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MYRG - Q1 2018 MYR Group Inc Earnings Call

EVENT DATE/TIME: MAY 03, 2018 / 2:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the MYR Group First Quarter 2018 Conference Call. (Operator Instructions) As a reminder, this call is being recorded. I would now like to introduce your host for today's conference, Miss Kristine Walczak. Ma'am, you may begin.

Kristine Walczak - *MYR Group Inc. - SVP, Dresner Corporate Service*

Thank you, and good morning, everyone. I'd like to welcome you to the MYR Group Conference Call to discuss the company's first quarter results for 2018, which were 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 10, 2018, at 11:59 p.m. Eastern Time by dialing (855) 859-2056 or (404) 537-3406 and entering conference ID 6855529.

Before we begin, I want to remind you this discussion may contain forward-looking statements. Any such statements are based upon information available to MYR Group management as of this date, and MYR Group assumes no obligation to update any such forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Accordingly, these statements are no guarantee of future performance. These risks and uncertainties are discussed in the company's annual report on Form 10-K for the year ended December 31, 2017, the company's quarterly report on Form 10-Q for the first quarter of 2018 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 to Rick Swartz.

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

Thanks, Kristine, and good morning, everyone. Welcome to our first quarter 2018 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.

We are pleased with our first quarter 2018 financial results, which include a $45.5 million increase in revenues, a $4.4 million increase in net income and a $6.9 million increase in EBITDA as compared to the first quarter of 2017. While there is always room for further improvement, we are pleased with the increase in our gross margins during the first quarter as compared to the same period last year. This increase was driven by the strides we have made in improving our efficiency.

Our first quarter 2018 backlog reached a record high of $958.5 million, a 41.1% increase from our backlog on December 31, 2017. Our healthy backlog consists of both short- and long-term projects in both our T&D and C&I segments, with varying construction start dates that will be covered by Tod and Jeff later on. The strength of our economy, industry news and spending trends by our customers point to continue strong investments in electrical infrastructure, which we believe should support further growth in both our T&D and C&I segments. We have seasoned, experienced craft and management teams in place throughout the geographies we serve and are confident we have the expertise and resources necessary to successfully meet the needs of our clients, regardless of the size, type or complexity of their projects. We also remain diligent in refining our internal processes for continuous improvement in all aspects of our operations. We will continue to profitably grow our company, both organically and through acquisitions, as we execute our strategy and expand our service offerings to a wider base of clients. We believe these growth initiatives, coupled with our dedication to maintain a solid financial position, should lay the foundation for future success and allow us to deliver strong returns to our stockholders.

Now Betty will provide us with financial results for the first quarter of 2018.

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

Thank you, Rick, and good morning, everyone. Our first quarter 2018 revenues were $345.6 million, an increase of $45.5 million or 15.2% compared to the same period last year. The increase was primarily due to higher revenues at C&I and an increase in the distribution revenues. T&D revenues were $216.4 million, an increase of 10.6% compared to the same period last year. The breakdown of T&D revenue was $134.5 million for transmission and $81.9 million for distribution. C&I revenues were $129.2 million, an increase of 23.8% compared to the same period last year. Our gross margin was 10.3% in the first quarter of 2018 compared to 8.6% in the same period last year. This increase in gross margin was largely due to improvements in efficiency, fleet utilization and improved weather conditions from the first quarter of 2017. SG&A expenses were $28.3 million, an increase of $2.5 million compared to the same period last year. The increase was primarily due to higher bonus and profit-sharing costs. SG&A, as a percentage of revenue, decreased to 8.2% for the first quarter of 2018 from 8.6% for the first quarter of 2017.

Income tax expense was $2.3 million in the first quarter of 2018 compared to a $400,000 income tax benefit for the same period last year. The tax rate in the first quarter of 2018 represented 28.9% of pretax income. In the first quarter of 2017, income tax benefit represented 42.7% of pretax income. The effective tax rate for the first quarter of 2018 benefited from the enactment of the 2017 tax act.

