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Primoris Services Corp. (PRIM)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. My name is Brent, and I will be your conference operator today. At this time, I would like to welcome everyone to the Primoris Services Corporation Fourth Quarter and Full Year 2022 Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. It is now my pleasure to turn today's call over to Mr. Blake Holcomb, Vice President of Investor Relations. Sir, please go ahead.

Blake Holcomb

Vice President - Investor Relations, Primoris Services Corp.

Good morning and welcome to the Primoris fourth quarter and full year 2022 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 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, February 28, 2023. We disclaim any obligation to update these statements except that 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 in our fourth quarter and full year 2022 earnings press release which was issued yesterday.

I would now 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 fourth quarter and full year 2022 results and our business outlook for 2023.

Primoris achieved a record year in 2022 with revenue, backlog, and net income, all achieving new highs at year-end. We grew our revenue to \$4.4 billion, up more than 26% from 2021, with 15% being organic. The growth was driven by our Energy/Renewables segment, which was up 48%, primarily driven by the utility scale solar market, and our Utilities segment, which was up 22% from the previous year, driven by the expansion of our communication services as well as the acquisition of PLH.

Net income was up 15% from 2021 to \$133 million and our GAAP EPS increased to \$2.47 per fully diluted share, marking the sixth consecutive year of EPS growth.

We entered 2022 with just over \$4 billion in backlog that served as the foundation for our revenue growth during the year. Now, as we begin 2023, we have expanded our backlog to \$5.5 billion, an increase of over 36%, which puts us on the right track to continue our growth trajectory. These and other successes were achieved despite facing numerous challenges to our business in 2022.

We faced economic uncertainty from the escalating war in Ukraine, lingering impacts in Asia from the global pandemic, fuel on wage escalation and supply chain constraints, all of which we were able to overcome to deliver profitable growth.

Now, let's look at the three segments in detail. In our Utilities segment, we faced significant challenges from fuel and labor escalation, particularly in the first half of the year. However, we responded quickly by negotiating with clients to recoup added costs, and finish the second half of the year with improved margins. We are continuing to renegotiate our MSAs in 2023 with other customers, and believe that we will see continued margin improvement in the segment as the year progresses.

We were also able to build on our communications and power delivery service offerings with the acquisitions of B Comm and PLH. B Comm was a smaller strategic acquisition that supplemented our communication services with new customers in the rapidly growing Central Texas region.

Since closing on PLH in August of 2022, we have been busy integrating them into our operation, and we are on track with our plan. In part due to PLH being a cultural fit with Primoris, we have been successful in retaining their top talent. These employees will help maintain key relationships and preserve the safe, reliable operations that complement the other strategic attributes of the deal.

As of today, we have made good progress integrating the various PLH entities across our Utilities, Energy/Renewables and Pipeline segments. This includes a significant portion of the human resources, safety, fleet, finance and marketing functions, particularly into our power delivery and gas utilities businesses.

Some parts of the integration process such as information technology and certain union operations, will continue to be worked through in the coming quarters. But, from a customer-facing and project standpoint, PLH will seamlessly operate alongside the rest of Primoris by the end of Q1, and we will begin to realize estimated annualized synergies of over \$10 million at the beginning of Q2. We are excited to have the PLH team on board and value their contributions toward meeting the goals of our organization.

Power delivery and communications will remain two areas we plan to continue to build our size and scope. We have made some big entries into these markets in the past several years with PLH and Future. We remain confident these markets are well-positioned to benefit from multiyear tailwinds and billions of dollars invested across all the markets we serve.

Through a combination of acquisitions and continuous operational improvement, as well as through education and training, we expect to further our reputation as one of the top specialty contractors in North America.

Looking at the Pipeline Services segment, while we expected to see a decline in 2022 following strong years in 2020 and 2021, the industry-wide headwinds, including fewer large projects sanctioned and permitted, led to results falling below the expectations we had at the onset of the year. However, we secured a large pipeline project in the third quarter valued at more than \$120 million to help set us on a course back to profitability going into 2023.

With the combination of disciplined execution and a more constructive outlook for the Texas and Louisiana shale markets, we are optimistic that we are beginning to emerge from the trough in this business.

The Energy/Renewables segment had another breakout year in 2022, achieving 41% organic revenue growth and 12% gross margins. This was driven by the rapid expansion of both our solar EPC business as well as the industrial business which implemented key performance improvement initiatives to boost margins. Expanding on utility scale solar EPC, we were able to achieve 85% top line growth in 2022 despite being partially impacted by supply chain issues related to module delivery.

