THOMSON REUTERS

# EDITED TRANSCRIPT

Q2 2019 MYR Group Inc Earnings Call

EVENT DATE/TIME: AUGUST 01, 2019 / 2:00PM GMT

## CORPORATE PARTICIPANTS

**Betty R. Johnson** *MYR Group Inc. - Senior VP, CFO & Treasurer*
**Jeffrey J. Waneka** *MYR Group Inc. - Senior VP and COO of Commercial & Industrial*
**Richard S. Swartz** *MYR Group Inc. - President, CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Andrew John Wittmann** *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*
**Jonathan Paul Braatz** *Kansas City Capital Associates - Partner and Research Analyst*
**Sean D. Eastman** *KeyBanc Capital Markets Inc., Research Division - Associate*
**David E. Gutierrez** *Dresner Corporate Services, Inc. - Head of PR Practice and SVP*

## PRESENTATION

**Operator**

Good morning, ladies and gentlemen, and welcome to the MYR Group's Second Quarter 2019 Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the call over to David Gutierrez. The floor is yours, sir.

---

**David E. Gutierrez** ***Dresner Corporate Services, Inc. - Head of PR Practice and SVP***

Thank you, and good morning, everyone. I'd like to welcome you to the MYR Group conference call to discuss the company's second quarter results for 2019, which we reported yesterday. Joining us on today's call are Rick Swartz, President and Chief Executive Officer; Betty Johnson, Senior Vice President, Chief Financial Officer and Treasurer; and Jeff Waneka, Senior Vice President and Chief Operating Officer of MYR Group's Commercial and Industrial segment.

If you did not receive yesterday's press release, please contact Dresner Corporate Services at (312) 726-3600 and we will send you a copy or go to the MYR Group website, where a copy is available under the Investor Relations tab. Also, a replay of today's call will be available until Thursday, August 8, 2019 at 1:00 P.M. Eastern Time by dialing (855) 859-2056 or (404) 537-3406 and entering conference ID 3690127.

Before we begin, I want to remind you that this discussion may contain forward-looking statements. Any such statements are based upon information available to MYR Group management as of this date and MYR Group assumes no obligation to update any such forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Accordingly, these statements are no guarantee of future performance. These risks and uncertainties are discussed in the company's annual report on Form 10-K for the year ended December 31, 2018, the company's quarterly report on Form 10-Q for the second quarter of 2019 and in yesterday's press release. Certain non-GAAP financial information will be discussed on the call today. A reconciliation of these non-GAAP measures to the most comparable GAAP measures is set forth in yesterday's press release.

With that said, let me turn the call over to Rick Swartz.

---

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

Thanks, David. Good morning, everyone. Welcome to our second quarter 2019 conference call to discuss financial and operational results. Tod Cooper, Chief Operating Officer for our T&D segment, is unable to join us today. We look forward to Tod's participation on the next earnings call.

I will begin by providing a brief summary of the second quarter results and then turn the call over to Betty Johnson, our Chief Financial Officer, for a more detailed financial review. Following Betty's discussion, I will cover Tod's T&D section; and Jeff Waneka, Chief Operating Officer for our C&I segment, will provide an industry outlook and discuss some of MYR Group's opportunities going forward. I will then conclude with some closing remarks and open the call up for your comments and questions.

Our second quarter 2019 results included increases in revenue, earnings per share and EBITDA as compared to the second quarter and first half of 2018. Our backlog in the second quarter reached a new record high of $1.16 billion, consisting of short- and long-term projects in both our T&D and C&I segments.

Our results continue to reflect solid consistent long-term growth. This paves the way for opportunities to make future investments to further expand our business, improve efficiencies, meet the needs of our customers and deliver strong returns to our stockholders.

On July 15, we announced the acquisition of CSI Electrical Contractors, which expands our breadth of commercial and industrial service offerings and geographical reach throughout California. CSI offers engineering, project management and construction capabilities for a range of markets. CSI is a leader in clean energy project development, and we look forward to working together to leverage our collective strengths across the wider footprint.

