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Q4 2021 MYR Group Inc Earnings Call

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**Richard S. Swartz** *MYR Group Inc. - President, CEO & Director*
**Tod M. Cooper** *MYR Group Inc. - Senior VP & COO of Transmission and Distribution*

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## PRESENTATION

**Operator**

Good morning, everyone, and welcome to the MYR Group Fourth Quarter and Full Year 2021 Earnings Results Conference Call. Today's conference is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference over to David Gutierrez of Dresner Corporate Services. Please go ahead, David.

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**David E. Gutierrez** ***Dresner Corporate Services, Inc. - Head of PR Practice and SVP***

Thank you, and good morning, everyone. I'd like to welcome you to the MYR Group conference call to discuss the company's fourth quarter and full year results for 2021, which were reported yesterday.

Joining us on today's call are Rick Swartz, President and Chief Executive Officer; Betty Johnson, Senior Vice President and Chief Financial Officer; Tod Cooper, Senior Vice President and Chief Operating Officer of MYR Group's Transmission and Distribution segment; and Jeff Waneka, Senior Vice President and Chief Operating Officer of MYR Group's Commercial and Industrial segment.

If you did not receive yesterday's press release, please contact Dresner Corporate Services at (312) 726-3600 and we will send you a copy or go to the MYR Group website, where a copy is available under the Investor Relations tab. Also, a replay of today's call will be available until Thursday, March 3, 2022 at 11 a.m. Mountain Time. Please call (855) 859-2056 or (404) 537-3406 and enter conference ID 8097179.

Before we begin, I want to remind you that this discussion may contain forward-looking statements. Any such statements are based upon information available to MYR Group's management as of this date, and MYR Group assumes no obligation to update any such forward-looking statements.

These forward-looking statements involve risks and uncertainties that could cause actual material results to differ materially from the forward-looking statements. Accordingly, these statements are no guarantee of future performance. These risks and uncertainties are discussed in the company's annual report on Form 10-K for the year ended December 31, 2021, and in yesterday's press release.

Certain non-GAAP financial information will be discussed on the call today. A reconciliation of these non-GAAP measures to the most comparable GAAP measures is set forth in yesterday's press release.

With that said, let me turn the call over to Rick Swartz.

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**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

Thanks, David. Good morning, everyone. Welcome to our fourth quarter and full year 2021 conference call to discuss financial and operational results.

I will begin by providing a summary of the fourth quarter and full year results, and then we'll turn the call over to Betty Johnson, our Chief

Financial Officer, for a more detailed financial review. Following Betty's overview, Tod Cooper and Jeff Waneka, Chief Operating Officers for our T&D and C&I segments, will provide a summary of our segment's performance and discuss some of our MYR Group's opportunities going forward. I will conclude today's call with some closing remarks and open the call up for your questions.

We finished 2021 with strong financial performance in the fourth quarter and full year revenues of $2.5 billion setting a record high for the seventh consecutive year. Our backlog of $1.79 billion at the end of 2021 reflects continued investment in infrastructure and energy projects and positions us well for the year ahead.

Our accomplishments this year reflect both our organizational and operational resilience and the strength of our long-lasting relationships and multiyear service agreements. Trends in the energy market point to continued investment in clean energy and improving grid resiliency. We believe this positions us well for success in 2022.

Our C&I segment continues to be fueled by investments in infrastructure to support clean energy, health care, high-tech manufacturing, data centers and water/wastewater treatment facilities. Our T&D segment continues to execute transmission, distribution, substation and clean energy projects of varied size, location and capacity.

We continue to grow our business through both organic growth and acquisitions. Our recent purchase of the Powerline Company, headquartered in Toronto extends our presence into Eastern Canada and enhances our abilities to capture and execute new projects in a new geography. We are uniquely positioned to offer our clients comprehensive solutions for a broad range of complex projects. We continually leverage the ingenuity and passion of our team members to elevate the safety, quality and cost competitiveness of our project delivery.

We believe MYR Group is well positioned to maintain our status as an industry leader and we are proud of our fourth quarter and 2021 full year performance, which we expect to serve as a solid foundation for future growth opportunities and continued stockholder value. Now Betty will provide details on our fourth quarter and full year 2021 financial results.

