Q1 2025 Earnings Call

Company Participants

- Kyle Larkin, President and Chief Executive Officer
- Mike Barker, Vice President, Investor Relations
- Staci Woolsey, Executive Vice President, Chief Financial Officer

Other Participants

- Brent Thielman, D. A. Davidson & Co.
- Jerry Revich, Goldman Sachs & Co.
- Michael Dudas, Vertical Research Partners
- Steven Ramsey, Thompson Research Group

Presentation

Operator

Good morning. My name is Dovan, and I will be your Conference Facilitator today. At this time, I would like to welcome everyone to the Granite 2025 First 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's Vice President of Investor Relations, Mike Barker.

Mike Barker {BIO 20892900 <GO>}

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 cash gross profit. The required disclosures regarding our non-GAAP measures are included as part of our earnings press releases and in company presentations, which are available on our website, graniteconstruction.com, under Investor Relations.

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

Kyle Larkin {BIO 20377378 <GO>}

Good morning, and thank you for joining us today. I'm excited to talk about our first quarter performance and would also like to take an opportunity to share our expectations for the year. Four months into the year, our markets and performance are in line with our expectations for another record year. As a result, we are confirming our 2025 guidance and our 2027 financial targets. Although there is a lot of uncertainty in today's macroeconomic environment, Granite's markets have largely as we were expecting.

Coming into 2025, we expected a strong bidding environment with federal and state funding fueling opportunities across the public sector. We also expected to be in position to pursue a number of strong opportunities in the private sector. At this point, the market has met our expectations and we have won more work than in the first four months of 2024. This is a continuation of the trend that we have seen over the last several years.

While we are in the second half of the federal infrastructure bill, the opportunities funded by the bill continue to increase because of the timing delay between allocations to states and funding for specific projects. The benefit from the bill should extend well beyond its termination in September of 2026. In addition, despite reports of project disruptions on certain federally funded work, the change in administration, we have not experienced any delays.

Concern over tariffs has been a major source of uncertainty. Granite, like all companies, is not immune to the direct and indirect impacts of tariffs. However, to date, they have not significantly impacted our results or our strategy. We will, of course, continued to closely monitor tariffs and work to mitigate negative impacts to the company where possible.

Since 2020, we have talked a lot about our efforts to de-risk Granite's project portfolio. Among other things, we turned our focus away from long-term design-build mega-projects where contractors are not only responsible for all design risks, but also the risk of vendor or subcontractor price increases over the contract life, which can often extend well over five years. In a time of uncertain price increases, those types of contracts amplify the risks borne by the contractor.

In the current environment and with our project portfolio, our teams are focused on locking in on pricing at bid-time to mitigate the risk of inflation or other price increases. While it is impossible to eliminate all inflation risks in our contracts, we believe that our portfolio and CAP have significantly reduced risk compared to our portfolio from only a few years ago. We also work to limit the risk on tariff-related inflation with commodities used in our work like natural gas, diesel, and liquid asphalt. We monitor these markets in the normal course of business throughout the year and apply measures to mitigate the risk of price fluctuations.

In summary, we are winning high-quality projects that should support our growth and margin expectations. We are continuing to strategically invest in our Materials business. There are tremendous opportunities to strengthen our footprint. In order to drive volumes and higher margins in our Materials business, we are acting on those opportunities.

And finally, we continue to pursue accretive M&A that will strengthen our home markets or expand our geographic footprint. The timing of M&A is difficult to predict, but the deal environment is active with numerous pursuits ongoing. We continue to target materials-focused, vertically integrated companies and smaller bolt-ons to strengthen our home markets. Our target of completing two to three deals in 2025 is unchanged.

Now, let's turn to our first-quarter results, starting with the Materials segment. In our press release this quarter, we included product-level disclosures for aggregates and asphalt for the first time. This is another important step in the evolution of our Materials business. After years of under investment, we are committed to strengthening and growing the Materials segment that is core to a vertically integrated strategy. From 2022 through 2024, we have invested organically and through M&A in the Materials business. This has increased our reserves by 56% to 1.6 billion tons. We also added 11 new aggregate crushing plants and 10 new asphalt plants during this three year span.

