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Primoris Services Corp. (PRIM)

Q3 2023 Earnings Call

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Adam Robert Thalhimer

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. My name is Sherell and I will be your conference operator today. At this time, I would like to welcome everyone to the Primoris Services Corporation Third Quarter Earnings Conference Call and Webcast. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the call over to Vice President of Investor Relations, Blake Holcomb. Please go ahead.

Blake Holcomb

Vice President-Investor Relations, Primoris Services Corp.

Good morning and welcome to the Primoris third quarter 2023 earnings conference call. Joining me today with prepared comments are Tom McCormick, President and Chief Executive Officer; and Ken Dodgen, Chief Financial Officer.

Before we begin, I would like to make everyone aware of certain language contained in our Safe Harbor statement. The company cautions that certain statements made during this call are forward-looking and are subject to various risks and uncertainties. Actual results may differ materially from our projections and expectations. These risks and uncertainties are discussed in our reports filed with the SEC. Our forward-looking statements represent our outlook as of today only, November 8, 2023. We disclaim any obligation to update these statements, except as may be required by law.

In addition, during this conference call, we will make reference to certain non-GAAP financial measures. A reconciliation of these non-GAAP financial measures are available on the Investors section of our website and our third quarter 2023 earnings press release, which was issued yesterday.

I would like to turn the call over to Tom McCormick.

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

Thank you, Blake. Good morning and thank you for joining us today to discuss our third quarter 2023 financial results and operational performance. Q3 was another strong quarter for Primoris, surpassing Q2 of this year to deliver another record for both revenue and gross profit. We also hit a new high for total backlog for the eighth consecutive quarter, up around \$100 million from the second quarter to approximately \$6.7 billion. We have been able to achieve these milestones by earning the trust of our clients through consistent, safe execution and approaching each customer relationship as a partnership in order to deliver positive outcomes. Of course, this can only be accomplished with our employees emphasizing our core principles each day in performing their duties. I want to thank and congratulate them for all they do for each other, for our customers and for Primoris.

In the midst of economic uncertainty and geopolitical challenges, we have shown the ability to focus on good execution and manage our business at a high level. While we are mindful of risk to our industry and the global economy, over the past several years, we believe we are positioned Primoris to effectively manage through economic cycles due to our investments in renewables, power delivery and communications.

With a more resilient portfolio and mindset centered on controlling the things that we can control, we believe that we can continue to have similar success in the future. The US will continue to need to invest in many of the infrastructure solutions we provide in order to meet ambitious emissions goals and to remain competitive in the global economy with a growing demand for safe, cost effective and reliable energy.

Now, I'll move on to discussing our operational performance more closely by segment. Starting with the Utilities segment, we saw a year-over-year improvement in revenue, driven by top line growth of nearly 25% in the power delivery business. This was driven by organic growth and an additional month of contribution from PLH compared to the prior year.

Gross profit declined from the previous year, in part due to lower gas utility revenues and margins from reduced activity, primarily from customers on the West Coast pushing work out to 2024. Gas utilities have seen a decline in customer spending compared to 2022 levels, but we have been encouraged by our ability to adjust our costs to minimize the margin impact of the decline in revenues.

There were also some negative impacts of a slower storm season and lower margin work from legacy PLH projects and power delivery. These projects are nearing completion and we do not anticipate these issues weighing on margins in 2024 once they are completed. The new contract rates on certain MSAs go into effect. In fact, we had three key customers sign new MSAs or agree to rate changes that will begin to have a positive impact next year.

Despite some of the challenges with legacy PLH projects, our goal to win and execute on more project work in power delivery is trending in the right direction. We have more than doubled our non-MSA revenue year-to-date compared to last year, and we are nearing the successful completion of one of the largest substation projects in Primoris' history. We look forward to securing more major projects like this in the future to help improve our margins and attract top talent.

