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MDUR -Q4 2021 MDU Resources Group, Inc. Earnings Call

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OVERVIEW:

Co. reported 2021 earnings \$378.1m or \$1.87 per share. Expects 2022 EPS to be \$2.00-2.15.

CORPORATE PARTICIPANTS

David C. Barney - President & CEO of Knife River Corporation

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Dariusz Lozny BofA Securities, Research Division - Research Analyst

Ryan Levine Citigroup Inc. Exchange Research - Research Analyst

PRESENTATION

Operator

Hello. My name is Erica, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group 2021 Year-end Earnings Results and 2022 Guidance Conference Call. (Operator Instructions)

This call will be available for replay beginning at 5:00 p.m. Eastern time today through 11:59 p.m. Eastern time on February 24. The conference ID number for the replay is 1077076. The number to dial for the replay is 1 (855) 859-2056 or (404) 537-3406.

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

Jason L. Vollmer - MDU Resources Group, Inc. - VP & CFO

Thank you, Erica. Good afternoon, everyone, and welcome to the MDU Resources 2021 Earnings and 2022 Guidance Conference Call. With me today are Dave Goodin, President and CEO of MDU Resources; Dave Barney, President and CEO of Knife River Corporation; Jeff Thiede, President and CEO of MDU Construction Services Group; Nicole Kivisto, President and CEO of our Utility Group; Trevor Hastings, President and CEO of WBI Energy; and Stephanie Barth, Vice President, Chief Accounting Officer and Controller of MDU Resources.

Yesterday, after market, we issued our 2021 earnings news release. You can find the release and accompanying information at www.mdu.com in the Investor Relations section under the Financials section.

During our call, we'll 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 and beliefs are based on reasonable assumptions, actual results may differ materially. For more information on 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 measures. For a reconciliation of any non-GAAP information to the appropriate GAAP metric, please reference our earnings release.

I will start this afternoon by providing consolidated financial results for 2021, discussing individual business unit results and providing an update on our financing plans for 2022 before handing the call over to Dave for his full year comments and his forward look. Yesterday, we announced

2021 earnings of \$378.1 million or \$1.87 per share compared to 2020 earnings of \$390.2 million or \$1.95 per share. EBITDA from continuing operations for the year increased \$3.1 million to \$859.8 million.

During the year, MDU Resources experienced approximately 10% higher health care costs, which impacted each of our business lines. On a consolidated basis, this increase was impacted by \$0.02 to \$0.03 per share. The increased costs, including COVID-related claims as well as general health care costs for our employees, were the driver of this result.

Now for our individual business unit results. Our construction materials business reported earnings of \$129.8 million for the year, down from the prior year's record of \$147.3 million. EBITDA at this business decreased \$11.5 million from last year to \$293.4 million. Results were impacted by increased material costs on asphalt oil as well as higher fuel costs across all of our product lines. Contracting revenues and margins decreased from less available paving work in certain states and the absence of a few large jobs which were completed in the prior year.

Asphalt volumes decreased 1.4% on less available paving work, impacting gross margin, which decreased \$4.9 million from the prior year. Partially offsetting these decreases is the ready-mix product line, where gross margin increased \$7.7 million from volume increases in nearly all of the company's markets due to strong demand and average selling price increases of 2.3%. Aggregate volumes increased over 8% from the prior year on strong private and public sector demand. However, the construction industry slowdowns in Hawaii, material costs in Alaska and quarry development costs in Texas drove a \$2.8 million decrease in the gross margin for the aggregate group. Labor constraints, especially for truck drivers, resulted in isolated project delays and staffing inefficiencies across the business.

Turning to construction services. Results were comparable to 2020 with net income of \$109.4 million for the year. Electrical and mechanical operations results, which were previously referred to as inside specialty contracting, were impacted by lower commercial and institutional workloads, which were offset in part by strong demand in the industrial and service markets. Gross margin at this business line increased \$7.5 million as commercial and industrial markets benefited from favorable change orders and successful project execution. Institutional revenues and margins decreased during the year as projects were impacted by labor and material inefficiencies.

Transmission and distribution operations, which were previously referred to as our outside specialty contracting business, reported gross margin of \$104.3 million for the year, a decrease of \$17.9 million from 2020, reflecting the absence of higher-margin storm repair and fire hardening work that was completed in the prior year. Workloads at this business line increased from strong utility demand, including substation and power line repair projects.

And now turning to our regulated energy delivery businesses. Our combined utility business reported a record net income of \$103.5 million for the year compared to \$99.6 million in 2020. Our natural gas segment was a driver behind the increased combined -- increase in combined earnings, reporting \$51.6 million for the year, a \$7.6 million improvement over 2020, which was driven by an increase in retail sales margins from implemented rate relief in several states. Partially offsetting these increases was increased operation and maintenance expense, primarily higher payroll-related costs as well as health care costs we previously mentioned and decreased credits for costs associated with meter installation due to pandemic-related replacement delays.

