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**MDU Resources Group,
Inc.** NYSE:MDU

Earnings Call

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Call Participants

EXECUTIVES

Jason L. Vollmer
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Jeffrey S. Thiede
President & CEO of Everus Construction Group

Nicole A. Kivisto
President, CEO & Director

ANALYSTS

Brent Edward Thielman
D.A. Davidson & Co., Research Division

Ryan Michael Levine
Citigroup Inc., Research Division

Presentation

Operator

Hello. My name is Jamie, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group 2024 Second Quarter Earnings Conference Call. [Operator Instructions]

The webcast can be accessed at www.mdu.com. Under the Investors heading, select Events & Presentations and click Q2 2024 Earnings Conference Call. After the conclusion of the webcast, a replay will be available at the same location.

I would now like to turn the conference over to Jason Vollmer, Vice President, Chief Financial Officer and Treasurer of MDU Resources Group. Thank you. Mr. Vollmer, you may begin your conference.

Jason L. Vollmer

VP, CFO & Treasurer

Thank you, Jamie, and welcome, everyone, to our second quarter 2024 earnings conference call. You can find our earnings release and supplemental materials for this call on our website at www.mdu.com under the Investors tab. Leading today's discussion with me is Nicole Kivisto, President and CEO of MDU Resources. Also with us today to answer questions following our prepared remarks are Stephanie Sievert, Vice President, Chief Accounting Officer and Controller of MDU Resources; Jeff Thiede, President and CEO of Everus; Rob Johnson, President of WBI Energy; and Garrett Senger, Chief Utilities Officer.

During our call, we will make certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Although the company believes that its expectations are based on reasonable assumptions, actual results may differ materially. For more information about risks and uncertainties that could cause our actual results to vary from any forward-looking statements, please refer to our most recent SEC filings.

We may also refer to certain non-GAAP information. For a reconciliation of any non-GAAP information to the appropriate GAAP metric, please reference our earnings release. I will provide consolidated financial results later during the call.

But first, I'll turn the call over to Nicole for her formal remarks. Nicole?

Nicole A. Kivisto

President, CEO & Director

Thank you, Jason, and thank you, everyone, for spending time with us today and for your continued interest in MDU Resources. I'm pleased to share our second quarter results with all of you. These results directly reflect the exceptional efforts and dedication of our employees, and I want to express my gratitude for their hard work. We continue to make great progress towards finalizing the tax-free spin of our Construction Services business Everus.

During the quarter, we announced the management team who will lead Everus following the spin. This team possesses the experience and expertise necessary to drive Everus' growth well into the future. We are on track to complete the spin-off later this year, and we will continue to provide updates as we reach future milestones.

As we look ahead, we will remain focused on our core strategy with our pure-play regulated energy delivery businesses, and we are well positioned for growth into the future. Our current long-term guidance forecasts \$2.7 billion of regulated capital investment, driving 7% compound annual growth rate on our utility rate base, with an anticipated customer growth of 1% to 2% annually. We expect this to lead to long-term EPS growth of 6% to 8%, and we are targeting a 60% to 70% annual dividend payout ratio, with no anticipated equity needs until 2027.

Our second quarter results maintain the positive momentum we have experienced in preceding quarters. Notably, our utility business has demonstrated solid results despite unfavorable weather, driven by strategic rate adjustments and expanding infrastructure investments. Meanwhile, our pipeline segment achieved unprecedented second quarter earnings, driven by record-breaking transportation volumes and increased storage revenues.

Additionally, Everus experienced record second quarter earnings and all-time record backlog. All of these achievements across our businesses underscore our unwavering commitment to delivering safe and reliable service and sustainable growth, with our dedicated employees playing a pivotal role in our continued success. Our businesses remain poised for compelling long-term growth prospects as we strategically position ourselves for the future.

In the second quarter, our utility business faced challenges due to higher operation and maintenance expense and cooler weather. However, strategic rate relief helped offset the impact. Compared to the same time period in 2023, temperatures were 37% cooler, which negatively impacted electric volumes. Our total retail customer base grew by 1.5% in line with our projected 1% to 2% growth and surpassing the national average, which reinforces our company's need to proactively manage our utility infrastructure to meet the demands of our growing customer base. Additionally, construction of the new Heskett IV 88-megawatt simple-cycle combustion turbine is complete and in service as of July 8.

On July 15, we filed a natural gas rate case in Montana, requesting a \$9.4 million annual revenue increase. The need for the request was driven by system, investments and operating cost increases. Our focus remains on delivering safe and reliable electric and natural gas services to our expanding customer base with active efforts to seek regulatory recovery for our investments. We also are excited about the increasing opportunity we see from data center construction in our service territory. We received approval on May 23 from the North Dakota Public Service Commission for an electric service agreement that will allow us to serve an additional 225-megawatt data center load near Ellendale, North Dakota. That data center addition will be built in phases with the first phase expected to begin coming online in late 2024.

