

Q3 2026 Earnings Call

Company Participants

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

Other Participants

- Anuj Khandelwal, Analyst, Goldman Sachs
- Brent Thielman, Analyst, Oppenheimer
- Ethan Roberts, Analyst, Stephens
- Kevin Gainey, Analyst, Thompson, Davis
- Michael Dudas, Analyst, Vertical Research Partners
- Steven Ramsey, Analyst, Thompson Research Group

Presentation

Operator

Good morning. My name is Steve, and I'll be your conference facilitator today. At this time, I would like to welcome everyone to Granite Construction Incorporated 2026 Third Quarter Conference Call. This call is being recorded. All lines have been placed on mute to prevent any background noise. And after the speakers' remarks, there will be a question-and-answer period. (Operator Instructions)

It is now my pleasure to turn the floor over to 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 is available on the Events and 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, under Investor Relations.

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

Kyle Larkin {BIO 20377378 <GO>}

Thanks, Mike. Before turning to our Q3 results, I want to begin with our 2029 financial targets and the strategy that supports them.

Over the last several years, we have built a more resilient Granite by improving the quality of our project portfolio, investing in materials, expanding our home markets and developing capabilities in attractive growth markets. Our home market model remains at the center of this strategy. Local relationships, market knowledge, materials resources, and our people provide the foundation from which we compete and grow. Our 2029 financial targets reflect the earnings and cash flow potential from continuing to execute that strategy.

Starting with revenue. We are targeting an organic revenue CAGR of 10% to 12% through 2029. This target does not include future M&A, which should be additive. We expect growth to come from three primary sources: continued growth in core public infrastructure, market share gains and disciplined expansion within our home markets, and faster growth across the key end markets of federal, rail and mission-critical infrastructure.

Public funding remains at historically high levels across our footprint and a significant portion of IIJA funding has yet to be spent. That spending should continue to support state and local transportation programs over the next several years.

The Highway Reauthorization Bill continues to be under discussion in Congress, although the timing remains uncertain. We are currently operating under a continuing resolution that provides a short-term extension of the surface transportation programs, maintaining funding at IIJA levels, while work continues on fiscal year 2027 appropriations and a longer-term surface transportation reauthorization. Even though we are in a wait-and-see period with Congress, transportation infrastructure continues to have bipartisan support, although future extensions may be required before a longer-term bill is enacted.

Publicly funded transportation work has always been the foundation of Granite's business in both our Construction and Materials segments. Over the last several years, we've invested significantly in our home markets, including investments in aggregate and asphalt facilities to increase automation and to take advantage of barge logistics.

We have also invested heavily to hire and retain the best people as we continue building our relationships with key customers and partners. We believe we can continue to grow in this core transportation market in the mid-single digits through 2029 by leveraging our existing customer relationships and by relying on our experienced local teams to leverage our vertically integrated operations to increase market share.

We have demonstrated that we can grow even when market funding and lettings are relatively flat by remaining disciplined in project selection and working to increase our portfolio of collaborative contracting projects. Through collaborative contracting,

Granite is selected based on its qualifications. Once selected, we work closely with the owner early in the project life cycle to improve alignment on design, cost, schedule, risk and execution.

We believe that this delivery method results in a higher quality project portfolio, where there is more balanced risk allocation and more predictable project outcomes. Our confidence is also supported by the visibility provided by our record CAP and the bidding opportunities we see ahead of us in the next year.

Outside our core transportation market, we have also invested significantly in developing the federal, rail, and mission-critical infrastructure end markets. I will discuss those markets in more detail shortly.

Turning to profitability. We believe we have a clear path to achieve an adjusted EBITDA margin of 14% to 16% in 2029 through continued gross profit margin expansion in both segments and through greater SG&A leverage as we grow.

In the Construction segment, disciplined project selection, collaborative contracting, and improved execution has significantly improved the quality and risk profile of our project portfolio. We see further margin opportunity by remaining selective on the projects we pursue, continuing to increase bid margins and expanding federal, rail, and mission-critical projects.

In Materials, we anticipate that pricing discipline, increased volumes, greater vertical integration, plant investments in automation will generate margin expansion over the next three years. We expect greater operating leverage as we continue to grow.

Our 2029 targets contemplate SG&A of approximately 7.5% of revenue, even while we continue to invest in the people, technology, and capabilities needed to support organic growth and M&A. We are confident that we have the markets, plan, resources, and people to achieve our adjusted EBITDA margin expansion target. This expansion should support significantly greater operating cash flow.

For 2029, we are targeting operating cash flow of approximately 13% of revenue, supported by higher adjusted EBITDA and by maintaining consistent working capital efficiency.

We expect CapEx to remain approximately 3% of revenue, resulting in free cash flow of approximately 10% of revenue. That cash generation gives us the capacity to reinvest in the business, pursue disciplined M&A, and return capital to shareholders. Since 2023 and through the third quarter of 2026, we have deployed more than \$1.4 billion on acquisitions. The acquisition pipeline in both the Materials and Construction segments remain strong. I'm hopeful that we can announce new additions to Granite in the near future.

