Q4 2025 Earnings Call

Company Participants

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

Other Participants

- Adam Bubis, Analyst, Goldman Sachs
- Brent Steelman, Analyst, DA Davidson
- Kevin Gainey, Analyst, Thompson Davis
- Michael Dudas, Analyst, Vertical Research Partners
- Steven Ramsey, Analyst, Thompson Research Group

Presentation

Operator

Good morning. My name is Bailey, and I will be your conference facilitator today. At this time, I would like to welcome everyone to the Granite 2025 Fourth Quarter Conference Call. This call is being recorded. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period. (Operator Instructions). Please note we will take one question and one follow-up question from each participant today. It is now my pleasure to turn the floor over to Vice President of Investor Relations, Mike Barker.

Michael W. 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 and 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'd like to turn the call over to Kyle Larkin.

Kyle Larkin {BIO 20377378 <GO>}

Good morning. Before we turn to the segment discussions, I'd like to discuss the progress we've been making to deliver on our strategic priorities. In 2025, we continue to focus on bidding and building the right projects, investing in our materials business, and expanding our geographic footprint through targeted M&A. Our strategy to drive consistent, predictable financial performance across the company is working. We remain highly selective in the work we pursue emphasizing best value and high quality bid build opportunities in our home markets, where we believe we can earn an appropriate return for the risks we assume in constructing these projects. This disciplined approach, combined with a strong funding environment underpinned our efforts to build a strong project portfolio even as we grew our CAP to a record $7 billion at year end 2025, the highest in our history.

Since 2020, our teams across the company have focused on pursuing the projects where we can leverage our home market advantages and consistently deliver higher margin work. This strategy enabled us to drive significant improvement in profitability from 8.8% in construction segment gross profit margin in 2020 to 15.7% in 2025, all while demonstrating the ability to organically grow the top-line across our footprint. As I look at the landscape of the construction business entering 2026, I believe there are still significant public and private opportunities to capture work in our home markets, even as we maintain discipline and work to continually drive excellence in execution in the bedroom and heavy day on our job sites.

During 2025, we also continue to invest in our materials business, both through acquisitions and CapEx. We've now completed the second year following our internal reorganization where we restructured our businesses to place materials leaders over our materials business. This change has allowed these teams to direct our strategy across the segment as we work to unlock value through market-based pricing and through application of efficiencies across the segment. Over the last several years, we have focused our CapEx spend on the materials segment to improve plant performance, acquire additional aggregate reserves, and expand our footprint. We have improved materials segment cash gross profit from 19% in 2023 to 26% in 2025.

The return on our investments has been exceptional. The team has many more initiatives in process, including partnering with our construction teams to drive more tons to our plants by leveraging our vertical integration and we expect to spend another $50 million in strategic CapEx in the materials business in 2026 to continue the strong momentum we built. In 2025, we completed three acquisitions, both expanding and strengthening our Southeast platform with the Warren Paving acquisition and strengthening the home markets in California and Nevada with the acquisitions of Papich Construction and Cinderlite. These margin accretive acquisitions and strong growing markets are representative of the acquisitions I expect to continue to complete in 2026 in the future. We expect acquisitions will continue to be a major component of our growth, that should enhance the performance of the business, the existing home markets and expand our footprint to new geographies.

We expect to drive further gains and deliver significant shareholder value as we continue to execute on our strategic plan. We continue to build a larger, higher quality project portfolio even as we invest in and grow our vertically integrated model. These efforts position Granite for continued organic growth, margin expansion, and strong cash generation. We believe we are on track to achieve our 2027 financial targets supported by favorable market conditions, robust infrastructure funding, and consistent execution across the business. Turning now to the Construction segment. First, I want to say, how excited I am about the performance of our construction teams across the company. Their execution throughout the year was outstanding and a key driver of our strong finish to 2025.

