THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MYRG - Q3 2016 MYR Group Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 03, 2016 / 2:30PM GMT

CORPORATE PARTICIPANTS

Kristine Walczak *Dresner Corporate Services - IR*

Bill Koertner *MYR Group, Inc. - President & CEO*

Betty Johnson *MYR Group, Inc. - SVP, CFO & Treasurer*

Rick Swartz *MYR Group, Inc. - SVP & COO*

CONFERENCE CALL PARTICIPANTS

Tahira Afzal *KeyBanc Capital Markets - Analyst*

Alex Rygiel *FBR & Co. - Analyst*

Andy Wittmann *Robert W. Baird & Company - Analyst*

Noelle Dilts *Stifel Nicolaus - Analyst*

John Rogers *D.A. Davidson & Co. - Analyst*

Dan Mannes *Avondale Partners - Analyst*

PRESENTATION

Operator

Good morning, everyone, and welcome to the MYR Group third-quarter 2016 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 Kristine Walczak of Dresner Corporate Services. Please go ahead, madam.

Kristine Walczak - *Dresner Corporate Services - IR*

Thank you, and good morning, everyone. I'd like to welcome you to the MYR Group conference call to discuss the Company's third-quarter results for 2016, which were reported yesterday.

Joining us on today's call are Bill Koertner, President and Chief Executive Officer; Betty Johnson, Senior Vice President, Chief Financial Officer and Treasurer; and Rick Swartz, Executive Vice President and Chief Operating Officer.

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 www.myrgroup.com where a copy is available under the Investor Relations tab. Also, a replay of today's call will be available until Wednesday, November 9th at 11:59 Eastern time by dialing 855-859-2056 or 404-537-3406 and entering conference ID 98416360.

Before we begin, I want to remind you the discussion may contain forward-looking statements. Any such statements are based upon information available to MYR management as of this date and MYR 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, 2015, the Company's quarterly report on Form 10-Q for the third quarter of 2016, and in yesterday's press release.

Certain non-GAAP financial information will be discussed on the call today. A reconciliation of this non-GAAP information to the most comparable GAAP measure is set forth in yesterday's press release.

With that said, let me turn the call over the Bill Koertner.

Bill Koertner - *MYR Group, Inc. - President & CEO*

Thanks, Kristine.

Before we get started, I'd like to congratulate all the Chicago Cubs and Cleveland Indian fans who witnessed one of the best World Series in history. What an exciting series, showing baseball at its very best. As many of you, MYR's corporate offices are located in the Chicago area. Our offices are filled today with many blurry-eyed, but very happy Cub fans. So, please excuse us if we sound a little sleepy.

I'd like to welcome everyone to our third-quarter 2016 conference call to discuss financial and operational results. I will begin by providing a brief summary of our results and then turn the call over to Betty Johnson, our CFO, for a more detailed financial review. Following Betty's discussions, Rick Swartz, our Chief Operating Officer, will provide an overall industry outlook and discuss some of MYR's plans going forward. I will then conclude with a few closing remarks and open the call up for your comments.

Third quarter 2016 revenue and earnings per share improved both year over year, as well as sequentially over the first two quarters of this year. Year over year, third quarter revenues increased 5% to $283.3 million in 2016, while gross margins increased to 12% from 12.6% last year. Additionally, our backlog increased, mainly due to the Texas-- the Cross Texas Transmission award to construct approximately 68 miles of 345-kilovolt transmission valued at approximately $125 million.

While bidding activity was robust during the quarter, both our T&D and C&I market segments remain highly competitive.

We were delighted to announce the recent completion of the strategic acquisition of Western Pacific Enterprises, or WPE, on October 28th. This acquisition expands our C&I and T&D capabilities in Western Canada to serve new and existing customers and further demonstrates the execution of our three-prong strategy of prudent organic growth, acquisitions, and return of capital to stockholders. WPE has an exceptional reputation in its market region and is managed by a first-rate team that shares MYR's values. We are pleased that this leader of the electrical industry is joining the MYR group of companies. WPE's mission is to provide innovative and comprehensive solutions to customers while maintaining the highest possible standards regarding safety, quality, ethics and teamwork.

All of our operating subsidiaries, including WPE, intend to remain disciplined in their bidding approach, as well as with their efforts to manage construction and contractual risk. This disciplined approach, coupled with a competitive cost structure and a commitment to safety and outstanding customer service, are the keys to our long-term success. We maintain our belief that MYR is well positioned to win a sizeable portion of project awards as they come to market.

As always, we encourage and value the input of our stockholders. Your participation in, and support of, MYR's long-term strategies to maximize shareholder wealth are essential for our continued success.

Now, Betty will provide details on our financial results for the third quarter.

Betty Johnson - *MYR Group, Inc. - SVP, CFO & Treasurer*

Thank you, Bill, and good morning, everybody.

As Bill stated earlier, project execution and the contributions made by our organic and acquisition growth initiatives improved our results as compared to the prior year. Our revenues, gross profit, EPS and backlog all improved both year over year, as well as sequentially over the first two quarters of this year.

