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Knife River Corporation

4Q 2024 Earnings Call Transcript

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Presentation

Operator

Good morning, ladies and gentlemen, and warm welcome to the Knife River Corporation Fourth Quarter and Full Year 2024 Results Conference Call. [Operator Instructions] Also note that this call is being recorded on Thursday, February 13, 2025.

And now I would like to turn the conference over to Nathan Ring, Chief Financial Officer. Please go ahead.

Nathan W. Ring
VP & CFO

Thank you, and welcome to everyone joining us for the Knife River Corporation Fourth Quarter and Full Year Results Conference Call. My name is Nathan Ring, Chief Financial Officer of Knife River, and I'm joined by our President and Chief Executive Officer, Brian Gray.

Today's discussion will contain forward-looking statements about future operational and financial expectations. Actual results may differ materially from those projected in today's forward-looking statements. For further detail, please refer to today's earnings release and the risk factors discussed in our most recent filings with the SEC, which are available on our website and the SEC website. Except as required by law, we undertake no obligation to update our forward-looking statements.

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 measure in today's earnings release. These materials are also available on our website.

Brian Gray will begin today's call with a high-level overview of our 2024 results, followed by an update on our Competitive EDGE plan and a segment recap. Following his remarks, I will provide a product line summary, a capital update and a review of our 2025 financial guidance. At the conclusion of our prepared remarks, we will open the line for a question-and-answer session.

With that, I'll now turn the call over to Brian.

Brian R. Gray
CEO, President & Director

Thank you, Nathan. Good morning, everyone, and thank you for joining us today. In 2024, we completed our first full year as a publicly traded company and again achieved record results. Over the last 2 years, we grew our adjusted EBITDA by 48% and our adjusted EBITDA margins by 360 basis points. This is a testament to the success of our Competitive EDGE strategy and the dedication of the entire Knife River team. I continue to be excited about the opportunities we have in front of us to grow and create long-term value for our shareholders.

With that, let me recap Knife River's record 2024 results and share a preview of what we see ahead in 2025, including progress on our EDGE plan and an update on our pending acquisition of Strata Corporation.

Starting with 2024 performance, we achieved record full year revenue, adjusted EBITDA and adjusted EBITDA margin. In 2024, our efforts to optimize prices drove annual price increases of 7% for aggregates and 10% for ready-mix. At the same time, we focused on controlling our costs. Our Process Improvement Teams visited 58 plants, continuing to improve our operational efficiencies. This helped drive margin improvements across our aggregates, ready-mix and asphalt product lines. On the contracting side of our business, we improved our industry-leading gross margin by 160 basis points, a result of disciplined bidding and solid project execution.

Looking at growth. We invested $131 million on six acquisitions last year with a focus on materials led opportunities. We look forward to a full year of EBITDA contributions from our 2024 acquisitions which we expect to be approximately $16 million to $20 million in 2025.

Lastly, we are committed to excellence, and we strive to be the best in everything we do. We recently have created the position of Chief Excellence Officer to oversee our relentless drive to become best-in-class. This role will focus on expanding our PIT Crews and leading our standardization efforts to implement best practices. Combined, all of these EDGE efforts helped us achieve record results, and we continue to improve our adjusted EBITDA margin to our long-term goal of exceeding 20%.

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Looking ahead to 2025, we are starting the year with a strong backlog, and we continue to add new work. Our backlog of $746 million is 13% higher than the same point last year. With our selective bidding, we are very pleased with the strong margins we achieved with our backlog in 2024, and expect to see our 2025 backlog deliver at similar margins. The majority of our contracting backlog is public work, building and paving roads and highways, which provides us the opportunity to pull-through our upstream materials.

As a prime example of this, we recently secured a $96 million 3-year road construction project in Idaho. This job includes the reconstruction of 5 miles of highway, 2 bridge replacements and 10 miles of concrete pathways. In total, it will utilize 1 million tons of aggregates, 145,000 tons of asphalt and 20,000 cubic yards of ready-mix. While we are seeing more large projects coming out for bid, most of our jobs are under $5 million and will be completed in less than 1 year.

Across our footprint, local, state and federal infrastructure spending remains at or near record levels. In our 14 states, nearly half of the IIJA funding has yet to be obligated. The majority of our bidding takes place in the fourth quarter and the first quarter, and we continue to see active bid schedules from our publicly funded customers. In addition, we are beginning to see increased opportunities in private work as projects that have been delayed for macroeconomic reasons are starting to bid again.

