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Primoris Services Corp. (PRIM)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. My name is Cheryl and I will be your conference operator today. At this time, I would like to welcome everyone to the Primoris Services Corporation First Quarter 2022 Earnings Conference Call. 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] Thank you.

Brook Wootton, Vice President, you may begin your conference.

Brook Wootton

Vice President-Investor Relations, Primoris Services Corp.

Good morning and welcome to Primoris' first quarter 2022 earnings conference call. Joining me today are Tom McCormick, President and Chief Executive Officer; and Ken Dodgen, our 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 our expectations. These risks and uncertainties are discussed in our reports filed with the SEC. Our forward-looking statements represent our outlook only as of today. 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 Investor Relations section of our website.

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

Thomas E. McCormick

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

Thank you, Brook. Good morning and thank you for joining us today to discuss our 2022 first quarter results and our financial outlook for the rest of the year. For the first quarter, we generated \$784.4 million of revenue. Compared to last year's record first quarter, this period was much more in line with our historic first quarter results. This is typically our slowest quarter of the year and the most likely to be impacted by inclement weather and extended winter conditions. That was our experience this year as positive performance in our growth markets, utilities and energy/renewables was largely offset by a loss that we recognized on a pipeline project in the mid-Atlantic and lower overall revenue in our Pipeline segments. Approximately 92% of our first quarter revenue was driven by our utilities and energy/renewables businesses as we lean more heavily into markets with more secular growth. We continue to build our backlog primarily in these two segments, increasing total backlog for the third consecutive quarter. Reflecting the underlying strength of our business, our total backlog is 30% above the same period last year.

Now, let's look at our operations, segment by segment. Our Utilities segment revenue came in at \$358.7 million. That is a 7% increase compared to the same period last year. Remember, this segment encompasses our specialty services in the gas distribution, power delivery and communications industries. The increase reflects higher levels of activity with our gas utility and communications customers in our east and west regions. Most of our issues, such as material shortages, delays in engineering and permitting are now mostly behind us, as we and our clients continue to adapt to the ever changing market conditions.

We brought in over \$375 million of new business during the quarter. In the Western US, most of the new business is with large existing customers while on the East Coast we continue to expand our communications footprint with new customers and new geographic markets. One new client is building fiber networks across the country. We signed contracts for two projects with them, one in Virginia and another in Oklahoma. We are focusing on building a long-term relationship with this client that we believe will bring additional projects, which is always our goal. Another growing relationship is in our power delivery space with a multi-state client. We just added [ph] Cruise (04:30) to take on our third electric distribution project to them.

After the end of the quarter, we signed a multi-year, multimillion dollar contract expanding our power delivery services into a market in the Northeast. This demonstrates the effectiveness of our focused expansion efforts. This customer has expressed an interest in discussing additional services that we are prepared to provide. Overall, we are seeing sustainable growth in our power delivery and communications businesses.

Our Energy/Renewables segment revenue came in at \$359 million. Three new solar projects are just kicking off, one at the end of the first quarter and two more of this quarter. So, we will start to show meaningful revenue from all these projects in near future. The utility-scale solar market remains robust and we value the strong relationships with our customers in this area. As we have previously discussed, diversifying into small scale or distributed generation solar brings additional scale and opportunity to our renewables business. To best serve this market opportunity, we have successfully transitioned some of our pipeline field management to develop a new [ph] DG Solar (05:42) team. This transition is going well and we now have a significant funnel of [ph] DG Solar (05:48) project opportunities. We will start executing this work in the third quarter.

Other projects of our renewables business are also moving forward. Hydrogen is proving to be an exciting area right now. As I've stated before, hydrogen is the third leg of the renewable energy stool. Hydrogen can solve many of the difficult challenges of energy storage, as it can be produced and used at its point of utilization.