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**Betty R. Johnson** ***MYR Group Inc. - Senior VP & CFO***

Thank you, Rick, and good morning, everyone. On today's call, I will be reviewing our quarter-over-quarter results for the fourth quarter of 2021 as compared to the fourth quarter of 2020. Our fourth quarter 2021 revenues were $646 million. This represents an increase of $38 million or 6.3% compared to the same period last year.

Our fourth quarter T&D revenues were $353.3 million, a record high for our T&D segment with an increase of 10.9% compared to the same period last year. The breakdown of T&D revenues was $218.2 million for transmission and $135.1 million for distribution.

The T&D segment revenues increased primarily due to an increase in revenue on distribution projects in large sites projects. Approximately 50% of our fourth quarter T&D revenues related to work performed under master service agreements.

C&I revenues were $292.7 million, with an increase of 1.2% compared to the same period last year. Our gross margin was 12.9% for the fourth quarter of 2021 compared to 12.6% for the same period last year. The increase in gross margin was primarily due to better-than-anticipated productivity on certain projects, favorable job closeouts and favorable change orders on certain projects.

These improvements were partially offset by labor and equipment inefficiencies on certain projects and an unfavorable change order adjustment on a project. Additionally, gross margin during the fourth quarter of 2021 was negatively impacted in certain geographic areas by an increase in project restrictions and disruptions related to the COVID-19 pandemic.

SG&A expenses were $52.6 million, an increase of $1.8 million compared to the same period last year. The increase was primarily due to an increase in employee-related expenses to support the growth in our operations, partially offset by a decrease in employee incentive compensation cost.

Fourth quarter 2021 net income was $20.7 million or $1.20 per diluted share compared to $18.2 million or $1.07 per diluted share for the same period last year. Fourth quarter 2021 EBITDA was $41.4 million compared to $37.2 million for the same period last year.

Total backlog as of December 30, 2021, was $1.79 billion, a record high and was 8.5% higher than a year ago. Total backlog as of December 31, 2021, consisted of $676.1 million for our T&D segment and a record high of $1.1 billion for our C&I segment.

As Rick mentioned earlier, on January 4, we completed the acquisition of Powerline Plus companies. Over the last 2 years, we combined average annual revenues of Powerline Plus companies were approximately $80 million. The purchase price was approximately $114 million, which is subject to working capital and net asset adjustments and was funded through a combination of cash on hand and borrowings under our credit facility. We may also pay additional contingent consideration based upon the achievements of certain financial performance targets. Additionally, we do not expect the Powerline Plus companies to be accretive to EPS in 2022, mainly due to the high amortization of intangibles this year.

Moving to liquidity and our balance sheet. We had approximately $249.8 million of working capital, $4.5 million of funded debt and $362.7 million of borrowings available under our credit facility as of December 31, 2021. Our funded debt-to-EBITDA leverage ratio has continued to stay strong at 0.03x leverage as of December 31, 2021. We believe that our credit facility, strong balance sheet and future cashflow from operations will enable us to meet our working capital needs, equipment investments and growth initiatives.

In summary, we had improvements this quarter in revenue, gross profit, net income, earnings per share, EBITDA and backlog to the prior year. The strong quarter also enabled us to reach record annual revenues of $2.5 billion, with record highs in both our T&D and C&I segments.

For the year ended December 31, 2021, we also reached record net income of $85 million and record EBITDA of $164.2 million. Our 2021 earnings per diluted share also reached a record of $4.95, an increase of 42% from the full prior year.

I'll now turn the call over to Tod Cooper, who will provide an overview of our Transmission and Distribution segment.

**Tod M. Cooper** ***MYR Group Inc. - Senior VP & COO of Transmission and Distribution***

Thanks, Betty, and good morning, everyone. Our T&D segment performed well in 2021 as our companies continue to strengthen and expand our market presence. We remain focused on aging infrastructure, system hardening, grid reliability and clean energy projects that are helping clients meet decarbonization goals.