Over the next three years, we expect to continue to deploy capital on acquisitions to support and strengthen our home markets and expand into new geographies, subject to the availability, timing and quality of opportunities while maintaining our long-term net leverage target of approximately 2.5 times.

The strength of publicly funded highway and bridge markets should provide a durable foundation. Our ability to increase market share, improve execution, expand margins, leverage our home market platform to develop additional end markets, and invest in our

vertically integrated materials business gives us confidence that we will achieve our 2029 targets.

Turning to Slide 5. I will discuss key growth markets that complement our core transportation business. Over the last several years, we have focused on leveraging our home markets to serve national clients across key growth end markets. Dedicated national leadership works alongside our home market teams, bringing specialized expertise, consistent client engagement, and the ability to coordinate resources across Granite's geographic footprint. We believe this structure allows us to serve national clients locally while providing a consistent experience across our network.

We initially established this model in the federal and rail end markets and have now extended it as we work to grow our presence in mission-critical infrastructure. We've invested for more than a decade to build our federal capabilities, customer relationships, and geographic reach. Our federal work is far-reaching and includes airfield and runway paving, roads, site infrastructure, civil work supporting military campuses and other secured facilities, tactical infrastructure, flood control, shoreline protection, and water infrastructure. We have performed federal work from Guam to Alaska and across the continental United States.

We had approximately \$1.3 billion in federal CAP at the end of the third quarter and expect to bid on billions of dollars of opportunities over the next several years. Importantly, our federal growth expectations do not depend on securing additional tactical infrastructure work. Current federal pursuits include airfield recapitalization in Alaska, naval infrastructure modernization in Washington State, integrated air and missile defense infrastructure in Guam, and space infrastructure.

The federal procurement environment is also evolving. The 2026 National Defense Authorization Act introduces collaborative contracting procurement to federal work, including opportunities for progressive design-build, construction manager at risk, and other flexible procurement approaches for military construction.

With Granite's experience in collaborative contracting, we believe this change in federal procurement practice aligns with our capabilities and will create additional opportunities across much of our footprint. Federal work is expected to represent approximately 15% of Construction segment revenue this year, and we believe the federal business can continue to grow through 2029.

In rail, we have established relationships with Class I railroads and transit agencies, and we have a strong history of project execution in this end market. Our capabilities include intermodal and logistics terminal site work, grading, drainage, paving, utilities, grade crossings, structures, roadway improvements and other supporting infrastructure.

Class I railroads continue to invest in intermodal capacity and freight mobility. Granite's broad civil capabilities, transportation expertise and geographic footprint position us to support these customers as their programs expand. Notably, we are in the preconstruction phase with a Class I client on a major intermodal project in Southern California.

The proposed development is a 4,500-acre integrated rail facility intended to expand intermodal capacity along a major east-west freight corridor and improve the movement of freight from the ports of Los Angeles and Long Beach. The project remains subject to

the permitting process. If it advances to construction, it could represent a meaningful opportunity beginning in 2027 and ramping up in 2028.

Finally, mission-critical infrastructure represents another significant growth opportunity across our home markets. Today, for Granite, mission-critical infrastructure includes data centers and other facilities supporting the AI build-out, battery storage and space sector clients. Granite has more than a decade of experience working on data center projects in the Pacific Northwest and Northern Nevada. These projects typically include mass grading, utilities, paving, retaining walls, curb and gutter, and broader civil site development.

Our capabilities can also extend to early works, utility-ready site development, water infrastructure, water well drilling, power infrastructure, campus scale civil development and material supply. At the end of the third quarter, mission-critical infrastructure CAP totaled approximately \$331 million. Less than 5% of 2026 revenue is expected to come from these projects, so we see opportunity for growth. The end market is also increasing with project opportunities growing from approximately \$20 million to \$30 million historically to approximately \$100 million today, although individual project sizes will vary.

With continued investment in AI and digital infrastructure, we believe revenue from mission-critical infrastructure projects can grow to at least 10% of Construction segment revenue over the next several years. We plan to pursue this growth selectively, focusing on projects we can build with home market support, strong execution visibility and attractive risk-adjusted returns. We believe that the common thread across these end markets rests with our ability to leverage our home market model for strategic national clients.

Local relationships, material resources, equipment, workforce, market knowledge and proven execution remain the foundation of our competitive advantage. We are overlaying that foundation with end market expertise, shared resources, coordinated national leadership and broader client relationships. This allows us to pursue opportunities across our footprint and deploy Granite's capabilities more effectively.

We believe this model should allow us to expand our addressable markets, improve the quality of CAP, and add meaningful organic growth to our core transportation business. Together, our growing presence in these end markets reinforce our confidence in our ability to achieve our 2029 financial targets.

