EAGLE MATERIALS INC
Form 10-Q
October 25, 2017

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended

September 30, 2017

Commission File Number 1-12984

Eagle Materials Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

75-2520779

(I.R.S. Employer Identification No.)

3811 Turtle Creek Blvd., Suite 1100, Dallas, Texas 75219

(Address of principal executive offices)

(214) 432-2000

(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, 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.

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

As of October 23, 2017, the number of outstanding shares of common stock was:

Class	Outstanding Shares
Common Stock, $.01 Par Value	48,625,085

Eagle Materials Inc. and Subsidiaries

Form 10-Q

September 30, 2017

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PART I. FINANCIAL INFORMATION (unaudited)

Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Earnings

(dollars in thousands, except share data)

(unaudited)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2017	2016	2017	2016
Revenues	$376,315	$332,658	$742,436	$630,162
Cost of Goods Sold	279,561	241,448	559,623	466,997
Gross Profit	96,754	91,210	182,813	163,165
Equity in Earnings of Unconsolidated Joint Venture	11,955	12,147	21,831	20,127
Corporate General and Administrative	(9,821)	(8,832)	(19,500)	(18,665)
Other Income	887	504	1,644	1,579
Interest Expense, Net	(7,456)	(5,656)	(14,939)	(9,557)
Earnings Before Income Taxes	92,319	89,373	171,849	156,649
Income Tax Expense	(28,957)	(29,136)	(53,605)	(51,068)
Net Earnings	$63,362	$60,237	$118,244	$105,581
EARNINGS PER SHARE:				
Basic	$1.32	$1.26	$2.46	$2.20
Diluted	$1.31	$1.25	$2.43	$2.18
AVERAGE SHARES OUTSTANDING:				
Basic	48,053,733	47,809,476	48,087,625	47,911,276
Diluted	48,504,767	48,229,485	48,579,984	48,375,116
CASH DIVIDENDS PER SHARE:	$0.10	$0.10	$0.20	$0.20

See notes to unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Comprehensive Earnings

(unaudited – dollars in thousands)

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2017	2016	2017	2016
Net Earnings	$63,362	$60,237	$118,244	$105,581
Change in Funded Status of Defined Benefit Plans:				
Amortization of Net Actuarial Loss	314	500	628	1,000
Tax Expense	(117)	(188)	(234)	(376)
Comprehensive Earnings	$63,559	$60,549	$118,638	$106,205

See notes to unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Consolidated Balance Sheets

(dollars in thousands)

	September 30, 2017 (unaudited)	March 31, 2017
ASSETS		
Current Assets -		
Cash and Cash Equivalents	$31,056	$6,561
Accounts and Notes Receivable	169,125	136,313
Inventories	239,189	252,846
Prepaid and Other Assets	7,440	4,904
Total Current Assets	446,810	400,624
Property, Plant and Equipment -	2,515,337	2,439,438
Less: Accumulated Depreciation	(946,934)	(892,601)
Property, Plant and Equipment, net	1,568,403	1,546,837
Notes Receivable	476	815
Investment in Joint Venture	52,960	48,620
Goodwill and Intangible Assets	240,947	235,505
Other Assets	11,445	14,723
	$2,321,041	$2,247,124
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities -		
Accounts Payable	$79,194	$92,193
Accrued Liabilities	59,788	55,379
Income Tax Payable	1,211	733
Current Portion of Long-term Debt	81,214	81,214
Total Current Liabilities	221,407	229,519
Long-term Debt	575,588	605,253
Other Long-term Liabilities	44,038	42,878
Deferred Income Taxes	167,335	166,024
Total Liabilities	1,008,368	1,043,674
Stockholders' Equity -		
Preferred Stock, Par Value $0.01; Authorized 5,000,000 Shares; None Issued	—	—
Common Stock, Par Value $0.01; Authorized 100,000,000 Shares; Issued and Outstanding 48,624,085 and 48,453,268 Shares, respectively	486	485
Capital in Excess of Par Value	150,029	149,014
Accumulated Other Comprehensive Losses	(7,002)	(7,396)
Retained Earnings	1,169,160	1,061,347
Total Stockholders' Equity	1,312,673	1,203,450
	$2,321,041	$2,247,124

See notes to the unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(unaudited – dollars in thousands)

	For the Six Months Ended September 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Earnings	$118,244	$105,581
Adjustments to Reconcile Net Earnings to Net Cash Provided by Operating Activities -		
Depreciation, Depletion and Amortization	59,253	45,249
Inventory Adjustment to Net Realizable Value	—	8,492
Deferred Income Tax Provision	1,077	2,125
Stock Compensation Expense	7,235	6,158
Excess Tax Benefits from Share Based Payment Arrangements	—	(5,494)
Equity in Earnings of Unconsolidated Joint Venture	(21,831)	(20,127)
Distributions from Joint Venture	17,500	21,750
Changes in Operating Assets and Liabilities:		
Accounts and Notes Receivable	(30,361)	(33,506)
Inventories	13,856	17,521
Accounts Payable and Accrued Liabilities	(14,905)	3,337
Other Assets	2,202	(1,005)
Income Taxes Payable	478	10,071
Net Cash Provided by Operating Activities	152,748	160,152
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, Plant and Equipment Additions	(44,851)	(18,231)
Acquisition Spending	(36,761)	—
Net Cash Used in Investing Activities	(81,612)	(18,231)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in Credit Facility	(30,000)	(382,000)
Issuance of Long-term Debt	—	350,000
Payment of Debt Issuance Costs	—	(6,637)
Dividends Paid to Stockholders	(9,709)	(9,677)
Shares Redeemed to Settle Employee Taxes on Stock Compensation	(2,455)	(2,965)
Purchase and Retirement of Common Stock	(24,903)	(60,013)
Proceeds from Stock Option Exercises	20,426	12,992
Excess Tax Benefits from Share Based Payment Arrangements	—	5,494
Net Cash Used in Financing Activities	(46,641)	(92,806)
NET INCREASE IN CASH AND CASH EQUIVALENTS	24,495	49,115
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,561	5,391
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$31,056	$54,506

See notes to the unaudited consolidated financial statements.

