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MDU - Q4 2018 MDU Resources Group, Inc. Earnings Call

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PRESENTATION

Operator

Hello. My name is Regina, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group 2018 Year-end Earnings Results and 2019 Guidance Conference Call. (Operator Instructions)

This call will be available for replay beginning at 5:00 p.m. Eastern Time today through 11:59 p.m. Eastern Time on February 20. The conference ID number for the replay is 7586823. 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, Regina, and welcome to our conference call covering our 2018 year-end earnings and 2019 guidance. This conference call is being broadcast live to the public over the Internet, and slides will accompany our remarks. If you'd like to view the slides, please go to our website at www.mdu.com and go to the Events and Presentations page under the Investors tab. 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 Exchange Act of 1934. Although the company believes 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.

For our call today, I will discuss key financial highlights and then turn the presentation over to Dave Goodin, President and CEO of MDU Resources, for his formal remarks. 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 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 Cascade Natural Gas, Great Plains Natural Gas, Intermountain Gas and Montana-Dakota Utilities; Trevor Hastings, President and CEO of WBI Energy; and Stephanie Barth, Vice President, Chief Accounting Officer and Controller of MDU Resources.



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Yesterday, we announced 2018 earnings from continuing operations of \$269.4 million or \$1.38 per share compared to 2017 earnings from continuing operations of \$284.2 million or \$1.45 per share. In the fourth quarter, earnings from continuing operations were \$76 million or \$0.39 per share compared to \$115 million or \$0.59 per share in 2017. Results in 2017 included a onetime federal tax reform benefit in the fourth quarter of \$39.5 million or \$0.20 per share.

For 2018, our combined utility business reported earnings of \$84.7 million compared to \$81.6 million in 2017. The 2017 results included a \$6.4 million decrease related to a net deferred tax asset adjustment resulting from the Tax Cuts and Jobs Act.

Our electric utility segment earned \$47 million in 2018 compared to the prior year earnings of \$49.4 million, which included a \$2.1 million additional income tax expense recorded in the fourth quarter of 2017. Main drivers of the decrease in earnings were higher depreciation, depletion and amortization expense from increased plant asset additions and lower investment returns. Partially offsetting the decrease in earnings were 1.4% higher electric retail sales volumes.

Our natural gas utility segment had earnings of \$37.7 million in 2018 compared to prior year earnings of \$32.2 million, which included a \$4.3 million additional income tax expense in the fourth quarter of 2017 resulting from the Tax Cuts and Jobs Act. Increase in year-over-year earnings was largely due to higher retail sales margins as a result of weather normalization and conservation adjustments. These margin increases were partially offset by lower volumes in certain regions throughout the year. The earnings increase was partially offset by increased operation and maintenance expense, lower investment returns and higher depreciation, depletion and amortization expense.

At our pipeline and midstream business, earnings in 2018 were \$28.5 million compared to prior year earnings of \$20.5 million. The earnings increase was largely the result of higher transportation revenues and volumes from multiple organic growth projects that came online in 2017 and 2018. Also contributing to the earnings increase was a \$4.2 million tax benefit recorded in the third quarter related to a final accounting order issued by the Federal Energy Regulatory Commission, or FERC. Partially offsetting these increases were higher operation and maintenance expense, decreased storage revenues and higher depreciation, depletion and amortization expense from increased plant asset additions.

Our construction services business reported record revenues of \$1.37 billion and record earnings of \$64.3 million in 2018, up from 2017 earnings of \$53.3 million, which included a one-time \$4.3 million tax benefit from the Tax Cuts and Jobs Act. This business' earnings increased due to higher outside specialty contracting workloads and margins largely from higher equipment sales and rentals as well as an increase in power line recovery work related to natural disasters, and of course, lower income tax expense. Partially offsetting the increase were higher selling, general, administrative expense primarily related to payroll costs, lower inside specialty contracting workloads and changes to estimates on certain construction projects. Construction services backlog at the end of the year was a record \$939 million, up 33% from 2017.

