aggregates and ready-mix volumes, particularly in Utah, while we also benefited from an incremental \$9.4 million in revenue associated with recent acquisitions.

Our East segment's net revenue declined by \$27 million, which reflected a very difficult comparison relative to a year-ago, when flood repair work in Missouri contributed an outsized proportion of volume and price relative to the normal product mix in that region.

Kentucky is also part of our East segment, where letting activity is still far below typical levels. Flood repair work and Kentucky aside, the East segment nonetheless posted strong performance from Kansas, where non-residential wind farm and distribution center projects contributed to higher aggregates volume and price. Our Cement segment's net revenue was down \$14.1 million in Q3 2020, relative to the prior-year quarter, on lower demand particularly in the markets, South of Memphis.

Turning to slide 13, we've provided a Q3 adjusted EBITDA bridge. We ended the quarter at \$177.7 million, a decrease of 8% from a year-ago. The decrease was driven by lower East segment and Cement segment performance relative to a year-ago, partially offset by record performance from our West segment.

Turning to slide 14, you'll see key GAAP financial metrics. Net revenue decreased 3.1% in the third quarter, due to lower cement and asphalt volume, partially offset by higher aggregates volume and higher cement and readymix price.

On a year-to-date basis, net revenue has increased 2.5% due to strong performance in our West segment, in aggregates, ready-mix and asphalt volume and price. Q3 operating income of \$100.6 million decreased \$30.3 million as compared to the third quarter of 2019, due to lower revenue and higher general and administrative costs in the third quarter associated with approximately \$10.6 million of CEO transition and related stock compensation adjustments, along with other quarter ended accrual true-ups for healthcare and workers' compensation. Excluding these one-offs, our year-to-date G&A costs are running roughly in line with the prior-year. On a year-to-date basis, operating income is up 4% on higher revenue.

Reported Q3 net income attributable to Summit Inc. of \$90.7 million included a reversal of an unrecognized tax benefit totaling \$32.9 million and is the primary source of the increase relative to \$55.8 million reported net income in the prior-year period.

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Turning to slide 15, we've presented several non-GAAP financial metrics, where we compare Q3 2020 to the prior-year as well as year-to-date. Adjusted gross profit margin contracted by 10 basis points in the third quarter, yet expanded by 120 basis points year-to-date; on a combination of volume and mix adjusted price improvements from aggregates and ready-mix.

Adjusted EBITDA margins contracted 150 basis points to 27.5% for the quarter on tough comps relative to a year-ago. But on a year-to-date basis, we are at 22.7%, which is 40 basis points ahead of the first nine months of 2019. Adjusted diluted net income is up 10% over the prior-year quarter and up significantly year-to-date 2020 versus the first nine months of 2019, due to non-cash adjustments impacting our effective tax rate.

Turning to slide 16, we have provided a comparison of price and volume year-to-date. Organic average selling prices increased 0.6% for aggregates, 1.1% for cement, 5.2% in ready-mix and 1.2% in asphalt. Organic volumes increased 1.3% for aggregates, 4.5% for ready-mix concrete and remain consistent for asphalt. Cement volume contracted by 7.4%.

Turning to slide 17, we've provided adjusted cash gross margin in the quarter and year-to-date in all lines of business. Aggregates margins contracted by 440 basis points in the third quarter on tough comp relative to Q3 2019, which featured flood repair work at a higher volume and price than our normal mix of business. However, year-to-date 2020, our aggregates margins are unchanged from the first nine months of 2019.

Our Products business expanded by 100 basis points for third quarter and 240 basis points year-to-date as we experienced both volume and pricing growth in residential markets for our downstream businesses, particularly in Utah and Texas.

Margins in our Services business expanded by an impressive 480 basis points in Q3 and 510 basis points year-to-date on pricing gains, lower fuel and trucking costs in Texas and Kansas, as well as volume in north Texas, Kansas and Virginia.

Cement margins contracted only slightly in the third quarter, reflecting well-managed production and cost control methods. Year-to-date, cement margins have contracted by 200 basis points, which reflects winter storage costs early in the year together with the impact of the explosion at the Green America Recycling facility.