While some of our customers experienced module delays, the business demonstrated a capability to adapt and overcome the slowdown [ph] to beat (07:43) their business plan. We have roughly \$1.3 billion in backlog to start 2023 and current indications from our customers are that issues with the supply of modules are expected to alleviate in the back half of the year. There is progress being made on the importation of solar modules with a proper chain of custody documentation to allow them entry into the United States.

Additionally, many of our customers have already secured domestic supply or are investing in domestic manufacturing of modules to ensure their products are able to move forward as well as to take advantage in the coming years of the Inflation Reduction Act legislation recently signed into law. In fact, we currently have over \$1 billion of projects in the award or contracting stage and a number of bids on projects valued at over \$3.6 billion.

We expect that a significant number of these projects will be added to our backlog in the coming years, which will further extend our backlog of projects as far out as 2026. These are encouraging signs that we believe will continue to drive more opportunities in large and small utility scale solar projects. To this end, we are growing [ph] seven more (08:55) large utility scale project teams and small scale teams in 2023 to meet this growing demand.

Through organic growth and acquisitions, we continue to take significant steps to reposition Primoris for long-term success in higher growth, higher margin end markets across our segments. These markets are poised to benefit

from the multiyear private and public sector investment required to meet the growing infrastructure needs in the areas we serve.

Primoris is a different company than it was five years ago and we are confident that we are moving in the right direction. We have transitioned from a big project industrial, heavy civil and pipeline company to one with a greater emphasis on specialty contracting for less risky, smaller projects and MSA contracts with less lumpiness in revenue and earnings.

Given the shift in our business mix towards electric grid transformation, renewables, and expanding communications access, we made the decision to merge our Pipeline Services into our Energy/Renewables segment to form our new Energy segment effective January 1, 2023.

Going forward, the two Primoris segments, Utilities and Energy, will each represent approximately half of our total revenue. These segments will better reflect the scope of our operations and the markets we serve. Primoris has never been better positioned to meet the demands of North America's growing and ever-changing needs in energy transformation, generation and delivery.

Now, I hand it over to Ken for more on our financial results.

Kenneth M. Dodgen

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

Thanks, Tom, and good morning, everyone. Let me begin with our key operating metrics for the fourth quarter and the full year, and then I'll discuss our balance sheet, cash flows and backlog. Then I'll wrap up with our initial outlook for 2023.

Our fourth quarter revenue was \$1.3 billion, an increase of \$445 million or 50% compared to the prior year. The increase was primarily driven by substantial growth in our Energy/Renewables segment, which was up \$272 million from the prior year, and the acquisitions of PLH and B Comm which contributed \$228 million.

Gross profit for the fourth quarter also improved to \$153 million, an increase of \$57 million or almost 60%. Gross margins improved to 11.5%, primarily driven by the mix of revenue from higher margin communications and renewables work.

Breaking down the segments, Utilities revenue was up \$133.6 million in the quarter, driven by PLH and B Comm contributing \$144.6 million, partially offset by lower gas utility revenue. Our legacy utility operations experienced severe cold weather in the upper Midwest that slowed down operations compared to the prior year.

Gross profit was approximately \$70 million, an increase of 34% compared to the prior year, and gross margins were 12.1%, up from 11.7% in the prior year, driven by favorable mix of communications and power delivery work.

Energy and Renewables revenue increased \$272 million compared with the prior year on the continued strength of our renewables business, increased industrial activity in California and the Gulf Coast, and PLH which contributed \$56 million.

Gross profit more than doubled to \$80 million and gross margins increased to 12.4% compared to 10.4% in the prior year. Gross profit and gross margin benefited from higher margin renewables work, including some project closeouts. 2021 was negatively impacted by higher costs associated with an LNG project.

Our Pipeline Services revenue came in at \$111 million for the quarter, an increase of \$39 million from the prior year. This was driven primarily by \$27 million from PLH and the kick-off of a large pipeline project in Texas during the quarter. Gross profit was \$4 million or 3.4% due to lower volume.

For the full year 2022 revenue grew \$923 million to a little over \$4.4 billion and gross profit increased by \$40 million or approximately 10%, primarily due to our Energy and Renewables segment as well as contributions from PLH and B Comm.

