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MDU - Q2 2019 MDU Resources Group, Inc. Earnings Call

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PRESENTATION

Operator

Hello. My name is Shelby, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group 2019 Second Quarter 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 August 14. The conference ID number for the replay is 3686817. 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, and welcome to our second quarter 2019 earnings conference call. 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 & Presentations page under the Investors tab of our website, www.mdu.com. Our earnings release is also available on our website.

During the course of the 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, 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.

Yesterday, we announced our second quarter earnings of \$61.8 million or \$0.31 per share compared to second quarter 2018 earnings of \$43.8 million or \$0.22 per share. In the second quarter, our combined utility business reported earnings of \$1.2 million, down from \$2.3 million in the



second quarter of 2018. Electric utility segment reported \$7.5 million for the quarter compared to \$9.1 million in 2018. This decrease in earnings was largely the result of higher operation and maintenance expense driven by a major maintenance outage at our jointly owned Coyote generating station in Beulah, North Dakota as well as higher payroll-related costs. Increased depreciation, depletion and amortization expense from higher property planned equipment balances also had a negative impact in earnings for the quarter.

Earnings were also impacted by the write-down of a nonutility investment during the second quarter. Partially offsetting the decrease in earnings were higher production tax credits and higher gross margin from rate recovery, which is offset in part by lower electric retail sales and volumes. Our natural gas utility segment had a seasonal loss of \$6.3 million from the quarter compared to a loss of \$6.8 million in the prior year. This decrease loss was a result of implemented rates from approved rate recovery which increased adjusted gross margins in the quarter. A 4% increase in retail sales volumes and weather normalization and conservation adjustments were also a benefit this quarter. Partially offsetting the decrease loss were a write-down of a nonutility investment and higher depreciation, depletion and amortization expense from our increased property planned equipment balances.

Operation and maintenance expense also increased this quarter largely due to higher payroll-related costs. The pipeline and midstream business had earnings of \$7.1 million in the second quarter compared to \$5.7 million in 2018. The increase in earnings was driven by record transportation volumes in the quarter primarily related to the organic growth projects that were placed into service in the second half of 2018.

Higher customer rates put into effect on May 1 resulting from the recently filed FERC rate case also contributed to the increased earnings. Partially offsetting the increase were higher depreciation, depletion and amortization expense from higher property planned equipment balances and higher depreciation rates associated with the previously mentioned FERC rate case.

Our construction services business reported record second quarter earnings of \$22.8 million compared to \$14.1 million in 2018 as well as record second quarter revenues of \$464.9 million, up 44% from second quarter 2018 revenues of \$323.6 million. This increase in earnings was driven by higher workloads at both its inside and outside specialty contracting lines. Inside specialty contracting company saw higher workloads from increased customer demand for projects in the hospitality and high-tech industries. Outside specialty contracting workloads increased due to a continued high demand for utility industry construction projects. Partially offsetting the increase in earnings was higher selling, general and administrative expense primarily payroll-related costs.

Our construction materials business reported earnings of \$29.2 million in the second quarter compared to \$24.3 million for the same period in 2018. This business also reported record second quarter revenues of \$596 million, up 17% from second quarter of 2018 revenues, which were \$509.6 million.

Contributions from acquisitions made over the last 12 months positively impacted the quarter. In addition, higher aggregate and ready-mix concrete volumes and higher construction revenues resulting from strong economies in many of our states of operation drove the positive performance over the last year. Partially offsetting the increase in earnings were higher interest expense and higher selling, general and administrative expense primarily payroll-related costs.

That summarizes the financial highlights from the quarter. 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 second quarter results.

We released our second quarter earnings after the stock market closed yesterday. Our businesses performed very well in the second quarter of 2019 and reported earnings of \$61.8 million or \$0.31 per share. The solid performance highlights the strengths of our two-platform business model and how impactful our strategy of both organic and acquisition growth can be to our bottom line.