Communications saw improved revenue and gross profit compared to the previous year, but declined sequentially due to the timing of spend by customers that was more weighted to the first half of the year. We are encouraged

by the growth we are seeing in the rapidly growing Texas market and continue to manage to engage with new customers to expand and diversify our client base. During the quarter, we also elected to allocate personnel and resources away from a customer requesting payment terms that were out of line with the market. This decision demonstrates our discipline in balancing our ability and desire to grow top line, but not at the expense of negatively impacting our margins or cash flow.

Looking now at the Energy segment, we delivered another solid quarter, led primarily by revenue and margin growth in renewables and pipeline compared to the third quarter of last year. Pipeline for the second consecutive quarter has outperformed our expectations with solid project execution and favorable margins. For the past two quarters, we generated the revenue and margins we expect from the pipeline business and are working to maintain these margins in the midst of a difficult market, focusing on the areas with the best opportunities and rightsizing our organization in areas that are not. Our ability to adjust to changes in market conditions is critical to our success and we are making progress toward delivering the results we expect.

The industrial and heavy civil businesses are also having success, and we continue to see many opportunities for sustained growth in the coming quarters. We already have approximately \$2.6 billion in backlog in these businesses and are seeing the emergence of opportunities in this market that we haven't seen in more than a decade.

Over the course of the next 15 months, we have more than \$14 billion in identified opportunities, of which 80% are for industrial engineering and construction. I would like to point out that it's not just the higher volume of projects, but the fact that many of these projects fit well within our core strength and expertise, giving us confidence in our ability to execute with a high degree of success.

Although we do not expect to win all the projects in our sales funnel, it does reflect the high level of demand for quality contractors that is on the horizon. It also sets us up well to be selective in the opportunities we choose to pursue, and gives us and our clients the best chance to be successful over a multi-year period.

Wrapping up the Energy segment, the renewables business remains a solid contributor to the segment and Primoris overall. Revenue and gross profit reached record highs for the quarter, and we were up from the previous year, in part due to increased activity and successful closeouts on several projects. Cash generation was also positive for renewables during the quarter, as we have seen contract materials convert to cash on projects and are proactively managing our receivables. We maintained a backlog of approximately \$1.8 billion and believe we're on track to increase backlog further as we close out the year.

We have booked the majority of the work we expect to execute in 2024 and are now focused on booking backlog that will begin work in 2025 and beyond. We continue to seek out and work to retain top talent in order to build our management teams to meet the growth in demand. We have also secured work with several new clients to broaden our customer base, avoid potential gaps in scheduling and maximize our project team utilization. Our pipeline of solar opportunities remained strong and we are beginning to make headway in adjacent areas such as battery storage, as well as high voltage transmission and substation work, which will be executed by our power delivery business.

We are in excellent position to continue to grow our renewables business, but we also want to acknowledge some of the challenges being discussed in the industry and how we are effectively navigating and responding to them. First, there's been a great deal of industry discussion and some concern regarding how higher interest rates may affect the financing of solar projects, including remarks from some large companies involved in the solar market. Higher rates and lower access to capital has the potential to negatively impact developer returns or lead to

projects being delayed or canceled due to these higher costs or challenges. We believe the larger and more robust developers will benefit, as some of the smaller developers may opt to divest opportunities to those with greater access to lower cost of capital. Our view is that the best projects and developers will continue to move forward with projects and we continue to align our business with high quality customers in order to minimize this impact.

There's also the matter of supply chain constraints that could have future impacts in the market, particularly some continued module availability constraints, as well as high voltage equipment lead times for critical items, including breakers, transformers and switchgear for high voltage interconnects. There's a growing need for this equipment globally, and the production capacity and materials necessary to meet demand growth are currently facing some challenges and could face even more challenges in the future.