As we grow organically and through acquisitions, we are gaining new talent and expertise through the organization. We are prioritizing the implementation of enterprise-wide systems that aid our integration efforts, improve efficiencies and provide a framework for us to collaborate and communicate from anywhere, maximizing the ability to leverage our collective knowledge throughout the organization is vital to remaining an industry leader.

Now Betty will provide details on our financial results for the second quarter of 2019.

**Betty R. Johnson** ***MYR Group Inc. - Senior VP, CFO & Treasurer***

Thank you, Rick, and good morning, everyone. On today's call, I will be reviewing our quarter-over-quarter results for the second quarter of 2019, as compared to the second quarter of 2018. Our second quarter 2019 revenues were $448.8 million. This represents an increase of $109.1 million or 32.1% compared to the same period last year.

T&D revenues were $255.9 million, up 30% compared to the same period last year. The breakdown of T&D revenues was $169.5 million for transmission and $86.4 million for distribution. The T&D segment revenues increased primarily due to an increase in revenue on small- to mid-size transmission projects. C&I revenues were $192.9 million, an increase of 35.1% compared to the same period last year. The C&I segment revenues increased primarily due to increases in volume across all project sizes and incremental revenue from the Huen Companies.

Our gross margin was 9.6% for the second quarter of 2019, compared to 11.4% for the same period last year. The decrease in gross margin was primarily related to a $2 million increase in cost on a majority-owned joint venture that we acquired in the Huen acquisition, which is in its final stages of completion.

Although gross margin and C&I operating income were negatively impacted by the full increase of this cost, the impact to net income attributable to MYR Group was less than $300,000 after accounting for a pre-tax offset. These offsets totaled to $1.6 million and are included in the net loss attributable to noncontrolling interest and contingent consideration recorded in other income.

In addition, gross margins were negatively impacted by a few projects that experienced unfavorable weather conditions, increased subcontractor costs and a change in scope that resulted in lower project margins. We also experienced labor inefficiencies on a project for which we are in negotiations to receive reimbursement.

SG&A expenses were $33.9 million, an increase of $4.7 million compared to the same period last year. The increase was primarily due to SG&A expenses related to the acquired Huen Companies and higher employee-related expenses to support our growth. SG&A, as a percentage of revenue, was 7.6% for the quarter compared to 8.6% in the prior period.

Second quarter 2019 net income attributable to MYR Group was $7.2 million or $0.43 per diluted share compared to $6.8 million or $0.41 per diluted share for the same period last year. Total backlog, as of June 30, 2019, was $1.16 billion, a record high and is 14.4% higher than a year ago. Total backlog consists of $482.5 million for the T&D segment and $677.3 million for the C&I segment. This represents another record high for the C&I backlog.

As Rick mentioned earlier, on July 15, we completed the CSI acquisition. Over the last 2 years, the average annual revenues of CSI were approximately $265 million. The purchase price was approximately $79.7 million, which is subject to working capital and net asset adjustments and was entirely funded through our borrowings under our credit facility. We may also make additional contingent payments in the future, which will be based upon successful achievement of certain financial performance targets.

We do not expect CSI to be accretive to EPS before the second half of 2020, mainly due to the high amortization of intangibles in the first year and the impact of certain margin guarantees. We will be filing the required financial statements and pro forma financial information relating to CSI acquisitions by the end of the third quarter of 2019.

Turning to the June 30, 2019 balance sheet. We had approximately $106.5 million of funded debt, $175.5 million of availability under our credit facility and $209.3 million of working capital. We believe that our credit facility, strong balance sheet and future cash flow from operations will enable us to meet our working needs, equipment investments, growth initiatives and bonding requirements. However, we are currently in the process of revising our existing credit facility to provide for an early renewal and expanded borrowing capacity to support our continued growth.

In summary, we had improvements this quarter in revenues from both of our T&D and C&I segments, earnings per share, EBITDA and backlog compared to the prior year.