We believe there are abundant opportunities for sustained growth in this dynamic market, and we'll continue investing in expanding and developing our customer base. We are pleased to welcome the Powerline companies to our T&D business to bring a strong market presence in Toronto and the surrounding area, which we will work to build upon in the years to come, by supporting their efforts to serve existing customers and gain new customers in the region.

Their culture and values align closely with ours, and we look forward to their future success. MYR Group companies are known for our commitment to supporting customers, especially when an emergency arises. Our crew recently answered the call for help from Xcel Energy in responding to the Marshall Fire restoration network in Colorado.

In excess of 200 surgeon electric employee team members worked tirelessly on overhead and underground electrical and gas distribution systems to help restore power to customers as quickly and safely as possible. We are grateful for these and all of our dedicated employees who make a difference every day.

In addition to our own long-term alliance with Xcel Energy, Sturgeon Electric is supporting Evergy, Tucson Electric Power, Arizona Public Service, Rocky Mountain Power, Southern California Edison and others in maintaining and expanding their T&D operations. MYR Energy Services or MYRE experienced robust activity in the solar space signing multiple EPC solar contracts in the fourth quarter and is also engaged in preliminary engineering for 2 additional solar projects.

Additionally, we are excited to announce the award of a large transmission project for MYRE's large projects group. The transmission project with an approximate value of $150 million is expected to kick off in spring of 2022 with completion in late 2023. This project is not reflected in our year-end 2021 backlog.

Great South Western Construction maintains a strong presence in the ongoing relationship with several customers, including Oncor Electric, Evergy, NextEra and Duke Energy. Substation work is also increasing with the recent award of 7 projects related to solar farm installations. The eastern region of our T&D business remained strong with consistent project opportunities with many long-time customers. In the midwest, the L.E. Myers Company recently executed multiyear agreements, which provided growth opportunities in the region.

And in Illinois, we achieved substantial completion of Ameren's gateway project. Heartland Electric continued its strong performance in 2021 and recently executed a 2-year extension with Pipe County Electric for distribution work. The E.S. Boulos team, which performs both C&I and T&D work in the Northeast, had a strong year as well and expanded its capabilities in the clean energy space through the award of ongoing -- through the award and ongoing construction of 4 solar projects.

In summary, we are proud of our accomplishments in the fourth quarter and all of 2021. Our teams maintained a strong focus on safety and project execution, positioning us as a strong partner in the T&D industry for many years to come.

I will now turn the call over to Jeff Waneka, who will provide an outlook for our Commercial and Industrial segment.

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**Jeffrey J. Waneka** ***MYR Group Inc. - Senior VP and COO of Commercial & Industrial***

Thank you, Tod. Good morning, everyone. Our C&I segment performed well in 2021 as we safely worked our way through the year and continued building on a solid foundation of strong relationships. Backlog increased through the year as we captured desirable projects in transportation, clean energy, health care, high-tech manufacturing, data centers and water/wastewater treatment.

As we finished the fourth quarter of 2021, and enter into 2022, several of our district locations have experienced increased COVID project restrictions and disruptions. We believe some of our C&I district locations will continue facing this disruption in the near term and anticipate it will ease in the second half of the year.

We are encouraged to see the major indices such as the Architectural Billing Index and the Dodge Momentum Index trending upward throughout the year. Although the index followed an erratic sawtooth pattern in 2021, overall, the Momentum Index increased 23%, the strongest yearly gain since 2005.

Both commercial and institutional components of the Momentum Index had similar gains with their levels of activity reaching 13- and 14-year highs, respectively. Although 2021 growth in indices was impressive, recent monthly declines in December and January are indicative of general COVID disruption impacting the industry. While the improvements of the indices provide a measure of confidence, feedback from our clients provides more reliable confidence that our chosen markets are sound.

Large health care projects typically involve a long time line from concept to a complete operational facility. And we believe that based on the number of opportunities we see in the pipeline, the fundamental need for new facilities has not changed.

Our district offices are engaged in pursuits of all sizes from small, medium and large expansions to new greenfield facilities. Phase 1 awards for design and scheduling services have gone well, leading to confidence in future awards for Phase 2 construction services.