First quarter 2018 net income was $5.6 million or $0.34 per diluted share compared to $1.2 million or $0.07 per diluted share in the first quarter of 2017.

Total backlog as of March 2018 was $958.5 million, a record high, consisting of $434.3 million in the T&D segment, $524.2 million in the C&I segment, also a record high for the C&I segment. This total backlog represents a sequential quarter-over-quarter increase of $279.4 million or 41.1% from last quarter. The increase in backlog was primarily due to the addition of previously announced Denver Central 70 Project and various small and midsized T&D projects.

Turning to the March 2018 balance sheet. We had approximately $1.7 million in cash, $67.4 million in funded debt, $162 million in availability under our credit facility and $181 million of working capital.

In summary, we are pleased with our results for this quarter. Compared to the first quarter of 2017, we had improvements in revenue from both of our T&D and C&I market segments, improvements in overall margins and net income and an increase in backlog to a record high. We believe that the fundamental business and markets in which we participate are strong and should support continued profitable -- profitability going forward. We also believe our strong balance sheet and borrowing capacity are sufficient to support our working capital needs, bonding requirements, equipment investments and our strategic acquisition in organic growth initiatives.

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. MYR Group's first quarter T&D operational results demonstrated a solid start to 2018. We continued strengthening existing client relationships through superior service while pursuing opportunities with new clients that align with our expertise. Our reputation and position in the industry support our goals expanding work with our current clients and gaining a competitive edge and pursuing opportunities with new clients.

Our improvement in T&D backlog reflects an active bidding environment and wins on a number of small- and medium-size projects.

Included in our first quarter addition to backlog is the Harry Allen to Eldorado project for approximately 60 miles of 500kV transmission line. In late 2015, the California Independent System Operator selected DesertLink, LLC, a subsidiary of LS Power, as the approved sponsor to develop, construct, own, operate and maintain the new line. And MYR Group teamed with LS Power to provide construction services. The estimated construction start for the project is late 2018, and completion is scheduled for January of 2020.

The overall outlook for Transmission and Distribution markets remains strong with healthy bidding activity. Investments in electrical infrastructure continue with the need to update aging infrastructure, increase grid resiliency, connect new generation resources and harden the system against occurrences that may disrupt power supply.

I'd like to take a few moments to highlight some recent industry news, pointing to strength in the end markets we serve, which bodes well for increased T&D opportunities for MYR.

In the northeast, we are monitoring events surrounding the outcome of several proposed large transmission projects. For example, Massachusetts recently mandated 9 million megawatts of new clean generation by 2022 as part of their Clean Energy RFP. One proposal from the RFP is AVANGRID's 145-mile New England Clean Energy Connect project. The project is budgeted at approximately $950 million and is part of a joint bid offering from AVANGRID's subsidiary, Central Maine Power, and Hydro-Québec. Our successful performance as prime contractor on the Northern Loop of the $1 billion Maine Power Reliability Program for Central Maine Power illustrates our ability to execute projects of this magnitude in the northeast. We will closely monitor the outcome of the Massachusetts RFP and all associated large projects, which could lead to significant opportunities for MYR Group subsidiaries.

We also see strong market activity in the southeastern and midwestern U.S., which we believe could provide opportunities for strategic growth across several of our operating areas. For example, Duke Energy recently announced plans to spend $25 million on grid modernization throughout its entire service area over the next decade. And MYR is positioned well to pursue and participate in projects related to this initiative in all of Duke's service territories. One of our clients, American Electric Power, AEP, covers a large geographic territory, including, but not limited to, parts of Ohio, Indiana, Kentucky, West Virginia, Oklahoma and Texas, all areas where MYR Group subsidiaries provide T&D services.

As part of its capital investment plan, AEP recently announced a $17.7 billion investment in its transmission and distribution system between 2018 and 2020. We have a long proud record of working with AEP across all their service territories, which we expect will position us well for future opportunities.