The electric utility segment reported earnings of \$51.9 million compared to \$55.6 million in 2020. Results reflect increased depreciation, depletion and amortization expense from higher property, plant and equipment balances relating to transmission projects placed into service as well as higher operation and maintenance expense. These decreases were offset in part by increased electric retail sales margins.

The pipeline business reported strong results with earnings of \$40.9 million or an increase of 11% over the prior year. This was driven by a \$7 million benefit after tax from the allowance for funds used during construction related primarily to the North Bakken Expansion project as well as a 7.4% increase in transportation volumes and increased nonregulated project work at this business. As a reminder, the pipeline business divested of its natural gas gathering assets in late 2020. Current year results are absent the gains on sale of the company's gas gathering assets of approximately \$3.1 million as well as prior year gas gathering earnings.

And finally, as we look to 2022 financing plans, the company expects to fund its over \$700 million planned capital expenditures in '22 through a combination of operating cash flows and the issuance of long-term debt. The company does not currently expect to issue any external equity in '22 unless needed to fund future acquisition growth.

And now I'd like to turn the call over to Dave for his formal remarks. Dave?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Thank you, Jason. And good afternoon, everyone, and thank you for joining us here today. We are proud to be able to report the third best year of earnings in MDU Resources' history. Although those results unfortunately did not meet our initial forecast or expectations, our performance throughout 2021 is a testament to our employees' commitment to delivering solid performance while facing headwinds such as pandemic-related disruptions, supply chain challenges and inflation, all while safely and effectively providing the essential services needed across our country.

Our 98-year history as an organization shows our dedication to responsible fiscal management, that our combination of businesses center on providing essential services and offer strong advantages when it comes to access to capital, along with steady cash flows. Our highly skilled and exceptionally dedicated workforce will continue executing on our growth strategy while adhering to our tagline of Building a Strong America.

Starting our 2021 review with our construction material operations. Revenues at this business increased 2.3% from the prior year, the result of strong demand for our aggregate and ready-mix products. Our products and contracting services are in high demand for both private and public sector work with airport, health care and commercial projects driving increases in aggregate and ready-mix volumes this year, which in turn allowed us to successfully increase average selling prices for these materials.

Knife River reported \$708 million in backlog as of the end of the year and currently expects over 90% of this work will be completed in the next 12 months. With the acquisitions completed in 2021, Knife River now has over 1.2 billion tons of aggregate reserves across its footprint that are estimated to last several decades. Knife River will continue to maintain an efficient cost structure and work diligently on increasing product line margins while providing the high-quality materials and services that we are known for.

Having skilled employees is key to successful construction operations, and Knife River has built a state-of-the-art training center in the Pacific Northwest to hone the skills of existing team members as well as develop prospective construction employees through both classroom and hands-on training. The accreditation program for the CDL driving school at the facility is nearly complete, which will help provide much-needed professional drivers for our operations.

The construction services group had another strong year, reporting earnings comparable to those in 2020. Job mix was the primary driver behind the slight decrease in earnings at this business as several large jobs in the Las Vegas market were completed in 2020 and in early 2021. Our offerings at this business continue to be in high demand across many of our end markets, including substation and power line repair projects for our transmission and distribution operations, along with the repair and maintenance of electrical, mechanical and fire suppression systems at electrical and mechanical group. We have seen a notable increase in demand for our renewable offerings, which includes electrical vehicle infrastructure, solar power and energy grid optimization services, all markets where construction services excel. With an all-time record backlog of work as of December 31 of \$1.38 billion, we are incredibly excited to see what this next year brings for construction services.

Both of our construction companies are well positioned to capitalize on the Infrastructure Investment and Jobs Act, the largest infrastructure investment our nation has made in decades. Construction materials is currently forecasting revenues to be in the range of \$2.3 billion to \$2.5 billion for 2022 and construction services is forecasting \$2.2 billion to \$2.4 billion or a combined \$4.5 billion to \$4.9 billion between the 2 construction businesses.

Now I'd like to turn to our regulated energy delivery platform. Our utility companies reported record earnings for 2021, seeing the benefits of improved rate recovery in several jurisdictions, which reflects the continued investments we are making in our system to provide safe, reliable and low-cost energy to our customers. Looking ahead, the utility group will begin work on the repowering of the Diamond Willow wind farm in the state of Montana. We plan to repower with new gearboxes and refurbish existing blades versus replacing them. The blades will be removed from

the turbines and recoated, saving these fiberglass blades from landfills on top of being a much more affordable option. The cost of investment for the repowering will be offset by the production tax credits received on the project.

Heskett I and Heskett II, our coal-fired generation units, are being retired during the first quarter here in 2022, which will then complete the retirements of all of our wholly owned coal generation units. Utility will begin construction on the Heskett Station Unit IV. This is an 88-megawatt simple-cycle natural gas-fired combustion turbine, which we expect will be in service in early 2023.

