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

Earnings Call

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Call Participants

EXECUTIVES

Jason L. Vollmer
Chief Financial Officer

Nicole A. Kivisto
President & CEO

ANALYSTS

Brian J. Russo
Jefferies LLC, Research Division

Ryan Michael Levine
Citigroup Inc. Exchange Research

Presentation

Operator

Hello. My name is Sylvie, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group 2025 Second Quarter Earnings Conference Call.

Note that all lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period. [Operator Instructions].

The webcast can be accessed at www.mdu.com under the "Investors" heading select "Events and Presentations" and click "Q2 2025 Earnings Conference Call". After the conclusion of the webcast, a replay will be available at the same location.

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

Jason L. Vollmer

Chief Financial Officer

Thank you, operator, and welcome, everyone, to our second quarter 2025 earnings conference call. You can find our earnings release and supplemental materials for this call on our website at www.mdu.com under the Investors tab.

Leading today's discussion with me is Nicole Kivisto, President and CEO of MDU Resources Group. During the call, we will make certain forward-looking statements within the meaning of Federal Securities laws. For more information about the risks and uncertainties that could cause our actual results to vary from any forward-looking statements, please refer to our most recent SEC filings.

I'll begin by providing consolidated financial results -- excuse me, I will provide consolidated financial results later during the call. But first, we'll turn the call over to Nicole for her formal remarks. Nicole?

Nicole A. Kivisto

President & CEO

Thank you, Jason, and thank you, everyone, for joining us today and for your continued interest in MDU Resources. This morning, we reported income from continuing operations of \$14.1 million or \$0.07 per diluted share for the second quarter of 2025. Unfavorable weather at our Natural Gas Distribution segment and increased operating costs across our business did impact our second quarter results.

Despite these challenges, we have had a solid start to the year. Continued strong customer demand at our pipeline segment and progress in our utility regulatory schedule provide opportunity as we move forward. In addition, our utility experience combined retail customer growth of 1.4% when compared to this time last year, which is within our targeted annual growth rate of 1% to 2%.

This strong customer demand at our pipeline, along with the growth and infrastructure needs at our utility provide robust investment opportunity across our entire regulated business model. I'm extremely proud of our employees whose dedication to our core strategy continues to drive our business to deliver solid performance and positions MDU Resources with compelling long-term growth prospects.

At our electric segment, we filed a general rate case in Wyoming during the quarter and plan to file a general rate case in Montana later this year. As mentioned, last quarter, we filed an advanced determination of prudence with the North Dakota Public Service Commission for our proposed acquisition of a 49% ownership interest in the Badger Wind Farm, which equates to 122.5 megawatts of the project's total 250 megawatts of generation capacity. The commission has scheduled this hearing for September 9.

We also continue to refine our wildfire mitigation plans across our electric service territory in an accordance with recent legislation, we will be filing those plans in North Dakota, Montana and Wyoming later this year.

On the data center front, we continue to see opportunities for both our electric utility and pipeline business. Specifically at our electric utility, we currently have 580 megawatts of data center load under signed electric service agreements. Of that total, 180 megawatts is currently online with an additional 100 megawatts expected to come online late this year, another 150 megawatts is expected in 2026 and the remaining 150 megawatts in 2027.

Our current approach on the 580-megawatt load is a capital-light business model, which not only benefits our earnings and returns, but also provides cost savings to our other retail customers.

We continue to pursue additional discussions on incremental data center load and should those discussions progress to sign agreements, we would consider investing capital into new generation and transmission assets to serve the increased load. For our Natural Gas segment, we filed a general rate case in Idaho during the quarter with a requested effective date of January 1, 2026.

We also reached a settlement agreement in our Wyoming rate case with new rates effective August 1. In Montana, we filed a settlement agreement on April 3, which is pending commission approval. We are currently collecting interim rates in Montana pending the commissions final ruling. Our pipeline segment is executing well on our core strategy and delivering solid results, driven by strategic expansion and increased demand for transportation and storage services.

We remain committed to investing in future expansion projects to meet customer demand for services including strong interest from industrial customers and power generation projects. We began construction on our Minot expansion project in May, which will add approximately 7 million cubic feet of natural gas transportation capacity per day and is expected to be in service towards the end of this year.