High-tech data centers remain a major focus for many of our district offices with notable opportunities for our subsidiary, Sturgeon Electric in Arizona, Nevada and Colorado. Trusted relationships with long-standing clients lead to early engagement, many times before the project hits the open market. The nation's increasing demand for computing power data security and e-commerce should continue to provide significant opportunity in 2022 and beyond.

Clean energy projects continue to provide ample opportunity for continued growth in the majority of our C&I districts. This is especially true for CSI Electric where solar projects in the planning phase could soon be under contract. In addition, electric vehicle or EV charging stations continue to be a hot topic in the industry, with dealerships across the nation grappling with the need to modernize their facilities. This burgeoning need to dramatically increase power capacity and communication networks will continue gaining momentum as the nation's businesses turn their attention toward an all-electric and autonomous fleet.

To conclude, the performance achieved by our employees throughout a unique and challenging year was admirable. Their continued dedication and outstanding efforts provided consistent results while improving the services we provide in numerous ways. As the headwinds from the pandemic continue to fade, our efforts to strengthen our capabilities are expected to provide greater opportunity for years to come.

Thanks, everyone, for your time today. I'll now turn the call back to Rick to provide us with some closing comments.

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

Thank you for those updates, Betty, Tod and Jeff. Our fourth quarter and full year 2021 performance demonstrates the strength of our business strategies and operations. MYR Group is recognized as a leading partner in our industry, which provides us the foundation to capture new opportunities, grow our business and provide our clients with outstanding value.

We are encouraged by the numerous opportunities the markets hold in both of our segments. Our success in 2021 is the result of our dedicated and talented team from coast to coast, whom I would like to sincerely thank. I would also like to extend a thank you to our clients for their continued trust and to our stockholders for your ongoing support.

I look forward to working with all of you to continue our success in 2022 and beyond. Operator, we are now ready to open the call up for your comments and questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question or comment comes from the line of Sean Eastman from KeyBanc Capital.

**Alexander David Dwyer** ***KeyBanc Capital Markets Inc., Research Division - Associate***

This is Alex on for Sean. Can you give us an update on the large solar EPC project that was awarded to CSI in October? I think you had previously said this was going to start midyear and ramp in the back half of the year. But I'm just wondering if there's any risk to that time line given what's going on with the solar supply chain? And then also, given the contract is lump sum, is there any cost risk around inflation?

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

Okay. There a couple of items there. So first of all, yes, the projects right now are proceeding as planned. I would say, supply chain hasn't affected that project so far, and we were able to price in certain components as the project develops. So we don't see a lot of risk on that side.

I think as you get closer to the project, hitting the ground and taking off there's always a chance because all the permitting come in place. Does that site really -- everything gets finalized on the date. Right now it's proceeding forward. That's the only thing that could push that back. But from a standpoint of material, we haven't seen any impacts at this point.

**Alexander David Dwyer** ***KeyBanc Capital Markets Inc., Research Division - Associate***

Got it. And staying on C&I. Can you give us an update on the lower-margin C&I projects rolling off? And when do those complete? And is there anything in the portfolio that we should have in our notes that could prevent MYRG from achieving at least the midpoint of the 4% to 6% range this year?

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

No, we've been operating on that lower side of it. I think -- and I'll let Jeff add to this in a second. I think when you look at just the normal COVID impact, it really hasn't affected our T&D business by any point really because those crews are out by themselves. They're working independently. They're outside.

When you get to the C&I side, though we haven't had big project delays, just the coordination that side of the project, some of the COVID restrictions and supply chains with other subcontractors -- that other subcontractors may be experienced of getting steel in and some of those items can push a schedule out a little bit, which has a slight impact on our revenue burn.

We haven't had any big write-downs by any means, but I mean, you're always having impacts, both positive and negative. And in a given quarter, we may have a little more impact depending on where the project stands at a given time. As far as some of our lower-margin projects that are burning off, those will probably go into the beginning of the second half of this year as those finish up for the most part. But other than that, we still see an active market. Jeff, anything you want to add?

**Jeffrey J. Waneka** ***MYR Group Inc. - Senior VP and COO of Commercial & Industrial***

Rick, I think you answered it well. There's clearly been some minor impact through the whole COVID pandemic. We do see some of those, hopefully, easing as we said in the script toward the latter half of the year, but there's a lot to be determined there still.

