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

Earnings Call

Thursday, February 6, 2025 7:00 PM GMT

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Call Participants

EXECUTIVES

Jason L. Vollmer
Chief Financial Officer

Nicole A. Kivisto
President, CEO & Director

Rob L. Johnson
President of WBI Energy, Inc.

ANALYSTS

Brian J. Russo
Jefferies

Ryan Michael Levine *Citigroup*
Inc. Exchange Research

Presentation

Operator

Hello. My name is Constantine and I will be your conference facilitator.

At this time, I would like to welcome everyone to the MDU Resources Group Year-End 2024 Earnings Conference Call. [Operator Instructions]. The webcast can be accessed at www.mdu.com under the "Investors" heading, select "Events & Presentations," and click "Year-End 2024 Earnings Conference Call." After the conclusion of the webcast, a replay will be available at the same location.

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

Jason L. Vollmer

Chief Financial Officer

Thank you, operator, and welcome, everyone, to our year-end 2024 earnings conference call. You can find our earnings release and supplemental materials for this call on our website at www.mdu.com under the Investors tab. Leading the discussion today with me is Nicole Kivisto, President and CEO of MDU Resources. Also with us today to answer questions following our prepared remarks are Rob Johnson, President of WBI Energy; and Garret Senger, our Chief Utilities Officer.

During the call, we will make certain forward-looking statements within the meaning of the Federal securities laws. For more information about the risks and uncertainties that could cause our actual results to vary from any forward-looking statements. Please refer to our most recent SEC filings. We may also refer to certain non-GAAP information. For the definition and a reconciliation of any non-GAAP information to the appropriate GAAP metric, please reference our earnings release.

With the completion of the Everus Construction Group spin-off occurring October 31, we reported results of Everus' discontinued operations and our prior period results have been restated to reflect the completion of both the Everus and Knife River spin-offs. I will provide consolidated financial results later during the call, which will reflect this change.

But first, I want to turn the call over to Nicole for her remarks. Nicole?

Nicole A. Kivisto

President, CEO & Director

Thank you, Jason, and thank you, everyone, for spending time with us today and for your continued interest in MDU Resources. 2024 was truly a transformational year for our company, during which we celebrated our 100th anniversary, completed the spin-off of Everus Construction Group and also provided tremendous value to our stockholders.

I am extremely proud of our team. We have reached our stated goal of becoming a pure-play regulated energy delivery business and believe we have positioned MDU Resources for continued growth and future success. Underpinning all of this is the continued strong performance of our business. Our adjusted earnings per share from continuing operations increased 22% year-over-year to \$0.90 per share.

Our pipeline segment again achieved record earnings in 2024, a 45% increase year-over-year, driven by record transportation volumes and increased storage revenue. Our Electric segment also experienced earnings growth in 2024, driven largely by rate relief. These achievements underscore our unwavering commitment to delivering safe and reliable service and sustainable growth with our dedicated employees playing a pivotal role in our continued success.

We believe our business remains poised for compelling long-term growth prospects. At our Utility, our combined retail customer base grew by 1.4%, which reinforces our company's need to proactively manage our Utility infrastructure to meet the demands of our growing customer base. We also saw 6.8% rate base

growth in 2024. We continue to see data center opportunities, including the 580 megawatts of data center load we have under signed electric service agreements.

Of that total, 180 megawatts is currently online with the balance starting to come online in 2025 and expected to continue through the next few years. Our current approach is to serve these large customer opportunities with a capital-light business model, which not only benefits our earnings and returns but also provides cost savings to our retail customers. On the regulatory front, we remain very active with several ongoing actions, including a natural gas rate case filed in Wyoming on October 31, where we are requesting an annual increase of \$2.6 million or 14%.

On November 7, the North Dakota Public Service Commission approved our natural gas rate case settlement with final rates effective December 1. On December 11, a multi-party settlement agreement was filed in our Washington multi-year natural gas case with rates proposed to be effective March 1, 2025 and March 1, 2026. On January 14, the Montana Public Service Commission approved our interim rate increase request after reconsideration with interim rates effective February 1, and subject to refund as we finalize the general rate case outcome.

Our focus remains on delivering safe and reliable electric and natural gas services to our expanding customer base, with active efforts to seek regulatory recovery for our investments. As mentioned at our pipeline segment, we achieved record earnings and record transportation volumes for the third consecutive year. This segment is executing well on our core strategy and delivering solid results driven by strategic expansion, increased demand for transportation and storage services and continued benefit from new transportation and storage services rates that were effective August 1, 2023.

We remain committed to investing in future expansion projects to meet increasing customer demand for services, including strong interest from industrial customers and power generation projects like the recently signed agreement to serve a new electric generation facility being developed in Northwest North Dakota. We are targeting an in-service date of late 2028 to begin serving gas to that facility.

