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MDU Resources Group, Inc. NYSE:MDU

Earnings Call

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Call Participants

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Jason L. Vollmer

VP, CFO & Treasurer

Nicole A. Kivisto

President & CEO

Stephanie Sievert

VP, CAO & Controller

Rob L. Johnson

President of WBI Energy, Inc.

Garret Senger

Chief Utilities Officer

ANALYSTS

Christopher Ronald Ellinghaus

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L.L.C., Research Division*

Ryan Michael Levine

Citigroup Inc., Research Division

Presentation

Operator

Hello. My name is Todd, and I will be your conference facilitator. At this time, I would like to welcome everyone to the MDU Resources Group 2024 Third Quarter Earnings Conference Call. [Operator Instructions]

The webcast can be accessed at www.mdu.com under the Investors heading. Select Events & Presentations and click Q3 2024 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, Vice President, Chief Financial Officer and Treasurer of MDU Resources Group. Thank you. Mr. Vollmer, you may begin your conference.

Jason L. Vollmer
VP, CFO & Treasurer

Thank you, Todd, and welcome, everyone, to our third quarter 2024 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 along with me is Nicole Kivisto, President & CEO of MDU Resources. Also with us today to answer questions following our prepared remarks are Stephanie Sievert, Vice President, Chief Accounting Officer and Controller of MDU Resources; Rob Johnson, President of WBI Energy; and Garret Senger, our Chief Utilities Officer.

During our call, 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 are based on reasonable assumptions, actual results may differ materially. 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.

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

With the completion of the Everus Construction Group spin-off occurring on October 31, third quarter results for Everus are included in MDU Resources' quarterly results. However, we will be focusing our discussion on our remaining utility and pipeline business results for the quarter. Everus hosted a call earlier today, during which they discussed their quarterly results, and I will refer you to their replay and transcript for further details.

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

All right. Thank you, Jason, and thank you, everyone, for spending time with us today and for your continued interest in MDU Resources. With the completion of the Everus spin-off on October 31, which followed the spin-off of Knife River last year, we have reached our stated goal of becoming a pure-play regulated energy delivery business. As I reflect on the last few years, it is phenomenal how much has been accomplished. We have transformed our company, created shareholder value and positioned MDU Resources for future success. I am so proud of our employees who have not only dedicated countless hours to these strategic initiatives, but also remain steadfast and focused on the operations and performance of our businesses, which have continued to deliver strong results throughout this period.

As we look ahead, we are focused on our core strategy, which emphasizes customers and communities, operational excellence, returns-focused and employee-driven. We are well positioned for growth into the

future with anticipated customer growth of 1% to 2% annually and expected long-term EPS growth of 6% to 8%, while targeting a 60% to 70% annual dividend payout ratio.

Our third quarter results maintain the positive momentum we have experienced throughout 2024. Notably, at our utility business, we have demonstrated solid results driven by strategic rate adjustments and expanding infrastructure investments. Meanwhile, our pipeline segment again achieved record earnings for the quarter, driven by record third quarter transportation volumes and increased storage revenues. These achievements across our businesses underscore our unwavering commitment to delivering safe and reliable service and sustainable growth with our dedicated employees playing a pivotal role in our continued success. Our business remains poised for compelling long-term growth prospects.

In the third quarter, our utility business delivered solid performance, particularly at our electric segment due to rate relief and increased volumes due to warmer weather. Our combined retail customer base grew by 1.5%, which reinforces our company's need to proactively manage our utility infrastructure to meet the demands of our growing customer base.

On the regulatory front, it certainly was a busy quarter at our utility business. We filed a natural gas rate case in Montana, settled our South Dakota electric and natural gas rate cases and filed an all-party settlement agreement on our North Dakota natural gas rate case, which is now pending before the commission.

Moving to the data center front. We filed an electric service agreement with the South Dakota Public Utilities Commission to serve a 50-megawatt data center that will be located near Leola, South Dakota. In addition, we filed an amendment to the electric service agreement that was previously approved by the North Dakota Public Service Commission, increasing the service provided from 225 megawatts to 350 megawatts. Including the existing data center we serve, we now have 580 megawatts of data center load under signed electric service agreements. Of that total, 180 megawatts are currently online with the balance starting to come online next year and continuing through the next few years.

