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Primoris Services Corp. (PRIM)

Sidoti Virtual Investor Conference

CORPORATE PARTICIPANTS

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

Kenneth M. Dodgen

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

OTHER PARTICIPANTS

Julio Romero

Analyst, Sidoti & Co. LLC

MANAGEMENT DISCUSSION SECTION

Julio Romero

Analyst, Sidoti & Co. LLC

Okay. I think we're good to go. Good morning everyone. Thank you for attending the Primoris presentation hosted by Sidoti and Company. My name is Julio Romero, I'm the equity analyst at Sidoti who covers the company. We're really pleased to be able to host Primoris.

With us today, we've got Ken Dodgen, Executive Vice President and CFO; John Marino, COO; and Brook Wootton, Vice President of Investor Relations. The format of this is going to be a fireside chat.

So with that, I very much appreciate you guys being here and happy to kick it off.

QUESTION AND ANSWER SECTION

Julio Romero

Analyst, Sidoti & Co. LLC

Q

So I guess my first question here is going to be just when you first meet with new investors, what aspects of your business are typically underappreciated? And do you have any common misconceptions that we can kind of address today?

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

A

I don't know if there's a common misconception, but I think it's difficult to understand for some people that when we say we're a specialty contractor that we are a diversified specialty contractor. Most specialty contractors concentrate on one area of expertise. We have several specialties within our portfolio, which gives us a lot of diversity. And over the last five years, we've really moved away from EPC lump sum type work and focus more on master service agreement work. And in 2020, 78% of our work was executed either under MSA or some sort of reimbursable contract. We have a couple of businesses that still do lump sum work; but it is a negotiated basis and it's also very repeatable and it will replicate teams very quickly for that type of work. And we don't have any big make-or-break projects. Most of our projects are under \$2.2 million and majority are probably under \$1 million. And besides really reducing the risk by having the diversity across all of our different specialties, we're also able to cross-sell. So segment-to-segment, we're able to take resources from one segment, deploy them to other segments, which gives us another revenue stream and profitability.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Yeah. Absolutely. And I think that was part of the rationale for the segment reorganization. When I think about your Power and your Civil segments, there is certainly a lot of the legacy segments, there is certainly a lot of things that they could do together, right. And I think you're demonstrating that with the value...

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

A

Well, that's the reason why we've moved from five to three segments to even bring us closer together for that cross-selling capability.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Yes. Absolutely. You touched on it with the recurring work. It's known in the industry as Master Service Agreements. Can you just maybe touch on that a little bit and how well do investors appreciate your focus on recurring work?

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

A

Well, we've moved a lot of our business towards and transitioning to that MSA contracting strategy. And first quarter 2021, where 41% of our revenue was MSA type work and even better than that, 48% of our backlog is in the MSA type work. So that's really helping to, I guess, smooth out our earnings there. It's not as lumpy; it's more

consistent, it's more repeatable type work for us. We really know it well and it's easy to forecast. And most of the MSAs are long-term contracts. They're from three to five years and they're with blue chip customers that we have longstanding relationships with, some going back 40 years.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Absolutely. And when you say most of your MSAs are three- to five-year contracts, but they renew constantly, all right. Is that one of the key aspects of it?

A

They do. When they come up for renewal, most of the time, it is just going back to the previous contract that we have in place, renewing it for another three to five years. It's not auto renewal, but there are some changes to our contracts, but not many.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Got it. So yeah maybe switching gears to some of the segments you have here, as we talked about earlier, your Power and Civil segment are now known as one segment, it's the Energy/Renewables segment. Can you maybe talk about that and give us an update on the growth of your Energy/Renewables business?

A

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

The real growth in that Energy and Renewables is coming from our solar group. Right now, we are pursuing right around \$3 billion in work for that group, were around \$428 million in backlog. We have lot of contracts that we are negotiating and we are the preferred contractor. We have portfolio work set up with many of our clients. We're spending a lot of the time and money to train the people in those industries and build teams as fast as we can to meet that growth. The biggest problem we have with growing in Renewables in the solar world is building teams fast enough. So we don't want to get out ahead of ourselves, we don't want to take on more than we can handle at one time. We also have, if you see in the oil and gas industry, lot of talk around carbon capture, blue hydrogen, green hydrogen. Our group in Tyler is well set up from our steam methane reformer capabilities to take advantage of the blue hydrogen that's going to become [indiscernible] (00:05:34). Blue hydrogen is just taking the steam methane reformer and taking the carbon capture, capturing that carbon and storing it. So it's not the brown hydrogen where it's [indiscernible] (00:05:46) just out to atmosphere.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Got it, understood. So yeah certainly a lot of exciting things there with not just your solar capabilities, but also your nascent hydrogen capabilities as well. I guess maybe if we can touch on your Utilities segment. You certainly had a busy year this year with the closing of your Future Infrastructure Holdings acquisition in January. Can you maybe talk about that acquisition and speak on the integration progress and the growth opportunities you have there?

