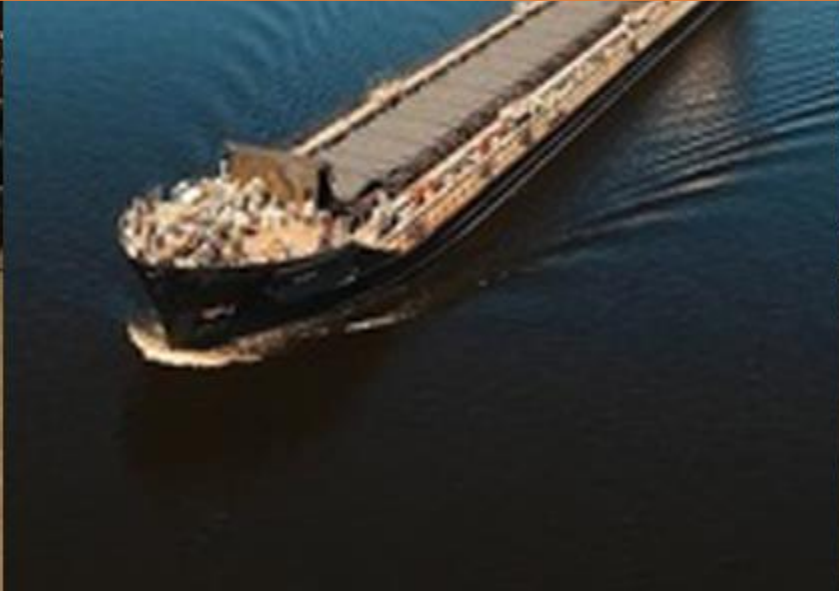
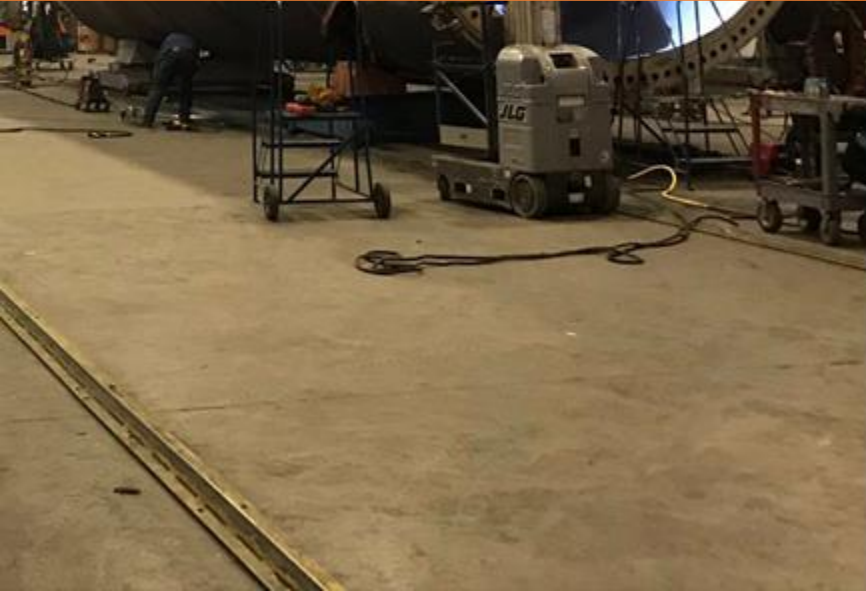




JAGUAR THEMATIC IDEAS: ARCOSA INC. (ACA)



Theme: Getting more selective on infrastructure

Time to start being more careful about what kind of infrastructure stocks we want to own, as Biden's first 100 days draw closer. There is a chance we may begin to see diverging stock performances within this space.

Safest solution is to spread our eggs in several infrastructure baskets, to account for a scenario where the incoming Biden administration disappoints in some areas while prioritizing others, in terms of spending.

Arcosa Overview

Spinoff from Trinity Industries (May 2019).

Provides construction equipment, materials, and services across the following segments:

- Energy Equipment (48% of revenue) – Wind and conventional energy.
- Transportation Products (27%) – Barges, railways, and trucking.
- Construction Products (25%) – Sand, gravel, limestone, shale, etc. Steel and aluminum trench shoring/shielding.



