REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q3 2022 MYR Group Inc Earnings Call

EVENT DATE/TIME: OCTOBER 27, 2022 / 2:00PM GMT

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Alexander David Dwyer *KeyBanc Capital Markets Inc., Research Division - Associate*
Brian J. Russo *Sidoti & Company, LLC - Research Analyst*
Justin P. Hauke *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate*
Noelle Christine Dilts *Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst*
David E. Gutierrez *Dresner Corporate Services, Inc. - Head of PR Practice and SVP*

PRESENTATION

Operator

Good morning, everyone, and welcome to the MYR Group Third Quarter 2022 Earnings Results Conference Call. Today's conference is being recorded. At this time, for opening remarks and introductions, I would like to turn the call over to David Gutierrez of Dresner Corporate Services. Please go ahead, David.

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 request the company's third quarter results for 2022, which we reported yesterday. Joining us on today's call are Rick Swartz, President and Chief Executive Officer; Betty Johnson, Senior Vice President and Chief Financial Officer; Todd 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 webcast replay of today's call will be available for 7 days on the Investors page of the MRO Group website.

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 are discussed in the company's annual report on Form 10-K for the year ended December 31, 2021, the company's quarterly report on Form 10-Q for the third quarter 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 third quarter 2022 conference call to discuss financial and operational results. I will begin by providing a summary of the third quarter results, and then will turn the call over to Betty Johnson, our Chief Financial Officer, for a more detailed financial review. Following Betty's overview, Tod Cooper and Jeff Waneka, our 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 and consistent performance contributed to our third quarter results. We continue to have a steady backlog and acquire new work in competitive markets, which positions us well for consistent success moving forward. Electrical infrastructure across North America continues to see significant investment and expansion. The 2022 North American electric transmission forecast by C3 Group released in September, indicates a strong potential for healthy growth moving forward as electricity demands continue to increase across the country.

A pivot to clean energy is largely dependent on new and upgraded transmission lines and an integrated grid, where carbon reduction and clean energy targets could be spend drivers. We continue to track this and other major transmission expansion projects that may lead to future work opportunities. a greater demand for clean electricity and focus on electrical vehicle charging infrastructure as well as the need for upgraded facilities in target markets such as transportation and vehicle dealerships are signs for potential growth in our C&I segment.

Long-standing relationships with our preferred clients continue to benefit our C&I segment as we work together to mitigate supply chain challenges. We continue to see consistent bidding activity, including distribution, transmission and clean energy projects in our T&D segment. Similarly, our C&I segment is experiencing steady opportunities in our core markets such as data centers, clean energy and health care.

Our continued training and investment in our people allows us to remain at the forefront of the industry and provide our clients with excellent service and customer experience, backed by safe and reliable execution.

Now Betty will provide details on our third quarter 2022 financial results.

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

Thank you, Rick, and good morning, everyone. On today's call, I'll be reviewing our quarter-over-quarter results for the third quarter of 2022 as compared to the third quarter of 2021. Our third quarter 2022 revenues were $799.8 million, another record high, which represents an increase of $189.6 million or 31.1% compared to the same period last year.

Our third quarter T&D revenues were $452 million, an increase of 47.5% compared to the same period last year. The breakdown of T&D revenues was $264 million for transmission and $188 million for distribution. The T&D segment revenues increased primarily due to an increase in revenue on transmission and distribution projects, including the incremental distribution revenues from Powerline plus companies. Approximately 50% of our third quarter T&D revenues related to work performed under master service agreements. C&I revenues were $347.8 million, an increase of 14.6% compared to the same period last year.

The C&I segment revenues increased due to higher revenues in certain geographical areas. Our gross margin was 10.8% for the third quarter of 2022 compared to 13.8% for the same period last year. The decrease in gross margin was primarily due to overall cost increases, mainly associated with supply chain disruption and inflation. Gross margin was also negatively impacted by labor inefficiencies and inclement weather experienced on certain projects. These margin decreases were partially offset by a favorable change order adjustment and better-than-anticipated productivity on certain projects.