Now let's turn to our third quarter results, beginning with the Construction segment. I'm pleased to report that the Construction segment delivered record revenue and gross profit, driven by the record CAP we carried into the quarter and strong project execution across our footprint. CAP increased \$37 million sequentially to a record \$7.5 billion as project wins again outpaced revenue burn during our busiest construction quarter. Maintaining CAP at this level reflects healthy end markets and provides future visibility.

Our federal and mission-critical infrastructure end markets continue to build momentum, and we see opportunities across both markets to continue growing CAP through the remainder of 2026 and into 2027. At the end of the quarter, federal CAP totaled \$1.3 billion, including \$569 million associated with tactical infrastructure projects. Previously, these projects were expected to be completed in the second quarter of 2027, but based on current right-of-way availability are now expected to be completed

in the third quarter of 2028. While the duration of the projects have been extended, our expectations for the overall success and profitability of the projects remain unchanged.

Bidding environment remains healthy across our markets. Year-over-year bidding activity and project wins increased again in the quarter, supported by the strength in core public transportation markets and growing opportunities across federal, rail, and mission-critical infrastructure. We believe we are well positioned to continue growing CAP as we close out 2026 and move into 2027.

Now let's turn to the Materials segment. The Materials segment delivered resilient results as solid execution by our teams helped mitigate the impact of higher energy costs. Demand remains healthy with aggregate orders outpacing the prior year and asphalt orders in line with the prior year as of the end of the quarter. Public construction demand has been consistent, and we believe mission-critical infrastructure represents a growth opportunity for this segment.

During 2026, we have seen an environment that remains strong. And through the third quarter, we are realizing our targeted mid-single-digit aggregate price increases. Based on current demand trends, we believe the environment should support continued pricing momentum into 2027.

Over the last several years, we've invested significantly in the Materials segment through both acquisitions and strategic capital investments. These investments have been designed to increase vertical integration, expand distribution capabilities, improve production efficiency, and strengthen our competitive position in our home markets.

Our strategic capital investments are focused on four key initiatives: increasing aggregate pull-through across our Western footprint, expanding our Pacific Northwest waterborne strategy, continuing to build out our Southeast logistics network, and increasing automation across our aggregate operations. We are deploying capital to support our efforts to increase aggregate pull-through across our home markets. These investments take many forms, including adding additional asphalt capacity, expanding distribution capabilities, launching retail landscape operations and deploying asphalt silos to extend the reach of our aggregate reserves and production facilities.

In 2023, we invested in a waterborne strategy with the acquisition of what is known as Granite Canada, which operates the Bamberton quarry in British Columbia. Since this acquisition, we have transported aggregates by barge from the quarry to our Pacific Northwest home market. We believe there is significant opportunity to increase both volumes and profitability of this operation through continued investment in quarry production capacity, and in the expansion of our downstream distribution network of aggregate yards. We have already made meaningful progress, and I expect the momentum to continue over the next several years.

In the Southeast, we are in the early stages of fully leveraging the materials logistics network that stretches from Kentucky through Louisiana. Current initiatives include increasing the aggregate production capacity, expanding distribution yards, implementing a liquid asphalt strategy and investing in distribution capabilities.

Automation remains an important component of our material strategy. By the end of 2026, we expect approximately 45% of our eligible aggregate facilities to be automated. While the level of automation varies by operation, we are hopeful that these automation

investments will generate approximately \$1 per ton of benefit through improved efficiency, lower operating costs and more consistent plant performance.

Collectively, these initiatives are intended to increase volumes, improve margins, enhance cash generation and strengthen our vertically integrated platform. We believe the Materials segment remains one of the largest opportunities to create long-term shareholder value as we work to deliver our 2029 financial targets.

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

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

Thanks, Kyle. Our belief in our ability to drive continued margin expansion and strong cash conversion underpin our 2029 targets. Our third-quarter results demonstrate the progress we continue to experience in these areas. We delivered record revenue and adjusted EBITDA, reflecting the strength of our CAP portfolio, disciplined execution across the enterprise, and contributions from recent acquisitions.

Compared to the same period in the prior year, revenue increased 23% to \$1.8 billion. Gross profit increased 29% to \$336 million, adjusted net income increased by \$49 million to \$173 million, and adjusted EBITDA increased by \$67 million to \$283 million. We also generated year-to-date operating cash flow of \$404 million.

In the Construction segment, revenue increased \$312 million or 27% year-over-year to \$1.5 billion. Of the growth in the quarter \$64 million or 6% was attributable to acquired businesses, while organic growth contributed \$248 million or 21%. Revenue growth was driven by record CAP and strong project execution. Demand remains broad-based across our markets, supported by healthy funding levels and a robust pipeline of project opportunities.

Gross profit margin increased 210 basis points year-over-year in the quarter, resulting in an 80 basis point improvement year-over-year for the first nine months of the year. This was ahead of our expectations and reflects several years of disciplined project selection, stronger risk management, improved execution and continued focus on reducing the frequency and severity of project fade. We still believe there is further opportunity to improve margins in the segment.