We continue to see solid customer growth with 1.7% combined customer growth in 2021, and we expect to grow our customer base between 1% and 2% annually looking forward. We also expect rate base growth to grow 5% compounded annually over the next 5 years, driven primarily by investments in system infrastructure upgrades and replacements to again safely meet customer demand.

Our pipeline business had a very strong 2021 and for the fifth consecutive year, transported record volumes of natural gas through its pipeline system. This is really a direct result of the organic growth projects the company completed over the last several years. And here, recently, on February 1 of this year, WBI placed into service its North Bakken expansion project, which has the capacity to transport 250 million cubic feet of natural gas per day and can be increased up to 625 million cubic feet per day through the use of additional compression. This project included approximately 100 miles of pipeline as well as a new compressor station along with the expansion of an existing station.

WBI Energy and contractor Michels Corporation completed a, get this, 15,426-foot horizontal directional drill of a 24-inch pipeline crossing Lake Sakakawea on the Missouri River here in North Dakota. This crossing of just less than 3 miles is one of the longest of its kind anywhere. The North Bakken expansion projects brings total system capacity to more than 2.4 billion cubic feet of natural gas per day.

WBI Energy will continue preparatory work on the Wahpeton Expansion Project that we announced earlier in 2021 and has additional growth organic projects in various stages of development to grow its system as it continues to work to be the pipeline of choice for its customers. Activity here in the Bakken continues to grow with a current rig count of 32 rigs as opposed to even 27 just at the end of the year, along with the ratio of gas production to oil production continuing to increase as the Bakken is being developed.

That completes our individual business unit discussion. Now turning ahead and looking ahead as an overall corporation. We are initiating 2022 earnings guidance in the range of \$2 to \$2.15 per share, along with an EBITDA guidance range of \$900 million to \$950 million. Future acquisitions are not included in the stated guidance and would be incremental to 2022 results. I am confident in MDU Resources' ability to produce significant long-term value as we execute on our business plans and explore potential acquisitions along with organic growth opportunities.

We continue to maintain a strong balance sheet, solid and stable credit ratings, along with a very good liquidity position. And for 84 consecutive years, we have continued to provide a competitive dividend to our shareholders, all while increasing it for the last 31 years. Just today, we also published our refreshed 2020 sustainability report, which can be found on our newly redesigned corporate website located at www.mdu.com. We encourage you to review it for more detail on our dedication to sustainability and our plans in this area going forward.

As always, MDU Resources is committed to operating with integrity, along with a focus on safety, all while creating superior shareholder value as we continue, as our tagline states, to be Building a Strong America. I appreciate your interest in and your commitment to MDU Resources and ask now that we open the line to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Dariusz Lozny with Bank of America.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

I have a couple but I just wanted to start with 2021. It looks like the full year results came in a little bit below the guidance that you issued in November. And I was wondering if you could maybe just touch on what specifically developed in the last few months of the year that deviated from that updated forecast that you put out in Q3.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes. I'll start with that, Dariusz, and then maybe ask Jason Vollmer to add a little color. And we can certainly get into some of the business unit drivers there as well. I would say one of the elements that we had here in the fourth quarter were continued -- some inflationary pressures in our business. I think in particular, you would have seen -- in our materials business on a year-over-year basis seen some differences there. And those are some -- pressures that we saw in that business, some were labor related, some were petroleum related, if you will, from a fuel supply. But I'd say in a general sense, there were some inflationary pressures that lingered into the fourth quarter that kind of were beyond what we initially thought leading into that fourth quarter as well.

Jason, I know you noted in our comments relative to some health care costs that I'll say continue to mount throughout the year. Those were a driver that were more pronounced in the fourth quarter as well. Any other areas to kind of highlight for Dariusz?

Jason L. Vollmer - MDU Resources Group, Inc. - VP & CFO

Yes. I think Dariusz, as you look at our guidance range that we come out with, we always talk about normal weather, right? So as we looked at weather in the fourth quarter, we probably saw some differing impacts there that may have had some impacts to the various business lines, whether it be our utility or construction operations.

The other item I'd point to in addition to the health care costs is we did see some changes to our captive insurance program and some additional costs that we would have noted there and experienced in the fourth quarter. And you'll see some of those in the other segment if you're looking on the segment-by-segment review, some impacts in the fourth quarter that would have hit there too that were outside of what we had anticipated earlier in the year.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Okay. Got it. And moving on to the '22 outlook on the materials segment specifically. Can you comment -- I mean certainly, we see the improved revenue guidance. Can you comment, maybe just digging into that a little bit, what level of aggregate price increase or volume increase is embedded in that, at least at a high level? It sounded like some other market participants were relatively bullish on the '22 outlook. So just curious how you think about that and in particular, how that relates to the inflationary pressures that you're seeing that you commented on.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes. I'll just touch on that and then give Dave -- that second part of the question actually over to Dave Barney, Dariusz. So as you noted, you see our guidance, coming off a roughly \$2.2 billion revenue year in '21, where low end of our guidance is \$2.3 to \$2.5 for the year, so spot on there. We are seeing expansion, if you will, from a top line perspective.

