NASDAQ:CDNL Q3 2026 Earnings Call Transcript

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Conference Operator | Operator:

Good morning and welcome to the Cardinal Infrastructure Group Third Quarter 2026 Earnings Conference Call. At this time, all participants are in a listen-only mode. As a reminder, this conference is being recorded. I would like now to turn the conference over to Tiffany Gidley, Cardinals General Counsel. Please go ahead.

Tiffany Gidley | General Counsel:

Good morning, everyone, and welcome to Cardinals Third Quarter 2026 Earnings Conference Call. Joining me today are Jeremy Spivey, our Chairman and Chief Executive Officer, Benji Wood, our Chief Operating Officer, and Mike Rowe, our Chief Financial Officer. Please refer to the earnings relief and presentation issued this morning and available on the investor relations section of our website. Today's call will include certain non-GAAP financial measures. Please refer to our earnings relief for definitions and reconciliations to the most comparable GAAP measures. Today's call will also include forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. Additional information regarding these risks is available in our SEC filings. Cardinal undertakes no obligation to publicly update or revise any forward-looking statements except as required by law. With that, I'll turn the call over to Jeremy.

Jeremy Spivey | Chairman and Chief Executive Officer:

Thanks, Tiffany, and good morning, everyone. Revenue grew 65% this quarter to $202 million, but our third quarter adjusted EBITDA margins over 4.2%, well below our expectations. The decline primarily reflected project estimate revisions, residential pricing pressure, lower initial bid margins on certain commercial and industrial work, and higher fuel and transportation costs. Mike will provide the detailed financial bridge, but I want to be direct. These results are not acceptable. and they make clear that we need to strengthen how we estimate, manage and execute projects across Cardinal. As a second generation operator with more than 30 years of experience in this industry, I know a strong project execution requires and I recognize when we need to raise our standards. We are taking several actions to do just that. Benji Wood, our Chief Operating Officer, is a fourth generation operator with more than 30 years of experience and a demonstrated record of Success, leading AOGC. Benji will now take a more direct role in establishing and implementing consistent operating standards across the Cardinal platform, focusing on project selection, estimating, project reviews, and accountability. We will also engage an experienced independent third-party advisor to support implementation of these operational changes and assess our estimating and project review processes. Separately, in collaboration with Hughes Brothers, we decided to postpone the proposed acquisition. We continue to view Hughes Brothers as a strong strategic fit, and our near-term priority is strengthening our existing platform, and we will revisit Hughes when appropriate. We believe the right priority today is strengthening execution across our existing operations and realizing the benefits of the businesses we've already acquired. We also remain focused on capital allocation. Given the strength of the balance sheet, our board of directors has authorized a share repurchase program up to $50 million of our Class A common stock over the next 12 months. Although our third quarter performance exposed areas where our execution and operating processes must improve, we have made meaningful progress this year in building a more diversified, vertically integrated platform. We expanded our self-performance capabilities, added complementary services in Atlanta, and brought an asphalt plant online in the Carolinas. Our strategy remains intact. Our immediate priority is strengthening execution and building the operating discipline and supporting infrastructure necessary to translate growth into more consistent profitability. With that, I'll turn over the call to Benji to

discuss the operational changes we're making.

Benji Wood | Chief Operating Officer:

Thanks, Jeremy. My immediate focus is applying the operating practices that have worked well at ALGC to the broader Cardinal platform. Our operating priorities are improving project selection, project execution, and accountability. We have identified several actions that are already underway. First, we are tightening project selection and estimating through more consistent bid review standards, greater management oversight, and increased selectivity around project risk and expected returns. Second, we are strengthening project management field execution through more frequent and rigorous project reviews, standardized estimates to complete, and earlier identification and escalation of changes in productivity, schedule, scope, and expected profitability. Third, we are strengthening operating accountability through consistent estimating, reporting, and financial control standards across the platform. These changes are intended to provide earlier visibility into project performance and allow us to act sooner when a project deviates from plan. We will implement them while continuing to invest in our employees and safety programs, bringing greater discipline and consistency across the Cardinal platform. With that, I'll turn the call over to Mike. Thanks, Benji. I'll briefly review the financial results balance sheet in the Outlook. Revenue grew 65% to $202 million in the third quarter, an increase of $80 million, of which $24 million was organic growth. Backlog reached $816 million. Revenue growth and backlog demonstrated continued demand across the platform. However, that growth did not translate into acceptable levels of profitability during the quarter as adjusted EBITDA was $9 million compared to $21 million last year, while adjusted EBITDA margins declined to 4.2% from 17.5%. Gross profit for the third quarter was $11 million, resulting in a gross margin of 5.4% compared to 15.9% last year. As Jeremy referenced, on an adjusted EBITDA margin basis, project estimate revisions accounted for approximately 6.5 percentage points of the decline. Residential pricing pressure and lower initial bid margins on certain commercial and industrial work accounted for approximately 3.6 points and higher fuel and transportation costs accounted to approximately 3.5 points. These impacts were partially offset by approximately 0.3 points from other factors resulting in a 13.3 percentage point decline in adjusted EBITDA margins. G&A increased to $15 million for the third quarter. This increase reflected acquired businesses, stock-based compensation, acquisition-related costs, and investment in personnel, systems, and infrastructure to support the growth and increased complexity of the organization. Net loss for the quarter was $11 million, compared to $10 million of net income in the same period in 2025. For the year-to-date results, revenue for the first nine months of 2026 increased 92%, or $286 million, to $596 million. Organic growth contributed $144 million, or about half of the increase with the balance attributable to acquired businesses. Gross margin was 11.5% compared to 15.4% in the prior year period, primarily reflecting higher fuel and transportation costs, residential pricing pressure, and lower initial bid margins on certain commercial and industrial projects, as well as project estimate revisions recorded in the third quarter. Net income for the first nine months was $12 million compared with $26 million in the prior year period. adjusted EBITDA increased to $63 million compared to $56 million last year, while adjusted EBITDA margin declined to 10.6% from 17.9%. We ended the quarter with $335 million in cash and cash equivalent and approximately $136 million of net cash along with substantial additional borrowing capacity. Net cash provided by the operating activities was $30 million for the first nine months of 2026 and capital expenditures were $42 million. Turning to our outlook, given the magnitude of the project estimate revisions recorded in this quarter and the work underway to strengthen our project level forecasting, we are withdrawing our previously issued four-year 2026 revenue and adjusted EBITDA margin guidance. While we currently expect fourth quarter adjustee without improve from third quarter, we are not providing a specific revenue or margin outlook. Our priority is to complete the necessary project reviews, strengthen our forecasting processes, and establish greater confidence in our timing and profitability of the work in our portfolio. With that, I'll turn the call back to Jeremy. Thanks, Mike.

Jeremy Spivey | Chairman and Chief Executive Officer:

I also want to share a leadership update. Mike Rowe will be stepping down as Chief Financial Officer and will remain with Cardinal to support an orderly transition. We have engaged Spencer Stewart to conduct a comprehensive search for his successor. I want to thank Mike for his contributions to Cardinal and for his commitment to supporting the transition. I'll close with this. Our long-term strategy continues to center on vertical integration, end-market diversification, and acquisitions. supported by disciplined capital allocation. Right now, our focus is clear. Strengthen execution, improve project visibility, and translate our growth into more consistent profitability. We understand that credibility will be built through execution and demonstrated results. Our management team is focused on delivering those results. With that, operator, let's open the call for questions.

Conference Operator | Operator:

Thank you. To ask a question, please press star 1 1 on your telephone and wait for your name to be announced. And to withdraw your question, please press star 1 1 again. And we ask that you please limit to two questions. And our first question is going to come from Keith Hughes with Truist. Your line is open.

Benji Wood | Chief Operating Officer:

Thank you. On the project estimate hit, which is the biggest hit to the margins here, could you talk about what regions were affected or what regions were affected more by that negative in the quarter?

Jeremy Spivey | Chairman and Chief Executive Officer:

Hey, Keith. Good morning. This is Jeremy. The revisions were primarily driven by a handful of projects in the Carolinas. and more specifically, we have 13.2 million revision or cost estimates which accounts for about six and a half points of the gross margin plan. And some of that, there's some stuff tied to those revisions with elevated fuel and transportation costs versus third quarter 2025. Of that, 10 projects account for 61% of the estimate revision. And simplifying that even further, three projects accounted for 50% of the estimate revision. it's a select few projects and it's isolated in the Carolinas.

Benji Wood | Chief Operating Officer:

And are those residential projects or more commercial or how would you, particularly the three that seem to be the most problematic here?

Jeremy Spivey | Chairman and Chief Executive Officer:

Yeah, the three were residential projects.

Benji Wood | Chief Operating Officer:

Residential, okay. Final question for me, we talked about some changes with Benji getting involved in price. Can you structurally talk about how that works? Do you set a faster review on cost versus revenue or how did, What are the individual steps that make that happen?

