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MYRG - Q1 2019 MYR Group Inc Earnings Call

EVENT DATE/TIME: MAY 02, 2019 / 2:00PM GMT

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the MYR Group First Quarter 2019 Conference Call. (Operator Instructions)

I would now like to introduce your host for today's conference, Steve Carr of Dresner Corporate Services. Please go ahead.

Steve Carr

Thank you Chris. Good morning everyone, I'd like to welcome you to the MYR Group conference call to discuss the Company's first 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; Tod Cooper, Senior Vice President and Chief Operating Officer of MYR Group's Transmission and Distribution Segment; 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 May 9th 2019 at 1:00 P.M. Eastern Time by dialing 855-859-2056 or 404-537-3406 and entering conference ID 5690388.

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 for 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 first 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 measure 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 Steve. Good morning everyone. Welcome to our first quarter 2019 conference call to discuss financial and operational results. I will begin by providing a brief summary of the first 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, Tod Cooper and Jeff Waneka, Chief Operating Officers for our T&D and C&I segments 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 first quarter 2019 results included revenues of $468.1 million, a 35.4% increase in revenues compared to the first quarter of 2018. This marks another record high revenue quarter for MYR Group. During the first quarter of 2019 we also experienced increases in net income, earnings per share, and EBITDA as compared to the first quarter of 2018. Industry news throughout the first quarter continued to reflect a strong trend in customer spending for electrical infrastructure. We believe the investments we've made to expand our footprint and deliver balanced growth across geographies and service offerings position us well for a range of diversified opportunities.

We are confident in the abilities of our experienced craft and management teams as well as our depth of resources to successfully meet our clients needs regardless of the project size, type or complexity. We are also seeing increased momentum in communication between our various subsidiaries and district offices as they combine expertise, resources, and best practices to deliver broader arrays of services and greater value to our clients. Organic and acquisition growth remain key priorities that we continually seek to identify and examine new prospects to extend our reach throughout the nation, as well as among new and existing clients. Our financial results and performance continue to reflect solid, consistent long-term growth which we expect will continue to lay the foundation for future success and opportunities to deliver strong returns to our stockholders.

Now Betty will provide details on our financial results for the first 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'll be reviewing our quarter-over-quarter results for the first quarter of 2019 as compared to the first quarter of 2018. As Rick mentioned, our first quarter 2019 revenues were $468.1 million, which was a record high. This represents an increase of $122.5 million or 35.4% compared to the same period last year. Both our T&D and C&I segments experienced record high revenues this quarter. T&D revenues were $272.5 million up 26% compared to the same period last year.

The breakdown of T&D revenues was $187.7 million for transmission and $84.8 million for distribution. The T&D segment revenues increased primarily due to higher volume on transmission projects. C&I revenues were $195.5 million, an increase of 51.3% compared to the same period last year. The C&I segment revenues increased primarily due to higher volume across all project sizes and incremental revenues from the acquired Huen Companies. Our gross margin was 9.2% for the first quarter of 2019 compared to 10.3% for the same period last year. With the decrease being primarily due to inclement weather on certain projects and an increase in non-reimbursable costs on a project, which were partially offset by better than anticipated productivity on another project.

In addition, gross margins were negatively impacted by increased cost on a majority owned joint venture that we acquired in the Huen acquisition. The impact of increased cost was offset in other income due to the reduction of contingent consideration owed to the prior owners and a net loss attributable to non-controlling interests. Although, gross margin and C&I operating income were negatively impacted by the full increase of these costs, the impact to net income attributable to MYR Group was less than 10% of the increase in cost.

SG&A expenses were $33 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 a higher employee related expenses to support operations. SG&A as a percentage of revenue was 7% for the quarter. Other income was $700,000 for the first quarter 2019 primarily attributable to the reduction in contingent consideration related to margin guarantees on certain contracts associated with the acquisition of Huen Companies as I mentioned earlier.

First quarter 2019 net income attributable to MYR Group was $7.4 million or $0.44 per diluted share compared to $5.6 million or $0.34 per diluted share for the same period last year. Total backlog as of March 31, 2019 was $1.14 billion which is 18.5% higher than a year ago. Total backlog consist of $473.6 million for the T&D segment and $662.3 million for the C&I segment. This represents another record high for the C&I backlog.

