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MDU - Q2 2022 MDU Resources Group Inc Earnings Call

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PRESENTATION

Operator

Hello. My name is Sarah, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group 2022 Second Quarter Conference Call. (Operator Instructions) This call will be available for replay beginning at 10:30 a.m. Eastern Time today through 10:30 a.m. Eastern Time on August 18. The conference pass code number for the replay is 3010359. Again, the conference pass code for the replay is 3010359. The number to dial for the replay is 1 (888) 203-1112 or (719) 457-0820.

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

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

Thank you, operator, and welcome, everyone, to our second quarter 2022 earnings conference call. You can find our earnings release and supplemental materials for this call on our website at www.mdu.com under the Investor Relations tab.

Leading today's discussion along with me will be Dave Goodin, President and CEO of MDU Resources. Also, with us today to answer questions following our prepared remarks are 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.

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 and beliefs are based on reasonable assumptions, actual results may differ materially. For information about risks and uncertainties that could cause our actual results to vary from 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.

Along with our earnings release earlier this morning in a separate news release, we announced that our Board of Directors has unanimously approved a plan to separate our wholly owned construction materials business, Knife River Corporation, from MDU Resources. The separation will result in 2 independent publicly traded companies that are each well positioned for growth and shareholder value creation. The separation is expected to be affected as a tax-free spin-off to MDU Resources shareholders and will be completed during 2023. You can also find this release on

our website at www.mdu.com.

Dave will provide additional information about this very important strategic announcement during his remarks later this morning. Prior to handing the call over to Dave for his comments and forward look, I will provide an overview of the consolidated financial results for the second quarter.

This morning, we announced second quarter earnings of \$70.7 million or \$0.35 per share compared to second quarter 2021 earnings of \$100.2 million or \$0.50 per share.

Our combined utility business reported a loss of \$2.9 million for the quarter compared to earnings of \$9.6 million in the second quarter of 2021.

The electric utilities segment reported second quarter earnings of \$4.6 million compared to \$10.3 million for the same period in 2021. Results were negatively impacted by lower investment returns on nonqualified benefit plans, higher operation and maintenance expenses due to a planned outage at the Coyote Station and lower electric retail sales volumes due to cooler weather causing less demand from commercial and residential customers.

Our natural gas utility segment reported a second quarter seasonal loss of \$7.5 million compared to a loss of \$700,000 in the second quarter of 2021. Results were impacted by increased operation and maintenance expense, primarily due to increased contract services and subcontractor costs, software expenses, vehicle fuel costs as well as higher depreciation expense. Also contributing to the higher loss was the lower investment returns related to our nonqualified benefit plans. This business benefited from approved rate recovery under pipeline replacement mechanisms in certain jurisdictions, and also higher natural gas retail sales volumes of 27.2% across all customer classes due to colder weather. The increased volumes were largely offset by weather normalization and decoupling mechanisms in various states.

The pipeline business earned \$7.1 million in the second quarter compared to \$9.2 million in the second quarter of 2021. Results were impacted by lower investment returns on nonqualified benefit plans, lower non-regulated project margins resulting from lower workloads and higher interest expense. These impacts were partially offset by higher transportation revenues due largely from the North Bakken Expansion project, partially offset by depreciation and lower allowance for funds used during construction. As we've noted previously, 2022 includes a delay in a portion of the North Bakken Expansion projects committed volumes, and we expect to see increased benefits from this project in 2023 on the fully contracted volume commitments.

Our construction services business reported all-time record quarterly revenue of \$685.4 million and record second quarter earnings of \$34.5 million compared to revenue of \$525.6 million and earnings of \$28.9 million for the same period in 2021. This business has experienced consistent second quarter revenue growth over the past 4 years, growing 20.6% compounded annually over that time. Electrical and mechanical services revenues increased 45% with commercial and renewable workloads largely driving the increase. The business saw slightly lower margins for the quarter attributed mostly to the timing and mix of projects as well as higher operating costs related to inflation, including fuel, material and labor costs.

Our construction materials business also reported record second quarter revenues of \$711.8 million and earnings of \$32.6 million compared to the prior year second quarter of \$633.8 million in revenue and earnings of \$51.4 million. Higher contracting workloads and pricing increases across all product lines drove the top-line revenue growth up 12% from the prior year, however; inflationary pressures, including higher fuel, materials, labor and production costs more than offset the increase. Also impacting the quarter were unfavorable weather conditions in certain regions that delayed the start of the construction season, including higher precipitation in the Pacific Northwest and late season blizzards in the northern plains, lower investment returns on nonqualified benefit plans and higher interest expense also had a negative impact on the quarter.