Recently, we extended our involvement in developing sustainable green hydrogen for residential and commercial use in North America. We're participating in a hydrogen pilot home project as part of a proof-of-concept demonstration with a large utility in Southern California. This hydrogen project features a microgrid that supplies electricity to a 2,000 square foot home. The grid is composed of solar panels, a battery storage system, and electrolyzer to convert solar energy to hydrogen and a fuel cell. This hydrogen project was named a World Changing Idea by Fast Company magazine. As this market develops, we expect to work further with this utility as well as with other utilities and developers on both hydrogen and other renewable-related projects.

Looking at future opportunities, our Energy/Renewables segment has signed more than \$325 million in new projects for the segment during the first quarter alone. These include an earthworks project located in the South, as well as the mechanical scope for a hydrogen-producing steam methane reformer plant in Texas. This facility will be the largest such plant our customer will operate in the Gulf Coast region. We began work on both projects in the first quarter of 2022, with completion expected in the first quarter of 2023. We were also awarded a \$48 million contract from the Texas Department of Transportation to expand an existing roadway and bridge to four lanes. This project will run from Q2 2022 to the end of 2024.

We've also been contracted to construct a new pump station and modify the existing infrastructure at original wastewater treatment facility located in Florida. This major project is also scheduled to start this quarter and will run into early 2025. Our safety and execution performance in solar projects continues to drive business. This performance has led to the continuation of repeat business across multiple customers. After the end of the quarter, we were awarded two new solar projects totaling more than \$250 million. One is for the engineering, procurement and construction of a utility-scale solar facility located in the Southwest. Mobilization and construction will begin in the second quarter of this year with completion of the project expected in the first quarter of 2023. Second project is located in the South. Construction is scheduled to begin in the fourth quarter of this year with completion expected in the third quarter of 2023. This project is another example of our segments working together to provide a complete solution for our clients. Our Energy/Renewables segment will build a solar facility while the power delivery group of our Utilities segment completes the high voltage work associated with this project. We expect to see continued and increased collaboration between our Energy/Renewables and Utilities segments on this front.

Before I move on to the Pipeline Services segment, I want to talk about how we are addressing a supply chain issue around the cost of materials and delivery certainty in our Energy/Renewables segment. There's been a lot of industry speculation around [ph] Partner Commerce's (09:35) investigation on solar panel modules imported from certain countries and the potential impact of project costs and schedules if antidumping countervailing duty tariffs are imposed. We don't see this as having a significant revenue impact on projects for the following reasons. As of the first quarter of 2022, our project backlog for utility-scale solar is more than \$1 billion. We have intentionally diversified our portfolio projects to those [ph] clients (10:03) and projects that have more module certainty around them.

Primoris does not purchase solar modules for our projects, nor do we have risks associated with not receiving those modules for our projects. If a customer experiences a module delay, we serve our customers best by planning and executing in a manner that brings them flexibility to progress the project such that our primary work is not impacted. The module is the last component installed, which gives us the ability to build out the project and adapt to our customers' needs. We can always return to the project in later date and install the modules. And when this does occur, our clients have compensated us for the extra costs. We also work with our customers on a design-build basis. So we have a high degree of transparency into the materials they purchase. We currently know that more than 50% of our 2022 projects are using solar modules that are not subject to the AD/CVD tariffs.

Our discipline in planning and best practices in our solar business is paying off and reduce risk for both our business continuity and our bottom line.

Now, on the Pipeline Services. Our Pipeline Services segment revenue came in at \$67 million. That is a 49% decrease compared to the same period last year. This segment, which includes conventional oil and gas pipelines, as well as water and wastewater pipelines, is now increasingly focused on master service agreements for Pipeline Services. The year-to-year comparison is somewhat skewed by the fact that in first quarter of last year, we achieved substantial completion on three pipeline projects, accounting for more than \$71 million in revenue. As we previously stated, we are pursuing fewer pipeline projects and focusing on field service pipeline integrity type work. So some of that income decline is in line with our strategy.