The Utility received final approval on an electric case settlement in the state of Montana here in the second quarter. This settlement will increase annual revenues by a total of \$9.3 million, with \$9 million effective beginning this year and \$300,000 deferred for 1 year. We also filed in the state of Wyoming a general rate request for a 7% increase in rates or \$1.1 million annually.

The Utility also expects to file a request with the North Dakota Public Service Commission in the third quarter of this year for an advanced determination of prudence for the proposed 88-megawatt, natural gas-fired peaking unit, which approved will be expected to be placed into service in 2023. This simple-cycle combustion turbine was included in our announcement in February of this year of our decision to retire our wholly owned coal-fired electric generation units in 2020 and 2021. While the decision to retire these plants was difficult, the company's analysis shows these plants will no longer be cost-competitive for our customers.

Looking forward, our Utility business plans to invest \$321 million of capital expenditures this year and approximately \$1.5 billion over the next 5 years with the projected rate base growth of 5% compounded annually over that same period. The pipeline business had an excellent second quarter, and for the 10th consecutive quarter, reported record transportation volumes, which is directly attributable to the success of their organic growth projects over the last three years.

The company has started construction on both the Demicks Lake project in McKenzie County, North Dakota and Line Section 22 project near Billings, Montana. These projects are expected to be in service later this year and will add approximately 200 million cubic feet per day of capacity. After completion of these two projects, total daily system capacity will be over two billion cubic feet per day. Construction is also expected to begin on the Demicks Lake expansion project here in the third quarter of 2019, with a targeted in-service date in early 2020. The company has long-term customer commitments for this project, which will add 175 million cubic feet of capacity per day as an expansion of the Demicks Lake project that is currently under construction.

The North Bakken expansion project announced earlier this year includes the construction of a new pipeline compression and ancillary facilities that will transport natural gas from Bakken production areas near Tioga, North Dakota and will connect with the Northern Border Pipeline in McKenzie County, North Dakota. This project was originally designed to provide 200 million cubic feet per day of transportation capacity with the ability to expand based on additional customer demand. In the second quarter, this business secured sufficient long-term customer commitments to support an increased design capacity of 300 million cubic feet per day. Construction is expected to begin in early 2021, with an estimated completion date of that same year, dependent on regulatory and environmental approvals. With natural gas production at record levels in the Bakken, this business has multiple opportunities for additional organic growth projects to service increased demand for the gas transportation needs.

Now I'd like to turn to our construction businesses. The Construction Services Group delivered -- continues to deliver an exceptional revenue and earnings growth. The company continues to see strong bidding environments in all areas and expects that its skilled workforce made up of a record 6,557 employees as of June 30 will continue to secure and execute on profitable projects. Inside specialty contracting experienced increased customer demand for their work in the hospitality and high-tech industries, while outside specialty contracting saw strength in utility industry demand as well. This business also announced record second quarter backlog of \$1.15 billion and expects to complete a significant amount of that work over the next 12 months.

At our construction materials business, we also saw increased earnings and strong performance in the second quarter. With contributions from acquisitions and increased volumes in revenues across several product lines due to strong economic environments and several infrastructure spending bills in place across our states of operation. Backlog at construction materials is at an all-time record level of \$1.04 billion at the end of the second quarter. This is up some 42% from the \$731 million we had same quarter in 2018. We continue to evaluate acquisition opportunities at both of our construction businesses and are excited about the future for this business platform.

So thinking about it on a consolidated basis, second quarter earnings increased 41% quarter-over-quarter, which was directly attributable to strong operational performance at both regulated and construction business lines and also seeing impacts from both organic and acquisition growth. Because of this, we are increasing our 2019 earnings per share guidance range by \$0.05 to a range of \$1.45 to \$1.60 per share. We also are increasing our 2019 revenue guidance at both of our construction companies. Construction Service Group revenue guidance is now expected to be in the range of \$1.6 billion to \$1.8 billion, with margins comparable to 2018. Revenue guidance at construction materials is now expected to be in the



range between \$2.0 billion and \$2.2 billion for the year, again, with margins comparable or slightly higher than 2018. With the combined backlog now standing at nearly \$2.2 billion at the end of the second quarter and increased earnings at both companies, we are very excited to see what the rest of the year holds for these businesses.