Our construction materials business also reported record revenues at \$1.93 billion and earnings of \$92.6 million compared to 2017 earnings of \$123.4 million, which included a one-time \$41.9 million tax benefit as a result of the Tax Cuts and Jobs Act. Absent one-time impacts from tax reform in 2017, earnings increased due to lower income tax rates in 2018 as well as higher aggregate and asphalt product workloads and margins. This increase in earnings was partially offset by higher selling, general administrative expense, higher interest expense and lower ready-mix margins and volumes, which is largely related to weather conditions in certain regions. Construction materials backlog at the end of the year was also a record at \$706 million, up 45% from the previous year.

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

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

Well, thank you, Jason, and good afternoon, everyone. Thank you for your interest in MDU Resources and for taking the time to join us today to discuss our results for 2018 and for our outlook for 2019.

I am pleased with our 2018 business performance. I commend the employees of our MDU Resources companies for their strong operating performance. Their expertise, innovation and overall commitment to operating with integrity while building a strong America allowed us to provide solid operating results.

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Our 2017 earnings of \$1.45 per share included a onetime tax reform adjustment of \$39.5 million or \$0.20 per share. In comparison, our strong performance in 2018 allowed us to report earnings of \$1.38. We're very proud of our record of consistently rewarding our shareholders with a growing dividend, while also investing in our businesses to fund growth opportunities across all business lines.

Our utility companies, which represent a strong foundation of earnings and operating cash flows, had a solid year driven by customer growth of 1.8% and higher electric sales volumes. Our utility segment announced at the beginning of the fourth quarter that the purchase of the Thunder Spirit Wind farm expansion in Southwest North Dakota was completed. This expansion increased production capacity at the wind farm to approximately 155 megawatts, bringing our electric generation portfolio to now 27% renewables.

On February 5, our Big Stone-South-to-Ellendale joint venture transmission line was put into service. The utility invested approximately \$130 million in constructing this MISO-approved 345 kV transmission facility.

The utility also announced just yesterday that they're also extending natural gas service to customers in Gwinner and Milnor, North Dakota. Construction to extend service to both residential and commercial customers is expected to begin this spring with completion in late 2019. Over the next 5 years, our utility expects its 1.1 million customer base to grow annually by 1% to 2% and expects rate base growth of 5% compounded annually over the next 5 years. Our utility remains focused on regulatory recovery for costs associated with upgrading and expanding our facilities, so we can safely meet our growing customer demand.

The pipeline business performed very well throughout 2018 and completed two key expansion projects in the year that increased capacity by approximately 240 million cubic feet per day. These two projects, in addition to the projects that were placed into service in 2017, allowed us to transport record volumes of natural gas through our pipeline system for the eighth consecutive quarter. The company's natural gas transportation capacity now exceeds 1.8 billion cubic feet per day.

The company also filed a rate case with the FERC in October. This pending case is in accordance with the company's settlement agreement, which was reached in 2014 and its customers with the FERC. Looking forward, we plan construction on the Demicks Lake and Line Section 22 Expansion projects, which we'll be getting this spring. The Demicks Lake pipeline will be constructed in McKenzie County, North Dakota and will add 175 million cubic feet per day of capacity. Line Section 22, near Billings, Montana, will add 22.5 million cubic feet per day of capacity. Both projects have long-term customer commitments and are expected to be completed in late 2019.

This business recently announced that we have plans to construct the North Bakken Expansion Project here, a 67-mile, 20-inch natural gas pipeline that will transport natural gas from core Bakken production areas in Western North Dakota. As designed, this project would provide 200 million cubic feet per day of natural gas transportation capacity to the company's system. Dependent on agreements with customers, contracts and required permitting, this \$220 million project is expected to begin construction in early 2021 and to be completed later that same year.

Now I'd like to turn our attention to our construction businesses. The Construction Services Group produced exceptional earnings growth and as you heard from Jason, ended the year with both record revenues, earnings and backlog. The company continues to see strong demand for its outside specialty contracting work and saw increased workloads for electrical transmission, distribution and substation work really throughout the year. Backlog also includes a significant amount of inside specialty work, including projects for the high-tech, manufacturing and hospitality industries. We certainly look forward to successfully executing this year on projects included in our record \$939 million of backlog while continue to focus on both cost and efficiencies.

At our construction material business, we also had a strong finish to 2018 with record revenues and year-end backlog. While we had some areas that faced short-term challenges, certain regions are performing well, and we are confident in our ability to achieve long-term growth. This business completed four acquisitions in 2018, adding to our 1 billion tons of aggregate reserves, along with expanding our market coverage in central Minnesota, the Sioux Falls, South Dakota area, along the general area of Portland, Oregon.

