



Knife River Corporation NYSE:KNF

3Q 2023 Earnings Call Transcript (Edited)

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Call Participants

EXECUTIVES

Brian R. Gray
CEO, President & Director

Nathan W. Ring
VP & CFO

ANALYSTS

Brent Edward Thielman
D.A. Davidson & Co., Research Division

Ian Alton Zaffino
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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Knife River Corporation Third Quarter Earnings Conference Call. [Operator Instructions] I would now like to turn the conference over to Mr. Nathan Ring Chief Financial Officer. Please go ahead.

Nathan W. Ring *VP & CFO*

Thank you, and good morning. My name is Nathan Ring, Chief Financial Officer of Knife River, and it's my pleasure to welcome you to our Third Quarter 2023 Earnings Call. Today's discussion includes forward-looking statements as defined by the United States securities laws in connection with future events. Knife River is subject to risks and uncertainties that could cause actual results to differ materially. Knife River is under no obligation to, except as legally required, publicly update or revise any forward-looking statements, whether resulting from new information, future events or otherwise.

For more information about the risks and uncertainties associated with forward-looking statements, please refer to our most recent SEC filings. For further detail, please refer to the legal disclaimers contained in today's earnings release and other public filings, which are available on both our website and the Securities and Exchange Commission's website.

During this presentation, we will make references to certain non-GAAP information. These non-GAAP measures are defined and reconciled to the most directly comparable GAAP measures in the appendix to today's presentation, as well as our filings with the SEC. These materials are also available on our website at www.kniferiver.com under the Investors tab.

Joining me today is President and Chief Executive Officer, Brian Gray. He will begin today's call with a discussion of our financial results, segment performance and competitive edge plan. I will then review the third quarter product line results, leverage position and 2023 guidance. Following prepared remarks, the operator will open the call for a question-and-answer session. I'll now turn the call over to Brian.

Brian R. Gray *CEO, President & Director*

Thank you, Nathan. Welcome, everyone, and thank you for joining us today. The third quarter is historically our strongest quarter each year, and historic is exactly the right word to describe the third quarter of 2023. We reached all-time quarterly records for revenue, net income, EBITDA and adjusted EBITDA. Each reporting segment saw improved year-over-year results as our operations continue to benefit from price optimization and targeted bidding strategies across all consolidated product lines. These strategies are part of our Competitive EDGE plan, which I discussed last quarter, and which we began to implement early this year to help drive long-term profitable growth.

Based on our pricing initiatives, we experienced significant profitability improvement, led by a 16.2% increase in the average sales price for aggregates. We also benefited from strong results at our Energy Services business within All Other. Combined, the effects of our EDGE initiatives, our strong market dynamics and our vertically integrated business model helped drive our record results.

We will provide a more detailed update on each of these areas as part of today's presentation. For the quarter, we reported revenue of \$1.1 billion, a 12% increase from the same period in 2022. Our third quarter EBITDA was \$241 million, which was a 40% increase year-over-year. While our adjusted EBITDA was \$247 million, a 43% increase year-over-year. These record results were driven by a few key catalysts. First, our employees fully committed to our EDGE plan and began setting the groundwork for the successful full-scale implementation of key operational improvements. I can't thank them enough for their efforts and complete support of our EDGE initiatives.

Second, the markets where we operate continue to benefit from tailwinds in the form of federal, state and local funding for public infrastructure projects. And finally, the work by our PIT crews to improve operating efficiencies, coupled with our strategic pricing optimization plan has resulted in significant margin expansion in every segment as well as margin expansion in all product lines, most notably a 760 basis point improvement in aggregate.

Based on the exceptional results year-to-date, we are raising and narrowing our guidance for revenue, EBITDA and adjusted EBITDA, which Nathan will highlight during his remarks. Moving to Slide 4. I'd like to quickly recap our business model. While Knife River is an established company with over 30 years in the construction materials and contracting industry, we became an

independent publicly traded company as of June 1, 2023. We believe our mix of construction materials and contracting services differentiates us from many of our competitors and peers.

