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# Granite Construction, Inc. (GVA)

## Q3 2024 Earnings Call

# CORPORATE PARTICIPANTS

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# OTHER PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning. My name is Andrea and I will be your conference facilitator today. At this time, I would like to welcome everyone to the Granite Construction Incorporated 2024 Third Quarter Conference Call. This call is being recorded. All lines have been placed on mute to prevent any background noise. And after the speakers' remarks, there will be a question-and-answer period. [Operator Instructions]

It is now my pleasure to turn the floor over to your host, Granite Construction Incorporated Vice President of Investor Relations, Mike Barker. Please go ahead.

## Michael W. Barker

*Vice President-Investor Relations, Granite Construction, Inc.*

Good morning and thank you for joining us. I'm pleased to be here today with President and Chief Executive Officer, Kyle Larkin and Executive Vice President and Chief Financial Officer, Staci Woolsey. Please note that today's earnings presentation will be available on the Events & Presentations page of our Investor Relations website.

We begin today with a brief discussion regarding forward-looking statements and non-GAAP measures. Some of the discussion today may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are estimates reflecting the current expectations and best judgment of senior management regarding future events, occurrences, opportunities, targets, growth, demand, strategic plans, circumstances, activities, performance, shareholder value, outcomes, outlook, guidance, objectives, committed and awarded projects, or CAP, and results. Actual results could differ materially from statements made today.

Please refer to Granite's most recent 10-K and 10-Q filings for a more complete description of risk factors that could affect these forward-looking statements. The company assumes no obligation to update forward-looking statements except as required by law. Certain non-GAAP measures may be discussed during today's call and from time to time by the company's executives. These include, but are not limited to, adjusted EBITDA, adjusted EBITDA margin, adjusted net income, adjusted earnings per share, and Materials segment cash gross profit. The required disclosures regarding our non-GAAP measures are included as part of our earnings press releases and in company presentation, which are available on our website graniteconstruction.com under Investor Relations.

Now, I'd like to turn the call over to Kyle Larkin.

## Kyle T. Larkin

*President, Chief Executive Officer & Director, Granite Construction, Inc.*

Good morning. Thanks for joining us on our third quarter call. Before reviewing our quarter results, I want to discuss our expectations for the company's growth and financial performance as we continue to execute on our strategic plan over the next several years. Almost three years ago, we shared our vision to grow our business while also delivering consistently profitable results. We said that we were going to do so by de-risking our project portfolio, strengthening our home market positions, investing in our Materials business and geographically expanding our vertically-integrated business platform. Our vision was supported by all of our teams across the company, and together we have accomplished what we set out to do.

Since adopting our new strategy in the beginning of 2022, we have produced strong top line revenue growth, gross profit and adjusted EBITDA margin expansion, healthy free cash flow generation and record-breaking CAP. As we look forward through 2027, I believe we have opportunities to grow revenue and increase margin in both the Construction and Materials segments. I expect incremental near-term Construction margin improvement and our Materials margin should improve significantly over time. Forecasting the macro environment, we expect the public markets remain strong. But we were at the midpoint of the five-year timeline of the infrastructure bill or the IIJA. We expect the benefits of this funding to continue support our industry for many years to come. The IIJA does not terminate until 2026 and the American Road and Transportation Builders Association estimates only 40% of the available IIJA funds will have been spent at that time. Even though 100% of the funds will have been allocated to states. As a result, we expect the IIJA to fund Construction projects well beyond 2026. We believe the strong infrastructure funding should continue to produce opportunities to build quality CAP.

In 2024, we continue the trend of the last few years by bidding more work than we did in the previous year. We are bidding more work even as we continue to maintain our discipline on project pursuits. The increased bidding opportunities reflect a strong macro environment across our geographies. We expect this tailwind to continue over the next three years. While public funding supports approximately 75% of our Construction revenue, we also perform a significant amount of private work. We believe we should be able to grow revenue in the private sector. Our private work primarily consists of water infrastructure services, drilling and infrastructure for mines, commercial site development such as data centers, rail infrastructure, including constructing intermodal facilities, and infrastructure for solar facilities. These private markets have been strong for the last several years and we expect continued near-term growth in alignment with macroeconomic trends in technology, energy and the transportation of goods.

