



Knife River Corporation NYSE:KNF

2Q 2025 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

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Call Participants

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Knife River Corporation Second Quarter Results Conference Call. [Operator Instructions].

Also note that this call is being recorded on Tuesday, August 5, 2025.

And I would like to turn the conference over to Nathan Ring, CFO. Please go ahead.

Nathan W. Ring *VP & CFO*

Thank you, and welcome to everyone joining us for the Knife River Corporation Second 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 disclosed 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 second quarter 2025 results, followed by a segment recap and an update on our competitive edge plan. 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. Before I talk about our all-time record backlog and the progress we're making on our growth strategies, I want to address the slower start to the first half of 2025. Simply put, we had unfavorable weather throughout most of our footprint, and we had fewer projects to bid and build in Oregon.

Let me start with weather, where we had a difficult time getting out in the field to begin working through our record backlog. Rain plagued our operations throughout the Central segment in pockets of Montana and Wyoming. In key markets across those regions, it rained on nearly 40% of available workdays, impacting revenue, volumes and gross profit. Not only did weather negatively affect our construction revenue and materials volumes, it also impacted our Energy Services operations as we reduced shipments of liquid asphalt.

As we've discussed on previous earnings calls, we had favorable weather the past two construction seasons, but this year, it's causing substantial disruptions for our crews as they try to get to work. I'd like to pause for just a moment here and also recognize the tragic flooding that occurred in Texas over the fourth of July weekend. Torrential rain overwhelmed rivers and claimed innocent lives.

Our hearts go out to the families who are coping with that loss. I'd also like to thank first responders for their heroic actions. Thankfully, our Texas team members are all safe. They are actively repairing our Honey Creek quarry operations where floodwaters washed out our access roads.

In addition, the rail line servicing our quarry was damaged and is currently under reconstruction. Sales volumes will be down for the third quarter at Honey Creek as repairs are made, but we expect to see strong demand once we start selling materials there again. This impact has been included in our revised guidance. The other factors for our slower start to the year was project availability in Oregon.

On both the public and private side, we continue to see work being delayed. Over the past few years, the state DOT has heavily invested in several mega projects that are over budget. This has diverted funding from paving work we typically perform. The state legislature has been called in a special session later this month to address additional DOT funding, which we're watching closely.

On the private side, macroeconomic factors, including uncertainty around tariffs and high interest rates continue to affect Oregon's manufacturing and import export industries, prolonging delays on private projects. We continue to rightsize our crews and equipment pool in Oregon and have been mobilizing our teams to where the work is, as we manage through the current demand environment.

To provide some year-over-year context in Oregon, our aggregates volumes were down about 25% in the first half or approximately 1.2 million tons. This is having a direct impact on our consolidated financial results. Over 50% of Knife River's EBITDA variance for the quarter, for the year-to-date and to our updated guidance is directly related to Oregon. That said, we still expect the state to be a solid contributor.

We anticipate Oregon's EBITDA margin, which has been Knife River's North Star for the past decade, will continue to be accretive to our overall results for the year. And while Oregon has its challenges at the moment, there are many good things happening in our other 13 states.

Let me start with the West, where we got off to a faster start in California, Hawaii and Alaska. Aggregate volumes were up almost 60% this quarter, Alaska, while ready-mix volumes were up in both Hawaii and Alaska. In California, asphalt volumes were up along with contracting services revenue, which improved 30% over last year.

We expect contracting services will continue to have a strong year in California, and we further expect volumes in all product lines to be up in California, Hawaii and Alaska. I've stated several times that these states, which make up our legacy Pacific segment, have historically been a top contributor for Knife River. It's exciting to see their progress on our competitive edge initiatives.

Finally, in the West, the state of Washington recently increased its transportation funding by over \$2 billion, and we are seeing more opportunities to bid bridge work in that market out of our prestressed division. Switching to Mountain. We anticipate another solid year. As you can see in our quarterly and year-to-date performance, work was affected by our ability to get in the field due to weather and project timing, both causing a delayed start to the construction season.

Also causing lower revenue and profitability this quarter is the lack of asphalt paving in Montana as the DOT is spending a larger portion of its budget on bridge structures, but this region has all-time record backlog, the DOT budgets are strong, and we continue to see more opportunities to bid private work. Idaho approved funding during the quarter focused on relieving congestion, and we are seeing shovel-ready projects already coming up for bid. We're currently working on the \$95 million Farmway Road project in Boise, and recently secured a \$54 million interchange project in that same market.

In Central, the acquisition of Strata drove record second quarter volumes, revenue and EBITDA, and our quarterly results could have been even better, if not for the rain. The integration of state is going well. And the guidance we provided earlier this year related to Strata remains on track. In North Dakota, the state passed a spending bill in the second quarter that allocates \$800 million a year over the next 2 years for road construction projects. This work is right in our wheelhouse.

Meanwhile, we are also seeing exceptional infrastructure investment in Texas. We are preparing for a \$118 million multiyear highway project in College Station, where we are a material supplier and paving subcontractor. Our Texas team also landed a \$33 million paving subcontract for a highway project in Madison County. Even though these projects are larger in size than traditional projects in our backlog, they are work we typically perform and have similar risk profiles.

And finally, at Energy Services, volumes increased year-over-year with the acquisition of Albina asphalt and the addition of our new polymer-modified liquid asphalt plant in South Dakota. Wet weather in the Midwest and economic challenges in Oregon negatively impacted financial results in this segment for the quarter. However, we expect EBITDA margin at Energy Services to continue to be accretive to Knife River again this year.

Looking ahead, we have many opportunities across our company as we move into the second half of the year. We have record backlog, a strong demand for our products and several exciting edge updates. Our second quarter backlog of \$1.3 billion is the highest of any quarter in Knife River history. And this wasn't just delayed work being pushed forward.

We secured \$650 million in new projects during the quarter, a \$250 million increase from the same time last year. Record DOT budgets are driving record backlog. Approved budgets in Knife River states are growing 14% from fiscal year 2026, compared to just 3% for the U.S. average. Our 14 states also have about 60% of IIJA funding still to spin, and we expect IIJA to continue to positively impact our markets well past the builds expiration.