For 2019, we continue to evaluate acquisition opportunities at both our construction services and construction material companies. We expect our construction companies to report full year revenues in the range of \$3.35 billion to \$3.65 billion, with margins comparable to or slightly higher



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than our 2018 levels. I believe strongly that our geographic diversity and industry diversity between our companies will provide solid earnings in the future.

That completes our individual business company discussion. Now I'd like to pivot and look ahead at our overall corporation as we are initiating our 2019 earnings guidance in the range of \$1.35 to \$1.55 per share. This range, it reflects normal operating, economic and weather conditions, including precipitation and temperatures across all our service areas. It also anticipates an investment of \$579 million for capital projects across all of our business lines. Earnings from acquisitions made throughout the year would be incremental to this range and are not included in our capital forecast.

MDU Resources has performed well in 2018, and I'm optimistic that we're well positioned to produce significant long-term value as we execute on our business plans and explore potential acquisitions and organic growth opportunities. We continue to maintain a strong balance sheet, solid credit rating and excellent liquidity position. And for 81 years, we have continued to provide a competitive dividend to our shareholders. As always, MDU Resources is committed to operating with both integrity and a focus on safety, while creating shareholder value that's superior as we continue to build a strong America. I appreciate your interest in and commitment to MDU Resources and ask now that we open the line for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Chris Ellinghaus with Williams Capital.

Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Analyst

Dave, you said construction materials had some challenges. Can you elaborate on that a little bit?

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

I'll touch on it a little bit, I know we have talked earlier in the year, weather had an impact to us at the early start of the year. I'll say some challenging economic times up in Alaska as we saw effects from the energy industry there. I'll hand it over to Dave Barney though. Maybe he can talk a little bit around his areas as to any particulars there that he'd have.

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

Well, Dave really hit on it, a lot to do with weather in Texas. We just continue to got -- we got hammered with rain there earlier in the year and later in the year. And weather in Minnesota, Iowa and as Dave touched on, our energy states, they're down, but that was the biggest impact, is weather this year.

Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Analyst

Okay. Are you anticipating any difficulties, not knowing the weather, of course, of being able to recapture some of that later in the year?

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

Well, you saw our backlog. We have a large backlog and we need the weather to cooperate, at least normal weather, so we can get out there and execute on the backlog we have. And we're hoping the weather will cooperate. We'll have a good year if it does.



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Christopher Ellinghaus - *The Williams Capital Group, L.P., Research Division - Analyst*

Okay. Dave, the guidance, as is typical, scares people at the beginning of the year. With the sort of discussion of construction businesses' revenue outlook and the potential for flat to slightly higher margins, what would you have to see in order to achieve towards the lower end? Because the -- sort of the details in the guidance would certainly suggest higher earnings for the year versus 2018. So what kind of things go into the lower end of the guidance that would have to happen to achieve that kind of number?

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

Yes. Chris, you're spot on so far as we're starting this year, we noted the record backlog at both of our construction businesses. You noted too, the margins being comparable to actually slightly increasing in those segments. So it is a very good starting point for the year. More particularly to the question though, and Dave touched on it earlier, there's always an effect of weather, if you would, depending on how soon we can get out and get after that backlog. So that could have some variable to it as we execute on the projects. We assume that there will be nothing material relative to any government shutdown or delays they're associated with -- that could have an effect on our businesses, unknowing whether it be permitting for pipelines or DOT related from the materials segment. But there could be something there as well, I think. And I do want to remind you and others, we are tied to the economy. We think we've got a very good start to the year. We also have a backlog about -- not that we work it all off in the same year, but a strong majority of that, that's about half of what we're guiding from an overall revenue perspective at our businesses. So we still need to secure and win additional projects, which I have confidence in our team but -- I would point to those as a couple of the elements that could drive those to the lower end of that range.

Christopher Ellinghaus - *The Williams Capital Group, L.P., Research Division - Analyst*

Okay, great. Jeff, the guidance for revenues for the year is not -- is there labor constraints that are driving your expectations for revenues for the year?

