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Earnings Call

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Call Participants

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VP, CFO & Treasurer

Jeffrey S. Thiede

*President & CEO of Everus
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Nicole A. Kivisto

President, CEO & Director

ANALYSTS

Ryan Michael Levine

Citigroup Inc., Research Division

Presentation

Operator

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

[Operator Instructions]

The webcast can be accessed at www.mdu.com under the Investors heading. Select Events & Presentations and click Q1 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 Mr. Jason Vollmer, Vice President, Chief Financial Officer and Treasurer of MDU Resources Group. Mr. Vollmer, please go ahead.

Jason L. Vollmer

VP, CFO & Treasurer

Thank you, Bo, and welcome, everyone, to our first 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 Garret Senger, our 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 the 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 reconciliation of any non-GAAP information to the appropriate GAAP metric, please reference our earnings release. I will provide a 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 am pleased to report we had a solid start to our 100th year as a company, marked by strong performance from all of our businesses. This strong performance is a direct result of our employees' dedication and hard work providing essential services to our customers. It shows an exciting time in MDU Resources as we continue to make meaningful progress towards the planned tax-free spinoff of our Construction Services business recently rebranded as Everus.

I'm proud of our employees, both past and present to have built these businesses to be capable of standing on their own and enabling us to accomplish our stated goal of transforming MDU Resources into a pure-play regulated energy delivery company. We expect this spinoff to significantly enhance the value of both businesses and are on track to complete the spinoff of Everus late this year.

Looking to the future, we are excited to focus on our core strategy. This core strategy emphasizes customers and communities, operational excellence, returns focused and employee-driven. As a pure-play regulated business, we will be able to pursue strategy specific to regulated energy business models and optimize our capital structure and financial policy. The strong first quarter results continue the momentum we observed in 2023, reflecting outstanding performance across all companies. New rates implemented at

our electric, natural gas and pipeline businesses had a positive result, and we expect regulatory activity to remain busy for our utility group.

At our Construction Services business, Everus has very strong momentum with an all-time record backlog. Our businesses continue to have exciting long-term growth opportunities as we look to the future. Diving in just a little deeper, I'd like to start with our utility business. Electric retail sales volumes for the first quarter were 8% higher than last year. The increase is largely the result of a data center customer operating in our service area. We have also filed a request with the North Dakota Public Service Commission to serve another data center that is expected to become operational in the second quarter of 2024.

Additionally, we expect Heskett Unit IV, an 88-megawatt natural gas-fired electric generating facility near Mandan, North Dakota to be operational in the second quarter. We also continue to expect rate base to grow 7% compounded annually over the next 5 years, driven mainly by investments in system, infrastructure upgrades and replacements to ensure the safe and reliable delivery of service to meet customer demand.

On March 1, the utility business implemented interim electric and gas rates in South Dakota. The utility business also implemented interim gas rates in North Dakota on January 1. Additionally, the utility filed a multiyear natural gas rate case with the Washington Utilities and Transportation Commission on March 29. These cases are pending decisions by the respective commissions. As we remain focused on providing safe and reliable electric and natural gas service to our expanding customer base, we are actively seeking regulatory recovery for those investments.

In 2024, the utility business plans to pursue additional natural gas cases in Montana, Oregon and Wyoming. At our pipeline business, we achieved record first quarter earnings, which were 82% higher when compared to the same period last year, driven by record natural gas transportation volumes. This increase is largely attributable to expansion projects placed in service in late '23 and early '24 as well as additional North Bakken Expansion volumes from increased contract commitments beginning February of 2023.

The earnings also includes continued benefit from new transportation and storage rates, which were effective on August 1, 2023, and along with strong demand for natural gas storage services. Our pipeline business is currently undertaking several growth projects. The 2023 Line Section 27 expansion in northwestern North Dakota was placed in service on March 1 and added natural gas capacity of 175 million cubic feet per day. The Line Section 28 expansion project located in the same region began construction in April of '24. Once completed, it is expected to add 137 million cubic feet per day of transportation capacity and will serve a natural gas-fired power plant.

We anticipate this project will be in service in the third quarter of 2024. We are scheduled also to begin construction on the Wahpeton expansion project in eastern North Dakota in June, which is expected to be in service in late '24. This project will increase our natural gas transportation capacity by approximately 20 million cubic feet per day. We are continuing to look at a number of future expansions that are in the early planning stages. At our regulated energy delivery businesses, we are pleased to reaffirm previously communicated guidance for 2024 with projected earnings in the range of \$170 million to \$180 million. Looking ahead, as a pure-play regulated energy delivery business, we remain confident in the long-term guidance ranges that we updated at Investor Day.