Jeremy Spivey | Chairman and Chief Executive Officer:

I'll tell you, we're focused on three areas. Project selection and estimating, project level oversight, and accountability. We're tightening the bid reviews to better evaluate expected profitability, resource requirements, and execution lists before committing to new projects. We're increasing the frequency and rigor of the project reviews so we can identify the overruns or changes in estimated profitability earlier than we have in the past. our new ERP and visibility, what that helps. And we're realigning leadership there at the same time to support the resources so that we have clear ownership of project performance moving forward.

Benji Wood | Chief Operating Officer:

Okay, thank you.

Conference Operator | Operator:

Thank you. And our next question is going to come from Brian Prophy with C4. Your line is open.

Brian Prophy | Analyst, C4:

Yeah, thanks. Good morning. Just following up on the projects with estimate revisions discussion, can you provide, I guess, a little bit more color on the expected completion dates or the cadence of expected completion dates of these projects? Thanks.

Jeremy Spivey | Chairman and Chief Executive Officer:

Yeah, so most of these projects on the revision are over 75% complete projects, so they will be completed either this fiscal year or early Q1.

Brian Prophy | Analyst, C4:

Okay, that's helpful. and then just maybe touching on the backlog. It was down sequentially, booked a bill with sub one. Looks like it's the first time in a while. I guess just what are the drivers there? Is it primarily res or anything else? And any thoughts on when we could see a pickup and backlog again? Thanks.

Jeremy Spivey | Chairman and Chief Executive Officer:

Yeah, so thanks, Brian. So Q3 is historically slow for new awards for us in our business because most project owners don't want to start in the winter months new projects. Our backlog did increase 26% year-over-year to 815.5 million. And, you know, we typically see, you know, we are also becoming more selective pursuing new work, particularly here in the Carolinas where pricing competition has intensified. But if we follow an annual cadence historically, Q3 is slow for us, and we tend to see things pick up late Q4, starting in the Q1.

Brian Prophy | Analyst, C4:

Appreciate it. I'll pass it on.

Conference Operator | Operator:

Thank you. And our next question is going to come from Louis De Palma with William Blair. Your line is open.

Louis DePalma | Analyst, William Blair:

Jeremy, Benji, and Mike, good afternoon. For Jeremy and Benji, you both have been in the industry for several decades. The issue that took place in the third quarter, is it related to execution or did something abruptly take place over the spring and summer that changed the industry's economic structure? And is it something with like higher cost of labor or materials or are and other customers pricing contracts differently or is it a function of like there are certain just isolated projects that are now carrying a negative gross margin that things will improve after these troublesome projects end?

Jeremy Spivey | Chairman and Chief Executive Officer:

Yeah, thank you, Louis. Good morning. I'll answer some of that, and if Benjamin needs to step in, he can. Execution certainly is not all of it, right? But any execution impact is not acceptable to us, and especially in soft markets where there's margin compression in residential and others, we have to execute at a top level. When we speak to that, that's the only thing that we know we have control over and that we're focused on making right and improving on. So there is a substantial amount of impact in fuel and transportation. Our visibility in Q2 and Q, you know, moving into Q3 was not where it is now. We were moving ERP systems. We have a lot of tools now that allow us to see things that we previously could not see where the impacts were coming from, how they were arriving, where they were. and we now have that so we are getting a tremendous amount a lot of this estimate adjustments are related to fuel and transportation moving forward and it was impacted prior to so we have to account for that and then on the move forward on the remaining cost to complete we have to account for that we are getting you know the the residential market is is soft There is significant amount of margin compression in the Carolinas, and I'll let Benjy speak to Atlanta, but we're going to continue to see that throughout 2027 unless things change with rates and there's some geopolitical resolutions. And I'll let Benjy talk about that.

Benji Wood | Chief Operating Officer:

Ben J. Yep. Hey, Louis. Really just going to echo what Jeremy said. a little bit of all of it. There's micro shifting out there on the market that's continued throughout the year. The fuel has been a steady pressure increase that has not alleviated. And as everyone knows, fuel really permeates throughout the system. So the visibility is going to help manage it going forward and then just focusing in on project selection and setting ourselves up for winning jobs and then executing on the job as well is going to put us on a better path.

Louis DePalma | Analyst, William Blair:

Okay, and for the soft residential market, does that encompass the residential projects in the Atlanta region in addition to the Carolinas, or is the weakness, at least right now?