In regards to our proposed Bakken East pipeline project that could run approximately 350 miles from Western North Dakota to the Eastern part of the state plus additional pipeline laterals. We continue to engage with all interested parties to further refine the project scope, time lines and commercial terms.

This project would provide much needed takeaway capacity to meet the forecasted natural gas production growth in the region and provide natural gas transportation service to industrial power generation and local distribution companies.

The project is not currently in our 5-year capital forecast and would be incremental should we determine to proceed. The binding open season for our Baker Storage field enhancement and transportation expansion project concluded in May. We are reviewing results and based on initial feedback are evaluating a smaller project to align with customer interest received in the open season.

In addition to these specific projects, the team also continues to pursue several other growth projects that are in various stages of development. With the weather and operating expense impacts we experienced in the second quarter in our view midway through the year, we are narrowing our earnings per share guidance to a range of \$0.88 to \$0.95 per share from our previous range of \$0.88 to \$0.98 per share.

We remain confident in our ability to execute on our long-term growth strategy and believe our operational focus and financial discipline continue to position us well for delivering safe and reliable energy, customer value and strong stockholder returns.

As we look ahead, we are focused on our core strategy, emphasizing customers and communities, operational excellence, returns focused and employee-driven. We believe we are well positioned for growth into the future with an anticipated capital investment of \$3.1 billion over the next 5 years, 7% to 8% compounded annual utility rate base growth and customer growth of 1% to 2% annually.

We also anticipate a long-term EPS growth rate of 6% to 8% while targeting a 60% to 70% annual dividend payout ratio. As always, MDU Resources is committed to operating with integrity and with a focus on safety. We remain dedicated to delivering value as a leading energy provider and employer of choice.

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

Jason L. Vollmer
Chief Financial Officer

Thank you, Nicole. This morning, we announced second quarter earnings of \$13.7 million or \$0.07 per share compared to second quarter 2024 earnings of \$60.4 million or \$0.30 per share. Income from continuing operations, which excludes the impacts of Everus, which became a separate public company in October of 2024, was \$14.1 million for the second quarter or \$0.07 per share compared to \$20.2 million or \$0.10 per share in 2024.

Turning to our individual businesses. Our electric utility reported second quarter earnings of \$10.4 million compared to \$15.5 million for the same period in 2024. Higher payroll-related costs and costs related to a planned outage at our Coyote generating station drove the increase in operation and maintenance expense experienced during the quarter.

These are partially offset by increased commercial sales volumes, largely from data center load and rate relief in South Dakota. Our natural gas utility reported a seasonal loss of \$7.4 million in the second quarter compared to a loss of \$5 million in 2024. Increased operation and maintenance expense, primarily due to higher payroll-related costs and lower volumes due to warmer weather, largely in Idaho, drove the increased loss in the quarter.

Partially offsetting the loss were higher retail sales revenues due to rate relief and higher transportation revenue. The pipeline business posted second quarter earnings of \$15.4 million compared to a record second quarter earnings of \$17.3 million in the prior year.

In the second quarter of 2024, the pipeline received proceeds from a customer settlement of \$1.5 million net of tax. Backing that off of the total earnings for 2024, we viewed the second quarter at our pipeline segment as very solid. Higher operation and maintenance expense further drove the decrease in earnings.

Partially offsetting the decrease was higher transportation revenue due to the Wahpeton expansion project and customer demand for short-term natural gas transportation contracts. And finally, MDU Resources continues to maintain a strong balance sheet and ample access to working capital to finance our operations throughout our peak seasons.

While we have no equity needs in 2025 based on our current capital plan, our \$3.1 billion capital investment program over the next 5 years will require some access to the equity capital markets. As mentioned last quarter, we plan to reestablish an ATM program in the near future to meet those needs. We will update our forward-looking capital investment plan later this year and provide further guidance around the size and timing of future equity needs at that point. That summarizes the financial highlights for the second quarter. We appreciate your interest in and commitment to MDU Resources and ask that we now open the line to questions. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question will be from Ryan Levine at Citi.

Ryan Michael Levine

Citigroup Inc. Exchange Research

What impact is the lower storage project size have on the potential scale of the Bakken East pipe? And can you just kind of walk through the implications of the revised scale of the storage facility?