We also had some additional regulatory activity over this past week. On October 30, we provided notice to the administrative law judge that a settlement in principle has been reached in our Washington multiyear rate case. The next step will be filing the settlement agreement with the commission in the near term.

In addition, on October 31, we filed a natural gas rate case in Wyoming, requesting an annual increase of \$2.6 million or 14%. Our focus remains on delivering safe and reliable electric and natural gas services to our expanding customer base with active efforts to seek regulatory recovery for our investments.

At our pipeline business, we achieved record third quarter earnings, up 27% from the third quarter of 2023. This segment is executing well on our core strategy and delivering strong results, driven by strategic expansion, increased demand for transportation and storage services and continued benefit from new transportation and storage rates that were effective August 1, 2023. We remain committed to investing in future expansion projects to meet increasing customer demand for services, including strong interest from industrial customers and power generation projects.

Our Line Section 28 expansion project placed in service during the quarter added 137 million cubic feet of natural gas transportation capacity per day to our system.

Construction continues on our Wahpeton Expansion Project in Eastern North Dakota, which will provide approximately 20 million cubic feet of natural gas transportation capacity per day and is anticipated to be in service in the fourth quarter of 2024.

On November 1, we also closed on the purchase of a 28-mile natural gas pipeline lateral in northwestern North Dakota. This lateral extends our pipeline system to a natural gas processing plant in the Bakken.

With our performance seen year-to-date, we now expect to finish the year above the top end of our previous guidance range and are increasing and narrowing our regulated energy delivery earnings guidance for 2024 now to a range of \$180 million to \$185 million. We are looking forward with great optimism. The prospects for continued customer and system growth in our electric and natural gas utilities

and the strong performance of our pipeline with additional expansion projects underway as well as the consistent demand for pipeline services are all promising as we finish out 2024.

As always, MDU Resources is committed to operating with integrity and with a focus on safety. We remain dedicated to creating superior shareholder value as we continue providing essential products and services to our customers, while being a great and safe place to work.

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

Jason L. Vollmer
VP, CFO & Treasurer

Thanks, Nicole. I'm pleased to share the details of our third quarter results. As a reminder, with the Everus spin-off occurring on October 31, third quarter results from Everus are included in the following numbers. In future reporting periods, Everus results will be reclassified as discontinued operations and comparative data will be recast.

This morning, we announced third quarter earnings of \$64.6 million or \$0.32 per share on a GAAP basis compared to third quarter 2023 GAAP earnings of \$74.9 million or \$0.37 per share. Third quarter income from continuing operations was \$62.2 million or \$0.31 per share compared to \$78.2 million or \$0.38 per share in 2023.

It's important to note that certain costs associated with the spin-off of Knife River last year are reported as discontinued operations in our GAAP-based results for the prior year. In addition, we experienced an unrealized gain on the retained shares of Knife River in the third quarter of 2023. This gain was \$22.8 million net of tax and was reported in continuing operations for 2023.

With the completion of the Knife River spin-off and work performed on the Everus spin-off, we are also reporting adjusted income from continuing operations to provide financial results that more closely correlate with and better outline the strength of our ongoing business operations. For more information on these adjustments, please see the first table in our earnings release.

We experienced solid results from all of our businesses in the quarter with adjusted income from continuing operations of \$65.5 million or \$0.32 per share compared to third quarter 2023 adjusted income from continuing operations of \$58.6 million or \$0.29 per share.

As we turn to our individual businesses, our utility business reported earnings of \$6.8 million for the quarter compared to earnings of \$3.2 million in the third quarter of 2023.

Electric utility reported third quarter earnings of \$24.3 million compared to \$20.9 million for the same period in 2023. The increase was largely the result of higher retail sales revenue from rate relief and higher volumes to residential and commercial customers largely due to warmer weather.

