

Vulcan Materials CO  
Form 10-Q  
October 31, 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 September 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

Edgar Filing: Vulcan Materials CO - Form 10-Q

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 every Interactive Data File required to be submitted 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 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.

Large accelerated filer Accelerated Smaller reporting company  
filer

Non-accelerated filer 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 October 29, 2018
Common Stock, \$1 Par Value	132,047,816

VULCAN MATERIALS COMPANY

FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2018

Contents

	Page
PART I FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets</u>	2
<u>Condensed Consolidated Statements of Comprehensive Income</u>	3
<u>Condensed Consolidated Statements of Cash Flows</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
Item 2. <u>Management’s Discussion and Analysis of Financial</u> <u>Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures About</u> <u>Market Risk</u>	46
Item 4. <u>Controls and Procedures</u>	46
PART II OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	47
Item 1A. <u>Risk Factors</u>	47
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
Item 4. <u>Mine Safety Disclosures</u>	47
Item 6. <u>Exhibits</u>	48

Signatures

49

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.

1

---

## part I financial information

## ITEM 1

## FINANCIAL STATEMENTS

## VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited in thousands	September 30 2018	December 31 2017	September 30 2017
Assets			
Cash and cash equivalents	\$ 38,026	\$ 141,646	\$ 701,163
Restricted cash	5,043	5,000	0
Accounts and notes receivable			
Accounts and notes receivable, gross	648,009	590,986	582,105
Less: Allowance for doubtful accounts	(2,294)	(2,649)	(2,903)
Accounts and notes receivable, net	645,715	588,337	579,202
Inventories			
Finished products	346,940	327,711	307,046
Raw materials	29,078	27,152	27,852
Products in process	2,668	1,827	1,652
Operating supplies and other	29,966	27,648	29,276
Inventories	408,652	384,338	365,826
Other current assets	78,476	60,780	100,781
Total current assets	1,175,912	1,180,101	1,746,972
Investments and long-term receivables	42,944	35,115	35,999
Property, plant & equipment			
Property, plant & equipment, cost	8,386,315	7,969,312	7,539,928
Allowances for depreciation, depletion & amortization	(4,197,592)	(4,050,381)	(4,002,227)
Property, plant & equipment, net	4,188,723	3,918,931	3,537,701
Goodwill	3,169,615	3,122,321	3,101,337
Other intangible assets, net	1,099,354	1,063,630	835,269
Other noncurrent assets	199,087	184,793	182,056
Total assets	\$ 9,875,635	\$ 9,504,891	\$ 9,439,334
Liabilities			
Current maturities of long-term debt	23	41,383	4,827
Short-term debt	200,000	0	0

Edgar Filing: Vulcan Materials CO - Form 10-Q

Trade payables and accruals	233,885	197,335	181,207
Other current liabilities	256,507	204,154	227,665
Total current liabilities	690,415	442,872	413,699
Long-term debt	2,778,129	2,813,482	2,809,966
Deferred income taxes, net	581,026	464,081	716,165
Deferred revenue	186,829	191,476	193,117
Other noncurrent liabilities	493,447	624,087	621,253
Total liabilities	\$ 4,729,846	\$ 4,535,998	\$ 4,754,200
Other commitments and contingencies (Note 8)			
Equity			
Common stock, \$1 par value, Authorized 480,000 shares, Outstanding 132,045, 132,324 and 132,281 shares, respectively	132,045	132,324	132,281
Capital in excess of par value	2,795,366	2,805,587	2,803,106
Retained earnings	2,361,903	2,180,448	1,886,006
Accumulated other comprehensive loss	(143,525)	(149,466)	(136,259)
Total equity	\$ 5,145,789	\$ 4,968,893	\$ 4,685,134
Total liabilities and equity	\$ 9,875,635	\$ 9,504,891	\$ 9,439,334

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

Unaudited in thousands, except per share data	Three Months Ended		Nine Months Ended	
	2018	September 30 2017	2018	September 30 2017
Total revenues	\$ 1,240,197	\$ 1,094,715	\$ 3,294,822	\$ 2,912,806
Cost of revenues	897,055	790,957	2,469,161	2,160,810
Gross profit	343,142	303,758	825,661	751,996
Selling, administrative and general expenses	81,606	73,612	248,989	239,051
Gain on sale of property, plant & equipment and businesses	2,104	1,488	8,374	4,630
Other operating expense, net	(14,456)	(4,156)	(23,822)	(27,733)
Operating earnings	249,184	227,478	561,224	489,842
Other nonoperating income, net	4,890	3,793	12,708	11,709
Interest expense, net	33,547	82,041	104,566	154,572
Earnings from continuing operations before income taxes	220,527	149,230	469,366	346,979
Income tax expense	40,663	39,080	75,805	81,557
Earnings from continuing operations	179,864	110,150	393,561	265,422
Earnings (loss) on discontinued operations, net of tax	(713)	(1,571)	(1,778)	8,217
Net earnings	\$ 179,151	\$ 108,579	\$ 391,783	\$ 273,639
Other comprehensive income, net of tax				
Deferred gain on interest rate derivative	0	0	2,496	0
Amortization of prior interest rate derivative loss	53	1,188	171	1,836
Amortization of actuarial loss and prior service cost for benefit plans	1,091	427	3,274	1,281
Other comprehensive income	1,144	1,615	5,941	3,117
Comprehensive income	\$ 180,295	\$ 110,194	\$ 397,724	\$ 276,756
Basic earnings (loss) per share				
Continuing operations	\$ 1.36	\$ 0.83	\$ 2.97	\$ 2.00
Discontinued operations	(0.01)	(0.01)	(0.01)	0.07
Net earnings	\$ 1.35	\$ 0.82	\$ 2.96	\$ 2.07
Diluted earnings (loss) per share				
Continuing operations	\$ 1.34	\$ 0.82	\$ 2.94	\$ 1.97
Discontinued operations	0.00	(0.01)	(0.02)	0.06
Net earnings	\$ 1.34	\$ 0.81	\$ 2.92	\$ 2.03
Weighted-average common shares outstanding				
Basic	132,392	132,484	132,505	132,510

Edgar Filing: Vulcan Materials CO - Form 10-Q

Assuming dilution	133,894	134,765	134,079	134,853
Depreciation, depletion, accretion and amortization	\$ 89,390	\$ 79,636	\$ 256,463	\$ 227,974
Effective tax rate from continuing operations	18.4%	26.2%	16.2%	23.5%

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

3

---



## VULCAN MATERIALS COMPANY AND SUBSIDIARY COMPANIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited in thousands	Nine Months Ended	
	2018	September 30 2017
<b>Operating Activities</b>		
Net earnings	\$ 391,783	\$ 273,639
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation, depletion, accretion and amortization	256,463	227,974
Net gain on sale of property, plant & equipment and businesses	(8,374)	(4,630)
Contributions to pension plans	(107,202)	(17,638)
Share-based compensation expense	21,650	19,953
Deferred tax expense (benefit)	76,779	11,298
Cost of debt purchase	6,922	43,048
Changes in assets and liabilities before initial effects of business acquisitions and dispositions	(67,836)	(162,849)
Other, net	2,446	8,740
Net cash provided by operating activities	\$ 572,631	\$ 399,535
<b>Investing Activities</b>		
Purchases of property, plant & equipment	(348,238)	(366,845)
Proceeds from sale of property, plant & equipment	12,838	10,403
Proceeds from sale of businesses	11,256	0
Payment for businesses acquired, net of acquired cash	(213,138)	(210,562)
Other, net	(12,216)	405
Net cash used for investing activities	\$ (549,498)	\$ (566,599)
<b>Financing Activities</b>		
Proceeds from short-term debt	514,900	5,000
Payment of short-term debt	(314,900)	(5,000)
Payment of current maturities and long-term debt	(892,049)	(800,572)
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	(99,916)	(60,303)
Dividends paid	(111,192)	(99,263)
Share-based compensation, shares withheld for taxes	(31,418)	(24,608)
Net cash provided by (used for) financing activities	\$ (126,710)	\$ 600,208
Net increase (decrease) in cash and cash equivalents and restricted cash	(103,577)	433,144
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	\$ 43,069	\$ 701,163

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

4

---

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 (GAAP) 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 GAAP. 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 nine month periods ended September 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 including Accounting Standards Update (ASU) 2017-07, "Improving the Presentation of Net Periodic Benefit Cost and Net Periodic Postretirement Benefit Cost," which resulted 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 September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Weighted-average common shares outstanding	132,392	132,484	132,505	132,510
Dilutive effect of				
Stock-Only Stock Appreciation Rights	905	1,249	1,021	1,305
Other stock compensation plans	597	1,032	553	1,038
Weighted-average common shares outstanding, assuming dilution	133,894	134,765	134,079	134,853

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 September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Antidilutive common stock equivalents	162	79	161	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:

in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Discontinued Operations				
Pretax earnings (loss)	\$ (969)	\$ (1,282)	\$ (2,417)	\$ 13,614
Income tax (expense) benefit	256	(289)	639	(5,397)
Earnings (loss) on discontinued operations, net of tax	\$ (713)	\$ (1,571)	\$ (1,778)	\$ 8,217

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.

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 recorded any measurement-period adjustments related to these items during the first nine months 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. 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 nine months 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.



## Edgar Filing: Vulcan Materials CO - Form 10-Q

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 third quarter of 2018, we recorded income tax expense from continuing operations of \$40,663,000 compared to income tax expense from continuing operations of \$39,080,000 in the third quarter of 2017. The small increase in income tax expense on a significant increase in pretax earnings was due to the lower tax rate from the TCJA and the recognition of \$7,157,000 of previously unrecognized tax benefits due to the expiration of statute of limitations.

For the first nine months of 2018, we recorded income tax expense from continuing operations of \$75,805,000 compared to income tax expense from continuing operations of \$81,557,000 for the first nine months of 2017. The decrease in income tax expense was largely due to the lower rate resulting from the TCJA.

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 \$72,160,000 (\$67,688,000 relates to Alabama), against which we project to have a valuation allowance of \$29,696,000 (\$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 contracts (primarily asphalt construction paving contracts) are 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 service revenues from our asphalt construction paving business and other service revenues, such as landfill tipping fees, related to our aggregates business. Our total service revenues were as follows: \$70,385,000 and \$35,628,000 for the three months ended September 30, 2018 and 2017, respectively, and \$145,127,000 and \$81,212,000 for the nine months ended September 30, 2018 and 2017, respectively. The increased service revenues resulted from acquisitions that included asphalt construction paving businesses in Alabama and Texas (see Note 16).

Edgar Filing: Vulcan Materials CO - Form 10-Q

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 aggregates 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 nine month periods ended September 30, 2018 and 2017 are disaggregated as follows:

	Three Months Ended September 30, 2018				
in thousands	Aggregates	Asphalt	Concrete	Calcium	Total
Total					
Revenues by Geographic Market 1					
East	\$ 331,147	\$ 52,263	\$ 65,971	\$ 0	\$ 449,381
Gulf Coast	489,299	47,220	14,441	1,912	552,872
West	163,285	132,217	21,307	0	316,809
Segment sales	\$ 983,731	\$ 231,700	\$ 101,719	\$ 1,912	\$ 1,319,062
Intersegment sales	(78,865)	0	0	0	(78,865)
Total revenues	\$ 904,866	\$ 231,700	\$ 101,719	\$ 1,912	\$ 1,240,197

	Three Months Ended September 30, 2017				
in thousands	Aggregates	Asphalt	Concrete	Calcium	Total
Total					
Revenues by Geographic Market 1					
East	\$ 317,363	\$ 39,445	\$ 66,573	\$ 0	\$ 423,381
Gulf Coast	393,694	21,571	26,505	1,965	443,735
West	147,642	128,924	22,407	0	298,973
Segment sales	\$ 858,699	\$ 189,940	\$ 115,485	\$ 1,965	\$ 1,166,089
Intersegment sales	(71,374)	0	0	0	(71,374)
Total revenues	\$ 787,325	\$ 189,940	\$ 115,485	\$ 1,965	\$ 1,094,715

Edgar Filing: Vulcan Materials CO - Form 10-Q

Nine Months Ended September 30, 2018					
in thousands	Aggregates	Asphalt	Concrete	Calcium	Total
Total					
Revenues by Geographic Market 1					
East	\$ 827,605	\$ 113,331	\$ 197,146	\$ 0	\$ 1,138,082
Gulf Coast	1,377,568	100,708	57,994	6,136	1,542,406
West	434,480	333,324	54,264	0	822,068
Segment sales					
	\$ 2,639,653	\$ 547,363	\$ 309,404	\$ 6,136	\$ 3,502,556
Intersegment sales					
	(207,734)	0	0	0	(207,734)
Total revenues					
	\$ 2,431,919	\$ 547,363	\$ 309,404	\$ 6,136	\$ 3,294,822

Nine Months Ended September 30, 2017					
in thousands	Aggregates	Asphalt	Concrete	Calcium	Total
Total					
Revenues by Geographic Market 1					
East	\$ 781,125	\$ 78,599	\$ 180,470	\$ 0	\$ 1,040,194
Gulf Coast	1,145,700	64,051	78,313	5,822	1,293,886
West	399,760	318,824	50,665	0	769,249
Segment sales					
	\$ 2,326,585	\$ 461,474	\$ 309,448	\$ 5,822	\$ 3,103,329
Intersegment sales					
	(190,523)	0	0	0	(190,523)
Total revenues					
	\$ 2,136,062	\$ 461,474	\$ 309,448	\$ 5,822	\$ 2,912,806

1 The geographic markets are defined by states/countries as follows:

East market — Arkansas, Delaware, Illinois, Kentucky, Maryland, North Carolina, Pennsylvania, Tennessee, Virginia, and Washington D.C.

Gulf Coast market — Alabama, Florida, Georgia, Louisiana, Mexico, Mississippi, Oklahoma, South Carolina, Texas and the Bahamas

West market — Arizona, California and New Mexico



## PRODUCT AND SERVICE REVENUES

Revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs at a point in time when our aggregates, asphalt mix and ready-mixed concrete are shipped/delivered and control passes to the customer. Revenue for our products and services is recorded at the fixed invoice amount and is due by the 15th day of the following month — we do not offer discounts for early payment. Freight & delivery generally represents pass-through transportation we incur (including our administrative costs) and pay to third-party carriers to deliver our products to customers and are accounted for as a fulfillment activity. Likewise, the costs related to freight & delivery are included in cost of revenues.

