Knife River Corporation NYSE:KNF

2Q 2026 Earnings Call Transcript

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S&P Global Market Intelligence Estimates

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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Knife River Corporation Second Quarter Results Conference Call. [Operator Instructions]

I will now hand the conference over to Dara Dierks, Head of Investor Relations. Dara, please go ahead.

Dara Dierks
Vice President of Investor Relations

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 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.

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

Brian R. Gray
CEO, President & Director

Thank you, Dara. Good morning, everyone. I'd like to start today's call by highlighting our strong operational performance in the second quarter. Despite a few external headwinds that weighed on our financial results, the underlying performance of the business was solid. We executed well in the field, converting record backlog into revenue increases of 13% year-over-year.

Our materials product line saw double-digit volume growth, driven by the pull-through demand from contracting services and the contributions from recent acquisitions. Gross profit improved double-digits for aggregates, ready-mix and asphalt. And aggregate pricing increased by 8% on a product mix adjusted basis.

I'd like to thank our teams for the good job they did optimizing prices and controlling costs. The fundamentals of our business are strong. Excluding gains on asset sales from Q2 this year and Q2 last year, adjusted EBITDA was up 7% year-over-year. This is a testament that our crews are controlling what they can and our self-help initiatives are working.

On an as-reported basis, adjusted EBITDA was flat with last year related to a few external factors. First was a delay in recouping higher energy costs. Second was project timing shifts related to adverse weather and construction schedules. And third was the type of work and timing of project incentives, which affected contracting services.

Starting with energy costs, higher diesel prices drove an increase in cost of about $10 million year-over-year. With the mitigation practices that we discussed last quarter, we recouped $4 million of that through fuel surcharges in the second quarter. We expect to recover an additional $4 million through escalators on our DOT contracts. However, that won't occur until the third quarter as there are a 1 to 2 month lag between incurring the costs and recovering them from public agencies. While we anticipate diesel costs will remain elevated through the remainder of the year, we expect to continue recovering the majority of these increases.

Next, adjusted EBITDA was affected by project schedule changes and weather-related delays on several impact projects. In Texas, we are scheduled to produce a significant amount of asphalt and pave 2 major highway projects, both of which were pushed back by excessive rain and schedule changes.

In Hawaii, our P209 project was delayed as part of a modified construction schedule, impacting concrete and cement volumes. And in Alaska, an exceptionally cold winter prolonged road restrictions. This kept trucks off the roads until June 15, delaying the start of the construction season by over a month. In each of these cases, it's important to note that the projects have not been canceled, but the volume curve we expected was shifted to a later time frame. We are confident the revenue and earnings opportunities remain. But for the quarter, we estimate this timing shift impacted adjusted EBITDA by approximately $10 million.

Lastly, market dynamics, primarily the type and timing of work, played a factor on our quarterly performance, impacting contracting services margins. The type of projects we performed in the second quarter last year were larger general contracting jobs with multiple scopes of work. These roadway expansion projects enabled us to achieve significant gains related to value engineering and project performance. We didn't have as much of that work in the second quarter this year. Instead, we performed much more asphalt paving, which is generally lower risk and lower margin work.

As we've discussed in the past, Knife River is very good at this work. It's in our wheelhouse, and we often earn sizable performance bonuses for quality on this type of work. However, these bonuses are typically received as the project nears completion.

During the second quarter, many of our projects were still in the early stages, so we have yet to see the bonuses. We expect to pick up gains on these jobs in the second half of the year. For the second quarter, we estimate market dynamics, primarily the type and timing of work, impacted adjusted EBITDA by approximately $8 million.

As we enter the heart of the construction season, we expect second half contracting service margins to improve year-over-year, while we execute on our $1.2 billion of backlog, benefit from the timing of project bonuses and collect on fuel escalators. The additional paving we are performing this year will also benefit the pull-through of our higher-margin materials, which we expect will drive margin expansion for aggregates.

We remain laser-focused on our self-help initiatives, including price optimization and cost controls. As an example of these efforts, our aggregate crews lowered their variable operating costs by 1% year-to-date despite increased energy costs and inflationary headwinds. And our ready-mix crews improved their cubic yards per delivery hour by 12%. It's performance metrics like these that give me confidence that our crews are executing on our EDGE initiatives, and we are controlling what we can control.

I believe Knife River is built for long-term success. The underlying demand for our products and services remains healthy. Critical infrastructure work needs to get done, and we are in a great position to do it. Public funding is expected to remain strong with 38% of IIJA funds yet to be spent in our states. There's a tail on IIJA. And if Congress requires extra time to complete BUILD America 250, a continuing resolution is likely to preserve current funding levels.

On the private side, we continue to see expanding opportunities driven by investments in data center development, semiconductor projects and energy infrastructure. We also see exciting acquisition and organic growth opportunities, which I'll talk about in a few minutes. Altogether, these factors, including the operational execution that we have demonstrated, give us confidence in our ability to continually improve our financial performance and deliver value for our shareholders.

Next, I'll turn the call over to Nathan to walk through our product line financial results. After that, I'll share some thoughts on our growth strategy. Nathan?

