TRNX001-100418b

October 04, 2018
01:00 PM EDT

Gail Peck: If we could have everyone take a seat, I think we're going to get started so we can start on time. Good afternoon. Welcome to Arcosa's first Investor Day as we plan for the separation of Arcosa as a separate public company. I know a lot of you in the room. For those that I don't know yet, I'm Gail Peck, Senior Vice President, Finance, and Treasurer of Arcosa. Thank you for joining us on this exciting day.

Before I go over the agenda, let me just provide a few important steps in the timeline and how we got here. We publicly announced our plans to separate Arcosa from Trinity last December. After a lot of many months of hard work and collaborative effort among the Trinity and Arcosa teams, the Trinity Board of Directors unanimously approved the spinoff of Arcosa on September 25. On Monday of this week, the SEC declared the Registration Statement for Arcosa effective. The record date is October 17. When-issued trading will begin on October 16, and Arcosa will begin trading the regular way on the New York Stock Exchange on November 1 under the ticker symbol ACA. Let me--we may be a new public company with a new name and a new ticker symbol, but we have deep roots in established businesses that we're going to share with you today.

Let's take a quick look at the agenda. First, you're going to hear from Antonio Carrillo, Arcosa's President and Chief Executive Officer. Then you'll hear from each of our three Business Presidents: Reid Essl, Kerry Cole, and Jess Collins. Scott Beasley, our CFO, will provide financial commentary, including insight on Arcosa's capital allocation strategies. Antonio will then provide a wrap-up.

We really want today's discussion to be an interactive discussion, so we'll provide some brief time at the conclusion at each of the Business Presidents' remarks for some operating Q&A, and then we'll have a broad Q&A at the end. If I could ask you to hold financial commentary or questions to the broader Q&A, that would be very helpful, and we can address operating questions during the presentations.

Let me--unfortunately, I have to handle a few logistics before we get started. I'll direct you to the screen, forward-looking statements. Today's presentation contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995 and includes statements as to estimates, expectations, intentions, and predictions of future financial performance. Statements that are not historical facts are forward-looking. The audience is directed to Arcosa's Form 10 as amended and Trinity's Form 10-K and other SEC filings for a description of certain of the business issues and risks, a change in which could cause actual results or outcomes to differ materially from those expressed in these forward-looking statements.

I'd also like to remind webcast participants that you can view the presentation slides live or download from the Event sections of both the Trinity and Arcosa websites. Additionally, an archive of the webcast will be available on each website following today's events.

Before I turn it over to Antonio, we'd like to share with you a very short video on Arcosa, showing the products that we offer that moves infrastructure forward. Thank you.

(Video plays)

Antonio Carrillo: Can everyone hear me well back there? Yes? So first of all, I know we're all busy, and thank you very much or taking the time to get to know Arcosa better. We're all very excited about this time for the company. It's our first introduction to you.

Before I get started, the first thing that everyone has been asking me is how we came with the name of Arcosa. And everyone tells me, "Where did you come up with this name?" And the most important message I want to give you is we are extremely proud of our origins. Our origins come from Trinity Industries, which is based in Dallas, Texas, and was named after the Trinity River. So we were looking for something that brought us back to our origins, because we also took the original Trinity business, which was the propane tank business. And we found out that the name of the river before the Spanish called it Trinity River is the Arkikosa River. So we shortened the name, and it's really something that brings us back to our origins, and it tells about the pride of coming from this great company.

Also, before we start, you're going to hear from each one of our business units, and you're going to have more information than you want and you can process, probably, in a day. So the main message can get lost in this process, so I want to give you a few messages that I want you to take and think about them as you're hearing each one of our business unit Presidents.

So the first thing and the most important is Arcosa is a healthy, strong company, Day 1. This is not a traditional spinoff. This is a separation where the company is being set up to win. It's a company with a very strong balance sheet, with no debt, with cash to grow. We were able to get the management team that I chose. I was able to--I knew the people, I knew the company very well, so I was able to pick and choose a team that I thought was very, very important. Like any company, we're only as good as the team that we have, and I was looking up that I was working in the company for many years, so I knew the people.

The second thing is if you look at our financials, we've been reducing our EBITDA for the last few years. And that's mainly because our barge business, which is the most cyclical business, has had a very long and prolonged down cycle. And if you look at our results for the last few quarters and the orders we've been getting, that cycle is turning around. So we believe there's a good cycle, and you will hear a little more about it from Jess Collins. But the message is it's a great time for the spinoff because we have some wind at our backs that's going to help us through this spinoff, get started, and start growing.

The third message is with a strong balance sheet and some wind on our backs, we've gone, over the last few months, through strategic planning in each one of the businesses, asking them a very simple one: "How can you grow the business organically and inorganically so that we can start filtering those ideas and putting value and weighing them out?" And Scott Beasley's going to tell you how we're going to be filtering those ideas.

And each business, all of them, came up with great ideas for growth. We have more ideas than money. And what we need to do in the near future is to be able to digest all those ideas and make sure that we can also add how certain they are and how easy to execute they are. But the point is Arcosa is healthy, we have wind in our backs, and we have great ideas for growth.

So what are the priorities for the company in the short term? In the short term, we have three simple priorities: we're going to be concentrating our acquisitions and our organic growth on the construction side. After the strategic planning exercise we did, we determined in the short frame, we can grow those businesses relatively fast.

On the energy side, we're going to be concentrating on improving our margins. Kerry Cole will tell you everything about that. And on the transportation segment, we're going to be concentrating on taking advantage of the cycle that we see coming, both on the barge business and on the rail components business.

In the longer term, our main priorities are we want to make sure that we grow in attractive markets. As we grow, two of our priorities are we have to take some of the cyclicality away of this company, and we also want to take, simplify the company. We want to take some of the complexity away from the company.

And with those two things in mind, our main goal is going to be to improve return on invested capital. We're convinced that the only way to add value in the long term is by having strong return on invested capital. And the only way we can do it is by having a good capital allocation model. So those are going to be our priorities.

Why did this spinoff happen? I think you've heard it from Trinity, and you're going to hear it from me again. It's a very simple story. By separating the companies, each company can enhance its focus on each of their businesses. Trinity can concentrate on the rail business, and Arcosa can concentrate on this infrastructure business. At the same time, each company can then also focus and have the capital structure that it needs. A leasing business has a very different capital structure than a manufacturing company, and that can now be applied to each company going forward. And finally, each company can concentrate on their own strategic decisions.

On this page, you can see the numbers for Arcosa. I will not comment on each one of them, but the point is, again, Arcosa is a healthy company with a strong balance sheet, with good margins that can get better, and with a long history.

Let me tell you in a few minutes what Arcosa is made up of, and then each one of the business leaders will tell you more details. So starting with the construction business, we have three businesses in this segment: we have the aggregates business, the specialty materials, and the construction site support. Each one of them are a great business by itself. If you look at the margins on our Form 10, you will see that we have very nice margins, which tells you the strong positions we have on each one. What they don't tell you is that I see each one of these businesses as strategic platforms for growth. Each one of them has their own strategic opportunities to grow, and that's why we said at the beginning we're going to be focusing on this. Reid Essl will tell you a lot of details about each one of them.

On the energy side, it's our largest business. We have a wind towers business, we have our transmission business, utility structures, and also the storage tank, which is the origins of Trinity. Kerry Cole will tell you everything about this, but the main message you want to take from the energy business is that if you look at the margins on our wind tower business, the only reason we have very high margins, very good margins, is because Kerry has done an incredible job in implementing lean initiatives throughout the business. And we have a very strong lean team going in. And his first priority is increasing the margins on the business and increasing the throughput because we have a lot of--the demand is very strong in the three businesses, and we need to increase the throughput. So his main focus is implementing lean to increase throughput and increase margins.

The third business, the transportation business, has really two businesses: one is the barge business which, as I've said, we're getting very good orders. And Jess will tell you what are the drivers for those orders. So we have to accelerate our plans to take advantage of this cycle, and we have great opportunities to do that. Our team is the same team that has done it in the past, so we have a great team that knows how to take advantage of the cycles.

And the components business, which is basically a rail components business, even though we do have a small exposure to mining and other things. But this components business has been mainly focusing on delivering products for Trinity as a supplier for Trinity. The main challenge we have, or the main opportunity we have, is that we have a great business with great platforms, and we have a huge market out there that we've never taken into account because we were focused on supplying internally. So those are some of the opportunities, and Jess Collins will tell you about it.

The investment case, we've talked about most of these topics. Each business has a great established business with a leadership position. We have a great exposure to drivers that are strong, especially on the infrastructure. Our priorities are clear in the short term. I've told you the three priorities we have. The barge recovery is coming, and some of these tailwinds that we're having. And with these four things, I can tell you that in 2019--and I'm going to give you guidance in a little while--is we expect revenue to turn around and EBITDA to turn around, even though we do have some headwinds, especially on the expense side, the separation of the company. We've given guidance that there's between $10 million and $15 million of additional expenses because we are now an independent public company. And we also have, in the new contract established with Trinity for components, we will have a reduction in our margins. So even with those two headwinds, we expect to grow our EBITDA and our revenue.

And finally, the experienced leadership team. As I said, I was fortunate enough to be allowed to pick and choose my team. We have an incredible team. Some of them are here. A lot of them are not here. They're at the plants, making the money. We're just here, trying to tell you the story. But really, everything that goes on is at the plant level and with our customers and with our employees. And we have an incredible team.

On the long term, I mentioned our three priorities. First, the growth in attractive markets. And what does that mean? Each one of our businesses will go through a very disciplined and robust process of--and frequent process--of establishing whether or not the markets there are participating in the markets we want to participate. And what are we going to measure?

First, the dynamics in the market and the strength of the competitors, the suppliers, the customers to determine if that's a market we want to play in. The second is the growth potential. We don't believe that we buy business or are in businesses that do not have growth potential. We have to have businesses that have growth potential. The third is do we have any competitive advantage? Do we have the capabilities to grow and win in that business? And finally, the cyclicality of each business. Those are the key characteristics we're going to be looking to evaluate each one of our markets.

The second is as we do that, we will grow and allocate capital to those businesses that have the best opportunities. And by itself, that will reduce complexity and cyclicality in our business. And finally, improve our return on invested capital.