On November 1, we closed on the purchase of a 28-mile natural gas pipeline lateral in Northwestern North Dakota. The lateral extends our pipeline system to a natural gas processing plant in the Bakken. Our Wahpeton expansion project in Eastern North Dakota, which provides approximately 20 million cubic feet of natural gas transportation capacity per day was placed in service on December 1.

We also held a non-binding open season for a potential Bakken East Pipeline project, which could consist of 375 miles of pipeline construction from Western North Dakota to Eastern North Dakota. This open season concluded on January 31, and we are currently evaluating those results. We are initiating 2025 earnings per share guidance in the range of \$0.88 to \$0.98 per share. This range reflects continued strong performance across our segments coming off a very strong performance in 2024, as previously stated. While also accounting for the absence of nonrecurring items we experienced in 2024 in dis-synergies from the Everus spin-off, which together total approximately \$0.04 per share of impact when comparing 2024 to 2025 guidance.

As we look ahead, we are focused on our strategy with a commitment to customers and communities, operational excellence, returns-focused initiatives in an employee-driven culture. We believe we are also well positioned for growth into the future with an anticipated capital investment of \$3.1 billion over the next 5 years. 7-8% utility rate base growth and customer growth in the 1-2% annually. We also anticipate long-term EPS growth of 6% to 8%, rebasing that number off of 2025 to reflect our new pure-play regulated structure, while targeting a 60% to 70% annual dividend payout ratio.

We are looking forward with great optimism. The prospects for continued customer and system growth in our electric and natural gas utilities and the strong performance of our pipeline with consistent demand for pipeline services are all promising as we move into 2025. As always, MDU Resources is committed to operating with integrity and with a focus on safety. We remain dedicated to creating superior shareholder value as we continue providing essential products and services to our customers while being a great and safe place to work.

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

Jason L. Vollmer
Chief Financial Officer

Thank you, Nicole. I'm excited to share our results for 2024. This morning, we announced full year earnings of \$281.1 million or \$1.37 per share on a GAAP basis compared to 2023 GAAP earnings of \$414.7 million or \$2.03 per share.

It's important to note that certain costs associated with the spin-offs of both Knife River in May of 2023 and Everus in October of 2024, are reported as discontinued operations in our GAAP-based results. 2024 income from continuing operations was \$181.1 million or \$0.88 per share compared to \$330.1 million or \$1.62 per share in 2023. As a reminder, we experienced a gain on the retained shares of Knife River in 2023 of \$186.6 million net of tax, which was reported in continuing operations in 2023.

To provide financial results that more closely correlate with and better outline the strength of our ongoing business operations, we're also reporting adjusted income from continuing operations. For more information on the adjustments, please see the first table in our earnings release. Adjusted income from continuing operations for 2024 was \$184.4 million or \$0.90 per share, a 22% increase when compared to the 2023 adjusted income from continuing operations of \$150.8 million or \$0.74 per share.

As we turn to our individual segments, our electric utility reported earnings of \$74.8 million compared to \$71.6 million in 2023. The increase was largely the result of higher retail sales revenue from rate relief in North Dakota, South Dakota and Montana. Lower volumes from the majority of customers, largely due to cooler weather in the second quarter of 2024 and higher operation and maintenance expense partially offset the increase. Total earnings impact from data center loads in 2024 was approximately \$3 million. Our natural gas business reported earnings of \$46.9 million compared to \$48.5 million in 2023.

The decrease was largely due to higher operation and maintenance expense and higher depreciation and amortization expense, primarily due to increased asset additions. These decreases were partially offset by higher retail sales revenue due to rate relief in North Dakota and South Dakota. The pipeline segment posted a third consecutive year of record earnings, totaling \$68 million in 2024, which compares to \$46.9 million last year. The earnings increase was driven by record transportation volumes, primarily from growth projects placed in service in November of 2023 and throughout 2024.

Higher storage-related revenue and a full year of new transportation and storage rates, which were effective in August of 2023, further drove that increase. The business also benefited from proceeds received in a customer settlement that was recorded in other income as well as a decrease in the company's effective state income tax rate. The increase was offset in part by higher operation and maintenance expense and higher depreciation and amortization expense due to growth projects placed in service, as I previously mentioned.

And finally, MDU Resources continues to maintain a strong balance sheet and ample access to working capital to finance our operations throughout our peak seasons. Business momentum is strong as we start 2025, and we will continue to provide updates regarding our 2025 guidance and outlook as we progress throughout the year. That summarizes the financial highlights for 2024. We appreciate your interest in and commitment to MDU Resources and ask that we now open the line for questions. Operator?