Turning to the March 31, 2019 balance sheet. We had approximately $109.9 million of funded debt, $148.9 million of availability under the credit facility and $212.2 million of working capital. In summary, we are pleased with our results for this quarter. Compared to the first quarter of 2018 we had improvements in revenue from both our T&D and C&I segments. Net income, earnings per share, EBITDA and backlog, we believe that our strong balance sheet and borrowing capacity are sufficient to support our working capital needs, equipment investments, strategic acquisition, and organic growth initiatives and binding requirements.

I'll now turn the call over to Tod Cooper who will prepare an overview of our Transmission and Distribution segment.

Tod M. Cooper - *MYR Group Inc. - Senior VP & COO of Transmission and Distribution*

Thanks Betty and good morning everyone. Our first quarter operational results demonstrate that MYR is quite active in a T&D market that is strong nationwide. Throughout 2018 and the first quarter of 2019, our portfolio of work has included several small and medium sized transmission projects, an array of substation work and distribution work associated with improving reliability and economic growth.

In addition to continuing our long term transmission and distribution MSA work with numerous clients in the Eastern half of the U.S. including National Grid, Eversource, Dominion, the Tennessee Valley Authority, American Electric Power and Ameren we were awarded several small and medium-sized transmission projects in Q1. Clients for this work include investor-owned utilities, developers and general contractors in the clean energy market.

In Texas, MYR subsidiaries Great Southwestern and the L.E. Myers Company continue to work with MSA customers to meet their transmission and distribution needs. The L.E. Myers Company continues work on its streetlight services contract with City Public Service San Antonio for the 13th consecutive year. In the Western half of the country, MSA work being performed by MYR subsidiary Sturgeon Electric continue to be strong throughout Arizona, California, Kansas, Utah and Colorado. Work continues on the Harry Allen to Eldorado transmission project for LS Power subsidiary DesertLink LLC and we've recently started construction on the substation work associated with the Jim Bridger to Aeolus section of the Gateway West project.

First quarter bidding activity represents not only a continued trend of small to medium sized transmission projects and upgrades, but increased opportunities in distribution and large projects. Multiple large projects are currently in various stages of the bidding phase. These projects located throughout the Northeast, Mid-Atlantic and Western U.S. are scheduled to start construction in 2020 pending various levels of permitting and regulatory approvals. We also anticipate increased opportunities due to continued healthy market conditions.

Industry news in the first quarter indicated that investments in electrical infrastructure will continue with the need to update aging infrastructure, increased grid resiliency and connect clean generation sources. For example, a March report prepared for wires by the Brattle Group indicated that up to $90 billion of incremental transmission investments will be necessary in the U.S. by 2030 to meet the changing needs of the system with an additional $200 billion to $600 billion needed from 2030 to 2050. These amounts are in addition to those investments needed to maintain the existing transmission system and to integrate clean generation.

On the clean energy front, the New Mexico State House recently passed Senate Bill 489 also known as the Energy Transition Act which requires the State to generate 100% of its electricity from carbon free sources --resources by 2045. New Mexico now joins California and Hawaii in approving a 100% clean energy mandate. In February the New York State Research and Development Authority received 18 offshore wind bids from 4 proposers with projects up to 1,200 megawatts. This marks New York State's first large scale offshore wind solicitation and if built would be the largest offshore wind project in the U.S. and would advance Governor Cuomo's offshore wind goal of 9,000 megawatts by 2035. We look forward to following these develops and believe our expertise in all aspects of electrical construction related to clean energy projects will position us well as these opportunities come to market.

As we continue to evaluate, improve and grow our business, our results depend on our ability to effectively listen to our clients and respond and deliver according to their expectations. We will remain disciplined in our approach to capitalize on the right opportunities to grow our business by targeting the right projects, recruiting top talent and providing the necessary resources and training to effectively grow our business.

I'll now turn the call over to Jeff Waneka who will provide an outlook of our Commercial and Industrial segment.

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

Thanks Tod and good morning everyone. C&I results in the first quarter represent a consistent trend in growth as we experienced a gradual build in backlog across most of our subsidiary offices. We're pleased with the number of opportunities and the strategic fit of those projects as the industry experiences constraints post by manpower shortages, material uncertainty, and diluted management capabilities, our approach continues to focus on high value targets where well-established client relationships provide greater opportunity to mitigate these risks.

We expect to see continued improvement in bidding activity during the rest of 2019. This view is consistent with FMI's 2019 United States construction outlook, which forecasts an increase in spending levels compared to the previous year. We continue to implement our strategy of organic growth and strategic acquisitions such as our recent acquisition of the Huen Companies, which expanded C&I operations in Illinois, New York and New Jersey.