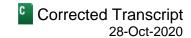
Materials and products comprised 86% of our Q3 adjusted cash gross profit and we continue to expect that the contribution from materials will be an increasing proportion of our EBITDA, as we pursue our greenfield strategy, experience organic growth in our markets and engage in M&A.

For quarterly modeling purposes for the fourth quarter 2020, we estimate that interest expense should be in the range of \$25 million to \$26 million. We anticipate paying minimal state and local cash taxes and no U.S. federal income taxes.

In addition to minimal cash taxes, we do not expect to have any significant TRA payments until 2025. For the purposes of calculating adjusted diluted earnings per share, please use a share count of 117.2 million being 114.1 Class A shares and 3.1 million LP units.

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

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### Anne Noonan

President and Chief Executive Officer: Director. Summit Materials. Inc.

Thanks, Brian. I'll conclude my prepared remarks with a management outlook on slide 19. In a world where more people can work remotely, they desire single-family homes and locations offering a more affordable cost of living. Americans are migrating towards many of the markets, where Summit has an established presence and we are well-positioned to benefit from the homes being built today and the roads, wind farms, distribution centers and data centers they will need in the future. Summit is vertically integrated in those high growth markets and uniquely positioned to capture value across aggregates, ready-mix, asphalt and paving.

I recently joined Summit and I feel humbled and honored to lead the company through its next phase of growth and value creation. Immediately, after being appointed CEO on September 1, I embarked upon a listening tour of employees, customers, current and former investors, sell-side analysts and other important stakeholders to get an outside in-view of the business. Feedback is important to those of you who provided your valuable time and insight or participated in our perception study we thank you.

I'm sure many of you on this call are eager to hear about our vision and strategy for future growth and value creation at Summit Materials. The answer is that it is still early days. What I can tell you from our initial analysis is that Summit's markets are growing, our financial position is strengthening and we are focused on free cash flow conversion. We are aligning our business to maximize returns on invested capital.

ROIC is now part of our compensation plan and we will use that framework as a key component to evaluate our performance. We are conducting an in-depth strategic review of the financial and operating performance of our portfolio and its future growth potential leveraging the feedback that you've generously provided to-date.

And finally, we are focused on consistent organic growth with investment in greenfields and Summit end-markets that are underpinned by strong growth fundamentals. Sustainable organic growth serves as a foundation to support strategic acquisitions, while continuing to de-lever the balance sheet with increased focus on cash and returns generated across the entire Summit portfolio.

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

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Your first question comes from the line of Kathryn Thompson with Thompson Research. Your line is open.

### **Kathryn Ingram Thompson**

Founding Partner & Chief Executive Officer, Thompson Research Group LLC

Hi. Thank you for taking my questions today. First focusing on the Cement segment, now as you are expecting some tough comps going through the quarter, but still the volumes were off a little bit more than expected. Could you give color on the delta? And then also, just as a follow-up on the Cement segment, puts and takes on the cement margins including any impact from higher plant costs in the quarter? Thank you.

#### Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Okay. Well, let me just address cement volumes. So, as we said in our prepared remarks, most of our volume decline was in our southern markets and that had an impact overall on the overall volume of 7% negative growth.

The puts and takes on cement moving forward, if we look at – I'll have let Brian refer to the margins on cement, which were pretty close. If you look at year-over-year most of our reduction from what was from fixed cost coverage, just by the volume decline. But also the one we pointed out also was the Green America Recycling, which has been down and had an impact of \$4.3 million in the quarter.

### **Brian J. Harris**

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

Yeah, I don't really have much more to add to that on the cost side, Kathryn. The big impact obviously was the GAR explosion impact, that – the plant is still not up and running. We expect that to happen during the fourth quarter based on current timing estimates.

So, we're likely to have an impact in Q4 as well, albeit probably lower than it's been in Q2 and Q3. Otherwise, the plants were running well. We did lose a little bit of ground, because of under absorption of overhead from those lower volumes. But otherwise the plants ran well and the costs were well controlled.

#### Kathryn Ingram Thompson

Founding Partner & Chief Executive Officer, Thompson Research Group LLC

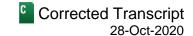
Okay. And just to clarify on that, the increase in CapEx, is this all related to greenfield expansion? Are there other initiatives that may have ever looked?