In the short term, I mentioned it: grow the construction products; improve the energy equipment operational margins; expand our transportation products by taking advantage of the cycle that's coming; and, very important for our company size, operating a very flat organization. Most of the resources will be allocated to the businesses. We will have a small corporate office with the idea of fast decision-making and a very agile organization.

And we--it was mentioned many times that we bring exposure to the infrastructure landscape. We bring it in four different areas that we see. First, the replacement of the aging infrastructure in the US and with our small exposure in Mexico. Aging infrastructure is something that's out there and that needs to be replaced in many cases. The transmission business is a great example, but everyone. You see replacement in the wind towers; you see replacement in the tanks, in most, in roads. So replacement is going to be one of our big drivers. Also, new infrastructure for population growth, for increasing population in the large cities, et cetera.

On the energy sector, there's two secular trends that we are taking advantage of and we believe Arcosa is very well positioned to take advantage of. One is renewable energy. Renewable energy is here to stay, in our point of view. Wind tower has become competitive against natural gas in some regions. And even without the PTC, we believe there's going to be a market. It's probably going to be a different market, but we will continue to participate because we believe that the renewable energy is here to stay.

And the other one is the shale oil and gas revolution that's happened in the US. We have great exposure through our tank business and in some of our construction products to that trend, and we believe we're ready to take advantage of it.

And finally, our exposure in Mexico is smaller than it was at Trinity, but we do have a great business that's been there for 60 years, where we make tanks, wind towers. Every single one of the products that Arcosa makes in the US will be made in Mexico, except barges. And there is a significant exposure to that infrastructure that's needed in the Mexican market.

The separation, again, provides for liquidity for growth for Arcosa, a very healthy balance sheet, and an independent structure. And I'll stop for a second on the independent structure. One of the first decisions that the Board made was we want to have a very clean separation, so we decided there's no overlap at the Board. You've seen the Board. The Boards are completely independent from each other. The management is the same. There will be a couple of long-term contracts to supply parts for the rail business, but for the rest, they're short-term agreements that have been made throughout the separation period, but there's going to be a very clean separation with Trinity.

Again, our Stage 1 priority is grow construction, improve energy, expand our transportation products, and reduce our expenses at the corporate office. Our goal is we cannot do it overnight. The first year is going to be difficult. But our goal is to compensate as much as possible the extra costs because of being a public company by reducing expenses, but that's going to take us a little while.

And with that, our guidance for 2019. Our EBITDA is going to be somewhere between $180 million and $195 million, which includes two big things: the $10 million to $15 million of additional expenses and somewhere around $10 million of reduction in margin from our components business. So there's $25 million that we are having to compensate in our guidance. And Scott Beasley will give you more details about that.
With that, I'll turn the microphone over to our business unit leaders: Kerry Cole, Reid Essl and Jess Collins, and Reid Essl's going to start.

Reid Essl: Thank you, Antonio. Good afternoon, everyone. Thanks again for your time this afternoon. Let's see where we start here.

So our operating environment is currently very compelling within construction materials. Sorry, I need to get one more slide ahead. Construction in general benefits from both population growth as well as the need to enhance and rebuild our aging infrastructure. Our operating locations are located in desirable locations across the US, including Texas, California, and Colorado. And the products we produce have attractive margins. These margins are expected to remain healthy, even with competitive pricing that we see in certain markets. And I'll talk about this a little bit more when we get to our aggregates business. Also, the aggregates market is very fragmented, as most of you know, which leads to numerous organic investment options and acquisition prospects for us.

We see opportunities to expand geographically as well as within our current product portfolio we have today. All of these items validate construction products growth as being a Stage 1 priority, as Antonio discussed just a little while ago.

So a quick overview of the segment and what's in it with our businesses. So Antonio mentioned we have three businesses currently in construction products. The first one is our aggregates business. We produce and sell natural sand, gravel, and limestone base. We serve the markets of Texas and parts of Louisiana. And most of our aggregates goes into ready-mix concrete used to build houses, roadways, bridges, and other precast products.

We also operate a specialty materials business. This business produces lightweight aggregates. And we differentiate this business from our regular aggregates, or natural aggregates business, mainly due to--or two items, really: different raw material inputs, so shale or clay versus the natural sand and gravel; and then they go through additional processing to make these lightweight aggregates, mainly that they go through a very hot rotary kiln to produce them. We entered this business through acquisition about 5 years ago now, and we sell these products nationwide. Our lightweight products go into specialty concrete, roadways, and masonry block.

Another business we entered by acquisition is construction site support. This business consists of our shoring products manufacturing and rental company. We produce steel and aluminum trench boxes and shields that are sold across the US as well as internationally. Our products are inserted into the ground in order to provide a safer working environment for pipeline and utility workers. During the last 12 months, we produced revenues close to $290 million, our EBITDA margins were about 26%, and we estimate that the total market potential for our products to be in excess of $30 billion annually.

There are a number of demand drivers that support our construction products segment. Our businesses are driven, as you can see, by key private and public demand drivers that remain healthy, even without a large federal infrastructure build.

Now a little bit more in-depth overview of each of the businesses.

First, our aggregates business. Again, within this business we operate 11 plants in three core Texas and Gulf Coast markets. Our mine sites are strategically located in close proximity to the Texas Triangle, as you see there on the map, which includes DFW, Houston, and northern parts of central Texas, north of Austin. Texas population growth as well as GDP growth within this Texas Triangle is expected to outpace the national average over the next 7 years. Additionally, TXDOT's unified transportation plan calls for $75 billion worth of infrastructure investment over the next 10 years within the state of Texas.

But as I did mention in my opening remarks, the appealing attributes of Texas has brought additional competition and supply to the market, mainly in the DFW market. We have seen some short-term pricing pressures that, over time, can be mitigated within the segment by organic growth and acquisitions in adjacent markets. This core Texas platform that we have and that we've built through the years provides a foundation for expansion into other attractive geographies.

We've been in the aggregates business for over 20 years now and established a number of competitive advantages. Our reserve locations are strategically located in close proximity, again, to the Texas and Gulf Coast markets, some of the healthiest in the nation. We've established tenured relationships with major concrete producers as well as construction companies in the markets that we serve. And our history in the industry has allowed us to develop a deep bench of operating experts with intimate knowledge of the competitive landscape as well as the reserve positions within those markets.

The aggregates industry presents an attractive growth story with both organic and acquisition opportunities for growth. It's a very fragmented market, again, with a lot of small and regional players, and we have a long list of contacts and relationships that present opportunities for us to acquire privately held businesses and expand the current footprint that we have. We've completed over 50 acquisitions in our history, and many of these were initiated based on these contacts and relationships and not due to a formal sales process.

We also have a team of geologists who support our efforts in identifying these strategic reserves as well as greenfield opportunities when we deem those to be more appropriate and more attractive than going-concern businesses. In fact, in the past we've backed off on acquisitions and instead purchased these strategic reserves when we believe they'll produce better returns for us in the future.

On to specialty materials. As you can see from the map here on the left-hand side of the screen, it's a much more nationwide and more geographically diverse footprint. We operate seven lightweight aggregate facilities across seven states in the US, and we ship our product nationwide--again, by truck, by rail, and by barge. Our products go into similar end markets as the natural aggregates business, but they usually have value-added properties, like either being lighter weight, increasing the fire resistance in certain applications, and reducing cracking.

Just like the aggregates business, we have a number of competitive advantages that we've developed in specialty materials that help generate value for our customers. Again, we're the most geographically diverse lightweight aggregate producer in the US, and we ship our material from coast to coast. We employ a large technical sales force that works with our customers to understand the specific project needs that they have, and our operating expertise as well as the close proximity of our reserves to our operating facilities allows us to competitively serve our nationwide customer base.

Similar to our aggregates business, there are a lot of growth opportunities within specialty materials. Again, we made the initial investment in the lightweight aggregates business 5 years ago now, back in 2013. Since that time, we've followed that up with a series of bolt-on acquisitions to put together the operating platform of seven plants that we have today. We look to leverage this growth model where we've had success and continue to identify and evaluate different materials and minerals businesses that either have unique raw material inputs or value-added processing capabilities that will increase the barriers to entry for any potential competitors that we could have. We believe the addressable market opportunity within this space is in excess of about $4 billion annually.

Here you can see that growth that we've experienced between aggregates and specialty materials over the last 5 to 6 years. As you can see, we've grown it threefold. Again, back in 2013, we entered the business and acquired three plants in Texas, Colorado, and California. In 2015 we acquired an additional two facilities in Louisiana as well as Alabama. And then just last year in two separate transactions, we acquired a plant in Kentucky and one in Indiana to put together the operating footprint we have today.

Construction site support's the last business in our construction products portfolio. This business, again, currently consists of our trench shoring business, rental and manufacturing that produces steel and aluminum trench boxes. But we look to expand this business and add other offerings, including products and services that support the entire construction site. We operate four rental locations within the state of Michigan that rent our products. And additionally, our team works with customers to engineer solutions that fit their specific project needs. It's a much more engineered sale than some of our other businesses. Shoring products are used in our nation's core infrastructure. Again, they're used to build roads, pipelines, and install various utilities across the US.

Competitive advantages in shoring products--again, we've built these, as we've acquired the business in 2012, up until today. We're the leading manufacturer of shoring products in the US. We have three well-respected brands that serve a host of different customers, including contractors, engineers, as well as rental companies, and we employ that large technical sales force that's known for being engineering partners with our customers. We have very well established customer relationships in the industry that we can lean on for sales.

Much of our specialty materials business, again, was built through acquisition--or excuse me, much of our site support business, again, was built through acquisition, just like specialty materials. In 2012 we entered the space by acquiring two well-known industry brands, GME and Pro-Tec. And just last year we bolted on our third brand, Efficiency Production. We continue to look for additional acquisition opportunities within construction site support that will complement our existing portfolio and expand our product offering.

So again, we're very excited about the opportunities that lie ahead of us in construction products. We run and own three well-established business units within our segment. Our manufacturing plants and raw material reserves are strategically located to serve our customer base, and we have a variety of growth opportunities in each one of our lines of business as well as adjacent opportunities related to our product line portfolio.

