



U.S. Concrete | Nasdaq: USCR

INVESTMENT RESEARCH REPORT

"Concrete Evidence of Financial Scheming"

RECOMMENDATION: *Strong Sell*

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Spruce Point believes it is time for significant change at U.S. Concrete Inc (Nasdaq: USCR). Based on our research, we are calling for the immediate resignation of its CEO Sandbrook.

Spruce Point Capital Is An Industry Recognized Research Activist Investment Firm Founded In 2009

- Founded by Ben Axler, a former investment banker with 17 years experience on Wall Street
- Ranked the #1 Short-Seller in the world by [Sumzero](#) after a comprehensive study of 12,000 analyst recommendations dating back to 2008 (March 2015)
- Ranked the #13 Most Influential FinTweeter on Twitter according to [Sentieo analysis](#) (Dec 2016)

CEO Departures Post Recent Spruce Point Research Activism

Report Date	Company / Ticker	Enterprise Value At Report Date (\$ billions)	CEO Departure / Date
7/13/17	Gentex / GNTX	\$4.7	Fred Bauer / Jan 2018
4/13/16	Sabre Corp / SABR	\$11.2	Tom Klein / June 2016
12/17/15	Intertain / IT.TO	\$1.5	John FitzGerald / Feb 2016
8/19/15	Caesarstone / CSTE	\$1.7	Yos Shiran / May 2016
2/10/15	Greif / GEF	\$3.2	David Fischer / Oct 2015
11/13/14	AMETEK / AME	\$14.0	Frank Hermance / May 2016
1/15/14	LKQ Corp / LKQ	\$11.8	Robert Wagman / March 2017
3/5/13	Boulder Brands / BDBD	\$1.0	Stephen Hughes / June 2015
6/14/12	Bazaarvoice / BV	\$1.2	Bret Hurt / Nov 2012



Executive Summary

U.S. Concrete Has Striking Comparisons With Two of Spruce Point's Most Successful Shorts Ever

A Commodity Company

US 
CONCRETE
Nasdaq: USCR

Gross Margins With No Volatility And
Abnormal Capex

Abnormally High Margins For A Commodity
Product And Capex Forecasting Issues

	China Integrated Energy (Nasdaq: CBEH)	Caesarstone (Nasdaq: CSTE)
Report Date	12/5/10	8/19/15 and 10/6/15
Market Value	\$320m	\$1,700m
Commodity Company Promotion	Leading non-state-owned integrated energy company in China engaged in three business segments: wholesale distribution of finished oil and heavy oil products, the production and sale of biodiesel and the operation of retail gas stations	Leading quartz countertop manufacturer capable of producing 43% and 26% gross and EBITDA margins, while producing double digit growth in the fast growing US market. The Company claimed it needed to increase capex to construct a manufacturing facility in the US to accelerate its US footprint
Our Criticism	Spruce Point's research indicated that CBEH's biodiesel business could not possibly produce the margins being represented, and that its capex and cash management policies raised serious concerns about the nature of its business	Our intense fundamental and forensic due diligence uncovered evidence of slowing US growth, margin pressure being covered-up, and poor forecasting of capital expenditures which suggested over-capitalization of costs on the balance sheet
Successful Outcome	May 2011 : Auditor KPMG resigned and noted concerns about management's representations. CBEH shares were delisted and the SEC revoked its registration in Dec 2014	Two CEO/CEO's and the CFO of Caesarstone have subsequently resigned. The Company has reported numerous manufacturing problems in both its new US production and Israeli facilities. Gross margins have contracted to 25%. The share price has fallen >70% from our initiation price

Spruce Point Believes U.S. Concrete (Nasdaq: USCR) Is A “Strong Sell” With 60% - 90% Downside Risk

A Poorly Constructed Commodity Roll-Up Strategy Showing Signs of Cracking:

Previous Failure: U.S. Concrete filed for bankruptcy after the financial crisis: The industry is difficult given the commodity nature of the products, intense competition, and need to be close to the customer because shipping costs are material

Becoming More Dependent on Shady Acquisitions: USCR has acquired over 20 companies since 2012. It recently outbid industrial giant Vulcan Materials for Canadian small cap Polaris Materials and also purchased firms with alleged historical ties to organized crime

GAAP vs. Non-GAAP Strains: In 2017 there were a record number of adjustments to results, and yet Adjusted EPS grew by just 4%

Cash Flow Issues: Despite promoting sales and Adj. EBITDA growth of ~20% in the past three years, operating cash flow has been declining for more than 3 years in a row. Recent guidance of 60% cash flow conversion from Adj. EBITDA has been terribly missed

Stable Gross Margins In A Commodity Business: Despite cash flow issues, USCR has reported stable gross margins at 21% for three years, which is a remarkable feat given it operates in a commodity business, and we find peers reporting between 9% - 12% margins over the same period

Deja Vu Leverage Rising Again: USCR's Net Debt / EBITDA was 3.5x prior to the crisis sending it to bankruptcy, and is now 3.8x as of 3/31/18. USCR's current liquidity (cash and borrow capacity) as a percentage of LTM revenues stands at a multi-year low and worse than pre-crisis levels

Troublesome Management, Governance, and Auditor Red Flags:

CEO Concerns and Rapid CFO Turnover: A routine background check of the CEO reveals an undisclosed DWI arrest for reckless driving, calling into question his judgement. USCR is on its fourth CFO since 2012. Recent CFO John Tusa, Jr. resigned after serving a little more than one year

Auditor Changes and No Independent Chief Accounting Officer: USCR is on its third auditor since 2012; Grant Thornton was recently dismissed in March 2017. USCR has historically kept the CFO in charge of the accounting function in favor of hiring a dedicated professional

Audit Fees Starting To Rise: Fees up 20% and 30% in 2015 and 2016, respectively. Lead engagement partner just had an Admin Consent Order

Material Weakness: Identified in 2016 related to internal controls and reporting of income taxes, which USCR claims to have rectified

Who is on the Audit Committee: Only one rotation in the audit committee since embarking on its aggressive strategy in 2012. Spruce Point is concerned by the lack of accounting and financial knowledge of the committee members. Most are lawyers and strategists by background

Insider Ownership Declining: The CEO spends his time promoting USCR to retail investors on programs such as Cramer's Mad Money. Meanwhile, in the past three years, the CEO's ownership is down from 5.9% to 2.6% while all insiders are down from 10% to 5.3%.

Evidence Suggesting an Undisclosed, On-Going SEC Investigation: Based on a recent FOIA request by Probes Reporter and our own FOIA

Spruce Point Believes U.S. Concrete (Nasdaq: USCR) Is A “Strong Sell” For The Following Reasons:

Digging Beneath The Surface We Find Evidence To Suggest Overstated Organic Growth:

USCR Claims Mid To High Single Digit Organic Growth: Evidence suggests organic growth is overstated, and mostly a function of pass through commodity price increases. We note realized prices by USCR hit a 5yr low in 2017, and have continued lower in Q1'18

USCR Makes Organic Growth Difficult To Calculate: USCR selectively discloses figures in periods when good, not bad. The Company has generally done a poor job of breaking out acquisition contributions in SEC filings

Spruce Point Uses Two Analyses To Estimate Underlying Organic Growth:

1. Piecing together selected USCR disclosures, we find average organic volume growth from 2015-2017 to be approximately zero
2. Using reported trucks and volume production, we estimate flat to modestly negative volume growth

Changes To Goodwill Impairment Testing Provide Another Clue: A few years ago USCR dropped revenue as a condition to its goodwill impairment measurement test from a weighted test of DCF, EBITDA, and revenue to just testing DCF and EBITDA

Aggressive Use of Capital Leases and Evidence To Suggest Overcapitalization of Expenses Inflating Adjusted EBITDA:

Operating vs. Capital Lease Choice Flatters EBITDA and Cash Flow: Operating leases reduce EBITDA and Free Cash Flow, while capital leases do not; USCR runs capital lease repayments through the financing section of the cash flow statement

Capital Leases Usage Grows Every Year, Now Accounting For >50% of Total Capex Spending: USCR has aggressively increased capital lease usage, while it stopped disclosing leasing details in recent 10-K annual reports

Adj EBITDA Is The Only Metric Management Is Compensated For Producing: The Board approves seemingly arbitrary EBITDA growth targets, and management generally hits them! Until recently, the committee didn't adjust targets for acquisition contributions

Warning: Management's History of Hitting Capex Targets Is Horrendous: USCR used to give sparse guidance of capex as a % of sales which it always missed. In 2017, when finally giving hard capex guidance (inclusive of capital leases), the company missed estimates by >40%

Vehicle and Truck Property Accounts Suggest Overcapitalization: Since 2012, USCR financials show ~500% growth in the vehicle property account, yet physical trucks are up only ~100%. USCR claims truck prices are stable, so overcapitalization of costs is a likely explanation

Numerous Examples of Accounting Problems Involving Trucks and Vehicles: Tied to misclassifying operating vs. capital leases (Celadon), capitalizing normal maintenance costs (Roadrunner Transportation), and inflation of vehicle values (Heartland Express)

Spruce Point Believes U.S. Concrete (Nasdaq: USCR) Is A “Strong Sell” For The Following Reasons:

Easy To Justify 60% – 90% Downside In USCR’s Share Price:

Analysts Are Naturally Bullish Despite USCR Not Offering Firm Sales or Earnings Guidance: USCR is covered by a roster of third tier brokers that offer an average price target of \$86.30 per share, implying approximately 40% upside. Analysts are seemingly blind to USCR’s rapidly diminishing liquidity and recent poor performance, yet still assume 14% and 58% 2018E sales and EPS growth, respectively. Naturally, they expect great contributions from the Polaris acquisition, favoring an additional 100bps of EBITDA margin expansion. USCR does not offer firm revenue or earnings guidance, and analysts have done a poor job accurately forecasting results

USCR Trading Near All-Time Cyclical High Valuation: USCR is valued at approximately 1.2x, 8.0x, and 15x 2018E Sales, Adj EBITDA and Adj. EPS. On the surface, shares “appear” cheap, but analysts have been quietly and slowly cutting forward estimates, and we have little faith in management’s reporting given our documented concerns. Spruce Point also never recommends buying into a commodity company near the peak of a leverage cycle: this is a recipe for disaster!

Only Indices Are Buying, No Real Fundamental Investors: We took a close look at USCR’s shareholder base a few years ago vs. today, and we find all of its fundamental owners are gone. What’s left is the who’s who of passive index chasers – not exactly a ringing endorsement to own USCR in our opinion

Two Ways To Value USCR Point To 60% - 90% Downside Risk: Given our analysis that shows distortions in USCR’s Non-GAAP figures, we believe the best way to value the Company is on Free Cash Flow. We expect further deterioration which began three years ago, and apply a 20x – 25x multiple to reflect a discount to the peer average for its above average exposure to ready-mix, poor roll-up economics, and growing liquidity risk. Secondly, we adjust USCR’s book value for an estimated \$60 - \$85 million of overcapitalized costs to its vehicle property accounts and apply a 1.0x – 1.5x multiple range. These valuation perspectives indicate 60% to 90% downside or approximately \$6.00 to \$25.00 per share

USCR's Capital Structure and Valuation

USCR is a commodity producer of ready-mix concrete with a junk credit of BB- / B1 Stable from S&P and Moodys. Its low valuation partially reflects this fact, but is based on management's highly adjusted Non-GAAP figures. We do not believe investors and analysts are looking carefully at its aggressive use of capital leases which inflate EBITDA. Furthermore, analysts have aggressive forecasts for the business based on the belief that recent acquisitions will bear fruit and synergies, despite management giving little guidance.