### Brian J. Harris

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

No, it's actually not related to the greenfields. The spend on the greenfields we've kept in the range of \$50 million to \$60 million [ph] (00:29:04) that's unchanged. So, the increase that we've identified is coming from a couple of sources. The first is that we opportunistically purchase some aggregates reserves in the Utah market, where aggregates are scarce. And so the opportunity to purchase those came and it came along and we took advantage of that. And then second part of it was really that in many of the very high growth markets, we added some

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additional equipment, so [indiscernible] (00:29:35) and trucks to take advantage of the growth that was going on in those markets.

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

Philip Ng

Analyst, Jefferies LLC

Hey, guys. [indiscernible] (00:29:49) if you can provide a little more color on how volumes [indiscernible] (00:29:53) quarter and certainly appreciate on the color you guys provided on October transit. Anything more specific on volumes in terms of your core businesses, is it seems like trends [Technical Difficulty] (00:30:04)?

**Brian J. Harris** 

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

Yeah. Phil, thanks for the question. Yeah, they did weaken a little bit just towards the very end of Q3, we had Hurricane Laura came through that lost us a few days with weather in Houston market. And then it swept right through up through the center of the country and over into the coast, so we lost some volume in our high margin – high priced markets in the Carolinas and Virginia. So, that was a little bit disappointing towards the end of Q3 and kind of just took a bit of the luster off. But other than that, the cadence of the volumes was pretty much as we expected through July, August and September.

Philip Ng

Analyst, Jefferies LLC

Got it. And then Anne, I think you touched upon this [Technical Difficulty] (00:30:52-00:31:06). And I guess, when you take longer term, from a philosophy standpoint, how important is vertical integration? And I guess, what's your ability [indiscernible] (00:31:15) any markets, if you deemed non-core on the downstream side of things?

Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Phil, I find it very hard to hear the front end of your question there, if you wouldn't mind repeating it that would be very helpful.

Philip Ng

Analyst, Jefferies LLC

Yeah. Sure. [Technical Difficulty] (00:31:31-00:31:43).

Karli Schumaker Anderson

Vice President-Investor Relations, Summit Materials, Inc.

Hey, Phil. I'm really sorry, we couldn't quite make that out. What if - maybe we can catch-up with you later offline?

Philip Ng

Analyst, Jefferies LLC

No problem. Thank you.

Anne Noonan

President and Chief Executive Officer: Director, Summit Materials, Inc.



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You broke up on that one, I heard part of your question and that was around, you were very blurred on it, Phil. I think the last end to your question came through about vertical integration. And I think, I would point you to the strength of our Houston and Salt Lake City markets. If there's ever an example of where vertical integration is an asset for Summit, this record performance that we've had this quarter and year-to-date really does demonstrate that for our model.

Operator: Your next question comes from the line of Jerry Revich with Goldman Sachs. Your line is open.

**Jerry Revich** 

Analyst, Goldman Sachs & Co. LLC

Yes. Hi, good morning, everyone and Anne welcome.

Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Thank you.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

I'm wondering, if you can talk about how your approach to returns on capital is a pivot from Tom and the prior teams – so obviously, the team has done a good job of acquiring assets at attractive multiples. So, what's the tweak as you think about your strategy and the way you look at returns on capital versus the way the team had looked at it in the past? What are the key differences to the approach?

#### Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Yeah. I think one of the key differences, we've now added it to our incentive plan, right, to really increase emphasis on that. And we've referred to the fact that we're doing a normal course portfolio review as part of our strategic review. And in that, we're really going to look at all the elements of our business and all the subsegments to look at the returns, the growth potential and the cash over time and cash needs as we will define and optimize our portfolio moving forward.

So, I would sum it up with saying increased emphasis on a normal basis running the company and then when we look at our portfolio having very active portfolio management and optimization moving forward.

**Jerry Revich** 

Analyst, Goldman Sachs & Co. LLC

And Anne, can I trouble you expand on the last point in terms of an increased focus on running the company. Obviously, the company has a lot of acquisitions historically. Can you talk about how the structure is changing? Can you – I know, it's early days, but any broad strokes would be helpful, if you could expand on that point?

Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Yeah, it is really early days. We've been going through a very clear process here and again thank you for all your input on the outside in-view of the company that was kind of stage one in our process. Secondarily, we've been – you know, near-term focus has been resiliency of our business in any COVID scenario making sure we're ready.

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And then the third part is our in-depth strategic review, which is really ongoing and the team's working very hard to get to some answers there. But we really don't have any conclusions. We hope to share that at least an update on that on our next earnings call.

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

**Stanley Stoker Elliott** 

Analyst, Stifel, Nicolaus & Co., Inc.

Good morning, everyone. And Anne, welcome to the call.

**Anne Noonan** 

President and Chief Executive Officer; Director, Summit Materials, Inc.

Thanks, Stanley.

Stanley Stoker Elliott

Analyst, Stifel, Nicolaus & Co., Inc.

Can we talk about kind of the portfolio optimization, you've just done two acquisitions here. Do we think the M&A environment gets put on a hold as you continue to work through the mechanics of the portfolio or we'd love to hear that in context of leverage at 3.5 times?

Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Sure. When we talk about our capital allocation priorities, obviously focusing on de-levering and we've succeeded in that year to-date, but we continue to focus on cash and organic growth of our company and putting capital into invest in the organic growth portion of the company.

Yes, we did do two strategic acquisitions. So, I would not say acquisitions are on hold. I would say, we're being very selective and working on returns and doing that. And the two acquisitions that we did are really pure-play aggregates that have been ongoing for six to seven years as my understanding is. And these are strategic acquisitions that we feel will really strengthen our West segment moving forward, which is our high growth segment. So, I would not say on hold, I would say just selective acquisitions, but while we continue to de-lever and we heard you all loud and clear on that, that you would prefer lower leverage on the company.

Stanley Stoker Elliott

Analyst, Stifel, Nicolaus & Co., Inc.

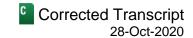
And then kind of switching gears a little bit. You're thinking about how strong the residential markets have been really nationally, but especially in the two key markets you all highlighted. How long before the non-residential market typically would pick up in those markets as kind of one-off whether it's retail or light commercial, things of that nature would end up following what looks to be a pretty nice growth trajectory on that residential market side?

Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Well, we look the residential typically and this does vary a little bit. And I guess the rate of in migration to these market segments will determine that. But generally, we would quote 12 months to 24 months on that, on the light commercial. So, it is a bit bumpy when we look at other non-res. But on the light retail, I would say in the low rise,

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typically a 12 to 24 month lag, which is why we are really strong on residential, our non-res following that as we continue to grow in the West segment.

**Operator**: Your next question comes from the line of Adam Thalhimer with Thompson & Davis (sic) [Thompson & Davis] (00:37:31). Your line is open.

### **Adam Robert Thalhimer**

Analyst, Thompson Davis & Co., Inc.

Hey, good morning, all. I wanted to see what's your outlook specifically for Utah and Texas, just because they're such important markets for you?

#### Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Well, if we look at Utah and Texas. I'll start with Texas very strong on [indiscernible] (00:37:47), so our public spending continues to be strong. We have backlogs into 2021, residential very strong. So, I would say, both our Houston and North Texas, we continue to see that in migration and considerable growth.

If we talk about Utah, low unemployment, residential very strong, and again the public spending there has been pretty steady. So, all indicators are pretty strong in those two areas.

#### Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Okay. And how about the southern Mississippi River markets, they've been kind of a thorn in the side of cement. What are you seeing there?

### **Anne Noonan**

President and Chief Executive Officer; Director, Summit Materials, Inc.

Well, you know we can't predict, because a lot of that was driven by COVID and lower oil pricing. We're not seeing that return to any significant level in the near-term. We're estimating that we don't. And so that drives behavior on our behalf, which is control what we can control in our operations.

As Brian referred to earlier the GAR expansion will come back into place, so we'll recover into 2021 on this loss that we've had in Q2 of \$4 million, Q3 \$4.3 million and Q4 is likely to be ahead depending on how quickly we ramp up.

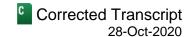
So, we have that plan in place, so that'll be an uptick to spend. But then when we look at the demand, which we can't control, we do have a number of initiatives really focused around commercial excellence, supply chain excellence and operational excellence.