**Operator**

Our next question or comment comes from the line of Noelle Dilts from Stifel.

**Noelle Christine Dilts** ***Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst***

Sorry if I missed this, but could you talk about a little -- expand on how we should think about the margin profile of Powerline Plus? And could you also discuss with how you're thinking about M&A for 2022 and your appetite at this point?

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

I'll start with M&A and then I'll let Betty go into a little bit on Powerline. I think we win. For the last few years or the last 5, 6 years, we've been actively pursuing acquisitions. For us, it's -- we don't have to do an acquisition. We've been growing our business nicely from an organic standpoint. We want to do acquisitions. But again, we're going to be patient. We're going to find that right fit.

We're going to make sure the culture is right, and it's going to be additive to our business. So again, we're patient, but we're very interested in doing acquisitions. Betty, you want to cover the Powerline side a little bit?

**Betty R. Johnson** ***MYR Group Inc. - Senior VP & CFO***

Yes, excluding any of the amortizations that would be a one-time the first year, 1 year amortization of the intangibles for backlogs, the Powerline Plus would be squaring the typical T&D margins and the upper ends of our ranges (inaudible) overall for their normal ongoing business for the amortization. That's -- hence, the comment about for 2022 not being accretive in 2022. Once that goes away, they will have a typical contribution for the T&D business.

**Noelle Christine Dilts** ***Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst***

Okay. Perfect. And then could you discuss -- I guess I've heard a little bit of discussion on the T&D side that for examples of some folks having trouble kind of holding on to labor, where folks may be kind of jumping from job to job. Is that something that you guys are seeing or experiencing at all or having to take any action to kind of avoid those types of issues?

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

Tod, do you want to take this?

**Tod M. Cooper** ***MYR Group Inc. - Senior VP & COO of Transmission and Distribution***

Yes, I'll take that, Rick. I think it does exist, you're right. There's a tremendous amount of need for what's going on with the drivers being so positive in the marketplace. And I think that one of the benefits that we've seen or we've had over the years is our ability being a nationwide contractor to move employees and not have any downtime with those employees.

It's competitive out there right now. But a majority of our projects being in that 3- to 6-month range with the acceptance of some of the medium-sized and large-sized projects, we're able to price in what it takes to be competitive as well as to make sure that our employees are satisfied.

But I don't want anyone to think that it's not something we worked on constantly. Recruiting, employee retention are 2 big drivers for us, and that's why our focus on safety and training is so important. Our employees really appreciate that, and it tends to curb some of that jumping around from contractor to contractor at least for us.

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**Operator**

Our next question or comment comes from the line of Brian Russo from Sidoti.

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**Brian J. Russo** ***Sidoti & Company, LLC - Research Analyst***

You mentioned that a new transmission project award, I think north of $150 million. Any idea -- could you tell us what region of the country is -- that is located in? And then maybe segue into any thoughts on the MISO MTEP 21 Future forecast for nearly $30 billion of transmission investments by 2039. How's your positioning and competitive positioning in that market?

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**Tod M. Cooper** ***MYR Group Inc. - Senior VP & COO of Transmission and Distribution***

I'll start, Rick, on that. The project is in the eastern half of the U.S. with one of our traditionally strong customers. We're excited about that opportunity. It gives us the ability to continue forward and springboard off of projects we've been completing in the region this project is on.

As far as the MISO situation, we continue to monitor that. We're working with the developers in the region and utilities as well to track upcoming projects and where things are going. It's not a fast-moving process at this point in time. But there are certainly opportunities out there that we see could come to fruition here in the next couple of years.

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**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

Yes. And on the MISO side, I think that just adds to the resiliency of the market and the overall future of the markets we play in, and we see it as a very positive thing going forward. So again, additive to what we do.

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**Brian J. Russo** ***Sidoti & Company, LLC - Research Analyst***

Okay. Great. And then to switch to the C&I side. You mentioned COVID restrictions that will linger through the first half of 2022. Are you also referring to any supply chain issues or labor availability or raw material inflation or is that a separate headwind from the general COVID restrictions and limited work time, et cetera, that we've seen over the past 2 years? Is that separate from any inflationary pressures or raw material issues?

