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MDU - Q12020 MDU Resources Group, Inc. Earnings Call

EVENT DATE/TIME: MAY 08, 2020 / 3:00PM GMT



CORPORATE PARTICIPANTS

David C. Barney President & CEO of Knife River Corporation

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

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

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

Nicole A. Kivisto CEO & President of Cascade Natural Gas Corp, Intermountain Gas Co & Montana-Dakota Utilities Co.

Trevor J. Hastings President & CEO of WBI Holdings, Inc.

CONFERENCE CALL PARTICIPANTS

Carl Seligson Utility Financial Experts

Christopher Ellinghaus Seibert Williams Shank & Co., LLC.

Ryan Levine Citigroup Inc, Research Division - VP

William Appicelli ExodusPoint Capital Management, LP

PRESENTATION

Operator

Hello. My name is Mike, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group 2020 First Quarter Conference Call. (Operator Instructions) This call will be available for replay beginning at 2:00 p.m. Eastern Time today through 11:59 p.m. Eastern on May 22. The conference ID number for the replay is 4981249. Again, the conference ID number for the replay is 4981249. 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, Chief Financial Officer and Treasurer of MDU Resources Group. Thank you. Mr. Vollmer, you may begin your conference.

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

Thank you, Mike. Good morning, everyone, and welcome to our first quarter 2020 earnings conference call. I hope you and your families are safe, and I thank you for joining us this morning.

This conference call is being broadcast live to the public over the Internet, and slides will accompany our remarks. If you would like to view the slides, you can find them on the Events and Presentations page under the Investors tab of our website at www.mdu.com. Our earnings release is also available on our website.

During the course of this presentation, we will make certain forward-looking statements within the meaning of Section 21E of the Securities and Exchange Act of 1934. Although the company believes that its expectations and beliefs are based on reasonable assumptions, actual results may differ materially. For a discussion of factors that may cause actual results to differ, refer to Item 1A risk factors in our most recent Form 10-K and our Form 10-Q, which was filed this morning.

Given the current economic environment, our call this quarter will be slightly different from our previous discussions. In addition to covering our quarterly results, we will also plan to address our response to the COVID-19 global pandemic, how our businesses are performing in the current environment, and potential impacts that we are monitoring at each of our business lines.



I will start by briefly covering this quarter's earnings results and then turn the presentation over to Dave Goodin, President and CEO of MDU Resources, for an update on our revised guidance and future outlook. After Dave's remarks, we will open the line for questions. In addition to Dave and myself, members of our management team, who will be available to answer questions today and dialing in from multiple locations 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.

Yesterday, we announced first quarter earnings of \$25.1 million or \$0.13 per share compared to first quarter 2019 earnings of \$40.9 million or \$0.21 per share. Our combined utility business reported earnings of \$43.7 million, down from \$52 million in the first quarter of 2019. The electric utility segment reported earnings of \$11.4 million for the quarter compared to \$15.5 million in 2019. This decrease in earnings was largely the result of a \$2.2 million negative impact from lower investment returns on certain benefit plans and a 7.1% decrease in electric sales volumes, driven largely by warmer winter weather. Higher depreciation, depletion and amortization expense also contributed to the decrease. Partially offsetting the decrease was rate recovery in Montana.

Our natural gas utility segment reported net income of \$32.3 million for the quarter compared to \$36.5 million in the prior year. Net income was negatively impacted by lower investment returns of \$3 million on certain benefit plans compared to the prior year and a 10.9% decrease in retail sales volumes, which impacted jurisdictions without weather normalization mechanisms in place. Higher depreciation, depletion and amortization expense from increased property, plant and equipment balances also contributed to the decrease. Approved rate recovery in certain jurisdictions partially offset the decrease.

The pipeline business had earnings of \$7.4 million in the first quarter compared to \$6.8 million in 2019. This business saw increased transportation volumes and revenues in the quarter, primarily related to organic growth projects previously placed into service and higher transportation rates associated with a FERC rate case that was settled in 2019. Partially offsetting the increase were higher depreciation, depletion and amortization expense from higher depreciation rates in the FERC rate case and higher property, plant and equipment balances. Lower investment returns on certain benefit plans were an offset in the quarter.

