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1Q 2025 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

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Nathan W. Ring
VP & CFO

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Kathryn Ingram Thompson
Thompson Research Group, LLC

Trey Grooms
Stephens Inc., Research Division

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Knife River Corporation First Quarter Results Conference Call. [Operator Instructions] Also note that this call is being recorded on Tuesday, May 6, 2025.

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

Nathan W. Ring *VP & CFO*

Thank you, and welcome to everyone joining us for the Knife River Corporation First Quarter 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 and investor presentation. These materials are also available on our website.

Brian will begin today's call with an overview of our first quarter 2025 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.

Our construction season is just getting started. As we look at the opportunities in the year ahead, we are excited about 3 key points. First, Knife River is in a position to have our most profitable year in history, including record revenue, net income and adjusted EBITDA. Second, our acquisition program is in full swing. We closed on Strata Corporation, and we have additional deals in our pipeline with a focus on materials-led companies. And third, we continue to invest in our competitive EDGE strategy to drive excellence and long-term profitable growth. While there are some macro level uncertainties in the economy, we have been insulated from any direct impacts related to tariffs.

With our vertical integration and our ability to flex between public and private work, Knife River has a resilient business model. We are focused on what we can control, including operational improvements and working hard to deliver results for our shareholders.

We are entering the construction season with confidence in our long-term strategy, and we are forecasting record results for the full year. The fundamentals of our business are strong, and we are excited about the acquisition program and EDGE initiatives. We believe the investments we made during the first quarter will benefit Knife River this year and beyond.

On the year-end call, we highlighted a step-up in SG&A for 2025 as we invest in our business to drive future success. We spent approximately \$8 million of that in the first quarter, largely related to acquisitions and business development activity. Nathan will provide more detail on SG&A in his remarks.

As we look at the first quarter overall, results were in line with our expectations. Because of our unique footprint in Northern states, Knife River has historically recorded a seasonal loss in the first quarter of approximately 5% of annual EBITDA.

With the addition of Strata and Albina, which are also in Northern states, we anticipate the 8% seasonal loss we experienced this quarter to be more reflective of our first quarter results going forward. We expect the investments we made in Strata and Albina to begin positively impacting our financial results in the second quarter. It's exciting to see the progress we're making in integrating these 2 companies, including the efficiencies we are finding as we bring our teams together.

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Also during the first quarter, we closed on the acquisition of the Kalama Quarry. This property includes 50 million tons of strategically located reserves and supports our ability to serve the growth corridor north of Vancouver, Washington. Our business development team continues to be hard at work in each Knife River segment, evaluating potential materials-led acquisitions in mid-sized high-growth markets.

In addition to our M&A growth, we continue to make progress on multiple organic investments and EDGE improvements. A few highlights of these projects include the continued build-out of an aggregate expansion project in South Dakota, along with a new asphalt plant in the Sioux Falls market, a greenfield ready-mix plant in Twin Falls, which is a new market for us in Southern Idaho and the installation of larger silos at our asphalt plant in Boise, which will increase capacity as we serve more third-party customers. We expect each of these opportunities will help drive margin growth, which is a key component of our EDGE strategy.

Let me provide a quick update on other EDGE efforts. In the first quarter, our teams improved pricing on aggregates and ready-mix as we continue to focus on dynamic pricing. We also deployed best-in-class pricing and analytics software for our materials operations. By investing in cutting-edge technology for our sales teams, we aim to optimize pricing, support margin growth and provide exceptional customer service.

Also during the quarter, we identified operational improvements at multiple aggregate sites. Our PIT Crews identified opportunities to increase throughput and reduce production costs at plants in Hawaii, Oregon, Texas and Wyoming. We fully expect to see the benefits of these first quarter expenses during the upcoming construction season. The team is visiting several more operations this year across our footprint, focused on controlling our costs, increasing production capacity and implementing best practices. I look forward to sharing their additional successes throughout the year.

Lastly, in EDGE, we are excited about the rollout of our new safety program, which is based on the belief that safety is a personal choice and that all injuries are preventable. Safety is a core value at Knife River and part of our life at Knife culture. We are committed to excellence, starting with the health and well-being of our team members.