Given our historic track record and strong quarter-over-quarter results, we feel confident in a long-term EPS growth rate of 6% to 8%, a growth rate of 7% on utility rate base and 1% to 2% customer growth. We plan to invest \$2.7 billion of capital at the regulated businesses over the next 5 years, while maintaining a 60% to 70% annual dividend payout ratio. And we plan to do all this with no current plans to issue equity until 2027.

Moving on to Everus. We saw higher earnings and record EBITDA. The Construction Services results were driven by higher demand, particularly for institutional work as well as efficiency gains on projects. Everus reported an all-time record backlog of \$2.18 billion compared to \$2.1 billion at the same time last year. Additionally, completed or near completed projects have successfully been replaced, ensuring a continuous

flow of work. We are reaffirming revenue guidance for Everus in the range of \$2.9 billion to \$3.1 billion, with margins comparable to 2023 and EBITDA guidance 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 services throughout 2024 and beyond. As previously mentioned, the spinoff of Everus is expected to be completed in late 2024. We plan to host an Everus Investor Day event ahead of the spinoff, and we'll continue to keep you updated on our progress throughout the year.

We are very optimistic as we look ahead. Opportunities for ongoing customer and system growth at the electric and natural gas utilities, a robust slate of pipeline expansion projects and steady demand for our pipeline services and high demand for construction services are encouraging as we progress 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

Thank you, Nicole, and I'm pleased to share the details of our outstanding results for the first quarter. This morning, we announced first quarter earnings of \$100.9 million or \$0.49 per share on a GAAP basis compared to first quarter 2023 GAAP earnings of \$38.3 million or \$0.19 per share. First quarter income from continuing operations was \$100.9 million or \$0.49 per share compared to \$83.8 million or \$0.41 per share in 2023.

Important to note that with the spinoff of Knife River completed May 31 of last year, Knife River results and other related impacts are reported as discontinued operations in our GAAP-based results for the prior year. With the completion of the Knife River spinoff and work continuing on the Everus spinoff, 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 see the first table in our earnings release. We experienced strong results from all of our businesses in the quarter with adjusted income from continuing operations of \$106.6 million or \$0.52 per share compared to the first quarter 2023 adjusted income from continuing operations of \$87.1 million or \$0.43 per share.

Turning to our individual businesses. Our utility business reported earnings of \$58 million for the quarter compared to earnings of \$55.5 million for the first quarter of 2023. Electric Utility reported first quarter earnings of \$17.9 million compared to \$16.6 million for the same period in 2023. Increase was largely the result of higher retail sales revenue due to rate relief in North Dakota and Montana and the addition of a new data center customer in mid-2023. The increase was partially offset by lower residential volumes and higher operation and maintenance expense, primarily contract services costs.

Our natural gas utility reported earnings of \$40.1 million in the first quarter compared to \$38.9 million in the first quarter of 2023. The increase was largely the result of interim rate relief in North Dakota and South Dakota and higher interest income and increased transportation revenue, primarily to serve electric generation and industrial customers. These increases were offset in part by a 7% decrease in retail sales volumes to all customer classes due to warm weather, which was partially mitigated by weather normalization and decoupling mechanisms. Also impacting earnings was higher depreciation expense from increased asset additions and higher operation and maintenance expenses.

The pipeline earned record first quarter earnings of \$15.1 million compared to \$8.3 million in the first quarter last year. The earnings increase was driven by record transportation volumes for the first quarter as a result of organic growth projects placed in service in November of 2023 and March of 2024 and increased contracted volume commitments from the North Bakken expansion project beginning in February of last year.

New transportation and storage rates effective August 1 of last year and higher storage-related revenue also helped drive the increase in earnings. This increase was offset in part by higher operation and maintenance expense and higher interest expense both from increased debt balances and higher interest rates.

Everus reported first quarter earnings of \$28.2 million compared to earnings of \$26.1 million in the same period in 2023. EBITDA for the first quarter increased \$3.4 million compared to last year to a first quarter record of \$46.9 million. The increase in earnings was the result of strong demand for institutional work for government and healthcare projects.

Margin increases largely in the utility market due to efficiencies in labor and equipment utilization also had benefited the quarter. Everus also had higher selling, general and administrative costs, including increased rent expense, higher payroll-related costs, increased professional services expense as well as decreased other income related to joint ventures. Backlog for the quarter was an all-time record, as Nicole mentioned previously, of \$2.18 billion, with transmission and distribution up 7% and electrical and mechanical backlog up 3% when compared to the same period in 2023.

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

That summarizes financial highlights for the quarter. We appreciate your interest in and commitment to MDU Resources and ask now that we open the line to questions. Bo?

Question and Answer

Operator

[Operator Instructions]

We'll go first this afternoon to Ryan Levine of Citi.

Ryan Michael Levine

Citigroup Inc., Research Division

To start off on the Everus business mix or backlog mix. What percentage is data centers now? And are there other key buckets that we should be looking at as meaningful drivers of your growth in the coming years?

