

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-38479

**Construction Partners, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**290 Healthwest Drive, Suite 2  
Dothan, Alabama**

(Address of principal executive offices)

**26-0758017**

(I.R.S. Employer  
Identification No.)

**36303**

(Zip Code)

Registrant's telephone number, including area code: (334) 673-9763

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A common stock, par value \$0.001 per share	ROAD	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of February 5, 2020, the registrant had 32,705,418 shares of Class A common stock, \$0.001 par value, and 19,076,327 shares of Class B common stock, \$0.001 par value, outstanding.

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including statements related to future events, business strategy, future performance, future operations, backlog, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “seek,” “anticipate,” “plan,” “continue,” “estimate,” “expect,” “may,” “will,” “project,” “predict,” “potential,” “targeting,” “intend,” “could,” “might,” “should,” “believe,” “outlook” and similar expressions or their negative. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on management’s belief, based on currently available information, as to the outcome and timing of future events. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those expressed in such forward-looking statements. When evaluating forward-looking statements, you should consider the risk factors and other cautionary statements described under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019. We believe the expectations reflected in the forward-looking statements contained in this report are reasonable, but no assurance can be given that these expectations will prove to be correct. Forward-looking statements should not be unduly relied upon.

Important factors that could cause actual results or events to differ materially from those expressed in forward-looking statements include, but are not limited to:

- declines in public infrastructure construction and reductions in government funding, including the funding by transportation authorities and other state and local agencies;
- risks related to our operating strategy;
- competition for projects in our local markets;
- risks associated with our capital-intensive business;
- government inquiries, requirements and initiatives, including those related to funding for public or infrastructure construction, land usage, environmental, health and safety matters, and government contracting requirements and other laws and regulations;
- unfavorable economic conditions and restrictive financing markets;
- our ability to successfully identify, manage and integrate acquisitions;
- our ability to obtain sufficient bonding capacity to undertake certain projects;
- our ability to accurately estimate the overall risks, requirements or costs when we bid on or negotiate contracts that are ultimately awarded to us;
- the cancellation of a significant number of contracts or our disqualification from bidding for new contracts;
- risks related to adverse weather conditions;
- our substantial indebtedness and the restrictions imposed on us by the terms thereof;
- our ability to maintain favorable relationships with third parties that supply us with equipment and essential supplies;
- our ability to retain key personnel and maintain satisfactory labor relations;
- property damage and other claims and insurance coverage issues;
- the outcome of litigation or disputes, including employment-related, workers’ compensation and breach of contract claims;
- risks related to our information technology systems and infrastructure, including cybersecurity incidents; and
- our ability to maintain effective internal control over financial reporting.

These factors are not necessarily all of the important factors that could cause actual results or events to differ materially from those expressed in the forward-looking statements. Other unknown or unpredictable factors could also cause actual results or events to differ materially from those expressed in the forward-looking statements. Our future results will depend upon various other risks and uncertainties, including those described in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019. All forward-looking statements attributable to us are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date hereof. We undertake no obligation to update or revise any forward-looking statements after the date on which any such statement is made, whether as a result of new information, future events or otherwise, except as required by law.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

**CONSTRUCTION PARTNERS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share data)

	December 31, 2019 (unaudited)	September 30, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 49,443	\$ 80,619
Contracts receivable including retainage, net	118,548	139,882
Costs and estimated earnings in excess of billings on uncompleted contracts	14,152	12,030
Inventories	36,271	34,291
Prepaid expenses and other current assets	16,087	13,144
Total current assets	234,501	279,966
Property, plant and equipment, net	229,502	205,870
Operating lease right-of-use assets	8,532	—
Goodwill	45,467	38,546
Intangible assets, net	3,381	3,434
Investment in joint venture	39	496
Other assets	1,953	2,284
Deferred income taxes	1,173	1,173
Total assets	\$ 524,548	\$ 531,769
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 48,627	\$ 70,442
Billings in excess of costs and estimated earnings on uncompleted contracts	31,169	31,115
Current portion of operating lease liabilities	2,930	—
Current maturities of debt	8,511	7,538
Accrued expenses and other current liabilities	11,649	19,078
Total current liabilities	102,886	128,173
Long-term liabilities:		
Long-term debt, net of current maturities	49,149	42,458
Operating lease liabilities, net of current portion	5,818	—
Deferred income taxes	11,480	11,480
Other long-term liabilities	6,031	6,108
Total long-term liabilities	72,478	60,046
Total liabilities	175,364	188,219
<b>Commitments and contingencies</b>		
Stockholders' equity:		
Preferred stock, par value \$ 0.001; 10,000,000 shares authorized at December 31, 2019 and September 30, 2019 and no shares issued and outstanding	—	—
Class A common stock, par value \$ 0.001; 400,000,000 shares authorized, 32,705,418 shares issued and outstanding at December 31, 2019, and 32,597,736 shares issued and outstanding at September 30, 2019	33	33
Class B common stock, par value \$ 0.001; 100,000,000 shares authorized, 21,999,279 shares issued and 19,076,327 outstanding at December 31, 2019, and 22,106,961 shares issued and 19,184,009 shares outstanding at September 30, 2019	22	22
Additional paid-in capital	243,847	243,452
Treasury stock, at cost, 2,922,952 shares of Class B common stock, par value \$ 0.001	(15,603)	(15,603)
Retained earnings	120,885	115,646
Total stockholders' equity	349,184	343,550
Total liabilities and stockholders' equity	\$ 524,548	\$ 531,769

See notes to consolidated financial statements (unaudited).

**CONSTRUCTION PARTNERS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(unaudited in thousands, except share and per share data)**

	For the Three Months Ended December 31,	
	2019	2018
Revenues	\$ 175,314	\$ 154,327
Cost of revenues	151,557	133,199
<b>Gross profit</b>	<b>23,757</b>	<b>21,128</b>
General and administrative expenses	(17,113)	(14,431)
Gain on sale of equipment, net	309	334
<b>Operating income</b>	<b>6,953</b>	<b>7,031</b>
Interest expense, net	(281)	(515)
Other income (expense)	65	(17)
<b>Income before provision for income taxes and earnings from investment in joint venture</b>	<b>6,737</b>	<b>6,499</b>
Provision for income taxes	1,319	1,651
Earnings from investment in joint venture	43	306
<b>Net income</b>	<b>\$ 5,461</b>	<b>\$ 5,154</b>
<b>Net income per share attributable to common stockholders:</b>		
Basic	\$ 0.11	\$ 0.10
Diluted	\$ 0.11	\$ 0.10
<b>Weighted average number of common shares outstanding:</b>		
Basic	51,489,211	51,414,619
Diluted	51,609,380	51,414,619

See notes to consolidated financial statements (unaudited).

**CONSTRUCTION PARTNERS, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(unaudited in thousands, except share data)

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
<b>September 30, 2019</b>	32,597,736	\$ 33	22,106,961	\$ 22	\$ 243,452	\$ (15,603)	\$ 115,646	\$ 343,550
Net income	—	—	—	—	—	—	5,461	5,461
Equity-based compensation expense	—	—	—	—	395	—	—	395
Conversion of Class B common stock to Class A common stock	107,682	—	(107,682)	—	—	—	—	—
Effect of adopting ASU Topic 842 (See Note 3)	—	—	—	—	—	—	(222)	(222)
<b>December 31, 2019</b>	<u>32,705,418</u>	<u>\$ 33</u>	<u>21,999,279</u>	<u>\$ 22</u>	<u>\$ 243,847</u>	<u>\$ (15,603)</u>	<u>\$ 120,885</u>	<u>\$ 349,184</u>

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
<b>September 30, 2018</b>	11,950,000	\$ 12	42,387,571	\$ 42	\$ 242,493	\$ (15,603)	\$ 72,525	\$ 299,469
Net income	—	—	—	—	—	—	5,154	5,154
<b>December 31, 2018</b>	<u>11,950,000</u>	<u>\$ 12</u>	<u>42,387,571</u>	<u>\$ 42</u>	<u>\$ 242,493</u>	<u>\$ (15,603)</u>	<u>\$ 77,679</u>	<u>\$ 304,623</u>

See notes to consolidated financial statements (unaudited).

**CONSTRUCTION PARTNERS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited in thousands)**

	<b>For the Three Months Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 5,461	\$ 5,154
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization of long-lived assets	9,438	7,138
Amortization of deferred debt issuance costs and debt discount	36	27
Provision for bad debt	145	145
Gain on sale of equipment	(309)	(334)
Equity-based compensation expense	395	—
Earnings from investment in joint venture	(43)	(306)
Other non-cash adjustments	(6)	—
Changes in operating assets and liabilities, net of acquisition:		
Contracts receivable including retainage, net	21,981	26,174
Costs and estimated earnings in excess of billings on uncompleted contracts	(2,122)	(858)
Inventories	(1,535)	(3,982)
Prepaid expenses and other current assets	(2,943)	(2,277)
Other assets	331	298
Accounts payable	(21,815)	(25,290)
Billings in excess of costs and estimated earnings on uncompleted contracts	54	733
Accrued expenses and other current liabilities	(7,444)	(5,402)
Other long-term liabilities	(77)	(9)
Net cash provided by operating activities, net of acquisition	<u>1,547</u>	<u>1,211</u>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(23,595)	(7,406)
Proceeds from sale of equipment	492	536
Business acquisition, net of cash acquired	(17,748)	—
Distributions received from investment in joint venture	500	1,800
Net cash used in investing activities	<u>(40,351)</u>	<u>(5,070)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term debt, net of debt issuance costs and discount	9,777	—
Repayments of long-term debt	(2,149)	(3,711)
Net cash provided by (used in) financing activities	<u>7,628</u>	<u>(3,711)</u>
Net change in cash and cash equivalents	(31,176)	(7,570)
<b>Cash and cash equivalents:</b>		
Beginning of period	80,619	99,137
End of period	<u>\$ 49,443</u>	<u>\$ 91,567</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 496	\$ 747
Cash paid for income taxes	\$ 300	\$ 60
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	\$ 217	\$ —
Cash paid for operating lease liabilities	\$ 870	\$ —
Non-cash items:		
Property, plant and equipment financed with accounts payable	\$ 391	\$ 178

See notes to consolidated financial statements (unaudited).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### Note 1 - General

#### *Business Description*

Construction Partners, Inc. (the “Company”) is a leading infrastructure and road construction company operating in Alabama, Florida, Georgia, North Carolina and South Carolina through its wholly owned subsidiaries. The Company provides site development, paving, utility and drainage systems services, as well as hot mix asphalt (“HMA”), aggregates, ready-mix concrete, and liquid asphalt cement supply. The Company executes projects for a mix of private, municipal, state, and federal customers that are both privately and publicly funded. The majority of the work is performed under fixed unit price contracts and, to a lesser extent, fixed total price contracts.