Question and Answer

Operator

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

Ryan Michael Levine

Citigroup Inc. Exchange Research

Going to start off, how should we interpret the change in guidance around equity issuance from no planned equity until 2027 to the current language of no near-term equity issuance? Is there a change there?

Jason L. Vollmer

Chief Financial Officer

Yes, Ryan, this is Jason. I'll take that one. No real change from what we talked about in November. So we had originally talked about 2027 at our Investor Day last spring. And then when we updated our capital forecast in November, an increase that amount of capital, especially when you see some additional capital in 2026, we did change that target there to say now. We don't expect any equity issuance in 2025 in our current forecast, but we would look to see some to facilitate the growth projects we're looking to put in place in 2026.

Ryan Michael Levine

Citigroup Inc. Exchange Research

Okay. And then in terms of the Northwest, North Dakota gas potential or pipeline expansion, can you provide a little more color around what the customer is there, the capital, volumes, any earnings contribution in 2028 or any way to frame that opportunity?

Nicole A. Kivisto

President, CEO & Director

Yes. I can start with that and then turn it over to Rob to add a little bit of color as well. But I think you're asking about the Bakken East open season that was recently completed or which project are you talking about?

Jason L. Vollmer

Chief Financial Officer

Project in 2028, the new customer...

Nicole A. Kivisto

President, CEO & Director

The new customer that we signed on. Yes. Yes. So that project is to serve an electric natural gas-fired electric generating station in Northwest North Dakota. And you will see the capital increase in 2028 at our pipeline segment. So the punchline there is it is baked into our overall 5-year capital budget, and would be anticipated in our overall guidance on an EPS basis of 6% to 8%.

Ryan Michael Levine

Citigroup Inc. Exchange Research

Is there any color around the amount of capital for that expansion or opportunity?

Nicole A. Kivisto

President, CEO & Director

Yes, we haven't quantified that specifically. But as you will note, there is a step change as you look at the outer years of the capital. And so you can kind of get your arms around a range if you look at the step change on the capital.

Ryan Michael Levine

Citigroup Inc. Exchange Research

Okay. And then in terms of the current guidance for '25, you mentioned the \$0.04 of impact from dis-synergies. Any other numbers you could speak to, to quantify the step change in year-over-year earnings outlook?

Jason L. Vollmer

Chief Financial Officer

Yes. I can step in there on the \$0.04 that Nicole mentioned in her remarks. That's actually a combination of not just dissynergies, but also what we saw is some onetime impacts. You may have noted in my comments I talked about a customers settlement that we had in 2024, which is a nonrecurring type of item. We had some changes to what we see as a tax rate on a state basis that resulted in some repricing of deferred just kind of based on where we've invested capital last several years.

So part of that relates to 2024 as far as an impact to nonrecurring items that we saw during the year. And then part of that would be related to as we look forward into some dis-synergies in that. Again, neither one, these are very significant. In total, we're talking about a \$0.04 kind of change. You can kind of break that out saying a couple of cents in 2024 related to the impact from the nonrecurring items and probably a couple of cents in 2025 as we look at that related to the dis-synergy items.

Ryan Michael Levine

Citigroup Inc. Exchange Research

Are there any other drivers that you wanted to highlight in terms of the year-over-year comparison?

Jason L. Vollmer

Chief Financial Officer

Yes, overall, I think where we started is we -- we're coming off of a 22% increase on a year-over-year basis. So we feel like that's a -- certainly setting the bar pretty high from a growth perspective. So we did see some tremendous results. The pipeline that we've mentioned here a little bit already, the growth that we saw there. Storage was a huge impact in that business.

The utility continued to perform very, very well as well within that, but certainly some out-sized growth, I think, in 2024, given the 22% increase on a compared adjusted numbers. So as we look forward, we still see -- if you look at the probably towards the midpoint of our range, some growth on a year-over-year basis, we do think our long-term 6-8% growth rate is the right for us as we look over the long term. But we just had a tremendous amount of success for the last couple of years and excited about where we're headed into the next few years.

Nicole A. Kivisto

President, CEO & Director

Yes. And the only thing I would add to that, Ryan, would be as we look at our historic ability to execute on what we've told investors, I think we've got a good track record there. And then when we look at these businesses in total, we have delivered about an 8% compound annual growth rate over the last 5 years. So again, Jason alluded to our 1-year year-over-year increase of 22%.

If you look at that over the long term, though that we've delivered about 8% in these businesses over the last 5 years. So that also gives us some confidence as we look ahead on that 6-8% EPS growth.

Operator

[Operator Instructions] Your next question comes from the line of Julien Dumoulin-Smith from Jefferies.