We are persistently working to find alternative solutions and stay ahead of this by prioritizing customers with module supply and resequencing projects where an unexpected delay may occur. We are keeping an eye toward the future in regard to our planning for longer delivery lead times and being prepared in the event that high voltage equipment begins to experience additional supply chain challenges. This will enable us to mitigate potential disruptions to our business, as we did when the industry dealt with the impact of module delays throughout 2022 and into 2023.

The last challenge we are working to overcome that I alluded to earlier is the development, retention and acquisition of talent. We are operating in a competitive landscape in a fast growing industry where quality project management talent is at a premium. Our ability to self-perform work for our customers is something we believe has worked to our advantage and made us true partners in helping them plan and execute their projects. We invest time and resources in developing our teams to execute on projects the Primoris way. Retaining those people to train the next generation of project managers is key to our success.

Our disciplined approach to building our teams has been a huge asset and we are fortunate to be in an industry that is attracting talent. However, we must be mindful to continue operating with a high level of efficiency and cost discipline in order to prevent margin erosion, as upward pressure on compensation occurs in the years ahead.

To summarize, these are some of the issues which exist and could have an impact on the industry. However, we are confident that our strategy to choose and work with the right customers and plan ahead for potential labor and supply chain issues will prevent us from being materially impacted by these challenges.

I'll now turn it over to Ken for more on our financial results.

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

Good morning, everyone. Revenue for the third quarter was a little over \$1.5 billion, an increase of \$245 million from the prior year, driven primarily by growth in both the Utilities and the Energy segments. The Energy segment was up over \$213 million or 32% from the prior year, driven by growth across all business lines, pipeline, renewables, civil and industrial. The Utilities segment was up \$32 million or 5% from the prior year, driven by double-digit gains in power delivery, partially offset by slightly lower volumes in our gas utility operations.

Gross profit for the third quarter was approximately \$174 million, an increase of \$19 million or 12% from the prior year, primarily due to higher revenue and improved gross margins in the Energy segment. Gross margins were 11.4% for the quarter, which was down slightly compared to 12.1% in the prior year.

Turning to our segment results, in the Utilities segment, gross profit was \$64.7 million, down \$13.4 million or 17% compared to the prior year. The decline was primarily due to productivity challenges on certain legacy PLH projects and lower gas utility volumes during the quarter. These factors also contributed to gross margins declining to 10% compared to 12.7% in the prior year.

We believe that we are moving past the margin challenges that impacted our power delivery business. The completion of these lower margin projects, combined with our renegotiated base rates, improved equipment utilization and a growing mix of project work, has us well-positioned for margin improvement in power delivery and the overall Utilities segment heading into 2024.

In the Energy segment, gross profit was \$109 million for the quarter, an increase of \$32 million or 42% over the prior year, primarily driven by higher revenue and margins in the renewables and pipeline businesses. Gross margins came in at 12.3%, up from 11.5% in the prior year. The increase in gross margins can be attributed to another solid quarter from the pipeline business and the benefit of some project closeouts in the renewables business.

The Energy segment continues to benefit from strong tailwinds in the renewables and industrial markets, as well as solid execution on our backlog of projects. This, combined with improved performance in our pipeline business, has led to over 45% higher revenue and over 60% higher gross profit year-to-date compared to 2022.

Taking a look at our SG&A, expenses in the third quarter were \$84.4 million, an increase of \$8.7 million over the prior year. The increase in SG&A was driven by incremental costs to support growth and increased head count. However, SG&A as a percentage of revenue decreased to 5.5% compared to 5.9% in the third quarter of last year. We expect our SG&A as a percent of revenue for the fourth quarter and full year to be in the high-5% to low-6% range.

Net interest expense in the third quarter was \$21.1 million compared to \$13.1 million in the prior year. The increase was due to higher average debt balances and higher average interest rates. We expect our full-year interest expense will be \$73 million to \$77 million. Our effective tax rate for the quarter was 29%, which is in line with our expectations for the full year. However, this rate can be impacted by changes in revenue mix from higher tax jurisdictions and other discrete tax items in the remainder of the year.