As our operations ramp up for the year, we stand to benefit from infrastructure investment. Roads, bridges and runways need to be repaired. The funding is there to support it, and Knife River is well-positioned to perform the work. In March, the American Society of Civil Engineers published its much anticipated report card for America's infrastructure, giving U.S. roads a grade of D+. The report estimates that the country will need \$2.2 trillion in funding over the next decade to maintain the current roadway system. Budgets at the local, state and federal levels remain at or near all-time records.

Knife River states still have about 60% of federal IIJA funding to spend. And at the state level, we're tracking 51 transportation funding bills. In late April, Washington passed a fuel tax that is expected to raise \$3 billion in transportation funding over the next 6 years.

In Idaho, 2 transportation bills have been approved, totaling over \$1 billion in funding, primarily to relieve congestion and expand its current transportation system. And just a few days ago, North Dakota passed a \$400 million increase to its 2-year DOT budget.

Finally, the Oregon legislature is currently working on a much needed funding plan for the state's infrastructure, which could benefit us yet this year.

Public projects represent 87% of our backlog and perfectly fit our vertically integrated business model. They give us the opportunity to not only perform the work as a prime or subcontractor but to also utilize upstream materials. Backlog at the end of the first quarter was near our record from a year ago and at similar expected margins.

Starting in late March and throughout April, we saw increased bidding activity compared to last year, and the work we secured in that time frame is not reflected in our first quarter backlog. This work included dozens of public projects, including 3 jobs totaling \$170 million of subcontract work that we expect will be awarded soon.

As I've mentioned over the last year, we continue to see states letting larger multiyear projects. However, we remain disciplined in the bid room, fully vetting the type of projects we pursue. We are focused on materials pull-through opportunities on optimizing contracting margins and on minimizing our risk profile. We believe asphalt paving projects that are publicly funded will remain the largest part of our backlog for the foreseeable future.

On the private side, we've seen a slowdown in some markets as developers and owners weigh uncertainty around tariffs and the economy. We will continue to monitor these delays, but we do see some private projects picking up in the second half of the year in each segment.

As you'll recall, we reorganized our segments to better align with our business strategy. The segments are now West, Mountain, Central and Energy Services. In the West, our operations in Hawaii and California helped drive revenue and EBITDA increases. We saw higher demand in Hawaii for cement and ready-mix, and we implemented price increases across the region in all product lines.

In California, we added to our public backlog and have seen an increase in residential and commercial work coming out for bid. This more than offset decreased demand in Oregon, which is mostly related to less highway funding and delayed private jobs that are impacting material sales. We will continue to track Oregon's funding solution, and we'll make operational adjustments as needed.

Overall, we believe the West is poised to have another solid year with meaningful improvements coming from our operations in Alaska, California and Hawaii. In Mountain, the \$96 million Farmway Road project in Idaho is just getting started, and we continue to add backlog to our first quarter record. The recent passing of 2 transportation bills in Idaho should support additional growth in this very strong market.

Bid lettings in Montana have been delayed this year, but we've seen more opportunities in the past few weeks that should positively impact our backlog going forward. And in Wyoming, we see good potential for data center jobs and related commercial construction in the second half of the year.

In Central, we've been actively integrating Strata and look forward to the positive impact it will have on our financial performance. We continue to find synergies with this acquisition and the additional transportation funding in North Dakota bodes well for our combined operations. We've been securing public work in each of our markets, and we see strong commercial work ahead in Texas, specifically in the College Station area.

Finally, at Energy Services, we are excited about having a full year of contributions from the Albina acquisition that closed late last year. We also expect to benefit from the start-up in the second quarter of our new polymer modified plant in South Dakota. We had a slower start to the year related to weather impacts in Texas, but we expect another strong year from Energy Services with margins that continue to lead our segments.

In conclusion, we're in a strong position to have another record year. We reinvested in our business during the first quarter as we prepare for the start of the construction season. Our acquisition program is active, and we continue to invest in self-help through our EDGE initiatives. I'm proud of our team for all their efforts, and I'm looking forward to what's ahead in 2025.

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

Nathan W. Ring
VP & CFO

Thank you, Brian. Next, I'd like to review our product line results, capital allocation and updated guidance. Starting with our aggregate product line, we performed more preproduction activities across the company to prepare for the upcoming construction season and pull some costs forward. This work included stripping and harvesting at our aggregate sites as well as maintaining and mobilizing equipment.