The competitive landscape is also ripe for additional investment and consolidation, so our construction products segment is well positioned to perform as a Stage 1 priority and grow both organically as well as through acquisition.

At this time I'll open it up if you have any operational questions related to construction products. Yes, sir? They do have one over here, I think.

Cliff Ransom: This is Cliff Ransom. I have a, "When did you stop beating your wife?" question. I've been listening to the infrastructure rebuild requirements since 1972, and we still can't pass a highway bill or a coherent infrastructure bill with any kind of regularity. What's going to be different this time? I quickly grant huge need, a lot of work. But why is it going to be bigger this time?

Reid Essl: Well, I can't speak to the specifics of the infrastructure bill or the pending infrastructure bill, but I'll tell you, whether it's the nationwide footprint we have on the lightweight side or the more regional footprint on the aggregates, we're well positioned to take advantage of any growth that may come from it. State by state, project by project, that of course is going to vary. Yes, sir?

Unidentified Participant: What are the margins on the lightweight material versus regular agg?

Reid Essl: So we haven't broken those out. As you saw, trailing 12 months, the segment as a group has had 26% EBITDA margins.

Unidentified Participant: How material are the input costs to make it from agg to lightweight agg?

Reid Essl: How material--?

Unidentified Participant: It sounds like it goes through a kiln. Do you use a lot of energy, but is it--?

Reid Essl: So our lightweight plants do run off of different energy sources, let's say--coal, natural gas and coke. There is a more specialized process that goes into making the materials, but at this time, again, we haven't broken out the margins related to each one.

Unidentified Participant: Can you give us an idea of the price premium relative to--?

Reid Essl: There is a price premium from lightweight aggregate versus natural aggregate. Because of that price premium, it can be transported longer distances. So as many of you know, obviously, in natural aggregates there's usually maybe a 50- to 60-mile radius that it can be transported outside of the plant. Within lightweight aggregates, as I mentioned, we transport that product by barge, rail, and truck around the US. So there tends to be a higher price point on lightweight aggregates than there is with--

Unidentified Participant: Is it a 100% price premium or--?

Reid Essl: There's a price premium, and it differs by market and it differs by application. Each lightweight plant that we have produces products that go into five or six different end markets, and those end markets command different pricing.

Justin Berger: Thank you. Justin Berger from Gabelli. Two questions. First off, when you talk about adjacent products at the end of your remarks, what are you speaking towards? And in the specialty or lightweight aggregates business, what are sort of the keys to success there? It's sort of, I guess, a very opaque market, probably, to most of us here. So what drives success?

Reid Essl: So the end markets, again, for lightweight are very similar. It's infrastructure. There's public and private growth markets that come from that. It goes into ready-mix concrete, again, for use in high-rise buildings, structural concrete. Lightweight aggregates are also used as a chip seal, a topping material on highways, where some people prefer a lightweight aggregate, certain DOTs, because when it flies up off the road, it doesn't chip your windshield or the paint on your car. So a lot of DOTs use our lightweight aggregate as a topping material on roadways. Masonry block, I also mentioned, is an end use for lightweight material as well. As you can imagine, with the workforce that's out there and the masons, they would much prefer to use a lighter-weight block when they're building buildings or other infrastructure-related projects.

So keys to success--it's hard to really drill down into each of those. But all of our plants serve various end markets, and we have flexibility to move product lines and to shift production when there is more demand for one product over another out of each plant. What was the other question you had?

Justin Berger: The product adjacencies.

Reid Essl: The product adjacencies. So there's many of them. Inside, out of aggregates and specialty materials, there's a lot of other mined materials and minerals that we could get into. And then from a site support standpoint, there's signage, barriers, spill control, any number of things that we could move into from there. Yes, sir?

Unidentified Participant: Could you just talk about the pricing pressure that you're seeing? Can you maybe quantify what that is or maybe give us an idea of what the extra supply is that's come on the market and how we think about that as whether market demand will grow into that supply or any other rationalization in the area?

Reid Essl: Right. It is a little tough to say right now because we're on the early side of that. As more supply has come into the market, people are bringing material into the state from outside of the state right now. We do believe that we continue to operate in a robust construction market and that projects as well as growth will eventually grow into it, to use your terminology. So it's hard to say right now what the long-term impact will be. We believe it's a short-term issue or a short-term item that we're dealing with right now. But we're well positioned to do it. We're one of the, if not the most diverse producer and supplier of aggregates within the DFW market right now. And so we can flex production between different plants that may have different cost profiles and maybe strategically located differently to where different projects are going on.

Unidentified Participant: Just a question, sorry, on the combined aggregates and specialty materials revenue--I'm actually off to your right, sorry, over here.

Reid Essl: Okay, thank you.

Unidentified Participant: Why were revenues down in 2017, especially with the acquisitions, and is there anything you could just tell us the past couple of years, roughly what volume versus price has looked like in this business on an organic basis?

Reid Essl: So we'll get into financial questions maybe sooner to the end of the presentation there. But we made a couple of acquisitions during that time, and there has been, of course, since we have 11 different operating plants, volumes and pricing that changes. In each one of those plants, there has been a shift. And as you can see in the LTM numbers in 2018, it has ticked back up. Is that it?

Ray Benvenuti: Hi, Ray Benvenuti, DC Capital.

Reid Essl: Hi, Ray.

Ray Benvenuti: Maybe you can comment on the size of the potential acquisitions out there in both the lightweight and this traditional aggregates business so we can get a feeling for how big these acquisitions might be and what kind of operational leverage you might have by putting them together.

Reid Essl: As you can imagine, they range in size, and I would assume you'd--there are smaller, tuck-in, bolt-on acquisitions. We've done many of those in the past as we've grown the lightweight business as well as the aggregates business. Of course, there are also opportunities for larger, even more platform or expanding into different geographies, size, acquisitions that are out there. So I'd say we have a very full pipeline right now, and it's something that we talk about on a reoccurring and regular basis amongst our senior leadership team and something we're very focused on going into the future and making sure that we can execute on some of this.

Okay, thank you all. I'm now turning it over Kerry for his comments on the energy side.

Kerry Cole: Thank you, Reid. Good afternoon. My name is Kerry Cole, and I'm excited to walk you through the energy equipment businesses today. There are four main messages that I will cover in today's presentation. I'm going to discuss the dynamic North American energy landscape and how the market outlook benefits our businesses. I'll also cover the competitive advantages that our businesses enjoy. We'll discuss our immediate priorities and actions to improve our margins as well as opportunities for organic growth and potential acquisitions.

The energy segment is comprised of three market-leading businesses in the generation, transmission, and storage sectors of the North American energy market. For the trailing 12 months ending in June, the segment had $785 million in revenue with a 12% adjusted EBITDA margin. Our wind tower and utilities structures businesses had $780 million in backlog at the end of Q2, with orders that extend through 2020.

Going into a little more detail on each business, we're a leading manufacturer of North America of wind towers used in the wind energy market. We have manufactured over 12,000 towers and have long-term relationships with the wind turbine manufacturers. The four manufacturing plants are in the United States and Mexico and are strategically located in the wind-rich regions of both countries. We enjoy a low-cost manufacturing platform due to our continuous improvement initiatives and our strong relationships with the steel mills.

Switching to the utility structures business, we're one of the leading manufacturers in North America of steel utility structures for electricity transmission and distribution and the original pioneer of the tubular steel transmission structure. We have a full product portfolio that includes engineered tubular steel poles as well as lattice steel structures and substation structures. Our six manufacturing plants are located in the US and Mexico, which gives us a desirable geographic footprint and certain cost advantages. Our experienced engineering team leads the industry in innovation and is supported by proprietary designed software. Our full-scale vertical testing facility allows us to test new structural designs instead of solely relying on computer-generated modeling. We have long-term alliance contracts with the utilities, which gives us strong business continuity.

Our storage tank business is a leading manufacturer in North America of pressurized and non-pressurized tanks that store and transport a wide variety of products, including propane, anhydrous ammonia, and natural gas liquids. We've been serving the storage tank market for over 80 years, which gives us a high level of brand recognition and engineering competency. Our three manufacturing plants are located in the United States and in Mexico.

All of our energy businesses have the internationally recognized ISO 9001 2015 quality system. We are also undergoing the process of realigning our management teams in the utility structures business and in the Mexico operations in order to drive better results. We are also in the process of divesting certain businesses in the "other" category in energy equipment.

Our energy businesses have a number of competitive advantages that allow us to position ourselves favorably in the market. We have manufacturing flexibility and broad product lines to meet shifting customer demands. Our scale gives us competitive sourcing advantage as it pertains to raw materials, especially steel. We benefit from strong, long-lasting customer relationships that have been in place for decades. Our engineering expertise allows us to meet demanding customer requirements, especially in the utility structures business.

Our wind towers businesses have benefited from our continuous improvement program we implemented in 2013. The program allowed the wind towers business to increase their capacity while lowering their costs, remaining profitable in a highly cost-competitive market. In 2018, we began to implement this program in our other energy businesses. I'll go into more details on this later in the presentation.

The US energy market is undergoing a dynamic energy landscape. The electric power industry is in a transformative period, driven largely by new technologies, cheap natural gas, and increasingly economical renewable energy options. We are undergoing a strong renewable energy push in the US, which has benefited our wind towers business by providing good visibility into 2021. Once the production tax credit phases out, we expect to be in a more market-driven business.

Natural gas liquids and petrochemical storage needs will increase our demand for the tank business in both the US and in Mexico. The large number of coal plant retirements, coupled with the growth in the natural gas industry, has increased the demand for transmission due to the shift in generation sources. Under-investment in the aging power grid will also create strong replacement demand for transmission and distribution poles. Electric vehicle growth will drive the increase in electricity demands as well, as will under-investment in the electrical grid in Mexico. All of these changes in the energy landscape will bring growth opportunities for our products.

The wind energy industry will continue to experience strong demand for the next 2 to 3 years, when energy costs have declined 67% since 2009 with wind turbine technological advancements. With these cost declines, wind has reached parity with natural gas in the traditional wind-rich regions such as Texas, the Plains, and the Midwest. Our plants are strategically located in these regions to capture this business. We continue to monitor opportunities to participate in the potential US offshore market. Beginning in 2021 with the phase-out of the production tax credit, we see wind becoming a more market-driven business.