Net income was \$48 million or \$0.89 per diluted share, up \$5 million from the prior year, primarily due to higher operating income, partially offset by higher interest and taxes. Adjusted EPS was \$1.02 per share, down \$0.10 from the prior year, primarily due to higher tax rates and interest costs associated with the PLH acquisition, partially offset by higher operating income. Adjusted EBITDA was \$120 million for the quarter, an increase of \$11 million or 10% compared to the prior year. Adjusted EBITDA was driven higher by increased revenues and gross profit previously mentioned.

Moving on to cash flow, we generated \$74 million of cash from operations in Q3, an increase of over \$84 million from the prior year. The primary drivers for the increase in operating cash flows were improved working capital, which remains a top priority and an area which we are continuing to make progress. We ended the quarter with \$160.7 million of cash and net debt of approximately \$945 million. Our trailing 12-month net debt to EBITDA ratio was around 2.6 times at the end of Q3, down from approximately 3.3 times EBITDA at the end of third quarter last year. We continue to be in a strong liquidity position and remain focused on further reducing our leverage toward our goal of below 2 times range by the end of 2024.

Total backlog at the end of the quarter was around \$6.7 billion compared to approximately \$5.5 billion in the prior year, an increase of 22% and another record. Fixed backlog increased to \$4.6 billion, up over \$1.2 billion or around 36%, primarily due to strength in our Energy segment from renewables, industrial and heavy civil project wins. MSA backlog was mostly flat compared to Q3 of 2022 at around \$2.1 billion, but up around \$150 million from the beginning of the year. We expect 100% of our Utilities backlog and 56% of our Energy backlog to convert into revenue over the next four quarters.

Wrapping up with guidance, we are reaffirming our EPS range of \$2.15 to \$2.35 per share and adjusted EPS of \$2.60 to \$2.80 per share. We are also affirming our adjusted EBITDA guidance of \$360 million to \$380 million for the full year 2023. However, due to the pull forward of revenue and our strong performance in the first three quarters of the year, we expect our earnings to trend towards the upper half of our guidance ranges for EPS, adjusted EPS and adjusted EBITDA.

As is typical with our fourth quarter, we expect the normal seasonal declines in our Utilities segment depending on timing of customer spend and weather impacts. In the Energy segment, we expect revenue to increase sequentially, but our mix of revenue to be less favorable compared to the third quarter, as pipeline projects are completed and fewer renewable project closeouts are expected. Although we are still in the early planning stages, we are optimistic that we will continue to see improved revenue and earnings across most of our businesses that will provide another record year in 2024.

With that, I'll turn it back over to Tom.

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

Thanks, Ken. Before we take questions, I'd like to summarize some key takeaways from the quarter. First, I want to again highlight our employees' efforts through the first three quarters of the year. We place a great emphasis on safety and productivity, and they are delivering both at a high level. Safety is an important metric, not only for the obvious reasons, but because our employees are our most valuable asset, and we want to continue to drive that into the overall culture of the company. It is also critical factor in our ability to continue working for existing customers and attracting new customers.

Second, despite macroeconomic challenges, we are seeing a lot of positive momentum across many of our businesses. In the Utilities segment, we are benefiting from a growing power delivery market while working to improve margins by getting past some underperforming projects and contracts we acquired. We're also gaining share in communications and effectively managing our gas operations business despite a slight slowdown in the market in 2023. The Energy segment continues to gain momentum in renewables, and we are working to stay ahead of potential challenges that could slow or impede the progress we have worked hard to achieve over the past several years.

In the industrial businesses, we are optimistic and excited about the significant growth potential that lies ahead and confident in our ability to execute on our solid backlog of projects. In all of our businesses, we are approaching each bid, each contract and each project with the goal of delivering great service for our clients while improving our profitability and cash flow.