Looking at the segments, Utilities gross profit increased by roughly \$24 million or 13% primarily due to our acquisitions which contributed \$26 million. This was partially offset by lower gross margins in our legacy utilities business. Gross margins were 10.4% due to the challenges we faced in the first half of the year associated with fuel and wage inflation.

Energy and Renewables gross profit increased almost \$103 million or 68% compared to the prior year. This is primarily due to \$88 million organic gross profit improvement from higher solar and industrial revenue and \$15 million from PLH. Gross margins increased to 12.1% this year, compared to 10.7% in the prior year. This is mainly due to a favorable mix from renewables and the improved industrial margins.

And our Pipeline Services segment finished the year with a negative gross profit of \$6.7 million compared to gross profit of \$80 million in the prior year. This is primarily a result of lower revenues, the impact of project losses in the first quarter, under-absorption of overhead costs, and some large project close-outs in 2021. These challenges were partially offset by the addition of PLH.

SG&A expense in the fourth quarter was almost \$91 million compared to \$57 million in the prior year. For the full year, SG&A was \$282 million or 6.4% of revenue, down from 6.6% in the prior year. Both the fourth quarter and full year SG&A increases can be primarily attributed to incremental expense related to the acquisitions of PLH and B Comm. In 2023, we again expect our SG&A to trend down to the low 6% range as we complete the integration of PLH and eliminate duplicate overhead costs.

Net interest expense in the fourth quarter was \$18.6 million compared to \$4.3 million in the prior year. The increase was primarily due to higher average debt balances from our acquisitions and higher interest rates.

In January of 2023, we entered into a new interest rate swap on \$300 million of our variable rate debt. This enabled us to reduce our sensitivity to further rate changes by fixing our interest rate at 4.1% plus an applicable margin.

Our effective tax rate was 16.5% for 2022. The lower rate was driven by the use of capital losses to offset capital gains, the temporary change allowing full deductibility of per diem expenses through 2022, and R&D tax credits. We expect our effective tax rate to return to 28% in 2023, but this may vary depending on the mix of states in which we work.

Operating cash flows in the fourth quarter were \$185 million, and for the full year they were \$83 million. The increase in operating cash flows was driven by improvements in working capital, offset by growth.

Turning to CapEx, we invested \$19 million in the fourth quarter and \$95 million during the full year. This was down from \$134 million in 2021, which included \$119 million in construction equipment to support growth in our renewables and utilities businesses. We expect our capital spending to be \$80 million to \$100 million in 2023, which includes \$40 million to \$60 million for equipment.

Looking at the balance sheet liquidity, we paid down \$50 million on our revolver in Q4 and still ended the year with almost \$249 million of cash. Borrowing capacity under our revolver was roughly \$178 million, providing a total available liquidity of \$427 million at year-end. Total long-term debt was \$1.14 billion and net debt was just under \$900 million, lowering our net debt to EBITDA ratio to 3 times compared to 3.25 times at the end of the third quarter.

We remain focused on delivering consistent operating results and cash flows in order to meet our capital allocation objectives. These include supporting continued organic growth, paying down debt, and opportunistically pursuing acquisitions that align with our growth strategy. We expect that our EBITDA growth in 2023 and 2024 combined with debt paydown will move us closer to our goal of near 2 times leverage by the end of 2024.

Moving on to backlog, we closed the year with a record \$5.5 billion in backlog, an increase of \$1.5 billion or 37% compared to the prior year with \$570 million of the increase coming from acquisitions. Fixed backlog was nearly \$3.6 billion, an increase of \$1.1 billion for the year or 44% primarily due to our growth in renewables. MSA backlog was up 25% or \$384 million to just over \$1.9 billion.

I will wrap up with our earnings guidance for 2023. We expect our earnings per fully diluted share to be in the \$2.10 to \$2.30 range. While our operating income should grow over 20% in 2023, this will be more than offset by our increased interest expense and our tax rate reverting back to 28%. Our adjusted EPS is estimated to be in the range of \$2.50 to \$2.70 per share for 2023.

We are also providing adjusted EBITDA guidance in the range of \$350 million to \$370 million for 2023, a 23% to 30% increase over the prior year. This growth will be primarily driven by organic growth in our renewables, industrial and utilities businesses, along with the full year impact of PLH and B Comm.

