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EDITED TRANSCRIPT

MDU - Q3 2022 MDU Resources Group, Inc. Earnings Call

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OVERVIEW:

MDU reported 3Q22 GAAP earnings of \$147.9m, non-GAAP earnings of \$152m, GAAP EPS of \$0.73 and non-GAAP EPS of \$0.75. Expects 2022 non-GAAP EPS to be \$1.75-1.90.

CORPORATE PARTICIPANTS

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

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

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

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Brian Russo Sidoti & Company, LLC - Research Analyst

Dariusz Lozny BofA Securities, Research Division - Research Analyst

Ryan Levine Citigroup Inc., Research Division - VP

PRESENTATION

Operator

Hello. My name is Lisa, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group 2022 Third Quarter Conference Call.

(Operator Instructions)

The webcast can be accessed at www.mdu.com under the Investor Relations heading. Select Events and Presentations and click Q3 2022 Earnings Conference Call. After the completion of the webcast, a replay will be available at the same location.

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

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

Thank you, Lisa, and welcome, everyone, to our Third Quarter 2022 Earnings Conference Call. You can find our earnings release and supplemental materials for this call on our website at www.mdu.com under the "Investor Relations" tab.

Leading today's discussion along with me will be Dave Goodin, President and Chief Executive Officer of MDU Resources. Also along with us today to answer questions following our prepared remarks will be Dave Barney, President and CEO of Knife River Corporation; Jeff Thiede, President and CEO of MDU Construction Services Group; Nicole Kivisto, President and CEO of our Utility Group; Trevor Hastings, President and CEO of WBI Energy; and Stephanie Barth, Vice President, Chief Accounting Officer and Controller of MDU Resources.

During our call this morning, we will make certain "forward-looking statements," within the meaning of Section 21E of the Securities Exchange Act of 1934. Although the company believes that its expectations and beliefs are based on reasonable assumptions, actual results may differ materially. For more information about the risks and uncertainties that could cause actual results to differ from any forward-looking statements, please refer to our most recent SEC filings.

We may also refer to certain non-GAAP information. For a reconciliation of any non-GAAP information to the appropriate GAAP metric, please reference our earnings release.

As a reminder from our second quarter earnings call, we have previously announced our plan to separate Knife River Corporation, which is expected to be effective through a tax-free spin-off, to MDU Resources shareholders.

This transaction is well underway and expected to become complete in 2023. Today, we are also announcing that MDU Resources' board of directors has authorized management to commence a strategic review, intended to separate MDU Resources into two pure-play publicly-traded entities.

One being a regulated energy delivery company, the other a leading construction materials company. MDU Resources remains committed to managing its business to deliver best-in-class operating performance and value for all stakeholders. Dave will provide additional information on our strategy during his remarks later this morning.

Prior to handing the call over to Dave for his comments and forward look, I will provide an overview of the consolidated financial results for the third quarter. This morning, we announced third quarter earnings of \$147.9 million or \$0.73 per share on a GAAP basis with adjusted earnings of \$152 million or \$0.75 per share compared to third quarter 2021 earnings of \$139.3 million or \$0.68 per share.

Due to the previously announced plan to separate Knife River, we are reporting adjusted earnings that excludes costs related to the anticipated separation transaction. Our combined utility business reported earnings of \$3.5 million for the quarter compared to earnings of \$5.2 million in the third quarter of 2021.

The electric utilities segment reported third quarter earnings of \$21.6 million compared to \$20.6 million for the same period in 2021. This increase was largely the result of lower operation and maintenance expense due to lower payroll-related and materials costs, partially associated with the coal-fired Heskett Station and Lewis & Clark Station plant closures as well as the absence of costs from a planned outage at Big Stone Station during 2021.

Higher revenues associated with North Dakota interim rate relief were offset by decreased retail sales volumes. Our natural gas utility segment reported a third quarter seasonal loss of \$18.1 million compared to a loss of \$15.4 million in the third quarter of 2021.

Results were impacted by increased operating expense, including higher subcontractor costs and depreciation expense. Also contributing to the loss was increased interest expense as a result of increased debt balances to fund capital expenditures and higher average interest rates.