We also experienced higher-than-normal margins in the third quarter of 2021. Third quarter 2022 SG&A expenses were $58.9 million, an increase of $5.8 million compared to the same period last year. This increase was primarily due to higher employee-related expenses to support the growth in our operations and the acquisition of the Powerline Plus companies, partially offset by a decrease in employee incentive compensation costs. Third quarter 2022 interest expense was $1.1 million, an increase of $800,000 compared to the same period last year. The increase was due to higher outstanding debt as well as interest rates during the third quarter of 2022 as compared to the same period last year.

Third quarter 2022 net income was $18.4 million or $1.09 per diluted share compared to $23.2 million or $1.35 per diluted share for the same period last year. Total backlog as of September 30, 2022, was $2.48 billion, a record high and was 51.6% higher than a year ago. Total backlog as of September 30, 2022, consisted of approximately $1 billion in our T&D segment and $1.45 billion for our C&I segment. Moving to liquidity in our balance sheet.

We had approximately $249.8 million of working capital. $85.9 million of funded debt and $303.9 million in borrowing availability under our credit facility as of September 30, 2022. We have continued to maintain a strong funded debt-to-EBITDA leverage ratio of 0.5x leverage as of September 30, 2022, even after over $31 million of share repurchases this year. We believe that our credit facility, strong balance sheet and future cash flow from operations will enable us to meet our working capital needs, equipment investments, growth initiatives and share repurchases.

I'll now turn the call over to Tod Cooper, who will provide 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. The T&D group performed solidly in the third quarter and consistent bidding activity produced project wins throughout our markets. As Rick mentioned, we're seeing significant investments in electrical infrastructure throughout North America, including many transmission expansions and upgrades as well as distribution hardening programs throughout regions that could have been or could be impacted by storms or buyers.

The 2022 North American electric transmission forecast by the C3 Group released in September, forecast $152 billion in additional transmission infrastructure and upgrade spending by utilities during the next 5 years. This investment is expected across the country with Texas and California, 2 focus areas for MYR Group forecasted to see the most near-term spending. Texas' forecast and spend is driven primarily by capacity issues stemming from the integration of clean energy sources while California is driven by clean energy integration in fire mitigations.

This aligns with findings from our strategic insight survey of existing clients, in which our customers said the direction of their business will be most impacted by the Pivot to Energy. They also indicated the largest challenge moving forward in transmission capacity needed they also indicated the largest challenge moving forward is transmission capacity needed to integrate clean energy sources into the grid.

A stronger focus on Clean Entergy Nationwide and the need for new and upgraded transmission lines to integrate the grid has the potential to create future opportunities for our business. Our T&D segment is seeing steady bidding and project work across all operating companies. However, a couple of our long-term alliance customers are currently facing budget constraints for the remainder of the year, which may lead to some crew reductions in these areas.

We believe, however, that there is a possibility to offset the reduction by moving crews to areas that are not impacted and are expanding their workload to close out the year. At the close of Q3, multiple MYR Group companies mobilize to the Southeast to assist clients impacted by Hurricane Ian.

The impact of Ian were vast and utilities throughout the region were severely impacted. Initial restoration to a large number of customers has been completed and assessments are currently underway to determine a path forward, which we anticipate will include a more permanent rebuild of many distribution circuits. MYR Energy Services or MYRE is experiencing growth by expanding into regions we're currently working and as well as the services we are providing to our customers.

The group is building on strategic relationships for clean energy, EPC and large project work with many key customers. In summary, our consistent focus on safety and project execution has enabled us to grow our customer base through new contract wins, while bolstering current partnerships. While striving to leverage all of our capabilities and experienced teams across our companies, we continue to contribute to our customer success. We are excited about the outlook of the T&D industry and look forward to playing a key role in helping to meet the future energy demands in North America.

