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Knife River Corporation NYSE:KNF

# 1Q 2026 Earnings Call Transcript

Tuesday, May 5, 2026 11:00 AM EDT  
S&P Global Market Intelligence Estimates

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# Call Participants

## EXECUTIVES

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*VP & CFO*

**Dara Dierks**  
*Vice President of Investor Relations*

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# Presentation

## Operator

Good morning, everyone, and welcome to the Knife River Corporation First Quarter Results Conference Call. [Operator Instructions] Also, today's call is being recorded.

At this time, I would like to hand things over to Dara Dierks, VP of Investor Relations. Please go ahead, ma'am.

## Dara Dierks

*Vice President of Investor Relations*

Good morning, everyone, and thank you for joining Knife River Corporation's First Quarter Results Conference Call. With me today are President and Chief Executive Officer, Brian Gray; and Chief Financial Officer, Nathan Ring. A question-and-answer session will follow their prepared remarks.

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 reference 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.

I would now like to turn the call over to Brian.

## Brian R. Gray

*CEO, President & Director*

Thank you, Dara. Good morning, everyone, and thank you for joining us. We had a strong start to the year, and I look forward to discussing our first quarter in more detail. Also today, we'll spend some time highlighting key components of our growth strategy and what we see ahead in 2026.

Starting with our first quarter results. I'm pleased to report we improved revenue by 16% and adjusted EBITDA by 16% year-over-year, while expanding adjusted EBITDA margins by 290 basis points. We saw increased activity in our markets, which helped drive double-digit volume growth across our product lines. Combined with our efforts to lower costs and optimize pricing, we realized margin growth for aggregates, ready-mix and asphalt.

On the contracting services side, revenues were up, and we have secured record quarter backlog of \$1.2 billion. We are just now entering the start of our construction season, and we're doing so from a position of strength. Lastly, we completed 3 aggregates-based acquisitions during the quarter. We expanded into Utah with a platform operation in Salt Lake City, and we strengthened our footprint in Montana.

I'll talk more about our acquisition opportunities in a few minutes. We are growing. Our competitive edge initiatives are working, and we believe we are well positioned for another successful year. We're excited about 2026, and we're confident in our ability to deliver continued growth. Supporting that confidence is a clear and proven strategy that we believe makes us the employer, supplier, acquirer and investment of choice.

Turning to Slide 4 in the deck, you can see the 4 pillars of Knife River's growth strategy. First is our midsized higher-growth markets. Second is vertical integration. Third is the opportunity for self-help to improve margins. And fourth is our Life at Knife culture and relentless drive for excellence. We recently conducted a perception survey that provided a lot of encouraging feedback, including that investors value our strategy and want to learn more about it. Today, I will spend more time discussing 2 aspects of our strategy, our markets and vertical integration.

Starting with our unique footprint, we believe our strong position in midsized, higher-growth markets presents a competitive advantage. Over the past decade, population growth in Knife River states has outpaced that of non-Knife River states, and this trend is expected to accelerate. From 2025 through 2050, our states are projected to grow 2x faster than that of non-Knife River states.

More people equates to more demand in our markets on essentials like transportation, housing, water and energy infrastructure. You can see that demand already this year, as our states are investing in road and bridge infrastructure faster than other states. Collectively, DOT budgets in Knife River states increased approximately 15% this year compared to flat in non-Knife River states.

With this strong funding environment and clear need to continue repairing the nation's roads, we expect state and federal infrastructure funding to continue increasing over the long term. This represents a significant opportunity as Knife River states collectively include over 3 million lane miles of roads. That is almost 40% of all U.S. lane miles.

Further, roads in our states are exposed to harsh conditions. As a result, they require routine maintenance, creating ongoing demand. In addition to public infrastructure, heavy materials demand across our markets is supported by a diverse set of structural drivers. Some of these drivers include energy projects, military spending and data center development.

We believe mid-sized markets like ours present an increasingly attractive opportunity for data center growth. We have some of the lowest cost industrial power in the country, greater availability of land and water and attractive livability and affordability to support an expanding workforce. Over the last 2 decades, GDP in Knife River states has grown at roughly twice the pace of non-Knife River states, highlighting a proven track record of outperformance and a strong foundation for continued growth.

Lastly, an important reason we like our markets is our position within them. Nearly 90% of our aggregates volume comes from markets where we have a leading position. This scale, in addition to our aggregates reserves and vertical integration gives us a competitive advantage and enables better purchasing, pricing and reliable supply chain. To put our unique footprint into context, we thought it would be helpful to take a closer look at our 3 geographic operating segments and how they support our overall strategy.

Starting with the West on Slide 6. This segment includes California, Oregon, Washington, Alaska and Hawaii. Over the next 25 years, this market is expected to grow its population by approximately 12%, which we believe will support sustained infrastructure investment and commercial activity. In 2026, state DOT budgets across the segment are approximately \$34 billion, reflecting a 13% year-over-year increase.

