

MYR Group Inc. (MYRG) Q1 2024 Earnings Call Transcript

MYR Group Inc. (MYRG)

Q1 2024 Results Conference Call

May 02, 2024 10:00 AM ET

Company Participants

David Gutierrez - Investor Relations, Dresner Corporate Services

Rick Swartz - President and Chief Executive Officer

Kelly Huntington - Chief Financial Officer

Brian Stern - SVP and COO of MYR Group's Transmission & Distribution Segment

Don Egan - SVP and COO, Commercial & Industrial Segment

Conference Call Participants

Ati Modak - Goldman Sachs

Brian Brophy - Stifel

Sangita Jain - KeyBanc Capital Markets

Justin Hauke - Baird

Jon Braatz - KCCA

Presentation

Operator

Good morning, everyone, and welcome to the MYR Group First Quarter 2024 Earnings Results Conference Call. Today's conference is being recorded.

At this time, for opening remarks and introductions, I would like to turn the conference over to David Gutierrez of Dresner Corporate Services. Please go ahead, David.

David Gutierrez

Thank you, and good morning, everyone. I'd like to welcome you to the MYR Group conference call to discuss the Company's first quarter results for 2024, which were reported yesterday. Joining us on today's call are Rick Swartz, President and Chief Executive Officer; Kelly Huntington, Senior Vice President and Chief Financial Officer; Brian Stern, Senior Vice President and Chief Operating Officer of MYR Group's Transmission & Distribution segment; and Don Egan, Senior Vice President and Chief Operating Officer of MYR Group's Commercial & 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 webcast replay of today's call will be available for seven days on the Investors page of the MYR Group website at myrgroup.com. 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 webcast replay of today's call will be available for seven days on the Investors page of the MYR Group website at myrgroup.com.

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's 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 that are discussed in the Company's annual report on Form 10-K for the year ended December 31, 2023, the Company's quarterly report on Form 10-Q for first quarter of 2024 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.

Rick Swartz

Thanks, David. Good morning, everyone. Welcome to our first quarter 2024 conference call to discuss financial and operational results. I will begin by providing a summary of the first quarter results and then will turn the call over to Kelly Huntington, our Chief Financial Officer, for a more detailed financial review.

Following Kelly's overview, Brian Stern and Don Egan, Chief Operating Officers for our T&D and C&I segments, will provide a summary of our segment's performance and discuss some of MYR Group's opportunities going forward. I will then conclude today's call with some closing remarks and open the call up for your questions.

Our strong market position, operational consistency and the strength of our long-term customer relationships resulted in steady first quarter performance. Bidding activity remains healthy across both our business segments as we seek to strategically capture new opportunities and stay true to our sound business principles.

The country's growing need for an investment in a more robust electrical infrastructure, along with the continued shift to clean energy sources, present ongoing opportunities for growth for our T&D segment.

The Deloitte Research Center for Energy and Industrial's report from 2023 estimates up to \$350 billion in spending towards transmission infrastructure investments through 2030, with an additional forecast of up to \$580 billion in distribution infrastructure investments over the same timeframe. These markets are traditional strengths for our T&D segment where we are well positioned for success.

Much of our growing demand for electricity across the U. S. and Canada is fueled by the core markets our C&I segment serves. Data centers and the advancement of artificial intelligence, transportation, manufacturing and healthcare facilities are some of the expanding markets driving the need for electrification now and into the

future. Our teams have the experience and relationships to continue pursuing and winning work in these chosen core markets.

As always, our success is grounded in an unwavering commitment to our customers, safe and reliable project execution and the talent and dedication of our team members. We continue to develop and empower our employees to reach their highest potential as we grow our company and I thank each of them for their efforts.

Now, Kelly will provide details on our first quarter 2024 financial results.

Kelly Huntington

Thank you, Rick, and good morning, everyone. Our first quarter 2024 revenues were \$816 million, which represents an increase of \$4 million or 0.5% compared to the same period last year. Our first quarter T&D revenues were \$490 million an increase of 10% compared to the same period last year. The breakdown of T&D revenues was \$314 million for transmission and \$176 million for distribution.

T&D segment revenues increased \$29 million on distribution projects and \$16 million on transmission projects. Work performed under master service agreements continued to represent approximately 50% of our T&D revenues. C&I revenues were \$325 million, a decrease of 11% compared to the same period last year. The C&I segment revenues primarily decreased due to the delayed start of certain projects that are expected to begin later in 2024.