Q1 2022, Pipeline encompassed just over 8% of our total revenue, which is down to where it has traditionally been. Once again, a lot of that is by design. It is a much smaller part of our business and will continue to be for some time. We did complete one small wastewater project during the quarter, with high levels of customer satisfaction, zero recordable incidents and good profit margins.

On the flip side, one pipeline project in the mid-Atlantic region got bogged down literally with extreme weather conditions delayed progress down the [ph] waterway (12:33). We've added the necessary labor to mitigate the delays associated with the ground conditions and complete the project. However, the project is currently forecast to lose money, which has adversely affected the segment's results for the quarter. We continue to evaluate what costs are recoverable and are currently in discussions with the client on these matters. While the project impacts our pipeline revenue and bottom line, fortunately, there's a small item in the big picture of our overall business. We brought in approximately \$43 million in new awards during the quarter, with a pickup in bidding activity that bodes well for the last half of the year, as well as 2023. On average, 18% of our Pipeline Services revenue comes from ongoing MSAs compared to new bid projects.

And with that, let me hand off to Ken for more detailed review of the numbers.

Kenneth M. Dodgen

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

Good morning, everyone. Let me begin with our key operating metrics for the first quarter and then I'll discuss our balance sheet, cash flows and backlog. As Tom mentioned, our first quarter revenue was \$784.4 million, a decrease of \$33.9 million compared to the prior year, mainly due to the \$63.8 million reduction in pipeline work, which was in line with our expectations. This decline was partially offset by continued strength in our Utilities segment, which grew by \$23.7 million and our Energy/Renewables segment, which grew by \$6.2 million.

Gross profit for the first quarter was \$56.5 million, a decrease of \$23.7 million, primarily due to poor performance in our Pipeline segment. Positively impacting the period, all three segments benefited from the change in useful lives of certain equipment, which reduced our depreciation expense by \$5.8 million in Q1. We expect the full year benefit of this change to be approximately \$21 million. Gross margins were 7.2% for the quarter, which is typically our lowest quarter as a result of the seasonality in our Utilities segment.

Now, let's look at each of the three segments. Despite the seasonality in our Utilities segment, gross profit was \$22.4 million, a slight increase over the prior year due to higher revenue, partially offset by lower gross margins. Gross margins declined slightly to 6.2% compared to 6.5% in the prior year. Underlying factors included the delayed start of some projects to the second quarter, as well as increased fuel and labor costs, partially offset by better equipment utilization as we continue rightsizing our fleet and selling underutilized equipment. For the rest of

the year, we continue to see strong demand from our customers and expect to see our normal seasonal increases in the Q2 and Q3.

Energy/Renewables gross profit was \$39.9 million for the quarter, a \$2.7 million decrease from the prior year, primarily due to lower margins, partially offset by higher solar revenues. Gross margins came in at 11.1%, down modestly from last year, but well within our normal range. In 2021, we benefited from the favorable resolution of a claim on an industrial project. Looking forward, we expect gross profit to gradually increase each quarter as we continue to grow our solar business and execute on the significant work in our backlog. Pipeline segment gross profit decreased by \$21.6 million from the prior year. Given the sharp decline in volume due to general market conditions and higher costs associated with the pipeline project in the mid-Atlantic, we reported negative gross margins of 8.7% this quarter. The mid-Atlantic project experienced very unfavorable weather conditions in the period. The reduced activity levels also led to higher carrying costs for equipment and personnel. This project will continue to impact margins in Q2 as we complete the project.

Now, shifting to SG&A. Expenses in the first quarter were \$55.5 million, an increase of \$2 million over the prior year as we continue to invest in our technology and human resources initiatives. As a percent of revenue, SG&A increased to 7.1%, primarily due to lower revenue and is normally higher in the first quarter of the year. We expect our SG&A for the full year to be back down in our normal low to mid 6% range. Net interest expense in the first quarter was \$2.9 million compared to \$4.6 million in the prior year. The decrease of \$1.7 million was primarily due to the \$2.9 million benefit from our interest rate swap this quarter, compared to a \$1.3 million benefit last year.