Freight & delivery revenues are as follows:

in thousands	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2018	2017	2018	2017
Freight & Delivery Revenues				
Total revenues	\$ 1,240,197	\$ 1,094,715	\$ 3,294,822	\$ 2,912,806
Freight & delivery revenues 1	(175,194)	(143,664)	(476,491)	(397,934)
Total revenues excluding freight & delivery	\$ 1,065,003	\$ 951,051	\$ 2,818,331	\$ 2,514,872

1 Includes freight & delivery to remote distribution sites.

## CONSTRUCTION PAVING REVENUES

Revenue from our asphalt construction paving business is recognized over time using the percentage-of-completion method under the cost approach. The percentage of completion is determined by costs incurred to date as a percentage of total costs estimated for the project. Under this approach, recognized contract revenue equals the total estimated contract revenue multiplied by the percentage of completion. Our construction contracts are unit priced and an account receivable is recorded for amounts invoiced based on actual units produced. Contract assets for estimated earnings in excess of billings, contract assets related to retainage provisions and contract liabilities for billings in excess of costs are immaterial. Variable consideration in our construction paving contracts is immaterial and consists of incentives and penalties based on the quality of work performed. Our construction paving contracts may contain warranty provisions covering defects in equipment, materials, design or workmanship that generally run from nine months to one year after project completion. Due to the nature of our construction paving projects, including contract owner

inspections of the work during construction and prior to acceptance, we have not experienced material warranty costs for these short-term warranties.

#### VOLUMETRIC PRODUCTION PAYMENT REVENUES

In 2013 and 2012, we sold a percentage interest in certain future aggregates production for net cash proceeds of \$226,926,000. These transactions, structured as volumetric production payments (VPPs):

- § relate to eight quarries in Georgia and South Carolina
- § provide the purchaser solely with a nonoperating percentage interest in the subject quarries' future aggregates production
- § contain no minimum annual or cumulative guarantees by us for production or sales volume, nor minimum sales price
- § are both volume and time limited (we expect the transactions will last approximately 25 years, limited by volume rather than time)

We are the exclusive sales agent for, and transmit quarterly to the purchaser the proceeds from the sale of, the purchaser's share of future aggregates production. Our consolidated total revenues exclude the revenue from the sale of the purchaser's share of aggregates.

The proceeds we received from the sale of the percentage interest were recorded as deferred revenue on the balance sheet. We recognize revenue on a unit-of-sales basis (as we sell the purchaser's share of future production) relative to the volume limitations of the transactions. Given the nature of the risks and potential rewards assumed by the buyer, the transactions do not reflect financing activities.

Edgar Filing: Vulcan Materials CO - Form 10-Q

Reconciliation of the deferred revenue balances (current and noncurrent) is as follows:

in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Deferred Revenue				
Balance at beginning of period	\$ 196,296	\$ 203,100	\$ 199,556	\$ 206,468
Revenue recognized from deferred revenue	(1,997)	(1,903)	(5,257)	(5,271)
Balance at end of period	\$ 194,299	\$ 201,197	\$ 194,299	\$ 201,197

Based on expected sales from the specified quarries, we expect to recognize \$7,470,000 of deferred revenue as income during the 12-month period ending September 30, 2019 (reflected in other current liabilities in our September 30, 2018 Condensed Consolidated Balance Sheet).

Note 5: Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels as described below:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Inputs that are derived principally from or corroborated by observable market data

Level 3: Inputs that are unobservable and significant to the overall fair value measurement

Our assets subject to fair value measurement on a recurring basis are summarized below:



Edgar Filing: Vulcan Materials CO - Form 10-Q

in thousands	Level 1 Fair Value		
	September 30 2018	December 31 2017	September 30 2017
Fair Value Recurring Rabbi Trust			
Mutual funds	\$ 21,504	\$ 20,348	\$ 7,431
Equities	0	0	12,825
Total	\$ 21,504	\$ 20,348	\$ 20,256

in thousands	Level 2 Fair Value		
	September 30 2018	December 31 2017	September 30 2017
Fair Value Recurring Rabbi Trust			
Money market mutual fund	\$ 1,332	\$ 1,203	\$ 386
Total	\$ 1,332	\$ 1,203	\$ 386

We have two Rabbi Trusts for the purpose of providing a level of security for the employee nonqualified retirement and deferred compensation plans and for the directors' nonqualified deferred compensation plans. The fair values of these investments are estimated using a market approach. The Level 1 investments include mutual funds and equity securities for which quoted prices in active markets are available. Level 2 investments are stated at estimated fair value based on the underlying investments in the fund (short-term, highly liquid assets in commercial paper, short-term bonds and certificates of deposit).

Net gains (losses) of the Rabbi Trust investments were \$(222,000) and \$1,950,000 for the nine months ended September 30, 2018 and 2017, respectively. The portions of the net gains (losses) related to investments still held by the Rabbi Trusts at September 30, 2018 and 2017 were \$(214,000) and \$1,424,000, respectively.

## Edgar Filing: Vulcan Materials CO - Form 10-Q

The carrying values of our cash equivalents, restricted cash, accounts and notes receivable, short-term debt, trade payables and accruals, and other current liabilities approximate their fair values because of the short-term nature of these instruments. Additional disclosures for derivative instruments and interest-bearing debt are presented in Notes 6 and 7, respectively.

### Note 6: Derivative Instruments

During the normal course of operations, we are exposed to market risks including interest rates, foreign currency exchange rates and commodity prices. From time to time, and consistent with our risk management policies, we use derivative instruments to balance the cost and risk of such exposure. We do not use derivative instruments for trading or other speculative purposes.

The accounting for gains and losses that result from changes in the fair value of derivative instruments depends on whether the derivatives have been designated and qualify as hedging instruments and the type of hedging relationship. The interest rate locks described below were designated as cash flow hedges. The changes in fair value of our cash flow hedges are recorded in accumulated other comprehensive income (AOCI) and are reclassified into interest expense in the same period the hedged items affect earnings.

In 2007 and 2018, we entered into interest rate locks of future debt issuances to hedge the risk of higher interest rates. The gain/loss upon settlement of the interest rate hedges is deferred (recorded in AOCI) and amortized to interest expense over the term of the related debt.

This amortization was reflected in the accompanying Condensed Consolidated Statements of Comprehensive Income as follows:

in thousands	Location on	Three Months Ended		Nine Months Ended	
	Statement	September 30	September 30	September 30	September 30
		2018	2017	2018	2017
Interest Rate Hedges					
Loss reclassified from AOCI	Interest				
(effective portion)	expense	\$ (72)	\$ (1,955)	\$ (232)	\$ (3,022)

Edgar Filing: Vulcan Materials CO - Form 10-Q

The 2017 loss reclassified from AOCI includes the acceleration of deferred losses in the amount of \$1,405,000 referable to the July 2017 debt purchases as described in Note 7.

For the 12-month period ending September 30, 2019, we estimate that \$302,000 of the pretax loss in AOCI will be reclassified to interest expense.

## Note 7: Debt

Debt is detailed as follows:

in thousands	Effective Interest Rates	September 30 2018	December 31 2017	September 30 2017
<b>Short-term Debt</b>				
Bank line of credit expires 2021				
1, 2	1.25%	\$ 200,000	\$ 0	\$ 0
<b>Total short-term debt</b>		<b>\$ 200,000</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Long-term Debt</b>				
Bank line of credit expires 2021				
1		\$ 0	\$ 250,000	\$ 0
Term loan due 2018		0	350,000	0
Floating-rate notes due 2020	3.21%	250,000	250,000	250,000
Floating-rate notes due 2021	3.23%	500,000	0	600,000
7.50% notes due 2021		0	35,111	0
8.85% notes due 2021	8.88%	6,000	6,000	6,000
Term loan due 2021		0	250,000	250,000
4.50% notes due 2025	4.65%	400,000	400,000	400,000
3.90% notes due 2027	4.00%	400,000	400,000	400,000
7.15% notes due 2037	8.05%	129,239	240,188	240,188

Edgar Filing: Vulcan Materials CO - Form 10-Q

4.50% notes due 2047	4.59%	700,000	700,000	700,000
4.70% notes due 2048	5.42%	460,949	0	0
Other notes	6.46%	214	230	353
Total long-term debt - face value		\$ 2,846,402	\$ 2,881,529	\$ 2,846,541
Unamortized discounts and debt issuance costs		(68,250)	(26,664)	(31,748)
Total long-term debt - book value		\$ 2,778,152	\$ 2,854,865	\$ 2,814,793
Less current maturities		23	41,383	4,827
Total long-term debt - reported value		\$ 2,778,129	\$ 2,813,482	\$ 2,809,966
Estimated fair value of long-term debt		\$ 2,743,429	\$ 2,983,419	\$ 3,068,236

- 1 Borrowings on the bank line of credit are classified as short-term debt if we intend to repay within twelve months and as long-term debt otherwise.
- 2 Reflects the margin above LIBOR for LIBOR-based borrowings; we also paid upfront fees that are amortized to interest expense and pay fees for unused borrowing capacity and standby letters of credit.
- 3 This short-term loan was refinanced on a long-term basis in February 2018 as discussed below. Thus, it was classified as long-term debt as of December 31, 2017.

Discounts and debt issuance costs are amortized using the effective interest method over the terms of the respective notes resulting in \$3,927,000 and \$4,473,000 of net interest expense for these items for the nine months ended September 30, 2018 and 2017, respectively.

LINE OF CREDIT

Our unsecured \$750,000,000 line of credit matures December 2021 and contains affirmative, negative and financial covenants customary for an unsecured investment-grade facility. The primary negative covenant limits our ability to incur secured debt. The financial covenants are: (1) a maximum ratio of debt to EBITDA of 3.5:1 (upon certain acquisitions, the maximum ratio can be 3.75:1 for three quarters), and (2) a minimum ratio of EBITDA to net cash interest expense of 3.0:1. As of September 30, 2018, we were in compliance with the line of credit covenants.

## Edgar Filing: Vulcan Materials CO - Form 10-Q

Borrowings on our line of credit are classified as short-term debt if we intend to repay within twelve months and as long-term debt if we have the intent and ability to extend repayment beyond twelve months. Borrowings bear interest, at our option, at either LIBOR plus a credit margin ranging from 1.00% to 1.75%, or SunTrust Bank's base rate (generally, its prime rate) plus a credit margin ranging from 0.00% to 0.75%. The credit margin for both LIBOR and base rate borrowings is determined by our credit ratings. Standby letters of credit, which are issued under the line of credit and reduce availability, are charged a fee equal to the credit margin for LIBOR borrowings plus 0.175%. We also pay a commitment fee on the daily average unused amount of the line of credit that ranges from 0.10% to 0.25% determined by our credit ratings. As of September 30, 2018, the credit margin for LIBOR borrowings was 1.25%, the credit margin for base rate borrowings was 0.25%, and the commitment fee for the unused amount was 0.15%.

As of September 30, 2018, our available borrowing capacity was \$505,021,000. Utilization of the borrowing capacity was as follows:

§ \$200,000,000 was borrowed

§ \$44,979,000 was used to provide support for outstanding standby letters of credit

### TERM DEBT

All of our \$2,846,402,000 of term debt is unsecured. \$2,846,188,000 of such debt is governed by three essentially identical indentures that contain customary investment-grade type covenants. The primary covenant in all three indentures limits the amount of secured debt we may incur without ratably securing such debt. As of September 30, 2018, we were in compliance with all term debt covenants.

In March 2018, we early retired via exchange offer \$110,949,000 of the \$240,188,000 7.15% senior notes due 2037 for: (1) a like amount of notes due 2048 (these notes are a further issuance of, and form a single series with, the \$350,000,000 of notes due 2048 issued in February 2018 as described below) and (2) \$38,164,000 of cash. The cash payment primarily reflects the trading price of the retired notes relative to par and will be amortized to interest expense over the term of the notes due 2048. We recognized transaction costs of \$1,314,000 with this early retirement.

In February 2018, we issued \$350,000,000 of 4.70% senior notes due 2048 (these notes now total \$460,949,000 including the \$110,949,000 issued in March as described above) and \$500,000,000 of floating-rate senior notes due 2021. Total proceeds of \$846,029,000 (net of discounts, transaction costs and an interest rate derivative settlement gain), together with cash on hand, were used to retire/repay without penalty or premium: (1) the \$350,000,000 term loan due 2018, (2) the \$250,000,000 term loan due 2021, and (3) the \$250,000,000 bank line of credit borrowings. We recognized net noncash expense of \$203,000 with the acceleration of unamortized deferred transaction costs.

## Edgar Filing: Vulcan Materials CO - Form 10-Q

In January 2018, we early retired via redemption the remaining \$35,111,000 of the 7.50% senior notes due 2021 at a cost of \$40,719,000 including a premium of \$5,608,000. Additionally, we recognized net noncash expense of \$263,000 with the acceleration of unamortized deferred transaction costs.

As a result of the first quarter 2018 early debt retirements described above, we recognized premiums of \$5,608,000, transaction costs of \$1,314,000 and noncash expense (acceleration of unamortized deferred transaction costs) of \$466,000. The combined charge of \$7,388,000 was a component of interest expense for the first quarter of 2018.

In December 2017, we early retired via tender offer, \$564,889,000 of the \$600,000,000 7.50% senior notes due 2021 at a cost of \$662,613,000 including a premium of \$96,167,000 and transaction costs of \$1,558,000. Additionally, we recognized net noncash expense of \$4,228,000 with the acceleration of unamortized deferred transaction costs.

Also in December 2017, we entered into a 6-month \$350,000,000 unsecured term loan with one of the banks that provides our line of credit. Proceeds were used for general corporate purposes. This term loan was prepaid, as described above, in February 2018 with the proceeds of the 4.70% senior notes due 2048.

In July 2017, we early retired via redemption: (1) the \$272,512,000 7.00% senior notes due 2018 and (2) the \$250,000,000 10.375% senior notes due 2018 (neither of which now appear in the table above) — at a combined cost of \$565,560,000 including a premium of \$43,020,000 and transaction costs of \$28,000. Additionally, we recognized net noncash expense of \$3,029,000 with the acceleration of unamortized deferred discounts, transaction costs and interest rate derivative settlement losses. Such redemptions were partially funded with the proceeds of the senior notes issued in June 2017 as described below.



## Edgar Filing: Vulcan Materials CO - Form 10-Q

In June 2017, we issued \$1,000,000,000 of debt composed of three issuances as follows: (1) \$700,000,000 of 4.50% senior notes due 2047, (2) \$50,000,000 of 3.90% senior notes due 2027 (these notes are a further issuance of, and form a single series with, the 3.90% notes issued in March 2017), and (3) \$250,000,000 of floating-rate senior notes due 2020. Total proceeds of \$989,512,000 (net of discounts/premiums and transaction costs) were used to partially finance an acquisition and to early retire the notes due in 2018 as described above.