In the case of commercial excellence, it's around price execution, staying close to our customers as we continue to do in this business. On the supply chain, we've brought in some new talents to really look at our logistics and distribution costs and make sure we continue to optimize. And this team is very strong on operational excellence, but we're never done and we will continue to focus on our cost containment moving forward.

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



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**Trey Grooms** 

Analyst, Stephens, Inc.

Q

Hey. Good morning.

Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Д

Good morning.

Brian J. Harris

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

Δ

Hi, Trey.

**Trey Grooms** 

Analyst, Stephens, Inc.

Q

So, I'm going to try a – maybe a bigger picture one here. So, we're going into the election here just a few days out and if we were to get a blue sweep, which some folks are saying that there's a pretty good chance of that. How and when do you think that starts to impact your business?

**Anne Noonan** 

President and Chief Executive Officer; Director, Summit Materials, Inc.

A

We can't really predict the future on that, I will say that in 2016 Trump talked a lot about of infrastructure bills, which even though [indiscernible] (00:40:34) never came to pass. However, we do believe it will be an uptick to the business, the time is very hard to predict, Trey.

**Trey Grooms** 

Analyst, Stephens, Inc.



Got it. Yeah. Understood. And then, I guess, kind of circling back on the cement margins just briefly. So, I can understand, sequentially the change that you saw there. I understand there were some benefits in the 2Q period that maybe didn't repeat, but both periods did incur that cost that – from the explosion, but had very different EBITDA margin. So, can you dive in a little bit, maybe in – not look at it year-over-year, but sequentially maybe some of the cost differences there and how we should think about those, is there anything ongoing there outside of what we've already talked about?

**Brian J. Harris** 

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



Yeah, Trey. Thanks for the question. I think really it was down to some of that overhead absorption recovery that we mentioned there from Kathryn's question that the volumes being much lower and as you know, as cement has quite a high fixed cost base. We just didn't get the recovery on the overhead and due to that – that would be the primary difference between Q2 and Q3.

Also in Q3, we did have the shutdown – the autumn shutdown in one of the plants, the second one will happen in Q4. So, we have some lost days, because of that which we don't have in Q2.

Operator: Your next question comes from the line of Garik Shmois with Loop Capital. Your line is open.

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#### **Garik Shmois**

Analyst, Loop Capital Markets LLC

Oh, hi, thanks. Just wanted to ask about pricing, you just given some of the negative price mix in the quarter. Can you provide a little bit more visibility on how we should think about pricing moving forward? And just given, the volume backdrop, are you seeing any change to the competitive landscape? Is it getting a little bit more intense, just given some of the volume challenges in a couple of your markets?

**Anne Noonan** 

President and Chief Executive Officer; Director, Summit Materials, Inc.

I'll have Brian address the specifics on the pricing; but on the competitive landscape, we're not really seeing any significant changes. I will tell you Garik, that one of the things that was a surprise to me in coming into this business is how different the competitive dynamics are between regions that drives our pricing, but we're not seeing a fundamental change in any of our markets.

**Brian J. Harris** 

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

Yeah, Garik on the aggregates pricing, our organic pricing was actually positive in the quarter. And the main reason for the reported decline was due to the comparison with the prior-year where we had that very high, highly priced levee repair job in Missouri.

And then on the Multisources acquisition, the average selling prices on that product line are lower than the averages that we have elsewhere in the business, so that was a little bit of a drag on the average selling price.

But [indiscernible] (00:43:48) ask you to do is not just look at the aggregates pricing in a vacuum, but keep in mind the margins, because they do go hand-in-hand. You can have product lines which have lower selling prices, but actually have very good margins on them.

And if you look sequentially, you'll see that our aggregates margins actually increased quarter-on-quarter. The LTM margins are up by 1.6% and even with a difficult comp our year-to-date margins are the same as they were in the prior-year. So, a few moving parts there, but you really have to look at price and margin together.

**Garik Shmois** 

Analyst, Loop Capital Markets LLC

Okay. Thanks.

**Brian J. Harris** 

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

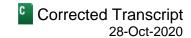
And then ready-mix prices were strong up 4.5% and up 5.2% year-to-date. And even on a year-to-date pricing on aggregates, mix adjusted that's positive by about a little bit over 2%.