Materials segment revenue increased \$21 million year-over-year to \$292 million, driven by acquired businesses. Both acquired and legacy operations drove aggregate volume growth with asphalt volumes flat year-over-year. Gross profit margin decreased 420 basis points and cash gross profit margin decreased 100 basis points.

Importantly, the Materials segment delivered solid results in a challenging energy cost environment with cash gross profit increasing compared to the prior year. Higher energy costs were largely recovered through surcharges, which increased revenue and offset higher costs in absolute dollars. This resulted in a lower incremental margin even as underlying unit economics remained solid. Pricing actions and our hedging program provided additional mitigation.

Looking ahead, we continue to see opportunities to improve operating performance and cash gross profit through increased volume, vertical integration, automation, and the strategic materials investments Kyle discussed.

Turning to cash flow. Year-to-date cash generated by operating activities totaled \$404 million compared to \$290 million in the prior year. Based on our performance through the first nine months and our expectations for seasonal fourth quarter collections, we believe we are on track to achieve our 2026 operating cash flow target of approximately 11% of revenue.

Through the first nine months of the year, CapEx was \$90 million compared to \$88 million in the prior year and cash used to acquire businesses, net of cash acquired, was \$184 million.

In the third quarter, we acquired the remaining 50% ownership interest in an asphalt terminal and emulsion plant in Nevada for \$22 million, net of cash acquired.

Also in the third quarter, we completed the redemption of our remaining 3.75% convertible notes and settled the associated capped call transactions. We paid a net \$567 million in cash and issued 662,000 shares, removing a significant amount of potential dilution from our diluted shares outstanding. Associated with the redemption, we recorded net nonoperating charges of \$162 million, which were excluded from adjusted net income and adjusted EBITDA.

With our cash generation and available liquidity, we remain well positioned to execute our capital allocation strategy. Our priorities remain unchanged: investing in the business, pursuing disciplined M&A and considering opportunistic share repurchases.

During the third quarter, we purchased 300,000 shares in order to offset dilution expected from stock-based compensation, as we have done in previous years. We continue to evaluate a robust pipeline of acquisition opportunities and remain disciplined in our approach to capital deployment.

Now let's turn to our updated outlook for the remainder of the year. Given our strong execution through the first nine months of the year and the visibility provided by our CAP, we are raising the low end of our 2026 revenue guidance range from \$5.3 billion to \$5.4 billion, while maintaining the upper end of \$5.5 billion. At the midpoint, the revised range reflects approximately 15% organic growth and approximately 9% growth from acquired businesses.

Last quarter, we increased our 2027 organic revenue growth expectation to above 10%. We are now further refining that outlook to 10% to 12%, supported by our CAP and the robust pipeline of opportunities across our end markets.

Beyond 2027, we continue to believe the combination of home markets and key growth end markets supports the 10% to 12% organic revenue CAGR embedded in our 2029 targets. We are maintaining all other 2026 guidance assumptions, including adjusted EBITDA margin, SG&A as a percentage of revenue, adjusted effective tax rate, and capital expenditures.

Now I'll turn it back over to Kyle.

Kyle Larkin {BIO 20377378 <GO>}

Thanks, Staci. I'll close with the following three points. First, the business is performing. We delivered record third-quarter revenue and adjusted EBITDA, expanded Construction segment margins, and generated strong operating cash flow.

Second, we have multiple opportunities for profitable organic growth. Like our CAP, healthy public infrastructure markets and our growing positions in federal, rail, and mission-critical infrastructure support the opportunities ahead.

And third, our cash flow and access to capital give us the capacity to compound that growth through investments, disciplined M&A, and other capital allocation priorities.

Taken together, our performance and the opportunities ahead reinforce our confidence in the 2029 financial targets and our ability to create long-term shareholder value.

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

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question comes from Brent Thielman with Oppenheimer.

Q - Brent Thielman {BIO 6976698 <GO>}

Hey, thanks. Good morning. Congrats on great quarter and compelling outlook here. I guess maybe Kyle, on the 10% to 12% organic growth target out to 2029. I guess I'm just wondering if maybe you could unpack a little more by the different verticals, public transportation, federal, rail, and then mission-critical? Should we think kind of federal rail, mission-critical, or somewhere in excess of that 10% to 12% public transportation less? I'm just trying to kind of unpack where you see the biggest opportunities to hit that range.

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah, great. Good morning, Brent. Thanks for the question. And maybe break them down a little bit further. So on the -- certainly on the highway side, we see continuing opportunities in that part of the marketplace for us. Obviously, the IIJA funds will continue to be spent down for a few years. And we think that at least the draft bill appears to be in a position where we can continue to grow our business for the long haul, and have a bigger addressable spend as those projects shift to the types and sizes of projects that we deliver on. That's our expectation today. And we still think we can grow kind of in the mid-single digits within that part of the end market.

I think the federal market is a really exciting opportunity for us. As we mentioned in prepared remarks, I think that can be around 15% or higher in terms of our Construction segment revenue, and we can replace the work on the Southern border and continue to grow within the federal space.

