Vulcan Materials CO
Form 10-Q
August 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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

For the transition period from to

Commission File Number 001-33841

VULCAN MATERIALS COMPANY
(Exact name of registrant as specified in its charter)

New Jersey (State or other jurisdiction of incorporation)	20-8579133 (I.R.S. Employer Identification No.)
1200 Urban Center Drive, Birmingham, Alabama (Address of principal executive offices)	35242 (zip code)

(205) 298-3000 (Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Shares outstanding at July 27, 2018
Common Stock, $1 Par Value	132,268,189

VULCAN MATERIALS COMPANY

FORM 10-Q

QUARTER ENDED JUNE 30, 2018

Contents

Unless otherwise stated or the context otherwise requires, references in this report to "Vulcan," the "Company," "we," "our," or "us" refer to Vulcan Materials Company and its consolidated subsidiaries.

part I financial information

ITEM 1

FINANCIAL STATEMENTS

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited, except for December 31 in thousands	June 30 2018	December 31 2017	June 30 2017
Assets			
Cash and cash equivalents	$ 55,059	$ 141,646	$ 1,129,799
Restricted cash	6,056	5,000	0
Accounts and notes receivable			
Accounts and notes receivable, gross	640,742	590,986	573,029
Less: Allowance for doubtful accounts	(2,628)	(2,649)	(2,943)
Accounts and notes receivable, net	638,114	588,337	570,086
Inventories			
Finished products	343,948	327,711	318,465
Raw materials	29,684	27,152	27,106
Products in process	1,882	1,827	1,210
Operating supplies and other	28,250	27,648	28,148
Inventories	403,764	384,338	374,929
Other current assets	80,209	60,780	109,998
Total current assets	1,183,202	1,180,101	2,184,812
Investments and long-term receivables	41,989	35,115	38,888
Property, plant & equipment			
Property, plant & equipment, cost	8,241,164	7,969,312	7,531,536
Allowances for depreciation, depletion & amortization	(4,134,750)	(4,050,381)	(3,992,728)
Property, plant & equipment, net	4,106,414	3,918,931	3,538,808
Goodwill	3,163,954	3,122,321	3,101,439
Other intangible assets, net	1,156,898	1,063,630	834,971
Other noncurrent assets	192,327	184,793	171,025
Total assets	$ 9,844,784	$ 9,504,891	$ 9,869,943
Liabilities			
Current maturities of long-term debt	23	41,383	525,776
Short-term debt	360,000	0	0

Trade payables and accruals	231,913	197,335	202,753
Other current liabilities	219,860	204,154	197,264
Total current liabilities	811,796	442,872	925,793
Long-term debt	2,776,906	2,813,482	2,809,293
Deferred income taxes, net	545,756	464,081	706,726
Deferred revenue	188,826	191,476	195,020
Other noncurrent liabilities	500,870	624,087	631,007
Total liabilities	$ 4,824,154	$ 4,535,998	$ 5,267,839
Other commitments and contingencies (Note 8)			
Equity			
Common stock, $1 par value, Authorized 480,000 shares,			
Outstanding 132,268, 132,324 and 132,181 shares, respectively	132,268	132,324	132,181
Capital in excess of par value	2,788,486	2,805,587	2,797,269
Retained earnings	2,244,545	2,180,448	1,810,528
Accumulated other comprehensive loss	(144,669)	(149,466)	(137,874)
Total equity	$ 5,020,630	$ 4,968,893	$ 4,602,104
Total liabilities and equity	$ 9,844,784	$ 9,504,891	$ 9,869,943