\$ in millions, except per share figures

Stock Price	\$61.20	Street Valuation	2017A	2018E	2019E
Shares Outstanding	16.8	EV / Sales	1.3x	1.2x	1.1x
Market Capitalization	\$1,028.8	EV / Adj. EBITDA	9.2x	7.8x	6.7x
\$350m Senior Secured Credit Facility due 2022	\$75.0	Price / Adj. EPS	20.5x	14.4x	10.7x
Capital Leases up to 5.45% due 2-7yr	\$51.5	EV / Free Cash Flow	34.0x	21.1x	14.1x
Total Secured Debt Outstanding	\$126.5	Price / Book Value	3.4x	--	--
Promissory Notes @ 2.50%-4.59%	\$29.3	Price / Adj Book Value	4.2x	--	--
Senior Unsecured Note @ 6.375% due 2024	\$600.0	Growth and Margins			
Total Debt Outstanding	\$755.8	Sales Growth	14.4%	14.5%	9.5%
Less: Cash and Equivalents	\$36.6	Estimated Organic Growth	2.5%	0.0%	N/A
Plus: Non-controlling Interest	\$21.6	Adj EBITDA Margin	14.4%	14.9%	15.8%
Total Enterprise Value	\$1,769.6	Adj EPS Growth	4.2%	42.6%	34.6%
		Credit Metrics			
		Net Snr. Secured Debt / EBITDA	0.5x	0.4x	0.3x
		Total Net Debt / EBITDA	3.7x	3.2x	2.7x
		Total Net Debt / Free Cash Flow	13.8x	8.6x	5.7x

Source: Company filings and Wall St estimates

Note: Price / Adj Book Value adjusts for overcapitalization of vehicle assets

Warning: Liquidity Drain

Investors should be concerned that USCR's liquidity is rapidly deteriorating and worse today than pre-financial crisis which sent USCR into bankruptcy

	Quarter	Maximum Availability on Credit Revolver (A)	Core Cash and Equivalents (1) (B)	Total Liquidity C=(A + B)	LTM Revenues (D)	Liquidity as a % of LTM Revenues =(C / D)
Pre-Financial Crisis and Bankruptcy	12/31/2007	\$112.6	\$14.8	\$127.4	\$803.8	15.8%
	6/30/2016	\$193.1	\$101.1	\$294.2	\$1,079	27.3%
	9/30/2016	\$209.5	\$66.0	\$275.5	\$1,113	24.8%
	12/31/2016	\$221.3	\$75.8	\$297.1	\$1,168	25.4%
	3/31/2017	\$208.2	\$80.3	\$288.5	\$1,222	23.6%
	6/30/2017	\$232.5	\$60.2	\$292.7	\$1,287	22.7%
	9/30/2017	\$245.8	\$36.8	\$282.6	\$1,314	21.5%
	12/31/2017	\$206.4	\$22.6	\$229.0	\$1,336	17.1%
USCR Current Situation	3/31/2018	\$137.7	\$36.6	\$174.3	\$1,365	12.8%

Source: USCR SEC filings

1) Excludes \$211.5m of cash raised in Q1'17 through a debt offering used to fund the Polaris acquisition



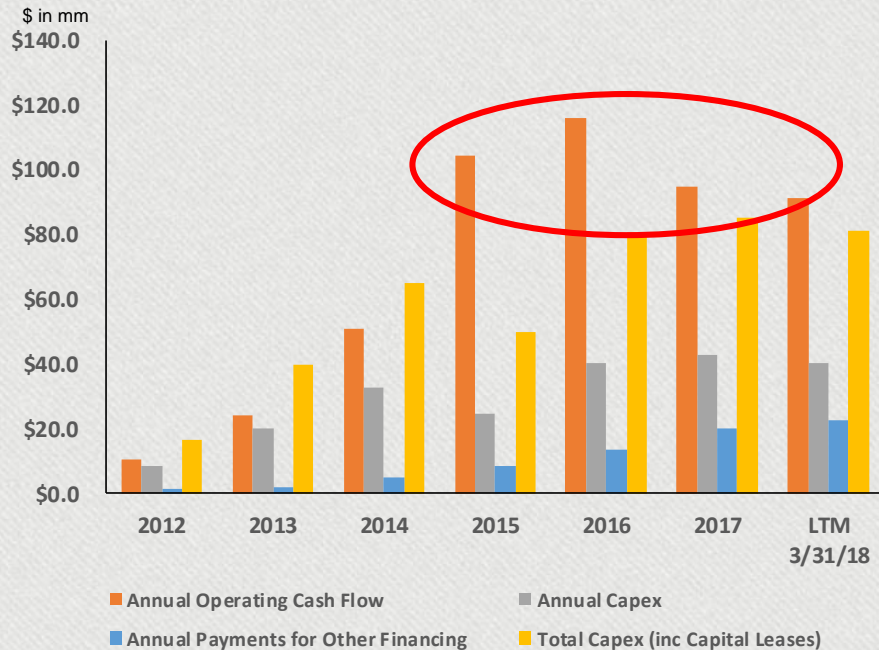
Evidence of Financial Struggles



On the surface, and taking management's headline numbers, everything looks great. But, cash flow is stalling out, while USCR's dependency on "adjustments" to engineer earnings growth rise. Q1'2018 results are showing significant strain

\$ in mm	2012	2013	2014	2015	2016	2017	LTM 3/31/18
Sales	\$517.2	\$598.2	\$703.7	\$974.7	\$1,168.2	\$1,336.0	\$1,364.7
% growth	20.8%	15.7%	17.6%	38.5%	19.8%	14.4%	↓ 11.7%
Adj EBITDA	\$25.2	\$48.3	\$77.8	\$131.9	\$159.8	\$192.3	\$187.2
% margin	4.9%	8.1%	11.0%	13.5%	13.7%	14.4%	↓ 13.7%
Adj EPS	\$0.15	\$1.19	\$2.25	\$2.57	\$2.86	\$2.98	\$2.48
% growth	NM	693%	89.1%	14.2%	11.3%	4.2%	↓ -20.0%

Operating Cash Flow Stalling Out...



...While Dependency on "Add-Backs" Rising

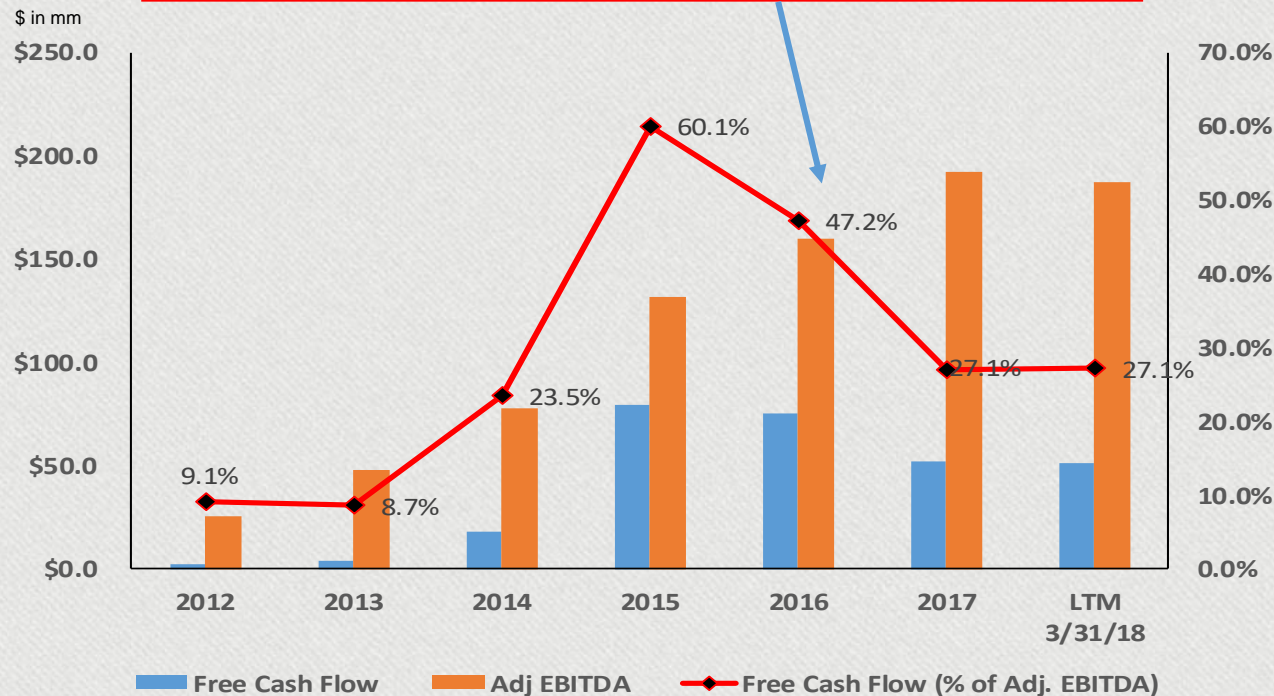
	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	2016	2017	2016
Adjusted Net Income from Continuing Operations per Diluted Share Reconciliation				
Net income (loss) attributable to U.S. Concrete per diluted share	\$ (0.19)	\$ (1.01)	\$ 1.53	\$ 0.55
Add: Net income attributable to non-controlling interest	0.01	—	0.01	—
Add: Loss from discontinued operations, net of taxes per diluted share	0.01	0.01	0.04	0.04
Add: Income tax expense (benefit) per diluted share	(0.52)	0.45	0.75	1.30
Income (loss) from continuing operations before income taxes per diluted share	(0.69)	(0.55)	2.33	1.89
Add: Impact of derivative loss	—	1.61	0.05	1.23
Add: Impact of loss on extinguishment of debt	—	—	—	0.74
Add: Impact of impairment of goodwill and other assets	0.34	—	0.37	—
Add: Impact of purchase accounting adjustments for inventory	0.08	—	0.08	—
Add: Impact of foreign currency losses resulting from Polaris acquisition	0.12	—	0.12	—
Add: Impact of hurricane-related losses	0.11	—	0.18	—
Add: Impact of quarry dredge costs for specific event	0.07	—	0.20	—
Add: Impact of non-cash stock compensation expense	0.11	0.09	0.50	0.44
Add: Impact of acquisition-related professional fees	0.32	0.01	0.61	0.14
Add: Impact of officer transition expenses	0.01	—	0.05	—
Add: Impact of non-cash change in value of contingent consideration	0.36	0.18	0.47	0.32
Adjusted income from continuing operations before income taxes	0.83	1.36	4.96	4.76
Less: Normalized income tax expense ⁽¹⁾	0.33	0.54	1.98	1.90
Adjusted Net Income from Continuing Operations per Diluted Share (non-GAAP) ⁽²⁾	\$ 0.50	\$ 0.82	\$ 2.98	\$ 2.86

	2012	2013	2014	2015	2016	2017
# of Adjustments	3	6	5	5	5	11

Inability To Forecast

USCR's former CFO outlined expectations for continued EBITDA to Free Cash Flow expectations of 60% in late Oct 2016. Ever since making that forecast, USCR has fallen increasingly short of target. Tusa's resignation was announced just months later in March 2017

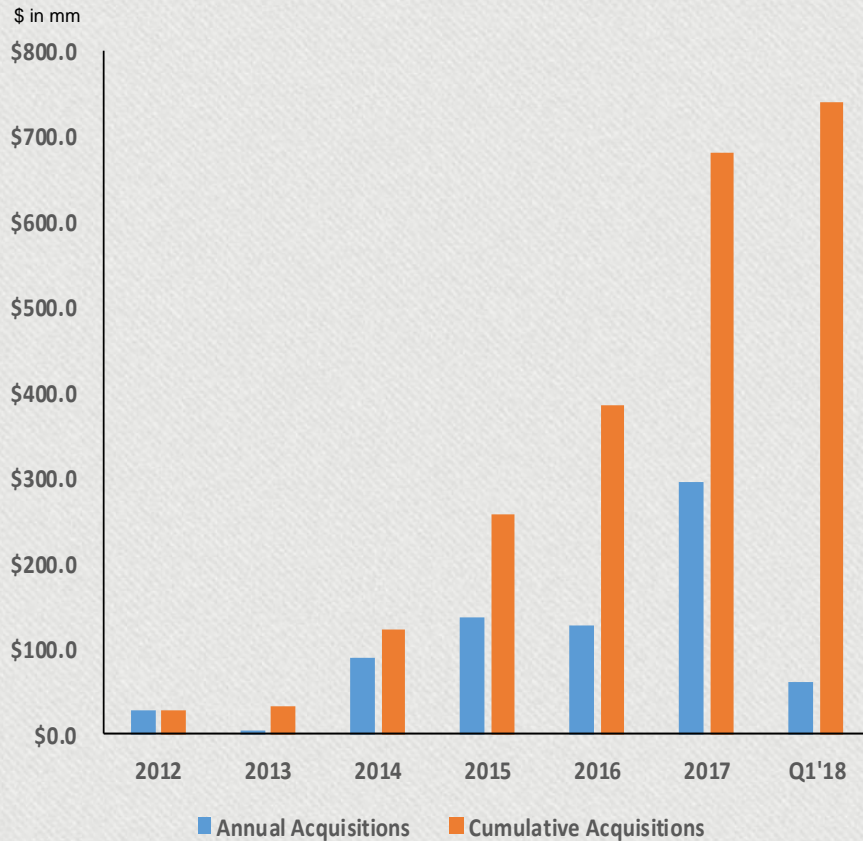
Jody Tusa (former CFO) Q3'16 Earnings Call: "Yes, and Scott, so let's go back to 2015, you saw that we had about a 60% conversion rate of EBITDA to free cash flow* and through what you have seen this year particularly for this quarter we are in line with that performance. **So I will say the expectation moving forward around free cash flow generation to EBITDA will we continue to be at that 60% level, I think we will be close.**"



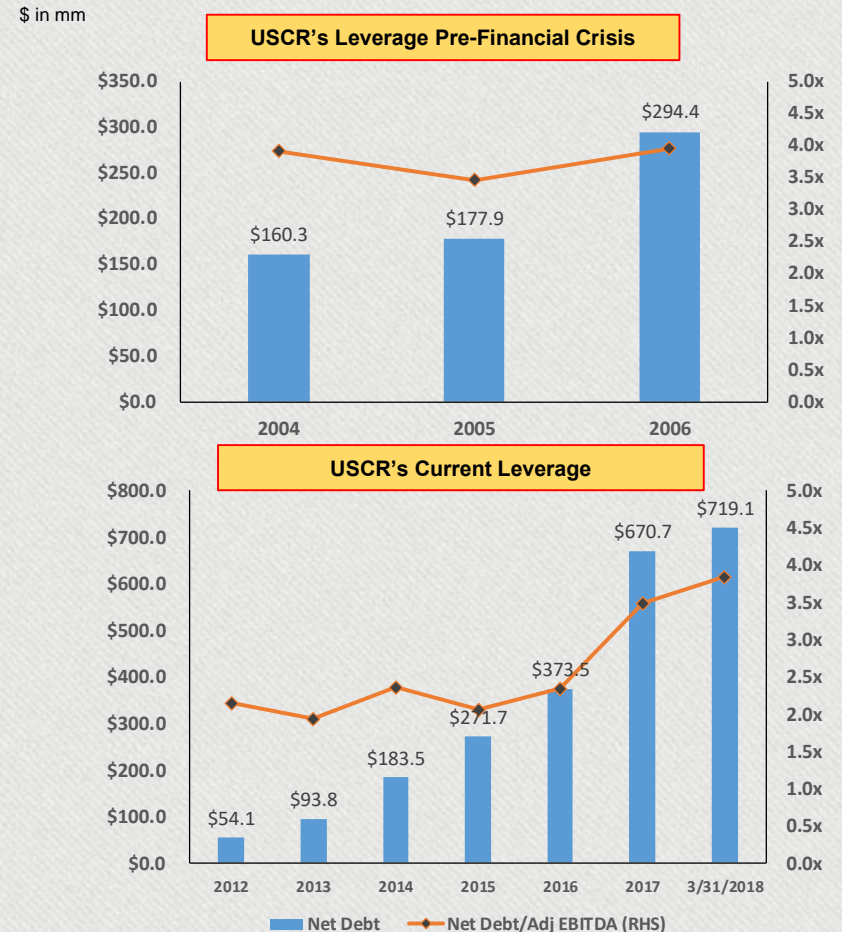
Rising Dependency On Leverage; History Always Repeats

To keep perpetuating its growth story, USCR is growing more and more dependent on larger acquisitions and leverage to fuel its growth. What's scary is that its current Net Debt / Adj EBITDA of 3.8x exceeds pre-crisis levels.

