Primoris Services Corporation Reports Third Quarter 2020 Results

Nov 05, 2020

DALLAS, Nov. 05, 2020 (GLOBE NEWSWIRE) -- **Primoris Services Corporation (NASDAQ GS: PRIM)** ("Primoris" or "Company") today reported financial results for the third quarter of 2020.

For the third quarter of 2020, Primoris reported the following highlights:

- Record revenue of $942.7 million, an increase of 9% over prior year
- Record net income attributable to Primoris of $43.9 million, an increase of 23% over prior year
- Record fully diluted earnings per share of $0.90, an increase of 29% over prior year
- Cash flows from operations of $130.8 million, compared to $56.4 million in 2019
- Backlog of $3.0 billion

The Company also announced that on November 5, 2020 its Board of Directors declared a $0.06 per share cash dividend to stockholders of record on December 31, 2020, payable on or about January 15, 2021.

"This has been a record quarter for us by several measures," Tom McCormick , President and Chief Executive Officer of Primoris, said. "Our record revenue of $942.7 million was up over 9% compared to the same period last year and our earnings per share was the highest that it has ever been at 90 cents a share. This continues our trajectory from last quarter and achieving these results, despite the pandemic, challenged energy markets, and widespread economic uncertainty, says a great deal about our strategy, our management team, and our thousands of employees.

"Reflecting on the underlying strength of our markets, our three largest business segments all achieved revenue increases compared to the same period last year," he continued. "The renewable energy market in particular is beginning to live up to its long-promised potential as technology costs have become competitive and customer demand has risen, and our utility markets also reflect opportunities driven by the clean energy transition, as well as an increase in client needs."

Summarizing the segment results, McCormick noted: "Renewables drove our Power segment revenue up 5.9%, with increased solar energy projects contributing to both revenue and margin growth. Our Pipeline segment was extremely strong, with a 60.5% revenue increase compared to the same period in 2019, primarily due to pipeline projects in Texas that began in the first quarter of this year, while our Utilities segment revenue rose 6.2%, benefitting from increased activity in

California and favorable margins on the work they execute in the Southeast. Our Transmission segment recorded lower revenue, but significantly higher margins – 12% – as we carried out our planned focus on more profitable work, cost management and strong safety performance. Our Civil segment's gross margins, as expected, declined slightly from last year as 2019 had a greater benefit from the resolution of claims associated with the Belton area projects, however; our project execution remains strong and the segment continues to perform within our target margin range.

"As of the end of the quarter, our backlog remains solid at $3.0 billion excluding the ACP project," McCormick added. "Our crews and project teams were classified as essential during the pandemic and we are working safely and continuing to keep our people healthy."

Discussing the Company's outlook, McCormick said, "We have a strong cash position and low leverage, giving us a balance sheet ready to support organic growth and acquisitions. The diversification of our business continues to play to our advantage by reducing risk and evening out fluctuations in our various end markets, while supporting the growth of our renewables, utility and pipeline field services businesses. We have increased our outlook for the year, and we now expect net income attributable to Primoris to be between $1.80 and $2.00 per fully diluted share for the fiscal year ending December 31, 2020. We intend to continue to execute on our strategy focusing on the long term, and we thank our employees for their focus on safety, especially during this unique time."

THIRD QUARTER 2020 RESULTS OVERVIEW

Revenue was $942.7 million for the three months ended September 30, 2020, an increase of $77.6 million, or 9.0%, compared to the same period in 2019. The increase was primarily due to growth in our Pipeline segment. Gross profit was $123.7 million for the three months ended September 30, 2020, an increase of $15.3 million, or 14.1%, compared to the same period in 2019. The increase was primarily due to an increase in revenue and margins. Gross profit as a percentage of revenue increased to 13.1% for the three months ended September 30, 2020, compared to 12.5% for the same period in 2019 as described in the segment results below.