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

A

Great acquisition for us. Culture, teams, vision, very well aligned with our company. The integration is ahead of schedule. I think last I checked on our integration schedule, we were at around 72%. Most of the items are progressing very, very well. There are some headwinds, a little bit this year with the weather we've had in Texas, lots of rain. I think I saw Noah's Ark go by one day, it's just lots of rain. And part of the problem we're having in Utilities in general was there's a little bit of lag. I mean it's not really concerning, but there is a lag from COVID, from them releasing work that they weren't prepared and have their engineering done and ready to release. We have the crews. They have the work. It's out there. But there's just a slight lag in them releasing that work because they didn't get all the engineering and things done that they needed permitting, et cetera to release that work as quickly as we thought they would. That being said, on the back end of that, they have even more work than they had projected last year. So we see it's very bullish on it. We just need them to release it faster.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Got it. And when I think about that Future acquisition, it was really a platform telecom acquisition and kind of complemented your – well, you already had in the portfolio, right, which was electric utilities, gas utilities. Can you talk about how those three maybe fit together?

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

A

It's actually worked out well for Future because we have – for our electric capabilities, we have the ability to get on some of these lines and poles and get it make-ready. So when you're putting in fiber and you have to put it in the air, we have the capability to get on those lines and those systems which Future didn't have before. So that's created some opportunities for them. When you look at all of those groups together and what the growth is, I would say based on the infrastructure and the grid hardening and some of the things that are going on in investment in the US, probably electric is going to be right at the top. Telecoms are going to follow right behind it because there's also, from some of the infrastructure investments, going to be around broadband. 5G, of course 5G takes a lot of fiber in order to run the new 5G with all the towers. It's 10 times as many towers as what you have on 4G and it all takes fiber. And then gas, I think gas, while it's still strong, it's going to be stronger probably in the Northeast than it is in the rest of the country.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Understood. All three of those, when we touched on telecom, electric and gas, they're estimated to grow in the mid to high-single digits. Which offering do you see growing faster?

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

A

I touched on that a little bit. I think in order, it would probably be electric and telecom are probably neck and neck. But electric, as far as gross volume, is going to grow the fastest, then telecom and then gas.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Got it. Maybe if we could touch on your third segment here, the Pipeline segment. What are you seeing regarding that Pipeline segment in regards to the recent oil prices and how that's trended lately?

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

A

Things are picking up, but it remains highly competitive. We see a lot of larger projects coming out now that it had really slowed almost to a standstill for a while there. Luckily, we had a very large backlog of work coming out of 2019 and 2020. But we are seeing a lot of activity now. We're moving that business more towards some of the maintenance and inspection type work that we already do as part of our warranty work. But there's some activity out there. I wouldn't say it's going to be where we were this year, but it will probably get back to sort of around where we were in 2019.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Got it. And that's helpful there to understand where that ends up, closer to 2019 more than anything. Maybe if we could touch on your financial profile. When I think about your cash flow, you had an unusually strong 2020 on the cash flow front. I think part of that was due to some claims settlement and then also you did your working capital management. How do you see cash flow trending going forward?

Kenneth M. Dodgen

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

A

Yeah. I mean we think we're going to continue to see strong cash flow generation on a go-forward basis as well as revenue growth, even with the Pipeline segment being down. Cash flow from operations was exceptionally high for us in 2020, a little over \$300 million and we're not going to be able to repeat that because we had the benefit of some onetime windfalls and because of what you touched on with respect to our working capital. We've worked diligently over the course of past couple years in order to improve our working capital picture to be more disciplined around invoicing the customer, be more disciplined around collecting from the customer, negotiating better contract terms. The collective benefit of that kind of came in 2020. And so in 2021, we won't see the benefit of improvement, we'll just get the benefit of seeing consistent performance at the new level that we're operating at.

So all that being said, take out the one-time windfalls that we had in 2020 and give us the benefit of the normal – the new normalized working capital management. And I expect to still see probably somewhere between \$175 million and \$200 million in 2021 of cash flow from operations that on top of a very strong balance sheet, relatively low leverage, even despite the fact that we did the Future acquisition, I think it should be a very good year for us.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Understood. And with that cash flow, I mean could you just talk about CapEx and where you see – where you're investing internally going forward?