In addition, we completed numerous capital improvement projects to drive efficiency and reduce production costs, such as hydrate[ph] plant automation projects. One year ago, we completed the realignment of our operational leadership, placing materials experts over our Materials business and centralizing management functions, such as sales and quality control. The team has made impressive progress over the last year in margin improvement in both aggregates and asphalt. I expect the team to continue to raise the bar, drive profitability and increase shareholder value in 2025 and over the next several years. Demand in the Materials business remains strong, and our expectations are for volumes in 2025 to be consistent year-over-year, with price increases on aggregates in the high-single-digits and low-single-digit increases on asphalt.

Now, let's move to the Construction segment. We are off to a strong start to 2025, despite a wet March in many of our Western markets. As I mentioned earlier, our markets are strong and this strength is reflected in our CAP. In the first quarter, CAP has increased $444 million to $5.7 billion, which is a new Granite record. As we discussed on the last call, there were a number of projects that were awaiting formal award, which are now included in CAP. Building off the fourth quarter of 2024, the first quarter has been another busy period in the bedroom. Across the company, our teams have delivered again, winning more work than the prior year.

While markets across the company are strong, California, Texas and the federal division have been highlights in the number of opportunities and wins during the quarter. As I look at the bid list over the next several months, I am encouraged by the number of excellent quality project opportunities ahead of us. We have a great opportunity to continue to build CAP in 2025. We built what we believe is the highest quality project portfolio in Granite's history by focusing on our home markets and best value projects that better position us for success. With the work that we have in CAP, the project opportunities ahead of us, and they continue emphasis on operational excellence, I expect to meet our growth and margin expectations in 2025.

Now, I'll turn it over to Staci to review our financial performance for the quarter.

Staci Woolsey {BIO 21937434 <GO>}

Thanks, Kyle, we are off to a great start to 2025. In the first quarter, revenue increased $28 million or 4%. Gross profit increased $30 million or 54%. Adjusted net income improved $9 million, adjusted EBITDA improved $14 million and we achieved positive operating cash flow of $4 million in what is typically one of our most weather-impacted quarters. In the Construction segment, revenue increased $19 million, or 3% year-over-year, to $615 million, driven by strong CAP across the company and favorable weather early in the quarter.

In March, wet weather across many locations in the West slowed both progression of projects and recognition of revenue. Despite some bad weather in March, our outlook for 2025 is unchanged, with a busy construction season ahead of us. Construction segment gross profit improved $29 million to $85 million, with a gross profit margin of 14%. This increase is largely due to improved execution and performance across our higher-quality project portfolio. As we expected, CAP increased in the quarter, and the market has continued to strengthen in 2025.

With the heart of the construction season ahead of us, I expect that our year-over-year revenue growth will increase in the second and third quarters. Additionally, based on our CAP and current market conditions, we believe we are on track to meet our margin improvement target of over 1% when compared to 2024. I'm pleased by our start to 2025 in the Construction segment. In the Materials segment, we expanded our disclosures in the earnings press release to include product-level information for aggregates and asphalt. The new disclosures include revenues, sales volumes, average selling prices, gross profit, and cash gross profit by product line.

In 2024, our investments in and focus on aggregates drove year-over-year improvements in gross profit margin and cash gross profit margin of 260 basis points and 550 basis points, respectively. We believe it is important to disclose cash gross profit margin because the investments we have made in the Materials business through capital expenditures and M&A have added significant depreciation, depletion, and amortization costs in the segment. As such, we believe that cash gross profit margin is more reflective of the performance of the business.

The significant strides we have made in a short amount of time are highlighted by the increase in the average selling price of our aggregates and completion of projects to improve efficiency and reduce aggregate costs per ton. Consolidated Materials segment revenue increased $8 million year-over-year to $85 million, with gross loss decreasing by $1 million to a loss of $2 million.