Our gross margin was 10.6% for the first quarter of 2024 compared to 10.4% for the same period last year. The increase in gross margin was primarily due to better than anticipated productivity, favorable joint venture results, favorable change orders and a favorable job closeout. These margin improvements were partially offset by labor and project inefficiencies, some of which were caused by inclement weather experienced on certain projects, rising costs associated with supply chain disruptions, and unfavorable change order and an unfavorable job closeout.

T&D operating income margin was 6.1% for the first quarter of 2024 compared to 7.4% for the same period last year. The decrease was primarily due to labor and project inefficiencies, most of which related to clean energy projects, primarily in one geographic area that also experienced inclement weather, as well as higher fleet depreciation and maintenance expenses and an unfavorable change order. These decreases were partially offset by better than anticipated productivity and an increase in work in progress.

C&I operating income margin was 3.5% for the first quarter of 2024 compared to 2.9% for the same period last year. The increase was primarily due to better than anticipated productivity, some of which related to clean energy projects, favorable joint venture results, favorable change orders and a favorable job closeout. These increases were partially offset by labor and project inefficiencies, some of which were caused by supply chain disruption.

C&I operating income margin was also negatively impacted by a decrease in work in progress, higher contingent compensation expense related to a prior acquisition, an unfavorable change order and higher fleet depreciation and maintenance expenses.

First quarter 2024, SG&A expenses were \$62 million an increase of \$5 million compared to the same period last year. The increase was primarily due to an increase in employee related expenses, an increase in contingent compensation expense related to our prior acquisition and an increase in employee incentive compensation costs. First quarter 2024 interest expense was \$1 million an increase of \$500,000 compared to the same period last year. The increase was due to higher average outstanding debt balances and higher interest rates.

First quarter 2024 net income was \$19 million, compared to \$23 million for the same period last year. Net income per diluted share of \$1.12 decreased compared to \$1.38 for the same period last year. First quarter 2024 EBITDA was \$40 million, compared to \$41 million for the same period last year. Total backlog as of March 31, 2024, was \$2.43 billion 9% lower than a year ago. Total backlog as of March 31, 2024 consisted of \$853 million for our T&D segment and \$1.57 billion for our C&I segment.

First quarter 2024 operating cash flow was \$8 million compared to operating cash flow of \$37 million for the same period last year. The decrease in cash provided by operating activities was primarily due to the timing of billings and payments as well as an increase in our days sales outstanding as compared to the prior year. First quarter 2024 free cash flow was negative \$18 million, compared to positive free cash flow of \$18 million for the same period last year, reflecting the decrease in operating cash flow and higher capital expenditures.

Moving to liquidity and our balance sheet, we had approximately \$294 million of working capital, \$38 million of funded debt and \$434 million in borrowing availability under our credit facility as of March 31, 2024. We have continued to maintain a strong funded debt to EBITDA leverage ratio of 0.2 times as of March 31, 2024. We believe that our credit facility, strong balance sheet and future cash flow from operations will enable us to meet our working capital needs, support the organic growth of our business, pursue acquisitions and opportunistically repurchase shares.

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

Brian Stern

Thanks, Kelly, and good morning, everyone. Within the T&D segment, we remain focused on strategically pursuing new opportunities, expanding long-term customer relationships through master service agreements and continuing to maintain and expand our long-term client relationships.

Bidding activity shows positive signs of growth with increased opportunities for various sized projects that we continue to monitor and selectively pursue. Solar market headwinds persisted into 2024, and the same group of projects continued to negatively impact our financial results in the first quarter. We continue to work closely with our clients and project teams and anticipate reaching substantial completion on this group of projects during the third quarter.

Forecast for capital spending on aging infrastructure, reliability and energy transition projects remain strong, with spending expected to grow at record levels over the next decade according to S&P Global's industry and credit outlook for 2024 released in April. Increasing electrification demand emphasizes the need for system hardening, upgrades and new transmission and distribution infrastructure.

In the Deloitte report mentioned earlier, respondents cited upgrading and expanding grid infrastructure as their biggest challenge, creating future opportunities for our business. Our traditional T&D operations continued their strong execution of work throughout our operating territories.

We continue to focus on our long-term MSA customers and supporting their needs. This is evident by a recent renewal of an existing alliance in our Western operations and the award of an exciting new MSA for major utility in the Midwest. Additionally, substation, transmission and distribution work remains active across the country with numerous subsidiaries being awarded projects.