Our construction services business reported first quarter net income of \$16.8 million compared to \$20 million in 2019 and record quarterly revenues of \$514.7 million, up 22% from first quarter 2019 revenues of \$420.9 million. First quarter net income was negatively impacted by a \$6.7 million out-of-period adjustment. This adjustment was to correct revenue recognition on a construction contract.

Higher selling, general and administrative expenses, primarily office and payroll costs, also had a negative impact in the quarter. This business continued to see increased workloads at both inside and outside specialty contracting lines. Inside specialty contracting remains very busy with hospitality and high-tech work, and outside contracting workloads increased from high demand in the utility industry. Increased outside workloads were partially offset by a decrease in equipment sales and rentals in the quarter.

Our construction materials business reported a seasonal loss of \$38.2 million in the first quarter compared to a loss of \$34.4 million in the same period of 2019, and also reported record first quarter revenues of \$262.2 million, up from first quarter 2019 revenues of \$227.2 million. The increased loss was driven by a \$2.4 million negative impact from lower investment returns on certain benefit plans and higher selling, general and administrative expense, largely the result of increased payroll-related costs. Partially offsetting these impacts were higher construction and materials revenues as well as gross margins due to an earlier start to the construction season in some of our regions.

Now I'd like to switch gears and discuss our corporate liquidity status. Given the uncertainty surrounding COVID-19 and any potential financial impacts, we have made liquidity management a priority for the company. As of March 31, the company had \$116.5 million cash on the balance sheet and \$431.8 million of credit facility capacity available to continue to provide essential services to our customers and fund our 2020 capital program. As noted in the news release shared yesterday, we do not have any revolving credit facilities maturing until 2024 and have no significant long-term debt maturities until 2022.

In addition, one of our utility subsidiaries, Montana-Dakota Utilities, entered into a \$75 million term loan agreement in early April that was used to repay outstanding borrowings and free up additional credit capacity. Although there have been disruptions in the commercial paper markets, our backstop credit facilities have performed exactly as expected.

From an equity perspective, we mentioned in the release, we have no current plans to issue equity under our ATM program in 2020 given our liquidity position and operating cash flow forecasts. We pride ourselves in being dedicated to a strong balance sheet, and we'll remain disciplined in that approach as we navigate through this current pandemic.

That summarizes the financial highlights for the quarter, 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

And thank you, Jason. Good morning, everyone.

Let me start by expressing my sincere hope that everyone, who joined us on this call, is safe and healthy, and I want to thank you for your interest in MDU Resources. I would also like to acknowledge the unprecedented time that we are in and say that we have great respect and appreciation for those on the front lines fighting this pandemic and providing care for those who are sick. I would also recognize those in the workforce, like our own employees, who are providing essential services each and every day, such as keeping the lights on, the gas flowing and helping to construct America's infrastructure. I am honored to be part of an organization that has shown incredible spirit and strength in the face of this adversity. I cannot be more proud of our employees and how well our team members have stepped up to help provide essential services to the nation in these challenging circumstances.

COVID-19 is impacting all of us, both professionally and personally. For those MDU Resources employees personally affected by the virus, we've implemented supportive policies to protect their pay and benefits and allow them to take care of themselves along with their families. To date, we have 9 known cases of COVID-19 affecting our workforce, and our thoughts are with these employees and their families as they work to recover. We continue to assess the safety of our employees and facilities to ensure their well-being.

We are very fortunate that our products and services are considered essential to this country and our communities, so operations generally have been permitted to proceed, albeit with increased social distancing measures and recognition of other guidelines from the CDC and state and local governments for our various workplace settings.

As of March 31, our employee count was slightly over 14,000, up actually 1,500 over the same time period compared to 2019. This allows us to continue building a strong America as we provide the electricity, natural gas and construction materials and services that are essential to daily life. All our businesses remain committed to the health and safety of our employees, customers and our communities.