This proven model of vertical integration has created resiliency across market cycles and contributes to our industry-leading return on invested capital. We are a top 10 aggregates producer in the United States with 1.1 billion tons of permitted reserves. Our major downstream products include ready-mix and asphalt, and we also supplied liquid Asphalt and cement in certain markets. Additionally, we performed contracting services across 12 of the 14 states where we operate. As we look over our operations, we continue to see generally strong demand for our products and services in our high-growth, mid-sized markets that is further supported by tailwinds from federal, state and local infrastructure funding.

The last key point I'll mention before moving on to discuss our core business strategy is our Life at Knife culture. We believe that our commitment to putting people first has a direct impact on our bottom line. By providing ongoing training and focusing on engagement with our team and being a great place to work, we have lower turnover, longer tenure and a dedicated group of talented employees to safely deliver strong results for our shareholders.

Turning to Slide 5. Competitive EDGE is Knife River's framework for sustainable and profitable growth. As we highlighted last quarter at our Investor Day, the letters in EDGE stand for EBITDA margin improvement, discipline, growth and excellence. Let me provide some updates from the third quarter on our initiatives in these areas. First, on EBITDA margins, we continued our efforts to better align our pricing with the value we are delivering to our customers. This resulted in double-digit price improvements across our core product lines of aggregates, ready-mix and asphalt.

Our pricing strategy on our materials, combined with targeting higher-margin work for contracting services and focusing on cost controls and efficiencies at our operations contributed greatly to our 43% year-over-year increase in adjusted EBITDA. Our trailing 12-month adjusted EBITDA margin is 15.6%, compared to 11.8% 1 year ago. Our team continues to be laser focused on our longer-term goal of reaching 20% adjusted EBITDA margins.

Second, during the quarter, we continued to champion financial discipline and generating strong cash flow while significantly reducing leverage on our balance sheet. We exited the third quarter with ample capacity for further growth, which Nathan will highlight in his financial review. Third, we continue to prioritize growth, both organic and inorganic. Our business development team is looking at a number of strategic opportunities to grow our business with our current footprint and in adjacent markets with an emphasis on our aggregates product line.

Regarding organic opportunities, we brought our new state-of-the-art Prestress manufacturing facility in Washington online in the third quarter, and our Honey Creek Quarry in Texas began full production late in the second quarter. We expect both of these organic efforts to positively contribute to our results going forward. And fourth, we are focused on excellence in everything we do, starting with maintaining our people-first Life at Knife Culture. These efforts are measurable in a number of ways, including our safety performance, retention rates and outreach efforts. What I will highlight today is our training and recruiting efforts at the Knife River Training Center.

As of September 30, our training team has provided 18 commercial drivers courses, including 7 courses this year. Students from the Knife River training center have a 98% success rate in passing their CDL test, which is administered by third-party instructors and is significantly above the national CDL passing rate. We will continue to focus on excellence in all we do with the goal of becoming best-in-class everywhere we operate.

Our geographically diverse footprint saw solid broad-based growth in the quarter with record revenue in each segment. As is typical, some markets were stronger than others, and we were led this quarter by activity in the Mountain and Pacific regions as well as by record results in Energy Services. While we are in the early days of implementing our EDGE plan, we have been pleased with the results and the progress toward our goals. Going forward, we believe the company-wide rollout and implementation of our EDGE strategies will support further pricing strength and continued profitable growth for the long term.

I'll quickly recap the quarterly results for our reportable segments before turning the call over to Nathan for additional detail on our financial performance. Turning to the Pacific region, price increases contributed to increased revenue, gross profit and EBITDA. We saw volume growth across all product lines in this segment, led by increased activity in Hawaii and Northern California. Contracting services revenue increased 12%, largely related to the catching up on work in California that had been delayed by wet weather earlier in the year.

In this segment, we are also a cement distributor, and we saw good quarter-over-quarter gains in Alaska. We are a supplier to contractors who are working on a large dam project near Fairbanks. EBITDA improved \$13 million year-over-year to \$38 million, an all-time quarterly record for this segment. Moving to the Northwest region. We also benefited from strong product pricing, which

more than offset volume declines in Oregon as volumes moderated somewhat from preceding years of record activity. EBITDA improved \$5 million year-over-year and is at an all-time record at \$49 million for the quarter. Contracting services backlog increased 51% year-over-year to a quarterly record of \$227 million, principally from an impact DOT project in Southern Oregon, which we secured last year.