**Garik Shmois** 

Analyst, Loop Capital Markets LLC

Great. No. Thanks for all the detail. And just wanted to ask on logistics as well, if you're seeing any bottlenecks or anticipating any bottlenecks moving into next year, just given some reported capacity constraints on the trucking side, please?

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#### Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Not at this time. I think actually in Texas with oil pricing being down, we've actually had a better availability of trucking and drivers capacity. So, no impacts on the business that we're seeing here in the near or medium term.

Operator: Your next question comes from the line of Rohit Seth with Truist Securities. Your line is open.

#### Rohit Seth

Analyst, Truist Securities, Inc.

Hi. Thanks for taking my question. The first question is building on the infrastructure question that came earlier. If there was an infrastructure bill that was passed, I think the shovel-ready projects would probably be repair and maintenance type work. And I'm just curious on, given your focus has been on the less – on the smaller jobs, is it fair to say that you guys might be an earlier beneficiary of any pickup in spending coming from the fed?

#### Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Yeah, I think that would be a correct assumption, because a lot of our work is repair and rebuild, so we would expect to see some uptick from that, Rohit.

#### **Rohit Seth**

Analyst, Truist Securities, Inc.

Okay. And then second question Brian on the TRA, if from the elections taxes – corporate taxes go up. I do recall, when taxes came down, there was a revision to the TRA liability. Now if they move the other way, does that unwind or what would the impact be on that TRA liability?

#### Brian J. Harris

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

Yeah. So, hypothetically, what would happen is the TRA liability would go up and in the same way as it came down when the corporate tax rate was reduced, but it would not change the timing on when any payments are likely, as we mentioned in the prepared remarks. The earliest we expect to have any payments under the TRA is 2025 and that date is constantly shifting as a result of any other tax attributes that are generated along the way, whether they be from accelerated depreciation or step-ups in basis that we get from acquisitions. So, hypothetically, yes, an increase in the tax rate would increase the TRA liability.

**Operator**: Your next question comes from the line of Anthony Pettinari with Citi. Your line is open.

#### **Anthony Pettinari**

Analyst, Citigroup Global Markets, Inc.

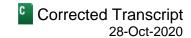
Good morning. Anne, you talked about ROIC being added to compensation, which is – I think is great. It is impossible to talk about expected returns for the incremental CapEx investments? And then just generally, what returns you'd expect from aggregate greenfields versus acquisitions like Multisources and Valley Gravel.

#### Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

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I think we've said before on returns from the actual ongoing acquisitions we target in the mid-teens. With greenfields, I think, Brian will be more specific on that.

Brian J. Harris

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

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Yeah. The greenfields is yet to play out as to precisely what the returns would be. Certainly, the entry multiple is significantly lower than you would pay, if you're paying for high quality EBITDA through acquisition. We know that the aggregates multiples paid can be in the mid-teens and sometimes even higher. So, the entry point is much lower, but obviously it takes little longer to actually realize the EBITDA from those investments. We'll know more as the each of the projects unfolds, but based on the \$45 million of EBITDA in 2024, we'd expect those returns to be in the mid-teens, IRR.

Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

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Then the other thing I'd add as you know, Anthony when we look at our strategic review, we're not complete through that. So, we haven't really set a target on ROIC at this point in time, so that will be something coming out of our in-depth review.

**Anthony Pettinari** 

Analyst, Citigroup Global Markets, Inc.



Okay. Okay. That's helpful. And then Brian, you gave us an impact – you gave us an update on the impact of weather in the quarter. Can you talk about what kind of weather comp 4Q is set up for modeling purposes? Is there anything we should keep in mind or that you've seen so far in October?

**Brian J. Harris** 

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



Yeah. It's – I think most of the weather patterns that we've seen in the different parts of the country have held up pretty well in October or have followed a similar trend. So, we're going to see some wet weather continuing and we've lost a lot of days in the southeast, so in our Myrtle Beach, Wilmington, Columbia, Roanoke, Lexington, they've all had significantly more rain days this year. But elsewhere it's been dry, so Kansas, Wichita, Columbia, Missouri, Salt Lake, kind of the Intermountain West is being particularly dry. You've probably seen all the fires that we've had, but it's been dry. So, at the moment, we kind of have seen that similar pattern of weather unfold in October.