In addition to population growth and robust funding for public infrastructure, the West benefits from military spending, the build-out of data centers and other market-specific growth opportunities. We are a preferred materials vendor for a data center and hyperscaler that is active in this region, and we continue to work with them on a number of ongoing developments.

Also throughout the Pacific Northwest, we are a premier supplier of prestressed concrete products, including the data center projects for multiple repeat customers. In Hawaii, we are currently working on a large Navy project at Pearl Harbor, and the state is also seeing increased private investments on Maui and Oahu.

In Alaska, we continue to see elevated levels of military and airport investments. We are supplying materials up to the North Slope, where energy and mining-related projects are driving our optimism for growth in Alaska. Taken together, increased federal spending and improving economic activity across the West underpin our confidence in long-term demand in this segment.

Turning to the Mountain segment. This includes Idaho, Montana, Wyoming and our recently added operations in Utah. This segment benefits from some of the strongest demographic trends in the country with population expected to grow 26% by 2050. These states are among the most desirable places to live in the U.S., supported by strong inbound migration and in the case of Utah, one of the highest birth rates in the nation. This growth drives long-term demand fundamentals.

Mountain has long been a leading asphalt paving market for us, and this segment also represents one of our strongest commercial construction profiles. It benefits from significant investment in wind and solar, data center development and military infrastructure, along with advanced manufacturing growth. In Idaho's Treasure Valley, large-scale semiconductor investments are helping establish Boise as an emerging technology hub. With our strong footprint and local capabilities, we are well positioned to support these growth projects.

Finally, turning to our Central segment. This includes Iowa, Minnesota, North Dakota, South Dakota and Texas. This segment is also benefiting from strong population growth with our states expected to grow 21% over the next 25 years. Texas, North Dakota and South Dakota rank in the top 10 in birth rates in the nation. This sustained expansion is driving broad-based growth across private and public markets.

From an infrastructure standpoint, the Central segment has a large and expanding public funding footprint. For 2026, total state DOT budgets across the region are approximately \$31 billion, a 16% increase from last year. In North Dakota, the state's construction budget for 2026 is more than double that it was in 2025. With our strong operating presence, we are well positioned to capture increased opportunities.

Meanwhile, Texas also represents an exciting opportunity within Knife River. Our operations are strategically positioned within the Texas triangle, giving us strong exposure to the high-growth markets between Dallas, Houston and San Antonio. Our triangle within the triangle enables us to serve some of the fastest-growing mid-sized markets in the nation. Development in these high-growth corridors is accelerating, and infrastructure demand is expanding beyond established urban boundaries.

Overall, the Central segment combines strong demographic tailwinds with a well-funded infrastructure pipeline. It has attractive growth opportunities across energy, commercial and transportation sectors. We expect the region to remain an important contributor to our long-term value creation.

The final point I'll make about our markets today is that we see substantial runway for growth through M&A. These markets are still highly fragmented with vertically integrated family-owned businesses, creating hundreds of potential opportunities at attractive multiples.

Knife River has completed nearly 100 acquisitions. We are well known, well respected and trusted. When a family-owned business decides it wants to sell, they often contact us first. They value our people-first culture and our commitment to the communities where we live and operate. We believe this combination of culture, credibility and capabilities makes us the acquirer of choice. We are well positioned to continue expanding our distinct footprint through disciplined value-accretive acquisitions.

Moving from our markets to vertical integration, this is another part of our strategy that makes Knife River unique. We believe our aggregates-based end-to-end operating model drives value creation. First, it enhances our financial performance by being a profit multiplier. This is achieved in 2 significant ways.

One, we are able to capture higher margins on the pull-through of upstream materials to our construction projects. And two, being vertically integrated creates meaningful synergies across business units, including equipment utilization, overhead absorption and labor efficiencies, all of which contribute to industry-leading margins on our downstream product lines.

Our balanced mix of aggregates, ready-mix, asphalt, liquid asphalt and contracting services also supports resiliency across economic cycles. It enhances our ability to flex between public and private work and gives us more opportunities to provide our products and services. For our customers, vertical integration represents a one-stop shop that translates into greater supply chain reliability, improved coordination at the job site and more consistent execution across multiple projects.

Moving to Slide 11. You can see how vertical integration also gives us more opportunities to win profitable work. On any given construction project, we can have over a dozen distinct pathways to capture profit. This can be as a general contractor or as a subcontractor that performs asphalt paving, site development, grading or other construction services or it can be by supplying materials directly to ourselves, to the project owner, to another prime contractor or to a competing producer of downstream materials. Every one of these entry points gives us another chance to compete and another way to create value.

Vertical integration also gives us flexibility to adapt to our markets and position ourselves where we have the most opportunity for growth, both organic and through M&A. On the organic growth side, we can expand our market position by adding complementary products and services to an existing footprint.

In Texas, for example, we greenfielded our Honey Creek quarry near Austin a few years ago as a means of providing high-quality aggregates to our downstream product lines and to third parties. Today, that investment makes it possible for us to support our newly expanded asphalt plant in Bryan, where we have added capacity to serve a large paving job on Highway 6. Honey Creek is also providing materials for our recently acquired Texcrete ready-mix operation in College Station, allowing us to expand our operations in this dynamic market.