Partially offsetting these higher costs was higher rate recovery through decoupling mechanisms. The pipeline business earned \$9.8 million in the third quarter compared to \$10.6 million in the third quarter of 2021. The company experienced higher transportation revenues and record transportation volumes during the quarter with growth largely attributed to the North Bakken expansion project that was placed in service earlier this year.

The increase in revenues was offset in part by lower allowance for funds used during construction, which is reflected in other income and higher depreciation expense associated primarily with the North Bakken project. Further offsetting the increase was higher interest expense. As we've noted in the past, 2022 includes a delay on a portion of the North Bakken expansion projects committed volumes and we expect to see increased benefit from this project in 2023 based on contracted volume commitments.

Construction services business reported all-time record quarterly revenue of \$737 million and earnings of \$28 million compared to revenue of \$514.8 million and earnings of \$23.1 million for the same period in 2021. Record revenues were primarily driven by approximately 70% higher electrical and mechanical workloads.

Commercial workloads were favorably impacted by the progress on large hospitality projects and a number of data center projects started during the quarter. The industrial and institutional business lines also benefited from the mix of projects during the quarter. This business saw a lower margin percentage on record revenues for the quarter, attributed mostly to higher operating costs related to inflation, including material and labor costs.

Earnings for the quarter were negatively impacted by \$7.5 million, after tax, due to adjustments made to estimates on certain construction contracts compared to a negative impact of \$5.5 million after tax in Q3 of 2021 for similar adjustments.

Our construction materials business reported all-time record quarterly revenue of \$975.4 million and earnings of \$102.8 million compared to the prior year third quarter revenue of \$831.3 million and earnings of \$96.3 million. Higher contracting workloads and price increases across all product lines drove the topline revenue growth, up 17% from the third quarter in 2021, largely as a result of strong demand in most markets and the impacts of recent acquisitions.

This business saw slightly lower margin percentages on record revenues for the quarter, primarily due to higher operating costs related to inflation, including higher diesel fuel, materials costs, labor, equipment and transportation costs. Also impacting the quarter was higher interest expense as a result of higher average debt balances and higher rates as well as higher selling, general and administrative costs largely due to labor-related expenses.

Results at each of MDU Resources' businesses have been negatively impacted on a non-cash basis by lower unrealized investment returns on non-qualified benefit plans. Collectively, the negative earnings variance in the third quarter compared to last year was approximately \$2.5 million or \$0.01 per share.

The company attributes this change in investment returns to significant fluctuations in the financial markets that have been experienced during 2022. The company continues to maintain a strong balance sheet and ample access to working capital to finance our operations through our peak seasons.

That summarizes the financial highlights for 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

Thank you, Jason, and thank you, everyone, for spending time with us today, along with your continued interest in MDU Resources. I'd like to begin with an update regarding our announcement this morning about our goals for the future structure of MDU Resources.

In August, we announced our plan to separate the Knife River Corporation, creating two publicly-traded companies. Our team has continued working diligently towards completing this separation. As a reminder, this separation of Knife River is expected to be affected as a tax-free spinoff to MDU Resources shareholders and to be completed in 2023.

We are pleased with the progress we have made and look forward to further enhancing shareholder value with this transaction. We were also pleased to hear a positive investor feedback to the original announcement. Further, as the next step in our strategic planning process, the Board of Directors has unanimously determined the best way to optimize value would be to create two pure-play public companies, a leading construction materials company and a pure-play regulated energy delivery company.

To achieve this outcome, we will work to complete the separation of Knife River, and we will commence a strategic review process to explore alternatives for our construction services business. We believe these steps will unlock significant value for MDU shareholders and provide each company with the opportunity to execute on their respective business plans and to achieve industry-leading performance.

We intend to discuss, in detail, our long-term company strategy during analyst events in 2023, including Analyst Days for each entity as we near the completion of the Knife River spin transaction. More information regarding event details and presentations will be available on the company's website when these events are scheduled.

Now I'd like to turn to the discussion of our quarterly operating results. Our construction businesses, both reported all-time record quarterly revenues and combined record third quarter backlog, now standing at \$2.9 billion, which is up over 50% from the same time a year ago.