As Brian mentioned, we also incurred costs implementing PIT Crew improvements across a number of our locations. These initiatives and preproduction efforts were the primary reason for our lower profitability in aggregates during the quarter, but we believe they will benefit us for the remainder of the year as production volumes come online and sales volumes ramp up.

For the quarter, volumes were down compared to the prior year related to lower demand in Oregon and weather impacts in Montana and Wyoming. But as we look at the full year, including our recently completed acquisitions, we believe aggregate volumes will increase high single digits compared to the previous year.

Furthermore, thanks to our ongoing pricing initiatives, the aggregates product line continues to see pricing improvement with the average selling price increasing 6% year-over-year. Therefore, we are maintaining our annual guidance of mid-single-digit price increases in 2025.

Ready-mix saw a 9% increase in revenue due to higher average selling prices and volume growth. Pricing continues to benefit from our dynamic pricing and the higher volumes were driven by increased demand in California, Hawaii and Texas. We expect full year volumes to increase high teens, and we are also reaffirming our pricing expectations of mid-single-digit increases for full year 2025.

Moving to Asphalt, the quarter had light activity as is typical for this product line. The first quarter historically accounts for less than 5% of the full year's volume. We expect activity to pick up as we enter the second quarter, and we maintain our guidance that volume and price will increase low single digits.

Contracting services experienced higher revenues for the quarter, with the largest increase coming from our Mountain segment, particularly Idaho, which continues to see steady growth. However, the segment realized lower gross profit compared to the first quarter last year due to the type of work and incentives recognized on key projects in the prior year.

Keep in mind, the first quarter generally represents less than 10% of our consolidated contracting services revenue. Therefore, small changes in timing and the type of work we perform can have a disproportionate impact as we saw this quarter. For the full year, we anticipate contracting services margins to be in line with our 2024 results.

Switching to SG&A. As you heard from Brian, we had significant acquisition activity in the first quarter as we continue to fill the deal pipeline, perform due diligence and integrate acquired companies. As anticipated, these activities contributed to a \$13 million increase in SG&A over the prior year. The increase primarily relates to SG&A from Strata and Albina of \$3.5 million and higher business development costs of \$6 million.

As discussed during our previous earnings call, we anticipated a \$20 million step-up in SG&A for the full year, which will be front-loaded in the first half. Of that amount, \$8 million was invested in the first quarter for business development, acquisitions and other key EDGE initiatives. We anticipate that annual SG&A expenses will be in line with our guidance given earlier in the year, plus the addition of Strata's SG&A.

In addition to those strategic investments, we have been disciplined in deploying capital while retaining our strong balance sheet for future expansion. For the quarter, we have reinvested \$64 million in our fixed assets for maintenance and improvements. We anticipate that 2025 capital expenditures for this category will be similar to the prior years at 5% to 7% of expected revenue. Along with that, we have invested \$11 million in organic growth during the first quarter. For the full year, we have approved \$68 million for organic projects.

Additionally, in the first quarter, we spent \$429 million on acquisitions, including \$10 million on the Kalama Quarry and \$419 million on Strata. The cash paid for Strata includes adjustments for networking capital, proceeds from the divestiture of 4 ready-mix plants and cash acquired.

To help finance the Strata transaction, we successfully issued \$500 million in Term Loan B debt. That puts our net leverage at 2.5x based on the trailing 12-month EBITDA at the end of the first quarter. This aligns with our long-term net leverage target. We ended the quarter with \$86 million in unrestricted cash and no borrowings on our revolver, which we recently increased from \$350 million to \$500 million. This increased capacity provides additional liquidity for working capital and seasonal needs as we grow the company as well as short-term financing for smaller acquisitions.

Moving over to financial guidance. With the addition of Strata, we are raising our full year expectations. Guidance includes consolidated revenue between \$3.25 billion and \$3.45 billion, adjusted EBITDA between \$530 million and \$580 million, including geographic segments in Corporate Services between \$465 million and \$505 million and Energy Services between \$65 million and \$75 million.

This guidance is based on normal weather, economic and operating conditions and does not include future acquisitions or any significant impacts related to tariffs. The work we do is essential for Americas Infrastructure. As we enter the 2025 construction season, we anticipate another record year for Knife River. We have a strong funding backdrop, and we have made investments in our business to help drive our continued success.

I would now like to open the call for questions.