As I mentioned earlier, we commissioned our new state-of-the-art Prestress manufacturing facility in Spokane, Washington during the quarter. Historically, we have enjoyed strong returns from our Prestress business in the Northwest, and this new facility positions us for greater growth as it improves efficiencies and increases our capacity.

Next is our Mountain region, which had an exceptional quarter and remained ahead of our record year in 2022. We saw volume growth across all product lines and contracting services, led by strong residential, commercial and public agency activity. We continue to see opportunities for bidding across these strong markets, and we continue to target a higher margin growth in building our backlog. Revenue improved 25% year-over-year driven primarily by price increases and EBITDA improved to an all-time quarterly record of \$60 million, a 53% increase year-over-year. The Mountain region continues to be one of the fastest-growing areas in the United States, and we are well positioned to take advantage of future growth. In the North Central region, strong price increases across all product lines more than offset volume declines. EBITDA improved \$12 million year-over-year to an all-time record of \$71 million. Implementation of the EDGE strategy and solid project execution has led to significant improvement year-over-year on gross margin for the contracting business as we were more selective on projects we bid.

Additionally, the state of Minnesota passed a \$2.6 billion infrastructure funding package that will allocate money for roads, transit and airport projects. Collectively, the region continues to see strong bid lettings. Finally, All Other includes our Energy Services business, our South region and Corporate Services. Third quarter revenue improved \$19 million year-over-year to \$139 million. The Energy Services business benefited from both favorable market pricing and a strong bidding season, which led to higher volumes and historically high revenues and profitability. Even though Energy Service is small relative to our primary reporting segments, has made a larger-than-normal contribution to our success in 2023.

Therefore, I'd like to take this opportunity to highlight our Energy Services business, which is a valued component of our vertically integrated business model. This business supplies liquid asphalt which is the binding agent use along with aggregates to produce asphalt mix. We have terminals where we store value added liquid asphalt and also manufacture products in order to meet the quality specification requirements of our end customers.

This business has been a stable and profitable performer since we purchased it in 2005. Results have been exceptional so far this year. And while we believe Energy Services will continue to be a solid contributor to EBITDA in 2024, we are expecting results to remain above average, but trend lower than the results we are experiencing this year. As mentioned earlier, the bidding environment for Energy Services was strong this year. And while they are carrying forward contracts for the 2024 shipping season, the majority of their work will be between now and next spring. We will have improved visibility when we provide guidance for 2024 early next year.

Nathan will highlight this again when we discuss our updated guidance. Our South region is also included in All Other, and results benefited from the fully operational Honey Creek Quarry along with improved margins in Asphalt and contracting services in the quarter. Market conditions for our materials business remained attractive. The energy services strength and South regions improvement contributed to a third quarter EBITDA improvement of \$18 million. Looking ahead, the State of Texas announced during the third quarter a record \$142 billion investment in its transportation infrastructure including a 10-year \$100 billion state-wide roadway construction plan.

We anticipate this being beneficial to our South region in the quarters and years to come. To conclude my remarks, I'd like to underscore my appreciation to our team for delivering on our EDGE plan and restate our commitment to our EDGE goals, including continued progress toward our long-term goal of 20% adjusted EBITDA margins. Maintaining our industry-leading return on invested capital and becoming #1 in our markets of operations. We have a highly experienced team, a blueprint for profitable growth, and we are well positioned to take advantage of funding tailwinds in a very healthy industry. I will now turn the call over to Nathan for a detailed look at our financial results. Nathan?

Nathan W. Ring
VP & CFO

Thank you, Brian. As we take a closer look at Knife River's third quarter financials, I want to reiterate how pleased we are with our performance and the results we've been able to generate during our first 2 quarters as a stand-alone public company. First and foremost, we continue to show improvement in pricing across all of our product lines. For the quarter, the average selling price for

aggregates improved 16.2%. Ready-mix concrete improved 11.6% and asphalt improved 14.9%. These double-digit price increases benefited from the initial stages of our EDGE initiatives, further supported by strong markets and public funding.