Segment Revenue
(in thousands, except %)
(unaudited)

	For the three months ended September 30,	
	2020	2019

Segment	Revenue		% of Total Revenue		Revenue		% of Total Revenue	
Power	$	212,557	22.6	%	$	200,657	23.2	%
Pipeline		214,380	22.7	%		133,590	15.4	%
Utilities		298,984	31.7	%		281,561	32.6	%
Transmission		114,221	12.1	%		128,784	14.9	%
Civil		102,558	10.9	%		120,472	13.9	%
Total	$	942,700	100.0	%	$	865,064	100.0	%

	For the nine months ended September 30,							
	2020				2019			
Segment	Revenue		% of Total Revenue		Revenue		% of Total Revenue	
Power	$	566,226	21.8	%	$	518,210	22.4	%
Pipeline		695,462	26.8	%		405,647	17.5	%
Utilities		676,329	26.1	%		650,079	28.1	%
Transmission		326,953	12.6	%		382,581	16.5	%
Civil		329,189	12.7	%		360,034	15.5	%
Total	$	2,594,159	100.0	%	$	2,316,551	100.0	%

Segment Gross Profit
(in thousands, except %)
(unaudited)

	For the three months ended September 30,							
	2020				2019			
			% of Segment				% of Segment	
Segment	Gross Profit		Revenue		Gross Profit		Revenue	
Power	$	15,705	7.4	%	$	15,525	7.7	%
Pipeline		28,045	13.1	%		19,657	14.7	%
Utilities		54,417	18.2	%		48,892	17.4	%
Transmission		13,718	12.0	%		4,836	3.8	%
Civil		11,796	11.5	%		19,511	16.2	%
Total	$	123,681	13.1	%	$	108,421	12.5	%

	For the nine months ended September 30,							
	2020				2019			
			% of Segment				% of Segment	
Segment	Gross Profit		Revenue		Gross Profit		Revenue	
Power	$	41,090	7.3	%	$	58,890	11.4	%
Pipeline		71,567	10.3	%		46,204	11.4	%
Utilities		101,411	15.0	%		87,999	13.5	%
Transmission		28,875	8.8	%		21,664	5.7	%

Civil		29,515	9.0	%		26,655	7.4	%
Total	$	272,458	10.5	%	$	241,412	10.4	%

Power, Industrial, & Engineering Segment ("Power"): Revenue increased by $11.9 million, or 5.9%, for the three months ended September 30, 2020, compared to the same period in 2019. The increase is primarily due to an increase in solar energy projects and progress on an industrial project for a utility customer in California, partially offset by the substantial completion of a carbon monoxide and hydrogen plant project that began in 2019 and lower revenue at our Canadian industrial operations. Gross profit for the three months ended September 30, 2020, increased by $0.2 million, or 1.2%, compared to the same period in 2019 primarily due to higher revenue. Gross profit as a percentage of revenue decreased slightly to 7.4% during the three months ended September 30, 2020, compared to 7.7% in the same period in 2019 primarily due to higher costs associated with a liquefied natural gas plant project in the Northeast in 2020, partially offset by strong performance and favorable margins realized on our solar projects in 2020, as well as the ability of our Canadian operation continuing to be profitable in 2020, and higher costs associated with two industrial projects in 2019.

Pipeline & Underground Segment ("Pipeline"): Revenue increased by $80.8 million, or 60.5%, for the three months ended September 30, 2020, compared to the same period in 2019. The increase is primarily due to pipeline projects in Texas that began in the first quarter of 2020, partially offset by reduced activity on a pipeline project in the Mid-Atlantic. Gross profit for the three months ended September 30, 2020 increased by $8.4 million, or 42.7%, compared to the same period in 2019 primarily due to higher revenue partially offset by lower margins. Gross profit as a percentage of revenue decreased to 13.1% during the three months ended September 30, 2020, compared to 14.7% in the same period in 2019 primarily due to the favorable impact from the closeout of multiple pipeline projects in 2019 and higher costs on a Texas pipeline project in 2020, partially offset by strong performance and favorable margins realized on other pipeline and field services projects in 2020.