Now I'd like to give some additional color on our first quarter results. As noted in the news release, mild winter weather ranging from 7% to 21% warmer than last year across our utility service territories had negative impact on both our electric and natural gas sales volumes in the first quarter. Our utility business remains committed to providing safe and reliable service throughout this pandemic. To help ensure the safety of our employees and customers while providing this critical support during this challenging time, our utility companies have reduced the types of service orders being performed, including discontinuing disconnections of service. Late payment fees were also eliminated effective April 1. These payment arrangements relate to those experiencing financial difficulties as a result of the pandemic.

Moving on to our pipeline business. As Jason mentioned earlier, this business saw an increase in earnings year-over-year really largely due to the organic growth projects this business has put into service in the second half of 2019. Currently, preparatory work on the North Bakken expansion project is well underway. The company filed its FERC application for the project here in February of 2020 and anticipates FERC approval of the project in early 2021. Construction is expected to begin in 2021 with the completion date later that year dependent on regulatory along with environmental permitting. While a decrease in oil prices has slowed drilling activity, we continue to benefit from natural gas production in the Bakken, and the low natural gas pricing environment is providing organic growth opportunities for industrial growth projects adjacent to our existing system.

Our construction companies are also essential service providers. While both companies have experienced some inefficiencies as a result of social distancing measures and other CDC, state and local guidelines, they have been able to continue their business operations with, I'll say, minimal interruption. Construction services reported record quarterly revenue of approximately \$515 million for the quarter, up 22% on a year-over-year



basis and now stands at an all-time record backlog of nearly \$1.3 billion as of March 31. Bidding environments across our footprint have been strong in the first quarter, and we're optimistic that our high quality of service and skilled workforce, which actually increased year-over-year, will help us to continue to aid in securing new jobs.

Looking at our operating environment, our crews are still working hard at both inside and outside contracting lines, albeit with necessary changes as a result of this pandemic.

At construction materials, we reported a normal seasonal loss, slightly higher than the prior year and backlog that was just shy of last year's record with \$905 million here standing at the end of the first quarter. The warmer winter weather that had negative impacts on our utility business in the first quarter allowed our construction material crews to get out and begin work earlier this season.

One of the COVID-related risks that we are monitoring at this business is the decrease in fuel consumption and a result of many stay-at-home orders. Many states, cities and counties across the country have also been impacted by lower sales tax and other revenues as a result of the pandemic. These decreased tax collections could impact funds available for state infrastructure projects.

As you heard from Jason, our first quarter operations were solid, but our earnings were disappointing, driven by 3 primary factors. The one -- first one being impacts from warmer weather across our utility operational footprint, that 7% to 21% warmer than normal; two, we had an out-of-period adjustment on a project at Construction Services Group; and three, we had much lower investment returns on certain benefit plans at all of our businesses.

As we look ahead, due to potential impacts from COVID-19-related disruptions, combined with a dramatic decrease in the demand in prices for oil and related projects, and pairing this with our lower-than-expected first quarter results, we are lowering our 2020 earnings per share guidance to a range now at \$1.50 to \$1.70, but expect our long-term compounded annual earnings per share growth to remain between 5% and 8%.

As you will note, in the capital expenditure section of our news release, we have also decreased our planned CapEx as a result of economic uncertainties surrounding COVID-19 pandemic.

Looking forward, we are confident that our companies will be able to continue providing the company with essential services for the remainder of the year and beyond. We are affirming the Construction Services Group revenue guidance in the range of \$1.85 billion to \$2.05 billion and are slightly decreasing the revenue guidance at Construction Materials to a range of \$2.1 billion to \$2.3 billion for the year. As always, we will continue to provide updates to our guidance estimates as we go throughout the year.

In closing, while our backlog at the end of the first quarter is strong, we do anticipate that with the uncertainty related to COVID-19, there will be increased pressure on revenues and margins for future work as our economy gradually reopens. Our workforce levels continue to be quite consistent on a year-over-year basis. And as of just last week, our workforce at the services business was actually approximately 4% higher than the same time last year, and our workforce at our materials business stood at 98% of last year's levels.