This quarter really highlights the value of our two-platform business model. We provide the natural gas electricity that powers our daily lives; we connect the homes, factories and businesses with pipes and wires that bring them to life; and we build the transportation network of roads, highways and airports that help keep our economy moving. The heart of America's economy is infrastructure, and infrastructure is our business. 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 certainly appreciate your interest in and commitment to MDU Resources.

And now I ask that we open the line to any questions that you might have. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Chris Elinghaus of Williams Capital.

Christopher Elinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas

I got a million questions, so I'll ask a few and I'll hop back in the queue. But -- you talked about a write-down of nonregulated in electric and gas. Can you give us some details on that?

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

Sure. We can do that. I'll ask Nicole to shed a little more light on that.

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

Yes. Thanks for the question, Chris. Back in 2014, the company or the utility became a minority investor in a nonregulated, energy-related business in the Bakken. We invested about \$2 million and recently in looking at the activity at that -- with that investment, we determined that the fair value was zero. So we actually wrote that down to zero, taking a \$2 million pretax write-down -- in the quarter.

Christopher Elinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas

And do you have any split?

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

The split between electric and gas?

Christopher Elinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas

Yes.



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

Yes. I can get that for you.

Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas
Okay. Jason, the other segment had positive earnings for the quarter was there some tax benefits or something in there?

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

Yes. Chris, there was some tax benefits. I'll have Stephanie Barth, our Chief Accounting Officer here, actually give you more explanation on that.

Stephanie A. Barth - MDU Resources Group, Inc. - VP, CAO & Controller

Yes, Chris, this is similar to what we talked about in the first quarter where the company, under GAAP rules, has to record tax at our estimated annual effective tax rate so we just saw a swing quarter-to-quarter. If you recall, first quarter, we had taken a hit, and now we're seeing some of that reversed and I'll just say that this will unwind through the segment as the year continues.

Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas
Okay.

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

Chris, could we circle back? I'll circle back with Nicole to your earlier question on that split between electric and gas.

Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas
Sure.

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

Yes. Thanks, Dave. So Chris, there was about 1.2 in the electric segment with the remaining in gas.

Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas
Okay. Great. Have you got any kind of color in terms of the weather impact to the quarter?

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

Is your question on a broad basis? Or do you have a specific business unit in mind?



Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas
I meant to ask Nicole that.

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

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

Yes. So in the gas business, if you look at our volumes essentially, we are up quarter-over-quarter and if you recall, Chris, really, we are largely weather-normalized, with the exception of Idaho and Montana, but we did see, I would say, colder than last year's weather in both of those states. So when you look at what's driving the increase in volume quarter-over-quarter, it really is a combination of looking at the weather and also customer growth. So when you look across our territories, we continue to grow on the gas side at a clip quite a bit ahead of the national average. So we're looking at about 2% customer growth, but coupled with that during the quarter, also contributing to that 4% volume increase was some better weather in our jurisdictions that aren't weather-normalized.

Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas

Okay. One last thing for Jason it looks like the revenue guidance increase would be roughly enough to give you that \$0.05 increase in the guidance range. Is that principally what you guys were thinking in revising the guidance?

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

Yes. I think when we looked at the guidance, Chris, we look at it from an overall business perspective, not specific to construction or the regulated side of the business. So as we roll that together, given the start to the year that we've seen so far, I mean -- we increased the bottom end of our range, as you remember, in Q1 by \$0.05, left the top end alone and now as we've gotten through the second quarter of the year here, we now feel more comfortable. And again, seeing the revenue guidance that we have that certainly does have an impact on that as well so that was an overall consolidated basis, the trigger for us to go ahead and move that range higher as of the end of the quarter.