Our growth in the Texas market also continues at a solid pace. The recent investments we've made in our operation's fleet and training facility near Dallas are allowing us to better serve this vibrant and growing market, both in transmission and distribution. Our outlook for projects of all sizes for a wide range of clients in this region remains robust. As an example, Oncor Electric recently announced that it has been granted approval for over 100 miles of new transmission and associated substation facilities. These projects will help support new load growth in the region. In the Western U.S., we serve clients that have an expansive territory. This geographic reach allows us to pursue some of the larger transmission projects in the west that are currently in development to deliver renewable generation to large population centers. These proposed multistate projects require extensive permitting and planning, which often takes years before reaching the construction phase. We are actively pursuing or have bids under evaluation for many of these western initiatives.

These projects, along with previously announced plans by clients such as PacifiCorp, with their Energy Vision 2020 initiative across several western states, provide significant opportunities in the region. We believe our ability to effectively staff, manage and build these complex projects throughout the west will be an important competitive factor. The overall distribution market continues to trend up, and we have several crews working on long-term contracts with multiple utilities across the country. We continue to offer proposals for additional projects and alliances and are excited to announce the recent award of a 5-year distribution alliance contract with Salt River Project in Arizona. Opportunities such as this are part of a growing portfolio that further positions MYR as a major player in the T&D market. We know that as we constantly 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. Our priority is to always recruit the top people, improve our processes and invest prudently in our resources, will support our future growth and prepare us for the opportunities in the years ahead.

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. As you heard during Betty's report, our C&I segment continues to build momentum in nearly all our markets as demonstrated by our continued growth in backlog. Our most notable achievement in the first quarter was the successful execution of the contract on Colorado's Central 70 project, which added more than $100 million to our backlog. While the project is still in the design phase, we're anticipating crews will mobilize to the site this -- later this year as early works packages get underway. In addition to this exciting award, the Colorado Department of Transportation intends to award other large contracts in 2018 to begin relieving the congestion on Interstate 25, north and south of Denver. Our transportation experts have been engaged in several meetings with key general contractors, which set the stage for continued growth in our transportation group.

One of the primary drivers for awards such as Central 70 is our continued focus on strengthening the preconstruction services we offer clients. Our efforts to build trusted relationships are generating opportunity in all our markets. With successful transit projects underway in California, Arizona, Washington and Alberta, Canada, we believe we are well positioned for teaming opportunities on additional projects.

In the data center market, we continue to see strong movement, which is bolstered by the recent award of a data center in Colorado for JPMorgan Chase. Additionally, JPMorgan Chase has announced plans to build 2 similar facilities in the east, which could bode well for our subsidiary, E.S. Boulos. Our contract with JPMorgan Chase is with Holder Construction Company, which is one of the nation's largest data center builders. Our ability to provide a workforce specially trained for mission-critical facilities is a key driver in winning these types of projects. This specialized training comes in the form of our in-house training program, which are designed to train our workforce to meet our clients' needs. We believe this training sets us apart in our industry and represents key attribute that helps us create -- capture work on extremely complex high-tech facility projects.

For example, our data center university is designed to educate employees on how to work in and enhance the unique, sensitive and complex environments that are characteristic of data centers. We believe these highly valued training programs will continue to place us in a favorable position with data center clients in all our markets.

North of the border, we are seeing positive trends in many of Western Pacific Enterprises markets. WPE's strong existing relationships have generated many teaming arrangements that we believe will mature into project awards. These projects include office buildings in Vancouver, water treatment plants on Vancouver Island and large industrial facilities across Western Canada. Our resume on Vancouver's elevated rail system is unprecedented, which is leading to a high level of confidence on transit projects that are currently in the planning phase.

E.S. Boulos also experienced an increase in backlog this quarter with the award of projects that have been in the procurement phase, the largest being a project at the Colby College athletic field. In addition to the strong activity in education, we're tracking select projects for the Navy and with health care providers. We continue to assist long-standing clients in preplanning efforts for projects planned to break ground later this year.

