Corrected Transcript

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Primoris Services Corp. (PRIM)

Q4 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the Primoris Services Corporation Fourth Quarter and Full Year 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Brook Wootton, Vice President, Investor Relations. Please go ahead.

Brook Wootton
Vice President-Investor Relations, Primoris Services Corp.

Good morning and welcome to Primoris' fourth quarter and full year 2021 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 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 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 2021 fourth quarter and full year results and our financial outlook for 2022. We wrapped up the year with a strong fourth quarter reflecting the momentum that we've built throughout 2021. We established our footing in the communications market and expanded our presence in the renewables market and while doing all that, we maintained a solid performance in our traditional utility, energy, pipeline and heavy civil markets.

Our full year revenue was $3.5 billion, essentially flat compared to last year. This was driven by our Utilities segment revenue, which was up 21% and our Energy/Renewables segment revenue, which was up 15% over the same period last year. By design, these increases more than made up for our reduced presence in the pipeline market, which now accounts for only 12% of our overall business revenue.

Our full year net income was $115.6 million. This is up 10% compared to last year while our adjusted net income came in at $143.3 million. This is up 22% for the year. We ended 2021 with EPS of $2.17 and our non-GAAP EPS was $2.70. This is all in line with our guidance. That increase is significant when you consider the fact that we added 4.5 million additional shares from our secondary offering in the first quarter. When you look at our full year EPS from 2018 to 2021, the CAGR increased over 13%.

Now, let's look at the three segments in detail. Our Utilities segment had a strong fourth quarter performance. Revenue came in at $442.9 million. That is a 22% increase compared to the same period last year. [indiscernible] (00:03:37) many of the third quarter issues, such as delays in engineering and permitting are behind us and that we and our clients have learned how to work with and through supply chain delays. In addition, we responded to storm remediation needs in the Gulf Coast and increased our client work order activity on the West Coast throughout the third and fourth quarters of 2021.

With all key integration objectives and milestones completed at the end of 2021, Future is now fully integrated into our business. We signed $392 million of new business for the Utilities segment during the fourth quarter. Future Infrastructure expanded its footprint with the execution of a $25 million two-year master service agreement with a well-known broadband company. This work includes installing aerial and underground fiber optic cable across Southern Alabama.

Work began on this project during the first quarter of 2022. This project is our second with this broadband company. The first was the five-year MSA for $60 million in Northern Alabama that we announced in May 2021. Both projects are being managed from Future's operations centers located in Alabama and Georgia as part of our commitment to support the economies and the communities where we do business.

Other new business in the Utilities segment includes a three-year $30 million contract to provide design build services in support of a major utility's grid modernization and substation optimization program. This work provides a turnkey solution for engineering design and installation of both underground and overhead electrical distribution assets located on the East Coast.

Work began in the fourth quarter of 2021 and will continue through the fourth quarter of 2024. Contract also has [indiscernible] (00:05:18) one-year extension. In addition, the Utilities segment was awarded a $25 million, three-year MSA by a utility client. This agreement is for electrical work, including overhead and underground distribution construction as well as maintenance and overhead transmission construction. The project located in the Great Lakes region commenced work in the first quarter of 2022. We also signed two new MSAs in December 2021, totaling over $225 million for gas distribution projects in California. These are with major utilities where we have longstanding relationships.

The new MSAs are both an expansion and an extension of those relationships. As of December 31, our overall backlog for the Utilities segment was $1.4 billion and our opportunities continue to grow. On the electrical side, we're gaining traction toward obtaining additional contracts in the Northeast markets.

With respect to communications, now that we have fully integrated Future Infrastructure, we see an increased ability to capitalize on rapidly growing rural broadband and fiber to the home projects. This includes opportunities to expand our communications footprint and capitalize on existing Primoris resources in new markets.

Now turning to our Energy/Renewables segment. Revenue increased to $369.3 million for the quarter. That is an 11% increase over the same period in the prior year. The biggest contributor was renewable energy activity, which grew by $35.9 million. This includes solid performance on two major projects. We announced a remarkable $1.6 billion in new business for the Energy/Renewables segment during the quarter. This includes $925 million in solar awards and a heavy civil contract in the Gulf Coast for $460 million in addition to some smaller awards. This is truly remarkable.