We believe that our recently announced organizational realignment better positions us to leverage our expertise to better serve our key clients and positions us to capitalize on the robust market. I also expect the Materials segment to benefit from the same tailwinds we are seeing in the Construction segment. While Materials volumes have been relatively flat over the last year, we expect incremental growth and price increases to produce revenue growth over the next three years. Given our strong public and private outlook, we continue to expect organic revenue growth, the compounded annual growth rate of 6% to 8% through 2027. In addition to our organic revenue growth, we intend to continue to execute on our strengthen and expand M&A strategy with bolt-on acquisitions and geographical expansion.

In the last year, we expanded in the Southeast with the acquisitions of Lehman-Roberts, Memphis Stone & Gravel and Dickerson & Bowen. These businesses should serve as a platform for further growth. With Granite cash flow generation, liquidity, secured borrowing capacity and long-term leverage target of 2.5 times adjusted EBITDA, we have options to capitalize on larger M&A opportunities that would be accretive to our adjusted EBITDA margin. While we are very selective, we will pursue larger transactions that are in alignment with our vertically-integrated strategy. Overall, Granite is in a great position to continue growing revenue organically and through M&A through 2027.

Turning to our thoughts on margin improvement, we expect Granite's adjusted EBITDA margin to increase to a range of 12% to 14% in 2027. We think we can increase our gross profit margin and improve efficiency in SG&A. We have made significant strides in both the Construction and Materials segments over the past three years, but we believe there is much more to come. In the Construction segment, we believe that the projects we have in our CAP today, combined with our focus on quality and operational excellence, will drive the improvement and higher margins. We continue to be selective in a robust market and are focused on procuring the right projects with the right owners in the right markets. We've implemented standardized processes and heightened quality measures to raise the bar across the company.

In the Materials segment, we believe our new organizational structure, which we announced in the first quarter of the year, allows our leaders to improve financial performance through centralized functions such as sales and quality control. Our Materials experts are now better positioned to evaluate pricing in both aggregates and asphalt, and we expect Materials pricing to continue to drive margin improvement. Granite's vertical integration is an asset to the Materials business and we have opportunities to further leverage our vertical integration to drive utilization and higher profitability.

Lastly, our strategic investment in Materials segment will continue with the focus on automation and other projects that should drive production costs down. Over the next three years, we expect these initiatives to drive significant margin expansion in this segment. We're also focused on building a more efficient corporate structure that will support our organic and inorganic growth. We are investing to improve processes and procedures in order to leverage our resources more effectively. This should result in more efficient use of our SG&A expense by 2027.

Turning to operating cash flow, this has been an area where we have significantly improved over the past three years. Granite today is a different business with a new business model when compared to the Granite of only a few years ago. Cash generation is a strength of our vertically-integrated business model, has generated record operating cash flow in 2024. This improvement has been a major change. Over the next three years, we expect to generate operating cash flow in the range of 9% to 11% of revenue by 2027. In addition, we intend to remain disciplined in our capital expenditures with ongoing focus on the Materials business. Our target for CapEx, net of proceeds from sales of property and equipment is 3% of revenue, while maintenance CapEx is approximately half of the total. We believe this should result in a free cash flow margin of 6% to 8% of revenue in 2027. Pretty significant value for shareholders and the ability to reinvest in the business. There's a lot of excitement across Granite about the opportunities in front of us. We have the market, plan and the people to make it happen.

Now, let's jump into the quarter. In the Construction segment, revenues totaled $1.1 billion. This is a record high for the third quarter and reflected a 14% increase year-over-year. This increase was driven by operations across our geographies, even though there were a few profitable projects that were delayed as owners pushed work into 2025. Although it is disappointing to see some project delays, it is not unusual. Although delayed work has shifted, there remains in CAP and bolsters our confidence for future revenue burn. We have made notable progress driving gross margins higher with our transformed project portfolio over the last few years. Even with this progress, our margins are not yet where I expect them to be. Our CAP portfolio was strong and we remain focused on execution and believe this should produce even higher gross margins in the segment in the future.