We entered the fourth quarter with record CAP and despite some delays on certain projects and wet weather at the end of the quarter, year-over-year revenue growth accelerated as expected. We continue to see sustained market strength and a healthy bidding environment across our footprint, with California and Nevada leading the way. With several significant awards in the quarter, CAP increased sequentially by $632 million, ending the year with $7 billion, a new record. In California, the newly proposed California budget for the 2026 to 2027 fiscal year represents a significant increase in the key capital outlay projects and local assistance components of the transportation funding for the original 2025 to 2026 budget, which itself was increased significantly in the latest January forecast update.

Stable and protected funding for transportation infrastructure in California continues to grow despite concerns about overall deficits. The strength of state transportation budgets is broad and we see many meaningful opportunities across our regions to continue to grow CAP in the first quarter of 2026 and throughout the year. Best value work continues to grow as a percentage of our portfolio ending the quarter at 48% of CAP. As we discussed in past quarters, best value procurement plays the Granite's home market strengths. These projects tend to be awarded to teams with strong qualifications.

Process is designed to promote risk mitigation during design and to reward collaboration, thereby enabling us to better manage construction risk, reduce disputes and deliver high quality complex projects more efficiently. Best value construction remains a key driver of our sustainable margin expansion strategy. This growth and best value work has been a core contributor to our de risked project portfolio and has allowed us to achieve consistent, predictable increases in our construction margins over the past several years, and we expect that trend to continue as more states adopt these procurement methods.

The high quality CAP portfolio we have built helped deliver the gross profit margin increase that we expected in 2025. We expect continued gross profit improvement in 2026, consistent with our 2027 financial targets. Overall, performance in this segment has improved meaningfully and with record level, higher quality CAP and favorable market conditions, we expect continued revenue growth in construction margin expansion in 2026 in line with our long-term financial targets.

Moving to the materials segment, 2025 was a transformational year for our materials business. We delivered both organic top-line and bottom line growth we significantly expanded our addressable market through acquisitions, most notably through the acquisition of Warren Paving, which significantly expands our reserves and resources in the Southeast. This was our first full quarter, including Warren Paving, and we see the numerous opportunities as we continue to integrate it into our Southeast platform. We expect to continue growing this platform organically, as we work to expand its distribution network, improve logistics efficiency, and leverage Warren's marine and river-based transportation capabilities.

Expansion opportunities include potentially adding additional aggregate yards requiring strategic assets to enhance both scale and margin profile of the platform. With the addition of Warren, along with the acquisitions of Cinderlite and Papich Construction, our aggregate reserves and resources increased 34% year-over-year to 2.1 billion tons, more than doubling Granite's reserves in the last five years. This growth and long life reserves provides a strong foundation for sustained margin expansion in the Materials segment. We expect the growth of our Materials business to continue throughout 2026 and in the years to follow, supported by strong market conditions, our proven vertically integrated operational model and our ongoing commitment to disciplined investment.

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

Staci Woolsey {BIO 21937434 <GO>}

Thanks, Kyle. 2025 was a tremendous year of growth with year-over-year increases in a number of areas. Revenue increased 10% to $4.4 billion, gross profit increased 24% to $711 million. Adjusted net income increased 29% to $276 million. Adjusted EBITDA increased 31% to $527 million and operating cash flow increased 3% to $469 million. Our teams have done a great job executing in strong markets and positioning Granite for continued organic growth, margin expansion and cash generation in 2026 and beyond.

Now let's discuss our results for the quarter. In the construction segment, revenue increased $119 million or 14% year-over-year to $940 million. Throughout the year, CAP gradually increased and we expected revenue conversion to accelerate in the second half of the year. In the fourth quarter, we saw this dynamic with organic revenue growth of 7% year-over-year as projects ramped up. In addition, our newly acquired companies, Warren Paving and Papich Construction contributed $59 million in construction segment revenue. The significant increase in revenue drove a $15 million improvement in construction segment gross profit to $143 million with segment gross profit margin of 15%. The improvement in our portfolio mix continues to translate into higher margins and we expect further expansion in 2026, consistent with our 2027 financial targets.