In November, we announced the solar project award with an estimated value of $130 million. This award is for the engineering, procurement and construction of a utility-scale solar facility in the Southwest and is our fourth project for this client. Construction began in the first quarter of 2022. The completion of the project is expected by the end of this year. As I've said many times before, being chosen by clients on a repeat basis, is not only a real point of pride for our entire team, but a demonstration of how well we continue to perform on our projects.

We also announced a significant solar award valued over $425 million for the engineering, procurement and construction of two utility-scale solar facilities in the Southwest. Initial project construction will begin in the second quarter of 2022 for both contracts, with completion of the projects expected in the third quarter of 2023.

In December, we announced another solar project award valued over $370 million for the engineering, procurement and construction of a utility-scale solar facility on the West Coast. Our total year-end backlog for this segment was $2.5 billion, including $1.1 billion in renewables work. Recently, we added two new industrial contracts totaling approximately $77 million. The first project is a significant earthworks project located in Florida. The second project is for the mechanical scope of a hydrogen-producing steam methane reformer, which will be the largest SMR plant our customer will operate on the Gulf Coast.

This segment ended the year with the healthiest opportunity funnel since the start of the pandemic. And in line with our broad strategy of pursuing smaller and moderate projects, we are building up a distributed generation solar group to pursue smaller solar project opportunities in the range of 5 megawatt DC to 100 megawatt DC. We expect this to become a significant business for us in the coming years.

There continues to be new opportunities in renewable diesel and clean hydrogen projects, which we are actively pursuing. We're already executing one proof-of-concept hydrogen pilot project as we continue to build a strong renewable energy resume in both hydrogen and energy storage. In our traditional energy markets, we're starting to see a rebound with the number of opportunities advancing in 2022 and 2023.

Moving on to our Pipeline Services segment, revenue came in at $72.3 million for the quarter. In terms of our operations, I want to note that the work on the West Coast project we discussed on our last call resumed work in February. These projects have been delayed since mid-May due to the project being placed on hold to allow the regulatory authorities time to approve work plans and acquire permits.

Looking ahead, we don't see recovery in this market until 2023 at the earliest. But it is a solid business and activity is picking up. Our field services bid activity increased 25% with the majority of these projects scheduled for execution in 2022. During the fourth quarter, we signed two smaller construction projects as well as a three-year integrity agreement with a major pipeline operator. Based on our strong 2021 performance for another pipeline operator, they award field services a two-year [indiscernible] (00:10:31) program.

Our Pipeline work is also adding to our resume in hydrogen and carbon capture. One carbon capture project is currently in the design, engineering phase. We are also working with other carbon dioxide and hydrogen pipeline companies who are developing projects. We continue to build on the synergies between our Pipeline and renewable energy capabilities.

And last, we are focused on the health and safety of our workers, our clients and the public. Our safety record in 2021 is another accomplishment which we can all take pride. Our total recordable incident rate was 0.49 for the full year which beat our corporate target of 0.60. And both of these numbers are well within the industry standards. Here are just a few examples of the awards we earned this year. Primoris Canada was honored with the MSA Safety Award for Canada's Safest Oil and Gas Employer. ARB Industrial was named the overall winner of California Plumbing & Mechanical Contractors Association Safety Star Award. Q3C received the Minnesota Safety Council's Award of Honor for the 10th consecutive year. And ARB Underground was bestowed the Arthur T. Everham Safety Award by the Distribution Contractors Association for the seventh consecutive year. I want to congratulate our teams for the 2021 safety recognition we received during the year.

With respect to COVID-19, we are not out of the pandemic just yet. Keeping our employees and the public healthy and safe continues to be a top priority for us. Continuing to follow CDC guidelines as well as safety protocol to satisfy our clients for their sites.

Now, let's get into the details of the numbers with Ken.

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 fourth quarter and the full year, and then I'll discuss our balance sheet, cash [indiscernible] (00:12:19). I'll wrap up with our guidance. Our fourth quarter revenue was $884.4 million. This slight decrease of $12.9 million compared to the prior year was driven by an expected a $129.3 million decrease in Pipeline work. This decrease was almost completely offset by an $80.5 million increase in the Utilities segment and a $35.9 million increase in the Energy and Renewables segment.

Our solid performance in the Utility and Energy/Renewables markets demonstrates that our investment in these areas over the past several years continues to provide solid returns. Gross profit for the fourth quarter was $96 million, a minimal decrease of $1.7 million and gross margins were consistent between the periods at 10.9%.

