

Vulcan Materials: Where Should the Next Growth Dollar Go?

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At 10:59 a.m. Eastern on October 26, Vulcan Materials Company was about to begin its third-quarter earnings call. Its results release, filed that morning, showed aggregates shipments down 2% year over year, freight-adjusted prices up 15%, and freight-adjusted cash unit costs up 12%. Management described 2024 as another year of earnings growth and strong cash generation. The call had not yet started, and the board had not disclosed a 2024 capital plan. [P1]

For this classroom exercise, assume you advise Vulcan's board on how to prioritize incremental FY2024 growth capital. This assignment is a teaching construct; public sources do not establish that the board posed this exact question. You do not have a fixed dollar pool to allocate. Recommend a capital-allocation rule, sequence, and evidence gates across the options below. Treat safety and maintenance spending as obligations before discretionary growth capital.

The decision

For this classroom exercise, assume the board is weighing five hypothetical uses of incremental capital:

1. **Debottleneck existing quarries and logistics.** Increase output or reliability at operating sites, terminals, and distribution links where capacity is constraining attractive local demand.
2. **Secure land and reserves.** Buy or advance reserves and permits that could preserve access to future local supply.
3. **Pursue aggregates-led acquisitions.** Add quarries, reserves, or logistics in markets where a target could strengthen Vulcan's position.
4. **Expand downstream asphalt or concrete selectively.** Add capacity where a local coordination or customer benefit can be demonstrated.
5. **Retain capital flexibility.** Reduce debt, distribute capital to shareholders, or defer commitment until stronger evidence emerges.

Choose a priority, propose how to sequence the alternatives, and state what evidence would cause you to accelerate, pause, or change course. Make the strongest case against your own recommendation. Do not assume the highest historical company return is the best marginal project return.

A business shaped by place

Aggregates are heavy and relatively low in value per ton. Vulcan's 2022 Form 10-K describes markets as generally local and truck-served, notes that transportation costs can quickly exceed the product's value, and says new quarries can take years to develop amid increasing permitting difficulty. Rail, barge, and ship transport can extend some market reach. Geology, customer locations, permits, competing supply, and logistics therefore shape the value of a reserve or operating asset. [P2]

That geography creates competing investment logics. If a permitted quarry or terminal is scarce near durable demand, securing access early could preserve an option that is hard to recreate. If existing equipment, terminals, or transport capacity constrain shipments, a smaller debottlenecking project could serve demand sooner. But a reserve parcel may be uneconomic, unpermittable, or too far from customers; added quarry output may simply shift volumes from another site. The public information does not identify Vulcan's site-level constraints or parcel economics.

Vulcan's public strategy describes operational and commercial execution, internal growth, acquisitions, reserve security, and disciplined capital allocation. The company says it uses strategic and returns-based acquisition criteria, generally favors bolt-ons that are easier to integrate, and remains open to larger combinations at the right fit and price. These are stated criteria, not evidence of any target's return or Vulcan's current integration capacity. [P2]

The latest operating picture

Vulcan reported third-quarter aggregates shipments of 63.9 million tons, down from 65.4 million. Freight-adjusted realized price increased to \$19.29 per ton from \$16.79, while freight-adjusted cash unit cost of sales rose 12%. Cash gross profit per ton was \$9.92, compared with \$8.41 a year earlier. Separately, GAAP aggregates segment gross profit was \$7.95 per ton. The cash gross-profit measure adds back noncash depreciation, depletion, and amortization; it is a company-defined non-GAAP measure. Neither figure is the expected return on a new project. [P1]

Management attributed some Southeastern shipment resilience to industrial projects despite weak residential demand. It also said positive geographic mix contributed about 200 basis points to sequential aggregates price. These are management explanations. Price timing, product and geographic mix, project timing, and cost inflation are other possible contributors to reported performance. A strong price-cost spread in one period does not establish how margins will behave if pricing, fuel, labor, repairs, or demand normalize. [P1]