The Company was formed as a Delaware corporation in 2007 as a holding company for its wholly owned subsidiary, Construction Partners Holdings, Inc., a Delaware corporation incorporated in 1999 that began operations in 2001, to execute an acquisition growth strategy in the HMA paving and construction industry. On December 31, 2019, the Company completed an internal reorganization by merging Construction Partners Holdings, Inc. with and into the Company, with the Company surviving the merger. SunTx Capital Partners (“SunTx”), a private equity firm based in Dallas, Texas, is the Company’s majority investor and has owned a controlling interest in the Company’s stock since the Company’s inception.

#### *Seasonality*

The use and consumption of our products and services fluctuate due to seasonality. Our products are used, and our construction operations and production facilities are located, outdoors. Therefore, seasonal changes and other weather-related conditions, in particular extended snowy, rainy or cold weather in the winter, spring or fall and major weather events, such as hurricanes, tornadoes, tropical storms and heavy snows, can adversely affect our business and operations through a decline in both the use of our products and demand for our services. In addition, construction materials production and shipment levels follow activity in the construction industry, which typically occurs in the spring, summer and fall. Warmer and drier weather during the third and fourth quarters of our fiscal year typically result in higher activity and revenues during those quarters. The first and second quarters of our fiscal year typically have lower levels of activity due to adverse weather conditions.

### Note 2 - Significant Accounting Policies

#### *Basis of Presentation*

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. These interim consolidated statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), which permit reduced disclosure for interim periods. The Consolidated Balance Sheet as of September 30, 2019 was derived from audited financial statements for the fiscal year then ended, but does not include all necessary disclosures required by accounting principles generally accepted in the United States of America (“GAAP”) with respect to annual financial statements. In the opinion of management, the unaudited consolidated financial statements include all recurring adjustments and normal accruals necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the dates and periods presented. These consolidated financial statements and accompanying notes should be read in conjunction with the Company’s audited annual consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the fiscal year ended September 30, 2019 (the “2019 Form 10-K”). Results for interim periods are not necessarily indicative of the results to be expected for a full fiscal year or for any future period.

#### *Management’s Estimates*

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the recorded amounts of assets, liabilities, stockholders’ equity, revenues and expenses during the reporting period, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates are used in accounting for items such as recognition of revenues and cost of revenues, goodwill and other intangible assets, valuation of operating lease right-of-use assets, allowance for doubtful accounts, valuation allowances related to income taxes, accruals for potential liabilities related to lawsuits or insurance claims, and the fair value of equity-based compensation awards. Estimates are continually evaluated based on historical information and actual experience; however, actual results could differ from these estimates.

A description of certain critical accounting policies of the Company is presented below. Additional critical accounting policies and the underlying judgments and uncertainties are described in the notes to the Company’s annual consolidated financial statements included in its 2019 Form 10-K.



***Emerging Growth Company***

The Company is an “emerging growth company,” as defined by the Jumpstart Our Business Startups Act (the “JOBS Act”) enacted in April 2012. As an emerging growth company, the Company could have taken advantage of an exemption that would have allowed the Company to wait to comply with new or revised financial accounting standards until the effective date of such standards for private companies. However, the Company has irrevocably elected to opt out of such extended transition period, which means that when a new or revised standard has a different effective date for public and private companies, the Company is required to adopt the standard at the effective date applicable to public companies that are not emerging growth companies.

***Cash and Cash Equivalents***

Cash consists principally of currency on hand and demand deposits at commercial banks. Cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents include investments with original maturities of three months or less. The Company maintains demand accounts, money market accounts and certificates of deposit at several banks. From time to time, the account balances have exceeded the maximum available federal deposit insurance coverage limit. The Company has not experienced any losses in such accounts and regularly monitors its credit risk.

***Contracts Receivable Including Retainage, net***

Contracts receivable are generally based on amounts billed and currently due from customers, amounts currently due but unbilled, and amounts retained by the customer pending completion of a project. It is common in the Company’s industry for a small portion of either progress billings or the contract price, typically 10%, to be withheld by the customer until the Company completes a project to the satisfaction of the customer in accordance with contract terms. Such amounts, defined as retainage, represent a contract asset and are included on the Consolidated Balance Sheet as “Contracts receivable including retainage, net”. Based on the Company’s experience with similar contracts in recent years, billings for such retainage balances are generally collected within one year of the completion of the project.

The carrying value of contracts receivable including retainage, net of the allowance for doubtful accounts, represents their estimated net realizable value. Management provides for uncollectible accounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts, type of service performed, and current economic conditions. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and an adjustment of the contract receivable.

***Contract Assets and Contract Liabilities***

Billing practices for the Company’s contracts are governed by the contract terms of each project based on (i) progress toward completion approved by the owner, (ii) achievement of milestones or (iii) pre-agreed schedules. Billings do not necessarily correlate with revenues recognized under the cost-to-cost input method (formerly known as the percentage-of-completion method). The Company records contract assets and contract liabilities to account for these differences in timing.

The contract asset, “Costs and estimated earnings in excess of billings on uncompleted contracts,” arises when the Company recognizes revenues for services performed under its construction projects, but the Company is not yet entitled to bill the customer under the terms of the contract. Amounts billed to customers are excluded from this asset and reflected on the Consolidated Balance Sheet as “Contracts receivable including retainage, net”. Included in costs and estimated earnings on uncompleted contracts are amounts the Company seeks or will seek to collect from customers or others for (i) errors, (ii) changes in contract specifications or design, (iii) contract change orders in dispute, unapproved as to scope and price, or (iv) other customer-related causes of unanticipated additional contract costs (such as claims). Such amounts are recorded to the extent that the amount can be reasonably estimated and recovery is probable. Claims and unapproved change orders made by the Company may involve negotiation and, in rare cases, litigation. Unapproved change orders and claims also involve the use of estimates, and revenues associated with unapproved change orders and claims are included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is resolved. The Company did not recognize any material amounts associated with claims and unapproved change orders during the periods presented.

The contract liability, “Billings in excess of costs and estimated earnings on uncompleted contracts,” represents the Company’s obligation to transfer to a customer goods or services for which the Company has been paid by the customer or for which the Company has billed the customer under the terms of the contract. Revenue for future services reflected in this account are recognized, and the liability is reduced, as the Company subsequently satisfies the performance obligation under the contract.

Costs and estimated earnings in excess of billings on uncompleted contracts and billings in excess of costs and estimated earnings on uncompleted contracts are typically resolved within one year and are not considered significant financing components.

### Concentration of Risks

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of contracts receivable including retainage. In the normal course of business, the Company provides credit to its customers and does not generally require collateral. The Company monitors concentrations of credit risk associated with these receivables on an ongoing basis. The Company has not historically experienced significant credit losses, due primarily to management's assessment of customers' credit ratings. The Company principally deals with recurring customers, state and local governments and well-known local companies whose reputations are known to management. The Company performs credit checks for significant new customers and generally requires progress payments for significant projects. The Company generally has the ability to file liens against the property if payments are not made on a timely basis. No single customer accounted for more than 10.0% of the Company's contracts receivable including retainage, net balance at December 31, 2019 or September 30, 2019.

Projects performed for various Departments of Transportation accounted for 31.0% and 37.3% of consolidated revenues for each of the three months ended December 31, 2019 and 2018. Two customers accounted for more than 10.0% of consolidated revenues for the three months ended December 31, 2019 and 2018, as follows:

	% of Consolidated Revenues for the Three Months Ended December 31,	
	2019	2018
Alabama Department of Transportation	10.8 %	9.6 %
North Carolina Department of Transportation	8.5 %	14.2 %

### Revenues from Contracts with Customers

The Company derives all of its revenues from contracts with its customers, predominantly by performing construction services for both public and private infrastructure projects, with an emphasis on highways, roads, bridges, airports and commercial and residential developments. These projects are performed for a mix of federal, state, municipal and private customers. In addition, the Company derives revenues from the sale of construction materials, including HMA, aggregates, liquid asphalt cement and ready-mix concrete to third-party public and private customers pursuant to contracts with those customers. The following table reflects, for the periods presented, (i) revenues generated from public infrastructure construction projects and the sale of construction materials to public customers and (ii) revenues generated from private infrastructure construction projects and the sale of construction materials to private customers.