In June 2017, we drew the full \$250,000,000 on the unsecured delayed draw term loan due 2021. These funds were used to repay the \$235,000,000 line of credit borrowings and for general corporate purposes. This term loan was prepaid, as described above, in February 2018 with proceeds of the floating-rate senior notes due 2021.

In March 2017, we issued \$350,000,000 of 3.90% senior notes due 2027. Proceeds of \$345,450,000 (net of discounts and transaction costs) were used for general corporate purposes. This series of notes now totals \$400,000,000 including the additional \$50,000,000 issued in June as described above.

As a result of the 2017 early debt retirements described above, we recognized premiums of \$139,187,000, transaction costs of \$1,586,000 and net noncash expense (acceleration of unamortized deferred transaction costs) of \$7,257,000. The combined charge of \$148,030,000 was a component of interest expense for the year ended December 31, 2017 with \$46,077,000 recognized in the three and nine months ended September 30, 2017.

### STANDBY LETTERS OF CREDIT

We provide, in the normal course of business, certain third-party beneficiaries with standby letters of credit to support our obligations to pay or perform according to the requirements of an underlying agreement. Such letters of credit typically have an initial term of one year, typically renew automatically, and can only be modified or cancelled with the approval of the beneficiary. All of our standby letters of credit are issued by banks that participate in our \$750,000,000 line of credit, and reduce the borrowing capacity thereunder. Our standby letters of credit as of September 30, 2018 are summarized by purpose in the table below:

in thousands

Standby Letters of Credit	
Risk management insurance	\$ 38,111
Reclamation/restoration requirements	6,868
Total	\$ 44,979

Note 8: Commitments and Contingencies

As summarized by purpose directly above in Note 7, our standby letters of credit totaled \$44,979,000 as of September 30, 2018.

As described in Note 9, our asset retirement obligations totaled \$226,084,000 as of September 30, 2018.

LITIGATION AND ENVIRONMENTAL MATTERS

We are subject to occasional governmental proceedings and orders pertaining to occupational safety and health or to protection of the environment, such as proceedings or orders relating to noise abatement, air emissions or water discharges. As part of our continuing program of stewardship in safety, health and environmental matters, we have been able to resolve such proceedings and to comply with such orders without any material adverse effects on our business.

We have received notices from the United States Environmental Protection Agency (EPA) or similar state or local agencies that we are considered a potentially responsible party (PRP) at a limited number of sites under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or Superfund) or similar state and local environmental laws. Generally, we share the cost of remediation at these sites with other PRPs or alleged PRPs in accordance with negotiated or prescribed allocations. There is inherent uncertainty in determining the potential cost of remediating a given site and in determining any individual party's share in that cost. As a result, estimates can change substantially as additional information becomes available regarding the nature or extent of site contamination, remediation methods, other PRPs and their probable level of involvement, and actions by or against governmental agencies or private parties.

We have reviewed the nature and extent of our involvement at each Superfund site, as well as potential obligations arising under other federal, state and local environmental laws. While ultimate resolution and financial liability is uncertain at a number of the sites, in our opinion based on information currently available, the ultimate resolution of claims and assessments related to these sites will not have a material effect on our consolidated results of operations, financial position or cash flows, although amounts recorded in a given period could be material to our results of operations or cash flows for that period.

We are a defendant in various lawsuits in the ordinary course of business. It is not possible to determine with precision the outcome, or the amount of liability, if any, under these lawsuits, especially where the cases involve possible jury trials with as yet undetermined jury panels.

In addition to these lawsuits in which we are involved in the ordinary course of business, certain other material legal proceedings are more specifically described below:

§ Lower Passaic River Study Area (Superfund Site) — The Lower Passaic River Study Area is part of the Diamond Shamrock Superfund Site in New Jersey. Vulcan and approximately 70 other companies are parties (collectively the Cooperating Parties Group, CPG) to a May 2007 Administrative Order on Consent (AOC) with the EPA to perform a Remedial Investigation/Feasibility Study (draft RI/FS) of the lower 17 miles of the Passaic River (River). However, before the draft RI/FS was issued in final form, the EPA issued a record of decision (ROD) in March 2016 that calls for a bank-to-bank dredging remedy for the lower 8 miles of the River. The EPA estimates that the cost of implementing this proposal is \$1.38 billion. In September 2016, the EPA entered into an Administrative Settlement Agreement and Order on Consent with Occidental Chemical Corporation (Occidental) in which Occidental agreed to undertake the remedial design for this bank-to-bank dredging remedy, and to reimburse the United States for certain response costs.

In August 2017, the EPA informed certain members of the CPG, including Vulcan, that it planned to use the services of a third-party allocator with the expectation of offering cash-out settlements to some parties in connection with the bank-to-bank remedy. This voluntary allocation process is intended to establish an impartial third-party expert recommendation that may be considered by the government and the participants as the basis of possible settlements. We have begun participating in this voluntary allocation process, which is likely to take several years.

In July 2018, Vulcan, along with more than one hundred other defendants, was sued by Occidental in United States District Court for the District of New Jersey, Newark Vicinage. Occidental is seeking cost recovery and contribution under CERCLA. It is unknown at this time whether the filing of the Occidental lawsuit will impact the EPA allocation process.

In October 2018, the EPA ordered the CPG to prepare a streamlined feasibility study specifically for the upper nine miles of the River. This directive is focused on dioxin.

Efforts to remediate the River have been underway for many years and have involved hundreds of entities that have had operations on or near the River at some point during the past several decades. We formerly owned a chemicals operation near the mouth of the River, which was sold in 1974. The major risk drivers in the River have been identified as dioxins, PCBs, DDx and mercury. We did not manufacture any of these risk drivers and have no evidence that any of these were discharged into the River by Vulcan.

The AOC does not obligate us to fund or perform the remedial action contemplated by either the draft RI/FS or the ROD. Furthermore, the parties who will participate in funding the remediation and their respective allocations have not been determined. We do not agree that a bank-to-bank remedy is warranted, and we are not obligated to fund any of the remedial action at this time; nevertheless, we previously estimated the cost to be incurred by us as a potential participant in a bank-to-bank dredging remedy and recorded an immaterial loss for this matter in 2015.

§ TEXAS BRINE MATTER — During the operation of its former Chemicals Division, Vulcan secured the right to mine salt out of an underground salt dome formation in Assumption Parish, Louisiana from 1976 - 2005. Throughout that period and for all times thereafter, the Texas Brine Company (Texas Brine) was the operator contracted by Vulcan (and later Occidental) to mine and deliver the salt. We sold our Chemicals Division in 2005 and transferred our rights and interests related to the salt and mining operations to the purchaser, a subsidiary of Occidental, and we have had no association with the leased premises or Texas Brine since that time. In August 2012, a sinkhole developed in the vicinity of the Texas Brine mining operations, and numerous lawsuits were filed in state court in Assumption Parish, Louisiana. Other lawsuits, including class action litigation, were also filed in federal court before the Eastern District of Louisiana in New Orleans.

There are numerous defendants, including Texas Brine and Occidental, to the litigation in state and federal court. Vulcan was first brought into the litigation as a third-party defendant in August 2013 by Texas Brine. We have since been added as a direct and third-party defendant by other parties, including a direct claim by the State of Louisiana. Damage categories encompassed within the litigation include individual plaintiffs' claims for property damage, a claim by the State of Louisiana for response costs and civil penalties, claims by Texas Brine for response costs and lost profits, claims for physical damages to nearby oil and gas pipelines and storage facilities (pipelines), and business interruption claims.

In addition to the plaintiffs' claims, we were also sued for contractual indemnity and comparative fault by both Texas Brine and Occidental. It is alleged that the sinkhole was caused, in whole or in part, by our negligent actions or failure to act. It is also alleged that we breached the salt lease with Occidental, as well as an operating agreement and related contracts with Texas Brine; that we are strictly liable for certain property damages in our capacity as a former lessee of the salt lease; and that we violated certain covenants and conditions in the agreement under which we sold our Chemicals Division to Occidental. We have likewise made claims for contractual indemnity and on a basis of comparative fault against Texas Brine and Occidental. Vulcan and Occidental have since dismissed all of their claims against one another. Texas Brine has claims that remain pending against Vulcan and against Occidental.

A bench trial (judge only) began in September 2017 and ended in October 2017 in the pipeline cases. The trial was limited in scope to the allocation of comparative fault or liability for causing the sinkhole, with a damages phase of the trial to be held at a later date. In December 2017, the judge issued a ruling on the allocation of fault among the three defendants as follows: Occidental 50%, Texas Brine 35% and Vulcan 15%. This ruling has been appealed by the parties.

We have settled all but two outstanding cases and our insurers have funded these settlements in excess of our self-insured retention amount. The remaining cases involve Texas Brine and the State of Louisiana. Discovery remains ongoing and we cannot reasonably estimate a range of liability pertaining to these open cases at this time.

§ HEWITT LANDFILL MATTER (SUPERFUND SITE) — In September 2015, the Los Angeles Regional Water Quality Control Board (RWQCB) issued a Cleanup and Abatement Order (CAO) directing Vulcan to assess, monitor, cleanup and abate wastes that have been discharged to soil, soil vapor, and/or groundwater at the former Hewitt Landfill in Los Angeles. The CAO follows a 2014 Investigative Order from the RWQCB that sought data and a technical evaluation regarding the Hewitt Landfill, and a subsequent amendment to the Investigative Order requiring us to provide groundwater monitoring results to the RWQCB and to create and implement a work plan for further investigation of the Hewitt Landfill. In April 2016, we submitted an interim remedial action plan (IRAP) to the RWQCB, proposing an on-site pilot test of a pump and treat system; testing and implementation of a leachate recovery system; and storm water capture and conveyance improvements.

Operation of the on-site pilot-scale treatment system began in January 2017, and was completed in April 2017. With completion of the pilot testing and other investigative work, we submitted an amendment to the IRAP (AIRAP) to RWQCB in August 2017 proposing the use of a pump, treat and reinjection system. In December 2017, we submitted an addendum to the AIRAP, incorporating new data acquired since the prior submission. Based on the preliminary design of the system and ongoing costs such as groundwater monitoring, we accrued an initial \$15,239,000 in 2017

(of which \$14,216,000 was recorded to other operating expense in the second quarter of 2017). In February 2018, the AIRAP was approved by RWQCB. As a result of this approval, we have begun to implement the on-site source control activities described in the AIRAP, including additional bench scale testing of the treatment system, which indicated that additional pre and post treatment of the water would be required. Due to the anticipated additional treatment costs, we accrued an additional \$8,640,000 of other operating expense this quarter, bringing the total accrual for the on-site system to \$23,879,000.

We are also engaged in an ongoing dialogue with the EPA, the Los Angeles Department of Water and Power, and other stakeholders regarding the potential contribution of the Hewitt Landfill to groundwater contamination in the North Hollywood Operable Unit (NHOU) of the San Fernando Valley Superfund Site. We are gathering and analyzing data and developing technical information to determine the extent of possible contribution by the Hewitt Landfill to the groundwater contamination in the area. This work is also intended to assist in identification of other PRPs that may have contributed to groundwater contamination in the area.

## Edgar Filing: Vulcan Materials CO - Form 10-Q

The EPA and Vulcan entered into an AOC and Statement of Work having an effective date of September 2017, for the design of two extraction wells south of the Hewitt Site to protect the North Hollywood West well field. In November 2017, we submitted a Pre-Design Investigation Work Plan to the EPA, which sets forth the activities and schedule for our evaluation of the need for a two-well remedy. Estimated costs to comply with this AOC are immaterial and have been accrued. Until the remedial design work and evaluation of the two-well remedy is complete, and a comprehensive remedial action for the NHOU is identified, we cannot reasonably estimate a loss pertaining to this matter.

It is not possible to predict with certainty the ultimate outcome of these and other legal proceedings in which we are involved and a number of factors, including developments in ongoing discovery or adverse rulings, or the verdict of a particular jury, could cause actual losses to differ materially from accrued costs. No liability was recorded for claims and litigation for which a loss was determined to be only reasonably possible or for which a loss could not be reasonably estimated. Legal costs incurred in defense of lawsuits are expensed as incurred. In addition, losses on certain claims and litigation described above may be subject to limitations on a per occurrence basis by excess insurance, as described in our most recent Annual Report on Form 10-K.

### Note 9: Asset Retirement Obligations

Asset retirement obligations (AROs) are legal obligations associated with the retirement of long-lived assets resulting from the acquisition, construction, development and/or normal use of the underlying assets. Recognition of a liability for an ARO is required in the period in which it is incurred at its estimated fair value. The associated asset retirement costs are capitalized as part of the carrying amount of the underlying asset and depreciated over the estimated useful life of the asset. The liability is accreted through charges to operating expenses. If the ARO is settled for other than the carrying amount of the liability, we recognize a gain or loss on settlement.

We record all AROs for which we have legal obligations for land reclamation at estimated fair value. Essentially all these AROs relate to our underlying land, including both owned properties and mineral leases. For the three and nine month periods ended September 30, we recognized ARO operating costs related to accretion of the liabilities and depreciation of the assets as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2018	2017	2018	2017
ARO Operating Costs				
Accretion	\$ 2,684	\$ 2,857	\$ 8,036	\$ 8,620

Edgar Filing: Vulcan Materials CO - Form 10-Q

Depreciation	1,512	1,494	4,192	4,741
Total	\$ 4,196	\$ 4,351	\$ 12,228	\$ 13,361

ARO operating costs are reported in cost of revenues. AROs are reported within other noncurrent liabilities in our accompanying Condensed Consolidated Balance Sheets.

Reconciliations of the carrying amounts of our AROs are as follows:

in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Asset Retirement Obligations				
Balance at beginning of period	\$ 215,421	\$ 223,953	\$ 218,117	\$ 223,872
Liabilities incurred	0	731	0	1,066
Liabilities settled	(2,649)	(5,263)	(10,476)	(15,739)
Accretion expense	2,684	2,857	8,036	8,620
Revisions, net	10,628	610	10,407	5,069
Balance at end of period	\$ 226,084	\$ 222,888	\$ 226,084	\$ 222,888

ARO liabilities settled during the first nine months of 2018 and 2017 include \$6,108,000 and \$8,117,000, respectively, of reclamation activities required under a development agreement and conditional use permits at two adjacent aggregates sites on owned property in Southern California. The reclamation required under the reclamation agreement will result in the restoration and development of 90 acres of previously mined property suitable for retail and commercial development.



## Note 10: Benefit Plans

We sponsor three qualified, noncontributory defined benefit pension plans. These plans cover substantially all employees hired before July 2007, other than those covered by union-administered plans. Normal retirement age is 65, but the plans contain provisions for earlier retirement. Benefits for the Salaried Plan and the Chemicals Hourly Plan are generally based on salaries or wages and years of service; the Construction Materials Hourly Plan provides benefits equal to a flat dollar amount for each year of service. In addition to these qualified plans, we sponsor three unfunded, nonqualified pension plans.