As we enter our busiest quarter, we have a lot of work that should carry us through this year and into 2026. We expect our record backlog to drive volume growth across all product lines in the second half of this year. On top of strong budgets and record backlog, we also remain focused on our competitive edge strategy of EBITDA margin improvement, discipline, growth and excellence.

We are committed to achieving our long-term goal of 20% adjusted EBITDA margin, and we see multiple paths to get there. One of those paths is growth, and we have acquired 2 aggregate led companies since the first quarter. In May, we purchased Kraemer Trucking and Excavating in St. Cloud, Minnesota. Kramer provides infill growth for us in the central part of the state. It has 97 gravel sites to support our current footprint, along with a strategically located Granite quarry on Interstate 94 that can serve the suburbs of Minneapolis. Then in July, we acquired High Desert Aggregates and Paving in Bend, Oregon. This population has grown 8% in the last 5 years, and we expect this market to continue to grow faster than the national average.

High Desert adds aggregate reserves, along with downstream asphalt production and paving to help serve this area. Both these acquisitions align with our growth strategy, they are negotiated deals infilling our midsized high-growth markets. They are aggregate flat and they are able to quickly integrate into our system. We have maintained an active deal pipeline and will continue to pursue acquisitions, as well as organic growth opportunities that fit our strategic goals.

We also continue to invest in long-term growth through our process improvement teams, or PIT Crews, these crews are focused on self-help through standardization, cost control, price optimization and pushing towards excellence in all we do. This takes time, we are still in the early stages of many of these initiatives, but we absolutely expect this investment to have a strong and sustainable return for our shareholders. PIT Crews are an important part of our edge strategy.

Another integral part of our strategy is materials pricing. In the second quarter, our teams improved pricing on aggregates, ready-mix and asphalt. Nathan will talk more about this in his remarks, but we continue to gain traction with the implementation of our dynamic pricing initiative, along with new and improved technology to support it.

All told, we have a lot of high-quality work in front of us, a proven strategy and positive market fundamentals. We have a record backlog of \$1.3 billion that has secured work with dedicated public funding. There is bipartisan support at the federal, state and local levels to continue the build-out of America's infrastructure. This is exactly the type of work we perform. We also continue to drive pricing improvements on construction materials as we roll out our commercial excellence initiatives.

And finally, we have an incredible team that's laser focused on working safely, controlling our costs and becoming best-in-class in everything we do. All of this gives me great confidence in our ability to deliver long-term value for our shareholders.

With that, I will turn the call over to Nathan.

Nathan W. Ring
VP & CFO

Thank you, Brian. As we review our product lines, the wet weather during the quarter and the Oregon economy put downward pressure on our financial results. Generally speaking, impacts from rain caused lower volumes and challenging operating conditions, leading to higher per unit fixed costs and compressed margins in our product lines.

Additionally, the softening in Oregon shifted Knife River's overall revenue mix away from this higher margin market, which also impacted gross margins in our product lines. Beginning with contracting services, we saw an 8.5% decline in revenue for the quarter compared to last year. With a return to normal weather, we expect to get back in the field and focus on our core paving projects.

As we look forward, we are encouraged to see that the states where we operate have DOT budgets growing faster than the U.S. average, and that 10 of our 14 states are forecasting record DOT budgets for 2026. Our backlog continues to be primarily public work at about 90%, with approximately 80% expected to be completed within the next 12 months.

Moving to asphalt. The delays we experienced in contracting services also impacted asphalt revenue, with volumes declining 9% for the quarter compared to the previous year. However, we were able to improve gross profit per ton by almost 8% as we maintain pricing discipline despite lower demand.

We were also able to increase third-party sales within the quarter. And as paving work picks up in the second half, we anticipate that volumes will improve for the remainder of the year and that full year volumes will be in line with last year at comparable pricing.

Aggregate revenue increased for the quarter compared to last year, benefiting from the acquisition of Strata and our continued pricing initiatives, which resulted in higher prices of almost 12%. However, as a result of headwinds previously mentioned, we experienced

lower volumes along with production costs not fully absorbed into inventory, both of which had an impact on gross margin for the quarter.

Looking ahead with the recent addition of Strata and continued self-help from the PIT crew, we believe aggregate volumes and gross profit will keep improving, and we expect full year results for volume to be up mid-single digits and pricing to be up high single digits.

Ready-mix volume and price improved for the quarter compared to the prior year, resulting in a 15% increase in revenue. Our Central segment saw the largest volume increase related to the recent acquisition of Strata and West saw higher demand in Hawaii and Alaska. We also continue to benefit from dynamic pricing in this product line with an 8% price increase over last year.

However, gross margin was affected by the revenue shift, I mentioned earlier as we had less overall volumes from the higher-margin Oregon market. Guidance for ready-mix includes volume increases of low double digits and pricing increases of mid-single digits.

Moving from operations to administration. SG&A increased \$9.7 million for the quarter compared to the previous year and was in line with our expectations. The quarterly variance was primarily due to additional overhead costs of \$10.6 million that came with the acquisitions we have made during the last 12 months.

As anticipated, we also had higher business development costs of \$1.9 million, which was offset by higher gains on asset sales. In previous quarters, we talked about a step up in SG&A of \$20 million for this year related to business development costs and EDGE initiatives that we expect will help the company grow and improve margins.

We also noted this amount will be front loaded to the beginning of 2025, and we have spent approximately \$14 million on this step up through the first half. For the full year, we believe SG&A is still in line with what we had shared with you in the prior quarter, which is an increase of mid-single digits over 2024 SG&A, plus this \$20 million step-up and the additional overhead from our acquisitions.

For our capital allocation, we continue to put our balance sheet to work in maintaining and growing operations. Through the first half of 2025, we have spent \$111 million maintaining, improving and replacing our plant and equipment. And for the full year, we anticipate our maintenance capital expenditures, will still be 5% to 7% of revenue.