Our effective tax rate was 27% for the quarter and we expect the same rate for the balance of the year, but this may vary depending on the mix of states in which we work. Net loss was \$1.7 million for the quarter and diluted EPS was a loss of \$0.03. Adjusted EPS was \$0.01 per share for the quarter and adjusted EBITDA for the quarter was \$22.6 million. Operating cash flows in the first quarter was \$6.6 million, relatively consistent with the prior year. But it's important to note that during the quarter, we invested another \$35 million in prepaid materials for our solar projects in order to ensure timely delivery and certainty of price.

In the first quarter, we invested \$33.2 million in CapEx, of which \$13.4 million was for equipment. We still expect capital expenditure for the remainder of year to be \$90 million to \$110 million, which includes \$55 million to \$75 million for equipment. We ended the quarter with \$173.5 million of cash. Borrowing capacity under our revolver was \$160.6 million, providing total available liquidity of \$334.1 million at quarter end. Total debt was \$655.3 million and net debt was \$491.8 million. Total backlog at the end of the quarter was a little over \$4 billion compared to \$3.1 billion in the prior year. This was another record backlog for us. Fixed backlog was almost \$2.5 billion, an increase of over \$800 million or 50.2%, primarily due to solar projects. MSA backlog was up 9% or \$127.9 million to a little over \$1.6 billion.

Turning to our full year earnings guidance, we are increasing our full year guidance by \$0.10 per share to reflect the benefit of our revised depreciation expense and the challenges in the Pipeline segment. The updated earnings guidance is \$2.20 to \$2.40 per share and our adjusted EPS guidance, a non-GAAP measure, is \$2.49 to \$2.69 per share. We feel very good about the balance of the year and are starting to see the typical ramp up of utilities work in the second quarter and very strong prospects for additional renewables awards to build on our record backlog.

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

Thomas E. McCormick

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

Looking forward, it is clear to see that we are more and more focused on the utilities and energy/renewables markets and less focused on pipeline construction. As I noted upfront, our Pipeline Services segment represented just a little over 8% of our total revenue this quarter. It only represents 10% of our total year business plan, with the other 90% being fairly evenly split between the Utilities and Energy/Renewables segments. We continue to gain momentum in our growth markets, as evidenced by the total dollars of new business we brought in during the quarter for those two segments, more than \$750 million.

For the full year, we expect the following: Our Energy/Renewables segment to grow approximately 20% compared to last year; our Utilities segment to increase in the range of 8% to 10%; and our Pipeline segment to finish the year below last year, as I previously noted and per our 2022 plan. Our year-end mix will be even more heavily weighted towards Utilities and Energy/Renewables and away from Pipeline for 2022. And if you add up the new business that we brought in after the end of the quarter, you'll see that the three contracts signed in April account for more than \$325 million of additional backlog in just the last month. So the momentum is there, the business is there.

As I've said previously, but it does bear repeating, the business that we are pursuing and capturing is strategically aligned with secular market themes, including next generation broadband infrastructure, power delivery and the push for renewable energy, all of which are linked to the overall goal of reaching a net zero future. We continue to closely watch the Infrastructure and Investment Jobs Act and are seeing states and industry players explore how to tap into that funding, which we think will translate into shovel-ready projects for rural broadband and urban 5G deployment, adding opportunities for our Utilities teams.

We also see the energy transition driving business as higher energy prices are loosening the purse strings of traditional energy companies wanting to retool to lower carbon opportunities. That includes hydrogen, as I mentioned earlier, as well as carbon capture. We are seeing the emergence of new players such as developers who are rapidly advancing utility-scale solar power generation. Our strength in this market is allowing us to choose the partners we want to work with and continue to build solid, long-term relationships with them. Both traditional energy companies and new players create a bright outlook for our energy/renewables business. So what I would say is we have everything we need to capitalize on the momentum and the secular trends we are seeing and deliver results going forward. Thank you once again for joining us today.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question is from Lee Jagoda of CJS Securities. Please go ahead. Your line is open.