Now, let's look at each of the three segments for the fourth quarter. Energy and Renewables revenue was up by $35.9 million compared to the prior year on the continued strength of our Renewables business, partially offset by lower industrial work. Gross profit was $38.5 million, an increase of $14.1 million or 58.2% compared to the prior year. This was primarily due to higher revenues and margins. Gross margins increased to 10.4% during the quarter compared to 7.3% in the prior year. This was mainly due to higher costs associated with the LNG project in the Northeast in the prior year.

Utilities segment revenue was up $80.5 million in the quarter, driven by Future contributing $68.1 million, along with increased activity with our gas and electric customers. Gross profit was $52 million, an increase of 9.4% compared to the prior year. Gross margins were 11.7%, down 1.4% from the prior year since we had less Q4 storm work. Despite the lower overall margins, Future gross margins finished strong at almost 18% this quarter. Pipeline segment revenue came in at $72.3 million for the quarter, and we generated gross profit of $5.5 million and gross margins of 7.7%.

Now, let's take a look at the full year 2021. Gross profit increased by $46.4 million or 12.5% compared to 2020, primarily due to higher gross profit in the Energy and Renewables and Utilities segments. Energy and Renewables gross profit increased $55.4 million or 58.3% compared to the prior year. This was primarily due to higher solar revenues, partially offset by a decline in industrial work. Gross margins increased to 10.7% this year compared to 7.7% in the prior year. This was mainly due to a favorable claims resolution on an industrial project in 2021 and higher costs in 2020 associated with the LNG project.

Utilities gross profit increased by $8.5 million this year primarily due to Future, which contributed $43.6 million. This was partially offset by gross margins of 11.2%, down 1.8% from the prior year. These lower margins were due to weather, the ERCOT moratorium and customer material delays in Q2 and Q3, as well as less storm work. Future gross margins were still strong at 16.4% for the year. Pipeline segment gross profit was $80.1 million and gross margins were 18.6%. The increase in gross margins was primarily due to the favorable impact from the closeout of multiple Pipeline projects in Q2 and Q3 of this year.

Now, shifting to SG&A, expenses in the fourth quarter were $57.2 million compared to $50.2 million in the prior year. This increase was due to the acquisition of Future. For the full year, SG&A as a percent of revenue was 6.6%. Future has been fully integrated, as Tom mentioned, and we anticipate our 2022 SG&A should be back down in our normal low to mid 6% range.

Net interest expense in the fourth quarter was $4.3 million compared to $2.8 million in the prior year. The increase was primarily due to the higher average debt balances from the Future acquisition, partially offset by the positive impact from the interest rate swap and lower average interest rates. Our effective tax rate on income attributable to Primoris was approximately 10.4% for the quarter. The decrease was primarily due to the temporary change, allowing full deductibility of per diem expenses through 2022. This benefit drove down our effective tax rate to 23.8% for the full year. We expect our effective tax rate to be approximately 27% for 2022. But as usual, this may vary depending on the mix of states in which we work.

Net income was $29.4 million for the quarter and diluted EPS was $0.54. For the full year, net income was $115.6 million, an increase of $10.6 million or 10.1% with diluted EPS of $2.17. Adjusted EPS was $0.63 per share for the fourth quarter and $2.70 for the full year compared to only $2.42 in the prior year. Adjusted EBITDA for the full year was $297.6 million. This was a 17% increase compared to the prior year.

Operating cash flows in the fourth quarter were $64.9 million and for the full year were $79.7 million. The decrease in operating cash flows in 2021 was mainly due to lower deferred revenue this year as a result of decline in Pipeline work, higher unbilled revenue as our Utilities segment saw more activity in Q4 and didn't see the normal decline in December and higher prepaid materials purchased for solar projects to reduce the impact of material delays.

In the fourth quarter, we invested $31.7 million in CapEx of which $27.7 million was for equipment. For the full year, we invested $133.8 million in CapEx with $119.4 million used for the equipment and we expect our 2022 capital spending to be between $120 million to $140 million, which includes $70 million to $90 million for equipment. We've increased our spending on equipment to support the new utilities' MSA agreements and the rapid growth in our solar business.

We ended the year with $200.5 million of cash. Borrowing capacity under our revolver was $158 million, providing the total available liquidity of $358.5 million at year-end. Total debt was $665.7 million and net debt was $465.2 million. Over the next 12 months, we expect to use our cash and operating cash flows to support the continued organic growth of our company, reduce debt and to pursue acquisitions that complement our growth strategy.