I'll now turn the call back to Rick, who will provide an overview of our Transmission and Distribution segment.

**Richard S. Swartz *MYR Group Inc. - President, CEO & Director***

Thanks, Betty. Our T&D project portfolio is robust and consists of small- and medium-sized transmission and substation projects, as well as distribution work driven by the need to improve reliability. As we continue to expand and refine our capabilities, we anticipate that our T&D segment will provide a significant opportunity for continued growth.

Throughout the Eastern U.S., our long-term transmission and distribution master service agreement work continues for clients. In addition to this MSA work and several small- and medium-sized direct award projects, construction continues on the onshore portion of Dominion Energy's Coastal Virginia Offshore Wind Project, which is currently the only fully permitted offshore wind project in the U.S. Federal waters and the first of its type for MYR Group.

Experience gained on this EPC project should help to position us favorably on several similar projects that are being developed along the East Coast of the U.S. Throughout the Midwest, Texas, the South, MYR Group subsidiaries, Great Southwestern and the L.E. Myers Company continue performing a variety of transmission, substation and distribution work throughout direct award and MSAs per customer, such as enCore, CenterPoint, Duke Energy, Florida Power & Light, Ameren and American Electric Power to name a few. A handful of EPC projects has also been awarded to Great Southwestern as either a prime or subcontract partner in Q2.

We're seeing strong activity throughout the West, especially in California, Colorado, Arizona and Utah. MSA work remained steady with several clients, such as XCel Energy, Arizona Public Service, Tucson Electric Power and Southern California Edison, which recently extended our MSA through 2021. Conductor installation has begun on the Harry Allen-Eldorado Transmission Project for LS Power subsidiary Desertlink, LLC. Work also continues on the substation -- substations associated with the Jim Bridger to Aeolus Gateway West Project, which is part of PacifiCorp's Energy Vision 2020 plan.

Overall, the distribution side of our business remained steady throughout the second quarter as we performed services through our long-term master service agreements across the U.S. The major drivers continue to be the need to harden the aging infrastructure and modernize the grid to minimize disruptions and improve reliability.

Several industry headlines in the second quarter pointed to continued growth in investments in clean energy, which we expect will lead to increased opportunities. Associated interconnections, expansions and upgrades of existing transmission infrastructure will be required to accommodate the fast-growing market.

For example, New Jersey has joined a growing list of states that have committed to carbon-free energy. In June, the New Jersey Board of Public Utilities released a draft plan to help the state achieve 100% clean energy by 2050, relying on a mix of electrification, renewables, energy storage, nuclear energy and grid monetization.

In the near term, the plan calls for developing 600 megawatts of energy storage by 2021. For the longer term, it calls for 2,000 megawatts of energy storage and 3,500 megawatts of offshore wind capacity by 2030. The New York Assembly recently passed a 100% clean energy bill that includes dramatic cuts to greenhouse gas emissions and requires the utility sector to supply 70% renewable energy by 2030 and be 100% carbon-free by 2040.

The latest U.S. Solar Market Insight Report was released in June, which indicated that 2.7 gigawatts of solar was installed in the first quarter of 2019. This is the most solar ever installed in the first quarter of the year. The report also noted that the total installed U.S. capacity will more than double over the next 5 years. These developments are important to MYR Group as we continue to grow our T&D services in the clean energy market and expand our geographic footprint to provide more solutions to more customers.

Along with expanding our capabilities and developing our customer base, we continually evaluate and invest in new effort seeking to improve quality, safety and productivity in order to remain a premier contractor of choice.

In summary, we believe the T&D market holds tremendous opportunity, and we will continue to devote our energy and resources to raising the bar throughout our company to ensure our clients, employees and stockholders all continue to benefit.

I will now turn the call over to Jeff Waneka, who will provide an update on our Commercial and Industrial segment.