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

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

Thanks, Todd. Good morning, everyone. We are pleased that C&I experienced an increase in backlog in the third quarter as procurement opportunities picked up pace in many of our markets. We believe our clients are turning to MYR Group for their contracting needs during these challenging times due to our depth of resources, quality communication and proven performance. Project execution, however, was again slightly hampered by continuing supply chain issues and labor restraints, impacting the performance of all trades.

Our employees continue taking decisive actions to mitigate the cost impacts caused by constantly fluctuating conditions. Their tireless efforts and continued flexibility to support our clients are keeping our projects moving in a positive direction. While inflationary issues and supply chain disruption are becoming somewhat less erratic, both continue placing a burden on project procurement.

To better understand how others in the industry are dealing with inflation and supply chain, MYR Group engaged our most valued vendors and subcontractors in our 2022 supply chain survey. Our goals were to gauge the level of impact supply chain disruptions are having on the industry and to gain insights on the strategies and solutions being developed to manage supply chain conditions. We also gather feedback on how we're doing as a business partner.

The responses from our business partners were positive and indicated strong alignment in our approach to solve these industry-wide disruptions. Nearly all respondents are offering preferred pricing to our MYR Group companies due to our company's size, early engagement, continued collaboration and transparent management style.

The information gathered was valuable and is being used with our clients and partners to continue delivering successful projects. I've mentioned in prior reports that the time line to bring projects to reality has grown as some construction schedules continue to push to the right. We had one large solar project that had a substantial scope reduction due to permitting issues. This lost revenue was quickly replaced by several other clean energy projects awarded during the quarter that are expected to significantly offset the scope reduction of this project.

We are pleased that our clean energy portfolio continues to flourish in meaningful ways. Nearly every division of C&I has increased its backlog or is pursuing opportunities in the clean energy space. The projects range in size from electric vehicle charging stations to more significant battery-powered peaking stations designed to manage brownout conditions in California.

Recent awards in solar and battery storage have pushed our backlog to another record high. In addition to our clean energy awards, additional backlog was gained in health care, data centers, water, wastewater treatment and industrial. We remain optimistic about the company's long-range outlook and our opportunities for future growth as funding from infrastructure, investment and Jobs Act becomes a reality.

Clients across the country are excited about the potential of modernizing roads, bridges, transit, rail, ports, airports, broadband, and water infrastructure and are starting to step up their partnering efforts in preparation of this work. We are equally excited about the CHIPS Act and the sizable impact it could have on many of our markets.

We are currently engaged in 2 large chip manufacturing expansions underway in Arizona. And recently, New York announced the approval of a $100 billion Micron semiconductor manufacturing plant that is expected to drive growth in that region for years to come. And why our group's resume in high-tech semiconductor and industrial facilities should keep us in a prime position for many opportunities to come.

Even though these historic investments in our future have not yet contributed to significant design activity, the major construction indices have remained in positive territory. The AIA consensus forecast panel is projecting a 9.1% increase in spending for nonresidential buildings this year an additional 6% next year. The ABI has been positive every month since February 2021, and for more than half of these months, the ABI score was at least 55, considered to reflect very healthy growth in revenue at architectural firms. The Dodge Momentum Index also remained elevated in the third quarter.

On a year-over-year basis, the DMI was 26% higher than September of 2021, and the institutional planning was 28% higher. The design and planning momentum demonstrated by the positive indices should drive construction growth for years to come. To conclude, we are proud of how our employees are responding to the unique challenges facing the industry. They continue providing the proactive and customer-focused communication that we believe will enable MYR Group to maintain a leading position in the markets we serve. Thanks, everyone, for your time today.

I will now turn the call back over 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. Thanks to the resiliency of our core markets and our ability to bolster and broaden our customer relationships to create growth opportunities, we are proud of our third quarter performance. Our focus remains on projects and bidding opportunities that reflect our operating principles and breadth of capabilities and meeting the needs of our customers as they adapt to dynamic market conditions and a shifting energy landscape. This is supported by our continued investment and development of our teams across the company as our people enable us to maintain our status as an industry leader by the work they perform every day.