Moving to the storage tank business, our products that serve the residential, commercial, and agricultural markets are experiencing strong demand. Our backlogs are stronger than they have been in recent years. The conversion away from fuel oil to LPG as an energy source in the northeast United States is also driving strong demand, as natural gas is not feasible due to the lack of pipeline capacity. We have two main competitors for this product line. We plan to increase our position in the market by increasing capacity at our current facilities as well as expanding products into other Arcosa facilities and through acquisitions.

Our larger transport and industrial-scale storage tank product lines, along with our field-erected tanks, are also experiencing strong demand. Our competitors in these products are more fragmented due to the cost to transport these tanks into farther destinations. We also expect to grow these products through organic growth as well as through acquisition.

Our utility structures business has one of the broadest product portfolios in the industry. The largest product offering is engineered customized tubular steel poles. These structures have a high degree of engineering and presents a strong barrier to entry. We manufacture pre-engineered poles, which positions us nicely to compete with transmission-class wood poles. For high-voltage lines with less stringent right-of-way requirements, we offer steel lattice towers. We also offer complex, tapered tubular structures for medium- to high-voltage substations.

We see the positive market fundamentals for the transmission industry continuing as we continue to see near-record levels of spend. Engineering companies, one of the best leading indicators in the transmission construction markets, indicate their backlog for projects are significant, although the mix has shifted to smaller projects due to the complexity of right-of-way issues associated with installing large transmission projects.

Under-investment in the aging US power grid is driving demand due to reliability and congestion issues. The integration of renewables onto the grid is driving demand investment as well. The oil and gas boom has created a jump in electricity demands, especially in west Texas and eastern New Mexico as they move away from diesel to power wells, compression, and pumping stations.

As I stated earlier, we're expanding our lean program into the other energy businesses. We began our continuous improvement journey in 2013 in our wind towers business. We needed a way to find to create additional capacity due to the surge in the market due to last-minute PTC extension. As you can see from the slide, we have made significant progress in the past 5 years in our safety, quality, delivery and costs, and I'd really especially like to point out the strides that we've made in increasing our capacity in our existing plants by 30% in that 5-year period.

In 2014 we enhanced our lean program to implement strategy deployment. Strategy deployment is a tool that takes a business's 3- to 5-year strategic plan and breaks it down into annual improvement plans. The annual improvement plans cascade down from the business units to the sites, and then all the way down to the associate on the floor and the terms of key KPIs. The purpose of SD is to align the lean initiatives to the business strategy. It ensures standardized, sustainable, and high-performing business results and provides a way to communicate the strategic vision to all levels of the organization.

Just to reiterate our strategic focus, we will continue to foster and enhance our strong customer relationships. Our manufacturing flexibility will allow us to address product expansions. Our wind towers business is prepared to participate in the US potential offshore market. We expect margin growth through the implementation of our continuous improvement programs to all the energy businesses, and we will monitor new technologies and trends that could shift the current transmission model.

In closing, our energy businesses have competitive advantages which provide a foundation for long-term growth. We're diligently working towards improving our margins, and we will seek opportunities for disciplined organic and acquisition growth.

That concludes my presentation, and I'll open the floor up for any Q&A. Yes, sir?

Unidentified Participant: (inaudible – microphone inaccessible)

Kerry Cole: Yes.

Unidentified Participant: What do you think it could get to over the next 2, 3, 4 years? What's your goals there?

Kerry Cole: Well, we've just implemented the program. So what we see--we won't put that number out. But what we see is the lean programs initially, in the first 1 to 2 years, you really get your best bang for your buck because you get the low-hanging fruit. And then after that, as you continue, it gets tougher and tougher. So I would see our greatest improvements in the first 2 to 3 years. I cannot do that in this. Okay. Yes, sir?

Unidentified Participant: (inaudible – microphone inaccessible)

Kerry Cole: Yes, so I think in today's market, the vast majority of what we're seeing is replacement in the cycle. So it's an aging grid; it's reliability and congestion issues. What we see in the slide that we've showed before, the main new piece is really integrating the renewables onto the transmission grid. So the vast majority of the market is replacement at this point in time.

Unidentified Participant: (inaudible – microphone inaccessible)

Kerry Cole: There's no data that we have that exists that show that curve. It's just in general, when you look at the aging grid and the last time we put significant money into it, it's been decades--decades.

Unidentified Participant: On the utility side, how would you characterize the current pricing environment? In the last 3 years or so, we've sort of gone into trough levels in pricing and started to climb out. But where are we versus longer-term trends as it relates to pricing?

Kerry Cole: Yes, so I think when you look at it, pricing was really good in '12, '13, and '14. And that was because demand was really high due to the CREZ project in Texas. Since that time, it's dropped to more traditional levels. During that time period, there was a lot of supply that was put on the market that didn't exist beforehand. So I think what we've got to do is transition some of that supply off the market. But no, we're seeing competitive projects right now. The pricing is competitive. And a lot of it is because they're smaller projects. So in the smaller projects, you could get more people that can participate in those type of projects than you can when they're very big projects. Yes, sir?

Cliff Ransom: If my memory serves me, your wind towers are principally lattice?

Kerry Cole: They are not. They are all round, tubular steel.

Cliff Ransom: Okay, was that a shift in the business over the last couple of years?

Kerry Cole: No, sir. Since we've been in the business in the late '90s, we've always been the big tubular steel. Lattice as a wind tower opportunity probably hasn't been that prevalent in the utility scale for the last 20 years.

Cliff Ransom: I'm often out of touch. Thank you. (Laughter)

Kerry Cole: I should know; it's my business.

Unidentified Participant: There's a bit of customer concentration in the wind tower business overall. Can you talk a little bit about your largest customer--how big they are, how you expect that to evolve over time, and whether that's an opportunity or a risk?

Kerry Cole: Well, that's a very good question. So you're right. The concentration is very small. In the United States, there's predominantly four major wind turbine manufacturers that are playing in the market today, and that's down from about a dozen back in 2012. So all of them right now are very financially stable. We can't go into who our customer base are and the percentages of who we have, but we enjoy relationships with all the major wind turbine OEMs that are out there in the market today. Did that answer your question?

Unidentified Participant: Do you expect to see any dislocation or accelerated demand associated with IMO 2020 for the fuel tank side, if there's any in relation to that? And then also on the utility structure side, from my understanding, oftentimes there's a performance guarantee when you work with utilities or provide a service to them. So is there any kind of liability or performance guarantee, like the integrity of the structure, that you have to replace if something goes wrong with it?

Kerry Cole: So let me address the utility side of the transmission. So we have warranties, and we do not have long-term warranties. They're standard warranties that are in the industry. Certain projects will require to be bonded, but the vast majority are not.

To answer your first question, I'm really not familiar with the term or the spec that you're talking back as it relates to the storage tank. So you can either give me some color on that or--.

Unidentified Participant: Oh, yes, the IMO 2020 regulation was about the amount of sulfur that can be allowed in bunker fuel or fuel used for shipping. I'm not too familiar with it either, but I was wondering if--because I've seen a lot of work being done around repurposing existing tanks to new uses because the fuel sources and fuel uses are going to change geographically. And so I don't know if that related to your business at all.

Kerry Cole: I can't speak to that specifically. We do not refurb tanks. We are a manufacturer of new tanks, so we are not specifically repurposing, like some of our competitors have in the past. But I can certainly research that, and you and I can have a conversation at a later time. Another question? Yes?

David Beard: Hi, it's David Beard with Coker Palmer. Would you mind giving us some color on the amount of steel or aluminum you purchase, and maybe how those contracts are structured relative to changes in price or maybe even some sensitivities? If aluminum and steel prices change, what's the impact to your profitability?

Kerry Cole: Yes, so we are a major purchaser of steel plate in the United States. We have varying different pricing agreements. Most of them have some kind of an escalation clause. In the vast majority of those contracts we have, we're able to pass those costs on to our customers.

Unidentified Participant: Which one of the three segments do you expect the bulk of the margin improvement to come from?

Kerry Cole: I would say it's probably the utility structures and the storage tank market where we see the most opportunities. We have really been diligently working on our costs in the wind business since 2013. We have been preparing for a day that there's not a PTC for several years now. That's part of the reason we also implemented lean. So our cost structure there can always improve, but we feel that we've gotten the low-hanging fruit from that business. We have a lot of low-hanging fruit to get from the other two businesses, so I would expect to see the margins from utility structures and the storage tanks to be the ones that will see the most improvement. Any other questions?

Great. Good questions. Thank you very much. I'm going to turn the presentation over to Jess Collins. Jess is the President of our transportation segment.

Jess Collins: Thank you, Kerry, and good afternoon. My name's Jess Collins. I'm responsible for Arcosa's transportation group of companies, and I'm very excited to share some highlights of our transportation segment with you today.

My presentation this afternoon will highlight Arcosa's leadership position in the barge and rail markets as well as the competitive advantages, cash flow generation, and history of delivering strong returns. The key message you've already heard today is one of growth, and I'm happy to report that our transportation segment has growth opportunities, both near term in the barge business, as we are experiencing some key consistent signs of market recovery, and longer-term growth through product line expansion across many of our transportation companies.

As a high-level overview, the transportation group has multiple well-established product lines. I'll get to those in a little more detail later. But collectively over the last 12 months ending June 30, the group generated $350 million of revenue, and that's historically about half the level that we would see in that segment due to a historic low in the barge market. I'll come back to that on a later slide, as I want to make a point about it. But the key takeaway here is the transportation market is quite large, and our businesses are well positioned for growth.

Operationally, the transportation group has a substantial, well capitalized footprint. We have market-leading positions as well as industry-leading capacity. In our components business, we have three modernized facilities with capacity to serve the rail, rail maintenance, and industrial markets. These facilities are automated with robotic technology, and they produce high-tolerance castings and forgings.

On the marine side of the business, we have four dedicated barge manufacturing facilities. Two of those are currently idle due to the low point I mentioned in the barge cycle. We also have two dedicated fiberglass barge manufacturing facilities. This footprint gives us the flexibility to do a number of things: quickly switch between barge types, meet our customer needs, and operate efficiently and profitably through all market cycles.