To conclude, our consistent focus on safety and project execution has enabled us to expand our customer relationships while strategically pursuing new opportunities. We strive to leverage our capabilities and experienced teams across our companies to contribute to our customer success and overcome challenges together. We are excited about the outlook for the T&D industry and look forward to playing a key role in helping meet the future energy demand.

I will now turn the call over to Don Egan, who will provide an overview of our Commercial and Industrial segment.

Don Egan

Thanks, Brian, and good morning, everyone. Our C&I results in the first quarter improved from previous quarters and demonstrate the strength of our core markets we serve. Our C&I segment continues to overcome challenges as we capture and execute new projects through extensive collaboration with our clients and vendors and by leveraging our strong supplier network across the organization. Bidding activity remains healthy in our chosen core markets with continued signs of long-term stability.

According to the 2024 North American Engineering and Construction Outlook released in April, forecast for growth in engineering and construction spending remains strong across all non-residential segments. The report predicts continued positive growth rates in high performing markets such as healthcare, transportation and manufacturing, all of which are core markets for our C&I segment.

These encouraging forecasts could generate growth for our business as we continue to leverage our expertise and to place us in a leading position to strategically capture future opportunities in these markets. Across the U.S. and Canada, our companies continue to perform and pursue an array of projects. Data centers remain strong with recent awards as well as new opportunities in Arizona, Colorado, Chicago and California.

Transportation also remains strong as we pursue new opportunities with transit work in Canada by Western Pacific Enterprises and we see increased opportunities for additional transportation work in Colorado and California. Aerospace is another market with opportunities and recent awards for CSI Electrical Contractors in California, Huen Electric in Chicago, and Sturgeon Electric in Colorado. We also continue to see new opportunities in solar, warehousing and water treatment facilities, which are strong core markets for our C&I segment.

In summary, we are proud of our employees for their creative thinking, dedication, and strong customer relationships as they continue to navigate the ever-changing landscape of the industry. These attributes enable us to mitigate the day-to-day challenges and continue to execute our projects while maintaining a healthy pipeline of work, enhancing our potential for continued growth.

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

Rick Swartz

Thank you for those updates, Kelly, Brian and Don. Our first quarter performance reflects our ongoing commitment to strong operating principles and sound business strategies, while remaining proactive and disciplined in a dynamic energy landscape. We continue to expand long-term customer relationships and remain focused on creating value through safe and quality project execution.

Thanks to the tireless efforts of our talented employees, MYR Group is strongly positioned as an industry leader that is viewed as an essential partner by our customers. I believe 2024 represents a great opportunity for MYR Group to build upon our success. I thank each of you for your ongoing commitment and support to the success of this organization. And I look forward to working with you to advance our vision and realize our business goals.

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

Question-and-Answer Session

Operator

[Operator Instructions] And the first question comes from the line of Ati Modak from Goldman Sachs. Please go ahead. Your line is now open.

Ati Modak

You are among the few players that have a unique exposure to data centers, so both from a direct and indirect exposure perspective. So curious about your views here. From your vantage point on where you are seeing customer conversations progress today, when do you think the volume of work really starts to inflect in the backlog, again, both for direct and indirect exposure? And what are the challenges, maybe supply chain or others that you might have to navigate, if any?

Rick Swartz

I'll start and then I'll let Don add. I think it's a very active market for us, but we're very selective in what we approach. I think anybody can over commit in this data center market today. So, for us, it's very being very selective with the resources we have, the customers we have and then being aware of the supply chain.

Right now, it's really the longer lead items, that we're seeing as an issue out there. And I think our clients are addressing it and coming to us sooner and sooner with future opportunities so they can prepare for that. Don, I'll let you talk about some of the opportunities out there.

Don Egan

I think you really nailed it, Rick. We need to be extremely selective in the pursuits that we're chasing. We can get over committed, which is which is a big concern of ours, while we continue to monitor what's happening on the supply chain.

As far as when we may see an increase in our backlog, we've talked about it before, backlog can be very clunky, but the reality is sometimes we may have a small amount of backlog we're adding, so we can get some of that long lead equipment ordered early. But really ultimately, we're really focused on our existing clients and what their builds are looking like in the future.

Ati Modak

And then you spoke about expanding alliance agreements and strategically capturing new opportunities. Is that additional market share, can you give some color around that on the opportunities that you're seeing and how we should think about the margin impact from that?