...While Dependency on Large Acquisitions Rising



... Debt Rising Back To Pre-Crisis Levels



Growing Dependency On Shady Acquisitions

USCR is showing signs of desperation in its acquisition strategy, over-paying for questionable acquisitions (notably Polaris Materials, a money-losing Canadian microcap), and buying businesses with alleged association to organized crime.

Company	Date	Rationale	Acquisition Price	EV / Sales	EV / EBITDA	Significant Spruce Point Concern
Ferrara Bros	4/2/15	Expansion into NYC	\$94.2m (1)	1.5x	NM	<ul style="list-style-type: none"> Separately filed financial statements show zero sales growth from 2014 to 2015, declining gross margins of 400bps YoY, and negative \$1.5m of EBITDA. The multiple paid of 1.5x sales compared with 0.8x for USCR at the time Allegations many years ago of ties to organized crime
Jenna Concrete	8/16/16	Expansion into NYC	N/A	N/A	N/A	<ul style="list-style-type: none"> Jenna is run by a former organized crime conspirer: NY State records show Jenna Concrete Corporation's CEO is Carmine Valente (source) Valente Industries was a ready-mix concrete company in NYC. The company was shut down in 1993 after a mafia defector claimed that it was conspiring with two mafia families in exchange for union protection. Carmine Valente was a VP at the company at the time. Soon after Valente Industries was shut down, Carmine Valente started a new company that did the same thing – Jenna Concrete, which USCR just acquired
Polaris Materials	11/17/17	Aggregate reserves to vertically integrate near San Fran, CA	\$287m	5.0x	115x	<ul style="list-style-type: none"> Outbid Vulcan Materials in 2017 by 22% (a company 4x its size) for Polaris, a microcap Canadian listed aggregates company with a thin financial profile (9% gross margin) Will not disclose any financial guidance expectations or synergies related to the acquisition CEMEX, a material customer, had announced a termination of its alliance with Polaris prior to acquisition

1) Including up to \$35m of equity incentive awards upon EBITA achievements over 4yrs starting in 2017



Questionable Organic Growth

Lack of Organic Volume Growth

USCR just started providing some data to allow for an analysis of its underlying organic growth rate. We find that underlying volume growth has essentially averaged zero, after adjusting for price increases, which are primarily a function of rising input costs

Figures in \$mm

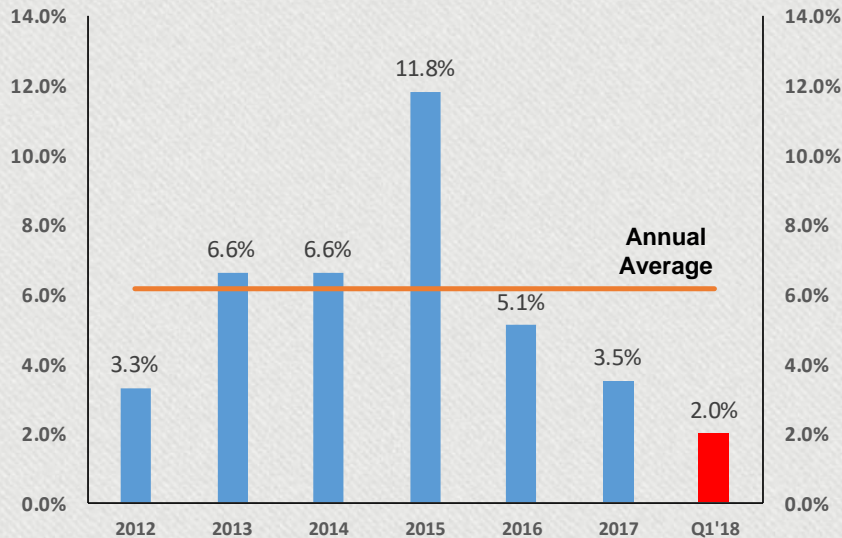
Fiscal Year	Reported Revenue (A)	Current and Last Year Acquired Revenue Contrib. (B)	Current Year's Acquired Revenue Contrib. (C)	Total Organic Growth (D)	Reported Price Increase (E)	= (D-E) Implied USCR Organic Volume Growth
2017	\$1,336	\$178	--	6.0%	3.5%	2.5%
2016	\$1,168	\$274	\$76	6.0%	5.1%	1.0%
2015	\$975	\$233	\$132	8.0%	11.8%	-3.8%
2014	\$704	--	\$17	--	--	--
Last Three Year Average:				6.7%	6.8%	-0.1%

Note: Organic Growth (D) calculated as (A-B) / (Prior Year A – C)-1

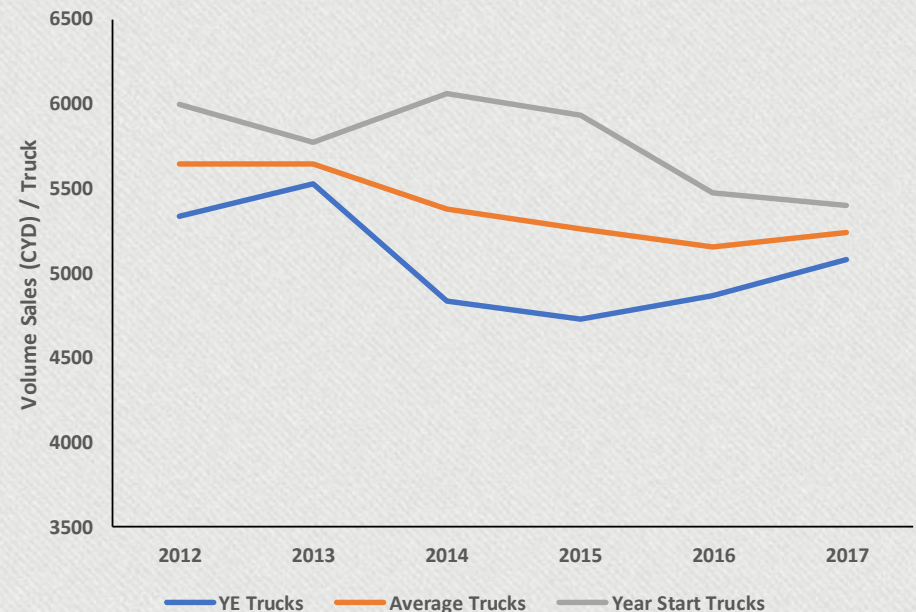
Organic Decline From Another Perspective

It is easy to see USCR's organic struggles more carefully when dissecting both realized pricing and volume. Average ready-mixed concrete price increases peaked in 2015, and grew by just 2% in Q1'18 – a multi-year low. This suggests that supply is quickly catching up to demand. USCR also reports total ready mix volumes annually in its 10-K along with total trucks. By calculating average trucks during the year, we find that volumes per truck are also in modest decline. (1)

Average Ready Mix Realized Pricing



Product Volume Per Truck In General Decline



1) USCR has continued disclosure that each truck can haul a stable amount of tonnage (mixers: 20 / volumetric: 16)

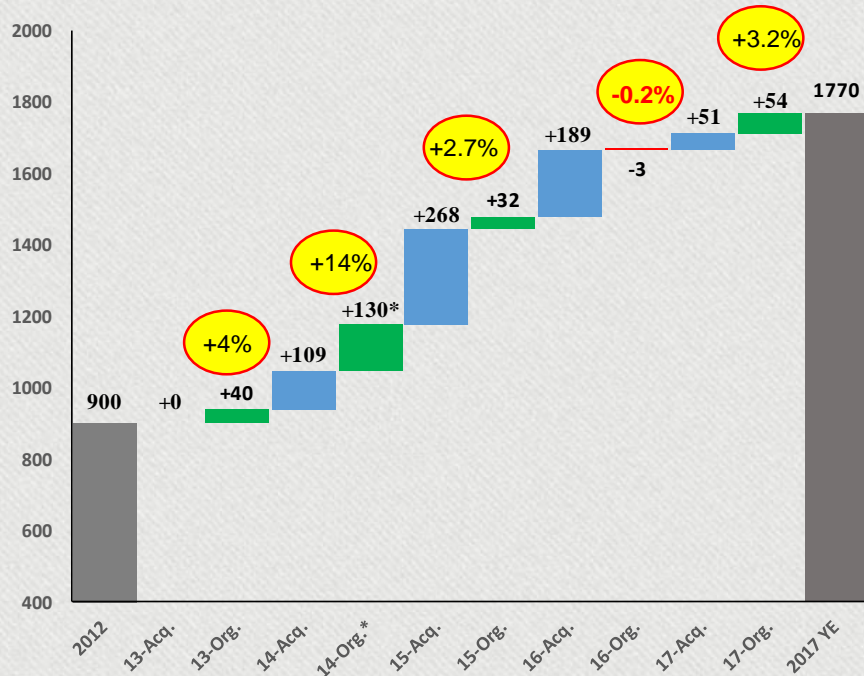
	2012	2013	2014	2015	2016	2017
Trucks	900	940	1,179	1,479	1,665	1,770
Ready-mix volumes (cubic yards)	4.8	5.2	5.7	7.0	8.1	9.0

Organic Truck and Plant Growth Running Below Stated Growth Objective

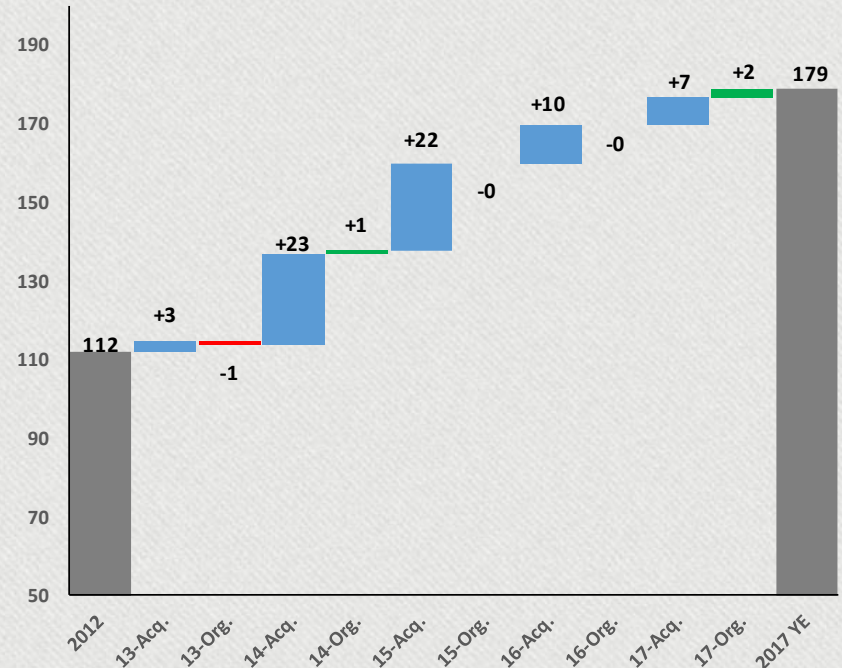
We've reconstructed a bridge of vehicle, truck and plants reported by USCR
Truck and vehicle growth are averaging just 1.9% over the last three years, falling short of the Company's target of mid to high single digit organic growth

CEO Sandbrook (Q1'17): "We believe that our platform will continue to deliver consistent results for the balance of the year with high single-digit growth in ready-mixed concrete organic volumes for the full year of 2017"