	% of Consolidated Revenues For the Three Months Ended December 31,	
	2019	2018
Private	39.4 %	32.1 %
Public	60.6 %	67.9 %

Revenues derived from construction projects are recognized over time as the Company satisfies its performance obligations by transferring to the customer control of the asset created or enhanced by the project. Recognition of revenues and cost of revenues for construction projects requires significant judgment by management, including, among other things, estimating total costs expected to be incurred to complete a project and measuring progress toward completion. Management reviews contract estimates regularly to assess revisions of estimated costs to complete a project and measurement of progress toward completion.

Management believes the Company maintains reasonable estimates based on prior experience; however, many factors contribute to changes in estimates of contract costs. Accordingly, estimates made with respect to uncompleted projects are subject to change as each project progresses and better estimates of contract costs become available. All contract costs are recorded as incurred, and revisions to estimated total costs are reflected as soon as the obligation to perform is determined. Provisions are recognized for the full amount of estimated losses on uncompleted contracts whenever evidence indicates that the estimated total cost of a contract exceeds its estimated total revenue, regardless of the stage of completion. When the Company incurs additional costs related to work performed by subcontractors, the Company may be able to utilize contractual provisions to back charge the subcontractors for those costs. A reduction to costs related to back charges is recognized when the estimated recovery is probable and the amount can be reasonably estimated. Contract costs consist of (i) direct costs on contracts, including labor, materials, and amounts payable to subcontractors and (ii) indirect costs related to contract performance, such as insurance, employee benefits, and equipment (primarily depreciation, fuel, maintenance and repairs).

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Progress toward completion is estimated using the input method, measured by the relationship of total cost incurred through the measurement date to total estimated costs required to complete the project (cost-to-cost method). The Company believes this method best depicts the transfer of goods and services to the customer because it represents satisfaction of the Company's performance obligation under the contract, which occurs as the Company incurs costs. The Company measures percentage of completion based on the performance of a single performance obligation under its construction projects. Each of the Company's construction contracts represents a single performance obligation to complete a defined construction project. This is because goods and services promised for delivery to a customer are not distinct, as the customer cannot benefit from any individual portion of the services on its own. All deliverables under a contract are part of a project defined by a customer and represent a series of integrated goods and services that have the same pattern of delivery to the customer and use the same measure of progress toward satisfaction of the performance obligation as the customer's asset is created or enhanced by the Company. The Company's obligation is not satisfied until the entire project is complete.

Revenue recognized during a reporting period is based on the cost-to-cost input method applied to the total transaction price, including adjustments for variable consideration, such as liquidated damages, penalties or bonuses, related to the timeliness or quality of project performance. The Company includes variable consideration in the estimated transaction price at the most likely amount to which the Company expects to be entitled or the most likely amount the Company expects to incur, in the case of liquidated damages or penalties. Such amounts are included in the transaction price to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is resolved. The Company accounts for changes to the estimated transaction price using a cumulative catch-up adjustment.

The majority of the Company's public construction contracts are fixed unit price contracts. Under fixed unit price contracts, the Company is committed to providing materials or services required by a contract at fixed unit prices (for example, dollars per ton of asphalt placed). The Company's private customer contracts are primarily fixed total price contracts, also known as lump sum contracts, which require that the total amount of work be performed for a single price. Contract cost is recorded as incurred, and revisions in contract revenue and cost estimates are reflected in the accounting period when known. Changes in job performance, job conditions and estimated profitability, including those changes arising from contract change orders, penalty provisions and final contract settlements, may result in revisions to estimated revenues and cost and are recognized in the period in which the revisions are determined.

Change orders are modifications of an original contract that effectively change the existing provisions of the contract and become part of the single performance obligation that is partially satisfied at the date of the contract modification. This is because goods and services promised under change orders are generally not distinct from the remaining goods and services under the existing contract, due to the significant integration of services performed in the context of the contract. Accordingly, change orders are generally accounted for as a modification of the existing contract and single performance obligation. We account for the modification using a cumulative catch-up adjustment. Either the Company or its customers may initiate change orders, which may include changes in specifications or designs, manner of performance, facilities, equipment, materials, sites and period of completion of the work.

Revenues derived from the sale of HMA, aggregates, ready-mix concrete, and liquid asphalt are recognized at the point in time at which control of the product is transferred to the customer. Generally, that point in time is when the customer accepts delivery at its facility or receives product in its own transport vehicles from one of the Company's HMA plants. Upon purchase, the Company generally provides an invoice or similar document detailing the goods transferred to the customer. The Company generally offers payment terms customary in the industry, which typically require payment ranging from point-of-sale to 30 days following purchase.

### ***Income Taxes***

The provision for income taxes includes federal and state income taxes. Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement carrying values and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the fiscal years in which the temporary differences are expected to be reversed or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Management evaluates the realization of deferred tax assets and establishes a valuation allowance when it is more likely than not that all or a portion of the deferred tax assets will not be realized. Deferred tax assets and deferred tax liabilities are presented on a net basis by taxing authority and classified as non-current on the Consolidated Balance Sheet. The Company classifies income tax-related interest and penalties as interest expense and other expenses, respectively.

### ***Earnings per Share***

Basic net income per share attributable to common stockholders is computed by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per common share attributable to common stockholders is the same as basic net income per share attributable to common stockholders, but includes dilutive unvested stock awards using the treasury stock method.

### **Note 3 - Accounting Standards**

#### ***Recently Adopted Accounting Pronouncements***

##### *Accounting Standards Codification ("ASC") Topic 842*

ASC Topic 842, *Leases* ("Topic 842") requires lessees to recognize operating lease right-of-use assets and operating lease liabilities on the balance sheet as described below. Prior to adoption of Topic 842, operating leases were expensed on a straight-line basis over the lease term on the Company's Consolidated Statements of Income, and the Company did not recognize operating lease right-of-use assets and operating lease liabilities on its Consolidated Balance Sheet.

The Company adopted Topic 842 effective October 1, 2019 using a modified retrospective transition approach with no prior-period retrospective adjustments. As a result, on the adoption date, the Company recognized (i) a net cumulative decrease to retained earnings of \$0.2 million, (ii) additional operating lease right-of-use assets of \$9.1 million, (iii) current operating lease liabilities of \$2.9 million and (iv) non-current operating lease liabilities of \$6.4 million. The Company elected to apply optional practical expedients that allowed the Company to forego reassessments of (i) the classification of leases existing at the date of adoption, (ii) the initial direct costs of any existing leases and (iii) whether any expired or existing contracts are, or contain, leases.

In connection with the adoption of Topic 842, the Company implemented several accounting policies relating to the identification and measurement of operating lease right-of-use assets and liabilities. At the inception of a contractual arrangement, the Company determines whether a contract contains a lease by assessing whether the contract conveys to the Company the right to control the use of an identified asset in exchange for consideration over a period of time. If so, the Company measures and records an operating lease liability equal to the present value of the future lease payments. Because most of the Company's leases do not provide an implicit rate, the Company's incremental borrowing rate is used in determining the present value of lease payments. The amount of the operating lease right-of-use asset consists of: (i) the amount of the initial measurement of the operating lease liability; (ii) any lease payments made at or before the commencement date, minus any lease incentives received; and (iii) any initial direct costs incurred. The present value calculation may account for options to extend or terminate the lease when it is reasonably certain that the Company will exercise the option.

The Company has elected not to apply the recognition requirements to short-term leases (those with terms of 12 months or less) or leases to explore for or use minerals. Instead, for these types of leases, the Company recognizes lease expense in the Consolidated Statements of Income on a straight-line basis over the lease term.

#### **Note 4 - Business Acquisitions**

On October 1, 2019, a subsidiary of the Company acquired substantially all of the assets of an HMA manufacturing plant and paving company located in Palm City, Florida. The acquired business is expected to benefit from geographic synergies resulting from its proximity to the Company's preexisting operations in central Florida, including its Okeechobee, Florida HMA plant and office, which the Company acquired in February 2019. The acquisition has been accounted for as a business combination in accordance with ASC Topic 805, *Business Combinations*. The purchase price of \$17.7 million was paid from cash on hand at closing.

The provisional allocation of the purchase price to assets acquired and liabilities assumed, based on their estimated fair values at the acquisition date, was determined in accordance with the methodology described under *Fair Value Measurements* in Note 2 - Significant Accounting Policies to the Company's audited financial statements for the fiscal year ended September 30, 2019. The provisional amounts allocated are \$9.6 million of property, plant and equipment, \$1.2 million of other current assets and \$6.9 million of goodwill. Goodwill, which is deductible for income tax purposes, primarily represents the assembled work force synergies expected to result from the acquisition. Upon finalizing the accounting for this transaction, management expects to ascribe value to other identifiable intangible assets, including customer relationships and customer backlog, which will reduce the preliminary amount allocated to goodwill.

The results of operations since the October 1, 2019 acquisition date attributable to this acquisition are included in the consolidated financial statements since the acquisition date and were not material to the Consolidated Statements of Income for the three months ended December 31, 2019. Pro forma results of operations as if the acquisition had been consummated October 1, 2018 would not be material to the Consolidated Statements of Income.

The Company recorded certain costs to effect the acquisition as they were incurred, which are reflected in general and administrative expenses on the Company's Consolidated Statements of Income in the amount of \$0.1 million for the three months ended December 31, 2019.

**Note 5 - Contracts Receivable Including Retainage, net**

Contracts receivable including retainage, net consisted of the following at December 31, 2019 and September 30, 2019 (in thousands):

	<b>December 31, 2019</b>	<b>September 30, 2019</b>
	<b>(unaudited)</b>	
Contracts receivable	\$ 99,095	\$ 121,050
Retainage	20,587	19,835
	119,682	140,885
Allowance for doubtful accounts	(1,134)	(1,003)
Contracts receivable including retainage, net	<u>\$ 118,548</u>	<u>\$ 139,882</u>

Retainage receivables have been billed, but are not due until contract completion and acceptance by the customer.