I think one of the exciting things that we mentioned is beginning of this year, that the government can now put out contracts and contracting methods that are collaborative. So CMGC, a progressive design-build, and that fits us really well. We have a long track record. Our teams are really good at being a really good partner for our clients, and we think we can create a lot of value for these government agencies. So again, that's a really strong growth opportunity for the company.

We did talk about the rail market. We've been in the rail market for a while, done a lot of intermodal work, certainly in Southern California and up in Chicago. And we think that we

can continue to build on that marketplace, specifically our contract that we called out in the prepared remarks and it should create a lot of growth. Today, rail is less than 5%. It's a very small portion of our business overall. We think over -- I would say, in '27, depending on the timing of that contract, it could be closer to 5%. And by 2028, it could be pushing up closer to 10% of our Construction segment revenue.

And then we talked about mission-critical infrastructure before, and our target is 10% of Construction segment revenue over the next few years. We're making really good strides in that direction. And what's new in the last quarter is space. And so we've added just under about \$100 million of CAP within space within that mission-critical infrastructure. So we see that as another growth opportunity beyond just data centers.

So those are kind of how I would break it down today.

Q - Brent Thielman {BIO 6976698 <GO>}

Incredibly helpful. Thanks, Kyle. And I guess the other question, just when you think about the upper end of the margin range into 2029 at 16%. Within that, I guess, the core business, what is it that gets you there? Do you need to see a mix shift in, I guess, the construction operations, maybe it is some of those items you talked about: rail, federal, mission-critical, or is it predominantly coming from initiatives in the Materials segment?

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah, I think it's a combination of both. I think we're staying the course with the things we've been focused on that have been serving us well, which is in the construction side, it's getting the right CAP. So we continue to build our CAP and the quality of the CAP that we have in our business, and we're focused on operational excellence.

And clearly, our teams are executing at a high level when you look at our Construction segment margins. And these end markets should contribute to higher margins over time. So we're targeting, over the next three years, that continued 50 basis point improvement each year. I think that's very achievable. So about 150 basis point gross profit margin improvement in the Construction segment.

And then on the Materials side, we're still focused on pricing. We talked about some of the automation efforts that we're doing, continued execution there. And then pull-through is another clear opportunity for us in the company using some of our both waterborne logistics and just trying to drive more and more usage of our aggregates and asphalt in our Construction segment.

So today, we think that's still continuing down the path of about 150 basis points improvement each year at the gross profit level in our Materials segment. So that's -- those are the two main drivers operationally.

Obviously, SG&A, there's about 1% or so over the next three years that we think we can pick up by just staying disciplined as we grow and also leveraging some technology to gain efficiencies.

And then we're still acquisitive. And so we also believe that as we do more EBITDA accretive acquisitions, then we would see ourselves kind of shift further to the right within that EBITDA margin range.

Q - Brent Thielman {[BIO 6976698 <GO>](#)}

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

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

All right. Thank you.

Operator

The next question comes from Trey Grooms with Stephens.

Q - Ethan Roberts {[BIO 24186406 <GO>](#)}

Yeah. Hey guys, this is Ethan on for Trey. Thanks for taking the question, and congratulations on a great quarter. I just wanted to dive in a little bit more into the margin assumptions baked into those long-term targets that you provided. Obviously, it sounds like SG&A leverage is becoming a bigger driver of margin expansion moving forward.

But as we look perhaps more at the construction side of the business, construction gross margins, any more detail you can provide on the margin levers you see there over the next several years? I think in the past, you've mentioned maybe project mix, bid room, pricing optimization. So just any more detail on the opportunities there would be great. Thanks.

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

Yeah. Yeah. Thanks for the question. And that's really the remaining focus for us. It's about getting really the right projects. And so the end markets that we're pursuing today, we believe, are going to give us the opportunity to pursue the right markets, right projects for the company that we can pursue and win.

So within those end markets, we feel good about the highway market, the federal market, the rail market and the mission-critical markets. And each of them should provide some opportunities for us to continue to grow our margins in the Construction segment.

We're always looking to obviously put more money on the bids. But I think the execution side, although we're executing at a high level, continues to be an opportunity for us as we move forward. And I'm really proud of the team this year. We're up 80 basis points in construction gross profit margins through the first nine months, which is already ahead of our 50 basis point improvement that we expected this year.

So we've demonstrated that we can do it. We've been making that incremental improvement each and every year, and we believe we can continue to do that for the next three years as well, just really focusing on the same things: right projects, and executing at a really high level.

Q - Ethan Roberts {[BIO 24186406 <GO>](#)}

Yeah. Yeah, that's great. That's all very encouraging as well. And sticking with the long-term targets, understanding that those are organic, but you guys have been very active in materials-led M&A. And of course, the long-term targets suggest free cash flow is

going to remain really strong, especially relative to historical levels. So maybe if you could just level-set the M&A opportunity you see over that similar time frame, what the pipeline looks like?