The natural gas utility reported a seasonal loss of \$17.5 million in the third quarter compared to a loss of \$17.7 million in the third quarter of 2023. The improvement was largely the result of higher retail sales revenue due to rate relief in certain jurisdictions and higher investment returns on nonqualified benefit plans. These increases were largely offset by the absence of recovery of interest expense in Idaho related to gas costs in 2023.

The pipeline business posted record third quarter earnings of \$15.1 million compared to \$11.9 million in the third quarter last year. The earnings increase was driven by record third quarter transportation volumes, primarily from organic growth projects placed in service in late 2023 and throughout 2024. Higher storage-related revenue and new transportation and storage service rates that were effective as of August 1, 2023, also drove the increase in earnings. Increase was offset in part by higher operation and maintenance expense, primarily payroll-related costs and higher materials and contract services. The business also incurred higher depreciation expense due to organic projects placed in service.

And finally, MDU Resources continues to maintain a very strong balance sheet and ample access to working capital to finance our operations throughout our peak seasons. Business momentum is strong as

we close out the third quarter of 2024, and we will continue to provide updates as we close out the rest of this year.

That summarizes the financial highlights for the quarter. We appreciate your interest and commitment in MDU Resources and now ask that we open the line to questions. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question will come from Chris Ellinghaus with Siebert Williams Shank.

Christopher Ronald Ellinghaus

Siebert Williams Shank & Co., L.L.C., Research Division

The increase in the guidance, have you got any color you want to add to? Was it -- the weather was good in the quarter. So was that a big piece of the guidance? Or what are the pieces you're thinking about?

Nicole A. Kivisto

President & CEO

Yes, Chris. So essentially, as we looked at our performance on a year-to-date basis and the momentum we have heading into the end of the year here, we looked at the range that we had out there and decided to increase it on an overall basis. Certainly, contributing to that increase was some weather-related impacts, as you already highlighted in the quarter as well as the very strong momentum we're seeing at the pipeline this year. And we've got that also kind of laid out in the news release as well.

Christopher Ronald Ellinghaus

Siebert Williams Shank & Co., L.L.C., Research Division

Was the -- were the pipeline results better than you expected? And why would that be?

Nicole A. Kivisto

President & CEO

So as we think about the pipeline, I can let Rob add some color commentary here. Certainly, the new rates that we put in place, we had those on the radar. Those were implemented last August, and -- but we are seeing year-over-year impact from that. But we are also seeing record transportation. And in addition to that, storage was certainly much stronger than we expected this year. But Rob, any other color you would provide there?

Rob L. Johnson

President of WBI Energy, Inc.

No, Nicole, I think you summarized it well. Storage was the primary driver. The growth projects we expected and we expect to continue, but storage market has just been extremely strong and the primary driver for that increase.

Christopher Ronald Ellinghaus

Siebert Williams Shank & Co., L.L.C., Research Division

Okay. Great. Can you provide any color on the pipeline acquisition? What was your thinking there? Simply volumes increasing to that processing plant that you saw as an opportunity?

Nicole A. Kivisto

President & CEO

Yes, we certainly see it as a strategic acquisition here, but I can get -- turn it over to Rob for some details there, Chris.

Rob L. Johnson

President of WBI Energy, Inc.

Yes. Thanks, Chris. This particular pipeline from this processing facility, we currently have a pipeline that runs from this facility. This additional acquisition does a couple of things. Long term, it's a very strategic fit for our assets in the Bakken. This was a smaller acquisition, \$17 million of capital, another \$0.75 million

in integrity testing. It will generate approximately \$3 million in earnings annually and can expect kind of a normalized FERC-regulated return on those assets.

Christopher Ronald Ellinghaus

Siebert Williams Shank & Co., L.L.C., Research Division

Great. That's helpful. Nicole, the Montana interim increase, have you got any thoughts on what that tells us about the Montana regulatory climate, at least for you or for gas or whatever thoughts you might have there?

Nicole A. Kivisto

President & CEO

Yes. As we look at our request there, Chris, I'm assuming you're referring to our request for reconsideration on our interim ask there. On an overall basis, I would say as we look at Montana and our overall portfolio, we're moving forward with the reconsideration as it relates to the interim request. To just size that maybe for you, though, as we think about that piece of our business, it represents about 5% of our overall rate base. So we continue to like the state of Montana as part of our overall portfolio, but I will say we continue to also appreciate the diversity that we have across our 13 jurisdictions.