**Note 6 - Contract Assets and Liabilities**

Costs and estimated earnings compared to billings on uncompleted contracts at December 31, 2019 and September 30, 2019 consisted of the following (in thousands):

	<b>December 31, 2019</b>	<b>September 30, 2019</b>
	<b>(unaudited)</b>	
Costs on uncompleted contracts	\$ 997,238	\$ 900,880
Estimated earnings to date on uncompleted contracts	131,978	123,256
	1,129,216	1,024,136
Billings to date on uncompleted contracts	(1,146,233)	(1,043,221)
Net billings in excess of costs and estimated earnings on uncompleted contracts	<u>\$ (17,017)</u>	<u>\$ (19,085)</u>

Significant changes to balances of costs and estimated earnings in excess of billings (contract asset) and billings in excess of costs and estimated earnings (contract liability) on uncompleted contracts from September 30, 2019 to December 31, 2019 are presented below (in thousands):

	<b>Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts</b>	<b>Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts</b>	<b>Net Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts</b>
<b>September 30, 2019</b>	\$ 12,030	\$ (31,115)	\$ (19,085)
Changes in revenue billed, contract price or cost estimates	\$ 2,122	\$ (54)	\$ 2,068
<b>December 31, 2019 (unaudited)</b>	<u>\$ 14,152</u>	<u>\$ (31,169)</u>	<u>\$ (17,017)</u>

At December 31, 2019, the Company had unsatisfied or partially unsatisfied performance obligations under construction project contracts representing approximately \$456.5 million in aggregate transaction price. The Company expects to earn revenue as it satisfies its performance obligations under those contracts in the amount of approximately \$327.2 million during the remainder of the fiscal year ending September 30, 2020 and \$129.3 million thereafter.

**Note 7 - Property, Plant and Equipment**

Property, plant and equipment at December 31, 2019 and September 30, 2019 consisted of the following (in thousands):

	December 31, 2019 (unaudited)	September 30, 2019
Construction equipment	\$ 239,486	\$ 214,500
Plants	94,743	92,279
Land and improvements	36,325	34,365
Quarry reserves	20,594	20,678
Buildings	16,833	15,458
Furniture and fixtures	5,072	4,864
Leasehold improvements	1,135	1,135
Total property, plant and equipment, gross	414,188	383,279
Accumulated depreciation, depletion and amortization	(186,106)	(177,927)
Construction in progress	1,420	518
Total property, plant and equipment, net	\$ 229,502	\$ 205,870

Depreciation and depletion expense related to property, plant and equipment was \$9.4 million and \$6.9 million for the three months ended December 31, 2019 and 2018, respectively.

**Note 8 - Debt**

The Company maintains various credit facilities from time to time to finance acquisitions, the purchase of real estate, construction equipment, plants and other fixed assets, and for general working capital purposes. This includes, among other things, a credit agreement with BBVA USA as agent, issuing bank and a lender, and certain other lenders (as amended, the "BBVA Credit Agreement") providing for a \$82.0 million term loan (the "Term Loan") and a \$30.0 million revolving credit facility (the "Revolving Credit Facility"). Debt at December 31, 2019 and September 30, 2019 consisted of the following (in thousands):

	December 31, 2019 (unaudited)	September 30, 2019
Long-term debt:		
BBVA Term Loan	\$ 52,650	\$ 44,700
BBVA Revolving Credit Facility	5,000	5,000
Other long-term debt	464	563
Total long-term debt	58,114	50,263
Deferred debt issuance costs	(453)	(263)
Debt discount	(1)	(4)
Current maturities of long-term debt	(8,511)	(7,538)
Long-term debt, net of current maturities	\$ 49,149	\$ 42,458

On October 1, 2019, the Company and each of its wholly owned subsidiaries entered into an amendment to the BBVA Credit Agreement that, among other things: (i) added Bank of America, N.A. as a party in connection with the assignment by BBVA to Bank of America of certain of its lending obligations under the BBVA Credit Agreement; (ii) increased the aggregate amount of the Term Loan commitment by the lenders by \$10.0 million, to \$54.7 million; (iii) provided for a Term Loan advance to the Company in the aggregate amount of \$10.0 million, with the proceeds to be used solely for the purpose of buying out certain operating lease obligations; and (iv) extended the maturity date for the outstanding term loan advances from July 1, 2022 to October 1, 2024. In order to hedge against the risk of changes in interest rates on this advance, on October 1, 2019, the Company entered into an interest rate swap agreement with a notional amount of \$5.9 million, under which the Company pays a fixed percentage rate of 1.58% and receives a credit based on the applicable LIBOR rate.

**Note 9 - Equity**

Shares of our Class A common stock and Class B common stock are identical in all respects, except with respect to voting rights, conversion rights and transfer restrictions applicable to shares of Class B common stock. The holders of Class A common stock are entitled to one vote per share, and the holders of Class B common stock are entitled to ten votes per share. The holders of Class A common stock and Class B common stock vote together as a single class on all matters submitted to a vote of stockholders, including the election of directors, unless otherwise required by applicable law or the Company's certificate of incorporation or bylaws. Shares of Class B common stock are convertible into shares of Class A common stock at any time at the option of the holder or upon any transfer, subject to certain limited exceptions. In addition, upon the election of the holders of a majority of the then-outstanding shares of Class B common stock, all outstanding shares of Class B common stock will be converted into shares of Class A common stock. Once converted into shares of Class A common stock, shares of Class B common stock will not be reissued. Class A common stock is not convertible into any other class of the Company's capital stock.

**Secondary Offering - Exercise of Over-Allotment Option**

On October 21, 2019, in conjunction with an underwritten secondary offering of the Company's Class A common stock, the underwriters of the offering exercised their option to purchase from the selling stockholders in such offering a total of 750,000 shares of the Company's Class A common stock at a price of \$4.25 per share, before selling commissions and discounts. The Company did not receive any proceeds from the offering or the underwriters' exercise of their over-allotment option.

**Conversion of Class B Common Stock to Class A Common Stock**

During the three months ended December 31, 2019, certain stockholders of the Company converted a total of 107,682 shares of Class B common stock into shares of Class A common stock on a one-for-one basis. Following the conversions, there were 32,705,418 shares of Class A common stock and 19,076,327 shares of Class B common stock outstanding.

**Note 10 - Earnings Per Share**

As discussed in Note 9 - Equity, the Company has two classes of common stock. The Company has not presented earnings per share under the two-class method, because the earnings per share are the same for both Class A common stock and Class B common stock. The following table summarizes the weighted-average number of basic common shares outstanding and the calculation of basic earnings per share for the periods presented (in thousands, except share and per share amounts):

	For the Three Months Ended December 31,	
	2019	2018
Numerator		
Net income attributable to common shareholders	\$ 5,461	\$ 5,154
Denominator		
Weighted average number of common shares outstanding, basic	51,489,211	51,414,619
Net income per common share attributable to common shareholders, basic	\$ 0.11	\$ 0.10

The following table summarizes the calculation of the weighted-average number of diluted common shares outstanding and the calculation of diluted earnings per share for the periods presented (in thousands, except share and per share amounts):

	For the Three Months Ended December 31,	
	2019	2018
Numerator		
Net income attributable to common stockholders	\$ 5,461	\$ 5,154
Denominator		
Weighted average number of basic common shares outstanding, basic	51,489,211	51,414,619
Effect of dilutive securities:		
Restricted stock grants under 2018 Equity Incentive Plan	120,169	—
Weighted average number of diluted common shares outstanding:	51,609,380	51,414,619
Net income per diluted common share attributable to common stockholders	\$ 0.11	\$ 0.10

#### **Note 11 - Provision for Income Taxes**

The Company files a consolidated United States federal income tax return and income tax returns in various states. Management evaluated the Company's tax positions based on appropriate provisions of applicable enacted tax laws and regulations and believes that they are supportable based on their specific technical merits and the facts and circumstances of the respective transactions.

The Company's effective income tax rate for the three months ended December 31, 2019 and 2018 was 9.5% and 24.3%, respectively. The effective income tax rate for the three months ended December 31, 2019 was favorably impacted by the filing of an amended consolidated state return. The Company recorded an amended return benefit of \$0.4 million resulting from the utilization of net operating loss carryforwards.

#### **Note 12 - Related Parties**

On December 31, 2017, the Company sold an indirect wholly owned subsidiary to an immediate family member of a Senior Vice President of the Company ("Purchaser of Subsidiary") in consideration for a promissory note in the amount of \$1.0 million, which approximated the net book value of the disposed entity. At December 31, 2019, \$0.1 million and \$0.6 million was reflected on the Company's Consolidated Balance Sheet within other current assets and other assets, respectively, representing the remaining balances on this note receivable. In connection with this transaction, the Company also received a promissory note from the disposed entity ("Disposed Entity") on December 31, 2017 in the amount of \$1.0 million representing certain accounts payable of the disposed subsidiary that were paid by the Company. At December 31, 2019, \$0.1 million and \$0.4 million was reflected on the Company's Consolidated Balance Sheet within other current assets and other assets, respectively, representing the remaining balances on this note receivable. Remaining payments are scheduled to be made in periodic installments during fiscal year 2020 through fiscal year 2026.