**Operator**: Your next question comes from the line of Seldon Clarke with Deutsche Bank. Your line is open.

Seldon Clarke

Analyst, Deutsche Bank Securities, Inc.



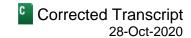
Hey, thanks for the question. I apologize if this has been asked, I had some service issues as well earlier. Could you just provide a little bit more context on the impact from recent M&A on profitability and pricing? It looks like there's just a bit of a negative drag on aggregates mix in the quarter, I know you said margins held up decently well, but can you just maybe talk about how pricing differs in these markets versus existing markets and maybe just help us frame up with the potential opportunity is there to either improve pricing or margins in those markets?

**Anne Noonan** 

President and Chief Executive Officer; Director, Summit Materials, Inc.



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I would comment on our Multisources acquisition, which was done as a pure-play aggregates. We've just done that acquisition and we're in the process of starting the integration. So, as Brian correctly pointed out earlier, there was some lower pricing, but the margins were strong.

As we look to integrate, we always look to have 1-to-1.5 terms of improvement. And also the back office, our sourcing, integration and also as we look to apply our commercial and operational excellence, we expect to be able to get to the pricing targets that we do for the entire portfolio.

**Brian J. Harris** 

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

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And Seldon, I'd just add to that, we delivered – you saw on the bridge there – the EBITDA bridge, the contribution was about \$2.3 million of EBITDA in the quarter. There really wasn't anything from Valley – Sand & Gravel up in Vancouver, it was late in the quarter, but Multisources contributed about \$2.3 million in Q3.

Seldon Clarke

Analyst, Deutsche Bank Securities, Inc.



Okay. That's helpful. Thanks. And then just kind of a broader question, I don't know if you have a timeline around it, but when you do complete your strategic review, should we expect any sort of Investor Day or Analyst Day type presentation or is this sort of something that you'll just string in the earnings calls over time?

Anne Noonan



President and Chief Executive Officer; Director, Summit Materials, Inc.

Well, we are in early days and we don't have a specific timeline. I will tell you, the team is working very hard and we're doing a very comprehensive review to make sure that when we do come out with a revised strategic roadmap, it's something that is very well thought through.

We have our normal course discussions with buy-side, sell-side and our ongoing earnings interactions. If we feel that we're not getting the full coverage for our strategic roadmap when it's ready, we obviously would consider an Investor Day at that time. But we haven't made that decision up till now, Seldon.

**Operator**: Your next question comes from the line of David MacGregor with Longbow Research. Your line is open.

David S. MacGregor

Analyst, Longbow Research LLC



Yeah. Good morning, everyone. I had a question on cement and just looking at the pricing of 50 basis points. And you talked about South of Memphis, so I appreciate that color. Maybe think about the rest of the river system, you know, going north from there. And you know, I think, it's common knowledge, it's always been a tough market on pricing. But just trying to get a sense of what was the most recent price increase, just you weren't able to get much traction North of Memphis? Or is the traction just to maybe a little bit slow and coming through and we see that more evident in the fourth quarter numbers. But any kind of color you can provide on just market conditions across that segment of the market would be helpful?

Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

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Yeah, the northern portion, demand has been pretty steady and really our demand challenges were in the southern part, which when you put the two together really boils down to customer mix that resulted in the 0.5% increase. So, it's not a lack of execution on where we said we would get the price increase. It's just customer mix, I would say, would explain it out.