We will continue to optimize our prices to align with the value of the products and services we provide. During the quarter, all regions were at full operation, and we worked through the peak of the construction season. Our teams have refocused on pursuing more profitable work with new bidding and dynamic pricing strategies. As we had anticipated, these efforts have resulted in slight volume declines.

On a consolidated basis, we saw a 3% decline in aggregate volumes and a 6% decline in asphalt volumes. Ready-mix volumes also declined 3%, largely related to the divestiture of our Southeast Texas assets in late 2022. But again, price increases and operational efficiencies drove top line and bottom line growth for aggregates, ready-mix and asphalt. So while materials volumes were slightly down, we generated considerably more profit at improved margins. As Brian mentioned, we are also more selective on the work we bid, we targeted higher-margin work at contracting services, and that strategy, coupled with solid execution, was successful. While our backlog is lower year-over-year, margins in the backlog improved and overall profitability in dollars is higher, more than offsetting the lower backlog of work. Our goal highlighted in the EDGE plan is to maximize the value of our products and services while optimizing the utilization of our resources. Our successful pricing strategies, operational improvements cost control measures and our strong market backdrop have resulted in a lift in gross margins across all our product lines.

Additionally, as inflationary pressures have been moderating from recent elevated levels, the actions we have taken to mitigate higher costs are providing continued margin expansion. Year-over-year aggregate gross margins improved 760 basis points to 26.7%. Ready-mix gross margins improved 10 basis points to 17.4%. Asphalt gross margins improved 350 basis points to 17.7%. Other products, which include cement, liquid asphalt and other products and services improved 860 basis points to 36.4%. And finally, contracting services improved 320 basis points to 11.7% for an improvement at a consolidated level of close to 600 basis points. Again, we are very pleased with the work our teams have done to begin implementing these new initiatives and take advantage of the opportunities within the mid-sized high-growth markets where we operate. Transitioning from our product line results to our balance sheet strength and capital allocation priorities, we remain dedicated to financial discipline, particularly as it relates to our targeted leverage and capital allocation.

As you can see on Slide 9 and in our earnings release, we improved our net leverage to 1.4x from 2.3x at the end of the second quarter. Our long-term normalized leverage target remains 2.5x. Historically, we hold our lowest debt levels during this quarter as we enter the end of our construction season and repay working capital debt. During the third quarter, our disciplined approach to cash management, combined with our execution in the field, led to strong cash generation that supported the paydown of the remainder of our revolver balance. We now have \$350 million in revolver capacity to meet operational needs and future growth opportunities. Growth is a key component of our EDGE plan. Our focus remains on delivering industry-leading returns on invested capital expanding our aggregates product line and continuing to grow our adjusted EBITDA margin. Strategically managing our debt gives us flexibility to allocate capital to where and when we believe we can get the best long-term value for our shareholders. This approach to sustainable profitable growth as a few key components.

First is our strategic emphasis to actively reinvest for organic growth and maintenance into our fleet and equipment while continuing to strengthen our people-first culture with safety and training initiatives. We want to highlight the completion of our Prestress facility in Washington, which is now fully operational. Our Honey Creek Quarry in Texas, another recent completion and strategic internal use of capital is also now fully operational and beginning to ramp up production. We anticipate EBITDA and margin improvement from both operations through this year with a more significant impact on out-year productivity and financial results. We expect our CapEx investments to account for approximately 5% to 7% of annualized revenues. Secondly, and equally core to our long-term growth strategy, we actively pursue acquisition opportunities, focusing on aggregates led businesses in mid-sized high-growth markets within or adjacent to our current footprint. We currently are pursuing a number of opportunities in the pipeline that meet our disciplined criteria.

Third, we consistently review our portfolio for operations to ensure they fit our long-term strategy and EDGE initiatives. And as previously mentioned, we look to remain financially nimble and are committed to the long-term annualized goal of approximately 2.5x net leverage. So far this year, we have invested approximately \$75 million of the planned \$125 million of capital projects, with the majority allocated to maintaining our equipment.

Note that future acquisitions are not included and would be incremental to our capital plan. Moving to our guidance. As presented in the press release and as Brian highlighted earlier, we remain very excited to be reporting record third quarter results. Based on those results as well as our strong market conditions, operational momentum and visibility through year-end, we are raising and narrowing our revenue guidance to \$2.7 billion to \$2.8 billion and our adjusted EBITDA guidance to \$400 million to \$430 million.