On top of robust infrastructure spending and improved backlog and we are ending 2025 with several line of sight opportunities in our EDGE plan. Starting with the G in EDGE, Growth. We are excited about our acquisition pipeline. We have several deals in various stages of development, including Strata Corporation. In December, we announced our definitive agreement to acquire Strata for $454 million. Like Knife River, Strata is an aggregates-led vertically integrated construction materials company. It will provide infill growth in our Central segment, adding well over 30 years of aggregate reserves for its operations, along with 28 ready-mix plants, 3 asphalt plants and the contracting services division. We expect the transaction to close in the first half of this year, subject to customary closing conditions.

In addition to Strata, our corporate development team is working diligently on numerous other acquisition targets in the pipeline. We have potential deals ranging the size from single-site bolt-ons to larger multi-location platform companies, and we are in a strong financial position to invest in these opportunities.

Knife River is the acquirer of choice in our markets with strong business relationships and a good local reputation. Over the course of 90 acquisitions, we have developed a proven playbook for due diligence and integration, and we look forward to additional acquisition announcements throughout the year.

Equally important as our M&A strategy, we are also investing in multiple organic projects to grow our business. These include an aggregates expansion project in South Dakota, which is expected to significantly increase our production capabilities in the rapidly growing Sioux Falls market and add rail services for distribution.

The project is scheduled to be finished in 2027, but we anticipate seeing partial returns prior to going into full production. We are excited about the ability to provide high-quality quartzite materials in this region for decades to come.

We are also greenfielding new operations as Twin Falls, Idaho, starting with a ready-mix plant, small office and equipment yard. In the past, we have performed a lot of work in this part of Idaho with our portable crews. With this greenfield, we will now have a fixed base to work from and can begin building a local team in this midsized high-growth market.

Another example of organic growth is in our Energy Services segment, where we will bring a new polymer-modified liquid-asphalt production facility fully online this spring. We have started taking delivery of feed supply at the plant, and we are already seeing benefits on this project in the bid room through transportation savings and additional market capacity.

We currently have approved approximately $70 million in 2025 for organic growth projects. Along with acquisitions, organic growth has been an integral part of Knife River's success over the past 3 decades and is a vital component of our Competitive EDGE strategy. We look forward to discussing updates on all of our growth projects as the year progresses.

At the same time, we are equally excited about the Excellence initiatives we are undertaking, which is another key aspect of our EDGE strategy. In 2025, we expect to see even more momentum from our expanded PIT Crews. As a reminder, we have gone from one materials focused PIT Crew to over a dozen teams that are now focused on three key areas: Commercial Excellence, Operational Excellence; and Standardization.

Our newly appointed Chief Excellence Officer, Glenn Pladsen, is leading this process, which we believe will drive continued improvements at our current operations while also allowing for quicker integration of our acquisitions.

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We also continue our efforts to optimize pricing and drive margin expansion. We are deep into the rollout and execution of our company-wide sales training program, and we continue to enhance our curriculum. Complementing this, we are in the early phases of introducing new software to manage our customer service and quoting processes.

Each of these opportunities, from acquisitions to organic growth to the self-help from dynamic pricing in our PIT Crews is an investment in our future. And combined, they represent our blueprint for achieving both our near-term and long-term growth goals.

To help support our teams and facilitate the adoption of our initiatives, we have streamlined our segments from five to four. In 2025, our reported segments are West, Mountain, Central and Energy Services, with the former Pacific and Northwest segments combining into the newly formed West segment. We believe this allows us to provide enhanced regional support for our local teams as they implement EDGE and pursue growth opportunities. You will see this change in reporting segments, starting with our Q1 earnings report.

Finally, I will share an update on our segments performance in 2024 and what we see ahead in our markets in 2025. Our geographic segments had a record year, achieving $455 million in EBITDA, a 15% increase year-over-year.

Starting the Pacific, full year revenue and EBITDA both increased 7% from last year. This was driven by price increases across all product lines and strong contracting services activity in Northern California. Looking ahead, we see opportunities in 2025 for military projects in Hawaii, energy development in Alaska marine construction in Southern California and increased private and commercial work in Northern California.

The Northwest region continued its success in 2024, improving its EBITDA by 24% to an all-time record of $150 million. The region also improved its EBITDA margin to 21.6%, an increase of 340 basis points from the prior year. Strong public agency work helped drive these record results, along with efficiencies at our new Prestress plant, Spokane, Washington. The plant came online in February 2024 and generated $2 million in labor and raw material savings and improved our gross profit by more than 40%. We see continued success at our Prestress operations in 2025. Looking at the region on the whole, Oregon, also is seeing an increase in private work slated for the second half of this year, in particular, data centers, railroad projects, commercial and residential developments.

In the Mountain region, higher pricing and strong demand for contracting services drove record revenue and EBITDA. We also improved our EBITDA margin to a full year regional record of 17.1% through disciplined bidding and solid project execution. This region continues to benefit from population growth and a strong budgets for both public and private construction work. We have record backlog here at start of the year and continue to add to it. In addition to public work, we are seeing an increase in residential subdivision bidding, especially in the Boise and Idaho Falls market. There's also increased commercial and industrial spending throughout the region, in particular in Cheyenne, Wyoming and throughout most of Idaho.