Primoris has had a great 2023 thus far and we are in a great position to achieve the operational and financial goals we set for ourselves by finishing strong in Q4. This will require us managing our business to adjust for seasonal impacts, executing on work with high quality and productivity, and winning work to set us up for an even better year in 2024. I am proud of the successes we have shared as a company and believe that we are moving

further down the path of consistent, successful execution. Continuing down this path, we believe, will lead us to margin expansion and improved cash flow generation that will allow us the flexibility to pay down debt and make investments in the most attractive markets in which we operate, and ultimately, to the benefit of our customers, employees and shareholders.

We will now open up the call for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Steven Fisher with UBS. Steven, your line is open.

Steven Fisher

Analyst, UBS Securities LLC

Q

Thanks. Good morning. Wondering if you could just maybe give us some color on the – how big the impact of the PLH projects were in the quarter and the impact on Utilities margins. Curious what the margin would have been excluding that. Because it seems like the Q4 implied is a pretty big step-up to hit the midpoint of that range. I'm wondering if those MSA renewals that have higher margins are already expected to ramp up in Q4 or is there just something else that's helping that Q4 implied?

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

Yeah, Steve. The impact was just a few million dollars for the quarter. But on that revenue, it took us down by 75 to 100 basis points compared to what we were expecting. But we think we've got most of that behind us. Q4 margins are going to be sequentially lower like they normally are due to the timing of winter kicking in and a lot of our customers shutting down for the holidays. But – so we're expecting full-year gross margins for Utilities to be at the bottom end of our range.

Steven Fisher

Analyst, UBS Securities LLC

Q

Okay. That's helpful. And I'm wondering if you could talk about what's happening in the gas segment. You've mentioned some slowdown and some pushouts. Can you just give a little bit of color there?

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

A

No, it's really just some work out in West that was pulled forward a little bit. And we'll probably see some more push also. So, there's always a possibility when you do this on a quarter – look at this work on a quarterly basis. It ebbs and flows. And clients, it's really their money to spend, so they spend it when they want to. All we do is provide a service for them. But there was some work that was done earlier this year that they've decided to slow down. Maybe they didn't reach their budgets or decided to curtail their spending towards the end of the year or last part of the year. It is nothing major.

Steven Fisher

Analyst, UBS Securities LLC

Q

Okay. And then just last, you mentioned you're booked for 2024 in renewables. Just how confident are you in all that work proceeding as planned, given some of the dynamics that are out there in terms of the interest rates and clarity around tax rules? I know you mentioned some of the smaller developers are going to speed to the bigger ones. But how do you feel about your own book of business? Do you see any delays within that relative to the risk that you mentioned?

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

For 2024, I don't think so. I think we're very comfortable where those projects are. We partnered with some very good clients, very reputable, and we've been involved with their projects for months before we even signed the contracts. So, we know where they are with respect to their – the financial position on the projects. We know where they are with respect to delivery of the key components for the facilities that we're building. So, I think we're pretty comfortable with 2024. 2025. It remains to be seen, but we'll see.

Steven Fisher

Analyst, UBS Securities LLC

Q

Okay. Thank you very much.

Operator: Your next question comes from the line of Lee Jagoda from CJS Securities. Lee, your line is open.

Lee Jagoda

Analyst, CJS Securities, Inc.

Q

Hi. Good morning. Ken, I guess, first, can you quantify the closeouts in renewables? And as you look out to Q4, are there any additional closeouts that we could expect to hit margins positively?

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

Yeah. I don't have the exact numbers, Lee, in front of me, on renewables. I think it contributed roughly 50 basis points to margin for that segment this quarter. And then right now, we're not anticipating any significant project closeouts in Q4. We have a lot of projects that are actually going to be starting up in Q4, which is why we'll probably see revenue in that segment up sequentially in Q4 compared to Q3.

Lee Jagoda

Analyst, CJS Securities, Inc.

Q

And I think you mentioned some of the mix was maybe lower margin in Q4 versus Q3 in Energy. Is that correct?