And maybe directionally, how large of a contributor the -- you think the materials business could be to earnings over time, in your view? Thanks.

A - Kyle Larkin {BIO 20377378 <GO>}

Maybe I'll start with just the M&A environment today. I mean, it's a very strong pipeline of opportunities that we're pursuing, which is encouraging. We've been focused really on strength and supporting our existing businesses and building upon that Southeast expansion that we started three years ago, and we're always looking for new geographies.

I don't think that we're in a position to put out necessarily the inorganic growth rate that we think we're going to see over the next three years. But as we target that 2.5 times net leverage, we do have opportunities to continue to invest in M&A in the business. And I think the expectation is that we're going to do that.

I will comment though and take a moment that we talked about having maybe a few more deals get done by the end of the year. And that's still our goal. I think that we're looking to get two or three more deals done completed this year, if not the next two months, maybe the three months, it could be in a little bit into Q1 with a total spend up to about \$750 million if all three deals get across the finish line.

So they're not done until they're done. That will be a combination of Materials businesses and VI businesses. So we're still looking at things and hoping to get some exciting opportunities that we can announce over the next weeks or coming months.

Q - Ethan Roberts {BIO 24186406 <GO>}

Excellent. Thanks so much.

A - Kyle Larkin {BIO 20377378 <GO>}

And then I think your other question -- yeah, the other question you didn't -- was around this Materials business, the GVA. I mean, obviously, we're trying to get our materials business to be a larger component of our overall business. I think we've made huge strides in the last, say, four or five years, and we're going to continue down that path.

I mean, I think that we're looking at these vertically integrated businesses, obviously, some Materials-only businesses. And we just want to become a larger percentage. We haven't necessarily put a target out there to say this is what that percentage is going to be.

Q - Ethan Roberts {BIO 24186406 <GO>}

Got it. Got it. That's very helpful. Thank you.

A - Kyle Larkin {BIO 20377378 <GO>}

Thank you.

Operator

The next question comes from Steven Ramsey with Thompson Research Group.

Q - Steven Ramsey {[BIO 20092076 <GO>](#)}

Good morning, everyone. I thought the color around the home markets' self-improvement pull-through efforts was very interesting, seems broad-based. And it seems like the different geographies where you're doing this are at different stages of the game. Can you talk more about the Southeast in particular? Is that the biggest area for improvement? And how does that contribute to the 200 basis points EBITDA margin expansion embedded in the long-term targets?

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

Yeah, well, it's definitely a big part of it. I think we're making strong headway in terms of the pull-through strategy. Obviously, we have a huge quarry up in Kentucky with Slats Lucas as part of the Warren Paving acquisition, which just provides a lot of optionality and opportunities for the business.

I think that maybe a couple of areas to focus on. One is we opened up a new stone yard in Memphis. So there's some pull-through there within the Memphis market, both part of our business there with Lehman-Roberts, Memphis Stone & Gravel, as well as selling to third parties.

And the other opportunity is with our operational business in the construction side, both federal and construction around shoreline protection. So we see that as another opportunity to drive pull-through through that Slats Lucas quarry in Kentucky, and that would be some huge uplift for the business. So that's really what we're looking at in the Southeast from maybe a longer-term pull-through strategy.

And of course, within that, there's still an opportunity in the Southeast around some of the space programs that are out there, specifically in Louisiana. There could be a strong demand for aggregates within the Louisiana market associated with some space opportunities there.

Q - Steven Ramsey {[BIO 20092076 <GO>](#)}

Okay, that's helpful. And you talked about share gains within home markets. Can you put into context share gain in 2026? How much is embedded in the long term?

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

Yeah. I mean it's hard to -- I mean, obviously, our Construction segment, we saw really nice growth within the quarter in terms of revenue. We've seen really strong growth in the entire year organically. I think it's really impressive what our teams are able to do. And so we expect them to continue to be able to grow within these home markets. It's about relationships. It's about the market knowledge.

And I think if you look at our CAP today, it's \$7.5 billion. We're up quite nicely, overcoming our highest burn quarter -- and significantly in what we saw a year ago at this time. And based on what we're seeing already for Q4, we expect to see some really nice CAP improvement in the fourth quarter as well, based on recent wins or selections. Obviously, the timing of those things have to come through within the quarter. If it's not Q4, it will be

Q1. But it really just tells us our teams are competitive and they're winning really nice CAP for the company.

I think the collaborative contracting is also an advantage for us. As a lot of these contracts are coming out, whether they're CMGC or progressive design-build, they fit us really well. As I mentioned before, our teams, they do a great job, and they're great partners for these clients. And I think that allows us to get a little bit more market share than we would if we were just doing a typical bid-build project.

Q - Steven Ramsey {BIO 20092076 <GO>}

Okay. That's helpful. And last quick one for me. The combination of federal, rail, and data center totals up to -- it looks like 30% plus of Construction segment revenue. Is that a target you hope to hit by 2029?