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended		Six Months Ended	
Unaudited		June 30		June 30
in thousands, except per share data	2018	2017	2018	2017
Total revenues	$ 1,200,151	$ 1,030,763	$ 2,054,625	$ 1,818,091
Cost of revenues	876,967	740,746	1,572,106	1,369,853
Gross profit	323,184	290,017	482,519	448,238
Selling, administrative and general expenses	89,043	83,056	167,383	165,439
Gain on sale of property, plant & equipment and businesses	2,106	2,773	6,270	3,142
Other operating expense, net	(5,994)	(17,768)	(9,969)	(23,595)
Operating earnings	230,253	191,966	311,437	262,346
Other nonoperating income, net	3,339	3,890	8,421	7,934
Interest expense, net	33,244	38,455	71,018	72,531
Earnings from continuing operations before income taxes	200,348	157,401	248,840	197,749
Income tax expense	40,046	45,652	35,143	42,477
Earnings from continuing operations	160,302	111,749	213,697	155,272
Earnings (loss) on discontinued operations, net of tax	(650)	8,390	(1,066)	9,788
Net earnings	$ 159,652	$ 120,139	$ 212,631	$ 165,060
Other comprehensive income, net of tax				
Deferred gain on interest rate derivative	0	0	2,496	0
Amortization of prior interest rate derivative loss	52	328	118	647
Amortization of actuarial loss and prior service cost for benefit plans	1,092	427	2,183	855
Other comprehensive income	1,144	755	4,797	1,502
Comprehensive income	$ 160,796	$ 120,894	$ 217,428	$ 166,562
Basic earnings (loss) per share				
Continuing operations	$ 1.21	$ 0.84	$ 1.61	$ 1.17
Discontinued operations	0.00	0.07	(0.01)	0.08
Net earnings	$ 1.21	$ 0.91	$ 1.60	$ 1.25
Diluted earnings (loss) per share				
Continuing operations	$ 1.20	$ 0.83	$ 1.59	$ 1.15
Discontinued operations	(0.01)	0.06	(0.01)	0.07
Net earnings	$ 1.19	$ 0.89	$ 1.58	$ 1.22
Weighted-average common shares outstanding				
Basic	132,437	132,413	132,563	132,524

Assuming dilution	134,051	134,735	134,280	134,925
Cash dividends per share of common stock	$ 0.28	$ 0.25	$ 0.56	$ 0.50
Depreciation, depletion, accretion and amortization	$ 85,633	$ 76,775	$ 167,072	$ 148,339
Effective tax rate from continuing operations	20.0%	29.0%	14.1%	21.5%

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of these statements.

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VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	June 30
Unaudited in thousands	2018	2017
Operating Activities		
Net earnings	$ 212,631	$ 165,060
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation, depletion, accretion and amortization	167,072	148,339
Net gain on sale of property, plant & equipment and businesses	(6,270)	(3,142)
Contributions to pension plans	(104,794)	(4,744)
Share-based compensation expense	14,763	13,671
Deferred tax expense (benefit)	40,549	2,901
Cost of debt purchase	6,922	0
Changes in assets and liabilities before initial effects of business acquisitions and dispositions	(55,415)	(170,701)
Other, net	302	3,838
Net cash provided by operating activities	$ 275,760	$ 155,222
Investing Activities		
Purchases of property, plant & equipment	(247,166)	(291,034)
Proceeds from sale of property, plant & equipment	8,523	8,530
Proceeds from sale of businesses	11,256	0
Payment for businesses acquired, net of acquired cash	(218,996)	(210,562)
Other, net	(10,226)	405
Net cash used for investing activities	$ (456,609)	$ (492,661)
Financing Activities		
Proceeds from short-term debt	506,200	5,000
Payment of short-term debt	(146,200)	(5,000)
Payment of current maturities and long-term debt	(892,044)	(235,007)
Proceeds from issuance of long-term debt	850,000	1,600,000
Debt issuance and exchange costs	(45,513)	(15,046)
Settlements of interest rate derivatives	3,378	0
Purchases of common stock	(74,921)	(60,303)
Dividends paid	(74,196)	(66,194)
Share-based compensation, shares withheld for taxes	(31,386)	(24,231)
Net cash provided by financing activities	$ 95,318	$ 1,199,219
Net increase (decrease) in cash and cash equivalents and restricted cash	(85,531)	861,780
Cash and cash equivalents and restricted cash at beginning of year	146,646	268,019
Cash and cash equivalents and restricted cash at end of period	$ 61,115	$ 1,129,799

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the statements.

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notes to condensed consolidated financial statements

Note 1: summary of significant accounting policies

NATURE OF OPERATIONS

Vulcan Materials Company (the “Company,” “Vulcan,” “we,” “our”), a New Jersey corporation, is the nation's largest supplier of construction aggregates (primarily crushed stone, sand and gravel) and a major producer of asphalt mix and ready-mixed concrete.