As for the communities where our employees live and work, we recently announced that MDU Resources, through our Foundation, donated \$500,000 to a variety of organizations to support coronavirus relief efforts. This is in addition to the \$2.2 million that the MDU Resources Foundation had already committed to charitable organizations here in the 2020 calendar year. I offer my sincere thanks to our employees and our customers for doing their part to stay healthy and safe during this crisis. Your well-being is, above all, the most important thing.

As always, MDU Resources is committed to operating with integrity and a focus on safety while creating superior shareholder value as we continue to act on our tagline of building a strong America.

I appreciate your interest in and 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 line of Ryan Levine from Citi.

Ryan Levine - Citigroup Inc, Research Division

Can you talk about the North Bakken expansion project? And what are the underlying assumptions for your customer contracts there? And in light of the lower production outlook for the basin, is there any potential to scale back the scope of that project?

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

Sure, Ryan. Trevor Hastings, he's with us actually in the small group we have assembled here in Bismarck. I'll turn that over to Trevor.

Trevor J. Hastings - President & CEO of WBI Holdings, Inc.

Thanks, Ryan. We continue to move forward on North Bakken as we filed it with FERC, I think, it was middle of February this year. At this point, we continue to move forward we are actively monitoring, evaluating the impacts out of the Bakken, as you mentioned, as we've seen some oil well shut-ins and gas decreasing. But at this point in time, we've got an obligation and to move forward and get that project in service by late 2021.

Ryan Levine - Citigroup Inc, Research Division

Okay. And then in the presentation material, it was highlighted that you're looking at tangential or adjacent midstream acquisitions or expansions. Can you comment around the appetite or the opportunity set that you may be pursuing there?

Trevor J. Hastings - President & CEO of WBI Holdings, Inc.

Sure. So those are non-acquisitions. They're actually just -- we're seeing a number of different industrial customers look for gas service in adjacent to our existing service territory. So this would be essentially organic growth opportunities off of our existing system, which is what we've been doing for the last 5 to 10 years.

And that's really related to just the kind of low price deck on natural gas that we've seen over the last few years as well as just that continued outlook for low gas prices is one of the main drivers.

Ryan Levine - Citigroup Inc, Research Division

Okay. And maybe switching gears to your construction service business. What percentage of your backlog is Las Vegas or related to airports? And what's the outlook for those markets within the construction service?

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

Jeff, would you take that one?



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

Yes, absolutely. Thank you. We're very busy in Las Vegas. And our backlog is about 25% of our total there. So as a reminder, we've got 4 companies, electrical, mechanical, fire protection, underground utilities, and they perform very well. We've got 1 project that's been put on hold, but we're expecting it's going to ramp back up in this quarter, and we've got another project that's been postponed. The 3 airport projects we have, they're in 3 different regions. So not quite at 25% of our backlog, but one is-- the largest one is in Portland, Oregon, the other one's in Kansas City, and we also have one in CBG. We're doing a little bit of work at SFO. If you take a look at just the Pacific Northwest region, where we have 4 of our companies operating, have a similar level of backlog as we do in Las Vegas. In addition to that, our outside line backlog is very strong in the Midwest, in Rocky Mountain regions and up and down the West Coast. So that really shows our diversification. And if you look at our record backlog, that also demonstrates that we have a strong demand from our services, and that's due to our proven ability to perform and our team has adjusted to COVID-19, just admirably. And we are making sure that we're putting people in safe work environments and adjusting, working with our customers in these changing conditions.

Ryan Levine - Citigroup Inc, Research Division

And just a follow-up on that. So in light of the COVID-19 environment with reduced airport activity, are you seeing -- does that create an increased opportunity to enhance margins on those projects in the near term? And are you seeing any of that backlog starting to slip in light of the current environment?

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

Good question. I have not seen any of those projects in our airport work slip at all and yes, there's less activity there, so you would think that less congestion and less access challenges and issues, that could only help margins. But then, again, we're also seeing additional PPE -- where our people are going through temperature checks on many of our jobs and they're also having to wear face coverings and sometimes even face shields to protect them, to protect their safety. So we have not seen those airport projects slow down at all.

