NYSE:TPC Q4 2025 Earnings Call Transcript

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LaTanya | Conference Coordinator:

Today, ladies and gentlemen, and welcome to the Tutor Perini Corporation's fourth quarter 2025 earnings conference call. My name is LaTanya, and I will be your coordinator for today. All participants are currently in a listen-only mode. Following management's prepared remarks, we'll be opening the call for a question and answer session. As a reminder, this conference is being recorded for replay purposes. If anyone should require operator assistance, please press star zero on your telephone keypad. I will now turn the conference over to your host today, Jorge Casado, Senior Vice President of Investor Relations. Thank you. You may proceed.

Jorge Casado | Senior Vice President of Investor Relations:

Hello, everyone, and thank you for joining us. With us today are Gary Smalley, CEO and President, Ron Tudor, Executive Chairman, and Ryan Soroka, Executive Vice President and CFO. Before we discuss our results, I will remind everyone that during this call, we will be making forward-looking statements. which are based on management's current assessment of existing trends and information. There is an inherent risk that our actual results could differ materially. You can find our disclosures about risk factors that could contribute to such differences in our form 10K, which we are filing today. The company assumes no obligation to update forward-looking statements, whether due to new information, future events, or otherwise, other than as required by law. In addition, during today's call, management will be referring to certain non-GAAP financial measures. You can find information and a reconciliation of these non-GAAP financial measures in the earnings release that we issued today and in the Form 10-K being filed today, both of which can be found in the Investors section of our website. Thank you, and with that, I will turn the call over to Gary Smalley.

Gary Smalley | CEO and President:

Thanks, Jorge. Hello, everyone, and thank you for joining us. Tudor Perini had a tremendous year in 2025, perhaps her best year ever. Our results were highlighted by a record $5.5 billion of revenue, a return to strong profitability that produced $4.29 of adjusted earnings per share, a fourth consecutive year of record operating cash flow with $748 million of cash that shattered last year's record. This enormous cash generation was largely due to the contributions from new and ongoing projects And our record revenue is driven by double-digit backlog growth that we expect will fuel even higher revenue and earnings, increased profitability, and continued strong cash flow in 2026 and beyond. A year ago on our earnings call, I shared some of my top priorities as TutorPrinti's then newly appointed CEO, which included a sustained focus on cash, the return to profitability, and providing ambitious yet reasonable earnings goals. All with the goal of significantly increasing short and long-term shareholder value. I'm pleased to report that we have delivered on each of these priorities, which together have helped us to achieve unprecedented share price performance and record returns for our shareholders. There's a lot of enthusiasm here at Tudor Perini and among investors and other business partners about the progress we have made and especially about what the future holds. So it continues to be an exciting time to be a Tudor Perini shareholder and we want to thank those of you who are shareholders for your support. Our revenue growth accelerated progressively throughout each quarter of 2025 and our record revenue was primarily driven by contributions from various larger higher margin projects. As many of these projects continue to ramp up, we expect they will generate further double digit revenue and earnings growth over the next two years. The civil segment, our highest margin segment, generated more than $2.8 billion of our total revenue in 2025, the highest ever annual revenue for the segment. Consolidated