In the Materials segment, revenue increased $69 million year-over-year to $225 million with gross profit of $2 million to $25 million. The increase in materials revenue was primarily due to the acquired businesses. Cash gross profit for the quarter increased $10 million year-over-year to $47 million or 21% of revenue despite wet weather conditions in certain geographies. For the full year, cash gross profit margin improved 490 basis points year-over-year to 26%. For the year, volumes for both aggregate and asphalt and aggregate cash gross profit per ton increased significantly, primarily due to the addition of Warren Paving in August of 2025. Adjusted EBITDA for the full year grew $125 million to $527 million or an adjusted EBITDA margin of 11.9% compared to 10% in 2024.

Turning to cash flow. We had another outstanding quarter of cash generation and ended the year with operating cash flow of $469 million or 10.6% of annual revenue. Our disciplined focus on profitability and working capital efficiency is producing consistent high-quality cash flow that we are reinvesting to drive long-term value. Our 2025 operating cash flow benefited from the collection of a long outstanding contract retention balance and receipt of payment for several disputed claims in the first half of 2025. Excluding these non-recurring cash collections in 2025, our operating cash flow as a percent of revenue was in line with our original target of 9%. With our expected profitability improvement in 2026 and sustained working capital management, our 2026 target for operating cash flow margin is 10% of revenue.

In 2025, we executed on our capital allocation priorities with CapEx of $138 million, acquisitions of $778 million and dividends of $23 million. We also repurchased 300,000 shares under our Board-approved share repurchase program to offset dilution from our stock-based compensation. We ended the year with $650 million in cash and marketable securities, debt of $1.3 billion and $583 million in availability under our revolving credit facility. Going into 2026, our cash generation and strong balance sheet position us well to continue investing organically and through acquisitions while maintaining financial flexibility. We have a robust pipeline of acquisition opportunities that may either bolt-on to an existing home market or further expand our geographic footprint. While we are selective in our pursuits, we expect to achieve our goal of completing several strategic acquisitions in 2026.

Now let's turn to our 2026 guidance. We expect revenue to grow to a range of $4.9 billion to $5.1 billion. This reflects our record cap balance and the strong macro-environment and places organic growth at the high-end of our 2027 target CAGR of 6% to 8%. This range includes a full-year of the acquisitions completed in 2025. As we grow, driving efficiency to manage SG&A continues to be a top priority. We expect our SG&A to be in a range of 8.5% and 9% of revenue, inclusive of an estimated $48 million in stock-based compensation expense. We expect our adjusted EBITDA margin to be in the range of 12% to 13% of revenue. With our high-quality CAP portfolio, strong market and high-performing materials business, we expect continued adjusted EBITDA margin expansion in line with our 2027 financial target of 12.5% to 14.5% of revenue.

Finally, we expect to invest in our business through CapEx in the range of $140 million to $160 million. Similar to 2025, this range contemplates approximately $50 million in strategic materials investments to expand reserves as well as investments in additional automation projects as we work to grow the materials business. Now, I'll turn it back over to Kyle.

Kyle Larkin {BIO 20377378 <GO>}

Thanks, Staci. I'll close with the following points. I have strong confidence in the future of Granite. I believe Granite is in position to capitalize on the numerous opportunities in both of our segments as we work towards sustainable long-term value-creation and as we focus on growing revenue and driving margin and cash-flow expansion. The strong public construction market is fueling our CAP growth. We have the bidding opportunities ahead of us to enhance portfolio quality and support disciplined CAP expansion in 2026. In addition, while CAP growth has been concentrated in the public market, I believe our private markets such as rail and commercial site development remain robust and represent attractive incremental growth avenues for our construction segment.

In the materials business, we have made outstanding strides over the last two years and I believe that will continue in 2026. With the addition of Warren Paving, Papish Construction and for the full-year, I expect meaningful increases in revenue and profit in the segment in 2026. I believe we are on-track for our 2027 financial targets for adjusted EBITDA margin and operating cash-flow margin with 2026 being another important step-in demonstrating consistent performance against our long-term targets.

Finally, as we are integrating the acquisitions of 2025, I expect to add several more acquisitions in 2026 that will further strengthen our competitive position and support our ability to achieve our 2027 financial targets. We are evaluating bolt-ons in our existing markets and expansion opportunities in new markets as we continue to strengthen our position as America's infrastructure company.