Truck and Vehicle Bridge Suggests Just 1.9% Growth In the Past Three Years



Plant Bridge Also Suggests Limited / No Organic Growth



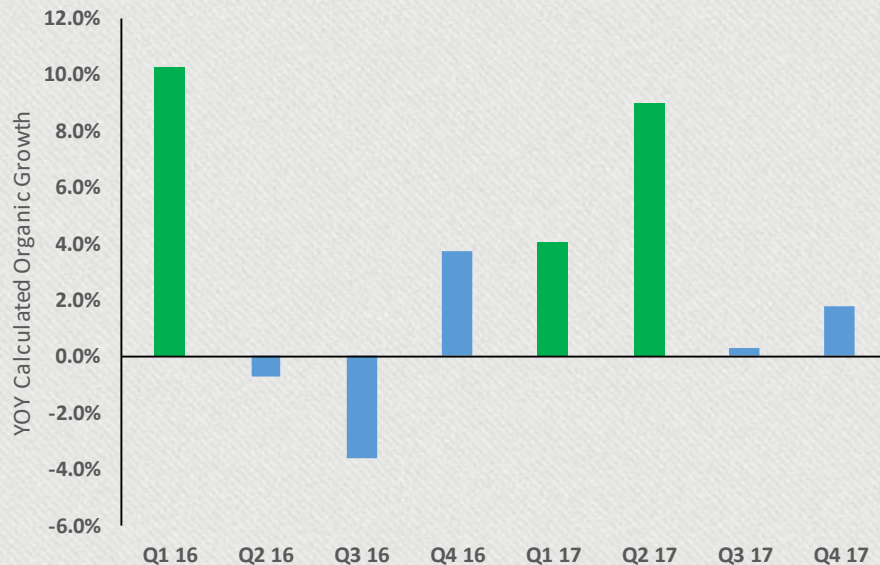
Source: USCR Annual Reports and Press Releases

* 2014's 130 truck increase may be slightly overstated as trucks in acquisitions weren't fully disclosed

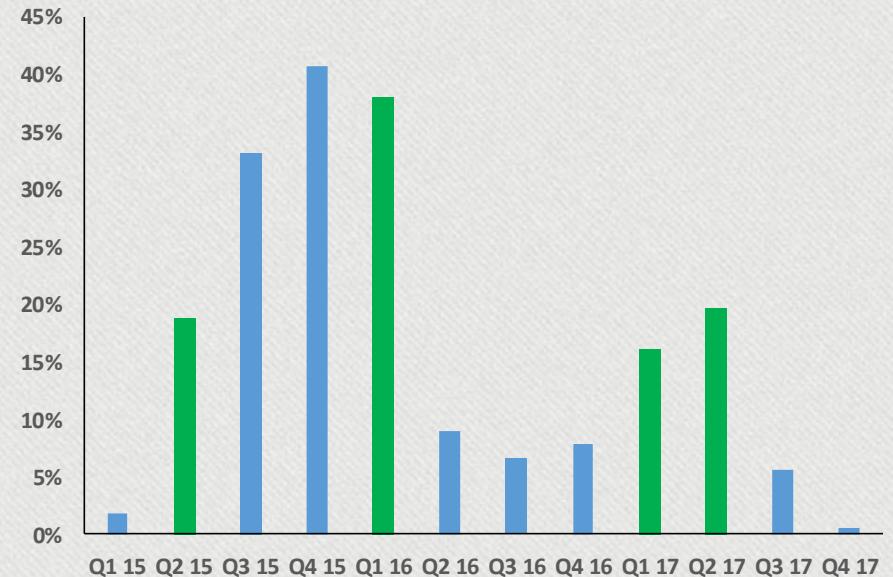
“Selective” Organic Disclosure

Based on our review of management’s discussions of organic growth and volume, it is our opinion that it only selectively discloses periods when growth is favorable

Green = Quarters Disclosed Organic Volume Growth



Green = Quarters YoY Volume Growth Disclosed



Note: Same chart on left, but based on just looking at total volume growth. We note that this graph is slightly less accurate as it does not differentiate between organic growth and growth through acquisitions, although we can still identify the general trend that management prefers not to disclose organic volume growth when it is low

The Diminishing Importance of Revenue; Evidence USCR May Be Delaying Impairment

A few years ago USCR switched its goodwill impairment measurement test from a weighted test of DCF, EBITDA, and revenue to just testing DCF and EBITDA, not revenue. Revenue is the only metric difficult to manipulate, and would reflect USCR's negative true organic volume growth rates. By excluding revenues as an impairment indicator, we believe that USCR is acknowledging that there is an organic growth problem with acquisitions, and is even possibly forestalling a goodwill impairment down the road. CECO Environmental, the last company Spruce Point identified that changed its goodwill impairment testing methodology, ultimately took a crippling impairment and cut its dividend (1)

Historical Goodwill Impairment Testing Included A Multiple of Revenue

Goodwill: We record as goodwill the amount by which the total purchase price we pay in our acquisition transactions exceeds our estimated fair value of the identifiable net assets we acquire. We test goodwill for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment. We generally test for goodwill impairment in the fourth quarter of each year, using a two-step process, which requires us to make certain judgments and assumptions in our calculations. The first step of the process involves estimating the fair value of our reporting units and comparing the result to the reporting unit's carrying value. **We estimate fair value using an equally weighted combination of discounted cash flows and multiples of revenue and EBITDA.**

Source: [2014 Annual Report](#)

Current Goodwill Impairment Testing Removes Revenue Multiple

Goodwill: We record as goodwill the amount by which the total purchase price we pay in our acquisition transactions exceeds our estimated fair value of the identifiable net assets we acquire. We test goodwill for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment. We generally test for goodwill impairment in the fourth quarter of each year, using a two-step process, which requires us to make certain judgments and assumptions in our calculations. The first step of the process involves estimating the fair value of our reporting units and comparing the result to the reporting unit's carrying value. **We estimate fair value using an equally weighted combination of discounted cash flows and multiples of invested capital to EBITDA.**

Source: [2015 to Current Annual Report](#)

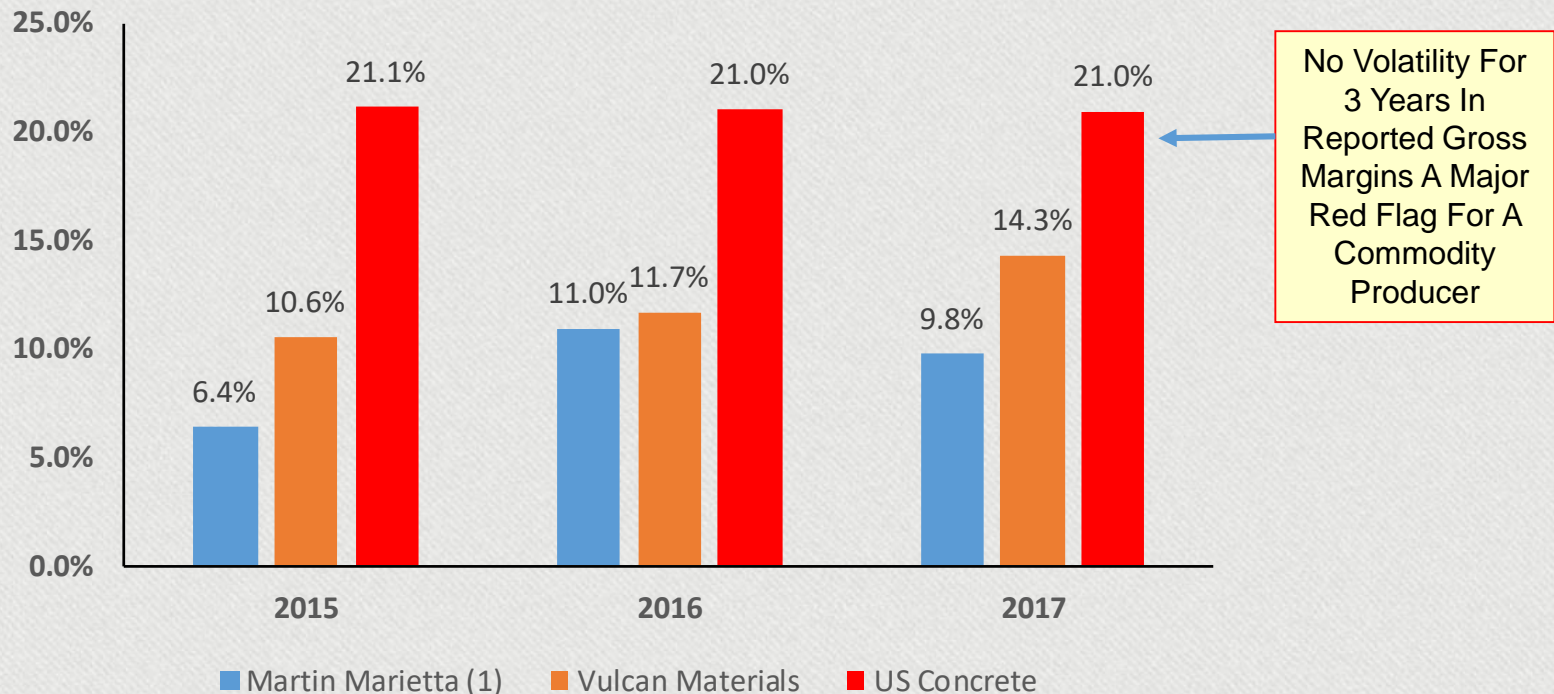
1) Spruce Point CECO [Report](#) and subsequent [goodwill impairment](#)



Questionable Accounting and Financial Practices

No Volatility In Gross Margins For A Commodity Producer?

Many of USCR's competitors have ready-mix amongst a larger portfolio of businesses, thus making precise comparisons difficult. However, Martin Marietta and Vulcan Materials, both larger and more vertically integrated operators, each report gross margins meaningfully lower than USCR's consistent margins in the range of 21%. Also, the fact that USCR has virtually no volatility in annual gross margins as a commodity product producer should be viewed as a major red flag.

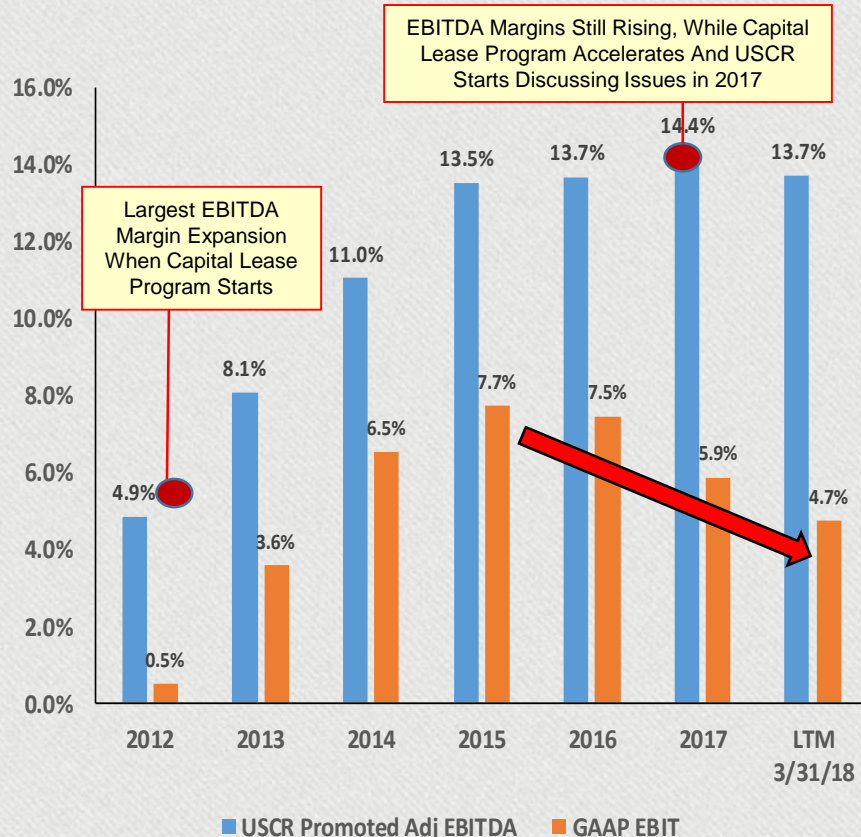


1) Vulcan and USCR excludes depreciation, depletion and amortization expenses. We believe Martin Marietta excludes DD&A in its gross profit reporting as it does not discuss its impact on this metric

Questionable Margin Expansion

With no gross margin volatility, EBITDA margins consistently expand. USCR has offered an identical boilerplate explanation that it is related to volume, pricing, and efficiencies, up until recently. We will explore how aggressive use of capital leases likely explain some of the EBITDA margin expansion.