Energy Equipment Segment

This segment houses three subsidiaries:

Arcosa Wind Towers is one of the largest manufacturers of wind energy towers for wind farms across North America.

- Beneficiary of production tax credit hikes and incentive extensions.
- Congress passed on December 21st a \$35B spending bill on clean energy R&D, which includes a 1-year extension of production tax credits for wind projects and an extension through 2025 for offshore wind tax credits, remaining at 30%.

Meyer Utility Structures is responsible for the construction and installation of electric transmission systems, mainly in the US and Mexico.

- Tends to enjoy the steady and predictable cash flows relative to the rest of Arcosa, due to serving large utility customers via long-term alliance contracts that can extend for several years at a time.
- Following a series of acquisitions in 1H20 totaling ~\$340M, the company has recently expanded into telecommunication, traffic, lighting, and concrete transmission structures, which are expected to benefit from the 5G build-up and anticipated transportation infrastructure packages.

Arcosa Tank makes steel pressure ammonia and propane gas storage tanks, for residential, commercial, and industrial use. Represents only ~10% of Energy segment sales.



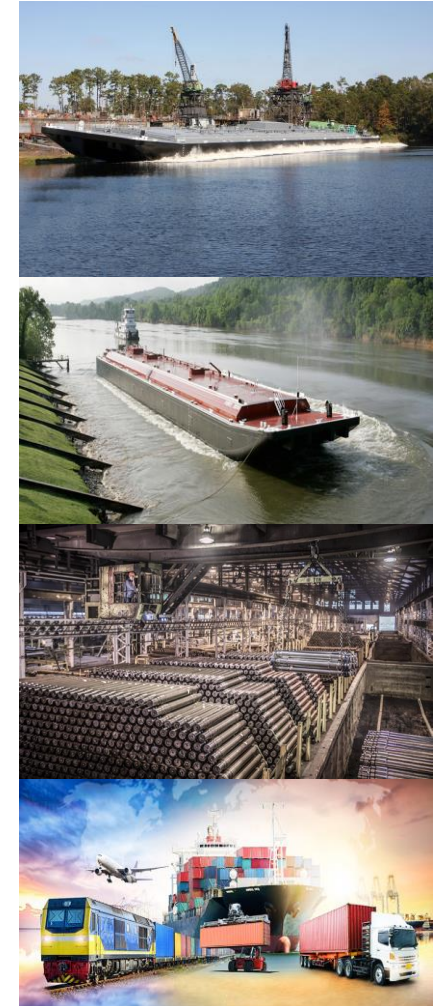
Transportation Products Segment – Part 1

Arcosa Marine makes hopper/tank/deck barges, as well as a wide range of specialized hardware that aids in the aquatic transportation of containers.

- Management states that the dry barge market is currently seeing *“significantly improved fundamentals driven by grain movements and higher freight rates”*. However, *“the liquid barge market remains weak as refined products, petrochemicals, and crude oil movements have not yet recovered from the pandemic.”*
- CEO Carrillo alluded to some improvement since the start of Q4: *“Even though we only received \$18M in new orders during the quarter [Q3], in the last few weeks, we have seen significant improvement in inquiries and have closed \$32M of additional barge orders for 2021.”*

