



## **NEWS RELEASE**

**For Immediate Release:  
August 5, 2019**

### **Sterling Reports 2019 Second Quarter Results**

#### **Combined Backlog Hits All-Time High of \$1.2 billion at a Record 9.1% Gross Margin Q2'19 Results and FY'19 Guidance Impacted by Weather and Delayed Project Starts**

**THE WOODLANDS, TX** – August 5, 2019 – Sterling Construction Company, Inc. (NasdaqGS: STRL) (“Sterling” or “the Company”) today announced financial results for the second quarter of 2019.

#### **Consolidated Second Quarter 2019 Financial Results Compared to Second Quarter 2018:**

- Revenues were \$264.1 million compared to \$268.7 million;
- Gross margin was 9.7% of revenues compared to 11.6%;
- Net income attributable to Sterling common stockholders was \$7.8 million compared to \$8.2 million; and,
- Net income per diluted share attributable to Sterling common stockholders was \$0.29 compared to \$0.30.

#### **Consolidated Financial Position, Liquidity and Cash Flows at June 30, 2019:**

- Cash and Cash Equivalents were \$71.7 million;
- Debt totaled \$78.6 million in the second quarter 2019; and,
- To date under the stock repurchase plan, Sterling has repurchased 717 thousand shares of common stock for \$7.9 million.

#### **Business Overview**

During the second quarter, severe weather conditions, especially in the Texas market, significantly hampered the execution of existing projects, delayed the starts of new projects, and impeded our residential business. As a result, second quarter 2019 revenues decreased \$4.6 million compared to the prior year quarter, primarily driven by a \$9.5 million decrease in residential construction. Additionally, notice to proceed on several significant new heavy civil projects has been delayed and the projects are now expected to ramp-up in late 2019 or early 2020.

Gross profit was \$25.5 million in the second quarter of 2019, a decrease of \$5.6 million from the prior year second quarter. Gross margin declined 190 basis points to 9.7%, which was driven by lower revenues from our higher margin residential construction segment and a lower margin mix of heavy civil construction projects.

General and administrative expenses were \$10.8 million in the second quarter of 2019, or 4.1% of revenues compared to \$13.2 million or 4.9% of revenues in the second quarter of 2018, reflecting better leverage across the enterprise.

## Heavy Civil Construction Backlog Highlights

- Combined backlog at June 30, 2019 was \$1.2 billion, an increase of 7.0% from \$1.1 billion at December 31, 2018. Combined backlog consists of \$909.0 million of backlog and \$314.9 million of unsigned contracts as of June 30, 2019 compared to \$850.7 million and \$292.7 million at December 31, 2018, respectively. No residential construction contracts are included in backlog;
- Gross margin on projects in combined backlog as of June 30, 2019 averaged 9.1%, an increase from 8.6% at March 31, 2019 and 8.9% at December 31, 2018; and,
- Non-heavy highway revenues accounted for 43.0% of second quarter of 2019 heavy civil construction revenues, consistent with the second quarter of 2018.

## CEO Remarks and Outlook

“Severe weather conditions caused our second quarter results to come in below our expectations,” stated Joe Cutillo, Sterling’s Chief Executive Officer. “While our Heavy Civil revenues increased compared to the same period last year and our combined backlog is at a record high, we have yet to realize the growth in both revenue and margin that we expect to see out of this backlog. The growth in the segment’s top and bottom line was impacted by the delayed start of several large projects, on top of an already challenging year-over-year comparison given that the second quarter of 2018 included substantial work on two sizable JV projects which were completed in late 2018. Additionally, we expect these delayed projects to commence before the end of the year or early 2020, benefiting our outlook for 2020. Notably, our Combined Backlog and the gross margin in backlog are both at an all-time high level, providing us with several quarters of strong visibility for our Heavy Highway business.”

Mr. Cutillo continued, “Our Residential segment lost 30 days due to rain in the quarter. Although these delays in our Residential segment caused us a large revenue decline versus our expectation, our team was still able to maintain operating margins and claw back enough production to get close to our prior year’s operating income with \$9.5 million less revenue. On top of that, they hit an all-time new record in July for slabs completed once the weather returned to normal.”