We have also invested \$620 million in acquisitions, growth projects and reserve replacements that fit our vertically integrated aggregates-led strategy. In addition, we have \$50 million approved for organic projects, which put our total growth spend at \$670 million for 2025. Any additional acquisitions or new organic projects would be incremental to these amounts.

We ended the quarter with nearly \$1.4 billion of long-term debt, which includes \$183 million borrowed on the revolver, putting our net leverage position at 3.1x. Keep in mind, this is at the peak of our seasonal borrowing needs, and we anticipate the revolver will be fully repaid by year-end.

Based on our current EBITDA guidance, we expect that the net leverage position should end the year below our long-term target of 2.5x, keeping additional capacity for future strategic investments. As we consider our first half results and look at the remainder of the year, we are lowering the midpoint of our adjusted EBITDA guidance by \$55 million.

About 75% of that reduction is related to the first half headwinds of a softer Oregon market than wet weather. In the second half, we expect continued softness in Oregon and a lower EBITDA contribution from Energy Services to be largely offset by recapturing preproduction costs, taking advantage of paving opportunities and benefiting from our recent acquisitions.

Our updated guidance includes consolidated revenue between \$3.1 billion and \$3.3 billion, adjusted EBITDA between \$475 million and \$525 million, including geographic segments in Corporate Services between \$425 million and \$465 million, and energy services between \$50 million and \$60 million.

With the exception of the flooding in Texas and the Oregon economy, both of which are included in this update, guidance is based on normal weather, economic and operating conditions. The fundamentals of our business are strong with roads in need of repair and funding to support our work at all-time highs, creating robust and ongoing demand for our services and materials.

We believe we are well positioned to succeed with the continued implementation of our self-help initiatives and EDGE strategy, and we are excited about our future.

I would now like to open the call for questions.

Question and Answer

Operator

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

Brent Edward Thielman

D.A. Davidson & Co., Research Division

I guess -- appreciate the bridge and the walk on the revisions to guidance. I was hoping maybe just in regard to the Oregon market natively what you're sort of expecting here into the second half of the year? What are the green shoots that could happen in that market, Brian.

And then just wanted to confirm that

[Audio Gap]

Strata this year.

Brian R. Gray

CEO, President & Director

Yes. Yes, I'll answer that first one is this integration of Strata is going as planned. It's going actually very good. And so that original guidance we gave back 3 months ago of an increase of \$45 million is still on track. As far as Oregon, Yes. I mean a couple of things have changed this last time we talked, Brent. As you know, the Oregon legislature was trying to pass a comprehensive transportation funding bill. We were hopeful for that. And unfortunately, after a year of work on that. They closed the legislature without passing a long-term comprehensive funding bill.

And so since then, the governor has called the legislature back into a special session at the end of this month. Frankly, I don't think that is going to have any kind of positive impact on us as far as paving work that we do in the State of Oregon this year, it is frankly going to be too late. I think it really is to avoid layoffs of DOT workers and so they can continue to work through the winter and plow in the snow.

So I think we are hopeful the state of Oregon, the roads and bridges are in very poor shape. They have got to do something, just like every state has gone through trying to find funding through gas taxes and other registration fees and very hopeful that they will accomplish that more comprehensively possibly in the special session but most likely next year.

The roads need fixed in Oregon. And so this is something that cannot kick the can down the road very long or it is going to result in even higher cost. So that's on the DOT side of it, Brent. Also, since we last talked, we had a number of projects that we're on -- we were told that those projects would start sometime in June or July. And as we are here this morning in August, only one of that list of projects has started again. So most of those projects are still on pause. Only one has been canceled. One has started. The rest of them are still on hold.

And so that is a change since we last talked and has been baked into our guidance, as Nathan mentioned, or as I mentioned, more than 50% of our revision to our guidance is because of Oregon, more than 50% of our quarterly and year-to-date variances is also from Oregon. So it's definitely having an impact on us.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Okay. Yes. I appreciate that, Brian. And then on the I mean, good to see the record backlog here. There's some comments here, margins may be somewhat lower. Is that a consequence and the work you're taking? Is it more competitive? I was just wondering around what factors might drive lower margins there?

Brian R. Gray

CEO, President & Director

Yes. Part of that is -- I mean, just as we shift revenue from regions, as you know, Oregon has been the North Star as it relates to our margins and I mean there's a lot of good things happening in Oregon still and they're still going to be accretive to our overall margins. But as we shift revenue from organ into other regions. That's part of that lower margins in our backlog.

And then just some of those larger jobs that we picked up, multiyear projects -- when you pick up those larger jobs, Brent, sometimes they come at lower margins, but also those larger jobs have a lot of opportunities for value engineering and bonus potential. And so we're excited about our \$1.3 billion backlog, but that would be the reason for those slightly lower margins in our backlog.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Okay. Last one, I mean, the aggregates ASP really impressive here, particularly relative to what we see around the industry. I guess, your views on sustaining that. I see your outlook for the year. But do you just chalk it up to just the discipline that's happening at the ground and focus on price dynamic pricing, is it mix this quarter? Just any help there would be good.

Brian R. Gray

CEO, President & Director

Yes. No, I think definitely I want to give credit to our team and our discipline in implementing dynamic pricing. That is gaining traction. The addition of Strata has helped our average selling price. And so -- and then as you know, I mean, our average selling price does include freight, does include different product mix. And so we did raise our guidance from mid-single-digit pricing because of the continued momentum that we're seeing in dynamic pricing.

We raised that up to high single digits. So we are very pleased with those fundamentals, Brent, that will last for a long time. I mean that is very positive sign for our aggregates division.

Operator

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

Kathryn Ingram Thompson

Thompson Research Group, LLC

I wanted to follow up on your Strata, Albina acquisitions and just in terms of how are they performing in the quarter really focusing on their organic volume and pricing for both of those acquisitions. And you've given some color in terms of how they'll contribute going forward, but pulling the string a little bit more in terms of clarification and quantifying the impact going forward for both.