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah, I don't know if we really set out and said here's the exact targets by each of these end markets. What we see is huge opportunities in really all three of those end markets, including the highway market. And you put it all together, we kind of look at the landscape of opportunities. It gives us a lot of confidence in that 10% to 12% CAGR.

So I don't know. We could become a little bit more successful in federal, maybe a little less mission-critical, or vice versa. I think the opportunities that are out there provide enough opportunity set for us to hit those targets pretty reasonably.

Q - Steven Ramsey {BIO 20092076 <GO>}

Got you. Thanks for all the color.

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah, thank you.

Operator

The next question comes from the line of Kevin Gainey with Thompson, Davis.

Q - Kevin Gainey {BIO 20134763 <GO>}

Hey, Kyle, Staci, Mike. Great quarter.

A - Kyle Larkin {BIO 20377378 <GO>}

Morning, Hi, Kevin.

Q - Kevin Gainey {BIO 20134763 <GO>}

I wanted to see maybe if you could touch on the change in the collaborative contracting at the Fed level and what that has looked like for Granite and kind of the success rate that you guys have had with that thus far, and what that might look like going forward?

A - Kyle Larkin {BIO 20377378 <GO>}

Specifically, to the federal market, Kevin. Well, it's new. We've been pursuing this work today. So this year, we're pursuing contracts -- and I think that we're submitting on a lot of different opportunities, as we mentioned in the prepared remarks, certainly in the Pacific Northwest and even up in Alaska. And I think we're making a lot of progress.

Again, we're very well positioned for this. It's something that we built our business model around collaborative contracting now for a long time. It was an investment in people, and a lot of folks out there are maybe not as well positioned. And certainly, in the federal market, it's a little bit different in how they go about doing it.

So we do expect to see us be in a position to be selective on some of these contracts and hopefully be able to announce some wins here soon. So I think more to come on that, but I expect us to be very competitive in that part of the federal environment.

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

Appreciate the color there. And then you kind of touched already on the Southeast opportunity, but I was curious if you -- I know in the deck, you guys highlighted Caltrans. You always highlight Caltrans. But how does kind of the West markets and maybe the Texas market look for you guys?

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

Well, right now, I mean, the market environment, it's very strong. I would say the Western market continues to be a really strong market for us. I think we always get questions around California. We still see the California market being really healthy, with the Caltrans expenditures up, anticipated in this budget cycle around 5%. That's on top of a really nice improvement in terms of spend over the last couple of years. So sometimes they do overallocate funds, and we haven't seen that yet, but that always could happen as well.

And then in the state of California, obviously, there's a private market as well. And when we talk about projects on the rail side, that's a California-based project. So we still see a really healthy market on the public side and the private side.

And I think outside of that, we're really pleased with what we're seeing in Arizona, Nevada, Utah, and Alaska. Those are probably the highlights, I would say, out in the West. And we see tremendous opportunities in Texas. We went back to home market strategy in Texas beginning about five years ago -- four or five years ago, wholeheartedly, and that team is making a lot of progress. And so we have a lot of different work in Texas, a lot of airport work in Texas today. And what I'm seeing for the team is also they're engaging in a lot of this mission-critical infrastructure. So we're seeing some wins, both on the data center side and the space side within Texas.

So across the board, we feel really good about the markets that we're in and specifically these new end markets that we're really focused on today for growth.

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

Great to hear. And then, just to squeeze one in on cost inflation. Just curious what you guys -- it seems like you handled it really well in the quarter from a diesel standpoint. What are you seeing there, and how the customers are reacting to it?

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

Yeah. I think our team has done a fantastic job. I'm really impressed with how they managed it throughout the year. I think we mentioned on the last call that overall, it's kind of been neutral, maybe a little bit positive. I'd say it's fairly neutral in terms of just overall cost for the company. It's obviously more impactful in the Materials business than the Construction business. Diesel is not a high-cost component of the overall construction segment.

But it can be in Materials, especially on the barging side of things with more paving. And where we really would see it is in the asphalt side, where you have high natural gas costs with burner fuel or liquid asphalt costs within our asphalt market. So we look at the unit economics, not the cash gross profit margin. So there was a little bit of a drop there due to the fact that we're just passing on those costs.

What we look at is the unit economics. And what we saw in the unit economics is we're covering up those costs. We're actually expanding unit economics year-over-year. So we feel really good about where we're headed there. So again, I think the teams have just done a really nice job managing what otherwise could have been a challenging environment.

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

Sounds good. Appreciate all the color.

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

No, thank you.

Operator

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

Q - Michael Dudas {[BIO 1495732 <GO>](#)}

Good morning, Mike, Staci, Kyle.

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

Hey, good morning.

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

Morning.

Q - Michael Dudas {[BIO 1495732 <GO>](#)}

Kyle, I'm not going to ask you how next Tuesday is going to turn out. But we're getting indication that if whatever happens that there's a chance that something gets done IIJA 2.0 for the end of the calendar year, before the next Congress. That's something that you folks are thinking about. But if it gets moved on or there's going to be another CR, does that materially impact what you think the bidding and workflow opportunities amongst your very important states with regard to converting some of the pipeline into backlog, recognizing that there's still IIJA 1.0 funds that are going to be hitting the Street?