Our first quarter (sic - see press release, "third quarter") 2016 revenues were $283.3 million, which represented a record high quarterly revenue. This also represents a $13.4 million, or 5.5% (sic- see press release, "5.0%") increase compared to the same period of 2015. The increase was primarily due to organic and acquisition growth, partially offset by lower revenues from large multiyear contracts.

Compared to 2015 third quarter, T&D revenues increased $2.5 million, or 1.3%, to $206.4 million. The breakdown in T&D for the third quarter of 2016 was $148.4 million for transmission and $58 million for distribution. C&I revenues were $76.8 million, an increase of $10.8 million, or 16.4%, for the-- from the same period last year. Both T&D and C&I revenues were at our second highest quarterly revenue levels for the Company, resulting in record high total revenues overall this quarter.

Our overall gross profit in the third quarter of 2016 was $34.1 million compared to $28.6 million in the third quarter of 2015. The increase in gross profit was primarily due to higher revenue and gross margin.

Our gross margin was 12.0% for the third quarter of 2016 compared to 10.6% the same period last year. The increase in gross margin was primarily due to favorable closeouts and improved performance on several projects, offset by inclement weather experienced on certain other projects. Additionally, gross margin in the comparable prior-year quarter was negatively impacted by lower bid margins caused by a higher mix of shorter duration jobs, as well as underperformance on certain jobs.

Changes in our estimates of gross profit on certain projects resulted in a gross margin increase of 70 basis points in the third quarter of 2016 compared to a decrease of 50 basis points for the third quarter of 2015.

Third quarter 2016 SG&A expenses were $23.2 million compared to $19 million in the third quarter of 2015. The $4.2 million increase included approximately $1.9 million of costs associated with our organic and acquisition expansion into new markets. We also incurred higher bonus and profit sharing costs and increases in other payroll costs to support new and existing operations. SG&A as a percentage of revenue represented 8.2% for the third quarter of 2016, up from 7% for the third quarter of 2015. Compared to the prior two quarters, our SG&A as a percentage of revenue has decreased from 9.4% in the first quarter and 8.6% experienced in the second quarter of this year.

Our provision for income taxes increased to $4.2 million in the third quarter of 2016 compared to $4 million in the same quarter of 2015. Our effective tax rate for the third quarter of 2016 was 40.4% compared to 39.4% in the third quarter of 2015. The increase in the effective tax rate was primarily caused by the year-to-date impact of lower domestic activity deductions and changes in the mix of business between states. The domestic activity deductions in our line of business primarily relate to tax deductions and new domestic construction activities.

This quarter 2016 net income was $6.1 million, or $0.38 per diluted share, compared to $6.2 million, or $0.29 per diluted share, in the third quarter of 2015.

Third-quarter 2016 EBITDA was $20.5 million compared to $20.1 million in the third quarter of 2015. EBITDA on a per diluted share basis grew from $0.95 per diluted share in the third quarter last year to $1.27 per diluted share in our 2016 third quarter.

Shifting now to our first nine months of 2016 results, revenues increased $8.3 million, or 1.1%, to $798.8 million compared to $790.5 million for the first nine months of 2015. The increase was primarily due to organic and acquisition growth, which was partially offset by lower revenue from large multiyear contracts.

Our overall gross profit in the first nine months of 2016 was $92.8 million compared to $89.7 million in the first nine months of 2015 due to the higher revenue and gross margins.

Gross margin increased to 11.6% versus 11.4% in the first nine months of 2015, primarily due to the favorable close-outs and improved performance on several projects. This was partially offset by lower bid margins caused by increased competition in many of our markets and an increase in shorter duration projects. Additionally, we experienced some writedowns due to unrecognized pending project change orders and a project claim, inclement weather and lower productivity experienced on certain projects. Changes in estimates of gross profit on certain jobs resulted in a 50 basis point decrease in gross margin in the first nine months of 2016 compared to a 50 basis point increase in the first nine months of 2015.

The first nine months 2016 SG&A expenses were $69.6 million compared to $56.5 million in the first nine months of 2015. The $13.1 million increase was primarily due to $7.2 million of costs associated with our expansion into new geographic markets, and $1 million associated with activist investor activities earlier in the year. We also experienced increased bonus and payroll costs to support new and existing operations during the first nine months of 2016. SG&A as a percentage of revenue was 8.7% for the first nine months of 2016, up from 7.2% in the first nine months of 2015.

Our provision for income taxes decreased to $8.8 million in the first nine months of 2016 compared to $12.9 million in the first nine months of 2015. Our effective tax rate for the first nine months was 39.1% compared to 37.7% in the first nine months of 2015. The increase in the effective tax rate was primarily caused by the year-to-date impact of lower domestic activity deductions and changes in the mix of business between states.

Net income for the first nine months of 2016 was $13.6 million compared to net income of $21.4 million in the first nine months of 2015. Diluted earnings per share were $0.77 for the first nine months of 2016 compared to $1.01 for the first nine months of 2015.

EBITDA declined to $52.7 million for the first nine months of 2016 compared to $62.9 million for the first nine months of 2015.