Nathan W. Ring
VP & CFO

Thank you, Brian, and good morning. As Brian just mentioned, we are pleased with the overall performance of our operations, and in particular, our material product lines, which had a strong quarter.

Starting with aggregates, we had impressive volume growth of 14% over last year, primarily supported by the internal demand from our downstream product lines across all segments, demonstrating the benefits of our vertical integration. With this increased demand for aggregates, we now expect volumes to be up high single-digits for the year. We have also seen an increase in third-party demand, particularly in the Central segment, where they are executing on a commercial strategy to increase external sales to industrial projects such as data centers and power generation.

Part of that volume increase was related to an opportunity to sell 630,000 tons of lower-priced natural fines. This was positive for our cash flow and gross profit, but it did have a downward impact on consolidated pricing, which was up 3% as reported. Normalizing for overall product mix, including the natural fines sale, pricing was up 8%. And with our continued optimization initiatives, pricing is still expected to be up mid-single-digits for the year on an as-reported basis.

Aggregate gross margins were down slightly for the quarter, partly as a result of increased delivery volumes and higher fuel costs. We delivered 41% more aggregates this year compared to the second quarter of last year and have implemented delivery surcharges to cover the increased input cost of diesel.

However, delivery revenue is typically at cost plus a small margin, and fuel surcharges are at cost, both of which were dilutive to aggregate margins for the quarter. Even so, we still expect gross margins to be up for the year. And overall, we are pleased with the aggregate product line performance, which saw a 12% increase in gross profit over last year.

Ready-mix also had an impressive quarter with volumes increasing 15%, driven by contributions from our Texcrete acquisition. As we have mentioned, this acquisition is expected to double our volumes in Texas this year. We maintain our forecast shared in the first quarter and expect mid-teen volume growth for ready-mix in 2026.

Gross margin improved 80 basis points, thanks in part to the continued traction and strong execution of our ready-mix PIT crew. Our production costs decreased 6% per cubic yard, resulting in higher gross profit of 21% over last year.

Moving to asphalt. Volumes increased 24% as a direct result of increased paving in our contracting services product line, with internal asphalt volumes increasing 44%. As we look at the full year, we now expect volumes to be up high-single-digits. Our purchasing and storage strategy for liquid asphalt resulted in lower cost and pricing for hot mix asphalt produced in the second quarter.

We also reduced production costs 10% per ton, leading to an increase of 50 basis points in gross margin and a 24% increase in gross profit. As for liquid asphalt, we experienced improved market opportunities in California during the quarter, which helped the product line continue to perform in line with our expectations.

Within contracting services, the increase in paving projects resulted in revenue growth of 20% in the quarter. As Brian mentioned, we saw a decline in gross margins related to market dynamics, primarily the type of work and timing of incentives. We also inherited a number of lower-margin legacy projects at our recent acquisitions in the Mountain segment.

As these legacy jobs are completed and replaced with new work, we expect a corresponding improvement in profitability. Even with our strong revenue growth in the quarter, we also expanded our backlog by approximately $50 million sequentially. Our second quarter backlog of $1.2 billion reinforces the confidence we have in our future performance.

Switching to SG&A. Our costs continue to be in line with the expectations shared earlier this year. The main variance for the quarter relates to higher gains on sales of assets last year of about $10 million, most notably the sale of our property in Beaumont, Texas. Adjusting for these gains, the SG&A increase would have been 3.5%. As we look at the full year, we expect SG&A to be broadly in line with last year as a percent of revenue.

Turning to capital allocation. We remain committed to our disciplined approach of reinvesting in our business, including maintaining fixed assets, improving operations and growing the business. During the quarter, we invested $48 million in maintenance and improvements and $35 million in growth initiatives, including acquisitions and organic expansion.

For the full year, we still expect maintenance and improvement to be between 5% and 7% of revenue, with acquisitions and new organic projects being incremental to this forecast. We continue to maintain a strong balance sheet and liquidity to support our growth initiatives and future investment opportunities.

During the quarter, we amended our Term Loan B credit agreement, increasing the borrowed amount by $400 million while also lowering the interest rate. This transaction finances our recent acquisitions from earlier in the year while also enhancing our liquidity, reducing our cost of capital and providing additional financial flexibility to execute on our strategic priorities.

The second quarter is typically our peak seasonal borrowing period as we build working capital to support construction activity. This resulted in net leverage of 3.2x at the end of June, compared to 3.1x at this time last year. Looking ahead, we expect to end 2026 with no borrowings outstanding on our $500 million revolving credit facility and cash on hand, leading to an anticipated net leverage near our long-term target of 2.5x.

Finally, I'll provide an update on our guidance for the year. Based on our performance to date and our expectations for the remainder of 2026, we are raising our revenue guidance to a range of $3.4 billion to $3.6 billion and reaffirming our adjusted EBITDA range of $520 million to $560 million. We are encouraged by the underlying strength of our business. Again, on a like-for-like basis, adjusted EBITDA increased 7% from the second quarter of 2025 to the second quarter of 2026, excluding gains on asset sales from both periods. Our teams are performing well, and the continued strength of our operations gives us confidence in our adjusted EBITDA outlook.