Operator, I will now turn it back to you for questions we will now begin the question-and-answer session.

Questions And Answers

Operator

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

Q - Brent Steelman

Great. Hey, thanks. Good morning. Hey, Kyle, some of your peers have offered some comments just in terms of thoughts on federal legislation. Obviously, IIJA expiring here in September. Maybe your latest thoughts on, you know what you're hearing coming when we could get in more detail on what's coming, maybe I'd start there.

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah, good morning, Brent. So I think as we spoke before on previous calls, the IIJA expires, I think everybody knows now in September of this year. And all the funds we expect to be allocated out. Now the spend to date is right around 50%, that's as of November. So there's still a really nice runway of spending to go. So that will last luckily for a few more years. I think what we hear really from industry today is that there's still bipartisan support. There's still a huge focus on coming up with another investment mechanism. And I think the really good news is the investment amount is significantly higher, at least that's what's in discussions today than higher than what is in the IIJA.

So it's all positive. In terms of timing of what we might hear, I think we're going to start getting maybe some updates, I would say around March, April, if they start -- if they can get a draft bill put in place for the Transportation Infrastructure Committee to review. So I think that's kind of the next step in terms of when we get the next update.

Q - Brent Steelman

Got it. Appreciate that, Kyle. And I guess my follow-up, Kyle, just in terms of you've got a great sort of book of business here that seems to continue to build or looks like it will continue to build. Can you talk about some of the direct federal opportunities that are out there that you've spoken about before? What does that pipeline look like? Are you optimistic that there could be some meaningful things that could get picked up there this year?

A - Kyle Larkin {BIO 20377378 <GO>}

So what do you mean federal, are -- you talked to be more around the border infrastructure, Brent or just kind of the federal program in general?

Q - Brent Steelman

Yeah. I mean I guess border infrastructure or anything beyond that directly related to federal government contracting. I think we've spoken to some large things before there.

A - Kyle Larkin {BIO 20377378 <GO>}

Right. So we do have quite a bit of work with the federal government in Guam and that work continues to be going very well. We believe we'll continue to pick-up work-in Guam as part of that program. With regards to the border, there is a huge border infrastructure program that is probably just under about $40 billion and there's around 11 contractors or so pursuing that work and we're one of them. And we actually have one contract today in Southeastern Texas, just under $200 million. And we started that work last November. So there is a huge program and opportunity in front of us.

One of the things that changed is the government is looking to get that work out and awarded, we believe midyear, so sometime around June, July and to help with that, these contracts are getting larger than what we originally contemplated. So the risk profile is changing a little bit on those to one that's just giving us reason to be more disciplined in our pursuits and ensuring that we can not only just win the work, but be successful in delivering for ourselves and for our clients. So we'll see. What I can tell you is that we don't have any additional border infrastructure work in the guidance that we provided you today.

Q - Brent Steelman

Okay. Thank you. I'll pass it on.

A - Kyle Larkin {BIO 20377378 <GO>}

Thank you.

Operator

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

Q - Steven Ramsey {BIO 20092076 <GO>}

Hi, good morning, everyone. I wanted to think high-level that you're tracking to your 2027 targets. Did you expect CAP to be at this level when you laid those targets out? Or would you say those targets were predicated on a cap level that was lower or higher than this? I guess I'm trying to get a sense of how CAP dependent those targets are?

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah, I don't know if we necessarily came out and said here's what our CAP needs to be in order to hit those '27 targets simply because it's a balance of bid build and best value. And obviously, the burn rates on those two are very different, one being a lot shorter burn of a couple of years and the best value can be up to about a five-year burn. But in the CAP today, it's back to about 50/50 between those two which we think is very healthy. So that gives us a lot of confidence, not just in our ability to hit our numbers from an organic growth rate of around 8% in 2026, but it should allow us to continue to have that growth rate into 2027.

So I think the best way to answer is, we feel really good about the CAP. The $7 billion is a really high quality CAP. The margin profile within our CAP continues to improve and that's going to also get us to those 2027 targets. So I think our CAP is right on track to where we want to be.