Effective July 2007, we amended our defined benefit pension plans to no longer accept new participants. Future benefit accruals for participants in our salaried defined benefit pension plans ceased on December 31, 2013, while participants' earnings considered for benefit calculations were frozen on December 31, 2015.

The following table sets forth the components of net periodic pension benefit cost:

PENSION BENEFITS in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Components of Net Periodic Benefit Cost				
Service cost	\$ 1,429	\$ 1,653	\$ 4,287	\$ 4,961
Interest cost	8,876	9,057	26,627	27,172
Expected return on plan assets	(14,797)	(12,097)	(44,391)	(36,289)
Amortization of prior service cost	335	335	1,005	1,005
Amortization of actuarial loss	2,457	1,824	7,370	5,471
Net periodic pension benefit cost (credit)	\$ (1,700)	\$ 772	\$ (5,102)	\$ 2,320
Pretax reclassifications from AOCI included in net periodic pension benefit cost	\$ 2,792	\$ 2,159	\$ 8,375	\$ 6,476

The contributions to pension plans for the nine months ended September 30, 2018 and 2017, as reflected on the Condensed Consolidated Statements of Cash Flows, pertain to benefit payments under nonqualified plans and discretionary qualified plan contributions of \$100,000,000 for the first quarter of 2018 and \$10,600,000 for the third quarter of 2017.

In addition to pension benefits, we provide certain healthcare and life insurance benefits for some retired employees. In 2012, we amended our postretirement healthcare plan to cap our portion of the medical coverage cost at the 2015 level. Substantially all our salaried employees and, where applicable, certain of our hourly employees may become eligible for these benefits if they reach a qualifying age and meet certain service requirements. Generally, Company-provided healthcare benefits end when covered individuals become eligible for Medicare benefits, become

eligible for other group insurance coverage or reach age 65, whichever occurs first.

The following table sets forth the components of net periodic other postretirement benefit cost:

OTHER POSTRETIREMENT BENEFITS in thousands	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Components of Net Periodic Benefit Cost				
Service cost	\$ 339	\$ 292	\$ 1,018	\$ 875
Interest cost	310	315	930	945
Amortization of prior service credit	(991)	(1,059)	(2,972)	(3,177)
Amortization of actuarial gain	(324)	(397)	(973)	(1,190)
Net periodic postretirement benefit credit	\$ (666)	\$ (849)	\$ (1,997)	\$ (2,547)
Pretax reclassifications from AOCI included in net periodic postretirement benefit credit	\$ (1,315)	\$ (1,456)	\$ (3,945)	\$ (4,367)

We present the service cost component of net periodic benefit cost in cost of revenues and selling, administrative and general expense consistent with employee compensation costs. The other components of net periodic benefit cost (credit) are reported within other nonoperating income in our accompanying Condensed Consolidated Statements of Comprehensive Income.

## Note 11: other Comprehensive Income

Comprehensive income comprises two subsets: net earnings and other comprehensive income (OCI). The components of other comprehensive income are presented in the accompanying Condensed Consolidated Statements of Comprehensive Income, net of applicable taxes.

Amounts in accumulated other comprehensive income (AOCI), net of tax, are as follows:

in thousands	September 30 2018	December 31 2017	September 30 2017
AOCI			
Interest rate hedges	\$ (8,771)	\$ (11,438)	\$ (11,464)
Pension and postretirement plans	(134,754)	(138,028)	(124,795)
Total	\$ (143,525)	\$ (149,466)	\$ (136,259)

Changes in AOCI, net of tax, for the nine months ended September 30, 2018 are as follows:

in thousands	Interest Rate Hedges	Pension and Postretirement Benefit Plans	Total
AOCI			
Balance as of December 31, 2017	\$ (11,438)	\$ (138,028)	\$ (149,466)
Other comprehensive income before reclassifications	2,496	0	2,496
Amounts reclassified from	171	3,274	3,445

AOCI			
Net current			
period OCI			
changes	2,667	3,274	5,941
Balance as of			
September 30,			
2018	\$ (8,771)	\$ (134,754)	\$ (143,525)

Amounts reclassified from AOCI to earnings, are as follows:

in thousands	Three Months Ended		Nine Months Ended	
	September 30	September 30	September 30	September 30
	2018	2017	2018	2017
Amortization of				
Interest Rate				
Hedge Losses				
Interest expense	\$ 72	\$ 1,955	\$ 232	\$ 3,022
Benefit from				
income taxes	(19)	(767)	(61)	(1,186)
Total 1	\$ 53	\$ 1,188	\$ 171	\$ 1,836
Amortization of				
Pension and				
Postretirement				
Plan Actuarial				
Loss and Prior				
Service Cost				
Other				
nonoperating				
income	\$ 1,477	\$ 703	\$ 4,430	\$ 2,109
Benefit from				
income taxes	(386)	(276)	(1,156)	(828)
Total	\$ 1,091	\$ 427	\$ 3,274	\$ 1,281
Total				
reclassifications				
from AOCI to				
earnings	\$ 1,144	\$ 1,615	\$ 3,445	\$ 3,117

1 Totals for 2017 include the acceleration of deferred losses on interest rate hedges (see Note 6) referable to debt purchases (see Note 7).



Note 12: Equity

Our capital stock consists solely of common stock, par value \$1.00 per share. Holders of our common stock are entitled to one vote per share. Our Certificate of Incorporation also authorizes 5,000,000 shares of preferred stock of which no shares have been issued. The terms and provisions of such shares will be determined by our Board of Directors upon any issuance in accordance with our Certificate of Incorporation.

There were no shares held in treasury as of September 30, 2018, December 31, 2017 and September 30, 2017.

Our common stock purchases (all of which were open market purchases) and subsequent retirements are summarized below:

	September 30 2018	December 31 2017	September 30 2017
in thousands, except average price			
Shares Purchased and Retired			
Number	866	510	510
Total purchase price	\$ 99,916	\$ 60,303	\$ 60,303
Average price per share	\$ 115.31	\$ 118.18	\$ 118.18

As of September 30, 2018, 8,623,227 shares may be purchased under the current purchase authorization of our Board of Directors.

Changes in total equity are summarized below:

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2018	2017	2018	2017
Total Equity				
Balance at beginning of period	\$ 5,020,630	\$ 4,602,104	\$ 4,968,893	\$ 4,572,476

Edgar Filing: Vulcan Materials CO - Form 10-Q

Net earnings	179,151	108,579	391,783	273,639
Common stock issued				
Share-based				
compensation plans, net of				
shares				
withheld for taxes	(32)	(377)	(31,370)	(24,485)
Purchase and retirement of				
common stock	(24,995)	0	(99,916)	(60,303)
Share-based compensation				
expense	6,887	6,282	21,650	19,953
Cash dividends on				
common stock				
(\$0.28/\$0.25/\$0.84/\$0.75				
per share, respectively)	(36,996)	(33,069)	(111,192)	(99,263)
Other comprehensive				
income	1,144	1,615	5,941	3,117
Balance at end of period	\$ 5,145,789	\$ 4,685,134	\$ 5,145,789	\$ 4,685,134

## Note 13: Segment Reporting

We have four operating (and reportable) segments organized around our principal product lines: Aggregates, Asphalt, Concrete and Calcium. The vast majority of our activities are domestic. We sell a relatively small amount of construction aggregates outside the United States. Our Asphalt and Concrete segments are primarily supplied with their aggregates requirements from our Aggregates segment. These intersegment sales are made at local market prices for the particular grade and quality of product used in the production of asphalt mix and ready-mixed concrete. Management reviews earnings from the product line reporting segments principally at the gross profit level.

## segment financial disclosure

	Three Months Ended September 30		Nine Months Ended September 30	
in thousands	2018	2017	2018	2017
Total				
Revenues				
Aggregates 1	\$ 983,731	\$ 858,699	\$ 2,639,653	\$ 2,326,585
Asphalt 2	231,700	189,940	547,363	461,474
Concrete	101,719	115,485	309,404	309,448
Calcium	1,912	1,965	6,136	5,822
Segment sales	\$ 1,319,062	\$ 1,166,089	\$ 3,502,556	\$ 3,103,329
Aggregates intersegment sales	(78,865)	(71,374)	(207,734)	(190,523)
Total revenues	\$ 1,240,197	\$ 1,094,715	\$ 3,294,822	\$ 2,912,806
Gross Profit				
Aggregates 3	\$ 303,787	\$ 257,751	\$ 735,484	\$ 647,961
Asphalt 3	23,857	31,205	49,853	68,447
Concrete 3	14,587	14,138	38,098	33,616
Calcium	911	664	2,226	1,972
Total	\$ 343,142	\$ 303,758	\$ 825,661	\$ 751,996
Depreciation, Depletion, Accretion and Amortization (DDA&A)				
Aggregates	\$ 72,729	\$ 64,071	\$ 208,420	\$ 182,559
Asphalt	8,428	6,494	22,728	18,841



Edgar Filing: Vulcan Materials CO - Form 10-Q

Concrete	3,041	3,591	9,504	10,286
Calcium	68	180	207	567
Other	5,124	5,300	15,604	15,721
Total	\$ 89,390	\$ 79,636	\$ 256,463	\$ 227,974
Identifiable Assets 4				
Aggregates			\$ 8,890,421	\$ 7,974,915
Asphalt			551,336	355,171
Concrete			278,487	233,565
Calcium			4,288	3,505
Total identifiable assets			\$ 9,724,532	\$ 8,567,156
General corporate assets			108,034	171,015
Cash and cash equivalents and restricted cash			43,069	701,163
Total			\$ 9,875,635	\$ 9,439,334

1 Includes product sales, as well as freight & delivery costs that we pass along to our customers, and service revenues related to aggregates.

2 Includes product sales, as well as service revenues from our asphalt construction paving business.

3 The 2017 amounts have been revised as a result of our adoption of ASU 2017-07 as described in Note 17.

4 Certain temporarily idled assets are included within a segment's Identifiable Assets but the associated DDA&A is shown within Other in the DDA&A section above as the related DDA&A is excluded from segment gross profit.

## Note 14: Supplemental Cash Flow Information

Supplemental information referable to our Condensed Consolidated Statements of Cash Flows is summarized below:

in thousands	Nine Months Ended September 30	
	2018	2017
Cash Payments (Refunds)		
Interest (exclusive of amount capitalized)	\$ 82,339	\$ 118,157
Income taxes	(99,585)	124,121
Noncash Investing and Financing Activities		
Accrued liabilities for purchases of property, plant & equipment	\$ 30,588	\$ 10,602
Amounts referable to business acquisitions		
Liabilities assumed	5,056	1,935
Consideration payable to seller	9,500	0

## Note 15: Goodwill

Goodwill is recognized when the consideration paid for a business exceeds the fair value of the tangible and identifiable intangible assets acquired. Goodwill is allocated to reporting units for purposes of testing goodwill for impairment. There were no charges for goodwill impairment in the nine month periods ended September 30, 2018 and 2017. Accumulated goodwill impairment losses amount to \$252,664,000 in the Calcium segment.

We have four reportable segments organized around our principal product lines: Aggregates, Asphalt, Concrete and Calcium. Changes in the carrying amount of goodwill by reportable segment from December 31, 2017 to September 30, 2018 are summarized below:

in thousands	Aggregates	Asphalt	Concrete	Calcium	Total
Goodwill					

Edgar Filing: Vulcan Materials CO - Form 10-Q

Total as of December 31, 2017	\$ 3,030,688	\$ 91,633	\$ 0	\$ 0	\$ 3,122,321
Goodwill of acquired businesses					
1	47,294	0	0	0	47,294
Total as of September 30, 2018	\$ 3,077,982	\$ 91,633	\$ 0	\$ 0	\$ 3,169,615

1 See Note 16 for a summary of acquisitions.

We test goodwill for impairment on an annual basis or more frequently if events or circumstances change in a manner that would more likely than not reduce the fair value of a reporting unit below its carrying value. A decrease in the estimated fair value of one or more of our reporting units could result in the recognition of a material, noncash write-down of goodwill.

## Note 16: Acquisitions and Divestitures

## BUSINESS ACQUISITIONS

2018 BUSINESS ACQUISITIONS — Through the nine months ended September 30, 2018, we purchased the following operations for total consideration of \$216,581,000:

- § Alabama — aggregates, asphalt mix and construction paving operations
- § California — asphalt mix operations
- § Texas — aggregates rail yards, asphalt mix and construction paving operations

The 2018 acquisitions listed above are reported in our condensed consolidated financial statements as of their respective acquisition dates. None of these acquisitions are material to our results of operations or financial position either individually or collectively. The fair value of consideration transferred for these acquisitions and the preliminary amounts (pending appraisals for intangible assets and property, plant & equipment) of assets acquired and liabilities assumed, are summarized below:

in thousands	September 30 2018
Fair Value of Purchase Consideration	
Cash	\$ 207,081
Payable to seller	9,500
Total fair value of purchase consideration	\$ 216,581
Identifiable Assets Acquired and Liabilities Assumed	
Accounts and notes receivable, net	\$ 16,434
Inventories	11,904
Other current assets	932
Property, plant & equipment	145,935
Other intangible assets	
Contractual rights in place	41,497
Deferred income taxes, net	(34,808)
Liabilities assumed	(11,615)
Net identifiable assets acquired	\$ 170,279
Goodwill	\$ 46,302

As a result of the 2018 acquisitions, we recognized \$41,497,000 of amortizable intangible assets (contractual rights in place). The contractual rights in place will be amortized against earnings (\$40,417,000 – straight-line over a weighted-average 20 years and \$1,080,000 – units of sales over an excess of 30 years) of which \$4,720,000 will be deductible for income tax purposes over 15 years. Of the \$46,302,000 of goodwill noted above (none of which will be

deductible for income tax purposes), \$34,808,000 represents the balance of deferred tax liabilities generated from carrying over the seller's tax basis in the assets acquired.