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**Jeffrey J. Waneka** ***MYR Group Inc. - Senior VP and COO of Commercial & Industrial***

Brian, these are primarily supply chain issues that are born out of initial COVID impact. So -- and they're here and there, and the teams are doing a pretty good job of managing them. We're very aware when we pursue work to take those things into account in our contracts.

But there are small little issues happening to our general contractors and to other members of the project teams that do have an impact and do have a tendency to kind of push schedules out and give us challenge to deal our way through. We're doing well with that. But we do see those kind of continuing since this last wave was recent and pretty severe.

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**Brian J. Russo** ***Sidoti & Company, LLC - Research Analyst***

Got it. Okay. And then just lastly on the transmission and distribution margins. It looked like you ended the year or for the full year, about 10.2% on the operating margin, and it's been about 10% for both 2Q through 4Q. And I'm just wondering, is the mix of business evolving towards now you're at kind of a sustainable level at the high end of that 7% to 10.5% margin target?

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**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

We've set our goals there since we set that to be on the upper end. We see the market very strong. One thing we have had to our advantage in previous quarters and we always highlighted, it was very good weather. I think if you look at current and a little bit into the end of last quarter, we probably had a little more normalized weather to what it's been.

So when I look at that side, I would say our goal is to operate or exceed those upper ends of those margins. But again, we adjusted those margins to that 10.5% upper level about halfway through last year and we're not upping that at this point because we've got to take in the normal conditions of weather and everything else that could impact us. But again, our goal is to operate on the upper end of that.

**Brian J. Russo** ***Sidoti & Company, LLC - Research Analyst***

Okay. And then just 1 more question. We've seen some larger scale type acquisitions over the last 6 to 9 months, entirely -- almost solely focused on utility scale transmission and distribution end markets. And I'm just curious, what are your competitive advantages as smaller players get absorbed by larger players in terms of bidding on projects? And anything else you could add on that side.

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

Well, for us, there's not many projects of any size that we can't go after. So we're very competitive and we're set up to do either small, medium or large-sized projects as we always have. So our competitive advantage is we're a pure-play electrical. We know this industry well. We know the people well. We operate on a regional basis across the company. So we're bidding everything on a regional presence.

And when you have that, you kind of know what it takes because the productivity in 1 area -- in New York isn't the same as it is in Kansas, isn't the same as in California nor the conditions. So I think that's -- for us, it's a competitive advantage, but it's also something that helps us to understand and determine our cost models.

And for us, it's making sure our cost is right. And if somebody wants to come in and substantially underbid us and we pretty much know what it takes to do work in those areas, we don't look at anything as a must-win project. We look at it how is it additive to our business, how does it make sense to do it profitably and how do we estimate it to understand our cost and then put a fair margin on it.

So with those things taken into consideration if somebody wants to come in and take a project lower, they're going to do it. But long term, our clients were there for the support, we understand the business, and we're going to continue to grow and extend our business.

**Operator**

(Operator Instructions) Our next question or comment comes from the line of Jon Braatz from Kansas City Capital.

**Jonathan Paul Braatz** ***Kansas City Capital Associates - Partner & Research Analyst***

Betty, is there an opportunity as we look to this year for some SG&A leverage? Or do you see the spending rising in concert with revenues?

**Betty R. Johnson** ***MYR Group Inc. - Senior VP & CFO***

I would say that the overall leverage as far as a percentage, we consider that to be fairly consistent even as the business increases. It's miniscule what we get when we have the additional heading Powerline not kind of change our SG&A percentage to a lower percentage.

**Jonathan Paul Braatz** ***Kansas City Capital Associates - Partner & Research Analyst***

Yes. Okay. Okay. And maybe, Rick or Tod, if you could talk a little bit about what the opportunities at Powerline might be in terms of additional talent services that you can bring to that company to expand their revenue base?

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

Tod, do you want to take that?

**Tod M. Cooper** ***MYR Group Inc. - Senior VP & COO of Transmission and Distribution***

Sure, Rick. Right now, with the acquisition just taking place in January, we are focused on the cultural alignment, which is pretty strong right now and working hard to get things in place to move forward.