Question and Answer

Operator

[Operator Instructions] First, we will hear from Brent Thielman at Davidson.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Brian, when you look around your territories that you're operating in, could you talk about where you're seeing, kind of more resiliency in private construction markets and then maybe where you're seeing some increased pressure? I would imagine maybe being more in Tier 2 cities, you avoid some of that pressure, but love to hear from you what you're seeing on that side of the business.

Brian R. Gray

CEO, President & Director

No, I appreciate that, Brent. And certainly, with our footprint primarily being in mid-sized high-growth markets, you're right, we're shielded to some of those pressures. Where we're seeing some positive activities on the private side is certainly in Hawaii. It would be in California. And then Texas is strong right now. And then the other one would be just throughout some of our North Central region. Unfortunately, we're slow in the first quarter. And so it's hard to really see that in our volumes.

But California, Hawaii, kind of that legacy Pacific region that we had before has really got some positive volumes on the private side. Where we're seeing some pressure downward on the private side really would be not totally isolate, but it's really magnified in Oregon right now and then a little bit in Montana. But for the most part, Idaho is strong for us right now, both on the public and private side, but probably Hawaii, California would be our strongest markets on the private.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

It sounds like good balance overall. I guess maybe as a follow-up, I mean, you're 2 months into the Strata integration. You've obviously got some numbers here in guidance for that. Maybe you could talk about what you're learning from that business already that -- just an update there.

Brian R. Gray

CEO, President & Director

Yes. No, we're very excited and pleased at how the integration is going. Obviously, it came online during the latter part of the winter. And so we showed some seasonal losses in the first quarter associated with that. Obviously, some integration and due diligence costs that were part of our increased SG&A.

But it really -- I mean, we thought and we knew that this was going to check all the boxes for EDGE, and it has not let us down on that at all. It's going to be accretive to our margins. It's aggregates led. It's got an amazing great management team at the operations there. It's a great cultural fit. I mean it's going to provide long-term value for Knife River for years to come.

This year, we could come with a better timing to close the deal, kind of, as we get started in the construction season, coupled with just a couple of days ago, North Dakota passing an infrastructure fund that will benefit from that. So the combined operations between Knife River and the Strata acquisition is looking very favorable for us. And that's why we upped our guidance to a record year for us from that \$510 million that we initially published up to \$555 million with the addition of Strata.

So right now, everything is going well on the integration front, Brent, and very excited for a positive contribution this year.

Operator

Next question will be from Trey Grooms at Stephens.

Trey Grooms

Stephens Inc., Research Division

So recent M&A has changed the seasonality here some with the business. But can you talk about how volumes have been trending across your segments now that the weather is starting to cooperate, and we're kind of getting more into the -- maybe the early days still yet of the seasonal uptick. But in those markets, any color on how the start to the season has begun?

Brian R. Gray
CEO, President & Director

Yes. So you mentioned that the Albina acquisition that we did late last year and Strata, certainly, those being Northern states added to our typical seasonality. Our 5-year history before those acquisitions was that 5% loss of our annualized EBITDA. And with those acquisitions, it's going to be closer to 8%, as you pointed out, Trey. But we do see some, I mean, positive signs, and I think that's why we've increased our aggregate volumes from low single digits up to that high single digits with the addition of Strata and also just some positive signs that we're seeing throughout our footprint. I mean if I look at our aggregate volumes for the quarter, I mean, they were down 9%. But if you -- I mean, that's less than 400,000 tons, which is right about a little over 1% of our annualized sales for all of aggregates. And so very small impact in that first quarter.

And the reality is that we have seen aggregate volumes increase in 70% of our states that we operate in. And so we are seeing positive signs. We certainly have seen a fair share of private work that we have secured volumes on secured contracts paused for a while right now. And so that had an impact on our volumes for the quarter. But we are seeing very good shipments out of our Honey Creek facility in Texas.

Like I said, 70% of our states, we actually had volumes that were up in aggregates and our ready-mix volumes overall for the company are up for the quarter as well. So even though it's a small quarter for us, it's the least meaningful quarter for us, certainly seeing some nice signs that we can hit our guidance numbers.

Trey Grooms
Stephens Inc., Research Division

Great. On that, you mentioned kind of the private -- earlier, you mentioned private versus public. With the addition of the recent acquisitions, can you remind us what is that end market mix? You guys have always been much more exposed to the public side of things, but any change to that mix now as you've added the Strata and other deals over the last 12 months or so?