David S. MacGregor  Analyst, Longbow Research LLC	Q
And – so how does that play into 4Q? What should we be looking for there? Is that mix correct or -	
Anne Noonan President and Chief Executive Officer; Director, Summit Materials, Inc.	A
I think more of the same, because I don't see our southern markets particularly rebounding, so I think you probably just carry that across from where we are today.	u could
David S. MacGregor  Analyst, Longbow Research LLC	Q
And so there isn't any incremental benefit from further traction in 4Q just across the entire mix?	
Anne Noonan President and Chief Executive Officer; Director, Summit Materials, Inc.	A
No, [indiscernible] (00:54:42).	
David S. MacGregor  Analyst, Longbow Research LLC	Q
Okay.	
Anne Noonan President and Chief Executive Officer; Director, Summit Materials, Inc.	A
No, because the mix should not change.	
David S. MacGregor  Analyst, Longbow Research LLC	Q

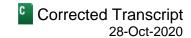
Okay. Thanks for that. And then the second question is just, you were addressing earlier questions about the balance sheet and leverage and the importance of striking a balance between investing in the business and repurchasing stock and buying and paying down debt. I guess, I'd just be interested in your plans and sort of looking a little further forward than just the next quarter, but through the next 12, 15, 18 months, where do you see leverage getting to from 3.5 times? And do you get there by using cash or is it just EBITDA growth or is it a combination of both, but any color there would be helpful?

#### Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Yeah, I think, we are undergoing our strategic review. So, we do not have concrete numbers that we've rolled out as a result of any change in strategy. I will say, we have ongoing focus to de-lever and the team has been working diligently upon that working out, working capital, really doubling down on our organic growth, making sure our operational excellence is strong. So, we will continue to de-lever. Now any significant step changes will come out of our strategic review and we will review that at the time.

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**Operator**: Your next question comes from the line of Mike Dahl with RBC Capital Markets. Your line is open.

#### Mike Dahl

Analyst, RBC Capital Markets LLC

Thanks for taking my questions. Just wanted to ask first question on the aggs margins, understand from a year-on-year standpoint, a tough comp with the levee repair work, but anything you can give us on unit costs in the quarter, because presumably diesel would have still been a tailwind for you guys. And just so any color around the unit costs in 3Q and how to think about that in 4Q?

Brian J. Harris

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

Yeah, the diesel costs were a tailwind for us, they have been all year, where we obviously hedge by forward as a portion of our diesel and then we pick up the balance spot, but diesel has seen a tailwind for us throughout the year, not just on the aggs business, but throughout the entire organization, particularly actually on ready-mix, where we do a lot of mileage, so that has been a tailwind.

There isn't really anything specific on the underlying cost side of the equation in aggregates that would have affected the margins, it's really more to do with that mix of pricing and say it's in our mix adjusted basis in Q3, we would have been up by about 2%, a little bit over 2%.

And the – sequentially, we're at 64% in Q3, 64.2% and actually LTM is now about – back about 60%. So, it's really just the pricing mix that was the biggest factor in Q3. And obviously, Q3 of 2019 was a very tough comp where we had margins of over 68%, which is abnormally high for the normal run rate of this business.

Mike Dahl

Analyst, RBC Capital Markets LLC

Right. Okay. Thanks, Brian. And my second question and I know it's early that perfect crystal ball here, but there's obviously a debate around public and non-res as we head into 2021. I think what you've outlined is, certainly helpful going through kind of the state by state breakdowns in terms of current state of play.

I think if we look at your comments across your markets that make up the majority of your business, yes, there are some puts and takes in places with headwinds on the public side. But overall, it seems like your view is potentially that public side remains more resilient in the markets that matter to you and same with the combination of kind of private res versus non-res. I guess, where I'm trying to get to is when you're thinking about next year, do you think you're positioned to actually have a year-over volume growth in 2021 based on what you're seeing early signs?

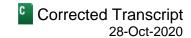
Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Well, I think we haven't ruled up overall. I would say, that obviously any further impacts from COVID is uncertain at this time, like any other business. I would say though, that there's one factor on the residential side. And we talked about public, but all inventories are low across all our major markets, so we would expect that to continue to grow. If it's consistent with this year and interest rates stay low.

On the public side, we've pointed out each area and it's on our strong markets, clearly in the West segment, we expect that to continue. Kansas very strong, Virginia strong, and where we have, I don't believe Kentucky will

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particularly rebound, but that will be, each state makes their decisions differently. So, we'll just have to wait and see on that.

**Operator:** Ladies and gentlemen, we have reached our allotted time for Q&A. I will turn the call back over to Anne for any closing remarks.

### Anne Noonan

President and Chief Executive Officer; Director, Summit Materials, Inc.

Thank you, operator. And thank you all for joining us today. That concludes our call. Good day.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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