Brian R. Gray

CEO, President & Director

Yes. Thank you, Kathryn. No, we're very excited and pleased with the progress we're making on both of those acquisitions. The integration is going well. They are -- the materials led businesses that fit very well in our EDGE strategy. They both have contributed to our seasonality in the first half of the year.

As you know, Strata is located in the northern part of our footprint. And so that has added to our seasonality, both in the first quarter, which we only had them for a couple of weeks in the first quarter. But certainly, adds to our seasonality in the second quarter as does Albina asphalt. I mean, they're selling liquid asphalt for asphalt paving projects in the Pacific Northwest and so they have added to our seasonality.

We don't provide specific guidance and financial results for individual business units, but I think it is helpful to provide some color and just directionally, the impact that those 2 companies are having on us. And so the revenue from these 2 operations, Strata and Albina for the second quarter accounted for about 8% of our total revenue for the quarter.

Keeping in mind, they are more seasonal. Again, so they're going to ramp up even more in the third and fourth quarters. I think putting that another way, Kathryn, if you just look at our consolidated revenue for Knife River, it would have been down 5% for the quarter, without the impact of Albina and Strata's revenue.

So again, Strata and Albina accounted for about 8% of our revenue for the quarter. And without those sales, our organic revenue would have been down about 5%. I'll just -- and by adding this kind a bit more maybe color and detail around the volumes of Strata, as you know, they're aggregates-led, and they have a large ready-mix presence.

And so just the impact of those 2 business units, both of them are about 10% of our annual sales, if you look at our annualized sales last year, Strata for aggregates volumes, and for ready-mix volumes would be about 10% of Knife River's consolidated annualized volumes. So that gives you a little bit of flavor on the impact that those volumes that have been added back in March are having on our overall consolidated financial statements. Did that answer your question, Kathryn?

Kathryn Ingram Thompson
Thompson Research Group, LLC

Yes, it did. And then on a go-forward basis, how do you think about the magnitude of the contribution for Q3, which you had noted as a higher relative contribution annualized business?

Brian R. Gray
CEO, President & Director

Yes. I think it's going to be -- right now, they've made up 8% in the quarter. They are more seasonal. So I see that ticking up that would be similar in line with kind of the aggregates and ready-mix contribution in that 10% range. I think as you look at our we reconfirmed the guidance that we provided on Strata. That's in that 9%, 10% of our overall EBITDA for the year.

And so I think if you look at margins and contributions from those 2 acquisitions going forward, we've publicly stated in the past that Albina until it becomes fully integrated into our Energy Services model probably slightly dilutive.

And on the Strata acquisition, we've mentioned in the past that, that's going to be accretive to our margins. So I think looking forward, going forward as far as EBITDA contribution into the second half of the year, that might provide you some additional color.

Kathryn Ingram Thompson
Thompson Research Group, LLC

Okay. And just to clarify, I believe you said this earlier in the prepared commentary for a follow-up. But part of the reason for the aggregate pricing raised guidance is in part due to these two acquisitions. Is that correct in hearing that?

Brian R. Gray
CEO, President & Director

Yes. For Strata, yes, Albina is strictly liquid asphalt supplier. And so -- but yes, all piece of that is from Strata. But a bigger, larger piece is just the continued traction and implementation of our dynamic pricing throughout all of our regions. Very pleased with the progress we're making in that initiative.

Kathryn Ingram Thompson
Thompson Research Group, LLC

Okay. Great. And then following up on Oregon, I appreciate the color that you had previously on that. But just a clarification on the public side. We've seen a lot of states, many states over the past several years come to a head with funding infrastructure several, including Tennessee, where we're based, that had a reckoning moment where they had the overall infrastructure finance worked out. Well, where do you put Oregon in terms of that journey towards the reckoning of reassessing infrastructure funding for the state.

Brian R. Gray
CEO, President & Director

Yes. I think the good news is that everybody understands the need for the funding. I think the hard part is where is it going to come from? And whether it's gas tax or registration fees and the accountability that of the current dollars that are going into ODD from the gas taxes, they've got some challenges. They have several large mega projects that are over budget.

And so I think that they need to get some better trust with the legislators and the general public, but there's no doubt that the roads, everybody on both sides of the aisle, there's bipartisan support, the taxpayers understand the need for infrastructure investment and so they're going through that process right now.

I think, like I mentioned, there was a lot of hope and a lot of traction that they would get that done about a month ago. They've been working on it for a full year. They had roadshows across the state. They built the momentum and support that people understood the need for infrastructure investment. But unfortunately, they did not get it across the finish line. And so we will be paying close attention to special session that's been called for later this month.

And then the results of that will continue to work during the off-season to give something more meaningful path. So you're right, Kathryn, every state goes through this cycle. Fortunately, for us, we have many states that have been successful, whether that's North Dakota or Texas or Washington, Idaho, I mean, that is more than offsetting what's going on in Oregon.

I mean just -- to remind you, we are in 14 states and Oregon is one, and we'll talk a lot about it probably today because the impact it's having. But we have record backlog and the fundamentals are the same in organ as they are in other states. The roads need to be repaired we just need to find the funding to get it, and we'll get that done in Oregon.

Kathryn Ingram Thompson
Thompson Research Group, LLC

Yes. Actually, as you described, it sounds a little bit like Georgia and what happened when they have failed referendum, and did the same course which resulted in going back and overhaul funding.

Brian R. Gray
CEO, President & Director

Yes.

Operator

Next question will be from Trey Grooms at Stephens Inc.

Trey Grooms
Stephens Inc., Research Division

Thanks for all the color on this. And there's a lot of moving pieces as we kind of move into the back half of the year. You mentioned Strata, you're going to see a pickup here this quarter and continuing into Q4. There's some moving pieces around Oregon.

I understand all that. But is there anything or any way you can help us kind of maybe fine-tune the cadence or seasonality that's kind of in the back half of this year as we look at third quarter and fourth and then understanding not to bring '26 into the picture just yet, but just understanding the increased seasonality that Strata and specifically Strata brings to the table and this year being really abnormal maybe from a weather standpoint, is there any way to just kind of pro forma the Strata acquisition that we can think about just typical seasonality?

