

Q2 2026 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

- Anuj Khandelwal, Goldman Sachs
- Brent Thielman, Oppenheimer & Co. Inc.
- Kathryn Thompson, Thompson Research Group
- Kevin Gainey, Thompson Davis
- Michael Dudas, Vertical Research Partners
- Trey Grooms, Stephens Inc.

Presentation

Operator

Good morning. My name is Chloe and I will be your conference facilitator today. At this time, I would like to welcome everyone to the Granite 2026 Second 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 Vice President of Investor Relations, Mike Barker.

Michael W. Barker {BIO 20892900 <GO>}

Good morning and thank you for joining us. I am 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 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, cash gross profit, and cash gross profit per ton. 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](https://www.graniteconstruction.com) under investor relations.

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

Kyle Larkin {BIO 20377378 <GO>}

Thanks, Mike. Let's start with the construction segment. I'm pleased to report that CAP growth continued to be strong, increasing \$250 million sequentially to \$7.4 billion, as project wins outpaced revenue burn, in what was a very strong growth quarter. The increase was driven by a healthy and active bidding environment across our markets, as well as the addition of Kenny Seng Construction. This record CAP underscores the strength of our end markets, the effectiveness of our growth initiatives and provides strong visibility into future revenue.

We continue to see significant opportunities to grow CAP, leveraging our leadership in publicly funded transportation infrastructure while expanding our presence across a broader set of end markets. Publicly funded work for state and local departments of transportation remains a cornerstone of Granite's business and continues to support both our Construction and Materials segments. Over the past several years, the IIJA has provided significant funding to transportation agencies across our footprint. With a substantial portion of those funds still available for deployment, we continue to benefit from a strong and robust transportation market.

In May, the U.S. House of Representatives introduced the BUILD America 250 Act, or BA250. BA250 is designed to be the successor to the IIJA, which is expiring in September. While BA250 does not currently contemplate significant increases in highway funding, we view the draft positively because it shifts the funding mix toward formula-based programs and bridge investments and away from larger discretionary mega projects. We believe this funding approach aligns well with Granite's geographic footprint and capabilities.

While the timing and final content of the bill remain a work in progress, we expect the final bill may have a higher level of funding than the current draft, and we believe bipartisan support for infrastructure investment will sustain elevated funding levels, whether through new legislation or by way of a funding extension.

Against this backdrop, we see significant opportunities for continued growth through market share gains in our home markets, increased participation in collaborative contracting delivery methods, such as Construction Manager, General Contractor, and progressive design build, and disciplined geographic expansion, both organically and through acquisitions. These collaborative contracting delivery methods foster earlier engagement with project owners, better alignment throughout project execution, and more balanced risk sharing. Over time, this approach has enabled us to build a higher quality project portfolio and reduce volatility, allowing us to deliver more predictable outcomes, including improved margins.

Importantly, Granite has a much broader and more diversified growth platform than it did just a few years ago. By leveraging Granite's geographically diverse home markets, we have strategically expanded into attractive end markets that complement our traditional strengths and deepen relationships with key clients. This includes growing our federal business, increasing our participation in rail and transit infrastructure, and establishing a meaningful presence in data center site development.

Within federal, we have invested for more than a decade to build our capabilities, establish customer relationships, and broaden our geographic reach. From the armed forces to the Department of Homeland Security to the U.S. Army Corps of Engineers, we have participated in building our nation's federal infrastructure in a variety of civil projects across the United States and Guam. While the recently won tactical infrastructure projects provide near-term revenue growth in 2026 and 2027, we believe the greater opportunity lies in the long-term expansion of our federal business, leveraging the strong customer relationships, proven execution, and expertise we have developed.

Class 1 railroads continue to make significant investments in their infrastructure, with a particular focus on expanding intermodal capacity and increasing the movement from truck traffic to rail. Supported by a strong history of successful project execution and collaboration with these customers, Granite is well positioned to capitalize on growing opportunities within the rail market over the next several years. Mission-critical infrastructure, such as data center site development, is another significant growth opportunity that stretches across our footprint. Granite has over a decade of experience working with developers, vertical builders, and hyperscalers on the civil infrastructure needs of data center construction, primarily in the pacific northwest and Nevada.