Kenneth M. Dodgen

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

A

Yes. Absolutely. So with our cash flow from operations and cash balances as well as availability under our revolver, our two focuses are going to be on continue supporting our organic growth as well as acquisitions where we find good acquisitions to do. We're very strategic and very disciplined about acquisitions. And on the organic side, the way we support our businesses is through working capital as well as through CapEx. To get to your question, CapEx will probably be \$80 million to \$100 million in 2021 and we think that's a good sustainable amount to not only provide maintenance CapEx for our existing fleet, but also continue to grow our fleet to support

our growth areas on the Utilities side, primarily on the Utilities side and in the Renewables like John was just talking about.

Now in addition to that, I think people need to be aware that we are continuing to re-evaluate our fleet constantly. And so it's not uncommon for us to regularly have between \$15 million, \$20 million, maybe as much as \$25 million of proceeds from the sale of equipment on an annualized basis as well. So when you take gross CapEx of \$80 million to \$100 million, net it with proceeds from sale of equipment, it kind of runs in the \$60 million to \$80 million range on a net basis.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Got it. And I appreciate the granularity because I was [ph] never (00:14:00) going to ask about the sale of equipment as well and how that works out. So I appreciate you clearing that up and giving us some color on there.

Kenneth M. Dodgen

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

A

Yeah. It's an important aspect when you – and it's evidence of good discipline around your fleet and the fact that we are continuing to re-evaluate it on a regular basis. And in order to make sure that we've got the right equipment for the right areas of our business that are growing.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Yeah. Maybe if we could switch gears a little bit toward some macro thoughts. There's a lot of talk about an infrastructure bill, I think it was in news last night that we're getting a step closer there. Now how closely are you watching any movements on a federal infrastructure bill and what would that mean for Primoris?

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

A

Well, we watch it pretty closely and I think first up and there's fairly voluminous document on it. But it's really going to be around grid infrastructure and reliability, which is right in our wheelhouse; broadband is one as well. So from our telecom side, we're right in there. We've already been doing some stuff with the RDOF. There's some areas in supply chain, on clean energy which once again is us, I talked about carbon capture and transportation which I don't know how the transportation piece on carbon capture is going to fit. But if you're going to capture all this carbon, you got to get it somewhere somehow...

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Yeah.

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

A

...so that will probably affect some other businesses as well. And then also there's some in there on hydrogen research. So depending on I think what gets through, most of it will affect us in one way or the other. So we have the capability to take advantage of anything in the infrastructure bill at this time.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Got it. And maybe switching to the supply chain and any – that's certainly a topic that's top of mind right now. Are you seeing any pressure on your supply chain with regards to any issues with labor, equipment or anything else on that front?

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

A

I think everyone is seeing some pressure on supply chain with really around the semiconductors. The computer chips is affecting just about everything and everyone's lives, vehicles to light switches to even computers now are becoming difficult to get. But we stayed out in front of it. Most of our businesses, the owners are buying the equipment, so it doesn't really affect them from a plant equipment perspective. In the businesses where we do buy the equipment, we've been out ahead of it. We already had those orders in place to supply the projects we have in place right now. So, it may begin to affect somewhere in six to eight quarters out, but I don't see anything in the near term [indiscernible] (00:16:43) really impact our business.

Julio Romero

Analyst, Sidoti & Co. LLC

Q

Right. And when you mentioned the semiconductor kind of portion of the supply chain, what I usually think about is solar panels, right, the polysilicon kind of being constrained, if you will, across the supply chain. But as you mentioned, that might be something that affects you, you're managing it as well as you can, but that affects you. It could be a longer-term effect, is that fair or...?

Kenneth M. Dodgen

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

A

Correct.

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

A

Some of our products, the owners are buying those as well, so they get way out in front of that for their projects they have in their portfolio and the things that we're buying, whether it's trackers or invertors, things of that nature, we've also got procurement and purchase orders in place for those as well. So, we have those secured for our projects.

Julio Romero

Analyst, Sidoti & Co. LLC

Got you. Okay. Well, really want to say I think that wraps about everything up we have here. Thank you for all the folks on the line for attending our Sidoti conference. Ken and John, Brook, I really appreciate you taking the time this morning as well as everyone on the Primoris team and I'm happy to turn it over to you for any closing remarks you might have.

John F. Moreno

Chief Operating Officer, Primoris Services Corp.

Thanks a lot. I really appreciate the opportunity to tell you about our company. We think we have a great company and a great future...

[Abrupt End]

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