Q - Steven Ramsey {BIO 20092076 <GO>}

Okay, that's helpful. And then wanted to think about the CapEx, the strategic CapEx of $50 million geared towards the materials segment. Can you talk a bit about how much of that is in the legacy Western markets? How much of that is the recently acquired Warren assets? And maybe to tag along with that, how the Warren integration is going and how that is shaping up for growth in both sales and profits within the Southeast business?

A - Staci Woolsey {BIO 21937434 <GO>}

Hey, Steven. I'll start and talk a little bit about the strategic materials CapEx of $50 million. That's more heavily weighted towards the legacy business and expanding reserves and doing automation projects there. And also in our acquisition from a couple of years ago with Lehman-Roberts and Memphis Stone & Gravel, and doing some investment there, but really more heavily weighted towards the legacy Granite business. And then as we think about the Warren integration, they've performed really well so far this year in the five months that we've had them on board, and we're really excited about that and feel good about that going forward and then the opportunity that's going to present to continue to expand in the overall Southeast.

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah. Maybe I'll add a little bit to the integration. We made an investment, so we have dedicated resources in our integration team today to help with these acquisitions. And Warren Paving is off to a strong start similar to Papich Construction and Cinderlite. So all three of our acquisitions last year are performing very well, if anything outperforming where we thought they were going to be. Again, we're excited about the teams that came with those companies, the leadership that came with those companies in the markets that they're in continue to be healthy and growing. So we really look forward to having them in our full year of business this year in '26.

Q - Steven Ramsey {BIO 20092076 <GO>}

Great. That's great color. Thank you.

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah. Thank you.

Operator

Our next question comes from Kevin Gainey with Thompson Davis. Please go ahead.

Q - Kevin Gainey {BIO 20134763 <GO>}

Good morning, Kyle and Staci. Great quarter, guys. Maybe if you wanted to dive into the project bidding opportunities and more so maybe by vertical. I'm just kind of interested in what you guys are seeing out there for mining, rail, maybe renewables, water?

A - Kyle Larkin {BIO 20377378 <GO>}

Sure. In general, the market is strong. It's been strong, it remains strong. I think over the last six months, we did more work. We captured more work with slightly higher margins. So that's kind of at a high level, really good news and obviously driving a very strong CAP for us. The public market with the IIJA is still a big part of our business, around 85% or more today. And so I think that's more reflection of a really strong IIJA and public funding. We see mining continue to be strong, whether it's our involvement on the process water side or actually just doing work for the miners on-site development side of things. Rail is an opportunity. We continue to see intermodal opportunities in our future and hopefully, we'll continue to capture some of those that could maybe shift things back a little bit more weighted towards private than public as an overall company.

Renewables stays strong and we're seeing solar projects continue to come out and we continue to pursue them. And I think we're -- we continue to grow that part of our segment in construction in the next year or two. So I think all in all, we feel really good about the market. We don't participate a whole lot in the residential market, but the markets that we are in the private side outside of that continue to be really strong. I would say, we're starting to look a little bit harder in some of the data center work. We do data center projects up in the Pacific Northwest and Nevada. Today, we're pursuing some projects outside of those markets down into Texas and even in Ohio. So hopefully, there are some new opportunities for us that we can capture in the future here.

Q - Kevin Gainey {BIO 20134763 <GO>}

And then as we sit here and we think about the $7 billion CAP, is there -- do you guys have any concerns operationally or from maybe whether it's labor, equipment or anything like that, that could cause you -- cause an issue in executing on the project pipeline?

A - Kyle Larkin {BIO 20377378 <GO>}

Not at all. Yeah, that $7 billion of CAP, again, half of that is best value, half of it's bid build. So the progression that work is going to vary a little bit. Historically, we've been as high as if you look at burning of our contract backlog in any given year of close to 50% of our CAP this year is going to be closer to just over 40% of our CAP. So we don't have any (inaudible) concerns at all in that regard.

Q - Kevin Gainey {BIO 20134763 <GO>}

That sounds good. And then maybe just one more just on the EBITDA guidance for margins. What would it take from -- to be able to get to the high end of that range and maybe if you could talk about the low end as well?