In Central, we achieved record EBITDA and EBITDA margin, led by price increases and strong contracting services activity. We entered 2025 with higher backlog than a year ago, including strong DOT bidding environments in Texas, Minnesota, Iowa and Nebraska. We expect to benefit from more projects in these states as we are seeing funding targeted more directly to asphalt paving in our markets. We also expect to benefit from acquisition growth and organic growth in this region, including improved uptime and rail shipments from a Honey Creek quarry in Texas.

At Energy Services, revenue and EBITDA were down from our record year in 2023, as anticipated, but we believe we are in a good position to grow. We're excited about the addition of Albina Asphalt. That integration is going smoothly, and we look forward to a full year of EBITDA contributions from the four terminals in Washington, Oregon and California.

In terms of vertical integration, Albina's footprint covers Knife River's highest concentration of liquid asphalt demand. While Albina's pre-acquisition backlog is at lower margins than what we typically see at Energy Services, we expect the margins to improve as we utilize our EDGE concepts of disciplined bidding and operational improvements. In 2025, we expect Energy Services will remain accretive to Knife River's overall adjusted EBITDA margins.

In conclusion, we are proud of our accomplishments in 2024. We achieved record financial results while also improving our safety performance. Our EDGE strategy is working, and our Knife River team is delivering on it. We have a lot to look forward to in 2025 and beyond, including strong markets, excellent growth opportunities and the continued evolution of our EDGE efforts to drive long-term profitable growth.

With that, I'll turn the call over to Nathan.

Nathan W. Ring
VP & CFO

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Good morning. As Brian stated, we are very pleased with our record 2024 results. These results include strong fundamentals in each of our product lines.

Starting in aggregates, we continue to see solid price improvement with the annual average selling price increasing 7% over the prior year. This increase was directly related to our EDGE initiatives of taking on less work, but at higher prices, which we call quality over quantity. Along with improving our pricing, we improved our aggregate gross margin to a record 21%. We have mostly completed the hard work of resetting our customer base and narrowing the type of projects we bid. As we look ahead to 2025, we anticipate volumes will increase low single digits over 2024 and be more reflective of economic growth in our markets. We believe pricing momentum from the past 2 years will continue and expect mid-single-digit price increases for 2025.

Moving to the ready-mix product line, we saw improvement in the average selling price with a 10% annual increase over the prior year period. Our gross margin increased to a record 16%. These are impressive numbers, considering our volumes were down 9%, primarily related to our EDGE pricing initiatives and less demand in the private market. Similar to aggregates, we have reset our customer base and expect volumes to increase low single digits in 2025. We are seeing increased demand for commercial and industrial projects, including several large infrastructure projects taking off in the second half of this year. We also expect price increases to continue in 2025 with full year improvement of mid-single digits.

Moving to asphalt. We realized a 2% price increase in 2024, despite lower input costs that normally would put downward pressure on pricing. We focused on higher-margin work, resulting in a 180-basis-point improvement in gross margin, the highest increase among our product lines. Based on our current backlog and visibility into future bid lettings, we anticipate asphalt volumes and pricing to increase low single digits for 2025.

At our contracting services product line, we continue to see strong revenue, margins and backlog. We had record revenue in 2024 of $1.4 billion and a record gross margin of 13%. The improvement in margin is directly attributable to our disciplined bidding and successful execution at the job site. Along with the record results of 2024, we are seeing higher construction backlog compared to the same time last year at similar margins.

As Brian mentioned, federal and state funding is at or near record levels, and nearly half of the IIJA funds have yet to be obligated in the states where Knife River operates. Additionally, in 2024, six of our states passed ballot measures for transportation investments with more than $7 billion in new and renewed funding. We believe this level of funding will continue creating demand for our contracting services and pull-through utilization of our upstream materials.

Moving from operations to administration, SG&A increased 5% over the prior year as anticipated due to higher labor costs, and third-party expenses related to our acquisition program. These costs were partially offset by higher gains on asset sales and lower incentive payments. In 2025, in addition to the standard year-over-year inflationary increases of mid-single digits, we will be investing approximately $20 million to support our acquisition program, PIT Crews, and other EDGE initiatives that are driving our long-term growth. This step-up in investment is included in our overall guidance, and we are confident these initiatives will generate strong returns.

As we look to the balance sheet and our capital allocation, we believe we are in a solid position to grow our business. In 2024, we invested $170 million for maintenance and improvement for our fixed assets, including aggregate reserve replacements and plant and rolling stock upgrades. Additionally, we invested $131 million on six construction materials acquisitions. After investing $300 million in 2024, our net leverage remains healthy. Having improved to 1.0 at year-end with a long-term target of 2.5x and $237 million of unrestricted cash, we are in a strong position to support our capital priorities.