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

Correct, yeah, because of that.

Lee Jagoda

Analyst, CJS Securities, Inc.

Q

Got you. Just one more on cash flow, how should we think about the level of free cash flow generation in Q4? And then as we look out to 2024, has anything changed relative to the contracts that you're going to start versus the stuff that we've seen over the last year that should help smooth out some of this free cash flow?

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

No. To answer your last question first, I think cash flow is going to continue to be relatively seasonal within the Utilities segment, but within the Energy segment, it's going to be lumpy based on the starts and completion – and the completion of projects. With respect to free cash flow, I think we are going to have our seasonally strong Q4. I do not at all believe it's going to be as high or as strong as it was last year. Last year, everything just kind of all came together in Q4. Whereas this year, we're seeing some benefit in Q3, and depending on the timing of projects completed and new projects starting up, we could see some of Q4 cash flow actually slip into Q1, which is not uncommon and similar to what we had happened two years ago.

Lee Jagoda

Analyst, CJS Securities, Inc.

Q

Great. Thanks very much.

Operator: Your next question comes from the line of Jerry Revich with Goldman Sachs. Jerry, your line is open.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Q

Yes, hi. Good morning, everyone. Tom, I'm wondering if you could just update us on your ability to ramp up crews in the solar business. I think you were planning to have 15 crews at year-end. Can you talk about are you folks on track for that and what are the plans for next year? And separately, you mentioned a number of risk factors for the industry. I just want to make sure nothing's changed in terms of the contract structures that you folks set up, where any delays don't impact your margin profile. It's more of a function of top line impact for you folks when that happens or at least has been historically. And I just want to make sure that's still the case given the cautionary remarks that you included earlier in the conversation. Thanks.

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

A

I'll answer your last question first, so I don't forget it. But we have not changed our language in our contracts. We still have the same protections. We're still doing some pre-investing also to make sure that we have the materials and the components that we're responsible for. But as far as the client obligations, they still remain in our contracts. We have not changed those. And the clients haven't really forced us to or pushed us to either. So, we're pretty much aligned with clients that have surety of supply. And I think they're fairly comfortable that we've seen – it eased up delivery issues, ease up going into – towards the end of 2023 and they expect to see even improvement in 2024. So hopefully, that will not be an issue and we don't expect it to be. And even if it is, it's not our risk.

The first question, we're – yeah, we're right on track. We're trying to build 15 crews by the end of this year, and we're racing to where – we've got our 14th crew already onboard and training. We got parts of our 15th crew onboard right now, and we expect to have them in place by the end of the year. And next year...

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Q

Super.

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

A

...we're looking at – yeah, we're looking at some growth next year and we'll just grow our teams based on what that growth is to support those project needs.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Q

Super. And then, nice to hear the constructive outlook on 2024. Can you just expand on the growth levers that you have in Utilities? It sounds like pretty good pipeline in renewables, but Utilities, as Ken mentioned, it can be hand to mouth. So, is it visibility on the margin profile improving or what gives you the constructive growth comments or visibility that you alluded to in the prepared remarks for 2024?

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

A

One is definitely that. I think with these MSAs that we've renegotiated, some of those took – went into effect in 2023. The balance of them go into effect in 2024. So, we have that working in our favor. The other thing is we've made a lot of changes within our power delivery group, brought in a lot of talent. And we expect to start seeing – when we're seeing it now, as we close out 2023, we're seeing margin improvement. As we close out, you can't do a whole lot with troubled projects. You've got to get through them. But in the new work that they've taken on, they're performing well. So, we expect to carry on into 2024.

I think our communications business is performing extremely well. I think sometime during the course of the year in 2023, they had one project that was a little bit of a draw on them, but they're finishing. They've finished that job up and that's behind them for the most part. And gas, that's – it's not a real fast growing market for us and we'll probably be fairly flat with maybe some growth in that business. It's a well-performing business for us and they performed extremely well. Yeah, we see and we do. We see our project work increasing in our power delivery group when we step back [indiscernible] (31:06) say that.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Q

Good. Super. Thank you.