And finally, in Arizona, we're seeing a diverse project pipeline, which includes exciting announcements about sizable spends in the mining industry. Although this industry has been slow to rebound, we have maintained strong relationships with several clients that will allow our company to rapidly deploy a knowledgeable workforce in an area where skilled craftsmen are limited.

In 2018, our business unit leaders remain focused on providing exceptional preconstruction services and project execution which we expect to drive continued expansion this year and beyond. The acquisitions we have made over the past few years expanded our footprint and have led to exciting new opportunities across the U.S. and in Canada. We are always staying abreast of new technologies, mastering our skills and refining our expertise in order to serve our clients, which reinforces our reputation as one of the few contractors capable of performing highly complex projects. Looking ahead, we expect strong growth in both our new and established markets and know our core competencies in health care, transportation, data centers, commercial, industrial, aviation and manufacturing position us well for future project awards.

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

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

Thank you for those updates, Betty, Tod and Jeff. I am pleased with the overall market and our solid market position in both our T&D and C&I segments. We'll 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.

From Betty, Tod, Jeff and myself, I sincerely thank you for joining us on the call today and for your ongoing confidence in the 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

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

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

I guess first question is we're seeing a lot of commercial clients and industrial clients really focusing on mission-critical and resilience. Just do you see an opportunity now at this point? Do you really take your C&I business, bundle it a little more with your T&D business than you did in the past? You guys are, actually, from the publicly traded side, very unique in the fact you do both.

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

Yes, we do see that opportunity. In most locations, our T&D and C&I, where we serve -- where we have both operations, they are housed in one building, so that interaction is always there. We do a lot of joint proposals and chase work on a regular basis. So as this -- as that component expands in the marketplace, I see that as a place we can definitely leverage and grow.

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

Got it. Okay. And then if I look at your first quarter margins, it was really good to see that the T&D margins are holding on pretty steady in what is typically a tough winter quarter. Could you talk a bit about the moving parts in there? Was anything onetime to the positive or negative? I know storm [once played] a part, but I just wanted to get a sense of the sustainability and ramp as we go into higher-activity quarters.

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

Yes, I'll start, and then I'll turn it over to Tod. I think this last quarter, we really had some positive impacts due to good weather that we usually don't see in the first quarter. So that's one component. A lot of our projects lined up kind of the end of one to the start of the other, so that was a positive thing for us. So we didn't -- we have that gap in that nonutilization of equipment, so that really helped us there. And then finally, it's a good market out there, and we are able to secure some work and keep our crews busy, which allowed us to be efficient in our deployment of resources. So those kind of, together, added to it and made it a good quarter. The one thing we did have -- happen is we did finish the large project for CTT in Texas. So as we -- as Tod and Jeff talked about the new projects, really don't start until late this year, so we'll see very little revenue. Where, in the past, we had some -- quite a bit of revenue burning in quarters based on large projects. We kind of have a gap on that side. But we do have small and medium size that remain steady. Tod, anything you want to add?

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

Well, I think you hit on it, Rick, that, basically, it was more about the small to midsize projects that had a nice flow and continuity throughout the course of the first quarter and less gaps this year than -- early this year in the first quarter than we've seen in the past.

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

Got it. And is part of the gaps going away, obviously, to the market? But you did mention in your release, and you've talked about it, that you have seen some of your efficiency measures take hold of that. Is that something that is sustainable going forward as well? Are you pretty pleased with the efficiency targets you've hit? And are there more that you can hit going forward?

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

We're always striving to improve and really take on a lot of the lean construction techniques from how we deliver our material, how we approach our preplanning. And we spend a lot of time on that. We always strive for that, but some things are out of our control sometimes. So we try to plan and have contingency plans in place, but we plan on always gaining on our efficiency. That's what makes us competitive and price-competitive in the end. So we strive, we spend a great amount of time on that. Jeff, you, on the C&I side, spend a great amount of time on prefab and other items that you

may want to talk about a little bit.

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

Yes, we like the type of projects that are out there and the clients that we're aligning ourselves with, we have a history with. And that always helps us start that project really on the right foot where we're synergizing our work with theirs and the other trade partners, which really gives those projects a great start.