Nicole A. Kivisto

President & CEO

Yes. I appreciate the follow-up on that, Ryan. Essentially, as we were providing an update there on the Baker storage enhancement and transportation projects. I would see that as 1 data point. But as it relates to Bakken East, essentially, I'll talk a little bit about that and provide a little more color on where we're at with that project. But I wouldn't say that what happened with Baker storage enhancement and the open season we did there has implications on Bakken East.

In fact, if we continue with the Bakken East project, there may be incremental enhanced opportunities for us to expand storage opportunities on a go-forward basis. So essentially, the 2 projects are deemed really separate right now. But to the extent we have enough customer commitment on a go-forward basis to move forward Bakken East, that could provide incremental opportunity from an expansion of our storage assets going forward.

So maybe just stepping back for a minute, as I think about Bakken East and quite frankly, our storage assets in general, I really do like our strategic position. I've talked about this before in the Bakken. But we believe the Bakken play in North Dakota provides many opportunities with the growing production that we see coming out of the Bakken and the low cost of gas.

So as I think about WBI's position, strategically located over that play. It certainly provides us strategic advantages as we think about positioning as it relates to the Bakken East pipeline as well as potential storage opportunities going forward.

Ryan Michael Levine

Citigroup Inc., Exchange Research

Great. And then 1 unrelated question. In terms of the revised EPS guidance range. Given the drivers of the revision there, how does that impact your longer-term EPS outlook? Does that signal you're moving towards the certain end of the range? Or any color you could share on that.

Jason L. Vollmer

Chief Financial Officer

Yes. Thanks, Ryan. This is Jason. I can jump in there. So we did revise our range here. And I think really looking at where we're at the middle part of the year, we had some impacts, as we noted in the release related to weather, particularly in Idaho for the second quarter, warmer-than-normal temperatures drove some volume impacts there, but also some higher operating expenses than maybe we originally had looked at there.

As we look at the operating expense piece, of course, as we look forward into our guidance, how do we think about where we're going to finish the year. What goes through the operating expense, there is a few items. There are certainly some items that are, we'll call it, pass-through in nature, so items that we would have seen some higher expense for related to conservation programs as an example, on the regulated side, which we get to recover in revenue.

So it stands out as a larger expense items related to the transition services agreement for Everus, which we are billing them for, again, providing service through that stands out and expense, but also shows up in revenue. So those lines are really kind of a pass-through as we look on that side.

However, we did see on a quarter-over-quarter basis, and again, we had planned for an outage at the Coyote station, but we're seeing, I think, just general inflationary costs across the board for various items such as insurance costs are going up, payroll-related costs we talked about. We've seen increases there.

And I think it's -- as we navigate through the balance of the rest of the year, based on our forward look, we don't see those being as impactful as they probably are in the run rate that you see today and certainly I don't think that's a larger term trend for us. But we had to really step back and look at where we're at, at this point in the year.

And our guidance range right now would tell us that it's unlikely we would have hit that top end of that range based on that. So we felt comfortable moving that top end back and feel that where we have the range set out right now is very reasonable for the rest of the year.

Operator

[Operator Instructions] The next question will be from Julien Dumoulin-Smith with Jefferies.

Brian J. Russo

Jefferies LLC, Research Division

It's Brian Russo on for Julien. Just a follow-up on the Bakken East project. I think the next North Dakota Industrial Commission meeting is on August 21 maybe. What can we expect and they're -- regarding their decision or recommendation on, I think, some takeaway capacity over 10 years. Would that alter the WBI Energy's development plans at all?

Nicole A. Kivisto

President & CEO

Yes. So first, let me address the next meeting you are spot on in terms of the timing of the next meeting of the North Dakota Industrial Commission. It appeared that they were leaning into potentially providing a decision at that meeting. However, we're not 100% certain on that. But in the public format, there was indication that there they were going to try to get to a conclusion by the August meeting.

So more to follow in terms of whether that happens or not. Certainly, state support, as you commented on, would enhance the project and provide what we believe to be a bridge because as we work through these customer commitments that we are in conversations with, there's varying degrees in terms of needs. So timing is 1 consideration, where we -- it probably makes sense that, obviously, not all customers have the same timing in mind.