For 2025, we expect our capital expenditures for maintenance and improvements to be between 5% and 7% of revenue, with the maintenance portion in line with depreciation and depletion. For growth capital expenditures, we have approved $522 million, including organic projects related to increasing aggregate reserves and ready-mix production as well as the pending Strata acquisition. Future acquisitions and organic projects would be additional to this amount.

We are on track to close our acquisition of Strata Corporation in the first half of the year. To help finance this acquisition, we plan to raise approximately $500 million of additional debt.

Lastly, as we look to 2025, we expect another year of record revenue and adjusted EBITDA, including consolidated revenue between $3 billion and $3.2 billion, and adjusted EBITDA between $485 million and $535 million, including geographic segments and corporate services between $420 million and $460 million, and Energy Services between $65 million and $75 million.

In conclusion, we are proud of the work our teams have done to achieve record results in 2024 and position us for further success in 2025 and beyond. Our segments are producing excellent results. We have a strong backdrop of dedicated infrastructure funding,

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and we are excited about the contributions we expect to see from our acquisitions across both our geographic segments and Energy Services.

Knife River is growing, and we are committed to achieving our EDGE goals, serving our customers, being the employer of choice and delivering long-term shareholder value.

I would now like to open the call for questions.

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Question and Answer

Operator

[Operator Instructions] Your first question, which will be from Brent Thielman at D.A. Davidson.

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

Congrats on a great finish to the year. I guess first question, Brian, when you look into 2025 and you sort of think about all the different initiatives you're putting in place, within the company, which of the regions are you expecting to see sort of more meaningful improvement in profitability and margins? And then similarly, from a product line standpoint, where do you think there's some good potential for kind of margin enhancement just based on the initiatives you're executing and obviously exclusive of what Strata is going to do for you.

Brian R. Gray
CEO, President & Director

Brent. We are excited about frankly, all of our initiatives. I mean, we've been very consistent and very focused on the EDGE initiatives. Obviously, we've been focused a lot on dynamic pricing and maximizing our bid margins in the bid room. We're going to continue to do that. We deployed the initial materials PIT Crew and saw the successes that we were having and just identifying those operational efficiencies. And so we significantly improved that initiative and added 11, 12 more teams in there.

Where I say that we're focused. I mean it continues to be on our PIT Crews and the self-help as it relates to our operating efficiencies. We've identified some real areas that we can continue to improve on specifically in our aggregate site. They've been focused on the aggregate sites, but it's time to go back around to some of the larger sites that we started with 2 years ago. And we see that our margin expansion in aggregates is probably the one product line that we see the most opportunities in. We see opportunities in all of them, frankly, in ready-mix, asphalt, our liquid asphalt, our quality control team that we put together recently, our maintenance and our shop PIT Crews are going out and looking at that.

Contracting services, we've had some significant margin expansion in the last 2 years, but we're not done there either. And so I mean I think the aggregates has probably got the most margin expansion opportunities there, Brent.

As far as regions, again, all of our regions are improving. I'm very excited with the re-segmentation and really combining the Northwest and the Pacific into the West. And we've got some momentum in the Pacific region right now. And I think we've turned the corner, and we see some very exciting impact projects in Hawaii, up in Alaska. We've got strong backlog up in Northern California. We're starting to see more marine construction opportunities down in Southern California.

And so as far as one specific geographic region, I think they're all going to improve. I think they all have their eye on that 20% EBITDA margin long term. But I see that there's probably the most upside in the Pacific region, Brent.

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

Yes, really helpful. Yes, maybe just a follow-up Brian, you commented on sort of increased opportunities in private work, which I'm not necessarily sure we've heard from all. Maybe if you could just expand on some of those opportunities you're seeing kind of thoughts on why you're starting to do those unlock now? And then what -- maybe the area that's still a bit of an overhang on the business right now as well.

Brian R. Gray
CEO, President & Director

I'd say that there's a lot of talk. There is actually some very specific bidding that's going on. I would say that when we look at the private work coming back into play, I think that we're really looking at that in the second half of this year. We certainly have some line of sight projects that will help us in the first half of the year. But I would say the majority of those or in the second half of the year.

Back to the Pacific region, I had our General Manager there, give me a list of over a dozen subdivision jobs that they've bid since the election, I mean, over $70 million just since the election. And so there is a lot of activity on the private side of the market.

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Data centers obviously has been a key part of our business and the success in the past. We continue to see those opportunities throughout our footprint in Oregon, in Idaho, in Wyoming, in South Dakota. And so there's a number of specific projects, some energy up in the North Slope. We've got some very specific contracts up there that's going to benefit us in Alaska next year.