We operate primarily in the United States and our principal product — aggregates — is used in virtually all types of public and private construction projects and in the production of asphalt mix and ready-mixed concrete. We serve markets in twenty states, Washington D.C., and the local markets surrounding our operations in Mexico and the Bahamas. Our primary focus is serving metropolitan markets in the United States that are expected to experience the most significant growth in population, households and employment. These three demographic factors are significant drivers of demand for aggregates. While aggregates is our focus and primary business, we produce and sell asphalt mix and/or ready-mixed concrete in our Alabama, mid-Atlantic, Southwestern, Tennessee and Western markets.

BASIS OF PRESENTATION

Our accompanying unaudited condensed consolidated financial statements were prepared in compliance with the instructions to Form 10-Q and Article 10 of Regulation S-X and thus do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. We prepared the accompanying condensed consolidated financial statements on the same basis as our annual financial statements, except for the adoption of new accounting standards as described in Note 17. Our Condensed Consolidated Balance Sheet as of December 31, 2017 was derived from the audited financial statement, but it does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of our management, the statements reflect all adjustments, including those of a normal recurring nature, necessary to present fairly the results of the reported interim periods. Operating results for the three and six month periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, refer to the consolidated financial statements and footnotes included in our most recent Annual Report on Form 10-K.

Due to the 2005 sale of our Chemicals business as described in Note 2, the results of the Chemicals business are presented as discontinued operations in the accompanying Condensed Consolidated Statements of Comprehensive Income.

RECLASSIFICATIONS

Certain items previously reported in specific financial statement captions have been reclassified to conform to the 2018 presentation. In the first quarter of 2018, we adopted Accounting Standards Update (ASU) 2017-07, “Improving the Presentation of Net Periodic Benefit Cost and Net Periodic Postretirement Benefit Cost,” resulting in the reclassification of certain benefit costs from operating income to nonoperating income as described in Note 17.

RESTRICTED CASH

Restricted cash consists of cash proceeds from the sale of property held in escrow for the acquisition of replacement property under like-kind exchange agreements and cash reserved by other contractual agreements (such as asset purchase agreements) for a specified purpose and therefore is not available for use for other purposes. The escrow accounts are administered by an intermediary. Cash restricted pursuant to like-kind exchange agreements remains restricted for a maximum of 180 days from the date of the property sale pending the acquisition of replacement property. Restricted cash is included with cash and cash equivalents in the accompanying Condensed Consolidated Statements of Cash Flows.

EARNINGS PER SHARE (EPS)

Earnings per share are computed by dividing net earnings by the weighted-average common shares outstanding (basic EPS) or weighted-average common shares outstanding assuming dilution (diluted EPS), as set forth below:

in thousands	Three Months Ended June 30 2018	2017	Six Months Ended June 30 2018	2017
Weighted-average common shares outstanding	132,437	132,413	132,563	132,524
Dilutive effect of				
Stock-Only Stock Appreciation Rights	583	1,317	636	1,330
Other stock compensation plans	1,031	1,005	1,081	1,071
Weighted-average common shares outstanding, assuming dilution	134,051	134,735	134,280	134,925

All dilutive common stock equivalents are reflected in our earnings per share calculations. In periods of loss, shares that otherwise would have been included in our diluted weighted-average common shares outstanding computation would be excluded.

Antidilutive common stock equivalents are not included in our earnings per share calculations. The number of antidilutive common stock equivalents for which the exercise price exceeds the weighted-average market price is as follows:

in thousands	Three Months Ended June 30 2018	2017	Six Months Ended June 30 2018	2017
Antidilutive common stock equivalents	157	79	155	79

Note 2: Discontinued Operations

In 2005, we sold substantially all the assets of our Chemicals business to Basic Chemicals, a subsidiary of Occidental Chemical Corporation. The financial results of the Chemicals business are classified as discontinued operations in the accompanying Condensed Consolidated Statements of Comprehensive Income for all periods presented. There were no revenues from discontinued operations for the periods presented. Results from discontinued operations are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
in thousands	2018	2017	2018	2017
Discontinued Operations				
Pretax earnings (loss)	$ (883)	$ 12,804	$ (1,449)	$ 14,896
Income tax (expense) benefit	233	(4,414)	383	(5,108)
Earnings (loss) on discontinued operations, net of tax	$ (650)	$ 8,390	$ (1,066)	$ 9,788

Our discontinued operations include charges related to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business. The 2017 results noted above primarily reflect charges and related insurance recoveries, including those associated with the Texas Brine matter as discussed in Note 8.