Utilities & Distribution Segment ("Utilities"): Revenue increased by $17.4 million, or 6.2%, for the three months ended September 30, 2020, compared to the same period in 2019 primarily due to increased activity with a significant utility customer in California. Gross profit for the three months ended September 30, 2020 increased by $5.5 million, or 11.3%, compared to the same period in 2019 primarily due to higher revenue and margins. Gross profit as a percentage of revenue increased to 18.2% during the three months ended September 30, 2020, compared to 17.4% in the same period in 2019 primarily due to favorable margins on projects in the Southeast from increased productivity in 2020.

Transmission & Distribution Segment ("Transmission"): Revenue decreased by $14.6 million, or 11.3%, for the three months ended September 30, 2020, compared to the same period in 2019 primarily due to decreased activity with utility customers in the Midwest and the Southeast and being more selective in the type of work we perform. Gross profit for the three months ended September 30, 2020, increased by $8.9 million, or 183.7% compared to the same period in 2019, primarily due to higher margins, partially offset by lower revenue. Gross profit as a percentage of revenue increased to 12.0% during the three months ended September 30, 2020, compared to 3.8% in the same period in 2019 primarily due to being more selective in the type of work we perform resulting in higher margin work in 2020, an increase in higher margin storm work in 2020 and upfront costs to expand our operations in 2019.

Civil Segment ("Civil"): Revenue decreased by $17.9 million, or 14.9%, for the three months ended September 30, 2020, compared to the same period in 2019. The decrease is primarily due to lower Texas Department of Transportation and Louisiana Department of Transportation and Development ("DOTD") volumes and decreases in Florida mine work. Gross profit for the three months ended September 30, 2020 decreased by $7.7 million, compared to the same period in 2019 due primarily to lower revenue and margins. Gross profit as a percentage of revenue decreased to 11.5% during the three months ended September 30, 2020, compared to 16.2% in the same period in 2019 due primarily to the favorable impact from the resolution of claims associated with three of the Belton area projects in 2019, partially offset by increased profit on Louisiana DOTD projects and resolution of claims associated with the two remaining Belton area projects in 2020.

RESPONSE TO THE COVID-19 PANDEMIC

We continue to take steps to protect our employees' health and safety during the COVID-19 pandemic. We have in-place a written corporate COVID-19 Plan as well as a Business Continuity Plan, based on guidelines from the U.S. Centers for Disease Control and Prevention, the Occupational Safety and Health Administration and their Canadian counterparts. Specific COVID plans have also been developed and are in-place for each project, or job site, including customized plans with additional client-required protocols, where needed. These plans include social distancing, meeting via Zoom or similar software, rather than in person; reducing all non-essential business travel; allowing high risk and employees with special circumstances to work from home, etc.

Primoris' executive-level COVID team meets routinely to address the current state of COVID-19 and the regulatory landscape, monitor for risks related to the pandemic and determine needed additions, or adjustments to the various Plans across the company. Similar teams function within each of our business units to address local, state and site-level programs.

Recognizing the broader impact that the COVID-19 pandemic is having on local communities, Primoris has donated funds to support frontline emergency response and medical workers and made numerous local donations of personal protective equipment to hospitals and medical facilities.

OTHER INCOME STATEMENT INFORMATION

Selling, general and administrative ("SG&A") expenses were $57.1 million during the three months ended September 30, 2020, an increase of $7.3 million, or 14.6%, compared to 2019 primarily due to a $4.3 million increase in compensation related expenses, including incentive compensation, and a $2.1 million increase in information technology implementation expenses. SG&A expense as a percentage of revenue increased slightly to 6.1% compared to 5.8% for the corresponding period in 2019.

Interest expense for the three months ended September 30, 2020, decreased compared to the same period in 2019 primarily due to lower average debt balances and weighted average interest rates in 2020. In addition, we had a $1.1 million unrealized gain on the change in the fair value of our interest rate swap during the three months ended September 30, 2020, compared to a $0.6 million loss in 2019.

The effective tax rate on income attributable to Primoris (excluding noncontrolling interests) was 29.0% for the three months ended September 30, 2020. The rate differs from the U.S. federal statutory rate of 21.0% primarily due to state income taxes and nondeductible components of per diem expenses.