Additionally, on August 5, we filed an electric service agreement with the South Dakota Public Utilities Commission to serve a 50-megawatt data center that will be located near Leola, South Dakota. Including our existing data center that we serve, we now have 455 megawatts of data center load under signed electric service agreement. Of that total, 180 megawatts is currently online, with the balance starting to come online later this year and continuing through the next few years. Our capital investment related to these data centers is minimal, and therefore, the margin received is beneficial to our earnings and overall ROE enhancement.

Our customers also benefit from lower transmission expenses, and we share a portion of the margin, which results in beneficial bill reductions for our customers. This truly is a good design for our customers, our communities and our shareholders.

At our pipeline business, we achieved record second quarter earnings, nearly doubling compared to the same period last year. This segment is executing well on our core strategy and delivering strong results driven by strategic expansion, increased demand for transportation and storage services and a full quarter of benefit from new transportation and storage service rate. We remain committed to investing in future expansion projects to meet increasing customer demand, including strong interest from industrial customers and power generation projects.

Recently, our pipeline business completed construction of its Line Section 28 expansion project, which was placed in service on July 1. This project adds 137 million cubic feet of natural gas transportation capacity per day. Additionally, we have started construction on the Wahpeton Expansion project in Eastern North Dakota, which will provide approximately 20 million cubic feet of natural gas transportation capacity per day and is expected to be in service in late 2024. We are pleased to reaffirm our previously communicated regulated energy delivery guidance for 2024. We remain confident in our projected earnings guidance in the range of \$170 million to \$180 million.

At Everus, we achieved a record second quarter earnings and have an all-time record backlog of projects as of June 30. Higher transmission and distribution revenues, along with higher electrical and mechanical

data center workloads partially offset a decrease in overall electrical and mechanical revenues from lower workloads due to the timing of projects. Everus reported an all-time record backlog of \$2.4 billion compared to \$1.94 billion at the same time period last year. Successfully replacing completed or near completed projects has ensured a continuous flow of work, and the business is well positioned heading into the end of 2024.

Due to lower revenues experienced on a year-to-date basis, largely from the timing of projects, we are revising our revenue guidance for Everus to be in the range of \$2.65 billion to \$2.85 billion, down from previous guidance of \$2.9 billion to \$3.1 billion, with margins now expected to be higher than 2023. EBITDA is still expected to be in the range of \$220 million to \$240 million. Looking forward, Everus is well positioned to benefit from increased bidding opportunities. With the funding from the infrastructure investment and Jobs Act and the inflation Reduction Act, as well as data center construction and continued reshoring of manufacturing, Everus expects to see increased demand for its services in the back half of 2024 and beyond.

As I said previously, the spin-off of Everus is expected to be complete late this year. We plan to host an Everus Investor Day event ahead of the spin, and we'll continue to keep you updated on our progress throughout the rest of the year. We are looking forward with great optimism. The prospects for continued customer and system growth in our electric and natural gas utilities, the strong performance of our pipeline, with additional expansion projects underway, the consistent demand for additional pipeline services and the high demand for our construction services are all very promising as we move through 2024.

As always, MDU Resources is committed to operating with integrity and with a focus on safety. We remain dedicated to creating superior shareholder value as we continue providing essential products and services to our customers while being a great and safe place to work.

I will now turn the call back over to Jason for the financial update. Jason?

Jason L. Vollmer
VP, CFO & Treasurer

Thanks, Nicole, and I'm pleased to share the details of our results for the second quarter. This morning, we announced second quarter earnings of \$60.4 million or \$0.30 per share on a GAAP basis compared to second quarter 2023 GAAP earnings of \$130.7 million or \$0.64 per share. Second quarter income from continuing operations was \$60.6 million or \$0.30 per share compared to \$147.6 million or \$0.72 per share in 2023. It's important to note that we completed the spin-off of Knife River on May 31 last year, so Knife River results and other related impacts are reported as discontinued operations in our GAAP-based results for the prior year.

In addition, we experienced an unrealized gain on the retained stake of Knife River shares in the second quarter of 2023. This gain was \$90.8 million net of tax and was reported in continuing operations in 2023. With the completion of the Knife River spin-off and we're continuing on the Everus spin-off, we are also reporting adjusted income from continuing operations to provide financial results to more closely correlate with and better outline the strength of our ongoing business operations. For more information on these adjustments, please reference our earnings release.