Benji Wood | Chief Operating Officer:

Yeah, I think you're seeing a softer resi market in the broader Southeast region, right? I don't think it's unique to Carolina or Atlanta. I think South a broader macro shift, and it's not the worst market, it's just a softening market.

Jeremy Spivey | Chairman and Chief Executive Officer:

Yeah, Louis, I'll say that adding a tack on to that is when interest rates hit in Q3, we saw expedited softness. It was teetering for the most of Q2, with the hope of a rebound if the fuel prices and some other things fell in our favor and they didn't and rate rates raised and so we just had accelerated softness that we feel is stabilized for now, but if rates continue, who knows what happens.

Louis DePalma | Analyst, William Blair:

Great. And so when you're bidding on these new projects and your costs are higher, is it just that, you know, the margins are compressed or are you able to still, in your estimation, generate like positive EBITDA or these projects in the residential market under these new conditions?

Jeremy Spivey | Chairman and Chief Executive Officer:

We are, Louis, and one part of what we've done is we have to get back to basics in establishing the projects that we bid on and the margin that we expect from those projects. There's a little bit of loss of sight there, and we have part of the processes that we're doing with oversight of project estimating and operating processes to create some better consistency and visibility on the projects that we were getting awarded and making sure we have a floor on the projects that we agreed to execute for our clients.

Louis DePalma | Analyst, William Blair:

Great. That was helpful. Thanks, everyone.

Conference Operator | Operator:

Thank you. And our next question will come from Brent Thielman with Oppenheimer. Your line's open.

Brent Thielman | Analyst, Oppenheimer:

Great. Thanks. I guess, you know, recognize it's a low bar with the third quarter results. But, you know, over the short term, what backs the belief that adjusted EBITDA should get better quarter over quarter? I guess the question is really what headwinds alleviate for you in the current quarter?

Jeremy Spivey | Chairman and Chief Executive Officer:

We feel that the revision has already addressed what we know to be true. We expect adjusted EBITDA to improve sequentially in Q4 compared to Q3. Our efforts on the operation and execution side should do nothing but support that. And, you know, we stand firm behind that.

Brent Thielman | Analyst, Oppenheimer:

Okay. And I guess a follow-up, Jeremy or Benji, I guess with respect to the new business booked in the quarter, How do we get comfortable and recognize you're working through or pretty much through some of these call it legacy work? How do we get comfortable with the bid margins associated with what you picked up in the current quarter?

Jeremy Spivey | Chairman and Chief Executive Officer:

Sure, Brent. I think the big issue for us was visibility and being able to get real time data that allows us to make decisions on active projects that we can, you know, that we can efficiently move through them. mitigate any downside risks as we move through it. That lack of visibility for a period was an impact and we feel that we have the tools now with our new system to be able to head off and get real-time feedback on the projects that we do have ongoing. There's been no change the way that we conduct business. I mean, we have to get back to the basics and we have to rely on on more structured data now that we have available to us to be able to make decisions and mitigate any potential downside risk.

Brent Thielman | Analyst, Oppenheimer:

Okay. If I could sneak one more in. Just ALGC, can you talk about the performance relative to the mid-20s EBITDA margins that the business delivered when it was acquired? Did it meet those thresholds or not?

Jeremy Spivey | Chairman and Chief Executive Officer:

Yeah. I mean, listen. ALDC has performed the way that we expected them. They have been affected by impacts of rising fuel and transportation costs. They do have impacts from a softening market on both residential and CNI, but they are executing at a high level. And in fact, we're extending from ALDC certain aspects of its approach to estimating and project reviews and accountability. And we're going to work with a third-party advisor to refine those processes further and standardize them and implement them across all of Cardinal. And we'll also plan to use them as framework when integrating future acquisitions. So there's a lot of good things that we're getting out of ALGC. They're subject to transitory headwinds, and when that goes away, they're back to operating as they have in the past, and hopefully exceeding that with the integration model that we provide.

Conference Operator | Operator:

Thank you. And the next question is going to come from Kevin Ganey with Thompson Davidson Company. Your line's open.

Kevin Ganey | Analyst, Thompson Davidson Company:

Good morning, Jeremy, Mike, Benji. I was going to ask about given everything and the changes that you're making, how are you guys dealing with acquiring Allied Paving in the quarter and how has that gone so far and if that integrates, how that integration is going.

Benji Wood | Chief Operating Officer:

Hey Kevin, this is Benjy. The Allied integration is going really well in Atlanta at the time. We worked with Allied for years as a partner and a lot of familiarity and synergy is already being realized from that, so from a high level and it's proceeding as planned.