operating income was up significantly in 2025, driven by our larger, higher margin projects, as well as significantly less negative impacts on earnings from legacy dispute resolutions as compared to 2024. In addition to generating record annual revenue, the civil segment produced its highest-ever annual operating income and operating margin in 2025. The building segment's operating income for 2025 was its highest since 2011, and importantly, the specialty contractor segment returned to profitability in the second half of 2025 ahead of expectations. We see higher margins ahead for the building and specialty contractor segments and sustainably strong margins for the civil segment as many newer large projects continued to ramp up. We concluded 2025 with a robust backlog of $20.6 billion, up 10% year over year, and had a solid book to burn ratio of 1.34x for the year. Our backlog growth was driven by $7.4 billion of new awards and contract adjustments that we booked during the year, the largest of which included the $1.87 billion midtown bus terminal replacement phase one project in New York, the $1.18 billion Manhattan tunnel project also in New York, the UCSF Benioff new children's hospital in California valued at approximately $1 billion, a $538 million healthcare project in California, $241 million of additional funding for the Apra Harbor waterfront repairs project in Guam, a $182 million military defense project in Guam, the $155 million Diego Rivera Performing Arts Center at City College of San Francisco, $131 million of additional funding for an electrical project in Texas, and an electrical project at Cook Children's Medical Center in Texas valued at more than $100 million. Looking back a bit further, Over the past three years, we have won nine mega projects totaling approximately $16 billion, each valued at approximately $1 billion or more. Three of these were among our major awards of 2025, and all but one were awarded since the summer of 2024. These projects all have very healthy margins, more favorable contractual terms, and longer durations than many other large projects we have booked in the past. They also provide us with excellent visibility into our future revenue and earnings over the next several years. We believe our backlog will remain strong in 2026 and beyond. We anticipate booking approximately $1 billion into backlog later this year for the finished trade scope of work for phase one of the Midtown Bus Terminal project in New York City. And earlier this month, we received $204 million of funding for the Eagle Mountain Casino Phase 2 Expansion Project in California, a project that was originally awarded announced last summer. In addition, our subsidiary, Rudolph & Sletten, was recently selected for a large new multi-billion dollar healthcare project in California, which is currently in the pre-construction phase. We expect to book significant additional backlog as this and several other building segment projects, also currently in the pre-construction phase, advanced to the construction phase over the next several years. Furthermore, we continue to see numerous major bidding opportunities for our civil and building segments, many of which should include significant work for our electrical and mechanical business units within the specialty contractor segment. Our most significant bidding opportunities over the next 12 to 18 months include a program believed to be valued at approximately $12 billion for the Sepulveda Transit Corridor, the $3.8 billion Southeast Gateway Line, and the $700 million Metro Gold Line Foothill Extension, all three of which are in California, as well as the multi-billion dollar Penn Station Transformation Project in New York, the $3 billion Newark Liberty International Airport Terminal B project in New Jersey, very similar to the award-winning Terminal A project that we recently completed. the $1.4 billion I-535 Blatnick Bridge project in Minnesota, and the $1 billion I-69 ORX Section 2 project connecting Indiana and Kentucky. There are also several large hospitality and gaming opportunities we are pursuing, mostly in the southwest of the United States. In addition, we continue to have significant Indo-Pacific opportunities driven by the federal government's Pacific Deterrence Initiative, Black Construction, our Guam-based subsidiary, has been tremendously successful in winning various new projects throughout the region and continues to be well positioned to capture additional major projects over the coming years. We remain highly selective as to which opportunities we will pursue with continued focus on bidding projects with favorable contractual terms, limited competition, and higher margins. Due to the timing of our significant prospective opportunities, David Miller, Most of which start bidding around the middle of 2026 and continue through the first half of next year. David Miller, And because of the significantly higher revenue, we expect to recognize for work already in backlog. David Miller, We anticipate a modest backlog reduction in the near term, followed by resume backlog growth as we capture our share of major new projects. David Miller, So expect a bit more lumpiness in our backlog as we move forward with growth still expected over the medium to longer term. rather than the steady backlog increases we have seen virtually every quarter over the past two years. That said, growth remains a priority for us in this environment, and we believe we can scale up resources as necessary. While our civil business is expected to

continue to drive most of our future growth and profitability as it typically does, a substantial proportion of our building segment backlog is operating at significantly higher margins than what we have seen historically. For example, our two New York City jail megaprojects carry margins that are consistent with large complex building projects of a fixed price nature. In addition, today's large healthcare campus projects are more technically complex than more traditional commercial office building projects of the past, and therefore also command higher margins. Last November, our Board of Directors authorized our first ever quarterly cash dividend of six cents per share, As well as a share repurchase program totaling $200 million. And today the board declared another 6 cent quarterly dividend, which we've paid on March 26th. Next, let's turn to our outlook and guidance. Tutor Pruney continues to benefit from favorable macroeconomic tailwinds that are driving strong sustained market demand for construction services across all segments. We believe these tailwinds will persist due to the substantial amount of funding that is in place. and because our country has, for decades and until recently, inadequately funded and prioritized the types of substantial infrastructure investments being made today. Based on our assessment of the current market and business outlook, we anticipate double-digit revenue growth and strong earnings in 2026, with even higher earnings expected in 2027, by which time newer large projects should be in the construction phase. For 2026, We expect adjusted EPS in the range of $4.90 to $5.30. As we did last year, we have factored into our guidance a significant amount of contingency for unknown or unexpected outcomes and developments in 2026, including the possibility of a lower than anticipated success rate for future project pursuits, the potential for project delays, slower ramp-ups for newer projects, and any unexpected settlements and or adverse legal decisions associated with the resolution of disputes. We also continue to expect strong operating cash generation in 2026 and beyond due to increased project execution activities and the anticipated resolution of remaining legacy disputes. We have continued to chisel away at a remaining legacy disputes and made excellent progress in 2025, resolving certain longstanding matters. We are already off to a strong start this year, having recently reached an agreement in principle regarding one of our larger disputes related to a long-completed project. We believe that we will finalize a settlement agreement in the coming days, which will not have a material impact on our earnings. However, the settlement is expected to result in the collection of approximately $40 million for TutorPrinti in the near term. Because of our tremendous backlog and ample bidding opportunities, the outlook for TutorPrinti remains incredibly positive even beyond 2026. Thank you. And with that, I will now turn the call over to Ryan to discuss the details of our financial results.