And then I'll ask Dave Barney to weigh in as we see -- from a margin and also from a pricing perspective. Dave can give you a little bit of color there without getting into market-by-market details. Dave?

David C. Barney - President & CEO of Knife River Corporation

Thanks, Dave. Dariusz, we've already implemented pretty strong increases on our aggregate side for 2020, and they've been well received in the market. So we expect that to hold through the year and possibly other increases later in the year. We've also increased ready-mix prices across the board, some of the largest we've seen in many years, and they've been well received in the market, too. So we expect those pricing to hold.

And same thing with contracting margins. We're pushing on contracting margins, and we expect to see an increase there also. Did that answer your question?

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

That did. And if I could ask one more, and this is still staying on the materials segment. You touched on the pressures, particularly on the input cost side, asphalt oil, things like that. Can you maybe speak to that a little bit as far as, again, what's embedded in the '22 guidance around asphalt oil? Are you expecting some of those pressures to start to mitigate a little bit perhaps in the back half of the year? How we should be thinking about that on a year-over-year basis?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Dave, you want to -- go ahead.

David C. Barney - President & CEO of Knife River Corporation

Yes, asphalt oil was probably our biggest drop in 2021 over '20. But we did have a record year in 2020, and as you might remember, in 2020, oil prices were jumping all over the place to -- I think at some point, it was minus 20. And usually, when that happens, we can buy asphalt oil at decent prices and get better margins. But going forward, we expect the asphalt oil division to be about where they were last year, maybe a little better. They're still getting good returns, but they did have a record year in 2020.

Operator

Your next question comes from the line of Ryan Levine with Citi.

Ryan Levine - Citigroup Inc. Exchange Research - Research Analyst

Maybe to start off on some of your comments around inflation. Given the recent weakness impacting your results, what are you embedding in your 2022 outlook? And what gives you confidence in assuming that margins for construction more broadly will be comparable to 2021?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes. I'll start with that, Ryan, and then maybe ask Jeff Thiede -- and you heard a little bit from Dave Barney already of some of the things that Knife River is doing relative to that, but they could add a little more color.

As we give guidance for the year, we do say margins are comparable in both services and materials as a year-over-year basis. We also are guiding top line to be increasing on a year-over-year basis there. If you take a look actually at margins year-over-year at services, they were comparable to 2020 actually on a year-over-year basis. You would have also seen that margins actually slightly decreased at materials, which we talked about in the last several questions with Dariusz about some of the -- what we saw tailing in. I'll say he talked about the fourth quarter, but we -- kind of the back half of 2021, you would have seen some of those effects.

And so Dave Barney, if you want to walk through a little bit some of the pricing adjustments that we're making, in particular aggregates along with ready-mix and also some construction margins that would lead us to believe margins at this point are going to be comparable. Certainly, we'll update the market as we go throughout the year. I'll call on Jeff Thiede. Jeff helps give us confidence in services to -- not only with the record backlog starting the year but to have margins comparable on a year-over-year basis. Jeff?

Jeffrey S. Thiede - MDU Resources Group, Inc. - President & CEO of MDU Construction Services Group, Inc

Thanks, Dave. Through our estimating and project management and purchasing teams, we're in daily contact with our labor partners and suppliers to get updated costs and material availability information so we can mitigate any of the impacts due to these headwinds. So we inform our customers on the supply chain and inflation challenges through our bid clarifications.

We secure a lot of projects ahead of completed construction documents, and therefore, we are in a design assist mode where we're asking our suppliers and getting that information to be able to not only mitigate our risk but protect our customers and update them of current cost impacts, if any, to projects. If you take a look at the last couple of years, we've seen increases of over -- almost 100% on wire; PVC pipe, over 400%. So these are significant. And we see these changes occurring weekly, and our teams are on top of it.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

And then I'll maybe call on Dave Barney. Dave, we do some things in the materials, particularly protection of some of our fuel costs and inputs on that side. Do you want to just touch on that for Ryan and others' benefit here?

David C. Barney - President & CEO of Knife River Corporation

Well, if you're talking about how we -- most of our fuel is indexed on our contracting side. It's not protected on our ready-mix and aggregates and other materials, but we are raising those prices. The one thing we look forward to -- one thing we're seeing, Ryan, this year, is we're seeing a really strong bid schedule right now. So we can be a little more picky about our margins and what jobs we go after. And we're expecting to see that to even increase as we see in late quarter -- late Q3 when we start to see the infrastructure bill start to come into play. So with the bid schedule looking as strong as it is, I would expect our margins to start pushing up.