As I mentioned in each of our segment discussions, our companies were impacted by lower returns on nonqualified benefit plan investments. In total, the impact was \$12.1 million or \$0.06 per share for the quarter when compared to the same period in 2021. Year to date, the impact from these investments is approximately \$18.3 million or \$0.09 per share when compared to the same period one year ago.

Setting aside the inflationary headwinds, weather impacts and lower investment returns just mentioned, our businesses have continued to execute well on their business plans and navigate through the current environment.

Finally, the company continues to maintain a strong balance sheet and ample access to working capital to finance operations through our peak seasons.

That summarizes the financial highlights for the quarter. And now I'll turn the call over to Dave for his formal remarks.

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

Thank you, Jason, and thank you, everyone, for spending time with us this morning and for your continued interest in MDU Resources. Today is an exciting and important day for our company as we earlier announced our plan to separate our construction material business, Knife River, from MDU Resources. We're taking this important step to unlock value our team has created within our business and position our companies for future success. I'd like to start by discussing our second quarter results and outlook at each of our businesses before providing an overview of this separation announcement.

Our construction businesses both reported record second quarter revenues, and our construction services business also reported record earnings in the quarter. As expected, we experienced, and continue to experience inflationary pressures, and also had weather impacts in the quarter. However, we are very encouraged by our combined all-time record backlog now standing at \$3.1 billion, up 37% from the same time just a year ago and several growth opportunities at our regulated businesses. We are proud of the record level of over 16,500 skilled employees and their continued ability to safely execute on our businesses plans while navigating through inflationary and supply chain challenges.

To summarize activity by business segment, I'll start off with our regulated energy businesses.

The utility reported lower earnings on a combined basis for the quarter, largely driven by lower returns on nonqualified benefit plans. Late season blizzards and temperatures 48% cooler than the prior year impacted our electric business, resulting in 3.4% lower electric sales volumes. The cooler temperatures increased natural gas use for heating, with higher sales volumes, however; this was largely mitigated by weather normalization and decoupling that we have throughout our territories. Our customer base grew 1.6% on a year-over-year basis, and we expect this growth to continue at a pace of 1% to 2% compounded annually over the next five years. We also expect rate base to grow 5% compounded annually over these next five years, driven primarily by investments in system infrastructure, upgrades and replacements to safely meet customer demand.

This business continues to seek regulatory recovery for the investments associated with providing the safe and reliable electric and natural gas service to our growing customer base.

In May, our electric utility filed a request in North Dakota for a 12.3% electric rate increase and the Public Service Commission recently approved a 5.3% interim increase effective here in mid-July. The Public Service Commission has 7 months to render a final decision on the rate case. In Washington, the WTC is expected to make a decision by September 1 on our pending natural gas rate case that we have there.

I would also like to recognize our utility team for receiving a national award for its outstanding effort to restore power quickly and safely to our customers following a historic blizzard in late April, which significantly damaged portions of our system in Western North Dakota.

Turning to our pipeline business, here we reported earnings of \$7.1 million for the quarter. As Jason noted, this business recorded higher transportation revenues related to the North Bakken Expansion that was placed into service earlier this year. This project is well positioned in the Bakken and can be readily expanded in the future for forecasted natural gas production growth. In addition to that opportunity, we're excited about the multiple pipeline expansion projects on the horizon such as the Wahpeton Expansion Project in Eastern North Dakota, which is expected to be in service in 2024, pending regulatory approval. Here more in the near term, though, this business has entered into long-term customer agreements for four additional projects that will add an incremental 300 million cubic feet per day of natural gas transportation capacity to our system. The first of these projects, our Line Section 7 Expansion, was placed into service here just on August 1. The remaining projects are dependent on regulatory approvals and anticipated to be completed throughout the 2022 and 2024 time frame.

Now I'd like to move on to our construction businesses. Our Construction Services Group had all-time record revenues during the quarter with growth at nearly all its business lines, highlighting this business's capability to perform a wide range of projects. We experienced strong demand for electrical and mechanical related work with an overall increase in revenues of 45%, specifically for data center, hospitality and commercial facilities. We're also excited about the increasing demand for renewable projects as well as higher institutional demand in the education and government sectors continues to grow.