In addition to a strong quarter of revenue growth, we also added $44 million in CAP during the quarter to end at $5.6 billion. This is an increase of $35 million from the third quarter of 2023 and $1.5 billion from the third quarter of 2022. I'm happy to see CAP increase in what is a seasonally our largest revenue quarter. Our markets continue to be robust and our pursuit teams are winning the right projects to drive revenue growth and margin expansion. We remain selective in the projects that we bid. We are focused on building CAP in our home markets and working with partners, vendors and subcontractors that we know well.

We are also continuing to prioritize best value projects where we can leverage our established relationships in our home markets to deliver larger projects while minimizing risk. Best value projects represent $2.4 billion or 42% of our total CAP at the end of the third quarter. This is a decrease of $31 million from the third quarter of 2023 and $635 million from the third quarter of 2022. The collaborative delivery methods utilized in best value projects like Construction manager, general contractor or progressive design build better position us for success by allowing us to work with our clients early to identify and mitigate risk. Larger best value projects are often separated into smaller work packages, to review their multiple project workshops. We have a history of delivering best value projects successfully and generally find that these projects are constructed more efficiently and with significantly fewer claims compared to other contracting methods.

Our public and private Construction markets are strong and we are in a great position to build CAP, drive growth and expand margins.

Moving to the Materials segment, in August we completed the acquisition of Dickerson & Bowen. They're Mississippi-based business expands our southeastern home market, Growing our Materials segment through vertical integration in new markets and maximizing the benefit of vertical integration in existing markets are central to our strategy. We will continue to invest in our Materials business both organically and through M&A as we work to drive further margin improvement.

In the third quarter, we continued to realize price increases in both aggregate and asphalt, in alignment with our targets of 10% in aggregates and 5% in asphalt on average for internal and external sales. We continually assess our pricing across our markets, as look forward into 2025 we expect price increases to continue with averages of high-single digits in aggregates and low-single digits in asphalt. Currently, our 2025 order volumes for aggregates are flat compared to the prior year, with asphalt orders well ahead of 2024.

Now, I'll turn it over to Staci Woolsey to discuss our financial performance for the quarter. Staci has been serving as our Chief Accounting Officer since 2021 and formally assumed the role of Chief Financial Officer in September.

## Staci M. Woolsey

*Executive Vice President & Chief Financial Officer, Granite Construction, Inc.*

Thanks, Kyle. I'm excited to be here to discuss our third quarter results. In the quarter, we continued our strong year-over-year improvement. Revenue increased $159 million or 14%. Gross profit increased $36 million or 22%. Adjusted net income improved $14 million or 18%. Adjusted EBITDA improved $23 million or 18%. And for the nine months ended September 30th, 2024, operating cash flow improved $249 million. In the Construction segment, revenue increased $135 million or 14% year-over-year to $1.1 billion, primarily driven by higher levels of CAP. The quarterly increase also includes approximately $42 million of incremental revenue from acquisitions. In a continuation of the gains we've seen in previous quarters, the revenue increases were driven by operations across the majority of our geographies. These increases were led by California, Alaska and Utah.

Construction segment gross profit improved $34 million, with the segment gross profit margin of 16%. The increase in gross profit margin was largely driven by our higher quality project portfolio. We have made significant strides to improve gross profit margin and we expect to achieve further gains in 2025 with our strong CAP and a strong market environment. In the Materials segment, our increased pricing for asphalt and aggregates offset lower asphalt volume. During the quarter, revenue increased $24 million year-over-year to $195 million, with gross profit up $3 million to $32 million. The increase in Materials revenue was primarily due to acquired businesses.

Cash gross profit, which excludes depreciation, depletion and amortization, increased $7 million year-over-year. Cash gross profit margins continued to be strong, totaling 22% as price increases and newly acquired businesses drove improvement in profitability.

Turning to cash, I am pleased by our cash generation in the quarter. Through September, operating cash flow significantly improved compared to the first nine months of 2023 with operating cash flow of $284 million. This was a $249 million improvement year-over-year. Historically, the third and fourth quarters for Granite are when we have seen the most cash generation, as our teams are fully mobilized to project sites and working hard to progress projects before year-end. We have certainly seen that dynamic play out so far.