Turning to first quarter project awards, these represent a wide variety of small to mid-sized projects in commercial, industrial and transportation markets. Commercial project awards remain particularly strong with data center buildings and data center expansions leading the way with much of our first quarter wins occurring at facilities where we've maintained long standing relationships. Arizona and Colorado remain at the forefront of this continued expansion and high-tech. Our research indicates that this market should remain resilient through 2019 and perhaps for years to come. We continue to provide budgeting at a strong pace on several large facilities early in the planning stages. Other commercial project awards include office buildings, multi-use facilities, senior living homes, entertainment facilities, warehousing and a variety of expansions to manufacture -- manufacturing and R&D facilities. There is currently no shortage in the number of commercial opportunities to pursue, therefore a high level of diligence is being deployed in pursuit of the best commercial opportunities for MYR.

We also experienced an increase in bidding activity in the clean energy markets, which included a variety of rooftop and ground-mounted solar projects. We received new contracts for solar projects in California, Arizona, and New Jersey, which we believe represent a resurgence in solar spending as developers have learned how to manage through the solar panel tariffs.

Turning to the Industrial side of the business, we were pleased with the number of project awards in water treatment and water storage. In addition to our first quarter project awards, our pre-construction teams in Canada and the U.S. are engaged in early budgeting on several large water projects planned for late 2019, which gives us optimism about continued industrial expansion beyond this year. The same optimism holds true for transit projects, which continue to provide ample opportunity throughout the Western U.S. and Canada. In addition to our traditional focus on roadway and airfield transit, recent announcements about exciting expansions to major shipping ports are expected to create opportunities for the next few years. Recent contracts awards in Portsmouth, New Hampshire have led to budgeting exercises to upgrade electrical systems and aging facilities. Similar prospects exist at the Port of Seattle and Port of Vancouver.

All indications are that these projects are expected to be released through 2019 and over the next couple of years. As mentioned earlier, we believe that we established good momentum through 2018 that has carried nicely into 2019. 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 our 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, Tod and Jeff. I am pleased with our first quarter results and especially our efforts to strengthen our market position in both our T&D and C&I segments. We will remain at the forefront of identifying industry trends and client needs in order to grow our business and provide service excellence as efficiently and effectively as possible. We believe these are the key factors 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

Thank you. (Operator Instructions) And our first question comes from the line of Tahira Afzal with KeyBanc.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

Hi folks. Congrats on a good quarter.

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

Thanks Tahira.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

I guess my first question is in regard to how we should be looking at the margin trajectory going forward. And I know you guys don't provide guidance, but perhaps you can update the book and just because we did have the one project with the margin guarantees essentially helping this quarter, not sure how that plays out going forward.

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

Okay, Tahira, yes, when it comes to the overall margins and we can talk about it also in general by segment, several of those items that we addressed at least the one with the margin guarantees for the joint venture is on a net-net basis. You got a -- if you're going to account for they're offset below the line. So I guess, let me just talk about the 4 items in our margins, which are addressed in the 10-Q. The first 3 are mainly in the T&D side, the inclement weather on certain projects, that's typically a little bit more in the first quarter. Can talk about that a little bit more if Rick wants to address that. But also the increase on non-reimbursable costs in one project offset by another project with the late stages that had better than anticipated productivity. Those three items were in the T&D side and then the fourth one is in the C&I side with the margin guarantee and controlling interest. So I really like to think about it on a net-net basis, that I'm not going to go repeat what I said on the joint venture, but our overall C&I operating margins and the gross margins after we account for those offsets, the impact to us on the net income attributable to MYR is less than 10% of the gross amount of the write down. So if you're -- I'm assuming you're not going to be modelling out below the line those items that are unique.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

Right. Yeah.

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

You need to -- right. So, that's -- I know without giving specific dollar amounts, you can see in our financial statements the dollar amounts of those offset are $1.5 million, which this joint venture was at least set if not more. And that there's offsets as you can add those back up into the margin side. So that's really a net-net no impact to the pre-tax margin once you...

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

Okay. And that's actually much more helpful. And I guess just as a follow up to that, let's assume, things are clean going forward or should we not, you know, and do every step into the second quarter. So I'm just wondering if the structure is going to be fairly similar and how the margins flow through or should we be keeping this more as a one-time adjustment for right now?