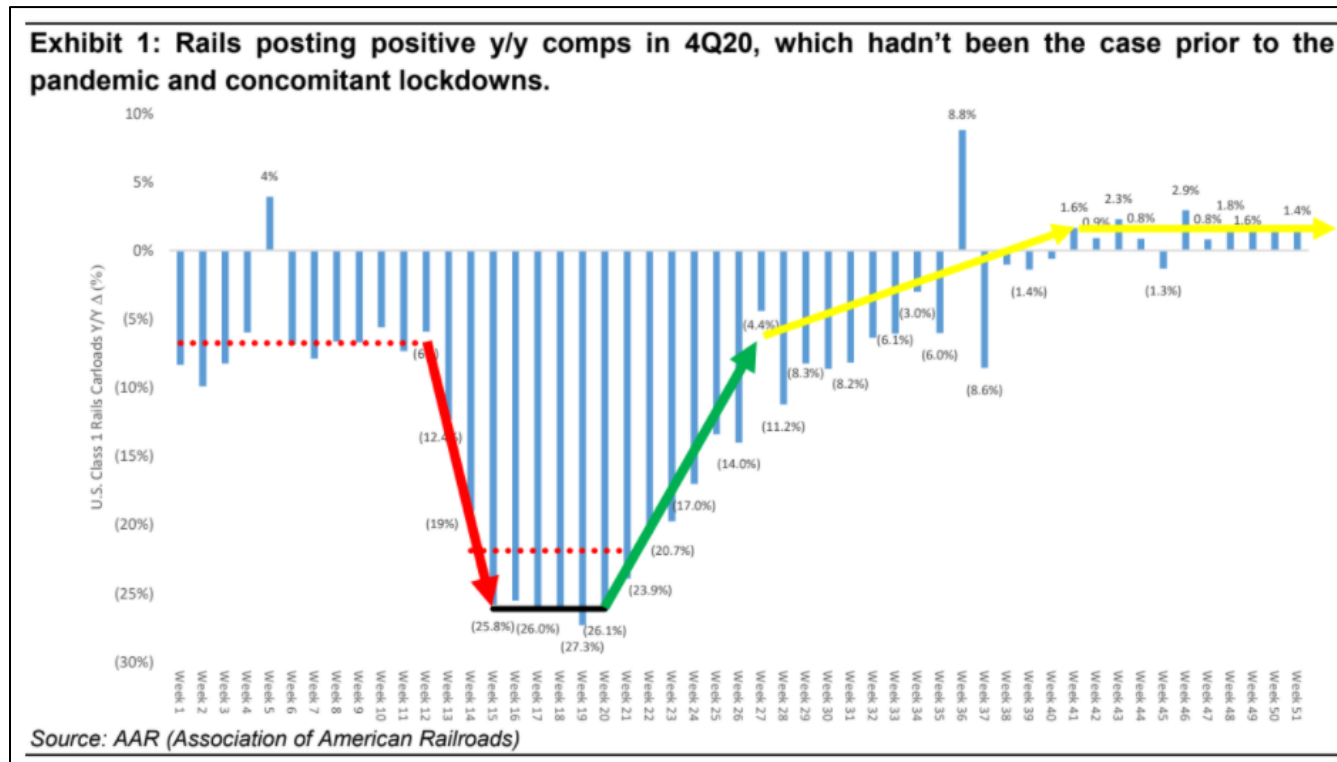
Arcosa Transportation Components makes all sorts of modules for rail, trucking, and shipping transporters, as well as mining equipment parts.

- The biggest sellers are railcar coupling devices, railcar axles, and circular forgings.
- Management has had recent success *“in winning new orders for the more stable maintenance and non-rail markets”*, but expects the company has passed the low-point in the rail cargo cycle, as of 3Q20.



Transportation Products Segment – Part 2

Latest channel checks from Stifel on December 29th show that weekly rail volume comps (YoY) for the current quarter are already better than they were in Q1, prior to COVID-19:



Construction Products Segment

The Construction segment provides basic and manufactured materials for a wide range of traditional construction projects (includes residential, commercial, and industrial infrastructure). Essentially, the company:

- Operates natural sand, gravel, and limestone reserves in over 11 locations (they are the top sand and gravel producer in Texas), and oversees mining and processing.
- Is the largest producer of rotary kiln expanded shale and clay lightweight aggregate in North America.
- Manufactures steel and aluminum “trench shoring and shielding” equipment .

Sales from this segment have been robust throughout 2020, increasing 41% YoY to \$149M in Q1, up 28% to \$148M in Q2, and up 27% to \$147M in Q3.