And then the big job at Pearl Harbor and Hawaii. We talked about that. It's been a little bit delayed from last year, but we're mobilizing the ready-mix plant on to site and expect to see some volumes that will benefit us again a little bit later this year, but certainly in 2025. So a fair amount of talk a fair amount of actual bids, not a lot of volume going out on those jobs yet, Brent, but I fully expect that, that will happen in 2025.

Operator

Next question will be from Kathryn Thompson, Thompson Research Group.

Kathryn Ingram Thompson
Thompson Research Group, LLC

I wanted to circle up on the $20 million step-up related to acquisition costs. I appreciate that color in your prepared commentary. But just to clarify for SG&A in the quarter, with that $20 million step-up in acquisition-related costs, it would be helpful to know what is or isn't included in that? For instance, is Strata included or not included in that? And I guess more importantly, how should we think about it going into 2025? And how is this move different than what you had been doing previously?

Brian R. Gray
CEO, President & Director

Yes. Kathryn, I'll start just with the excitement that we've got in those $20 million of initiatives and then I'll turn it over to Nathan really to help you model and look at 2025 as it relates specifically to that $20 million bucket and the SG&A.

You know that we've started and we're active in our robust pipeline of opportunities in business development. We saw some of those costs hit us kind of later in the year, this last year in the third quarter and fourth quarter of 2024. And so a large part of that $20 million step-up is related to our ongoing 12 full months of a robust pipeline of opportunities and really help us execute our growth strategy, both for organic growth and for our M&A activity.

The other parts that are in that just really is to kind of help us expedite and accelerate our EDGE initiatives and staff up those teams, purchase some software and provide additional tools to our teams to really embrace and track our EDGE initiatives. And so I think it really is a good investment for the long-term shareholder value. I'm very excited about them and super confident that they will have a return on invested capital on those investments.

So with that, I'll turn it over to Nathan, maybe to walk through the fourth quarter SG&A that you asked about and then how to model SG&A going into 2025.

Nathan W. Ring
VP & CFO

Thanks, Brian. Kathryn, thanks for calling in, appreciate it. Also for the fourth quarter, you asked if there was cost associated with what Brian mentioned, maybe it's helpful to understand a little bit more about the fourth quarter because we did have actually $75 million in costs last year, 2023 compared to $70 million in 2024. There are three things that I want to talk about with you in 2023 that help understand this variance of why didn't you go down in SG&A costs year-over-year.

The first one is in 2023 in the fourth quarter, we have higher incentive bonus paid out. That was about $4 million. You also may recall that we talked about these onetime asset impairments that were about $6 million. And then lastly, these are all in the fourth quarter of '23. We also had onetime costs during the fourth quarter of '23 of about $4 million. So all told, in the fourth quarter of 2023, we had about $14 million of what I'll call these onetime like costs.

If you take that into account and compare '24 and '23, we were actually higher in '24, and it relates to the acquisition program costs that we talked about in the third quarter of about $5 million. And then the additional increase is really related to normal annual inflationary costs that we would see year-over-year. So hopefully, that kind of helps us understand the fourth quarter, what was in it. We did have higher costs associated with our acquisition program, as we shared with you.

As we look to 2025 and what we expect there, I think we can look to 2024 as a starting point. I mean, I talked about a few variances in the fourth quarter. There's probably variances throughout the year in 2024. But 2024 is probably a fair starting point for your modeling. And on top of that, I would say just similar to like we did at the beginning of last year, we talked about SG&A costs being

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up mid-single digits in that year. We're seeing the same thing here. So you start with $254 million. And then on top of that, we're expecting mid-single digits for normal annual inflationary costs.

And then with that, the $20 million that we talked about in the prepared remarks and Brian went through. Very excited about it. This is all included with -- very excited in terms of what we have going on there. It's included within our guidance, and I'll just end with saying with that in our guidance, you can see that our adjusted EBITDA and our adjusted EBITDA margin are up, including these costs. So maybe that helps you understand fourth quarter, Kathryn, and what we kind of expect going into 2025 for SG&A.

Kathryn Ingram Thompson
Thompson Research Group, LLC

It does. Also sticking to a little bit of forward-looking and backwards looking. I know you've been spending a lot of time on the contracting services revenue. I mean, a segment overall in margins and you give a lot of detail for aggregates, concrete and asphalt, but maybe a little bit, Nathan, you have given some color in terms of backlogs for '25 that would impact contracting services. But more color on the guide for contracting services. Also, you noted it in your prepared commentary, just how much has happened over the past couple of years since going public. Maybe just putting into perspective, how EDGE has flowed through for numbers for this segment, in particular, and other segments that you think would be important.