Operator: Our next question comes from the line of Adam with Thompson Davis. Adam, your line is open.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

Hey. Good morning, guys. Congrats on a solid quarter. Hey, the – you made a comment about \$14 billion of industrial projects. Can you just flesh that out a little bit?

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

It's just a funnel of projects that we have identified that kind of fit in our wheelhouse that we're going to pursue a portion of those if we definitely are going to pursue \$14 billion worth of work, but it is an addressable market for us. And a lot of that work is, I think I noted in my comments, about 80% of that work is in our engineering and industrial construction and they're really right in our strengths, the size and the type of project work that we have

and expertise in, which is really what we're focusing on and trying to make sure that we improve our margins and continue to see margin expansion.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

And are those 2024 construction starts?

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

Some of – they'll carry into – they'll be 2024 for sure and they'll carry into 2025. When they – if you get into EPC, then you have a period of four to six, eight months where you're – the client is doing design or we're doing design on the projects before they move to the field. Some of these project – or projects going directly to the field.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

Okay. And I hate to ask this because we've talked about this extensively, but I still don't quite know what the message is on solar. Like I think that's still a growth market for you guys next year, but I just kind of wanted to make sure.

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

Well, it's definitely a growth market. But when you get to \$1 billion, \$1.5 billion in size, you're not going to continue to grow at 100% a year. So, we continue a disciplined approach to hiring and developing our teams and the work that we've taken on. And so, we're still expecting 20%, 30% to 40% growth in that business in the next year.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

Okay. Perfect. Thank you, guys.

Operator: Your next question comes from the line of Brent Thielman with D.A. Davidson. Brent, your line is open.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Yeah. Great. Hey, on the Utilities business, I guess the question in thinking about 2024, I mean, if the productivity issues and challenges in PLH sort of cycle out this year, you've got the restructured pricing terms on contracts starting to take hold in 2024, why wouldn't we see sort of a margin range towards the upper end of your targets next year if you're also getting the benefits of sort of more project work in power delivery? Just trying to kind of bridge the gap why we wouldn't see a significant increase in margin in Utilities.

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

Because that's what you exactly what you can expect and that's where we're trending, too.

[indiscernible] (34:03)

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

...strong headwind be a big overhang to that?

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

Yeah. You can expect that in 2024.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Okay. Okay. And then Tom, I mean, just sorry if you covered it, but what's the outlook for the pipeline business next year? I mean, it sounds like it's come in a lot better than you had expected in 2023.

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

A

They have a lot of opportunities on smaller projects. And what I mean by smaller is their projects are less than \$100 million. They're \$50 million, \$60 million, \$30 million projects. As long as we win our share of that work, it's – and execute on it, which we have been able to do this year, then they'll be okay. It's just not going to be – it's still not a great market for pipeline and it's not going to be for, I don't think, for the next two years minimum. But our guys have rightsized their businesses and they're performing on the work that they've won. They just got to continue to do that.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Got it. And Tom, just back on Utilities, the comment about just the talent acquisition, obviously pretty competitive market right now. Maybe you could talk about the things you're doing to acquire that talent. Should we think it's somewhat of an inhibitor to your growth next year in that business? Just kind to want to put that in context.

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

A

It's not an inhibitor as long as we're successful. I mean, we're not – it's just not about – it's not about necessarily about just being the highest paying contractor out there because we're not going to be. It's the total package. It's compensation, it's benefits, it's career development. It is – and they – well, they're focusing on the retention of the people that you have. What we're really focused on doing is that providing equity in the company and opportunities to buy equity in the company. It's all of those things.

