OFF WALL STREET

August 2, 2026

OWS Notes: Granite Construction Inc. (GVA)

TLDR: GVA's revenue growth and profitability initially appeared unsustainable, especially since IIJA funding is set to expire in 2026. Further analysis suggests that strategic initiatives implemented in recent years support higher growth and profitability. Therefore, we do not view GVA as a strong short candidate at this time.

Summary: At first glance, we viewed GVA as a company whose recent strong financial performance was driven chiefly by the soon-to-expire IIJA funding, which implied the company may be experiencing unsustainable revenue growth and margin expansion. We also questioned GVA's 'loose' accounting standards and potentially aggressive backlog recognition. Upon further review, however, we identified several key strategic initiatives implemented by management that make us less confident in our initial overearning thesis. Our analysis suggests current-elevated revenues and margins may be more sustainable than we first thought. Therefore, we do not view GVA as a strong potential short candidate at this time.

In 2022, GVA was severely mismanaged, prompting an SEC investigation and investor lawsuits. To remediate, GVA made numerous fundamental changes to its business model to reduce project risk, enhance profitability, and ensure future operational stability. Notable changes include the de-risking of its contract portfolio, shifting focus towards the higher-margin materials segment, and changing incentive compensation to focus on profitability versus revenue growth.

Currently, the average project in GVA's portfolio is ~$5M and the contract duration is one year, significantly smaller and more manageable than previous centi-million-dollar megaprojects, which spanned several years. In addition to its project derisking efforts, the company stepped up investments in the higher margin materials segment via M&A, which supports structurally higher margins as compared to the core construction business. Also, these acquisitions have expanded GVA's operations into new and often higher growth markets, improving the company's end market diversification.

Finally, and perhaps most importantly, GVA changed its employee bonus compensation plans to emphasize profitability. Previously, bonus compensation was based on revenue growth, incentivizing managers to accept high-risk projects, where the risk of cost overruns and margin pressure was high. Now, these managers are incentivized to maximize profit per project, reducing the risk of project cost overruns and supporting higher margins.

This change in corporate strategy occurred at the same time as an unprecedented increase in federal infrastructure funding. The enactment of the IIJA in 2021 drove a 44% increase in public construction spending from 2021 to 2025. Skeptics note that the BUILD America 250 legislation, the IIJA's presumed successor, embeds a much more moderate +8% incremental funding increase. The growth deceleration in federal funding is expected to stunt revenue growth for GVA. Consensus estimates call for high-single-digit revenue growth in 2027, down from +22% in 2026. To provide sufficient downside opportunity, GVA's revenue would have to fall meaningfully below consensus. We don't expect this to happen.

While we expect 2027 revenue growth to decelerate relative to 2026, we note that GVA forecasts organic revenue growth of +10% in 2027, above current consensus expectations of mid-to-high single digits. Furthermore, revenue growth from high-margin data center work appears set to accelerate in the years ahead. After launching a specialized data center team earlier in 2026, GVA has increased data center backlog from $65M to $223M over the last year. We estimate that revenue from data centers could 6X from less than $100M currently to $600M in the coming years if GVA achieves its revenue target of 10% for the business. Assuming revenue contribution from M&A of $300M-$400M (M&A investments have averaged ~$400M over the last three years), we estimate 2027 revenue could top $6.2B as compared to current consensus of $5.9B. Therefore, consensus revenue estimates for 2027 appear relatively conservative and achievable.

Analysis of GVA's financial statements for potential accounting issues did raise some concerns, though there are no obvious warning signs that would justify a short recommendation at this time. GVA reports backlog as "Committed and Awarded Projects" or CAP, which includes contracts where funding is merely "probable." Furthermore, substantially all the contracts can be cancelled or modified at any time. This can potentially result in lower revenue visibility than implied by backlog.

GVA currently trades at 10x NTM EBITDA, in line with its average historical average valuation. As such, a large revenue or margin miss is needed to achieve our target downside objective of 30%, which seems unlikely given current conservative consensus estimates. Therefore, we do not think that GVA is a short candidate at this time. We will continue to monitor the company for potential future catalysts.

Description: Granite Construction Inc. (GVA) is a vertically integrated construction company that engages in infrastructure projects. The company generates revenue through two operating segments: Construction (83% of FY25 total revenue) and Materials (17% of total revenue). The construction segment generates revenue via contractual agreements with public (70% of project portfolio) and private entities to build and maintain roads, bridges, tunnels, etc. The materials segment includes aggregates and asphalt to be used in internal projects or sold to third-parties. Caltrans is GVA's largest customer, comprising >10% of the company's total revenue.

Market cap: $5.3B

Why did we investigate this company?

1) Potential revenue and margin mean-reversion post-IIJA funding expiration

2) Evaluate management's strategy shift to verify fundamental changes to the business

3) Check accounting concerns related to percentage of completion accounting

What research did we perform?

1) Standard preliminary research - read recent earnings transcripts, "street" research, presentations, etc.

2) Financial analysis - constructed a financial model