Ryan Levine - Citigroup Inc, Research Division

Okay. And then last question for me. On the utility, can you speak to what you're assuming in terms of your bad debt expense for this year in your guidance? And any regulatory mechanisms that you could potentially get recovery on some of that customer nonpayment?

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

Nicole, you'll take that one, please?

Nicole A. Kivisto - CEO & President of Cascade Natural Gas Corp, Intermountain Gas Co & Montana-Dakota Utilities Co.

Yes, certainly. Thanks for the question. Yes. Although it's early, we did take a look at our bad debt in the first quarter here and did make a slight adjustment to our assumption in terms of increasing our bad debt expense in the first quarter, again, only slightly. As we look to April here, we are seeing some increases in our accounts and arrears. I would comment, though, that our customer experience team is proactively reaching out and assisting customers with payment plans, providing the assistance they need as well as helping them access available funds. So as we look to the year, we do have that baked into the guidance that we provided. And then the other thing that I would comment on is us along with pretty much most of the industry did provide relief with the institution of a moratorium on disconnect and the waiving of late payment fees.



In terms of filing regulatory mechanisms, we have proceeded with COVID-related filings in 4 of our states, and we'll be doing a fifth state today here yet with a filing and then continuing to look at the remaining 3 states. So as you bring up, certainly, we did include in those filings the ability to have the potential to recover some of the increased exposure on bad debt.

Operator

(Operator Instructions) Your next question comes from the line of Chris Elinghaus from Sebert.

Christopher Elinghaus - Sebert Williams Shank & Co., LLC.

Hope everybody and the rest of the company is doing well. Jeff, the project that's across the street from the Wynn, is that the one that's on hold at the moment?

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

No. Resorts World is moving very well. And we've got the electrical and the mechanical contracts there, so that is not -- it's the MSG project that has been put on hold, but we think it's going to start back up.

Christopher Elinghaus - Sebert Williams Shank & Co., LLC.

Okay, great. The change in the CapEx, Jason, can you talk about where is that coming from and why?

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

Certainly, Chris. I think if you take a look at our earnings release, we got a little more detail on there you'll see it really comes out into 2 of our business lines that's primarily at the utility and then at Knife River. So at the utility, it's -- you're looking at just some delays probably given the current environment that we're in, some of the shelter-in-place orders, maybe some changes in growth expectations as we -- a little uncertainty here. I think as we look at where the year will play out as the primary driver for timing there, those are really projects that are being pushed into future years. So not changing our forward look on CapEx here, but really changing some timing. And then the other piece would be at Knife River in the construction materials side, where it's really timing of fleet replacements and making some decisions in certain cases to lease versus buy equipment and those types of items. That's the primary drivers that we see in the CapEx reduction for 2020.

Christopher Elinghaus - Sebert Williams Shank & Co., LLC.

Okay. And the -- sorry. The investment returns, I assume that's a COLI product and you gave us sort of the year-over-year changes, but what was the aggregate? I assume it was a loss for quarter, but what was that aggregate number for the company for Q1?

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

Yes. So that is a COLI product, you're correct. So for others on the phone, it's a company-owned life insurance product. So it really is investment returns difference year-over-year. So we talked about \$10.1 million in the release. So I'm just going to ballpark it. It was about a \$4 million loss this year and compared to about a \$6 million gain that we would have seen in the prior year. We talked about that in last year's release as well seeing some above-average gains there. So that's the net difference. So about \$4 million for the quarter is the -- this year's impact.



Christopher Eltinghaus - Seibert Williams Shank & Co., LLC.

Okay. Great. And, Jeff, in Vegas, what are you hearing about the opening up of the town? And how do you anticipate what's happened to Vegas affecting future projects or future developments? Have you heard much in that regard?