Construction Services ended the quarter with all-time record backlog now standing at \$1.92 billion, and that's up 46% from the prior year, and we have numerous projects underway across all of our markets, which are expected to contribute to our 2022 results. With our ability to successfully attract and retain a skilled workforce of over 8,600 employees at this business, we are well positioned to compete and complete these projects both safely and efficiently. And given the successful start to the year, we've also increased our 2022 revenue guidance by \$200 million, both the top and the low end to now a range of \$2.4 billion to \$2.6 billion, with margins slightly lower than 2021.

Turning to our Construction Materials business. Here, we also had a record second quarter so far as revenue is concerned, largely driven by the increased product pricing. However, as Jason mentioned earlier, this business continued to experience inflationary pressures, which outpaced the increased pricing. The company also experienced weather delays during the second quarter related to the late season blizzards in the Northern Plains and the increased precipitation in many of its regions. We expect to see the benefits from price increases as the construction season progresses throughout the year and sales volumes ramp up, particularly in our northern tier markets.

Through its successful second quarter bidding season, Knife River has increased backlog 24% from the prior year to now an all-time record of \$1.13 billion. Given the strong backlog and record second quarter revenues, we are affirming the revenue guidance range that we lifted last quarter to now at \$2.45 billion to \$2.65 billion, with margins slightly lower than 2021, reflecting the current inflationary environment.

Looking forward, both of our construction materials and construction service businesses, are well positioned to benefit from the Infrastructure Investment and Jobs Act, which we anticipate will begin to positively impact bidding margins here in late 2022 and opportunities going forward. Both of these businesses regularly evaluate acquisition opportunities that are complementary to our existing businesses and increase market presence and reach. Future acquisitions are not included in our stated guidance and would be incremental to our 2022 results.

This completes our individual business unit discussion. Looking ahead, due to a slower start of the year and ongoing inflationary and supply chain challenges, we are reducing our 2022 earnings guidance to a range of \$1.75 to \$1.90 per share with EBITDA guidance now in the range of \$875 million to \$925 million. We have a robust capital plan with nearly \$750 million planned here in 2022 and nearly \$3.1 billion over the next five years. These capital expenditures include line of site opportunities such as the completion of the Heskett Station Unit 4 and other infrastructure development at the utility, expansion projects at the pipeline and ongoing equipment replacements at our construction businesses. As mentioned previously, we are well positioned at our construction companies to benefit from the Infrastructure Investments and Jobs Act and also at our construction services and electric utility from the recently announced approval of MISO's \$10.3 billion of investments in the Midwest sub-region. Despite the headwinds this quarter, our businesses are executing well, and our long-term drivers remain well intact.

Now I'd like to turn to our other exciting announcement made earlier this morning, our plan to separate our wholly owned construction materials business, Knife River, from MDU Resources to form two independent publicly traded companies. Looking back at our nearly 100-year history as a company, MDU Resources has continually evaluated our business operations and made strategic decisions along the way to ensure that we are delivering superior value to our stakeholders. As part of that ongoing evaluation, our Board of Directors has determined that a separation of Knife River could unlock significant value for the company and its shareholders. We are proud of the strong businesses we have built and are confident that now is the right time to take this step.

This separation will allow each company to enhance strategic focus to pursue individualized, industry-specific opportunities and use equity tailored to each business to enhance acquisition programs and retention and hiring. Both companies will benefit from distinct capital structures and financial policies in line with their business profiles and needs. Each company will have enhanced flexibility to deploy capital towards their specific growth opportunities through tailored capital allocation strategies.

We believe this separation will provide investors with two compelling investment opportunities and the investment community will be able to better assess the value of each business based on their respective operational and financial characteristics.

MDU Resources is committed to establishing strong capital allocation strategies that align with each business's long-term goals. Post separation, MDU Resources intends to maintain a dividend policy consistent with its historic practice. Knife River's dividend policy will be determined in the future in a manner consistent with its capital allocation strategy as well.

Following the planned separation, MDU Resources will remain headquartered in Bismarck, North Dakota, and continue Building a Strong America as a regulated utility and infrastructure business. MDU Resources will continue as the parent for our existing regulated electric and gas

utilities, our natural gas pipeline business as well as our construction services company. We expect approximately 70% of the pro-forma EBITDA to be generated from our regulated businesses, providing low-risk and stable return to shareholders.

Knife River will also remain headquartered in Bismarck, since its first acquisition going back 30 years to 1992, Knife River has grown into a leading vertically integrated aggregates producer that will continue providing construction materials and contracting services throughout the western, central and southern United States.