Rick Swartz

Sure. For us, it's steady opportunities to continue and grow and expand our business. Those are new market opportunities that Brian covered. And for us, it's just additive to what we do and it's just part of our steady growth profile long-term.

Operator

And the next question comes from the line of Brian Brophy from Stifel. Please go ahead. Your line is now open.

Brian Brophy

I think last quarter, you talked about expectations for high-single-digit growth, for the year in both segments. Just curious now that we're through the first quarter, how things are shaking up relative to that initial expectation? Are you still expecting high single digit growth in both segments this year?

Rick Swartz

Thanks. For us, I would say it's a little bit of on the C&I side, it's the push out of some of the projects we saw. We anticipated some projects starting in the first quarter and into the second quarter. We've seen those push out to the fourth quarter. So, it's not the projects were canceled or anything for a myriad of issues. They were really pushed out. So, I think that'll be more of a flattish profile for our company this year, then kind of that higher single digit growth, but great opportunities going forward in both our segments. So, that's really where we see that heading right now.

But again, just a push out of those projects, not anything that's detrimental or we're not seeing a big slowing of anything. As I identified last quarter on the T&D side, we are seeing some of the larger clean energy or solar projects getting very competitive. We saw that continue this quarter. So again, we're not going to take projects below where we feel our cost is or our cost with a fair markup is. We see it as a great long-term market, but very competitive at this point.

Brian Brophy

And then, could you talk about margin progression that you're expecting for the remainder of the year? I guess in both segments seem to expecting kind of an inflection here in the back half as some projects roll off. Just curious, if you're still expecting that and how we should be thinking about margin progression for the year?

Rick Swartz

Yes. I'll start with the KPI side. I think, go ahead, Kelly.

Kelly Huntington

I'll just jump in and say, I think from the C&I side, we're pleased to see some improvement from the fourth quarter at the 3.5% margin this quarter. We still see the same trajectory that we talked about on the last call. We're getting to the low end of our target, operating income margin range of that 4% to 6% at midyear on a run rate basis. And so, I think we've demonstrated some good progress there this quarter. So, expecting probably something pretty similar as we go to second quarter and then seeing continued gradual improvement from there.

On the T&D side, as was mentioned in Brian's remarks, it really comes back to the same set of projects that we talked about on the last couple of calls, that have been bringing our operating income margins down there. We do continue to see that we'll be wrapping up field labor on those projects at the beginning of third quarter.

And so as a result, we'd expect to see, since we're carrying those projects at lower margins, but that will continue to affect us in the second quarter, but then we should start to see margin improvements in the second half of the year trending back towards that target range of 7% to 10.5% going forward. Of course, all that is particularly on the T&D side, is weather dependent. We always consider normal weather there, but hopefully that gives you a sense of where we're headed and a very similar story to what we talked about on the last call.

Operator

And the next question comes from the line of Sangita Jain from KeyBanc Capital Markets. Please go ahead. Your line is now open.

Sangita Jain

So, Kelly or Rick, can you tell us a little bit more about the delayed projects there? What type of projects they are? The geography maybe and what maybe causing the delay in start?

Rick Swartz

As I said, it was kind of a myriad of issues on the and it's on the C&I side. And it's not on one specific type of work. I would say it affected us on a couple of different sides of work and it was anything from a permitting or owner furnished material coming in. So, it was just push out on that side. But again, nothing that's canceling the projects and we see them starting kind of in that third and fourth quarter rather than the first and second quarter of this year.

Sangita Jain

And if I can ask a question on the higher SG&A, was that a function of maybe some closeouts earnouts that you had to pay on some acquisitions? And if so, should we be modeling it the same way going forward?

Kelly Huntington

Yes, I can address that. So that was a part of the variance when we look at year-over-year and it does come from higher profitability from prior acquisition and some contingent compensation expense related to that. And we did see some strong favorable closeouts during the quarter. So that was, it was a significant driver of the increase in SG&A expense, especially when you look year-over-year.

Sangita Jain

How should we think about that going forward? Do you expect to have more of these payments for the rest of the year? Or does that taper down?

Kelly Huntington

So, that could continue to be a factor in the second quarter, but I would expect that that would not be a material factor as we go into the second half of the year.

Operator

And the next question comes from the line of Justin Hauke from Baird. Please go ahead. Your line is now open.