USCR's Margin Expansion Coincides With Capital Lease Program. Adj EBITDA Margin Diverging From GAAP EBIT



Year	Explanation of Margin Expansion (Contraction) From USCR's Annual Report	Impact of Acquisitions
2012	Increased revenue from both higher volume and higher pricing resulted in increased efficiencies that led to improvements	--
2013	Increased revenue from both higher volume and higher pricing resulted in increased efficiencies that led to improvements	--
2014	Increased ready-mixed concrete revenue driven by higher volume and pricing resulted in efficiencies that led to improvements	\$0.8m
2015	Increased ready-mixed concrete revenue driven by higher volume and pricing resulted in efficiencies that led to improvements in income from operations	\$12.5
2016	NONE	\$4m attributable to 2016 and 2015 acquisitions
2017	Decreased "reflecting higher SG&A and DD&A expenses, as well as higher self-insurance reserves for certain workers' compensation and automobile liability losses and the impact of hurricane losses"	\$7.9m related to 2017 and 2016 acquisitions

Capital vs. Operating Lease

Before we investigate USCR's capital leasing use, we outline the effects of the choice on the key financial statements. Capital leases have the main effect of inflating EBITDA and Free Cash Flow, two key measures investors used to value USCR. More importantly, management's bonus is tied heavily to EBITDA.

Financial Statement	Operating Lease	Capital Lease
Income Statement	Reported as rent expense, a cash item that reduces EBIT, EBITDA, EPS	Lease payments bifurcated between depreciation and interest expense, <u>neither of which impact EBITDA.</u> Reduces EPS
Cash Flow Statement	Reduces operating and free cash flow	Repayments flowing through financing section of the cash flow statement, <u>which overstates operating and free cash flow</u>
Balance Sheet	No Impact	Assets increase through PP&E, liability increases through financial debt

Warning: Increasing Dependence on Capital Lease Usage, And Terrible Capex Forecasting

Spruce Point believes that investors need to pay careful attention to USCR's capital expenditure (capex) program. In 2017 for the first time, USCR gave hard capex guidance, which explicitly stated it included capital leases. USCR is becoming increasingly dependent on capital leases (>50% of total capex for the first time in 2017) and has missed its capex forecast every single time.

Fiscal Year	2012	2013	2014	2015	2016	2017
Capex (Investing) (a)	\$8.0	\$20.0	\$32.5	\$24.9	\$40.4	\$42.7
% of Total	100%	63%	75%	52%	57%	48%
% of Sales	1.5%	3.3%	4.6%	2.6%	3.5%	3.2%
Capital Leases (b)	\$0	\$11.9	\$11.1	\$23.4	\$30.7	\$46.2
% of Total	0%	37%	25%	48%	43%	52%
% of Sales	0%	2.0%	1.6%	2.4%	2.6%	3.5%
Total Capex (c)	\$8.0	\$31.9	\$43.6	\$48.3	\$71.1	\$89.0
% of Sales	1.5%	5.3%	6.2%	5.0%	6.1%	6.7%
Capex Guidance	Targeting long-term (capex) run-rate 4% of sales (conf. call)	--		4.0%-4.5% of sales (conf. call)	--	\$60 - \$65m (<u>explicitly including capital leases</u>)
Accuracy of Forecast	Very Bad Running 2%-3% Higher			Bad 50-100bps Higher		Extremely Bad \$25 - \$30m higher

a) Disclosed through the cash flow from investing section

b) Disclosed at the bottom of USCR's cash flow statement as a supplemental disclosure

c) Total capex = a + b

Leasing Disclosures Declining

We observe that USCR has become less and less transparent about its leasing arrangements over time

\$ in mm	2013	2014	2015	2016	2017
Daimler (promissory)				No Longer Disclosed	
Aggregate Amt.	\$6.2	\$7.4	\$11.7		
Utilization	N/A	N/A	N/A		
Rates	3.02-3.23%	2.99-3.23%	2.50-3.18%		
Tenor	5yr	5yr	5yr		
Capital One				No Longer Disclosed	
Aggregate Amt.	\$5.0	\$5.0			
Utilization	\$5.0	\$5.0			
Rates	4.31-4.54%	4.31-4.54%			
Tenor	5yr	5yr			
GE Commercial				No Longer Disclosed	
Aggregate Amt.	\$5.0	\$5.0			
Utilization	\$0.8	\$2.1			
Rates	4.80%	4.15-4.80%			
Tenor	5yr	5yr			
SunTrust				No Longer Disclosed	
Aggregate Amt.		\$1.5			
Utilization	--	N/A			
Rates		3.75%			
Tenor		5yr			
"Leasing Arrangements"					
Outstanding	--	--	\$20.2	\$37.9	\$53.3
Rate			2.6-4.8%	0.01-5.24%	0.01-4.59%
Term			4-5yr	2-5yr	2-7yr
"Promissory Notes"					
Outstanding	--	--		\$19.9	\$31.9
Rate				2.5-4.86%	2.5-4.59%
Term				less than 1-5yr	less than 1-5yr
Portfolio Metrics					
Weighted Average Rate	3.83%	3.49%	3.07%	3.11%	3.31%
Avg Fleet Age (yrs)					
Volumetric	11	11	10	9	8
Mixer	--	9	8	10	8
Useful Life					
Mixer	12	15-20	15-20	10-15	10-15
Volumetric	--	7-9	7-9	8-12	8-12

Questionable Depreciation Assumptions

USCR appears to be using highly aggressive assumptions for the useful lives of its mixer and volumetric truck assets at 6 - 12 years (likely closer to the high end of the range based on other 10-K discussions). Based on comparative company disclosures, we believe the appropriate assumption is closer to 6 years. We estimate by depreciating trucks too slowly, USCR is understating depreciation by approximately \$12.5 million, thereby benefiting EPS by \$0.51 cents (1)

Company	Useful Lives For Depreciation Purposes on Transportation Equipment Assets
Summit Materials	5 – 8 years
Monarch Concrete	3 – 7 years
Ferrara Brothers	3 – 5 years
Cemex	10 years (up from 7 years)
Average At Midpoint (2):	5.6 years
US Concrete	1 – 12 years (current) 6 – 12 years (2012)

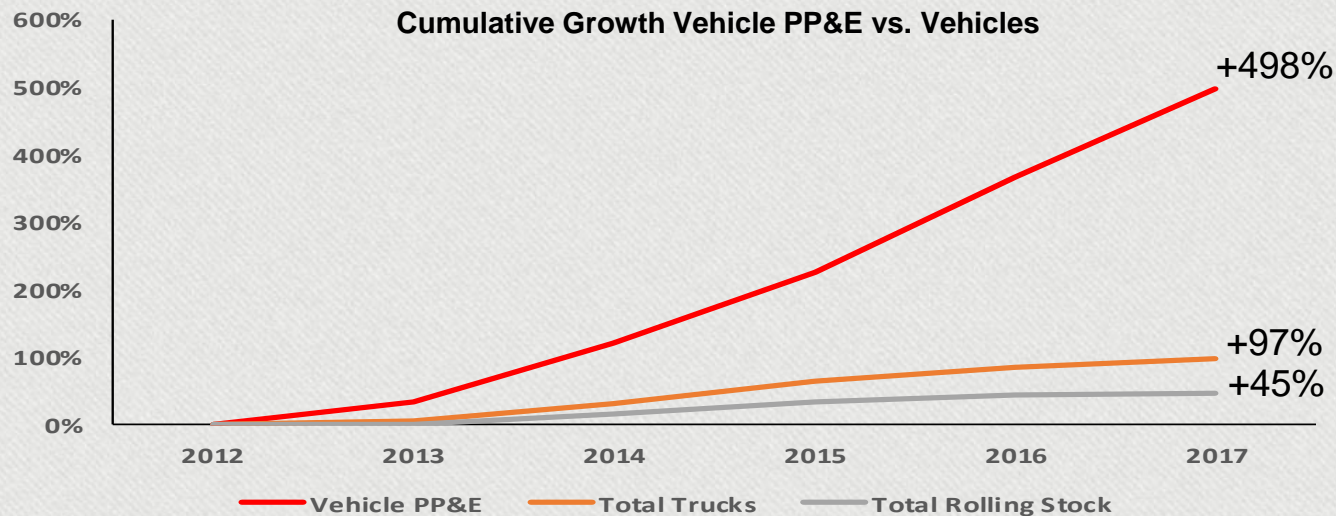
Asset Life Disclosure in the Operations Section of USCR's Annual Report

Truck Asset	2012	2013	2014	2015	2016	2017
Drum Mixer	12 yrs.	15-20 yrs.	15-20 yrs.	10-15yrs.	10-15 yrs.	12 yrs.
Volumetric	--	7-9 yrs.	7-9 yrs.	8-12 yrs.	8-12 yrs.	--

- 1) In 2017, 25% of gross PP&E are vehicle assets. USCR reported \$47.1m of depreciation and depletion expense. Therefore, we estimate \$12.5m of depreciation expense associated with vehicles. A 50% reduction in estimated useful life would double depreciation expense. Assumes effective tax rate of 32% and 16.6m diluted shares outstanding.
- 2) Uses CEMEX less aggressive old assumption

Signs To Suggest Overcapitalization of Vehicle Costs

USCR's vehicle property account has increased at nearly 5x the rate of its underlying vehicle count. The delta cannot be explained by inflationary forces driving up the cost of mixer trucks. USCR has maintained throughout its annual reports a constant cost of truck prices in the range of \$160 - \$225k and \$220 - \$250k for new drum and volumetric mixers, though we believe many are acquired used. The mix of trucks to rolling stock has also held fairly constant



\$ in mm	2012	2013	2014	2015	2016	2017
Vehicle PP&E (gross)	\$36.1	\$48.5	\$80.0	\$117.4	\$168.7	\$215.8
Total Trucks (Mixer/Volumetric)	900	940	1,179	1,479	1,665	1,770
Rolling Stock	1,000	1,000	1,150	1,325	1,440	1,450
Trucks/Stock Mix	47% / 53%	48% / 52%	51% / 49%	53% / 47%	54% / 46%	55% / 45%
Cost of New Mixer Truck	\$160-\$225k	\$160-\$225k	\$160-\$225k	\$160-\$225k	\$160-\$225k	\$160-\$225k
Cost of New Volumetric Truck	--	--	\$220-\$250k	\$220-\$250k	\$220-\$250k	\$220-\$250k
Gross PP&E / Total Trucks + Rolling	\$19,000	\$25,005	\$34,350	\$41,886	\$54,347	\$67,003

Keeps Rising



Blatant Signs of Overcapitalization of Vehicle Costs (cont'd)

There is additional evidence of extreme overcapitalization of costs. We analyze the annual capex reporting as a percent of its Gross P&E relative to a diversified set of aggregate and building material peers and find USCR to be a significant outlier when adjusted for capital leases. For the few peers that report vehicle PP&E and capital leases in PP&E, we also find USCR to be an outlier

Annual Capex as a % of Gross PPE

Company	2015	2016	2017	3 Year Average
U.S. Concrete / USCR Adjusted for Capital Leases	13.8% 7.1%	15.0% 8.5%	13.1% (1) 5.2%	13.9% 7.0%
Summit Materials / SUM	5.4%	7.9%	8.6%	7.3%
Eagle Materials / EXP	9.1%	7.1%	3.7%	6.7%
Martin Marietta / MLM	5.7%	6.3%	6.3%	6.1%
Vulcan Materials / VMC	4.4%	4.8%	5.8%	5.0%
Cemex / CX	2.8%	1.4%	3.5%	2.6%
LafargeHolcim / LHN SW	6.0%	5.7%	5.0%	5.6%

Vehicle PP&E Comparison

\$ in mm	Summit Materials	U.S. Concrete
Gross Vehicle PP&E	\$47.3	\$215.7
Vehicle Trucks inc. rolling stock	1,000 N/A	1,770 2,770
PP&E / Vehicle inc. rolling stock	\$47,270 N/A	\$121,893 \$77,888

Note: USCR and Summit both have rolling stock assets; however, Summit does not disclose the exact number of rolling stock units that it has

Capital Lease Usage Comparison

\$ in mm	U.S. Concrete	Summit Material	Martin Marietta
Gross Capital Leases in PP&E	\$77.2	\$51.2	\$29.9
Gross PP&E	\$814.4	\$2,247	\$1,546
% Cap Leases	9.5%	2.3%	1.9%
Description	mixer trucks	Equip. and building	Machinery and equip.

Source: Company filings.