Total backlog at September 30, 2016 was $620.6 million consisting of $436.9 million in the T&D segment and $183.7 million in the C&I segment. This represents an increase of $145.6 million or 30.6% from last quarter. Our backlog has increased in 9 of the past 11 quarters and was at our highest level in over 4 years, with C&I backlog at a record high. T&D backlog at September 30th increased $132.3 million, or 43.4%, while C&I backlog increased $13.3 million, or 7.8%, from last quarter. The increase in backlog was primarily due to the multiyear Cross Texas Transmission contract of approximately $125 million which we were awarded in the third quarter of 2016.

Turning to the September 30, 2016 balance sheet, we had approximately $600,000 in cash and cash equivalents, $38.6 million of outstanding funded debt and capital leases, and $192.3 million in availability under our credit facility.

As of September 30, 2016, we had working capital of $87.6 million, which is an increase of $20.8 million from the last quarter. This increase is partly due to working capital needs to support higher volume of revenues this quarter, and also increased due to the timing of billings, some of which have been delayed due to milestone billings terms for a large multiyear project.

As it relates to our share repurchase program in 2016, we repurchased $5.5 million of common stock for a total year-to-date repurchase of $100.6 million. As of September 30th we had $20 million of availability under our share repurchase program, which was recently extended to August 15, 2017.

As Bill mentioned earlier, on October 28th we completed the acquisition of substantially all of the assets of Western Pacific Enterprises, or WPE. WPE is an electrical contractor firm in the Western Canada with average annual revenues of approximately CDN 100 million over the last five years. We paid through borrowings under our line of credit approximately CDN 16.1 million, of which CDN 13.7 million were paid at the time of closing with the remaining amount held in escrow to cover any working capital adjustments. We may also make additional contingent payments in the future which would be based on the successful achievement of certain performance targets and require the continued employment of certain key executives of WPE.

In conclusion, we had another solid quarter with revenue-- growth in revenues, gross profit, EPS and backlog. We believe that we have adequate capital and borrowing capacities going forward to support our working capital needs, bonding requirements, equipment investments, and future growth.

I will now turn the call over to Rick who will provide an overall industry outlook and our view of MYR's opportunities.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

Thanks, Betty, and good morning, everyone.

Entering into the final quarter of 2016, we are seeing improved project opportunities of all sized which we believe will result in a strong start to 2017 and continue throughout next year. These developments are encouraging as they represent viable bidding opportunities for MYR.

To that end, as Bill mentioned, we've been awarded an approximate $125 million contract with Cross Texas Transmission, or CTT, an affiliate of LS Power, to construct a new 68-mile, 345-kilovolt Limestone to Gibbons Creek transmission line, which is part of the Houston Import project. We have worked closely with LS Power on several of their major projects and look forward to expanding our long-term relationship on this important initiative. Construction is expected to begin this quarter with scheduled completion in the spring of 2018. This award strengthens our view that large transmission activity will continue to improve throughout the US in the near term.

Looking out across the project horizon, TransmissionHub's quarterly market review indicated they are tracking $133.4 billion of projects throughout the US and Canada, which represents approximate 37,000 miles that are planned or under construction. As part of this spend, they anticipate several large projects, which have already been through extensive permitting periods, will be out for bid in the next couple of years.

Additionally, important milestones continue to be achieved in planning and permitting for major transmission projects. For instance, the Southline project was granted right-of-way approval in September by the New Mexico State Land Commissioner for a new and upgraded transmission project that will run from Southeaster New Mexico to substations in Arizona. It will consist of 240 miles of 345-kV line, as well as 155-kV and 230-kV line upgrades. This project, like many being planned in the Western US, represents a good opportunity for our regional subsidiary companies who have a long-standing history of performing transmission projects in these states.

Moreover, we have maintained a solid track record during our 125-year history and have secured our share of major transmission work through our industry-leading project expertise and vast recourse. We are one of a few contractors capable-- with capabilities required to complete North America's most challenging electrical infrastructure projects, and we look forward to pursuing additional large projects over the coming years.

We are also encouraged by ample bidding opportunity related to small to medium-sized projects throughout the US, and recent industry data points to continued investments in overall capital spending by utilities. For instance, in August Edison Electric Institute published their electrical industry CapEx update which showed an expected increase in transmission investment, primarily driven by growth in renewal generation and other grid modernization initiatives. 2016 industry capital expenditure projections show an anticipated 7.7% year-over-year improvement. These CapEx projections were reinforced by recent announcements from regional transmission operators and several utility clients who stated that they will invest additional capital into new transmission lines, upgrades to existing transmission, as well as substation projects.

All of this translates to improved opportunities for MYR. For example, in July Avangrid announced it's committed to invest more than $5 billion over the next five years for a wide range of projects, including system upgrades and reliability projects throughout the Northeastern US. Additionally, in the third quarter Exelon announced it's plan to invest more than $25 billion across its regulated utilities over the next five years. The investments are slated for critical infrastructure, smart grid technology and other reliability improvements, and includes $7 billion for their Pepco Holding subsidiary, $10 billion for Commonwealth Edison, $4.5 billion for their Baltimore Gas & Electric subsidiary, and $750 million for their PECO Energy Company. We believe that through our established offices of L.E. Myers Company, Harlan Electric, and our recently-acquired E.S. Boulos operation we are well positioned to pursue opportunities resulting from Exelon's significant investment plan.