As Jason mentioned in his opening statements, this separation is planned as a tax-free spinoff to shareholders. Upon completion, it is expected that MDU Resources shareholders will retain their current shares of MDU Resources stock and receive a pro-rata distribution of shares of Knife River stock. We expect the separation to be completed in 2023, subject to customary conditions of which more detail is provided in the news release. Further details on the transaction will be provided at a later date as we continue diligently working through the separation process.

And as always, MDU Resources is committed to operating with integrity and a focus on safety while creating superior shareholder value as we continue providing essential services to our customers and delivering on our mission of Building a Strong America, while being a great and safe place to work.

I appreciate your interest in and commitment to MDU Resources and ask that we now open the lines for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Hey, guys, it's Dariusz from Bank of America. Maybe just the first one is kind of high level. Can you discuss a little bit the thought process and your decision-making around the timing of this transaction, doing it now and also specifically doing a tax-free spin versus potentially other transaction types that you might have evaluated. And also, just in general, I mean in the past, you've discussed kind of the case for synergies and the MDU, the business kind of as a dual platform. Can you maybe just talk about how your thought process around that has evolved as we see it now with this spin?

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

Sure. There are kind of a number of questions there, Dariusz. Maybe I'll just kind of launch into it. I think, what I heard at the onset, how did this transaction come about? Just a little more background there and then maybe some other thoughts as to timing and synergies and things like that. So as no doubt, we visited in the past, whether it's one-on-ones or other presentations, noted that our Board really regularly reviews ways to unlock value for our shareholders. And I would say during the most recent assessment, our Board, along with management, really determined that a spin-off of Knife River is really what we feel is the best path forward to maximize value for all stakeholders.

We've been growing this business, as I noted in my script, really, for the last 30 years. We've built it into a leading aggregates and construction-based materials business. And we're certainly confident that Knife River is certainly of sufficient size and scale to be on its own and also be very focused in that line of business, and then we'll have two independent companies.

One being regulated energy that I noted earlier, that will be about 70% EBITDA between electric and gas utility, along with the pipeline but also we'll wrap around construction services as part of that. Construction Services was actually born and part of the utility business. Back in 1997, we started that incubated it at the utility, and it's very much attached to what we do, building pipelines, building power lines for others. So that's a little bit of the background there. We certainly believe there's going to be enhanced strategic focus as we have 2 independent companies.

And we'll also look to optimize capital structures here as well, each based in their respective industries, along with tailored capital allocation strategies. So I think it's a little background there. Anyway, hopefully, that helps a little bit. You asked about timing-wise, we think now is absolutely the right time I think with what we see for tailwinds with the IIJA Act on a future funding basis, particularly for the Knife River materials business, but also for construction services there.

And as we think about -- going beyond that, actually, our businesses are at all-time record backlogs right now. We acknowledge some of the near-term inflationary pressures that we've seen. But long term, these are great businesses. So I think the other part of your question were synergies or dis-synergies. And certainly, as we look to stand up a second public company over the coming -- by 2023, as we note, there will be some public company costs, no doubt with a second company, a separate Board of Directors and some costs associated with that. But we feel the value unlocking will well more than offset any sort of dissynergies that are there.

I'll just stop there because I know there are multiple parts Dariusz and I didn't want to miss one, but hopefully, I caught a number of them.

Dariusz Lozny - *BofA Securities, Research Division - Research Analyst*

You did. And it was a multi-part question, so I appreciate you hitting every part of those. If I can now just ask another one, just on the '22 guidance moving down on EPS and EBITDA. Can you unpack that a little bit? You mentioned a couple of pieces in your opening remarks, the nonqualified plan. Also, obviously, margin pressures at the materials business. Can you maybe just talk about specific drivers of the guidance reduction? And also, obviously, with this new announcement, perhaps, is this an opportunity to reset or potentially rebase your long-term 5% to 8% once the transaction is effective in '23?

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

Sure. So I think the first part of your question was look to unpack or kind of break apart just more detail the lowering of our guidance to the \$1.75 to \$1.90, which is a 25% guidance range decrease from what we've earlier stated. So you did hit on some of the items. Certainly, the nonqualified plan was a headwind for the year. We probably of all experienced in our various portfolios, decrease in the equity and the bond markets, and those both had a negative effect. We did quantify that and pulled that out, if you will, as a noted item there. And then really the other part we've touched on, but to make it more kind of real is the precipitation that we've experienced that would be a direct effect of our materials business, particularly in the Pacific Northwest.