Total backlog at the end of the year was $4 billion, compared to $2.8 billion in the prior year. This was a company record for us. Fixed backlog was almost $2.5 billion, an increase of $839.6 million or 51%, primarily due to solar projects announced in Q4. MSA backlog was up 34% or $386.6 million to over $1.5 billion compared to $1.1 billion at the end of the prior year.

Now, let's move to our 2022 earning guidance. We expect earnings per fully diluted share to be in the $2.10 to $2.30 range and for our adjusted EPS guidance, a non-GAAP measure, we expect to be between $2.39 and $2.59 per share. All of these details reflect the continued strong momentum in our Utilities and Renewables business as we continue to de-emphasize our reliance on the historic pipeline business.

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

Thomas E. McCormick

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

Looking forward, our revenue mix has continued to shift from almost exclusively conventional energy and civil infrastructure to a large and growing proportion of renewable energy, electric grid transformation and communications. As I mentioned earlier, Pipeline continues to become a smaller part of our overall business and now represents only about 12% of our total revenue and the secular market trends continue to support that shift.

Wood Mackenzie reports that solar continues to make up the largest share of new generation capacity in the US. It accounted for more than 50% of all new electricity generating capacity additions in the first three quarters of 2021. Utility-scale solar should continue to grow in the double digits under the current policy environment and we are already beginning to feel the future potential of this. Fiber broadband has an equally strong outlook. The Fiber Broadband Association predicts that we will see the largest fiber CapEx cycle in history as the number of potential fiber customers more than doubles over the next five years.

We've talked last quarter about the federal infrastructure bill [indiscernible] (00:21:52) to see the specifics as to how the infrastructure bill money will be spent, but much of it starts with studies rather than shovel-ready projects. It will take some time for that to turn into engineering and construction contracts. We definitely see potential in heavy civil projects as well as in communications, utilities work and pipeline construction. For example, in January, US Army Corps of Engineers announced that they will spend $1.5 billion. This money will be spent for the construction of flood and storm damage reduction projects in the four states where major disasters were declared in 2021 from Hurricane Ida. They've identified five projects in these states for 2022. These are clearly within our geographic footprint and in locations where we have strong civil project track records along the Gulf Coast. It is also estimated that Texas will receive about $35.4 billion over five years for roads, bridges, pipelines, ports, broadband access and other projects.

A tremendous amount of this work is in our wheelhouse. One piece of that work that was announced a couple of weeks ago by the departments of transportation and energy is that Texas is eligible to receive up to $407.8 million for projects directly related to EV charging infrastructure. But both for the long term and in the immediate future, we are ideally positioned to meet the needs of America's evolving infrastructure. That includes the energy transition to a zero-carbon future, highly dependent on the electric grid, the greater reliance on broadband and 5G technology and the updating of our aging civil and pipeline infrastructure. We have opportunities in every business segment to participate in these secular market trends, and we intend to turn those opportunities into profitable revenue and shareholder value.

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

QUESTION AND ANSWER SECTION

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

Steven Fisher
Analyst, UBS Securities LLC

Q

Great. Thanks. Good morning. Wanted to just start off with the Pipeline business and the run rate revenue seemed a fair bit lower than what you might have been thinking about previously for at least kind of going forward for into 2022. So I'm wondering if you can talk about what your customer discussions are like there and should we now assume the $70 million to $80 million of run rate is the new revenue run rate until it picks up some time, I think you said 2023 would be the potentially earliest it could pick up, so maybe you can just talk about the pace of what's going on there, please?

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

A

Yeah, Steve, good question. Early in this year [indiscernible] (00:24:49) we actually expect it to pick up in the second half of the year going into 2023. So our numbers in Pipeline will be down probably the first couple quarters. We are seeing bid activity pick up, more so in the integrity type work and the smaller project type work. So we'll see some of that going forward, but we expect it towards the tail end of the year. It's a ramp up going into 2023.

Steven Fisher
Analyst, UBS Securities LLC

Q

Okay. That's helpful. And then if we shift over to the Renewables side of things. I was curious why the burn rate of the Renewables segment backlog isn't higher. I would have thought these solar projects have a little bit faster burn than some other projects or maybe it's the – there was a big civil project that you mentioned, maybe that's what's making it have a longer duration, but curious if you can just talk about kind of the – what's happening on the burn rate there.