Edgar Filing: Vulcan Materials CO - Form 10-Q

2017 BUSINESS ACQUISITIONS — For the full year 2017, we purchased the following operations for total consideration of \$842,013,000 (\$822,432,000 cash, \$9,681,000 payable, \$9,900,000 fair value of assets swapped), less \$287,292,000 cash received for assets divested immediately upon acquisition as required by the Department of Justice:

- § Arizona — asphalt mix operations
- § California — aggregates and ready-mixed concrete operations
- § Florida — aggregates operations
- § Georgia — aggregates operations
- § Illinois — aggregates operations
- § New Mexico — aggregates operations
- § South Carolina — aggregates operations
- § Tennessee — aggregates, asphalt mix and construction paving operations
- § Virginia — aggregates and ready-mixed concrete operations

The fair value of consideration transferred for the 2017 acquisitions considered to be material, and the preliminary amounts at December 31, 2017 (immaterial adjustments were recorded in the first and second quarters of 2018 including an increase to goodwill of \$992,000) of assets acquired and liabilities assumed, are summarized below:

in thousands	December 31 2017
Fair Value of Purchase Consideration	
Cash	\$ 1,072,978
Payable to seller	7,837
Total fair value of purchase consideration	\$ 1,080,815
Identifiable Assets Acquired and Liabilities Assumed	
Accounts and notes receivable, net	\$ 14,955
Inventories	21,679
Other current assets	608
Investments	3,590
Property, plant & equipment	433,606
Other intangible assets	
Contractual rights in place	295,482
Liabilities assumed	(3,894)
Net identifiable assets acquired	\$ 766,026
Goodwill	\$ 27,497
Net Assets Divested Immediately Upon Acquisition	\$ 287,292

## Edgar Filing: Vulcan Materials CO - Form 10-Q

As a result of the 2017 acquisitions, we recognized \$309,112,000 of amortizable intangible assets (\$309,012,000 contractual rights in place and \$100,000 other intangibles). The contractual rights in place will be amortized against earnings (\$73,879,000 – straight-line over a weighted-average 19.3 years and \$235,133,000 – units of sales over an estimated 54.7 years) and deductible for income tax purposes over 15 years.

### DIVESTITURES AND PENDING DIVESTITURES

In the first quarter of 2018, we sold:

§ ready-mixed concrete operations in Georgia resulting in a pretax gain of \$2,929,000 (we retained all real property which is leased to the buyer, and obtained a long-term aggregates supply agreement)

In 2017, we sold:

§ Fourth quarter — swapped ready-mixed concrete operations in Arizona (fair value of \$9,900,000 and book value of \$1,879,000) for an asphalt mix operation in Arizona resulting in a pretax gain of \$8,021,000

§ Fourth quarter — as required by the Department of Justice, we immediately divested certain assets obtained in the Aggregates USA acquisition resulting in no gain

No assets met the criteria for held for sale at September 30, 2018, December 31, 2017 or September 30, 2017.

Note 17: New Accounting Standards

ACCOUNTING STANDARDS RECENTLY ADOPTED

**PRESENTATION OF BENEFIT PLAN COSTS** During the first quarter of 2018, we adopted Accounting Standards Update (ASU) 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," on a retrospective basis as required. This ASU changed the presentation of the net benefit cost in the income statement and limits benefit costs eligible for inventory capitalization to the service cost component (benefit costs capitalized in inventory are immaterial to our financial statements). We continue to present the service cost component of net benefit cost in cost of revenues and selling, administrative and general expenses consistent with employee compensation costs. The other components of net benefit cost (credit) are now included in other nonoperating income. These other components were a net credit for all periods presented resulting in a decrease in operating earnings and an increase in other nonoperating income, as follows: three months ended September 30, 2018 of \$4,135,000; three months ended September 30, 2017 of \$2,021,000; nine months ended September 30, 2018 of \$12,404,000; and nine months ended September 30, 2017 of \$6,062,000.

ACCOUNTING STANDARDS PENDING ADOPTION

**defined benefit plans** In August 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-14, "Changes to the Disclosure Requirements for Defined Benefit Plans," which adds, removes and clarifies the disclosure requirements for employers that sponsor defined benefit pension and other postretirement benefit plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2021 and is to be applied retrospectively. Early adoption is permitted. While we are still evaluating the impact of ASU 2018-14 and whether we will early adopt, it will not impact our consolidated financial statements as it only affects disclosure.

**RELEASING STRANDED TAX EFFECTS** In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which allows for the reclassification from accumulated other comprehensive income (AOCI) to retained earnings of stranded tax effects resulting from the TCJA enacted in December 2017. This ASU also requires entities to disclose their accounting policy for releasing income tax effects from AOCI. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018. We expect to early adopt this standard in the fourth quarter of 2018 effective as of the beginning of the year. While we are still evaluating the impact of ASU 2018-02, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

**CREDIT LOSSES** In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," which amends guidance on the impairment of financial instruments. The new guidance estimates credit losses based on expected losses, modifies the impairment model for available-for-sale debt securities and provides for



a simplified accounting model for purchased financial assets with credit deterioration. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, and interim reporting periods within those annual reporting periods. Early adoption is permitted for annual reporting periods beginning after December 15, 2018. While we are still evaluating the impact of ASU 2016-13, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

**LEASE ACCOUNTING** In February 2016, the FASB issued ASU 2016-02, "Leases," which amends existing accounting standards for lease accounting and adds additional disclosures about leasing arrangements. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases (excluding mineral leases) with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement and presentation of cash flow in the statement of cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within those annual reporting periods. We will adopt this standard in the first quarter of 2019 and will elect not to recast comparative periods presented. We continue to evaluate the impact of this standard on our consolidated financial statements. The majority of our leases are for real property (land and buildings), which we have determined will be treated as operating leases under this ASU. As a result, we anticipate recording a right-of-use asset and related lease liability for these leases, but we do not expect our expense recognition pattern to change. Therefore, we do not anticipate a material change to our statements of comprehensive income or cash flows as a result of adopting this standard.

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL COMMENTS

Overview

We provide the basic materials for the infrastructure needed to maintain and expand the U.S. economy. We operate primarily in the U.S. and are 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. Our strategy and competitive advantage are based on our strength in aggregates. Aggregates are used in most types of construction and in the production of asphalt mix and ready-mixed concrete.

Demand for our products is dependent on construction activity and correlates positively with growth in population, household formation and employment. End uses include public construction (e.g., highways, bridges, buildings, airports, schools, prisons, sewer and waste disposal systems, water supply systems, dams and reservoirs), private nonresidential construction (e.g., manufacturing, retail, offices, industrial and institutional) and private residential construction (e.g., single-family houses, duplexes, apartment buildings and condominiums). Customers for our products include heavy construction and paving contractors; commercial building contractors; concrete products manufacturers; residential building contractors; railroads and electric utilities; and to a smaller extent state, county and municipal governments.

Aggregates have a high weight-to-value ratio and, in most cases, must be produced near where they are used; if not, transportation can cost more than the materials, rendering them uncompetitive compared to locally produced materials. Exceptions to this typical market structure include areas along the U.S. Gulf Coast and the Eastern Seaboard where there are limited supplies of locally available high-quality aggregates. We serve these markets from quarries that have access to cost-effective long-haul transportation — shipping by barge and rail — and from our quarry on Mexico's Yucatan Peninsula with our fleet of Panamax-class, self-unloading ships.

There are limited substitutes for quality aggregates. Because of barriers to entry created in many metropolitan markets by zoning and permitting regulation and because of high transportation costs relative to the value of the product, the location of reserves is a critical factor to our long-term success.

No material part of our business depends upon any single customer whose loss would have a significant adverse effect on our business. In 2017, our five largest customers accounted for 7.3% of our total revenues (excluding internal sales), and no single customer accounted for more than 2.4% of our total 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.

While aggregates is our focus and primary business, we believe vertical integration between aggregates and downstream products, such as asphalt mix and ready-mixed concrete, can be managed effectively in certain markets generating acceptable financial returns and enhancing financial returns in our core Aggregates segment. We produce and sell asphalt mix and/or ready-mixed concrete primarily in our Alabama, mid-Atlantic, Southwestern, Tennessee and Western markets. Aggregates comprise approximately 95% of asphalt mix by weight and 80% of ready-mixed concrete by weight. In both of these downstream businesses, aggregates are primarily supplied from our own operations.

#### Seasonality and cyclical nature of our business

Almost all our products are produced and consumed outdoors. Seasonal changes and other weather-related conditions can affect the production and sales volume of our products. Therefore, the financial results for any quarter do not necessarily indicate the results expected for the year. Normally, the highest sales and earnings are in the third quarter and the lowest are in the first quarter. Furthermore, our sales and earnings are sensitive to national, regional and local economic conditions, demographic and population fluctuations, and particularly to cyclical swings in construction spending, primarily in the private sector.

EXECUTIVE SUMMARY

Financial highlights for Third Quarter 2018

Compared to third quarter 2017:

- § Total revenues increased \$145.5 million, or 13%, to \$1,240.2 million
- § Gross profit increased \$39.4 million, or 13%, to \$343.1 million
- § Aggregates segment sales increased \$125.0 million, or 15%, to \$983.7 million
- § Aggregates segment freight-adjusted revenues increased \$81.3 million, or 12%, to \$749.8 million
- § Shipments increased 10%, or 5.2 million tons, to 56.2 million tons
- § Same-store shipments increased 6%, or 3.2 million tons, to 54.2 million tons
- § Freight-adjusted sales price increased 2%, or \$0.23 per ton
- § Same-store freight-adjusted sales price increased 2%, or \$0.23 per ton
- § Segment gross profit increased \$46.0 million, or 18%, to \$303.8 million
- § Asphalt, Concrete and Calcium segment gross profit decreased \$6.7 million, or 14%, to \$39.4 million, collectively
- § Selling, administrative and general (SAG) expenses increased \$8.0 million and declined 0.1 percentage points (10 basis points) as a percentage of total revenues
- § Operating earnings increased \$21.7 million, or 10%, to \$249.2 million
- § Earnings from continuing operations were \$179.9 million, or \$1.34 per diluted share, compared to \$110.2 million, or \$0.82 per diluted share
- § Discrete items in the third quarter of 2018 include:
  - § pretax gains of \$0.6 million for business interruption claims
  - § pretax charges of \$10.0 million for divested operations
  - § pretax charges of \$0.2 million associated with non-routine business development
  - § pretax charges of \$0.3 million for restructuring
- § Discrete items in the third quarter of 2017 include:
  - § pretax interest charges of \$46.1 million related to the July 2017 debt purchase
  - § pretax charges of \$0.1 million for divested operations
  - § pretax charges of \$0.8 million associated with non-routine business development
- § Net earnings were \$179.2 million, an increase of \$70.6 million, or 65%
- § Adjusted EBITDA was \$353.5 million, an increase of \$41.7 million, or 13%
- § Increased capital returned to shareholders via dividends (\$37.0 million @ \$0.28 per share versus \$33.1 million @ \$0.25 per share) and share repurchases (\$25.0 million @ an average of \$111.92 per share versus none in third quarter 2017)

Third quarter net earnings increased 65% year-over-year to \$179.2 million on a 13% increase in total revenues. Earnings from continuing operations of \$179.9 million were up 63% and Adjusted EBITDA increased 13% to \$353.5 million.

Aggregates shipments increased 10% (6% on a same-store basis) and average selling price rose 2% (adjusted for mix +3%) over the prior year. As a result, gross profit in the Aggregates segment increased 18% to \$303.8 million, or \$5.41 per ton (same-store +15% to \$295.3 million, or \$5.45 per ton). Aggregates segment incremental gross profit margin was 37% and the gross profit flow-through rate on incremental segment sales excluding freight and delivery was 54% (same-store 65%). Although quarterly gross profit flow-through rates can vary widely from quarter to quarter, we expect continued flow-through improvement in the fourth quarter.

Our operating disciplines and execution in the third quarter were very good, and overcame weather challenges and higher diesel costs to deliver strong incremental earnings. We estimate that weather conditions impacted third quarter earnings by approximately \$27 million, as compared to \$30 million in the prior year's third quarter. Severe weather impacted our ability to serve customers in a number of key markets, but it didn't stop us from improving our unit profitability and realizing double-digit earnings growth in our core aggregates business. Aggregates pricing continued to rise in the third quarter and unit costs declined, resulting in same-store earnings flow-through of 65%.

We are focused on finishing 2018 strong and carrying that momentum forward. Despite Hurricane Michael's impact on shipments in the Gulf Coast and Southeastern markets in early October and continued wet weather in Texas, the aggregates shipment growth rate seen in the third quarter should continue for the balance of the year. Aggregates pricing continues to show upward momentum and the rate of price growth should continue to improve during the fourth quarter given additional pricing actions implemented earlier this year in certain markets. Asphalt pricing gains are beginning to offset higher liquid asphalt costs but will only marginally benefit the rest of 2018. As a result, we expect full-year Asphalt segment gross profit to be approximately \$25.0 million lower than the prior year (\$18.6 million lower year-to-date). Through the first nine months of 2018, Concrete segment gross profit of \$38.1 million is in line with our expectations. Full year expectations for SAG expense remain unchanged at \$335 million. In summary, we now expect 2018 net earnings of approximately \$530 million, earnings from continuing operations of between \$3.85 and \$3.95 per diluted share, Adjusted EBITDA of between \$1.125 and \$1.135 billion and after-tax cash flows from earnings of approximately \$810 million. With disciplined capital deployment and compounding improvements in unit margins, our aggregates-centric business model should enable further gains in after tax-cash flows from earnings as the recovery moves forward.

Our capital allocation and investment-grade rating priorities remain unchanged. During the third quarter, we invested \$48.1 million in core operating and maintenance capital, in line with expectations. We expect core operating and maintenance capital spending for the full year of approximately \$225 million. Additionally, we invested \$53.0 million in internal growth capital projects. Current projects underway include securing new aggregates reserves, developing new production sites, enhancing our distribution capabilities, and selectively expanding asphalt and concrete production capabilities. We now plan for \$300 million in internal growth capital expenditures during 2018.

Our business is positioned for continued shipment growth, compounding pricing improvements, and further gains in unit profitability in 2019. Our broad geographic footprint is uniquely positioned in high-growth markets that are benefitting disproportionately from both growing public construction demand and continued growth in private demand, led by residential demand growth in our markets. The underlying direction of price remains clear, strongly supported by our strategic and tactical focus on compounding pricing improvements. We expect our aggregates shipment and price momentum to continue into 2019. Our preliminary outlook for 2019 includes mid-single digit growth in both aggregates volume and price.

We remain focused on executing at a high level and capitalizing on the above-average demand growth in our markets compared to the rest of the U.S., which supports our continued progress toward mid-cycle goals in 2019 and beyond.

## RESULTS OF OPERATIONS

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 and services related to our aggregates business. We discuss separately our discontinued operations, which consist of our former Chemicals business.

The following table highlights significant components of our consolidated operating results including EBITDA and Adjusted EBITDA.