We had record precipitation volumes in April and into May. And then combined with that, I would say a historic type blizzard 2 to 3 feet in 2 separate blizzards that occurred in late April in the Northern Plains. When you look at combining those, it just forced us into a late start and delayed work there. I mean we had load restrictions on here in the Dakotas until June 1. So lighter loads able there. And so we're kind of ramping into the construction season, albeit somewhat later there. And so those are kind of some of the major moving parts.

We talked about some inflationary headwinds, offsetting some of this was the fantastic quarter, we saw construction services group so far as from a record revenues, record earnings. But again, they had a little bit of a slower start to the year on a year-over-year, but they're creating momentum throughout the year. So those are some of those items. I'm turning to Jason here because he was listening to your question to see if there were some parts of it that I didn't hit on.

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

The only thing I would add, Dave, would be the nonqualified benefit plan impact. I mentioned in my comments that, that was \$0.09 per share year-to-date so far. So I mean that's a fairly sizable impact in that portion. And what we are looking for in that guidance range going forward is not to see that come back, right? We're just assuming that, that's kind of something that we probably won't recover yet this year. Obviously, as markets change throughout there's potential that could happen, but we're not banking on any of that within our forecast.

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

Did we catch your components, Dariusz, I just want to make sure we got those?

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

You certainly did. And again, I appreciate you hanging with the multiple part question there. If I can sneak one more in, just on the dividend. I know you touched on it in the opening remarks. Is it -- maybe if I can just kind of ask it a little more detailed. Is it the goal to keep the dividend at the same level, I guess, across the 2 entities? Or are you potentially thinking about that changing that up in any way?

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

Yes. Yes. We do touch on that in the release, maybe add a little bit more to that because I think certainly, dividend has been an important way in which we've returned value to shareholders over 80-plus years of uninterrupted dividends and increasing them for the last -- just short of 30 years actually. So -- and it's always a conversation with our Board of Directors, so I don't want to get ahead of them, but I would certainly expect that there will be likely no changes to our historic dividend practices throughout the completion of the spinoff.

And I would say post spin-off, I would think MDU Resources would intend to maintain a policy consistent with its historic practices. I don't foresee that changing. Again, ultimately, the Board makes that decision every quarter. And then certainly, as we're standing up a separate and distinct separate public company in Knife River, that dividend policy will be determined really in future manner that's consistent with his stated capital allocation strategy. So I don't feel I could speak for that Board at this point in time. It wouldn't be proper, but certainly we see that a dividend is an important way to return value to shareholders.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Great, thank you. And sorry, if I could just one quick clarification on the growth rate from earlier, the 5% to 8%. Is that something you see potentially rebasing off of '22? Or just curious how you're thinking about that over the long run.

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

Yes. The 5% to 8% is certainly a long-term EPS growth rate target for us. I think if you look over the long term, you would see that that's realistic rates, certainly, some years, we've exceeded that. We certainly acknowledge the current year. We're not doing that. In fact, we're going backwards yet. I also look at the continued CapEx we've made into our businesses last year, nearly over \$900 million. And this year, I'd say about \$750 million continued into that business. So I think it still would be our expectation that 5% to 8% would be the right long-term EPS growth rate.

Operator

And next, we'll move on to our next question.

Brent Edward Thielman - D.A. Davidson & Co., Research Division - MD & Senior Research Analyst

This is Brent Thielman with D.A. Davidson. Congrats on the announcement here this morning and working through a tough quarter, obviously as well. Dave, I guess, maybe just first question, the -- maybe you -- just your thought process of maintaining the Services Group within MDU versus a spend with Knife River. Is it simply that it's so intertwined and integrated with serving your utility and pipeline assets? Or is it kind of more to the thought process there than that?

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

Yes. No, fair question, Brent. I know you know our business well. You've attended many of our analyst days and have a pretty deep understanding of our lines of business. Certainly, we're -- today, we're focused on the transaction we've announced, which we believe will create significant value for our shareholders as well as our stakeholders. And certainly, we look forward to working through the process to complete the spinoff Knife River. With respect to Construction Services Group, as I touched on earlier noted, but maybe it's worth noting again is CSG was really started as part of our utility business. In fact, I was at the utility at that time or then President saw somewhat flat line earnings growth and thought, gosh, how do we apply our skills and talents and how can we do that for others? Hence, our first acquisition, actually, 25 years ago, international line builders in 1997.