Additionally, the regional transmission operator, PJM, approved $636 million in transmission projects over the next several years, including new transmission and upgrades to transmission and substation facilities to alleviate regional grid congestion. This announcement is a great opportunity for our regional construction subsidiaries in the Northeast and Mid-Atlantic states.

Although the competitive landscape continues to be challenging, our backlog is increasing and we know that the main drivers that point to continued investment by our utility clients remain intact. Ensuring good reliability, integrating renewable generation and natural gas resources to replace coal generation, and replacing aging infrastructure all continue to spur investment into our nation's transmission systems.

On the distribution front, we are encouraged by Xcel Energy's recent announcement of plans to invest $562 million into building an advanced distribution grid in Colorado, which would improve integration between aging distribution infrastructure and new technology and equipment to better serve customers. We have maintained a long alliance relationship with Xcel for work throughout Colorado since the early 1960s and look forward to the potential opportunities this should present for the future.

Southern California Edison also released a formal plan in the third quarter that calls for investments in distribution and transmission infrastructure to support improved integration of distributed energy resources such as solar, wind and battery storage into the grid. We anticipate that SCE's new plan will positively impact our future opportunities for distribution work in this region.

Overall, a continued increase in distribution spending remains intact due to drivers related to reliability mandates, grid modernization initiatives, growth in housing development in certain parts of the country, and rooftop solar generation.

In early October we were saddened as Hurricane Matthew impacted the people of Florida, Georgia, the Carolinas, and elsewhere along the Eastern Coast. We would like to acknowledge all the work done by line crews from throughout the US who responded to the damage caused by Matthew, including our own line crews. A recent article in the Wall Street Journal highlighted that all the-- that although the impact of Matthew was extensive, it appears that the initial investments made by utilities in the region to strengthen or harden their distribution system against events like Matthew may have made a difference in preventing even further power outages in the area. We believe there will be future similar storm-hardening initiatives which provide another opportunity for MYR.

Activity in our C&I division remains strong and we continue to see improved bidding opportunities in nearly all of our markets across the west and northeast. Data centers, transit, healthcare, manufacturing, education, and water treatment facilities continue to dominate the bidding scene. High-tech data center clients in Denver, Phoenix and Salt Lake City have all announced sizable expansions, which offer unique opportunities that are well suited to our capabilities and experience.

In the northeast, opportunities in healthcare and education have been announced, with multiple facilities undergoing expansion and renovation. In addition, transit and transportation-oriented projects have been announced in our western target markets and includes sophisticated network and advanced communication systems intended to increase traffic flow through enhancing vehicle and roadway interaction. Additionally, as air travel numbers continue to break records, Denver International Airport and other airports are announcing plans to enhance the traveler experience and increase airfield operations. MYR is well suited to participate in these projects.

Moreover, the healthcare sector has been a major contributor to our C&I revenue in the west. We believe this sector will continue to provide opportunities to us as a wide variety of projects are being planned throughout Colorado. There are indications that similar healthcare expansion is starting in Arizona and other western markets. Also, a number of water treatment projects are in the pipeline in most of our major markets. The technical nature of this work demands a contractor like MYR which possesses a high degree of skill and experience.

Finally, we are excited that Western Pacific Enterprises will be joining the MYR group of companies. As one of the largest electrical contractors in British Columbia, WPE provides commercial and industrial construction services to general contractors and facility owners, as well as substation construction and maintenance service for utilities, government entities, and private developers. Their extensive experience, strong management team, skilled workforce, and similar culture complements and enhances both our C&I and T&D business segments and we look forward to a successful integration into our organization.

In conclusion, we are encouraged by the momentum we are building across several of our target markets and will continue to focus our efforts on refining our skills, systems and processes in order to capture our share of these opportunities. By employing best practices on projects we will provide seamless execution in our work with our clients. We are also starting to see both organic development and acquisitions positioning us for opportunities that should come to market in both the near and long term. Most of all, our goal is to meet or exceed our clients' expectations and recruit, train and motivate the best employees available to work for MYR. If we do that well, our shareholders will be rewarded with strong returns.

Thanks, everyone, for your time today. I'll now turn the call back to Bill for some closing comments.

Bill Koertner - *MYR Group, Inc. - President & CEO*

Thank you for the market update, Rick. Your report highlights the steps we are taking to strengthen our position in the marketplace and grow our North American footprint.

We made some great progress this quarter and have positive momentum heading into Q4. We will continue to invest in our core business, hire and train great teams of employees, and expand our presence in both new and existing markets in our pursuit of profitable long-term growth.

To conclude, on behalf of Betty, Rick and myself, I sincerely thank you for joining us on the call today and for your ongoing confidence in MYR Group. I look forward to updating you on our progress next quarter.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions). Tahira Afzal, KeyBanc Capital Market.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Thank you. Folks, congratulations. A very strong quarter, obviously.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

Thanks, Tahira.