Brian R. Gray
CEO, President & Director

Yes. So as far as our construction revenue, that's about 39% to 40% of our total revenue for the year. And the majority of that work in that bucket of that construction contracting revenue, 87% of that is public works projects. Now the addition of Strata, they're more of a materials-driven company. Their aggregates -- I'm sorry, their contracting revenue will be a little bit closer to 30% for their revenue, total revenue. And it would be a similar mix of type of work that we currently have at Knife River. And so they would be heavily influenced by public work as well.

Being more of a material supplier, though, on our material side of the business, in particular, ready-mix, and they're a large ready-mix provider and aggregates, we do have more influence in those 2 product lines on the private side. So overall, if you look at all of our revenue, Trey, we certainly have more influence from public funding. And as you know, that backdrop to that funding is very strong, and it continues to get stronger in our states that we operate in. And we have less exposure to private, but that certainly would impact aggregates and ready-mix more than the others.

Operator

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

Kathryn Ingram Thompson
Thompson Research Group, LLC

First, I just wanted to circle back and get some clarification on your SG&A for the quarter and then also how we should think about it for the year. Of the \$8 million in Q1, how much of that is from acquisitions or M&A activity versus others? And for -- when we look at the balance of the \$20 million for the full year guidance, how much of this is -- maybe help us differentiate what is step-up that includes Strata? And then what are the dollars that are just due to residual costs related to acquisitions and comp?

Brian R. Gray
CEO, President & Director

I appreciate that, Kathryn. And I'll just at a high level, start off and then ask Nathan Ring to provide some details. And so we announced 3 months ago at our last earnings call that we were stepping up our total investment in SG&A, primarily focused on our business development and our EDGE initiatives to become best-in-class in all that we do and execute our excellence initiatives along with business development.

So we had announced that \$20 million that you're referencing, certainly saw and projected that we would see a lot of that activity in the first quarter. And so we did see a total of \$13 million more SG&A in that first quarter. And so I'll let Nathan kind of talk specifically about what was made up in that \$13 million increase in SG&A that was anticipated, very much in line with management's plan that we had put in place.

And so Nathan, I'll let you do that, and maybe you can just touch on maybe on a run rate going forward as well.

Nathan W. Ring
VP & CFO

Yes, for sure. Kathryn, good to hear from you. Probably the easiest way to do it is to put that \$13 million that we had in variance year-over-year for the first quarter into 3 buckets. And I'll put it into the buckets, Kathryn, that you were trying to understand the pieces too. So Brian mentioned the \$20 million in step-up. So of the \$13 million, \$8 million of that \$13 million relates to the \$20 million in step-up. And you kind of wanted a breakdown of that, too. So I'll give you just the quick pieces. \$6 million of that \$8 million relates to business acquisition costs, so business development, due diligence, integration. And then the other 2 relates to other EDGE initiatives such as PIT Crew activities, operations for our segments.

So again, \$8 million of the \$13 million relates to the step-up. And then we had about \$3.5 million, almost \$4 million that relates to SG&A for the acquisitions. So as you recall, we did Albina late last year, and then we had, of course, Strata here recently. The SG&A that those 2 companies bring on was approximately \$4 million, \$3.5 million for the first quarter. So that gets you close to about \$12 million. And then the last piece there really is a combination of, just as we shared before, inflationary costs year-over-year and then offset by some gains in some insurance, but most of that is a small amount. So really, again, 3 buckets, the step-up, \$8 million, almost \$4 million for SG&A for acquisitions and then the rest kind of ongoing cost for inflation.

So I'll pause there, Kathryn, to make sure that kind of answers the question on the quarter, and then I'll get into the full year.

Kathryn Ingram Thompson
Thompson Research Group, LLC

It does.

Nathan W. Ring
VP & CFO

And then for the year. Yes, go ahead, sorry.

Kathryn Ingram Thompson
Thompson Research Group, LLC

No, no, for the full year. Go ahead.

Nathan W. Ring
VP & CFO

Yes, for the full year then. What I'll do is I'll just back up one step because we're really just making one change to get to what we look at for the full year of SG&A. So as you recall, back in February, we shared that to determine what SG&A would be for 2025, we said, let's start with 2024's full year SG&A. And that was about \$255 million. And we said you'd grow that by mid-single digits for inflation and then add the \$20 million that Brian just mentioned.