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

We're at the edge of our seats waiting for the governor to open the state back up, so we can get customers back into those facilities. So we are daily listening and reading and our presidents have real strong connections within the community. So obviously, with no work in many of our customers' facilities -- mostly our small projects have been postponed, not a huge impact but last week, on our call with our presidents, we heard that we're going to be entering back into some of those facilities to do some of the preparatory work and we've also been involved in some adjustments to be made for the customers when they do come back to make sure that their facilities are safe. So we're starting to see some activity in anticipation of the state order being lifted and bringing customers back into those facilities.

As far as larger projects, future projects, we do have a number of them on our radar, and we are providing estimates, some preconstruction cost analyses for those projects and we have not heard that they're going to be postponed, and we haven't heard that they're going to start next week. So we do think there's certainly a concern over getting people back into Las Vegas and generating that revenue for our customers but at this time, we're busy, and our outlook is strong for this market.

Operator

Your next question comes from the line of Bill Appicelli from ExodusPoint.

William Appicelli – ExodusPoint Capital Management, LP

Just following up on an earlier question. On the North Bakken pipe, is that fully subscribed or fully contracted at the moment?

Trevor J. Hastings - President & CEO of WBI Holdings, Inc.

This is Trevor with WBI. At this point in time, we have signed contracts for 243,000 Mcf a day, not fully subscribed to the design as filed with FERC. And as we roll forward, as we do with every project, we look for ways to de-risk it, whether that's on the material side and purchase strategy to the contract strategy to just overall scope and schedule and we continue to do that on this project as well.

William Appicelli – ExodusPoint Capital Management, LP

Okay. And then if it stays contracted at that level, is that enough to go FID and move forward with construction?

Trevor J. Hastings - President & CEO of WBI Holdings, Inc.

Yes.

William Appicelli – ExodusPoint Capital Management, LP

Okay. And then I guess, it's just the FERC application. Is there next steps beyond that before you would start construction in early '21?



Trevor J. Hastings - President & CEO of WBI Holdings, Inc.

Well, there's a number of permits that we're required to give, whether they're state, local or federal, that we just normally work through. The FERC application, our expectation is we should -- we're -- our schedule shows early of 2021 to receive the FERC certificate to proceed with the project. Construction wouldn't commence prior to receipt of the FERC application -- or the FERC certificate, sorry.

William Appicelli – ExodusPoint Capital Management, LP

And then if you move forward at the current level of contracted, then you would just sort of have walk-up volumes on the open piece until you're able to contract that in the future? Is that how that would work?

Trevor J. Hastings - President & CEO of WBI Holdings, Inc.

Correct, yes.

William Appicelli – ExodusPoint Capital Management, LP

Okay. All right. And then just switching gears on the utility side. Can you speak to what you're seeing on the sales side in terms of the impact from the COVID as it relates to residential sales versus C&I?

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

Yes. Nicole?

Nicole A. Kivisto - CEO & President of Cascade Natural Gas Corp, Intermountain Gas Co & Montana-Dakota Utilities Co.

Yes. Yes, sure. Thanks for the question. As we look at -- maybe I'll start with just the quarter. As we look through the quarter, you've heard Dave comment in the script and the call here this morning as well as covered in the news release that really when we look at volume impact for the quarter, that was largely driven by weather consideration. We didn't see much of a COVID impact through March 31. Looking at our April volumes, as we look at those year-over-year, really on the electric side of the business, our volumes were really quite comparable to last year.

And however, as you noted, we did see some differences in the split. And so as we looked at our electric residential volumes, we saw them pick up compared to last year to the tune of around 19% and really saw an offset there on electric, commercial and industrial load, which was down around 8%. Again, these are on a preliminary basis here. But as we look to the gas side of the business, we really saw a bit of an increase on the gas side in April year-over-year and, again, did see some differences in the load with a 13% pickup on residential load, around a 2% on commercial, and that was offset by a 7% decrease on industrial. So as we look to the remainder of the year, we are uncertain exactly what will happen here, but do anticipate that some of this trend may continue in terms of higher levels of residential being somewhat offset by commercial industrial.

William Appicelli – ExodusPoint Capital Management, LP

Okay. So I mean, is that a net positive then for you -- or I mean in terms of the residential being up that much and C&I being down? I'm not sure how the margins work. Obviously, it's quite higher margin on the residential, but...