A - Kyle Larkin {BIO 20377378 <GO>}

Well, in any given year, there's a few factors. Obviously, we talked before about whether Q1, Q4 weather can always be an opportunity or it can be a hindrance for us. So far in Q1, it's been okay. There were some big weather issues in the Southeast. As we all know earlier this year, we don't think that's going to impact our ability to hit our guidance and we'll see -- have to see how the rest of this quarter shakes out as well as Q4.

But we still have to win and actually bid or build some of the work that we're going to need this year to hit our revenue numbers. So it's always a risk in the first half of the year of actually capturing that work and getting started on that work. And then execution, that's an opportunity for us and a risk as well. We have to perform. But I think today, our operational excellence is at a really high level and it's a very different business than what we were several years ago. And I see execution as more of an opportunity today than a risk. We tend to outperform our projects more than we underperform today. And then there's just some unknowns and we'll see if any of those show up. But I feel as though the things that we control, we're in really good shape and it should be a really nice year for us.

Q - Kevin Gainey {BIO 20134763 <GO>}

Sounds good. I appreciate all the color. I'll turn it over.

A - Kyle Larkin {BIO 20377378 <GO>}

Thank you. Thank you.

Operator

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

Q - Michael Dudas {BIO 1495732 <GO>}

Yes, good morning, Staci, Mike, Kyle.

A - Staci Woolsey {BIO 21937434 <GO>}

Good morning.

Q - Michael Dudas {BIO 1495732 <GO>}

Kyle, best -- the best value practice backlog getting close to 50%, very helpful. And you mentioned in your prepared remarks, other states are engaging in those types of contracts. Maybe you could share a little bit more what -- how much of a percentage of your backlog could that type of contract be? And given how it's allocated and let throughout the process, because of its building, is that going to provide some more project or award opportunities or revenue opportunities a little longer in the cycle given that's been built-up so high and that could give some more visibility to later this year into next year and beyond because of how big and how large that part of the backlog will grow?

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah. So maybe you're breaking up a little bit, let me see -- I think I can answer the question based on what I think you said there, Mike. But if I get it wrong, let me know. The question has come up before around what's the right balance between best value and bid build. And I don't think we necessarily know the answer to it. I think we like what we have today is that 50/50 feels pretty good. And to your point, as more states pass legislation to allow CMGC or CMAR or progressive design bill, we could see that increase and I think that's okay. It allows us to do some more complex larger contracts in a de-risked manner and we tend to perform very well on those.

So I think that if that progression happens, that would be a good thing for us. I think that is the future of contracting is to be more collaborative, to be partners with our clients and it really fits us well as we have a whole market strategy. So we like to know the customers that we're working for and having the resources to ensure that we can deliver these projects for them the way that we both would expect us to. So if it does increase, I think that's a good thing. I think another good thing about our CAP being around 50% best value is it gives us some insight into the future. And so we know that we're going to progress through a portion of that work this year, but it gives us confidence as we start working towards those 2027 numbers and beyond. So I think we feel really good about our CAP today and we'll see what happens in terms of this best value over time.

Q - Michael Dudas {BIO 1495732 <GO>}

Yeah, that's perfect. Thank you for that answer, Kyle. My follow-up is on the materials side, since your reorganization of the business, certainly the pricing and volumes have been quite good, organic and your acquisitions. How do you feel you are relative to pricing two years later with this change relative to the market? Is there still upside relative to market in certain regions? And what are you anticipating or budgeting for aggregate and asphalt pricing generally for 2026?

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah. In 2026, I'll start with the pricing first, probably mid-single-digit price improvements on the ag side and low-single digit on the asphalt. You know every market is different. We look at every project, every -- every market uniquely and discretely. And so I think there is still opportunities. I think our team consistently looks at that. And one of the things we did (inaudible) a couple of years ago is we bring some of that sales strategy and feedback up to a higher-level. And so we can look at things a little bit more broad and ensure that we're looking at things without maybe the last motion. And so I think there's still work to be done.