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

Yes, you bring up a good point regarding labor, and we do see pressure on available labor in most of our markets. There's always a need for more linemen. We're seeing in some of the regions we work, unanswered calls from the union halls and especially in the Ohio region. So we're looking ahead at selective opportunities that are going to fit our resources, and a lot of it has to do with timing. So we're still out pursuing projects. We still have the capacity to add to our backlog, but a lot of it comes down to labor availability, resources and alignment with our client needs.

Operator

Your next question comes from the line of Paul Ridzon with KeyBanc.

Paul Ridzon - *KeyBanc Capital Markets Inc., Research Division - Analyst*

Can you quantify the reserve you took in the electric segment in the fourth quarter?

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

Paul, was your question quantify what we reserved in the electric segment for the fourth quarter?



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Paul Ridzon - KeyBanc Capital Markets Inc., Research Division - Analyst

Yes.

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

Paul, this is Jason. Just trying to confirm, is this -- are -- you're talking about reserves for 2017 from a comparative standpoint? I -- we...

Paul Ridzon - KeyBanc Capital Markets Inc., Research Division - Analyst I meant

-- maybe I misread the release. Okay, sorry.

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

Yes, I know, I'm just curious. So we certainly saw some impacts last year as it relates to the Tax Cuts and Jobs Act. So we had some -- we took an adjustment, I would say, in 2017, too, that reflected that, as we talked about in our release. Really nothing that I would quantify as a significant reserve that we took in the fourth quarter of this year for anything at the utility business; however, as we worked through the Tax Cut and Jobs Act filings throughout the year, we certainly did see some impacts of that throughout the year with that. And Nicole can elaborate a little bit if needed.

Paul Ridzon - KeyBanc Capital Markets Inc., Research Division - Analyst

Yes. I think I'm fine.

Nicole A. Kivisto - President & CEO of Cascade Natural Gas Corp, Great Plains Natural Gas Co, Intermountain Gas Co.

Yes.

Paul Ridzon - KeyBanc Capital Markets Inc., Research Division - Analyst

And then weather in the fourth quarter, construction materials kind of -- how much of a drag did that cause versus planned?

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

Yes, Paul. This is Dave. Yes, it was a big drag compared to 2017. That was the biggest cause of the lower earnings in the fourth quarter was weather. Weather, like I said in Texas, we had -- I don't think we got any work done in Texas in all of October and most of November, and as I said, Iowa and Minnesota. We just had the early weather, and it hurt us. We still made money but -- though it did hurt our earnings in the fourth quarter.

Paul Ridzon - KeyBanc Capital Markets Inc., Research Division - Analyst

And then, is there any way to quantify if we had another 30-day government shutdown, what that could mean?

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

I can tell you we saw no impact from this last shutdown. We don't feel -- we don't think it would be a large impact to our company. Most of the jobs that are in our backlog were funded. And even in the past, when you look at California, they did some payment warrants to get people through.



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So we don't believe it will have a big impact. It should have some type of impact when you're looking to get federal permits for jobs you got -- you already have, but we don't believe it will be a big impact. But we won't know until it happens obviously, right?

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

Paul, this is Dave, just maybe to expand on it. You qualified your question as a 30-day shutdown. And clearly, I think opinion-wise, 30-day would not have a material effect on the year. But if it got extended beyond that, then you'd start looking at permitting and right of way and federal agencies, Fish & Wildlife Services, Corps of Engineers, I mean, even from citing of our other growth projects, for instance, on our pipelines. And so Dave touched on kind of from a DOT funding. But if it got longer than that -- it's yet to be seen. We really haven't been in that territory, so it's unknown to us exactly how that might be played out.

Paul Ridzon - KeyBanc Capital Markets Inc., Research Division - Analyst

And is the fact that the past most recent shutdown had little impact just because it happened in January basically?

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

Yes. Obviously Paul, this is Dave again. It was in the holidays and through January. But we still had some work out there, not a lot and we really didn't see any impact. We saw bidding continue to go through, through that time period. And we would expect -- I mean, if it -- if we had a shutdown in late February, like I said, might have a little impact, but I don't think it will be a big impact to our company.

Paul Ridzon - KeyBanc Capital Markets Inc., Research Division - Analyst

And then lastly, I know I ask this every quarter, but have you seen any more competitive pressures eating into the savings from tax TCJA?