Operator

Our next question comes from Alex Rygiel with B. Riley FBR.

Alexander John Rygiel - *B. Riley FBR, Inc., Research Division - Analyst*

I'm having a little bit of difficulty in thinking about how these small or medium projects will transition to the P&L over the next 6 months until some of the larger project work starts in the latter half of the year. Can you just sort of help us to think about that as it relates to EPS or profitability for the next couple of quarters? Are we to witness traditional seasonal trends? Do these small or medium projects have a little bit higher margin, lower margin as we process them? Any additional thoughts would be helpful.

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

Yes, we -- again, we don't give guidance, but I would say use kind of our past history over the last few years to look at the seasonality, where we've been on that work. I don't -- that's something that can always affect us depending on where -- what work we have going in certain areas and how that weather impacts us in those given areas. But these small to medium size, we're continuing to see a lot of activity, and we turn and burn a lot of work on a regular basis. So it's having that -- right now, we see a lot of activity. So it's a matter of securing that and keeping that coming forward. Our backlog growth we're happy with. But again, like I say every quarter, I wish we had better control over the timing of those awards because it can be lumpy. And in some quarters, we see a lot, like we saw last quarter, and then it can -- came off because we really don't have control of those award dates with our customers. But we are seeing a lot of bidding activity, budgeting activities. Our clients are positive about spending money. It just remains a very competitive market out there and which is kind of shocking. With the shortage of labor out there, some of the other items, the increase in material pricing, you think the margins would be coming up, and you're still seeing them maintain that. But I wouldn't say there's a strain on it, but we're not seeing the increases I would have thought we would have seen a year ago.

Operator

Our next question comes from Andrew Wittmann with Baird.

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

I guess given that the backlog is so materially changed here, it's bigger and it's probably got a little bit more C&I than it's had in the past, can you maybe, Rick, help us understand what's in there in terms of the amount of gross margin in the projects and how it compares to what you had in history? I mean, you look at Central 70 in particular, it's larger, the scope, and we haven't seen anything like that in C&I. And I don't know if T&D's changing too, but I think we'd all like to understand how you're viewing the profitability that's in this new much higher backlog than -- and how it compares to what you had previously.

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

It's very similar to what we've had in the past. Really, if I look at the T&D or the C&I component separately from a margin standpoint in our backlog, it remains consistent to where we've been over the last couple of years where it's not like we're seeing big margin increases. Again, we're working on our efficiency. We're trying to do everything we can to maximize our return on those projects. But the margin we bid those projects at are very similar to what our history has been. We...

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

Is there any -- I'm sorry.

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

Go ahead.

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

Is there any significant material subcontractor costs that are in the numbers today that have driven that backlog? Or is it -- because that was a factor in '17. You did have some of that. And so I'm just wondering if that complexion has changed.

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

It hasn't. There's -- on all the C&I -- let's take them to 2 separate things. On the C&I projects, there is always material and subcontractor components. I'd say Central 70 is similar to any other C&I-type job we have or transportation job. There's not a bigger mix of that. On the line side, on the T&D side, there's definitely a material component in there. But I would say, within our backlog, it's similar to what we've had in the past, so it's not as aggressive as what it has been on some of the other large projects. And again, the projects we've received on the T&D side are mid to small size, not -- they're all sub-$100 million, not above that.

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

Okay. That's helpful. Maybe just kind of going along that line of thinking then, just to check in on maybe the average project size that's in the backlog here. As you look at it -- is that larger? Or maybe another way to ask the same question is do you expect the burn rate, in other words, the revenue dollars attributable to converts in the next, say, 12 months versus the amount of backlog that you have? Do you expect the burn rate of that backlog to slow down or speed up? Slow down, obviously, implying that the average project size is smaller. Because historically, you've converted -- your backlog has converted to about 40% of the next 12 months' revenue. And I'm just trying to get a sense about how that may or may not change today.

