Granite Construction

Q3 | FY 2020 Earnings Conference Call

Highway 101 Santa Barbara to Carpinteria CMGC, CA

Safe Harbor

Any statements contained in this presentation that are not based on historical facts, including statements regarding future events, occurrences, circumstances, activities, performance, growth, demand, strategic plans, outcomes, outlook, guidance, backlog, Committed and Awarded Projects (CAP), and results, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are identified by words such as “future,” “outlook,” “assumes,” “believes,” “expects,” “estimates,” “anticipates,” “intends,” “plans,” “appears,” “may,” “will,” “should,” “could,” “would,” “continue,” and the negatives thereof or other comparable terminology or by the context in which they are made. These forward-looking statements are estimates reflecting the best judgment of senior management and reflect our current expectations regarding future events, occurrences, circumstances, activities, performance, growth, demand, strategic plans, outcomes, outlook, guidance, backlog, CAP, and results. These expectations may or may not be realized. Some of these expectations may be based on beliefs, assumptions or estimates that may prove to be incorrect. In addition, our business and operations involve numerous risks and uncertainties, many of which are beyond our control, which could result in our expectations not being realized or otherwise materially affect our business, financial condition, results of operations, cash flows and liquidity. Such risks and uncertainties include, but are not limited to, those described in greater detail in our filings with the Securities and Exchange Commission, particularly those specifically described in our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q.

Due to the inherent risks and uncertainties associated with our forward-looking statements, the reader is cautioned not to place undue reliance on them. The reader is also cautioned that the forward-looking statements contained herein speak only as of the date of this presentation and, except as required by law; we undertake no obligation to revise or update any forward-looking statements for any reason.

Introduction

Claes G. Bjork

Chairman, Board of Directors

Introduction

Kyle Larkin

President

Lisa Curtis

EVP, Chief Financial Officer

GRANITE®

Company Update

Kyle Larkin, President

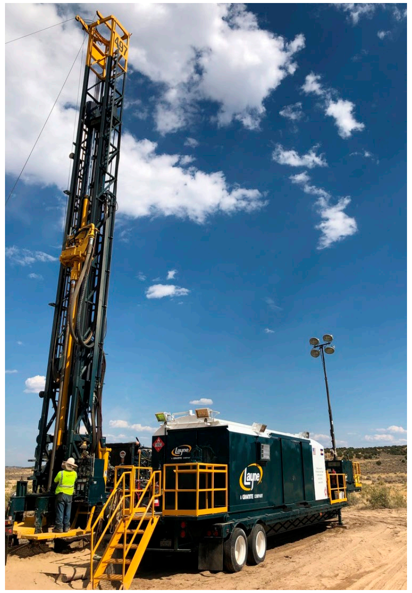
Investigation & Remediation

Investigation Complete

- Investigation of prior-period reporting for the Heavy Civil Operating Group and internal controls over financial reporting has concluded
- Year-long, thorough process
- Restatements following failure to adhere to policies for forecasting and risk management

Remediation

- Improving processes, controls, and accountability for compliance with policies
- Driving cultural reinvigoration with refreshed core values: safety, integrity, excellence, inclusion and sustainability
- Leadership changes across the business, including new leaders in Heavy Civil operating group



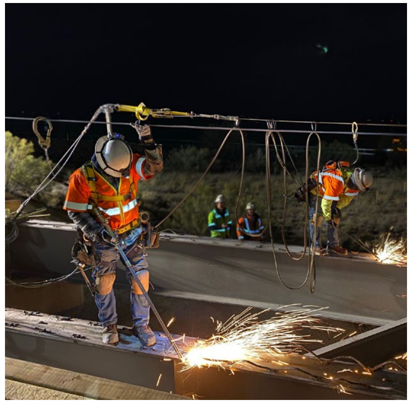
2020 in Review

Strengths

- Vertically-integrated businesses drove strong performance in key markets
- Materials segment performed well both on a top-line and gross profit basis
- Successful claim resolutions
- Significant progress in de-risking CAP
- Focused on delivering against ESG commitments

Challenges

- Impact of the investigation
- Working through the existing Heavy Civil Operating Group backlog
- COVID-19 impacted Water and Mineral Services Operating Group