From time to time, the Company conducts or has conducted business with the following related parties:

- Prior to its acquisition by the Company, a current subsidiary of the Company advanced funds to an entity owned by an immediate family member of a Senior Vice President of the Company in connection with a land development project. The obligations of the borrower entity to repay the advances are guaranteed by a separate entity owned by the same family member of the officer. Amounts outstanding under the advances do not bear interest and must be repaid in full no later than March 17, 2021 ("Land Development Project").
- Entities owned by immediate family members of a Senior Vice President of the Company perform subcontract work for a subsidiary of the Company, including trucking and grading services ("Subcontracting Services").
- From time to time, a subsidiary of the Company provides construction services to various companies owned by a family member of a Senior Vice President of the Company ("Construction Services").
- Since June 1, 2014, the Company has been a party to an access agreement with Island Pond Corporate Services, LLC ("Island Pond"), which provides a location for the Company to conduct business development activities from time to time on a property owned by the Executive Chairman of the Company's Board of Directors.
- The Company rents and purchases vehicles from an entity owned by a family member of a Senior Vice President of the Company ("Vehicles").
- Family members of a Senior Vice President of the Company provide consulting services to a subsidiary of the Company ("Consulting Services").
- A subsidiary of the Company leased office space for its Dothan, Alabama office from H&K, Ltd. ("H&K"), an entity partially owned by a Senior Vice President of the Company. The office space was originally leased through early 2020, but the subsidiary terminated the lease in June 2019 and paid \$15,000 to H&K as consideration for the early termination. Under the lease agreement, the Company paid a fixed minimum rent per month.
- The Company is party to a management services agreement with SunTx, under which the Company pays SunTx \$0.25 million per fiscal quarter and reimburses certain travel and other out-of-pocket expenses.



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The following table presents revenues earned and expenses incurred by the Company during the three months ended December 31, 2019 and 2018, and accounts receivable and payable balances at December 31, 2019 and September 30, 2019, related to transactions with the related parties described above (in thousands):

	Revenue Earned (Expense Incurred)		Accounts Receivable (Payable)	
	For the Three Months Ended December 31,		December 31,	September 30,
	2019	2018	2019	2019
	(unaudited)	(unaudited)	(unaudited)	
Purchaser of Subsidiary	\$ —	\$ —	\$ 725	\$ 756
Disposed Entity	\$ —	\$ —	\$ 462	\$ 846
Land Development Project	\$ —	\$ —	\$ 774	\$ 774
Subcontracting Services	\$ (1,578) <sup>(1)</sup>	\$ (3,293) <sup>(1)</sup>	\$ (316)	\$ (1,238)
Construction Services	\$ 1,280	\$ 113	\$ 1,643	\$ 2,434
Island Pond	\$ (80) <sup>(2)</sup>	\$ (80) <sup>(2)</sup>	\$ —	\$ —
Vehicles	\$ (253) <sup>(2)</sup>	\$ (289) <sup>(2)</sup>	\$ —	\$ —
Consulting Services	\$ (71) <sup>(2)</sup>	\$ (67) <sup>(2)</sup>	\$ —	\$ —
H&K	\$ — <sup>(2)</sup>	\$ (21) <sup>(2)</sup>	\$ —	\$ —
SunTx	\$ (314) <sup>(2)</sup>	\$ (254) <sup>(2)</sup>	\$ —	\$ —

<sup>(1)</sup> Cost is reflected as cost of revenues on the Company's Consolidated Statements of Income.

<sup>(2)</sup> Cost is reflected as general and administrative expenses on the Company's Consolidated Statements of Income.

**Note 13 - Settlement Agreement**

On April 19, 2018, certain of the Company's subsidiaries entered into settlement agreements with a third party arising from a business interruption event not directly related to the Company's business that the Company does not expect to reoccur (the "Settlement"). The Settlement provides for the Company's subsidiaries to receive aggregate net payments of approximately \$15.7 million in four equal installments between January 2019 and July 2020, in exchange for releasing and waiving all current and future claims against the third party. The Company recorded a pre-tax gain of \$14.8 million during the fiscal year ended September 30, 2018 related to the Settlement. Future payments are reflected on the Consolidated Balance Sheet at December 31, 2019 and September 30, 2019 as other current assets in the amount of \$7.8 million.

**Note 14 - Equity-Based Compensation**

During the fiscal year ending September 30, 2019, the Company awarded a total of 292,534 restricted shares of Class A common stock to its non-employee directors under the Construction Partners, Inc. 2018 Equity Incentive Plan in lieu of any cash compensation. The grants are classified as equity awards. The aggregate grant date fair value of these restricted awards was \$3.8 million. The grants will vest as to two-thirds of the underlying shares on January 1, 2021 and as to the remaining one-third of the underlying shares on January 1, 2022.

During the three months ended December 31, 2019, the Company recorded compensation expense in connection with these grants in the amount of \$0.4 million, which is reflected as general and administrative expenses in the Company's Consolidated Statements of Income. At December 31, 2019, there was approximately \$2.8 million of unrecognized compensation expense related to these awards.

**Note 15 - Leases**

The Company leases certain facilities, office space, vehicles and equipment. As of December 31, 2019, operating leases under Topic 842 were included in (i) operating lease right-of-use assets, (ii) current portion of operating lease liabilities and (iii) operating lease liabilities, net of current portion on the Company's Consolidated Balance Sheet in the amounts of \$8.5 million, \$2.9 million and \$5.8 million, respectively. As of December 31, 2019, the Company had no lease contracts that had not yet commenced but created significant rights and obligations.

Lease expense was \$0.9 million and \$2.6 million during the three months ended December 31, 2019 and 2018, respectively, which included operating lease costs related to short-term leases. During the quarter, the Company used cash in the amount of \$11.5 million to buy out certain operating lease obligations.

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As of December 31, 2019, the weighted-average remaining term of the Company's leases was 8.2 years, and the weighted-average discount rate was 4.00%. As of December 31, 2019, the lease liability was equal to the present value of the remaining lease payments, discounted using the incremental borrowing rate on the Company's secured debt using a single maturity discount rate, as such rate is not materially different from the discount rate applied to each of the leases in the portfolio.

The following table summarizes the Company's undiscounted lease liabilities outstanding as of December 31, 2019 (in thousands):

<b>Fiscal Year</b>	<b>Amount</b>
Remainder of 2020	\$ 2,483
2021	1,999
2022	962
2023	621
2024	596
2025 and thereafter	3,797
Total future minimum lease payments	\$ 10,458
Less: imputed interest	1,710
Total	\$ 8,748

As previously disclosed, the Company's future minimum lease payment obligations as of September 30, 2019 were as follows:

<b>Fiscal Year</b>	<b>Amount</b>
2020	\$ 6,537
2021	3,043
2022	1,041
2023	351
2024	255
Thereafter	58
Total	\$ 11,285

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*This discussion and analysis of our financial condition and results of operations is intended to assist in understanding and assessing the trends and significant changes in our results of operations and financial condition. Historical results may not be indicative of future performance. This discussion includes forward-looking statements that reflect our plans, estimates and beliefs. Such statements involve risks and uncertainties. Our actual results may differ materially from those contemplated by these forward-looking statements as a result of various factors, including those set forth under the headings “Risk Factors” and “Cautionary Statement Regarding Forward-Looking Statements.” This discussion should be read in conjunction with our unaudited consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and notes thereto included in our 2019 Form 10-K. In this discussion, we use certain non-GAAP financial measures. Explanation of these non-GAAP financial measures and reconciliation to the most directly comparable GAAP financial measures are included in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Investors should not consider non-GAAP financial measures in isolation or as substitutes for financial information presented in compliance with GAAP.*

### **Overview**

We are one of the fastest growing civil infrastructure companies in the United States, specializing in the building and maintenance of transportation networks. Our operations leverage a highly skilled workforce, strategically located HMA plants, substantial construction assets and select material deposits. We provide construction products and services to both public and private infrastructure projects, with an emphasis on highways, roads, bridges, airports and commercial and residential sites in the southeastern United States.

Our public projects are funded by federal, state and local governments and include projects for roads, highways, bridges, airports and other forms of infrastructure. Public transportation infrastructure projects historically have been a relatively stable portion of state and federal budgets and represent a significant share of the United States construction market. Federal funds are allocated on a state-by-state basis, and each state is required to match a portion of the federal funds that it receives. Federal highway spending uses funds predominantly from the Highway Trust Fund, which derives its revenues from fuel taxes and other user fees.

In addition to public infrastructure projects, we provide a wide range of large site work construction and HMA paving services to private construction customers, including commercial and residential developers and local businesses.

### **How We Assess Performance of Our Business**

#### ***Revenues***

We derive our revenues predominantly by providing construction products and services for both public and private infrastructure projects, with an emphasis on highways, roads, bridges, airports and commercial and residential sites. Our projects represent a mix of federal, state, municipal and private customers. We also derive revenues from the sale of HMA, aggregates, ready-mix concrete and liquid asphalt cement to customers. Revenues derived from projects are recognized as performance obligations are satisfied over time, measured according to the relationship of total cost incurred as of a given determination date to the total estimated contract costs. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined. Revenues derived from the sale of HMA, aggregates, ready-mix concrete and liquid asphalt cement are recognized when risks associated with ownership have passed to the customer.

#### ***Gross Profit***

Gross profit represents revenues less cost of revenues. Cost of revenues consists of all direct and indirect costs on construction contracts, including raw materials, labor, equipment costs, depreciation, lease expenses, subcontract costs and other expenses at our HMA plants, aggregate mining facilities and liquid asphalt cement terminal. Our cost of revenues is directly affected by fluctuations in commodity prices, primarily liquid asphalt and diesel fuel. From time to time, when appropriate, we limit our exposure to changes in commodity prices by entering into forward purchase commitments. In addition, our public infrastructure contracts often provide for price adjustments based on fluctuations in certain commodity-related product costs. These price adjustment provisions are in place for most of our public infrastructure contracts, and we seek to include similar provisions in our private contracts.