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

Yes, when we talked about the, in our script, the LS Power project and the Central 70, those projects really -- they're multiyear projects, and they start the end of this year. So we'll see very little revenue from those projects. So when we look at the remaining backlog we have, it will burn on a normal basis, and we did release what our -- revenue we burn in the next 12 months was. So I think people kind of know what that is and -- from our backlog now. So it's one of those things. You can put it together and see that these really -- these projects really -- these large projects and midsize on the line side really won't burn this year. It will help us next year and probably a few years after that.

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

Yes. But the number that you disclosed in terms of the amount that you expect in the next 12 months, also that's still going to be additive book-and-burn type of business that's -- that complements the, I think, it was 750, I think was the number off the top of my head that was in the filing. Is that right?

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

Oh, yes -- no, we have to capture new work everyday because we're, as you said, we're burning a lot of work everyday. It's something that we do see a busy environment out there from a bidding standpoint. And we see it as a positive thing, we just need to capture our fair share.

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

There has been some common share from others in your industry, not necessarily contractors, but more broadly speaking, suppliers to the regulated utilities, who are seeing their utility customers having to give back rate as a result of federal tax reform-wise. Those utilities may be looking to recapture some of the savings that you and others like you have captured from the tax reform changes. Are you seeing any commentary from the regulated utilities looking to cut into your profits?

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

Not as of now. I think everybody -- I think every customer we have wants -- is challenge you -- is challenging you to be the low-cost provider. So we always see that trend. We're trying to do everything we can through our efficiencies and other items to be that low-cost provider to all our clients, whether it's on the C&I side or the T&D front because it is an important cut -- measurement and you're measured everyday when we put in bids.

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

Got it. My last question. Sorry to take up so much time, but hopefully, this is helpful for everyone. On CapEx, Betty, did you give -- I don't think I heard it, but can you give us an updated outlook for the year for your CapEx budget, please?

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

CapEx, we didn't talk specifically about it, but it is similar to what we have historically had with respect to capital expenditures, not much different to date as well as for the full year and as well as for M&A. So for capital, consistent and then continuously looking at spending the investments in M&A as we find an acquisition.

Operator

Our next question comes from Bobby Burleson with Canaccord.

Robert Joseph Burleson - *Canaccord Genuity Limited, Research Division - MD & Analyst*

You mentioned that things still remain pretty competitive despite the increase in bid activity. I'm wondering what your series are behind that? What do you think is causing that. And is there anything that you see down the road that might change that dynamic?

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

I think it's a few things. One is the large projects on the T&D side haven't come to be, so people are continually trying to build their backlog, and there is -- so the companies that we chase that work are going after the other work at competitive margins. So I think that affects it. And then you just look at the areas that we're working in and everybody's trying to grow their companies. And back to the last question, it's -- you've got to be the low-cost provider in most areas, and it's -- a lot of people are trying to do that. So it's getting in there and making sure you have a team that can execute, and there's some projects that -- we've been around a long time, we know what the pricing for that market is, we kind of know what those projects would be estimated at, and there is only so low we will go. And we're not going to win every project out there, and sometimes, we can't make sense of the prices that come in from some of our competitors. But again, we're not going to win everything, but we try to evaluate it a job at a time and make sure that we understand the cost component of those jobs, each cost component and make sure we understand the cost side of it and then put a fair margin on top of that.

Robert Joseph Burleson - *Canaccord Genuity Limited, Research Division - MD & Analyst*

Okay. And then in terms of things like potential wage inflation or other materials inflation, what are you seeing out there in terms of pricing? And is there anything you can do if it's not raising your bid margins? Can you derisk your contracts in some way to get some benefit from the uptick in activity that we're seeing?

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

We attempt to do that all the time, and I'll let, maybe Jeff, talk a little bit about it on the C&I side, where you're seeing projects that are coming out for re-budget and budgeting and some of the stuff you're doing.

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

Yes, we are seeing increases across the board that are driving prices up, and sometimes, that doesn't fit with our client's pro forma for that project, which then has a tendency to delay the award. It has -- it can push that job out until it gets de-scoped and gets that project back in line with where that client expects it to be or needs it to be. So there are some pressures there on the market that we're working our way through.