I want to remind everyone about the seasonal nature of our business as our first quarter is historically our lowest quarter of the year for both revenue and net income. In fact, net income is often negative in Q1 driven by winter weather that prevents our utility crews from working and delays the start of certain projects. We are also expecting our solar revenues to follow a similar trajectory in 2023 as it did in 2022 with approximately 40% expected in the first half of the year and the remaining 60% in the back half of the year based on the timing of projects.

And finally, effective January 1 of 2023, we are now reporting under two segments, Utilities and Energy, as Tom mentioned. Utilities will be the same as it has been, comprised of our power delivery, communications and gas utilities businesses. The new Energy segment will be the combination of our previous Pipeline Services segment and our Energy/Renewables segment. This change follows the direction of our end markets and our strategic focus going forward.

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

Thomas E. McCormick

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

Thank you, Ken. As we progress into 2023, I'm excited about the future of Primoris. We have a solid foundation to build on with \$5.5 billion of backlog. Our end markets are expecting to see continued tailwinds from federal legislative actions and other investments required to secure the energy needs of North America in the coming decades.

We are a company focused on growth and we'll continue to seek additional revenue streams both organically and inorganically in order to increase the scope and scale of our operations. However, the way we grow will center around improved performance and profitability and delivering the results expected from us by our shareholders.

I'm proud of the way our employees have responded to recent macroeconomic challenges and believe we have the right teams in place to become a leader in the industry for serving our customers as well as financial success.

In our Utilities segment, profitable growth will mean continued success in our communications business and deploying our gas and power delivery equipment and personnel to the areas and customers where they can perform most efficiently and profitably.

In our Energy segment, it will mean consistent and disciplined execution of our industrial contracts and the broadening of our renewables portfolio. We see exciting opportunities for new revenue streams in battery storage, operations and maintenance work, and high voltage substation work, all of which will complement our rapidly growing solar business and are a natural progression for Primoris with our ability to bring different expertise across segments and businesses to serve our clients.

In each and every one of our businesses, it will require our leaders to critically evaluate and, in some cases, turn down projects or potentially customers that may present a risk to profitability that outweighs the reward of revenue growth. We are committed to showing this discernment and discipline regarding where, for which customers, and for which projects we deploy our highly skilled labor force.

In closing, I'm optimistic about the future of Primoris. We have exceptional employees who exhibit our core values each and every day and make Primoris a great place to work. We deliver outstanding services to our customers to help them reach their objectives and we have the right strategic priorities in place to successfully execute on our backlog of projects to the benefit of our clients, shareholders, employees and the communities we serve.

And with that, I'll now open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Lee Jagoda with CJS Securities. Your line is open.

Lee Jagoda

Analyst, CJS Securities, Inc.

Hi. Good morning.

Q

Thomas E. McCormick

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

Hey. Good morning, Lee.

A

Lee Jagoda

Analyst, CJS Securities, Inc.

So just starting with the solar – Energy segment and solar in particular. Can you break out the solar revenue from Q4 and then talk to the book-to-bill in solar and how we should think about that metric for the balance of 2023.

Q

Kenneth M. Dodgen

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

Yes. We normally don't break that out, but it was one of the strongest quarters yet. Hold on, Lee, [indiscernible] (22:39) that exact number for solar. In the quarter, solar revenue was about \$320 million.

A

Lee Jagoda

Analyst, CJS Securities, Inc.

And then do you have any info on the book-to-bill and then – and how we should think about that in terms of do we think we have the same level of backlog at the end of 2023 more or less?

Q

Kenneth M. Dodgen

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

Yeah, I don't have the book-to-bill in front of me [audio gap] (23:09). They are continuing to grow backlog. So, I would fully expect that, over the course of this year, they will continue to build backlog that will build on the strength and take us into 2024. So, expect us to end 2023 with probably as much if not more backlog as we're ending 2022.

A

Thomas E. McCormick

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

If you look at the numbers that they have under contract, Lee, and what they have in LNTP, what they've been told that they are sole sourced on, by the end of 2023, they should have work booked that will take them into the start of 2026, if that helps.

A

Lee Jagoda

Analyst, CJS Securities, Inc.

Q

It does. And then, Tom, I know you've spoken to it in the past. How do you envision solar growing in 2023 on a year-over-year basis from 2022?

Thomas E. McCormick

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

A

I think what you're going to see is they're going to grow somewhere between the \$300 million to \$400 million, maybe as high as \$500 million a year. So, as they become bigger it becomes – that percentage drops a little bit, but they're still going to be in that \$300 million to \$500 million a year range.