Returning now to our brands, and particularly in our components business, we have a rich history and a well-earned reputation with three brands in this business. McConway and Torley is the first. We've produced castings for the rail, mining, and industrial segment since the 1800s. Key product lines are railcar and locomotive coupling devices as well as mining track pads. Key end markets include new railcars, new locomotives, and a consistent railcar maintenance market. I'd like to stress that all of the products we make in this business are what we call "wear" products. They wear out; they have to be replaced, time and time again, so we have a very nice maintenance element to this business.

Our second brand is Standard Forged Products, which has been forging freight car and locomotive axles since the early 1900s. End markets include new freight cars, new passenger cars, locomotives, and also has a maintenance element to this brand as well.

The third is McKees Rocks Forgings, which produces circular forgings for the mining, steel, and other industrial markets. Key products here include crane wheels, passenger railcar wheels, industrial wheels, and gear blanks.

The components business has several key competitive advantages. As I mentioned, we have modernized foundries, dedicated forging equipment. Many of the products that we produce are specialized and are protected by intellectual property. We have industry-leading capacity to serve rail, rail maintenance, and industrial markets, and we have long-term sales agreements with TrinityRail.

To go into a little more detail about these agreements with TrinityRail, they do a number of things for Arcosa. They provide baseload volume, long-term production visibility, and time to grow a new customer base. If you think about it for a moment, as part of Trinity, our components business was really viewed by other new railcar manufacturers as a competitor. But now, as we spin off with Arcosa, we'll be viewed by these manufacturers as a bona fide supplier, so we're very excited about that opportunity.

The sales agreements with Trinity are long-term in nature, and they do contain an annual pricing mechanism. 2019 pricing will be below 2018, as Antonio mentioned in his earlier remarks. We've got a fairly competitive environment out there right now, but again, pricing will be negotiated annually. And we believe that a rail market recovery, in addition to the volume that we believe will pick up in the non-Trinity new railcar builder area, will help mitigate this near-term pricing pressure. And I'm happy to share that we've already gained some traction in the last few weeks with a number of component orders outside of Trinity.

I'd like to now switch to our barge business. Arcosa has a longstanding, industry-leading position in both the inland barge and barge cover markets. We produce tank barges that carry liquid cargo which serve energy, chemical, and agricultural end markets. And from a scale perspective, a tank barge roughly approximates the size of a football field. Many of you saw the video at the beginning of the presentation today with the barge going into the water--300 feet in length, 54 feet in width, and 12 feet in depth. These large capital assets can weigh 1,000 tons. We also produce hopper barges that carry dry cargo, which serve farm, coal, and construction materials markets. Again, large capital assets, 200 feet in length, over 300 tons in weight.

As a complement to those dry barges, we also supply fiberglass barge covers that cover those barges. And last but not least, we produce a full line of marine and deck hardware for barges, tow boats, and dock facilities. I'd like to point out that the barge cover business, as well as the deck hardware business, also have a good replacement and maintenance demand cycle with them as well.

Shifting a little bit to market drivers in the barge business, most people don't realize how critical the US inland waterway system is to our nation's infrastructure, but 14% of all domestic freight moves by water, including 60% of our nation's grain exports, 22% of the petroleum used in the United States, and 20% of coal that's used to generate electricity. Further, barge transportation has environmental and fuel efficiency advantages over truck and rail. And last but certainly not least, the nearly century-old Jones Act requires barges to be manufactured in the United States.

Going into a little more detail on commodities that we cover, if you'll notice on the slide on the left side, we focus on the hopper barge market, and there's no denying that this market has been quite soft over the last few years due to oversupply. But if you'll notice, we have an aging fleet that's approaching 19,000 barges. Most hopper barges have a useful life of 30 years, and with a fleet average age at 15, the replacement demand cycle is fairly compelling. Based on feedback from our customers, the only thing preventing them from ordering currently is the recent spike in the price of steel. We've seen steel for barges go above $900 a ton, which compares to $650 to $700 on an average historical basis. We believe orders for dry cargo barges, as well as barge covers, will begin to flow with just the slightest moderation in steel prices.

On the right side of the slide, the tank barge market also faces a similar strong replacement cycle. These barges also have a 30-year life, and many of the major oil companies replace at 20 years. Again, a similar average age of 15 makes for a strong demand argument.

But even more than replacement in this business, we are very encouraged, as we're seeing a number of strong demand signals across multiple liquid commodity types such as petrochemicals, refined products, and hot oil products. As Antonio alluded earlier in the presentation, our order rate and inquiry levels in this business are encouraging, and we are very near opening an idle barge facility to meet these changes in demand.

The key takeaway here relative to demand, we have a great replacement cycle and we have growth in a number of the commodities that we carry. Arcosa is well positioned to meet this demand due to the competitive advantages we enjoy in the business. Again, we have industry-leading capacity across all of our products--hopper barges, tank barges, and barge covers. We have flexibility to build multiple barge types at multiple facilities, years of experience meeting site requirements and customer requirements, premier steel sourcing capabilities, long-lasting relationships with our customers, and last but not least, experience managing and executing through business cycles.

I want to revisit again the slide earlier in the presentation that gave the $350 million revenue level and really tie that back to executing and managing through business cycles that I just mentioned. You can see on the slide here that over the last 8 to 9 years, the barge business alone has averaged $470 million of revenue, and it's produced return on invested capital north of 60%. We're very proud of the fact that even in the lowest point of this cycle, you can see the business was profitable.

Our leadership team in the barge business is very experienced. This is a testament to their great leadership, and they are ready and capable to respond to the next cycle. We absolutely believe that our barge business will get back to these historic levels as business is on the rise and during the low point of the cycle, a number of competitors did exit. We do, however, need some downward movement in the price of steel, as previously mentioned.

A little more on inquiries and orders. The graph shows that we have had, three out of the last four quarters, with a book-to-bill of substantially higher than 1.0. Granted, it's on a low base, but the fundamentals are there. Again, our inquiry levels have continued to increase, especially on the liquids side. We are ready to execute a defined growth plan to reopen an idle facility should these demand conditions continue.

In closing and to summarize our transportation products group, Arcosa has a leadership position and products critical to our nation's infrastructure. Arcosa has a flexible, well capitalized manufacturing footprint to meet rapid demand changes. Arcosa has a proven track record of operating profitably in all business cycles, and our Stage 1 priorities are well underway: again, opening an idle facility as demand conditions continue, expand our components business and products to new customers and end markets beyond TrinityRail, and pursue additional organic and acquisition growth opportunities.

Thank you. That concludes my remarks. I'll open it up to a few questions. It looks like we have time for a few questions.

Unidentified Participant: Yes, just on industry capacity, I believe JeffBoat went out of business or shut their doors earlier this year. As you look to 5 years into the future, how do we think about how much capacity has come out of the industry?

Jess Collins: Well, it's really hard to say. Again, historically, it's hard to project the number of barges annually that are going to get replaced. There are a lot of dynamics out there. Like I mentioned, steel right now kind of has the hopper barge market depressed from an order perspective. The flip side of that is there are a lot of barges that are being taken out of the market, because scrapping them, they're worth a lot of money right now. So a lot of it depends on some of those market dynamics and I think less about the JeffBoat exit. Yes, sir?

Unidentified Participant: What kind of cash costs would you expect to open up an idle facility?

Jess Collins: It's fairly minimal in the scale of things. Without giving you a hard number, I would give a range somewhere in the $3 million to $5 million range, again depending on the circumstances. But it's in that order of magnitude. We're not talking $50 million. Yes, sir?

Unidentified Participant: I guess if we go back to 2015, the profitability of the historical, I guess, carve-out is tremendous. Is that a level that the company could theoretically get back to in transportation products, or are there limitations and secular changes, things that make that sort of not a relevant high-water mark?

Jess Collins: I'll be the first to tell you that many of the stars aligned in 2015 in both the rail and the marine markets. I will also tell you that we have plenty of capacity and plenty of capability to meet or exceed those levels, there's no question in my mind. I tried to make that point that if you look at that graph, that's a great--that's a question we anticipated, and certainly, we won't have a problem meeting that. One over here.

Cliff Ransom: Cliff Ransom. I've probably been in the barge business, into your barge operations, three times in the last 10 years, and I have never been able to identify, even though I'm supposed to care about lean thinking, why this business has remained profitable with these very large swings in throughput. This chart on page 56 is extraordinarily dramatic. What is it? Can you give us more specifics about how they manage to be so flexible? What did you do?

Jess Collins: Well, there's a couple of elements here, Cliff, and it's nothing fancy, I'll be honest with you. We have a very strong leadership team that's been through many cycles. We've scaled the business up; we've scaled it down many, many times. It's what we do, and we're good at it. Most of our shipyards are in areas that we're able to scale up fairly quickly due to the population. Many of them are in rural areas. A lot of our workforce is farming-related, and although the dynamics of hiring people continue to get harder and harder, we've had good luck in that area.

This is a business that is, if you look at the percentage of the costs and how you manage the business, it's a very high deal content business and one that we don't really--there's no make-to-stock element to this. It's all make-to-order. So we see trends well ahead of when they happen. When they do happen, we're good at reacting to them quickly and making those adjustments that we need to make because we've done it before. Yes, sir?

Bascome Majors: Bascome Majors, Susquehanna. Just to clarify, you talked about being on the cusp of being able to open up the third of your facilities. Could you clarify, is that something that's already happening because of the orders you've recently received, or are you just on the cusp of where that could happen if order strength continues?

Jess Collins: I'll tell you, we're kind of right in the middle there, Bascome. The way I would describe it is we have a defined plan in place that we're ready to pull the trigger on. We've been in discussions with that with our team for the last 60 to 90 days, anticipating this.

Bascome Majors: Is that a hopper-focused facility or a liquids-focused facility?

Jess Collins: It's both. It's both.

Bascome Majors: Can I add one more follow-up to that, if you don't mind?

Jess Collins: Please.

Bascome Majors: Yes, just seeing this chart on page 56 is dramatic. You're basically running $100 million in EBITDA below what was a 5-year average, so clearly not just one peak year. And for a whole company that's guiding $185 million to $190 million in EBITDA, just getting halfway back there is a 25% increase in the profitability of the whole business. Clearly, this is a really big opportunity. If everything kind of goes right, and given your experience in cycles over time, how long does it take to get halfway there if the market does start to improve?