We experienced solid results from all of our businesses in the second quarter, with adjusted income from continuing operations of \$65.2 million or \$0.32 per share compared to second quarter 2023 adjusted income from continuing operations of \$60 million or \$0.29 per share. Turning to our individual businesses. Our utility business reported earnings of \$10.5 million for the quarter compared to earnings of \$13.1 million in the second quarter of 2023. The Electric Utilities segment reported second quarter earnings of \$15.5 million compared to \$16.3 million for the same period in 2023. The decrease was largely the result of lower volumes from a majority of our customers, including a 13% reduction in residential sales due to cooler weather.

Additionally, higher operational maintenance expense, primarily from contract service costs also contributed to the decrease in net income. The decrease was partially offset by higher retail sales revenue

due to rate relief in North Dakota and Montana. Our natural gas utility segment reported a seasonal loss of \$5 million in the second quarter compared to a loss of \$3.2 million in the second quarter of last year. The increased seasonal loss was largely the result of higher operation and maintenance expense, primarily higher contract service costs, increased software related expenses and higher depreciation and amortization expense due to increased asset additions. The seasonal loss was partially offset by higher retail sales revenue due to rate relief in North Dakota, Idaho and South Dakota.

The pipeline business posted record second quarter earnings of \$17.3 million compared to \$8.7 million in the second quarter of last year. The earnings increase was driven by all-time record transportation volumes, which is primarily from organic growth projects placed in service in November of 2023 and March of 2024. New transportation and storage service rates were effective August 1, 2023, and higher storage-related revenue also drove the earnings increase. The pipeline business also received proceeds from a customer settlement, which was reported in other income. These increases were offset in part by higher operation and maintenance expense, primarily payroll-related costs. The business also incurred higher depreciation expense due to organic growth projects placed in service, as we mentioned earlier.

Everus reported lower second quarter revenues due to timing of projects. Electrical and Mechanical revenues were impacted by lower workloads in the commercial, industrial and service markets. These revenue decreases were partially offset by higher workloads in data center projects within the commercial market as well as higher institutional workloads, primarily from government and education projects. Transmission and Distribution revenues increased with higher demand in both the utility and transportation markets. Utility workloads increased primarily related to transmission, telecommunication and substation projects, offset by decreased distribution project workloads.

Transportation workloads increased due to traffic signalization and street lighting projects, offset by decreased workloads for government and electric projects. While revenue was lower due to timing of projects, Everus reported record second quarter earnings of \$39 million compared to earnings of \$38.6 million for the same period in 2023. Operating income as a percentage of revenue remained strong as a result of project efficiencies during the quarter. Higher other income and lower interest expense more than offset the decrease in operating income compared to the second quarter of 2023. And as Nicole mentioned, backlog for the quarter was an all-time record level of \$2.4 billion, with electrical and mechanical backlog up 34%, partially offset by transmission and distribution backlog, which is down 15% compared to the same period at June 30, 2023.

Finally, MDU Resources continues to maintain a strong balance sheet and ample access to working capital to finance our operations through our peak seasons. Business momentum remains strong as we close out the second quarter of 2024, and we will continue to provide updates regarding our 2024 guidance and outlook as we progress throughout the year.

That summarizes our financial highlights for the second quarter, and we appreciate your interest in and commitment to MDU Resources. And I would ask now that we open the line to questions. Jamie?

Question and Answer

Operator

[Operator Instructions] Your first question will come from the line of Brent Thielman with D.A. Davidson.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Just had a question in regards to Everus and maybe a discussion by quality of the backlog being added at that business, maybe how the mix of what you're doing has shifted from a couple of years ago and to what degree that's influencing the margin profile you expect going forward?

Nicole A. Kivisto

President, CEO & Director

Yes, absolutely. I'll ask Jeff to take that question, Jeff?

Jeffrey S. Thiede

President & CEO of Everus Construction Group

Thanks for the question, Brent. Yes. The data center work is one of the most significant largest areas of our backlog. We don't really break down our backlog or market sector levels. But if you take a look at our list, as I have in front of me, it's very diversified. So data centers, semiconductors, industrial work is all contributing to our record levels of backlog. As far as our margins, we're still seeing a competitive market but margins are comparable, and we look for that margin uplift through executing these projects and exercising our operational excellence initiatives that we have to be able to continue our growth.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

And -- I appreciate that, Jeff. Maybe just as a quick follow-up, maybe to what degree are some of the other sectors of the construction economy working against you, obviously, data centers and industrial are strong. Imagine, utility is as well. Are you seeing more slack in other areas of the economy that sort of talking against you? Or are you able to navigate that?

Jeffrey S. Thiede

President & CEO of Everus Construction Group

We really do a good job with pivoting from one market to the next. If you take a look at our commercial area in the hospitality area in the country, most notably Las Vegas. We had a white-hot market, and we anticipated some of those projects coming to successful completion. So we've deployed some of those resources into other areas of the country. And most notably, we've been able to pick up some additional data center work with those key performers in our business.