Key Near-Term Priorities

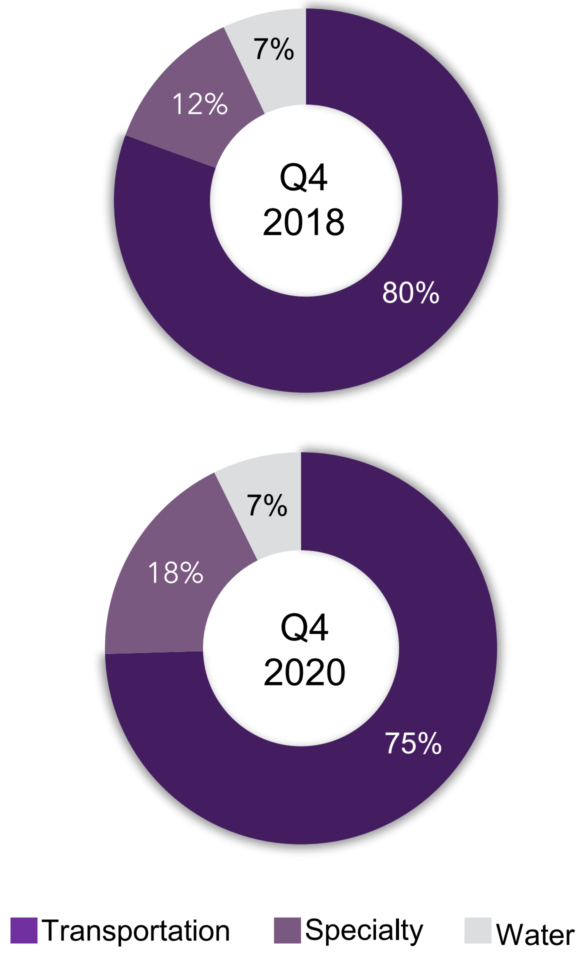
Current Phase → Future Phase → Future Phase

Stabilization → **Strategic Direction** → **Growth**

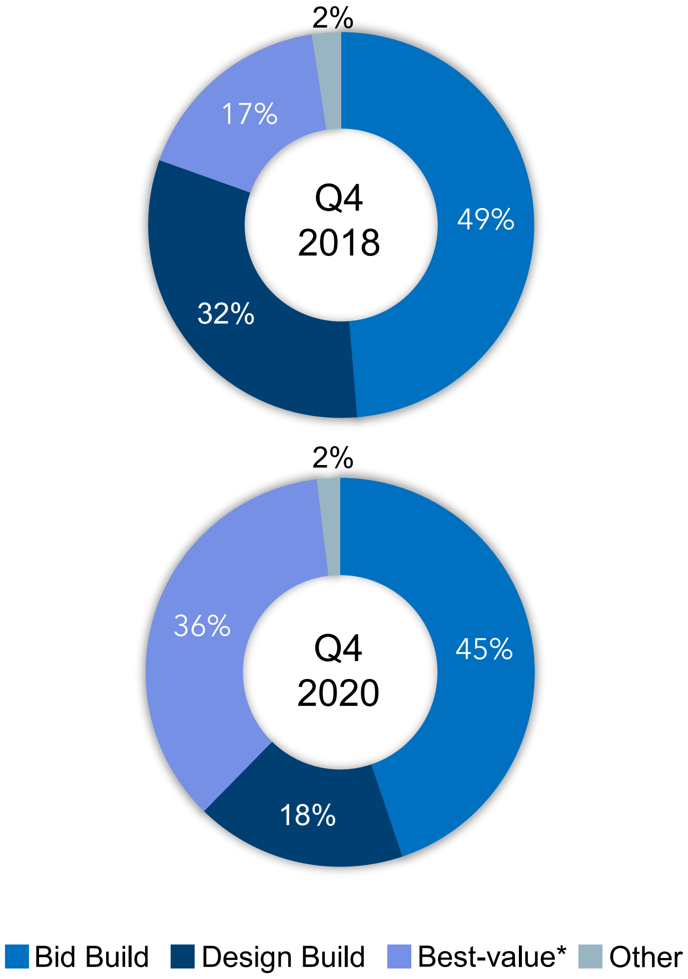
- Achieve full compliance with all reporting requirements
- Reinvigorate our culture by leveraging our core values
- Implement remediation plan to strengthen people, processes and projects
- Deliver on remaining Heavy Civil backlog, minimizing risk and margin erosion
- Continue to reshape Granite's portfolio
- Revisit strategic plan to maximize shareholder value