Jess Collins: Again, kind of hard to predict. It depends on the mix, really, of products, if they're tank barges, hopper barges. The pricing, the dynamics on all of those are--it's not like a 2x. It's multiple x relative to the numbers. It's also multiple x relative to the steel and some of the other dynamics. So just, it really depends on the mix. I think--again, it's a cyclical business. You can go back in time and kind of take a look at what some of those curves have been and make your own estimates, but clearly, we believe we can get there, and get there quickly. All right. I have time for one more. Okay?

Unidentified Participant: Thank you. This goes along with kind of Cliff's question about the highway investment. Do you--what is the need right now in waterway to remain competitive? Highway infrastructure is under-invested in. I think waterway is even more so under-invested in. Is that a limiting factor, long term, in relative transportation competitiveness?

Jess Collins: We don't see that as a limiting factor. I alluded to some demand fundamentals across some liquid commodity types, in particular in the Gulf Coast region. There's been quite a petrochemical build out there over the last few years, and that will continue. I think in that region, anyway, I wouldn't say it's been quite as limited as far as dollars spent in that area. Okay, thank you.

I'd like to introduce Scott Beasley, our CFO.

Scott Beasley: Thank you, Jess. I'm Scott Beasley, Arcosa's CFO. I know many of you all from previous investor meetings, and I look forward to getting to know those of you I haven't met with yet. I'd like to emphasize four main messages today and then close with a short discussion on the culture of accessibility and transparency that we want to build with the investment community as we launch Arcosa as a public company.

So the four key financial messages are, first, we're expecting a rebound in operating performance in 2019. Revenue and EBITDA are both expected to be higher in 2019. This improvement is even more pronounced when you look at the tailwinds we face in 2019, first as an independent public company, and then secondly, as part of the pricing agreement with TrinityRail. I'll talk through more of those drivers in detail.

Secondly, we have a strong balance sheet and the liquidity to fund growth.

Third, we have a disciplined capital allocation process to distribute money and invest it across organic, acquisitions, and return of capital to shareholders.

And finally, I'll spend a bit of time talking about our lean operating model and our renewed focus on improving return on invested capital.

Let's start with our 2019 guidance. Our revenue guidance for the year is $1.55 billion to $1.65 billion, and our EBITDA guidance is $180 million to $195 million, both higher than this year's performance. As you can see on the chart, over the last 3 years, the bottom two bars of construction products and energy equipment have been relatively stable. The large drop has been a cyclical decline in our transportation products segment that we've talked about at length today, and particularly in the barge business. We feel like transportation products has now stabilized and is beginning to recover, leading us to feel more confident in higher revenue and EBITDA for next year.

Going into a bit more detail on the guidance, let me walk you through the positives and then the headwinds that we face going into next year. On the positive side, we see strong barge recovery, and a few questions on this. I just want to remind people that margins do tend to trail revenue growth going into an up cycle because of, first of all, some of the orders that will be delivered in 2019, we're still taking in a weaker pricing environment in 2018, and we do have some incremental startup costs if we decide to open another facility. So those margins will trail revenue, but still grow over 2018.

Additionally on the positive side, Kerry talked at length about the Stage 1 priorities in energy equipment: the planned exit of certain businesses in our energy equipment group, and then secondly, the cost reduction programs that we have in place to improve margins in storage tanks and utility structures.

Let me give you a little bit more color on the exit of certain businesses. These were small businesses totaling about $30 million worth of revenue in the other energy equipment product line. They were losing money, and so the decision to divest them should improve margins in 2019.

Finally on the positive side, we expect continued strength in construction products. We've mentioned a bit of pricing pressure in aggregates, but overall, the margins in the segment are still expected to be very healthy.

Then let's talk about the challenges in 2019. There's two large headwinds to our business. The first is the set of incremental corporate costs of roughly $10 million to $15 million that we will face above the annual corporate costs that were in the Form 10. So these are new independent public company costs that weren't previously allocated to Arcosa. We have cost reduction programs in place to mitigate these as much as possible, but our flexibility is limited in 2019, primarily by the transition services agreement, where we have a set of services and functions, particularly in IT, that we have to transition to Arcosa. Have limited flexibility to reduce those costs in Year 1, but hopefully, by 2020 we'll be on a nice downward trajectory. Our goal is to get off the TSAs as quickly as possible, and we have teams working diligently on that.

The second big headwind will be the margins in our components business. Our long-term sales agreement with TrinityRail has an annual pricing mechanism. And given today's competitive environment and the amount of capacity chasing these orders, 2019 pricing will be lower than 2018. We expect components revenue to be roughly flat on better unit volume, but expect the pricing of the new contract to reduce components margin by roughly 5 points, or $10 million to $12 million.

So one way to look at our growth from 2018 into 2019 is that we start with a roughly $25 million headwind from the two challenges we face, and we expect to more than offset that $25 million headwind with the improved performance and the other Stage 1 priorities that we've mentioned.

Let me also note a few things on the guidance. It doesn't include any acquisition growth. We've talked about we do have a pipeline of various opportunities in different stages. And secondly, it is relatively early for us to be giving 2019 guidance right now. And so we wanted to get it out today to help you all as you think about valuation, but we will update you all, either in October or when it's appropriate if we see business conditions change--if the pace of the barge recovery changes or other business conditions shift.

I hope this is helpful color, and I'm happy to answer questions about this following the rest of my presentation.

So turning to our liquidity and balance sheet, we've mentioned before that we'll have roughly $200 million of cash, $400 million of a revolving credit facility, which gives us significant flexibility to fund disciplined growth. For our long-term capital structure, we expect to operate with a net debt-to-EBITDA ratio of 2x to 2.5x. So using $200 million of EBITDA, that implies $400 million to $500 million of capacity. We don't anticipate getting there overnight; this is a long-term goal that we'll get to over time, but we wanted to share our long-term target range to help you think about--help you know how we think about capital structure. We may see temporary spikes above 2.5x if there's a strategic acquisition to pursue, but if we did go above 2.5x, we have a plan to get back to our target range in relatively short order. We know that some of our businesses are cyclical, so we'll be prudent in sizing that EBITDA so that we don't use a peak EBITDA range when sizing that debt range.

So we've talked about the liquidity we have to fund disciplined growth. Let me talk a little bit about our process for capital allocation. So starting with the organic category on the left, our businesses have relatively light capital intensity. Our CapEx has averaged roughly $80 million over the last several years, but that includes a number of reserve investments in our aggregates business. The true maintenance CapEx needs of our businesses are more in the $50 million to $60 million range, or 3% to 4% of our current revenue number.

And after going through strategic planning this year, Antonio mentioned that we're very pleased with the number of organic investment ideas that came out of the businesses. We're very impressed with both the quantity and the quality of ideas. These are businesses that previously didn't have the same impetus for growth as part of the larger Trinity structure. They just didn't move the corporate needle as much. And now they've originated some very compelling ideas to improve capacity, add product lines, expand geographically, and a host of other opportunities. These organic investments tend to be lower risk, higher return, with shorter payback periods, so we're very bullish on our options to deploy capital organically and grow our--improve our return on invested capital.

I'll speak in more detail about our acquisition criteria on the next page, but on the return of capital to shareholders, we do expect to pay a dividend. We do expect to have a share repurchase program. And those are policies that will be finalized by the new Arcosa Board of Directors following the spin.

Let me go into a little more detail on how we allocate capital and the process we've put in place to evaluate opportunities. So we've implemented a rigorous process where we evaluate every organic and acquisition opportunity on the five categories shown here.

The most important category is strategic alignment. We want to make sure that the acquisitions we make are tying back to Antonio's original comments about our long-term vision. Are they helping us grow in attractive markets, reduce cyclicality and complexity of the overall company and improve returns on invested capital? It could be an excellent acquisition, but if it adds complexity to the portfolio or adds cyclicality, it's unlikely to be high on our list.

Secondly, we want to buy for growth rather than just synergy. We are proud of our operating roots and know that we can add operational synergies, but that's typically not the driving factor for the acquisition. We want to buy into attractive infrastructure markets that are well aligned with major trends, then use those acquisitions as additional platforms for growth.

Third, we want to prioritize markets with attractive dynamics and barriers to entry, which should lead to higher and more sustainable margin profiles.

And then fourth, we get asked often about the size of transactions we want to pursue and how small is too small. The thing I'll--our philosophy is this: we will do small deals, but only as bolt-ons to current platforms. If they fill a specific niche that adds a capability or adds a geography that we don't have, small deals can make a lot of sense. But we won't pursue a small deal to be a standalone platform that doesn't have the scale to grow or to make other acquisitions.

And then finally, I want to emphasize that we will be disciplined buyers. We're willing to walk away from deals when they don't meet these criteria, and we've walked away from two deals this year. One, in financial due diligence, we realized it didn't hit our return criteria and so we passed on it. And the second one, it was a great business and an attractive valuation, but upon reflection, it added complexity to our business, it added complexity to our story, so it didn't make sense. So again, we'll be disciplined buyers, and we'll be disciplined about deploying capital.

So let's turn our focus to cash flow and improving return on invested capital. We've talked a lot about return on invested capital today, and we've talked about the different initiatives to improve cash flow. Let me emphasize a few additional points.

First, cash flow has still been very healthy during the downturn, and we're excited to see it grow as we recover in these businesses.

Secondly, we're transitioning to a compensation system that incentivizes on EBITDA and return on invested capital as the primary metrics. So you'll hear us talk a lot about return on invested capital, both internally and externally. And for our business leaders, one of the primary ways they can improve on invested capital, particularly the denominator, is better working capital management. So you see here working capital management is a key KPI for us, and it's expected to be part of our incentive program, and we'd expect it to improve over time as we have increasing focus on it.

Next, I'm going to spend a little time talking about our lean operating model and what we're doing to improve our cost structure and enhance the speed of our decision-making. So we've talked about de-layering the organization, and these efforts to de-layer have the primary benefit of helping good news and bad news travel faster, both up and down the organization, to speed up our decision-making and encourage an entrepreneurial culture.