Nicole A. Kivisto - CEO & President of Cascade Natural Gas Corp, Intermountain Gas Co & Montana-Dakota Utilities Co.

Yes, yes, yes. So again, volume's comparable. So again, volume's pretty comparable year-over-year in April, but, as you know, we do see higher-margin per unit on our residential sales.

William Appicelli – ExodusPoint Capital Management, LP

Okay. And then lastly, on the guidance reduction, I know you guided down the revenue at the materials business. Is that the bulk of the guide down? Or is it sort of spread around the other businesses as well?

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

Yes, Bill, this is Dave. So we lowered guidance, both on the top side and the bottom side, by \$0.15. Some of the drivers there, certainly, the first quarter on a year-over-year basis, we're off \$0.08. And we talked about those 3 items, right, weather at the utility, the investment returns and then the single contract that we talked about at construction services. So that plays into part of that.

The other part is we did lower guidance from a revenue perspective at Knife River by \$100 million. And we mentioned in the earlier comments that while we're at record revenues in that business for the first quarter, that would indicate our forecast is that we see our reload of backlog will have some challenges with it. We just -- it's uncertain at this time, but we're anticipating that with lower consumption taxes, lower gasoline taxes, things like that may have an impact on municipalities and states thinking about their spend. But we're still guiding to \$2.1 billion to \$2.3 billion. So that would play into that.

We also, while off to a record start at construction services, \$520 million all-time quarter revenue record for the CSG, we're maintaining our guidance there for the rest of the year. So there may be some implication that while we're off to a great start, we may find that same pace maybe hard to continue the rest of the year, again, \$1.85 billion to \$2.05 billion. So some of it we're viewing is some revenue challenges on the construction side.

We did pull our margin guidance because we're uncertain at this point what margins will look like as we -- next steps here. I can tell you, at the end of the first quarter, our margins in our backlog looked comparable on the services side. Actually, margins were up in backlog on the materials side, but it's the uncertainty as we go through the rest of the year and so those were the main factors, some in the first quarter, but primarily what we're thinking about for the COVID uncertainties for the remainder of the year, particularly on the construction side.

William Appicelli – ExodusPoint Capital Management, LP

Okay. And then just one last follow-up there. I mean, on the backlog for Knife River, how much of that is tied to some of these municipalities, some things that may be during a lower tax receipt period for a while here?

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

Yes. I'll start that answer, but then I'll turn it over to Dave Barney. Again, what we have in backlog are actually signed contracts and commitments by the counterparty, whether it's a state or a city or a federal agency and ourselves. So those are signed contracts but Dave Barney, would you want to touch on our split between public and private? I think that might go to Bill's question.

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

Yes, Bill, our backlog, about over 80% is public work, and we don't anticipate any of that to be pulled back. And so our backlog looks good. We continue to pick up work. We're busy out there. So we'll just see what happens in the coming months.

William Appicelli – ExodusPoint Capital Management, LP

I mean do they have discretion in terms of the timing? I mean, obviously, they're signed contracts, but can they sort of push things out a bit and just say we need more time before we sort of commence the project?

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

They can do that. We've seen a few private side contracts say, "Let's put it on hold and wait a month or two to see what shakes out." But that's been a real, modest pullback and most of our work is going forward. We haven't had anybody say, "Hey, we're going to cancel this job, for sure. Let's just put it on hold for now." That's mostly on the private side. Nothing on the public side.

Operator

Your next question comes from the line of Chris Elinghaus from Sebert.

Christopher Elinghaus - Sebert Williams Shank & Co., LLC.

Jason, just vis-à-vis the guidance, obviously, COLI returns can fluctuate period-to-period. When you revised the guidance, are you assuming just where you stood at the end of the quarter for COLI returns without looking into April and on the rebound so far in this?