OUTLOOK

Balancing the ongoing uncertainty surrounding the COVID-19 pandemic with the expected operations, Primoris estimates that for the fiscal year ending December 31, 2020, net income attributable to Primoris will be between $1.80 and $2.00 per fully diluted share.

BACKLOG

	Backlog at September 30, 2020 (in millions)						Expected Next Four Quarters Total Backlog Revenue	
Segment	Fixed Backlog		MSA Backlog		Total Backlog		Recognition	
Power	$	769	$	93	$	862	93	%

Pipeline		315		52		367	64	%
Utilities		33		659		692	100	%
Transmission		17		407		424	100	%
Civil		626		3		629	58	%
Total	$	1,760	$	1,214	$	2,974	85	%

At September 30, 2020, Fixed Backlog was $1.8 billion, which was consistent with year-end. The December 31, 2019 Fixed Backlog included approximately $0.5 billion of backlog associated with a major pipeline project. Primoris received the formal termination notice for the project from the customer in October 2020 and subsequently removed the project from our September 30, 2020 Fixed Backlog.

At September 30, 2020, MSA Backlog was $1.2 billion, compared to $1.4 billion at December 31, 2019. During the third quarter of 2020, approximately $385 million of revenue was recognized from MSA projects, a 4.9% increase over the third quarter 2019 MSA revenue. MSA Backlog represents estimated MSA revenue for the next four quarters.

Total Backlog at September 30, 2020 was $3.0 billion, compared to $3.2 billion at December 31, 2019.

Backlog, including estimated MSA revenue, should not be considered a comprehensive indicator of future revenue. Revenue from certain projects where scope, and therefore contract value, is not adequately defined, is not included in Fixed backlog. At any time, any project may be cancelled at the convenience of our customers.

SHARE REPURCHASE PROGRAM

In February 2020, our Board of Directors authorized a $25.0 million share repurchase program. During the third quarter of 2020, we purchased 174,698 shares of common stock for approximately $3.1 million, at an average price of $17.80 per share. The program will expire on December 31, 2020.

OTHER BUSINESS UPDATES

We announced new or renewed contracts totaling approximately $340 million in value during the quarter, and over $110 million immediately after the quarter close in early October. The awards included:

- Two new solar awards with a combined value over $60 million for the engineering, procurement, and construction of utility-solar facilities in the South;
- The renewal of a Master Service Agreement with a major energy customer for pipeline maintenance in the Canadian oil sands with an anticipated value of over $110 million over five years;
- A new pipeline award valued over $100 million for the installation of over 80,000 feet of various diameter pipe in Texas;
- Three new pipeline awards with a combined value over $75 million for the installation of over thirty miles of various diameter pipe in Texas;
- Two new heavy civil awards from the Texas Department of Transportation with a combined value over $76 million for the expansion of an existing four-lane limited access highway to a six-lane limited highway, and an expansion of an existing two-lane county roadway to a four-lane county roadway; and
- A new heavy civil award from the Texas Department of Transportation valued at $30 million for the reconstruction and extension of an existing roadway.

CONFERENCE CALL

Tom McCormick , President and Chief Executive Officer, and Ken Dodgen , Executive Vice President and Chief Financial Officer, will host a conference call Friday, November 6, 2020 at 10:00 am Eastern Time / 9:00 am Central Time to discuss the results.

Interested parties may participate in the call by dialing:

- (877) 407-8293 (Domestic)
- (201) 689-8349 (International)

Presentation slides to accompany the conference call are available for download in the Investor Relations section of Primoris' website at www.prim.com. Once at the Investor Relations section, please click on "Events & Presentations".

If you are unable to participate in the live call, a replay may be accessed by dialing (877) 660-6853, conference ID 13711963, and will be available for approximately two weeks. The conference call will also be broadcast live over the Internet and can be accessed and replayed through the Investor Relations section of Primoris' website at www.prim.com.