Our utility and natural gas pipeline businesses continued to perform well, but have been impacted negatively by higher interest costs. We also continue to experience and adapt to inflationary pressures across all our lines of business.

To summarize activity by business segment, I'd like to start off with the regulated energy delivery businesses. At our utility business, here, we have grown customer base by 1.6% on a year-over-year basis, and we expect this growth to continue to be between 1% and 2% compounded annually over the next 5 years. We expect our rate base to grow by 5%, compounded annually over the next 5 years, driven primarily by investments in the system infrastructure upgrades and replacements to safely meet this growing customer demand.

In August, it was announced that our electric utility, along with Otter Tail Power Company, we plan to jointly develop and construct and co-own approximately a 95-mile 345 kV transmission line from Jamestown, North Dakota to Ellendale, North Dakota.

This is one of 18 transmission projects recently approved by MISO as part of its first phase of a multi-year long-range transmission planning initiative. This project allows both companies to create a more resilient regional transmission grid, while continuing to provide reliable, affordable electricity to its customers.

The transmission line is projected to be in-service in late 2028, with a current estimated cost of \$439 million. This business continues to seek regulatory recovery for our investments associated with providing that safe and reliable electric and natural gas service to our growing customer base.

An interim electric rate increase of 5.3% was implemented here in July, mid-July 15, in North Dakota, pending a decision on the requested increase of 12.3% before the state's Public Service Commission.

The Washington Utilities and Transportation Commission approved the utility's request for an approximately 4% natural gas rate increase, which was effective here on September 1. And now here in the fourth quarter, the utility intends to file a request for an electric rate increase with the Montana Public Service Commission and a request for a natural gas rate increase with the Idaho Public Utilities Commission.

You can read more about this and our other regulatory filings in our Form 10-Q that was filed this morning. Also, the electric utility segment began construction here in May of 2022 on Heskett Unit 4, which is on track and expected to be in service during the first half of 2023.

At our pipeline business, here, we reported earnings of \$9.8 million. As Jason noted, this business recorded record higher transportation revenues and record transportation volumes, driven primarily by the North Bakken expansion project that was placed in service earlier this year.

This project is well positioned in the Bakken and can be readily expanded in the future for forecasted natural gas production growth. The company continues to work on a number of expansion projects across its system that are expected to add incremental natural gas transportation capacity of more than 300 million cubic feet per day, and they are expected to be completed throughout 2023 and 2024, pending regulatory approvals.

Now I'd like to switch gears and move on to our construction businesses. At our construction services group, we had all-time record revenue during this quarter, up 43% from a year ago. We experienced strong demand for electrical and mechanical-related work with an overall increase in revenues of approximately 70%, specifically for hospitality, data center and renewable projects.

We also saw consistent demand for transmission and distribution-related work, which also contributed to the quarter. Construction services ended the quarter with all-time record backlog of \$2 billion, up 57% from the prior year. The company expects to complete approximately 80% of this backlog within the following 12 months.

We are very well positioned to complete these projects safely and efficiently with our ability to successfully attract and retain a skilled workforce of over 9,100 employees across our footprint.

Given the successful first three quarters of the year, we have also increased our 2022 revenue guidance range by \$100 million to now a range of \$2.5 billion to \$2.7 billion, with margins expected lower than 2021, reflecting the current inflationary environment.

Now moving on to construction materials. Here, our construction materials business also had all-time record revenues for the quarter, with increases across all product lines. This business completed a significant portion of work that was delayed earlier in the year due to unfavorable weather conditions, and benefited from higher average material pricing across its product lines.

The company also reported a record third quarter backlog of \$895 million, up 37% from the same time last year, and expects to complete an estimated 92% of the backlog, on record, within the following 12 months. Given the strong backlog and record third quarter revenues, we are affirming the revenue guidance range of \$2.45 billion to \$2.65 billion, with margins slightly lower than 2021, reflecting the current inflationary environment.