I'll now turn the call back over to Brian.

Brian R. Gray
CEO, President & Director

Thank you, Nathan. While there's a little bit of noise in the quarter with fuel and the type and timing of projects, the bottom line is our operations continue to perform well. We're looking forward to the second half of the year as well as the years to come. Knife River is in a good position to deliver long-term profitable growth for our shareholders. A large part of our optimism comes from the growth opportunities we see.

I'd like to spend the last part of today's prepared remarks highlighting 2 additional drivers of long-term growth and value creation: acquisitions and organic investments. I'll start with acquisitions, which have been a cornerstone of our growth strategy. We have completed 100 acquisitions since 1992, helping us expand our geographic reach, strengthen our materials platform and build leading positions across our markets.

Our approach is consistent. Our primary focus is on materials-led transactions in higher growth, midsized markets within our footprint or in adjacent new markets. We are the acquirer of choice in our markets, helping us maintain valuation discipline and prioritize opportunities that create long-term value. Looking ahead, we continue to have a healthy acquisition pipeline. Our markets are highly fragmented with vertically integrated family-owned businesses, creating hundreds of potential opportunities that align with our strategy.

We place particular emphasis on aggregates-based opportunities in markets with strong demand fundamentals and less seasonality. We believe we are well positioned to continue executing acquisitions that improve the quality, resilience, diversity and growth profile of our business.

Our M&A investment success starts with a disciplined and repeatable process. Since our spin in 2023, we have successfully integrated 16 acquisitions. The first step in our process is keeping the pipeline full by taking advantage of our local relationships with targeted potential sellers. Second, we conduct rigorous due diligence to evaluate culture, strategic fit, operational improvements, synergy potential and expected financial returns. Third, we execute a structured integration plan to capture identified synergies, leverage buying power and optimize performance. We begin capturing these benefits as quickly as possible. While year 1 is often characterized by cultural, back office and operational integration, the most meaningful financial benefits from synergies typically materialize in years 2 and 3 as the business becomes fully merged into our platform.

Strata is a great example of this. The acquisition of Strata expanded our presence in key markets within the central region. It added significant aggregate reserves and rail distribution sites, strengthened our vertical integration and came with a highly respected workforce.

As part of the acquisition, we focused on executing our integration plan while preserving the strengths that made Strata successful. More than a year later, we are pleased with the contribution Strata has delivered to our Central segment and the synergies that we've captured. Supported by a record North Dakota DOT budget and the full integration of the 2 teams, we expect Strata to have a record year in 2026 and outperform our original EBITDA projections by more than 15%. Strata demonstrates how we identify high-quality businesses, integrate them successfully and create value through our platform.

In addition to acquisitions, organic investments are an important component of our long-term growth strategy also. Over the past 18 months, we invested approximately $140 million in organic initiatives, primarily focused on aggregate reserve expansions and greenfield development projects to strengthen our position in existing markets.

Similar to our acquisition strategy, we take a disciplined approach to organic investment opportunities. Once projects are identified by our local operating teams, we evaluate each opportunity with rigor similar to any of our acquisitions, including market opportunity, long-term growth potential and meeting our financial criteria. As a result, these projects are expected to generate returns that exceed our cost of capital and are accretive to our margin profile.

One of our largest organic investments is underway in South Dakota. Over the past several quarters, we have invested approximately $85 million to develop a strategic rail-served quarry near Sioux Falls that will expand our market reach, enhance distribution capabilities and serve as a long-term replacement for our primary quarry there. The quarry contains approximately 70 million tons of high-quality quartzite reserves and has access to 2 Class I railroads.

The first phase expands rail service in South Dakota and establishes rail distribution into Nebraska and Iowa, including support for our Sioux City operations. This phase is expected to be operational in the first half of next year. This investment strengthens our transportation network, lowers delivery costs to our plants, improves supply flexibility and positions us to provide high-quality aggregates to customers across the region for decades to come.

Another example of organic growth delivering results is a prestressed facility we built in Spokane, Washington. We discussed this investment previously, but its value continues to grow as demand increases for the products it provides. The Spokane plant is a state-of-the-art facility that is unique to the Western United States. It has expanded our production capacity, geographic reach and ability to serve complex infrastructure and commercial construction projects.

In the second quarter, we secured a substantial contract to supply prestressed components for a semiconductor facility in Idaho. We would not have been able to pursue and win this project without the capabilities and scale provided by the Spokane plant. Beyond this large impact project, we're seeing increasing opportunities in data centers, advanced manufacturing and from other large-scale infrastructure developers that desire prefabricated concrete products. We also believe the facility is well positioned to benefit from future bridge replacement and infrastructure spending, providing a strong runway for growth in the years ahead.

Ultimately, Spokane and Sioux Falls are exactly the type of organic investments we seek to make, projects that enhance our capabilities, increase profitability and deliver attractive long-term returns for shareholders. Acquisitions and organic investments are an important part of our growth strategy, along with successful execution in our legacy operations.