**Depreciation, Depletion and Amortization**

We carry property, plant and equipment on our balance sheet at cost, net of accumulated depreciation, depletion and amortization. Depreciation on property, plant and equipment is computed on a straight-line basis over the estimated useful life of the asset. Amortization expense is the periodic expense related to leasehold improvements and intangible assets. Leasehold improvements are amortized over the lesser of the life of the underlying asset or the remaining lease term. Our intangible assets were recognized as a result of certain acquisitions and are generally amortized on a straight-line basis over the estimated useful lives of the assets. Quarry reserves are depleted in accordance with the units-of-production method as aggregate is extracted, using the initial allocation of cost based on proven and probable reserves.

**General and Administrative Expenses**

General and administrative expenses consist primarily of salaries and personnel costs for our administration, finance and accounting, legal, information systems, human resources and certain managerial employees. Additional expenses include audit, consulting and professional fees, travel, insurance, office space rental costs, property taxes and other corporate and overhead expenses.

**Gain on Sale of Equipment, net**

In the normal course of business, we sell construction equipment for various reasons, including when the cost of maintaining the asset exceeds the cost of replacing it. The gain or loss on sale of equipment reflects the difference between the carrying value at the date of disposal and the net consideration received from the sale of equipment during the period.

**Interest Expense, net**

Interest expense, net primarily represents interest incurred on our long-term debt, such as the Term Loan and the Revolving Credit Facility, as well as the cost of interest swap agreements and amortization of deferred debt issuance costs. These amounts are partially offset by interest income earned on short-term investments of cash balances in excess of our current operating needs.

**Adjusted EBITDA and Adjusted EBITDA Margin**

Adjusted EBITDA represents net income before (i) interest expense, net, (ii) provision for income taxes, (iii) depreciation, depletion and amortization (iv) equity-based compensation expense, (v) loss on extinguishment of debt and (vi) certain management fees and expenses. Adjusted EBITDA Margin represents Adjusted EBITDA as a percentage of revenues for each period. These metrics are supplemental measures of our operating performance that are neither required by, nor presented in accordance with, GAAP. These measures have limitations as analytical tools and should not be considered in isolation or as an alternative to net income or any other performance measure derived in accordance with GAAP as indicator of operating performance. We present Adjusted EBITDA and Adjusted EBITDA Margin because management uses these measures as key performance indicators, and we believe that securities analysts, investors and others use these measures to evaluate companies in our industry. Our calculation of Adjusted EBITDA and Adjusted EBITDA Margin may not be comparable to similarly named measures reported by other companies. Potential differences may include differences in capital structures, tax positions and the age and book depreciation of intangible and tangible assets.

The following table presents a reconciliation of Adjusted EBITDA to net income, the most directly comparable measure calculated in accordance with GAAP, and the calculation of Adjusted EBITDA Margin for the periods presented (in thousands, except percentages):

	<b>For the Three Months Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Net income	\$ 5,461	\$ 5,154
Interest expense, net	281	515
Provision for income taxes	1,319	1,651
Depreciation, depletion and amortization of long-lived assets	9,438	7,138
Equity-based compensation expense	395	—
Management fees and expenses <sup>(1)</sup>	314	254
Adjusted EBITDA	<u>\$ 17,208</u>	<u>\$ 14,712</u>
Revenues	\$ 175,314	\$ 154,327
Adjusted EBITDA Margin	9.8 %	9.5 %

<sup>(1)</sup> Reflects fees and reimbursement of certain travel expenses under a management services agreement with SunTx (see Note 12 - Related Parties to the consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q).

## Results of Operations

### Three Months Ended December 31, 2019 Compared to Three Months Ended December 31, 2018

The following table sets forth selected financial data for the three months ended December 31, 2019 and December 31, 2018 (in thousands, except percentages):

	For the Three Months Ended December 31,				Change From the Three Months Ended	
	2019		2018		December 31, 2018	
	Dollars	% of Revenues	Dollars	% of Revenues	\$ Change	% Change
Revenues	\$ 175,314	100.0 %	\$ 154,327	100.0 %	\$ 20,987	13.6 %
Cost of revenues	151,557	86.4 %	133,199	86.3 %	18,358	13.8 %
<b>Gross profit</b>	23,757	13.6 %	21,128	13.7 %	2,629	12.4 %
General and administrative expenses	(17,113)	(9.8) %	(14,431)	(9.3) %	(2,682)	18.6 %
Gain on sale of equipment, net	309	0.2 %	334	0.2 %	(25)	(7.5)%
<b>Operating income</b>	6,953	4.0 %	7,031	4.6 %	(78)	(1.1)%
Interest expense, net	(281)	(0.2) %	(515)	(0.3) %	234	(45.4)%
Other expense	65	— %	(17)	(0.1) %	82	(482.4)%
<b>Income before provision for income taxes and earnings from investment in joint venture</b>	6,737	3.8 %	6,499	4.2 %	238	3.7 %
Provision for income taxes	1,319	0.8 %	1,651	1.1 %	(332)	(20.1)%
Earnings from investment in joint venture	43	0.1 %	306	0.2 %	(263)	(85.9)%
<b>Net income</b>	\$ 5,461	3.1 %	\$ 5,154	3.3 %	\$ 307	6.0 %
Adjusted EBITDA	\$ 17,208	9.8 %	\$ 14,712	9.5 %	\$ 2,496	17.0 %

**Revenues.** Revenues for the three months ended December 31, 2019 increased \$21.0 million, or 13.6%, to \$175.3 million from \$154.3 million for the three months ended December 31, 2018. The increase included \$13.1 million of revenues attributable to acquisitions completed subsequent to December 31, 2018 and an increase of approximately \$7.9 million of revenues in our existing markets from contract work and sales of HMA and aggregates to third parties.

**Gross Profit.** Gross profit for the three months ended December 31, 2019 increased \$2.7 million, or 12.4%, to \$23.8 million from \$21.1 million for the three months ended December 31, 2018. The increase in gross profit was primarily the result of the 13.6 % increase in revenue from the three months ended December 31, 2019 compared to the three months ended December 31, 2018.

**General and Administrative Expenses.** General and administrative expenses include costs related to our operational offices that are not allocated to direct contract costs and expenses related to our corporate offices. General and administrative expenses for the three months ended December 31, 2019 increased \$2.7 million, or 18.6%, to \$17.1 million from \$14.4 million for the three months ended December 31, 2018. The increase in general and administrative expenses for the three months ended December 31, 2019 compared to the three months ended December 31, 2018 was primarily the result of (i) a \$1.4 million increase in management personnel payroll and benefits, (ii) a \$0.8 million increase attributable to acquisitions completed subsequent to December 31, 2018 and (iii) a \$0.4 million increase in stock compensation expense.

**Interest Expense, Net.** Interest expense, net for the three months ended December 31, 2019 decreased \$0.2 million, or 45.4%, to \$0.3 million compared to \$0.5 million for the three months ended December 31, 2018. The decrease in interest expense, net, reflects a \$0.5 million decrease in interest expense, partially offset by a \$0.2 million decrease in interest income. The decrease in interest expense was due to a decrease in the average principal debt balance outstanding to \$56.8 million for the three months ended December 31, 2019 from \$60.4 million for the three months ended December 31, 2018 and a decrease in the average interest rate on the Term Loan and the Revolving Credit Facility to 3.044% during the three months ended December 31, 2019 from 4.296% during the three months ended December 31, 2018. The decrease in interest income was due to a lower average cash balance during the three months ended December 31, 2019 compared to the three months ended December 31, 2018.

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**Provision for Income Taxes.** Our effective tax rate decreased to 19.5% for the three months ended December 31, 2019, from 24.3% for the three months ended December 31, 2018. Our lower effective tax rate was the result of filing an amended consolidated state return, as a result of which the Company recorded an amended return benefit of \$0.4 million related to the utilization of net operating loss carryforwards.

**Earnings from Investment in Joint Venture.** During the three months ended December 31, 2019 and 2018, we earned \$0.04 million and \$0.3 million, respectively, of pre-tax income from our 50% interest in the earnings of a joint venture that we entered into with a third party in November 2017 for the sole purpose of performing a construction project for the Alabama Department of Transportation.

**Net Income.** Net income increased \$0.3 million, or 6.0%, to \$5.5 million for the three months ended December 31, 2019, compared to \$5.2 million for the three months ended December 31, 2018. The increase in net income was a result of an increase in gross profit, partially offset by an increase in general and administrative expenses, and a decrease in the effective tax rate during the three months ended December 31, 2019 compared to the three months ended December 31, 2018, all as described above.

**Adjusted EBITDA and Adjusted EBITDA Margin.** Adjusted EBITDA and Adjusted EBITDA Margin were \$17.2 million and 9.8%, respectively, for the three months ended December 31, 2019, compared to \$14.7 million and 9.5%, respectively, for the three months ended December 31, 2018. The increase in Adjusted EBITDA was the result of a higher gross profit and depreciation, depletion and amortization of long-lived assets, partially offset by an increase in general and administrative expenses. The higher Adjusted EBITDA Margin was a primarily a result of increased depreciation, depletion and amortization of long-lived assets during the three months ended December 31, 2019. See the description of Adjusted EBITDA and Adjusted EBITDA Margin, as well as a reconciliation of Adjusted EBITDA to net income, under the heading "How We Assess Performance of Our Business".

### **Inflation and Price Changes**

Inflation had an immaterial impact on our results of operations for the three months ended December 31, 2019 and 2018 due to relatively low inflation in the United States in recent years and our ability to recover increasing costs by obtaining higher prices for our products, including sale price escalator clauses in most of our public infrastructure sector contracts. Inflation risk varies with the level of activity in our industry, the number, size and strength of competitors and the availability of products to supply a local market.