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

Yes, Chris, great question. Thanks. I think as we look at that, I mean, obviously, we've seen markets perform a little bit more solidly here in April. So as we looked at the total impact in the first quarter, I will say that we're assuming a little bit of that probably coming back in our guidance, but certainly assuming a lower return profile than what we normally would see on those plans. We typically don't plan for a lot in that anyway. It's not an operating item that we focus on. It's -- but it's -- we certainly are planning on lower investment returns than last year, given the fact that we saw a very strong result last year.

Operator

This marks the last call for questions. (Operator Instructions) This call will be available for replay beginning at 2:00 p.m. Eastern Time today through 11:59 p.m. Eastern on May 22. The conference ID number for the replay is 4981249. Again, the conference ID number for the replay is 4981249.

Your next question comes from the line of Carl Seligson from Utility Financial.

Carl Seligson – Utility Financial Experts

Of course, I wish I was at the stock exchange with you guys because that's always a good meeting, and I want to tell you that I appreciate it. And my big product question relates to the -- I guess you'd call it the morale of the people who work for you. What are people saying and thinking about the -- are they on -- some of them on work-at-home type things and others just giving up for a while or retiring? Or what's going on, personnel-wise?



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

Carl, that's -- I mean, I appreciate that question. And hopefully, you've gathered from the comments -- within my earlier comments about our focus on employees, employees' well-being and, obviously, the communities that we're in. And that well-being, it's probably a good reflection on us. I can -- I'll share with you, Carl, that we ramped up, if you will, of our 14,000 employees, plus or minus, at any given point over about a 2-week period. We went from having a few hundred folks that were routinely dialing in, whether -- whatever technology happen to be accessing the cloud from their mobile workforce is actually 3,500. So we ramped that up over about a 2-week period. And really proud and pleased of the infrastructure that our IT folks have put together, the ability of the workforce to -- again, if you could work from home, we'd ask you to go home and just de-risk, if you will, the work environment and social distancing and all those kinds of things. So we're able to accommodate.

And I think the other part of your question, what I heard on general kind of demeanor and more, what's the -- how are people thinking about, I think, in general, I wouldn't say we're surprised, but we're pleased with our ability to continue to move the enterprise forward, whether it's engineering or accounts payable or treasury services or legal services or project manager. It's not gone without some challenges, i.e., but we're really using technology, Microsoft Teams, for team meetings, I mean, you name the kind of software.

And so there's a concern in the workforce in locations about health and well-being. And depending if one has underlying health considerations, we're accommodating those. And so many different situations to address, but I couldn't be prouder of how we've been able to move the enterprise forward on a situation -- we've been in the 24-hour a day business, i.e., utilities, for 99 -- 96 years, I guess, I think where we're used to responding. But this is across every business and every state. And so we're very pleased with that. I have no doubt there's locations like you noted about maybe a little cabin fever or stir craziness or maybe -- but mind you, we've got employees that are home schooling their children, and daycares have been affected, and still trying to do their work while one parent is doing this and the other.

And so that's probably a longer answer than you expected, but it gives you a flavor, if you will, that we held daily meetings with our senior team for about a 3-week period just to keep a pulse on the organization. I mean Jason and his team went out and increased some liquidity within the businesses on some term loans. And we've been able to continue, again, I'm repeating myself, but to move the organization forward.

Carl Seligson -- Utility Financial Experts

That's great, Dave. I think it all sounds good, and I hope it works well for you guys because you've got a great team now, and I assume that, that will continue.

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

Thank you for calling in, Carl, and appreciate the comments, and hope you stay well.

Operator

At this time, there are no further questions. I would now like to turn the conference back over to Dave Goodin for final comments.

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

Thank you, operator.

As I noted earlier, while there is a great deal of uncertainty surrounding economic impacts from the COVID-19 pandemic, our construction companies are at record levels of combined backlog. And our workforce remains intact as we anticipate our pipeline, and utility businesses will continue with what I'll say is near-normal operations. We are committed to building a strong America while ensuring the safety of our nearly 14,000 employees, who are providing the essential services our customers need during this challenging time and beyond.



We appreciate your participation in our call today, and we do thank you for your continued interest in MDU Resources. And with that, I'll turn it back 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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