## consolidated operating Result highlights

in millions, except per share data	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Total revenues	\$ 1,240.2	\$ 1,094.7	\$ 3,294.8	\$ 2,912.8
Cost of revenues	897.1	790.9	2,469.1	2,160.8
Gross profit	\$ 343.1	\$ 303.8	\$ 825.7	\$ 752.0
Selling, administrative and general expenses	\$ 81.6	\$ 73.6	\$ 249.0	\$ 239.1
Operating earnings	\$ 249.2	\$ 227.5	\$ 561.2	\$ 489.8
Interest expense, net	\$ 33.5	\$ 82.0	\$ 104.6	\$ 154.6
Earnings from continuing operations before income taxes	\$ 220.5	\$ 149.2	\$ 469.4	\$ 347.0
Earnings from continuing operations	\$ 179.9	\$ 110.2	\$ 393.6	\$ 265.4
Earnings (loss) on discontinued operations, net of income taxes	(0.7)	(1.6)	(1.8)	8.2
Net earnings	\$ 179.2	\$ 108.6	\$ 391.8	\$ 273.6
Basic earnings (loss) per share				
Continuing operations	\$ 1.36	\$ 0.83	\$ 2.97	\$ 2.00
Discontinued operations	(0.01)	(0.01)	(0.01)	0.07
Basic net earnings per share	\$ 1.35	\$ 0.82	\$ 2.96	\$ 2.07
Diluted earnings (loss) per share				
Continuing operations	\$ 1.34	\$ 0.82	\$ 2.94	\$ 1.97
Discontinued operations	0.00	(0.01)	(0.02)	0.06
Diluted net earnings per share	\$ 1.34	\$ 0.81	\$ 2.92	\$ 2.03
EBITDA	\$ 343.5	\$ 310.9	\$ 830.4	\$ 729.6
Adjusted EBITDA	\$ 353.5	\$ 311.8	\$ 846.2	\$ 748.8

third quarter 2018 Compared to third Quarter 2017

Third quarter 2018 total revenues were \$1,240.2 million, up 13% from the third quarter of 2017. Shipments increased in aggregates (+10%) and asphalt mix (+4%) while they declined in ready-mixed concrete (-18%). Gross profit increased in the Aggregates (+\$46.0 million or +18%) and Concrete (+\$0.4 million or +3%) segments, while it declined in the Asphalt segment (-\$7.3 million or -24%). Asphalt segment earnings were compressed by a 29% increase in unit costs for liquid asphalt. Likewise, a 28% increase in the unit cost of diesel fuel increased costs \$7.9 million from the prior year quarter with most (\$7.5 million) of this cost increase reflected in the Aggregates segment.



## Edgar Filing: Vulcan Materials CO - Form 10-Q

Net earnings for the third quarter of 2018 were \$179.2 million, or \$1.34 per diluted share, compared to \$108.6 million, or \$0.81 per diluted share, in the third quarter of 2017. Each period's results were impacted by discrete items, as follows:

Net earnings for the third quarter of 2018 include:

- § pretax gains of \$0.6 million for business interruption claims
- § pretax charges of \$10.0 million for divested operations
- § pretax charges of \$0.2 million associated with non-routine business development
- § pretax charges of \$0.3 million for restructuring

Net earnings for the third quarter of 2017 include:

- § pretax interest charges of \$46.1 million related to the July 2017 debt purchase
- § pretax charges of \$0.1 million associated with divested operations
- § pretax charges of \$0.8 million associated with non-routine business development, net of termination fee

Continuing Operations — Changes in earnings from continuing operations before income taxes for the third quarter of 2018 versus the third quarter of 2017 are summarized below:

earnings from continuing operations before income taxes

in millions

Third quarter 2017	\$ 149.2
Higher aggregates gross profit	46.0
Lower asphalt gross profit	(7.3)
Higher concrete gross profit	0.4
Higher calcium gross profit	0.2
Higher selling, administrative and general expenses	(8.0)
Higher gain on sale of property, plant & equipment and businesses	0.6
Lower interest expense, net	48.5
All other	(9.1)
Third quarter 2018	\$ 220.5

Aggregates shipments increased 10% (6% same-store) versus the prior year quarter. Shipments in most markets outside those impacted by severe weather realized solid growth versus the prior year. Shipment growth in North Carolina and Virginia was interrupted due to the impact of Hurricane Florence and same-store shipment growth in most Texas markets was hampered due to extremely wet weather in September. We estimate that this year's third quarter volume loss due to severe weather exceeded volume losses in last year's third quarter.

Aggregates freight-adjusted average sales price increased 2% versus the prior year quarter, with the growth rate negatively affected by weather-impacted shipments in higher-priced markets such as North Carolina and Virginia as well as strong shipment growth in relatively lower-priced markets such as Alabama, Arizona and Illinois. Excluding this mix impact, aggregates price increased 3%. Positive trends in backlogged project work along with demand visibility, customer confidence, rising diesel prices, and logistics constraints support continued upward pricing movements for the remainder of the year and into 2019.

Unit cost of sales (freight-adjusted) decreased 1% (same-store -2%) versus the prior year quarter as fixed cost leverage and other operating efficiencies more than offset the 28% increase in the unit cost for diesel fuel and weather-related operating inefficiencies.

Third quarter 2018 Aggregates segment gross profit was \$303.8 million (\$5.41 per ton) versus \$257.8 million (\$5.06 per ton) in third quarter 2017. Gross profit continued to improve despite the aforementioned severe weather in key markets and the 28% increase in diesel cost per gallon.

## Edgar Filing: Vulcan Materials CO - Form 10-Q

Asphalt segment gross profit of \$23.9 million was \$7.3 million lower than the prior year quarter due to lower material margins. Although asphalt mix selling prices increased 8%, or \$4.07 per ton, a 29% increase in unit costs for liquid asphalt more than offset the price improvement. For the quarter, higher liquid asphalt costs negatively affected segment earnings by \$15.8 million.

Concrete segment gross profit (\$14.6 million versus \$14.1 million) improved slightly versus the prior year's third quarter. Same-store shipments decreased 7% year-over-year due to wet weather in our Virginia markets. Same-store average price increases of 5% led to a 6% gain in the same-store material margins.

Our Calcium segment reported gross profit of \$0.9 million versus \$0.7 million in the third quarter of 2017.

SAG expenses were \$81.6 million versus \$73.6 million in the prior year's third quarter. The year-over-year increase was primarily attributable to acquired operations and the timing of investments to further improve operational performance. As a percentage of total revenues, third quarter SAG expense declined from 6.7% in 2017 to 6.6% in 2018.

Other operating expense, which has an approximate run-rate of \$10.0 to \$15.0 million a year (exclusive of discrete items), is composed of various operating items not separately presented in the accompanying Condensed Consolidated Statements of Comprehensive Income. Total other operating expense and significant items included in the total were:

- § \$14.5 million in third quarter 2018 — includes discrete items as follows:
- § \$0.6 million gain referable to the settlement of business interruption claims related to the 2010 Gulf Coast oil spill
- § \$10.0 million of charges associated with divested operations including \$9.2 million of environmental liability accruals related to the Hewitt Landfill matter (see Note 8 to the condensed consolidated financial statements)
- § \$0.2 million of non-routine business development charges
- § \$0.3 million of managerial restructuring charges

- § \$4.2 million in third quarter 2017 — includes discrete items as follows:
- § \$1.2 million of charges associated with non-routine business development
- § \$0.1 million of charges for divested operations

Net interest expense was \$33.5 million in the third quarter of 2018 compared to \$82.0 million in the third quarter of 2017. The prior year amount includes a \$46.1 million charge related to the July 2017 debt purchase. For additional details, see Note 7 to the condensed consolidated financial statements.

Income tax expense from continuing operations was \$40.7 million in the third quarter of 2018 compared to \$39.1 million in the third quarter of 2017. The small increase in income tax expense on a significant increase in pretax

earnings was due to the lower tax rate from the TCJA and the recognition of \$7.2 million of previously unrecognized tax benefits due to the expiration of statute of limitations.

Earnings from continuing operations were \$1.34 per diluted share in the third quarter of 2018 compared to \$0.82 per diluted share in the third quarter of 2017.

Discontinued Operations — Third quarter pretax loss from discontinued operations was \$1.0 million in 2018 compared with \$1.3 million in 2017. Both periods include charges related to general and product liability costs, including legal defense costs, and environmental remediation costs associated with our former Chemicals business. For additional details, see Note 2 to the condensed consolidated financial statements.

Edgar Filing: Vulcan Materials CO - Form 10-Q

YEAR-TO-DATE SEPTEMBER 30, 2018 Compared to YEAR-TO-DATE SEPTEMBER 30, 2017

Total revenues for the first nine months of 2018 were \$3,294.8 million, up 13% from the first nine months of 2017. Shipments were up in aggregates (+11%) and asphalt mix (+5%) while down in ready-mixed concrete (-7%). Gross profit increased in the Aggregates (+\$87.5 million or +14%) and Concrete (+\$4.5 million or +13%) segments while it declined in the Asphalt segment (-\$18.6 million or -27%). Asphalt segment earnings were compressed by a 25% increase in unit costs for liquid asphalt. Likewise, a 28% increase in the unit cost of diesel fuel increased costs \$21.4 million from the first nine months of 2017 with most (\$19.6 million) of this cost increase reflected in the Aggregates segment.

Net earnings for first nine months of 2018 were \$391.8 million, or \$2.92 per diluted share, compared to \$273.6 million, or \$2.03 per diluted share, in the first nine months of 2017. Each period's results were impacted by discrete items, as follows:

§ Net earnings for the first nine months of 2018 include pretax interest charges of \$7.4 million related to early debt retirement, pretax gains of \$2.9 million related to the sale of businesses, pretax gains of \$2.3 million for business interruption claims, pretax charges of \$10.0 million associated with divested operations, pretax charges of \$5.2 million associated with non-routine business development, and pretax charges of \$5.7 million for restructuring.

§ Net earnings for the first nine months of 2017 include pretax interest charges of \$46.1 million related to the July 2017 debt purchases, pretax charges of \$16.5 million associated with divested operations, pretax charges of \$0.8 million associated with non-routine business development (net of contract termination fee), and pretax charges of \$1.9 million for restructuring.

Continuing Operations — Changes in earnings from continuing operations before income taxes for year-to-date September 30, 2018 versus year-to-date September 30, 2017 are summarized below:

earnings from continuing operations before income taxes

in millions

Year-to-date September 30, 2017	\$ 347.0
Higher aggregates gross profit	87.5
Lower asphalt gross profit	(18.6)
Higher concrete gross profit	4.5
Higher calcium gross profit	0.3
Higher selling, administrative and general expenses	(9.9)
Higher gain on sale of property, plant & equipment and businesses	3.7
Lower interest expense, net	50.0
All other	4.9

Year-to-date September 30, 2018

\$ 469.4

Gross profit for our Aggregates segment was \$735.5 million for the first nine months of 2018 versus \$648.0 million in the comparable period of 2017. Aggregates segment sales of \$2,639.7 million were up 13%, and aggregates freight-adjusted revenues of \$2,009.7 million were up 12%. Year-to-date aggregates shipments increased 11% (same-store 6%), or 14.5 million tons (same-store 8.7 million tons), compared to the first nine months of 2017. Freight-adjusted average sales price for aggregates increased 1% (same-store 1%), or \$0.15 (same-store \$0.18) per ton, versus the first nine months of 2017. Year-to-date unit cost of sales (freight-adjusted) in the Aggregates segment was essentially flat (\$8.40 versus \$8.38) versus the first nine months of 2017. As noted above, higher diesel fuel costs accounted for \$19.6 million (or \$0.13 per ton) of the cost increase in the Aggregates segment. Gross profit per ton was \$4.85 for the first nine months of 2018 compared with \$4.72 per ton for the first nine months of 2017.

Our Aggregates segment gross profit flow-through rate continues to move towards longer-term expectations of 60%. Through the first nine months of 2018, Aggregates segment incremental gross profit margin was 28% and the gross profit flow-through rate on incremental segment sales excluding freight and delivery was 39% (same-store 52%). Higher unit prices for diesel fuel negatively impacted this incremental gross profit metric by 9 percentage points (same-store 13 percentage points).

## Edgar Filing: Vulcan Materials CO - Form 10-Q

Asphalt segment gross profit of \$49.9 million was down \$18.6 million from the first nine months of 2017. Shipments increased 5% in total while down slightly on a same-store basis. Material margins were lower as a result of higher liquid asphalt unit costs. Year-to-date, higher liquid asphalt costs negatively affected segment earnings by \$32.2 million.

Concrete segment gross profit was \$38.1 million for the first nine months of 2018, up \$4.5 million from the prior year period. Shipments decreased 7% (same-store increased 1%) versus comparable 2017. Strategic market restructuring (exiting Georgia and Arizona and entering Northern California) contributed to improved Concrete segment material margins and unit gross profit versus the first nine months of 2017. Year-to-date 2018, Concrete segment unit gross profit was 22% higher than year-to-date 2017.

Our Calcium segment reported gross profit of \$2.2 million was up \$0.3 million or 13% versus the first nine months of 2017.

SAG expenses were \$249.0 million versus \$239.1 million in the prior year's first nine months reflecting a 0.6 percentage point (60 basis point) decrease as a percentage of total revenues.

Other operating expense, which has an approximate run-rate of \$10.0 to \$15.0 million a year (exclusive of discrete items), is composed of various operating items not separately presented in the accompanying Condensed Consolidated Statements of Comprehensive Income. Total other operating expense and significant items included in the total were:

§ \$23.8 million in the first nine months of 2018 — includes discrete items as follows:

- § \$2.3 million gain referable to the settlement of business interruption claims related to the 2010 Gulf Coast oil spill
- § \$10.0 million of charges associated with divested operations including \$9.2 million of environmental liability accruals related to the Hewitt Landfill matter (see Note 8 to the condensed consolidated financial statements)
- § \$0.6 million of non-routine business development charges
- § \$5.7 million of managerial restructuring charges

§ \$27.7 million in the first nine months of 2017 — includes discrete items as follows:

- § \$16.5 million of charges associated with divested operations including \$15.6 million of environmental liability accruals related to the Hewitt Landfill matter
- § \$1.2 million of non-routine business development charges, net of an \$8.0 million credit related to an asset purchase agreement termination fee
- § \$1.9 million of managerial restructuring charges

Net interest expense was \$104.6 million in the first nine months of 2018 compared to \$154.6 million in the first nine months of 2017. The current year expense includes \$7.4 million of charges related to the first quarter 2018 debt refinancing while the prior year expense includes \$46.1 million related to the July 2017 debt purchases.

Income tax expense from continuing operations was \$75.8 million in the first nine months of 2018 compared to \$81.6 million in the first nine months of 2017. The decrease in income tax expense was largely due to the lower rate resulting from the TCJA.

Earnings from continuing operations were \$2.94 per diluted share in the first nine months of 2018 compared to \$1.97 per diluted share in the first nine months of 2017.