### **Liquidity and Capital Resources**

#### *Cash Flows Analysis*

The following table sets forth our cash flows for the periods indicated (in thousands):

	For the Three Months Ended December 31,	
	2019	2018
Net cash provided by operating activities, net of acquisition	\$ 1,547	\$ 1,211
Net cash used in investing activities	(40,351)	(5,070)
Net cash provided by (used in) financing activities	7,628	(3,711)
Net change in cash and cash equivalents	\$ (31,176)	\$ (7,570)

#### *Operating Activities*

Cash provided by operating activities was \$1.5 million for the three months ended December 31, 2019, an increase of \$0.3 million compared to \$1.2 million for the three months ended December 31, 2018. The increase was primarily due to a \$0.3 million increase in net income for the three months ended December 31, 2019 compared to the three months ended December 31, 2018 and a \$3.0 million increase in adjustments to reconcile net income to cash flows provided by operating activities, partially offset by a \$2.9 million decrease in changes in operating assets and liabilities for those same periods. The \$3.0 million increase in adjustments to reconcile net income to cash flows provided by operating activities was primarily due to a \$2.3 million increase in depreciation, depletion and amortization of long-lived assets. The \$2.9 million decrease in changes in operating assets and liabilities included (i) a \$4.2 million decrease in contracts receivable due to normal fluctuations resulting from the timing of processing transactions in our accounts receivable cycle, (ii) a \$2.0 million decrease in accrued expenses and other current liabilities primarily related to payroll and benefits, (iii) a \$1.3 million decrease in costs and estimated earnings in excess of billings on uncompleted contracts resulting from the timing of performing and closing projects, (iv) a \$3.5 million increase in accounts payable due to normal fluctuations in the timing of processing transaction in our accounts payable cycle and (v) a \$2.4 million increase in inventories due to normal fluctuations in our inventory cycle.

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### *Investing Activities*

Cash used in investing activities was \$40.4 million for the three months ended December 31, 2019 compared to \$5.1 million for the three months ended December 31, 2018. The increase reflects \$17.7 million used in connection with a business acquisition in October 2019 and a \$16.2 million increase in purchases of property, plant and equipment, which includes \$11.5 million for the buyout of equipment leases. The increase also included a \$1.3 million decrease in distributions received from our investment in a joint venture during the three months ended December 31, 2019, compared to the three months ended December 31, 2018.

### *Financing Activities*

Cash provided by financing activities was \$7.6 million for the three months ended December 31, 2019 compared to \$3.7 million of cash used during the three months ended December 31, 2018, reflecting a \$9.8 million term loan advance, net of issuance cost, related to our buyout of certain lease obligations in October 2019 and a \$1.5 million lower repayment of the Term Loan and other debt during the three months ended December 31, 2019 compared to the three months ended December 31, 2018.

### *BBVA Credit Agreement*

We and each of our subsidiaries are parties to the BBVA Credit Agreement. The BBVA Credit Agreement provides for the Term Loan and the Revolving Credit Facility. At December 31, 2019 and September 30, 2019, we had \$52.7 million and \$44.7 million, respectively, of principal outstanding under the Term Loan, \$5.0 million and \$5.0 million, respectively, of principal outstanding under the Revolving Credit Facility, and availability of \$13.6 million and \$14.4 million, respectively, under the Revolving Credit Facility, after reduction for outstanding letters of credit. The obligations of our subsidiaries under the Term Loan and the Revolving Credit Facility are secured by a first priority security interest in substantially all of our assets and are guaranteed by the Company, as the ultimate parent company of the borrower entities.

In August 2019, the BBVA Credit Agreement was amended to, among other things, modify the interest rate and fee structure, as well as the repayment schedule and amounts. In October 2019, the BBVA Credit Agreement was amended to add Bank of America, N.A. as a party in connection with the assignment by BBVA to Bank of America of certain of its lending obligations under the BBVA Credit agreement and extend the maturity date for the outstanding term loan advances from July 1, 2022 to October 1, 2024. Currently, the BBVA Credit Agreement provides for a four-tier escalating interest rate for both the Term Loan and the Revolving Credit Facility that is tied to the London Interbank Offered Rate ("LIBOR"). The baseline rate for such borrowings is LIBOR plus 1.20%, and the rate may increase up to LIBOR plus 1.70% if the Company's consolidated leverage ratio exceeds 2.00%. At December 31, 2019 and September 30, 2019, the interest rate on outstanding borrowings under the Term Loan and Revolving Credit Facility was 2.999% and 3.244%, respectively. Principal repayments under the Term Loan are made in quarterly installments in an amount equal to 2.50% of the original amount borrowed, a reduction from the 5.00% rate that we paid prior to the August 2019 amendment. We pay a commitment fee of 0.20% per annum on the aggregate unused commitment amount under the Revolving Credit Facility, a reduction from 0.35% prior to the August 2019 amendment, as well as fees with respect to any letters of credit issued thereunder. As of December 31, 2019, all amounts borrowed under the BBVA Credit Agreement were scheduled to mature on October 1, 2024.

The BBVA Credit Agreement contains usual and customary negative covenants for agreements of this type, including, but not limited to, restrictions on the Company's ability to make acquisitions, make loans or advances, make capital expenditures and investments, pay dividends, create or incur indebtedness, create liens, wind up or dissolve, consolidate, merge or liquidate, or sell, transfer or dispose of assets. The BBVA Credit Agreement also requires the Company to satisfy certain financial covenants, including a minimum fixed charge coverage ratio of 1.20-to-1.00 and a maximum consolidated leverage ratio of 2.75-to-1.00, subject to certain adjustments. At December 31, 2019 and September 30, 2019, our fixed charge ratio was 3.51-to-1.00 and 4.04-to-1.00, respectively, and our consolidated leverage ratio was 0.73-to-1.00 and 0.66-to-1.00, respectively. At both December 31, 2019 and September 30, 2019, the Company was in compliance with all covenants under the BBVA Credit Agreement.

From time to time, we have entered into interest rate swap agreements to hedge against the risk of changes in interest rates. On June 30, 2017, we entered into an interest rate swap agreement with a notional amount of \$25.0 million, under which we pay a fixed percentage rate of 2.015% and receive a credit based on the applicable LIBOR rate. On May 15, 2018, we entered into an additional \$11.0 million notional interest rate swap agreement applicable to the \$22.0 million amount borrowed under the Term Loan on that date, under which we pay a fixed percentage rate of 3.01% and receive a credit based on the applicable LIBOR rate. On October 1, 2019, the Company entered into an additional \$5.9 million notional interest rate swap agreement applicable to the \$10.0 million amount borrowed under the Term Loan on that date, under which we pay a fixed percentage rate of 1.58% and receive a credit based on the applicable LIBOR rate.

These interest rate swap agreements do not meet the criteria for hedge accounting treatment in accordance with GAAP. At December 31, 2019 and September 30, 2019, the aggregate notional value of these interest rate swap agreements was \$26.3 million and \$21.5 million, respectively, and the fair value was \$(0.2) million and \$(0.3) million, respectively, which is included within other long-term liabilities on our Consolidated Balance Sheets.

### *Capital Expenditures and Working Capital*

During the three months ended December 31, 2019 and 2018, our capital expenditures were \$23.6 million and \$7.4 million, respectively. Our capital expenditures are typically made during the same fiscal year in which they are approved. At December 31, 2019, our commitments for capital expenditures were not material to our financial condition or results of operations on a consolidated basis. For fiscal 2020, we expect total capital expenditures to be \$44.0 million to \$47.0 million, not including \$11.5 million for the buyout of equipment leases. Our capital expenditure budget is an estimate and is subject to change. As described further below, we believe that cash flows from operations combined with existing cash on hand and amounts available under our credit facilities will be sufficient to fund our working capital needs and planned capital expenditures for at least the next 12 months.

Historically, we have had significant cash requirements in order to organically expand our business into new geographic markets. Our cash requirements include costs related to capital expenditures, purchase of materials, production of materials and organic expansion into new markets. Our working capital needs are driven by the seasonality and growth of our business, with our cash requirements increasing in periods of growth. Additional cash requirements resulting from our growth include the costs of additional personnel, production and distribution facilities, enhancing our information systems, our compliance with laws and rules applicable to public companies and our integration of any acquisitions.

We have historically relied upon cash available through credit facilities, in addition to cash from operations, to finance our working capital requirements and to support our growth. We regularly monitor potential capital sources, including equity and debt financings, in an effort to meet our planned capital expenditures and liquidity requirements. Our future success will depend on our ability to access outside sources of capital.

We believe that our operating cash flow and available borrowings under the Revolving Credit Facility will be sufficient to fund our operations for at least the next 12 months. However, future cash flows are subject to a number of variables, and significant additional capital expenditures will be required to conduct our operations. There can be no assurance that operations and other capital resources will provide cash in sufficient amounts to maintain planned or future levels of capital expenditures. In the event that we make one or more acquisitions and the amount of capital required is greater than the amount we have available for acquisitions at that time, we could be required to reduce the expected level of capital expenditures and/or seek additional capital. If we seek additional capital, we may do so through borrowings under the Revolving Credit Facility, joint ventures, asset sales, offerings of debt or equity securities or other means. We cannot guarantee that this additional capital will be available on acceptable terms or at all. If we are unable to obtain the funds we need, we may not be able to complete acquisitions that may be favorable to us or finance the capital expenditures necessary to conduct our operations.