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

No. Our margins continue to grow. We continue to get price increases on our products, almost all our products. And we really haven't seen any pressure at all giving anything back on the taxes.

Paul Ridzon - KeyBanc Capital Markets Inc., Research Division - Analyst

Is that to -- go ahead, Dave.

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

Paul, I'm going to ask Jeff to comment in services on the same question.

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

We're not really seeing much of an impact either, so not materially.

Operator

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



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Andrew Levi - ExodusPoint Capital Management, LP - Analyst

Just a couple follow-ups. Just -- I want to get a better understanding of the guidance that ended up being a bit light relative to what maybe the estimate(?) was. Did you build in any -- anything for the weather up to now? I mean, I know you're only four /five weeks into it, but was January's weather a factor in any way?

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

No. We would have not factored in any of January into how we're viewing 2019.

Andrew Levi - ExodusPoint Capital Management, LP - Analyst

Okay. And then also in 2019, I know that you have a ramp-up in capital costs regarding the construction materials business. And I guess, that is for equipment, is that correct?

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

Yes. Some of that is just I'll say normal O&M. I mean normal capital from a -- keep the equipment and the fleet fresh. Some of it's also taking out leases and putting them on the balance sheet instead of from a lease perspective. And we do not have any capital included in materials or services relative to any M&A activity. So it's kind of ongoing, just ongoing capital needs.

Andrew Levi - ExodusPoint Capital Management, LP - Analyst

No, but if I remember correctly, I think it was either in the third quarter call or in December, you increased the CapEx for that segment, for '19.

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

We did move it up some over the five-year period certainly from where it had been. It'd been almost at historic lows for the prior five years.

Andrew Levi - ExodusPoint Capital Management, LP - Analyst

Is that a drag at all in '19 just because whether it's -- dealing with the leases or buying new equipment?

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

Andrew, this is Jason. I -- you could see a little bit of that. I think as you look at just the fact that as you add more assets, you're going to have a little bit higher DD&A expense that's going to flow through the income statement, which could have some impact there, from a cash flow standpoint that can help you from an expensing standpoint, too, with some of the new tax reform regulations that we have out there being able to adjust that. So it's kind of a little bit of a flip between O&M and DD&A in some cases. So I don't think it would have a significant impact of any sort because if you're buying out equipment versus leasing, and it's really not going to have that much impact on your bottom line.

Andrew Levi - ExodusPoint Capital Management, LP - Analyst

Okay. I saw the ramp-up in that, so I was wondering if it's really -- '19 is a little bit of a drag and then as things get clicking in '20, '21, that drag a better way to put it gets absorbed by top line growth or more efficient.



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

No, I would say not really a huge impact on '19 based on that, but I don't see that being a huge driver for it.

Andrew Levi - ExodusPoint Capital Management, LP - Analyst

Okay. Was pension an issue in '19 at all, higher pension expenses?

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

No, not really. We've had -- you know most of our pensions that we have are frozen. So -- I mean, we don't really have a lot of impact from ongoing there. You've certainly got -- you look at the back half of the year, we saw quite a bit of a change in asset returns obviously, which can have some impacts over longer term on some of these plans, but you know it's spread out over quite a bit of time with the smoothing. Discount rate adjustment's can have some impacts, too, the fact that the interest rates have come down a little bit here again towards the end of the year, but no significant impacts that really were a driver for us, I would say, in 2018.

Andrew Levi - ExodusPoint Capital Management, LP - Analyst

Okay. So to be honest with you, I'm kind of a little bit at a loss because I'm looking at what you earned in 2018, then your guidance and your midpoint for the guidance is \$1.45. So getting kind of back to what Chris Ellinghaus was talking about, why would there be no significant growth in '19 over '18? I know what your stated growth rate is, but if you were coming at \$1.45 versus \$1.38 now, it doesn't achieve the growth rate. Obviously, your \$1.55 does. So I'm just a little confused, to be honest with you. And so maybe you can walk us through how you kind of came up with the midpoint. Why at the midpoint, there would be no significant growth in '19 over '18. Or is that \$1.45 conservative and would expect that towards the high end of guidance?