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

If you look at the impacts we had, you know, the J.V. that continues on into the second quarter of this year. So it finishes up beginning the third quarter with the J.V. project. So that one continues. If you look at the weather side on the T&D side, it's really a couple of those projects were at completion or nearing completion this quarter, so we really don't see that carrying forward on the T&D side.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

Got it. Thank you folks.

Operator

Thank you. And our next question comes from the line of Andrew Wittmann with Baird.

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

Hi, great. I guess I noticed that you guys had 0.8% of a negative estimate on your margin estimation in the quarter. And I guess my first question on that is, was that -- was the preponderance of that 0.8% revision related to jobs that are now complete or ongoing?

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

So Andrew -- Andy the large part of that does relate to that joint venture that has the offset before you hit our net income attributable to MYR Group. But the other part of that, as far as weather when Rick mentioned, the comment about weather a couple of these larger amounts are jobs that have completed or is essentially complete in the end of this first quarter. But there's always ongoing jobs, but majority of that in this first quarter the job is completed.

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

Okay. That's helpful.

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

-- in our trends. But up and down for those specific items at least.

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

Yeah, I guess, the reason why I'm asking obviously here is to try to get a sense of how much was contained -- how much of the margin revision negatively there was contained in the quarter versus an ongoing progress. But if it's in the joint venture, which a lot of its in the joint venture would essentially gets netted out through the accounting, then it doesn't feel like it's anything tremendously systemic. And because, I mean, simple math and I guess this is a point that we made in our research note last night, a simple math would suggest that's like $0.16 worth of EPS hit, but it wasn't because a lot of that, like you mentioned before got reversed or at least part of that got reversed out below the line later. So that's an important accounting update. Okay. And then I guess when we look at 1Q '19 I think one of the big surprises for investors was the revenue burn and the significant outperformance there. I guess, normally we think of 1Q '19 as a seasonally weak revenue quarter and that's maybe what made it particularly surprising here today. Would you -- do you believe the seasonality here now that 1Q is in the books, Betty, it should be what we'd call quote typical for the balance of the year or do you feel like because the revenue is so good here in 1Q '19 that seasonality for this year is going to be more atypical?

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

On the seasonality side of it, we did have a lot of work going on both the C&I and T&D front. So the weather impacts we had really weren't enough to shut down the projects in its entirety. If you look at that on which in previous years, I think really we had jobs that were completely shut down in the first quarter. But this one we continue to burn labor and have that side burn, we just weren't making the progress on a couple we thought that were nearing completion, but we had to really push to get those done. And we ended up finishing ahead of schedule on a few of those projects. Our clients ended up very satisfied out of that. But really we see, you know, the work being pretty steady through this year. I mean, it's a thing where our backlog is good. We're in good position bidding wise, being very selective on what we're going after and making sure that we've got the right clients to do work for

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

Got it. At the risk of being too nitpicky in your comments there, Rick, you said, you expect the work to be steady. Does that mean, you're expecting muted seasonality that the revenue burn rate is going to be relatively more flat this year. Is that another way to interpret your comment there of steady?

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

I think on our side when we look at it, you know, steady would -- yeah, I think we had an exceptional burn in the first quarter. I see that leveling out.

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

Okay, great. And then I guess maybe my last question for now is just, kind of, taking a 10,000 foot view here of your backlog. I mean, I heard the comments on some larger projects or certainly a lot of activity in small and mid-sized projects. Sounds like you guys are generally feeling pretty optimistic here, off to a good start for the year. Do you think that, with the revenue burn rates that you're seeing this year so far and it sounds like are expected to continue that, you can continue to grow backlog and end backlog this year higher than where it started this year?

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

It's always our goal to continue to grow our Company, but it's picking the right work. And again, we don't control the timing of the awards or how our competitors look at those jobs. But you know labor has tightened up. We haven't seen a concern where we can't man a job or do that side of it. But we are selective on what we go after and we watch it and we try to really look at our cost and focus on performing the work and doing it at what we know it will -- what we know we can perform long term. So again, the market is strong. It's what opportunities we capture is really based on the way we go after it and what our competition does to try to capture that work. But I think we understand the cost and we focus on that side of it. So we're not going to take work for free.

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

Okay. Thanks for your thoughts.

Operator

Thank you. And that does conclude today's question-and-answer session. I would now like to turn the call back to Rick Swartz, CEO for any further remarks.

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, thank you for participating in today's conference. This does conclude today's program you may all disconnect. Everyone have a great day.