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

I would just assume, the T&D side right now, is really isn't impacting us. We can capture those anticipated increase during the bidding phase because the smaller- to medium-size projects don't extend over a duration quite often enough to impact those projects.

Robert Joseph Burleson - *Canaccord Genuity Limited, Research Division - MD & Analyst*

Okay. Great. And just wondering, with tax cuts and more investment -- more capital expenditures here domestically, what are you guys seeing going forward in terms of anecdotally? Do you expect a lot of increased opportunities maybe outside of the realm of where you guys are normally operating? Is it kind of adjacent to your core business that is starting to perk up a little bit?

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

Well, we see some stuff. We're really focused, as we said on past calls, before we expand organically too much further, is making sure that the organic areas we -- expansion areas we have now turn profitable as a net-net overall. And I've said I wanted to do that by the end of the second quarter of this year. We're trending that way, but we do -- before we grow too much in a geographic expansion mode, we definitely want to see those areas turned and be profitable overall. And that's been our focus, along with finding the right acquisitions out there, and we continue to look for those and we're really focused on execution at this point.

Operator

Our next question comes from Noelle Dilts with Stifel.

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

So Rick, you mentioned in one of your responses that labor is tight in certain areas. That's something we hear about a lot in the construction space. Could you just, one, just where maybe you're seeing some of that tightness, if there are certain kind of key positions or areas where there is more of a constraint, and then if you're doing anything or how you're approaching, addressing what could be a coming shortfall?

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

Sure, I'll let -- Tod, you want to start? And then, Jeff, you can add.

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

Yes, on the T&D side, I think it's relatively tight across the country, to be honest with you. In the past, we've seen it move from geographic region to region. But today, we're seeing it relatively tight across the area. And our plan, and I mentioned it, I think, in the script, was that we've built a training facility in Dallas, which is in Texas, which I mentioned was a growing area for us, and we're bringing in our own folks and training our alignment down there in all aspects of construction, including transmission, distribution work -- and substation work as well. Outside of that, we actively participate in probably 8 to 10 apprenticeship programs across the country and play key roles in recruiting and interviewing and developing those employees as well. So it's a challenge, and the market is tight across the country, but we're being proactive in our approach to it and doing what we can to recruit from the high schools, [alignment] colleges and the general population as a whole.

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

I'll add to that. There is no doubt, it's a tight labor market, but we have worked really hard to make our companies attractive places for people to work. Great safety program, great processes, the right relationships with our clients. So we have been fortunate to be able to get the people that we need on the projects that we've secured, and we're very careful not to go after something that -- where we know there is a pool that's not readily available or we can't build with the speed that the project needs to build. So right now, we feel like we're combating that situation fairly well.

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

That's helpful. And then, Rick, kind of expanding upon the last question a little bit. It feels like now, for a while, you've been focused on making sure you've attained adequate levels of profitability at the greenfield expansions within C&I. We're getting close to that point. If you look at maybe Phase 2 of what growth in that division could look like, I mean, do you think an expansion would be more focused on another wave of these sort of organic expansions? Or do you think it might be more M&A-focused?

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

I would say it's going to be a mixture of both. We're capable of doing both. Most of the growth we've had in the company since we went public has been organic growth and even through the years, so we know that. We're -- I want to say we understand doing that and how to do it and which markets we want to go to. We have a list of -- Tod and Jeff have lists of areas they would like to expand into, but we want to make sure those business opportunities are solid before we go there. And then on the acquisition front, it's -- opportunities come across our desk everyday. We look at some. Some we like better than others. And then some of them come down to what kind of multiple you're willing to pay for a good company. And we've got some out there we like. We'll just see what happens over time.

Operator

At this time, I'm showing no further questions. I'd like to turn the call back over for closing remarks.

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

Thank you, everyone, for participating on today's call. As always, I'd like to thank you -- 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 your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.