Lee Jagoda

Analyst, CJS Securities, Inc.

Q

Got it. And then, Ken, just looking at the SG&A in Q4, it was a bunch higher in dollars and as a percent of sales versus where we were modeling. Is there anything in there that's one-time in nature and how should we think about SG&A dollars as we enter 2023 versus the levels that you had in Q4?

Kenneth M. Dodgen

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

A

Yeah. There were a few one-time costs related to PLH as we continue to integrate them. We try to break true integration cost out in its own separate line on it, but there's absolutely still some duplicate overhead. Our goal is to have most of that duplicate overhead eliminated by the end of Q2 of this year as we continue to integrate PLH. And then, in general, in 2023, I'm expecting SG&A and I'm looking right now SG&A kind of in the \$80 million range.

Operator: Your next question is from the line of Steven Fisher with UBS. Your line is open.

Steven Fisher

Analyst, UBS Securities LLC

Q

Thanks. Good morning. Nice quarter. I guess you mentioned there's an expectation that some of the supply chain will ease over the course of the year. I guess, to what extent does your plan actually depend on further improvement in the supply chain or what have you assumed on the panel availability and materials both in solar and for the rest of your business?

Thomas E. McCormick

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

A

Yeah. I would say, for 2023, we have pretty much surety of supply for the panels. If something happens, it would be a surprise. We've aligned ourselves with projects and with clients [indiscernible] (26:02) for our backlog that makes up this year's work. They have surety of supply, so it would be we don't need any improvement for this year. It would be something maybe into next year.

Although you're seeing – we're seeing that ease already with the imports of panels with the right documentation. Now, we're seeing that pick up a little bit and we're also seeing clients monitor sources, US sources and actually investing in perhaps manufacturing [ph] new (26:29) modules. Now, that won't help them in early 2024, but I'd say the projects that we have right now through 2023, maybe even the front half of 2024, we're pretty much confident that the modules are going to be there.

Steven Fisher

Analyst, UBS Securities LLC

Q

Okay. That's great. And then you've started to build up a couple of quarters of consistency here which is nice to see. Where would you say is the biggest execution uncertainty in your plan for 2023? And what are you doing to proactively manage that uncertainty or risk?

Thomas E. McCormick

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

A

I think our biggest risk is always execution on our project work. And it's in different areas of probably industrial and in electric power delivery are probably the two areas, but those are the ones that see the most project work. And I guess you can go to pipeline but I'd say – but we have placed in both of those groups really strong leadership teams. We've brought in a lot of talent, so I'm not really worried about the industrial group at all and I'm certainly not worried about the renewables group and the electric power delivery is actually doing pretty well. And with the talent that we brought in, I think we're going to see a marked improvement.

Our biggest risk still is pipeline going to come out of the trough. Are they going to – are we going to – we have a good management team in there. We've made some changes and we've added some talent there as well. I think this group is going to be very disciplined. It's – and they're seeing quite a bit of bid work but is that work going to be realized and is it going to be executed, some of it going to be executed this year? That probably be our biggest risk. Now, it's a small part of our business, but that's probably the biggest risk.

Steven Fisher

Analyst, UBS Securities LLC

Q

Okay. Thank you very much.

Operator: Your next question comes from the line of Sean Eastman with KeyBanc Capital Markets. Your line is open.

Q

Hi. This is [ph] Alex (28:22) on for Sean this morning. Thanks for taking our questions. So, very good cash flow in the fourth quarter. I know you guys are expecting it to come, but probably more so in the first quarter, so maybe a bit earlier than expected here, but is there anything that happened there? And how should we think about operating cash flow in 2023? Will this be up or down year-over-year or is there a good conversion ratio to think about?

Kenneth M. Dodgen

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

A

Yeah. [ph] Alex (28:51), Q4 had the benefit of a couple of things. We had some working capital improvements in terms of payments from our customers. We also signed a couple of new larger projects during the quarter which had some upfront payment. So that definitely helped. We actually pulled – I think we pulled a little bit of cash flow from Q1 of this year back into Q4 as a result of the timing of signing those projects.

So, it was good and we're going to continue to watch it as we go forward. With respect to 2023 cash flow from operations, I'm expected to be in the \$100 million to \$150 million range. As we continue to grow, we're going to have to invest in working capital. We're going to hopefully have less solar materials that we got to pre-buy upfront.

But we're still watching that closely depending on how that releases. But it should be a good year for us, but it's going to be seasonally weighted the same as it was in 2022.