Brian J. Russo*Jefferies*

It's Brian Russo on for Julien. Could you maybe -- if we could break down the 2025 guidance, maybe more detailed in the \$0.10 range. Directionally, what could get you to high end versus the low end. I assume you get a full year of the ESAs for the data centers in North Dakota. I would think that the [MYRP] on the Cascade side would help the gas but maybe there's other rate relief timing there. And then could you quantify what normal storage margins are or what like the year-over-year step-down versus the solid 2024 at the pipeline segment?

Nicole A. Kivisto*President, CEO & Director*

Yes. So maybe I'll start and then Jason can weigh in with some commentary as well. But as we look at that guidance range, what I'm hearing you ask is how do we range bound this? So how could we maybe get to the higher end of that range? And what would be some of the key drivers. As we think about this, you heard me talk in the presentation about storage, and we did have a very strong storage year here in 2024. Now could that continue and provide some upside or give us some benefit to be in the higher end of that range next year.

Certainly, if we continue to see a strong storage year, that could provide opportunity there. As we noted in our news release, we do plan for normal weather. So certainly, outside of normal weather, provides some volume opportunity within our utility business. You mentioned the rate case activity, and we have a settlement that is on file. We expect to hear from the Washington Commission this month on that. We do have that factored in already into the range that we have provided. But certainly there are some gives and takes. O&M would be another thing that I point to. We'll continue to try to move forward and contain O&M where we can. And that also provides some room within that overall range. Jason, anything else that you would point to?

Jason L. Vollmer*Chief Financial Officer*

Yes. I think those are all good points. I mean, you mentioned, again, on the rate filing just one thing to note there, too, we expect rates on the Washington case to take effect in March based on current assumption. We're are still working with the commission on the right timing within that.

So again, not a full year of benefit for that in 2024 here, but -- 2025, but a partial year on that. But again, excited about getting that case behind us here. You also mentioned, I think, the ESAs, Brian, and what we see on that front from serving electric load on the data center side. We are serving 180-megawatts currently. We do expect to see more of that begin to ramp in during the year. So I guess, changes in timing of when some of that ramps in could move that around a little bit. But again, the 580 we have under contract to serve now, I just want to make clear that's going to take a couple of years to ramp all of that into our business here. So some of that begin in 2025. So timing on that would have some impact on that range as well.

Brian J. Russo*Jefferies*

Okay. Great. And any insight into the Bakken East non-binding MOU, I know you said you're evaluating the results. But what would be the next steps? And are there any preliminary investment dollar amounts that you'd like to convey. I mean we've heard some very large industry-wide projections of nearly \$1 billion for the project. Just curious. And then is what you're seeing in the pipeline last year and your outlook. Is it just increasing the dynamics, is it just increasing the chance of the Bakken East to move forward?

Nicole A. Kivisto*President, CEO & Director*

Yes. I will start here and ask Rob to provide some commentary as well. But I'll start by saying one of the things that we talk about with investors is we really like the strategic position of our assets within the Bakken. And not only our ability to connect to other pipe, but our access to storage. And so this is our bread and butter in terms of the location here.

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We did, as we've mentioned, complete the nonbinding open season and are very pleased with results and overall level of interest that we received on the project to date. You're asking about next steps. Next steps would be to evaluate these results and move forward and work with those that have submitted to get those indications to more of a binding. So we would move to a binding level of commitment and seek that from the customers before making a decision on the overall project. I think it goes without saying this project would be incremental to the 5-year forecast that we have in front of investors today. And you're asking about the sizing, really, this is going to depend on the length of the pipe, how much customer interest we have. And so at this point, we have not come out with any borders around the overall level of investment, and some of that will be predicated on level of bind interest. So with that being said, I'm looking to Rob and Jason to see if they would have anything they would want to add to that.

Rob L. Johnson

President of WBI Energy, Inc.

No, Nicole, I think you summarized it well, like I said, very pleased with the results of the open season. And now it will be just to finalize the details around the project itself and determine overall size and length, like you mentioned.

Operator

This marks the last call for questions. [Operator Instructions]. The webcast can be accessed at www.mdu.com under the "Investors" heading, select "Events & Presentations" and click "Year-End 2024 Earnings Conference Call." After the conclusion of the webcast, a replay will be available at the same location. At this time, there are no further questions. I would like to turn the conference back over to management for closing remarks.

Nicole A. Kivisto

President, CEO & Director

All right. Thank you, everyone, for your interest in MDU Resources. We are looking forward to 2025 and beyond. We appreciate your continued interest in our company, and we'll keep you posted as we move forward. Thank you for joining the call today. Operator, back to you.

Operator

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

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