Peter Lukas

Analyst, CJS Securities

Q

Yes. Hi. Good morning. It's Pete Lukas for Lee. And looking at your guidance for the Renewables segment of 20% growth for the full year, that implies 25% to 30% growth over the next three quarters. Can you help us in terms of how you see this ramping from Q1 through the balance of the year?

Kenneth M. Dodgen

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

A

Yeah. Pete, we have laying out all the projects that we've been winning over the course of the past two to three quarters. And literally, it's just going to be a continuous steady growth quarter-over-quarter as we complete smaller projects and roll into bigger, larger projects. So I expect Q2 to be up sequentially from Q1, Q3 will probably be fairly flat compared to Q2, and then Q4 will probably be up significantly as we really start ramping up on some of those larger jobs that we announced in Q4 of last year.

Peter Lukas

Analyst, CJS Securities

Q

Great. Next, I want to confirm, in terms of the Pipeline gross margin guidance of 9% to 11% for the full year, does that include the minus 9% margin in Q1 and should we expect any outsized margins in any of the next several quarters driven by project true-ups, or should the balance be in that 12% to 15% range to get to the full year numbers?

Kenneth M. Dodgen

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

A

Yeah. So, the 9% to 11% is our long-term target for the year given what's happened in Q1 and the completion of the Appalachian project that we talked about that gave us problems. We're expecting this year's gross margins to be in the 6% to 8% range for the full year.

Peter Lukas

Analyst, CJS Securities

Q

Helpful. Thanks. And last one for me, can you give us some more detail around the change in the depreciation schedule on equipment, the impact it had in Q1 results, and also the impact you expected to have on the full year, and in terms of which segment margins would be affected most by the change?

Kenneth M. Dodgen

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

A

Yeah. So as we stated, \$5.8 million impact in Q1. Full year impact is probably going to be about \$21 million. It was just an ordinary course analysis of our equipment in conjunction with an outside third-party that led us to do that. You [ph] may rarely (25:14) do these. And when you do, it's only when you have compelling evidence is the right thing to do. And then with respect to the benefit, probably about, by my estimation, 50% to 60% of the benefit

will accrue to the Utilities segment. And the remaining will be split fairly evenly between the Energy/Renewables segment and the Pipeline segment.

Operator: Your next question is from Steven Fisher of UBS. Please go ahead. Your line is open.

Steven Fisher

Analyst, UBS Securities LLC

Q

Great. Thanks. So just to follow-up on that depreciation benefit, it seems like about maybe a \$0.25 to \$0.30 benefit. Can you just talk about what the offsetting headwinds are then? I mean, is that just the Pipeline segment being a bit weaker than expected, were there kind of other things relative to original expectations?

Kenneth M. Dodgen

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

A

Steve, it's just the Pipeline segment and what's going on there, in particular with the first quarter and the lingering drag that we'll probably experience in the second quarter.

Steven Fisher

Analyst, UBS Securities LLC

Q

Okay. That's helpful. And just to follow-up on that, within your pipeline outlook, I mean, are you assuming that you have any growth year-over-year in any quarter before the year is over?

Kenneth M. Dodgen

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

A

I mean, for the – yeah, yeah, for the Pipeline segment, we are definitely expecting the segment to be down year-over-year. I don't have any quarterly numbers in front of me right now, but we normally don't give quarterly guidance anyway on that, but it will definitely be down probably 10% to 20%.

Thomas E. McCormick

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

A

I wouldn't expect it to be flat quarter-on-quarter for the balance of the year. It should pick up as we see some – we're seeing more bid opportunity, but it's not going to be dramatic.

Kenneth M. Dodgen

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

A

Yeah.