So really, we just talked about 3 things back in February, start with '24, inflation and then the \$20 million step-up. The only additional item that you would need to use to determine what the full year 2025 would look like is to add in Strata. And for Strata, I think a fair estimate is to look at their SG&A as a percent of revenue is currently comparable to Knife River. So as you calculate Knife Rivers, you can extrapolate that to Strata and get to a full year for the full company.

Kathryn Ingram Thompson
Thompson Research Group, LLC

Switching gears to your aggregate volume guidance. For the quarter, it was down high single digits, but you've guided for up low single digits. But I understand that this is a seasonally slower -- the slowest quarter. So against that backdrop, could you conceptualize just the optics -- and what makes you comfortable with your prior low single-digit guidance? And then also, how has that changed with the inclusion of Strata because as you noted earlier, they have -- are a little bit more materials heavy in their mix.

Brian R. Gray
CEO, President & Director

Yes. No, I appreciate that, Kathryn. And so certainly, the combined operations, Knife River legacy operations plus Strata, we do feel comfortable with a high single-digit guide for aggregate volumes and then the high teens for ready-mix. And that certainly -- that increase is on top of a guide that we're maintaining of low single digits for our organic growth, both for ready-mix and aggregates.

As you mentioned and as I said a little earlier, our first quarter really is a very small quarter. It's 10% to 15% of our revenue as it relates to aggregates. So we literally have 90% of the year still in front of us. And although we were down 9% for the quarter, again, that number is less than -- it's right around 1% of our total sales for aggregates. So not a huge impact, plenty of time to make those jobs up.

A lot of the work that was postponed in the first quarter, I mean, we have contracts for. They just were delayed, whether that's because of weather. And we certainly had less favorable weather this year than we had last year. And so part of this is a difficult comp of looking at last year's favorable weather versus less favorable this year.

But another part of it is what I've mentioned is there's been some projects that have been delayed and put on pause that had an impact on our sales, specifically in aggregates. So excited that 70% of our states had actually increases in volumes and certainly see very reasonable guide in that high single digits that we can hit this year.

Operator

Next question will be from Garik Shmois at Loop Capital.

Garik Simha Shmois
Loop Capital Markets LLC, Research Division

First question is on contracting services. Wondering if you could talk a little bit about how you're balancing the revenue opportunity versus margins moving forward. You've spoken to -- it sounds like flattish margins for the year. Has this threshold changed at all? Has the type of projects that you're bidding on, has that changed? So any kind of incremental color on that segment would be...

Brian R. Gray
CEO, President & Director

No, I appreciate that, Garik. So yes, we have good backlog right now. I mean we're very near our record backlog that we had a year ago. And as we announced, it's at similar margins. So we are set up to have another solid year in contracting services. The recent passage of the Idaho Transportation bill, the North Dakota transportation bill, that should be some upside for us this year.

And so as far as bid dynamics, I mean, and maintaining our margins, I would say that -- we are short on some work in a few of our markets. And I'd highlight Oregon and Montana, part of that being timing of projects, part of that being some short falls that they're having in Oregon that the current legislature is trying to fix as we speak and fully expect and hope that they solve that problem.

So in a few of our markets, we're still looking for some work, and that could put some downward pressure on margins as we pick up the amount of work we need to get. But I can also tell you that we've been patient and some of our competitors have filled up in some other markets that are very good markets right now with very good, strong funding that should allow us to have higher margins. And so we also mentioned Strata, albeit about 30% of their revenue is contracted margins. We certainly have mentioned and see that those margins are accretive to our Knife River margins.

So overall, I think that we are poised to have a very solid year in contracting services. The funding, the backdrop just continues to be at record levels, and our teams are very good at going out and executing the work and overperforming and gaining margins when they're out executing that work. So set up to have a very solid year in contracting services.

Garik Simha Shmois
Loop Capital Markets LLC, Research Division

Follow-up question is just on costs. With the decline in oil, has there been any change in your unit cost expectations across your segments, particularly interested in aggregates, asphalt and liquid asphalt?