Immediately, there's a tremendous opportunity with their existing clients to grow the business there. And obviously, from an equipment perspective, the infusion of that capital with them and supporting them, also some technology and some additional training programs that we have, we feel that there's some efficiencies we can gain there.

But ultimately, the goal is to expand their presence. They are a heavy civil plus overhead contractors. They do a lot of underground in Toronto as well -- in Toronto region as well as overhead construction. So that led to the possibility of other capabilities and expansions into other types of work that we do. But without a doubt, we're going to keep them within the core capabilities that we have and that they have as well and ultimately try to grow their business outside of the Toronto region and throughout Ontario.

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**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

And their client base, their current -- our existing client base is strong and has some good growth potential. So when we look at that side and we talk to their customers out there, good room for expansion in the future.

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**Jonathan Paul Braatz** ***Kansas City Capital Associates - Partner & Research Analyst***

Okay. And it sounds like they're mostly commercial. The client base is mostly commercial?

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**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

No. Utility-based.

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**Tod M. Cooper** ***MYR Group Inc. - Senior VP & COO of Transmission and Distribution***

They're utility.

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**Operator**

Our next question or comment comes from the line of Justin Hauke from Baird.

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**Justin P. Hauke** ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate***

So Betty, I guess I just wanted to quantify a little bit more on the Powerline Plus intangible amortization because you guys are unique in the fact that you report GAAP and your competitors add back that intangible amortization. So I guess the question is, first, that expense will be running through the segment line, correct, in T&D? And then maybe if you could just quantify numerically how much incremental amortization there is? And maybe how much of an impact in basis points that has some T&D margin?

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**Betty R. Johnson** ***MYR Group Inc. - Senior VP & CFO***

So that is correct. We do put our amortization in the segment margin. The dollar amounts as much as we don't segregate that from that perspective, you will see them in the cashflow statement. So you'll see whatever the increases since our base of amortization is stable from last year's and prior acquisitions.

The dollar amount, I can't tell you, I can't disclose that at this point in time. But something that's, I guess, significant enough if you take the -- take it to not be accretive almost at a breakeven and T&D $80 million business running at T&D margins that I was stating earlier, our assumption right now is the first year, but we haven't done all of our modeling, which, as you can appreciate only 2 months into this. We haven't finalized the very final amortization, but our estimate is that it will probably close that gap to almost a breakeven in the first year.

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**Justin P. Hauke** ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate***

Okay. So yes, maybe like -- I mean, saying if it's $80 million revenue, 10% margin, so maybe $8 million of incremental amortization that runs through that segment just for a...

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**Betty R. Johnson** ***MYR Group Inc. - Senior VP & CFO***

It could be that or on higher -- even on the higher side. But yes, yes.

**Justin P. Hauke** ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate***

Okay. Yes. No, that's helpful. And I guess just my last...

**Betty R. Johnson** ***MYR Group Inc. - Senior VP & CFO***

Like CSI, it was not small in the first year, for sure.

**Justin P. Hauke** ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate***

Yes. No, no. Absolutely. So -- but hopefully, that should be upside to '23. I guess my final question is just on the free cashflow outlook with your backlog being up so significantly, and this being another revenue growth here in '22. Is this going to be another kind of use of working capital year, you should expect the free cashflow remains kind of pressured or even down a little bit from where it was in '21, just trying to think about -- how to think about the cashflow?

**Betty R. Johnson** ***MYR Group Inc. - Senior VP & CFO***

It would be similar when it comes down to -- our assumption is that the working capital will be close to the net income, including the growth without any very unusual changes and turns that happen -- that could happen on any 1 contract, right?

But that's a -- there will be additional dollars coming through of need for the growth in the business as we always have. But it'd still be to that net income line. Capital expenditures being slightly higher than it has been in the last year or so and the growth in the business too.

**Operator**

I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to Mr. Rick Swartz for any closing remarks.

**Richard S. Swartz** ***MYR Group Inc. - President, CEO & Director***

To conclude, on behalf of Betty, Tod, Jeff and myself, I sincerely thank you for joining us on the call today. I don't have anything further, and we look forward to working with you going forward and speaking with you again on our next conference call. Until then, stay safe.

**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.