Earlier this year, we launched a dedicated data center division with specialized leadership and resources to support these important clients across Granite's footprint. This team works alongside our regional operations to pursue, win, and successfully deliver data center projects while providing a consistent, best-in-class client experience. As a result, data center-related CAP is increasing from \$65 million a year ago to \$223 million at the end of the second quarter. Given the substantial demand driven by AI and digital infrastructure investment, we continue to see a robust pipeline of opportunities across many of our markets, and expect this end market to remain an important contributor to CAP growth in 2026 and 2027.

The common theme across our rail, federal, and data center pursuits is our ability to leverage the capabilities of our geographically diverse home markets to serve strategic clients in attractive end markets. We have the people, equipment, expertise, and relationships to capitalize on these opportunities efficiently and at scale. This same platform also positions us to pursue additional end markets over time, including water and power infrastructure, markets that we believe are poised for meaningful long-term investment. Taken together, our record CAP and the strong opportunities across public and private markets give us confidence that Granite can continue to grow while driving sustained margin expansion in both the near and long-term.

Turning to the Materials Segment, second quarter results underscored the strength and resilience of our materials platform. Severe weather disrupted production and sales activity across the Southeast during the second half of the quarter, but our teams continued to execute well against those challenges. Overall, aggregate and asphalt volumes increased year-over-year, both from acquired companies and on an organic

basis. Demand for construction materials remains healthy across our footprint with orders outpacing prior year levels. This demand environment continues to support pricing, and through the second quarter, we are realizing our targeted mid-single-digit aggregate price increases. We also continue to execute on strategic capital improvement projects, including automation, plant investments, and reserves expansion. These investments align with our long-term strategy to improve production efficiency, lower operating costs, and strengthen our competitive position in our home markets.

Finally, we continue to closely monitor the increase in oil prices driven by geopolitical uncertainty in the Middle East. Energy prices during the second quarter were in line with our expectations, and the impact on segment performance was minimal. Increases in liquid asphalt and diesel costs were largely mitigated through a combination of fixed forward contracts, physical storage, financial hedges, and energy surcharges. I am pleased with the resilient performance of our teams. Demand remains healthy, pricing is tracking to expectations, and we continue to make investments in the materials segment that we believe will support long-term growth and margin expansion.

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

Staci Woolsey {[BIO 21937434 <GO>](#)}

Thanks, Kyle. We delivered significant second quarter growth by building on the momentum generated in the first quarter and continuing to execute on our strategic priorities. Compared to the same period in the prior year, revenue increased 29% to \$1.5 billion, gross profit increased 20% to \$239 million, adjusted net income increased by \$15 million to \$101 million, and adjusted EBITDA increased by \$34 million to arrive at \$186 million. We also generated year-to-date operating cash flow of \$142 million.

In the construction segment, revenue increased \$270 million, or 29% year-over-year to \$1.2 billion. Of the growth in the quarter, \$98 million or 11% was attributable to acquired businesses, while organic growth contributed \$172 million or 18%. Our revenue growth was driven by our record CAP and strong project execution across many of our geographic markets. Gross profit margin increased slightly year-over-year, a strong outcome given the difficult comparison against the prior year. We recognized favorable claim recoveries in both periods, however, the gross profit margin impact was less significant in the current year due to increased revenue this year. As we enter our busiest quarter, the construction segment is performing ahead of our expectations and is well-positioned to deliver strong full year results.

Materials segment revenue increased \$60 million year-over-year to \$248 million, with acquired businesses contributing \$60 million in the quarter, led by Warren Paving. Total aggregate and asphalt revenue, prior to consolidation adjustments between our segments, increased \$111 million, led by a significant increase in internal asphalt sales during the quarter of \$42 million, or 73%. While the majority of our volume growth was driven by the acquired businesses, we also delivered stronger-than-expected organic volume increases. With materials orders ahead of the prior-year and pricing performing in line with expectations, the Materials segment remains on track to deliver another year of profitable growth, despite margin headwinds experienced in the second quarter. Gross profit margin decreased 800 basis points and cash gross profit margin decreased 310 basis points, driven by severe weather in the southeast as well as higher production costs associated with quarry development activities in the quarter.

Turning to cash flow, year to date cash provided by operating activities was \$142 million, compared to \$5 million in the prior-year. Generating this level of operating cash flow in the first half of the year is a significant achievement and demonstrates the quality of our earnings and execution across the business. We expect our operating cash flow in the second half of the year to be consistent with our traditional seasonality. With this performance through June, we are raising our annual operating cash flow target from 10% to 11% of revenue.