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

A

Well, it's a combination of both the things that you just mentioned. One is the solar projects typically take 18 to 24 months to burn through the revenue. They are starting slower and the burn rate as you complete detailed design and go through the procurement process, is at a lower rate and then it ramps up as you move into field and start your [indiscernible] (00:26:20) construction activity. And then you're right, balance of that is the heavy civil project. It's a five-year project, so it's going to burn at a fixed rate going through the next five years.

Steven Fisher
Analyst, UBS Securities LLC

Q

Okay. That's helpful. Just lastly on just the cadence of the year, you mentioned that it sounds like first couple of quarters on the Pipeline segment you're going to be able to lower. Any other color you can give us on the cadence of the rest of the business and how we should sort of model out the year?

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

A

Yeah, our first quarter is – historically is slow and it will remain that way. It's that way in the Utilities as well. You'll see it starting to pick up in the second quarter and third quarter which should be good quarters for us [indiscernible] (00:27:06) usually it starts slowing down after Thanksgiving depending on the weather.

Steven Fisher
Analyst, UBS Securities LLC

Q

Okay. I'll turn it over. Thank you.

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

Peter Lukas
Analyst, CJS Securities, Inc.

Q

Yes. Hi. Good morning. It's Pete Lukas for Lee this morning. You touched on it, but can you speak in a little more detail on Pipeline margins in the quarter? And also is the project in the – in Louisiana in the release, has that been completed?

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

A

Yeah. So thanks, Pete. On Pipeline margins, no, we had a little bit of headwinds on Pipeline margins in Q4 related to couple of small field services projects. They had some bad weather during Q4 which unfortunately drove up costs and forced us to write that job down a little bit. So that was a bit of an anomaly. We expect 2022 to be more normalized margins in Pipeline, 9% to 11%. And then, Tom, do you want to talk about that project?

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

A

Well [indiscernible] (00:28:15) that number – that range used to be 9% to 13% and we dropped a little bit because we know there's pressure on margins and there will continue to be in Pipeline for the balance – throughout 2022. As work picks up, you see more activity closer to the end of the year, we'll see that number go up. The field service work, their work is historically – they're much smaller projects, so the risk isn't there, but when they do go bad, it's – because they're smaller projects, it's just harder to recover. So when they got impacted by the weather, it just impacted outcome of the project.

Peter Lukas
Analyst, CJS Securities, Inc.
Q

Oh, very helpful. Thanks. Next one for me. Can you speak to your supply chain, particularly as it relates to renewable projects and backlogs that are in process or planned to start in 2022, have any of the increased cost to produce materials impacted your view of overall project margins?

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

No. Actually, they have not. We've kind of baked those into our estimates. Our clients understood those expectations from us, and we baked them into our estimates and our schedules.

Peter Lukas
Analyst, CJS Securities, Inc.
Q

Perfect. Last one for me. How should we think about interest expense in 2022 and what assumptions have you made related to interest rates and the impact on your debt for the year?

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

Yeah, good question. We are forecasting $5 million to $6 million of interest expense each quarter and we're – we've baked in on average, across the year, a 1% increase knowing that it'll be less in the front half and more in the back half.

Peter Lukas
Analyst, CJS Securities, Inc.
Q

Perfect. Thanks. I'll jump back in the queue.

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

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.
Q

Morning, team. Thanks for taking my questions. So I just wanted to talk through the initial 2022 guidance from a bridge perspective versus 2021. We had kind of anticipated that the tough comps in Pipeline around the closeout activity in 2021 would sort of be fully backfilled by better performance in Utilities and continued growth in Renewables, etcetera. So just wanted to understand the down year-over-year adjusted EPS and the big moving pieces in that bridge.

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

Yeah, Sean, good question. I think the quick and dirty is we had the headwinds on – in Future and in our broader utility business during this quarter. We're definitely going to pick up some of that, recover some of that next year. There's no question about it. Energy and Renewables is going to be strong as well with some nice growth, but the decline in Pipeline is, as we continue to deemphasize that, is just a little bit more than you can completely overcome on an adjusted basis. On a GAAP basis, it should net to flat to slightly up, as we've talked about.

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. Okay. Got it. And then, of course, huge awards in solar in the fourth quarter. That's great to see. And you guys had walked through some of the schedules on some of the larger contracts in the prepared remarks. I just wondered how strong of a line of sight you have on start-up timing in some of those solar projects, just in light of the major supply chain disruption dominating the headlines there?