Ryan Soroka | Executive Vice President and CFO:

Thanks, Gary. Good day, everyone. I will start by discussing our results for the year, after which I will review the fourth quarter and then provide some commentary on our balance sheet and our 2026 guidance assumptions. All comparative references will be against the same period of last year unless otherwise stated. Operating cash flow was certainly one of the most noteworthy highlights of 2025. As Gary mentioned, we generated a new record operating cash flow of $748 million for the year, up 49% compared to the previous record of $504 million for 2024. This was our fourth straight year of record operating cash, and it was driven by strong collections on newer and ongoing projects, reflecting a significant increase in project execution and improve working capital management, with less contribution from dispute resolutions in 2025 compared to previous years. We expect that we will continue to generate strong cash flow in 2026 and beyond, with most of our cash to be generated from organic operations, that is, from new and existing projects and occasionally enhanced by dispute resolutions. Revenue for 2025 was $5.5 billion, up 28%, with robust growth primarily due to the increased project execution activities on certain large, newer civil and building segment projects in the Northeast, Hawaii, and Guam. This included, among others, the Newark Air Train replacement, the Midtown Bus Terminal Phase 1 project, the Brooklyn and Manhattan Jails, the Honolulu Rail Project, and the Apra Harbor Waterfront Repairs Project in Guam. Civil segment revenue was $2.8 billion. up a solid 34% due to increased project execution activities on certain large, higher margin projects in the regions I just mentioned, all of which have substantial scope of work remaining. It was a civil segment's highest annual revenue ever, reflective of the robust, sustained demand that Gary noted we are seeing for our services. Building segment revenue was $1.9 billion, up 15% primarily due to increased activities on the Brooklyn and

Manhattan jail projects in New York and a large healthcare campus project in California, all of which also have substantial scope of work remaining. The building segment delivered its highest annual revenue since 2020. Specialty contractor segment revenue was $844 million, up a strong 43%, with the growth primarily driven by increased activities on various electrical and mechanical components as some of the large civil and building projects I mentioned. The specialty segment revenue really started to show strong growth in the second half of 2025, and we expect this growth to continue this year and next year as these and other newer projects advance. Our operating income was driven by higher margin contributions from various civil and building segment projects, as well as the absence of certain net unfavorable adjustments that impacted our results last year. operating income was up significantly despite $110 million increase in share-based compensation expense tied to the near tripling of our stock price in 2025, which affected the fair value of liability classified awards. Our share-based compensation expense is expected to decrease in 2026 and decline much more significantly in 2027, as some of these liability classified awards have now vested and most of the remaining awards will vest by the end of 2026. We are no longer issuing liability classified awards, which should meaningfully reduce earnings volatility. Civil segment operating income for 2025 nearly tripled to $391 million compared to $138 million in 2024, with a segment operating margin of 13.7% for the year, within the range of 12% to 15% that we expected. It was the segment's highest ever operating income and operating margin of any year. The strong increase was primarily due to contributions related to the segment's increased project activities that I mentioned and the absence of certain prior year net unfavorable adjustments. Earlier in 2025, we recorded favorable adjustments that resulted from the settlement of certain change orders and changes in estimates due to improved performance and a favorable project closeout on a domestic mass transit project. These were mostly offset by an unfavorable adjustment in the fourth quarter, which was mostly non-cash and associated with the settlement of a legacy dispute on a tunneling project in Canada. Building segment operating income was $58 million, a substantial turnaround compared to the operating loss of $24 million in 2024. The segment's margin for 2025 was 3.1% compared to a negative 1.5% last year. The significant improvement was driven by contributions related to the increased higher margin project activities I mentioned in the absence of certain prior year unfavorable adjustments. We anticipate building segment margins in the range of 3% to 6%, fueled by contributions from certain higher margin projects. The specialty contractor segment returned to profitability in the second half of 2025, ahead of expectations but posted a slight operating loss of $7 million for 2025 compared to a loss of $103 million in 2024. The significant improvement was primarily due to contributions related to the increased activities I mentioned on the electrical and mechanical components of certain civil and building segment projects. Many of these projects are in the early stages and are expected to ramp up considerably over the next several years. The improvement was also driven by the absence of certain prior year unfavorable adjustments on several completed projects. Corporate G&A expense was $211 million in 2025 compared to $110 million in 2024, with the increase primarily due to the substantially higher share-based compensation expense that we had in 2025, as discussed earlier. Income tax expense was $61 million in 2025, with an effective tax rate of 30% for the year. compared to a tax benefit of $51 million with an effective tax rate of 29.3% in 2024. Net income attributable to Tudor Perini for 2025 was $80 million, or $1.51 of GAAP earnings per share, compared to a net loss attributable to Tudor Perini of $164 million, or a loss of $3.13 per share in 2024. Excluding the impact of share-based compensation expense, net of the associated tax benefit, adjusted net income attributable to Tudor Perini for 2025 was $229 million, or $4.29 of adjusted earnings per share, compared to an adjusted net loss attributable to Tudor Perini of $124 million, or an adjusted loss of $2.37 per share in 2024. Now, let's turn to the fourth quarter results. We had a solid turnaround performance across all segments in the fourth quarter in terms of revenue, operating income, and margins. As Gary mentioned, our revenue growth accelerated sequentially throughout 2025 with particularly strong growth in the second half of the year that is continuing into 2026. Revenue was $1.5 billion, up 41% compared to $1.1 billion for the fourth quarter of 2024. Double segment revenue, for the quarter was $732 million, up 32%. Building segment revenue was $512 million, up 45%. And specialty contractor segment revenue was $263 million, up 63%. The strong growth was due to the increased project activity, as I mentioned earlier, on various projects that are ramping up and have significant scope of work remaining. Civil segment operating income was $72 million for the fourth quarter of 2025, up very substantially compared to $4 million of operating income for the fourth quarter of 2024. The significantly lower than normal operating income and margin in the 2024 period was due primarily to a temporary earnings