Kevin Ganey | Analyst, Thompson Davidson Company:

And then I wanted to ask on the backlog, how much of that do you guys expect to go through over the next 12 months? And how are you guys thinking about the percentage of that work that is still kind of at this low margin piece and the percentage of the new work that would be better?

Benji Wood | Chief Operating Officer:

So the backlog we show in September is the 815. 640 of it was signed, and 175 was letter-in-tense with issued contracts pending execution. The 12-month conversion estimate for the current project is scheduled, but we are not giving any 27 guidance on how we think that's going to fall into – the backlog's going to fall into 27. Okay.

Kevin Ganey | Analyst, Thompson Davidson Company:

and just finally, if you guys have any other details on the Hughes Brothers, whatever costs may be associated with that in Q4.

Jeremy Spivey | Chairman and Chief Executive Officer:

We don't expect any costs in fact in Q4 from Hughes. The acquisition has been postponed. We continue to talk to Hughes on a daily if not weekly basis. They're a priority for us, but obviously we have to There's some things we have to get organized on our end before we can bring them into the fold.

Kevin Ganey | Analyst, Thompson Davidson Company:

Perfect. Appreciate you guys taking the questions. Thank you.

Conference Operator | Operator:

Thank you. And the next question is going to come from Noah Levitz with William Blair. Your line is open.

Noah Levitz | Analyst, William Blair:

Thanks, guys. I wanted to ask, since you're experiencing the softness in the residential market, it sounds like it could persist. You came in with a pretty healthy mix towards residential after IPO. Does that at all change your opinion as it relates to resi versus CNI mix over the long term, pursuing more CNI?

Jeremy Spivey | Chairman and Chief Executive Officer:

Well, so we are, you know, our priority is to continue to focus on diversification. And, you know, we are, we are prioritizing the work that we feel is going to provide the best opportunity for us with the best clients. So as we look to 27 and even into finishing Q4, we're focusing on the diversification process. We are establishing new relationships with a lot of the general contractors that carry these C&I projects. And naturally, due to the state of the market right now, CNI is more abundant. And so I would expect, and we've seen it here in Q2 and Q3 and then Q4 and probably in the next year, that our project, our in-market mix leans more towards the CNI space for the foreseeable future.

Noah Levitz | Analyst, William Blair:

Makes sense. And then just given that this was your first full quarter of having the asphalt plant online, just wanted to check in and see was everything going according to expectations in terms of insourcing and cost savings there. Thanks.

Jeremy Spivey | Chairman and Chief Executive Officer:

Yeah, I think in future quarters we'll be able to speak more to it because we're just getting it on plane this quarter, but it has been an exceptional addition to our operation here specifically for Aviator. I mean, they've put down some incredible volume of asphalt out of that plant. our models that we're running make us very excited about what it's going to offer to us and the payback and the long-term accretion to our operations. So, yeah, we're excited more to come on that, but it is running on full plane right now.

Noah Levitz | Analyst, William Blair:

Great. And then just a quick last one. Back in April, you won the big data center award. You haven't talked about it in a bit, but I want to check in and see how that's going and how's the pipeline of those or other kind of mission critical type opportunities looking for you guys?

Jeremy Spivey | Chairman and Chief Executive Officer:

Thanks. We're obviously that transitory end market we're focused on. It offers some good opportunity for us and we're not only in Atlanta, but in the Carolinas and some other states that we're looking to opportunities. The one that we currently have, we're still on phase one. There was a substantial revision to the phase one plan, and we had a change order that is either pending or executed at this time, but represents a 50% increase in the original contract. The anticipated phase two, as I understand it, is to begin or to be awarded and to begin March, April, so late Q1, early Q2 of next year. We're doing great. The customer's happy. We've made some good relationships, not only with that customer, but with some other trades who help support the work that we do there. So hopefully we have opportunities with them on future projects in other markets.

Noah Levitz | Analyst, William Blair:

Thank you very much.

Conference Operator | Operator:

That concludes the question and answer session. I would now like to turn the call back over to Jeremy for closing remarks.

Jeremy Spivey | Chairman and Chief Executive Officer:

Thank you. Thank you all for your time today. I want to take a quick moment to thank our employees for their continued hard work and dedication. We know we have some work to do and I'm confident we have the team to focus on and implement the necessary changes. We have and we will continue to deliver the quality, complex infrastructure projects for our clients across the Southeast. Thank you and I hope you all have a great day.

Conference Operator | Operator:

Ladies and gentlemen, this does conclude today's conference call. We thank you for your participation. You may now disconnect and have a great day.