Reshaping the Project Portfolio, Q4 CAP Detail

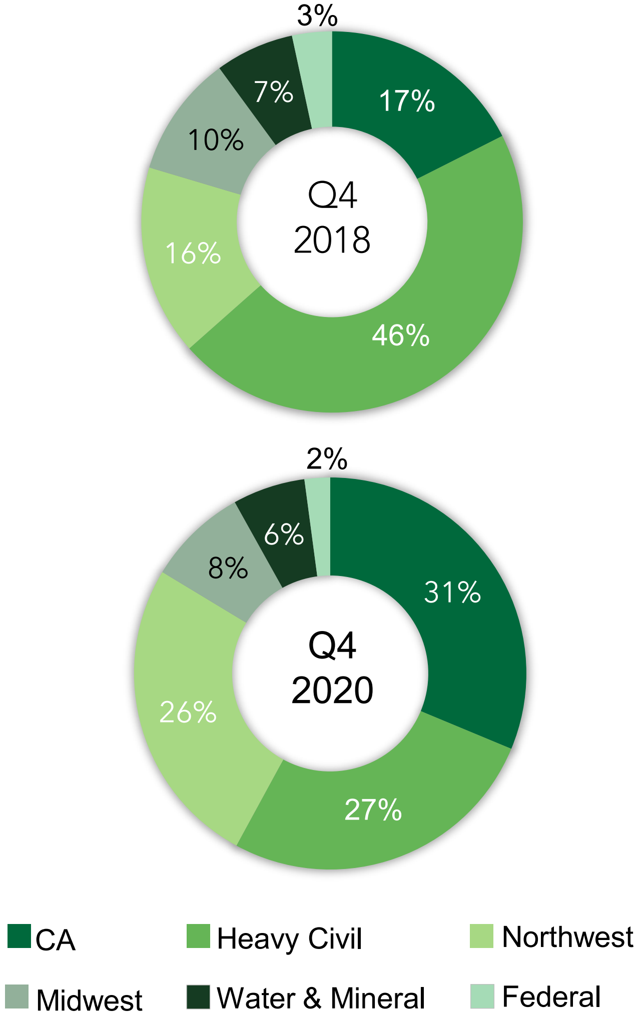
Exposure to Key End Markets



Allocating Risk



Diversified Operating Groups



Note: Percentages may not total 100 due to rounding.

**Best value procurement work includes construction management/general contractor, construction management at-risk, and progressive design build projects.*

Funding

Public work projects dependent on federal, state, regional and local revenues make up ~75% of Granite's portfolio

Federal

- $10B of relief spending for state DOTs (FHA estimates ~$1.5B for GVA's vertically-integrated states)
- $9.9B of funding per Water Development Act
- Federal Infrastructure bill could be passed in 2021 with impact in 2022

State

- California to benefit from SB-1 being on track to increase over next 5 years
- Overall COVID impact on state budgets less than anticipated; funding in top revenue-generating states still strong
- Aging water infrastructure indicates volume recovery to come