Before we conclude, I'd like to recognize our team for delivering the safest second quarter in our company's history. This achievement reflects our team members' commitment to our safety culture and looking out for one another on every task, every job, every day. Looking ahead, the fundamentals of our business are strong. With the majority of the construction season still in front of us, our focus is clear: execute safely, serve our customers well and capture opportunities across our markets to improve profitability and drive long-term value creation. Thank you for your time today. Operator, we're now ready to open the line for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from Kathryn Thompson with Thompson Research Group.

Kathryn Ingram Thompson
Thompson Research Group, LLC
Thank you for taking my questions today, and also for the details that you gave in prepared commentary. I just want to circle back to some of the headwinds in the quarter, more specifically walking through SG&A and the gain on sale last year and how that impacted optics, particularly in Q2? And how does this impact the optics' first half performance? And more importantly, what can we expect in the second half of the year?

Brian R. Gray
CEO, President & Director
This is Brian. And I will let Nathan take the first part of that question and specifically talk about the prior year's gains on asset sales and the impact on that had on SG&A and our EBITDA -- adjusted EBITDA. So Nathan?

Nathan W. Ring
VP & CFO
Yes. Thank you. Kathryn, good to hear from you. I'm glad you brought that up. I do want to take that in pieces. I think it's an important part of understanding how the quarter really performed. So as you noted, it's an SG&A, which was up about $12.5 million in the quarter compared to the prior year. In our SG&A, we include the gains on the sale of assets, which I noted in my remarks. When I say asset sales, I'm just talking property, plant and equipment sales. So last year, we had about $10.3 million in gains on the sale of assets, most notably a Texas sale of property land, this year we've got about $600,000. So there's a considerable difference between the 2 years in the gain on the sale of assets.

If we set those aside and first just look at SG&A, our costs were actually up 3.5% within SG&A, again, setting those gains aside. So first of all, I mean, we continue to manage our SG&A well, and I'll just note here, we expect overall, excluding gains -- or including the gains, excuse me, to be comparable to last year as a percent of revenue.

The next part here, I want to just refer to Page 4 of the slide deck. I think it's really helpful to kind of see how this comes together as part of our presentation. When you take a look at these gains and do the comparison of adjusted EBITDA, you can see that the overall company performed very well, and I mentioned this in my prepared remarks, we're up 7% on adjusted EBITDA, setting aside these gains. So Kathryn, I do appreciate the question. The gains kind of represent more -- not necessarily onetime, but they're not indicative of how the operations are actually performing. So I think it's really helpful to take a look at that Slide 4 and take into account the gains on the sale of assets.

Brian R. Gray
CEO, President & Director
And Kathryn, I'll just add on to your question, as far as the operations performing well specifically. Our revenue was up 13% and volumes across the board for all of our product lines were up double-digits. That led to a double-digit increase in gross profit as well across all of those product lines. And so the demand remains strong. We're very happy with what we're seeing with pricing, specifically adjusting for product mix on the aggregate side, an 8% increase. We're very pleased with that. And then the KPIs within the operations, the self-help initiatives we've talked so much about, there's a number of different indicators that, again, the underlying business, the performance of the operations was very solid for the quarter.

Kathryn Ingram Thompson
Thompson Research Group, LLC

Okay. And the follow-up on that is sort of implying the underlying business is running pretty well, particularly in the product line with some headwinds with contracting services. But maybe discuss what is driving some of those fundamental gains that you're seeing? Is it by region? Or is it by product mix? Just any additional color on some of the gains in the quarter.

Brian R. Gray

CEO, President & Director

Yes. As you saw in the earnings release, the Central segment certainly had an outstanding quarter, 21% better in EBITDA year-over-year. And that's being driven by a number of different things in the Central region. We've made a concentrated effort, as we've talked about as far as our EDGE initiatives, to increase third-party sales. And part of our product mix adjustment this quarter was impacted from the 630,000 tons of natural fines they sold, but they did that in packages with some higher-valued, higher-margin materials.

And so we've done a great job at increasing our third-party sales in the Central region by 34% for the quarter. Probably the biggest movers in the Central is really the North Dakota DOT budget and the fully integrated teams at Strata and Knife River working together to go out and capture that work. And like I mentioned in my prepared remarks, very excited to see what we expect to be a record year for Strata and, frankly, about 15% better than we even modeled. That's doing great. That acquisition is performing as expected and, frankly, better.

Same -- so is Texcrete. Texcrete is having an outstanding year. They were impacted by weather for the quarter. They do deliver and supply a lot more residential, lower specification concrete. That's had a little bit of an impact on our product mix on pricing. But as far as integration, we were able to capture early synergies as it relates to our purchasing power. And we are continuing to integrate those teams together and expect that Texcrete is going to continue to perform well.

The last thing I'll just mention is we have several data centers in the Central region, and we're supplying materials to support construction around a data center up in Fargo. And there's a number of different end markets that are performing well, not just in the Central, but throughout all of our regions that would be driving those double-digit volume improvements across all of our product lines. So a number of good things going on there, Kathryn. Thanks for the question.