Steven Fisher

Analyst, UBS Securities LLC

Q

Okay. Yeah. And I guess the higher level there was, are you seeing anything come together? We are hearing a bit more about the midstream activity both on kind of traditional and non-traditional. I'm just wondering if that was maybe flowing through any of your timing expectations, but it sounds like maybe kind of still more of a 2023 opportunity.

Thomas E. McCormick

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

A

Exactly. I think all of that will be either late 2022, and more than likely, all of it will be 2023 and going forward.

Steven Fisher

Analyst, UBS Securities LLC

Q

Okay. And then I guess the last question would be the revenue guidance numbers are helpful. Give us – can you give us a sense of how those have changed maybe since your initial thoughts on the year?

Kenneth M. Dodgen

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

A

Really, Steve, there's been no change with respect to Energy/Renewables and Utilities, and Pipeline, as I just mentioned, is down slightly from where we originally thought it was going to be at the beginning of the year.

Thomas E. McCormick

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

A

I think the only thing is that we'll see – we got a little bit of slow start in gas distribution in the Midwest because winters continue to be a little bit long. I would expect that spend to pick up a little bit in Q2 and Q3 and then be down in Q4 again as it traditionally is, so maybe there's some make-up there, but not – again, not dramatic.

Steven Fisher

Analyst, UBS Securities LLC

Q

Got it, thanks a lot.

Operator: Your next question is from Sean Eastman of KeyBanc. Please go ahead. Your line is open.

Sean D. Eastman

Analyst, KeyBanc Capital Markets, Inc.

Q

Hi, team. Thanks for taking my questions. I wanted to come back to the carbon capture opportunities relative to how you guys are framing the kind of growth focus in the Pipeline segment, more focus on the field services. I mean, how should we think about that in the context of some of these big carbon capture projects that seem to be coming pretty near term, do those fit into the growth strategy criteria for Primoris?

Thomas E. McCormick

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

A

They do, but there, again, it's 2023 and beyond. We don't see anything with carbon capture other than engineering and maybe some procurement that's going to take place in 2022. And even with one that we're working on right now, we expect to go to the field for that if it moves forward to be in 2023, and that's really what we're seeing in the market.

Sean D. Eastman

Analyst, KeyBanc Capital Markets, Inc.

Q

And it sounded like you guys are a little more affirmative on the hydrogen opportunity set. Is there anything in particular backing up your comments, specifically on hydrogen? Have some things firmed up even in just the past couple of months since we heard from you guys last?

Thomas E. McCormick

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

A

It's really just – you saw the award that we had for just the construction of the facility in the Gulf Coast. And the study that we're doing or the – what we'd call that – on the green hydrogen project, we're doing that...

Kenneth M. Dodgen

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

A

Feasibility study.

Thomas E. McCormick

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

A

Yeah, that feasibility study. We also have a number of other studies that are going on. So we're seeing a lot of activity in the very front end start of scoping and estimating on those types of projects that we've seen before. And typically, that tells you that within the next 12 months, you're going to see some of that come to fruition.

Sean D. Eastman

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, got it. And then a lot of people are starting to get excited about the role the US can play in reorienting energy supply chains post this conflict in Europe. And I just wondered have you guys started to see a pick-up in that sort of Gulf Coast industrial activity over the past couple of months. And maybe, if you could just frame what types of opportunities you think you guys could get involved with there.

Thomas E. McCormick

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

A

So we're seeing our bid activity pick-up. So we are seeing a lot of activity there with respect to energy independence. Again, a lot of it is still long-term. It's more about late 2022 and 2023. But we are seeing our bid activity pick up quite a bit. This gives us confidence in – some of the confidence we have in our Energy/Renewables segment.

Sean D. Eastman

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, got it. Thanks. I'll turn it over there.

Operator: Your next question is from Julio Romero of Sidoti. Please go ahead. Your line is open.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Hey. Good morning. Thanks for taking my questions. So you guys mentioned you expect Pipeline gross margins to come in below your targeted ranges for the year. How about on Utilities and Energy/Renewables? Is the guidance given on the press release your guidance for 2022 or is that rather your longer term targets?