reduction of $32 million that resulted from the successful negotiation of significant lower margin and lower risk change orders on a West Coast project. The civil segments operating income and margin for the fourth quarter of 2025 would have been substantially higher had it not been for the unfavorable adjustment I mentioned earlier. Building segment operating income was $11 million for the fourth quarter of 2025 compared to a loss from construction operations of $41 million for the fourth quarter of 2024. The improvement was driven by contributions from certain higher margin projects as well as the absence of prior year unfavorable adjustment on a government building project in Florida. Specialty contractor segment operating income was $11 million for the quarter, with a margin of 4.4% compared to a loss of $20 million in the fourth quarter of 2024. The segment's performance has continued to improve significantly as their involvement in our large civil and building projects grow. We expect the segment to eventually and consistently generate margins in the 5% to 8% range. For the fourth quarter of 2025, net income attributable to Tudor Perini was $29 million, or 54 cents of GAAP EPS, compared to a net loss attributable to Tudor Perini of $79 million, or a GAAP loss of $1.51 per share in last year's fourth quarter. Adjusted net income attributable to Tudor Perini for the fourth quarter of 2025 was $58 million, or $1.07 of adjusted earnings per share, compared to an adjusted net loss attributable to Tudor of $78 million or an adjusted loss of $1.49 per share in the fourth quarter of 2024. And now I'll address the balance sheet. In 2025, we paid down our total debt by 24% and reduced our CIE by 13%. The CIE reduction was mostly driven by billings and collections, including those associated with the resolution of various previously disputed matters. Our CIE is expected to continue to decrease over time as we resolve the remaining legacy disputes. Due to our record cash generation, we ended the year in a healthy net cash position with cash and cash equivalents exceeding total debt by $327 million as compared to our $79 million net debt position at the end of 2024. Cash available for general corporate purposes was $271 million at the end of 2025. Overall, our balance sheet is healthier than it's ever been. and our solid net cash position provides us with excellent capital allocation flexibility. Lastly, I'll provide some assumptions regarding our guidance for modeling purposes. G&A expense for 2026 is expected to be between $400 million and $410 million. Depreciation and amortization expense is anticipated to be approximately $50 million in 2026, with depreciation at $48 million and amortization at $2 million. Interest expense for 2026 is expected to be between $40 million and $50 million, of which about $3 million will be non-cash. Our effective income tax rate for 2026 is expected to be approximately 27% to 30%. We anticipate non-controlling interest to be between $75 million and $85 million. We expect approximately 54 million weighted average diluted chairs outstanding for 2026. And capital expenditures are anticipated to be approximately $125 million to $135 million, with a vast majority of the capex in 2026 approximately $75 million to $85 million being owner funded for large equipment items on certain large new projects. Thank you, and with that I will turn the call back over to Gary.