Volume and aggregate sales price increases resulted in gross profit and cash gross profit improvement in the quarter. With these strong first quarter results, we believe we are on track to realize revenue, gross profit, and cash gross profit increases in 2025. Based on the performance of both of our segments in the first quarter, we are maintaining our guidance for 2025, including revenue of $4.2 billion to $4.4 billion and adjusted EBITDA margin of 11 to 12%.

Turning to cash flow and the balance sheet, we generated $4 million of operating cash flow in the first quarter. Typically, the first quarter and first half of the year is a slow period for cash flow with projects and operations in our colder climates in the startup phase. Then, as we get deeper into the construction season, cash flow increases. These seasonal impacts were offset this quarter by the collection of a long outstanding contract retention balance, as well as the receipt of funds from a legal dispute that was settled in the fourth quarter.

As a result, our cash flow in the first quarter is slightly better than expected. We remain on track for our operating cash flow target of 9% of revenue for the year. As of the end of Q1, cash and marketable securities were $513 million. Availability under our credit agreement was $330 million, and debt was largely unchanged from year end at $740 million. With our strong balance sheet and cash flow expectations for 2025, we are in a position to act on M&A opportunities that fit our strategic initiatives.

As we said in our call last quarter, we have added experience, leadership, and resources to our corporate development team and are pursuing deals across our footprint, ranging from small bolt-ons to larger geographic expansion opportunities. We continue to be selective, but we expect M&A should add to our cash flow generation and lead to increased shareholder value.

Now I'll turn it back over to Kyle.

Kyle Larkin {BIO 20377378 <GO>}

Thanks, Staci. I'll close with the following points. Our start to 2025 is in line with our expectations. We will continue to closely follow the macroeconomic environment. At this time, however, Granite has not been significantly impacted by tariffs. Our CAP is benefiting from a strong public market environment supported by the IIJA, as well as healthy state budgets across our geographies. There are a number of strong opportunities in the private market as well, and CAP increased in the first quarter as we expected, and we believe there are excellent opportunities ahead of us to continue to grow CAP. With our performance in the first quarter, we believe we are on track to meet our 2025 guidance.

In what has historically been a seasonally slow quarter, we generated positive operating cash flow, and I believe we should reach our target of operating cash flow of 9% of revenue for 2025. And finally, we are very busy analyzing a number of M&A opportunities. Timing is difficult to predict, but our target of completing two to three deals in 2025 is unchanged.

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

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions). Our first question is from Brent Thielman with D.A. Davidson. Please go ahead.

Q - Brent Thielman {BIO 6976698 <GO>}

Hey. Thanks. Congrats on a great start here to the year. So, Kyle, I guess my first question from what I take the opening commentary, it sounds like active bidding environment overall within a lot of the markets you serve, if you could just maybe talk around a little more about what you're seeing and how we might think about the trajectory of CAP, which is obviously in a strong position here to start the year where that might go, given all you're seeing out there.

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. Thanks, Brent. I appreciate the question. And the market is very strong, perhaps stronger in the public market than the private market. And I think our CAP balance and increase to record level in Q1 reflects this. And I mean, our teams are just doing a great job, I think, across really all of our business units and capturing work. As we mentioned, we're bidding more work so far this year, capturing more of that work, and the work has higher margins than the previous years. And I think that's just been a reoccurring trend that we've seen now for several years. So, I think that's really exciting for the business.

So, we do expect really over the year for our CAP balance to continue to increase. I would say that the IIJA continues to provide really strong spending, really across all of our geographies. And as a reminder, only about, I would say, 30% of that spend has happened to date. And we believe there's still several years of spending under the IIJA. We also believe that there's bipartisan support and a lot of momentum around another bill that will come on following the IIJA that will have spending levels equal to or greater than what we see around highways, bridges, and roads. So, we'll see if we can get that passed, but certainly that would be good news for our industry and good news for Granite.