Betty Johnson - *MYR Group, Inc. - SVP, CFO & Treasurer*

Thanks.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

So you've got both your markets doing really well as you head into 2017, Bill. Directionally, in terms of rate of growth, which one would you be more excited about?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Well, I'm very excited about both. I think our C&I market just had some outstanding growth. We've opened a number of new C&I offices organically in the west and are expanding our C&I business in the northeast through the acquisition at E.S. Boulos. So, I'm really confident to that market, but that doesn't mean I'm less confident about our T&D market. Clearly, we went through a pause in some of the growth on the T&D investment, but now it certainly feels a lot better than it did a year or 18 months ago.

So, I'm very optimistic about our T&D market. And in that market we also set up some new offices for organic growth. And as you note, our SG&A expenses are a little higher than we like and we view those as investments in that organic growth. As we've had to hire people and secure office space and do the kinds of things that are necessary to support that growth, we think that's a great investment as we put together our business cases before we went into those markets. So we're really pumped about both of our markets.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Got it. Okay. Sorry, Betty, you were going to say something?

Betty Johnson - *MYR Group, Inc. - SVP, CFO & Treasurer*

No, I'm good.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Okay. I guess just a follow-up to that. The non-residential market in general has been very strong. Some of the leading indicators, Bill, are turning slightly the other way. Your business is slightly more balanced, a little more late cycle. So do you see the revenue momentum organically continuing into 2017, or do you see it losing steam at some point?

Bill Koertner - *MYR Group, Inc. - President & CEO*

I'll let Betty or Rick handle that. They're more familiar with the-- some of the government business indicators than me.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

The areas we're in I still see continued growth right now and opportunities. I kind of do a balance between what we see within our offices to bid, what our general contractors have coming out, and then also some of the engineering firms that are working in the markets we're in. And that work seems to still be full on that side so I do see it as a positive indicator going into 2017. So I really don't see that pullback in the markets that we're in.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

All right. Okay, Rick.

Bill Koertner - *MYR Group, Inc. - President & CEO*

I would--

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

And Betty-- sorry. Go ahead, Bill.

Bill Koertner - *MYR Group, Inc. - President & CEO*

I would add to that. Obviously, we keep track of government statistics and data put out by EEI and Hub and other groups that put out forecasts. But more important than that is talking to our clients. We're in our clients' offices every day, every week, asking about what work they have, what work they got coming up. So that's probably the best intelligence that we can get because we're out in our customers' offices.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

All right. And last question, I guess. I'm not sure if it goes to Betty or Bill here, but given that you're starting to see your transmission business come back and you are investing regionally in some other C&I markets, is it possible for you to really grow your top line fairly notably into 2017 yet hold your SG&A flattish?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Well, it's definitely possible to grow our top line and we're trying to keep our SG&A costs in line. But you've got to spend a little money to make some money. And if the opportunity is--

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Right.

Bill Koertner - *MYR Group, Inc. - President & CEO*

There we're prepared to spend some money. And that investment doesn't get capitalized. It has to be expense. So we definitely see potential for top-line growth in 2017 and beyond.

Betty Johnson - *MYR Group, Inc. - SVP, CFO & Treasurer*

And I agree that, overall, the SG&A would grow with that growth if there's another business unit, like an acquisition like WPE. If our sales are growing for that, your gross SG&A dollars are going to be growing. The SG&A as a percentage could get leveraged still further, but not from a dollar perspective. The dollars will go up somewhat accordingly, like Bill referred to.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

But we also will remain disciplined in our bidding strategy and the risk we're willing to accept, so we won't chase just top-line growth. It's got to be balanced.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Got it. Okay. Folks, thank you very much and congratulations to your team again.

Bill Koertner - *MYR Group, Inc. - President & CEO*

Thanks, Tahira.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

Thanks, Tahira.

Operator

Alex Rygiel, FBR Capital Markets.

Alex Rygiel - *FBR & Co. - Analyst*

Good morning, everyone.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

Good morning, Alex.

Betty Johnson - *MYR Group, Inc. - SVP, CFO & Treasurer*

Good morning.

Alex Rygiel - *FBR & Co. - Analyst*

Bill, a couple quick questions on Canada and WPE. Why C&I in Canada? What's the profitability level look like at WPE? How should we think about the seasonality of that business? And is the WPE acquisition-- is it kind of old school C&I or is it sort of a blend of what you'd call more electric utility infrastructure work, in other words substation work and so on?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Well you asked about five questions there, Alex. The C&I business, the margins are very comparable to the margins we've achieved in the C&I market in the US, so I would say it's very comparable. Whether it's old school C&I, I guess I don't think there is an old school C&I. As I tour our C&I projects, being a hospital here in the lower 48 or a hospital in Canada, they look like a lot of technology. And it's important for our subsidiaries, our existing subsidiaries and now WPE, to be really at the cutting edge of installing this new technology because I don't see any old school, if you will, installations. Everything is very modern, very high tech, and it requires a highly-skilled electrician and design team to build these facilities.