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

Yeah. Yeah. I think right now, we're just kind of assuming that we're going to see continuing CRs for a period of time. It's hard to speculate how long that will be, but we don't see any impact, and that's what we kind of looked at when we put together our 2029 target.

So yeah, we don't -- again, we don't see a huge impact there. And I think we can continue to grow that kind of mid-single digit within the highway market and the environment that we're in.

Q - Michael Dudas {[BIO 1495732 <GO>](#)}

And looking at -- maybe looking into very solid pricing performance not only in the asphalt side and on the aggregate side in your materials business. So maybe you can look towards 2027, given the uplift you're going to see in your home markets and some of the demand that you say mid-single digits on the highway front, and some of the growth in your other areas. How would you expect pricing for ag and, say, asphalt as we're thinking about realizations in the 2027, especially as some of your larger competitors are kind of indicating mid- to upper single-digit type quotes for some of their business going into next year?

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

Yeah. I think that's what we're seeing on the ag side is kind of that mid -- a little bit higher price increases next year. On the ag side, I think asphalt will continue to be low single digit. And I think we see kind of volume in the upward, kind of slightly upwards for next year. That's outside of some of these opportunities that we see in the marketplace. So there's still some opportunities, specifically in the Southeast as it goes to that mission-critical opportunities related to space.

And then we can also see some opportunities as we're successful in some of the shoreline protection work that we're pursuing. So I think that that's how we've kind of looked at that '29 targets and -- kind of '27 through '29, but I think there's still some opportunities for upside there.

Q - Michael Dudas {[BIO 1495732 <GO>](#)}

Excellent. Thanks, Kyle.

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

Yeah. Thank you.

Operator

The next question comes from the line of Adam Bubes with Goldman Sachs.

Q - Anuj Khandelwal {[BIO 20255435 <GO>](#)}

Hi, good morning. This is Anuj on behalf of Adam. So, beyond the \$7.5 billion CAP, how would you characterize the pipeline and bidding activity? And like what are the public versus private and federal versus state mix of new bids? And what is the margin quality of the work being added over there?

And finally, if you can also provide some visibility of how much CAP burns in the next 12 months? Thanks.

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah. I would say that we're bidding a lot of work. And I think that's what's really encouraging is that we're bidding more work today than we were at this time a year ago, and we continue to see a bigger opportunity set in terms of the pursuits that we're looking at.

As I mentioned, the federal market is significant. So some of these contracts that are out there and these programs are pretty large. So we continue to see really nice opportunities on the bid front.

I think that you're -- over time, you're going to see more as we bid towards, say, the rail or that becomes part of our CAP longer term and become some of the rail projects and specifically one that we've been talking about. As we continue to pursue this mission-critical infrastructure work relative to data centers and space, that could become a bigger part of our bid pipeline and hopefully, our CAP that we get put in.

But I think it will depend, but I think that those are kind of the outcomes. I think that if you look at our business, the end of each year, we typically burn about somewhere between 40% to 50% of our year-end CAP balance. And I don't think that we'll be too far off that. It could be a little bit higher because of some of the border infrastructure work that we have today that we likely will burn through a lot of that next year, probably about 50% of that next year. And that will help move that CAP burn up a little bit. So somewhere maybe 45% to 50% would be maybe an expectation.

But it's too early to know where that CAP balance is going to be at the end of the year yet. But as I mentioned before, we have a lot of really good things going on in the company today. And my expectation is that we'll see if we get the awards, our CAP balance continue to improve in the fourth quarter.

Q - Anuj Khandelwal {BIO 20255435 <GO>}

Got it. That's really helpful. And on the materials side, so materials gross margins were roughly 21% versus 25% last year. So can you walk us through the puts and takes over here? And like, how much is diesel and energy surcharge timing? How much is the mix between aggregates and asphalt? And how should we think for 4Q and 2027 margins? Thank you.

A - Kyle Larkin {BIO 20377378 <GO>}

Yeah. I'd go back to the unit economics. I mean, that's what I think the important thing to focus on, and that's what we're trying to maintain and ensure that we're passing those additional energy costs on to our customers. And what we're looking at today is an overall business, and what we've done in the materials business, we've been able to do that. And I think that's really been the focus.

Obviously, we do expect that the energy-related costs are going to start to normalize. I think the impact would be or at least the benefit is that when that happens is we'll see gross profit margin or cash gross profit margins in the Materials segments probably go back up around 3%.

So that's how I kind of bucket that.

Q - Anuj Khandelwal {BIO 20255435 <GO>}

Got it. Super helpful. Thank you.

A - Kyle Larkin {BIO 20377378 <GO>}

All right. Thank you.

Operator

Thank you. 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 all the work they put into 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 now concluded. Thank you for attending today's presentation. You may now disconnect.

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