Q - Brent Thielman {BIO 6976698 <GO>}

Got it. And maybe just my follow-up more just on the quarter itself and in thinking about the strong margins in the Construction segment. I mean, you did mention some adversity related to weather. You didn't have a lot of growth in the Construction segment this quarter, but margins really popped. So, I guess what are you seeing at a project level that's driving these higher levels of profitability and otherwise what's all -- otherwise slower quarter for you and how we think about that going forward?

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. And Q1 is always -- it's not our biggest quarter. Certainly, it's most seasonal as well. And so, any year you compare quarter-over-quarter, it can depend on whether or not the prior year had some weather or not. And certainly, we had a little bit more weather in March. But despite that, we had a really strong top line and even some growth in our Construction segment.

I think it's all down to execution. We had mentioned that we expected our Construction gross profit margin in 2025 to be at least 1% greater than what we saw in 2024. And that was a combination of improved execution and our team's focus around execution and then just the improvement in our CAP. So, we did expect that increase, certainly in Q1, and we expect to see a continued improvement in gross profit margin throughout 2025 relative to 2024 in our Construction segments.

Q - Brent Thielman {BIO 6976698 <GO>}

Okay, great. Thank you.

A - Kyle Larkin {BIO 20377378 <GO>}

Thanks, Brent.

Operator

Our next question is from Steven Ramsey with Thompson Research Group. Please go ahead.

Q - Steven Ramsey {BIO 20092076 <GO>}

Hey, good morning. Another question on CAP and the quality of it, the strong bidding environment and the rising quality in it. For Q1, it looks like bid-build projects grew 21% year-over-year, whereas best value was down around 10% year-over-year in the second quarter of decline. Can you maybe put into context how these diverging movements of the different types of projects play into the quality of CAP, and do you expect CAP to lean towards bid-build through the rest of 2025?

A - Kyle Larkin {BIO 20377378 <GO>}

Yes, I don't know. I mean, it's difficult to predict. In many ways, some of the best value projects are a little bit larger. They're the more larger, complex projects that we can execute on with a really de-risk contracting method. So the timing of those coming into our CAP can skew those numbers a little bit. So I wouldn't read too much into the percentages. I think over the long haul, we're going to see that breakdown be pretty consistent with what we've seen historically. And I think that is good news, too, in the sense that it gives us a good balance. So the bid-build typically burns a little bit faster.

Our average job size as a company is 5 million to 6 million. Most of those contracts burn within a 12-month cycle, whereas those best value projects have a longer burn. And we think that's healthy. There's a two-year pre-construction period, typically, and then another three years for actual construction. So we like having that mix. We think that's just a nice, healthy mix for our business.

Q - Steven Ramsey {BIO 20092076 <GO>}

Okay. That's good context. And then I was looking at over the FY '22 through '24 period, Materials revenue was in the 17% to 18% range of Construction revenue. Looking at Q1 '25, it was 14% of revenue, up 100 bps or so year-over-year. Just thinking about those two data points and your focus on vertical integration, do you expect Materials revenue to run in that range of 17% to 18% of Construction sales for 2025? And thinking about these two data points, what does that tell you, and how do you think about where those go over the next couple of years?

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. Well, I think that's probably a safe assumption from a percentage perspective in 2025, clearly, we've been reinvesting our Materials business now for a few years. It was under invested previously and we've made up a lot of ground. I think it's certainly as you look at it, our emphasis around materials, realignment of the organization last year around construction materials, we've already seen really strong benefits from all that effort and really a short amount of time that we're excited about where we can go even further. And then, if you look at where we've been from an M&A perspective, the deals we've done have been materials focused. So, I think over the long haul, we expect our materials business to become a larger part of our overall company.

Q - Steven Ramsey {BIO 20092076 <GO>}

Okay, that's great. Thank you.

A - Kyle Larkin {BIO 20377378 <GO>}

Thank you.