Ryan Levine - Citigroup Inc. Exchange Research - Research Analyst

Got it. Maybe switching gears to some of the West Coast investment opportunities or project opportunities. Can you comment on -- if you're still doing wildfire hardening work today and then maybe going forward or even historically, what the cost per mile of the undergrounding work that MDU has done has been?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Jeff, I think Ryan is referring to one of the long-standing customers we have on the West Coast and one of your key customers. You want to kind of provide a little color around both the hardening and also maybe some of the undergrounding opportunities?

Jeffrey S. Thiede - President & CEO of MDU Construction Services Group, Inc

Absolutely. Since 2018 camp fire, PG&E has been providing and doing undergrounding of power lines in Butte County ridge. We are seeing the initial stages of our customers obtaining the right-of-way access and providing the engineering. Right now, we don't have any of that work in our backlog, but we are incredibly well positioned with our field leadership, our management. We have the equipment.

In addition to that, we have great feedback on our scorecard from PG&E, which puts us in an exceptional position to be able to compete and get a good part of this work. We've got a track record working for many, many years, even more than decades on -- with this customer. And we think that we're going to capture our share and it will be a positive impact to our financial results.

Ryan Levine - Citigroup Inc. Exchange Research - Research Analyst

Just to follow up on that. So you're saying none of the work that's currently being done is being done by MDU?

Jeffrey S. Thiede - President & CEO of MDU Construction Services Group, Inc

That is correct. We don't have any of the work currently.

Ryan Levine - Citigroup Inc. Exchange Research - Research Analyst

Okay. Appreciate the color.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Thanks for the questions, Ryan. Go ahead, Jeff.

Jeffrey S. Thiede - President & CEO of MDU Construction Services Group, Inc

As a follow-up, Ryan, PG&E is not the only customer that is doing this work, and we've got the capabilities in other marketplaces. And even in southern part of the State of California, we are working on an opportunity with our company on doing some of this undergrounding work. So we've got the experience, got the personnel and the capacity. And we look forward to having that added to our backlog in the near future.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Thanks, Ryan.

Operator

(Operator Instructions) Your next question comes from the line of Brian Russo with Sidoti.

Brian Russo - Sidoti & Company, LLC - Research Analyst

Just to follow-up on the undergrounding. Would all the work fall in the materials segment in terms of the actual trenching? Or is there also work opportunities in the services sector as well with the electrical side of things?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes, Brian, I'll start there. And if Jeff wants to add, he sure can. But really, it will be centered almost exclusively with our Construction Services Group, which does the outside T&D work for utilities, G&T co-ops, et cetera. So it would rest almost entirely within services. And as Jeff responded to the earlier question about the undergrounding and saying we really don't have much, if any, of that in our record backlog, anything there would be incremental to the \$1.38 billion in backlog today.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. So you actually own and operate the trenching equipment?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

We would have that trenching, directional drilling, et cetera, and that would be done by our crews associated within services. There may be times where we third-party contract that, depending on our own availability, but we would either do it internally or in concert with a subcontractor. Is that fair to say, Jeff? Or did I -- would you like to add more color to that?

Jeffrey S. Thiede - President & CEO of MDU Construction Services Group, Inc

No, that's correct, Dave. And these trenches are deep and wide and include a lot of junction boxes and vaults that we could see Knife River's participation and working with us collaboratively to be able to flex our financial strength and our capabilities muscles to be able to pick up this work for not only PG&E but other utilities that are going to provide these bid opportunities.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. Great. And then just a follow-up on the margin question. Margins at the materials segment, comparable to 2021 when you average the entire year. But is there going to be some unique kind of profile of the year-over-year margins outside of the normal seasonality of the business, given how you're raising prices or how you burn off the backlog that maybe hasn't been able to capture the price increases that you've implemented thus far and that you might be implementing throughout the year? It looked like -- go ahead.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes. I think your question revolves around how are we thinking of the full year in 2022. And again, at this point, we're seeing comparable on a year-over-year basis. And you would have seen -- as we guided The Street last year, we started the year in materials to margins being comparable to actually slightly increasing on a year-over-year basis based on '20. But as we went through that year, we actually went to comparable to then slightly decreasing by the end of the year. Again, some of the inflationary impacts that we touched on earlier.

Right now, with the commentary you heard from Dave Barney talking about advancements in pricing both in materials and particularly ready-mix and that those are being -- I think Dave's words were well received, if you will. I think that gives us some confidence to say let's start the year looking at comparable margins annually year-over-year and then obviously, we'll update each quarter as the year unfolds.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. And...

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Was that helpful, Brian? Your pause leads me to believe I was more confusing than helping.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Well, it seems that the margin erosion was more significant in the second half of 2021 versus the first half of 2020 -- 2021 just given the direction and the rapid rise in the price of oil and labor shortages that kind of snowballed as we went through the year. So I'm just curious, is the margin improvement to equate to comparable full year-over-year margins more heavily weighted toward the second half of 2022?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes. I'd say more full year versus full year as we're thinking about it today.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. Okay. You mentioned that weather may have had an impact across the businesses. Obviously, it was very warm in the Mid and Upper Midwest during the fourth quarter, especially in December. Can you kind of maybe break out what the weather impact was versus normal and then quantitatively or qualitatively comment on how it impacted the individual sectors, utility versus construction?