Mr. Cutillo concluded, “Despite our record high backlog, our record high margins in backlog, and our Residential segment’s very strong performance in July, the set back in the second quarter coupled with the delayed starts of several Heavy Civil projects has caused us to temper our full year expectations for 2019. We now expect revenues of between \$1.010 billion and \$1.025 billion and net income attributable to Sterling common stockholders of \$27 million to \$29 million. Even with this adjustment in our outlook, the mid-point of our guidance still represents a double-digit percentage increase in our net income as compared to 2018. With our robust backlog, increasing margin profile and favorable end market outlook, we anticipate a strong second half of 2019 and our outlook for 2020 has become increasingly positive for both top and bottom-line growth, which we expect to lead to greater value for our shareholders.”

## Conference Call

Sterling's management will hold a conference call to discuss these results and recent corporate developments on Tuesday, August 6, 2019 at 9:00 a.m. ET/8:00 a.m. CT. Interested parties may participate in the call by dialing (201) 493-6744 or (877) 445-9755. Please call in ten minutes before the conference call is scheduled to begin and ask for the Sterling Construction call. Following management's opening remarks, there will be a question and answer session. Questions may be asked during the live call, or alternatively, you may e-mail questions in advance to [Brigette.Wilcox@strlco.com](mailto:Brigette.Wilcox@strlco.com).

To listen to a simultaneous webcast of the call, please go to the Company's website at [www.strlco.com](http://www.strlco.com) at least fifteen minutes early to download and install any necessary audio software. If you are unable to listen live, the conference call webcast will be archived on the Company's website for thirty days.

## About Sterling

Sterling is a construction company that specializes in heavy civil infrastructure construction and infrastructure rehabilitation as well as residential construction projects. The Company operates primarily in Arizona, California, Colorado, Hawaii, Nevada, Texas and Utah, as well as other states in which there are feasible construction opportunities. Heavy civil construction projects include highways, roads, bridges, airfields, ports, light rail, water, wastewater and storm drainage systems, foundations for multi-family homes, commercial concrete projects and parking structures. Residential construction projects include concrete foundations for single-family homes.

## Important Information for Investors and Stockholders

### Cautionary Statement Regarding Forward-Looking Statements

This press release contains statements that are considered forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, which may include statements about our: business strategy; financial strategy; and plans, objectives, expectations, forecasts, outlook and intentions. All of these types of statements, other than statements of historical fact included in this press release, are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expect," "plan," "project," "intend," "anticipate," "believe," "estimate," "predict," "potential," "pursue," "target," "continue," the negative of such terms or other comparable terminology. The forward-looking statements contained in this press release are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management's assumptions about future events may prove to be inaccurate. Management cautions all readers that the forward-looking statements contained in this press release are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to factors listed in the "Risk Factors" section in our filings with the U.S. Securities and Exchange Commission ("SEC") and elsewhere in those filings. The forward-looking statements speak only as of the date made, and other than as required by law, we do not intend to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

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**STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(Unaudited)