Looking ahead, both our construction services and construction material businesses are really very well positioned to benefit from the Infrastructure Investment and Jobs Act, and the Inflation Reduction Act, which we anticipate will begin to positively impact bidding opportunities here in late 2022 and particularly 2023 and going forward.

This completes our individual business unit discussion. Looking ahead, we are very encouraged by the opportunities for customer growth at our utility and electric businesses, a strong set of pipeline projects across our pipeline business, record levels of construction backlog and our ability to record and have a skilled employee base as well.

We are affirming our 2022 earnings guidance to a range of \$1.75 to \$1.90 per share with EBITDA guidance in the range of \$875 million to \$925 million. We have a robust capital plan of \$702 million planned for 2022. Our future capital expenditures include line-of-sight opportunities, such as the completion of Heskett Station Unit 4 and other infrastructure development at the utility, expansion projects at the pipeline and ongoing equipment replacements at our construction businesses.

As always, MDU Resources is committed to operating with integrity and with a focus on safety, while creating superior shareholder value, as we continue to provide essential services to our customers and delivering on our mission of Building a Strong America, while being a great and safe place to work. I appreciate your interest in and commitment to MDU Resources and ask now that we open the line to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from Brian Russo from Sidoti.

Brian J. Russo - Sidoti & Company, LLC - Research Analyst

Just quickly on Knife River. What are the regulatory milestones that we should be looking for as we progress into 2023 in terms of the private letter ruling from the IRS, I think, and then any SEC approvals needed? And maybe if we can kind of look at the calendar, are we talking first half 2023 or second half of 2023 completion?

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

Sure. I understand that question, Brian. I will start and maybe ask Jason to give a little more detail that we can. I would say, in short, we are strong focus internally. We are on track as we've laid out our project here, certainly, again, a high priority internally.

2023 is the -- I know it's a wide window of time, but that's the window that we provided there. And clearly, there will be some milestones. I'll turn it over to Jason, while not probably depicting dates, but just to give you some work stream kind of color.

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

Yes. Thanks, Brian. It's a great question. And we're certainly, as Dave mentioned, working quickly towards this. I think what you would see -- what you mentioned were 2 items that really are some of the regulatory workflows I would consider, one being a private letter ruling from the IRS.

I mean, that process is well underway here. We'll be working with the IRS here in the coming months to work through that process. And in addition, I think in the Form 10, which will be the filing with the SEC, we would expect here in the next coming months as well to be filing on a confidential basis, that, with the SEC which we would then work with them to get that to a public document sometime ahead of the spin here as we get into 2023.

So not real definitive on dates there, but I think those are 2 of the big milestones that are a little bit outside of our control as far as the timing of the review process, but certainly within our control is how quickly we can get those filed here and get working with those various groups.

Brian J. Russo - Sidoti & Company, LLC - Research Analyst

Okay. Great. And then on the construction services segment, the strategic alternatives, what are those alternatives? Is it outright sale and/or a spin-off similar to Knife River? And when do you think you might conclude the review and provide an update?

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

Yes. No, I appreciate that question, Brian. I -- actually, I think that question, I'll expand on it maybe just a little bit, but I thought it might be more why didn't we announced this back in August or why now, why not then, and just kind of the separation. And I'll get to your question.

But really, I would say we've always said that the Board continually evaluates our portfolio of businesses to really make sure that the company is best positioned to unlock value for our shareholders. And -- going back to our August announcement, at that time, we were really able to make clear 2 specific decisions, one that we really felt that Knife River would be better positioned to create value for our shareholders really as a -- I'll say, as a stand-alone company.

And also, we didn't feel and we voiced this that it didn't make sense, probably industrial logic, to really spin Knife River and CSG as a combined entity. So hence, the announcement back in August. And so as our Board and management have been working through how our shareholders are best served by keeping CSG with regulated energy or exploring other alternatives for CSG, we really felt that, as we continued to analyze CSG, we felt really the most desirable outcome is to move towards this 2 pure-play publicly-traded company structure that we announced here just today.

One being regulated energy, our utility companies, combined with our pipeline business, along with the construction materials being the other one. And so confident of that structure. Going to your question though, it's really the start of the review, if you will, so far as the strategic review and looking at the various options with our announcement today, we will be looking at all alternatives and ways in which to maximize value here.