Q

Got it. And then I just wanted to ask about your communications business. Like, I just want to ask where you've seen the most activity. Is it rural and RDOF? Is it fiber-to-the-home? Is it 5G spectrum deployments? Just any thoughts that would be super helpful.

Thomas E. McCormick*President, Chief Executive Officer & Director, Primoris Services Corp.*

A

It's probably across the board. A lot of it's in fiber, a lot of it's in 5G. We're seeing growth – a lot of growth in Texas and in various other markets that we're in, but Texas is a big market for us. So, I'd say across the board is 5G and then fiber, a lot of fiber deployments.

Q

Thank you.

Operator: Your next question comes from the line of Adam Thalhimer with Thompson Davis. Your line is open.

Adam R. Thalhimer*Analyst, Thompson Davis & Co., Inc.*

Q

Hey. Good morning, guys. Great quarter. Hey, within solar, do you feel like you're seeing a benefit from the IRA yet or is that still on the come?

Thomas E. McCormick*President, Chief Executive Officer & Director, Primoris Services Corp.*

A

I think we're seeing a benefit of the anticipation of what's going to come with the IRA as it gets more – it gets defined. Our clients are very excited about the opportunities it creates for them and some of them are actually moving forward on those in anticipation of it.

Adam R. Thalhimer*Analyst, Thompson Davis & Co., Inc.*

Q

Okay. Has it slowed some of [ph] the downloads (31:18) just out of curiosity?

Thomas E. McCormick*President, Chief Executive Officer & Director, Primoris Services Corp.*

A

No, it is definitely not [indiscernible] (31:23) for sure. It's almost like renewables on steroids, I think, some of our guys are liking it to. There's a lot of opportunity out there.

Adam R. Thalhimer*Analyst, Thompson Davis & Co., Inc.*

Q

Why do you think you guys have been a little bit more successful than the competition in building that business? Profitably too, the margins have been great.

Thomas E. McCormick

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

A

Yeah, I don't know what our competitions do, so I won't speak to that. But I'll tell you what we do. We're very disciplined about how we execute our work. Before we deploy a team on to a project, we actually – they shadow a project team on a current project. They go through a lot of training. We set expectations. We have metrics that we measure almost daily so we can track performance. We're very careful about how we hire and who we hire and what positions they take. And we're very careful about what clients we do work with and the terms of those contracts.

And the nice thing about solar, certainly for us, is we get involved early in the scoping and estimating stage. So, by the time we actually land on a price with our clients, we've already – we've done an employee survey or craft survey in the area. We know where we're going. We know what the labor market is like. We've estimated the job three or four or five times. We know the scope in and out, and so we wrap our arms around that scope.

Adam R. Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

Good color. Okay. Thanks, Tom.

Thomas E. McCormick

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

A

You're welcome.

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

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Hey. Thanks. Good morning, guys. Hey, Ken, a nice strong comeback in Utilities margins here in the second half. I guess just wondering if this is purely sort of indicative of the work you've done to renegotiate terms on contracts. Is it moving to the customers the value what you bring?

And then, I guess, any context for the sort of percentage of business or contracts out there you're still operating under that you think are opportunities to address kind of better terms over the course of 2023?

Kenneth M. Dodgen

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

A

Yeah. Good question, Brent. The short answer is it's a mixture of both, right? We [ph] didn't have to see (33:34) the benefit in the fourth quarter of the contract negotiations. We clearly had a good mix of work in the quarter as well that drove the margins a little bit higher. But I'll tell you, with respect to that, our work is not done. I think we talked a little bit about this last quarter. But we have a little bit more work to do on our legacy contracts.

And then we inherited some work with PLH because they have not – they were a little bit behind us in terms of renegotiating those contracts. I couldn't give you the percentage breakout. But, yeah, we're hopeful that as we work through that over the course of 2023, not only with the rest of our contracts, but with the ones we inherited with PLH, that we'll be able to see some more benefit. Now, that said, Q1 is going to be a typical Q1 for us, a much lower margin just because of the timing of work and the seasonality.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Okay. Appreciate that, Ken. And then this might be for Tom. But how are you going to working to manage the Pipeline business in terms of size going forward? Is there sort of a revenue number out there that you see as sort of a cap for the business or you want to be a cap in the business just given how you're kind of refocusing toward some of the other areas of the company?