Operator

The next question comes from Michael Dudas with Vertical Research. Please go ahead.

Q - Michael Dudas {BIO 1495732 <GO>}

Good morning, Staci, Mike, Kyle.

A - Staci Woolsey {BIO 21937434 <GO>}

Good morning.

A - Kyle Larkin {BIO 20377378 <GO>}

Good morning.

Q - Michael Dudas {BIO 1495732 <GO>}

Kyle, a couple of things. First, your federal business you highlighted as a strength, any cross currents or issues with regard to Washington policy and it seems like Guam is still going to be active given the projection of where the military wants to be here in the next several years. Is that something that's also looking pretty solid for you guys?

And my follow-up would be with regard to your Mississippi or Tennessee, the southeast region, how have those businesses tracked relative to what you had thought when the acquisition was 18, almost three years ago, 18 months ago? And is there a mix on like private? Is there a lot more industrial manufacturing activity? Are you seeing that in that world? Is it just typically the similar type of public versus private work in that area? Thank you.

A - Kyle Larkin {BIO 20377378 <GO>}

Okay, so let me start. Thanks, Mike. For the federal business, we did highlight that, certainly, we have picked up quite a bit of work in our federal business. And our federal business partners with a lot of our local home market teams. And we just capitalize on the federal market in itself. And we do think with the current administration, there are a lot of opportunities for us in the federal space. And Guam has been a highlight. So you've likely seen a lot of the press releases that we put out around some of the projects we have in Guam. We've been in Guam now for over a decade. So it's not, it is a home market for us in that regard. We've also been successful in other states. And I'd highlight Texas. We have a few projects in Texas now, their federal projects. We've seen a lot of success there as well.

So, I think going to the question around the acquisitions in the southeast, we're really pleased with the performance of our business down in the southeast from a deal perspective. And I think the real highlight for us was moving into M&A strategy around vertically integrated businesses. And I think the real success for us is just the integration. I think the integration has gone really well. It gives us a lot of confidence to continue to build on that southeast platform, confidence to do other deals and other arrangements. I think that we were looking for really good businesses, healthy and growing markets with strong leadership, and we found that. I can tell you, most of all, there's exceptional leadership in those businesses. It gives us a lot of confidence to build out that Southeast platform. So all in all, it's going well.

I'll talk a little bit more about M&A as well. Our three focus areas today is really support and strengthening our business out in the West, these home markets that we've had in place, that's continue to build out that Southeast platform. I mean, we are looking for other platforms that we can grow upon. Those are still to be determined. But yes, I think we're in good shape, and I think that the acquisitions that we completed are really just giving us a lot more confidence to continue down that path.

Q - Michael Dudas {BIO 1495732 <GO>}

Thank you, Kyle.

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. Thank you.

Operator

We have our final question from Jerry Revich with Goldman Sachs. Please go ahead.

Q - Jerry Revich {BIO 5626742 <GO>}

Yes. Hi. Good morning, everyone.

A - Staci Woolsey {BIO 21937434 <GO>}

Good morning.

A - Kyle Larkin {BIO 20377378 <GO>}

Good morning.

Q - Jerry Revich {BIO 5626742 <GO>}

Hi, Kyle and Staci. Can I ask you folks, in terms of the additional disclosures? Really appreciate the information and good progress in aggregates, unit profitability for the team in '24. As we look at cash gross profit per ton for your business with '24, it's about $4. Vulcan's footprint is obviously different, but they're $11 plus. Can you just talk about what the difference is beyond the geographic locations? I believe you folks are higher in -- or excuse me lower in crushed stone, higher in sand and gravel. How much of a factor is that? Can you just talk about where could cash unit profitability move over time as you look at your peers?

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. That's a great question, Jerry. And you know it's a challenge because we don't have any perfect peers, and certainly we have peers that are in the aggregates and asphalt business. So if we look across, I think certainly our cash gross profit per ton is very different than the larger peer group out there. I do think geography matters. I think that is an important driver. I think you hit on kind of the outlet. A lot of aggregates go into concrete or ready mix. Naturally, the numbers might have stayed around 50%. We're a lot lower than that, or 45%. We're closer to around 30%. So that's another big variance that goes there.