Kenneth M. Dodgen

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

A

In that case, both, or both of those cases, yes, that's correct. It's both current year guidance as well as long term guidance. Everything's looking very nice for both segments. They're performing well. Utilities, as Tom mentioned,

is seeing its normal Q1, Q2 ramp-up and we expect that to continue into Q3 like normal. And as I mentioned previously, Energy/Renewables will be growing fairly steadily sequentially through the next three quarters.

Julio Romero*Analyst, Sidoti & Co. LLC*

Q

Okay. Got it. That's very helpful. And then for my follow-up, on the solar business. You talked about in your prepared remarks about building contingencies for customers and potential module delays. But I think you did mention there is some timing risk as to when – as to the solar business. So can you talk about maybe how you're managing your labor efficiencies given that timing risk? And does the contingencies you have with your customers compensate you for any labor inefficiencies?

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

A

Well, what we did see really early on was I guess in the last six months, the last 6 to 12 months, probably is our clients. And we've been very selective about picking our clients based on a number of different factors. One, just [indiscernible] (33:21) the clients we want to work for long term, how onerous are their contract terms, what is the surety of delivery of the modules, where are they buying them from. We saw a pause and that's what delayed some of our awards, but I can tell you that we've a lot of confidence and our clients have a lot of confidence [ph] necessary for (33:38) the delivery of the modules for the projects that we have at least for the balance of this year and going into next year. Beyond that, it's just really hard to see. It's going to be depending on the outcome of this investigation. But for right now, we have complete confidence and our projects are moving forward, we're moving in the field, that's why we're starting to see a ramp-up, you'll see the revenue ramp-up quite a bit in the fourth quarter on these solar projects.

Julio Romero*Analyst, Sidoti & Co. LLC*

Q

Okay, thanks very much.

Operator: Your next question is from Jerry Revich, Goldman Sachs. Please go ahead. Your line is open.

Q

Hi this is [ph] Adam (34:15) on for Jerry today. I was wondering if there's any way to quantify the negative impact from the higher costs on the pipeline project in the mid-Atlantic this quarter and to what extent does that headwind continue in Q2?

Kenneth M. Dodgen*Chief Financial Officer & Executive Vice President, Primoris Services Corp.*

A

Yeah I mean the impact is basically the difference between the margins we experienced and our kind of normal 9% margins. And then with respect to Q2, we should still see – as we finish up that project in Q2, we should still see margin drag that [ph] jabs (34:48) in the loss position though. The remaining revenue, about \$10 million to \$15 million at most, will be burning at zero gross margin.

Q

And in solar, can you update us on the current level of prospective projects? And how are you thinking about how big this business can get until you start to be labor constrained?

Thomas E. McCormick

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

A

Well, first, with respect to labor, we don't take on any more projects than we have project teams for, so we're building new teams even now as we speak. As I've said in my -earlier in the call, we have now started going into distributed generation and we were building teams for that as well. It takes smaller teams to execute those projects. So we're being very careful about scheduling and working with the clients and laying out schedules based on what the needs are for every respective project and what teams that they occupy their time. But if you look at prospective projects, we have over \$500 million in projects that are currently in [ph] LNGP (35:57). We have another \$525 million of projects, of which we're sole sourced. We have not been awarded them yet. We have not been awarded an [ph] LNGP (36:05), but we've been estimating and doing studies and estimates on those jobs. So we've been told we're sole sourced.

We have another \$200 million of projects that we're shortlisted and there's another close to \$600 million of projects that we're bidding. So I mean we're booked for 2022. We're probably booked for half, if not more, of 2023 and we have the teams to execute those projects all the way through the end of 2023 and we're going to grow that business and continue to grow that business 20% to 30% through the course of this year and into next, so we'll just see what we can do. You're right, the more teams you build, the harder it gets to build teams. But we're doing it at a very disciplined pace.