Justin Hauke

So, I guess I just wanted to circle back on the solar projects. Obviously, that's not new and your timing saying they're going to be done sometime in the third quarter is kind of what was the expectation before. I guess just for thinking about the margins and how those roll off. I mean approximately how much revenue are those projects generating? And then are you still with the gross margin adjustments that you made on them, are they still earning a profit or is that basically running at zero margin at this point? And I'm just trying to understand the magnitude of how that drag could reverse once those are complete.

Rick Swartz

I was going to say those projects are difficult projects for us that handful. We're getting them behind us. They are very, very low margin projects for us. So, they are slightly negative for us on that side. So, they are pulling us down. Weather continues to be an impact on those projects. And as I said, they'll be finished during that beginning of third quarter timeframe.

So, for us, we really haven't disclosed what the revenue was on those projects and we're in discussions with our clients and they don't want to say much about those projects. So, that's about as deep as I can get into it.

Kelly Huntington

And I would just point to some of the disclosures that we have in the 10-Q that just provide a little bit more background on that 6.1% margin we had in the quarter, and some of the puts and takes from that perspective, that gives a little bit more detail.

Justin Hauke

Yes. No, I saw the 250 basis points net. I was just kind of trying to understand, I mean, is this 10% of the T&D business, is it 5%? I mean, just kind of directionally on that because that kind of helps understand like once those roll off, what it would be considering that they're running at very low margin or negative margin?

Rick Swartz

I don't know, if there's anything to add on.

Rick Swartz

No, I would say it would take us more towards our mid-range of our guidance of where we should be at somewhere in their lower to mid-range without those projects.

Justin Hauke

I guess my second question just maybe bigger picture. Your distribution revenue is actually up pretty strongly, up 20%. I guess we've heard some commentary that the utilities have been pulling back work under their MSAs, maybe it's shifted to more transmission or they're restricting hours just to make sure that they don't kind of run over their CapEx budgets for the year. But years was up nicely. So, I guess, are you seeing that or what are your customers saying in terms of kind of their progression of how they plan to roll out under your MSA contracts for the year?

Rick Swartz

Justin, I think when we look at it, we've always said between whether it's transmission or distribution, our MSAs are a lot of our dual purpose and we do both transmission and distribution work for the same clients. So, it's really how they roll out their work during that quarter. And for us, margin profile is very similar. We don't care which one we do. So, it's just being able to support our clients.

So again, it can always shift quarter-to-quarter based on the work they're releasing us. But I don't think we've got anything that's specific that says they're going to shift. And again, we only report 90 days of backlog in our MSA. So, we're forecasting what we see for the next 90 days. We're not forecasting that out a year, but our clients aren't pulling back overall. We haven't seen that. So again, good spend from them and I really don't care which bucket it goes into.

Justin Hauke

No, and that's a fair point with the 90 days because that's different from how some of your peers report their backlog. So, thank you very much. Appreciate it.

Operator

[Operator Instructions] The next question comes from the line of Jon Braatz from KCCA. Please go ahead. Your line is open.

Jon Braatz

Kelly, could you give us a little more detail on the gross margin impact from your I think it was a joint venture investment that you have and I think it contributed 60 basis point improvement. Can you give us a little more specific on that?

Kelly Huntington

Sure. And that relates to a couple of joint venture projects that we're nearing the finish line on and have had some strong results. And so that contributed to a favorable effect on the C&I segment in the quarter.

Jon Braatz

Anything going forward from those JVs?

Kelly Huntington

They're getting closer to the finish line. So, we're not quite finished with that. They're not fully closed out, but I would expect that this was a larger contribution that we saw in this quarter.

Jon Braatz

Larger in the second quarter? Did I hear that right?

Kelly Huntington

I'm sorry. No, larger in the first quarter.

Jon Braatz

And Rick, sort of from a big picture standpoint, sort of as always, the utilities are facing a little bit higher cost of capital. And are you seeing any reluctance to go forward with some of their capital spending because of the higher cost? Any reason to think that maybe some projects could be pushed further out to the right?

Rick Swartz

Nothing that we see as of now. I mean, you're always seeing that shift in our quarter or shorter term, maybe the next nine months things can move around. But we are still in discussions with customers on projects that are well into the future, and we haven't seen anybody say anything that they're going to delay any projects or not build them because of the cost of capital or anything like that.

Operator

As there are no further questions, I would now like to hand back to Rick Swartz for closing remarks.

Rick Swartz

To conclude, on behalf of Kelly, Brian, Don and myself, I sincerely thank you for joining us on the call today. I don't have anything further and we look forward to working with you going forward and speaking with you again on our next conference call.

Until then, stay safe.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.