So it's -- I would say our construction services certainly through multiple acquisitions over the last 25 years has certainly grown beyond doing work for solely other utilities. I mean we have this #4 electrical contractor across the U.S., our inside electrical work has gone quite pronounced, but it still has an attachment to our utility business. So far as -- there are some synergies, no doubt between the 2, whether it's cash flow, financing, the bonding requirements, the access to commercial paper, those all still make good sense. And some of the, I'll say, the regulated wherewithal to is how utilities make money looking at regulatory proceedings, how can we kind of lever those opportunities for our outside T&D group at construction services.

I think those all that's good business intelligence back and forth. And so certainly, I mean, I've always said our Board of Directors looks for ways to unlock value and continuously does that. Today, we're really focused on Knife River and believe strongly in these 2 public companies that were looking to stand up.

Brent Edward Thielman - D.A. Davidson & Co., Research Division - MD & Senior Research Analyst

Okay. No, that's great. I appreciate that. I guess next question just be any sort of early views of what you think sort of post-spend capital structure, kind of financial leverage look like for both separated businesses or where do you think the sort of optimal kind of long-term leverage targets for the separated businesses?

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

Yes. Certainly, today's first public announcement in what will be a months-long process, right? And so -- the short answer is more details we'll be following there, Brent, in that as we look to optimize each of these businesses kind of in their respective industries. Certainly, we want to launch each with a solid capital plan and look for a solid capital allocation at each of the businesses. We wouldn't be making that announcement today if we didn't feel that was going to be the case. And so I won't have a specific answer for you today, but I will, in the future, relay that to you as we get more detailed and as we get closer to the actual separation itself.

Brent Edward Thielman - D.A. Davidson & Co., Research Division - MD & Senior Research Analyst

Yes. Understood. Yes. Maybe just kind of coming back to the timing, Knife River has had really strong results for several years. We obviously have some different cross currents in the economy though with -- which likely impacts some of the private sector areas of exposure. Is it just simply the view that the infrastructure spending you see coming in these markets can more than balance that? Just curious kind of what you see over the next few years as you spin the business off and its ability to kind of counteract some of the things we're seeing in the economy today?

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

Yes. No, that's very fair. And now is absolutely the right time as we think about this. The opportunity set that we see long term in this business, Americas needs will remain unchanged, whether it's through a recessionary or inflationary periods of time. I mean, we've grown Knife River into #6 aggregates and sand and gravel producer in the U.S. We've got strong presence in those 14 states. We continue to acquire businesses. We've

acquired 3 businesses there just in the last year or so and a dozen or so in the last 4 years. And so absolutely. We think, yes, there's some near term. But as we think long term, I mean, these are very basic and essential service businesses for America.

Operator

And we move on to our next caller.

Ryan Michael Levine - Citigroup Inc., Research Division - VP

Yes, it is Ryan Levine with Citi. A couple of questions on the transaction structure. How did you conclude to do a complete spin as opposed to a sponsored spin? Did you engage any infrastructure funds or other capital providers to help provide clarity on the value of the spun entity?

And then in terms of the time line, you highlight just broader 2023 closing and mention of a potential private letter ruling. Do you anticipate needing a private letter ruling and given the time line to achieve that -- should we be looking more towards late '23 for any type of transaction would be concluded?

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

So I'll start with your first part of the question there. And we certainly -- we looked at kind of a comprehensive review of our portfolio. And what we're announcing today is what we firmly believe and are confident that will create long-term value there. As we looked at various combinations or options of things, we just feel that a tax-free spin to our shareholders, again, gives them kind of 2 compelling investment opportunities on a tax-free basis. And that, I think, is strong as well. And again, we firmly believe Knife River is ready to stand on its own as a public company.

Relative to 2023, yes, we were not specific on a date there. Certainly, there's a number of approvals that we will need and you mentioned IRS private letter ruling that's noted in our release that we would likely look to that. And so there's -- we're dependent on other agencies here, too, to give us steps along the way. And so the short answer there is 2023 is what we state there. Oftentimes, these take upwards of a year, plus/minus, right? And so that kind of gives us some latitude into next year. I think Jason might add to that.

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

Yes. Thanks, Ryan. Good questions. And specifically, when it relates to a private letter ruling, we haven't made a determination whether we're going to need one of those yet or not. That will be part of the process that we continue to work through here as we determine the right capital structure and the organization of how the spin would actually be affected. But as Dave mentioned, there's a few things to kind of get through. We'll certainly have some SEC filing items that we'll have to work with to get a Form 10 and all the approvals that go along with that. So there's a workflow here that goes along.