As we have stated throughout the presentation, our core business is having a fantastic year. In the third quarter, we saw double-digit EBITDA growth across all segments and double-digit price increases among core product lines. While we benefited from stabilizing costs, we also began to benefit from the rollout of our EDGE strategy, where we see our pricing and bidding initiatives setting the stage for sustainable growth. As we look beyond the quarter and begin our annual budgeting process, we are seeing encouraging signs of growth again for next year. Our segments anticipate growth in both pricing of our core products, growth in adjusted EBITDA and continued cost reductions related to the PIT crew initiatives.

Furthermore, we anticipate the continued funding from government sources to support market demand and volumes. As Brian referenced, we do expect Energy Services to return to a more normalized EBITDA contribution that is still above average, as well as a full year of corporate support costs associated with the separation from MDU Resources.

These impacts will be somewhat offset by improvement in the South region, notably the Honey Creek operation. Although early in the forecast process, we anticipate the combined impact of All Other will be about \$30 million less in EBITDA than where we expect to end 2023. To summarize, we are having a great year and coming off the best quarter in Knife River history. As we focus on completing a record year and developing our forecast for 2024, we look forward to sharing our guidance with you in February. We will continue to be transparent with our investors so that you can share our excitement and the underlying momentum we have as well as what is ahead of us with the full rollout and execution of our edge strategy. We believe in our strategy, our skilled team members and the essential work that needs to get done to support America's infrastructure. With that, I would like to open the call for questions.

Question and Answer

Operator

[Operator Instructions]. Our first question comes from the line of Ian Zaffino from Oppenheimer.

Ian Alton Zaffino

Oppenheimer & Co. Inc., Research Division

Fantastic quarter here. Question would be on the pricing side. For fourth quarter, any new pricing or are we just going to carry forward of third quarter. And then also into next year, how much will then carry over into 2024?

Brian R. Gray

CEO, President & Director

Thank you. Yes. I think we still have a good momentum going into the fourth quarter for our pricing strategies. And we've been very focused on our EDGE initiatives, as you've heard us talk about price optimization on the material side and bid day strategies and really optimizing those bid margins. And so that's going to continue forward our backlog that we've got right now is at higher margins. That's going to carry into the fourth quarter and into next year. And so we still see a lot of upside on our edge initiatives. We're really still in the early rollout of our dynamic pricing strategies and bid day optimization. So I think you'll see that move into the fourth quarter and carrying into next year.

Ian Alton Zaffino

Oppenheimer & Co. Inc., Research Division

Okay. And then just as a follow-up. You kept CapEx unchanged despite higher EBITDA, higher margins. Do you now feel like going forward in your efforts to kind of hit that 20% margin that you can kind of keep CapEx at these levels? Or how are you now thinking about CapEx, I guess, going forward, after this year and your goal to kind of hit that 20% margin?

Brian R. Gray

CEO, President & Director

Yes. You now have Nathan Ring, our CFO answer that one for us.

Nathan W. Ring

VP & CFO

Yes, Ian, thanks for the question. So as it relates to the CapEx, first, just what we've had this year. As you know, coming off of the spin, we focused primarily on maintenance CapEx, which I noted earlier, \$125 million. As we look forward, there's a few things that I think about. First of all, our acquisitions. I mean, as you know, Ian, we're a company that's built on 80-plus acquisitions. We've developed a strong playbook for that, and we are focused on continuing with aggregates led in those mid-sized high-growth markets. So we'll pursue those deals going forward. We've got opportunities that are in the pipeline. And so acquisitions will continue to be a very important part of the utilization of cash.

Secondly, we're going to look for those organic projects as well coming up. I mean as we talked about a few times within the opening remarks, we've got the Prestress facility, Honey Creek. So organic projects will always be an important part of what we do. Maintenance, that component of it will continue to be somewhere around our depreciation expenses we've had in the past. And so I would look forward to those three areas being the utilization of our cash on a go-forward basis.