Note: Competitors do not clearly detail capex related to capital leases; therefore, it is difficult to adjust the results for peers that do use capital leases with moderate intensity (Summit / Martin Marietta noted in the table to the right)

1) As of 9/30/17 before the acquisition completion of Polaris

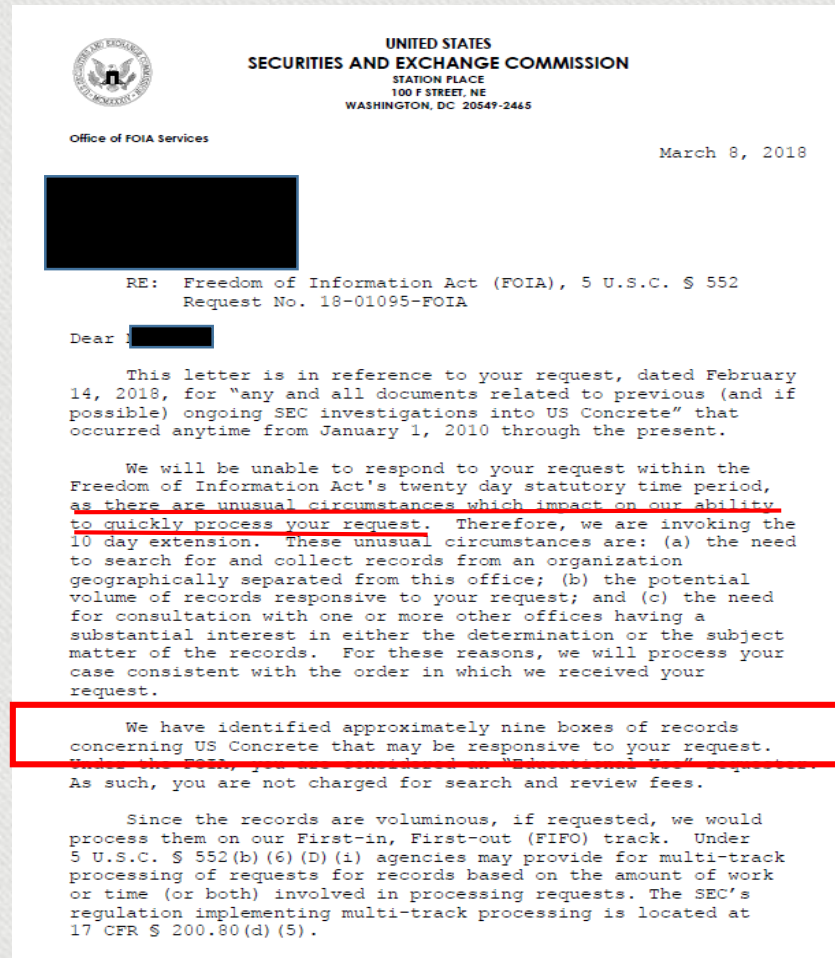
Accounting Problems Not Uncommon With Fleet And Trucking Companies

Precedent examples of companies inflating vehicle asset values and mis-capitalizing fleet operating expenses

Company (Ticker)	Period	Issue
<i>Celadon Group (CGI)</i>	2009 - 2011	<ul style="list-style-type: none"> Errors in Lease Accounting: Determined that <u>its previous method of accounting for certain equipment leases as operating leases was not in accordance with GAAP. The Company has restated most of its revenue equipment operating leases as capital leases based upon certain provisions included in the lease agreements.</u>
<i>Road Runner Transportation (RRTS)</i>	Commence Nov 2016 Including restatement of 2014 and 2015	<ul style="list-style-type: none"> Material weaknesses identified “including the increased size and complexity arising from the acquisition of 25 non-public companies between February 2011 and September 2015” “The Company identified and <u>corrected errors related to its accounting for the lease purchase guarantees it makes for its IC's that lease tractors from certain leasing companies.</u>” “The Company identified and corrected <u>errors related to its accounting for capitalized improvements. Specifically, the Company capitalized certain repair and maintenance expenses and other operating expenses that did not extend the useful life of the primary asset. This resulted in an understatement of operating expenses in the period which this occurred and an overstatement of depreciation expense in subsequent periods. Property and equipment and accumulated depreciation and related other operating expenses and depreciation expenses have been corrected in the restated consolidated financial statements.</u>”
<i>Heartland Express (HTLD)</i>	Through 2017	<ul style="list-style-type: none"> Identified a material weaknesses in our internal control over financial reporting due to ineffective a) communication of objectives related to internal control, and b) development and documentation of internal controls impacting financial statement accounts and general controls over technology pertaining to user access and segregation of duties; and ineffective assessment of changes that impact internal control, which contributed to ineffective controls over the allocation of the purchase price for IDC to the assets acquired and liabilities assumed (July 2017) “<u>Heartland’s purchase accounting remains ongoing and, depending on the planned schedule for refreshing IDC's fleet, the carrying values of the physical assets could be reduced versus the values previously recorded by IDC due to shorter useful lives</u>”

Evidence Suggesting Undisclosed SEC Investigation

According to [reporting from Probes Reporter](#) in Jan 2017, USCR is the confirmed subject of an undisclosed SEC investigation. We also probed for more information, and found there are 8 boxes of records. In our experience and opinion, that's a tremendous amount of information being collected





Governance Concerns

Revolving Door In Financial And Auditing Leadership At USCR

CFO / Chief Accountant	Appointed	Resigned
<i>James C. Lewis</i>	<u>10/1/10</u>	<u>3/27/12</u>
<i>William Brown</i>	<u>8/7/12</u>	<u>7/29/15</u>
<i>Joe Tusa, Jr</i> <i>CFO and Chief Accountant</i>	<u>1/8/16</u>	<u>3/14/17</u>
<i>Kevin Kohutek</i> <i>Chief Accounting Officer</i>	<u>2/28/17</u>	3/19/18
<i>John E. Kunz</i> <i>CFO and Chief Accountant</i>	<u>9/8/17</u> as CFO <u>3/9/18</u> as Chief Accountant	--

Auditor	Appointed	Resigned
<i>PwC</i>	May 2002	<u>March 2012</u>
<i>Grant Thornton</i>	<u>March 2012</u>	<u>March 2017</u>
<i>Ernest and Young</i>	<u>March 21, 2017</u>	--

CEO Promotes His Company, But With A Guilty Plea

USCR's CEO promotes the Company's stock to retail investors. Investors should be aware Mr. Sandbrook pled guilty to reckless driving - indicative of questionable judgement. This is conveniently omitted from his biography. Everyone deserves a second change though.

CEO Plead Guilty To Reckless Driving

COUNTY COURT, BOULDER COUNTY - LONGMONT, COLORADO

Court Address:
1035 Kimbark Street
Longmont, CO 80501
Phone Number: 720-564-2522

^ COURT USE ONLY ^

Case Number: 2005T 001604

Division: 11

The People of the State of Colorado
vs.
SANDBROOK, WILLIAM J

SENTENCE ORDER

Defendant: SANDBROOK, WILLIAM J
Count

1 42-4-1401 - Reckless Driving

Date of Birth: 07/19/1957

Class Plea
T2 Plea of Guilty

Finding
Guilty

ASSESSED FINES & COSTS

Count # 1	
Traffic Fine	\$100.00
Victims Assistance Fund	\$74.00
Victim Compensation Fund	\$25.00
Family Friendly Surcharge	\$1.00
Court Costs - T, M, CR	\$21.00
TOTAL	\$221.00

Other Conditions of Sentence:

LEVEL 1 ALCH & COM SERVICE COMPLETED

/JLC

BLUM, NOELE
Judge/Magistrate 12/19/2005
Date

SANDBROOK, WILLIAM J
Defendant 12/19/2005
Date

NOTICE

Following this hearing you are to present this form to the Clerk's Office for payment. Payment is due by the end of business on your Court Date. Pursuant to §16-11-101.6, C.R.S., if the Defendant does not pay all amounts assessed at the time of order, the Defendant shall pay an additional time payment fee. In addition, the Defendant may be assessed a late penalty fee each time payment is not received on or before the due date.

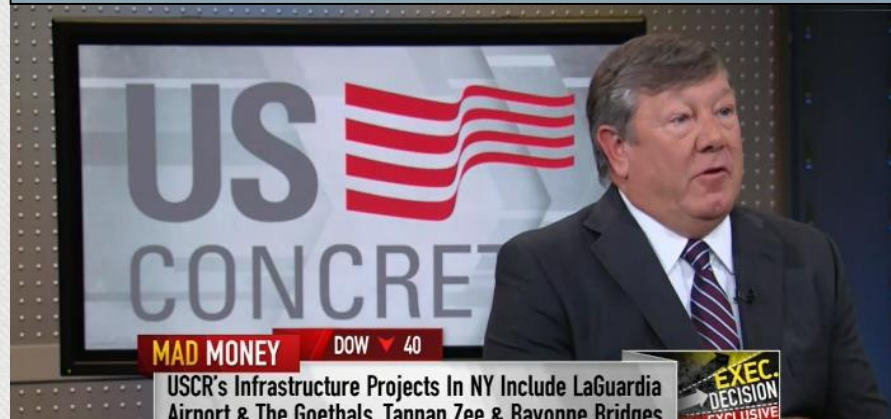
Source: Boulder County Court

CEO Promoting Day After Disappointing FY17 Results



Source: [TD Network](#) – Mar 1, 2018

CEO on Cramer “Mad Money” Hying Infrastructure



Source: [Cramer Mad Money](#) – Dec 2017

Audit Committee Is Weak In Our View

Spruce Point is concerned that USCR's audit committee lacks depth in the finance and accounting area. The audit committee has had only 1 rotation of a member (Rob Rayner/2016) since embarking on its ambitious acquisition strategy. The recent departure of Chairman Davis is a step in the right direction but leaves only two current members on the committee.

Audit Committee Member	Age / Director Since	Main Work Experience	Concerns
Michael Lundin (Chair)	57 / 2010	Operator	Associated with numerous business failures: Oblebay Norton, Rand Logistics, Euramax. Only one company (Oglebay) was tied to aggregates mining and production relevant to USCR's business
Colin Sutherland	61 / 2010	Lawyer	Worked at Holcim (now LafargeHolcim) as VP of Business Development from 2003-07. In 2009, Holcim's US division, Aggregates Industries N.E., was investigated and fined by the FBI for misappropriating its ready-mix concrete product, including for selling product older than 90 minutes by diluting it with water, and for selling leftover concrete from previous customers. This fraud had allegedly occurred from 1996 through 2005, just two years before Sutherland left as a VP of Holcim US. Sutherland was not implicated.
Eugene Davis	62 / 2010	Strategist / Turnaround / Career Board Member	Has sat on over 20 public boards in the past two decades. At the time of his recent resignation , Davis sat on 5 different boards. He was appointed Chief Restructuring Officer at KaloBios in wake of Martin Shkreli's arrest





Insiders Motivated On Adjusted EBITDA

Our concerns about Adj. EBITDA quality are amplified by the fact that management is heavily compensated on hitting seemingly arbitrary and inflated Adj. EBITDA targets. The compensation committee may have finally caught on to USCR's games, as evidenced by its recent decision to adjust EBITDA for acquisitions in 2016. As a result, management failed for the first time in recent years to hit 100% of its targeted payout. Management compensation recently hit a high of 11.2% of GAAP EBIT, a figure on par with other poorly run companies Spruce Point has targeted in the past.

Did USCR's Board Finally Catch On To Management's Adjusted EBITDA Inflation Scheme?

Performance Metric Selected: Our Compensation Committee periodically reviews the appropriateness of the performance measures used in our incentive plans (including the 2016 Plan), the degree of difficulty in achieving the targets based on these measures, as well as certain strategic and nonfinancial objective criteria. In 2016, the Compensation Committee again selected Total Adjusted EBITDA as the performance measure used for determining whether bonuses would be paid under the 2016 Plan. The Compensation Committee also reviewed the target level of Total Adjusted EBITDA under the 2016 Plan **and adjusted it as appropriate to account for strategic acquisitions throughout 2016**. Source: [2017 Proxy Statement](#)

Performance Metric Selected: Our Compensation Committee periodically reviews the appropriateness of the performance measures used in our incentive plans (including the 2015 Plan), the degree of difficulty in achieving the targets based on these measures, as well as certain strategic and nonfinancial objective criteria. In 2015, the Compensation Committee again selected Company Adjusted EBITDA as the performance measure used for determining whether bonuses would be paid under the 2015 Plan. Source: [2016 Proxy Statement](#)

Fiscal Year	Targeted EBITDA YoY Growth	% of Target Payout Received	Total Insider Comp (\$mm)	GAAP EBIT	Insider Comp % of EBIT
2017	20.6% 	86.0%	\$8.8 	\$78.9 	11.2% 
2016	37.7%	89.5%	\$7.0	\$87.1	8.1%
2015	83.2%	112.0%	\$5.7	\$75.4	7.5%
2014	28.0%	119.0%	\$4.6	\$45.9	10.1%

Insiders Are Motivated Sellers

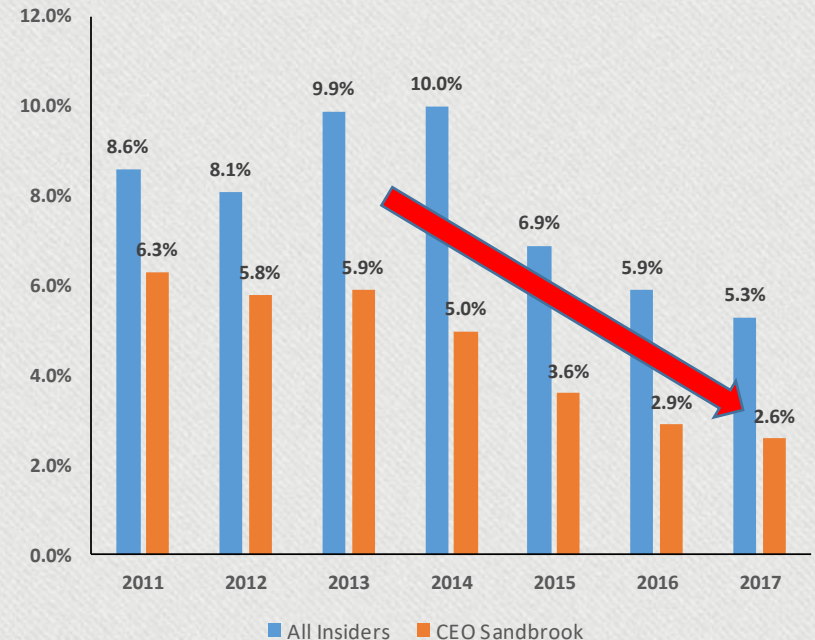
Only one open market share purchase in the past four years should be a cautionary signal to prospective buyers of USCR's stock