We're excited today to be able to announce that we are beginning this process here, but a lot of work to come yet to effectuate that. So that's part of the reason for being a little unclear on the timing. We just have a lot of things to work through, and we'll get a lot more specific with that as we continue to check some of these boxes off down the road.

Ryan Michael Levine - Citigroup Inc., Research Division - VP

Appreciate that. And just as a follow-up, as you're looking to clarify some of the deal structuring. Are you considering when to issue security in advance of the potential transaction or should we not expect that for this particular deal?

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

I think, Ryan, again, as I mentioned, kind of early in this process here, we've obviously cleared the enough of the red flags here to see that this is a process that we feel we've got the full ability to move forward with. That's why we've made the announcement here. But a lot of those specific items that would happen closer to the end of the transaction are yet to be determined. So again, we'll keep you informed as we go forward here, but that may be ways down the road.

Ryan Michael Levine - Citigroup Inc., Research Division - VP

Okay. And then in the prepared remarks, it was highlighted in a number of the potential dis-synergies in terms of additional Board oversight and public company costs. Is there a way to quantify what you're looking at for that dis-synergies? And then on the flip side in terms of potential benefits, any sense around financing that do you see that there could be financing benefits or strategic benefits of having a separate public currency as you're pursuing inorganic growth within the 2 respective businesses?

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

Yes. With respect to dis-synergies, Ryan, certainly, there will be some dis-synergies as I noted, as we look to establish a second public company, form of a completely separate Board of Directors, I mean, separate outside public auditing firm, things that are kind of just top of mind there. But certainly, it's our belief that they will be more than offset by the value creation with having these 2 compelling investments. And so I mean I know we noted more than once during the call myself and Jason and we're early in the process, but we're confident. No red flags have shown up at this point, hence, our Board's unanimous decision yesterday to move forward with this announcement and our intent to separate.

But as we go through this, no doubt, we'll be talking to the street and to the world as we hit key points along the way. And so just stay tuned along the way as we get more clarity.

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

And Ryan, I can just add in a little bit on the financing side of things. We do think that there will be some benefits here long term for these companies to finance really in line with what their industries look like. So kind of a tailored capital structure that's going to much more closely align, I think, to what an industry would look like for each one of these businesses. From an equity standpoint, you mentioned that as kind of an acquisition. We definitely think there is the ability to enhance some of our use of equity in an acquisition profile on a go-forward basis, I think. So there's a lot of benefits that we see coming out of this, and I think you hit on a couple of them right there.

Ryan Michael Levine - Citigroup Inc., Research Division - VP

Okay. And then last question. Just you have this broader EPS growth outlook in your guidance. As we're looking to separate the 2 businesses, how do you envision the two components of growth. Do you see more growth in 1 of the 2 separate public entities versus the other? Any way to frame the relative growth opportunities for the 2 future separate businesses?

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

Yes. I think a question earlier was about our 5% to 8% EPS growth and how do we see that going forward? And I mentioned that we continue to see that. Certainly, at the RemainCo business as we kind of have much more of a regulated business there. I think, again, the growth rate at the construction materials business will be determined as we get closer to launching that with its appropriate capital structure, it's appropriate balance sheet. You know how much kind of dry powder that we have with that business and its ability to grow both organically and inorganically.

So again, it's a round way of saying, yes, we expect 5% to 8% at a RemainCo at this point in time, but also that will be determined as we get closer to the separation so far as for the new business at Knife River.

Operator

(Operator Instructions) Next, we'll move on to Brian Russo with Sidoti.

Brian J. Russo - Sidoti & Company, LLC - Research Analyst

Just to follow up on a few of the questions. Just to clarify the strategic review by the Board concluded that Construction Services was better off retained under the MDU Resources rather than an outright sale or maybe a similar spin-off like Knife River. I ask because we've seen a lot of consolidation on the construction services side at fairly attractive multiples relative to what's kind of embedded in the MDU stock -- parent stock price right now. So just curious any more specifics you can give there?

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

Yes. I think your statement there is certainly correct. I mean, part of the review was all of the above. And again, we believe remaining with the electric gas utility and the pipeline business is really in the best long-term interest of MDU Resources. And so that's where we're at. Again, we will continue to look to grow that business. Again, today's transaction is really centered in talking about the Knife River launch, if you will, as to the process ahead of us to create a new separate public company there as well. So we're quite excited about that, and we're also quite excited about at the remaining company and its investment opportunities.