Brian R. Gray

CEO, President & Director

And Ian, specifically to get to the 20%, it's important to just recognize that our CapEx budget does not include monies for the acquisition of M&A activity. And as we do transition and continue to look at that 20% long-term EBITDA -- adjusted EBITDA margin that we will have some larger acquisitions as part of that and be very focused on aggregates product line. And so that would not be part of our CapEx that we talk about traditionally.

Ian Alton Zaffino

Oppenheimer & Co. Inc., Research Division

Right. And if I could just maybe squeeze in one more on the M&A side as we're talking about this. Maybe help us understand the environment now, big players kind of involved in other acquisition. So has the environment changed? What have you seen as far as multiples and kind of willingness of the seller to engage in discussions to sell.

Brian R. Gray
CEO, President & Director

Yes. Our business development team is busy right now. And I think we continue to be a logical acquirer of choice in the markets that we operate in. And so we continue to focus a lot of our attention in the markets that we are currently in along with those states that are adjacent to our existing regions. And so we are very active. I would say that the marketing, the bid environment, the multiples that we're seeing are similar to what we've had in the past couple of years. But the activity, I think, has picked up and I think you'll see us continue to be very active. It's been a big part of our past, and it's an integral part of our EDGE strategy. G is the growth part of that, and you'll continue to see us focus on both organic and inorganic growth.

Operator

[Operator Instructions] We have our next question coming from the line of Brent Thielman from D.A. Davidson.

Brent Edward Thielman
D.A. Davidson & Co., Research Division

Congrats on great quarter. I guess, Brian or Nathan, the backlog, I guess, what looks to reflect what I think is sort of a normal cadence for you as you burn through some of it in the third quarter. It sounds like you're being a little more selective as well. To the extent that it's down year-over-year, how -- I mean, how should we look at that as we start to think about 2024, is a lower 3Q backlog? Any sort of read for next year? Should we be kind of focusing more on what you're able to secure over the next couple of quarters?

Brian R. Gray
CEO, President & Director

Yes. Good talking to you, Brent. And yes, we do have slightly lower backlog, about 9% down. And I'd say that it is a normal cadence. Timing is a lot of this. Last year, we actually had some unusually early bid lettings in North Dakota that happened in the third quarter. I think, traditionally, those -- you see those most normally in the fourth quarter and the first quarter. So a part of this is timing. Part of it is exactly what you talked about, our Mountain region, experienced record revenues, and they had a significant increase in revenue in their contracting service. So they burned through some additional backlog. We had very favorable weather throughout our entire footprint for the third quarter. But part of this is just really taking on higher quality backlog instead of just quantity. And a big part of our EDGE initiative is to focus on high-quality work that is in our wheelhouse that we can do well at high margins.

And so we're out there doing that. And I think the North Central region is -- they're down \$72 million of backlog, and that's -- we're down \$72 million of backlog company-wide. And so they've been very disciplined on bid day, and you've seen that both on their performance year-to-date in contracting services as well as the backlog that we're taking on. We mentioned that we have higher margins in our backlog. But to put it very specifically, I mean, the total dollars available in profit that we've got in the current backlog, those total dollars of available profit is higher than the backlog that we had a year ago. So granted, it's down. The good news is that it's high-quality backlog, it's going to carry into next year, and we're going to continue that focus on bid A to be very disciplined on our margins.

Brent Edward Thielman
D.A. Davidson & Co., Research Division

Okay. That's helpful, Brian. And then looking at your -- I guess, your aggregates gross profit per ton, I mean, it was up significantly here in the third quarter. And I guess to take a step back, too, Brian, I mean, the margins in some of the areas that your EDGE plan has been focused on are also much higher. I guess my question is it pertains to those two areas. To what degree is this reflective of the initiatives you're implementing versus the sort of overall market strength?

Brian R. Gray
CEO, President & Director

Yes. The overall market strength is very healthy in all of our markets. And part of that increase in gross profit margin, I mean, it's really coming across from all of our different regions. But we had a nice turnaround and fairly healthy improvement down at our Honey Creek facility down in Texas. And that helped our aggregate margins. But it's across the board in all the regions. And it is a solid market conditions. The demand continues to be very healthy, which allows us to be, frankly, a little bit more selective on the

work that we're taking on. So we had 3% less volume, but significant margin expansion. And that just goes to, again, that EDGE initiative. And we're in the early stages of rolling out our price optimization and bid day strategies.