Discontinued Operations — Year-to-date September pretax loss from discontinued operations was \$2.4 million in 2018 compared with pretax earnings of \$13.6 million in 2017. 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 prior year results also include insurance recoveries from previously incurred general liability costs. For additional details, see Note 2 to the condensed consolidated financial statements.



## RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

## SAME-STORE

We have provided certain information on a same-store basis. When discussing our financial results in comparison to prior periods, we may exclude the operating results of recently acquired/divested businesses that do not have comparable results in the periods being discussed. These recently acquired/divested businesses are disclosed in Note 16 “Acquisitions and Divestitures.” This approach allows us to evaluate the performance of our operations on a comparable basis. We believe that measuring performance on a same-store basis is useful to investors because it enables evaluation of how our operations are performing period over period without the effects of acquisition and divestiture activity. Our same-store information may not be comparable to similar measures used by other companies.

## AGGREGATES SEGMENT FREIGHT-ADJUSTED REVENUES

Aggregates segment freight-adjusted revenues is not a Generally Accepted Accounting Principle (GAAP) measure. We present this metric as it is consistent with the basis by which we review our operating results. We believe that this presentation is consistent with our competitors and meaningful to our investors as it excludes revenues associated with freight & delivery, which are pass-through activities. It also excludes immaterial other revenues related to services, such as landfill tipping fees, that are derived from our aggregates business. Additionally, we use this metric as the basis for calculating the average sales price of our aggregates products. Reconciliation of this metric to its nearest GAAP measure is presented below:

dollars in millions	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Aggregates segment				
Segment sales	\$ 983.7	\$ 858.7	\$ 2,639.7	\$ 2,326.6
Less				
Freight & delivery revenues 1	221.0	181.3	593.5	505.6
Other revenues	12.9	8.9	36.5	24.3
Freight-adjusted revenues	\$ 749.8	\$ 668.5	\$ 2,009.7	\$ 1,796.7
Unit shipments - tons	56.2	50.9	151.7	137.2
Freight-adjusted sales price	\$ 13.35	\$ 13.12	\$ 13.25	\$ 13.10

At the segment level, freight & delivery revenues include intersegment freight & delivery (which are eliminated at the consolidated level) and freight to remote distribution sites.

Edgar Filing: Vulcan Materials CO - Form 10-Q

Aggregates segment gross profit margin as a percentage of segment sales excluding freight & delivery (revenues and costs) is not a GAAP measure. We present this metric as it is consistent with the basis by which we review our operating results. We believe that this presentation is consistent with our competitors and meaningful to our investors as it excludes revenues associated with freight & delivery, which are pass-through activities (we do not generate a profit associated with the transportation component of the selling price of the product). Incremental gross profit as a percentage of segment sales excluding freight & delivery represents the year-over-year change in gross profit divided by the year-over-year change in segment sales excluding freight & delivery. Reconciliations of these metrics to their nearest GAAP measures are presented below:

Aggregates segment gross profit margin in accordance with gaap

dollars in millions	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Aggregates segment				
Gross profit	\$ 303.8	\$ 257.8	\$ 735.5	\$ 648.0
Segment sales	\$ 983.7	\$ 858.7	\$ 2,639.7	\$ 2,326.6
Gross profit margin	30.9%	30.0%	27.9%	27.9%
Incremental gross profit margin	36.8%		28.0%	

Aggregates segment gross profit as a percentage of segment sales excluding freight & delivery

dollars in millions	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Aggregates segment				
Gross profit	\$ 303.8	\$ 257.8	\$ 735.5	\$ 648.0
Segment sales	\$ 983.7	\$ 858.7	\$ 2,639.7	\$ 2,326.6
Freight & delivery revenues 1	221.0	181.3	593.5	505.6
Segment sales excluding freight & delivery	\$ 762.7	\$ 677.4	\$ 2,046.2	\$ 1,821.0
Gross profit as a percentage of segment sales excluding freight & delivery	39.8%	38.0%	35.9%	35.6%
Incremental gross profit as a percentage of segment sales excluding freight & delivery	54.0%		38.9%	

1 At the segment level, freight & delivery revenues include intersegment freight & delivery (which are eliminated at the consolidated level) and freight to remote distribution sites.

36

---

Edgar Filing: Vulcan Materials CO - Form 10-Q

GAAP does not define “cash gross profit” and it should not be considered as an alternative to earnings measures defined by GAAP. We and the investment community use this metric to assess the operating performance of our business. Additionally, we present this metric as we believe that it closely correlates to long-term shareholder value. We do not use this metric as a measure to allocate resources. Aggregates segment cash gross profit per ton is computed by dividing Aggregates segment cash gross profit by tons shipped. Reconciliation of this metric to its nearest GAAP measure is presented below:

cash gross profit

in millions, except per ton data	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Aggregates segment				
Gross profit	\$ 303.8	\$ 257.8	\$ 735.5	\$ 648.0
DDA&A	72.7	64.1	208.4	182.6
Aggregates segment cash gross profit	\$ 376.5	\$ 321.9	\$ 943.9	\$ 830.6
Unit shipments - tons	56.2	50.9	151.7	137.2
Aggregates segment cash gross profit per ton	\$ 6.70	\$ 6.32	\$ 6.22	\$ 6.06
Asphalt segment				
Gross profit	\$ 23.9	\$ 31.2	\$ 49.9	\$ 68.4
DDA&A	8.4	6.5	22.7	18.8
Asphalt segment cash gross profit	\$ 32.3	\$ 37.7	\$ 72.6	\$ 87.2
Concrete segment				
Gross profit	\$ 14.6	\$ 14.1	\$ 38.1	\$ 33.6
DDA&A	3.0	3.6	9.5	10.3
Concrete segment cash gross profit	\$ 17.6	\$ 17.7	\$ 47.6	\$ 43.9
Calcium segment				
Gross profit	\$ 0.9	\$ 0.7	\$ 2.2	\$ 2.0
DDA&A	0.1	0.2	0.2	0.6
Calcium segment cash gross profit	\$ 1.0	\$ 0.9	\$ 2.4	\$ 2.6

Edgar Filing: Vulcan Materials CO - Form 10-Q

GAAP does not define “Earnings Before Interest, Taxes, Depreciation and Amortization” (EBITDA) and it should not be considered as an alternative to earnings measures defined by GAAP. We use this metric to assess the operating performance of our business and as a basis for strategic planning and forecasting as we believe that it closely correlates to long-term shareholder value. We do not use this metric as a measure to allocate resources. We adjust EBITDA for certain items to provide a more consistent comparison of earnings performance from period to period. Reconciliation of this metric to its nearest GAAP measure is presented below:

EBITDA and adjusted ebitda

in millions	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2018	2017	2018	2017
Net earnings	\$ 179.2	\$ 108.6	\$ 391.8	\$ 273.6
Income tax expense	40.7	39.1	75.8	81.6
Interest expense, net of interest income	33.5	82.0	104.6	154.6
(Earnings) loss on discontinued operations, net of tax	0.7	1.6	1.8	(8.2)
EBIT	254.1	231.3	573.9	501.6
Depreciation, depletion, accretion and amortization	89.4	79.6	256.5	228.0
EBITDA	\$ 343.5	\$ 310.9	\$ 830.4	\$ 729.6
Gain on sale of businesses	\$ 0.0	\$ 0.0	\$ (2.9)	\$ 0.0
Business interruption claims recovery	(0.6)	0.0	(2.3)	0.0
Charges associated with divested operations	10.0	0.1	10.0	16.5
Business development, net of termination fee 1	0.2	0.8	5.2	0.8
Restructuring charges	0.3	0.0	5.7	1.9
Adjusted EBITDA	\$ 353.5	\$ 311.8	\$ 846.2	\$ 748.8
Depreciation, depletion, accretion and amortization	(89.4)	(79.6)	(256.5)	(228.0)
Adjusted EBIT	\$ 264.1	\$ 232.2	\$ 589.7	\$ 520.8

1 Represents non-routine charges associated with acquisitions including the cost impact of purchase accounting inventory valuations.

2018 projected ebitda and AFTER-TAX cash flow from earnings

Edgar Filing: Vulcan Materials CO - Form 10-Q

The following reconciliation to the mid-point of the range of 2018 Projected EBITDA excludes adjustments which are difficult to forecast (timing or amount). Due to the difficulty in forecasting such adjustments, we are unable to estimate their significance. Additionally, we present the metric Projected After-Tax Cash Flow from Earnings to assess the operating performance of our business and as a basis for strategic planning and forecasting. These metrics are not defined by GAAP and should not be considered as alternatives to earnings measures defined by GAAP. Reconciliation of these metrics to their nearest GAAP measure is presented below:

in millions	2018 Projected Mid-point
Net earnings	\$ 530
Income tax expense	125
Interest expense, net	135
Discontinued operations, net of tax	0
Depreciation, depletion, accretion and amortization	340
Projected EBITDA	\$ 1,130
Less	
Working capital change	50
Operating & maintenance capital expenditures	225
Cash taxes before impact of certain non-recurring benefits	45
Projected after-tax cash flow from earnings	\$ 810

## LIQUIDITY AND FINANCIAL RESOURCES

Our primary sources of liquidity are cash provided by our operating activities and a substantial, committed bank line of credit. Additional sources of capital include access to the capital markets, the sale of surplus real estate, and dispositions of nonstrategic operating assets. We believe these financial resources are sufficient to fund our business requirements for 2018, including:

- § cash contractual obligations
- § capital expenditures
  - § debt service obligations
- § dividend payments
- § potential share repurchases
- § potential acquisitions

Our balanced approach to capital deployment remains unchanged. We intend to balance reinvestment in our business, growth through acquisitions and return of capital to shareholders, while sustaining financial strength and flexibility.

We actively manage our capital structure and resources in order to minimize the cost of capital while properly managing financial risk. We seek to meet these objectives by adhering to the following principles:

- § maintain substantial bank line of credit borrowing capacity
- § proactively manage our debt maturity schedule such that repayment/refinancing risk in any single year is low
- § maintain an appropriate balance of fixed-rate and floating-rate debt
- § minimize financial and other covenants that limit our operating and financial flexibility

### Cash

Included in our September 30, 2018 cash and cash equivalents and restricted cash balance of \$43.1 million is \$26.8 million of cash held at our foreign subsidiaries. All of this \$26.8 million of cash relates to earnings that are indefinitely reinvested offshore. Use of this cash is currently limited to our foreign operations.

cash from operating activities



in millions	Nine Months Ended	
	September 30	
	2018	2017
Net earnings	\$ 391.8	\$ 273.6
Depreciation, depletion, accretion and amortization (DDA&A)	256.5	228.0
Contributions to pension plans	(107.2)	(17.6)
Cost of debt purchase	6.9	43.0
Other operating cash flows, net 1	24.6	(127.5)
Net cash provided by operating activities	\$ 572.6	\$ 399.5

1 Primarily reflects changes to working capital balances.

Net cash provided by operating activities is derived primarily from net earnings before noncash deductions for depreciation, depletion, accretion and amortization. Net cash provided by operating activities was \$572.6 million during the nine months ended September 30, 2018, a \$173.1 million increase compared to the same period of 2017. During the first quarter of 2018, we made a \$100.0 million discretionary contribution to our qualified pension plans that was deductible for tax purposes in 2017 and early retired debt incurring premium and transaction costs of \$6.9 million which is added back to operating cash flows and reflected as a financing cash outflow. During the third quarter of 2017, we made a discretionary pension plan contribution of \$10.6 million and early retired debt at a \$43.0 million premium which was added back to operating cash flows and is reflected as a financing cash outflow.

cash from investing activities

Net cash used for investing activities was \$549.5 million during the first nine months of 2018, a \$17.1 million decrease compared to the same period of 2017. We invested \$348.2 million in our existing operations in the first nine months of 2018, compared to the \$366.8 million in the prior year period. Of this \$348.2 million, \$194.8 million was invested in internal growth projects to enhance our distribution capabilities, develop new production sites and enhance existing production facilities and other growth opportunities. Additionally, during the first nine months of 2018, we acquired businesses for \$213.1 million of cash consideration as described in Note 16 to the condensed consolidated financial statements. During the first nine months of 2017, we acquired the following businesses for \$210.6 million of cash consideration: California — ready-mixed concrete facilities, an aggregates marine distribution yard and building materials yards; Illinois — aggregates facilities; New Mexico — an aggregates facility; and Tennessee — aggregates facilities, asphalt mix operations and a construction paving business. Furthermore, during the first quarter of 2018, we divested our ready-mixed concrete operations in Georgia resulting in proceeds of \$11.3 million.

cash from financing activities

Net cash used for financing activities in the first nine months of 2018 was \$126.7 million, compared to \$600.2 million provided by financing activities in the same period of 2017. The prior year period included \$784.4 million of net proceeds from debt refinancing activities compared to current year net proceeds of \$115.8 million (as described in the debt section below). Additionally, we increased by \$51.5 million the return of capital to our shareholders via higher dividends of \$11.9 million (\$0.28 per share compared to \$0.25 per share) and higher share repurchases of \$39.6 million (866,490 shares @ \$115.31 average price per share compared to 510,283 shares @ \$118.18 average price per share).

debt

Certain debt measures are presented below:

September 30      December 31      September 30

Edgar Filing: Vulcan Materials CO - Form 10-Q

dollars in millions	2018	2017	2017
<b>Debt</b>			
<b>Current maturities</b>			
of long-term debt	\$ 0.0	\$ 41.4	\$ 4.8
Short-term debt	200.0	0.0	0.0
Long-term debt 1	2,778.1	2,813.5	2,810.0
<b>Total debt</b>	<b>\$ 2,978.1</b>	<b>\$ 2,854.9</b>	<b>\$ 2,814.8</b>
<b>Capital</b>			
<b>Total debt</b>	<b>\$ 2,978.1</b>	<b>\$ 2,854.9</b>	<b>\$ 2,814.8</b>
Equity	5,145.8	4,968.9	4,685.1
<b>Total capital</b>	<b>\$ 8,123.9</b>	<b>\$ 7,823.8</b>	<b>\$ 7,499.9</b>
<b>Total Debt as a</b>			
<b>Percentage of</b>			
<b>Total Capital</b>	<b>36.7%</b>	<b>36.5%</b>	<b>37.5%</b>
<b>Weighted-average</b>			
<b>Effective Interest</b>			
<b>Rates</b>			
Line of credit 2	1.25%	1.25%	1.25%
Term debt	4.45%	4.26%	5.08%
<b>Fixed versus</b>			
<b>Floating Interest</b>			
<b>Rate Debt</b>			
Fixed-rate debt	68.8%	61.8%	82.4%
Floating-rate			
debt	31.2%	38.2%	17.6%

1 Includes borrowings under our line of credit for which we have the intent and ability to extend payment beyond twelve months, as follows: September 30, 2018 — none, December 31, 2017 — \$250.0 million and September 30, 2017 — none. The December 31, 2017 long-term debt also includes a \$350.0 million unsecured term loan due 2018 which was subsequently refinanced in February 2018.