ABOUT PRIMORIS

Founded in 1960, Primoris, through various subsidiaries, has grown to become one of the leading providers of specialty contracting services operating mainly in the United States and Canada. Primoris provides a wide range of specialty construction services, fabrication, maintenance, replacement, and engineering services to a diversified base of customers. The Company's national footprint extends from Florida, along the Gulf Coast, through California, into the Pacific Northwest and into Canada. For additional information, please visit www.prim.com.

FORWARD LOOKING STATEMENTS

This press release contains certain forward-looking statements that reflect, when made, the Company's expectations or beliefs concerning future events that involve risks and uncertainties, including with regard to the Company's future performance. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates", "believes", "could", "estimates", "expects", "intends", "may", "plans", "potential", "predicts", "projects", "should", "will", "would" or similar expressions. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of regulation and the economy, generally. Forward-looking statements inherently involve known and unknown risks, uncertainties, and other factors, which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results may differ materially as a result of a number of factors, including, among other things, customer timing, project duration, weather, and general economic conditions; changes in our mix of customers, projects, contracts and business; regional or national and/or general economic conditions and demand for our services; price, volatility, and expectations of future prices of oil, natural gas, and natural gas liquids; variations and changes in the margins of projects performed during any particular quarter; increases in the costs to perform services caused by changing conditions; the termination, or expiration of existing agreements or contracts; the budgetary spending patterns of customers; increases in construction costs that we may be unable to pass through to our customers; cost or schedule overruns on fixed-price contracts; availability of qualified labor for specific projects; changes in bonding requirements and bonding availability for existing and new agreements; the need and availability of letters of credit; costs we incur to support growth, whether organic or through acquisitions; the timing and volume of work under contract; losses experienced in our operations; the results of the review of prior period accounting on certain projects; developments in governmental investigations and/or inquiries; intense competition in the industries in which we operate; failure to obtain favorable results in existing or future litigation or regulatory proceedings, dispute resolution proceedings or claims, including claims for additional costs; failure of our partners, suppliers or subcontractors to perform their obligations; cyber-security breaches; failure to maintain safe worksites; risks or uncertainties associated with events outside of our control, including severe weather conditions, public health crises and pandemics (such as COVID-19), political crises or other catastrophic events; client delays or defaults in making payments; the availability of credit and restrictions imposed by credit facilities; failure to implement strategic and operational initiatives; risks or uncertainties associated with acquisitions, dispositions and investments; possible information technology interruptions or inability to protect intellectual property; the Company’s failure, or the failure of our agents or partners, to comply with laws; the Company's ability to secure appropriate insurance; new or changing legal requirements, including those relating to environmental, health and safety matters; the loss of one or a few clients that account for a significant portion of the Company's revenues; asset impairments; and risks arising from the inability to successfully integrate acquired businesses. In addition to information included in this press release, additional information about these and other risks can be found in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2019, and our other filings with the Securities and Exchange Commission (“SEC”). Such filings are available on the SEC’s website at www.sec.gov. Given these risks and uncertainties, you should not place undue reliance on forward-looking statements. Primoris does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Amounts)
(Unaudited)

	Three Months Ended	Nine Months Ended

	September 30,		September 30,	
	2020	2019	2020	2019
Revenue	$ 942,700	$ 865,064	$ 2,594,159	$ 2,31
Cost of revenue	819,019	756,643	2,321,701	2,07
Gross profit	123,681	108,421	272,458	241,
Selling, general and administrative expenses	57,097	49,827	152,907	141,
Operating income	66,584	58,594	119,551	99,
Other income (expense):				
Foreign exchange loss, net	(77)	(136)	(141)	(72
Other income (expense), net	98	(2,928)	816	(3,1
Interest income	13	42	358	610
Interest expense	(4,728)	(5,186)	(17,530)	(17,
Income before provision for income taxes	61,890	50,386	103,054	79,2
Provision for income taxes	(17,947)	(14,560)	(29,883)	(22,
Net income	43,943	35,826	73,171	56,5