Secondly, there are a number of tangible actions that we're taking to drive this new culture. Our new headquarters has a much denser footprint, with fewer offices and more open space. We've outsourced the bulk of our IT efforts in the effort to reduce costs and improve the variability of our cost structure. And we have a leadership team here committed to role modeling this behavior. Our corporate team has done an excellent job responding to this cultural shift thus far, and we know that setting an example at the top permeates throughout the entire organization.

Let me conclude by reiterating that we're committed to building a culture of credibility, accessibility, and transparency with the investment community and other stakeholders. I'm personally committed to making time to talk to each one of you either today or in the coming days and weeks, and I look forward to your taking me up on that offer.

So Antonio is going to close us with a few closing remarks before we move to Q&A.

Antonio Carrillo: Thank you. Before I give my closing remarks, I just want to expand on a few of the questions that I think I cannot color to a couple of them, which I think some of them are really important. On steel, there was a question about our steel, capacity to buy steel, et cetera. And one of the things--and I was not here at the trade presentation, but I want to give you a sense. Both companies, both Trinity and Arcosa, will be significant buyers of steel. So yes, we will lose some steel-buying capacity because we will be half the size. But the steel capacity, the volume of steel that we are both buying is still a very large amount, so we will both keep large steel-buying capacity.

Now, on the IMO 2020, it's mainly a ship-driven regulation to reduce emissions, so the fuels for ships are going to change in the type of fuel and the type of sulfur that they can contain, so there is going to be additional storage capacity needed. But we're not big on the non-pressurized tanks. So likely in the US, we will not see a huge demand coming from that. Where you will probably see it is on the barge side, which is used to move fuels throughout the Mississippi.

On the barge capacity and the question of how is it that the barge plants can do this, of shutting down so fast and opening up so fast, first, Jess didn't mention that he started his career in the barge business, so he knows the barge business very, very well. And second, I think the key to any cyclical business is fixed costs. As long as companies keep fixed costs low, you can go through the cycles in a very, very--come out on the other side standing up, I'd say. And the barge business is a great example of that. The fixed costs in that business are incredibly low.

And the other thing that we tend to forget, but if you go to the barge plants today, they're completely different from 20 years ago. Twenty years ago, we used to basically build barges on the outside. And what we've done is increased the size of our buildings to be able to do more and more processing inside. As we've seen this cycle come back, not only are we thinking about opening this new facility, but we have two large capital projects--in total, about $10 million in our largest barge facility--to increase throughput through that facility before thinking about opening another facility. So there are continuous projects to expand our ability to produce barges in each one of them, in addition to opening new facilities.

I was just going to expand on the barge, talking about the $50 million that you mentioned, if you can get to $50 million. One of the things--and Scott mentioned it--but when you're in the down cycle, you try to keep your facilities open and sell barges at cost, or sometimes even below cost, to try to keep your labor force. And that's what he meant by margins lag revenues, because we will have revenues, but we sold some barges at a very low price in the last couple of years. What we've seen as the orders start coming in, the margins start going up. So you will see that those margins start picking up as we fill up the plants.

And two more comments. On the exit of the businesses, I think the exit of the two businesses that we announced today, they're important in several ways. One is there's two ways to increase your margins: one is to increase your margins in your good businesses, and the other one is to get out of the businesses that are losing money. And we didn't exit those businesses lightly; we're not exiting them lightly. We took the business, just like we did with every other business, through a disciplined process of evaluating their growth opportunities and how we could fix them. And we decided that the effort was too much for the benefit and the growth potential they had, and that's why we exited. So it was not something that we did lightly, and it's something that we have to learn some lessons from that process.

And finally, on the components margin that I think everyone has mentioned, that it's going down, I don't want you to keep the idea that because we're not trading now, the margins are going to stay down. It's a market-driven product, and if the rail market is really, really strong, you will see really, really high margins. When the rail market is weak, you will see some weak margins. So it's an annual contract, as we said, and if the rail market continues to improve as we've seen, you might see those margins come back at some point in time. So it's not something we lost forever.

To my closing remarks, then. First, thank you again for coming. I hope you get an idea of what Arcosa is all about. I'm going to close with the same remarks I started.

Remember, Arcosa is a solid company, Day 1. We have wind on our backs based on the barge business and some other businesses. We have great growth opportunities and a very solid balance sheet. And our priorities are going to be capitalizing on that growth on the construction segment, increasing our margins on energy, and taking this cycle up full speed in the barge business and in the components, and in the long term, participating in growth markets with reducing complexity and cyclicality and increasing our return on invested capital.

Finally, as a last comment--Scott mentioned it--the biggest message I give my management team every day is we're building a new company, and therefore we have to build credibility with our stakeholders--with our Board, with our new Board, with our investors, with our employees, with our communities--and that's a commitment we're doing here. We have to be able to come back here a year from now and tell you, "We told you we were doing this, and we did it." And that's something you're going to see in this being available to you. You're going to see a company that's available for you to be asking questions, et cetera.

So with that, I'll open it up for questions, and thank you again.

Cliff Ransom: Cliff Ransom again. Antonio, let me ask a couple of questions about lean in general. How far along are you in applying those kinds of process transformations in what I call the transactional areas, in the back office and carpet-land, SI and OP, HR, et cetera? Typically that's sort of a later stage development. Where are you on that?

Antonio Carrillo: We're at very early stages. So I think we're ahead in the conviction; we're not ahead in the execution. So we have a lot of work to do.

Cliff Ransom: How about will you also continue the use of hoshin kanri policy deployment?

Antonio Carrillo: Yes.

Cliff Ransom: And are you applying lean thinking to the actual process of reconstituting yourselves after you spin? Can you give me some examples of that if the answer's yes?

Antonio Carrillo: Well, I wouldn't call it a very structured approach to doing it yet. I rejoined the company in April, and to be honest, it's been a whirlwind of things, trying to split the company. It's amazing how many things, how many connections there are to Trinity. Trinity was built to be connected, and if you look at the annual report 2 years ago, it was, the title was "Connected." And everything's truly connected. So it's been, I would say, a large exercise of trying to decouple from Trinity. I think it's a very healthy exercise and it's been very, I think, a very mature exercise.

So my answer--that's a long answer to say we've not done enough. Once we spin, we'll be able to see, learn more as we do it. The one thing I can tell you is--Scott mentioned it--we're moving to another office. On purpose, we went to a smaller office with smaller size, and we built a wall in the floor of the building where we moved so that we don't have capacity to grow. So we have to get lean if we want to grow, because there's not going to be any more room.

Cliff Ransom: Just one very quick last question: do you have any kind of an arrangement with Trinity to share the learning process on this over some period of time?

Antonio Carrillo: No, there's no agreement to do it. I think there's an agreement that we will still be brothers. And even though there's legal and tax reasons that we're going to have to follow things, I think we're always going to be friends and brothers, and I'm sure we're going to do a lot of sharing of good things.

Cliff Ransom: Thank you.

Justin Berger: Thank you. Justin Berger from Gabelli and Company. A question about the energy businesses that you're exiting: how much will that be a tailwind to EBITDA in 2019, I guess first. And then second, how much of the revenue growth is simply a pass-through of higher steel prices versus volumetric growth?

Scott Beasley: So on the divestment of the energy equipment, we haven't disclosed the exact improvement that it will give us next year because the timing's a bit uncertain if we can get everything closed. So until we're certain of the timing, we're not going to talk about the potential impact. But it will be a nice tailwind.

On the steel prices, it obviously depends on segment, so construction products, none of the growth would be in steel prices. In energy and transportation, there is a portion that's steel price related, but we're not going to quantify that specific breakdown.

Justin Berger: But is it like close to half, or is there any sort of ballpark--?

Scott Beasley: I don't think I can give you any more details, but thank you.

Antonio Carrillo: Maybe just to expand, let me--sorry, I'll expand on it. If you think about steel prices, they've been high for almost all of this year already. So it's not something that is happening next year, and therefore we grow 30% because steel prices are going up. So we already are seeing steel prices in our revenues to date. That's probably--that gives you a better idea. Overall, if steel prices are higher and you quote based on a margin, you normally get more dollars out of your margin.

Unidentified Participant: Thank you. The rationale for the spinoff was articulated in the Form 10 and talked about today. Could you--

Scott Beasley: It's hard to see you with the podium here, but we'll--

Unidentified Participant: I'll stand right here. So the rationale has been articulated for the spinoff. I was wondering if you could shed some insight on what the business can do as a standalone that you couldn't do, or what are you excited about as a standalone entity that you couldn't do as part of Trinity?

Antonio Carrillo: So Jess gave an example. I'm going to give a few examples which are actually very interesting. And so the example Jess gave is we make axles for railcars. Our main customer is really Trinity, and it has been really Trinity. And there's a whole market out there that we were really not focused on. It was not because Trinity didn't allow us to do it. It was simply that Trinity's the largest rail manufacturer. When Trinity's producing at full capacity, your capacity's taken. And then when it's down, people say, "Well, I won't buy from you because when Trinity comes back, you will not sell to me." So our customers are forced to go to relationships with other manufacturers because they know when they need things, you might not supply. And that is the case in many of the rail components, not only axles, but also couplers. We have a parts business that has a similar situation. So that's one of the examples.

I will tell you that our Mexico business, our Mexico business has a huge opportunity to look to other markets. When you look at the compensations--when you're in a multi-industry company where compensation is set by the result of the total company, the smaller businesses have very little incentive to grow, because when they do great, they don't move the needle. And if they do bad, if the big company does well, they still do well. So that's why changing the compensation system is so important. To me, it's one of the key priorities for me--making sure that the businesses are compensated based on what they do and that effort doesn't get lost in the whole thing.

For a company that was building a strategy around growing the rail business and connecting the whole thing, it made sense; I'm not saying it was wrong. The strategy is very different in Trinity than what's going to be in our culture. We are going to be very focused on growing each independent business.

David Beard: Hi, it's David Beard with Coker Palmer. Two questions related to guidance and also EVA. First, on your 2019 EBITDA, could you give a sense of what assumptions you're making for barge EBITDA in that guidance?

Scott Beasley: So at this point, we're not breaking out by segment guidance. All I'll say is we do see revenue and EBITDA growth in barge for next year, as we talked about.