With our performance this year we expect to significantly exceed our target of operating cash flow of 7% of revenue for 2024. With our strong liquidity, Granite have never been in a better position to drive growth and return value to shareholders. With $472 million of cash and cash equivalents at the end of the quarter, we are evaluating acquisition opportunities and strategic capital investments, and we expect to return value to shareholders through share repurchases in the near-term. These actions are in line with our capital allocation strategy, which is focused on bolstering our positions in our home markets and expanding our vertically-integrated platform to new markets. With our strong cash generation, we believe we are in a good position to execute on this strategy.

Now, we'll discuss updates to our guidance for 2024. Our revenue guidance for the year is unchanged at a range of $3.9 billion to $4 billion. While we expect strong performance in the fourth quarter, we saw delays of a few projects that pushed work into 2025. These delays impacted revenue in the third quarter and will also impact the fourth quarter. The fourth quarter can be weather sensitive, which is the primary risk that may cause movement within our revenue range.

We are increasing our expectation for SG&A as a percent of revenue to be in a range from 8.3% to 8.5% for the year from a range of 7.5% to 8%. The higher SG&A percentage primarily relates to increased incentive compensation and non-qualified deferred compensation expense. We are narrowing our adjusted EBITDA margin guidance to 10% to 11% from a range of 9.5% to 11.5%. With our CAP going into the fourth quarter, we expect to end the year strong. Both of our segments are in position to continue the year-over-year improvement we have seen in the first nine months of the year. Also, as part of our ongoing asset optimization plan, we expect gain on sales of assets of approximately $17 million in the fourth quarter. Finally, with our spend through September, we now expect CapEx for the year to be approximately $130 million.

With that, I will turn it back over to Kyle for closing remarks.

**Kyle T. Larkin**

*President, Chief Executive Officer & Director, Granite Construction, Inc.*

Thanks, Staci. I'll close with the following points. In the third quarter, we continued the revenue growth for the first half of the year. With our guidance range of $3.9 billion to $4 billion, we expect to finish the year with another strong quarter. Our CAP increased despite the third quarter being our busiest quarter, we continue to see many opportunities both in the public and private markets to continue to build CAP in the fourth quarter and in 2025. We narrowed our adjusted EBITDA margin guidance with no change in the midpoint. In 2024, we made significant progress improving margins year-over-year and I believe we will see further increases in 2025 with the work in our CAP, project opportunities ahead of us and ongoing initiatives to continue to raise the bar.

Our cash generation at 2024 demonstrates the tremendous strides we've made over the last three years, with Granite's proven and vertically-integrated business strategy, I believe that we are well on our way to being an industry leader in free cash flow generation. I'm proud of all the progress we have made and expect that progress to continue through the next three years. We are now in a position to return value to shareholders both through continued M&A and share repurchases.

Finally, the next three years at Granite should be really exciting. We have a great market, great businesses and great teams. We are in position to capitalize on opportunities as they become available. We believe our organic growth and margin expansion targets are achievable. We also believe that the significant cash our businesses generate when coupled with our available liquidity will allow us to continue our strategy of pursuing bolt-on and larger transactions. Our strategy of building Materials focused, home market business remains unchanged. Over the next three years, I expect that we will continue to improve our value creation for our shareholders as we strengthen our position as America's infrastructure company.

Operator, I will now turn it back to you for questions.

# QUESTION AND ANSWER SECTION

**Operator**: We will now begin the question-and-answer session. [Operator Instructions] At this time, we will pause momentarily to assemble the roster. And our first question will come from Steven Ramsey of Thompson Research Group. Please go ahead.

**Steven M. Ramsey**
*Analyst, Thompson Research Group LLC*

Q

Hi. Good morning, everyone. I wanted to ask a couple of questions on the long-term outlook. Thinking about the midpoint of 2024 EBITDA margin at 10.5% and the midpoint of 2027 at 13%, that's 250 basis points of expansion. I wanted to hear a bit more about the building blocks to get there. In the last couple of years, both segments were pretty equal contributors, I'm curious if that is the case over the next couple of years and how much of it is SG&A leverage and just general operational improvements in the Materials segment?