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Note 3: Income Taxes

The Tax Cuts and Jobs Act (TCJA) was enacted in December 2017. The TCJA, among other changes, (1) reduces the U.S. federal corporate income tax rate from 35% to 21%, (2) allows for the immediate 100% deductibility of certain capital investments, (3) eliminates the alternative minimum tax (though allows for the future use of previously generated alternative minimum tax credits), (4) repeals the domestic production deduction, (5) requires a one-time “transition tax” on earnings of certain foreign subsidiaries that were previously tax deferred, (6) limits the deductibility of interest expense, (7) further limits the deductibility of certain executive compensation and (8) taxes global intangible low taxed income.

The SEC staff issued Staff Accounting Bulletin (SAB) 118 to provide guidance for companies that have not completed their accounting for the income tax effects of the TCJA in the period of enactment. SAB 118 provides a one-year measurement period from the TCJA enactment date for companies to complete their income tax accounting. In accordance with SAB 118, a company must reflect the income tax effects of those elements of the TCJA for which the income tax accounting is complete. To the extent that a company’s accounting for certain elements of the TCJA is incomplete but for which it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company is unable to determine a provisional estimate, it should account for its income taxes on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the TCJA.

Our accounting for certain elements of the TCJA is incomplete. As we disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, we were able to make reasonable estimates, and therefore, recorded provisional estimates for the following elements. We have not made any measurement-period adjustments related to these items during the first half of 2018.

§ DEEMED REPATRIATION TRANSITION TAX — The TCJA subjects companies to a one-time Deemed Repatriation Transition Tax (Transition Tax) on previously untaxed foreign accumulated earnings and profits. We recorded a provisional Transition Tax obligation of $12,301,000 at December 31, 2017.
§ DEDUCTIBILITY OF EXECUTIVE COMPENSATION — The TCJA eliminates the performance-based compensation exception from the limitation on covered employee remuneration. At this time, we believe that a portion of the performance-based remuneration accounted for in our deferred taxes will likely be non-deductible. As such, we included a provisional expense of $1,403,000 at December 31, 2017.

Our accounting for certain other elements of the TCJA is incomplete, and as we disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, we were not yet able to make reasonable estimates of the effects. Therefore, no provisional estimates were recorded. We have not recorded any measurement-period adjustments related to these items during the first half of 2018.

§ OUTSIDE BASIS DIFFERENCE IN FOREIGN SUBSIDIARIES — For U.S. income tax purposes, the Transition Tax will greatly reduce outside basis differences in our foreign subsidiaries. Completing this calculation is dependent on first finalizing the Transition Tax liability. As a result, we are not yet able to reasonably estimate the outside basis difference remaining in our foreign subsidiaries after the Transition Tax, and therefore, continue to assert that our undistributed earnings from foreign subsidiaries are indefinitely reinvested.

§ GLOBAL INTANGIBLE LOW TAXED INCOME — We can make an accounting policy election of either (1) treating taxes due on the future U.S. inclusions in taxable income related to global intangible low taxed income (GILTI) as a current period expense when incurred (period cost method) or (2) factoring such amounts into our measurement of deferred taxes (deferred method). Our selection of an accounting policy with respect to the new GILTI tax rules will depend, in part, on determining whether we expect to have future U.S. inclusions in taxable income related to GILTI and, if so, the expected impact. We have not recorded any amount of GILTI tax in our financial statements nor have we made an accounting policy decision.

Our estimated annual effective tax rate (EAETR) is based on full-year expectations of pretax earnings, statutory tax rates, permanent differences between book and tax accounting such as percentage depletion, and tax planning alternatives available in the various jurisdictions in which we operate. For interim financial reporting, we calculate our quarterly income tax provision in accordance with the EAETR. Each quarter, we update our EAETR based on our revised full-year expectation of pretax earnings and calculate the income tax provision so that the year-to-date income tax provision reflects the EAETR. Significant judgment is required in determining our EAETR.

In the second quarter of 2018, we recorded income tax expense from continuing operations of $40,046,000 compared to income tax expense from continuing operations of $45,652,000 in the second quarter of 2017. The decrease in income tax expense was largely due to the change in the U.S. statutory income tax rate to 21% in 2018 from 35% in 2017.

For the first six months of 2018, we recorded income tax expense from continuing operations of $35,143,000 compared to income tax expense from continuing operations of $42,477,000 for the first six months of 2017. The decrease in income tax expense was largely due to the change in the U.S. statutory income tax rate to 21% in 2018 from 35% in 2017.