On the acquisition side, being vertically integrated also gives us more opportunity as we aren't limited to a single product line to grow. While our M&A strategy will continue to be focused on aggregates-based opportunities, we have a healthy acquisition pipeline that includes all product lines, including aggregates, ready-mix, asphalt, prestressed concrete and contracting businesses that we believe would enhance our portfolio and support long-term growth.

Thank you for letting me provide more detail on our strategy, in particular, why we're confident in the markets where we operate and the advantage of the vertical integration. Next, I'll quickly recap the quarter results for our segments.

Starting with the West, the segment benefited during the quarter from higher private market activity, which drove increased aggregate volumes. For the third straight quarter, Oregon continued its recovery, meeting our expectations for the start of the year. We expect this trend to continue and believe the segment is well positioned for ongoing growth.

Performance in the Mountain segment benefited from higher available backlog, better weather and solid execution. The team delivered improved cost discipline across all product lines while optimizing material pricing. In addition to strong organic performance, the Mountain segment completed 3 acquisitions during the quarter, Morgan Asphalt in the Salt Lake City market and both Sparrow Enterprises and Donaldson Brothers Ready-Mix in Montana.

Performance in the Central segment reflected impacts from acquisitions completed in 2025. The addition of Texcrete helped the region nearly double its ready-mix volumes. These benefits were partially offset by 2 additional months of expected seasonal losses at Strata in January and February. During the quarter, we continue to make meaningful progress on strengthening operational execution, and we ended the second quarter with strong backlog, positioning the business for further growth as the year progresses.

Lastly, turning to Energy Services. Favorable market conditions in our Western states supported higher sales volume and improved fixed cost absorption during the quarter. We also continue to capture synergies by merging our West Coast operations and ended the quarter with a 40% improvement in EBITDA. All in all, we had a strong performance in the first quarter and continue to be well positioned for growth in 2026.

With that, I'll turn the call over to Nathan to walk through our product line financial results.

**Nathan W. Ring**  
*VP & CFO*

Thank you, Brian. As mentioned earlier, we are off to a good start and very pleased with the momentum carried forward from last year. That was evident in our product lines as we achieved volume, revenue and gross profit improvement in aggregates, ready-mix and asphalt.

Starting with aggregates, our 26% volume growth, coupled with price increases and cost controls, drove strong margin improvement. Oregon led the way on volumes with an increase in third-party sales related to more commercial, industrial and residential construction. Mountain also positively contributed to our volume increase with continued favorable weather providing the opportunity to work on record backlog, creating pull-through demand of aggregates.

Importantly, we also reduced our per unit production costs by more than 10%, a direct result of process improvements and last year's investments in our operations. As reported, pricing was up 1% compared to last year due to geographic mix. The Mountain region had nearly 70% higher aggregates revenue than last year, had pricing and costs meaningfully lower than other regions. Normalizing for geographic mix, pricing was up 4.1%. We remain confident in our full year guidance of mid-single-digit pricing improvement on an as-reported basis and at least 200 basis points of aggregate margin expansion.

Ready-mix saw a 33% increase in volumes for the quarter. The acquisition of Texcrete was the largest contributor to this increase with our Texas operations more than doubling their first quarter volumes. Consolidated pricing and margins were up for the quarter as the price/cost spread continues to improve for ready-mix. We see these contributions continuing into this year with expected full year volumes up mid-teens over last year.

Turning to asphalt. Activity levels were positive with volumes increasing 42% year-over-year. As a reminder, the first quarter accounts for less than 5% of full year volumes, so the majority of our work is yet to come. We continue to maintain our guidance of mid-single-digit volume growth.

Contracting services delivered higher revenues during the quarter with contributions coming from all segments. Central saw the largest increase, led by our Texas and North Dakota operations. Margins were down for the quarter, but similar to asphalt, the first quarter historically represents a small portion of annual contracting services revenue. Therefore, project timing, type of work and geographic mix can have a disproportionate impact on first quarter margins.

Turning to backlog. First quarter levels were strong at approximately \$1.2 billion, with about 75% expected to be completed in 2026, providing good visibility into future activity. As we work through our backlog, we continue to expect higher gross margins in contracting services in 2026, supported by increased self-performed asphalt paving. This type of work can drive margin gain through successful project execution and the bonuses that get paid to contractors for quality performance.

In addition, the increased asphalt paving in our backlog also provides the benefit of pulling through our higher-margin upstream materials, positively impacting product line gross margins. We are excited about the year ahead, and we'll continue our focus on cost controls across our business.

Regarding energy costs, we are utilizing a number of mitigating activities in our materials and services product lines, including the pre-purchase of diesel, energy escalation clauses in construction contracts and fuel surcharge clauses in material deliveries. These

efforts, along with dynamic pricing, help reduce the potential impact associated with oil prices and position us well to maintain our margins.