Operator

[Operator Instructions] Your next question comes from the line of Ryan Levine with Citi.

Ryan Michael Levine

Citigroup Inc., Research Division

Maybe to start off on Everus. What do you -- what's causing some of the timing delay for revenues in the quarter? And is that targeted in certain segments of the business or certain geographic locations?

Jeffrey S. Thiede

President & CEO of Everus Construction Group

Thanks for the question, Ryan. Primarily in our Electrical and Mechanical segments, some of our new project starts haven't perfectly aligned with large project completions, mostly in the commercial hospitality

market. Las Vegas related. Project timing is the key. Nevertheless, we have several significant projects that are in preconstruction with some of those same people that came off of those projects in that white-hot Las Vegas market. And these people have been redeployed and mobilized on site. We've started some initial construction phases and we're in final stages of completing some final budgets that are going to result in increases to our contract values and therefore, our backlog.

Our data center, our manufacturing, our health care, our solar work, our institutional projects are all areas of focus. And as these projects build momentum, we'll see results reflected in future quarters. I have confidence in our guidance ranges, especially given our record backlog and coming off of a record Q2 performance. And really the market availability for our projects that fit right into our wheelhouse and backed up by some of the funding that we've seen from the IIJA, IRA and the CHIPS Act.

Ryan Michael Levine

Citigroup Inc., Research Division

Given that response, what's enabling to be a higher margin profile for the current year if there is these type of issues?

Jeffrey S. Thiede

President & CEO of Everus Construction Group

That comes down to project execution. A lot of our projects, we do an exhaustive job of planning. And when we get good favorable weather and we get a schedule that helps support our production rates. And of course, safety is always at the top of our list when it comes to planning. Those contribute to favorable margins going forward.

Ryan Michael Levine

Citigroup Inc., Research Division

Okay. And then specifically to the Ohio data center opportunity, is the upcoming PJM workshops related to the Amazon ISA having any impact on the pace of your Ohio data center growth?

Jeffrey S. Thiede

President & CEO of Everus Construction Group

Not specifically. But I'll tell you, we have so much data center work there. We're also looking at a semiconductor facility to be able to capitalize on the other 3 regions in the country where we support this confidential client. So to answer your question specifically, we haven't seen any of that impacting our current and our future workload. We're very strong in that market. We've got a great company, and we've been able to grow that part of our business at a very fast rate.

Ryan Michael Levine

Citigroup Inc., Research Division

And then last question, in terms of the targeted spin next quarter, given that we're only a few months away, do you have any updated thoughts around if MDU plans to retain any equity stake in the potential SpinCo? Or any updated thoughts around financing into that event?

Jason L. Vollmer

VP, CFO & Treasurer

Ryan, this is Jason. I can feel that question. Certainly, we're excited about the progress we're making on the future spin of the Everus business here. Things are going along well in that regard. We are planning a late 2024 spin, as you indicated here. So kind of think fourth quarter time frame for that. We will be out at an Investor Day as Jeff and Nicole mentioned here a little bit as well prior to that. So stay tuned for dates and times are well. We'll put those out publicly here so we get those held in the future.

But overall, as we think about how we look to structure this business, we want to make sure that Everus is well capitalized and able to compete well within its space, and also ensure that the MDU Resources

companies left behind here will be strong and be able to continue to grow without any left liabilities from that business. So we're excited about the opportunity for both of these businesses.

With the Knife River transaction, as you mentioned, we have retained a stake in that business. We are maintaining flexibility here to ensure that both businesses are set up to be very strong going forward. But we've not made a final decision on that at this point yet. We will, as we finalize our Form 10 and make that public document later this year, have pro forma financial statements. They will walk through the capital structure for the Everus business and certainly would address any retained stake potential in that document as well. But that's not something that we have made a final decision or disclosed publicly at this point in time yet.

Operator

[Operator Instructions]

The webcast can be accessed at www.mdu.com. Under the Investors heading, select Events & Presentations and click Q2 2024 Earnings Conference Call. After the conclusion of the webcast, a replay will be available at the same location.

At this time, there are no further questions. I would now like to turn the conference back over to management for closing remarks.

Nicole A. Kivisto

President, CEO & Director

All right. Thank you, and I'd like to thank all of you for taking the time to join us on our second quarter conference call. We are certainly optimistic about our growth opportunities in our future regulated energy delivery projects, and excited about the strong demand and performance of Everus as we look to spin that business later this year. We thank you again for your interest and support of MDU Resources. And with that, I'll turn the call back over to you, operator.

Operator

Thank you. This concludes today's MDU Resources Group conference call. Thank you for your participation. You may now disconnect.

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