**Jeffrey J. Waneka** ***MYR Group Inc. - Senior VP and COO of Commercial & Industrial***

Thanks, Rick, and good morning, everyone. C&I results in the second quarter represent a consistent growth as we experienced another gradual build in backlog throughout most of our locations. We are pleased with the number and strategic fit of our project awards. We put a great deal of effort into building sustainable long-term relationships, which we believe has contributed to our momentum over several quarters. While many of our clients are faced with diluted supervision and shortages in skilled craft labor, they're hiring us to increase collaboration, leverage technology and bring proven solutions to every project. We believe that all MYR Group companies deliver on these sought-after attributes.

Our second quarter financial performance was negatively impacted by a few specific projects, leading to results that were below expectations. The primary issues relate to a couple of projects on the West Coast that experienced unfavorable weather conditions, increased subcontractor costs and a change in scope that resulted in lower project margins. We also experienced labor inefficiencies on one project for which we are in negotiations to receive reimbursement.

In the Midwest, we had a couple of projects nearing completion that experienced scheduling delays, which negatively impacted our performance. Thanks to our well-trained management team and dedicated craft workers, we mitigated many disruptions, which otherwise could have been worse. We believe our efforts to proactively finish our clients' challenging projects will bode well as we work to resolve remaining financial issues. These projects have reached substantial completion, and we anticipate returning to more normalized C&I margins.

Before we delve into market outlook and commercial project awards, I'd like to take a few minutes to share my excitement about the acquisition of CSI and the opportunity I see going forward. Along with an important cultural fit, I'm looking forward to the abundant opportunities to expand our preconstruction services, client relationships and innovative installation methods as we merge our industry-leading companies. CSI, along with MYR Group subsidiaries, has a talented pool of experts in all departments, making the combined companies now measurably stronger. CSI and MYR have established cultures of continual learning that allows the efficient and productive transfer of knowledge. It was evident through every step of due diligence that we aligned around the welfare of our employees, advancements and technologies and delivering a high-quality and cost-effective product that drives benefit for all constituents.

CSI has a robust resume of high-profile complex projects in the commercial and industrial markets, enhancing MYR Group's already expansive resume. But I'm most excited about their history, building 2.2 gigawatts of photovoltaic generation plants. CSI's relationships in the solar market are well established, and their in-house expertise runs more than a decade deep. We intend to leverage this expertise to enhance opportunities in MYR Group subsidiaries across the U.S. and Canada. CSI also provides turnkey energy solutions, including design and engineering, construction and system monitoring and maintenance on solar cogeneration fuel cells and geothermal.

CSI's Founder and CEO, Steve Watts, was enthused about MYR Group's extensive portfolio of training programs and company events to share best practices and looks forward to bringing these to his team. The Annual MYR Group Continuous Improvement Conference held recently in Denver engaged more than 120 leaders from across the U.S. and Canada and presentations on implementing lean construction methods, creative thinking workshops and various tech solutions.

Working together, CSI and MYR Group will offer clients the resources and performance that we believe will be hard to beat and drive sustained results for years to come.

Turning to our market outlook. We expect to see steady bidding activity through the remainder of 2019. Project opportunities are healthy in all markets and have shown continued momentum. Backlog in the majority of our regions increased this quarter with awards occurring in multiple markets, including low voltage systems, mining, education and airport improvements. Across the balance of our regions, we won a wide variety of small- to mid-sized projects in commercial, industrial and transportation.

Commercial project awards remain particularly strong with awards occurring at facilities, where we've maintained long-standing relationships. Our research indicates that this market should remain resilient through 2019. We continue to provide extensive budgeting services on several large facilities early in their planning stages.

Other commercial project awards include entertainment facilities, water treatment and highway transportation projects. There is no shortage in the number of opportunities, therefore a high level of diligence is being deployed in pursuit of the best commercial opportunities for MYR Group.