Alex Rygiel - *FBR & Co. - Analyst*

And the seasonality?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Seasonality, it's very-- I don't think it's any different than what we have here in the States.

Alex Rygiel - *FBR & Co. - Analyst*

And could you comment on Cross Texas? It sounds like it's starting this quarter. How should we think about mobilization expenses and how that could affect profitability in the fourth quarter?

Rick Swartz - *MYR Group, Inc. - SVP & COO*

As far as the mobilization side, we bid that in our estimates as we put them together. This was a procure and construct contract, so we are furnishing materials on this project. But as far as the-- any negative side on the mobilization of that project, I don't think we'll see-- or we don't anticipate seeing anything in this quarter.

Alex Rygiel - *FBR & Co. - Analyst*

Thank you very much.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

Thank you.

Operator

Andy Wittmann, Robert W. Baird.

Andy Wittmann - *Robert W. Baird & Company - Analyst*

Great. I wanted to keep going on Cross Texas, if I might. I guess my question on this one, this is let's say one of the larger projects you have booked in a while. And I guess my question is, as you address this project, does it pull resources away from other growth opportunities in the Company? In other words, if everything else was equal, would this be additive to the overall portfolio of projects you're working on or is this going to sap resource? I'm just trying to understand how this gets balanced in the overall workload for the Company in T&D.

Bill Koertner - *MYR Group, Inc. - President & CEO*

No. This-- I would say our goal is to have this as additive. It's-- every bid review we do, every time we talk to our districts or we review their business plans it's to have these projects as additive. We've got a group set up that performs these projects. And in slower time we'll move them out to other projects that work on client development, they'll do a certain thing and then we group them back together. So we're capable of doing multiple large projects at a given time. So we're not at full capacity by any means when it comes to that side.

Andy Wittmann - *Robert W. Baird & Company - Analyst*

Great. And then, Rick, maybe just to keep going on this one, you mentioned that you've got the procurement side of this project. How does the-- considering that, how does the margin of this project compare with the margins that you've been putting up recently in this segment? Obviously it's got the advantage of being a large project, but procurement sounds like it should be overall lower margin. I guess as we look out into your execution of this project, I'm just trying to get a feel of what this project could do to your overall mix of margin?

Rick Swartz - *MYR Group, Inc. - SVP & COO*

We've always said that if there's a large material component it is usually at a lower margin. It's a lower risk side for us. But this project and its performance really ties down to the execution of our work out in the field and how we perform. And with many of our large projects we carry them at the margin they're at until the end when we can recognize, hopefully through production gains and things that change on the project, some potential upside.

Andy Wittmann - *Robert W. Baird & Company - Analyst*

All right. Okay. And then I guess I just wanted to do one here on C&I. The margins have obviously been picking up. And I guess on the C&I business my question is, are you seeing job bid margins being higher, or is it the greater utilization of your workforce and limited equipment there, I guess, that's driving the margins? How-- and the sustainability of those margins going forward with the backlog that you currently have. Could you comment on that, please?

Rick Swartz - *MYR Group, Inc. - SVP & COO*

When I look at that side I see it as a very competitive market. I think all the markets we're at remain competitive. Really, the margin increase we're seeing is through execution and good contract management and that's where we're seeing those gains at. The projects, as Bill said at the beginning of the script, are very competitive out there. We know the markets we're in and we've got a good team that can perform. So it's more around the execution and contract management side.

Andy Wittmann - *Robert W. Baird & Company - Analyst*

Great. And then just a clerical question to finish up here. What was the-- can you guys give us an estimate of what the revenue was from Hurricane Matthew here in the fourth quarter?

Rick Swartz - *MYR Group, Inc. - SVP & COO*

We don't--

Bill Koertner - *MYR Group, Inc. - President & CEO*

We don't disclose that, Andy. It's over $1 million.

Andy Wittmann - *Robert W. Baird & Company - Analyst*

Okay. All right. Thanks, guys.

Operator

Noelle Dilts, Stifel.

Noelle Dilts - *Stifel Nicolaus - Analyst*

Thanks. I just wanted to circle back to Western Pacific for a moment. You guys disclosed that annual revenues have averaged around CDN 100 million over the last five years. But given that we have seen such tumults in the Western Canadian markets, I would imagine it might be running a little bit lower than that now. Can you give us a sense of what the run rate is today?

Rick Swartz - *MYR Group, Inc. - SVP & COO*

Going forward-- we really don't project that out or provide that guidance, but I would say our goal is to have it similar to their existing run rate that we've-- their average over the last five years. I would say that's the minimum we would anticipate going forward.

Noelle Dilts - *Stifel Nicolaus - Analyst*

Okay. And then given that you sort of want to leverage their relationships into more work on the T&D side, I mean can you comment on-- are you expecting a meaningful rebound in Western Canadian transmission activity? I know Alex asked about this a bit, but I just want to understand your outlook there.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

As we said, they're primarily a commercial C&I entity. They do substation work. They really do no transmission or distribution work, so it's a point through some of their existing clients. We can bring that expertise to them and hopefully springboard some growth off of that side and then work on those relationships that further develop, on the transportation side, other markets they may not be in.