Operator

Your next question comes from Andrew Levi of ExodusPoint.

Andrew Levi - ExodusPoint Capital Management, LP - Portfolio Manager

So my question's kind of a more bigger-picture question. So -- I mean you guys have done really a sensational job over the last few years operating the company. And this year is a good testament to that as you raised guidance, I guess kind of twice, right, because you raised the low end first and now kind of just raised everything, \$0.05 this year. And then operationally, whether it's the utilities or whether it's the pipeline or whether it's materials or in construction business, things have kind of been building, whether it's backlogs or earnings or EBITDA. And so over the last couple of years operationally, you've done an outstanding job. But at the same time, since 2016, in a -- one of the greatest bull markets of the -- this time, the stock's actually down. And so I'm just curious, what's your thinking of that? What's causing that and what you may do to try to improve the stock performance because clearly the company performance has been outstanding?



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

Perfect question. Thanks for that one, Andrew. So I think -- as I think about the organization, it is all about execution within the businesses. And as you pointed out about, I'll use your phrase, outstanding business performance particularly this last quarter, I think that's actually reflective in what we're seeing in the market response today, albeit that's a very short term but I think, for us, the best result, if you will, within our share price is going to be a product, if you will, of our business execution and to your point, we've been building backlogs at both construction businesses. We've demonstrated to the market as recently as today that we're bringing those increased backlogs to the bottom line, and we continue to have top line growth there as well and as you heard from my earlier comments, even our pipeline business continues to win project after project, whether it's the Demicks Lake expansion, we talked about North Bakken and I believe, too, as we bring those projects in on time and on budget and they start showing up in our bottom line, that, that net income and/or EBITDA will also translate into an appropriate share price.

And you already touched on earlier about the Utility is really at a very strong pace they are quickly out of the gate first quarter, which helped us raised the lower end of our guidance there as well. And so you referenced in 2016, I know we had a strong run on our stock, if you will in the -- in post-election. Those last six weeks of 2016, I think we had a 62% total shareholder return alone in 2016, again, driven probably by talk of national infrastructure. I think that notwithstanding, I like how our businesses are performing. I also feel that, as we've indicated today, raising our guidance gives confidence in our businesses and so to your point, I think we're demonstrating to the market our ability to execute and perform, and that will then translate, I believe, into an appropriate share price.

Andrew Levi - ExodusPoint Capital Management, LP - Portfolio Manager

But then -- all due respect, that's not really -- I mean you've been hitting the numbers, but if you kind of look at the mix of the businesses, they don't really belong together. And ultimately, you look at like your analyst coverage, there's very little analyst coverage. I think you have one buy and the market's just been kind of taking off, and you've been performing so I don't know if that's -- just to kind of continue doing -- trying to block and tackle and do well there. There needs to be some type of other plan on whether it's the mix of the companies or trying to get investors. It's kind of hard for -- you don't really fit at a utility investor and on the material side, it might be the same thing and so I'm just kind of thinking strategically, is there anything to do? Or at the same time, whether it's marketing or what it may be, to try to get this stock moving because clearly, again, I'll say it again, operationally, you guys are doing an outstanding job, but it's not turning into stock performance or coverage or sponsorship on Wall Street. And clearly, something kind of needs to give because the stock needs -- as a shareholder, the stock really needs to begin to perform and as you guys are shareholders, I would think you'd want the same thing. So what's the plan to try to get the stock going besides operations?

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

I think it is key to operations, Andrew, as we think about -- we are an infrastructure company. We talk about that being beyond pipes and wires, but also the transportation sector and certainly in the services area as well and so I think continued performance there will be reflective in our share price as we think about, again, growing earnings and EBITDA in the respective businesses.

Operator

Your next question comes from Ryan Levine of Citi.