Brian R. Gray
CEO, President & Director

Yes. I would say that it's not been material that we would change our guide at that mid-single digit that we provided just 3 months ago. We're monitoring that situation. Obviously, on Energy Services, they buy a lot of liquid asphalt to resell to third-party customers. And a lot of that liquid asphalt, the crude comes from Canada. And so we're monitoring that very closely and talking to our customers around any potential impacts of tariffs.

You're right, diesel has been a little bit of a tailwind. But this time of year, we don't use a lot of diesel. And so I would say that's not been that material, and we kind of see that just as a stable number going forward. That's how we've modeled it in our guidance.

Operator

Next question will be from Ian Zaffino at Oppenheimer.

Ian Alton Zaffino
Oppenheimer & Co. Inc., Research Division

I just wanted to ask you on the investment. I guess we saw some of that last year creep up, and I guess we're seeing investment again. Are we kind of done with investment cycle? Is there anything else we need to do from an SG&A or an investment perspective? And with that said, is that enough investment at this point to get to your 20% margin target?

Brian R. Gray
CEO, President & Director

So Ian, I assume you're talking about the step-up in SG&A, the \$20 million that we had that we would consider an investment in our future. Is that what you're referencing?

Ian Alton Zaffino
Oppenheimer & Co. Inc., Research Division

Correct, yes.

Brian R. Gray
CEO, President & Director

Yes. I think that step-up really is '24 going into '25. We definitely have filled our pipeline of business development. And so the majority of that \$20 million step-up is related to our business development activity that we see as kind of an ongoing investment in future years. And so it's not going to be a \$20 million step-up next year, but we do see that run rate that we currently have this year.

And really, we want -- in the perfect world, you would try to do as much due diligence and integration of those acquisitions during the winter months. So I can see that being a little bit in the fourth quarter. It certainly front-loaded in the first half of the year as we bring those operations on to Knife River for the summer benefit.

So as far as additional monies beyond that step-up at this point in time, we feel like the \$20 million investment that we're making, majority business development activity and then also just staffing our EDGE initiatives, whether that's dynamic pricing, PIT Crews, our regional structure to support the growth that we've got in mind, we do see that kind of as a onetime step-up this year that could support our future growth and get to that 20% EBITDA long-term margin.

Ian Alton Zaffino
Oppenheimer & Co. Inc., Research Division

And then just as far as a little bit more color on the projects that you said are being delayed on the private side, what type of contracts are those and what type of projects are those that you're seeing? I mean, is there any kind of theme you could draw across it? Or is this kind of episodic and one-offs?

Brian R. Gray
CEO, President & Director

Yes. I would say that all private jobs for the most part. We've seen very little to, frankly, I don't know of any public contracts that we have signed that are been delayed and/or canceled. And so this is really isolated to the private market, which you know is a smaller -- we have less exposure to the private side than we do on the public side.

But that impacts our aggregates and ready-mix the most. And so these would be more materials-driven projects. And so it would be impacting our aggregates and ready-mix the most. And it's just a wide range of whether it's subdivision projects, some hospital project. There are a number of just -- these are decent-sized 100,000 to 200,000 ton projects that in any one quarter could have an impact on us.

The good news, Ian, that I've got a list of projects that have been delayed and only one of those have been delayed indefinitely. The other ones, I mean, we really do, at least at this point in time, the developers, the owners, the contractors are telling us that they hope to see those volumes kick off again back in the third quarter. And so that is something that we anticipate. But as you know, with the economic uncertainties that, that -- there's probably some volatility to that and that confidence is maybe a little bit strained at this point in time on that. But I think what we're being told is those jobs should start going again in the third and fourth quarter. I would say that it's a little bit on the West Coast.

I mean, being from Oregon, I mean, I see the headlines often, we are an exporter, whether that's with Intel, Nike, Boeing. So some of those drive our -- the local economy in Oregon. And certainly, the tariffs maybe have slowed some of those projects down. But I'd say that gives you a little bit of color on what we're seeing as far as the type of jobs that have been delayed.

Operator

Next, we will hear from Gabe Hajde at Wells Fargo.

Gabrial Shane Hajde

Wells Fargo Securities, LLC, Research Division

I hate to beat the dead horse, but maybe a different angle on the \$6 million that you called out specifically, I think, Nathan, on the increase related to diligence and integration. Just curious how that relates to maybe prior year's spend. And really, what I'm trying to understand is, I think you kind of talked about Strata as being maybe towards the upper end in terms of size and scope of sort of deals that were in the pipeline. A, if you can confirm that; B, maybe give us a sense for what you're seeing today in terms of price expectations, if anything has changed from a seller buyer standpoint would be helpful.