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

Yes. I think, Andrew, as you look at the range there, certainly we have probably a wider range than some of our utility brethren out there. And we provide a range where some of our material and services brethren don't provide a range at all. So I think when you think of the range, the upper end of that range certainly provides, I think, a nice percentage of growth on a year-over-year basis. Even the midpoint of the range would be catching, if you will, our 5% to 8% that we talk about on a longer-term basis. And so -- and there's some variability as I commented earlier in our business. So whether it be weather effects and how soon we get out in the field and execution of our strong backlog that we have. And so there is some variability. Certainly as we get out of the gate here in the first quarter, we would look to update that throughout the year. And as we know more, we'll firm that up and adjust accordingly throughout the year. But this is how we're starting the year. And certainly, I would just ask that you stay tuned as we go throughout the year.

Operator

Your next question comes from the line of Vedula Murti with Avon Capital.

Vedula Murti - Millennium Management LLC - Analyst

I was just wondering in terms of your new -- you're going through the business lines and the capital opportunities as well as potential M&A, can you -- I came in a little bit late, but can you -- is there -- in terms of looking at the M&A landscape across your businesses, is there anything right now you're kind of prioritizing? And given where your balance sheet is right now, can you give a sense as to kind of what type of capacity you feel



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like you'd be comfortable with if you found something that kind of met your criteria with regards to a potential acquisition relative to the size of your balance sheet?

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

Sure. So Vedula, as we think about our -- each of our construction businesses, we have stated for some period of time now that we've resumed our business development teams in both services and materials. We announced throughout last year four acquisitions in our materials segment. Those were all certainly executed last year. I would say our business development teams are very active there. Services, while we didn't announce anything last year, we have business development teams active there and looking at those markets. From -- on the regulated side, I would say our focus there is more from an organic growth perspective. We've got a 5% CAGR at our utility over the next five years from a rate-based investment opportunities, all organic. And then if you take a look at our pipeline group, the projects that were completed last year, on time, on budget, whether it was Valley Expansion or Line Section 27, we've got -- announced Line Section 22 near Billings, also the Demicks Lake are nice organic growth projects and then the one we just recently announced, a very sizable project that will be a 2021 project, the North Bakken Expansion, which is \$220 million. So I see that as much more likely in line of sight from organic growth at both the pipeline and the utility group and so I think the part two of your question was about balance sheet capacity here. And so I'll turn that over to Jason Vollmer, and he can touch on that a little bit. I mean, that's always situational, specific certainly, but just give you a sense.

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

Yes, certainly, I can touch on that just briefly. That we do feel we've got a strong balance sheet and we're well positioned to experience some additional growth here and potentially look at some acquisitions as we go through the year, as we did in 2018. Certainly being able to make some acquisitions there without significant impacts to the balance sheets or any changes to our credit ratings. We are BBB+ rated with both S&P and Fitch at this point in time, and those targets that they look at from that perspective are typically either FFO-to-debt target or a debt-to-EBITDA-type target and we feel like we've got some room there. I guess it's hard to quantify that, it depends, it's specific to each individual acquisition you can look at as far as what kind of additional EBITDA or FFO those acquisitions would create. But we feel like we've got some room to continue to grow and maintain the credit ratings where we're at today, which we really like that stable BBB+ type rating.

Vedula Murti - Millennium Management LLC - Analyst

So -- just so I'm clear, it seems like that the net focus on anything that would be outside of what's in the current capital program or that's outside of organic within all the business lines. Anything that's outside of organic would be focused more towards the materials and services area at this time.

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

I think that's fair to say, but still at the same time, we wouldn't dismiss opportunities that we'd have, both from capital deployment, both at the pipeline along with the utility. And so I wouldn't preclude that. I would just say it's much more line of sight and it -- that's what's currently included in our five-year plan.

Vedula Murti - Millennium Management LLC - Analyst

So I'm also just curious, just when you take a look at the regulated side of the business and pipelines, valuation to some extent had been somewhat elevated. And I think we've discussed this in the past and current year as how you view that today and kind of how you're looking at things going forward and putting that in context.



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

Sure. And I mean, the -- your -- the elevated value is some of the reason why we're probably less focused on M&A opportunities because of the challenge there to ensure that there's shareholder value created. And so that poses its own set of challenges, if you will. And again, we're very focused on what's right in front of us from the organic growth opportunity set.