Operator

Your next question comes from Brent Thielman with Oppenheimer.

Brent Edward Thielman

Oppenheimer & Co. Inc., Research Division

Brian, I apologize, my line dropped towards the end of your closing commentary. If you talked about this, again, I apologize. But if you look at what's transpired through the first half, including the second quarter, do you still think you can get to the upper end of your guidance range for 2026? And then -- and maybe just also with that, can you level set us on kind of the seasonality effects built into the guidance? You've been pretty acquisitive. I'm not sure if that's kind of morphed anything from what you typically see.

Brian R. Gray

CEO, President & Director

Yes, Brent, I will -- so the headwinds -- the external headwinds I talked about in my prepared remarks, they add up to $24 million-ish. And a large part of that, we will not get back this year. It would be moving into next year or it would just be an impact that would bring us back to more of the midpoint of our guidance. And so those 3 external factors that I mentioned, energy, that's a $6 million headwind impact for us for the quarter. We expect to get $3 million to $4 million of that back in the third quarter as we recoup our escalation clauses from those public contracts.

So we will get a portion of that back. We had about $10 million of delayed projects, $2 million or $3 million down in Texas, $3 million in Hawaii, a couple of million dollars up in Alaska with the late start. I would say that our crews were scheduled to pave 200,000 tons in Texas for the quarter on those 2 big impact projects and performed less than 15,000 tons. Our crews are also already scheduled to continue to pave on those jobs for the rest of this year. And so that work really is going to push into next year because we already had a full schedule of paving in Texas. So that will actually be pushing into next year.

As you know, the construction season is relatively short up in Alaska. So those projects that were delayed would also be pushed into next year. And then the P209 at Pearl Harbor in Hawaii, we're hopeful that can start late this year. But I would say that the majority of that benefit, again, that lost EBITDA for the quarter is going to get pushed into either late fourth quarter or early next year. So Brent, I think that is the delayed projects.

As it relates to the timing and the type of work as we categorize that as the market dynamics that are going on, really, the timing of incentives, the difference this quarter versus last year's quarter, we had $8 million less in project gains. And those project gains come from performance. They come from value engineering and change orders and they come from quality bonuses. Because we had so many larger new road construction projects that had multiple scopes last year, we were able to take advantage of some value engineering change orders to the tune of a difference of $8 million.

We will get incentives. We will get paving bonuses on that lower margin, lower-risk asphalt paving work, and we did a lot more of that work this last quarter, 44% more in Q2 than we did last year. That comes with a different timing of incentives. We will get those incentives in a 1 to 2-month lag from when we perform the work or in some cases, we don't get the smoothest bonuses until the job is completed. So the timing and the type of work is going to have about an $8 million impact for the quarter, and we'll get part of that back later in the year.

So Nathan, I'll let you answer the last part of the question.

Nathan W. Ring
VP & CFO

Brent, good to hear from you. Just to make sure in case you did drop off there, I'll reiterate a couple of pieces, and then I'll get to the other part of your question in terms of kind of the cadence for the rest of the year. So we did raise our revenue guidance in part due to acquisitions and the strength of the quarter on revenue and then holding adjusted EBITDA margin range similar to what we gave earlier in the year, and Brian went through a lot of the pieces for that.

So we are guiding more towards the midpoint of our guidance range that we gave earlier in the year. And as you're looking to see how to model that for your look-forward pieces, we're very similar actually to what we see in the prior year in terms of when EBITDA will be recognized. So we're actually looking at about 55% of our adjusted EBITDA to be generated in the third quarter and the remainder, of course, into the fourth quarter.

The last thing I'll say just from an administrative standpoint is these guidance ranges are based on normal weather. Last year, we did have a pretty good fourth quarter and as well as energy costs continuing the way they are without a major change in those as far as upward side on diesel, for example, and operating conditions remaining relatively the same. And of course, no impact to future acquisitions. So Brent, hopefully, that helps you on the modeling side as well.

Brent Edward Thielman
Oppenheimer & Co. Inc., Research Division

Okay. I appreciate all of that. Maybe just as a follow-up on contracting services. Should we be thinking about margins closer to what you saw a year ago as we work through the second half? Or is there still some overhang? I think you talked about some acquired business that you still have to work through, which carries lower margins. There's still some overhang there that might prevent that?

Brian R. Gray
CEO, President & Director

Yes. No, Brent, you're right. There is some overhang with some legacy projects that we brought on from recent acquisitions that will have an impact on margins for the second half of the year. We also plan to recoup some of those diesel costs that I talked about that we incurred in the second quarter. That will help offset that in the second half of the year. And then like I mentioned, we have a lot of asphalt paving and that asphalt paving typically has performance and quality bonuses that get paid towards the end of those projects. That will help offset that. So yes, I think you can look at our margins in the second half of last year and that we should be in line with those margins in the second half of this year in our contracting services.

Operator

Your next question comes from Trey Grooms with Stephens.