I think our team has done a fantastic job. I'm impressed with what they've done. They've obviously unlocked a tremendous amount of value in our materials business, but I think there's still some more to do. And the 2027 targets, we've talked about another 3% or better in cash gross profit over the next two years. So that's -- we expect to continue to see that this year. That's contributing to our EBITDA margin expansion this year. And so I think we're right on track with all that.

Q - Michael Dudas {BIO 1495732 <GO>}

And just quick follow-up on your -- and what about your cost with your budgeting in the materials business on a percentage basis relative to the pricing you're sharing?

A - Kyle Larkin {BIO 20377378 <GO>}

Well, we've done a really, really nice job in our legacy business keeping costs under control. I think that's one of the real highlights to our team is costs year-over-year have actually been flat in the last two years. So I think the automation efforts we put in place, the standardization of our materials playbook, I think all that is paying-off for us as well. Obviously, there are some cost input, some of the variable costs that would go up with inflation. But all in all, last year, mix adjusted, I think we ended up close to about 8%.

Q - Michael Dudas {BIO 1495732 <GO>}

A net 8% price increase over. I appreciate. Thanks. Thanks, Kyle.

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah. Thank you.

Operator

Our final question comes from Adam Bubis with Goldman Sachs. Please go ahead.

Q - Adam Bubis

Hi, good morning. Can you help us think through the '26 versus 2025 margin outlook? I think the guide is just over 50 basis-points of margin expansion at the midpoint. How much of that margin expansion is coming from price versus better execution versus I know you have some favorable M&A rollover? And then what are some of the offsets? I think you had a favorable claim last year. It looks like maybe slightly outsized equipment sales this year that you could be lapping, just trying to think through the puts and takes?

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah. I think I think the easiest way to look at it is we have been talking about a 1% construction margin improvement over the next two years and split really between '26 and '27. So it was around 50 basis-points improvement in our construction margins. Materials, we've been talking about at least 3% over the next two years, about -- so about 1.5% each year. So on a weighted-average basis, that's around 20 basis-points. So you put the two together, that's around a 70 basis-point improvement between construction and materials. As Staci mentioned in her remarks, there's about a 50 basis-point improvement on SG&A. So it's about 120 basis-point improvement in margin. But then you have to net out the things you talked about.

So we had some claim recoveries. We had a little bit larger gain on sale. So that adds up to about a 50 basis-point improvement if that answers that question. I think the other thing to think about is to get to the midpoint of our 2027 EBITDA margin guidance, it's about 100 basis-point improvement from here. So we're right on track with where we thought we'd be this year and right on track to getting to that midpoint of our EBITDA margin in 2027.

Q - Adam Bubis

Terrific. And then can you just talk about -- it sounds like the M&A pipeline is still pretty robust. What's the range of outcomes that you're contemplating for M&A in 2026? And yeah, can you just talk about how you view M&A in context of leverage as well if there are larger opportunities out there, would you feel comfortable moving above the leverage target of 2.5 or nothing of size that would really move the needle in the medium-term on that front?

A - Kyle Larkin {BIO 20377378 <GO>}

Well, as I mentioned previously, all three of the recent transactions have gone very well. So it gives us a lot of confidence as we move forward and look to do more deals. We've invested in our corporate development team, which has been -- which has been great. So we can really bet through a whole lot of opportunities that come our way. We can also self-source a lot of our deals. So I do expect -- we expect to get several things done this year. I think from a leverage perspective, we are still targeting that 2.5 times net-debt. If there was something larger that came out, we'd probably go up from there with a plan to obviously to come back-down. But I think that leverage kind of still holds. And yeah, we're busy. I think our team is busy. I hope that we come back sometime in Q2 and provide you with some sort of update there.

Q - Adam Bubis

Great. Thanks so much.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Kyle Larkin for any closing remarks.

A - Kyle Larkin {BIO 20377378 <GO>}

Okay. Well, thank you for joining the call today. As always, we want to thank our teams for everything they did to make 2025 such a success. Most importantly, we would like to thank our teams for making 2025 our safest year yet. We are an industry leader in safety and we expect to get even better in 2026. Thank you for joining the call and your interest in Granite. We look forward to speaking with you all soon.

Operator

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