I don't know if it's from a percent of total standpoint for each quarter? Just any kind of broad strokes on that because I think we were a little off on calibrating the seasonality. So any help there would be great.

Brian R. Gray
CEO, President & Director

Yes. I think the thing that compounded that problem more than anything is the weather that we had in those regions. And so it was wet up in North Dakota and Minnesota. And throughout much of our Texas -- I'm sorry, our Central footprint. And so that definitely compounded the seasonality. But just the sheer footprint of the Strata acquisition, I mean, we disclosed in the first quarter that it had about a 2 to 3 -- 200 to 300 basis point impact on our seasonality in Q1.

And I would say that, that's going to be similar in Q2. I mean, maybe 100 to 200 basis points for our seasonality of not just Strata, but, again, Albina there's -- we don't really get going on a lot of asphalt paving in the Pacific Northwest until middle part of that second quarter, call it, April, beginning of May.

So yes, we have added to our seasonality curve going forward that will carry into next year. Compounding the problem this year was just the number of rain days that we lost to production, and then just some timing of some asphalt paving projects trade compounded that as well.

So looking going forward, assuming normal weather, I think that the new cadence for our seasonality would be reflective of 1% to 2% off of our 5-year history in the first quarter and 1 to 2 percentage points less in the second quarter, pushing mostly primarily into the third quarter, with a small pickup in the fourth quarter. So that -- I think that would get into your question.

Trey Grooms
Stephens Inc., Research Division

Yes. Okay, Brian, that's helpful. There was -- there's been a lot of talk about Oregon clearly, and I understand that's important. But also, to your point earlier, you guys are in a lot of other places besides Oregon. So you named Alaska, California, Hawaii, seeing some positives there.

But can you maybe talk about just generally your overall footprint, where you're seeing some of the positives Again, you named some of these states, but kind of what's driving some of those and maybe across your footprint where you're seeing some strength versus just the headwind that we're seeing in Oregon.

Brian R. Gray
CEO, President & Director

No, I appreciate that. And we have -- as you know, 90 -- over 90% of our backlog is public funding. And so we continue to see record DOT funding in almost all of those states. In fact, if you look at the budgets and you mentioned 2026, those -- the states that we're in, with the exception of Oregon, DOT funding is up 14% in 2026 as far as our budgets and that compares to the rest of the United States at 3%. And so we do continue to see a lot of strong funding, strong demand in the public environment, and that's a large piece of our back like over 90%.

And as you know, those -- the nice thing about that is those are dedicated dollars in a lockbox. And we've not seen even in Oregon through this challenging time, any of those DOT jobs that are in our backlog get canceled. And so that is very secure work. But as you mentioned, there's a lot of other things in our material sales, about half of our aggregate sales go to third parties to private work and the majority of our ready-mix goes out.

And we are up in California, Hawaii and Alaska, in those product lines for the most part. We are seeing a lot of opportunities. We continue to see activity up in Alaska around the gold mines. There's a large airport project up there, tourism in both those states in Hawaii and Alaska are rebounding. We've got a lot of multi-housing commercial work going on in Hawaii. The big job in Hawaii and unfortunately, [indiscernible] and continues to be slightly delayed, is the large dry dock at Pearl Harbor.

We have mobilized a ready-mix plant on site, but we have not seen any production out of that, and that's pushing out to late third quarter, early fourth quarter. So the legacy Pacific region, California, Hawaii and Alaska are doing well. Idaho has record backlog and Idaho continues to find funding for public works and continues to let large jobs, there's good private work.

The semiconductor business is moving into Boise, the data centers in Wyoming, the wind projects in Wyoming. Lots of opportunities. Frankly, that Mountain region is one of our fastest-growing regions. Central continues the integration of Strata into Knife River's footprint. The funding at the DOT levels in almost all of those states has been positive. And in Texas, it just continues to see some large projects that have high pull-through of our materials business.

And then the private development has just been strong throughout that central region. So as far as the end markets, there are things going on in all of our different markets.

Trey Grooms
Stephens Inc., Research Division

Perfect. That's super helpful, Brian. And just if I could touch on one last thing. I'm not sure if you mentioned it, but 2 bolt-on acquisitions, if you could maybe touch on those and kind of what they mean to the strategy and how they fit and then maybe your appetite for M&A just where we are with the Strata integration and just where we are in kind of the cycle?

Brian R. Gray
CEO, President & Director

Yes. We've been very focused on the Strata integration. And our COO and I talk about the schedule that we are on as far as integrating Strata. And we put together a very detailed schedule of synergies that we expected to get out of that our large for a 30-, 60-, 90-day and 180-day schedule of those synergies. I'd just tell you that I've been very pleased at where we're at and the progress of the traction that we get.

And we haven't and we've done over 90 acquisitions. So we have a proven playbook, the 2 smaller acquisitions I mentioned, KTE which is in St. Cloud, Minnesota area, also has [Accorian I-94] that would service the suburbs of Minneapolis and then the High Desert paving operations in Central Oregon has -- both of them are [indiscernible].

High Desert has some asphalt plants and some paving that goes along with it. But those projects or those deals, again, are in our wheelhouse. So they are deals that they are reflective of every deal that we've done since we've spun negotiated deals in a single-digit multiple that are in midsize, high-growth markets. They infill our existing footprint, they're materials led and that we can quickly integrate and capture those synergies. So very excited about those 2 opportunities.

And our pipeline continues to be full. Our business development team is out continually looking at deals that fit that strategy of ours, and we're going to continue to grow. Very excited about the progress that we've made and look forward to future announcements.

Operator

[Operator Instructions]. Your next question will be from Ian Zaffino at Oppenheimer.

Ian Alton Zaffino

Oppenheimer & Co. Inc., Research Division

Question would be, I guess, the return to pricing. How far along are we in the dynamic pricing, if you look at kind of across the portfolio, maybe on a percentage basis. And just given how strong the quarter was, as far as pricing, what kind of explains, I guess, the step down of the guide, even though the guide raised still kind of assumes a little bit of a step down. So wondering what that was?