We've talked about dynamic pricing that we've been doing in the Northwest region. And we're still in the early process of rolling that out to all of the other regions. So it's both. I mean, it's a solid, healthy market throughout our footprint. But certainly, the self-help that we gave us through our EDGE initiatives and the traction it's taken on internally. Brent, I can tell you that I've been to half of an operations a lot in the last couple of months. And I've talked more about margins and pricing optimization that I've had in my 30-year career. And so the traction is very good and our team is embracing EDGE fully.

Brent Edward Thielman
D.A. Davidson & Co., Research Division

Okay. That's helpful, Brian. And Brian, I do apologize because I was a few minutes late to the intro, but I didn't catch the comments about maybe some headwinds as you move into '24, just in terms of the Energy Services business. Is it your view that the rest of things, the things that you're doing internally plus some of the strength that you have in the market can overcome that margin headwind next year from a margin perspective?

Brian R. Gray
CEO, President & Director

Yes. And I don't -- Brent, I don't know if I would necessarily look at it as a headwind going into 2024. I think it's trying to normalize a few of the things and looking at it for a full year this year. So I now let Nathan expand on his comments around the \$30 million. So Nathan, go ahead.

Nathan W. Ring
VP & CFO

Yes, Brent, I appreciate the question. So as we look at All Other, which you referenced there, I mean, there's a few components in the All Other. It is our Energy Services that we've talked about. It is corporate support, so our administrative functions. And then it's a South region, our Texas operations. And just remember, I mean, the reason that we have these in All Other is just relative to their size with the other segments. They're still an important and integral part of our company. So to the revision, as you asked about, I mean, as I shared in the prepared remarks, the Energy Services business, what we're recommending there is to normalize that from the outstanding year that they're having. And they're having an outstanding year.

For corporate support, we've had a partial year of separation costs. There were recommending annualizing for a full year of separation costs. And then, of course, we've talked about the upside in Texas, particularly as it relates to Honey Creek. So really taking these factors into account, Brent, what we're recommending there is normalizing them for the run rate for forward modeling purposes on your base rate and a reduction of \$30 million.

To say it another way, I mean, we've shared with you that we've got a guidance of \$400 million to \$430 million for adjusted EBITDA this year. So if you pick the midpoint -- for a discussion, if you pick the midpoint of that at \$415 million, and you take into account these pieces that we're talking about, that \$30 million, you'd be looking at a base rate or run rate for modeling purposes of \$385 million of adjusted EBITDA.

Brian R. Gray
CEO, President & Director

Yes. I appreciate that color, Nathan, on the All Other. And I think, Brent, I don't want that to overshadow the success that we're having in our core product lines and all of our reportable segments. I mean the Pacific, the Northwest, the Mountain, North Central, all of them are performing equally as well. I mean they are -- they had a record quarter, both for revenue and a record quarter for EBITDA -- adjusted EBITDA. And so all segments are performing well. I appreciate Nathan provided some additional color on our All Other group there. The other thing is, I think, when you look at our core product lines of aggregates, ready-mix, asphalt, contracting services, cement, the liquid asphalt all of those combined core products, I mean, we had a 580 basis point improvement in those gross profit margins and our core products for the quarter, and we're sitting year-to-date at a 500 basis point improvement on those core products. And so really, I mean, we're having a phenomenal year across the entire organization, including our Energy Services as well. So I hope that -- does that help, Brent?

Brent Edward Thielman
D.A. Davidson & Co., Research Division

It does. No, I really appreciate it. Best of luck.

Operator

[Operator Instructions]. There seems no further questions at this time. I'd now like to turn the call back over to Mr. Brian Gray for final closing remarks.

Brian R. Gray

CEO, President & Director

Thank you. I'd like to thank you again for your interest in Knife River and for joining us today as we share our record third quarter results. Our business is strong, and we are benefiting from our efforts to optimize prices and target higher-margin work. We are in the early days of rolling out our EDGE strategy, which we believe will help us deliver long-term profitable growth. Lastly, I'd like to thank our team for helping to deliver these excellent results, and I look forward to continued progress towards our goals. Thank you. Have a good day.

Operator

Thank you, sir. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a lovely day.

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