We also experienced an increase in bidding activity and awards in the clean energy markets, increasing backlog in rooftop and ground-mounted solar projects, which bolsters our belief that a resurgent in solar spending is underway. We believe that we established good momentum last quarter that is carried nicely into the second quarter. Our chosen markets are robust, and our committed relationships are generating a host of complementary pursuits. We will stay diligent in managing the fundamentals to create value for our customers, shareholders and employees.

Thanks, everyone, for your time today. I'll now turn the call back to Rick, who will provide us with some closing comments.

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

Thank you for those updates, Betty and Jeff. Thank you, everyone, for participating on today's call. I feel privileged to be surrounded by such a talented team. Time and time again, I've witnessed them work together to address challenges, while growing our business and supporting our clients. As we remain diligent in maintaining our industry leadership position, I feel a source of pride and a tremendous confidence in knowing that we have the right people for the right jobs. Our people are the key factor that will position MYR Group for ongoing success.

Operator, we are now ready to open the call up for comments and questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from the line from Tahira Afzal from KeyBanc Capital Markets.

**Sean D. Eastman** ***KeyBanc Capital Markets Inc., Research Division - Associate***

This is Sean on for Tahira today. First one for me is just on the C&I margins. A couple of kind of productivity and efficiencies sounds like this quarter impacted the margins. But if I heard you guys right, those projects are all completed. So should see that kind of pop back up in the third quarter. So I just wanted to make sure that's the way to think about it. And also just given that we're folding in a couple of acquisitions into the segment, I wanted to get an update on what that normalized kind of operating margin is for that segment that we should be thinking about based on the mix of backlog?

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

I could talk about the projects that impacted our quarter first and we do -- those projects are primarily done. We've wrapped them up, and we're now in final negotiations on settling some of the financials. So we believe that those issues are behind us and that we're going to return to more normalized margins. We have some very perspective projects that we're working on now and believe they're going to come back to the results we would expect.

**Betty R. Johnson** ***MYR Group Inc. - Senior VP, CFO & Treasurer***

And I'll just add to that, Sean. One of the other factors is our amortization for the Huen Companies that in that first year, we have higher amortization. We get -- this is the last quarter for that. So this is for Huen. So we'll wind up having approximately $0.5 million less per quarter and -- for our noncash charges. That's for Huen. Now CSI amortization will start next quarter, but Huen will be behind us. And then the last part of your question, which is the normalized margins. We've always talked about C&I typically being in that 4% to 6% range, and we expect going forward with CSI to be within that same range. The one thing that we've highlighted is -- although we've talked about it not being -- CSI not being accretive after amortization, the other factor that comes into -- for the first year, the other factor that comes into play in that first year is the margin guarantees that we have in our contract that we've had in Huen also exists in CSI. So whenever you have those uplifts in margins at the end -- closer to the end of job that they always experience just like us, those will go back to the owner in that first 3 quarters to 4 quarters, hence the higher uplift, but we still see them bring in C&I into that 4% to 6% range.

**Sean D. Eastman** ***KeyBanc Capital Markets Inc., Research Division - Associate***

Okay, got it. And then second one for me, just moving over to the T&D segment. Commentary sounds very bullish both on the kind of small- to mid-sized transmission, some EPC work coming out, MSAs getting extended. Maybe you can provide some color on how the backlog should trend in that segment over the next couple of quarters? It sounds like there's no reason not to think it keeps moving up pretty materially?

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

Yes, we see a lot of activity. I haven't seen it this busy in a long time. So that continues kind of -- last quarter's comments continue into this one. When I look at the overall T&D market, I really haven't seen any large project come out with, what I'd call, firm bids yet. So our portfolio is small- to mid-size plus our MSA work, and I see that continuing. So those are steady. Again, we count our backlog a little bit different than some of our peers. So all our MSA work is only in there for 3 months, and that's how we've always forecasted. So we don't -- even though some of those agreements go out 3 to 5 years, we don't count that entire revenue off of that. So again, strong, and we see our backlog remaining consistent.

**Operator**

Our next question comes from the line of Jon Braatz from Kansas Capital.