Gary Smalley | CEO and President:

Robert Marlayson, Thank you Ryan, in summary, we had our best year ever in 2025 marked by record operating cash flow record revenue that grew 28% year over year. Robert Marlayson, Strong operating income and profitability with record annual results for high margin civil segment, as well as robust year end backlog of $20.6 billion that was up 10% year over year. With this tremendous backlog, we are confident in our ability to produce double digit revenue and earnings growth and continued strong annual cash flow in 2026 as our newer projects progress through design and into construction. The outlook for Tudor Perini remains very bright over the next several years as we continue to benefit from favorable macroeconomic tailwinds and strong public and private customer funding that is fueling sustained market demand and numerous major bidding opportunities. As I mentioned earlier, it's an exciting time to be with Tudor Perini, whether as an employee, an investor, or other business partner. Thank you, and with that, I will turn the call over to the operator for your questions.

LaTanya | Conference Coordinator:

Thank you. We will now conduct a question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. you may press star two to remove yourself from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. Once again, that's star one at this time. One moment while we pull for the first question. The first question comes from Steven Fisher with UBS. Please proceed. Thanks.

Steven Fisher | Analyst, UBS:

Good afternoon, and sorry for the background noise here. congratulations on a very strong 2025. Just a couple of questions to start off on the guidance. Wondering if you could just talk about the coverage you have in your backlog on the outlook. I would think it would be pretty strong in light of all the bookings that you have, but just curious if there's any particular things you need to see still happen and get booked to hit the numbers. And then just from a cadence perspective, first quarter tends to be fairly light relative to the full year due to seasonality. And we've obviously had some pretty tough weather here in parts of the country in the first quarter. So I'm just curious, is there any expectations you want to set there?

Gary Smalley | CEO and President:

Yes, Steve. Thanks for the congrats. This is Gary. Yeah, first of all, we've got great visibility into the results for 2026 and really beyond. There's not much that has to happen for us to hit the numbers that we've we've represented, there are going to be some additional awards that could enhance things. And there's some, you know, built in awards that we're expecting that, you know, technically, we'd need to hit the numbers, but it's going to happen. It's not, it's not like we're expecting, you know, some large projects to come our way in order to, to be able to hit 2026. As far as the seasonality, you're right, Q1 is usually light for us, it's typically the way it goes. It'll be the same this year. What's happened primarily in New York with the large snowstorm, that hasn't really, it's not going to have much of an impact. We've got contingency for that. We've also budgeted expecting Q1 to be light. And then I might as well throw in Manhattan Tunnel. We're back working after about a two-week suspension, and that's all accounted for in the guidance as well, accounted for with contingency. So we feel good.

Steven Fisher | Analyst, UBS:

That's great. And then just from a backlog perspective, it sounds like you expect some, I think lumpiness was the word that you used, but you did cite some potential larger awards in the second half of the year. Just curious, should we be expecting some net burn this year on the backlog? Or do you think there's still enough opportunity to kind of keep it steady at the level kind of where we are now? And then maybe the bigger picture question is just on Steve, on the civil side, is there any kind of view you have on where we are in the cycle of bigger projects? I know this is an area where you've had relatively limited competition recently. I'm just kind of curious where you think we are in sort of the bigger picture cycle there. Thank you.

Gary Smalley | CEO and President:

Sure, Steve. Look, taking the last part first, we've got good visibility, again, on a lot of these larger projects for civil projects. We think that they're on pace to what we are expecting and making good progress on things. And we don't disclose every large project that's out there, just the biggest ones and ones that are most likely to happen in the near term. We've got the first part of your question again. Did it remind me of something?

Steven Fisher | Analyst, UBS:

Yeah, do you think it will be net burn in the backlog this year?

Gary Smalley | CEO and President:

Look, we think at the end of the year, we should be our our plan shows us a little north of where we are currently. I want to introduce the lumpiness concept because we've we've kind of spoiled everyone, I think, to some extent, because over the last two years, almost every quarter we've grown backlog. And, you know, it didn't happen this particular quarter. with, you know, a modest adjustment, you know, on a percentage basis. And just wanted everyone to know that it could be lumpier than it has been over the last couple of years, where every quarter seemed like we're hitting a new record. But the pipeline is rich. There's a lot of really strong work out there. Look, we won nine out of 11 of the large awards, you know, over the last year and a half or so. Don't know if we'll continue that win rate, but we should have a a good win rate because we target those projects that we think suit us best and where we think we have a good chance of winning. So I think it all adds up to backlog growth. And whether it's by the end of the year or into next year, it's coming. I can say that. But it's hard to predict exactly when those projects are going to hit backlog. But I wanted just to emphasize that it could be a little bit lumpier than it has been, but we're going to see growth. And, you know, I guess the last factor is we're going to be generating revenue at an all-time rate. 2025 was a record. 26 and 27 is going to go forward, even going to be higher. So it just means that to sustain backlog, you have to have significant awards. So, again, that's the reason for the words of caution.