Jason L. Vollmer - MDU Resources Group, Inc. - VP & CFO

Yes. This is -- Brian, it's Jason. I can give a quick high-level idea of some of those and certainly Nicole or others can weigh in here too with what they saw from impact. So we did see a fairly warmer-than-normal fourth quarter, I would say. Now in many cases, we have that mitigated with -- at least on the gas side of the business with weather normalization or decoupling mechanisms that can be helpful in that regard.

It can impact the pipeline business as well a little bit from storage and how much gets pulled out of storage and moved. We did see some cold snaps during that time frame, too. So it's hard to really gauge exactly what the impact would be.

So from a gas perspective, we feel like we're pretty well insulated in most cases just given the price protections we have on that side. We are a bit more exposed in electric. So you'll see on the electric side, where we were down a bit for the year there, still a very good year for the utility all the way across. But that was probably some impact for some warmer-than-normal temperatures that we would have seen in the fourth quarter of the year.

Other places -- we always talk about precipitation can have some impacts, too. And I know it depends on the footprint, but for the materials business, we had some areas that probably had quite a bit more rain in the fourth quarter than they would have on a comparable basis the year before. So those are some of the impacts that we saw. So it's a mix of temperatures and precipitation, probably depending on which part of the business it is. At the end of the day, we deal with these things every year. We've got variability in weather. We plan for normal weather. But there's really no such thing as normal weather so we just need to manage through that, and I think our team did a very good job of doing that.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. Great. And the 5% to 8% long-term EPSCAGR, is that still off of the 2020 base?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes. Brian, this is Dave. Yes, that would be -- 2020 would still be the year that we would have as a base for the 5% to 8%. Again, we saw the results that we just reported for 2021, but I'm confident of that 5% to 8%. It's a long-term EPS growth. It's not necessarily a year-over-year growth. But long term, we still view that as valid, which we've reaffirmed here today.

Brian Russo - Sdoti & Company, LLC - Research Analyst

Okay. And then lastly, you mentioned, I think, in the services segment, backlog is obviously very strong and bidding is active. But are you seeing any hesitancy or delays in projects in your services end markets due to inflationary pressures or uncertainty regarding tax credits, et cetera?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes. Jeff, do you want to take Brian's question?

Jeffrey S. Thiede - President & CEO of MDU Construction Services Group, Inc

Yes. Thank you, Brian. We're not seeing any project delays, reflective of our backlog that's increased. The challenge is going to be making sure we find capable labor in the regions where we're seeing an increase in opportunities, which is Ohio. Ohio is very busy right now in a number of areas from institutional, commercial work. We've got a great company there, and we're looking at building up our resources in that area.

Even though Las Vegas isn't as busy as it was in the last couple of years, there are a number of projects that we're well positioned for and in preconstruction. So there's some timing of getting those projects up and running, and that will complement the other backlog that we see in the West Coast region as well. So while we've got a great record backlog right now, it's all about execution. And our company is focused on the safety and operational excellence and teamwork and exceeding the customers' expectations.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Thank you for the questions, Brian.

Operator

Your next question comes from the line of Andrew Levi with Hite Hedge.

Andrew Levi - Hite Hedge Asset Management LLC - Portfolio Manager

Can you guys hear me?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

I can hear you, Andy.

Andrew Levi - Hite Hedge Asset Management LLC - Portfolio Manager

So I guess you guys have a bunch of stuff going on, whether it's higher oil prices, higher labor prices. Could you just also talk about -- I guess, the Fed is talking about raising rates 100 basis points in the short run and maybe 150 or more this year. What do you guys have incorporated in your kind of guidance for the various businesses? And can you just explain to us how higher interest rates may or may not affect your business for this year?

Jason L. Vollmer - MDU Resources Group, Inc. - VP & CFO

Andy, this is Jason. I can definitely take that. So we've been through the rate ups and downs here for several times. Or even as recently as '19, rates were quite a bit higher and then certainly COVID hit, and we saw the Fed cut rates pretty quickly there. You've followed us for a long time. We have a mix of long-term debt where we lock those in fixed-rate type instruments to try to de-risk as we are entering into longer-term long-life projects and also the working capital needs that we have throughout the business.

So we certainly have some sensitivity on the interest rate front. If we saw a jump up in short-term rates, we could have some impact to our commercial paper programs, for example. We've got lots of liquidity there. We feel good about that. We actually have built into our plan for 2022 some increased rates. You can pick your point where you think the Fed is going to go this year and we've seen anywhere from a couple of increases to 6 or 7 increases. We probably didn't build in the high end of that range, but we probably didn't build in the low end of that range either.

Andrew Levi - Hite Hedge Asset Management LLC - Portfolio Manager

Okay. And then just on the oil -- I have a couple of questions, and hopefully, I won't get cut off, but not as many as Brian though.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Keep going. You're fine. You're good.