**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

Yeah. Hey, good morning, Steven. This is Kyle. So, EBITDA margin 2027, as you indicated, our range is 12% to 14% and really the primary where we can get there in near-term is Construction. Our Construction pipeline of projects continues to improve. We're actually going to see a ramp-up even in Q4, as our expectation carry into 2025. So, we do expect going to 2025 with this better portfolio of projects coming through, that will be up about a 1%, even a little bit higher on the Construction segment. We also see margin improvement in Materials as well.

Now the Materials business, we think is going to be a longer-term progression as we continue to grow the margins on that aspect of our business through automation and asset management, continued pricing improvements, and of course, raising operational excellence in that segment of the business. So, I think it's across the board. I think near-term, it really is our Construction business that's going to get us a really nice uplift in 2025. And our Materials business continue that on through 2027.

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**Steven M. Ramsey**
*Analyst, Thompson Research Group LLC*
Q

Okay. That's helpful. And then wanted to think about your home markets versus other markets, what is the margin profile gap between home markets and the other states? Maybe to put that in context, where it was a couple of years ago and if there's some convergence implied over the next couple of years through 2027?

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**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*
A

Well, today, I'd say all of our markets are home markets. We've moved away from non-home market projects, so we have moved back into a home market strategy, that's all implemented. And I think the margin profile across the business is fairly consistent. We do have businesses, certainly some of the acquisitions that we made have higher EBITDA margin contribution than some of the businesses we have in certain markets. But overall, yeah, we're in a home market position today. That's the way we're going to stay. And so, that's why we feel really good about the performance that we have and our confidence in our ability to continue that strong performance moving forward.

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**Steven M. Ramsey**
*Analyst, Thompson Research Group LLC*
Q

Okay. That's excellent. And one last quick one from me. I know increased selectivity in choosing and winning projects has been a strong point in the past couple of years, channel checks point to that this is happening in the marketplace broadly. I'm curious how selectivity is part of the organic growth targets in the next couple of years? And if the environment were to turn in a way that's less robust, how you would stay selective in those times? Thanks.

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**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*
A

Yeah. Thanks, Steven. Well, I think from a selectivity perspective we're looking at maintaining this de-risked business model. So, I think at the heart of the question is if it gets tougher or the market gets tougher, we go back into this design build high-risk project portfolio, the answer is no. We have no intention of doing that. We're enjoying the benefits of our de-risk portfolio and this a new business model today. So, there'll be no opportunity to go back to that.

Today, we are selective already. I think our teams know where we can be successful and do well in our projects. We've even – and we're being more selective, but we're winning more work year-over-year. So, we've seen a really nice big volume through September. October has actually been a really strong bid month and successful bid month for us and we see a really strong bid schedule in November. So, we expect that market to continue. Margins are up year-over-year, so we continue to see that margin progression on bid day in our business. We've seen that again since 2021. So, we're seeing a really healthy market. Plenty of opportunities, increased margins on bid day.

As I mentioned in the prepared remarks, the IIJA money we're still early. We're going to only be through around 40% through 2026. So, we still see a really strong public market for years to come.

**Steven M. Ramsey**
*Analyst, Thompson Research Group LLC*

Q

That's great. Thanks, Kyle.

**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

Yeah. Thank you.

**Operator**: The next question comes from Brent Thielman of D.A. Davidson. Please go ahead.

**Brent Thielman**
*Analyst, D.A. Davidson & Co.*

Q

Thanks. Good morning. Kyle, maybe you could just talk around the cause of the delays in projects into 2025, it seems somewhat odd. So, I'd love if you can just maybe expand on that.

**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

Yeah. Thanks, Brent. There was a small handful of projects. It's not abnormal for project delays to occur. These are all owner-driven, a couple were due to notice to proceeds, being delayed a month or two. We have one with a change in conditions waiting for direction from the owner in terms of how to proceed. Another one just slowly getting started down in Texas.

So again, it's not abnormal in our business to see some work get shifted to the right. The good news is, as those projects are going to get us some momentum as we get into 2025. But that was really one of the primary factors as we didn't get towards that high end of our range in terms of our opportunity to raise it with the addition Dickerson & Bowen.