And then if I just switch it one more is it kind of feeds into this as you throw the 20% number again. How are you thinking about that and getting there as far as either timing and then just Oregon and just delay the timing of maybe potentially achieving that 20%?

Brian R. Gray

CEO, President & Director

Yes. Ian, so I think on the pricing, as far as where we're at with dynamic pricing, it's a little bit different like we've talked about in the past. I mentioned that Strata, I mean we've honored the pricing, and we've not -- we're beginning to implement dynamic pricing. But part of our -- the fundamental part of dynamic pricing is that we don't send out the price increase letters. And so when we acquired them in March, we will be at the very beginning process of implementing dynamic pricing throughout Strata.

So that's something that's still upside that we'll see next year. But they've got good pricing. It's just a different model. This is more of the traditional model, and we'll be moving to dynamic pricing. All the way to the Northwest region where dynamic pricing came from. They're probably in that eighth or ninth inning. And then we've got other segments, other regions, other states that are still in that second and third, as we kind of build out our sales team to training, implement the new tools that we have, the new software that we've got.

But generally speaking, I would say that Knife River, the progress we're making, the traction we're getting with dynamic pricing, the tools that we're putting in place, the dashboards that we are monitoring, I would say that we're 50% of the way there on dynamic pricing. I would say that I'm excited and see the momentum that we are raising our pricing guidance from mid-single up to high single to reflect that traction.

But Keep in mind, I mean, the first and second quarter are not our biggest quarters. And as we look forward in the third quarter and as we look at the central region coming online with more volumes, kind of back to that region mix, those numbers will shift. And as we look at just our same-store sales, the 1 product at the same pit, I think high single digits is more reflective than the low double digits that we've seen currently as we look at the next 6 months.

But those are incredible numbers. I mean high single digits for pricing is very positive momentum. It's a key pathway for us to get to that 20% flag that you talked about. A big part of our edge strategy is to continue to increase the percent of our revenue into aggregates and to continue to optimize our pricing and maximize the total EBITDA contribution and aggregates is an important part of that.

And you can see that in our largest acquisition to date, Strata. You can see that in KT and High Desert, we're going to continue to look at those opportunities. And so Ian, we've identified a number of different paths to get there to 20%. And Oregon is a temporary setback, but that's why we are diverse, both geographically and by product lines.

We like our strategy and we can get to 20% with where Oregon is currently at, it ebb and flows. I've mentioned to you, Ian, in the past that I've looked up to the Pacific region, the legacy Pacific, California, Hawaii, Alaska as being one of our north stars for a long time. And the progress that we're making on our edge strategies and the overall economy in those states, I mean, they're -- they had a fantastic year.

If you look at the West segment, I mean, it almost completely overshadows what's going on in Oregon, and that's a very positive thing. So multiple paths to get to 20%. It's a long-term goal that we continue to be focused on. I can tell you that our management team and everybody out in the field that at Knife River are laser-focused on all aspects of that EDGE strategy to get to that long-term 20% goal.

Operator

Next question will be from Garik Shmois at Loop Capital Markets.

Garik Simha Shmois

Loop Capital Markets LLC, Research Division

Sorry if some of these questions are redundant. My call was dropped earlier. But I wanted to follow up on contracting services and just the increase in the number of larger jobs in your backlog.

Is that just something that was opportunistic over the last quarter based on what was coming up for bid. Are you generally seeing larger projects coming up, maybe there's a mix shift happening? Or is it maybe a change in this overall strategy to go after larger projects as opposed to some of the smaller maintenance work we used to do.

Brian R. Gray

CEO, President & Director

Yes, definitely not a change in strategy. I mean the majority of our backlog continues to be projects less than \$5 million. This is really a result of DOTs deciding internally to maybe more efficient to manage one larger project and have just one set of project schedules and contractors on a site. And so we are -- I mean part of that is maybe trying to get a lot of the IIJA money that still -- there's almost 50% of that needs to be spent through the system in these larger projects.

And so we are subcontractors on the largest projects that we've taken on, the big job that we have in Texas, it's work that we do is asphalt paving and supplying materials our risk profile on these projects -- I mean, this is something that we've seen coming for a while, Garik. In fact, we've been talking about probably for the last 2 or 3 quarters that we see larger projects being led by DOTs, and we will take a look at those. I mean, we bid some of those as prime contractors, but it's not a different type of work.

It's not different risk profiles. It really is the work that we do. The nice thing about it is a multiyear project like this. These large projects, we have the ability to have price protections and prepurchase and lock in on our pricing and have escalations built into them.

But it's also secured backlog for the next couple of years on some of these projects. So you did see a shift in the amount of backlog that we burn in any 1 year down to that about 80% now.

Garik Simha Shmois

Loop Capital Markets LLC, Research Division

Okay. That's helpful. Follow-up question is just on the weather impacts and how we should think about your ability to recover the volumes that were delayed from the first half of the year, should we expect some of that to bleed into 2026. And also just was hoping you could provide some color on how July has trended recognizing Texas. There was severe flooding. So you've called that out, but other public aggregates and cement companies have spoken to strong demand so far in July.

And I'm wondering if you're seeing a similar rebound in markets where weather has not been an issue.

Brian R. Gray

CEO, President & Director

Yes, with the exception of our Honey Creek facility that has been shut down for the majority of all of July and continues to be shut down and will be through part of August, is that the demand is strong. The backlog is there. The demand is strong. But our weather has been mixed, frankly, in July, and we've had very favorable weather, in a large portion of our footprint, but there is still pockets that we continue to get rain. This is the time you were a little bit easier, it drives out faster. It doesn't rain quite as much typically these time of years. So a lot of times they're just thunderstorms that come through causing some rain that we can typically work our way through.

But the overall demand is strong, and I'm pleased to see with where we're at on our volumes for July. And I think that's reflective of when we put our guide together for this call for our volumes in all product lines. I think that is reflected -- we did take July into consideration for that guidance for the rest of the year.