Brian R. Gray
CEO, President & Director

Thanks, Kathryn. Yes, our contracting services is an important part of our company. It's about 39% to 40% of our total revenue. And as you've written in your reports, I mean, you've acknowledged that this is kind of the golden era of rebuilding America's infrastructure. And so all the fundamentals that feed into our contracting services continues to be strong. I mean, we've got record or near-record DOT budgets and all the states that we operate in. We're starting -- we have that unique ability to pivot between public and private work. The majority of the work that we do, 86% was public. And so a big part of what we do is public work. So those fundamentals that funding is very robust, it's very healthy. And it's not just for the next couple of years. We really have to look at this as a decade worth of work to get caught up and go out and rebuild.

You mentioned that our backlog is up 13%. And as you know, that's not necessarily indicative of what our revenue is going to be for the year. And that backlog includes that $96 million job and really, that's a 3-year job, and you can look at that kind of as a 1/3 and 1/3 and 1/3. It's one of those projects that we really get the benefit of having it be kind of phased and equal chunks. And so that's built into that backlog.

And then we had a more normal cycle timing of bid lettings this year. We had a good fourth quarter of bid lettings and success. And so a little bit of our backlog improvement is the timing and the success that we had in the fourth quarter. We're still active, very busy bidding work right now in the first quarter. And so that's a long way to say that the fundamentals are strong. Our backlog is strong. And how to look at -- we don't give specific guidance for contracting services. But really, what I'd point you to is our success that we had last year. I think if you look at our revenue and our revenue growth and our margins from last year, that would be very much in line with how we're looking at our contracting services, which, again, is really much -- pretty much in line with what we're looking at for volumes on our material side of the business. We're saying low single-digit increase for volumes for aggregates, ready-mix and asphalt. And I think you can just kind of look at our contracting services pulling through a lot of those materials. So very excited about our contracting services.

You just asked to kind of just frame up the amount of work and effort that we've been putting into the EDGE strategy and just the successes that we've had in that. We went public in June of 2023, and we really started talking internally about our EDGE initiative early in 2023. And so during those 2 years, I mean, if you look at our results at the end of '22 compared to the results at the end of '24, we've improved our EBITDA, our adjusted EBITDA by almost $150 million. I mean, it's a 48% improvement in those 2 years, which we went from 12.4% to 16% on our adjusted EBITDA margins. I mean, so the EDGE strategy is working. And a big part of that just has been to grow our revenue through pricing and really taking on less work. And we actually did less work across the board in aggregates, ready-mix and asphalt in those 2 years. And yet improved our EBITDA by almost $150 million.

We've raised our aggregate prices by 20% in those 2 years. Our ready-mix prices by 24%. And so our dynamic pricing and the Sandler Training and all the efforts we're putting into our sales team and commercial excellence is truly paying off. We talk a lot about our EBITDA margin at 20%, exceeding that 20% long term. But a big part of our EDGE strategy is also growth and it's becoming best-in-class in everything we do. And so excited about the six acquisitions that we did last year. And the EBITDA is going to contribute in 2025. Even more excited about the Strata acquisition that we announced, we intent to close that deal in the first half of this year. And then just all the other initiatives internally with our frontline employees, team members as it relates to improvements and just a keen focus on safety, and just becoming best-in-class at being world-class operators.

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So lots of going on at Knife River, lots embedded in that EDGE, but certainly some great accomplishments in the first 2 years.

Operator

Next question will be from Trey Grooms at Stephens.

Trey Grooms
Stephens Inc., Research Division

Brian and Nathan, nice work in the quarter. So if I could maybe -- if we could maybe dive into Strata a little bit more, just kind of speaking specifically about the geographic markets, what attracts you to these markets, how maybe these markets compare to the overall enterprise, maybe from a pricing and maybe demand outlook or also opportunities you see there for implementing your EDGE strategy and any other opportunities?

Brian R. Gray
CEO, President & Director

Yes. No, we're very excited about that opportunity, Trey. And as you know, we're going through the customary regulatory approval process right now. And have announced that we expect that to close in the first half of this year. And I'd just tell you that we are on track for that and is going good.

This is one of those acquisitions that, frankly, it checks all of the boxes of our EDGE strategy and our growth strategy. It's aggregates-led. It's vertically integrated. It's in midsize, high-growth markets. It's accretive to Knife River's margins. It's in markets that we know really well. It's an infill into our markets. It's got a very qualified and high-quality well-respected management team, led by their owner, Jim Bradshaw. It's a cultural fit to Knife River. Our Life at Knife core values of people, safety, quality and environment are very much in line with theirs. They've got a great market reputation for high-quality materials. They were really very thoughtful decades ago and start looking at how can they efficiently move aggregates by rail. And they were really, frankly, ahead of their time.