Nathan W. Ring

VP & CFO

Yes. I'll take that first part there as it pertains to the \$6 million and the cost that we're incurring, and then I'll turn it to Brian to talk about what we're seeing as far as deals in the pipeline and their pricing. So of that \$6 million, again, it -- and you talked about, okay, how does that compare with the prior year? We just -- we really did start up the acquisition process in 2024. And towards the beginning of that year, the amount of SG&A costs that would fit within this step-up bucket were nominal.

Now we did have some costs later in the year that was kind of mid-single digits, I think \$6 million to \$8 million. So we did have some in the latter part of last year. As we look into this year, that \$6 million that is related to the acquisition cost, most of that actually does pertain to Strata within the quarter. And within our guidance and that \$20 million step-up, we do incorporate what we expect for the full year on acquisition costs, which again would be due diligence on projects we've got in the pipeline, integration for those that we close on, but also the buildup of the business development team, which is essentially there.

So I think what we've got out there for you today, Gabe, in terms of guidance and what we've shared with the \$20 million step-up captures the increase that we would have seen from '24 to '25. Does that help answer the first part of your question, Gabe?

Gabrial Shane Hajde

Wells Fargo Securities, LLC, Research Division

Absolutely does.

Brian R. Gray

CEO, President & Director

Gabe, I'll take the second part as far as the pipeline. Yes, our pipeline continues to be full. Our business development team has been busy out there. If you look at the 8 deals that we've done, the 6 that we did last year and the 2 that we got across the finish line in the first quarter, Strata being the largest, Strata, as you mentioned, Strata being the largest that we've ever done at Knife River. But all 8 of

those acquisitions were in the range of mid-single-digit to high single-digit multiples. All 8 of those deals were in a non-brokered and a relationship negotiated area. And so that is -- continues to be our focus.

We have a very good position in these midsized, high-growth markets in a unique part of the United States that we like to do business in the midsized or high-growth markets. We continue to look at materials-led businesses. We continue to not be afraid, if they're vertically integrated. We like that part of the model. And we really are oftentimes just the acquirer of choice because of the local relationships that we've got by managing our teams in our regions at the local level, the Life at Knife culture that we've got.

And so we continue to see a lot of opportunities of these family-owned companies, maybe multi-generational companies that want to be part of Knife River. And so that continues to be our targets. And I would just say that there are a lot of opportunities out there for us to go out and execute our proven playbook. We are good at integrating these companies into our structure and look forward to having more deals yet this year.

Gabriel Shane Hajde

Wells Fargo Securities, LLC, Research Division

Appreciate that. If I can ask one sort of in the weeds accounting question. Is there anything odd as it relates to like inventory step-ups that you didn't call out as like a onetime item in your press release? And then are you willing to -- I mean, I guess the increase in EBITDA guide for this year, that \$45 million that you called out, are we safe to assume all of that is related to Strata?

Nathan W. Ring

VP & CFO

Okay. Yes. As far as unique inventory items related to accounting, so yes, you're right. At times, when you do an acquisition of a company, you'll have a markup to the fair value of what the inventory is as well. Strata does have some of that. There was none of that, that related to our first quarter results here would be a nominal amount.

And really, when you look to the full year of how much that markup was, I would say overall to the company, it would be an immaterial amount, low single digits in terms of millions. So not something that I would consider large enough to say, hey, we need to take a closer look at what that markup was for the inventory as it relates to the Strata acquisition.

Brian R. Gray

CEO, President & Director

And Gabe, yes, the entire \$45 million bump from \$510 million up to a midpoint of \$555 million is reflective of our expected earnings from the Strata acquisition.

Operator

And at this time, Mr. Gray, it appears we have no further questions. Please proceed, sir.

Brian R. Gray

CEO, President & Director

Just want to thank everyone again for joining us today. We made strategic investments in the first quarter that we believe will lead to another record year for Knife River. We continue to make good progress on our EDGE goals and are well-positioned to grow our company and deliver long-term value for our shareholders. We appreciate the interest and support in Knife River, and we'll now turn the call back over to the operator.

Operator

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

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