Operator

(Operator Instructions) Your next question comes from the line of Ryan Levine with Citi.

Ryan Levine - Citigroup Inc, Research Division - Analyst

A couple questions on the construction materials segment. Were you able to break out the contribution from recent acquisitions for the quarter in both the backlog and in terms of the EBITDA? Was that meaningful for the Q4 performance? And is there a way to comment around how the recent acquisitions have been performing relative to expectations? And if there's any noise that is baked into your '19 guidance?

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

Ryan, great questions. I'll ask Dave. Maybe start with the first one, Dave, about just how are the operations functioning and being integrated, and just given we've had one year just in the fourth quarter and then three earlier in the year.

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

Yes. Well, on the South Dakota this week in materials, we just purchased that in the fourth quarter. And we're just getting them within our -- with...

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

Integrated?

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

Integrated, yes, there's the word I was looking for, integrated within our companies. And that's coming along fine. They really don't have a backlog. They're a materials company, so there's no backlog that you would -- we would put within our \$700 million number. You're not going to see any backlog there. The Tri-Cities, a small amount of backlog. We have those integrated they're working well. Right now, they didn't contribute that much to earnings in 2018. We're looking for more of that contribution in 2019. Does that answer your questions?

Ryan Levine - Citigroup Inc, Research Division - Analyst

Is there any 2019 volatility associated with the recent acquisitions?

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

Not that I know of.



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Ryan Levine - Citigroup Inc, Research Division - Analyst

In terms of earnings?

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

Nope. I would see all upside.

Ryan Levine - Citigroup Inc., Research Division - Analyst

And in terms of the EBITDA contribution from the quarter, did you know what those acquisitions collectively provided? Trying to understand what's organic versus inorganic in the construction material growth.

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

Ryan, this is Jason. I'll just jump in quick. I would say it's really hard to pull what that is, a lot of these are bolt-on type acquisitions, they really get integrated with other operations that we have within those areas. I would say largely as far as impacts in the fourth quarter, as Dave mentioned, Sweetman was probably the more significant acquisition that we made, so that was -- which -- happened in the fourth quarter here so that really didn't have a whole lot of track record behind it as we acquired that and brought it in. And really just from an integration strategy throughout the year, I mean, we certainly incurred some expenses to acquire these companies as well, which probably offset any additional impacts we would have seen, so I'd call it kind of a wash on the year and certainly on the fourth quarter.

Ryan Levine - Citigroup Inc., Research Division - Analyst

Okay. And then in terms of the M&A market going forward, are you seeing any change in pricing or terms in light of the competitive dynamic for agg or other construction material or service businesses?

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

Yes. We'll start with -- back to Dave Barney in the materials and then we'll move on to Jeff Thiede for services.

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

Ryan, our sweet spot, what fits us well is that \$30 million to \$60 million M&A deals. And so we're trying to stay out of the large platform deals that you're going to see the double-digit multiples so the multiples we're seeing are between six and maybe eight we're willing to pay depending on what kind of synergies we'll get from those companies as we integrate it within our companies. But right now, there's -- we're getting calls all the time. We're working on a few as we speak right now. And hopefully, we can announce some here in the next couple of months.

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

Jeff?

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

Yes. We're seeing higher premiums and about similar multiples in our businesses similar to Knife River's, but unique. We're continuing to evaluate companies that will add to our growth and in our priorities of -- two major priorities, which is adding a company that fits our culture with services that are complementary what we currently provide and second, looking to grow outside of our current markets and in areas that are



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business-friendly and areas that have diversified economies. So we can't get more specific than that, but we can tell you, we're looking to grow. We have the backing to grow. We also have the M&A team to seek, evaluate and integrate additional companies into our organization.

Operator

(Operator Instructions) This call will be available for replay beginning at 5:00 p.m. Eastern Time today through 11:59 p.m. Eastern Time on February 20. The conference ID number for the replay is 7586823.

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

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

Well, thank you. 2018 was certainly a solid year for all of our businesses in which we executed well on both our strategies and our long-term way to create shareholder value. We are committed to Building a Strong America and being optimistic about our opportunities for 2019 and beyond. We certainly appreciate your participation on our call today, and we thank you for your continued interest in MDU Resources.

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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