Moving to SG&A. We continue to expect the full year to be comparable with 2025 as a percent of revenue and then begin trending lower in future years as we scale and fully capture synergies from recent acquisitions.

Switching to capital allocation. We are committed to our disciplined approach, including maintaining fixed assets, improving operations and growing the business. In the first quarter, we spent \$42 million on maintenance and improvement CapEx, largely on the replacement of construction equipment and plant improvements. Additionally, we spent \$209 million on growth initiatives, including \$174 million on the 3 acquisitions mentioned earlier and \$35 million on aggregate expansions and greenfield projects.

We continue to maintain our focus on having a strong balance sheet with capacity available to support these growth initiatives and future investments. Keep in mind that as we enter the second quarter, we will reach the peak of our annual borrowing needs as we build working capital for the construction season. As we look to the full year, we expect to end 2026 with no borrowing on our revolving credit facility of \$500 million and have cash on hand, resulting in an anticipated net leverage near our long-term target of 2.5x.

Turning to our guidance. As we have indicated in the past, we generally do not make revisions until the construction season gets into full swing. Therefore, we are reaffirming the guidance we presented in February. Based on our good start to 2026 as well as the addition of 3 aggregates-based acquisitions, we are confident in our guidance and currently expect 2026 to trend toward the upper half of our revenue and adjusted EBITDA ranges for the year.

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

**Brian R. Gray**  
*CEO, President & Director*

Thank you, Nathan. We are off to a strong start this year, building on the momentum we established in the second half of 2025. We are just now entering the construction season, and we are doing so with record backlog and a proven growth strategy. We are meeting increased demand across our unique growing markets with disciplined cost control, pricing optimization and the benefits of vertical integration.

Our competitive edge initiatives are driving real improvements. Our acquisition strategy continues to enhance our results, and our teams are performing at a high level. I'd like to thank our 7,400 team members for their commitment to working safely and advancing our growth efforts. We believe the progress we're making today positions Knife River to generate profitable growth in 2026 and well beyond. We are excited about the opportunities ahead, and we are focused on creating value for our shareholders.

Thank you for your time today, and we'll now open the call for questions.

# Question and Answer

## Operator

[Operator Instructions] We'll take the first question from Trey Grooms, Stephens.

## Trey Grooms

*Stephens Inc., Research Division*

Congrats on a great start to the year. So I guess, Brian, maybe to begin, can you talk about some of the puts and takes around the aggregates pricing in the quarter? You mentioned some pretty significant mix headwinds there. But if you could maybe go into a little more detail, is it geographic, product? Is it both?

And then kind of reiterating that mid-single-digit pricing guide for the year on reported ASP. Can you talk about maybe the trajectory there and how we should be thinking about how you kind of get to that mid-singles for the year given the tougher start out of the gate?

## Brian R. Gray

*CEO, President & Director*

No, I'd be happy to, Trey. I'm actually very pleased at where we're at and what I'm seeing with pricing and the impact it's having on our overall margins in the aggregates group. So we reported just slightly 1% -- prices were up about 1% for the quarter. And as you know, our average selling price, it includes freight, it includes delivery and includes other revenues.

And so if you just normalize just for one thing, which is the segment mix, our average selling price would be up 4.1%. So when I talk about geographic mix, I mean, we have 3 geographic regions that sell aggregates, the West, the Mountain and the Central.

In the Mountain region, because it was favorable weather and the amount of backlog they've got there, aggregate revenues for the quarter in the Mountain region were up 70 -- almost 70%, 69%. And in the Mountain region, their cost structure is much lower than it is in the other regions, therefore, has a much lower pricing structure as well. And the reason that is, is that the downstream operations, the ready-mix plants, the asphalt plants, they are sitting on our aggregate reserves, and we have very little to -- practically no materials transfer in that mountain region compared to other regions like the Central, we're riling materials to aggregate yards and to downstream product lines.

We're doing that in North Dakota. We do that some in Oregon by barge and rail. And so the cost structure in those other regions is bigger than it is in the Mountain. And so because they have such a lower cost structure, their prices are also lower. And when you sell 70% more in the quarter, that alone would bring our average selling price up if you just make that one adjustment to 4.1%.

The other thing that we do in the Mountain region is the type of work that we do there, they consume and utilize a lot more unprocessed materials. They literally -- they use about 2x annually the amount of pit run or bar run for large heavy civil fill type of projects. That also has an impact in product mix.

And so, I look at our sales dashboards frequently, and I can tell you and reassure you that what I see for the same product coming out of the same plant that I'm very comfortable guiding to mid-single digits. Frankly, we saw mid-single digits this quarter if you make those adjustments.

## Trey Grooms

*Stephens Inc., Research Division*

Yes. Okay. Got it. That's all very helpful. As my follow-up, with the 200 basis points of margin improvement in aggs that you're targeting, especially with the diesel headwinds is particularly impressive. So any additional color on how you're kind of navigating these higher costs? And what gives you the confidence to reiterate that 200 basis points of margin improvement, especially given how much diesel inflation we've seen?