I feel very strongly, CSG is a very valuable business. If you look at all the financial metrics, whether it's year-to-date net income at record levels. If you look at employment levels at 9,100 employees, if you look at backlog up some 50% on a year-over-year basis, it's really a high-performing business.

And so we're going to be very judicious in our review as we look at alternatives to really maximize or optimize the value of our CSG business.

Brian J. Russo - Sidoti & Company, LLC - Research Analyst

Okay. One last question on the utility. It seems like you have a very active regulatory calendar with rate cases pending or expected to be filed. I'm sensing you're under earning basically in 2022, which is why you're filing these cases.

When we look forward, assuming manageable equity needs, right, and your reaffirmation of the 5% rate base CAGR, can we see the utility growing earnings at a consistent rate with the rate base growth rate of 5%? Is that realistic in the near term?

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

Yes, Brian. I mean, as utilities make investments for that safe and reliable service, clearly, then we look to the regulators to go through that rate making process to make everything is reasonable and prudent, but that rate base growth should translate to some correlation to earnings growth.

Certainly, subject to regulatory lag, subject to making sure that our investments were truly reasonable and prudent as well. I think given we are outspending, if you will, our depreciation rates at our utilities, so we're growing rate base at that 5% compounded annual growth, there's kind of an inherent regulatory lag in that process because we're outspending, if you will, the depreciation rate.

So, what you noted for an expectation would clearly be an expectation I would have. It might be choppy only because rate cases come every 9 to 12 months as we -- from a regulatory cycle there. But you can clearly see, Nicole and her team are very focused on closing that regulatory gap.

And as we think about the number of cases that were just filed. And I think, I probably answered the question. I'm looking at Nicole, if anything to add there, but I probably -- I think, I got it all, unless you have a follow-up, Brian.

Operator

Your next question comes from Ryan Levine with Citibank.

Ryan Levine - Citigroup Inc., Research Division - VP

In terms of the strategic announcement or potential strategic review that you initiated this morning, is -- to the extent it's not successful, what entity would construction service remain with? And then to the extent you go forward with the potential transaction, curious as to how the capital structure would travel with the assets and how you're envisioning financing attributes of this package of -- or this portfolio of assets?

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

Sure. So both kind of future questions to be answered if you think of it that way, Ryan. Clearly, the strategic review, we're going to look at all options here to look to optimize the value of the business that could be in the form of a number of different types of transactions, whether it's a sale, whether it's a spin, whether it's a merger, whether it's a combination of those or some other type of structure.

And so that will be part of the review. And no doubt, the results of that outcome will then lead into the second part of your question as to capital structure or use of whether there will be proceeds or ultimately shareholder value creation here and how we best deploy that for our 2 pure-play businesses. Jason?

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

Yes, I would just add to, I think your -- part of your original question, Ryan, was where would services lie here. I think, I just want to come back to the focus. So we're diligently working towards the separation of Knife River into a stand-alone company. That's really what we've been working on here for quite some time.

We will be looking through strategic alternatives for the services business here as well, but that will be kind of a separate process in that piece. And we haven't really been definitive on a timeline with that here at this point either.

So, I think it's a little early to hypothesize, I guess, maybe where things would end up after the fact, but just want to be focused on the fact that we really are seeing Knife River as a stand-alone pure-play materials company, and the future state for MDU Resources will be a stand-alone pure-play regulated energy delivery company.

Ryan Levine - Citigroup Inc., Research Division - VP

Okay. Because that envision -- there's a possibility to take -- there could be 3 stand-alone public companies as an outcome of the strategic review? Or is it focused more around attracting third-party strategic or financial buyers?

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

I think all options are on the table as we think about that, Ryan. And so I wouldn't preclude anything at this point. Again, our announcement today is really letting the world know of what our future plans and structure as we see it. And certainly, we'll look to, again, optimize the value of Construction Services Group, a very valuable company, as it's performing today.