Downstream results also improved, though the aggregates-led allocation question remains. Asphalt gross profit increased by \$26 million to \$56 million and shipments rose 11%; concrete gross profit was \$26 million, with unit gross profit up 34% despite lower shipments. The comparisons include mix and portfolio effects, and the release does not show the return from adding a new plant or expanding an existing one. [P1]

Capital, reserves, and flexibility

Through the first nine months of 2023, Vulcan reported \$411 million of maintenance and growth capital expenditures and expected full-year spending of \$600-650 million. Third-quarter strategic reserve purchases in California, North Carolina, and Texas totaled \$173 million. The release did not separate project-level maintenance and growth investment, disclose purchase-level returns, or identify a 2024 budget. These figures show that operations and reserve access already compete for capital; they do not establish the size of an incremental pool. [P1]

At quarter-end, the company reported gross debt to trailing-twelve-month adjusted EBITDA of 2.0x and net debt to adjusted EBITDA of 1.8x. Its TTM ROIC was 15.4%, up 180 basis points year over year. These company-defined ratios provide financing and historical performance context, but they are not a project hurdle rate or proof that more leverage is optimal. Management's 2023 adjusted EBITDA outlook was \$1.95-2.00 billion, and it expected earnings growth and strong cash generation in 2024. Those statements were forecasts, not an approved capital plan or guarantee. [P1]

What evidence would change the choice?

The public record does not provide quarry-by-quarry capacity, utilization, bottleneck costs, remaining permitted life, customer mix, or delivered economics. Nor does it provide parcel-specific geology and permit odds, acquisition target valuations and integration plans, or marginal returns on downstream investments. It lacks the local delivered prices, competitor capacity, customer concentration, and demand schedules needed to establish whether current performance is durable in each market. Do not treat these gaps as zero or fill them with company-wide averages.

The industry evidence offers mechanisms, not a Vulcan return forecast. One 2014 Illinois truck-cost simulation illustrates how distance can materially affect delivered aggregate costs, but its assumptions and geography do not transfer to Vulcan's markets. [A2] A national USGS assessment describes how deposits are geographically fixed while land-use encroachment, permitting, environmental concerns, and social pressure can constrain development; it cannot value a particular Vulcan parcel. [A3]

Research on cement and ready-mixed concrete finds that associations between vertical integration and prices or output weaken substantially after accounting for productivity and multiunit-firm structure. The authors interpret their evidence as consistent with productive scale and local logistics coordination, not ownership alone. The historical industries and markets studied are not a causal estimate for Vulcan. [A1] Similarly, a cross-sector M&A meta-analysis finds small average relationships and substantial variation across studies; its results do not estimate quarry-deal returns. [A4]

Your assignment

Prepare a two-page board memorandum that:

- recommends a capital-allocation policy and sequence across the five alternatives;
- identifies the key economic mechanism for the priority and the strongest rival explanation;
- specifies decision gates and the local evidence required before releasing capital;
- explains how you would compare timing, permitting, execution, integration, demand, and balance-sheet risks; and

- names a measurable condition or new fact that would change your recommendation.

You may use explicitly labeled assumptions, but the public evidence does not support a point estimate of site-level NPV, an optimal integration ratio, a project hurdle rate, or a 2024 capital pool. Do not infer an announced board mandate or treat guidance, historical ROIC, or cash gross profit per ton as a forecast for marginal returns.

Selected sources

Company evidence is from Vulcan's October 26, 2023 Form 8-K and Q3 results release (P1) and its 2022 Form 10-K (P2). Research sources include Hortaçsu and Syverson (A1), Bhagwat (A2), USGS (A3), and Schweizer et al. (A4). Full source locators, reading depth, and limits appear in the source register. The cutoff excludes Vulcan's October 26 earnings call and Q&A, its October 27 Form 10-Q, and later outcomes.