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

Are you there?

**Jonathan Paul Braatz** ***Kansas City Capital Associates - Partner and Research Analyst***

Yes. I'm sorry, I'm sorry. I got distracted. Back to CSI, how significant is their backlog and the duration of the backlog? And sort of what you're able to glean in the backlog in terms of the margin assumptions built into the backlog numbers?

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

CSI is very similar to our own C&I districts. I would say, it's very similar. When we started doing due diligence and we started that process, they almost mirror what we do. So their backlog isn't a full year of revenue for them, but they're always capturing work and burning it off, and they really don't have any projects that go out much beyond that 18-month period out outstanding. So that's where we see them. There maybe a couple of trickles in there, but again, some of the larger jobs go out -- on the C&I front, even with ourselves go out to that 2-year period, but that's where we really see them. So a good -- they will be a good contributor to us as far as revenue, as Betty says, it really won't be accretive in that first year though due to the amortization.

**Jonathan Paul Braatz** ***Kansas City Capital Associates - Partner and Research Analyst***

Right, right. Are there -- the CSI provides some services or products that you currently don't do that you can leverage upon or vice versa?

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

They have some similar clients. They have some that are different that we'll be able to leverage at client base between our operations. They had a long-term relationship with some people we don't. On the solar side, they are stronger than we are in that. So that's a good add, about 1/3 of their business is solar. And then the other side almost mirrors our C&I districts. So a lot of the same customer base, but a lot of new that we can pass on to them. We've had clients that have wanted us to go into the C&I segment in California and do work that avenue to do, and they've got some clients that have wanted them to travel outside of California. So I think there'll be some good synergies going forward.

**Operator**

Our next question comes from the line of Andy Wittmann from Baird.

**Andrew John Wittmann** ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Betty, can you give us an estimate of what the intangible amortization is going to be for CSI?

**Betty R. Johnson** ***MYR Group Inc. - Senior VP, CFO & Treasurer***

I don't really have that amount just yet. We have estimates. We don't have that on record, but you'll see that by the time we come through in our pro forma filing. So -- which is, by the end of the third quarter.

**Andrew John Wittmann** ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Okay. We'll keep an eye out for that in the 8-K. I just wanted to ask, I guess, the next question on cash flow. CapEx was pretty high in the quarter and free cash flow, I guess, is negative here for the year. I wanted to get a sense from you guys as to what the cash flow outlook is for the year? Maybe break it up in terms of the balance of the year capital budget as well as do you feel like you can get some working capital out of the business because by our calculations, the DSOs increased a little bit here in the quarter?

**Betty R. Johnson** ***MYR Group Inc. - Senior VP, CFO & Treasurer***

So you're right. When it comes -- the DSOs, overall, I think, are fairly steady. When I say DSOs, I'm referring to accounts receivable, retentions and over-under billings all combined are fairly steady, but they are fairly significantly up from year-end. At year-end, we had a -- we made some nice improvements. So our year-to-date working capital spend impacted. So when it comes to the last half of the year, we are expecting capital expenditures to kind of be at this higher level that we've had for the first half to support our recent growth. But expecting, overall, I'd say, future -- the free cash flow to be positive in the last half. Part of that is because of some significant efforts that we have in very renewed focus and challenging overall billing process and payment terms throughout the company and turning those billings into cash. However, one of the things that is this last half is dependent upon is the timing of negotiating billing and collecting some of the pending change orders that we have outstanding as of June. So that would be our wildcard by the time we hit the end of the year. So hopefully that helps answer that question.

**Operator**

(Operator Instructions) As there are no questions at this time, I would now like to turn the call back to Rick Swartz, President and CEO.

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

Thank you, everyone, for participating on today's call. As always, I'd like to thank our exceptional management team and employees for their hard work and our stockholders for their continued support. I don't have anything further. We look forward to working with you going forward and speaking with you again on our next conference call.

---

**Operator**

Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day. You may all disconnect.

---