Andrew Levi - Hite Hedge Asset Management LLC - Portfolio Manager

Yes. So just on the oil side, we have \$90 oil. Can you kind of just dive into it for us a little bit and give us a little bit more detail on kind of what's incorporated into guidance? You talked about on the third quarter call that the spike in oil, I don't know if it was the third quarter call but maybe conversations we had, was an issue. And again now, you've had another spike in oil and maybe that's what's affected -- made the guidance lower.

But how should we think about where we're at, at \$90 relative to what you have in your guidance? And if oil went up another \$10, what could that do? Or if it went down \$15, what could it do? Just at a very high level. I know you can't be completely specific. And then I have some other questions.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes. Sure, Andy. I'll start with that and then queue up Dave Barney because Dave -- it's really his business that's the most primarily affected by that. And Dave did talk earlier about how -- because they use quite a bit of diesel in our construction activities within Knife River. We also use diesel in our quarries, whether it's just the horsepower needed to excavate, load and et cetera, right, throughout the crushing operation and the refining operation of our aggregates.

So Dave did touch on earlier that a lot of our construction contracts have indices associated with them relative to fuel pricing. And so feeling there's -- we're kind of making allowances for that, and there's also contractual language so far as prices go up, prices go down. There's adjustments with the owner of the contract, which is typically a state or a federal or a local municipality type situation.

Where we have some exposure there would be more on the delivery of ready-mix and just the general trucking outside of the construction activities. Dave said there could be some exposure there. I would say we generally use strip pricing going forward as kind of a baseline there. But also, Dave did touch on some of our pricing adjustments that we're making, particularly ready-mix. He talked about aggregates, and that could be delivery of those products, too. And so I think we certainly continued learning price and cause and effect last year. And some of that, I'll say, we got caught by that. We're making some adjustments, have been making some adjustments now that we'll see more pronounced here in 2022 from a pricing and a recovery.

I don't know, Dave, do you have anything to color add there? Or did I kind of speak well enough? Or anything you want to add?

David C. Barney - President & CEO of Knife River Corporation

No, I think you covered most of it, Dave. Fuel is a concern -- as we continue to see oil prices raise, it's a concern. But that is one of the reasons why we've seen some of our bigger increases on our prices this year, is to make sure we capture that fuel this year that we weren't able to last year.

Andrew Levi - Hite Hedge Asset Management LLC - Portfolio Manager

Okay. And then this is kind of like a bigger-picture question and something we had discussed a few years ago. So if you look at your stock price going back to like 2018, you're up a few percent from that. The market's up whatever that big number is. Look at some of your comps on the construction side. Their stocks are up considerably since then. You have this kind of pretty good businesses but you trade at a PE multiple of after today, I don't know, if you go by consensus, 12x, 12.5x from there.

You guys got to be start thinking about that that's not really working for the shareholder. Because if you look at kind of multiples and where things are -- have been kind of transacting at, whether it's on the construction materials side, services side, gas LDCs, utilities -- you get what I'm saying. I'm not going to continue just listing stuff. But isn't it time to kind of break this thing up?

Because -- I understand that you've been doing this for a long time, but the market is not giving you any credit for it. So what thoughts are you kind of giving on that? I understand you don't have a strategic review or anything like that going on. But whether it's in the boardroom or whatever it may be, there must be some type of conversation, especially after today and really, quite honestly, after the third quarter, where I think the last 2 quarters, the stock has been down 6% each -- after each print. And then any kind of color or thoughts, Dave, you'd like to kind of give on that? Because it's really got to be a concern if you were a shareholder of the stock.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes, Andy. Appreciate the question, and it's not a new question coming from you either as we've had kind of this ongoing commentary about our business mix. I would say, certainly, there's a day reaction of the market today, and we fully acknowledge that it was a miss from a Street perspective. And so the market reacted today as maybe not unanticipated on our part.

I would point you to the fact though that as we think about our essential nature and central services that our businesses provide, we still feel that they're the right mix of businesses today, granted we have had in the last 2 quarters, some surprises, if you will, around the earnings release date. I would also point out that we've had some surprises on the other side in certain other quarters, not so far preceding that. And there was a positive reaction in the marketplace in those times.

So I think your question is a point in time. I will say it's an ongoing review that we have of our businesses. It's not something that we just do every so often that we think about it, but it's an ongoing aspect. We've -- and back in time, and you would know this history as well as anybody, we exited oil and gas exploration, some refining, some gas processing and really centered on these 2 platforms of business. And so I think ultimately, yes, the market is important, their reaction to our central services. And it's important that we perform at the end of the day, too, and I think that will then be seen in the marketplace as well.

And so we like how we're shaping up 2022 with the guidance here as well. I think there's some very positives there, whether it be top line revenue growth in construction services, construction materials. We're coming off a record performance at utility group, along pipeline, fifth year of record transport volumes there, too. So your question, I think, is fair, but I would also say that we -- again, we like these businesses, but it's something that we need to just have an ongoing discussion from an internal perspective as -- if it's the right mix or not. And today, we feel it still is.