Ryan Levine - Citigroup Inc., Research Division - VP

Okay. And given there's a number of potential transactions in the works over the next, call it, 12 months, how are you looking to evolve current M&A or transaction strategy in terms of bolt-on acquisitions between the 3 key business units?

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

Yes. Certainly, that's part of our DNA, Ryan, as we look -- I mean, that's really what has grown our materials business into what it is today and what we intend it to be, down the road, a stand-alone public company, a top-performing materials business.

And -- it's also in the DNA of construction services and into the valuable business, as I noted today. I think that's still part of what we would continue to look at. Clearly, we have other major work streams undergoing as well. But I wouldn't preclude that. At the same time, we've been very successful at organic growth in these businesses as well. So I think there's optionality we have in each of those construction lines.

Ryan Levine - Citigroup Inc., Research Division - VP

Okay. And then -- in terms of construction services, historically, you've been reluctant to part ways with that asset because of the tax basis issues and certain strategic and commercial benefits. What's changed on that front? And are there any dis-synergies that you would envision with any separation of that business?

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

Yes. Certainly, that will be part of this analysis as we think about the various transactions and the types that I outlined earlier. Those all will be considerations when we think about that. But again, it's a strong performing business today, and we think there will be likely a reaction to our announcement today. And again, we're starting that process right now.

Ryan Levine - Citigroup Inc., Research Division - VP

Okay. And then one on the utility. I think in your prepared comments, you highlighted some other funded pension or certain obligation there. Can you elaborate on where you sit from that standpoint and how that could impact your outlook?

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

I think what you're noting is some of our non-qualified benefit plans. We've noted in throughout the year, given the markets this year and kind of the no-place-to-hide kind of thing, I think it's roughly \$20 million or about \$0.10 per share on a year-over-year basis.

But maybe just a little background, Jason, as to that. We just want that be known because it's a large enough number investors should know that.

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

Yes. This is -- to your question, Ryan, here, as far as pension, this is a little bit different than kind of our traditional pension here. This is really the non-qualified programs that we have. And these assets, as they're non-qualified, we have liabilities certainly on our balance sheet for that. We have funded some assets to offset those liabilities.

And those assets are actually mark-to-market on a monthly basis. So, these are all non-cash, unrealized gains and losses that have been -- or losses this year, I guess, as you would say that we've experienced on these assets here.

Don't expect this to have a significant impact on ongoing future benefit expense or anything along that line. This is really related to these non-qualified plans, not getting into kind of the traditional defined benefit pension plans that we have at our various businesses.

And those plans, just as a refresher, we have frozen all of our defined benefit pension plans as well across the corporation many years ago as they're really kind of in a liability-reduction mode at this point in time versus something that's large ongoing cost of the company.

Operator

(Operator Instructions)

Your next question comes from Dariusz Lozny with Bank of America.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Can I just maybe start with thinking about the growth rate at the RemainCo after the 2 processes that you have ongoing are concluded. I think in the past, you framed your 5% to 8% long-term CAGR as sort of on the low end are the utilities and the upside there towards the 8% is driven by the construction businesses.

Post these two transactions, would you -- do you envision having any latitude to accelerate that rate base growth and, correspondingly, the EPS growth at the RemainCo?

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

Yes. Great question, Dariusz. Yes, I mean the 5% to 8% is our long-term EPS growth as MDU Resources as we see that today. I know we had countless meetings with you and other investors kind of walk us through how each of the businesses contribute to that 5% to 8% and how we think about that.

As you're describing this pure-play regulated business, our future state as we envision. Today, we talked about a 5% CAGR in rate base growth, certainly at our utility business. That's really coming off about a 7% CAGR over the prior 5 years. And if it went back 2 years before that, the prior 5 years were more like a 12% CAGR.

So, it's been growing quite nicely over time. Certainly, it's currently at a 5%. I would say, look forward as we think about our CapEx discussion with our board here in a couple of weeks, and we would be expecting to let the market know what the refresh on our 5-year looks like, probably that week of Thanksgiving or so, just to give a sense there.