Open Market Purchases and Sales



Source: Bloomberg

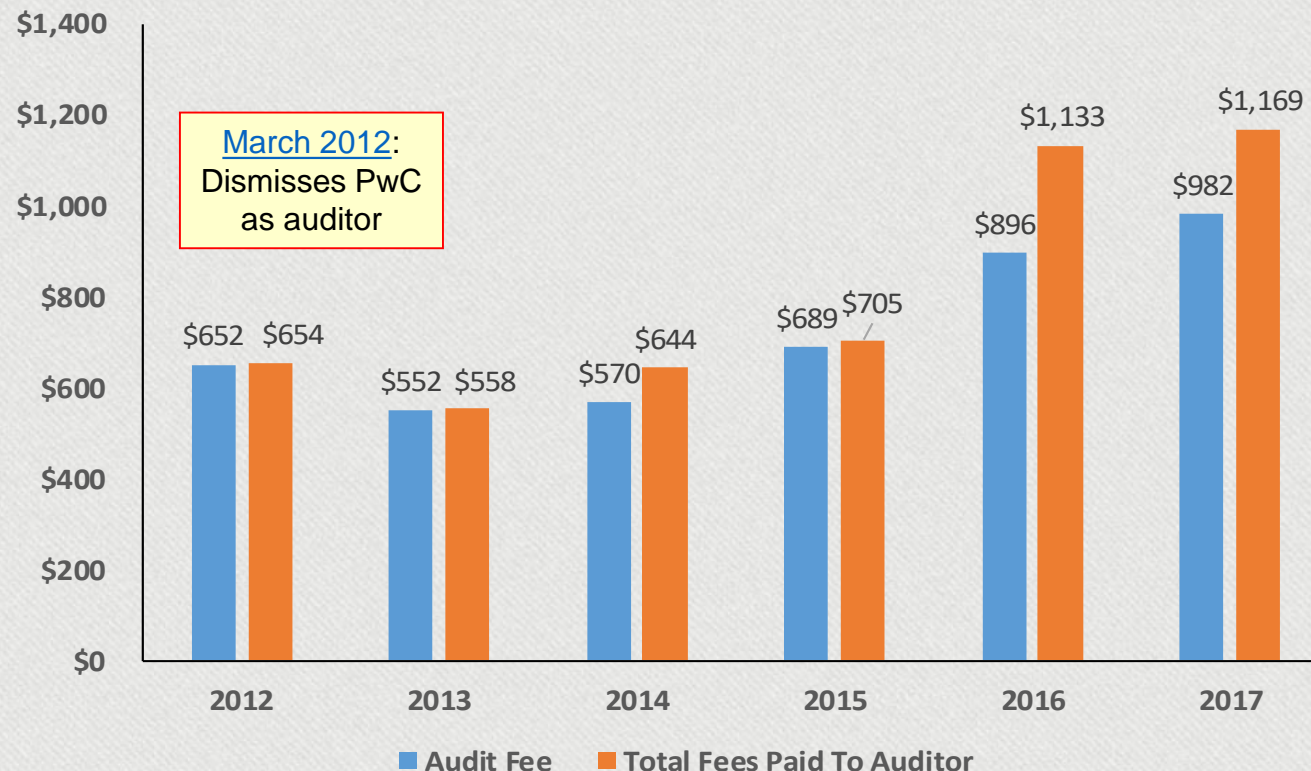
Executive and CEO Ownership Rapidly Declining



Source: USCR Proxy Statements

Audit Fees Rising In Advance of Recent Auditor Dismissal

USCR is on its third auditor in the past few years. We see that its audit fees have started to rise in advance of the recent dismissal of Grant Thornton. The Company's most recent engagement partner is Brian Trimble according to the PCAOB, a Grant Thornton audit partner based in Tulsa, Oklahoma despite the fact that U.S. Concrete is based right outside of Dallas, TX. (1) According to public records, Mr Trimble started his career at the defunct auditor Arthur Andersen (which collapsed from the Enron scandal) and later worked at Samson Resources Corp, which filed for bankruptcy (2)



March 2012:
Dismisses PwC
as auditor

March 2017:
Audit fees spiking
before USCR
dismisses Grant
Thornton as auditor
in 2017.
Appoints E&Y

Source: USCR Proxy Statements

1) [PCAOB](#) and [public biography](#)

2) Samson Files For Bankruptcy, [WSJ](#) 9/17/15



USCR's newly appointed engagement partner at Ernst & Young recently came under administrative disciplinary action for not being current with his continuing professional education requirements

BEFORE THE OKLAHOMA ACCOUNTANCY BOARD
STATE OF OKLAHOMA

In the Matter of
KEVIN LEROY GREENE, CPA,
Certificate No. 8236,

Respondent.

Case No. 2148

FILED
NOV 06 2017
OKLAHOMA
ACCOUNTANCY BOARD

ADMINISTRATIVE CONSENT ORDER

The Oklahoma Accountancy Board ("Board") and the Respondent, Kevin Leroy Greene, CPA ("Respondent"), do hereby agree, stipulate, and consent to the following facts, terms, conditions, and order:

1. The Board has jurisdiction in this matter pursuant to the Oklahoma Accountancy Act, OKLA. STAT. tit. 59, § 15.1 *et seq.* ("Act"), the Oklahoma Administrative Procedure Act, OKLA. STAT. tit. 75, § 250 *et seq.* ("APA"), and Title 10 of the Oklahoma Administrative Code ("Board's Rules").
2. Respondent has not requested and does not request that any member of the Board disqualify from participating in this proceeding.
3. Respondent has requested and the Board has agreed and entered into this Administrative Consent Order in lieu of the Special Prosecutor for the Board filing a formal complaint in this matter.
4. Board records indicate that Respondent is fifteen (15) hours short of meeting the 120-hour minimum Continuing Professional Education ("CPE") requirement for the three-year period 2014 to 2016 and twenty (20) hours short of meeting the 20-hour minimum annual CPE requirement for the 2016 calendar year.

Italicized terms are defined in PCAOB Rule 1001, except for the definition of "other accounting firm" which appears in the general instructions to Form AP.
The Firm must apply those definitions in completing the Form.

PART III - AUDIT CLIENT AND AUDIT REPORT

ITEM 3.1 - AUDIT REPORT

a. Provide the following information concerning the *issuer* for which the Firm issued the *audit report* -

1. Indicate, by checking the box corresponding to this item, if the *audit client* is an:
☒ Issuer, other than employee benefit plan or investment company ☐ Employee Benefit Plan ☐ Investment Company
- 2a. Central Index Key (CIK) number, if any
0001073429 ☐ Check here, if none
- 2b. Fund Series, if any

Series Identifier	Fund Name
3. The name of the *issuer* whose financial statements were audited
U.S. Concrete, Inc.
4. Date of the *audit report* (mm/dd/yyyy)
3/1/2018
5. The end date of the most recent period's financial statements identified in the *audit report* (mm/dd/yyyy)
12/31/2017
6. The name (that is, first and last name, all middle names and suffix, if any) of the engagement partner on the most recent period's *audit*, his/her Partner ID, and any other Partner IDs by which he/she has been identified on a Form AP filed by a different *registered public accounting firm* or on a Form AP filed by the Firm at the time when it had a different Firm ID.

Family name (last name)	Given name (first name)	Middle name	Suffix
Green	Kevin	Leroy	

Partner ID
0004201110

Previously reported Partner ID(s)
7. The office of the Firm issuing the *audit report*

Country	City	State
United States	Dallas	Texas



Valuation and Price Target

Analysts See Approximately 40% Upside

Not surprisingly, the majority of analysts are “Buy” on the stock, but have quietly been cutting their price targets very recently. We expect a substantial re-rating lower in the share price once investors critically analyze the findings of our research.

Analyst	Recent Action	Recommendation	Price Target
DA Davidson	Down from \$98	Buy	\$95.00
SunTrust		Buy	\$95.00
CJS Securities		Market Perform	\$85.00
Morningstar		Buy	\$85.00
Thompson Davis	Initiation Dec 2017	Buy	\$85.00
Stifel	Down from \$88	Buy	\$84.00
Stephens	Down from \$90	Overweight	\$75.00
Average Price Target % Implied Upside (1)			\$86.29 +40%

1) Upside based on \$61.20 share price

From Smart Money To Index Chasing Investors

Early investors in USCR's emergence from bankruptcy have all bailed and don't appear to have bought into the Company's growth by acquisition strategy. Spruce Point is concerned about the disturbing trend of passive investing causing indiscriminate buying of USCR's stock: witness Blackrock, Vanguard and BNY Melon are now its largest shareholders

USCR Shareholder Base Today

Asset Manager	Share Ownership / % of Total	General Ownership Trend Past 2yrs	Orientation
Blackrock	1.9M / 11.6%	↑	Index/Quant/ETF
BNY Melon	1.1M / 6.6%	↑	Index or fundamental
Vanguard	0.9M / 5.4%	↑	Index/Quant/ETF

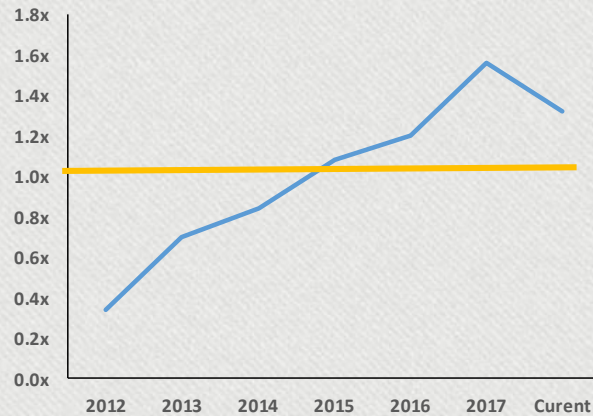
USCR Shareholder Base 6 years Ago In 2012

Asset Manager	Share Ownership / % of Total	Orientation
Whippoorwill	4.6M / 30.9%	Distressed / Turnaround
Mackay Shields	1.7M / 14.5%	Fundamental Equity
JPMorgan Chase	1.7M / 14.2%	Fundamental Equity
Whitebox Advisors	1.3M / 9.9%	Quant
Monarch Alternatives	1.9M / 6.0%	Private / Distressed

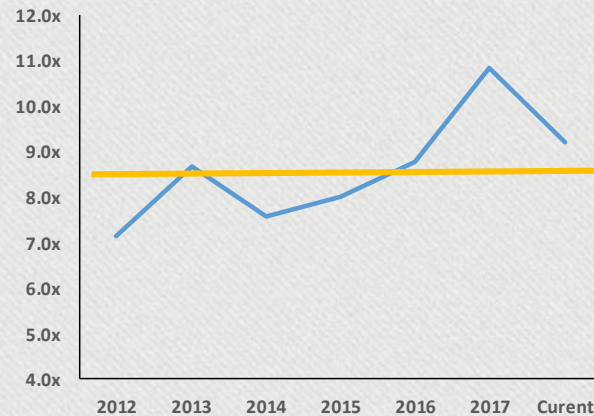
Irrational Valuation Expansion

Current investors are paying a significant premium to the Company's historical valuation – and that is on the Company's suspect adjusted metrics taking them at face value.
Spruce Point finds it difficult to justify USCR's valuation in light of its suspect financial practices, low/no organic growth, and struggling roll-up.