Trey Grooms
Stephens Inc., Research Division

Quickly on -- I guess, just on the energy impact, thanks for some of the detail there. But any way to kind of parse out specifically impact on the aggregate side, kind of how you're navigating that? And then I know there was a target for this year, 200 basis points of margin expansion there in aggregates. Is that still on the table for this year, just kind of given the headwinds and we've seen from energy, et cetera?

Brian R. Gray
CEO, President & Director

I appreciate the question, Trey. And yes, the increased energy costs, specifically fuel, did have an impact on our aggregates for the quarter. Frankly, more so on the margins, like Nathan mentioned, we did a good job at charging our customers a fuel surcharge to cover most of that cost. Now when we do that, it's at cost. And so there is no margin on that. And we actually delivered a lot more materials this year than we did last year to the tune of -- I think it was 40% -- yes, delivery was up 41% -- delivery volume was up 41%. So when we deliver materials, as you know, our margin is -- it's an all-in margin, just like our pricing is all-in.

Our delivery typically is at a lower margin than our aggregates are at the plant. And then with these fuel surcharges being at cost, that had an impact on our margins for the quarter. And we see that going forward, and we do see that going forward. So we fully expect to have margin improvement in aggregates. I don't know that we're going to be able to hit the 200. I would say that a safer bet right now would be in that 100 basis point range based on what we're projecting for the continued impact on fuel, the fuel surcharge, the increase in delivery, some of the other headwinds. But like I've mentioned before, we like what we're seeing on pricing. I like the KPIs and looking at our variable operating costs and aggregates being down 1% in light of these headwinds year-to-date. And so the KPIs, the PIT crews and our dynamic pricing is helping us certainly navigate those headwinds.

Trey Grooms
Stephens Inc., Research Division

Got it. Okay. And then there's a lot of noise in the quarter, especially on contracting services. And just to be clear, and there's a lot of stuff going on, clearly. But is there -- are you having to get more aggressive to win work? Is there a more competitive kind of backdrop as far as the bidding process goes? Or is this all just a lot of these things just kind of happening at the same time that has created a lot of these headwinds that are largely transitory?

Brian R. Gray
CEO, President & Director

No, that's a great question, Trey. And I appreciate you asking that. And every market and every product line is different. But yes, I mean, there are competitive dynamics that are feeding into that lower margin, specifically on contracting services. We've talked a lot in the past about Oregon. Unfortunately, Oregon's bid lettings did not result in any additional paving that we secured. There was only literally less than $5 million of bid lettings in Oregon for asphalt paving. That caused contractors in that region that are highly mobile to travel to adjacent states, that could be Northern California, Idaho, Montana.

So yes, there is bidding dynamics that are happening in the bid room that would be putting some pressures on our contracting services margins. There's other markets that -- we have very healthy DOT budgets that are helping offset that. And so I would say that the bidding dynamics are competitive. We made the conscientious decision. We've talked about this previous quarters, to get more aggressive because we know there's a benefit of the pull-through of those higher-margin materials. You can see that our gross profit had double-digit increases in all of our upstream materials. And that partly was a result of that conscientious decision to bid asphalt paving at a more competitive margin to go out and secure that work. So I think it was the right decision, and we'll continue to monitor that and be very transparent with you guys about that.

Operator

Your next question comes from Timna Tanners with Wells Fargo.

Timna Beth Tanners
Wells Fargo Securities, LLC, Research Division

I wanted to actually really ask about some of the dynamics in terms of the rains you talked about in Texas, I think you were able to recoup in Q3? Or was that also pushed out? And on the fires, I know Spokane has been hit really hard and Oregon, I hear a lot about. So I just -- I hope your teams are all safe and wondering if you have any impact from those as well.

Brian R. Gray
CEO, President & Director

I appreciate that, Timna. And the devastating fires in Spokane in the last couple of days, we do have operations in Spokane. I talked to our General Manager, Vice President. And fortunately, our team is safe, but it did not have an impact on our production at our prestress facility, is an indoor facility. And so -- but certainly, the fires and the smoke and the heat can have an impact on paving projects and working outside. I would say that's not been material for the month of July, and we've been able to navigate that fairly well.

Your first question -- what was your question, Timna, I apologize?

Timna Beth Tanners
Wells Fargo Securities, LLC, Research Division

I think same -- I was just trying to understand, so you said that Hawaii and Alaska might have to spill over into 2027 to recoup. And I was just wondering if -- just to clarify any of the other impacts like Texas, in particular, if you can recoup lost volumes by the end of the year.

Brian R. Gray
CEO, President & Director

Yes. No, I would say that in Texas that our crews were scheduled to pave on those 2 large impact projects for 7 or 8 more months starting in that second quarter. We were planning on being very busy. And so that volume that we missed in the second quarter due to schedule changes and weather delays, most of that work on those 2 particular jobs will be pushed into 2027. We still plan on being very busy in Texas, having a very solid year in Texas.

Part of that is because we had such good backlog down there that we really have been scheduled. We have some capacity left to take on additional work there. But I'd just say that the majority of that missed opportunity, specifically in Texas, as it relates to contracting services on those 2 impact projects, most of that would be get pushed into 2027.

Operator

Your next question comes from Rohit Seth with B. Riley Securities.