Operator

[Operator Instructions] Your next question comes from the line of Ryan Levine with Citi.

Ryan Michael Levine

Citigroup Inc., Research Division

Congratulations on the spin being complete. I guess it looks like you wasted no time with the first day post spin to announce this acquisition. Should we look for the new MDU to be more focused on acquisitions going forward? Or any thoughts that you're able to share around your strategic outlook for M&A?

Nicole A. Kivisto

President & CEO

Yes. Thanks for the question, Ryan. How I would summarize that is kind of how we've talked in the past. I mean as we think about -- first of all, I guess, making sure that I acknowledge the significant and monumental efforts of the team as we've arrived at our future state here. Couldn't be happier with the results in terms of overall shareholder return created. And here we are today now arrived at where we said we were seeking a couple of years back.

So putting us in a place, and you heard me talk about in the script, where I really believe strongly, we've got future organic growth in front of us. So I'm very excited about our future from an organic growth perspective. As you look at the capital that we have and the outlay of capital, how we've grown in the past, we've got plenty of opportunities to grow organically. That being said, we have been acquisitive in the past. We have grown our utility business through acquisition. You just alluded to the pipeline acquisition that we've done here. We will look at opportunities to grow acquisitively as well, but we're only going to do it if it makes sense for shareholders, customers and our employees.

Ryan Michael Levine

Citigroup Inc., Research Division

Historically, the midstream business hasn't been a focus of M&A. Is that still the case? Or is there more commercial opportunities that you see?

Nicole A. Kivisto

President & CEO

I'm sorry, could you repeat that? Were you saying, historically, our pipeline, Chris (sic) [Ryan]? Is that what you're asking specifically?

Ryan Michael Levine

Citigroup Inc., Research Division

Yes, I mean, your pipeline and midstream business. Yes. Is that an area that you see inorganic growth opportunities?

Nicole A. Kivisto

President & CEO

Yes, I can let Rob also add some color commentary here. But as we look at our pipeline, I would probably say -- kind of summarize it the same way I just summarize our total company. I mean there's a lot of customer demand projects that are driving organic growth opportunities within our system. Our strategic positioning within the Bakken is certainly a huge value add for our pipeline business. But that being said, just like I reiterated on a total company basis, the pipeline is going to look at opportunities, which could include acquisition of pipe. So Rob, anything further on that?

Rob L. Johnson

President of WBI Energy, Inc.

No, I think you summarized that as well. It's -- we got supply push projects we're looking at, a lot of demand projects we're looking at. Data centers are part of that, power gen, LDC growth, et cetera. So really potential projects in kind of all areas of our industry.

Ryan Michael Levine

Citigroup Inc., Research Division

I appreciate the color there. And then on the gas storage asset in particular, what was the contribution for that asset this quarter? And given the contract portfolio, is that expected to continue into next year or any kind of duration that you see in terms of the outperformance there?

Nicole A. Kivisto

President & CEO

Yes. On the storage side, I don't -- we probably don't quantify that and break that out specifically in terms of what the incremental add was there. Certainly, it was, as we mentioned, outsized relative to what we had anticipated. That being said, I think we do see strong demand for storage services as we look at basis differentials and winter/summer differentials going forward.

So as we think about the outlook, 2025 and beyond, as I'm assuming is kind of what your question is teeing up to, we will certainly be evaluating that and providing our guidance to the market in February for '25. But it certainly has been a benefit to 2024.

Operator

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

Nicole A. Kivisto

President & CEO

Okay. Thank you. Thank you, everyone, for taking the time to join us today for our third quarter 2024 earnings call. As you have probably heard, we are very optimistic about our growth opportunities and future projects as we move forward and execute on our core strategy as a pure-play regulated energy delivery business. We thank you again, and we appreciate your continued interest and support of MDU Resources. And with that, I'll turn the call back to you. Operator?

Operator

Thank you. This concludes today's MDU Resources Group conference call. Thank you for your participation. You may now disconnect.

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