From a market perspective in geography, one product could have even a $10 or $15 sales price difference between different markets based on scarcity of aggregates within that market. So that does play in to things. I think what we're looking at is our business, and we're looking at our Materials business. We're looking at that cash gross profit improvement that we've seen between '23 and '24 with just that reorganization of our business within one year. We've really made huge strides that we're really proud of that, and I'm proud of the team, for really focusing on pricing, standardizing how we operate, setting higher standards and expectations for our business units. None of these automation investments are big for us, and of course, reinvesting in the right reserves. And we're seeing the results of that.

So on the asphalt side, we're up almost 2% on a cash gross profit perspective, a little under, and on aggregates, close to 6%. I think just within one year, that's really good improvement. And if anything, as you look at our peer group, it certainly gives us a lot of opportunity to continue to challenge ourselves and find other ways we can continue to expand margins. And we believe even in 2025 we expect our cash gross profit margins and Materials segment to go up over 3%. So we think we can look at that for this year. We think even beyond 2025, there's room for us to continue to expand our cash gross profit margins in this segment.

Q - Jerry Revich {BIO 5626742 <GO>}

And Kyle, just to make sure I'm on the same page with you, when you say cash gross profit margin expansion of 300 basis points, that's not a growth in a cash gross profit per ton. That's a percent margin increase of 300 base points in just one year.

A - Kyle Larkin {BIO 20377378 <GO>}

That's right. Yes, that's correct.

Q - Jerry Revich {BIO 5626742 <GO>}

Well done. Very good. And then can we shift gears? In terms of the cadence of demand, what we're hearing from other companies with your market exposure, January, February, saw March really sharp acceleration and surprisingly strong demand through April. Can you comment on whether that's consistent with what you've seen in your business, given the macro uncertainty out there, what's going on or what happened in April is a big question.

A - Kyle Larkin {BIO 20377378 <GO>}

Yes, I would say just in general, January and February were actually pretty strong. I mean, March, as you mentioned, we had a little bit of weather in March, so that was a little bit of a slowdown for us in some regards. So I think overall, certainly in the Materials segment, we expect things to be relatively flat, certainly in the ag side and asphalt side, maybe a little bit up, just depends on what's going to happen on the private market. And we're looking for that to pick up in the back half of the year. We'll have to see how that shakes out.

Q - Jerry Revich {BIO 5626742 <GO>}

And can you comment on April?

A - Kyle Larkin {BIO 20377378 <GO>}

Yes, I mean, April so far, it appears to be a strong month for us. Nothing out of the ordinary to report today.

Q - Jerry Revich {BIO 5626742 <GO>}

And lastly, can I ask in terms of the tariff impact on equipment purchases or leases, can you talk about what you're seeing from your suppliers and any changes in your CapEx plan to maybe get ahead of any tariff increases? Can you flesh that out for us, if you don't mind?

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. We do expect there to be some equipment cost increases, parts increases, some repair cost increases. So those things are going to happen. And we've been navigating that environment now, even pre-tariff impacts for several years. So we do typically go and get pre-authorization for CapEx for the following year early, so we can get those orders in as soon as possible. So, that's kind of normal course of business for us today.

Q - Jerry Revich {BIO 5626742 <GO>}

Thank you.

A - Kyle Larkin {BIO 20377378 <GO>}

Thank you.

Operator

This is the end of the Q&A. And now I would like to turn the call back over to Mr.Larkin.

A - Kyle Larkin {BIO 20377378 <GO>}

Okay. Well, thank you for joining the call today. As always, we want to thank all of our employees for the work they do every day. I look forward to seeing many of you next week during the Construction Industries Safety Week. Thank you for joining the call. And if you're just in Granite, we look forward to speaking with you all soon.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.