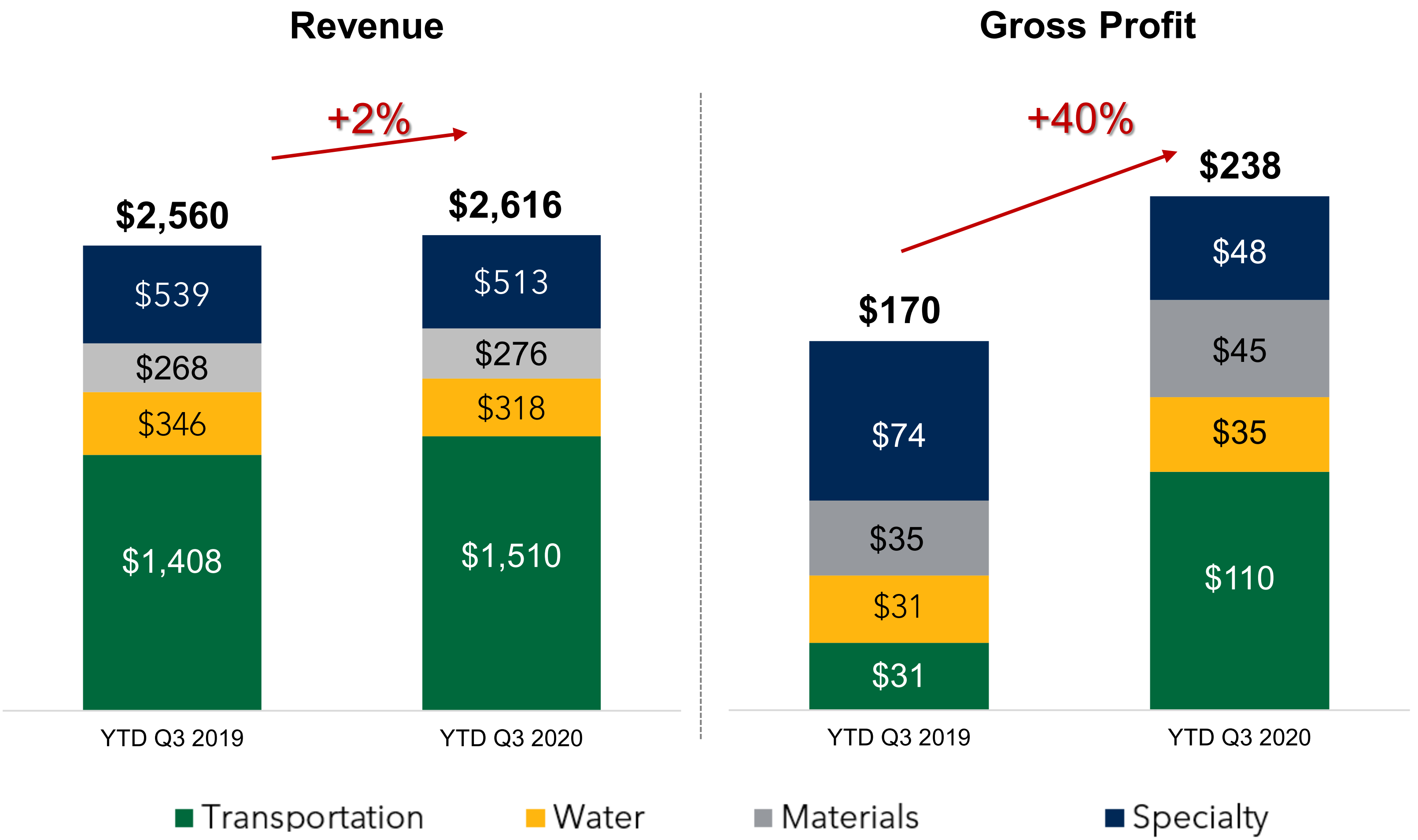
Local

- Voter-approved transportation measures continue to support infrastructure spending
- Strong market demand and local funding opportunities in water-related construction

2020 Financial Results

Lisa Curtis, EVP, Chief Financial Officer

2020 Financial Performance



Transportation

Strength in vertically-integrated businesses; profitability continues to be negatively impacted by Heavy Civil Operating Group

Water

Volume impacted by project and bid delays related to COVID; gross profit up due to write downs in 2019

Materials

Positive top- and bottom-line impact of increased volume and operating efficiencies

Specialty

Revenue and gross profit impacted by COVID and a dispute on a tunneling project

$ in millions

2020 Financial Performance

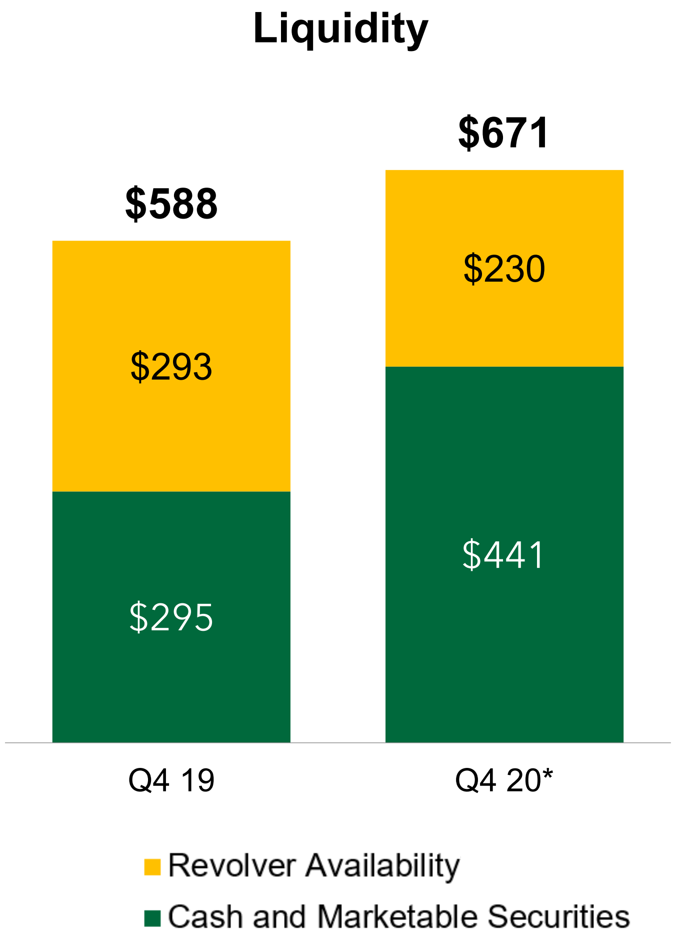
Key Non-GAAP [1] Metrics	YTD Q3 2020	YTD Q3 2019	% Change
Adjusted EBITDA	$126.7	$63.3	*101%*
Adjusted EBITDA Margin	4.8%	2.5%	2.3%
Adjusted Net Income (Loss)	$41.3	($14.7)	*381%*
Adjusted EPS	$0.89	($0.31)	387%