Steven Fisher | Analyst, UBS:

Sounds good. Thanks a lot.

Gary Smalley | CEO and President:

Thank you.

LaTanya | Conference Coordinator:

The next question comes from Alex Regal with Texas Capital. Please proceed.

Alex Regal | Analyst, Texas Capital:

Thank you, Gary and Ryan. Very nice quarter. Congratulations. Thank you. A couple questions. Gary, can you go a little bit deeper on sort of the improvement in contract terms on new awards and talk about what that means longer term for tutor preemie?

Gary Smalley | CEO and President:

Yes, we'll do. Look, in the past when the competition was heavier for these projects that we pursued, the larger projects, you know, we wanted to change contractual terms, but we were unable to because there's always somebody else that would have accepted the terms and taken the contract. Now what we've been able to do with the limited competition is to work with our customers, our owners, in order to drive better payment terms, better terms with respect to no damages for delay, especially in New York, just damages, damages provisions, also on differing site conditions, things that in the past could, and sometimes did impact us in a negative way and things that, um, uh, you know, like, uh, no damage for delay is something that, uh,

is just the way the statute is written. It's tough to work around in court if you happen to go to, to, uh, to go to court. So now eliminating that provision, the contracts certainly beneficial. So I think what you'll see is, is less disputes as we go forward. And then, and, and part of that is, uh, just because it's really a clarification of terms. But also, I think that we'll less likely end up in court because the pendulum is more, swung more toward our side, more in the middle, so that I think you'll get negotiations and meaningful negotiations before you go to court, preventing you from having to go to court.

Alex Regal | Analyst, Texas Capital:

And then secondly, I believe those are relates to Rudolph and Slayton. From a clarity standpoint, did you say It was looking at a multibillion-dollar health care facility, so maybe expand upon that. And then any commentary about opportunities over the next handful of years as it relates to high-tech manufacturing and reshoring?

Gary Smalley | CEO and President:

Yeah, so first on the multibillion-dollar project, it's a confidential project, so we can't say a whole lot about it. The multibillion-dollar side, it's closer to two than anything above that. But we really can't offer much on that other than we're in pre-construction. And usually when something's in pre-construction, our history shows us a 90% plus chance of, you know, heading to construction down the road. So that's what we expect that when we think that will end up as a construction contract for us. The timing of which, you know, some of that will come in this year, but probably the majority of it's going to be in 2027. And then could you elaborate on your second question?

Alex Regal | Analyst, Texas Capital:

And then are you seeing developing opportunities from large manufacturing facilities, fab plants and whatnot, and how that might play out over the next handful of years?

Gary Smalley | CEO and President:

No, not really. You know, of course, that doesn't hit us on the civil side, but on the building side, the focus right now is on health care, some educational facilities and some multipurpose facilities. Robert Marlayson, hotels casinos things like that, but but that's really where our focus is. Robert Marlayson, helpful Thank you.

LaTanya | Conference Coordinator:

Robert Marlayson, The next question comes from Adam thalheimer with Thompson Davis please proceed.

Adam Thalheimer | Analyst, Thompson Davis:

Hey good afternoon guys congrats on the strong year. Robert Marlayson, I wanted to start the the can you give more color on the Canadian project and. Robert Marlayson, How much was the negative impact to civil in Q4.

Gary Smalley | CEO and President:

Yeah, in Q4, I think it was 42 million, as I recall. And, you know, that's a consolidated joint venture. That's the joint venture portion of it. And there was, you know, call it a dozen, you know, 12 or 13 million earlier in the year. That's behind us. You know, it's roughly offset by a Midwest project that uh, really of the same magnitude, maybe a little bit more that we recognized over, you know, probably the last three quarters of the year. Uh, so, um, anyway, it's, uh, one of our larger disputed items. We just felt like it was better to, to resolve that one than to, uh, proceed, you know, down the path of litigation.

Adam Thalheimer | Analyst, Thompson Davis:

Yeah, absolutely. And then, um, how many legacy jobs are left to settle?