The second quarter marked an important step forward in strengthening Granite's capital structure. We secured inaugural credit ratings from Moody's and S&P, successfully completed a \$600 million senior unsecured notes offering, and called our remaining 3.75% convertible notes. Together, these actions strengthened our balance sheet, enhanced financial flexibility, and expanded our access to capital. The proceeds of the senior unsecured notes will mainly be utilized to settle the 3.75% convertible notes.

We elected to settle the majority of our conversion obligation with cash rather than shares, to minimize dilution. We expect to use approximately \$570 million of cash, net of proceeds from the unwind and termination of the associated capped call transactions, to settle conversions, with the remainder to be settled in shares. Based on our current assumptions, this approach is expected to reduce adjusted diluted shares outstanding by approximately 2 million shares and preserves the financial flexibility to pursue our growth, acquisition, and capital allocation strategy.

With Granite's share price increasing significantly since the 3.75% convertible notes were issued, redeeming the notes ahead of maturity reduces potential future dilution associated with the convertible notes and represents another important milestone in optimizing our long-term capital structure. During the quarter, we recorded non-operating charges of \$363 million related to our convertible notes, which were excluded from adjusted net income and adjusted EBITDA. The primary drivers were a loss on remeasurement of the conversion option derivative embedded in the 3.75% convertible notes and the amortization of debt discount. The remaining debt discount of \$270 million will be recognized as interest expense in the third quarter. The change in fair value of the conversion option derivative through the settlement of the notes in the third quarter will be recognized in the income statement as a non-operating gain or loss as applicable.

Our strong cash generation and balance sheet, particularly when coupled with support from the credit market, puts us in an excellent position to continue executing on our M&A and capital allocation strategy, which includes opportunistic share repurchases. We believe we have the capital, balance sheet flexibility, and organizational capacity to complete additional acquisitions this year, and we continue to see a robust pipeline of M&A opportunities.

Now, let's turn to an update on guidance for the year. With our performance in the first half of the year, CAP balance, and project opportunities ahead of us, we are increasing our revenue guidance to a range of \$5.3 billion to \$5.5 billion from a range of \$5.2 billion to \$5.4 billion. This reflects annual organic growth of approximately 12% and growth of approximately 10% from acquired companies at the mid-point of the range. We are also increasing our organic revenue growth expectation for 2027 from a range of 6% to 8% to above 10%. This represents a substantial increase in our growth outlook and reflects the visibility provided by our CAP, the public infrastructure funding environment, and the opportunities we continue to see across our end markets. Our annual guidance for

adjusted EBITDA margin, SG&A expense as a percent of revenue, adjusted effective tax rate, and CAPEX is unchanged.

Now, I'll turn it back over to Kyle.

Kyle Larkin {BIO 20377378 <GO>}

Thanks, Staci. I'll close with the following points. I am confident that the strength of our public and private end markets, combined with the strategic actions we have taken, leaves us well-positioned to continue growing revenue across our footprint. Whether serving clients in data center site development, intermodal rail infrastructure, federal projects or our core transportation markets, our teams have the capabilities to deliver. I believe we have the teams, capabilities, and expertise necessary to capitalize on the opportunities ahead of us and continue to grow our record CAP.

In the materials segment, we are encouraged by the strength of demand across our markets and the level of orders entering the third quarter. Our teams were resilient through the second quarter, and I believe we remain on track to achieve our margin targets both in 2026 and 2027. Given our strong first half performance, record CAP, and opportunities ahead, we raised our 2026 revenue guidance and increased our expectation for organic growth in 2027.

Finally, M&A pursuits are very active. We closed on the Kenny Seng Construction acquisition this quarter and believe we will close on additional transactions in 2026. Disciplined M&A remains an important component of our long-term growth strategy. We continue to evaluate opportunities that strengthen our market position, expand our geographic footprint and create long-term shareholder value.

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 Oppenheimer. Please go ahead.

Q - Brent Thielman {BIO 6976698 <GO>}

Hey, thanks. Good morning. Yes. I guess just first question on the thoughts on materials and second half kind of margin recovery opportunity. Obviously, some nuances here in the quarter with adverse weather and some other factors. But maybe you can just talk about your sort of Cash gross profit margin expectations for the year for that business group as you're moving to the second half.