$ in millions except per share
[1]See appendix for reconciliation of these Non-GAAP figures

- Strongest operating cash flow since 2006
- Strong adjusted EBITDA and NI despite COVID headwinds and continued HCG losses
- Impairment charges of $157 million

Strong Financial Position

Strong balance sheet and ample liquidity



- Dividend remained consistent with our capital allocation framework
- No upcoming debt maturities until 2023
- Continuity of strong relationships with banks
- Continuity of $5B surety program

$ in millions
** Preliminary results*

Company-Wide Process Improvements

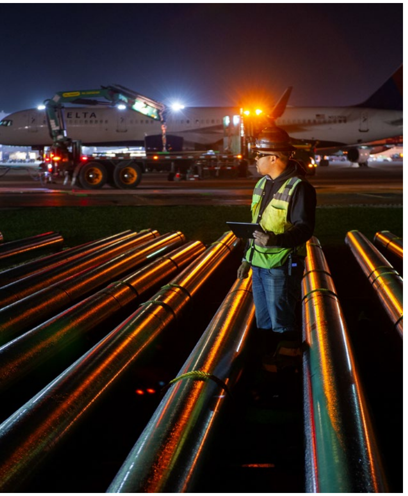
Granite has begun implementing a comprehensive plan to strengthen people, processes and controls. Remediation expected to be complete by end of year.

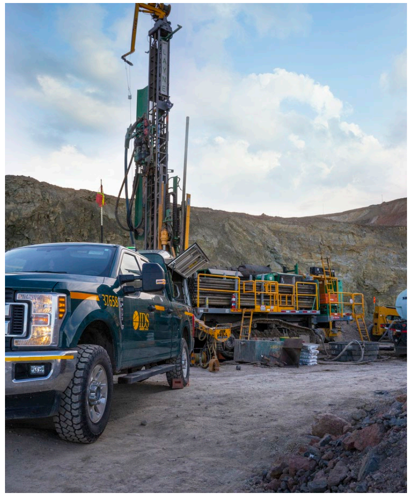
Current Phase	Future Phase	Future Phase
Stabilization	Strategic Direction	Growth

- Strengthen controls
- Organizational alignment
- Training and development
- Enhance communication

Concluding Remarks

Kyle Larkin, President





Concluding Remarks

- Core business is healthy and generating consistent financial returns
- Expect to achieve full compliance with all reporting requirements
- Reinvigorate our culture by leveraging our core values
- Implementation of remediation plan underway
- Positive trends in our industry, markets and geographies
- Reshaping our portfolio to maximize value to shareholders

Q&A

Appendix

Non-GAAP Financial Information

The tables below contain financial information calculated other than in accordance with U.S. generally accepted accounting principles (“GAAP”). Specifically, management believes that non-GAAP financial measures such as EBITDA and EBITDA margin are useful in evaluating operating performance and are regularly used by securities analysts, institutional investors and other interested parties, and that such supplemental measures facilitate comparisons between companies that have different capital and financing structures and/or tax rates. We are also providing additional non-GAAP financial measures, including adjusted EBITDA, adjusted EBITDA margin, adjusted (loss) income before (benefit from) provision for income taxes, adjusted (benefit from) provision for income taxes, adjusted net (loss) income attributable to Granite Construction Incorporated and adjusted diluted net (loss) income per share to indicate the impact of amortization of debt discount related to our convertible notes and non-recurring acquisition, integration, acquired intangible amortization expenses, acquisition related depreciation and synergy costs (collectively referred to as “transaction costs”) related to the acquisition of the Layne Christensen Company and LiquiForce and other significant non-recurring items as required. Acquisition and integration costs include external transaction costs, professional fees and internal travel. Synergy costs include expenses incurred which will be eliminated as the integration of Layne and LiquiForce is completed.