Gary Smalley | CEO and President:

Yeah, let's just say about a dozen. Um, you know, it's, um, and you know, there, there's some, there, yeah, we, we've got, um, you know, around a dozen, you know, there, and those are of some significance. There are some, you know, cats and dogs out there that are smaller amounts that, um, are less meaningful. And, uh, as, as Ron was just noting here, you know, he's right. We started with, um, about 50. So we went, we've gone from about four dozen to a dozen and, um, and we're making progress on, on some of the others, as you heard, um, One was just cleared within the last week and a half. So we'll continue that focus. We're optimistic that some turn favorably for us, right? Some are right ups, not right downs. And we hope that's the case with what we have left, but time will tell. But in the meantime, we've tried to put aside contingency, not just for that, but a lot of other unknowns. We think that we have enough contingency to cover any unexpected delays, anything that is just not forecasted, including the potential for any write-downs due to litigation outcomes.

Adam Thalheimer | Analyst, Thompson Davis:

Okay. So it really was a great quarter if you strip that out.

Gary Smalley | CEO and President:

Yes, it was. Thanks.

Adam Thalheimer | Analyst, Thompson Davis:

And then I wanted to ask, so you brought up, you made a comment about

Gary Smalley | CEO and President:

2027 construction starts and I don't expect you to give 27 guidance but just hope you could expand on that and uh you know what you are trying to say about the 2027 visibility yeah and and Adam you know you just said um it was a great uh great quarter um you know given you know that well look um even with that write down it was a it's a great quarter I think that shows the strength of what we're building here with this new work that we have And that new work carries us past 26 into 27. And you're right, we don't guide multi-year. But 27 is going to be better than 26. I think that's clear. We've said last year around this time, we're saying 25 is going to be good, 26 is going to be better, and 27 is going to be better yet. And there's nothing that's changed from that for that guidance. Great. Thanks, guys. Thanks again.

LaTanya | Conference Coordinator:

The next question comes from Liam Burke with B Reilly. Please proceed.

Liam Burke | Analyst, B. Riley:

Yes, thank you. Ryan, you are bidding on larger and larger, more complex projects. Is there any risk of being resource constrained? And how would that affect your bidding process?

Ryan Soroka | Executive Vice President and CFO:

Yeah, I think at this point, we certainly haven't seen any of the constraints on resources. It's probably important to point out that the majority of our labor is sourced from the union halls. And so we've got agreements in place, whether project-specific or with the union itself, for that labor to be supplied. So from our perspective, the day-to-day craft workers, we don't see any constraints, and we don't really see that going forward.

Gary Smalley | CEO and President:

And from a management standpoint, I think we've talked in the past about that's really where our focus has been, because unions have always done a great job providing us skilled labor when we needed it. Um, but as we've grown, we've been, uh, very aggressive and in fact, in a constant recruiting mode to bring in, you know, the, the project managers, project executives that are needed to to manage this work. And we feel that we're. Well, equipped there, we're, we're always looking anyone out there listening to apply. We're, we're always looking, but at the same time, uh, we, we think that, uh, we're already staffed, uh, at an appropriate level for future growth.

Liam Burke | Analyst, B. Riley:

Timm Johnson, Great and you mentioned in your earlier comments that the specialty margins could be in the we'll call it mid single digit range it's a business it's traditionally been marginally profitable at best, is it the same game plan is building and civil or is there something. Timm Johnson, Different about the business where you're going to have a pretty meaningful change of profitability.

Gary Smalley | CEO and President:

Timm Johnson, yep. Look, I think what's happened is we have been able to weed out some of the poor contracts that we've had with the poor contractual terms in lower margin work. Now we have higher margin work, better terms. A lot of the litigation, a lot of the disputes are behind us there, most of them. And so, look, if you look at the last two quarters of 2025, I think what it was, a 2.7% operating segment margin and then 4.4%. 4.4% operating margin for the segment in just those last two quarters. That's the trend we're on right now. That's what the current work is producing. And so our 1 to 3%, it's really, it's got contingency in there. We know that the work that we have in hand is going to be in that mid single digit range. But then we want to make sure that we hedge it a little bit with any unexpected outcomes. But we feel real good as we clear 26 that we're going to see that 5% to 8% range that we've talked about for some time. Great. Thank you. Welcome.

LaTanya | Conference Coordinator:

The next question comes from Michael Dudas with Vertical Research. Thank you.

Michael Dudas | Analyst, Vertical Research:

Thank you, and good afternoon, gentlemen. Hi, Mike. Hello. Gary, just so as we enter into 2026, you talked about the nine mega projects, 16 billion in backlog. So as we move forward through 2026 to 2027, how do we assume that the project, the revenue conversion you'll be seeing over the next couple of years will be coming from the enhanced TNC, you know, better backlog or better margin backlog that has been booked and certainly on the targets that you have out and out into the market. I'm assuming there's similar targets relative to the margin expectations you have currently, or is there some range or some opportunities there elsewhere going forward?