And so this fits our model of looking at how can we move aggregates, multimodal in midsized high-growth markets and frankly, in markets that we know well. And North Dakota is our home state, and they've got operations throughout North Dakota, throughout Minnesota. So this one is a company that we've looked up to for a long time and it's going to provide long-term value for our shareholders for really decades to come. So something that we're really excited about.

Trey Grooms
Stephens Inc., Research Division

All right. Very good. Brian. And maybe shifting gears to ready-mix. You guys are still putting up some really good margins there in ready-mix business. You're looking for additional pricing and ready-mix this year. So I guess the question is, what is the outlook for raw material inflation in your ready-mix market? And how are you thinking about price, cost in this segment?

Brian R. Gray
CEO, President & Director

Yes. I think we've done a fantastic job at really relooking at our customer base there. And taking on, again, less work and making more money per yard, overall margin, overall EBITDA. It really has been very intentional, and we've raised our prices over the last 2 years by 24%. We do see that moderating to a more sustainable level of those mid-single digits, Trey. And so as you know, most of the ready-mix that we supply would be into the private market. And we do see some opportunities with warehousing and data centers and residential eventually coming back. I think that's all upside as it relates to our ready-mix markets.

As far as input costs, we supply most all of our aggregates. And so that increase in market pricing is going to go to Knife River as well. So there will be a mid-single-digit increase as far as cost there. Our cement suppliers, we have a number of different suppliers in each one of our markets. I think that has stabilized, and we've built those price increases into our costs going forward. And I can just say that our mid-single-digit price increases will outpace our cost and ready-mix, and we'll continue to see margin expansion in ready-mix.

Trey Grooms
Stephens Inc., Research Division

Very good. That's good to hear. If I could sneak one more in maybe for Nathan, just a little a bit of a housekeeping one. So inventory ticked up a little bit in the quarter. Could you maybe expand on that a little bit? And maybe where that -- where working capital or just kind of inventories, you kind of have expectations there for this year, anything to note?

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Nathan W. Ring
VP & CFO

Yes. Trey, probably the main thing to note there is a few pieces. One, the largest piece of that would be, as we talked about, Brian mentioned it here just a moment ago. We did acquisitions last year, and of course, that was towards the end of the year, and we get their balance sheet then towards the end of the year. And so a lot of the increase that you see -- I shouldn't say all of it, but a good portion of that does relate to bringing on materials-led businesses. That's what we purchased. So you have Albina, that's a liquid asphalt business, and then we had aggregate reserves. So when you look, most of their balance sheet comes over in that inventory line. That's the majority of it. Of course, we do have annual increases in our costs. That's part of the inventory. And then we've talked about volumes going up. So we do have some -- I mean it's not a huge amount, but we do have higher volumes in terms of the tons of rock on the ground, a little bit.

So those are the three buckets I'd put into, but most of it, you talked about working capital, that would be the other piece of it, too, Trey, is we bring on their full balance sheet of those acquisitions, that would be the increase you see in working capital. So you might be looking at percentage of working capital year-over-year and notice an uptick. I'd say a lot of that has to do. So when we get into 2025, and we see the results of these operations come into place, I think you'll see that working capital level off again related to those acquisitions.

Does that help, Trey?

Trey Grooms
Stephens Inc., Research Division

Yes Absolutely.

Operator

Next question will be from Garik Shmois at Loop Capital.

Garik Simha Shmois
Loop Capital Markets LLC, Research Division

I wanted to ask just first on how the cadence of the year is expected to play out. Is there anything notable, whether it's first half or second half EBITDA growth? Also recognizing, I think, in the first quarter, you had very strong aggregates price growth a year ago. I think it's some of that was project timing. So just wondering if there's anything to call out to help us model how the shape of the year should progress?

Brian R. Gray
CEO, President & Director

Yes. Garik. Traditionally, it's important to remind everyone that because of our footprint, having a northern exposure, that our first quarter, we've historically, over the last 5 years, and we have about a 5% of our annual EBITDA that we lose in that first quarter. And I'd say that we don't see that changing very much. I think when I talk about the second half and some of the opportunities and very specific opportunities and contracts that we have and that some jobs that we see starting in that May, June, July time frame. I think will benefit us a little bit more in the second half of the year. I wouldn't say that it's material enough that you really probably need to look very differently at our cadence kind of that 5-year average, the first quarter losses of 5%, and we make about 1/3 of our EBITDA in the second quarter. The third quarter is always our peak. It's a large quarter for us. And that's traditionally in that 50% to 60%. I don't see that changing very much.

And then for us, weather can impact us in that fourth quarter. And we've had very good weather over the last 2 years. Frankly, that was part of the reason, part of the beat that we had this last fourth quarter in 2024. And that was against a comp in 2023 that was also very favorable weather. And so a couple of extra weeks of work does certainly help us out. But no, I don't think it's material, but I do see more private opportunities, subdivision work, data center work, railroad work, warehousing that could positively impact us more in that second half than normal.