|  | Three Months Ended<br>June 30, |                 | Six Months Ended<br>June 30, |                  |
|--|--------------------------------|-----------------|------------------------------|------------------|
|  | 2019                           | 2018            | 2019                         | 2018             |
| Revenues   | \$ 264,086                     | \$ 268,734      | \$ 488,035                   | \$ 491,226       |
| Cost of revenues   | (238,590)                      | (237,688)       | (443,036)                    | (440,346)        |
| Gross profit   | 25,496                         | 31,046          | 44,999                       | 50,880           |
| General and administrative expense                                 | (10,774)                       | (13,203)        | (23,263)                     | (25,543)         |
| Other operating expense, net                                       | (3,538)                        | (5,694)         | (5,832)                      | (6,509)          |
| Operating income   | 11,184                         | 12,149          | 15,904                       | 18,828           |
| Interest income  | 291                            | 201             | 655                          | 330              |
| Interest expense   | (2,904)                        | (3,112)         | (5,964)                      | (6,199)          |
| Income before income taxes   | 8,571                          | 9,238           | 10,595                       | 12,959           |
| Income tax expense   | (706)                          | (97)            | (869)                        | (138)            |
| Net income   | 7,865                          | 9,141           | 9,726                        | 12,821           |
| Less: Net income attributable to noncontrolling interests          | (37)                           | (967)           | (83)                         | (2,158)          |
| Net income attributable to Sterling common stockholders            | <u>\$ 7,828</u>                | <u>\$ 8,174</u> | <u>\$ 9,643</u>              | <u>\$ 10,663</u> |
| Net income per share attributable to Sterling common stockholders: |                                |                 |                              |                  |
| Basic  | \$ 0.30                        | \$ 0.30         | \$ 0.37                      | \$ 0.40          |
| Diluted  | \$ 0.29                        | \$ 0.30         | \$ 0.36                      | \$ 0.39          |
| Weighted average common shares outstanding:                        |                                |                 |                              |                  |
| Basic  | 26,338                         | 26,887          | 26,357                       | 26,881           |
| Diluted  | 26,623                         | 27,125          | 26,657                       | 27,162           |

**STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES**  
**SEGMENT INFORMATION**  
(In thousands)  
(Unaudited)

|                          | Three Months Ended June 30, |               |                   |               | Six Months Ended June 30, |               |                   |               |
|--------------------------|-----------------------------|---------------|-------------------|---------------|---------------------------|---------------|-------------------|---------------|
|                          | 2019                        | % of<br>Total | 2018              | % of<br>Total | 2019                      | % of<br>Total | 2018              | % of<br>Total |
| <b>Revenues</b>          |                             |               |                   |               |                           |               |                   |               |
| Heavy Civil Construction | \$ 228,130                  | 86%           | \$ 223,283        | 83%           | \$ 409,314                | 84%           | \$ 410,524        | 84%           |
| Residential Construction | 35,956                      | 14%           | 45,451            | 17%           | 78,721                    | 16%           | 80,702            | 16%           |
| Total Revenues           | <u>\$ 264,086</u>           |               | <u>\$ 268,734</u> |               | <u>\$ 488,035</u>         |               | <u>\$ 491,226</u> |               |
| <b>Operating Income</b>  |                             |               |                   |               |                           |               |                   |               |
| Heavy Civil Construction | \$ 6,146                    | 55%           | \$ 6,395          | 53%           | \$ 5,299                  | 33%           | \$ 8,340          | 44%           |
| Residential Construction | 5,038                       | 45%           | 5,754             | 47%           | 10,605                    | 67%           | 10,488            | 56%           |
| Total Operating Income   | <u>\$ 11,184</u>            |               | <u>\$ 12,149</u>  |               | <u>\$ 15,904</u>          |               | <u>\$ 18,828</u>  |               |

**STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except per share data)  
(Unaudited)

|   | June 30,<br>2019 | December 31,<br>2018 |
|---|------------------|----------------------|
| <b>Assets</b>   |                  |                      |
| Current assets:   |                  |                      |
| Cash and cash equivalents   | \$ 71,730        | \$ 94,095            |
| Accounts receivable, including retainage  | 157,813          | 145,026              |
| Costs and estimated earnings in excess of billings  | 53,896           | 41,542               |
| Inventory   | 3,252            | 3,159                |
| Receivables from and equity in construction joint ventures  | 14,381           | 10,720               |
| Other current assets  | 7,951            | 8,074                |
| Total current assets  | 309,023          | 302,616              |
| Property and equipment, net   | 49,217           | 51,999               |
| Operating lease right-of-use assets   | 14,995           | —                    |
| Goodwill  | 85,231           | 85,231               |
| Other intangibles, net  | 41,218           | 42,418               |
| Other non-current assets, net   | 211              | 309                  |
| Total assets  | \$ 499,895       | \$ 482,573           |
| <b>Liabilities and Stockholders' Equity</b>   |                  |                      |
| Current liabilities:  |                  |                      |
| Accounts payable  | \$ 101,342       | \$ 99,426            |
| Billings in excess of costs and estimated earnings  | 60,571           | 62,407               |
| Current maturities of long-term debt  | 12,128           | 2,899                |
| Current portion of long-term lease obligations  | 7,059            | —                    |
| Income taxes payable  | 101              | 318                  |
| Accrued compensation  | 12,148           | 9,448                |
| Other current liabilities   | 5,183            | 4,676                |
| Total current liabilities   | 198,532          | 179,174              |
| Long-term debt  | 66,497           | 79,117               |
| Long-term lease obligations   | 8,030            | —                    |
| Members' interest subject to mandatory redemption and undistributed earnings  | 48,831           | 49,343               |
| Deferred taxes  | 2,211            | 1,450                |
| Other long-term liabilities   | 1,101            | 1,229                |
| Total liabilities   | 325,202          | 310,313              |
| Stockholders' equity:   |                  |                      |
| Preferred stock, par value \$0.01 per share; 1,000 shares authorized, none issued   | —                | —                    |
| Common stock, par value \$0.01 per share; 38,000 shares authorized, 27,049 and 27,064 shares issued, 26,466 and 26,597 shares outstanding | 271              | 271                  |
| Additional paid in capital  | 233,559          | 233,795              |
| Treasury Stock, at cost: 583 and 467 shares   | (6,688)          | (4,731)              |
| Retained deficit  | (55,291)         | (64,934)             |
| Total Sterling stockholders' equity   | 171,851          | 164,401              |
| Noncontrolling interests  | 2,842            | 7,859                |
| Total stockholders' equity  | 174,693          | 172,260              |
| Total liabilities and stockholders' equity  | \$ 499,895       | \$ 482,573           |

**STERLING CONSTRUCTION COMPANY, INC. & SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)  
(Unaudited)

|   | <b>Six Months Ended June 30,</b> |                  |
|---|----------------------------------|------------------|
|   | <b>2019</b>                      | <b>2018</b>      |
| <b>Cash flows from operating activities:</b>                                  |                                  |                  |
| Net income  | \$ 9,726                         | \$ 12,821        |
| Adjustments to reconcile net income to net cash used in operating activities: |                                  |                  |
| Depreciation and amortization   | 8,473                            | 8,307            |
| Amortization of deferred debt costs   | 1,602                            | 1,610            |
| Gain on disposal of property and equipment                                    | (441)                            | (470)            |
| Deferred tax expense  | 761                              | —                |
| Stock-based compensation expense  | 1,670                            | 1,383            |
| Changes in operating assets and liabilities                                   | (26,116)                         | (31,565)         |
| Net cash used in operating activities   | <u>(4,325)</u>                   | <u>(7,914)</u>   |
| <b>Cash flows from investing activities:</b>                                  |                                  |                  |
| Capital expenditures  | (4,854)                          | (5,263)          |
| Proceeds from sale of property and equipment                                  | 802                              | 1,307            |
| Net cash used in investing activities   | <u>(4,052)</u>                   | <u>(3,956)</u>   |
| <b>Cash flows from financing activities:</b>                                  |                                  |                  |
| Repayments of long-term debt  | (5,763)                          | (5,344)          |
| Distributions to noncontrolling interest owners                               | (5,100)                          | —                |
| Purchase of treasury stock  | (3,201)                          | —                |
| Other   | 76                               | (154)            |
| Net cash used in financing activities   | <u>(13,988)</u>                  | <u>(5,498)</u>   |
| Net decrease in cash and cash equivalents                                     | <u>(22,365)</u>                  | <u>(17,368)</u>  |
| Cash and cash equivalents at beginning of period                              | 94,095                           | 83,953           |
| Cash and cash equivalents at end of period                                    | <u>\$ 71,730</u>                 | <u>\$ 66,585</u> |