So, I think that's probably a contributor. Certainly, the pipeline business would have experienced a stronger CAGR than that over the recent years, which I think would tend to elevate that EPS. And then if you think about the projects that I noted in my comments, the multiple projects, the \$300,000 a day of commitments from customers that Trevor and his group have signed up, if you will, between -- that's 2023, 2024 projects, very line of sight.

I would expect that would be more on the high end of that range, if not lifting that of sorts. So -- but that's as we see it today. I think the other part of this is the pure-play, we also think we'll have a certain appeal in the marketplace as a pure-play regulated business as we think about that.

And then we'll also be really defined capital structure and also capital allocation will be very focused as we think about that management team that's dialed in, in that business as well. And so I think those are all attributes to be thinking about as we described the future state of MDU Resources, particularly to the regulated energy business. Sorry for the long answer.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

No, that's great and very comprehensive. I appreciate it. One more, if I can, and this relates to your '22 guidance. It looks like your revenue guidance for the services business ticked up, but the margin language maybe ticked down a little bit, while the materials, which I think had a weaker first half of the year, seems to be steady state as far as the composition of your guidance.

Can you maybe talk a little bit about the dynamics there, what are you seeing specifically on the services relative to the materials? And then also maybe the backlog growth and the services side was very robust. Can you talk a little bit about the dynamics there? And what specifically drove that really strong increase in the backlog?

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

Absolutely, Dariusz. I'm going to just give a couple of comments, but then I think well served to get more details from each of those business heads. I'll start with Jeff Thiede and then ask Dave Barney to weigh in on materials. And I mean, clearly, you look at a high level where our activities have been in both of those lines of business, as you note, elevating services by \$100 million in revenue guidance.

As we think about the year, our backlog growth there has been astounding, if you think of it that way. I'll have Jeff kind of talk about just the dynamics in that business, which I think also leads to your margin question a little bit as well. Jeff?

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

Thanks, Dave. We've had pressure from inflation, labor, materials, subcontractors. That's contributed to the margin impact, that supply chain issues, which affects productivity. And as noted in the release, we've had a couple of write-downs, given the nature of our work and our historical strong performance, including our record quarter revenue and a record year-to-date earnings.

In our Q3 earnings that were 21% higher this year than last year, write-downs are part of our business, and they should be overcome and will be overcome by strong performance on a majority of our projects. We've got exceptional teams focused on getting work and being selective.

And our backlog remains consistent among our E&M group, which is about 80% of our backlog versus our T&D group, which is about 20%. The largest component of that work is our commercial, which includes hospitality, airport, data center work, industrial. But we've got a number of segments that really exemplifies our diverse project offerings and strengthens our business.

Included in that is renewables. We've got several renewable projects and 2 more pending that we anticipate on getting. We're also doing electric vehicle charging stations. And we've got great growth in our service work and our special projects.

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

Dariusz, any follow-up for Jeff? Or I'll go on then to Dave Barney. Just want to make sure, Jeff answered your question.

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

Yes. Yes. Yes. That was very helpful.

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

Okay. Very good. Dave Barney, can you just touch on kind of the dynamics that you're seeing out there and what your team is doing to get ahead of them?

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

Sure. Dariusz, we had -- as you know, we had record revenue in the quarter due mainly to higher prices in almost every product line, we have a record backlog across almost all our regions. And I can tell you, our bid schedule looks strong.

And we'll continue to pick up work. Demand is strong. Our price increase has largely been accepted by our customers and we continue to raise prices just in October, we implemented another price increase on aggregate. So going forward, we expect our margins to continue to improve. Does that answer your question?

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

Thank you, Dave. Anything else, Dariusz?

Dariusz Lozny - BofA Securities, Research Division - Research Analyst

No, I think that's everything. I appreciate the color.

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

Excellent. Thank you for calling in and for the questions, Dariusz.

Operator

(Operator Instructions)

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

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

Thank you, Lisa, and thank you all for taking the time to join us here on our Third Quarter Earnings Call. We are optimistic about our growth opportunities with record combined construction backlog and our ongoing and future regulated energy delivery projects.

We look forward to connecting with you again as we close out the year and prepare for 2023. Again, thank you. We appreciate your continued interest in and support of MDU Resources.

And 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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