## Brian R. Gray

*CEO, President & Director*

Yes. It's really the continuation of the good work that our PIT Crews are doing and some of the benefits that we're now beginning to realize weighs into this initiative with our PIT Crews. We enjoyed -- our gross profit margins in aggregates was up 390 basis points for the quarter. And we didn't really begin to see those energy headwinds until later in the quarter, really in March.

But as Nathan mentioned in his prepared remarks, I mean, we have had existing mitigation practices in place for years, and those practices are working. The fuel surcharges that we charge on materials delivery, we've got the escalation clauses in construction contracts, which also can come back and help us on aggregates. And so where we don't have protection, Trey, we do a good job at doing some fixed forward contracts on diesel.

And probably the most important tool that we've got in our toolbox, and this is relatively new for a big part of our company, that's dynamic pricing. And so we are able -- we don't need to wait for a midyear increase to come out. We are literally pricing diesel costs, current diesel costs into our current bids going out on a daily basis. And so -- we do feel comfortable.

To put it all into perspective, the amount of diesel that we use in a year, a full year is about 20 million to 25 million gallons of diesel. And that diesel is used primarily in 2 different ways. One is for on-road vehicle deliveries or vehicles. That's about 50% of that. And the other 50% is used in the yellow iron, either at the aggregate sites or out on construction projects.

And if you take a look at all of that, we feel like we are protected through one of our mitigation practices on about 80% of that diesel. And so that kind of maybe helps you put it into context of the potential exposure we have on a full year.

### **Operator**

The next question today comes from Kathryn Thompson, Thompson Research Group.

**Kathryn Ingram Thompson**  
*Thompson Research Group, LLC*

I wanted to shift gears and focus on M&A. And if you could clarify the -- how we should think about the contribution and cadence of the recently acquired companies that you've announced?

**Brian R. Gray**  
*CEO, President & Director*

Yes, Kathryn, we're very excited about the 3 acquisitions we completed in the first quarter. They were all aggregates-based operations. They had downstream materials. And in the case of Morgan Asphalt, it came with the services downstream opportunities as well. All 3 of those deals are very -- they look very similar to how we've done deals in the past. They were negotiated deals directly with the owners and that we were able to negotiate high single-digit multiples on those 3 acquisitions.

And so, if you look at that contribution on a full year, that would suggest it was towards the upper half of our current guidance. I want to just touch a little bit on the importance and how excited we are on the Morgan Asphalt operation in Salt Lake City, Utah. This is not a new market for us. We've done work in Utah out of our Boise, Idaho group for years.

We've been looking very closely for an opportunity to enter that market with an aggregates-based platform operation that we can continue to build from. And Morgan Asphalt fit that bill to a tee, very good cultural fit, very strong reserve position, with a team that is very good at asphalt paving. And so, very excited about all 3 acquisitions. Really the most meaningful, the largest of the 3 would be the Morgan Asphalt opportunity in Salt Lake City.

**Kathryn Ingram Thompson**  
*Thompson Research Group, LLC*

Okay. And then following up on that, maybe pulling the string more tell about how these play into your kind of the profit multiplier thesis that you discussed and how this -- how we should think about that going forward? And also what reasonably should we expect in terms of synergies, either be from cost or from revenue?

**Brian R. Gray**  
*CEO, President & Director*

Yes. So I mentioned the profit multiplier in my prepared remarks as it relates to vertical integration. And so I'll use 2 examples on that. Texcrete, the operations that we bought late last year, down in College Station, Texas and in that area, more than doubled our ready-mix volumes for the quarter out of Texas.

They were purchasing a lot of third-party aggregates before we purchased -- acquired that company. And because we're vertically integrated in Texas, we now are able to rail materials into College Station and self-supply that, which is just an opportunity to, again, earn more profit on that acquisition through the profit multiplier by being vertically integrated.

Morgan is probably even a better example of that. Morgan comes with a very high-quality, strategically positioned reserve. We will bid materials on any kind of DOT type of project. We'll bid aggregates to subcontractors. We will self-perform and use those own aggregates. We'll sell aggregates to other non -- to other producing competitors downstream. And so we have an opportunity to win work on the aggregate side.

But most likely, we're going to sell those aggregates to ourselves and to another profit center, which is our asphalt -- our hot mix asphalt plant. And then we will sell that hot mix asphalt to, again, either ourselves or to a competitor on the job and allow them to go do the paving themselves. But likely, we would self-perform that work as a subcontractor or as a prime contractor. And so that being vertically integrated really does allow us to have multiple opportunities to earn profit.

On the synergies, I'll let Nathan touch on the synergies from the acquisitions.

**Nathan W. Ring**  
*VP & CFO*

Kathryn, good to hear from you. We've probably talked about this a little bit in the past as we bring in these operations, and there's multiple ways in which we can get synergies as they become a part of Knife River.