Andrew Levi - Hite Hedge Asset Management LLC - Portfolio Manager

Yes. But again, maybe it's better to debate that when we get to the BAML conference or something. But just like very simplistically, like -- so your stock closed at \$26.60 on July 6, 2018. I just picked a point in time. And now you start at \$27.18. So the stock is going up less than \$1 in that time frame. And so that's not really a good look, for no better way to put it.

And I'm being brutally honest because, obviously, I think very highly of you guys and I consider you guys friends and I mean all that. But at the same time, as a potential investor, it's an issue. And like I just think you guys got to look long and hard at kind of what's going on. Because, as you pointed out, you actually have 5 really good businesses, maybe 6 -- I don't know, but 5 really, really good businesses that are -- I can tell you are worth more than \$27 per share. But for whatever reason, no fault of yours, it's just kind of the way the market looks at things, unfortunately, the market is never wrong, it doesn't seem to want to do that.

And then if you add in the volatility and then look at actually who's covering you, which are, it seems to be, utility analysts for the most part, who dabble in other things, it just doesn't seem to be working. So I just kind of wanted to get that out there and hear what you guys have to say. You don't need to respond to that, but it's just something that as a friend and as a former shareholder would really want you to take a close look at.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Yes. No, thanks, Andy, for the commentary. I would probably just add on to that and then maybe your next question. But certainly, there's dividends returned to the shareholders pretty consistently and increasing over that same period of time. Not that that's the sole reason to be invested in us, but certainly not to be omitted from the discussion here.

So did you have a third question in there, Andy? I just want to make sure that we get to that.

Andrew Levi - Hite Hedge Asset Management LLC - Portfolio Manager

No, I'm done.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

All right. Well, thank you.

Operator

You do have an additional question in queue from Dariusz Lozny with Bank of America.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

I just wanted to follow up on -- I think it was a response to one of Ryan's questions earlier, commenting on a strong bid schedule that's allowing you to be somewhat picky as far as the specific jobs that you're selecting and the expectation that, that might pick up later on in the year. Can you just maybe elaborate on that a little bit? What are the specific drivers of that strength that you're seeing right now?

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Well, let's start with Dave Barney with our materials. And then after that, we'll flip it over to Jeff. So Dave, would you start?

David C. Barney - President & CEO of Knife River Corporation

Sure, Dariusz. Right now, we're -- in most of our markets, like I said, we're -- our bid schedule is strong. Last year, our North Central division, which is Minnesota, North Dakota, Iowa, South Dakota, it was a little weak in those -- in that region. And we're seeing a really good bid schedule there. And in most of our markets, we are, Idaho, Montana.

So we can be a little more picky and pick and choose what jobs or what margins we think we can wait and get better margins if we're patient. So that's what our plan is this year. And so I would expect -- we do have that carryover from last year that we weren't able to catch most of this inflation on, but I would expect, as we go forward, we'll see better margins.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

And then, Jeff, would you touch on the strong bid schedule that you're seeing relative to services?

Jeffrey S. Thiede - President & CEO of MDU Construction Services Group, Inc

Yes. We continue to see demand for our business in the T&D segment, which is -- covers the power, gas, communications, fiber optics. That is continuing to remain strong in the Midwest, the Rocky Mountain and the Western regions. We've also got high demand for our wire stringing equipment and our tools.

Our electrical and mechanical group bid opportunities are very strong in Mid-Atlantic. We're very close to securing a significant project there. Not reflected in the backlog yet, but we've been told we're going to get the project that will help us in that area of the country. Ohio, as I mentioned, particularly Columbus, continue to provide increased level of mission-critical institutional and manufacturing projects. And in the Midwest, Rocky Mountain, Southwest, Las Vegas regions and also the Western part of the country, commercial, institutional and renewables and service, we're seeing still good bid opportunities.

The challenge is labor, of course, and materials, as I've mentioned with the supply chain. But again, our teams are communicating like they never have before with our suppliers and our customers. We're all over that challenge, and we look forward to going into this year with record momentum in backlog.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Dariusz, was that helpful?

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

That was very helpful. I appreciate you letting me ask one more question here.

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

You bet. Thank you.

Operator

(Operator Instructions) This call will be available for replay beginning at 5:00 p.m. Eastern time today through 11:59 p.m. Eastern time on February 24. The conference ID number for the replay is 1077076.

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

David L. Goodin - MDU Resources Group, Inc. - President, CEO & Director

Thank you, operator, and thank you all for taking the time to join us here on our 2021 earnings and 2022 guidance call today. We are committed to Building a Strong America and are optimistic about our opportunities in front of us in 2022 and beyond. And as always, we appreciate your continued interest in MDU Resources, and thank you for your participation here today.

And with that, we'll turn this call back over to the operator.

Operator

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

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