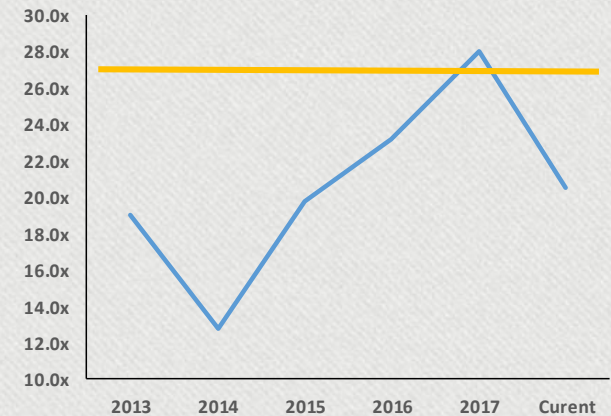
Enterprise Value / Revenues



Enterprise Value / Adj EBITDA



Price / Adj EPS



Source: USCR Financial Statements



USCR Looks Cheap, But Don't Be Fooled

On the surface, USCR doesn't carry a commanding valuation on its highly adjusted metrics, but we've illustrated our evidence to suggest overcapitalization of costs are enabling earnings overstatement

\$ in millions except per share figures

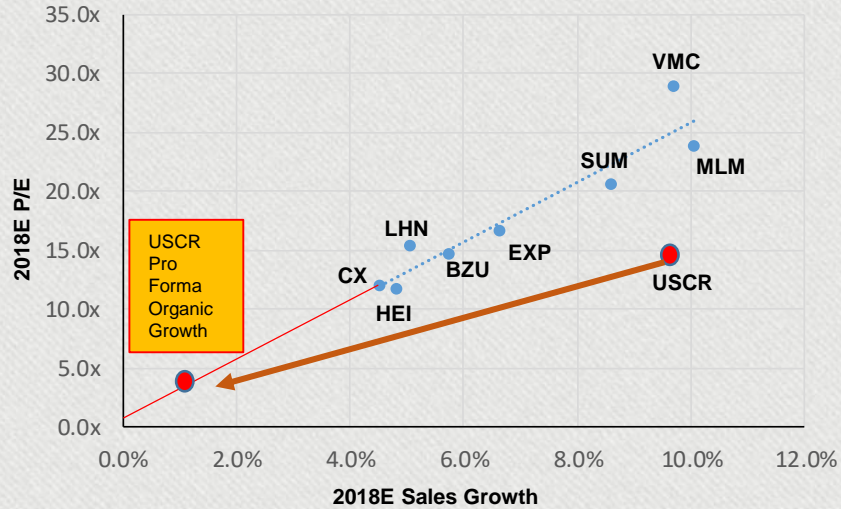
	Stock Price	% of 52-wk High	Ent. Value	Ready Mix % of Sales	'18E-'19E		P/E		Enterprise Value				Price/Book	Net Debt/18E EBITDA	Dividend Yield
Name (Ticker)	5/16/2018				Sales Growth	EPS Growth	2018E	2019E	EBITDA 2018E	2019E	Sales 2018E	2019E			
North American															
Vulcan Materials (VMC)	\$128.20	91%	\$19,738	10.0%	9.7%	23.5%	28.9x	23.4x	16.5x	14.0x	4.6x	4.2x	3.4x	2.3x	0.9%
Martin Marietta (MLM)	\$218.20	90%	\$15,399	24.0%	10.1%	23.3%	23.9x	19.4x	13.0x	11.3x	3.6x	3.3x	2.9x	1.4x	0.8%
Eagle Materials (EXP)	\$107.76	88%	\$5,818	11.4%	6.7%	15.9%	16.6x	14.3x	10.5x	9.4x	3.8x	3.5x	3.7x	1.0x	0.4%
Summit Materials (SUM)	\$29.47	87%	\$4,807	25.5%	8.6%	32.2%	20.6x	15.6x	9.6x	8.6x	2.4x	2.2x	2.6x	2.9x	0.0%
			Max	25.5%	10.1%	32.2%	28.9x	23.4x	16.5x	14.0x	4.6x	4.2x	3.7x	2.9x	0.9%
			Average	17.7%	8.8%	23.7%	22.5x	18.2x	12.4x	10.8x	3.6x	3.3x	3.2x	1.9x	0.5%
			Min	10.0%	6.7%	15.9%	16.6x	14.3x	9.6x	8.6x	2.4x	2.2x	2.6x	1.0x	0.0%
Global															
LafargeHolcim (LHN Sw)	\$53.08	88%	\$50,112	21.4%	5.1%	16.8%	15.4x	13.2x	8.2x	7.7x	1.8x	1.8x	1.0x	2.4x	3.8%
Heidelberg Cement (HEI Gr)	\$94.28	60%	\$29,046	29.0%	4.8%	15.7%	11.7x	10.1x	7.1x	6.6x	1.4x	1.3x	1.0x	2.5x	2.4%
Cemex (CX)	\$6.02	58%	\$21,008	39.1%	4.5%	20.0%	12.0x	10.0x	7.8x	7.1x	1.5x	1.4x	0.8x	4.0x	0.0%
Buzzi Unicem (BZU IM)	\$26.32	88%	\$5,163	36.0%	5.7%	16.8%	14.7x	12.6x	7.1x	6.5x	1.5x	1.4x	1.5x	1.1x	0.5%
			Max	39.1%	5.7%	20.0%	15.4x	13.2x	8.2x	7.7x	1.8x	1.8x	1.5x	4.0x	3.8%
			Average	31.4%	5.0%	17.3%	13.4x	11.5x	7.5x	7.0x	1.5x	1.5x	1.1x	2.5x	1.7%
			Min	21.4%	4.5%	15.7%	11.7x	10.0x	7.1x	6.5x	1.4x	1.3x	0.8x	1.1x	0.0%
			All Global Companies	39.1%	10.1%	32.2%	28.9x	23.4x	16.5x	14.0x	4.6x	4.2x	3.7x	4.0x	3.8%
				24.6%	6.9%	20.5%	18.0x	14.8x	10.0x	8.9x	2.6x	2.4x	2.1x	2.2x	1.1%
				10.0%	4.5%	15.7%	11.7x	10.0x	7.1x	6.5x	1.4x	1.3x	0.8x	1.0x	0.0%
US Concrete (USCR)	\$61.20	71%	\$1,770	89.9%	9.5%	34.6%	14.4x	10.7x	7.8x	6.7x	1.2x	1.1x	3.4x	3.2x	0.0%

Source: Company filings, Wall St estimates.

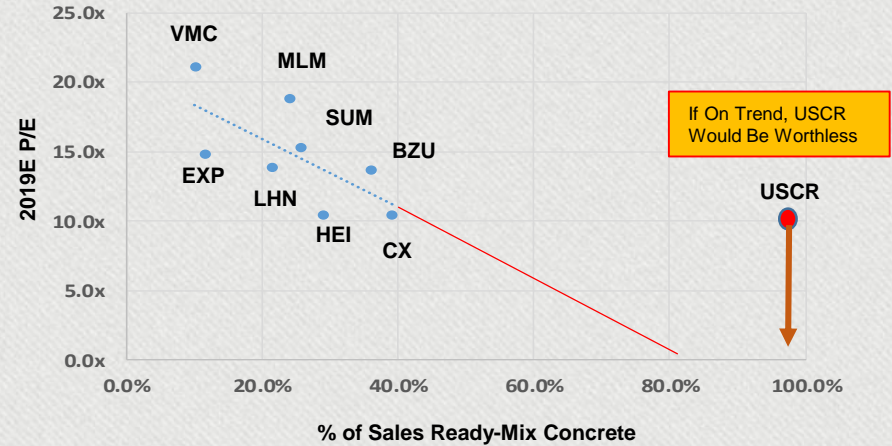


USCR = Worst of Breed

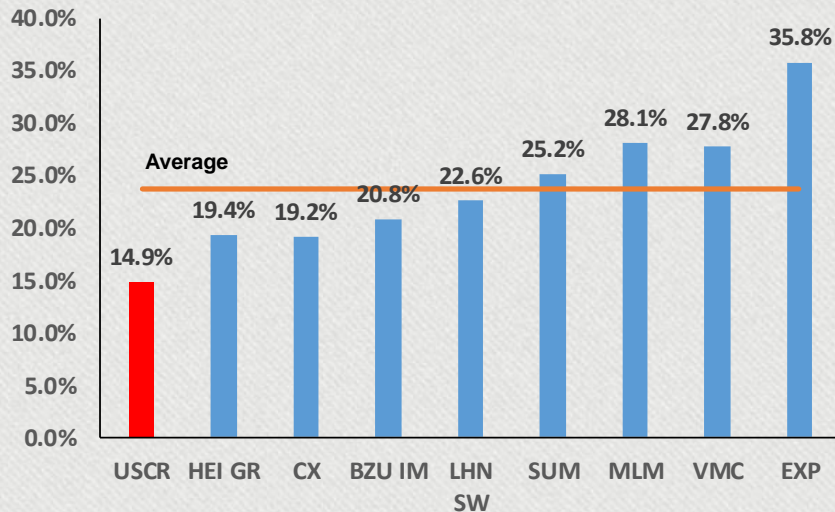
P/E vs. Sales Growth



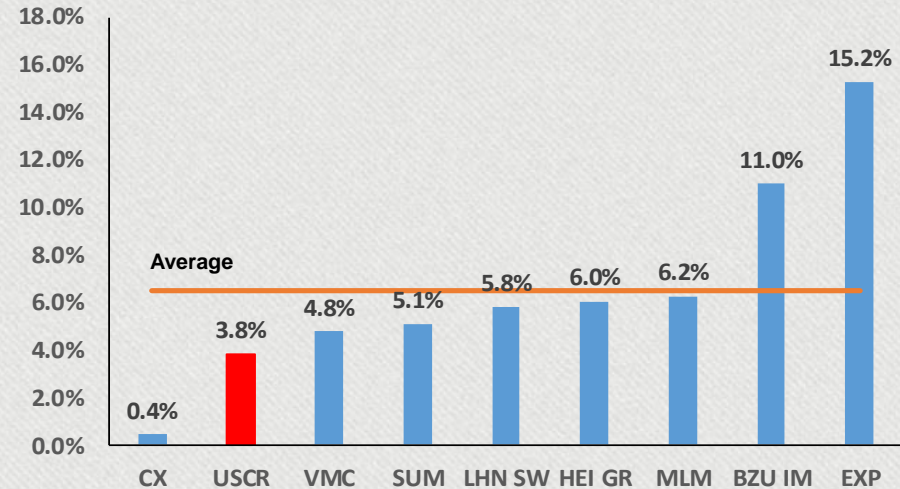
P/E vs. Exposure To Ready-Mix



2018E EBITDA Margin



LTM Free Cash Flow Margin



Analysts Slowly Cutting Estimates

Analysts have poorly forecasted USCR's financial results, which we believe lowers their credibility in valuing the Company. Estimates continue to contract.

Fiscal Year Forecast	Period	Revenues \$ bn	Adj EBITDA \$ mm	Adj EPS
2018	1 Year Ago	\$1.51	\$240.0	\$4.85
	6 Months Ago	\$1.53	\$241.8	\$4.50
	3 Months Ago	\$1.49	\$242.2	\$5.61
	1 Month Ago	\$1.52	\$232.0	\$4.71
	Current	\$1.53 	\$227.5 	\$4.25 
2019	1 Year Ago	--	--	\$5.11
	6 Months Ago	--	\$270.5	\$5.22
	3 Months Ago	\$1.69 	\$275.2 	\$7.22 
	1 Month Ago	\$1.67	\$267.5	\$6.01
	Current	\$1.67 	\$264.0 	\$5.79 

Source: Bloomberg

Spruce Point Estimates 60% – 90% Downside

Given the evidence we've presented that USCR's GAAP financials cannot be taken at face value, we believe the best way to value the Company is on Free Cash Flow. We also attempt to adjust USCR's book value for an estimated \$60 to \$85m of overcapitalization in vehicle costs implied from our detailed peer review.

\$ in millions, except per share amounts

Valuation	Low Multiple	High Multiple	Note
Free Cash Flow Multiple	20.0x	25.0x	USCR's free cash flow has been contracting for three years straight and now stands at \$50.8m in the LTM 3/31 period. We expect this trend to continue as it is weighed down by dozens of poorly integrated acquisitions and the burden of \$43m in annual interest expense. Analysts forecast \$84m of free cash flow in 2018 which we believe will sorely disappoint
<u>2018E Free Cash Flow</u>	<u>\$40.0</u>	<u>\$45.0</u>	
Enterprise Value	\$800.0	\$1,125	
Plus: Cash	\$36.6	\$36.6	
Plus: Minority Interest	\$21.6	\$21.6	
Less: Debt	(\$755.8)	(\$755.8)	
<u>Dil. Shares</u>	<u>16.8</u>	<u>16.8</u>	
Price Tgt.	\$6.10/sh	\$25.40/sh	
% Downside (1)	-90%	-60%	
Price /Book Multiple	1.0x	1.5x	USCR trades at an inflated 3.5x price to book value for a collection of underperforming assets that we estimate generate little to no organic growth. We also believe the evidence suggests USCR overcapitalizes its vehicle asset by approximately \$60 to \$85m. (3) Global peers with higher quality assets and more diversification trade at an average of 2x book value, but USCR should trade at a discount
Stated Book Value	\$299.2	\$299.2	
Less: Est. Overcapitalized PP&E	(\$60.0) - (\$85.0)	(\$60.0) - (\$85.0)	
<u>After Tax (2)</u>	<u>(\$44.4) - (\$62.9)</u>	<u>(\$44.4) - (\$62.9)</u>	
Adjusted Book Value	\$254.8 - \$236.3	\$254.8 - \$236.3	
<u>Dil. Shares</u>	<u>16.8</u>	<u>16.8</u>	
Price Target	\$15.20 - 14.10/sh	\$22.75 - \$21.10/sh	
% Downside (1)	-77%	-66%	

(1) Downside based on \$61.20/sh

(2) USCR's normalized effective tax rate per the company is 26%

(3) We use two different peer analysis:

- We use Summit Materials gross vehicle PP&E of \$47k multiplied by USCR's 2,770 vehicles= \$131m estimated vehicle PP&E. Compare with current vehicle PP&E of \$216m implies ~\$85m of overcapitalization
- Peers use an average of 2% of gross PP&E for capitalized leases which implies \$17m of normalized leases for USCR. Compare with USCR's gross capital leases of \$77m as of 12/31/17 which suggests approximately \$60m of overcapitalization