Rohit Seth
B. Riley Securities, Inc., Research Division

Just on the West revenue, it was down about 9%. It says there's less public work in Oregon in the West and your backlog was down 16% or so. In February, you said the 2026 Oregon outlook would look more or less like last year and the backlog had recovered. So just curious on what's changed heading into the second half here?

Brian R. Gray
CEO, President & Director

Yes. Certainly, the West performance was not all related to Oregon. And so I'll talk about each one of those states separately. I'll start -- I mean, we've talked about Hawaii, the delayed P209 project, we think had about a $3 million impact. The wet weather we had late in the first quarter that carried into the second quarter in Hawaii certainly impacted our cement and ready-mix sales. So definitely an impact in Hawaii that did not meet our expectations for the quarter. Same with when you don't open up the roads to dump trucks and ready-mix trucks until June 15 in Alaska, that had several million dollar impact to us in the quarter. If you look at our West results this quarter versus last year, certainly had an impact.

And then what's going on in Oregon and the impact it's having on Northern California and the competitive dynamics that those market dynamics did have an impact for the quarter. And so we had been talking that Oregon was stabilized and that we expected that their performance from the operations to be broadly in line with last year. That was the case for the first half of the year. We were slightly up in the first quarter. We were slightly down from what our expectations were. And so I could say that for the first 6 months that we were broadly in line with our expectations, which was to be similar to last year.

So for the second part, which kind of feeds into the guidance, because we were very disappointed with the amount of work and the type of work that bid, the very limited amount of work that was new that we were expecting to pick up and have some better improvements in that DOT and other public agency work, that did not come to fruition in the second quarter. And so I would say that from our expectations of being broadly in line for the entire year, that I think that we're going to be slightly down from that. I would say there's some good signs in Oregon that is important for us to look at. And as we continue to look at aggregate sales specifically in the Portland, Oregon market, those -- that's a good indicator of what's going to happen in the state. Usually, they're about a year ahead of what happens down in Southern Oregon and over in Central Oregon.

And we continue to see solid sales that are up 20%, 30% in volumes in that Portland, Oregon market. And so that is a positive sign. The last thing I'd say is in prestress in Oregon. That's part of our Oregon operations. They picked up a very large, very good contract with the semiconductor facility in Idaho, and we expect that to begin construction and see some improvements and impact to our EBITDA later this year and primarily into the beginning of next year. So some good things going on there. So that's kind of what happened in the West.

Rohit Seth
B. Riley Securities, Inc., Research Division

Okay. And then just on the mix on pricing trends, you had a pretty wide gap between reported and mix adjusted. I know that's affecting aggregates, maybe to some degree, your concrete with the acquisitions layering in and asphalt ASP is down a bit. So maybe you can talk about how do you see pricing trends trending over the next couple of quarters, how that mix adjusted sort of unwinds and gravitates towards reported? Any color would be helpful.

Brian R. Gray
CEO, President & Director

Yes, I'll let Nathan address that one.

Nathan W. Ring
VP & CFO

So yes, you're right. There are some differences there that are worthy of additional explanation. So as reported, we had -- and I'll talk aggregates first. We had average selling price of 3.2%, I think, was the number. In that number, and I talked about this in my prepared remarks, and Brian mentioned it just a moment ago, we did have a sizable amount of natural fines that we sold, 630,000 tons. It's part of an effort for commercial strategy, but it does have an impact on average selling price. And so what we did with the product mix adjusted is we took a look and said, what are the products actually doing on a per product basis? Are we seeing the price increases that we talked about earlier in the year? And what that indicates is that we are.

So on a product mix adjusted basis, kind of like-for-like, what would this look like if I sold the same last year as I did into this year with the pricing increases, we're up 8% on a product mix adjusted basis. For the rest of the year, what we're giving as guidance is we are doing it on an as-reported basis. So as we continue to optimize our pricing, we see those revenues come in from surcharges and delivery. We expect our average selling price to be up mid-single-digits on an as-reported basis for aggregates.

On ready-mix, you just mentioned, you noticed the pricing there. A good portion of that does have to do, and we've talked about this a little bit in the past, is just related to the geographic mix. Brian talked about Texcrete having the residential lower spec material. That does come at a different pricing. Still good margin work for us, but it is a different pricing profile. And so as Texcrete and Texas ramp up relative proportionately to the rest of the company, we do see that average selling price change, again, but not indicative that we're not getting the price increases that we're looking for in those particular markets.

So on a go-forward basis, not necessarily giving guidance on ready-mix or hot mix because there's a lot of contingency there with what cement prices do, what asphalt prices do. But what we've seen so far is positive. And again, on aggregate side, seeing good pricing dynamics for us going forward.

Rohit Seth
B. Riley Securities, Inc., Research Division

Okay. And what about asphalt?

Brian R. Gray
CEO, President & Director

On asphalt, I think Nathan mentioned, that's heavily influenced by the input cost, the energy costs specifically for natural gas and liquid asphalt. So we like our price over cost spread for the quarter. I think you might see some headwinds in that into next year as we start to -- we used a fair amount of lower priced secured asphalt in our mix last -- the first half of this year. That will begin to change. So I think you'll see those costs and prices be reflective of that input increase from specifically liquid asphalt.