Ryan Levine - Citigroup Inc, Research Division - Equity Analyst

Wanted to ask a few questions on your ag and ready-mix volumes. Could you comment on the -- there's been obviously rapid growth in that business. What portion of the growth this quarter is due to third-party acquisitions? And then on the same note, the backlog has grown pretty substantially as well. Can you comment on how the mix of your materials backlog has evolved, along with the growth in that metric?



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

So Ryan, I'm going to hand this over to Dave Barney but if I caught the first part of your question, you're curious what's driving our ag and ready-mix volumes, that was Part 1, and then what's related to our acquisitions if we have a split on those as opposed to our preexisting organization?

Ryan Levine - Citigroup Inc, Research Division - Equity Analyst

Correct.

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

Okay. Dave?

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

Hey, Ryan. Yes, a big portion, probably about 40% of our revenue growth on the ag and ready-mix I think it's about 40% revenue growth on the ag and ready-mix is from acquisitions. But we do have some markets that are up from last year. We are seeing some strong growth in other markets besides where we've had acquisitions and our backlog just continues to grow, Ryan. We keep adding to it, so we're excited about it, and we really don't see a slowdown right now.

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

Ryan, I know you had a -- you had multiple parts to your question. Did Dave get to all those?

Ryan Levine - Citigroup Inc, Research Division - Equity Analyst

Does the backlog -- has the backlog mix evolved with the growth? And should we still consider maybe Q2 an appropriate run rate for the split between the different components of the materials business?

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

If you're asking the split between construction and materials?

Ryan Levine - Citigroup Inc, Research Division - Equity Analyst

Yes. Within materials, between ag, ready-mix, asphalt. Is that the current run rate? Or the current mix, is that representative of the future? Or is that likely to continue to evolve as the backlog evolves as well?

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

So I would say that run rate's going to continue and improve as we go through the years after this year, especially with the M&A and the acquisitions we've added, I would expect that to keep at that run rate or improve.



Ryan Levine - Citigroup Inc, Research Division - Equity Analyst

Okay. And then switching gears to the construction service businesses. What drove the workflow increase? And what is the limitation for future workload increases?

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

Thanks for the question, this is Jeff. We saw an increase in the Las Vegas market. We've got four exceptional companies there, mechanical, electrical, fire protection and also underground excavation and utilities. They made -- strong contributions to our increased backlog and in addition to our other backlog increases in other markets that we work in -- for example, we just picked up our fourth airport project in the Cincinnati area, and that was preceded by a new project award at Portland International Airport, Kansas City and also we're doing some work in San Francisco Airport so we're very diversified. Las Vegas is strong and by the way, we're having our Analyst Day on September 12 to showcase our terrific teams in this very strong market. We're very proud of all of our companies, but we hope to see you -- September 12 in Las Vegas.

Ryan Levine - Citigroup Inc, Research Division - Equity Analyst

Okay. Great and then in terms of the limitations for future workload increases, what are the biggest bottlenecks to achieving more upside?

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

Always resources. And we're at a record employment level of over 6,500 people, and we have to make sure that we can deliver and execute on the work that we have. So we spend more time on training, increased planning and even more thorough scheduling, making sure that we're not overpromising. Some of our projects get moved out or pushed ahead, and we have to just spend additional time in that area and making sure that we're capturing the best opportunity and fully understanding the limited resource of labor.

Ryan Levine - Citigroup Inc, Research Division - Equity Analyst

Okay. And then last question for me. What was the impact of weather to construction materials business for the quarter? Are you -- were you seeing any impact in this quarter that may spill over to the next quarter?

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

This is Dave Barney, Ryan. Weather was favorable in almost all our regions in the second quarter. We had a few areas that impacted us in small ways, but overall, the weather was very cooperative in the second quarter.

Operator

Chris Ellinghaus of Williams Capital has a follow-up question.

Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas

A couple more things. Just clarification, I think the press release notes that construction services was a record second quarter but is it not a record all-time backlog for construction services?



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

It -- actually, I think our record all-time was when we put out that release relative to Resorts World here not so long ago I think that was maybe a decimal point higher or something like that. So it's a record second quarter, just slightly up from an all-time record.

Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas

Okay. But it's a record for end of the quarter?

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

It is. It is.

Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas

Okay. All right. Jeff, if I look at the margins, and I'm talking sort of net margins, sort of year-to-date, looks like you're on pace to be up, but your guidance is for sort of similar margins. Are you guys just being a little conservative at this point of the year? Are you expecting something in the second half of the year to maybe drag down that sort of trend?

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

No. We look at the risk and the opportunity, and it's all about execution. So our margins are comparable. And if you take a look at some of our project mix and timing, you look at how we're procuring or being awarded our projects really on our expertise with our people. So we're getting onboard earlier in a design-assist manner - integrated project delivery, working through the budgeting process. So what we've got recorded there is based on what we see and what we're picking up in our work, and it will all be about execution.

Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas

Okay. And one last thing. I think somewhere in the press release you mentioned you're seeing some strengthening in the economy. And it looks like the Fed is taking an insurance policy today on what -- the market is geared to be a weakening economy. Could you just sort of give us some clarity on what you're seeing in the economy? Because it doesn't appear that there's a great deal of evidence for a weakening economy. So can you just give us your take on where the economy stands?

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

Yes. Jeff, do you want to touch on maybe some of your markets? And then we'll maybe move around -- move over to Dave Barney's system and talk about the Knife River markets. Is that kind of, Chris, what you're looking for, more of a market-by-market kind of overview?

Christopher Ellinghaus - The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas

Sure.

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

Yes. Okay.



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

Okay. This is Jeff. Our transmission and distribution work is keeping us very busy in all the regions where we work. Our equipment rental and supply company continues to provide, I think, the best wire stringing equipment in the industry. We're able to provide that for our utility customers and our contractor customers with our strategic locations across the country. We're seeing some increased work opportunities in transportation. As I mentioned, the airport projects we picked up. Mission critical work is also available and we have many projects with confidential clients. We're also seeing an increase in opportunities for our utility, electric, gas and communications work in all the regions that we work. So very diversified. We're seeing momentum well into next year.

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

Dave, do you want to touch on some of the Knife River markets and kind of what you're seeing? I know there's some recovery certainly in the energy states, but you can start with that but then kind of move around the system.

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

Yes. I would say, Chris, that our energy states have been down over the last two or three years, and we're starting to see a recovery there in Alaska, North Dakota and parts of Minnesota and Texas, and they're starting to come back. And most of our states we're in right now, we've all heard about it might be flat next year - I've heard those forecasts, but we don't see it right now, but that doesn't mean it won't happen. But most of our markets that we're in right now, they're strong, and we continue to pick up and add to our backlog. So I can't predict what's going to happen next year, in the future, but right now, we seem to be going pretty strong.

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 August 14. The conference ID number for the replay is 3686817.

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

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

Thank you. Our focus at MDU Resources has been to produce significant long-term value as we execute our business plans, our organic growth projects and our targeted acquisitions and those are things that we're doing as we speak. We continue to maintain a strong balance sheet, solid credit ratings, a good liquidity position and for 81 consecutive years, have continued to provide a competitive dividend for our shareholder while increasing it for the last 28 years. We are committed to Building a Strong America as well as ensuring the safety of our more than 14,000 employees, who are executing on many projects and opportunities ahead of us this year and beyond.

We appreciate your participation on the call today. And as a reminder, I'll note, as Jeff Thiede did earlier in the call, we do have an Analyst and Investor Day slated for September 12 in the Las Vegas area. More information can be followed up with our Investor Relations Department. And again, thank you for your continued interest in MDU Resources.

With that, I'll turn this 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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