A commitment to our employees and customers is the foundation we build from to remain a strong and agile partner for clients and prospects. The invaluable contributions from our employees and the continued support of shareholders does not go unnoticed. And I'd like to thank you on behalf of MYR Group.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Alex Dwyer from KeyBanc Capital Markets.

Alexander David Dwyer ***KeyBanc Capital Markets Inc., Research Division - Associate***

So to start on C&I. Obviously, the supply chain and inflationary environment continues to be a challenge. So I guess my question is like do you see a dynamic where your old backlog burns off and the newer and more recently priced backlog begins to flow through the model with higher margins. And then if this is the case, like should we expect like a snapback in margins to like a 4% to 5% range? Or is it more of like a gradual progression back to the target margin range from here?

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

Yes. I think when you really look at our backlog and the burn out of those older projects and you look at where we're at, we really see that as more of a gradual progression getting back up to that range. And I think it's going to take us through the first half of next year to get there. A lot of these supply chain issues continue to be out there, and we don't see them being solved in 2 months or 3 months. So we see it a little longer, but we see that progression taking place quarter-by-quarter going forward.

Alexander David Dwyer ***KeyBanc Capital Markets Inc., Research Division - Associate***

Got it. And then shifting over to T&D, the revenues were over 40% organic this quarter. I guess the growth was stronger in transmission, but distribution was also very strong. Can you talk about what is driving the revenue growth in this segment? Is it the MSA portion of the revenues, that 50%? Or is it the project-based business -- and then I guess I have a follow-up. I guess my follow-up on that would be like any thoughts on like your ability to grow off this T&D revenue comp into next year given this year has been so strong?

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

Yes, this is Todd. The growth has primarily been driven by the drivers that we've been talking about for the past couple of years with hardening and getting clean energy integrated into the grid as well as the EPC model, which we jumped on a couple of years ago as well, and some of that were starting to come to fruition. So that's where it at today, and that's what's driving -- what's driving it. Some of the MSA work has picked up. But as I mentioned, there's been a little bit of a pullback recently due to budget constraints, and we believe it's temporary. -- and we're able to mitigate that. We've mitigated it with one client by working and being aware of some other projects in the region. But the outlook is positive. We're going to continue to see clean energy integration take place, hardening in areas such as California for fires in the Southeast. And as a result of the most recent storm, we expect to see some work there as well. But the long-term forecast, as mentioned by the C3 Group and what we're finding out on our own client surveys looks good right now.

Operator

Our next question will come from Justin Hauke from Baird.

Justin P. Hauke ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate***

I guess maybe I wanted to piggyback and just starting off here on the response there on the last question, and you said that in the prepared remarks as well, but the budgetary pressure, that seems like that's a new issue. And I guess a little surprised to hear a bit on the utilities given the amount of funding that's been funneled into supporting all this grid investments. So maybe you could just talk a little bit about what specific budgetary issues facing and why you believe its temporary. I think that would be helpful.

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

Right now, I think utilities are really working on trying to figure out where the capital is going. They have a plan and the switch from the hardening and the integration of new transmission, which has to be ongoing, how's the third component now of clean energy and getting clean energy onto the grid. So during the course of this year, there was quite a been work that's done. You're right in the past. What we've seen more often than not is a Q4 where utilities have some spend left and are looking to increase the amount of hardening work that they're doing. And this year, just a couple of utilities that are still working around some of those issues as to where that capital spend goes, we've seen the reduction or the temporary cutback, which we believe and we've been told by those utilities that it is temporary for this year's -- the remainder of this year's budget, and we expect it to be back to normal loads at the beginning of the year or shortly thereafter.

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

Yes. As Todd said, it's not all our clients. It's a couple of them, and it's something we've seen in past years where it's more of a budget levelizing issue than anything else.

Justin P. Hauke ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate***

Okay. So it's not like a structural funding issue. It's more just kind of the timing of how that plan comes in place and just the nature of how the work rolled out this year, it's made pressured here a little bit in 4Q.