### **Commodity Price Risk**

We are subject to commodity price risk with respect to price changes in liquid asphalt and energy, including fossil fuels and electricity for aggregates and asphalt paving mix production, natural gas for HMA production and diesel fuel for distribution vehicles and production-related mobile equipment. In order to manage or reduce commodity price risk, we monitor the costs of these commodities at the time of bid and price them into our contracts accordingly. Furthermore, liquid asphalt escalator provisions in most of our public contracts, and in some of our private and commercial contracts, limit our exposure to price fluctuations in this commodity. In addition, we enter into various firm purchase commitments, with terms generally less than one year, for certain raw materials.

### **Interest Rate Risk**

We are exposed to interest rate risk on certain of our short-term and long-term debt obligations used to finance our operations and acquisitions. We have LIBOR-based floating rate borrowings under the BBVA Credit Agreement, which expose us to variability in interest payments due to changes in the reference interest rates. From time to time, we use derivative instruments to hedge against the impact of interest rate changes on future earnings and cash flows. In order to hedge against changes in interest rates and to manage fluctuations in cash flows resulting from interest rate risk, on June 30, 2017, we entered into an amortizing interest rate swap agreement applicable to \$25.0 million of outstanding debt under the Term Loan, for which we pay a fixed rate of 2.015% and receive a credit based on the applicable LIBOR rate. In connection with the amendment to the BBVA Credit Agreement and the additional borrowing on May 15, 2018, we entered into an additional \$11.0 million notional interest rate swap agreement applicable to the \$22.0 million of additional debt under the Term Loan. Under this additional swap agreement, we pay a fixed percentage rate of 3.01% and receive a credit based on the applicable LIBOR rate. In connection with the amendment to the BBVA Credit Agreement and the additional borrowing on October 1, 2019, we entered into an additional \$5.9 million notional interest rate swap agreement applicable to the \$10.0 million of additional debt under the Term Loan. Under this additional swap agreement, we pay a fixed percentage rate of 1.58% and receive a credit based on the applicable LIBOR rate.

At December 31, 2019, we had a total of \$31.3 million of unhedged variable rate borrowings outstanding. A hypothetical 1% change in our borrowing rates would result in a \$0.3 million change in our annual interest expense based on our variable rate debt at December 31, 2019.



**Off-Balance Sheet Arrangements**

As of December 31, 2019, we had no material off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act, and therefore are not required to provide the information called for by this Item.

**Item 4. Controls and Procedures.**

*Evaluation of Disclosure Control and Procedures*

Our management carried out, as of December 31, 2019, with the participation of our Chief Executive Officer and our Chief Financial Officer, an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2019, our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be disclosed by us in reports we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*Changes in Internal Control Over Financial Reporting*

During the quarter ended December 31, 2019, we implemented new controls related to the adoption of Accounting Standards Update (“ASU”) No. 2016-02, Leases and subsequently issued related ASUs. These controls relate to the evaluation of our contracts and the application of Topic 842 to them.

Except as stated above, there were no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - Other Information**

### **Item 1. Legal Proceedings.**

Due to the nature of our business, we are involved in routine litigation or subject to other disputes or claims related to our business activities, including, among other things, (i) workers' compensation claims, (ii) employment-related disputes and (iii) liability issues or breach of contract or tortious conduct in connection with the performance of services and provision of materials. We and our affiliates are also subject to government inquiries in the ordinary course of business seeking information concerning our compliance with government construction contracting requirements and various laws and regulations, the outcome of which cannot be predicted with certainty. In the opinion of our management, after consultation with legal counsel, none of the pending inquiries, litigation, disputes or claims against us, if decided adversely to us, would have a material adverse effect on our financial condition, cash flows or results of operations. There have been no material changes to the legal proceedings disclosed in the 2019 Form 10-K.

### **Item 1A. Risk Factors.**

In addition to the other financial information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, "Risk Factors," in our 2019 Form 10-K that could materially affect our business, financial condition or future operating results. The risks described in our 2019 Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

#### *Unregistered Sales of Equity Securities*

The Company did not sell any of its equity securities during the period covered by this report that were not registered under the Securities Act.

#### *Issuer Purchases of Equity Securities*

During the quarter covered by this report, the Company did not purchase any of its equity securities that are registered under Section 12(b) of the Exchange Act.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

The information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 C.F.R. Part 229.104) is included in Exhibit 95.1 to this Quarterly Report on Form 10-Q.

### **Item 5. Other Information.**

None.

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**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">Amended and Restated Certificate of Incorporation of Construction Partners, Inc. (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 27, 2018)</a>
3.2	<a href="#">Amended and Restated Bylaws of Construction Partners, Inc. (incorporated by reference to Exhibit 3.2 to Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 27, 2018)</a>
4.1	<a href="#">Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 23, 2018)</a>
4.2	<a href="#">Registration Rights Agreement, dated June 8, 2007, by and among Construction Partners, Inc. (f/k/a SunTx CPI Growth Company, Inc.) and certain security holders party thereto (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-1 (File No. 333-224174) filed on April 6, 2018)</a>
10.1	<a href="#">Loan Modification Agreement and Amendment to Loan Documents, effective as of December 31, 2019, by and among Construction Partners, Inc. (f/k/a SunTx CPI Growth Company, Inc.), Wiregrass Construction Company, Inc., FSC II, LLC, C.W. Roberts Contracting, Incorporated, Everett Dykes Grassing Co., Inc. and The Scruggs Company, as Borrowers, BBVA USA (f/k/a Compass Bank), as Agent for the Lenders and as a Lender and Issuing Bank, and Bank of America, N.A., as a Lender (incorporated by reference to Exhibit 10.9 to the Current Report on Form 8-K (File No. 001-38479) filed on January 2, 2020)</a>
31.1*	<a href="#">Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended</a>
31.2*	<a href="#">Certification of Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended</a>
32.1**	<a href="#">Certification of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350</a>
32.2**	<a href="#">Certification of Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350</a>
95.1*	<a href="#">Mine Safety Disclosures</a>
101.INS*	XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
*	Filed herewith.
**	Furnished herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 7th day of February, 2020.

CONSTRUCTION PARTNERS, INC.

By: /s/ Charles E. Owens  
Charles E. Owens  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name and Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Charles E. Owens</u> Charles E. Owens	President, Chief Executive Officer and Director (Principal Executive Officer)	February 7, 2020
<u>/s/ R. Alan Palmer</u> R. Alan Palmer	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 7, 2020

**CERTIFICATION**

I, Charles E. Owens, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Construction Partners, Inc. for the quarterly period ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 7, 2020

By: /s/ Charles E. Owens

Charles E. Owens

President and Chief Executive Officer

## CERTIFICATION

I, R. Alan Palmer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Construction Partners, Inc. for the quarterly period ended December 31, 2019;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 7, 2020

By: /s/ R. Alan Palmer

R. Alan Palmer

Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Construction Partners, Inc. (the "Company") for the period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles E. Owens, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 7, 2020

By: /s/ Charles E. Owens

Charles E. Owens

President and Chief Executive Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Construction Partners, Inc. (the "Company") for the period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, R. Alan Palmer, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 7, 2020

By: /s/ R. Alan Palmer  
R. Alan Palmer  
Executive Vice President and Chief Financial Officer



### Mine Safety Disclosures

The operation of our aggregates mines is subject to regulation by the federal Mine Safety and Health Administration (the “MSHA”) under the Federal Mine Safety and Health Act of 1977, 30 U.S.C. § 801 *et seq.* (the “Mine Act”). Set forth below is the required information regarding certain mining safety and health matters for the fiscal quarter ended December 31, 2019. Citations and orders may be contested and appealed, and in that process, may be reduced in severity and amount, and are sometimes dismissed. The table below includes references to specific sections of the Mine Act.

The information in the table below is presented by mine, consistent with the manner in which we maintain safety and compliance information about our mining operations.

Mine Name / ID	(A) Section 104 S&S	(B) Section 104(b)	(C) Section 104(d)	(D) Section 110(b)(2)	(E) Section 107(a)	(F) Proposed Assessments	(G) Fatalities	(H) Pending Legal Action
Riverbend Sand / 09-01023	—	—	—	—	—	—	—	—
Montgomery Sand / 09-00737	—	—	—	—	—	—	—	—
Baldree Sand / 09-01166	—	—	—	—	—	—	—	—
Coosa / 01-03327	—	—	—	—	—	—	—	—
Skyline / 01-03158	—	—	—	—	—	—	—	—
Lambert / 01-03363	—	—	—	—	—	—	—	—
Hickory Bend / 01-03403	—	—	—	—	—	—	—	—
Allstate / 01-03406	—	—	—	—	—	\$ 363	—	—
<b>Total</b>	—	—	—	—	—	\$ 363	—	—

- (A) The total number of violations of mandatory health or safety standards that could significantly and substantially contribute to the cause and effect of a coal or other mine safety or health hazard under Section 104 of the Mine Act for which the operator received a citation from the MSHA.
- (B) The total number of orders issued under Section 104(b) of the Mine Act.
- (C) The total number of citations and orders for unwarrantable failure of the mine operator to comply with mandatory health or safety standards under Section 104(d) of the Mine Act.
- (D) The total number of flagrant violations under Section 110(b)(2) of the Mine Act.
- (E) The total number of imminent danger orders issued under Section 107(a) of the Mine Act.
- (F) The total dollar value of proposed assessments from the MSHA under the Mine Act.
- (G) The total number of mining-related fatalities.
- (H) Any pending legal action before the Federal Mine Safety and Health Review Commission involving the applicable mine(s).

During the fiscal quarter ended December 31, 2019, our aggregates mines did not receive any written notices of a pattern of violations, or the potential to have such a pattern of violations, under Section 104(e) of the Mine Act.