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. Thanks. First, I'll start with some things I think are really positive. In the quarter, demand was strong, as we mentioned, both internal and external, which is good both in the external market. Obviously, we're still seeing a lot of public infrastructure demand and data centers in certain markets, manufacturing, and our teams are executing well on the pull-through strategy. So I think that's really positive in the quarter. Our pricing is

still at mid-single-digits on the ag. So that's holding. So from a pricing demand perspective, we feel really good. It is unfortunate we did have -- we also had poor weather in the southeast. And we're putting the ballpark around \$10 million in the quarter. So that obviously has a drag on our margins. But we feel good about the outlook for the full year. Those funds will shift to the right and we expect to be right where we want to be by the time that we wrap up through '26.

Q - Brent Thielman {BIO 6976698 <GO>}

Got it. Appreciate that, Kyle. Yes, I guess, and just in terms of the -- you kind of improved organic growth outlook for 2027 from 6% to 8% to now plus. And, Kyle, I mean, in light of not having a highway reauthorization in place and seemingly that getting pushed out, what else kind of -- I guess, what gives you the confidence around that improved profile? If you could just unpack some of the different factors that led you to increase that, it'd be helpful to hear.

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. I think there's probably two things that we'd point to. First is our strong CAP balance. Obviously, it's another record level and highest-quality CAP, in our opinion, in the company history, which is something we've been able to say now for a few years. That CAP gives us a lot of visibility. So today, we have a lot of visibility being halfway through 2026. We raised our guidance for the remainder of this year based on that visibility. We have a lot more visibility into 2027. And I think that's really combined with what we believe is still a healthy market, both in the public and the private sectors. So the bid opportunities are really strong, they continue to be strong, and our teams continue to demonstrate the fact that they can execute within the environment. So we feel very confident in 2026 and in 2027.

Operator

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

Q - Kevin Gainey {BIO 20134763 <GO>}

Hey, Kyle, Staci, and Mike. I was hoping that maybe we could dive into the comments you made around data centers. You said you have the backlog up from \$60 million to \$250 million, I think. Maybe you could talk about the success that your teams have in there and then maybe what that can also grow to over time.

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. So last year at this time, we had a CAP of around \$65 million within the data center space. Today, it's around \$225 million. And as we mentioned on the last call, we have dedicated leadership within that part of our business today leading that effort. And really, their job is to help coordinate and support all the local businesses we have within our own markets to support these clients and what they're trying to build. So we've made a lot of strides in a very short amount of time, which we're encouraged by. I think the fact that we've had so much success really just in the last six months or so, just tells you we have a great service offering for these clients. We can deliver these contracts safely, at speed and in quality. So we expect to see it grow, as I mentioned before. We want it to be around 10% or better of our annual revenue. I think we're on track to doing that relatively quickly.

Q - Kevin Gainey {[BIO 20134763 <GO>](#)}

Appreciate the color there. And then maybe as well, if we could touch on, I know Brent talked about margin recovery, but maybe if we could talk about if there's going to be further costs associated with quarry development activities that would also kind of hold margins down, or is that just the one-time or the first half kind of environment?

A - Kyle Larkin {[BIO 20377378 <GO>](#)}

Yes. I'll look it more at the first half environment and I would say the kind of plant set up or development was the ballpark about a \$5 million impact in the quarter. So yes, we wouldn't expect to see that because there's no more drag in Q3 or D4.

Q - Kevin Gainey {[BIO 20134763 <GO>](#)}

Perfect. I'll turn it over.

A - Kyle Larkin {[BIO 20377378 <GO>](#)}

Thank you.

Operator

The next question comes from Michael Dudas with vertical research partners. Please go ahead. Michael, your line may be muted. Okay, our next question comes from Trey Grooms with Stephens. Please go ahead.

Q - Trey Grooms {[BIO 6990288 <GO>](#)}

Yes. Good morning. Thanks for taking the questions. So maybe if we could talk about the kind of preliminary DOT budgets for '27 that are out there. It seems like funding levels look pretty good in granite states and California budget is above national average. Texas looks down, but I think it's more optical given that they have a biannual budget. But combined with also where we are with reauthorization of IIJA likelihood of a CR, how are you thinking about the infrastructure demand backdrop kind of looking into the fiscal '27 outlook?