David Beard: So even color, will the bulk of the headwinds from SG&A and from the rail business, rail components business, be offset by barge? Will you comment at all on that?

Scott Beasley: I don't think I'm going to comment. At some point, we may decide to disclose more, but now the guidance is at the overall Arcosa level and not by segment. But the barge, as we talked about, there's a reason that that's point number one on the positives, is it's a very strong component of our growth in the next year.

David Beard: Fair enough. And then when it comes to EVA and ROIC, do you apply that to acquisitions?

Scott Beasley: We do. We do.

David Beard: And just a little bit on the methodology. If you buy something with $50 million in assets, you pay $100 million for it with $10 million in no-pat, is that a 10% return or a 20%?

Scott Beasley: You're saying, do you include goodwill in the invested capital base? Well, so there's multiple methodologies to do it, and sometimes you'd say, "Yes, it does." Sometimes you'd gross up the replacement value of the assets so you get to a similar place, more like the whole methodology. So I'm not going to talk about which one we exactly use, but we definitely look at goodwill as a real cost, and we want to make sure we're disciplined in our return decisions.

David Beard: Okay, and if you do an acquisition and the returns are higher than something in your existing portfolio, does that mean it's a candidate for sale, or do the lowest ROIC businesses get sold over time?

Scott Beasley: So one of the things I'll talk about on return on invested capital, because we get the question similar to one of the earlier questions of, "Can you get back to your peak a few years ago on return on invested capital?" 15% was what that one was showing. I think we obviously want to move back towards that, but one of the other priorities is to make our returns more stable. So we may take a 14% stable ROIC versus a 15% and then a 12%.

And so I think any acquisition, you're going to have the return on invested capital that you're modeling, but also the cyclical component of that is going to be an important priority. And I wouldn't say just because a business has a low return on invested capital right at this second, it's a candidate for divestment. Look, the barge business in the last few years has had a very low return on invested capital, but through the cycle has produced incredibly healthy returns, kind of north of 60%. So it's something we're very focused on, but I don't want to give the impression that because there's a bad year or two in a certain business that it's not going to be part of the portfolio.

David Beard: Another good. That's very helpful, and thanks for the time.

Antonio Carrillo: Let me just--the other thing to measure, and I think it sounds like you don't know exactly how you're measuring it. We have a very clear understanding. One of the things we take into account, please, is we have a new company, we're going to have a new Board. And some of these decisions on compensation will have to be made by the new Board, which has yet to meet. So we're in a process where we are in the process of spinning off but have not spun off, so we are in a strange process for determining a few of these things. So next time we meet, hopefully, we'll give you more clarity on some of the compensation structure.

Unidentified Participant: A question over here. Can you just clarify what the corporate costs are? Because you broke out the three divisions, and if you calculate the EBITDA from all of those, it's materially higher than the EBITDA guidance you're giving. So can you help us with what the corporate costs are today?

Scott Beasley: The last 12 months in the Form 10 are in the $35 million range of corporate costs. And what we're saying is incremental to that, there's likely to be $10 million to $15 million of standalone public company costs.

Unidentified Participant: So the $35 million jumps to $50 million.

Scott Beasley: At the top end. And a portion of that, $10 million to $15 million, is more transitionary costs like we talked about with TSA.

Unidentified Participant: So where do you think that is 3 years from now? Does that $50 million go back to $35 million over a 3-year time period?

Scott Beasley: So that would be the goal, is to offset as much of the public company costs as possible. I think one of the other things we look at is total SC&A and a percent of the company revenue. And so whether the cost reductions are at the business unit level SC&A or the corporate, our goal is to get down to closer to 10%. So right now, we're north of 10%, and so long term, a lot of our cost reduction efforts will be getting that to the 10% SC&A.

Unidentified Participant: Excellent. Can I have one follow-up question?

Scott Beasley: Yes, please.

Unidentified Participant: Can you talk about aggregates from a strategic standpoint? If you look at your businesses, you're number one in wind towers, number one in barges, you have a unique situation in the components, selling to Trinity. Then you look at the aggregates business. While it's very strong in one location in this country, obviously, it's not national in scope. There are much bigger players. They trade at pretty high multiples, so on and so forth. So can you talk about aggregates over a 3- to 5-year time period? Is that a business that has to be part of this equation, does not have to be part? Can you just comment, please? Thank you.

Antonio Carrillo: Yes. So if you look at the ways we are going to be analyzing business, the most important thing, as Scott mentioned, is the strategic fit. And what that means is if it's something that fits with what we're trying to do with the strategy and, very importantly, does it have capacity to grow. So I'd rather be small in a big tank and have capacity to grow than be the biggest guy in the tank and have very little capacity to grow. So we're looking for growth opportunities, and we think we have a great position to do it, and we'll be demonstrating in that business that we can do it. So as long as we can demonstrate that we continue to allocate capital to grow the business, expand margins, we plan to stay in the business. If something changes or something happens, we'll reevaluate. But for the moment, it's a critical part of the company.

Unidentified Participant: Over here. If we assume $190 million of EBITDA next year, $60 million to $70 million CapEx, how are you thinking about taxes and working capital, trying to get to a free cash flow number? And also, how are you thinking about CapEx for the next few years?

Scott Beasley: Yes, so let me break that into a few parts. For next year to the $195 million EBITDA--I'm sorry, what was your question on the first part?

Unidentified Participant: Starting with $190 million of EBITDA, it sounds like you're assuming $60 million to $70 million of CapEx--

Scott Beasley: Oh, tax rate. I'm sorry, tax rate, yes. So tax rate, and you'll see it in the very back appendix, we're modeling at 25%. That's kind of a pretty good estimate right now. It's what we used in the Form 10. So still very healthy cash flow.

Working capital, the barge business does tend to consume some working capital as it ramps back up, so we would expect to see some consumption there. But could see that offset by both working capital improvements and lean initiatives. So we're not talking about a specific number. But hopefully, we're able to offset a lot of that barge recovery.

Antonio Carrillo: And CapEx for the future?

Scott Beasley: Oh, CapEx for the future. So I think we feel good in that $50 million to $60 million maintenance CapEx range, absent a big acquisition that would obviously require more CapEx or a shift in our business mix. $50 million to $60 million feels about right. The variable in CapEx over the last few years has been the reserve investments we've made in aggregates, as I talked about. Those, if you get a good piece of land that's very strategic to the business, it could be $15 million, $20 million, or $25 million. So those come sometimes, and some years you don't do any of them. So that's where some of the variability is.

Antonio Carrillo: There are no--oh, one more question.

Bascome Majors: Bascome Majors, Susquehanna. Following up on an earlier question, I appreciate you not wanting to box yourself in on segment-level guidance at this point, given all that's changing and how far we are above 2019. But for that roughly $30 million in EBITDA growth that the bridge is implying when you back out the discrete $20 million to $25 million in items you talked about, are all segments going to contribute to that, or is that really--are you going to have some that could potentially be profit headwinds, ex the items you've already called out?

Scott Beasley: I think the best way to answer that is the biggest contributors are the ones that we've called out. We're not going to go into the specifics of whether one may shrink. I think our expectation is they should all grow in terms of EBITDA. But as we talked about, there are some pressures that are different in other businesses that we don't want to get into details. But the big contributor would be transportation products.

Antonio Carrillo: And the two big headwinds we have is the business we're divesting.

Matt Elkott: This is Matt Elkott from Cowen. Given Arcosa's size and the different businesses, I guess it's plausible that it would be potentially a target for an acquisition. I was wondering if there's anything in the tax-free nature of the spinoff that prevents you guys from being acquired by someone else for a certain period of time.

Antonio Carrillo: I'm not going to give you the details because I'm not the lawyer, but there are certain restrictions of what you can do in terms of your equity over the next couple of years that, say, things can happen, but there are some restrictions on what you can do.

Steve Barger: Hi, Steve Barger from KeyBanc. Just looking at the walk on Slide 61, the company ran 30% decremental margins on revenue declines from 2015. And in the forecast, you have 16% revenue growth, but almost no leverage for the reasons you've talked about. But just looking forward, will incremental margins on growth run at or higher than the decrementals that you saw from this last few years?

Antonio Carrillo: Yes, I think the biggest decline came from--we had a big decline in our wind industry from 2016 to '17 and '15 to '16. That's not happening, based on what we see at the moment. And the other thing is the barge business, as we've mentioned, will contribute quite a bit of revenue over the first few quarters of next year, with not much incremental profit. So that--the operational leverage comes after that. So I think that's part of what you're seeing.

The other thing that's happening--a little more detail on the barge--we are setting up the facilities for this growth. So at the moment, we are doing reshuffling in production from one plant to the other, and that takes a little bit of the margin off. So we are setting up the facilities, and that's why you don't see the operational leverage yet.

Steve Barger: I'm going to circle back to barge, because it seems like it's a pretty important part of the story. And I know someone that asked the question a little bit earlier, but is there any way for us to try to size the amount of capacity that came out with JeffBoat and if there's any other of your competitors--I don't know the market that well--but any way to just try to get a rough estimate as to how much supply came out of the market. And then as you're looking forward, what's your opportunity to take incremental share?

Antonio Carrillo: Of course, the exit of JeffBoat is important, and they were the most serious competitor in terms of volumes for large orders. There's other people; there's always great competition on the river, and there's other people that come and go based on market, as when the market gets really hot, there's all the competitors that pop up here and there. But of course, when a competitor leaves the business, it always opens more opportunities. And to be honest, that's one of the reasons why we are very aware that we have this opportunity to open fast our facilities so that we can take advantage of it. So JeffBoat was a serious competitor, and there's always serious competitors out there. And at the moment in the barge orders we're getting, there's people bidding on it, the vendors, and we're not taking all the orders. It's a competitive market on the river system, but one competitor is not there anymore.

And going back to the barge, someone gave you a number of how much opening a barge facility costs. The reason it sounds so low is because the plants are still there. We have equipment, we have everything. It's not like we're building a new facility. If you wanted to build a new facility, the costs are much higher.

There's no more questions. Really, thank you very much for sticking with us and spending the time. I hope we gave you a good sense of what Arcosa's all about and look forward to our next meeting. Thank you.