Brian J. Russo - Sidoti & Company, LLC - Research Analyst

Okay. Got it. And then the 5% to 8% CAGR of the remaining MDU Resources, how can we kind of think about that? You've got a utility rate base CAGR of 5% I suppose that services maybe can grow at that level, maybe at a higher rate, just given market growth. But just wondering, do you sense equity needs will still be fairly limited given the Construction Services cash flow to pay -- to help finance the utility CapEx? Trying to just get a feel for that EPS CAGR you're referencing?

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

Yes. Again, we've talked about the 5% to 8% and believe that's still true as we think long term on the RemainCo business as of today. Certainly, that's one of the financial flexibilities that we'll also have there is the ability to offset equity issuance with strong cash flows within the various lines of business there. And then conversely, that actually allows our construction services to have access to strong bonding, good rates there, good insurance, also strong and low rate commercial paper from a working capital perspective. So there are some benefits that go actually both ways. And again, we view really services as kind of closely attached to the electrification of the economy and kind of the utility, electric and gas business.

Brian J. Russo - Sidoti & Company, LLC - Research Analyst

Okay. Great. And then just on the guidance revision. It looks like \$0.25 EPS reduction at the midpoint outside of the nonqualified benefit plans, could you quantify what the weather impact was to the construction businesses year-to-date or what's embedded in that full year guidance reduction?

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

I'll start here. And then if Dave Barney wants to add a little more color. But we'll probably give you a full reconciliation here as you think about it that way. I mean Jason gave you the \$0.09, right, on a year-over-year basis for the first 6 months, and we don't look for a recovery of that. So that's a pretty good chunk right there. And then really, if you just kind of look on a year-over-year basis, specifically within materials, we're at record revenues, yet you look at the net income difference on a year-over-year basis that also would be I think, a good proxy, if you will, for the late start to the year. Again, we're at a record backlog at both materials at \$1.13 billion and at services.

Now services grew some 46% year-over-year, materials is up. And we see the back half of the year as we've got I'll say, more work than time available, so to speak. We need a late good fall here, and we're expecting normal weather. But I think just directionally, you can kind of see how the work is also built up just by lack of getting to it. Now probably took every talking point you've got, Dave, but maybe we got a follow-up, Brian, on any more specifics?

Brian J. Russo - Sidoti & Company, LLC - Research Analyst

No, that's fine. But just real quickly on the backlog, I mean, how much of that increase is just from inflation and higher raw material prices, et cetera. And just curious what that incremental backlog margin profile looks like? Because if I recall, the materials has a fairly quick burn relative to services. Just want to see how quickly you can stabilize and grow the margins in both those businesses back to historical levels?

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

Yes. Brian, I'm going to actually ask Dave Barney to weigh in on that one. And I think also maybe Dave can touch on what we're doing so far is working to get ahead of inflation through our multiple price increases that we've been putting in place here. So Dave?

David C. Barney - MDU Resources Group, Inc. - President & CEO of Knife River Corporation

Thanks, Dave. Brian, I really couldn't tell you exactly the backlog number exactly what it's up because of inflation it's definitely up because of inflation. We've raised our prices on all our product lines to ourselves and to outside customers. We continue to do that. We have pressure, we continue to have that chain line -- supply chain lining issues, and we continue to see increases, and we're reacting to raise prices as we see these. We've got price increases coming out this month or in July and on ready-mix and aggregates. So we continue to follow, but I really can't tell you the exact number on what that increase is in our backlog. We do have some delays from that in our backlog that we'll have to catch up on later in the year as long as weather cooperates.

Operator

(Operator Instructions) This call will be available for replay beginning at 10:30 a.m. Eastern Time today, through 10:30 a.m. Eastern Time on August 18. The conference pass code number for the replay is 3010359. Again, the conference pass code number for the replay is 3010359. (Operator Instructions) We will pause for just a moment to ensure there is no further questions at this time. I would like to turn the conference back over to management for closing remarks.

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

Well, thank you, operator, and thank you, everyone, for taking the time to join us here on our second quarter earnings call. As you've no doubt noted earlier, we are very excited about today's announcement and optimistic about our growth opportunities, our record combined construction backlog and our ongoing and future regulated energy delivery projects. And we're certainly look forward to connecting with you again as we progress through 2022 with our planned separation process that we announced today about creating 2 public companies out of what is one today with the Knife River being one and MDU Resources being the other.

Certainly, thank you, and thank you again. We appreciate your continued interest in and support of MDU Resources. And with that, we'll turn it over to the operator. 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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