So, Dickerson & Bowen will add somewhere in the neighborhood of, say, $25 million or so to our revenue for the year. We thought that in combination with the work we had done, could we get to that high end of our range this year higher as a potential opportunity. But we are pleased that we're able to maintain that guidance and get to that 3.95 midpoint this year, despite the fact that a few projects moved to the right.

**Operator**: The next question comes from Michael Dudas of Vertical Research Partners. Please go ahead.

**Michael S. Dudas**
*Analyst, Vertical Research Partners LLC*

Q

Yes. Good morning, everyone.

**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

Good morning.

**Staci M. Woolsey**
*Executive Vice President & Chief Financial Officer, Granite Construction, Inc.*
A

Good morning.

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**Michael S. Dudas**
*Analyst, Vertical Research Partners LLC*
Q

Kyle, as you put forth the 6% to 8% organic revenue growth rate target for 2027, could you give a little more thought on private versus public? Is that a different growth rate in each? I'm assuming that the growth rate in public appears more sustainable and more, I guess, less volatile than the private side. Can you maybe share a little bit of how that dynamic is? And maybe following up with Steven had asked, is there any budgeting of a slowdown or recession or anything that might cause a bit of a wider range of outcomes as you move to the next three-year plan?

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**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*
A

Yeah. Well, our revenue growth rate is 6% to 8% organic. We look at it when it's consistent with this year. So, we've been able to achieve that this year. So, I think it's pretty consistent what we're going to see moving forward, especially in light of IIJA funding. So, we do have really good visibility to your point on the public side that we're going to see a healthy market through 2027 and even beyond that, likely through 2030 and maybe even beyond that. So, we feel really good about the public market.

And to your point, I mean, in the private market we do have a little bit less visibility and confidence in general. But our business is about 70% or so 75% public, 20%, 25% private. It's actually just a little bit more public than private over the last year or so. But, no, we still feel really good about the private markets that we're in. We're not experiencing any slowdown to date. Certainly in the Materials sales side. Again, we continue to see opportunities for next year to see aggregate volumes, asphalt volumes go up. And again, we have a lot more confidence in the public market. [ph] I'd love (00:29:46) to see how the private market plays out. But things are definitely looking like there are signs of recovery on the private market, especially in certain parts of our market, say, for example, Northern California. So, we do see opportunities for improvement into 2025.

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**Michael S. Dudas**
*Analyst, Vertical Research Partners LLC*
Q

Thank you for that, Kyle. My follow-up is your targets for 2027 on operating cash flow improvement and free cash flow improvement, very impressive execution so far, and I think those are reasonable targets going forward. How should we think about allocation in the sense of assuming that 6% to 8% free cash flow target is achieved? How balanced, [indiscernible] (00:38:55) be opportunistic on acquisition obviously with discipline, but is it going to be more of a more optimistic, more systemic on repurchasing shares, acquisitions when they come through and will there be upward – with the size of probably the acquisitions may be improving. Is that a fair observation that might occur given the under capital or – well capitalized balance sheet and the cash flow generation you guys are anticipating?

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**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*
A

So, make sure we got the question correct, Mike. I mean, the first part of the question is operating cash flow, how much of that can we convert to M&A, are the M&A sized deals going to grow, or are they – is it correlated to our operating cash flow performance? And then are we considering share repurchases?

So, maybe I'll start with the M&A side of things, and certainly there's a really strong pipeline in the deal space today, which – so, we should able to convert hopefully one to two deals per year. I would say they're going to be in similar size to Lehman-Roberts, Memphis Stone & Gravel, and Dickerson & Bowen, so I think that would be a reasonable expectation. Obviously, it can be a little bit lumpy in terms of timing.

We are still focused on supporting and strengthening our business, the ones the businesses we have today at the home markets we just talked about. We are looking at still building out our southeast platform. So, it is a primary focus for us as well. And then we're also looking for other platforms that we can develop as well. So that's where we're looking at things. We have evaluated larger deals. So, that's something that we have looked at and we'll continue to look at. But it has to be the right deal for Granite and certainly a business that we understand very, very well. I don't know if you want to add-on anything regarding the share repurchases and your thoughts there?

**Staci M. Woolsey**
*Executive Vice President & Chief Financial Officer, Granite Construction, Inc.*

A

Yeah. So, just...