First, we've talked about purchase price power, and that can relate to cement, oil, equipment. And so as they become part of Knife River, become part of a larger organization, they get to take a part of that or advantage of that. The other is on the operational side. These are good companies. We're proud to bring them into Knife River, exciting for us. But just like with Knife River, we have PIT Crew out there that are looking to make Knife River better.

And as these acquisitions come in, there's an opportunity for us to share the Knife River PIT Crew, the EDGE initiatives with them and improve their operational efficiencies as well. And then the last thing I did mention it in my prepared remarks, as they come on board and bring their SG&A, I talked about us last year building our SG&A to grow the company. And as we grow, as we build the scale, we see an opportunity for synergies combining the 2 companies on the back office side of the equation as well. So I think there's a number of things we look at when they come in throughout the first year, sometimes within the first week as they become part of Knife River that we can capture some of these synergies.

**Operator**

Up next is Garik Shmois from Loop Capital.

**Garik Simha Shmois**  
*Loop Capital Markets LLC, Research Division*

I was hoping you could provide an update on where you stand on dynamic pricing, where you think you are within your different regions. And I asked that just because of the higher oil-based costs that are coming through and certainly one of the levers that you have to offset. Just curious as to the ability to push through additional pricing in some of the regions that have lagged in the past?

**Brian R. Gray**  
*CEO, President & Director*

Yes, Garik, our commercial excellence teams have done a fantastic job of training and implementing dynamic pricing through all of our legacy operations. And so we are in the later innings at this point in time, which is coming to be a very good benefit with the current energy situation that we're able to price not just aggregates, but also ready-mix and asphalt at current cost structures and provide daily pricing out for those materials.

And so we have a number of different dashboards that we're currently using and technology that helps our sales teams manage through that process. Where we don't have full implementation of dynamic pricing would be in our recently acquired companies. And as we've talked about in the past, we honor their current quotes. And in anything that's new, we quickly get them on track to start utilizing the dynamic pricing. And we're currently doing the training as it relates to dynamic pricing with those recently acquired companies. But that would be the only place right now that we have some limited exposure.

**Garik Simha Shmois**  
*Loop Capital Markets LLC, Research Division*

Great. That's helpful. Follow-up question is just on the comment you made that you expect to be at the upper half of revenue and EBITDA guidance for the year. I just want to clarify, is that solely because of the acquisitions that you spoke to earlier? Or is there

anything organically that you're pointing to that's tracking towards the mid-to-upper end of the range that's giving you confidence right now?

**Brian R. Gray**  
*CEO, President & Director*

Yes, there's a number of things that give me confidence in that upper half of the range. I mean -- and the acquisitions certainly are part of that. But our volumes and our backlog right now, I really like the position that we're in. The record backlog of \$1.2 billion, up 25% from last year, and that backlog has a lot of asphalt paving in it. And with that comes the ability to pull through higher-margin upstream materials. So, that gives me a lot of -- good confidence.

That's a very visible contracted work that we've got that we'll be out performing that work this summer. And so that gives me good confidence. And then frankly, I just -- I continue to see traction that we're getting with our PIT Crew. You saw some of that early in this first quarter, even though our volumes are very low relative to the full year. We can't dismiss the work that the PIT Crews are having in all of our product lines. So that gives me good confidence on that upper half of our current range.

**Operator**

Your next question is from Timna Tanners, Wells Fargo.

**Timna Beth Tanners**  
*Wells Fargo Securities, LLC, Research Division*

I wanted to follow up on the discussion just now of the dynamic pricing and also the ability to have energy escalation. Do you have a sense of -- in your discussions with customers that how this compares with some of the competitors and how they're handling energy costs? Just curious if there'll be any challenges if some of the peers are taking a different tactic?

**Brian R. Gray**  
*CEO, President & Director*

Yes, Timna, as you know, a lot of our competitors in our unique markets are some of -- more family-owned operations. We have some overlap with some of the larger national peers. But a lot of our competitors are local, regional-based family-owned operations that also have margin expectations. And I can tell you that I believe that we've pre-purchased and managed our energy costs better than our local competitors and that they, too, are going to need to do something. And so, I think most of them are passing along their fuel costs through similar fuel surcharges on delivered materials. And so I think it's -- I don't think we are out of the norm when it comes to fuel surcharges and collecting that compared to our competitors.

**Timna Beth Tanners**  
*Wells Fargo Securities, LLC, Research Division*

Okay. Helpful. And then if I could follow up on the M&A strategy, clearly off to a strong start and in line with the comments on not expecting an extended revolver by the end of the year. What does that mean for further M&A this year? What do you think you have the bandwidth for as we look out for the rest of the year?

**Brian R. Gray**  
*CEO, President & Director*

I'll let Nathan take that. I'll just preface it with, our pipeline is strong. And we mentioned the pipeline 3 months ago that it looks to be similar to last year's type of pipeline. And so we're off to a good start this year and we feel like we certainly have opportunities in the pipeline and that Nathan has a balance sheet that also allows us to continue to grow. So, I'll let you talk about that, Nathan.