And I think what we're starting to see is success breeds success, and people like working for companies that have good cultures, that care about their people, that help develop them and lay out career paths and pay – and have competitive benefits and they – and winning work and performing well on the projects. And I think that's what we're starting to see there. We saw that in our industrial group over the last couple years as they've improved their performance and their margins. Getting people is a lot easier and retaining them is much easier now. And we're seeing that with power delivery, as we brought in this leadership talent that people are excited about being part of that business and they want to see where these guys can take it. And I think so all these other things combined I think will help us. But it doesn't take away from the fact that it is – it's tough market. Us and our competitors are always after good talent.

Brent Thielman

Analyst, D.A. Davidson & Co.

Understood. Thank you.

Q

Operator: Our final question comes from the line of Julio Romero with Sidoti & Company. Your line is open.

Julio Romero

Analyst, Sidoti & Co. LLC

Hey. Good morning. Hey, how much were renewable sales in the quarter and what do you guys expect for the fourth quarter?

Q

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

Let's see. Renewables sales in the quarter were about \$325 million. For the fourth quarter...

A

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

It could be as much as.

A

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

Yeah. For the fourth quarter, it's probably going to be – if they close everything that they're targeting, it could be over \$0.5 billion, maybe even as much as \$600 million.

A

Julio Romero

Analyst, Sidoti & Co. LLC

Okay, great. And then, hey, Tom, you listed a few challenges within the renewables area, but you also talked about how you're well positioned, aligned yourself with customers to kind of be more resilient going forward. Maybe looking beyond 2024, what's the biggest potential concern that you're just keeping your eye on out of the factors that you mentioned?

Q

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

Anything that affects supply chain. I mean, I mentioned in my comments earlier that transmission, anything that's associated with transmission, interconnects, what are going to be the impacts of what's going on in the Ukraine, because that has definitely impacted the supply of transformers and some of that gear...

A

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

Breakers.

A

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

...breakers and other components. It's – how long is that going to last. I know some US manufacturing is picking up, and I think we're finding other sources and we're actually pre-buying, trying to get ahead of that. But if supply

A

of transformers and breakers goes to 100 weeks, that pushes jobs, unless the clients have already secured supply. So that definitely is a concern in late 2024 and 2025, if that's not solved for at least actions are taken to deal with it.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Okay. That's helpful there. And then just the customers you mentioned you aligned yourself with on the renewable side and the work you're going after that. On a relative basis, that seems less affected by higher interest rates at least for the moment.

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

Yeah. We're not hearing our customers talk about that at all.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Okay. Very good. Thanks very much.

Operator: We would like to take another question from Lee with CJS Securities. Lee, your line is open.

Lee Jagoda

Analyst, CJS Securities, Inc.

Q

Hey. Just following up on Adam's question and maybe piggybacking on Julio, Tom, I think you mentioned 20% to 30% to 40% growth in solar next year. Can you just give us a baseline for 2023 that we're working off of in that business?

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

[ph] 1.35 (39:52)...

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

A

[ph] 1.35 (39:54) is where we expect to end the year.

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

Yeah. [indiscernible] (40:00)...

Lee Jagoda

Analyst, CJS Securities, Inc.

Q

Okay. Thanks.

Kenneth M. Dodgen

Chief Financial Officer & Executive Vice President, Primoris Services Corp.

A

... [indiscernible] (40:01) a bit.

Operator: I would now like to turn the call back over to Tom McCormick.

Thomas E. McCormick

President, Chief Executive Officer & Director, Primoris Services Corp.

Thank you for your questions and for participating in the call this morning. We've reached some important milestones as a company so far this year and are optimistic about the future. But we know there is still work to be done. We have to continuously build on our strong company culture to attract top talent, improve productivity in our operations, and provide quality service to our customers in order to become the company we believe we can be. I'm excited to be in the position to help lead a great team towards these goals.

Thank you again for your time and interest in Primoris.

Operator: Ladies and gentlemen, that ends today's conference. You may now disconnect. Thank you for your time.

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