**Michael S. Dudas**
*Analyst, Vertical Research Partners LLC*

Q

I'm sorry. Go ahead. I'm sorry. I apologize.

**Staci M. Woolsey**
*Executive Vice President & Chief Financial Officer, Granite Construction, Inc.*

A

Oh, that's okay. I was just going to add-on, Kyle mentioned with our capital allocation strategy, we'll continue to prioritize investing in our business and M&A and of course, our dividend. And with our current cash position, we want to look at the potential of doing share repurchases dependent on the timing of those investment opportunities as they come along. So, just to recap what we've done so far this year on share repurchases. Earlier in the year, we purchased 225,000 shares for about $13 million, and we have $218 million remaining under our board authorized share repurchase plan. So, we're looking at doing something a bit larger than that in the near-term and then continuing to evaluate that as we prioritize it with the timing of M&A and other investments.

**Michael S. Dudas**
*Analyst, Vertical Research Partners LLC*

Q

Excellent. Thank you. Just a clarification. Kyle, you mentioned one to two transactions a year with the size of what you've done in the Southeast with Lehman and Dickerson, et cetera. What was the combined purchase prices that you [indiscernible] (00:33:37) for those acquisitions? And is that the type of number we're thinking about in a similar light going forward? And as large – how big is large relative to that type of number, just relative to [indiscernible] (00:33:52)?

**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

Yeah. Yeah. Mike, those two deals were a ballpark around $300 million. I think that's in alignment with what we could be doing in each year, certainly as we continue to perform. As we mentioned our leverage target around 2.5 times, so I think that would be what I would look at in terms of what a larger deal size would be. And naturally, when we look at larger deals, again, it has to be something that was really the right fit for the company and had to make a lot of sense in our business, that's vertically integrated, Materials focus, one we understand very well wouldn't be something that needed necessarily be turned around. And we'd have to look at that public private relationship relative to that question that you asked. I mean, obviously, a larger deal comes with more risk, and we'd have to evaluate the deal very closely.

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**Michael S. Dudas**
*Analyst, Vertical Research Partners LLC*

Q

Excellent. Thanks so much for your thoughts.

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**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

Yeah. Thank you. Yeah. Certainly – we're certainly excited to be in a position where we have a lot of cash and opportunities to reinvest it or distribute it.

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**Michael S. Dudas**
*Analyst, Vertical Research Partners LLC*

Q

Yeah. Certainly better, we put this before you came on board to run this council. Congratulations on all that success. Well done.

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**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

Yeah. Thanks, Mike.

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**Operator**: The next question is from Brent Thielman of D.A. Davidson. Please go ahead.

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**Brent Thielman**
*Analyst, D.A. Davidson & Co.*

Q

Hey, I apologize. My mike got cut off previously. I'm sure the answer was great, Kyle. Anyway, I guess the – on the 2027 financial targets, could you clarify on the organic growth CAGR, and I apologize if you've answered this? Should we be using 2023 or 2024 as the baseline?

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**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

Yeah. We should be using 2024. So, we did talk about that 6% to 8% growth rate. But, yeah, to clarify, based on 2024 growth.

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**Brent Thielman**
*Analyst, D.A. Davidson & Co.*

Q

Okay. Excellent. And then on the Materials side, Kyle, I mean, the pricing expectations for aggregates into 2025, pretty consistent or maybe at the upper end of what we heard from some of the peers here recently in terms of expectations. I mean, what gives you the confidence in that realization? Is there – and is there anything unique to your platform that you think we ought to consider that supports that? I guess, I'm thinking a little bit about maybe the historical approach to pricing in the group. Maybe there's some low-hanging fruit to catch up to the market. Anything else around that, that really supports that confidence in high-single digits next year?

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**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

Sure. Well, this year, we set out to have 10% price increases on aggregates, 5% on asphalt. And our teams just did a really nice job. And we're in alignment with what our target was and what we set out to do in 2024. So again, for next year we see high-single digits on aggregate price increases and low-single digit on asphalt. And it really gives us confidence as we have high confidence in the public market. So, we get really good visibility into that with the funding that's out there. So, we do have that visibility.