Operator

Your next question comes from Ivan Yi with Wolfe.

Ivan Yi
Wolfe Research, LLC

Starting on the aggregate side, what was organic aggregate volume growth in second quarter? And what are you expecting for organic volumes in full year '26 relative to your guidance for total ag volumes up high-single-digits?

Brian R. Gray
CEO, President & Director

Yes. We had about 75% of the growth in volume come from our legacy operations. And I think that's indicative of the -- a lot of the asphalt paving that we did and the pull-through benefit of being vertically integrated. And about 25% came from our acquisitions. Part of that is selling aggregate from those new acquisitions, but also in Texcrete's case, we were able to switch their aggregate supply internal, whereas before they were buying it external. And so that also improved our aggregate sales. So about 25% from recent acquisitions and 75% from the legacy business, primarily driven by the increased asphalt paving.

Ivan Yi
Wolfe Research, LLC

Great. And then you've talked in great detail about the gross margin, the headwinds in second quarter. Can you comment on the expected trajectory of total gross margins in 3Q and 4Q? I know you don't give quarterly guidance, but just any color on sort of the shape of that in the back half?

Brian R. Gray
CEO, President & Director

Yes. We were pleased with our margin expansion in all the product lines. Year-to-date, we've got margin expansion in aggregates, ready-mix and asphalt. Obviously, we had those headwinds that we've discussed that impacted aggregates for the year. Some of those headwinds are going to continue. I mean, obviously, the energy and some of the market dynamics that we talked about, specifically in Oregon, that's having an impact on some of those adjacent states, will continue to have some downward pressure on the margin.

So I'll let Nathan specifically talk about the second half of this year, what we expect.

Nathan W. Ring
VP & CFO

Yes. If we take a look at this on a product-line basis, and we've talked about some of the pieces already. So from an aggregate standpoint, we are seeing margin expansion for the full year. And so in the latter half of the year, as you can take a look at what we've done for the first half, that would tell you, like Brian said, for the full year, about 100 basis points. So an improvement there.

Contracting services, we did talk about that as well having comparable margins to last year and a little bit of a lift there. The other 2 product lines that you're maybe getting at that we haven't discussed, but we've kind of talked about the pieces that impact it. Very proud of the performance through the first half of the year. But we've talked about there could be some margin compression in those 2 product lines, ready-mix and asphalt hot mix, that would be driven by higher energy costs, there is some lower margin work that Brian mentioned and higher depreciation expense related to our recent acquisitions. And the fourth quarter was better weather this year. Like I said in my guidance comment, we're anticipating normal weather this year for the second half. And so those could put some margin compression on those 2 product lines. But like we said, overall, the gross profit increase for aggregates, ready-mix, hot mix, those material product lines, we do see higher year-over-year.

Operator

Your next question comes from Garrett Greenblatt with JPMorgan.

Garrett Samuel Greenblatt
JPMorgan Chase & Co, Research Division

If we look at your EBITDA guidance and kind of back out the increased expectation for DD&A, it implies that the EBIT guide is down about $20 million versus prior. I wonder if you can talk us through the pieces of that. I know it's probably related to these projects being pushed out to 2027, the Oregon weakness as well as energy costs. But trying to really debate which portion of this is recapture as we look into 2027.

Brian R. Gray
CEO, President & Director

Yes. I think a piece of that does relate, as we talked about, we did have higher DD&A. We noted that in the guidance that it is up mid-teens as before it was mid-single-digits. A piece of that really does have to do, we've updated our forecast relative to our recent acquisitions, also our revenue, as you noticed. And so actually, if you look in the full year, as it relates to DD&A, the percent of DD&A relative to revenue is about the same year-over-year. Does that answer your question on the increase in DD&A?

Garrett Samuel Greenblatt
JPMorgan Chase & Co, Research Division

More so I'm talking about the -- if we back out that higher DD&A expectation now from the maintained EBITDA guidance, it implies a lower EBIT guide. So I'm just curious what's driving that operating side of things.

Brian R. Gray
CEO, President & Director

Yes. I think part of that has to do with, as I just shared, we've got a couple of our product lines that we do anticipate having some margin compression due to the reasons I listed there. And so that's probably a piece of it. And then, of course, the type of work we're doing could have some margin impact as it relates to those upstream product line materials.

Garrett Samuel Greenblatt
JPMorgan Chase & Co, Research Division

Got you. And then as we think about the legacy projects that are lower margin from the acquisitions, when do we expect those to fully roll off?

Brian R. Gray
CEO, President & Director

Yes. I would say primarily in the third quarter as when we perform most of our revenue. That would be some legacy work, specifically in Utah. And so that would be primarily in the third quarter.

Operator

This concludes the Q&A session. I will now turn the call back to Mr. Brian Gray for closing remarks.

Brian R. Gray
CEO, President & Director

We appreciate everyone joining us today. Thank you for the questions, and we look forward to speaking with you all again next quarter. Thank you.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.