A - Kyle Larkin {[BIO 20377378 <GO>](#)}

Yes. And I think from a overall market perspective, we still feel like the public market's healthy. We're getting more work today. We're capturing more work as well. So that's kind of the first driver that tells us we're improving and you can see it in our CAP. I think that from an IIJA perspective, we're about 60% spent. So I think that obviously it'll get allocated when it expires in September, but that spending will continue into 2027, 2028, and 2029 through 2030, likely. So it's not like the funds just turn off. We think that there likely will be some sort of funding extension while they still sort out what BA250 will look like. There's three things that we look at in BA250 that are positive.

First is that it looks like it will maintain a high level of public infrastructure investment, so that's good. The second is it's more formulaic than grant-based, and that really means that the spend will be more directly focused on the types of work that we do and the size of projects that we perform very well. And I think at these levels, combined with our end market strategies, we feel very confident that we can grow our business over the long

haul. So I think today it's to be determined on what this draft bill looks like ultimately, but what we've seen so far will still allow us to do what we want to do as a company.

Q - Trey Grooms {BIO 6990288 <GO>}

Got it. Okay. Thank you for that. And then maybe just more for housekeeping. Any details you could share on the Kenny Seng acquisition, maybe how much it added the CAP or any details around that, please.

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. Kenny Seng, almost a full quarter of a Kenny Seng in Q2 and that business continues to perform very well integrations gone very well. Their CAP for the quarter is about \$150 million.

Q - Trey Grooms {BIO 6990288 <GO>}

All right. Thank you so much for the detail. I'll pass it on. Best of luck.

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. Thank you.

Operator

The next question comes from Kathryn Thompson with Thompson Research Group. Please go ahead.

Q - Kathryn Thompson {BIO 6584271 <GO>}

Hi. Thank you for taking my questions today. Just a follow-up on your comments on strong organic sales performance in the second half and '27. Is the CAP growth that gives you this confidence or other factors and any other just additional color you can give on that organic cadence? Thank you.

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. Thanks, Kathryn. Well, it really is, first and foremost, the CAP, and we have great visibility with our CAP today. Obviously, at this point in the year, we know where things are going to head for the balance of the year in '26. We also know how that CAP's going to -- how it's going to burn through 2027, so that obviously gives us a lot of confidence from a CAP perspective in 2027. And again, the market is healthy and strong. We have a really strong bid pipeline. So we have an idea of the work that we're bidding today, both in the public sector and the private sector. We know what our typical hit rates are and that gives us a lot of confidence that we'll have the work that we need to make up the balance of that growth in 2027.

Q - Kathryn Thompson {BIO 6584271 <GO>}

Okay. Great. Thank you. And obviously, a lot of focus on data center site prep work and data center growth. But broadly stepping back and looking at the forest for the trees, there's just a broad trend of more things being built in the U.S. Would be helpful if you could, even if it's an anecdotal story, tell us what you're seeing in terms of how Granite

participates in the build-out of the industrial complex in the U.S. market. Thanks again and good luck.

A - Kyle Larkin {BIO 20377378 <GO>}

Yes, thanks. And I think that what we like about where we're at with data center growth is it's something that we've done for 10 years or so. We do it very well. I think the strength of our business is the home markets and the optionality that the home markets bring with our crews. And our crews within our home markets can perform work on data centers, the streets, highways, airports, mine sites, refineries. So it gives us a lot of optionalities to be able to be flexible. And I think that's a real differentiator for Granite. So our job today with our end market strategy is connecting these key clients across these home markets and these geographies so we can deliver for them at a high level.

Q - Kathryn Thompson {BIO 6584271 <GO>}

Okay. Thanks so much.

A - Kyle Larkin {BIO 20377378 <GO>}

Thank you.

A - Staci Woolsey {BIO 21937434 <GO>}

Thank you.

Operator

The next question comes from Adam Bubes with Goldman Sachs. Please go ahead.

Q - Anuj Khandelwal {BIO 20255435 <GO>}

Hey. This is Anuj on behalf of Adam. So to what extent are you seeing fuel inflation or other cost pressures impact margins across your construction and material business? And as these costs move higher, are you generally able to incorporate those increases into new bids and recover them through pricing or is there typically a lag?