Eagle Materials Inc. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

September 30, 2017

(A) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements as of and for the three and six-month periods ended September 30, 2017 include the accounts of Eagle Materials Inc. ("Eagle" or "Parent") and its majority-owned subsidiaries (collectively, the "Company", "us" or "we") and have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 24, 2017.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures are adequate to make the information presented not misleading. In our opinion, all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the information in the following unaudited consolidated financial statements of the Company have been included. The results of operations for interim periods are not necessarily indicative of the results for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB"), issued Accounting Standards Update ("ASU") 2016-09, "Improvements to Employee Share-Based Payment Accounting," which provides for simplification of certain aspects of employee share-based payment accounting, including income taxes, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted ASU 2016-09 on April 1, 2017. The new standard provides for changes to accounting for stock compensation including 1) excess tax benefits and tax deficiencies related to share based payment awards will be recognized as income tax benefit or expense in the reporting period in which they occur; 2) excess tax benefits will be classified as an operating activity in the statement of cash flow; 3) the option to elect to estimate forfeitures or account for them when they occur; and 4) an increase in the tax withholding requirements threshold to qualify for equity classification. The primary impact of adoption was the recognition of excess tax benefits for our stock awards in the provision for income taxes rather than additional paid-in capital. As provided by the new standard, the Company changed its method of accounting for forfeitures, and will now recognize forfeitures as they occur, which resulted in an approximately $0.7 million reduction to retained earnings. Additional amendments to the accounting for income taxes and minimum statutory withholding tax requirements had no impact to retained earnings.

Adoption of the new standard resulted in the recognition of excess tax benefits in our provision for income taxes rather than paid-in capital of $2.7 million for the six months ended September 30, 2017. The presentation of excess tax benefits on stock-based compensation was adopted prospectively within the unaudited Condensed Consolidated

Statements of Cash Flows. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact on any of the periods presented on the unaudited Condensed Consolidated Statements of Cash Flows as the Company has historically presented them as a financing activity.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605),” and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard will be effective for us in the first quarter of fiscal 2019. We will adopt the new standard using the modified retrospective approach, which requires the standard be applied only to the most current period presented, with the cumulative effect of initially applying the standard recognized at the date of initial application. We are currently performing an evaluation of segments with long-term customer contracts. The businesses with the majority of the long-term customer contracts are not a significant part of our consolidated revenues. We do not expect the adoption of this standard to materially impact our consolidated financial statements, but we are still evaluating the impact on our financial statement disclosures.

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost", which revises the accounting for periodic pension and postretirement expense. This ASU requires net periodic benefit cost, with the exception of service cost, to be presented retrospectively as nonoperating expense. Service cost will remain a component of cost of goods sold and represent the only cost of pension and postretirement expense eligible for capitalization. We will adopt the standard on April 1, 2018 using the retrospective method for presentation of service cost and other components in the income statement. We will prospectively adopt the requirement to limit the capitalization of benefit cost to the service cost component. The impact of adopting this standard will be a reduction to cost of goods sold and an increase in other expense. Had we adopted this standard on April 1, 2017, our gross profit for the six months ended September 30, 2017 would have increased by approximately $0.4 million, and other income would have decreased by $0.4 million.

In February 2016, the FASB issued ASU 2016-02, "Leases", which supersedes existing lease guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. The standard will be effective for us in the first quarter of fiscal 2020, and we will adopt using the modified retrospective approach. We are currently assessing the impact of the ASU on our consolidated financial statements and disclosures, as well as our internal lease accounting processes.

(B) ACQUISITION

Fairborn Acquisition

On February 10, 2017, we completed the previously announced acquisition (the "Fairborn Acquisition") of certain assets of CEMEX Construction Materials Atlantic, LLC (the "Seller"). The assets acquired by the Company in the Fairborn Acquisition include a cement plant located in Fairborn, Ohio, a cement distribution terminal located in Columbus, Ohio, and certain other related assets.

Purchase Price: The purchase price (the "Fairborn Purchase Price") of the Fairborn Acquisition was approximately $400.5 million. We funded the payment of the Fairborn Purchase Price at closing and expenses incurred in connection with the Fairborn Acquisition through a combination of cash on hand and borrowings under our bank credit facility.

Recording of assets acquired and liabilities assumed: The transaction has been accounted for using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The Company engaged a third-party to perform a valuation to support the Company's preliminary estimate of the fair value of certain assets acquired in the Fairborn Acquisition.

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The preparation of the valuation of the assets acquired and liabilities assumed in the Fairborn Acquisition requires the use of significant assumptions and estimates. Critical estimates include, but are not limited to, replacement value and condition of property and equipment, future expected cash flows, including projected revenues and expenses, and applicable discount rates for intangible and other assets. These estimates are based on assumptions that we believe to be reasonable. However, actual results may differ from these estimates.

The Company has determined preliminary fair values of the assets acquired and liabilities assumed in the Fairborn Acquisition. These values are subject to change as we perform additional reviews of the property and equipment, repair parts and the asset retirement obligation. The following table summarizes the provisional allocation of the Fairborn Purchase Price to assets acquired and liabilities assumed as of the acquisition date:

Purchase price allocation at acquisition date (in thousands)	As of February 10, 2017
Inventories	$ 11,106
Property and Equipment	