Noelle Dilts - *Stifel Nicolaus - Analyst*

Okay. All right. Can you speak-- just shifting over to electric distribution, it looks like revenues were again down this quarter, but less so than we saw in the second quarter. Can you just comment on what you're seeing in the market and what your expectations are as we move into kind of 2017 and 2018, just in terms of the general trajectory for the market?

Rick Swartz - *MYR Group, Inc. - SVP & COO*

I see it as-- I still see it continuing to grow. The one thing the distribution market has always-- always heads into is people use that as kind of a budget balancing component, so we see that work turned on and off very quickly. And depending on the clients we're working for and the weather and everything else, we've seen the work turned on and off and they use it, as I said, a budget balancing component. So I-- I'm looking for some growth overall.

Noelle Dilts - *Stifel Nicolaus - Analyst*

Okay. And then could you just comment a little bit on the transmission side from a geographic standpoint, which areas of the US are maybe a little bit relatively stronger versus those that are weaker?

Rick Swartz - *MYR Group, Inc. - SVP & COO*

Well, I'm seeing opportunities. I would say Central. Eastern I see a lot of opportunities. The Midwest. Really, the area that needs to get their permitting done and some other sides is California. And that would probably be the side I see that hopefully those projects seem to get pushed further and further out. But the others, when I look at the rest of the US, I see some potentials in just about every other geographic area.

Noelle Dilts - *Stifel Nicolaus - Analyst*

Great. Thanks, Rick.

Operator

(Operator instructions). John Rogers, Davidson.

John Rogers - *D.A. Davidson & Co. - Analyst*

Hi. Good morning.

Bill Koertner - *MYR Group, Inc. - President & CEO*

Good morning, John.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

Hi, John.

Betty Johnson - *MYR Group, Inc. - SVP, CFO & Treasurer*

Good morning.

John Rogers - *D.A. Davidson & Co. - Analyst*

A couple of just follow-up things. First on Western Pacific. Will-- based on that transaction price and your financing, this will be accretive in 2017 is my question?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Yes, that's our expectation.

John Rogers - *D.A. Davidson & Co. - Analyst*

Okay. And I guess in terms of backlog that they bring to the business?

Bill Koertner - *MYR Group, Inc. - President & CEO*

They've got a significant backlog. We need to do a sort through to make sure, as we report at the end of the fourth quarter, they're using the same definition of backlog that we've used for the rest of the Company. That hasn't been totally sorted out at this stage. But they definitely have a nice book of business going into the fourth quarter and into 2017. But we haven't disclosed the backlog because we're still getting Western Pacific to reconcile their backlog reporting to our definition. (Inaudible.)

Rick Swartz - *MYR Group, Inc. - SVP & COO*

To add to that a little bit, John, we've known this company since, really, 2013. We've had many conversations with them over time. It's something-- we've looked at the market. We spend a lot of time up there. And it's like any of our other districts, some of the work that's-- that they have in negotiations or they don't have contracts or it's pending right now, we won't count that in backlog, but we've got good visibility to what's coming ahead in the next few months.

John Rogers - *D.A. Davidson & Co. - Analyst*

Okay. And they're-- as far as the seasonality of that business, just given the geography and all, I mean does it-- I guess what I'm concerned about, is there a meaningful slowdown or drag that you're going to see from it in the first part of the year, or is that not to be expected?

Rick Swartz - *MYR Group, Inc. - SVP & COO*

We don't see that with the work they have on right now. I mean they're more of a commercial contractor.

John Rogers - *D.A. Davidson & Co. - Analyst*

Okay.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

It's one of those that their work is similar to ours in other regions where we work, so they're lower. They're Vancouver, that area. Work continues to progress even during the winter. So no major impact that we see with the backlog they have currently.

John Rogers - *D.A. Davidson & Co. - Analyst*

Okay, thank you. And then on the T&D side of the business, I mean congratulations on the surge in orders and backlog. And the last time we saw these levels of backlog, even with a lot of materials involved in contracts, I mean your margins were up over-- were in double-digit range. Are-- is that ahead of us now?

Bill Koertner - *MYR Group, Inc. - President & CEO*

John, it's possible, but I don't think we would be counting on it. If we have exceptional execution that's possible. But going in, as we bid these jobs, more typical of what bid margins we've assumed historically.

John Rogers - *D.A. Davidson & Co. - Analyst*

Okay, fair enough. Thank you.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

Thanks, John.

Operator

Dan Mannes, Avondale.

Dan Mannes - *Avondale Partners - Analyst*

Thanks. Good morning, everyone.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

Good morning.

Bill Koertner - *MYR Group, Inc. - President & CEO*

Good morning.

Dan Mannes - *Avondale Partners - Analyst*

A couple of quick follow-ups here on Western Pacific. Sorry, again. I know you said mostly a C&I business, but also substation. If I were to allocate the $100 million of trailing revenue, I don't know, 80/20 between C&I and T&D, or is there almost done that would fall under the T&D?