2 Reflects the margin above LIBOR for LIBOR-based borrowings; we also paid upfront fees that are amortized to interest expense and pay fees for unused borrowing capacity and standby letters of credit.

Line of credit

Covenants, borrowing cost ranges and other details are described in Note 7 to the condensed consolidated financial statements. As of September 30, 2018, we were in compliance with the line of credit covenants and the credit margin for LIBOR borrowings was 1.25%, the credit margin for base rate borrowings was 0.25%, and the commitment fee for the unused amount was 0.15%.

As of September 30, 2018, our available borrowing capacity under the line of credit was \$505.0 million. Utilization of the borrowing capacity was as follows:

§ \$200.0 million was borrowed

§ \$45.0 million was used to provide support for outstanding standby letters of credit

TERM DEBT

All of our \$2,846.4 million of term debt is unsecured. \$2,846.2 million of such debt is governed by three essentially identical indentures that contain customary investment-grade type covenants. The primary covenant in all three indentures limits the amount of secured debt we may incur without ratably securing such debt. As of September 30, 2018, we were in compliance with all term debt covenants.

Throughout 2017 and during the first quarter of 2018, we completed a number of debt refinancing activities (see Note 7 to the condensed consolidated financial statements) in order to extend the maturity of our debt portfolio consistent with the long-lived nature of our asset base. As a result of these actions, the weighted-average term of our debt portfolio has more than doubled to approximately 16 years.

As a result of the first quarter 2018 early debt retirements, we recognized premiums of \$5.6 million, transaction costs of \$1.3 million and noncash expense (acceleration of unamortized deferred transaction costs) of \$0.5 million. The combined charge of \$7.4 million was a component of interest expense for the first quarter of 2018.

As a result of the 2017 early debt retirements, we recognized premiums of \$139.2 million, transaction costs of \$1.6 million and net noncash expense (acceleration of unamortized deferred transaction costs) of \$7.2 million. The combined charge of \$148.0 million was a component of interest expense for the year ended December 31, 2017 with \$46.1 million recognized in the three and nine months ended September 30, 2017.

CURRENT MATURITIES of long-term debt

As a result of the debt refinancing activities completed in the first quarter of 2018, current maturities of long-term debt as of September 30, 2018 were insignificant.

debt ratings

Our debt ratings and outlooks as of September 30, 2018 are as follows:

Rating/Outlook	Date	Description
Senior Unsecured Term Debt		
Fitch <del>BBB</del> -/stable	9/24/2018	rating/outlook affirmed
Moody's <del>Aa3</del> /stable	2/20/2018	rating/outlook affirmed
Standard & Poor's <del>BBB</del> /stable	2/20/2018	rating/outlook affirmed

## Equity

Our common stock issuances and purchases are as follows:

September 30 in thousands	2018	December 31 2017	September 30 2017
Common stock shares at January 1, issued and outstanding	132,324	132,339	132,339
Common Stock Issuances			
Share-based compensation plans	587	495	452
Common Stock Purchases			
Purchased and retired	(866)	(510)	(510)
Common stock shares at end of period, issued and outstanding	132,045	132,324	132,281

On February 10, 2017, our Board of Directors authorized us to purchase up to 10,000,000 shares of our common stock. As of September 30, 2018, there were 8,623,227 shares remaining under the authorization. Depending upon market, business, legal and other conditions, we may purchase shares from time to time through open market (including plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934) and/or privately negotiated transactions. The authorization has no time limit, does not obligate us to purchase any specific number of shares, and may be suspended or discontinued at any time.

Our common stock purchases (all of which were open market purchases) for the year-to-date periods ended are detailed below:

September 30 in thousands, except average price	2018	December 31 2017	September 30 2017
Shares Purchased and Retired			
Number	866	510	510
Total purchase price	\$ 99,916	\$ 60,303	\$ 60,303
Average price per share	\$ 115.31	\$ 118.18	\$ 118.18

There were no shares held in treasury as of September 30, 2018, December 31, 2017 and September 30, 2017.

off-balance sheet arrangements

We have no off-balance sheet arrangements, such as financing or unconsolidated variable interest entities, that either have or are reasonably likely to have a current or future material effect on our:

- § results of operations and financial position
- § capital expenditures
- § liquidity and capital resources

Standby Letters of Credit

For a discussion of our standby letters of credit, see Note 7 to the condensed consolidated financial statements.

## Cash Contractual Obligations

Our obligation to make future payments under contracts is presented in our most recent Annual Report on Form 10-K. Changes resulting from our first quarter 2018 debt refinancing as described in Note 7 to the condensed consolidated financial statements are outlined in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.

## CRITICAL ACCOUNTING POLICIES

We follow certain significant accounting policies when preparing our consolidated financial statements. A summary of these policies is included in our Annual Report on Form 10-K for the year ended December 31, 2017 (Form 10-K).

We prepare these financial statements to conform with accounting principles generally accepted in the United States of America. These principles require us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses, and the related disclosures of contingent assets and contingent liabilities at the date of the financial statements. We base our estimates on historical experience, current conditions and various other assumptions we believe reasonable under existing circumstances and evaluate these estimates and judgments on an ongoing basis. The results of these estimates form the basis for our judgments about the carrying values of assets and liabilities as well as identifying and assessing the accounting treatment with respect to commitments and contingencies. Our actual results may materially differ from these estimates.

We believe that the accounting policies described in the “Management's Discussion and Analysis of Financial Condition and Results of Operations” section of our Form 10-K require the most significant judgments and estimates used in the preparation of our consolidated financial statements, so we consider these to be our critical accounting policies. There have been no changes to our critical accounting policies during the nine months ended September 30, 2018.

## new Accounting standards

For a discussion of the accounting standards recently adopted or pending adoption and the effect such accounting changes will have on our results of operations, financial position or liquidity, see Note 17 to the condensed consolidated financial statements.





## FORWARD-LOOKING STATEMENTS

Certain matters discussed in this report, including expectations regarding future performance, contain forward-looking statements that are subject to assumptions, risks and uncertainties that could cause actual results to differ materially from those projected. These assumptions, risks and uncertainties include, but are not limited to:

- § general economic and business conditions
- § the timing and amount of federal, state and local funding for infrastructure
- § changes in our effective tax rate
- § the increasing reliance on information technology infrastructure for our ticketing, procurement, financial statements and other processes could adversely affect operations in the event that the infrastructure does not work as intended, experiences technical difficulties or is subjected to cyber attacks
- § the impact of the state of the global economy on our businesses and financial condition and access to capital markets
- § changes in the level of spending for private residential and private nonresidential construction
- § the highly competitive nature of the construction materials industry
- § the impact of future regulatory or legislative actions, including those relating to climate change, wetlands, greenhouse gas emissions, the definition of minerals, tax policy or international trade
- § the outcome of pending legal proceedings
- § pricing of our products
- § weather and other natural phenomena
- § energy costs
- § costs of hydrocarbon-based raw materials
- § healthcare costs
- § the amount of long-term debt and interest expense we incur
- § changes in interest rates
- § volatility in pension plan asset values and liabilities, which may require cash contributions to the pension plans
- § the impact of environmental cleanup costs and other liabilities relating to existing and/or divested businesses
- § our ability to secure and permit aggregates reserves in strategically located areas
- § our ability to manage and successfully integrate acquisitions
- § the effect of changes in tax laws, guidance and interpretations, including those related to the Tax Cuts and Jobs Act that was enacted in December 2017
- § significant downturn in the construction industry may result in the impairment of goodwill or long-lived assets
- § changes in technologies, which could disrupt the way we do business and how our products are distributed
- § other assumptions, risks and uncertainties detailed from time to time in our periodic reports filed with the SEC

All forward-looking statements are made as of the date of filing or publication. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent required by law. Investors are cautioned not to rely unduly on such forward-looking statements when evaluating the information presented in our filings, and are advised to consult any of our future disclosures in filings made with the Securities and Exchange Commission (SEC) and our press releases with regard to our business and consolidated financial position, results of operations and cash flows.



INVESTOR information

We make available on our website, [www.vulcanmaterials.com](http://www.vulcanmaterials.com), free of charge, copies of our:

- § Annual Report on Form 10-K
- § Quarterly Reports on Form 10-Q
- § Current Reports on Form 8-K

Our website also includes amendments to those reports filed with or furnished to the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as well as all Forms 3, 4 and 5 filed with the SEC by our executive officers and directors, as soon as the filings are made publicly available by the SEC on its EDGAR database ([www.sec.gov](http://www.sec.gov)).

In addition to accessing copies of our reports online, you may request a copy of our Annual Report on Form 10-K, including financial statements, by writing to Jerry F. Perkins Jr., General Counsel and Secretary, Vulcan Materials Company, 1200 Urban Center Drive, Birmingham, Alabama 35242.

We have a:

- § Business Conduct Policy applicable to all employees and directors
- § Code of Ethics for the CEO and Senior Financial Officers

Copies of the Business Conduct Policy and the Code of Ethics are available on our website under the heading “Corporate Governance.” If we make any amendment to, or waiver of, any provision of the Code of Ethics, we will disclose such information on our website as well as through filings with the SEC.

Our Board of Directors has also adopted:

- § Corporate Governance Guidelines
- § Charters for its Audit, Compensation, Executive, Finance, Governance and Safety, Health & Environmental Affairs Committees

These documents meet all applicable SEC and New York Stock Exchange regulatory requirements.

The Charters of the Audit, Compensation and Governance Committees are available on our website under the heading, "Corporate Governance," or you may request a copy of any of these documents by writing to Jerry F. Perkins Jr., General Counsel and Secretary, Vulcan Materials Company, 1200 Urban Center Drive, Birmingham, Alabama 35242.

Information included on our website is not incorporated into, or otherwise made a part of, this report.

ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

We are exposed to certain market risks arising from transactions that are entered into in the normal course of business. To manage these market risks, we may use derivative financial instruments. We do not enter into derivative financial instruments for speculative or trading purposes.

As discussed in the Liquidity and Financial Resources section of Part I, Item 2, we actively manage our capital structure and resources to balance the cost of capital and risk of financial stress. Such activity includes balancing the cost and risk of interest expense. In addition to floating-rate borrowings, we at times use interest rate swaps to manage the mix of fixed-rate and floating-rate debt. Over time, our EBITDA and operating income are positively correlated to floating interest rates (as measured by 3-month LIBOR). As such, our business serves as a natural hedge to rising interest rates, and floating-rate debt serves as a natural hedge to weaker operating results due to general economic weakness.

At September 30, 2018, the estimated fair value of our long-term debt including current maturities was \$2,743.5 million compared to a book value of \$2,778.2 million. The estimated fair value was determined by averaging several asking price quotes for the publicly traded notes and assuming par value for the remainder of the debt. The fair value estimate is based on information available as of the balance sheet date. The effect of a decline in interest rates of one percentage point would increase the fair value of our debt by approximately \$249.9 million.

We are exposed to certain economic risks related to the costs of our pension and other postretirement benefit plans. These economic risks include changes in the discount rate for high-quality bonds and the expected return on plan assets. The impact of a change in these assumptions on our annual pension and other postretirement benefits costs is discussed in our most recent Annual Report on Form 10-K.

ITEM 4

controls and procedures

disclosure controls and procedures

We maintain a system of controls and procedures designed to ensure that information required to be disclosed in reports we file with the SEC is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms. These disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a - 15(e) or 15d - 15(e)), include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer, with the participation of other management officials, evaluated the effectiveness of the design and operation of the disclosure controls and procedures as of September 30, 2018. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2018.

No material changes were made during the third quarter of 2018 to our internal controls over financial reporting, nor have there been other factors that materially affect these controls.

part II other information

ITEM 1

legal proceedings

Certain legal proceedings in which we are involved are discussed in Note 12 to the consolidated financial statements and Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2017 and in Note 8 to the condensed consolidated financial statements and Part II, Item 1 of our Quarterly Report on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018. See Note 8 to the condensed consolidated financial statements of this Form 10-Q for a discussion of certain recent developments concerning our legal proceedings.

ITEM 1A

risk factors

There were no material changes to the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 2

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of our equity securities during the quarter ended September 30, 2018 are summarized below.

Total Number of Shares	Maximum Number of
---------------------------	----------------------



Edgar Filing: Vulcan Materials CO - Form 10-Q

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Purchased as Part of Publicly Announced Plans or Programs	Shares that May Yet Be Purchased Under the Plans or Programs 1
2018				
July 1 - July 31	0	\$ 0.00	0	8,846,570
Aug 1 - Aug 31	223,343	\$ 111.92	223,343	8,623,227
Sept 1 - Sept 30	0	\$ 0.00	0	8,623,227
Total	223,343	\$ 111.92	223,343	

1 On February 10, 2017, our Board of Directors authorized us to purchase up to 10,000,000 shares of our common stock. As of September 30, 2018, there were 8,623,227 shares remaining under the authorization. Depending upon market, business, legal and other conditions, we may make share purchases from time to time through open market (including plans designed to comply with Rule 10b5-1 of the Securities Exchange Act of 1934) and/or privately negotiated transactions. The authorization has no time limit, does not obligate us to purchase any specific number of shares, and may be suspended or discontinued at any time.

We did not have any unregistered sales of equity securities during the third quarter of 2018.

#### ITEM 4

##### MINE SAFETY DISCLOSURES

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 of this report.

ITEM 6

exhibits

- Exhibit 10.1 Separation Agreement, dated as of July 7, 2018, by and between John R. McPherson and Vulcan Materials Company, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 10, 2018 1, 2
- Exhibit 10.2 Offer Letter, dated as of June 19, 2018, by and between Suzanne H. Wood and Vulcan Materials Company, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 10, 2018 1, 2
- Exhibit 31(a) Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 31(b) Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 32(a) Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 32(b) Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 95 MSHA Citations and Litigation
- Exhibit 101.INS XBRL Instance Document
- Exhibit 101.SCH XBRL Taxonomy Extension Schema Document
- Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

1 Incorporated by reference.

2 Management contract or compensatory plan.

Our SEC file number for documents filed with the SEC pursuant to the Securities Exchange Act of 1934, as amended, is 001-33841.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VULCAN MATERIALS COMPANY

/s/ Randy L. Pigg

Randy L. Pigg

Vice President, Controller

Date     October 31, 2018   (Principal Accounting Officer)

/s/ Suzanne H. Wood

Suzanne H. Wood

Senior Vice President and Chief Financial Officer

Date     October 31, 2018   (Principal Financial Officer)