Aggregate Industry Profitability
Privately Held vs Publicly Traded Aggregate Companies

Depending on their size and ownership, the management philosophies of public and private aggregate companies can be guided by different measures of success. Their approach to business goals can be very different, often resulting in the profitability of a modern, well-run private aggregate company being double or more than that of large public aggregate company.

This report is based on my 34 years of aggregate industry experience with one major aggregate producer, Martin Marietta, which has been followed by 7 subsequent years as a consultant in the aggregate industry advising various sizes of companies. The majority of my consulting clients have been privately held companies.

The range of my responsibilities and experiences in the aggregate industry includes quality-control, sales and sales management, individual aggregates site management, multiple aggregate plant production management, and senior management responsibilities as a Regional District Vice President, Division President, and a corporate Vice President with Martin Marietta, including engineering, purchasing, capital budget administration, maintenance services, explosives engineering, and surplus equipment disposal. In my first 18 years with Martin Marietta, it was a wholly owned subsidiary of the aerospace company and external reporting to investors was not required. It went public in 1994, and in the last 16 years of my employment, it was a major publicly traded aggregate producer.

New Facilities

Privately held aggregate companies typically approach new facilities with a view to ensuring that the site has an aggregate deposit of sound quality that will accommodate a specific market, and ample reserves to satisfy production over a specified period of time. Knowing the market, the customers, their annual aggregate and product mix demands, established pricing in the market, and present and projected government projects, are the key factors for the long-term success of an individual aggregate facility standing on its own.

By contrast, large publicly traded aggregate companies are typically evaluating sites for dramatic growth purposes. Shareholders and investment firms are motivated by market share and the projected position of the company, anticipating future growth in areas like infrastructure spending, and commercial and residential development. The driving force of a large public aggregate corporation typically involves acquisition of whole companies, or groups of quarries, whereby the profitability of individual sites is mixed-in to the value of the entire acquisition. The administrative coordination of a group of plants by a large corporation reduces the need for close attention to the metrics of each plant. While this can strengthen the market presence of a large public company, profit margins at individual sites can easily be diminished.

Plant Design

Aggregate companies typically develop their own personality with regard to plant flow, equipment brand, and sizing. The personality of each company is reflected through its approach to such factors as the design of a plant for more capacity than necessary, allowing for future increases in product, and providing better service with properly sized equipment. While private aggregate companies are typically interested in long term goals, shorter-term goals are usually more important to public aggregate companies. Quarter to quarter performance and year on year comparisons are in constant review for public companies, which tends to inhibit full value-added capital investment thinking.

Since significant acquisitions are the fastest route to growth for large public companies, they tend to spend large amounts of capital on acquisitions. This can adversely affect the availability of capital for individual plant design and construction at existing facilities, and can also generate shortcuts in design and long-range planning, as well as fewer plant projects. The adverse effect of fewer projects is that the ignored plants will run continuously at inefficient rates generating subpar returns. Maintenance and repair costs are also typically higher, and replacement of lighter, smaller assets is required sooner, which is then reflected in the depreciation. Ultimately, the profitability of the organization can decrease due to costs, and will most certainly decrease as a percentage of the investment.

One way of dealing with diminished capital in a large organization is leasing. When a typical large capital budget is dramatically reduced in a large publicly traded organization, leasing becomes a viable option. Employees of large public aggregate companies also tend to not think of leased equipment as their direct responsibility, which allows for more deviation from good maintenance practices. This can be extremely costly at the end of the lease.

Overall, the result of these kinds of capital decisions by large public aggregate companies can lead to systemic compromise in the area of plant design and operation, with decreased efficiency, increased costs, and lower returns. Conversely, owning and maintaining plant and mobile equipment, which is typical of private aggregate companies, can be very effective in aggregate operations. Good reliable equipment, if maintained properly, will last well beyond normal accounting depreciation life and, once the fixed costs of the equipment are eliminated, operating owned equipment is very profitable.

Asset Management

Success in the construction aggregate business is highly dependent on reliable plant and mobile assets to move material from its raw form in the ground to a processing plant where it is crushed, screened, and cleaned to meet specifications. Finding the best size and brand of equipment for an application, and the dependability of those assets is a key ingredient to the success of the business.

In large public aggregate companies, enterprise resource planning to deal with aspects of the business like accounting and purchasing tends to focus on external reporting, which is very important to investors. As a consequence, unless the company is guided by a strong desire to excel in the operations sector, it becomes assumed that the local personnel will deal with the actual hard assets.

While efforts are continuously ongoing to automate plant facilities and minimize headcount, personnel costs have historically been the largest cost category. By most accounts, personnel are also the most valuable asset or resource. Experienced, skilled people with a positive approach to make an organization better are invaluable. For these reasons, it has been interesting to observe the changes in personnel from privately held companies to publicly traded organizations.

For all the reasons mentioned in this report, like market analysis, plant design, and asset management, good employees make the system work. They naturally strive to make good decisions based on training and experience, generating returns consistent with company standards. When issues like limited capital funds, combined with focus on accounting over assets and outsourced plant design become the norm, employee morale can deteriorate.

In the result, operations talent is migrating away from publicly traded aggregate companies to private aggregate companies, and large public companies are losing the skilled personnel required to control costs and maximize profitability.

Financial Performance

At the time of this writing in 2017, valuations for US aggregate operations are very high, measured as a multiple of pretax earnings with depreciation and amortization. This is well documented through acquisitions by large publicly traded aggregate producers. Share prices are also high. There appears to be a perception of growth on the horizon, in particular with infrastructure work. For example, it has been recognized for a long period of time that the US interstate system that began in the 1950's is in desperate need of repair, replacement, or upgrading. Estimates of $1.5 trillion have circulated in the industry for over 10 years in this area. The current US administration is generating more conversation about this topic than usual, thus the perception of value in aggregates companies for large future project work.

There is presently a perception for growth in the aggregate industry. Consistent with the factors discussed in this report, there is a huge benefit for publicly traded companies to grow, capture more market share and have a larger footprint in the event of increased construction spending. Along the way to that ultimate goal, interest by investors has increased accordingly. Attention to the perceived growth over plant inefficiencies and actual profitability can have a greater impact on share price, which can easily be a point of focus in a publicly traded company.

Conclusion

To summarize, large public aggregate companies tend to be focused on growth, acquisition, shareholder satisfaction and short-term financial results. In-contrast, private aggregate companies, especially family owned aggregate companies, which are well-positioned and focused on a long-term horizon, tend to have higher profitability and a higher return on investment (ROI).

In the result, while the ROI reflected in the published earnings of Martin Marietta may be in the range of 30%, it is not unusual in my experience for the ROI of individual well-run privately-owned quarries, especially modern, well designed, automated, and efficient quarries, to be in the 60-75% range.

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