Rick Swartz - *MYR Group, Inc. - SVP & COO*

I would say 80/20, 85/15, depending on the timing (inaudible).

Dan Mannes - *Avondale Partners - Analyst*

No, that's helpful. Secondly, I think in Bill's comments you said that management was coming aboard, and then in Betty's comments there was some discussion about a contingent payout tied both to performance as well as retention. Can you give a little bit more color on the status of the current management team and their likelihood of staying with the business? And then maybe a little more on any-- on the materiality of the contingent consideration?

Bill Koertner - *MYR Group, Inc. - President & CEO*

Let me comment on that, Dan. The family is-- their last name are Fettbacks and they've been with the business for a long, long time. They're younger than me, which is good, and they've indicated an interest in staying on. They're both-- there are actually four members of the management team. They are very committed to growing the business. And as we did our due diligence, we definitely don't want to just buy equipment and assume contracts. We're looking to bring on the management team and integrate them into our organization. So, we're very comfortable with the management team and we spent a lot of time talking about culture and we feel very comfortable that their culture aligns with our culture.

Dan Mannes - *Avondale Partners - Analyst*

And then the contingent consideration?

Bill Koertner - *MYR Group, Inc. - President & CEO*

We haven't disclosed that. It's not a big factor in the economics of the deal. But we definitely want to make sure the management at WPE is incented, just like we want to have the management incented for all the other MYR companies.

Dan Mannes - *Avondale Partners - Analyst*

Completely understood. I also want to touch a little bit on gross margin in the quarter. It sounds like there were a lot of puts and takes. It sounded like execution in particular in C&I was a positive, maybe weather was a negative. Can you maybe drill down a little bit deeper on the impacts from a margin perspective of some of those puts and takes?

Betty Johnson - *MYR Group, Inc. - SVP, CFO & Treasurer*

Just to start with, the overall impacts on the margin, you can think about them like half and half or between the T&D and the C&I. And as the-- from a T&D side, weather was an impact, but offset by some other favorable execution. Probably going-- if I was to throw something out, probably half and half going both ways. So--

Dan Mannes - *Avondale Partners - Analyst*

And then on-- sorry, keep going.

Betty Johnson - *MYR Group, Inc. - SVP, CFO & Treasurer*

Yes. No, so that's for-- yes, quarter to date the improvement is across the board.

Dan Mannes - *Avondale Partners - Analyst*

So basically, you're saying they kind of met each other out? So is that-- I guess I'm trying to make sure I understood. Weather was a headwind, execution was a tailwind, and as it relates--

Betty Johnson - *MYR Group, Inc. - SVP, CFO & Treasurer*

Yes. No--

Dan Mannes - *Avondale Partners - Analyst*

To T&D they met at each other?

Betty Johnson - *MYR Group, Inc. - SVP, CFO & Treasurer*

On T&D there was-- execution overall was more favorable than the weather. So half and half of our net/net write-up on margins was between C&I and T&D. But the favorable in T&D was that much more favorable, but offset by some of the weather that we talked about in prior projects.

Dan Mannes - *Avondale Partners - Analyst*

Got it.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

(Inaudible.)

Dan Mannes - *Avondale Partners - Analyst*

But given the revenue mix, C&I is obviously a smaller piece of the revenue. Can I assume that the execution benefit to C&I was even a good deal larger than the T&D? And if you can just give a little bit more color. Are these, on average, projects that are at completion with close-outs or are these things that are ongoing and you just executed really well on them?

Rick Swartz - *MYR Group, Inc. - SVP & COO*

It's a mixture.

Bill Koertner - *MYR Group, Inc. - President & CEO*

Yes.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

Some are projects that we're finishing up and some were ongoing. We're executing very well and we've got enough visibility in it that we could forecast where we would be accurately.

Dan Mannes - *Avondale Partners - Analyst*

Got it. And then lastly, since you did now put CTT in backlog, we were (inaudible) your press release a contract win, which we hadn't seen in a long time, I wanted to get an update maybe on anything new on [Harial] and Eldorado, which you've talked about in the past, but I don't believe you put into backlog yet.

Rick Swartz - *MYR Group, Inc. - SVP & COO*

We have not put that into backlog yet. That's a project that we'll probably-- from everything we see now, we'll probably build in 2018. Hopefully we get a contract secured on that in 2017, but that is not in our backlog.

Dan Mannes - *Avondale Partners - Analyst*

Got it. Thank you very much.

Bill Koertner - *MYR Group, Inc. - President & CEO*

Thanks, Dan.

Operator

I am no longer seeing any questions in queue. At this time I'd like to turn the conference back over to Mr. Koertner for a closing statement.

Bill Koertner - *MYR Group, Inc. - President & CEO*

Well, I'd like to thank everyone for participating in today's call. As always, I'd like to extend my thanks to our employees that make all this happen. It's not just the management team. We've got a great group of employees at MYR that are really dedicated to building value for shareholders. I don't have anything further. We look forward to speaking with you again on our next call.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect.

5

THOMSON REUTERS