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

Correct. It's mainly a fourth quarter event just as they levelize their budget and try to keep their spend in line with what they had allocated because they may have overspent in the first part of the year.

Justin P. Hauke ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate***

Okay. And then my next one this question for Betty, but Powerlines Plus has had a lot of intangible amortization that's been running through the P&L and you guys have called that out in the previous quarters and been running at a higher run rate. It fell off a lot here. And I think previously, your commentary was that it would continue to be a headwind and it would run at kind of level the first half through the balance of the year. So was there anything that changed in there? Or why was there such a large decrease in the intangible amortization?

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

Yes, that is right. This quarter had a reduced amount of amortization for Powerline. We actually have finalized essentially finalized all the valuation work for Powerline this quarter. It's just now subject to the final third-party reviews. And as part of that, there was a change this quarter.

As we kind of noted in our footnote too, about the finalization of that and what happens is there's less being less being allocated in that valuation work than previously estimated to the nonamortizing assets kind of like goodwill and then also less to the shorter amortized period assets like backlog. So in the end, it resulted in our amortization estimate for the full year of 2022 being reduced in the catch-up coming through in -- so I know everybody takes and wants to be able to model out the amortization impact.

You can take what we have in our year-to-date cash flow of intangibles, whether it's power line or the total. And that would be the same ratable over the -- if you take the year-to-date for the balance of 2022. And then just remember that we talked about the amount dropping off as it relates starting in the beginning of 2023 as it relates to backlog. We've identified that allocation is now in our footnote 2, and that's $4 million of amortization tied to backlog that will drop off starting 1/1/23. Hopefully, that helps.

Justin P. Hauke ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate***

It does. I will all yield the floor here and maybe jump in later.

Operator

And as a reminder -- and our next question will come from Brian Russo from Sidoti.

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

So just a follow-up on some of the utility customers cutting back on their budget near-term issues that you alluded to. So should we think about that as impacting your top line or the T&D margin or both as we look at the fourth quarter and possibly into early '23.

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

Well, I think when you look at early '23, it's -- it will be back to normal spend. I think this year -- I mean, the rest of the year, we said it could be affected. I mean I think our T&D group has done a good job, as Todd said, of picking up other projects and being able to levelize that out. We did have increased spend in the third quarter that was fairly high and probably elevated a little above what we'd see as a normal run rate just due to the burn of some of our, what I call, fixed price projects out there. And I think that will levelize back off a little bit. But overall, going into next year, we see it as a good year going into next year. Really no impact from what we were talking about on the utility spend.

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

Okay. And then on the T&D operating margins, looks like below 8% or both in this third quarter. and follow sequentially also below 8% in the second quarter, kind of at the lower end of that 7% to 10.5% kind of target range. Given the supply chain issues, which seem to be now spilling over into T&D, how should we look at the trajectory of those margins maybe as we look through the first half of '23, like your commentary on the C&I margins.

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

I think they'll continue to incrementally climb back up. None of these are long-term issues out there. Our backlog is very strong. When you even look at the makeup of our backlog on margins, it's very strong. So when I look at that side, there's really no change in our backlog margins from this year to what we're carrying next year for -- so it's a good market overall. When you really look at this quarter, we didn't have what I'd call any strong closeouts. We did have some weather issues that we identified some other stuff that we've talked about. So you'll see that incrementally climb back up, and we expect that long term to be on the upper end of those margin profiles that we put out there.

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

Okay. Great. And just a longer-term question on the MISO transmission plan for 2030, I think over $10 billion. It looks like a lot of your MSA customers might be involved in those projects. Are you sensing that the development stages are starting? And when do you think E&Cs are chosen for that type of work, obviously, longer-term opportunity?