Operator

Next question will be from Chris Ellinghaus at Siebert Williams Shank.

Christopher Ronald Ellinghaus

Siebert Williams Shank & Co., L.L.C., Research Division

Brian, you sort of talked about Oregon and coming back to the legislature, it makes perfect sense that it does in aid 2025 very much. But do you expect sort of Oregon state conditions to revert to normal for 2026?

Brian R. Gray
CEO, President & Director

Yes. I'm hopeful, Chris. But the reality is, and I mean, typically, you don't pass comprehensive transportation funding in a short special session. I mean you would -- and so I would suspect that there'll be some stopgap funding that they accomplish at the special session and that the legislature meets every year in Oregon. And so they'll be back in session again at the beginning of next year.

And so I'm more hopeful that they will figure that out. I mean what I can tell you is, again, that the need is there. I mean there is an analysis that was done by the DOT that identifies almost \$1 billion -- \$988 million of a shortfall to get the roads and the bridges up to an adequate fair condition.

There's a report out there right now that the DOT the cycle that they're maintaining and replacing bridges is every 900 years, and these bridges were designed to last 50 to 75 years. And so they have to fix this problem. And as you know, Chris, the longer you delay maintaining these infrastructures, the cost of repairs and maintenance just goes up exponentially, requiring more materials, not good.

I'm a taxpayer in Oregon, not good for a taxpayer, but as a construction material supplier and a contractor that does that type of work is going to require even more materials. So this is not a speculative problem. I think the challenges of finding ways to fund the transportation bill and they will do that. I don't necessarily think they'll do that at a special session at the end of the month, but they will do that, I mean, or later.

So how does that impact '26 yet, Chris. I mean I don't know. I would say I'll know more at the end of this month. We'll update everybody at the next quarterly call, and we'll know more kind of the progress that we're making in Oregon as far as the DOT funding.

Christopher Ronald Ellinghaus
Siebert Williams Shank & Co., L.L.C., Research Division

Okay. Great. That helps. In the quarter, I want to say that Strata [indiscernible] masks due to the weather impacts. So can you just sort of -- it seems like Strata must have been pretty significantly accretive to margins. So can you just sort of talk about what you saw from Strata in the second quarter? And how did it match up versus your sort of expectations?

Brian R. Gray
CEO, President & Director

Yes. I mean other than the impact they had to weather. And there was absolutely an impact to Strata from weather. But everything else that we're seeing with the integration with their sales volumes, I mean, it's right on plan, and that's why we're maintaining the guidance for Strata to continue to contribute that \$45 million is baked into our guide going forward. And so the revision to our guide does not -- there is no negative impact.

And frankly, if you look at our range within our guide, I would say that one of the ways we hit the upside, the high end of that range is we are excited of what we're seeing at the Strata acquisition. There's nothing there that has been alarming. There's no surprises. We can't control the weather, but we can control our pricing, our bid room strategies of quality over quantity.

All of the EDGE principles, they've embraced those principles at Strata and it's going -- it's on track, Chris. I would just say that it's on track.

Christopher Ronald Ellinghaus
Siebert Williams Shank & Co., L.L.C., Research Division

Okay. Can I sneak in one really quick question. Are you guys working on the Micron projects in Idaho?

Brian R. Gray
CEO, President & Director

There are probably some opportunities for us. We are in conversations as they continue to look at getting that project back on track. And so I would say that we are in conversations with the team at Micron.

Operator

Next question will be from Gabe Hajde at Wells Fargo Securities.

Gabrial Shane Hajde*Wells Fargo Securities, LLC, Research Division*

Three questions. One is -- and I know there's been a lot of airtime on Oregon and may be unfair to ask it this way. But -- can you kind of give us for this at a state level, what is down or what you're projecting it to be down, that's embedded in your guidance year-over-year. And if nothing changes as it relates to funding, perhaps what that kind of -- the run rate into 2026. Have we seen all of the, call it, max pain? Or would there be something in Q1 that would come out? I'm assuming that much because of the seasonality of the business?

Brian R. Gray*CEO, President & Director*

Yes. We don't provide individual state guidance, and I probably won't do that here, Gabe. What I can tell you is that if you look at our variance, the negative variance year-over-year for the quarter for the first half of this year and the update to our guidance the \$55 million reduction in the guidance that we've said that more than 50% of that variance for the quarter, for the year into the guide is directly related to what's going on in Oregon.

There's too many unknowns at this point in time to start speculating what's going to go on in 2026. I can tell you that the list of projects that we have that are on hold, the majority of those, all but one are still on hold. They've not been canceled. And so I think we'll know more in 3 months and certainly, we'll update everybody as far as the progress on where we're at in Oregon.

But I think that's the best way of looking at the impact to Oregon. Keep in mind, they have industries, they have the highest margins within all of Knife River. There's a lot of very good things that are going on. They are very well equipped in Oregon to deal with the headwinds there. I can tell you that, that management team is rightsizing their crews, their equipment. We're mobilizing both crews and equipment to other parts of the company to try to keep people busy.

We are managing our way through this temporary short-term headwind that we have in Oregon.

Gabrial Shane Hajde*Wells Fargo Securities, LLC, Research Division*

I would expect nothing less. You guys are dynamic folks. Interesting commentary on the backlog. You mentioned, I think, putting \$650 million into the backlog? I'm assuming that was during the second quarter, it was up \$250 million. So again, I'm just mathematically, I assume you put \$400 million into your backlog in second quarter of '24. So maybe confirming in nature of a question.

Was Strata in that already given timing of when you closed it, would it have a material impact on backlog? And then can you talk about maybe just geographically where some of that incremental \$250 million is sitting?

Brian R. Gray*CEO, President & Director*

Yes. So there is no backlog from Strata back in 2Q of last year. And so that would all be incremental. It's somewhere in that \$50 million, \$60 million of backlog that we had some strata that we added to our overall backlog. And so the majority of what we picked up, the gain, the \$250 million increase year-over-year. You're right, you did the math right. We had very close to -- we gained \$400 million of backlog last year. This year, we secured \$650 million of new backlog. And so I said that right, yes.