Q

Great. Thanks so much.

Operator: Your next question is from Adam Thalhimer of Thompson Davis. Please go ahead. Your line is open.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

Hey. Good morning, guys. I guess at a high level, I was just trying to think through inflation and supply chain issues and kind of how you use – I mean, how does that impact the business in Q1 and how do you see those issues trending throughout this year?

Kenneth M. Dodgen

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

A

Yeah. I mean, inflation, we're seeing it in two main areas. One is fuel, just like everybody else, and the other area is in labor. We're not seeing it across the board. We only see in certain markets, in particular non-union markets more than anything and – but so far, it's been fairly regionalized. Yeah, I think we're going to continue to see those pressures at least for the next two to three quarters, depending on how the overall inflation picture works out and we're monitoring it very closely

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

What about supply chain?

Kenneth M. Dodgen

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

A

If you recall, Adam, we had supply chain issues last year. Those have mostly abated themselves as of today.

Thomas E. McCormick

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

A

Yeah. I think a better way to say that is we've learned and our clients have learned how to deal with them. So if you've longer wait times, you have to order early, your schedules go out a little bit longer, but the more you plan forward, now more so than anything else.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

Okay. And I think we've seen particularly on the heavy civil side where some customers are balking at the higher prices that are coming back from contractors, is that an issue at all yet?

Thomas E. McCormick

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

A

In heavy civil for us, no. [indiscernible] (38:31), Louisiana, [indiscernible] (38:32), they award the lowest bidder. I haven't seen them push anything back. And that's one of the businesses that we probably see higher impacts from the fuel pricing because we use a lot of equipment. But no, I haven't seen it or heard of any pushback.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

All right. And then just kind of a model question, what do you expect for interest expense for the rest of the year?

Kenneth M. Dodgen

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

A

Interest expense, we're still expecting – bear with me as I check. Well, we're forecasting \$5 million to \$6 million per quarter for the balance of the year.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

Perfect. Thanks, guys.

Kenneth M. Dodgen

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

A

Thanks, Adam.

Thomas E. McCormick

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

A

Thanks, Adam.

Operator: Your next question is from Brent Thielman of D.A. Davidson. Please go ahead. Your line is open.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Great. Thanks. What's the expectation for the telecom business this year?

Kenneth M. Dodgen

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

A

Telecom business this year – well, sorry, Brent, I'm going to ask you a clarifying question. Are you asking about future or are you asking about the telecom portion of future?

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

The telecom portion.

Kenneth M. Dodgen

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

A

Telecom portion of future will probably be up 10% to 12% this year.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Okay. And on solar, is 20% to 30% growth still the expectation for this year, that's embedded in that 20% energy growth outlook?

Kenneth M. Dodgen

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

A

Yes.

Thomas E. McCormick

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

A

Yes, it is.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

And then on Pipeline, I mean, with activity starting to come around again, when could we start to see the backlog ramp back up just based on the conversations you're having? Are we sort of bottoming out here?

Thomas E. McCormick

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

A

I think we are – I think you're going to see the backlog sort of ramping up as we get into the last half of the year and into 2023. I'd say that kind of backlog will be for projects that are going to be executed in 2023.

Brent Thielman

Analyst, D.A. Davidson & Co.

Q

Okay. Thank you.

Operator: [Operator Instructions] There are no further questions at this time. I will now turn the call over to Tom McCormick for closing remarks.

Thomas E. McCormick

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

Thank you. We appreciate your questions and your investment in Primoris. I'll just close by recapping what I see as the three key takeaways from this quarter. We continue our transition to increase focus on Utilities and Energy/Renewables and less on Pipeline. Our backlog represents the strength of our business going forward, and that backlog continues to grow. The strategy we are following puts us at the heart of important trends, not just in our markets, but in the broader direction of our society, and that inspires us to keep getting better every day. Thank you and have a good day.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.

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