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

A

So that's a good question as well. We've – it takes a while to develop a solar project. So we spend a lot of time on the frontend estimating the job, evaluating the site, looking at the layout of the facility and also because of the supply chain issues and the fact that the modules are within our client's scope of supply, we've been able to encourage our clients to buy earlier. Lot of them now are going to American manufactured modules, which helps give them surety of supply and we are also – we have actually made an investment early to go pre-buy steel, pre-buy cable, the electrical commodities and fittings to make sure that we have those materials when we need them. So I'm very comfortable with the schedules that we have in our solar projects, and the ones that will be impacted by delays in modules delivery, we – those are the last things to go in anyway. So it's not a big deal for us to lead the – finish the project, build it out, come back later with the crews and set the modules. We'll get paid for the demobilization, the mobilization and instances where we see that we have those plans, but right now we've done a lot of [indiscernible] (00:33:09) make sure we get surety of delivery.

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Super helpful. And one last quick one for me, can you tell us what solar revenue will be in 2022 and what that is year-over-year?

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

A

Yeah. We generally don't give revenue guidance, but I will tell you same thing what we've been saying for the past couple of quarters is we expect 2022 solar revenue to be up 20% to 30%, maybe more.

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Okay. Great. Thanks a lot, guys. I'll turn it over.

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

A

Thanks, Sean.

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

A

Thanks, Sean.

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

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

Q

Oh, hey. Good morning, guys. I also had a question on solar in 2022. How should we think about that whole energy segment given the solar growth?

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

A

Well, solar certainly the driver, but we are seeing other activity, bid activity in our other business units within that segment as well. But solar is definitely the leading growth engine in that segment though, and there's a lot of opportunities. And then we're looking at – right now what we have under contract about $1.6 billion, but we're looking at [indiscernible] (00:34:25) of about $3.78 billion just on projects that we've targeted that will take us all the way through to 2024.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

Q

What's your best guess on – or I guess what are you seeing on solar supply chain?

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

A

Well, the same thing everybody else is seeing. But again we've gotten out ahead of it with respect to the commodities that we're responsible for and lot of the clients that we're working for – most of the clients that we're working for, we've been working on numerous projects and so they pre-bought modules. They've made commitments for the other materials within their scope of supply early in the process. So we feel pretty comfortable about the delivery of those materials and that equipment.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

Q

Okay. And then just lastly, can you – I think you mentioned acquisitions in your script. Can you just kind of comment on what you're thinking about there?

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

A

Right now, we're really looking at the singles and doubles. We hope to hear in the next quarter, at least make an announcement about some smaller acquisitions. That's what we're looking at now. We're always looking at some of the larger ones, but those take longer to develop, of course.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

Q

Okay. Thanks guys.

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

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Yes, hi, good morning, everyone. Can we talk about the solar business a bit more? In the past, you've highlighted that hiring crews was a key constraint in terms of how quickly you ramp up that business. Can you give us an update on how many crews you folks have now and the line of sight you have over the course of 2022? Thanks.

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

A

I think the last update we gave was we were on – we had six crews and we were working on seven. I would say we're probably working on seven and eight. Something I'd add to that is we are now – and this was in our earnings narrative earlier, that we are building a distributed generation group now to chase smaller projects anywhere from 5 megawatt DC to 100 megawatt DC. Those take smaller crews and so we're building that business up too, so that'll help grow that business as well.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Super. And then just to shift gears in the Utilities segment, obviously 2021 was a year of integrating Future. Can you talk about the margin outlook on a year-over-year basis to get to your targeted range that implies margin expansion for the segment over 2021 levels and I am wondering when do we get to that point where margins are up year-over-year? And I appreciate the seasonality element, maybe you can comment on that. Thanks.

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

A

Yeah, setting aside the seasonality, we definitely expect margins to be up slightly in 2022, maybe as much as 0.5 percentage point across the board, just based on the strength of our overall business as well as the contribution from Future increasing not only in total but as a – slightly as a percent of the group as well.

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

A

I think it's worth mentioning too that we don't have any major storm work in any of these numbers as well and that's typically higher margin works. We don't take that into our plans at all. So if we have storm work, recovery work, that'll help draw the margins up.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Super. And lastly, CapEx to revenue looks like it's going to be in a 3.5% range over the course of this year. Is that the normalized run rate for us to think about for the business going forward or any significant items that are driving CapEx this year?