Gary Smalley | CEO and President:

Look, I think that margin will only build over time, and that's probably with all segments as these nine, the big nine, as we'll say, continue to move into full production. So, I think that will certainly have a positive impact on on earnings, but also on on revenue generation. And as those projects continue to mature. And continue to progress, we'll, we'll see. Uh, I think some margin enhancement and, you know, look, the new work that we're looking for. Um, you know, we, um, you know, as you, as you get more work, and this has been our strategy, we have been. I will say, I don't know if I guess it's more aggressive a margin, but expecting larger margin, you know, you start to fill your coffers and and, you know, every time we get another project, we raise margins next time. And it depends a little bit on competition. So can't say that there's a limit on that or there's no limit on that. And that will continue to grow margins for forever. But right now, that's that's the world we're living in. We're and that's what our focus is.

Michael Dudas | Analyst, Vertical Research:

And the clients are getting more maybe they don't like it, but getting more comfortable with that environment given the tightness in the market?

Gary Smalley | CEO and President:

Yeah, I guess that's one way to say it, Mike. I'd say another way is they like what we do. They like us. They like the performance that we provide. They like the quality. They like the timeliness of the work. And then you combine that where the competition in some cases is not bidding or in some cases we're clearly the best product and whether that's on the quality of the work or quality in price. And so I think those factors, we're bidding on work. It's not that they're just handing it out and they're giving it to us and they don't want to. I think we've got a good future here. The past is driving the future, and the past is just solid execution. And yes, we're raising margins, but that's the market that we're in. we'd be foolish not to as we survey the competition and look at what's in front of us.

Michael Dudas | Analyst, Vertical Research:

Well said, Gary. Ryan, with the tremendous job you've executed here with the balance sheet over the last several years, how is that going to help with business and opportunities going forward in the size of projects and maybe being more sole source versus potential partners? And how do you look at the optimal size of the balance sheet or what kind of recapitalization can we see given where you are with the debt, the maturities,

and the cash we're going to have and even further that you're going to be generating in the next few years?

Ryan Soroka | Executive Vice President and CFO:

Yeah, all good questions. I'll try to answer them in order. Just starting with the balance sheet and looking at the debt that we have out there today, 11 and 7 eighths is a tough coupon to swallow, obviously. and certainly something that we're looking to refinance probably mid-year or so is the expectation for some significant interest savings. We're hopeful for a 500 basis point reduction. As far as the level of debt, we're comfortable at that 400-ish mark in particular if we extend that out longer term so we have that liquidity certainty. and also that longer-term liquidity view. As it relates to, you know, obviously the operating cash and pre-cash that we've kicked off over the past three years at record pace, obviously having that cash on hand also gives a better long-term liquidity view. And for other stakeholders like the sureties, giving them confidence to, as we look at some of these future opportunities, to bid that sole source as opposed to having to get a JV partner. In 2026 alone, we're talking about 75 to 85 million of non-controlling interest. We'd sure like to keep that in-house.

Gary Smalley | CEO and President:

I think that's a great answer. Let me just throw something else out there that we haven't really talked a whole lot about. Earlier in the call, we talked about better contractual terms. I mentioned less litigation. Look, there's a We spent a lot of money over the last several years on litigation expense. And as we have progressed the last couple of years, we're seeing that amount come down. We expect to see that come down even further. Legal expenses are something that, of course, are necessary in business and certainly in this industry. But I think you'll see less and less legal expenses from us. And that's only going to drive, you know, profit improvement to.

Michael Dudas | Analyst, Vertical Research:

That's not a terrible thing, is it? Unless you're one of our attorneys. Of course. Just to clarify, Ryan, your interest expense guidance doesn't assume any refinancing recapitalization, correct?

Ryan Soroka | Executive Vice President and CFO:

We did broaden the range. Okay. Sorry, half the year or so. Yeah, yeah. a refinancing call, roughly mid-year.

Michael Dudas | Analyst, Vertical Research:

Okay, good.

Ryan Soroka | Executive Vice President and CFO:

Okay, just want to clarify that.

Michael Dudas | Analyst, Vertical Research:

Thanks, gentlemen. Thank you.

LaTanya | Conference Coordinator:

Thank you. At this time, I would like to turn the floor back to Gary Smalley for closing remarks.

Gary Smalley | CEO and President:

Thank you all again for your interest and participation today. We look forward to continuing to deliver strong results as we go forward. We'll talk to you again next quarter. Thank you.

LaTanya | Conference Coordinator:

Thank you. This does conclude today's teleconference. You may disconnect your lines this time. Thank you for your participation and have a great day.