We recognize deferred tax assets and liabilities (which reflect our best assessment of the future taxes we will pay) based on the differences between the book basis and tax basis of assets and liabilities. Deferred tax assets represent items to be used as a tax deduction or credit in future tax returns while deferred tax liabilities represent items that will result in additional tax in future tax returns.

Each quarter we analyze the likelihood that our deferred tax assets will be realized. A valuation allowance is recorded if, based on the weight of all available positive and negative evidence, it is more likely than not (a likelihood of more than 50%) that some portion, or all, of a deferred tax asset will not be realized.

At December 31, 2018, we project state net operating loss carryforward deferred tax assets of $71,812,000 ($67,611,000 relates to Alabama), against which we project to have a valuation allowance of $29,695,000 ($29,182,000 relates to Alabama). The Alabama net operating loss carryforward, if not utilized, would expire in years 2023 – 2033.

We recognize a tax benefit associated with a tax position when, in our judgment, it is more likely than not that the position will be sustained based upon the technical merits of the position. For a tax position that meets the more likely than not recognition threshold, we measure the income tax benefit as the largest amount that we judge to have a greater than 50% likelihood of being realized. A liability is established for the unrecognized portion of any tax benefit. Our liability for unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation.

A summary of our deferred tax assets is included in Note 9 “Income Taxes” in our Annual Report on Form 10-K for the year ended December 31, 2017.

Note 4: revenueS

There have been no significant changes to the amount or timing of our revenue recognition as a result of our adoption of Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers” (Accounting Standards Codification Topic 606). Revenues are measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. Sales and other taxes we collect are excluded from revenues. Costs to obtain and fulfill construction paving contracts are also immaterial and are expensed as incurred when the expected amortization period is one year or less.

Total revenues are primarily derived from our product sales of aggregates, asphalt mix and ready-mixed concrete, and include freight & delivery costs that we pass along to our customers to deliver these products. We also generate revenues from our asphalt construction paving business (represents less than 10% of our Asphalt segment’s revenues) and services related to our aggregates business (represents less than 2% of our Aggregates segment’s revenues).

Our products typically are sold to private industry and not directly to governmental entities. Although approximately 45% to 55% of our aggregates shipments have historically been used in publicly funded construction, such as highways, airports and government buildings, relatively insignificant sales are made directly to federal, state, county or municipal governments/agencies. Therefore, although reductions in state and federal funding can curtail publicly funded construction, our business is not directly subject to renegotiation of profits or termination of contracts with state or federal governments.

Our segment total revenues by geographic market for the three and six month periods ended June 30, 2018 and 2017 are disaggregated as follows:

	Three Months Ended June 30, 2018				
in thousands	Aggregates	Asphalt	Concrete	Calcium	Total
Total Revenues by Geographic Market 1					
East	$ 313,245	$ 49,339	$ 69,605	$ 0	$ 432,189
Gulf Coast	493,696	38,845	18,354	2,282	553,177
West	149,324	123,644	18,764	0	291,732
Segment sales	$ 956,265	$ 211,828	$ 106,723	$ 2,282	$ 1,277,098
Intersegment sales	(76,947)	0	0	0	(76,947)
Total revenues	$ 879,318	$ 211,828	$ 106,723	$ 2,282	$ 1,200,151

	Three Months Ended June 30, 2017				
in thousands	Aggregates	Asphalt	Concrete	Calcium	Total
Total Revenues by Geographic Market 1					
East	$ 281,304	$ 29,775	$ 59,647	$ 0	$ 370,726
Gulf Coast	384,793	24,444	25,501	1,971	436,709
West	151,489	121,539	20,065	0	293,093
Segment sales	$ 817,586	$ 175,758	$ 105,213	$ 1,971	$ 1,100,528
Intersegment sales	(69,765)	0	0	0	(69,765)
Total revenues	$ 747,821	$ 175,758	$ 105,213	$ 1,971	$ 1,030,763

	Six Months Ended June 30, 2018				
in thousands	Aggregates	Asphalt	Concrete	Calcium	Total
Total Revenues by					

Geographic Market 1					
East	$ 496,459	$ 61,068	$ 131,175	$ 0	$ 688,702
Gulf Coast	888,271	53,488	43,554	4,224	989,537
West	271,192	201,107	32,956	0	