**Nathan W. Ring**  
*VP & CFO*

Yes. Thanks, Brian. Timna, just as he said, I mean, we do focus on maintaining that strong balance sheet so that we do have the bandwidth and the cash flows coming from our operations, which are strong as well. So, first, just what I'll reiterate here is that we have about \$190 million, almost \$200 million of available liquidity when you look at our revolver. That's important from the standpoint that allows us to react quickly if an opportunity does come up.

The other thing is not to forget the cash flows that we get from our operations. We have about a 2/3 conversion rate, which means from EBITDA to cash flow from operations, we convert about 2/3 of that to cash flows from operations, which we put to work in the company.

The thing that I stated in the prepared remarks that's probably important for your bandwidth question is our balance sheet capacity or net leverage. I indicated on the call there that as we get towards the end of the year and pay down that revolver, have those cash flows come in, we think we're going to be at or below that net leverage of 2.5x.

That creates bandwidth for us because as I talked about before, Timna, for a short duration for the right deal, we'd be willing to be close to near 3x for a while. And so we do have the liquidity, the cash coming in from operations and the bandwidth on the balance sheet to continue to support the -- our growth program that Brian talked about. So I think we're in a good position.

**Operator**

Your next question is from Ivan Yi, Wolfe Research.

**Ivan Yi**  
*Wolfe Research, LLC*

First, what was the organic or mix-adjusted aggregates volume growth in 1Q? And I get that you don't normally adjust guidance after the first quarter. But after such a strong growth in 1Q, why not raise the full year aggregates volume guidance at all? Are you sensing any weakness at all or is it just conservatism?

**Brian R. Gray**  
*CEO, President & Director*

No, I think we're being prudent. We still have 90% of our construction season in front of us. And so it's very early. And so, unless we saw something just jump off of the page, Ivan, I mean, you're going to see us most likely after the first quarter continue to reaffirm that guidance.

I like where we're at with the volumes and what we're seeing in the markets. And that volume increase, in particular, on aggregates, over 1 million tons of aggregate volumes, which is up 26% for the quarter. Half of that came from legacy and the other half came from operations that we acquired since this time last year.

In other words, Texcrete and Strata's 2 months of operations that were new to us, 2 months of Strata and then the Texcrete acquisition, which is ready-mix, but because we're self-supplying those aggregates, that was very positive for us. And so, about half of that increase is coming from legacy operations, the other half from Texcrete and Strata specifically. And we'll continue to update you as the year progresses on that -- on the volumes.

**Ivan Yi**  
*Wolfe Research, LLC*

Great. Very helpful. And then my follow-up, we've seen several states declared gas tax holidays and there's proposed legislation for federal suspension of the gas tax through October. What impact would this have on future infrastructure spending? And how material would this be to you all?

**Brian R. Gray**  
*CEO, President & Director*

Ivan, you broke up a little bit at the very beginning of that question, and it was pretty low. I couldn't hear it exactly. So could you repeat the beginning of that?

**Ivan Yi**  
*Wolfe Research, LLC*

Yes. Just on the gas tax holidays that have been mentioned about, how material of a headwind would that be if the reduction in infrastructure spending that would come with that?

**Brian R. Gray**  
*CEO, President & Director*

Yes. I think I would say that's immaterial, and that's not something that we're concerned about. We've got record backlog, \$1.2 billion, 25% up over last year. We continue to look at the strong DOT budgets, up 15% year-over-year in our markets. And with that comes the bid letting schedules, and what I'm seeing at the local state level, really no concerns around the gas tax holidays.

**Operator**

[Operator Instructions] Up next is Garrett Greenblatt from JPMorgan.

**Garrett Samuel Greenblatt**

*JPMorgan Chase & Co, Research Division*

I was wondering if we could just dive a little more into the regional disparity between aggregates, how aggregate margins in each region trend or if you rather grow in gross profit per ton? And then maybe the organic pricing growth per region that got you to the underlying 4.1% consolidated?

**Brian R. Gray**

*CEO, President & Director*

Yes. I'll start at a high level, and I'll let Nathan add if there's any other additional detail. But, Garrett, what I'd tell you is that if you -- I talked about the differences in our cost structure and our pricing structure as it relates to transferring materials around and having rail yards, redistribution aggregate sales yards, having downstream plants sitting either on the site or off-site where you have to rail or barge. That does change our cost structure, therefore, creating a different pricing structure as well.

But if you actually look at the margins over the last 2 years for each one of those regions, they're very similar. They're not that different. And so they're doing a good job. Even though they may have lower pricing, what we look at, obviously, is the price/cost spread. And I think that we're pretty close in each region.

Now each state is different, and that's going to depend on the market positions that we've got, the type of materials that we're selling and the amount of market share that we have, just different things have changed there by each state. But generally speaking, if you look at the last 2 or 3 years, for aggregate margins specifically, they're very similar in all 3 different states.

Nathan, is there anything that you want to add to that?