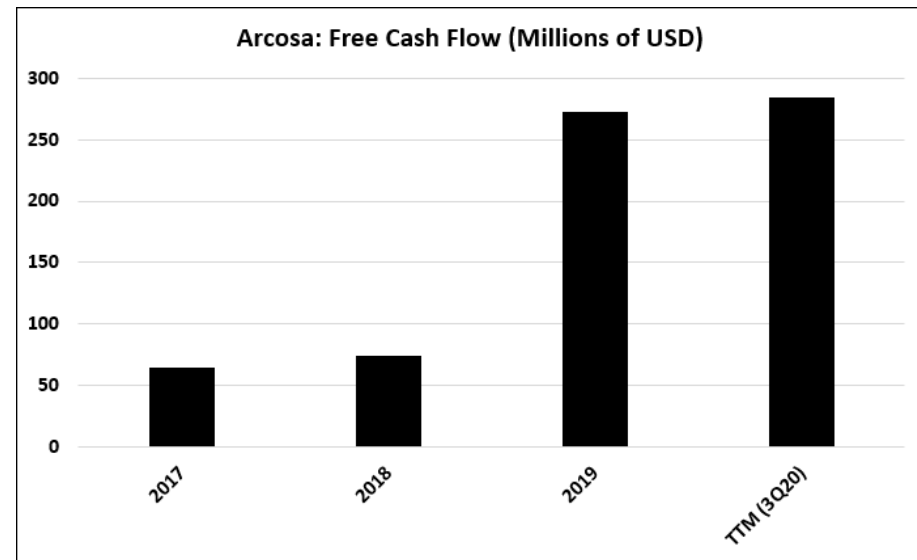
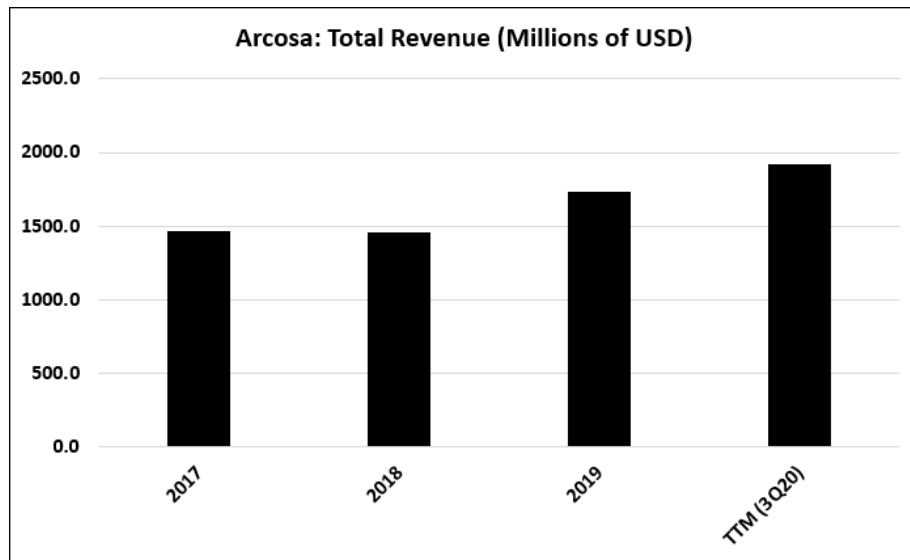
Recently, Arcosa has made a series of acquisitions within the space totaling ~\$735M (ACG Materials, Cherry, Strata Materials, and 4 others), as it appears management is betting big on “Buy America / Build America”.



Secondary Bull Case: Arcosa intends to take advantage of its strong cash flow

The company's cash generation has improved markedly as a result of its 2019 spinoff from Trinity, alongside revenue. With only \$250M of debt on their balance sheet (and 0.13 Debt/Equity), this improved cash flow generation ability will allow management to continue making acquisitions for their Construction and Energy segments while keeping leverage low.

CEO Antonio Carrillo: *"We're building a strong cash culture at Arcosa. The impressive \$93 million of free cash flow in the third quarter brings our year-to-date total to \$170 million, as we focus on reducing our working capital and operating more efficiently. This cash culture is helping us deploy growth capital into attractive markets while maintaining low leverage. We still have opportunities to improve, especially in the inventory and accounts payable management, but I'm excited with the progress made to date."*



Commentary from Midwest Industrial Summit (December 15th)

Construction Products segment:

- Construction activity remained strong throughout Q4.
- Could see an additional tailwind from the recent extension of the FAST Act and more targeted state level spending bills, like Texas's 10-year \$75B construction budget.

Energy Equipment segment:

- Expected to benefit from “*grid hardening*” efforts, 5G buildouts, and overall infrastructure spending.
- Additional tailwinds include successful antidumping cases against India, Malaysia, and Spain, and also the private sector's push toward renewables.

Transportation Equipment segment:

- Dry and bulk shipment levels remain favorable for barges, driven by strength in agriculture and demand from China.
- Only ~175 barges have been produced annually over the past four years vs replacement levels of ~500 units, paving the way for acceleration of orders.



THANKS FOR WATCHING!