Thomas E. McCormick

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

A

Yeah. I'd be surprised to see that business grow more than \$400 million, \$500 million in revenue a year. I think it's a good size. That'd be a good size for us. Where we – where our overhead in those businesses we talk about, the business unit overhead is low. So, it doesn't cost a lot to carry it. We can get them through some downturn when they do that, they don't – they make the right decisions. But I don't see us having a big push. You may see a jump based on a large project award tied to carbon capture or something like that. But, on average, it'd be less than \$500 million for sure.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Okay. And just lastly, Ken, I'm sorry if you said it, but just the target leverage objective by the end of the year, and I guess also any sort of specific debt reduction objectives by kind of year-end 2023.

Kenneth M. Dodgen

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

A

Yeah. By the end of 2023, we're targeting to be kind of in the 2.5 times range, plus or minus, and it's going to be predominantly through scheduled principal payments and then other debt – extra principal payments and debt paydown we're able to make with cash flow from operations.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Okay, very good. Thanks, guys.

Operator: Your next question is from the line of [indiscernible] (36:09) Capital Management. Your line is open.

Q

Thank you. Tom, in your opening remarks, you made reference to having line of sight on the solar business through 2026. And I didn't catch if you were saying you had line of sight on strength through 2026 or actual growth over that time period. Would you please provide clarification on what you were trying to say there?

Thomas E. McCormick

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

A

Yeah, I'll tell you. We're tracking about just under \$9 billion of projects that we're pursuing that are in various stages of either being bid or contracted with the clients that we have history with and experience and relationships with that'll take us through 2026. So, we have – right now under contract, I think our backlog is about \$1.3 billion, but we have a number of projects that are in LNTPs. So we've got – even if I [indiscernible] (37:03), if I say,

assume the total value of the contract, not the LNT – the total value of those projects we either have under contract or LNTP is \$2.8 billion, \$2.6 billion.

We have another \$1.7 billion of projects that we were told that we were sole source. And then there's another \$3 billion or \$4 billion of projects that we're bidding that would take us all the way through 2026. So there's roughly \$8 billion that we're in various stages of that we're comfortable we're going to win our share of that work. And if we do that'll fill us up. Not only we're filled for 2023, we're already actually working on building backlog in 2024, but that would take us through the balance of 2024 and into 2025 and into 2026.

Q

And do you see each and every year from 2023 through 2026 as growing or do you see a period where that solar revenue ends up flattening out?

Thomas E. McCormick

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

A

Well, I see it growing, but as I said earlier, it's going to grow at a pace of roughly \$300 million to \$400 million, maybe \$500 million – but maybe as much as \$500 million a year for us. And that does flatten out over time as that business continues to get bigger. But I don't think – I don't see a whole lot beyond. Not that it doesn't have tailwinds that are going to carry it into the end of the decade but we just don't look that far in advance. It's something new for us even to look and start making commitments right now for work that's going to happen two years in advance for us.

Q

Right. No. Thank you for that clarification. Appreciate it.

Thomas E. McCormick

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

A

Yes.

Operator: [Operator Instructions] Your next question is from the line of Jerry Revich with Goldman Sachs. Your line is open.

Clay Williams

Analyst, Goldman Sachs

Q

Hi. Thanks for the question. This is Clay Williams on for Jerry. We were curious if there are any puts and takes on whether Utilities margin trajectory from here should be ahead of or below normal seasonality as we think about project mix, outlook for crew utilization, et cetera.

Kenneth M. Dodgen

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

A

Yeah. In 2023, we're kind of expecting the same kind of seasonal curve up from Q1 to Q2 to Q3 and then back down slightly in Q4. Not expecting much of any change in that. As we look at 2023 from a mix standpoint, I think

gas is going to be probably relatively flat to slightly up in 2023. Most of the growth is going to come from power delivery and communications.

Clay Williams

Analyst, Goldman Sachs



Thanks. And I'll pass it on.

Operator: There are no further questions at this time. I will now turn the call back over to the President and Chief Executive Officer, Mr. Tom McCormick.

Thomas E. McCormick

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

Thank you, operator. I want to thank all of our employees and crew members for their dedication and hard work. Their focus on safety and quality execution makes a positive impact on the customers and communities we serve and makes Primoris a great company. And thank you to those who joined us today. We appreciate your time and interest in Primoris. Have a good day.

Operator: Ladies and gentlemen, thank you for participating. This concludes today's conference call. You may now disconnect.

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