Management believes that these additional non-GAAP financial measures facilitate comparisons between industry peer companies. However, the reader is cautioned that any non-GAAP financial measures provided by the Company are provided in addition to, and not as alternatives for, the Company's reported results prepared in accordance with GAAP. Items that may have a significant impact on the Company's financial position, results of operations and cash flows must be considered when assessing the Company's actual financial condition and performance regardless of whether these items are included in non-GAAP financial measures. The methods used by the Company to calculate its non-GAAP financial measures may differ significantly from methods used by other companies to compute similar measures. As a result, any non-GAAP financial measures provided by the Company may not be comparable to similar measures provided by other companies.

Adjusted EBITDA and NI Reconciliations

GRANITE CONSTRUCTION INCORPORATED
EBITDA(1)
(Unaudited - dollars in thousands)

Nine Months Ended September 30,	2020	As Restated 2019
Net loss attributable to Granite Construction Incorporated	$ (153,127)	$ (40,811)
Depreciation, depletion and amortization expense(2)	84,713	92,700
Benefit from income taxes	(5,220)	(11,516)
Interest expense, net of interest income	15,089	6,754
EBITDA(1)	$ (58,545)	$ 47,127
EBITDA margin(1)(3)	(2.2%)	1.8%
Non-recurring legal and accounting fees	$ 28,440	$ —
Non-cash impairment charges	156,690	—
Transaction costs	73	16,133
Adjusted EBITDA(1)	$ 126,658	$ 63,260
Adjusted EBITDA margin(1)(3)	4.8%	2.5%

(1) We define EBITDA as GAAP net loss attributable to Granite Construction Incorporated, adjusted for net interest expense, taxes, depreciation, depletion and amortization. Adjusted EBITDA and adjusted EBITDA margin exclude the impact of non-recurring legal and accounting fees, non-cash impairment charges and acquisition and integration expenses and synergies.
(2) Amount includes the sum of depreciation, depletion and amortization which are classified as cost of revenue and selling, general and administrative expenses in the condensed consolidated statements of operations of Granite Construction Incorporated.
(3) Represents EBITDA and Adjusted EBITDA divided by consolidated revenue of $2.6 billion for the three and nine months ended September 30, 2020 and $2.6 billion for the three and nine months ended September 30, 2019.

GRANITE CONSTRUCTION INCORPORATED
Adjusted Net Income (Loss) Reconciliation
(Unaudited - in thousands, except per share data)

Nine Months Ended September 30,	2020	As Restated 2019
Loss before benefit from income taxes	$ (177,088)	$ (48,157)
Transaction costs	17,591	35,327
Amortization of debt discount(1)	4,910	—
Non-cash impairment	156,690	—
Non-recurring legal and accounting fees	28,440	—
Adjusted income (loss) before benefit from income taxes	$ 30,543	$ (12,830)
Benefit from income taxes	$ (5,220)	$ (11,516)
Tax effect of the transaction costs and amortization of debt discount(2)	13,245	9,185
Adjusted provision for (benefit from) income taxes	$ 8,025	$ (2,331)
Net loss attributable to Granite Construction Incorporated	$ (153,127)	$ (40,811)
After-tax transaction costs, amortization of debt discount, non-cash impairment and non-recurring legal and accounting fees	194,386	26,142
Adjusted net income (loss) attributable to Granite Construction Incorporated	$ 41,259	$ (14,669)
Diluted net loss per share attributable to common shareholders	$ (3.36)	$ (0.87)
After-tax transaction costs and amortization of debt discount	4.25	0.56
Adjusted diluted net income (loss) per share attributable to common shareholders	$ 0.89	$ (0.31)

(1) Under U.S. GAAP, certain convertible debt instruments that may be settled in cash on conversion are required to be separately accounted for as liability and equity components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. Accordingly, the $230.0 million aggregate principal amount of convertible senior notes that were issued in November 2019 (the "2.75 % Convertible Notes"), are separated into liability and equity components on the consolidated balance sheets. The equity component represents the excess of the $230.0 million principal amount of the 2.75% Convertible Notes over the carrying amount of the liability component ("debt discount"). We are amortizing the debt discount to interest expense using an effective interest rate of 6.62% over the expected life of the 2.75% Convertible Notes.
(2) The tax effect of transaction costs was calculated using the Company's estimated annual statutory tax rate.

Contacts:

Investors
Wenjun Xu - 831-761-7861

Media
Erin Kuhlman, 831-768-4111

Source: Granite Construction Incorporated