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

Yes, this is Todd. It's going to be pretty well dispersed out from let's say, early '23 through 2030. We're going to -- we anticipate starting to see some proposals hit the street for the FERC 1000 jobs in early '23. A lot of the work embedded with this MISO tranche 1 is within come utilities that have rights of first refusal that you're right, we do work for, and we do have MS Phase 4. So it will be kind of evenly spread out from a bidding perspective and a planning perspective, maybe for the next few years and then the work, I'm guessing will start sometime in '24 and be kind of levelized throughout 2030 for all of those projects that are in tranche 1 right now.

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

Okay. Great. And then just lastly, you mentioned EV infrastructure early on. Can you give us a sense of how much work you're actually conducting on EV infrastructure now or what's implied in the backlog versus just what's also a longer-term growing opportunity for MYR Group.

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

It's definitely a growing opportunity, and we put as we spoke in the past, a lot of our focus, we've been in kind of the clean energy market since, I guess, early 2000 time frame, and we've been growing that business even with our acquisitions, we've grown it. As a percentage of our revenue, we really don't break that out, and it's very difficult to at this time because a big percentage of the work that Todd does every day on our T&D side, it has to do with that clean energy side coming into play. And the utilities really don't release what lines we're working on that just have to do with Pure Queen Energy. So we haven't broken that out, but it's a good percentage of our business.

Operator

(Operator Instructions) And our next question will come from Noelle Dilts from Stifel.

Noelle Christine Dilts ***Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst***

I was wondering if there's any way that you could help us understand when we're looking at the margins in the quarter, how much was maybe related, how much of the compression year-over-year was related to more temporary factors like specifically like the weather impacts versus the more inflationary impact?

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

think if you took, I guess, a higher percentage of that when I -- when you look at our margin profiles over the past few quarters and you look at it this quarter, I mean we really -- it was more directed towards probably weather and no strong closeouts on Todd's side on the T&D side than anything else. He does have some pressures due to higher costs on things and inflationary things. But for the most part, those were the draws on it. So as we close out future quarters, we see part of that coming back.

Noelle Christine Dilts ***Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst***

Okay. Okay. Great. And then for the fourth quarter, I guess I'm just trying to understand some of the short-term dynamics here. Obviously, you've talked a lot about the budgetary pressures. -- here on the call. But then you have some potentially, I'd think, offsetting storm work, at least from a margin perspective. Is that something we should think about in terms of -- I guess, is the storm or something we should think about in terms of maybe providing some offset to a temporary budget pullback.

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

I wouldn't look at storm as being that offset there. I think it's more of the bread and butter work we do every day. Some of the big projects we have will be an offset to that storm. We participate in storm work, but we're not a storm-chasing contractor. We like that bread and butter work that we get every day, and we like that reliability on continued revenues and profitability from that -- those long-term arrangements rather than just one-off storm work. But we do participate. It's not a major driver for us.

Noelle Christine Dilts ***Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst***

Okay. And then I guess one last one for me. In terms of the labor inefficiency that you discussed, is that more related to general disruption associated with the supply chain that will result in -- that results in suboptimal utilization as folks are kind of waiting around for components and things to come in? Or is it more related to competition for labor and say, folks moving to other jobs? How should we think about those dynamics?

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

Competition for labor hasn't been an issue with us. I mean we've been -- we do a lot of training and development for our people and we do a lot, and we're able to retain our people. That hasn't been the issue. It's more of the issues surrounding kind of that supply chain issues. And it's not so much with the material we receive every day and what we're working with at this point. It's really how projects are being built with other components.

So there may be concrete shortages in certain areas. There are steel shortages and the sequencing of that material and how it comes in with other components of the build is what really causes us to resequence our work. And we're just not working as efficiently as we would have in the past. So you're moving around a little bit, and it's not something you can capture and change orders, especially when about 90% of our business is return clientele.

We work with these people long term, and we want to continue that relationship so the micro aggressions or these little macroeconomic challenges that are out there affect our projects and the flow of the work. And that's really where our impacts have been.

Operator

(Operator Instructions) And I am showing no further questions from our phone lines at this time. And I'd like to turn the conference back over to Rick Swartz for any closing remarks.

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

To conclude, on behalf of Betty, Tod, Jeff 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

Thank you. This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day