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. Good morning. I think from an overall energy perspective, our team has done a really nice job mitigating the energy price volatility in the marketplace today. I think from a net dollars perspective, we're a little bit more positive than negative, which is what we indicated we would be last quarter as well. I think our Materials segment teams have done a nice job of implementing that energy surcharge back all the way back to Q1 of 2021. Physical storage that we put in place and put forward contracts. So we feel as though we're getting that covered up. Again, a little bit more positive than negative.

On the construction side, we do do a lot of public works and with that comes the benefit of owners that typically have escalators, deescalators for certain commodities. So that gives us some support and then kind of de-risk things in that perspective. Some other things that we do that I think that we shifted our business to de-risk it from some volatility is we price most of our work at 100% design. That's pretty much the universal case. There's a few exceptions to that. And that's important because we can get some contractor coverage, supplier coverage, and we can lock those things in and we can

share that risk with those that manage that portion the best. And we also limit our pricing exposure on contracts to really less than 4 years. And that's another part of our effort as a company and we did all this really to create a consistently profitable business. That was what we set out to do with our de-risking efforts related to energy and just in general. And I think our results reflect the effort of the entire team. So I think they've done a really nice job.

Q - Anuj Khandelwal {BIO 20255435 <GO>}

Got it. And one more. So what type of customers are you currently engaging with on future builds? And how would you characterize the depth of data center opportunity pipeline?

A - Kyle Larkin {BIO 20377378 <GO>}

How do we price in the additional energy costs in the future bids, I think that if I understand your question correctly, the answer is when we have 100% design, we can go out and get coverage on all these items that have potential risk associated with them. We can lock those prices in the contract. There's always a few things that are still out there, maybe diesel prices. So we do make some adjustments and estimate what future diesel prices will be. Labor costs can always be a little bit of what we have to estimate in the future years. We do have our union partners out in the West. So most of those are already locked in, but we always have to factor in some sort of labor escalator as well. Those are probably the two that you can't completely pin down right on bid day.

Q - Anuj Khandelwal {BIO 20255435 <GO>}

Thank you.

A - Kyle Larkin {BIO 20377378 <GO>}

All right. Thank you.

Operator

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

Q - Michael Dudas {BIO 1495732 <GO>}

Can you hear me now?

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. You got your mic.

Q - Michael Dudas {BIO 1495732 <GO>}

Great. Yes. Thanks. Good morning, Staci, Mike and Kyle. Maybe just refresh us. You talk about certainly organic growth, which is helpful for next year and but added with that support of acquisition. So where do we stand on a pipeline? Remind us like average size where -- what you're focused on? And in that pipeline, the type of companies, maybe where the valuations are relative to what you've paid for some others in the last 18 to 24 months and are they more negotiated or open book? Just get a sense of that and the

timing so we can get a sense of how it's going to flow through your business over the next two to three years.

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. Thanks, Mike. Right now, there's still a really strong deal pipeline. I have to give a little bit of feedback there, Mike. There's a real strong deal pipeline still available and that's going to allow us to execute on these future priorities that we've had in place now for a while, which is strengthen and support our existing businesses. Obviously, we want to continue to build out our Southeast platform and look for additional platforms along the way. I'd say that we have a really strong corporate development team. We're out there self-sourcing a lot of our deals. I'd say still about three quarters of them are self-sourced and about a quarter are bank-wide processes that we look at.

I think the valuations are stably consistent, but I think it really depends on what type of company that you'd be looking at, whether it's a BI business, construction, or materials only. Our expectations this year is we're still going to get a few more deals done by the balance of the year, so that'll be in Q3 and in Q4. I would say from a range of spend, it's going to be somewhere in the \$200 million to \$400 million range by the end of the year. I mean, timing's always hard to predict, but that's our best guess today.

Q - Michael Dudas {BIO 1495732 <GO>}

And is that a spend in 2027 beyond? Is that the type of level you're looking at, or is it going to be a little bit more opportunistic?

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. We've been somewhere between \$300 million to \$800 million over the last few years. So I think I would kind of look at that as maybe the range of outcomes in future years today.

Q - Michael Dudas {BIO 1495732 <GO>}

Excellent. Thank you, Kyle.

A - Kyle Larkin {BIO 20377378 <GO>}

Yes. Thank you.

Operator

This is the end of the Q&A session 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 our teams for all the work they put in to delivering a strong quarter. Thank you for joining the call and your interest in Granite. We look forward to speaking with you all soon.

Operator

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

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