**Nathan W. Ring**

*VP & CFO*

You mentioned the most important thing, Brian, is that over the course of the year, they're comparable. I would just remind folks that at the beginning of the year, there can be some differences in margin: West, you have more activity; Mountains had a good first quarter here, so that's improved their margins; Central is still in the early season and not getting started.

So if you were looking at just the first quarter here, you might see some differences, but it's more important to look at it the way that Brian shared from that full year margin perspective.

**Garrett Samuel Greenblatt**

*JPMorgan Chase & Co, Research Division*

Great. And then can you talk a little bit more of the margin contraction in contracting services and how we should think about that trending for the rest of the year?

**Brian R. Gray**

*CEO, President & Director*

Yes. Nathan, do you want to take that one?

**Nathan W. Ring**

*VP & CFO*

Yes, there is a couple of things with that. I mean, first of all, just for the first quarter and I'm starting to sound too similar here, but I mean, it is just similar. I mean, for contracting services margin in the first quarter, it's about 10% of our full year revenue. So you can have some -- like I said in my prepared remarks, you can have some geographic mix. You can have, for example, this year, we did do some more revenue in the Central, but that is the first part of the year, like as it pertains to Strata, where that revenue is not enough to cover some of the overhead or indirect costs.

So that's what you've got going on in the first quarter. As you look to the full year, it's just important to remember that we are saying that our contracting services margins will be higher. And we talked about this back in February that a lot of that has to do with -- we're anticipating more paving work in 2026 than we had in 2025.

Now that can start off at the beginning of the year that you're getting moved, you're getting ready. But as that work progresses through the year, we start to see improvement in margins related to our performance, we're very good at paving. Two, we see it in terms of incentives that come along with the project and bonuses.

So, as we do more paving work in the year than we did last year, we anticipate those margins to increase because of that. And then like we talked about, the add-on benefit that Brian talked about in our prepared remarks with the profit multiplier that, that has pull-through demand to have liquid asphalt, asphalt, aggregates. And so we look forward to what it will also do for the upstream product lines as well.

**Operator**

The next question is from Rohit Seth from B. Riley Securities.

**Rohit Seth**

*B. Riley Securities, Inc., Research Division*

Can you provide us an update on the Oregon DOT issue?

**Brian R. Gray**

*CEO, President & Director*

Yes. Fortunately, Rohit, that situation, I believe, is stable. So we have baked into our current guidance that the measure that's being voted on in Oregon on May 19, most likely is going to fail. I think everyone is expecting that. But the good thing is the DOT already has an existing budget, and it's 2% lower than it was year-over-year, but that's the total budget. The construction budget is actually up a little bit. And so we have taken all those things into consideration into our current guidance that Oregon stabilize and looks to be broadly in line with last year's results.

**Rohit Seth**

*B. Riley Securities, Inc., Research Division*

Okay. Great. And then on the EBITDA guidance, could you maybe provide a cadence for the year, second quarter, third quarter, fourth quarter, given what's going on with the energy shock, I just want to understand your expectation for 2Q.

**Brian R. Gray**

*CEO, President & Director*

Yes, I'll let Nathan take that one.

**Nathan W. Ring**

*VP & CFO*

Yes. I can give you an idea of, from a seasonality perspective, how we look at each quarter from a revenue basis, which I think will help you with your modeling. And so like we've talked about a few times this morning, the first quarter, generally around 10% of revenues. Second quarter, we get into maybe about 25%. And then as we all know, the third quarter is where we see a higher amount of our revenues and then fourth quarter, depending on how long fourth quarter goes, that will be the higher part. So the latter half of the year would be where we see the higher portion of revenues. So that's kind of the breakout or anything else with seasonality.

Rohit, does that help kind of give you an idea of how -- the cadence of the year?

**Rohit Seth**

*B. Riley Securities, Inc., Research Division*

That was on revenue, but does EBITDA follow the same sort of...

**Nathan W. Ring**

*VP & CFO*

Yes. For the most part, other than -- I mean, the first -- there are some peculiarities, right? In the first quarter, we do experience a seasonal loss. And so then you would anticipate as you get to that third quarter, you would anticipate a higher amount of EBITDA coming as that's the main part of the season for us.

**Brian R. Gray**  
*CEO, President & Director*

Yes. Because a lot of our backlog is asphalt paving, that work is typically done in the summer months. And when you start to close out those jobs is when you would get paid those job site incentives and quality bonuses, which often would come late in the third quarter or the fourth quarter. So that would impact EBITDA positively without necessarily the revenue to go in line with that later in the year. So I can -- that would be the only nuance as it relates to EBITDA, I think, for contracting services.

**Operator**

And everyone, at this time, there are no further questions. I'd like to hand the call back to Mr. Brian Gray for any additional or closing remarks.

**Brian R. Gray**  
*CEO, President & Director*

I appreciate everyone joining us today. We're very excited about the year ahead, and we look forward to speaking with you guys again in the next quarter. Thank you.

**Operator**

Once again, everyone, that does conclude today's conference. We would like to thank you all for your participation. You may now disconnect.

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