Garik Simha Shmois
Loop Capital Markets LLC, Research Division

Okay. That's helpful. And then a follow-up question is just on aggregates pricing. I was wondering if you could maybe provide an update on where you stand with implementing dynamic pricing across your network. And anything to think about, I think we heard

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from an aggregates producer yesterday that indicated some more markets were shifting to price increase a little bit later than what they saw a year ago. Just wondering if there's anything from a timing standpoint that we should think about for aggregates pricing this year.

Brian R. Gray
CEO, President & Director

No, I don't think there's anything different on timing on our end. I mean the dynamic pricing, as you know, is that we're bidding jobs specifically throughout the year that there's not an annual increase that goes out at the beginning of the year or in April 1 or June 1 that we're dynamically pricing our materials based on the proximity of the jobs to our locations and what our real-time costs are. And so that will continue. We have had good adoption throughout our regions of that initiative last year. We're continuing that process and providing our sales teams additional tools for dynamic pricing.

And so I think that our guidance of mid-single digits is a sustainable increase that I think could become the new norm. I think the high single digits and even the double digits we had 2 years ago was a catch-up from '22. But I think that we have good pricing momentum going into next year with all the tools in place to kind of help us implement that throughout the year. So nothing real specific on first half, second half cadence on pricing.

Operator

[Operator Instructions] Next, we will hear from Ian Zaffino at Oppenheimer.

Isaac Arthur Sellhausen
Oppenheimer & Co. Inc., Research Division

This is Isaac Sellhausen for Ian. Just on the 2025 guidance, the EBITDA margin expansion, I guess, 20 to 70 basis points compared to '24. What would it take for, I guess, margins to get to the high end of the guide? I guess, is there anything to call out on the commercial side, like you spoke about on dynamic pricing or operations such as the PIT Crew initiatives. That's maybe a particular focus for the playbook this year.

Brian R. Gray
CEO, President & Director

Yes. So I think the midpoint, Isaac, that you suggested that our midpoint is about 50 basis points of improvement. And that includes -- frankly, it includes 70 basis points of additional investments that we're making as those EDGE-related business development initiatives to help us grow and become excellent in everything that we do. That guidance, that 50-basis-point improvement in our guidance actually includes those $20 million in additional stepped up in costs.

What would it take to hit us on the high end of that guidance, there's a number of things. I mean you've heard me talk a fair amount about the private work that we're beginning to see and talk about. Some of those are coming to fruition in the bid room. And so I think that would be -- I think there's lots of opportunities on the private side, specifically that would impact our material side of the business, especially aggregates and ready-mix. That's where we see the biggest benefit there.

I think that we continue to roll out our PIT Crew initiatives. And I think the self-help and the things that we have identified in the last 2 years have been meaningful. And a lot of those were some operational costs and improvements that actually hit us as a cost last year that we'll begin to see those benefits this year.

On the revenue side, to be on the high end of that, again, there's a lot of opportunities. This is our busiest time of the year to be bidding work, and we're still active in the bid room right now. And so I think that if we continue to be disciplined and maintain our margin expectations in the bid room, but looking at the bid lettings and the amount of work that's coming out in states like Texas and Iowa, Nebraska, Minnesota, Idaho, there are a lot of opportunities to continue to pick up work. We've got the capacity to take on more work, but we're going to continue to be disciplined and make sure we hit our margins.

So that would be some upside both on the revenue side and on the EBITDA within that guidance range.

Isaac Arthur Sellhausen
Oppenheimer & Co. Inc., Research Division

Okay. That's very helpful. And then just a quick follow-up on Strata. It might be too early to comment, but I have to ask anyway. If you have any additional color on margin profile of the business and potential accretion for the deal?

Brian R. Gray

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CEO, President & Director

Yes. No, we're anxious to provide more details upon the completion of the regulatory review and approval. I would say that you can look at Strata very similar to Knife River. They are a materials led business. We have about 40% of our revenue is -- comes from contracting services and materials. And I would just say 60% materials, 40% contracting. I'd say they're a little bit more heavily influenced and percent of their revenue is a little bit more towards materials. So this is a bigger materials company than Knife River is. And that will -- you look at our margin profile of our materials business, whether that's aggregates or ready-mix, and that's their primary two products that they sell. And those margins are overall accretive to our consolidated margins. So I think that -- I think you could look at it that way, and we're excited to bring them on in the first half of the year.

Operator

And at this time, we have no other questions registered. Please proceed.

Brian R. Gray
CEO, President & Director

All right. Well, thanks, everyone, for joining us again today. We're excited about our EDGE plan and what we see ahead in 2025 and the years beyond that. We appreciate your continued support of Knife River, and we'll now turn the call back over to the operator.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines. Enjoy the rest of your day.

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