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

A

Yeah. So CapEx on – in total will be about the same as it was last year. A little bit higher percentage this year is focused on facilities as we continue to upgrade some of our facilities in order to concentrate and draw in multiple facilities into one into geographic areas. So for example, in Southern California, we might take multiple facilities and consolidate them into one new one. And that's also to support growth as well. So the rest, of course, is going to be equipment just like normal. And in 2021, we kind of pre-bought some equipment, as we previously mentioned with respect to 2022. I don't see a whole lot of pre-buying in 2022 right now, but we're going to watch it closely as the year goes on, and it wouldn't surprise me if we need to take advantage of that at some point too.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC
Q

Okay. Thanks.

Operator: [Operator Instructions] Our next question comes from the line of Zane Karimi with D.A. Davidson. Your line is open.

Zane Karimi
Analyst, D.A. Davidson & Co.
Q

Hey. Good morning, gentlemen. So, first off, can you talk a little bit more about the moving parts and expectations through the year for the communications business?

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

Can you restate your question, please? I'm not sure understood it.

Zane Karimi
Analyst, D.A. Davidson & Co.
Q

Yeah. Can you talk a little bit more about the moving parts and expectations that you guys have around communications through 2022?

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

Yes. I think I understand what you're asking for. So, as of the end of last year, we signed about – we signed $100 million worth of contracts associated with RDOF type work. Basically where we execute our work is in the backbone of all the 5G. So we spend – most of our work is associated with the installation of fiber optic cable across the country into rural communities to support the launch of 5G and provide broadband to clients. There's about 400,000 miles of fiber optic cable that's projected to be installed or needing to be installed in 2022 to support the launch of 5G, as we're seeing it now and provide broadband services to our clients. We're pursuing a great deal of that work. As said – we just said we're awarded $100 million of that type of work in 2021. As of now, as of the end of February, just starting in December, we had already pursued or bid another $150 million of that work and just in the last three months, so the end of last year and the first two months of that – this year. So we're seeing a lot of bid activity associated with that type of work. None of that has been awarded yet, but we've recently bid, but that's really where we see our future in that business.

Zane Karimi
Analyst, D.A. Davidson & Co.
Q

Yeah. Thank you. And maybe any activity you're seeing around biofuels?

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

Lot of it's still in the study phase. At least the projects that we're associated with we're still in the feed phase of those projects.

Zane Karimi
Analyst, D.A. Davidson & Co.

Q

Yeah. Thank you, guys. I'll jump back in the queue.

Operator: We do have a follow-up question from the line of Adam Thalhimer with Thompson Davis. Your line is open.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

Q

Hey, I was hoping to get a little more color on the Pipeline bidding. I think you said back half of this year could pick up or was it picking up now?

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

A

Adam, it's the bid activity is taking place now. The projects will start-up – we're looking to start-up sometime at least second half of the year and into 2023.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

Q

And these are – so the first half of 2022 is more maintenance type projects, the integrity work, but the bidding that you're seeing is larger projects?

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

A

Bidding, we're seeing is a combination. We're seeing much more activity. We've seen a 25% increase in the type of work that our field service group does, the smaller projects, 7 miles of pipeline replacement – dig up and replacement. Those types of projects. And that'll take place – those projects will be executed all throughout 2022 and into 2023. There're some smaller pipeline projects that are pipeline groups that bid earlier this year, and we're seeing their bid activity step up a little bit as well, but those projects will not start until the second half of 2022, more likely into 2023.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

Q

Are you seeing anything that would be in the category of like large, wide diameter, multi-state or is it all kind of intrastate still?

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

A

If there is anything like that that comes up, it will probably be through carbon capture and that would be later this year.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

Q

Okay. Just seems kind of funny to be bearish on pipelines with oil over $100.

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

A

Yeah. I'm with you.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

Q

Thanks, guys. Talk to you later.

Operator: [Operator Instructions] And, at this time, there are no further questions. I would like to turn the conference back over to Tom McCormick, Chief Executive Officer.

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

Thank you. We take our commitment to building America's infrastructure seriously and we are proud that the work we do contributes to the strength of our communities and our country. I want to thank all of our employees and crew members for their hard work and their focus on quality and safety and everything they do. And I want to thank each of you for joining us today. Appreciate your interest in Primoris. Thank you and goodbye.

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