And so as we think about the state's interest in this project and what it will do for the state of North Dakota, certainly, they've got interest, right? We talked already about increasing production out of the Bakken gas-to-oil ratios continue to increase. They want takeaway capacity out of the Bakken. So they're very focused, the state is on getting a project done.

As it relates to WBI and our project specifically, we do believe a state decision does help in terms of provide some certainty for our customers. But that being said, it isn't the only thing that we're focused on. Certainly, we are very focused on what kind of customer commitments we can get and how we continue with the dialogue with our customers.

As that dialogue progresses, we are hopeful then that, that would turn into a binding open season. So our next step would be a binding open season. All of this conversation will continue to transpire. We're hoping over the next 6-plus months, just to give you some time line in terms of timetable as we move forward with next steps on Bakken East.

Brian J. Russo

Jefferies LLC, Research Division

Okay. Great. And then also just again to follow up on the guidance revision to the top end. Is there a way to quantify those various drivers. Some seem to be onetime or others might be ongoing weather onetime. I think maybe the planned outage might also be onetime versus what's kind of ongoing maybe related to the dis-synergy costs from the Everus' transaction?

Jason L. Vollmer

Chief Financial Officer

Yes. Thanks, Brian. Happy to try to do what we can. Yes. The planned outage, I mean, we had planned for that, and that was part of our original guidance range that we had looked at already, and that really stayed pretty true to what we had expected there. So don't expect much of a other difference there. Weather, of course, that's 1 of the items that it's tougher to plan for as we look through that.

So what we did see in the second quarter was warmer weather, especially impacting volumes in the gas business. Now thankfully, we do have some very good mechanisms in most of our states where we've got weather normalization in a lot of our states, we are not weather normalized already coupled in the states of Idaho or Montana. So we did see some impacts there.

To quantify that broadly speaking. And I think, if you look at our SEC filings, we talk about roughly \$1 million of impact just related to weather in the quarter alone here. Other items that we see as far as payroll and various items along that line. Some of that can vary a little bit depending on your timing of capital projects and are we capitalizing labor or not.

So there are various items that can impact that. Of course, we have seen increases for employees along the way, which doesn't add to payroll until you file new rate cases and really get recovery of some of the increased cost of service there. But overall, again, as we stated earlier, from a run rate perspective, what you saw in the first half of the year on a -- on a year-over-year comparison basis, we don't expect that to be a similar run rate to what we see the balance of the year.

That number will come in some, but certainly did have an impact for us in the first half of the year and in the second quarter.

Brian J. Russo

Jefferies LLC, Research Division

Okay. Great. And then just lastly, you mentioned you're in active discussions with more data centers. Just curious, when will kind of end the capital-light strategy in the ESAs, right? When do you think that these pockets of excess capacity can be absorbed -- can absorb any incremental load before MDU would need to build generation infrastructure to serve that incremental demand? Like how many megawatts do you think is there to be absorbed, I guess?

Nicole A. Kivisto

President & CEO

Yes. So what we have shared in the past on that particular topic is that we do believe we have additional capacity without the build-out of new infrastructure. However, saying that, probably not to the level of what you're seeing currently and that's \$530 that we have developed at Ellendale. So there are pockets within our system where we could do a similar capital-light strategy and we continue in conversation with potential customers in that regard.

That being said, I think what we shared here in my earlier remarks is we are willing to explore other opportunities to perhaps invest in transmission or generation to serve incremental load over and above what could have been served with the capacity we were previously talking about. So the conversations continue to be fluid.

Our approach has been that we really come forward with where we're at once we have an energy service agreement. So we will certainly keep the market aware when that happens, but we did want to provide the data point that conversation continues in terms of data center customers across the various footprint, whether that be incremental generation or transmission investment opportunity or in areas where we have the ability to continue on this capital-light approach.

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Operator

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

Nicole A. Kivisto

President & CEO

All right. I want to thank you all again for joining us today. We appreciate your interest in and support of MDU Resources and look forward to connecting with you throughout the year. With that, I will turn the call back over to you. Operator?

Operator

Thank you. Ladies and gentlemen, this concludes today's MDU Resources Group conference call. Thank you for your participation. You may now disconnect your lines.

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