Nicole A. Kivisto

President, CEO & Director

Yes, Ryan. Thanks for the question. I'll turn it over to Jeff.

Jeffrey S. Thiede

President & CEO of Everus Construction Group

Thanks for the question, Ryan. Our backlog really has been built upon our success in our diversified businesses in all the markets that we serve, but primarily in the commercial area, which is data centers. We're doing data centers for a multitude of major clients, so that we all know about confidential clients, of course. But we have negotiated, semi-negotiated and been able to add to our backlog significantly and then get repeat business, primarily due to our performance, our safety, our productivity and our quality. And we see this as one of the strongest drivers for us going forward.

Ryan Michael Levine

Citigroup Inc., Research Division

Is there any percentage numbers you're able to share or any maybe high-level color around the magnitude of that market for you? And even geographically, there are certain states that you're more levered to there?

Jason L. Vollmer

VP, CFO & Treasurer

Ryan, this is Jason. I'll start off on the percentage of numbers. We don't typically break it out that way. We break it out between the T&D market and the E&M market. So this certainly would be part of the E&M space, as Jeff is talking about here. But I'll let Jeff weigh in on geographic diversity and maybe what we're seeing in that market. But no percentages as far as what we've been able to disclose at this point as far as just data center builds.

But Jeff, you may want to address the geographic markets.

Jeffrey S. Thiede

President & CEO of Everus Construction Group

Right. We're in Ohio, of course, and there's a tremendous amount of data center growth there. We're in the Southwest and the Pacific Northwest. Those are the primary areas of our data center work, and you complement that with the healthcare work we're doing, the institutional work, the renewables contributing to our record backlog. And of course, our backlog is also up in the T&D space, where we're doing grid hardening, undergrounding of electrical services and transportation contributing to our record backlog.

Ryan Michael Levine

Citigroup Inc., Research Division

And then in terms of the low growth outlook for -- on the electric side of the business, what trends are you seeing? Are you seeing any acceleration in electricity demand growth in your service territories? And any implications that has for your capital budgets?

Nicole A. Kivisto

President, CEO & Director

Yes, Ryan, I'll let Garret answer that question in terms of what kind of data center. I commented on my -- in my script in terms of the various ones that we have in the queue, but we're continuing to get calls as they come in related to data centers.

So Garret, do you want to expand on that at all?

Garret Senger

Chief Utilities Officer of Cascade Natural Gas Corp., Inter. Gas Comp & Montana-Dakota Utilities Co.

Just that we have in front of -- this is Garret Senger, and thank you for the question. We had in front of the North Dakota Public Service Commission and additional data center requests that we hope to have in place for the second quarter that should be approved by then. And this as Nicole mentioned, continued interest across our territory, and we pursue those as they come in.

Ryan Michael Levine

Citigroup Inc., Research Division

Great. And in terms of electricity demand growth, that was, I guess, more broad than just that 1 customer type? Or are you see any changes to your longer-term outlook due to commercial activity or other growth in your service territories?

Garret Senger

Chief Utilities Officer of Cascade Natural Gas Corp., Inter. Gas Comp & Montana-Dakota Utilities Co.

We've seen an average increase annually in terms of customers in that 1% range in total customers. There's also an industrial commercial loads. There's -- maybe a couple of years down the road, there's interest there as well as expanding in terms of operations. And '24 really is the data center growth as well as just normal growth in our residential market.

Nicole A. Kivisto

President, CEO & Director

And then maybe just, Ryan, 1 thing to clarify in terms of the data center growth that we've had, that is the way we're serving those customers is not from our generation. So just to be clear there, we've got 0 investment right now in these data centers and get the margin, which is obviously a benefit to the company as well as to our ROE tying it back to ROE enhancement. And then we also have a benefit that's given back to our customers in terms of the sharing of the transmission expense across the MISO market. And so we do see right now the way we have modeled these data centers within our system, it doesn't require us to build generation. So I just wanted to clarify that.

Operator

[Operator Instructions]

Again, the webcast can be accessed at www.mdu.com under the Investors heading. Select Events & Presentations and click Q1 2024 Earnings Conference call. After the conclusion of the webcast, a replay will be available at that same location.

And ladies and gentlemen, it appears we have no further questions this afternoon, Ms. Kivisto. I'd like to hand things back to you, ma'am for any closing comments.

Nicole A. Kivisto

President, CEO & Director

All right. Thank you very much, and we want to thank everyone for your time and interest in MDU Resources. We are certainly optimistic about our growth opportunities and the future of our regulated energy delivery businesses as well as the outlook for Everus and the planned spinoff later this year. We thank you again for your time. We appreciate your continued interest and support of MDU Resources. And with that, I'll turn the call back over to you, operator.

Operator

Ms. Kivisto, thank you. Ladies and gentlemen, that does conclude today's MDU Resources Group conference call. Again, thank you for your participation, and you may now disconnect.

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