Yes. And so a lot of that came from some larger projects, two of them down in Texas, one in Idaho. We secured a nice job down at Conway Pacific down in Southern California. I mean, really, it's across the board. If you look at the states that we operate in, they all have very strong DOT funding. And so -- there's a lot of opportunities for us to continue to pick up backlog.

And I think one of the upsides and again, in our guide is often times, this is the time of the year, we will start seeing some late jobs come out. The good news for us is we've got capacity to take on more backlog and so we'll continue to look at those opportunities that continue to add more backlog. But it really came from some -- across all of our footprint. It came from some larger projects that we picked up down in Texas and Idaho, and then a portion of that did come from Strata.

Gabrial Shane Hajde*Wells Fargo Securities, LLC, Research Division*

Okay. And last one, I may have missed it. There's a lot going on this quarter, and you threw out a lot of numbers. The Strata acquisition around \$450 million, I think you said \$675 million between the other two acquisitions that you've done and maybe some

strategic capital. So I just want to make sure I heard you correctly. And if I did my math right on these other two deals, is that adding on an annualized basis, another \$20 million to \$25 million of EBITDA?

Brian R. Gray
CEO, President & Director

Yes, I'll let Nathan take on that question for us.

Nathan W. Ring
VP & CFO

Yes. Gabe, good to hear from you. So from the standpoint of what kind of capital have we invested on the acquisition side, and I'll put that entirely into the growth bucket. So for the course of the year, Strata was the largest fleet. As you noted, \$454 million was the announced purchase price. We've done other acquisitions since then. So the total is \$620 million. through the year, that's through June that we have spent on growth projects at acquisitions, that's growth reserve replacements and organic projects that we have going on elsewhere.

We have another [indiscernible] that we're looking at for the remainder of the year, that relates to an organic project that we have. So if you want to put that whole growth bucket together for 2025, we're looking at \$670 million that would be related to that.

And then on the maintenance capital, if you want to put the whole capital piece together, we spent about \$111 million on maintenance capital and just like in the past, this year is the same thing, we're anticipating that our maintenance capital expenditures would be 5% to 7% of revenue. So those two pieces, Gabe, would give you an idea of how much we have going invested into the company.

And then remember, along with that, we did take on \$500 million of term loan B to help fund the Strata acquisition. The rest is funded with internal sources of cash. And so I know you're probably looking at the net leverage, wondering if we've got a limitation there.

But as we move through the rest of the year and take on the EBITDA, as we announced at the midpoint of our guidance and pay off the revolver, we'll be in a net leverage position compared to EBITDA, probably close to 2, leaving additional capacity for us to pursue other acquisitions, greenfield projects this year and into next year. Does that help, Gabe?

Gabrial Shane Hajde
Wells Fargo Securities, LLC, Research Division

It does. Thank you.

Operator

Our last question comes from Ivan Yi at Wolfe Research.

Ivan Yi
Wolfe Research, LLC

Going back to the cadence of guidance, like revenue and EBITDA are you expecting 3Q versus 4Q. Just wanted to see if we should assume anything outside of normal seasonality there.

Brian R. Gray
CEO, President & Director

Yes. We have a -- what is it, we've got a seasonality chart that we take a look at. And so within the first 2 quarters we're generally and I'll take a look at it in terms of EBITDA and revenues relatively close to that. We're probably around 20% for both first quarter and second quarter, about 20% of our revenue and EBITDA comes from that quarter and then close to 80%, almost of our EBITDA comes in that third quarter time frame with the remainder coming in the first quarter.

And so on a revenue basis, that third quarter is close to 40% of our revenue. And then on an EBITDA basis, about 56% of our EBITDA comes in that third quarter. Does that help?

I'll kind of go through again. Yes. For the remainder of the year, we're probably looking at close to 60% I'll say it this way. For the rest of the year, we're looking about 60% of our revenue coming in the third and fourth quarter. That's our historical curve line.

And then for EBITDA, it's probably closer to 70% of that, and then with the seasonality changes we've got here, it's probably a little bit higher than what it's been historically with the addition of Strata and Albina.

Ivan Yi
Wolfe Research, LLC

That's very helpful. And then lastly, can you discuss how roughly transportation costs are trending? Also roughly what percent of your shipments are moved on trucks versus rails. Just want to see which modes are seeing greater pricing increases right now?

Nathan W. Ring
VP & CFO

Yes, I can take the overall cost piece of that and then we can get into the transportation component. I would say on the whole, our cost structure, when you're taking a look, whether it's labor, trucking, equipment, get into energy. On the whole, those are probably mid-single-digit increases year-over-year as far as the inputs.

What you might be looking at on the other side, though is, okay, wait a minute, your cost per unit is going up. That really is a reflection of lower volumes on fixed cost components. And so even though our input costs are mid-single digits, we've got lower volumes, and we did talk a little bit about weather, and that does impact our efficiencies to some degree.

And so you can imagine working in the rain is not as cost effective as working in dry weather. And then along with that, we did continue to have some preproduction costs. So on the whole, input costs still sitting around that mid-single digits for the quarter, and I'd say this is temporary, our cost per units are higher as far as our production costs. Is it specifically related to transportation?

Brian R. Gray
CEO, President & Director

Yes, the majority of our material is still delivered by truck. We do a fair amount of rail in Texas. We do raiing operations in Oregon. We got rail up in Alaska. And the exciting thing about Strata -- adding Strata is they move a lot of their aggregates by rail. They've had a very good strategy on rail for years. So those rail movements will continue to increase. But right now, the majority of our material is delivered by trucking.

Operator

And at this time, I would like to turn the call back over to Brian Gray.

Brian R. Gray
CEO, President & Director

Yes, I'd just like to thank you all again for joining us today. Our second quarter was largely impacted by factors out of our control, but we continue to make good progress on our EDGE initiatives and believe we are well positioned to grow our company and deliver long-term value for our shareholders. We appreciate the interest and support. I will now turn the call back over to the operator. Thank you.

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.

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