As I mentioned, we're seeing some recovery on the private side. Certainly some of the markets that have been softer. We've been talking about a market like Northern California for a couple of years now being softer. We are seeing some signs of recovery. If that all holds true, then we see agg volumes going up in 2025, which is a good sign. Asphalt orders are already up for 2025, so that gives us some visibility into next year. And so, we believe if that holds then we should see asphalt volumes improve as well next year. So, that's what gives us the confidence that we're going to see improved performance next year. And then some of the effort that we've put in around automation to this reorganization, some of our how we manage quality, raising the bar around operational excellence within our Materials business is going to also drive our profitability in that segment next year as well and beyond.

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**Brent Thielman**
*Analyst, D.A. Davidson & Co.*

Q

Excellent. Thanks. I appreciate it.

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**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

Yeah. Thanks, Brent.

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**Operator**: The next question comes from Jerry Revich of Goldman Sachs. Please go ahead.

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**Adam Bubes**
*Analyst, Goldman Sachs & Co. LLC*

Q

Hi. Good morning. This is Adam Bubes on for Jerry Revich today. Really strong double-digit organic growth year-to-date and a strong outlook as well. And in end market environment, some of the data we're tracking is mixed. What would you attribute potential share gains to? And based on the order cadence, do you think there's potential for share gains going forward?

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**Kyle T. Larkin**
*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

So, you're thinking primarily from a market share gain, I would say, Adam, we've done a really nice job I think across the entire portfolio. We've seen our teams have executed on certainly bid day across the board, which I think is really a testament to our CAP and our really strong record CAP despite we've had two record revenue quarters in a row. So, we continue to build our CAP. [ph] With that (00:39:05) I think that's our teams across the board continuing to take advantage of a really nice market.

I will say that we – it appears as though we're gaining market share in the West, specifically in California. So, we're seeing some opportunities where we've gained some market share there. But really, our growth is really tied to the market. And I think getting back to this home market strategy has really allowed us to understand the markets better, understand the owners, understand what projects are coming our way. And it's certainly driving our hit rate up in the markets that we hadn't been in those home markets and that's helping contribute to our success.

**Adam Bubes**

*Analyst, Goldman Sachs & Co. LLC*

Q

And, Kyle, you talked about a strong M&A pipeline, in terms of the types of assets, are there still meaningful vertically-integrated assets available?

**Kyle T. Larkin**

*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

Yeah. There's a lot and we look at a lot. I would say that it's as healthy of a deal pipeline as we've certainly seen since we've been looking at deals now for just over two years or three years wholeheartedly. And I – that's why we have pretty good confidence we should be able to get one to two done a year. And the size that I mentioned, because there are a lot of opportunities in the space and there's still a few of larger ones out there as well.

**Adam Bubes**

*Analyst, Goldman Sachs & Co. LLC*

Q

And then last one for me, really attractive 2027 margin targets. Near-term, what are some of the early puts and takes on outlook for 2025 margin expansion?

**Kyle T. Larkin**

*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

So, good question. For next year, as I mentioned, we expect at least about a 1% little bit higher uplift in our Construction business just as we see the pipeline of projects really improve as we get around the corner here on January 1. So, we will see that in next year, so that'll be a really nice uplift. We do see some margin expansion in Materials business. So, we will come out with some guidance in Q1 for 2025, but I would expect we're going to be getting pretty close to the bottom end of our 2027 range from an EBITDA margin perspective.

**Adam Bubes**

*Analyst, Goldman Sachs & Co. LLC*

Q

Great. Thanks so much.

**Kyle T. Larkin**

*President, Chief Executive Officer & Director, Granite Construction, Inc.*

A

All right. Thank you.

**Operator**: This concludes our question-and-answer session. I'd like to turn the call back over to Mr. Kyle Larkin for any closing remarks.

## Kyle T. Larkin

*President, Chief Executive Officer & Director, Granite Construction, Inc.*

Okay. Well, thank you for joining the call today. As always, I want to thank all of our employees for the work they do every day. Thank you for your interest in Granite and we look forward to speaking with you all soon.

**Operator**: The conference has now concluded. Thank you for attending today's presentation and you may now disconnect.