Less net income attributable to noncontrolling interests	(2)	(178)	(8)	(1,2
Net income attributable to Primoris	$ 43,941	$ 35,648	$ 73,163	$ 55,3
Dividends per common share	$ 0.06	$ 0.06	$ 0.18	$ 0.18
Earnings per share:				
Basic	$ 0.91	$ 0.70	$ 1.51	$ 1.09
Diluted	$ 0.90	$ 0.70	$ 1.50	$ 1.08
Weighted average common shares outstanding:				
Basic	48,253	50,976	48,370	50,8
Diluted	48,574	51,215	48,712	51,2

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

(Unaudited)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 228,546	$ 120,286
Accounts receivable, net	494,453	404,911
Contract assets	361,099	344,806
Prepaid expenses and other current assets	32,977	42,704
Total current assets	1,117,075	912,707
Property and equipment, net	366,721	375,888
Operating lease assets	221,615	242,385
Deferred tax assets	1,134	1,100
Intangible assets, net	62,994	69,829
Goodwill	215,103	215,103
Other long-term assets	14,860	13,453
Total assets	$ 1,999,502	$ 1,830,465
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 251,979	$ 235,972
Contract liabilities	256,021	192,397
Accrued liabilities	223,637	183,501
Dividends payable	2,887	2,919
Current portion of long-term debt	47,708	55,659

Total current liabilities	782,232	670,448
Long-term debt, net of current portion	281,360	295,642
Noncurrent operating lease liabilities, net of current portion	151,777	171,225
Deferred tax liabilities	17,820	17,819
Other long-term liabilities	82,791	45,801
Total liabilities	1,315,980	1,200,935
Commitments and contingencies		
Stockholders’ equity		
Common stock	5	5
Additional paid-in capital	88,363	97,130
Retained earnings	595,769	531,291
Accumulated other comprehensive (loss) income	(651)	76
Noncontrolling interest	36	1,028
Total stockholders’ equity	683,522	629,530
Total liabilities and stockholders’ equity	$ 1,999,502	$ 1,830,465

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2020	2019

Cash flows from operating activities:		
Net income	$ 73,171	$ 56,586
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	58,728	64,553
Stock-based compensation expense	1,730	1,218
Gain on sale of property and equipment	(6,198)	(7,017)
Unrealized loss on interest rate swap	3,856	4,854
Other non-cash items	4,125	240
Changes in assets and liabilities:		
Accounts receivable	(91,741)	(177,942)
Contract assets	(16,783)	32,274
Other current assets	9,707	1,219
Other long-term assets	1,073	167
Accounts payable	16,533	(29,757)
Contract liabilities	63,682	(3,915)
Operating lease assets and liabilities, net	3,250	(1,489)
Accrued liabilities	36,394	17,662
Other long-term liabilities	33,952	1,231
Net cash provided by (used in) operating activities	191,479	(40,116)
Cash flows from investing activities:		
Purchase of property and equipment	(54,404)	(78,255)
Proceeds from sale of property and equipment	17,710	24,393

Net cash used in investing activities	(36,694)	(53,862)
Cash flows from financing activities:		
Borrowings under revolving line of credit	—	212,880
Payments on revolving line of credit	—	(212,880)
Proceeds from issuance of long-term debt	33,873	55,008
Repayment of long-term debt	(56,321)	(55,824)
Proceeds from issuance of common stock purchased under a long-term incentive plan	578	1,804
Payment of taxes on conversion of Restricted Stock Units	(548)	(1,519)
Cash distribution to noncontrolling interest holders	(1,000)	(3,505)
Repurchase of common stock	(10,959)	—
Dividends paid	(8,707)	(9,152)
Other	(2,888)	(328)
Net cash used in financing activities	(45,972)	(13,516)
Effect of exchange rate changes on cash and cash equivalents	(553)	268
Net change in cash and cash equivalents	108,260	(107,226)
Cash and cash equivalents at beginning of the period	120,286	151,063
Cash and cash equivalents at end of the period	$ 228,546	$ 43,837

Source: Primoris Services Corporation